

Activities in Fiscal 2017

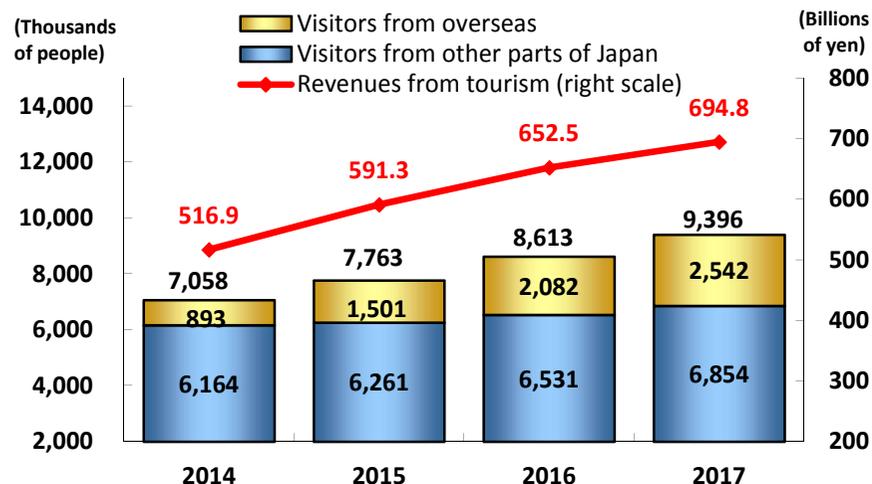
Annual Report

-  [Economic Overview of Okinawa Prefecture \(82KB\)](#)
-  [Financial Summary \(Consolidated/Non-consolidated\): Net Income \(78KB\)](#)
-  [Net Cost of Credit / Disclosed Claims \(102KB\)](#)
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Economic Overview of Okinawa Prefecture 琉球銀行

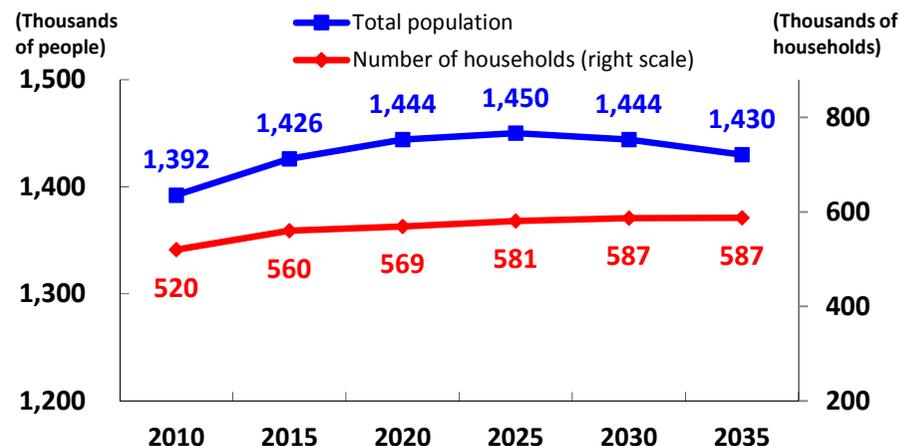
The prefectural economy is expected to continue expanding. Employment shows signs of improvement.

Changes in Tourist Numbers and Revenue



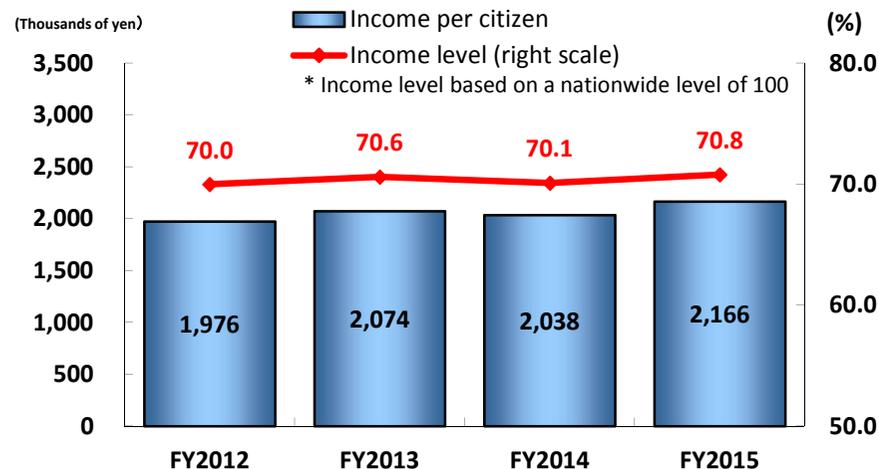
Source: Okinawa Prefecture (calendar year base)

Changes in Okinawa's Future Population and Households



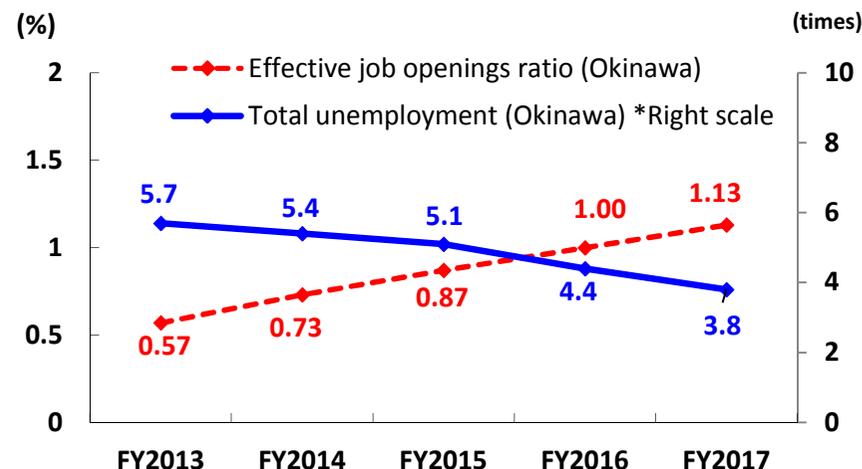
Sources: Population: Nansei Shoto Industrial Advancement Center. Households: created based materials from the National Census 2015 and the National Institute of Population and Social Research.

Changes in Income per Citizen / Income Levels



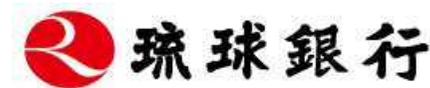
Source: Okinawa Prefecture

Changes in Effective Job Openings Ratio and Unemployment Rate

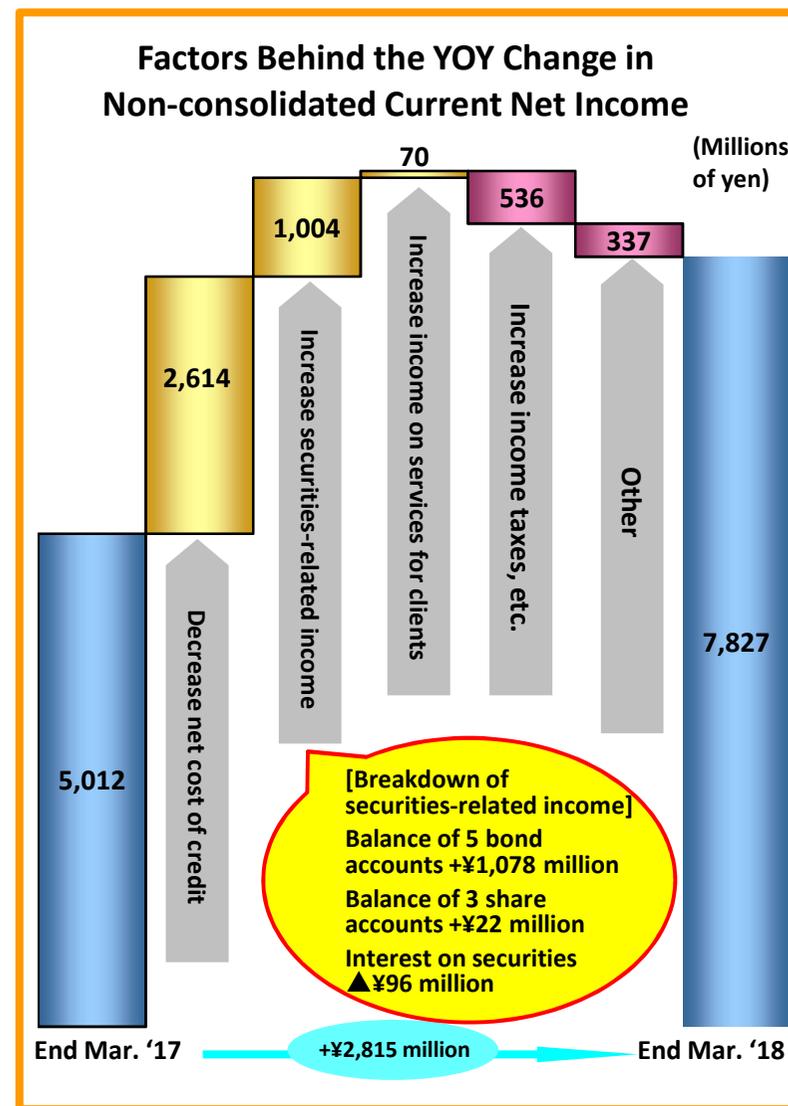
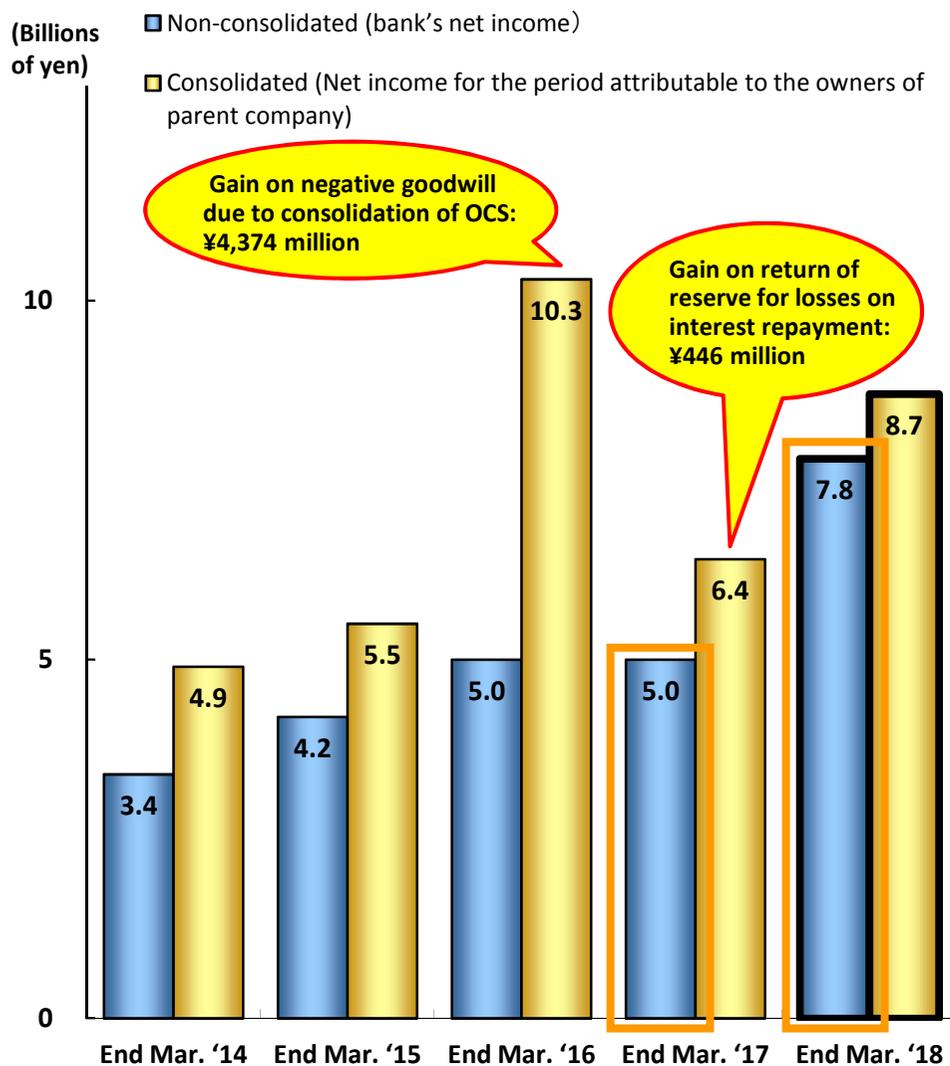


