

Bank of The Ryukyus, Limited and consolidated subsidiaries

## Notes to Consolidated Financial Statements

For the six months ended September 30, 2023 and 2022

### 1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of Bank of The Ryukyus, Limited (the “Bank”) and consolidated subsidiaries have been prepared in accordance with the Japanese Financial Instruments and Exchange Act, the Company Act of Japan, the Japanese Banking Law, and in conformity with accounting principles generally accepted in Japan and, where applicable, with the accounting and reporting guidelines prescribed by banking regulatory authorities, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In the preparation of these financial statements, certain items on the domestically issued financial statements have been reclassified and rearranged considering the convenience of readers outside Japan. Also, some of the notes to the domestically issued financial statements have been omitted in case such omissions do not affect the financial statements materially.

The Japanese yen figures in the financial statements are in millions with fractions omitted.

The U.S. dollar figures are computed solely for convenience, at the exchange rate of ¥149.58 per US\$1.00, the rate prevailing on September 30, 2023.

### 2. Significant Accounting Policies

#### (a) Consolidation

The consolidated financial statements include the accounts of the Bank and its seven subsidiaries.

Assets and liabilities of consolidated subsidiaries at the time of initial investment are valued at market. Amortization of consolidation adjustment is charged to income as incurred.

#### (b) Statement of Cash Flows

Cash and cash equivalents in the statement of cash flows represents cash, due from the Bank of Japan, deposits with other banks repayable on demand and time deposits with term of three months or less among “cash and due from banks” in the balance sheets.

#### (c) Foreign Currency Translation

Assets and liabilities in foreign currencies are translated into Japanese yen at the rates prevailing at the balance sheet dates.

#### (d) Trading Account Securities

Under the Accounting Standards for Financial Instruments, trading account securities are stated at fair value.

#### (e) Securities

Under the Accounting Standards for Financial Instruments, held-to-maturity debt securities are stated at amortized cost and the securities which are defined as available-for-sale securities by the standards, are stated at fair value, whenever such value is available, otherwise are stated at moving average cost or amortized cost.

Valuation difference on available-for-sale securities are reported, net of applicable income taxes as a separate component of net assets.

The assessment of securities operated as trust property in money held in trust for isolated operation, mainly for the purpose of securities operation, are stated at fair value.

#### (f) Derivatives

Derivatives are stated at the fair value.

#### (g) Hedge Accounting

##### i. Hedging against Interest Rate Changes

The hedge accounting method applied to hedging transactions for interest rate risk related to financial assets and liabilities is deferred hedge accounting, as stipulated in the “Treatment for Accounting and Auditing of Application of Accounting Standards for Financial Instruments in the Banking Industry” (JICPA Industry Audit Committee Guideline No. 24).

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The Bank assesses the effectiveness of such hedging transactions in offsetting movements of the fair value accompanying changes in interest rates by classifying the hedged items (deposits, loans) and the hedging instruments (interest swaps) by their maturity. For cash flow hedges, the Bank assesses the effectiveness of such hedging transactions in fixing cash flows by verifying the correlation between the hedged items and the hedging instruments.

The Bank applies a special treatment which is stated by the “Financial Instruments Standards” of interest rate swaps to a portion of assets and liabilities, which is placed outside the scope of the assessment of hedging effectiveness.

Consolidated subsidiaries apply an exceptional treatment of interest rate swaps to a portion of liabilities.

**ii. Hedging against Currency Fluctuations**

The Bank applies the deferred hedge accounting stipulated in “Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Guideline No. 25) to hedging transactions against foreign exchange risk arising from assets and liabilities in foreign currencies. Pursuant to the above mentioned report, the Bank assesses the effectiveness of foreign exchange swap transactions executed for the purpose of offsetting the risk of changes in currency exchange rates by confirming the existence of foreign currency positions, which correspond to the foreign currency monetary claims and debts.

Consolidated subsidiaries do not apply deferred hedge accounting to hedging transactions.

