

Annual Report 2013



Tsukuba Bank

Tsukuba Bank, Ltd.

Profile

The Tsukuba Bank (“the Bank”) was formed on March 1, 2010 when the former Kanto Tsukuba Bank and the former Ibaraki Bank combined their operations in a merger that was based on the spirit of equality.

The Bank’s name, “Tsukuba,” is derived from Mt. Tsukuba, which is also known as “Mt. Tsukuba of the East, Mt. Fuji of the West.” A sacred place since ancient times, the beautiful shape of this mountain has even been a theme of Manyoshu poetry.

Furthermore, the Bank’s headquarter operations have been moved to a building in Tsukuba City, Japan’s largest research and university town and a hub for groundbreaking research in cutting-edge technology.

The main base for the Bank’s business operations is Ibaraki Prefecture, the proud home of some of Japan’s best agriculture and industry. The region has vast land, air and sea networks, and therefore we anticipate further development in the future. In order to satisfy our stakeholders — customers, shareholders and the local community, we intend to fully leverage this rich business base and effectively utilize the know-how and staff that both banks have built up over the years in order to provide high-quality financial services.

As of the year ended in March 2013, the Bank had 147 offices.

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Forward-looking statements

Statements contained in this report regarding the Bank’s future performance do not constitute statements of historical fact, and are thus subject to a number of risks and uncertainties. Readers are therefore cautioned not to place undue reliance on forward-looking statements, as factors beyond the Bank’s control and outside its ability to predict, including general economic conditions and market fluctuations, could cause results to diverge materially from the Company’s projections.

The Bank’s annual report published in English is a translation of the original in the Japanese language which was independently audited. The English version itself, however, has not been audited.

Consolidated Financial Highlights

The Tsukuba Bank, Limited and Consolidated Subsidiaries
Years Ended March 31, 2012 and 2013

	Millions of yen	
	2012	2013
For the year:		
Ordinary income.....	¥ 45,560	¥ 44,826
Ordinary expenses.....	43,036	41,746
Ordinary profit.....	2,524	3,080
Income before income taxes and minority interests.....	3,165	3,168
Net income	2,359	2,471
At year-end:		
Deposits.....	¥2,001,931	¥2,052,872
Loans and bills discounted.....	1,493,165	1,527,590
Securities.....	417,668	501,539
Total assets.....	2,192,208	2,203,578
Net assets	83,143	93,633

Deposits
(Non-consolidated)
Billions of yen, At year-end



Loans
(Non-consolidated)
Billions of yen, At year-end



Assets in custody
(Non-consolidated)
Billions of yen, At year-end



Message from the President

筑波銀行



Committed to building
strong relationship
with customers

Operating Conditions during the Fiscal Year under Review

I would like to thank all of our customers, shareholders and stakeholders for their patronage of and warm support for the Bank.

March 1, 2013 marks three years since Tsukuba Bank was formed by a merger of Kanto Tsukuba Bank and Ibaraki Bank. Looking back over this relatively short period of time, Ibaraki Prefecture has been devastated a series of major natural disasters, most notably the Great East Japan Earthquake, which struck on March 11, 2011, and Japan's largest ever tornado, which occurred on May 6, 2012. Under these circumstances, the Bank formulated its regional support plan, Project Ayumi. This plan expresses our unwavering commitment to contribute to the full recovery of local communities

along with the economy of Ibaraki Prefecture.

Accordingly, the Bank is continuing innovations necessary to enable it to grow with customers in the region based on the new medium management plan, Rising Innovation 2016 "Always Close to You." To accomplish these innovations, we must have courage to change. Without continuous change, we will be unable to maintain operations at current levels, and without significant change, we cannot improve. Tsukuba Bank values harmony among people by fostering connections with its customers. With this in mind, we pledge to further enhance our presence as an indispensable bank to the region by leveraging our unique businesses to stimulate economic growth in Ibaraki Prefecture.

Earnings

Regarding consolidated performance for the fiscal year under review, total income decreased ¥0.7 billion compared with the previous fiscal year to ¥44.8 billion mainly due to a ¥1.3 billion year-on-year decline in investment income amid lower interest rates on loans.