Sources: Okinawa Prefecture, Cabinet General Affairs, Ministry of Internal Affairs and Communications

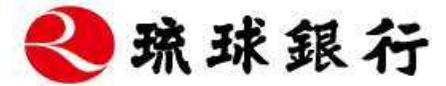
Financial Summary (Consolidated/Non-consolidated): Net Income



Highest ever non-consolidated profit. 2nd highest net income for consolidated

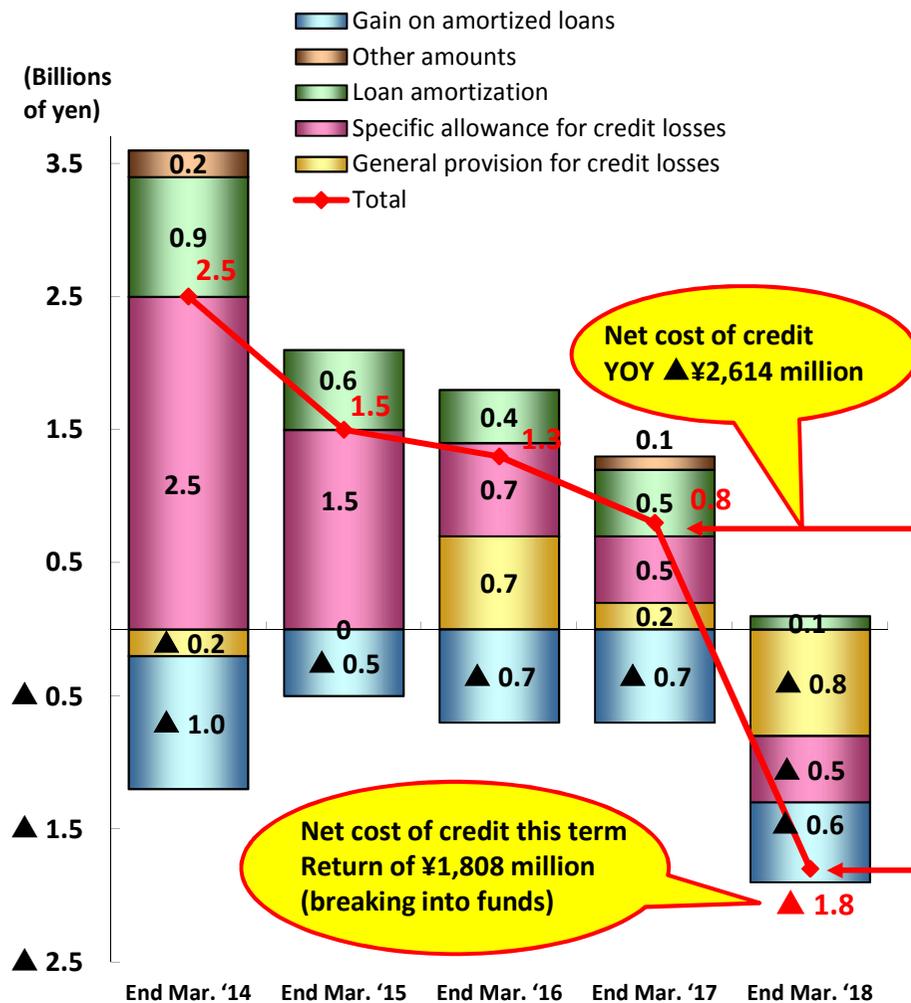


Net Cost of Credit / Disclosed Claims

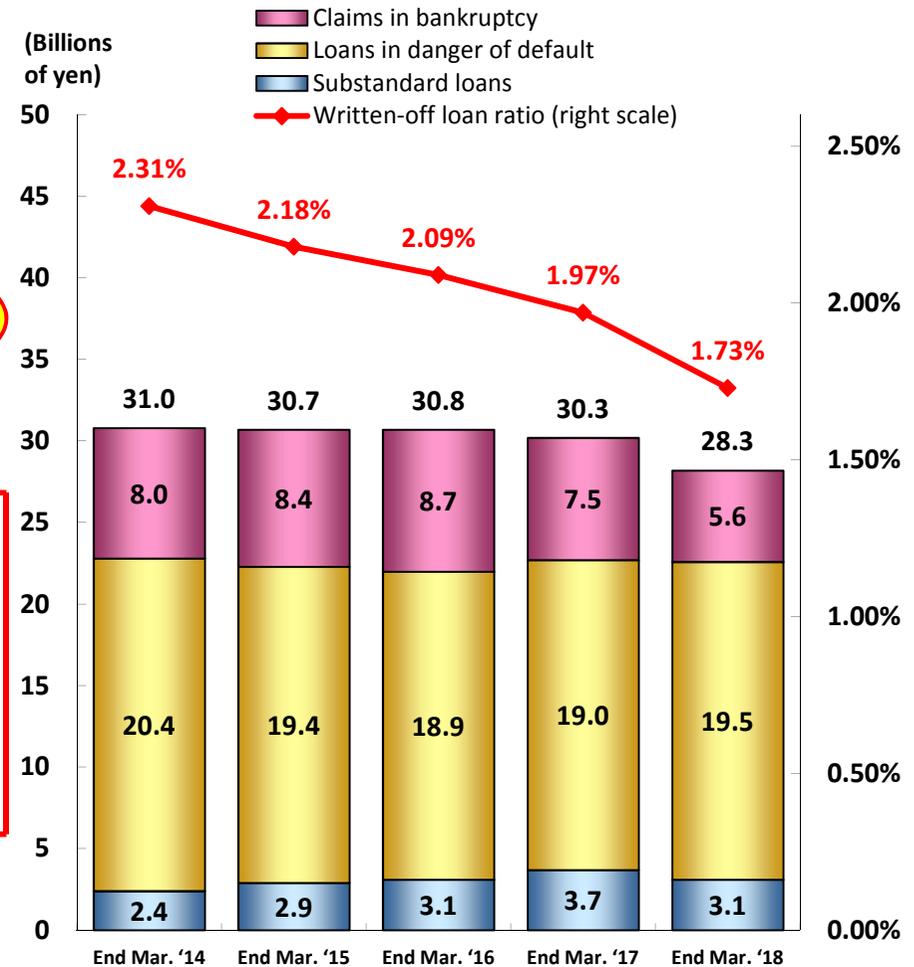


Downward trend for net cost of credit and disclosed claims

Changes in Net Cost of Credit



Changes in Disclosed Claims

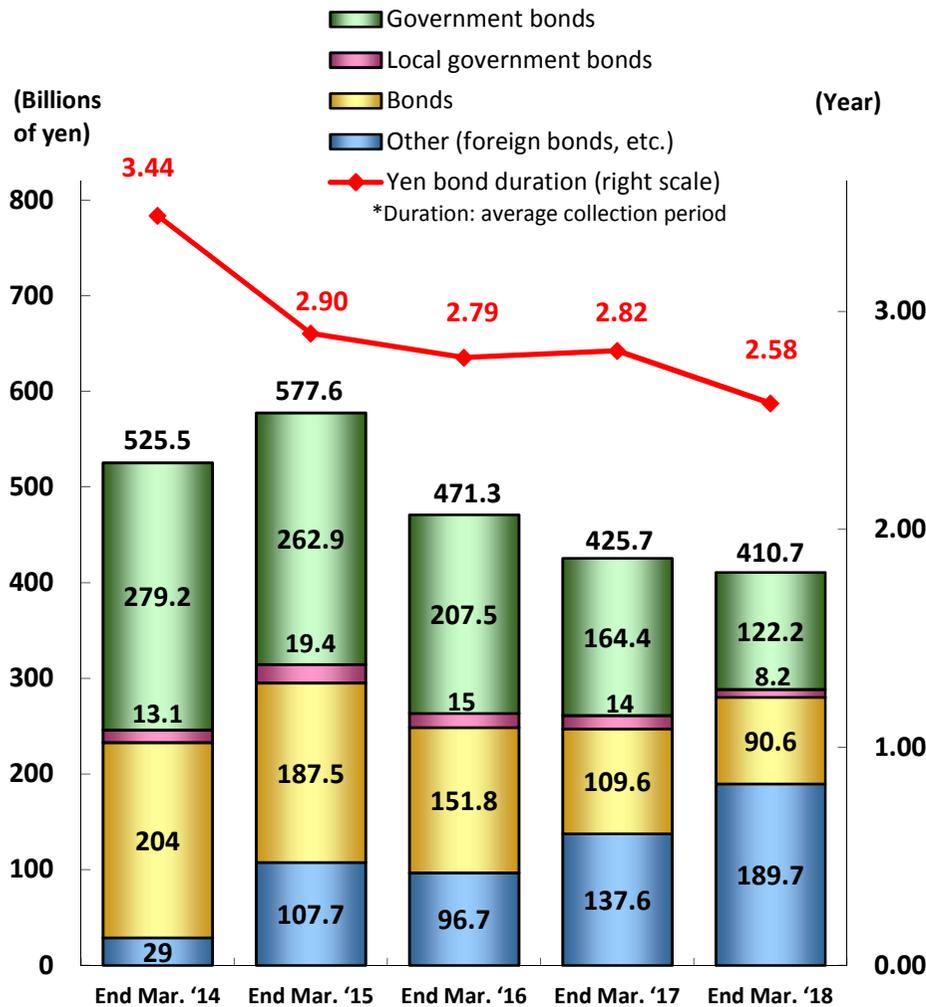


Securities

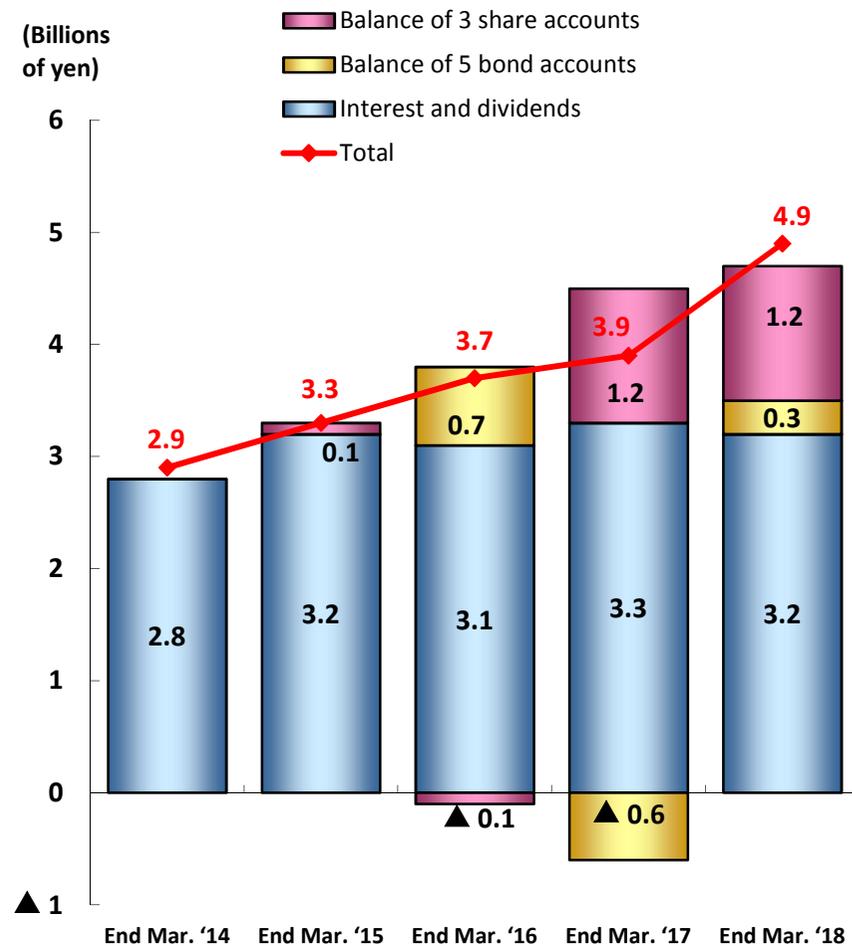


Decreasing balance due to redemption of government bonds, but earnings are increasing via diversification of operations