**(h) Depreciation and Amortization****i. Depreciation of Property, Plant and Equipment (excluding lease assets)**

Depreciation of property, plant and equipment is computed on the straight-line method by the applying service life of each and every asset ranging as follows:

Buildings 5 to 50 years

Equipment 3 to 20 years

Depreciation of property, plant and equipment of consolidated subsidiaries is computed mainly on the fixed percentage on declining balance method applying the estimated service life of each and every asset.

**ii. Amortization of Intangible Fixed Assets (excluding lease assets)**

Intangible fixed assets are amortized on a straight-line basis. The costs of development of computer software for internal use are amortized over a useful life of five years.

**iii. Amortization of Lease Assets**

Lease assets in “Property, plant and equipment” of the finance leases other than those that transfer the ownership of leased property to the lessees is computed under the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

**(i) Allowance for Loan Losses**

The allowance for loan losses for the Bank is provided as follows:

For loans to borrowers in bankruptcy or to borrowers substantially in bankruptcy the reserve was provided for the remaining portion of the amount after direct partial write-offs, which are explained below, after deducting the amount collectable by disposal of collateral or from guarantors.

For loans to borrowers prone to bankruptcy, the reserve was provided at the necessary amount, after deducting the amount collectable by disposal of collateral or from guarantors, considering the overall ability of the borrowers to repay.

For loans other than stated above, the reserve was provided at experiential rates of the past according to the category of loans as classified from the standpoint of collectability.

For claims to legally or virtually bankrupt borrowers backed by collateral or guarantees, the Bank carried out direct partial write-offs, deducting from such claims amounts deemed uncollectable through the disposal of collateral or implementation of guarantees. Partial write-offs amounted to ¥2,078 million (US\$13,892 thousand) as of September 30, 2023.

Allowance for loan losses incurred by consolidated subsidiaries are provided as required based on actual default rates.

The Bank has traditionally calculated the general allowance for loan losses mainly based on the amount of anticipated loss, which is computed from the average of loan loss ratio in a certain past period, as the best estimate basis.

At the same time, we have also examined the methods and structure that enable us to reflect the future forecasts in the allowance for loan losses in our bid to function as a stable financial mediator not affected by economic fluctuations.

As a result, the Bank is now capable of establishing reasonable estimates that reflect anticipated loss identified through the future forecast of macroeconomic indicators in the allowance for loan losses more adequately. For this reason, we are now amending the allowance for loan losses estimate at the end of consolidated fiscal year.

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To be more precise, we use multiple macroeconomic indicators closely correlated with the bad debt occurrence rate and the economic fluctuation outlook we anticipate, based on which we calculate the amount of anticipated loss in accordance with the feasibility of scenarios established on the present and future outlook of the economic cycle for each of the business and credit rating groups attributed with respective bad debt occurrence rates and adjusted with future outlook. Furthermore, if the credit risk of the receivables we hold as of the end of this consolidated fiscal year is expected to increase due to the significant change in the external environment, etc., we will make necessary adjustments to the anticipated loss rate before booking the allowance for loan losses.

**(j) Reserve for Bonuses**

Reserve for bonuses are provided for the payment of employees' bonuses in the amount deemed necessary for the estimated bonus payment in the future attributable to the reporting period.

**(k) Reserve for Directors' Bonuses**

Reserve for bonuses are provided for the payment of directors' bonuses in the amount deemed necessary for the estimated bonus payment in the future attributable to the reporting period.

**(l) Reserve for Retirement Benefits for Directors and Corporate Auditors**

Reserve for retirement benefits for directors and corporate auditors are provided at the amount that would be paid in accordance with the internally established rule at the end of reporting period if they were retired on that date.

**(m) Reserve for Retirement Benefits**

In calculating the projected benefit obligation, the benefit formula basis is used to attribute the expected benefit to each service period.

Actuarial differences of the plans are amortized from the following fiscal year over the set period (12 years) within the average remaining service period of the employees at the time of occurrence.

Prior service costs are amortized over the set period (12 years) within the average remaining service period of the employees at the time of occurrence.