Ordinary expenses fell ¥1.3 billion compared with the previous fiscal year to ¥41.7 billion. This result is largely attributable to a ¥1.2 billion year-on-year decline in investment expenses caused by a decrease in interest on deposits with banks as well as a ¥1.3 billion

drop in operating expenses accompanying reductions in personnel and property costs. As a result, ordinary income increased ¥0.6 billion year on year to ¥3.1 billion.

Net income rose ¥0.1 billion compared with the previous fiscal year to ¥2.3 billion, despite a ¥0.8 billion year-on-year decrease in extraordinary income. This result is primarily due to a ¥0.2 billion year-on-year decline in extraordinary losses and a ¥0.19 billion reduction in income taxes—deferred.

Forecasts for the Fiscal Year Ending March 31, 2014

The Bank's full-year consolidated performance forecasts are ordinary income of ¥2.7 billion and net income of ¥2.5 billion. Regarding full-year non-consolidated performance forecasts, we expect ordinary income of ¥2.7 billion and net income of ¥2.5 billion.

Going forward, everyone at Tsukuba Bank will work to actively offer unique financial services to its customers in order to become an indispensable part of local communities and play a vital role in revitalizing the Ibaraki region.

Masami Fujikawa
President

Rising Innovation 2016

2nd Medium-Term Management Plan

–Always Close to You–

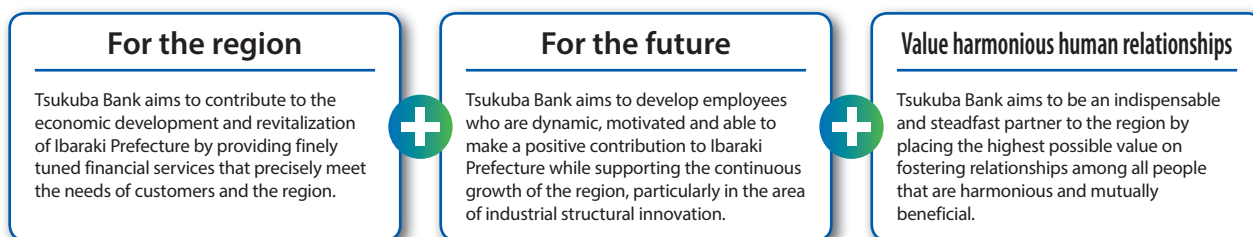
Rising Innovation 2016 is a three-year medium-term management plan for continuing innovation aimed at enhancing the Tsukuba Brand, the source of Tsukuba Bank's dynamism. To this end, we will increase our presence in Ibaraki Prefecture as a financial institution that is developing hand-in-hand with the region.

Plan period

April 1, 2013 ▶
March 31, 2016
(three years)

01 Tsukuba Bank's Vision for the Future

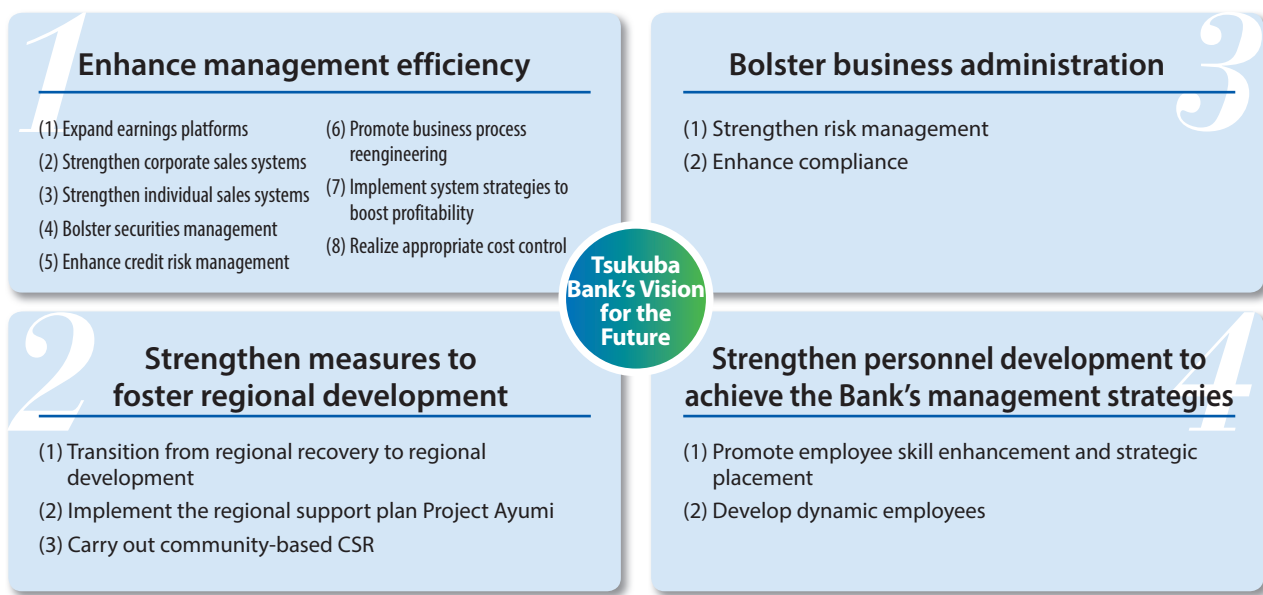
Tsukuba Bank aims to strengthen its presence as a financial institution that is indispensable to the region and, in turn, enables its customers to prosper.