Changes in the Balance of Securities



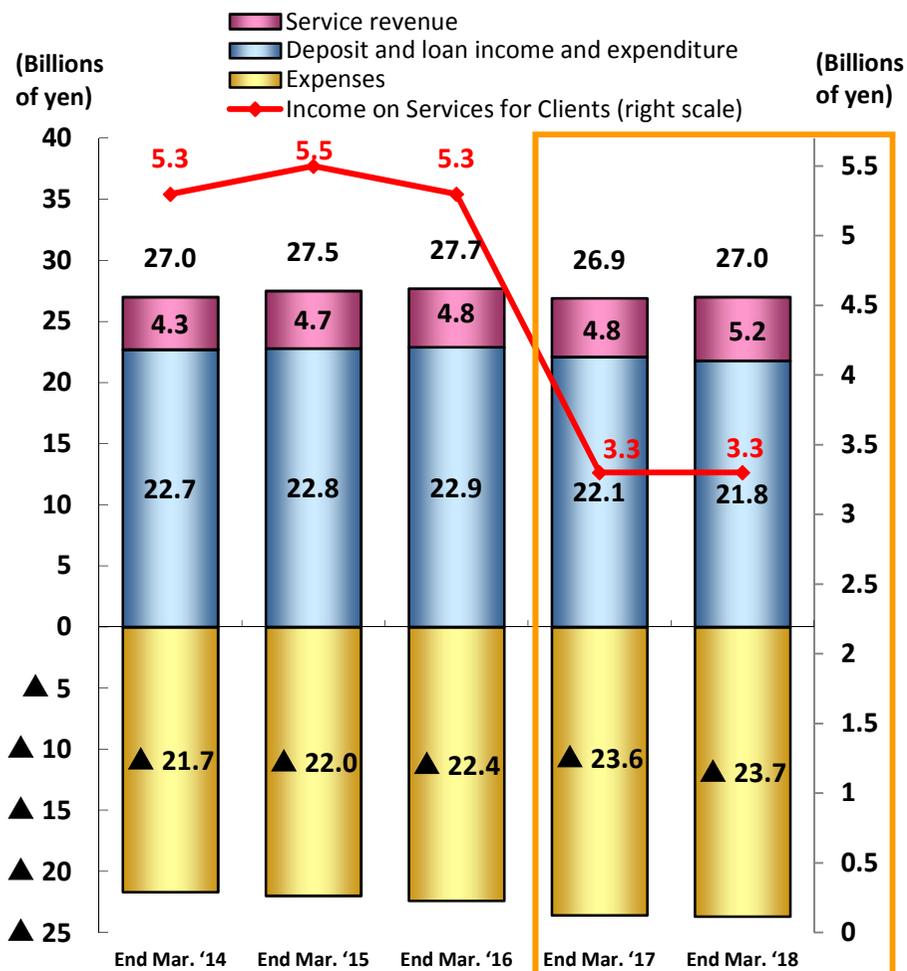
Changes in Marketable Securities Income and Expenditures



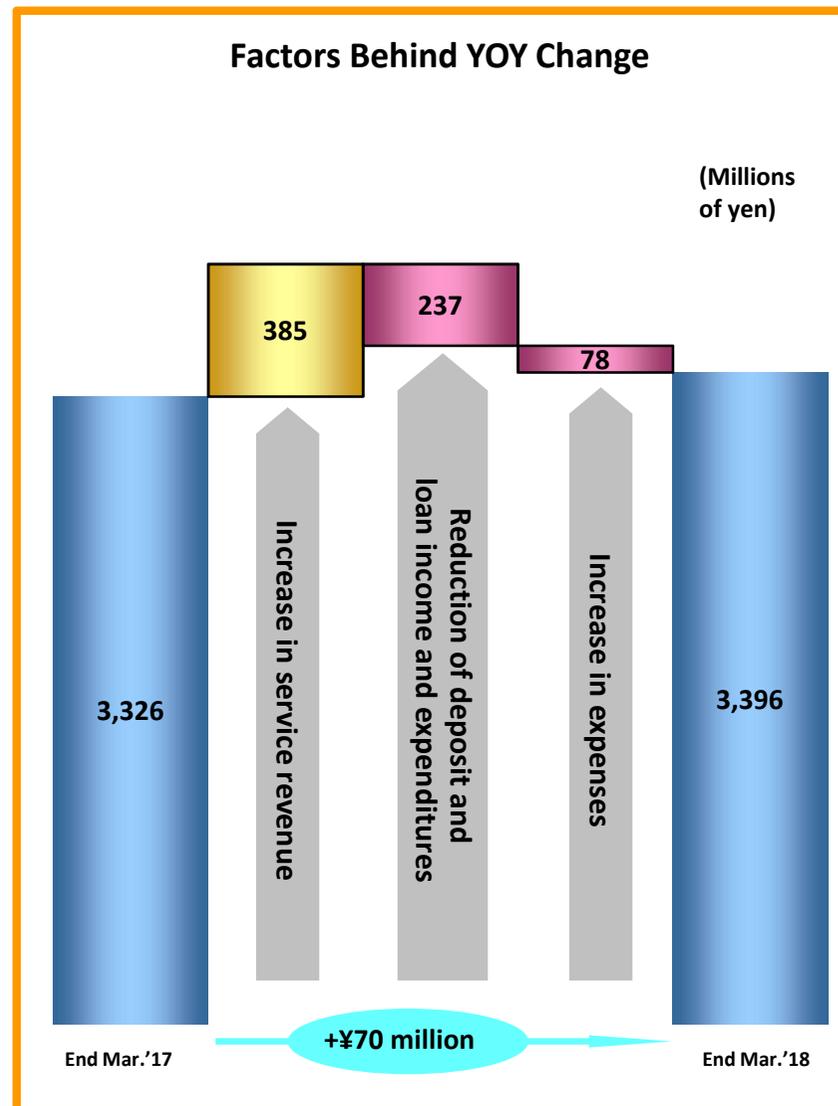
Factors for Gains/Losses for Income on Services for Clients 球球銀行

Bottoming out occurs after introduction of negative interest

Changes in Income on Services for Clients



Factors Behind YOY Change



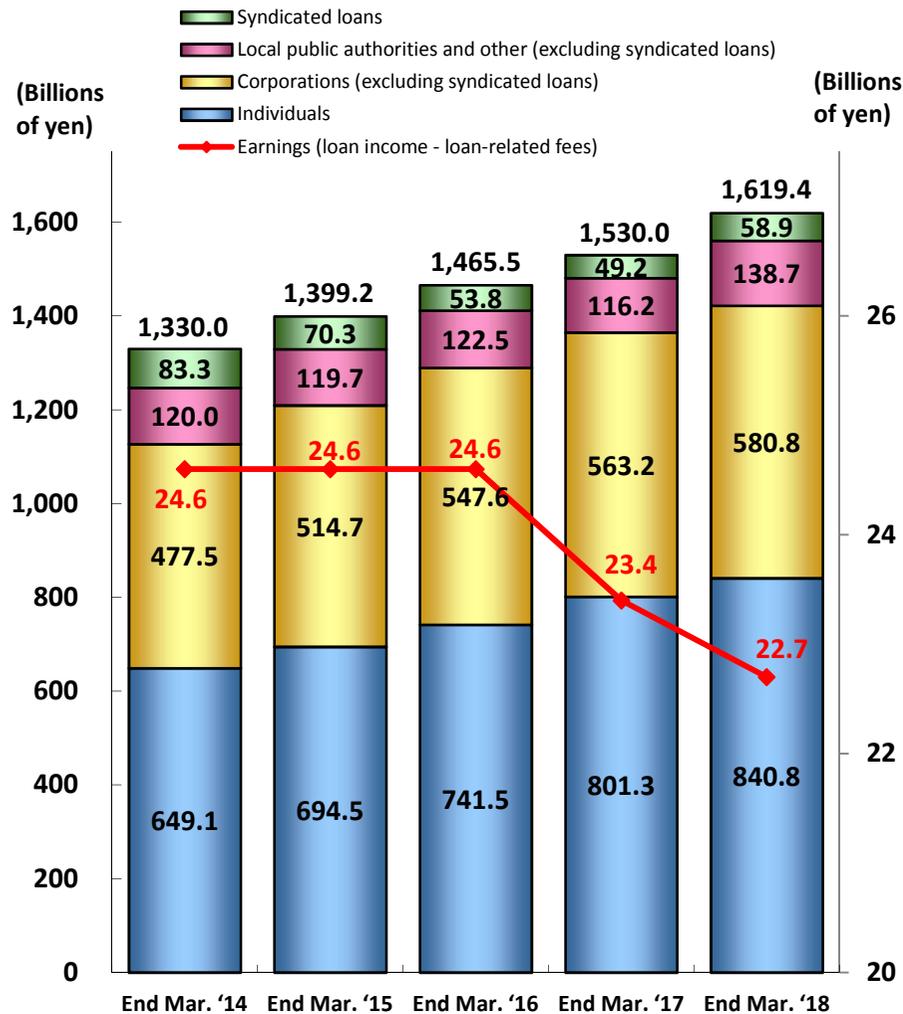
* Income on services for clients = deposit and loan income and expenditures + service revenue - expenses

Deposits and loans

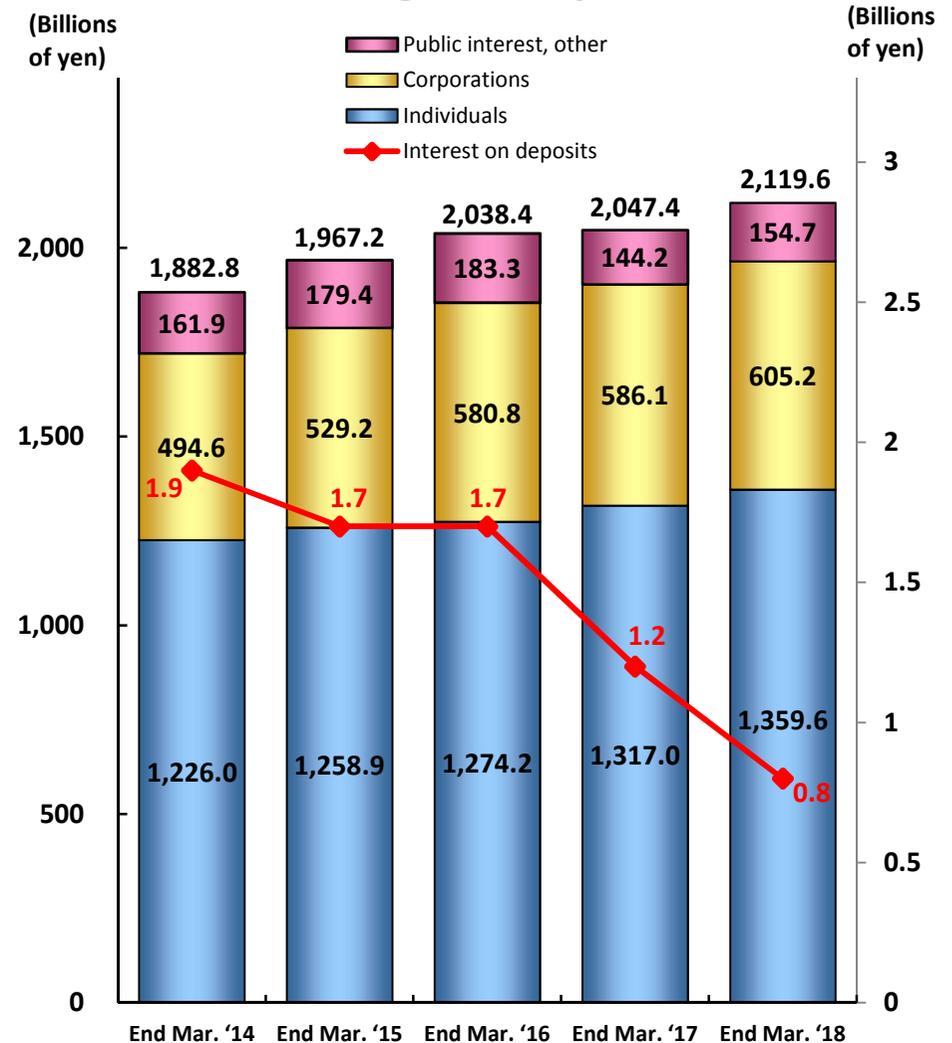


Steadily increasing deposits and loans balances but yield on investments is falling