Consolidated subsidiaries adopt simplified method for the calculation of liability for retirement benefits and pension expenses using necessary payment of voluntary retirement as the projected benefit obligation.

**(n) Reserve for Contingent Losses**

Reserve for contingent losses is provided at the amount deemed necessary to cover possible future losses from default of loans under the responsibility-sharing system on guarantees of loans with the Credit Guarantee.

**(o) Reserve for Point Service Program**

Reserve for point service program is provided to cover the costs of credit card point at the amount deemed necessary based on an estimate of the future use of points.

**(p) Reserve for Losses on Interest Payment**

Reserve for losses on interest payment is provided to cover possible losses on the repayment of interest to be received from customers that exceeds the upper limit of interest rates prescribed under the Interest Rate Restriction Act.

**(q) Lease Transactions**

Finance lease transactions in which there is no transfer of ownership were formerly accounted for by a method corresponding to that used for ordinary operating lease contracts. However, for financial statements relating to periods commencing on or after April 1, 2008, it is permitted to apply the "Accounting Standard for Lease Transactions" (Accounting Standards Board of Japan Statement No. 13, issued on March 30, 2007) and the "Implementation Guidance on the Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, issued on March 30, 2007). Accordingly, they are being duly applied as of the year ended March 31, 2009 in accordance with accounting relating to ordinary buying and selling transactions.

**(r) Significant Revenues and Expenses**

- i. Revenue from contracts with customers is recognized when the promised property or services are received by the customer. The amount of revenue recognized is calculated based on the amount expected to be received in exchange for the property or services.
- ii. Consolidated subsidiaries engaged in the leasing business recognize revenues and expenses related to finance lease transactions when lease fees are received.

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- iii. Certain consolidated subsidiaries recognize revenues from the credit purchase brokerage business and the individual credit purchase brokerage business on a due date basis, primarily using the seven-eighths method.
- iv. Certain consolidated subsidiaries recognize revenue from software development operations based on the degree of progress made on each project task.

**(s) Amortization Method and Period of Goodwill**

Goodwill is amortized by the straight-line method over 5 years.

**(t) Profit and Losses on the Cancellation and Redemption of Investment Trusts**

Regarding the profit and loss on the cancellation and redemption of investment trusts (except for ETF), it is indicated as "Interest and dividends on securities" if the aggregation of all issues made profit, while it is shown as "Other operating expenses" if such aggregation turned out as loss.

**3. Additional Information**
**(Certain assumptions regarding the impact of COVID-19)**

The Bank has not made any significant changes to the assumptions regarding the impact of COVID-19 from those stated in the Annual Securities Report for the previous fiscal year.

**4. Financial Instruments**
**(1) Fair Values of Financial Instruments**

A table below shows book values, fair values and difference of financial instruments as of September 30, 2023. A part of financial instruments, for which no fair values are obtainable such as unlisted stocks, are excluded from the table. (Please see (Note).)

The financial instruments immaterial in terms of consolidated balance sheet amounts are omitted.

	Millions of Yen			Thousands of U.S. Dollars		
	Consolidated balance sheet amount	Fair value	Difference	Consolidated balance sheet amount	Fair value	Difference
(1) Money held in trust .....	¥ 538	¥ 538	¥ —	\$ 3,597	\$ 3,597	\$ —
(2) Securities						
Held-to-maturities debt securities .....	70,841	70,674	(167)	473,599	472,483	(1,116)
Available-for-sale securities .....	589,829	589,829	—	3,943,234	3,943,234	—
(3) Loans and bills discounted	1,809,883			12,099,766		
Allowance for loan losses (*1) .....	(4,228)			(28,266)		
Total loans and bills discounted .....	1,805,654	1,811,691	6,036	12,071,494	12,111,853	40,353
Total assets .....	2,466,863	2,472,733	5,869	16,491,931	16,531,174	39,237
(1) Deposits .....	2,737,170	2,737,186	(16)	18,299,037	18,299,144	(107)
(2) Negotiable certificate of deposit .....	37,869	37,869	—	253,169	253,169	—
(3) Borrowed money .....	19,578	19,610	(32)	130,886	131,100	(214)
Total liabilities .....	2,794,618	2,794,667	(48)	18,683,099	18,683,427	(321)
Derivative transactions (*2)						
Transactions not accounted for as hedge transactions .....	(242)	(242)	—	(1,618)	(1,618)	—
Transactions accounted for as hedge transactions .....	—	—	—	—	—	—
Total derivative transactions .....	(242)	(242)	—	(1,618)	(1,618)	—