Tsukuba
Quarter Plan

Tsukuba Bank seeks to achieve a **25%** share
in a variety of future indices

02 Basic Strategies



Tsukuba
Bank's Vision
for the
Future

Objectives to be achieved by March 31, 2016

Volume

- Balance of loans¥1,580 billion or above
- Core gross operating profit
 - Business loans¥705 billion or above
 - Consumer loans¥430 billion or above
- Balance of deposits¥2,150 billion or above
- Assets in custody¥290 billion or above

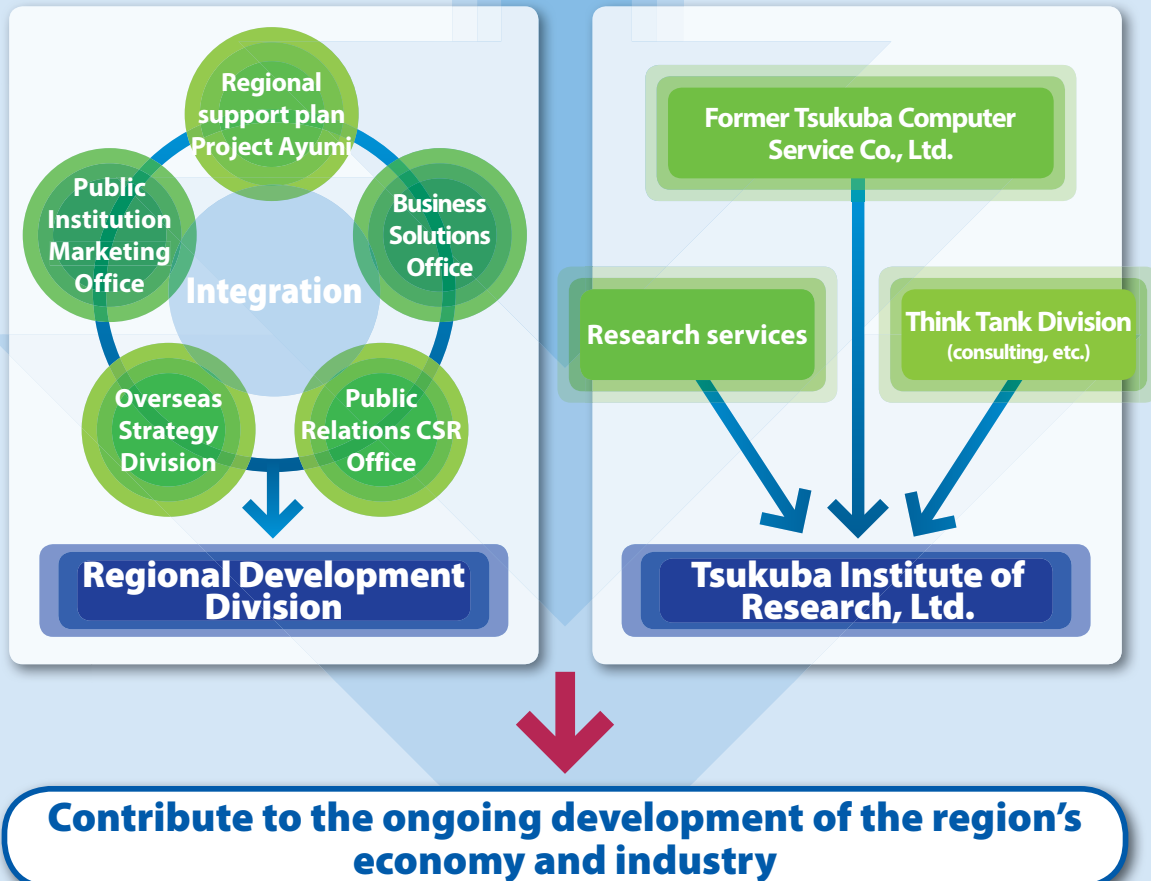
Earnings/Indices

- Core operating income¥6 billion or above
- Net income¥3 billion or above
- Capital adequacy ratio
(calculated using core capital) 9% or above

CLOSE UP

Transition from Regional Recovery to Regional Development

Having reached the turning point from post-disaster reconstruction to full-fledged recovery, Tsukuba Bank has positioned as its basic strategy: "strengthen measures to foster regional development." Specifically, we established the Regional Development Division within the Business Headquarters and the Think Tank Division within our affiliate, Tsukuba Institute of Research, Ltd., on April 1, 2013 in order to strengthen systematic measures for fostering regional development. These two new divisions will enhance the Bank's consultation functions in order to fulfill its active role as a regional financial institution and, in turn, contribute to the ongoing economic development of Ibaraki Prefecture.



Tsukuba Bank Overview (as of March 31, 2013)

Corporate name	The Tsukuba Bank, Limited
Central branch address	2-11-7 Chuo, Tsuchiura City, Ibaraki Prefecture
Headquarters address	1-7 Takezono, Tsukuba City, Ibaraki Prefecture TEL.: +81-29-859-8111 URL: http://www.tsukubabank.co.jp/ (Japanese language only)
Establishment	September 15, 1952
Capital	¥48.8 billion
Deposits	¥2,060.8 billion
Loans	¥1,525.4 billion
No. of employees	1,711
No. of branches*	147 (131 in Ibaraki Prefecture, 16 outside)

*As of June 30, 2013

In principle, figures are rounded to the nearest decimal point. The last digit of comparisons and other figures may not always match.



Consolidated Balance Sheets

The Tsukuba Bank, Limited and Consolidated Subsidiaries
As of March 31, 2012 and 2013

	Millions of yen	
	2012	2013
Assets		
Cash and due from banks.....	¥ 212,974	¥ 124,898
Call loans and bills bought.....	—	20,000