Changes in Loans



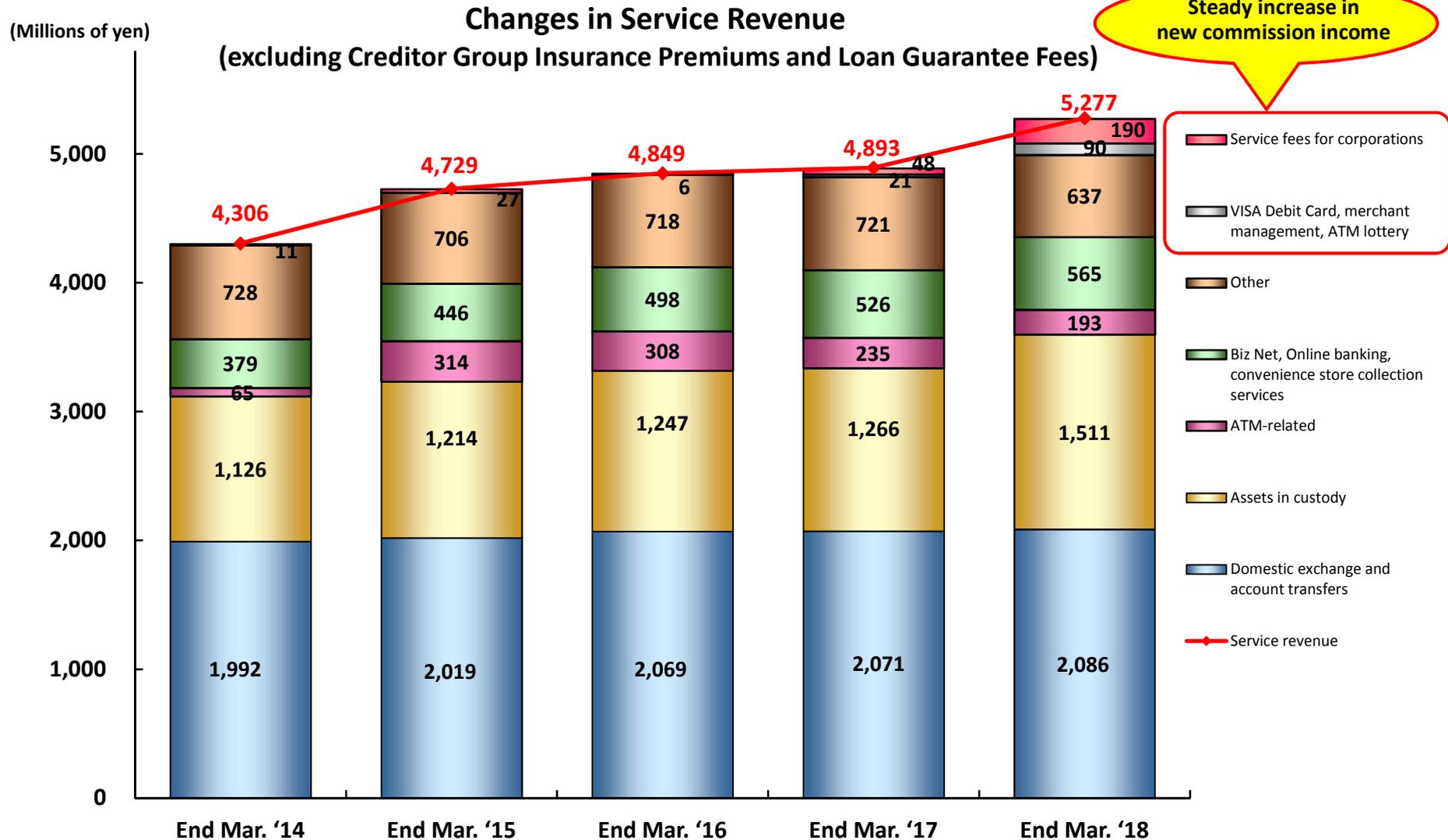
Changes in Deposits



Service revenue



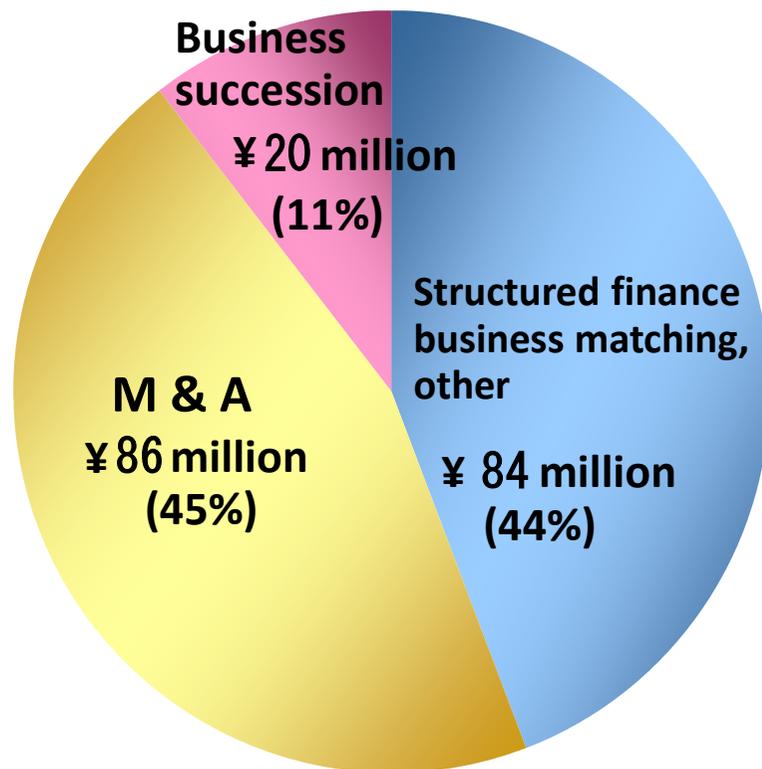
Diversification of earnings sources to increase commission income



* In addition, guarantee of debt fees, fees relating to FX, fees relating to financing, safety deposit boxes, night safes, agency loan administrative fees, etc. 8

Seeking to cultivate new business fields in addition to the lending business

Corporate Services Commission Income Ratio



Okinawa STARTUP PROGRAM

- This program will create and develop innovative and competitive venture companies (start-ups) from Okinawa using the networks and resources possessed by the Bank of the Ryukyus and the Okinawa Times



BOR Venture Fund

- In February 2018 we formed a fund managed by Ryugin Research Institute of the Bank of the Ryukyus Group. The fund, totaling ¥200 million, will contribute to the development of the local economy by share-based investment in promising Okinawan companies expected to grow and expand in the future.

Syndicate Loans (Arranger)

➤ Trial Run by a Local Bank

Formed 2 cases with Mizuho Bank as the arranger (co-manager)

- September 2017

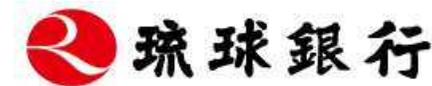
Participation: 6 financial institutions. Amount: ¥2 billion. Period: 20 years

- March 2018

Participation: 4 financial institutions. Amount: ¥1.3 billion.

Period: 10 years

Diversify Fee Business for Individuals

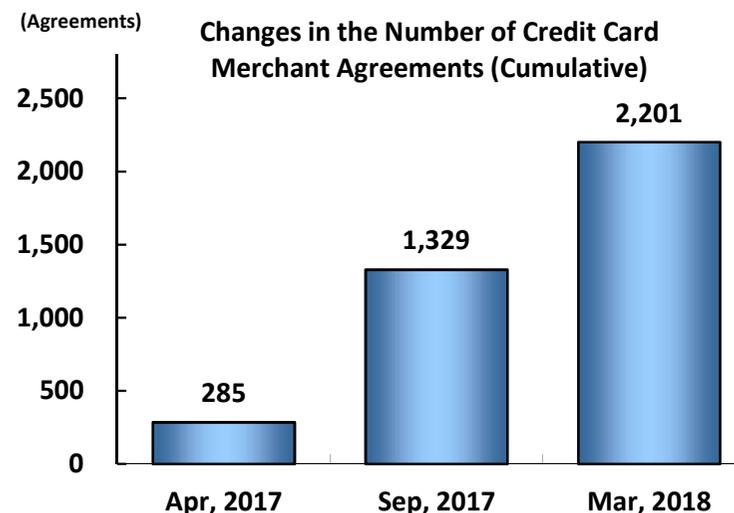


Pioneering efforts among regional banks in Japan

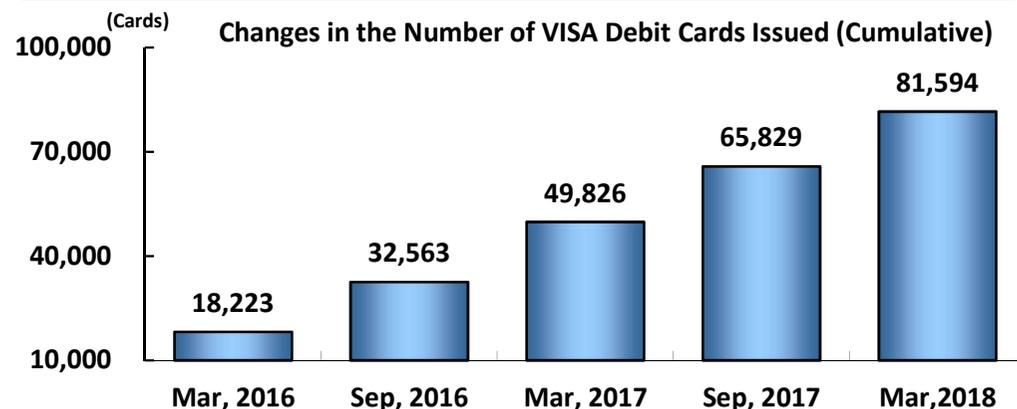
Started the “Ryugin Card Merchant Service” under both international brands of VISA and MasterCard

TOPICS

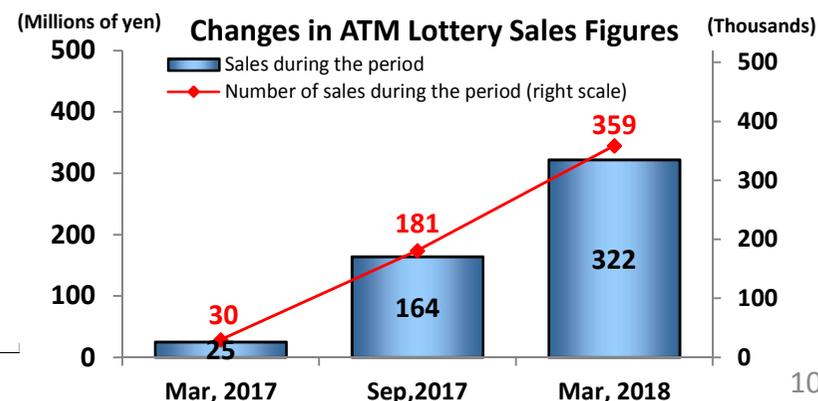
- Jan 2017 Start of credit card merchant management (acquiring)
- Aug 2017 Adoption of mobile devices
- Nov 2017 Start to provide services linked to POS cash registers
- Dec 2017 Start to provide mobile devices to taxi operators
- May 2018 Start handling various types of electronic money (13 main brands)
- Jun 2018 Start merchant management together with The Hida Credit Cooperative (Gifu Prefecture)
- Jun 2018 Start of alliance with Zamami Village Tourism Association to seek out possible merchants