(\*1) General allowance for loan losses and specific allowance for loan losses provided to "Loans and bills discounted" are separately presented in the above table.

(\*2) Derivative transactions recorded in other assets and other liabilities are presented as a lump sum. Net receivables and payables arising from derivative transactions are presented on a net basis. A net payable is presented in parentheses.

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(Note) The following table lists financial instruments, the fair value of which is extremely difficult to determine: Fair Values of Financial Instruments exclude these instruments.

	Consolidated balance sheet amount	
	Millions of Yen	Thousands of U.S. Dollars
Securities		
(1) Unlisted stocks (*1) (*2) .....	<b>¥2,444</b>	<b>\$16,339</b>
(2) Investments in associations (*3) .....	<b>1,386</b>	<b>9,266</b>
Total .....	<b>¥3,830</b>	<b>\$25,605</b>

(\*1) In accordance with Paragraph 5 of the "Guidance on Disclosure of Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020), unlisted stocks are not subject to disclosure of fair value.

(\*2) For the six months ended September 30, 2023, unlisted stocks amounted of ¥4 million (US\$27 thousand) are written off.

(\*3) In accordance with Paragraph 24-16 of the "Guidance on Disclosure of Fair Value of Financial Instruments" (ASBJ Guidance No. 31, June 17, 2021), Investments in associations are not subject to disclosure of fair value.

**(2) Breakdown of financial instruments by fair value level**

The fair value of financial instruments is categorized into the following three levels according to the observability and materiality of the inputs used to calculate the fair value.

Level 1: Fair value calculated based on quoted market prices for the asset or liability for which the fair value is calculated that are quoted in an active market among the inputs used to calculate the observable fair value.

Level 2: Fair value calculated using inputs to observable fair value other than Level 1 inputs.

Level 3: Fair value calculated using inputs related to the calculation of unobservable fair value.

When more than one input that has a significant effect on the calculation of fair value is used, the fair value is classified as the level that has the lowest priority in the calculation of fair value among the levels to which each of those inputs belongs.

**i. Financial instruments recorded in the interim consolidated balance sheets at fair value**

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Money held in trust .....	¥ —	¥ 538	¥—	¥ 538
Available-for-sale securities				
Japanese government bond .....	287,370	—	—	287,370
Local government bonds .....	—	175,246	—	175,246
Corporate bonds .....	—	10,743	—	10,743
Stocks .....	1,898	—	—	1,898
Other .....	53,685	60,638	—	114,323
Derivative transactions				
Currency transactions .....	—	7	—	7
Total .....	¥342,955	¥247,174	¥—	¥590,129
Derivative transactions				
Currency transactions .....	—	250	—	250
Total .....	¥ —	¥ 250	¥—	¥ 250

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	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Money held in trust .....	\$ —	\$ 3,597	\$—	\$ 3,597
Available-for-sale securities				
Japanese government bond .....	1,921,179	—	—	1,921,179
Local government bonds .....	—	1,171,587	—	1,171,587
Corporate bonds .....	—	71,821	—	71,821
Stocks .....	12,689	—	—	12,689
Other .....	358,905	405,388	—	764,293
Derivative transactions				
Currency transactions .....	—	47	—	47
Total .....	\$2,292,786	\$1,652,454	\$—	\$3,945,240
Derivative transactions				
Currency transactions .....	—	1,671	—	1,671
Total .....	\$ —	\$ 1,671	\$—	\$ 1,671