Receivables under securities borrowing transactions.....	5,000	—
Monetary claims bought.....	567	482
Trading securities.....	335	214
Money held in trust.....	2,907	2,907
Securities.....	417,668	501,539
Loans and bills discounted.....	1,493,165	1,527,590
Foreign exchanges.....	2,241	1,964
Other assets.....	39,618	10,118
Tangible fixed assets.....	23,961	23,834
Buildings.....	10,681	11,013
Land.....	10,365	10,488
Lease assets.....	6	4
Construction in progress.....	1,059	60
Other tangible fixed assets.....	1,848	2,267
Intangible fixed assets.....	3,200	2,948
Software.....	1,882	2,045
Other intangible fixed assets.....	1,317	903
Deferred tax assets.....	10,134	7,182
Customers' liabilities for acceptances and guarantees.....	3,474	2,626
Reserve for possible loan losses.....	(23,040)	(22,728)
Total assets.....	¥2,192,208	¥2,203,578
Liabilities		
Deposits.....	¥2,001,931	¥2,052,872
Payables under securities lending transactions.....	20,000	20,000
Borrowed money.....	8,580	2,980
Foreign exchanges.....	23	41
Bonds.....	6,440	6,440
Own bond with share option.....	5,000	5,000
Other liabilities.....	56,255	14,083
Reserve for employees' bonuses.....	824	806
Reserve for employees' retirement benefits.....	5,032	3,824
Reserve for executives' retirement benefits.....	11	11
Accrued severance indemnities for directors, corporate auditors and executive officers.....	43	23
Reserve for reimbursement of dormant deposits.....	142	173
Reserve for contingent losses.....	4	8
Allowance for loss on interest refunds.....	1	1
Reserve for loss on contingency.....	556	455
Deferred tax liabilities for land revaluation.....	480	471
Negative goodwill.....	262	125
Acceptances and guarantees.....	3,474	2,626
Total liabilities.....	2,109,064	2,109,945
Net assets		
Common stock.....	48,868	48,868
Capital surplus.....	32,575	32,575
Retained earnings (accumulated deficit).....	5,580	7,567
Treasury stock.....	(1)	(1)
Total shareholders' equity.....	87,023	89,010
Net unrealized losses on available-for-sale securities.....	(3,719)	4,826
Net deferred losses on hedging instruments, net of taxes.....	(437)	(384)
Land revaluation excess.....	196	180
Total valuation and translation adjustments.....	(3,960)	4,622
Minority interests.....	80	—
Total net assets.....	83,143	93,633
Total liabilities and net assets.....	¥2,192,208	¥2,203,578