Oct 2015 Launched VISA Debit Card



Feb 2017 Start sale of ATM lottery

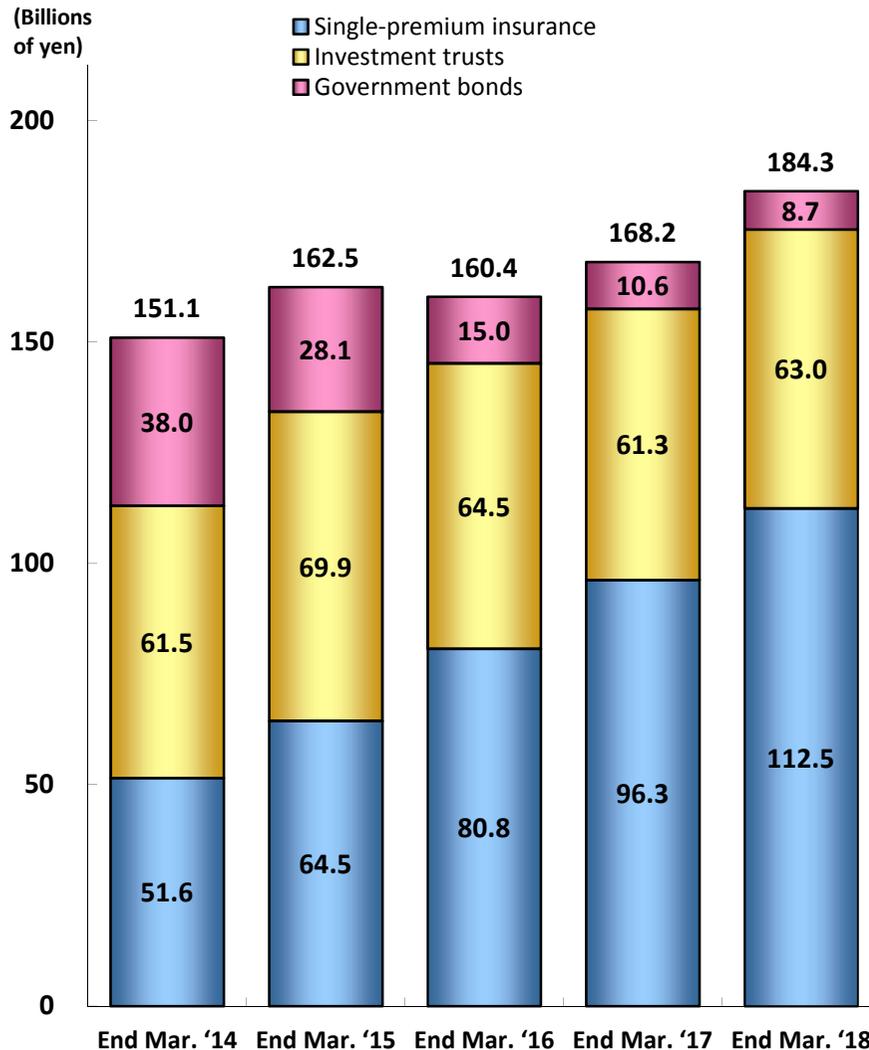


Assets in Custody

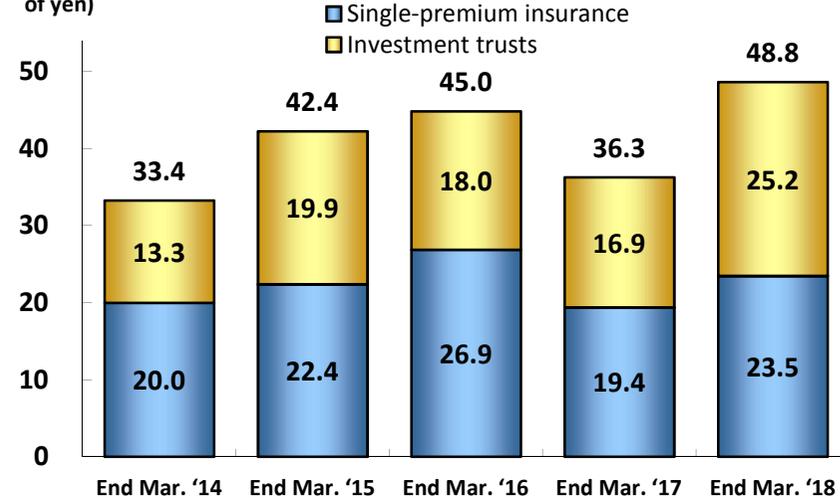


Higher balance overall thanks to increase in sales of single-premium insurance and investment trusts, offsetting a decline in government bonds

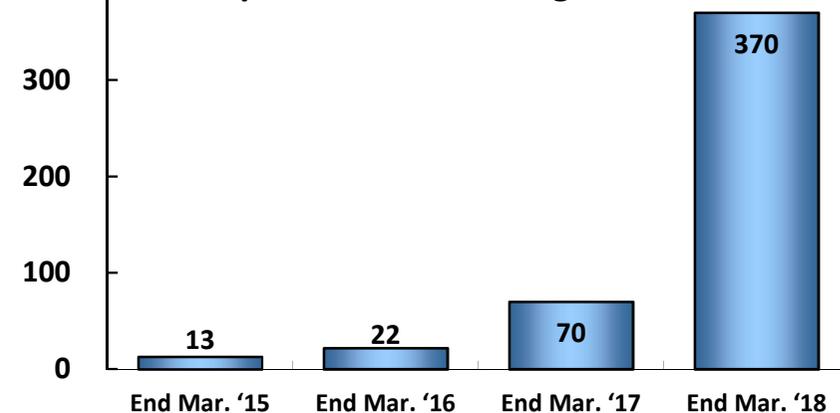
Changes in Assets in Custody Balance



Changes in Sales of Assets in Custody



Changes in the Number of Corporate Insurance Agreements

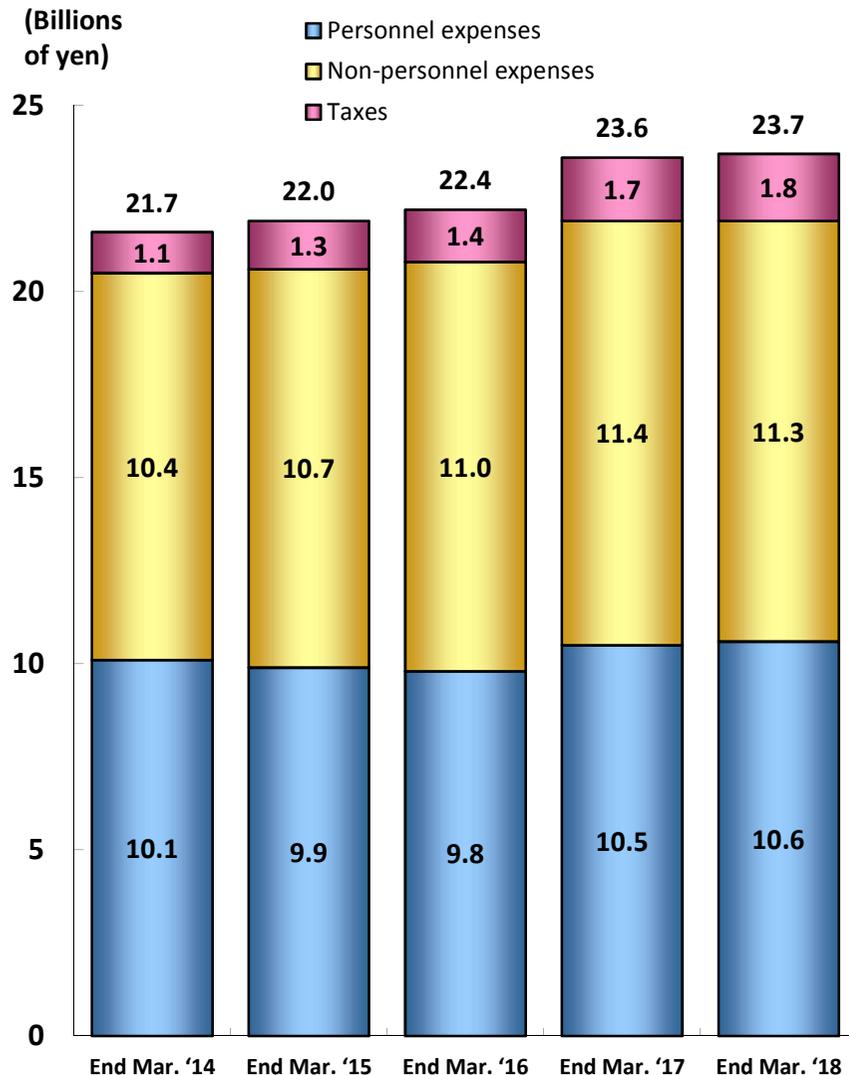


Expenses

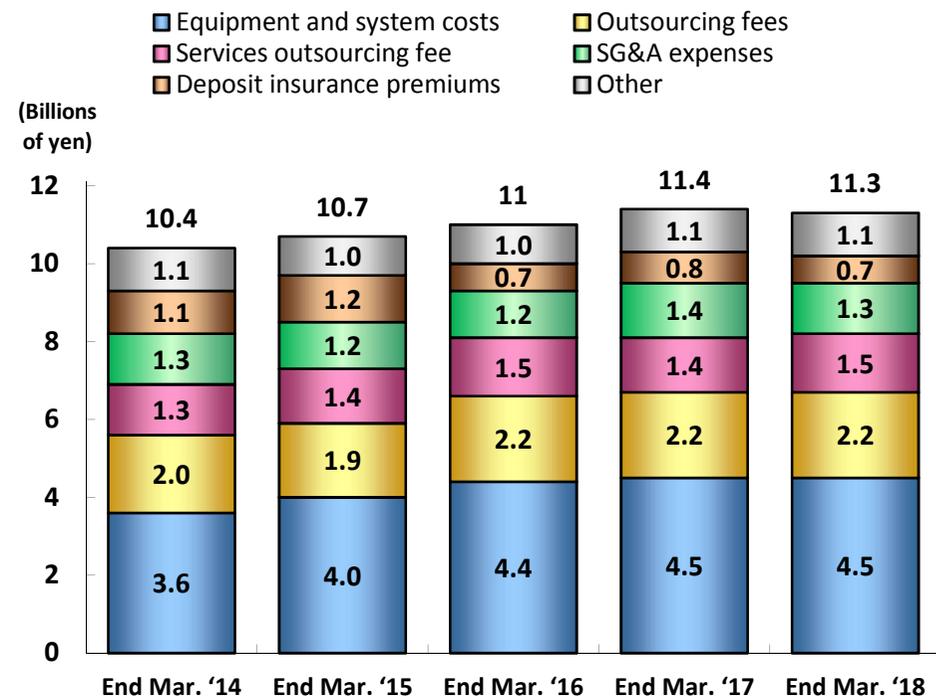


Personnel expenses, non-personnel expenses, and taxes remained roughly the same

Changes in Expenses



Changes in Non-personnel Expenses Breakdown



Key investments in FY 2017

- Applied to new branches (2 branches, 1 loan center)
- Expand functions of credit card merchant devices
- Expanded functions of the Ryugin VISA Debit Card
- Lending smartphones for work use to all employees and executives

Personnel System Innovations



Initiative to improve motivation and productivity of each employee

Abolition of the position age limit system

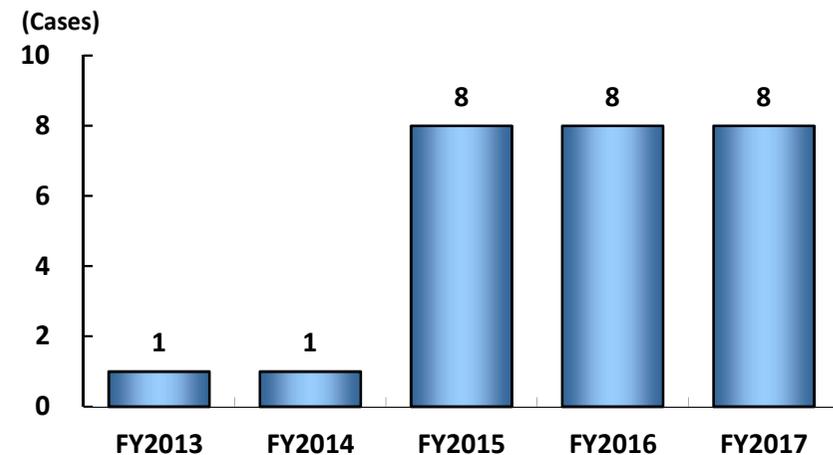
- **Major improvement in compensation for those aged 55 to 60.**
Abolished system lowering pay of clerks at 55 and removing titled employees from the line in principle
- **System to engage employees 60+ in work and maintain/improve their motivation.**
To improve compensation for those continuing past retirement age, we are developing a system for performance-based bonuses and achieve income levels on a par with clerks

Changes in the Personnel Evaluation System

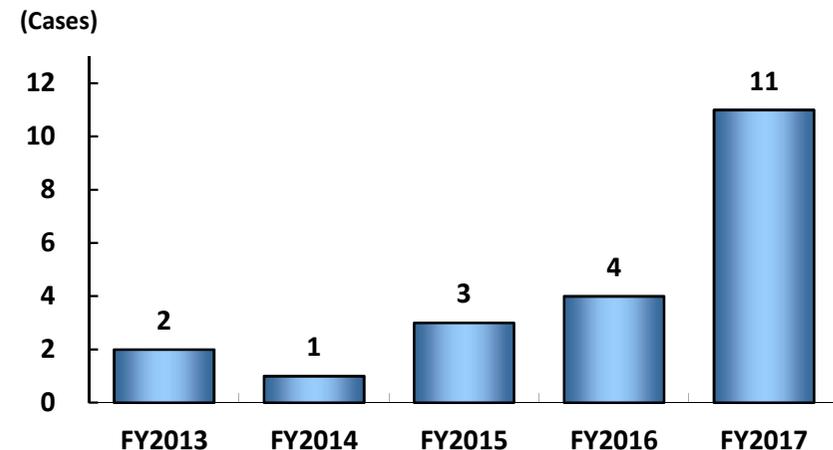
Build a high-quality portfolio of human resources, to establish a sales structure truly geared to clients

- **Set new required knowledge level**
- **Abolished written tests for promotion**
- **Revision of personnel records, etc.**