- Notes: 1. Available-for-sale securities do not include investment trusts, etc., to which the treatment in Paragraph 24-9 of the “Guidance on Accounting Standard for Measurement of Fair Value (ASBJ Guidance No. 31, June 17, 2021)” is applied. The amount of investment trusts, etc. to which the treatment in Paragraph 24-9 is applied is ¥245 million (US\$1,638 thousand).
2. The reconciliation of the beginning balance to the ending balance for investment trusts, etc., to which Paragraph 24-9 is applied, is omitted because the amounts shown in the consolidated balance sheets are immaterial.

### ii. Financial instruments other than those recorded in the interim consolidated balance sheets at fair value

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Securities				
Held-to-maturities debt securities				
Japanese government bond .....	¥66,730	¥ —	¥ —	¥ 66,730
Local government bonds .....	—	—	—	—
Corporate bonds .....	—	—	3,943	3,943
Loans and bills discounted .....	—	—	1,811,691	1,811,691
Total .....	¥66,730	¥ —	¥1,815,635	¥1,882,365
Deposits .....	—	2,737,186	—	2,737,186
Negotiable certificate of deposit .....	—	37,869	—	37,869
Borrowed money .....	—	19,610	—	19,610
Total .....	¥ —	¥2,794,667	¥ —	¥2,794,667

	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Securities				
Held-to-maturities debt securities				
Japanese government bond .....	\$446,116	\$ —	\$ —	\$ 446,116
Local government bonds .....	—	—	—	—
Corporate bonds .....	—	—	26,360	26,360
Loans and bills discounted .....	—	—	12,111,853	12,111,853
Total .....	\$446,116	\$ —	\$12,138,220	\$12,584,336
Deposits .....	—	18,299,144	—	18,299,144
Negotiable certificate of deposit .....	—	253,169	—	253,169
Borrowed money .....	—	131,100	—	131,100
Total .....	\$ —	\$18,683,427	\$ —	\$18,683,427

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### 5. Market Value Information for Available-for-Sale Securities

Market values and valuation difference on available-for-sale securities with fair value as of September 30, 2023 were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Consolidated balance sheet amount	Acquisition costs	Difference	Consolidated balance sheet amount	Acquisition costs	Difference
Fair value exceeded consolidated balance sheet amount:						
Equity stocks .....	¥ 1,803	¥ 725	¥ 1,077	\$ 12,054	\$ 4,847	\$ 7,200
Bonds:						
Japanese government bond .....	15,996	15,990	5	106,939	106,899	33
Municipal bonds .....	1,597	1,594	2	10,677	10,657	13
Corporate bonds .....	3,601	3,599	1	24,074	24,061	7
Other .....	18,937	18,486	450	126,601	123,586	3,008
Sub-total .....	¥ 41,935	¥ 40,396	¥ 1,538	\$ 280,352	\$ 270,063	\$ 10,282
Fair value not exceeded consolidated balance sheet amount:						
Equity stocks .....	¥ 95	¥ 109	¥ (13)	\$ 635	\$ 729	\$ 87
Bonds:						
Japanese government bond .....	271,374	273,290	(1,916)	1,814,240	1,827,049	(12,809)
Municipal bonds .....	173,649	174,881	(1,231)	1,160,911	1,169,147	(8,230)
Corporate bonds .....	7,142	7,185	(43)	47,747	48,034	(287)
Other .....	95,632	100,197	(4,564)	639,337	669,856	(30,512)
Sub-total .....	547,894	555,664	(7,770)	3,662,883	3,714,828	(51,945)
Total .....	¥589,829	¥596,061	¥(6,231)	\$3,943,234	\$3,984,898	\$(41,657)