Consolidated Statements of Income

The Tsukuba Bank, Limited and Consolidated Subsidiaries
For the Years Ended March 31, 2012 and 2013

	Millions of yen	
	2012	2013
Ordinary income.....	¥45,560	¥44,826
Interest income.....	33,684	32,410
Interest on loans and discounts.....	30,554	28,682
Interest and dividends on securities.....	2,841	3,481
Interest on call loans and bills bought.....	151	113
Interest on receivables under securities borrowing transactions.....	5	18
Interest on deposits with banks.....	118	78
Other interest income.....	12	36
Fees and commissions.....	7,483	7,614
Other operating income.....	2,670	1,927
Other ordinary income.....	1,722	2,874
Recoveries of write-offs.....	383	671
Other ordinary income.....	1,338	2,202
Ordinary expenses.....	43,036	41,746
Interest expenses.....	4,295	3,188
Interest on deposits.....	2,448	1,821
Interest on call money and bills sold.....	0	0
Interest on payables under securities lending transactions.....	495	491
Interest on borrowings and rediscounts.....	411	224
Interest on bonds.....	397	206
Interest on bonds with share option.....	220	219
Other interest expenses.....	320	225
Fees and commissions.....	3,070	2,824
Other operating expenses.....	529	981
General and administrative expenses.....	30,548	29,259
Other ordinary expenses.....	4,591	5,491
Provision for reserve for possible loan losses.....	745	3,142
Other ordinary expenses.....	3,846	2,348
Ordinary profit.....	2,524	3,080
Extraordinary income.....	1,278	478
Gain on disposal of fixed assets.....	2	12
Gain on recovery of write-off claims.....	—	74
Gain on contribution of securities to retirement benefit trust.....	—	391
Gain on securities contributed to retirement benefits trust.....	1,274	—
Other.....	1	—
Extraordinary losses.....	636	389
Loss on disposal of fixed assets.....	106	79
Loss on impairment of fixed assets.....	77	310
Loss on cancellation of lease contracts.....	365	—
Other.....	87	—
Income before income taxes and minority interests.....	3,165	3,168
Income taxes - current.....	92	90
Income taxes - deferred.....	710	601
Total income taxes.....	803	692
Income before minority interests.....	2,362	2,476
Minority interests in net loss.....	3	5
Net income.....	¥ 2,359	¥ 2,471

Consolidated Statements of Comprehensive Income

The Tsukuba Bank, Limited and Consolidated Subsidiaries
For the Years Ended March 31, 2012 and 2013

	Millions of yen	
	2012	2013
Income before minority interests.....	¥2,362	¥2,476
Other comprehensive income	1,366	8,598
Net unrealized income on available-for-sale securities	1,323	8,545
Deferred loss on derivatives under hedge accounting	(28)	53
Difference in revaluation of land	71	—
Total comprehensive income	3,729	11,075
Total comprehensive income attributable to:		
Equity holders of the parent	3,725	11,070
Minority interests	3	5