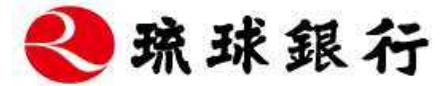
Results for mid-career employment



Results for promotion of non-regular employees

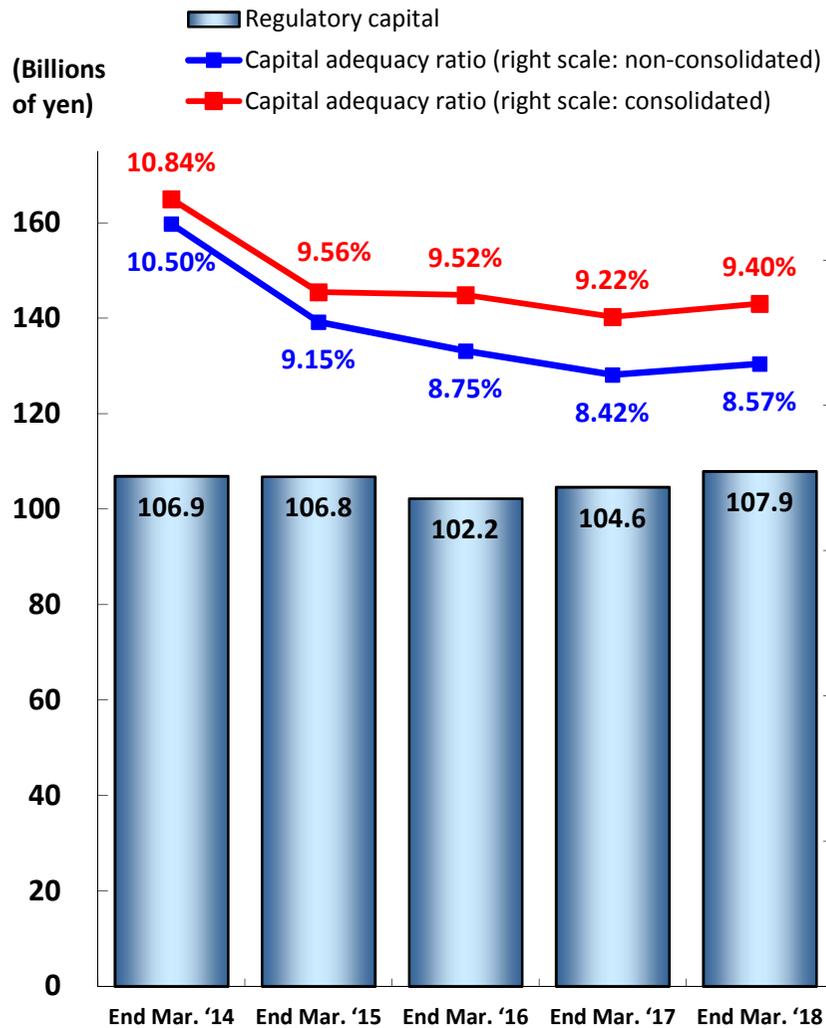


Capital Adequacy Ratio

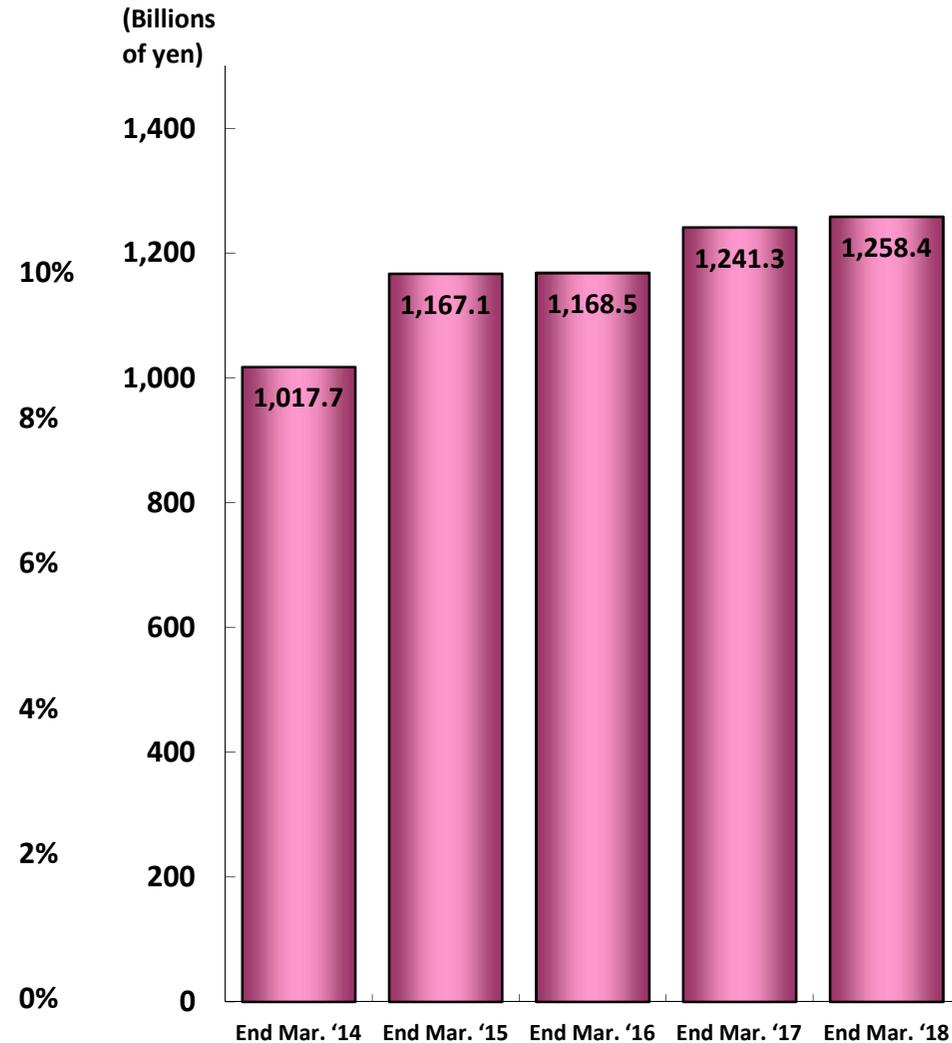


The capital adequacy ratio rose due to a buildup in profit

Changes in Capital Adequacy Ratio

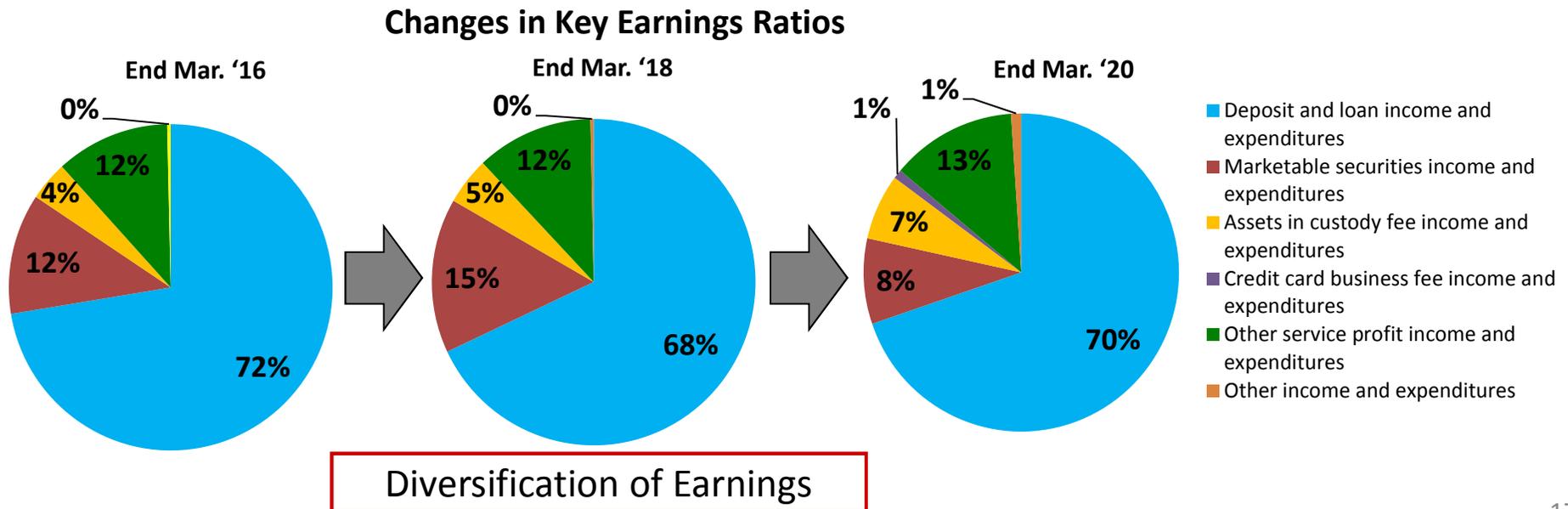
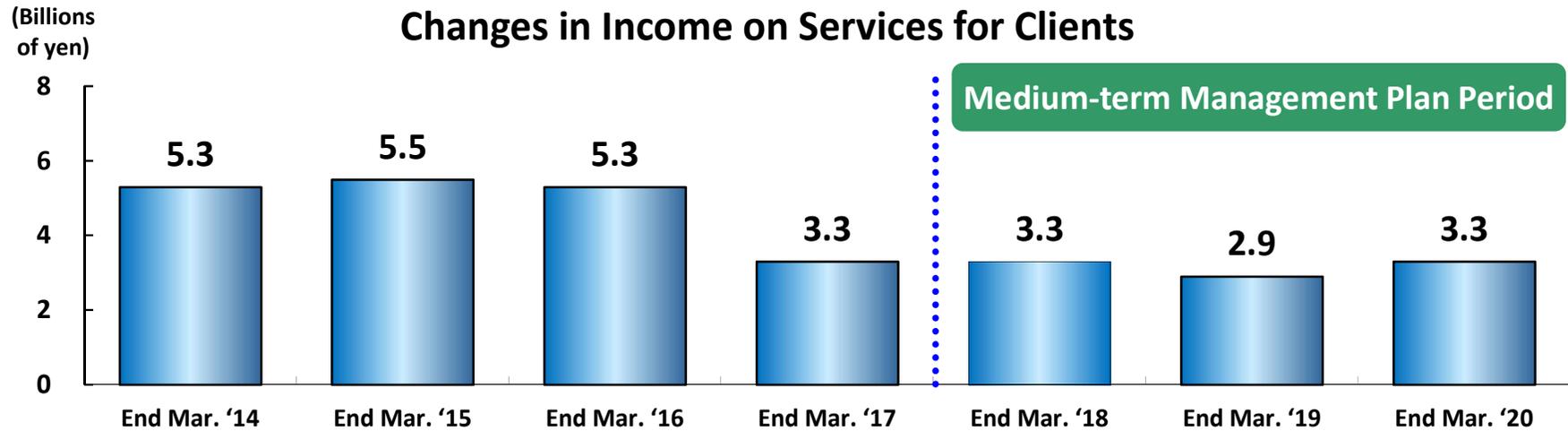