### 6. Loans and Bills Discounted

Of loans on which accrual of interest is suspended due to delayed or unpaid state of repayment of principal and interest or to other reasons, loans to borrowers regarded as being bankrupt by the Bank amount to ¥10,085 million (US\$67,422 thousand) and to ¥9,774 million as of September 30, 2023 and March 31, 2023, respectively. Loans on which accrual of interest is suspended but the borrowers of which are not regarded as being bankrupt or the bank intends to assist for restructuring or to support amount to ¥23,199 million (US\$155,094 thousand) and ¥19,481 million as of September 30, 2023 and March 31, 2023, respectively. Loans, repayment of which is delinquent for three months or more but which do not come under the aforementioned categories, amount to ¥906 million (US\$4,626 thousand) and ¥710 million as of September 30, 2023 and March 31, 2023, respectively. Besides these loans, there are loans, conditions of which have been moderated like exemption of interest, lowering of interest rate, deferment of repayment of principal etc., in order to assist the borrowers in restructuring or for other purposes, totaling ¥10,972 million (US\$73,352 thousand) and ¥19,321 million as of September 30, 2023 and March 31, 2023, respectively.

### 7. Pledged Assets

Assets pledged as collateral as of September 30, 2023 and March 31, 2023 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	September 30, 2023	March 31, 2023	September 30, 2023
Securities .....	¥51,405	¥139,462	\$343,662
Lease receivables and lease investment assets .....	16,167	14,705	108,083
Other assets .....	9,624	9,399	64,340
Due from banks .....	10	10	67
Loans and bills discounted .....	9	19	60

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Liabilities secured by assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	September 30, 2023	March 31, 2023	September 30, 2023
Payables under securities lending transactions .....	¥37,555	¥ 36,805	\$251,070
Borrowed money .....	19,520	104,805	130,499
Deposits .....	4,286	17,053	28,654

In addition, marketable securities, other assets and due from banks amounting to ¥1,115 million (US\$7,454 thousand), ¥37 million (US\$247 thousand) and ¥15 million (US\$100 thousand), respectively, were pledged as collateral relating to exchange settlements, guarantee deposits for future transactions, etc., as of September 30, 2023. No securities are pledged as collateral for loans payable by affiliates. Other assets included initial clearing margin for CCP of ¥20,000 million (US\$133,707 thousand), initial margins of futures markets of ¥2,214 million (US\$14,801 thousand) and guarantee money of ¥880 million (US\$5,883 thousand) as of September 30, 2023.

### 8. Property, Plant and Equipment

The accumulated depreciation amounted to ¥20,617 million (US\$137,833 thousand) and ¥20,430 million as of September 30, 2023 and March 31, 2023, respectively.

### 9. Customers' Liabilities for Acceptances and Guarantees

The Bank provides guarantees for liabilities of its customers for payment of loans from other financial institutions and for letters of credit. As a contra account, "customers' liabilities for acceptances and guarantees" is shown on the assets side, indicating the Bank's right of indemnity from the applicants.

### 10. Revaluation Reserve for Land

In accordance with the Law concerning the Revaluation of Land, which took effect March 31, 1998, the Bank revalued land held for its operations on that date.

Unrealized gain is shown in shareholders' equity net of applicable income taxes as "revaluation reserve for land."

### 11. Net Assets

#### (a) Common Stock

The Bank has 65,000 thousand authorized shares of common stock, of which 43,108 thousand shares were issued and outstanding as of September 30, 2023.

#### (b) Legal Reserve

The Japanese Banking Law provides that an amount equivalent to at least 20 percent of cash payments, which are made as an appropriation of retained earnings, be appropriated as a legal reserve until a total of such reserve and capital surplus equals 100 percent of stated capital. The reserve is, in principle, not available for dividends but may be used to reduce a deficit or may be transferred to stated capital. The reserve is included in retained earnings on the balance sheets.

#### (c) Cash Dividends

Year-end dividends are authorized after the close of each period to which they relate and are reflected in the statements of income when declared and paid.

### 12. Other Expenses

"Other expenses" for the six months ended September 30, 2023, includes the following:

	Millions of Yen	Thousands of U.S. Dollars
Direct charge-off of loans .....	¥220	\$1,519
Loss on sales of securities.....	8	55