Consolidated Statements of Changes in Net Assets

The Tsukuba Bank, Limited and Consolidated Subsidiaries
For the Years Ended March 31, 2012 and 2013

	Millions of yen	
	2012	2013
Shareholders' equity		
Common stock		
Balance at beginning of year	¥31,368	¥48,868
Changes during year:		
Issuance of new shares	17,500	—
Total changes during year	17,500	—
Balance at end of year	¥48,868	¥48,868
Capital surplus		
Balance at beginning of year	¥15,075	¥32,575
Changes during year:		
Issuance of new shares	17,500	—
Total changes during year	17,500	—
Balance at end of year	¥32,575	¥32,575
Retained earnings (accumulated deficit)		
Balance at beginning of year	¥ 3,615	¥ 5,580
Changes during year:		
Dividend of surplus	(455)	(499)
Net income	2,359	2,471
Reversal of land revaluation excess	60	15
Total changes during year	1,964	1,987
Balance at end of year	¥ 5,580	¥ 7,567
Treasury stock		
Balance at beginning of year	¥ (0)	¥ (1)
Changes during year:		
Purchase of treasury stock	(0)	(0)
Total changes during year	(0)	(0)
Balance at end of year	¥ (1)	¥ (1)
Total Shareholders' equity		
Balance at beginning of year	¥50,059	¥87,023
Changes during year:		
Issuance of new shares	35,000	—
Dividend of surplus	(455)	(499)
Net income	2,359	2,471
Purchase of treasury stock	(0)	(0)
Reversal of land revaluation excess	60	15
Total changes during year	36,963	1,987
Balance at end of year	¥87,023	¥89,010

	Millions of yen	
	2012	2013
Valuation and translation adjustments		
Net unrealized losses on available-for-sale securities		
Balance at beginning of year	¥ (5,042)	¥ (3,719)
Changes during year:		
Net changes in items other than shareholders' equity	1,323	8,545
Total changes during year	1,323	8,545
Balance at end of year	¥ (3,719)	¥ 4,826
Net deferred losses on hedging instruments, net of taxes		
Balance at beginning of year	¥ (408)	¥ (437)
Changes during year:		
Net changes in items other than shareholders' equity	(28)	53
Total changes during year	(28)	53
Balance at end of year	¥ (437)	¥ (384)
Land revaluation excess		
Balance at beginning of year	¥ 185	¥ 196
Changes during year:		
Net changes in items other than shareholders' equity	10	(15)
Total changes during year	10	(15)
Balance at end of year	¥ 196	¥ 180
Total valuation and translation adjustments		
Balance at beginning of year	¥ (5,266)	¥ (3,960)
Changes during year:		
Net changes in items other than shareholders' equity	1,306	8,583
Total changes during year	1,306	8,583
Balance at end of year	¥ (3,960)	¥ 4,622
Minority interests		
Balance at beginning of year	¥ 95	¥ 80
Changes during year:		
Net changes in items other than shareholders' equity	(14)	(80)
Total changes during year	(14)	(80)
Balance at end of year	¥ 80	¥ —
Total net assets		
Balance at beginning of year	¥44,888	¥83,143
Changes during year:		
Issuance of new shares	35,000	—
Dividend of surplus	(455)	(499)
Net income	2,359	2,471
Purchase of treasury stock	(0)	(0)
Reversal of land revaluation excess	60	15
Net changes in items other than shareholders' equity	1,291	8,502
Total changes during year	38,255	10,489
Balance at end of year	¥83,143	¥93,633