Changes in Risk Assets



Earnings Forecasts for the Midterm Period 珠球銀行

Aim to secure steady earnings by strengthening services revenue

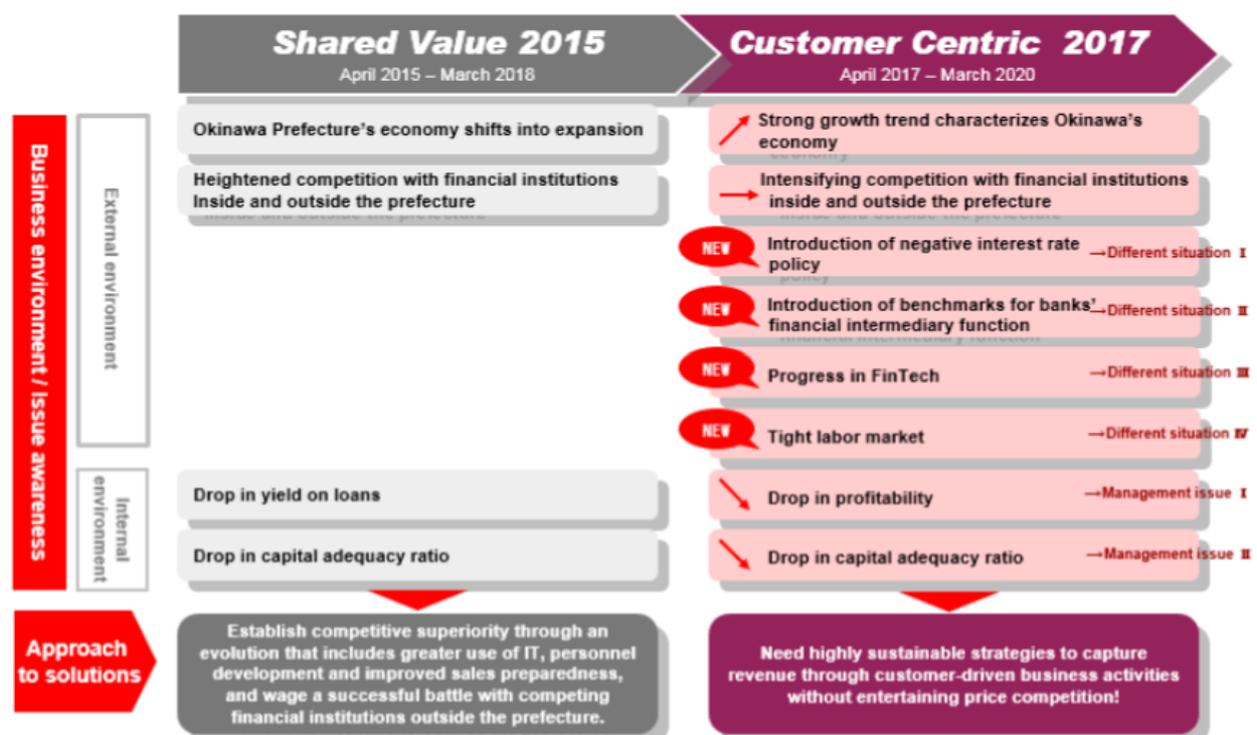


Customer Centric 2017

New Medium-Term Management Plan: Customer Centric 2017

Significance of Medium-Term Management Plan

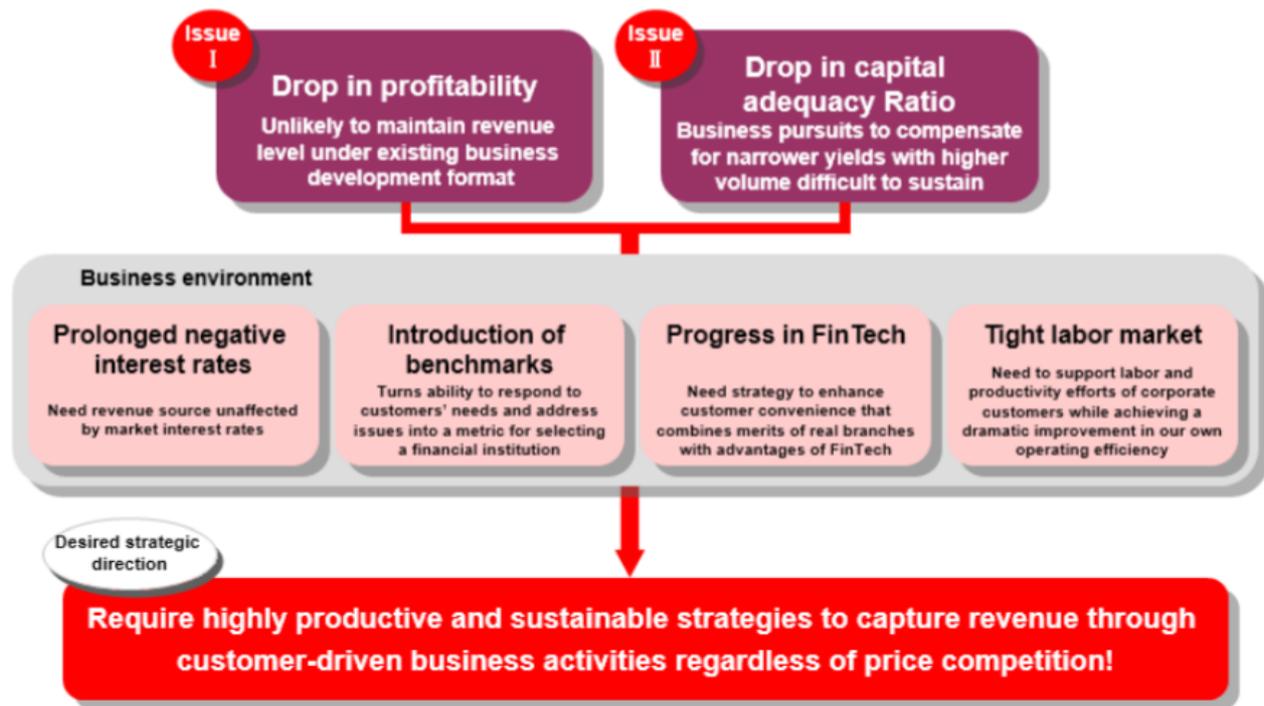
Issues that the Bank must address have taken on more critical importance due to changes in the business environment that were not identified at the time the previous medium-term management plan was drafted. We ended the previous medium-term management plan early and have defined new strategies that will properly deal with changes in the business environment.



Approaches in New Medium-Term Management Plan to Deal with Issues

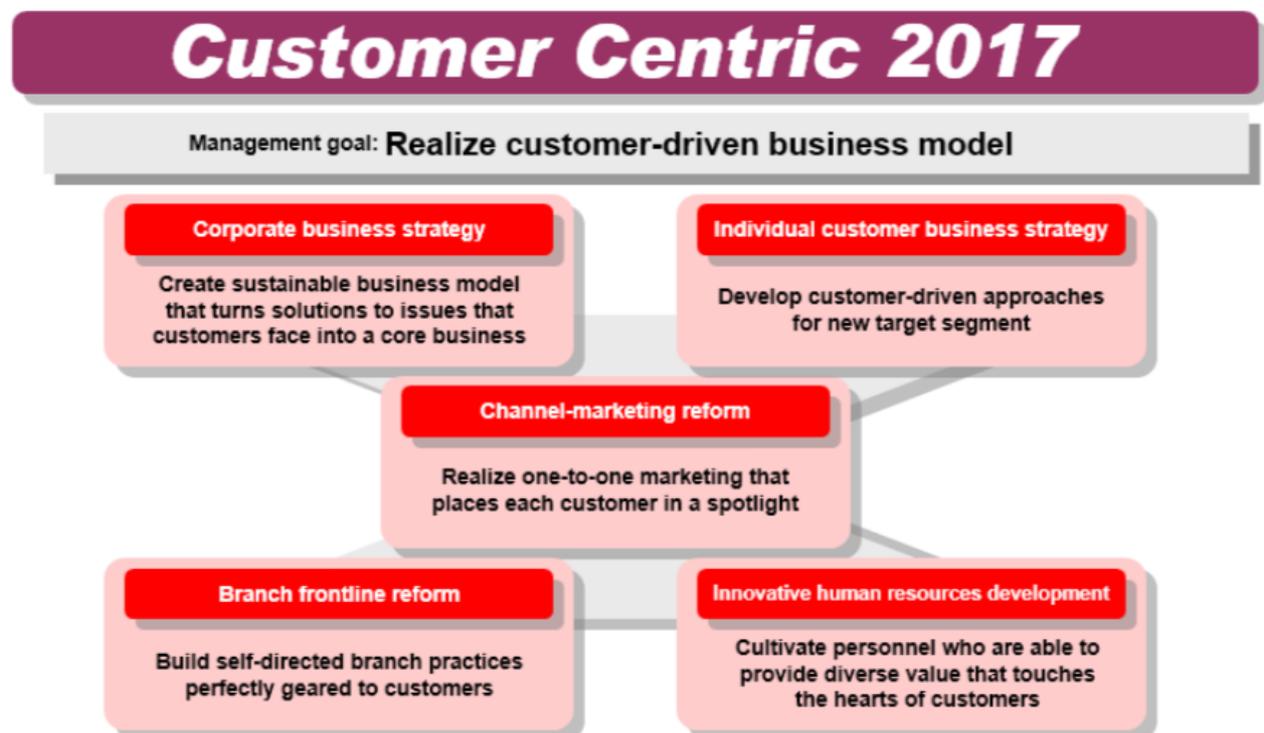
We will seize opportunities from changes in the environment and build a business model to

address whatever issues appear in our operating path.



Medium-Term Management Plan

Review activities aimed at capturing revenue from a customer-centric perspective and raise sustainability of business model



Numerical Targets

Review activities aimed at capturing revenue from a customer-centric perspective and raise sustainability of business model

**Consolidated
net income**
Above ¥5 billion

**Consolidated capital
adequacy ratio**
In the 8% range

Lending balance
¥1.6 trillion

Deposit balance
¥2,160 billion

* Deposits + negotiable certificates of deposits

* Expected values for fiscal 2020, ending March 31, 2021

Management Policy

Forging Stronger Bonds of Trust with the Local Community

Management Philosophy

Bank of the Ryukyus (“the Bank”) has long followed a management philosophy of fostering a relationship of trust with the local community so as to contribute to the development of regional society. To continue putting this philosophy into practice in the future, the Bank and its group will enhance the range and quality of services offered, while establishing sound management practices that will enable us to cope with any change in the business environment. By so doing, we aim to meet the needs of the local community.

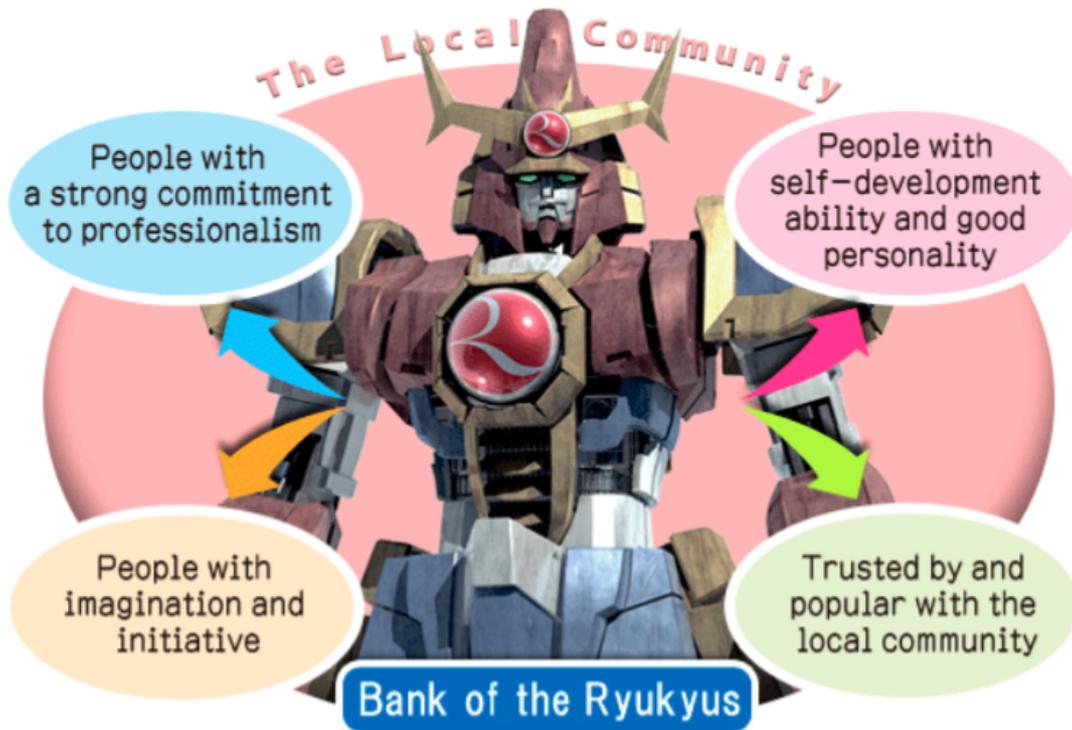
We see our Bank as: A provider of “solution-type” financial services

As a provider of “solution-type” financial services, the Bank will identify and resolve problems and issues facing the region, its corporations and its individual customers. That is the vision. Therefore, the Bank aims to promoting sustainable growth in partnership with our community, corporate and individual customers, by strengthening its capabilities in “solution-type” banking and providing a wider range of services.