Consolidated Statements of Cash Flows

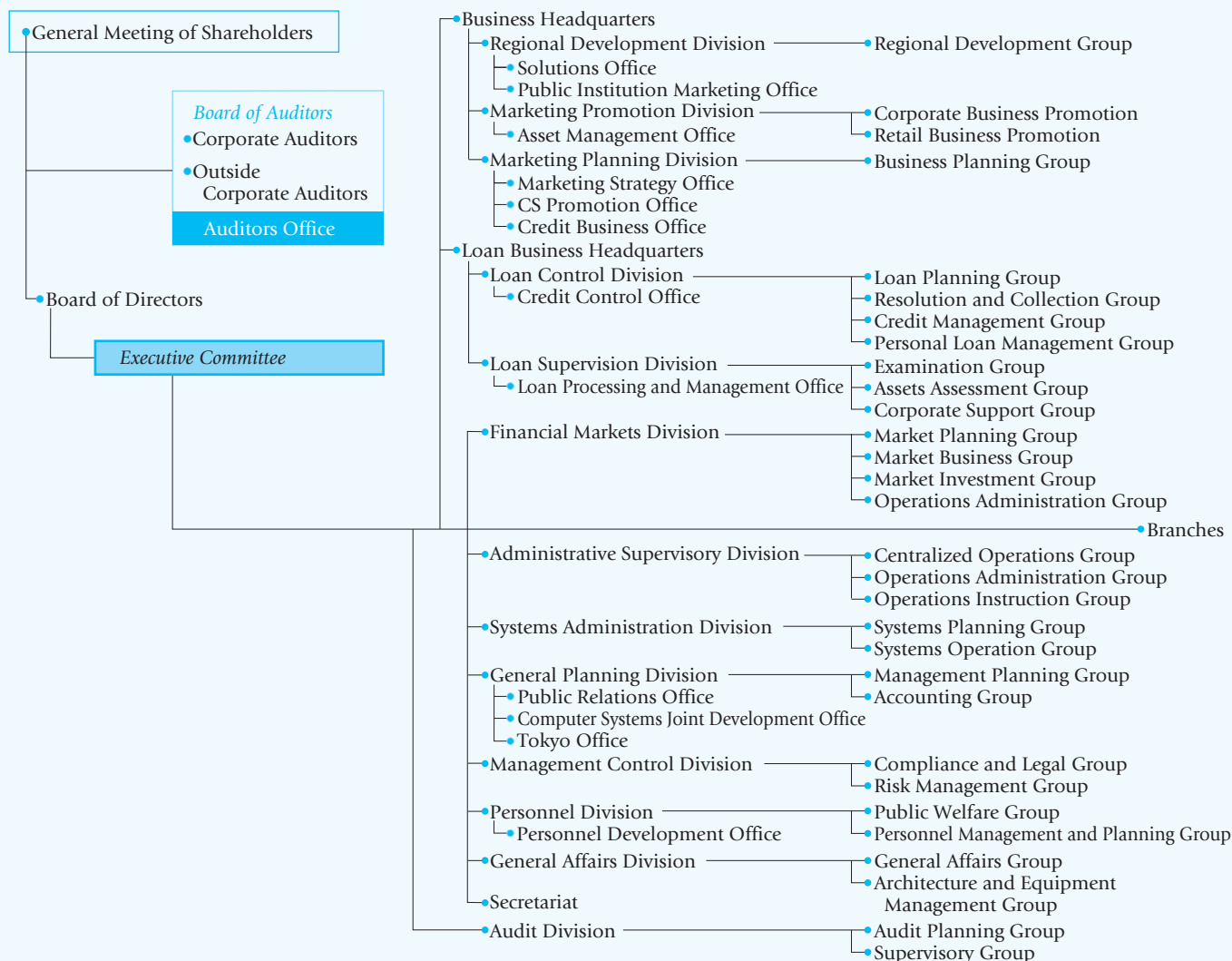
The Tsukuba Bank, Limited and Consolidated Subsidiaries
For the Years Ended March 31, 2012 and 2013

	Millions of yen	
	2012	2013
Cash flows from operating activities		
Income before income taxes and minority interests.....	¥ 3,165	¥ 3,168
Depreciation.....	2,299	2,700
Losses on impairment of fixed assets.....	77	310
Amortization of negative goodwill.....	(136)	(136)
Gain on negative goodwill.....	—	(74)
Increase (decrease) in reserve for possible loan losses.....	(3,399)	(312)
Increase (decrease) in reserve for employees' bonuses.....	(3)	(18)
Increase (decrease) in reserve for employees' retirement benefits.....	(1,541)	(1,208)
Increase (decrease) in executives' retirement benefits.....	(2)	0
Increase (decrease) in accrued severance indemnities for directors, corporate auditors and executive officers.....	9	(19)
Increase (decrease) in reserve for reimbursement of dormant deposits.....	(0)	31
Increase (decrease) in reserve for contingent losses.....	(1)	3
Increase (decrease) in allowance for loss on interest refunds.....	0	(0)
Increase (decrease) in reserve for contingent losses.....	(277)	(100)
Interest and dividend income.....	(33,684)	(32,410)
Interest expenses.....	4,295	3,188
Losses (gains) on securities transactions.....	1,819	1,790
Losses (gains) on money held in trust.....	(7)	(131)
Foreign exchange losses (gains).....	814	(4,113)
Losses (gains) on disposal of fixed assets.....	103	67
Losses on cancellation of lease contracts.....	365	—
Net decrease (increase) in loans and bills discounted.....	(12,930)	(34,425)
Net increase (decrease) in deposits.....	47,049	50,941
Net increase (decrease) in borrowed money excluding subordinated debt.....	1,000	(1,100)
Net decrease (increase) in due from banks excluding cash equivalents.....	13,186	(14,232)
Net decrease (increase) in call loans and others.....	85	(19,915)
Net decrease (increase) in receivables under securities borrowing transactions.....	(5,000)	5,000
Net decrease (increase) in foreign exchange, assets.....	(829)	277
Net increase (decrease) in foreign exchange, liabilities.....	(3)	18
Net decrease (increase) in trading securities.....	276	120
Interest and dividends received.....	33,515	31,855
Interest paid.....	(4,019)	(6,535)
Others, net.....	2,514	(432)
Subtotal.....	48,741	(15,692)
Income taxes paid.....	(103)	(88)
Net cash provided by (used in) operating activities.....	48,637	(15,781)
Cash flows from investing activities		
Purchases of securities.....	(210,995)	(315,524)
Proceeds from sale of securities.....	116,912	172,051
Proceeds from redemption of securities.....	66,550	64,655
Purchases of tangible fixed assets.....	(10,602)	(1,997)
Purchases of intangible fixed assets.....	(776)	(784)
Payments for retirement of fixed assets.....	(61)	(23)
Payments for execution of assets retirement obligations.....	(46)	—
Proceeds from sale of tangible fixed assets.....	182	106
Purchase of shares in consolidated subsidiary.....	(16)	(12)
Proceeds from collection of lease and guarantee deposits.....	2,148	—
Net cash provided by (used in) investing activities.....	(36,705)	(81,528)
Cash flows from financing activities		
Repayment of subordinated debt.....	(6,220)	(4,500)
Payments for redemption of subordinated bonds.....	(5,150)	—
Proceeds from issuance of common stock.....	34,960	—
Cash dividends paid.....	(455)	(499)
Repayment of lease obligations.....	(594)	(1)
Purchase of treasury stock.....	(0)	(0)
Net cash provided by (used in) financing activities.....	22,540	(5,001)
Translation adjustment for cash and cash equivalents.....	3	2
Net increase (decrease) in cash and cash equivalents.....	34,475	(102,308)
Cash and cash equivalents at beginning of year.....	163,395	197,871
Cash and cash equivalents at end of year.....	¥197,871	¥ 95,562

Directory

(As of July 1, 2013)

Organization Chart



Board of Directors, Executive Officers, Corporate Auditors

President
Masami Fujikawa

Managing Director
Toshio Noguchi

Senior Executive Officers
Kouichi Fujisaku
Isao Otsuka
Yasuhiko Moue
Shigeru Kaneta
Akihiro Matsumoto
Kazuhito Numata

Corporate Auditors
Akira Ichiba
Yuusuke Goshima

Vice-President
Makoto Ueki

Director
Hiroshi Kishiro

Outside Corporate Auditors
Osamu Matsumoto
Tsuneo Ando
Kunio Ono

Senior Managing Directors
Yoshio Saku
Nobuyuki Takahashi
Masami Kurosawa

Outside Director
Yoshio Tsutsumi

Managing Executive Officer
Satoru Ochi

Executive Officers
Kazuhiro Watanabe
Ichiro Kimura
Masahiko Ikuta
Satoru Shinohara
Satoshi Ozaki
Takahisa Toyota
Teruo Someya