We see our employees as:

1. People with a strong commitment to professionalism
Ability to demonstrate strong business knowledge and competence. Determination to achieve goals.
2. People with imagination and initiative
Constant awareness of potential problems and a will to make changes when necessary.
Ability to set an example through own initiative.
3. People with self-development ability and good personality
Persistence in self-development, to improve competence and ability to adapt to change, and willingness to embrace challenges.
4. Trusted by and popular with the local community

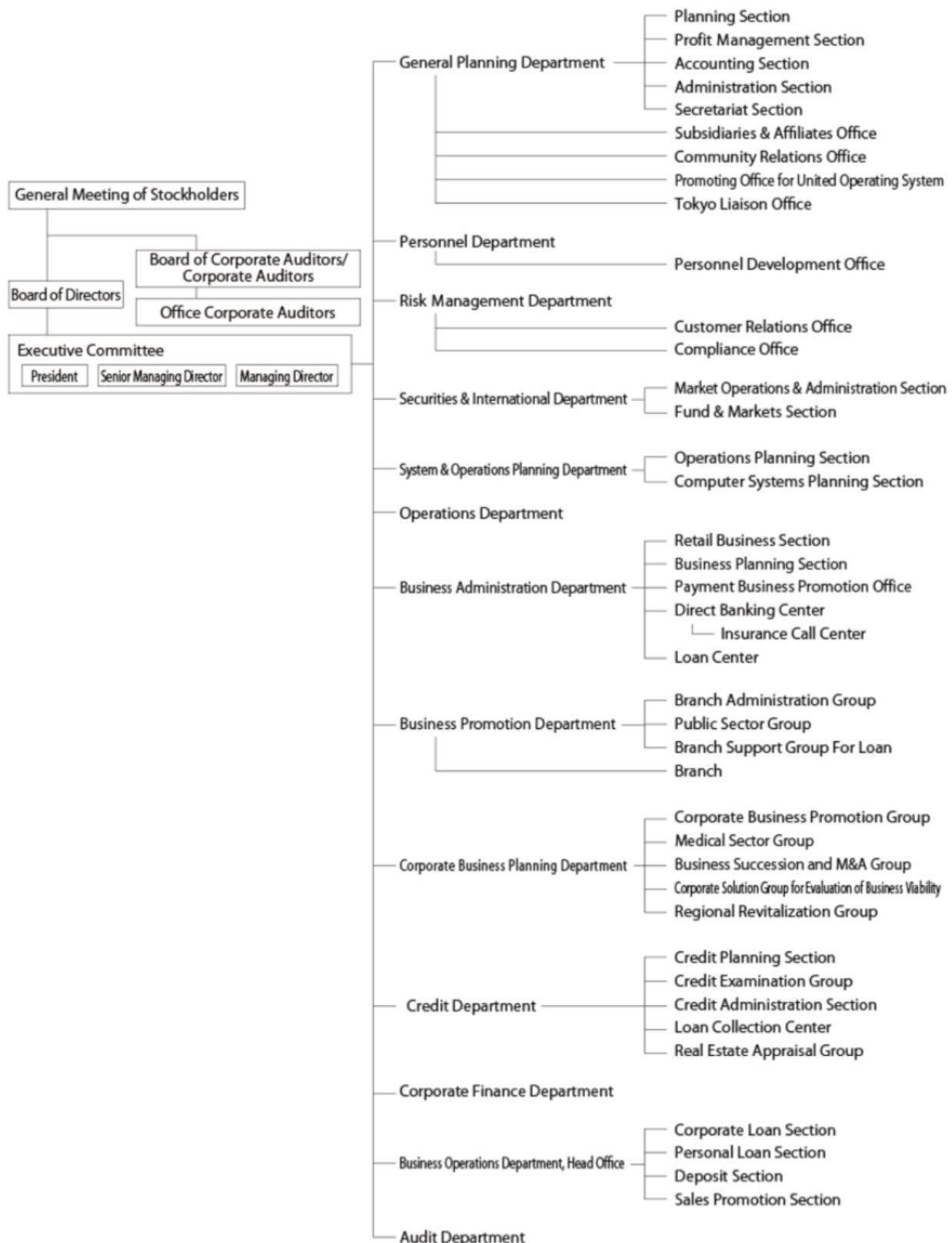
Ability to gain trust and support of local communities, and contribute to their growth



Organization

Annual Report

(As of April 1, 2017)



Profile

Annual Report

Bank of the Ryukyus, Ltd. was established in 1948 under an ordinance of the U.S. military for the purpose of restoring financial order and stabilizing the currency in order to facilitate the sound development of the Okinawan economy. From its founding up to the reversion of Okinawa to Japan, the Bank dedicated itself to promoting the development of the prefectural economy in its role as the region's de facto central bank.



When Okinawa was restored to Japanese sovereignty in 1972, the Bank reverted to the status of an ordinary bank subject to Japanese banking law, and as the prefecture's leading bank, it facilitated the transition to the Japanese economic and financial systems. In 1983, we became the first bank in Okinawa to be listed on the stock exchange, and in 1986 construction of our Computer Center was completed. In 1988, we established an international foundation. In this way, the Bank has been simultaneously working to strengthen its business structure and actively contribute to the prosperity of the regional community.

In June 2002, the decision was made to adopt an executive officer system, with the aim of facilitating more rapid response to changes in the banking environment, while enhancing the Bank's competitiveness as well as its level of overall efficiency.

In 2004, we introduced an Internet banking service, thereby becoming the first bank in the prefecture to offer online banking services for corporate clients.

In April 2015, we launched our new medium-term (four-year) management plan under the name Shared Value 2015.

Corporate Data

Annual Report

Non-Consolidated Data

(As of March 31, 2016)

Date of Establishment	May 1, 1948
Paid-in Capital	¥ 54,127 million
Total Assets	¥ 2,167,169million
Number of Employees	1,259
Number of Offices (including Head Office and Sub-branches)	76
Number of Shareholders	13,385
Stock Listings	Tokyo Stock Exchange & Fukuoka Stock Exchange

Service Network

(As of March 31, 2015)

Head Office and Securities & International Department

11-1, Kumoji 1-chome (P.O. Box 310), Naha, Okinawa 900-0015, Japan
Telex: J79827
Phone: 098-866-1212
Fax: 098-863-8504
SWIFT: RYUB JPJZ

Tokyo Branch

Kanda 21 Building 4F, 2-2-16, Kandata-cho, Chiyoda-ku, Tokyo 101-0046, Japan
Phone: 03-5296-8611
Fax: 03-5296-8616

Board of Directors

(As of June 25, 2015)

President	Directors	Executive Officers
Токеи кинжо	Yasushi Kawakami Satoshi Gibo Keishi Fukuhara Masamitsu Arakaki Moriaki Ota	Toshiki Takehara Ryoji Toyoda Yasushi Tokashiki Yasushi Shiroma
Senior Managing Director	Standing Corporate Auditor	
Taketora Miyagi	Tamotsu Teruya	
Managing Directors	Corporate Auditors	
Komei Takara Hidehiro Hayashi Tomoyuki Matsubara	Tsuyoshi Nakamura Katsumi Yamashiro	

Bank of the Ryukyus Group Companies

(As of March 31, 2015)

Ryukyu Leasing Co., Ltd.*

7-1, Kumoji 1-chome, Naha, Okinawa 900-0015, Japan

Phone: 098-866-5500

Established: May 1972

Paid-in Capital: ¥ 346 million

Line of Business: General leasing

Ryugin Hosho Co., Ltd.*

1-9, Tsubokawa 1-chome, Naha, Okinawa 900-0015, Japan

Phone: 098-832-1200

Established: July 1979

Paid-in Capital: ¥ 20 million

Line of Business: Housing loans, debt guaranty and insurance agency

Ryugin Business Service Co., Ltd.*

9-17, Kumoji 1-chome, Naha, Okinawa 900-0015, Japan

Phone: 098-863-4572

Established: September 1983

Paid-in Capital: ¥ 10 million

Line of Business: Cash inspection and arrangement, Cash Dispenser/ATM management and maintenance

Ryugin DC Co., Ltd.*

7-1, Kumoji 1-chome, Naha, Okinawa 900-0015, Japan

Phone: 098-862-1525

Established: April 1984

Paid-in Capital: ¥ 195 million

Line of Business: Credit cards, financing

Ryugin Office Service Co., Ltd.*

4-1-1, Uchima, Urasoe, Okinawa 901-2121, Japan

Phone: 098-876-7130

Established: June 1999

Paid-in Capital: ¥ 10 million

Line of Business: Clerical services

Ryugin Research Institute., Ltd.*

1-9, Tsubokawa 1-chome, Naha, Okinawa 900-0025, Japan

Phone: 098-835-4650

Established: June 2006

Paid-in Capital: ¥ 23 million

Line of Business:

Industrial, economic and financial surveys and research; planning and organization of conferences and training

*Consolidated subsidiaries

Message from the President

Annual Report

Greetings to all and my sincerest thanks for your continued support. The following is a report on our operations and accounts for the 102nd Term (April 1, 2017 to March 31, 2018).



Yasushi Kawakami
President

Financial & Economic Environment

During fiscal 2017, the Japanese economy saw a gradual growth in capital spending thanks to improved corporate earnings on the back of an export recovery. Additionally, a steady improvement was seen in the employment situation, against the background of increases in the total labor force and the number of persons in active employment, as well as a decline in the number of unemployed, among other factors. As a result, consumer spending maintained the previous year's recovery trend, and the gradual recovery of the overall economy continued. Turning to the economy of Okinawa Prefecture, the tourism sector recorded a strong performance, with the number of tourists from outside the prefecture maintaining its upward trend, and consumer spending remained vigorous thanks to a steady improvement in the employment situation. The construction industry as a whole posted a healthy performance on the back of high levels in both corporate capital investment and public works spending. As a result, the prefectural economy as a whole continued to grow.

Business Activities and Performance Results

Amid this environment, during fiscal 2017—which was the first year of our new Customer Centric 2017 medium-term management plan—we worked to expand our customer base in pursuit of the goal of building a customer-centric revenue model, and to strengthen the Bank's non-interest income. At the same time, we also focused on restructuring the Bank's overall system, including the vigorous pursuit of measures to enhance operational efficiency and reform our personnel system.

Regarding our corporate business strategy, we embarked on a number of projects—all unique to

Okinawa Prefecture—to help create and nurture startup companies. For example, we held the OKINAWA Startup Program, following the previous year’s similar program, and established the BOR Venture Fund No.1 Investment Business Limited Partnership. We also worked to ensure the smooth provision of necessary financing to small and medium-sized enterprises, including acting as a joint arranger with Mizuho Bank for syndicated loans to corporations within Okinawa Prefecture. In credit card services for affiliated stores, which we commenced handling in fiscal 2016, we took steps to expand the use of cashless transactions within Okinawa Prefecture by strengthening the electronic payment infrastructure. This included the extension of our credit card services to point-of-sale cash registers at more stores as well as to taxi operators, and the conclusion of a business tie-up agreement with The Hida Credit Cooperative (Gifu Prefecture). In our individual business strategy, we became the first regional bank in Okinawa Prefecture to offer customers the convenient option of applying for life insurance policies or loans using tablet computers. This makes it simpler and quicker to fill out the necessary forms. To enhance productivity within the Bank, we adopted Workplace by Facebook, among other measures, to facilitate easy communication between executives and other employees. At our Direct Banking Center—a non-face-to-face banking channel for loan applications—we introduced robotic process automation (RPA) software. We plan to monitor the effectiveness of RPA with a view to expanding its area of application if results are positive. In addition to the above, during the reporting term we upgraded the status of our Naha Port and Nakijin sub-branches to provide a more convenient service, and Ryukyu Lease Co., Ltd. was made into a wholly-owned subsidiary to more fully enable the BOR Group as a whole to meet diversifying customer needs. We believe these moves will speed up decision making within the Group and improve efficiency. We also plan to further enhance our community-centered services through strengthened intra-Group collaboration.

Issues Facing the Bank

While the economy of Okinawa Prefecture is maintaining a favorable trend, the Bank’s operating environment is becoming increasingly difficult amid the maintenance of the BOJ’s negative interest rate policy and stiff competition for loan business among financial institutions both within the prefecture and elsewhere in Japan. In response to this situation, in our services targeted at individuals we have been issuing debit cards and expanding our transactions with customers of working age whose need for asset building is prominent. In our services for corporate clients, we have been offering optimal solutions tailored to each client’s situation, based on business feasibility assessments. Such solutions include assistance with business succession plans, M&As, the arrangement of syndicated loans, and so on. Through these measures, in addition to further growth in our credit card services for affiliated retail outlets, among others, we are working to build a customer-centric revenue model, the prime goal laid down in our Customer Centric 2017 medium-term management plan.

July 2018
Yasushi Kawakami,
President

Financial Section

Annual Report

Financial Data [PDF files]

-  [Entire File \(292KB\)](#)
-  [Consolidated Balance Sheets \(115KB\)](#)
-  [Consolidated Statements of Income \(112KB\)](#)
-  [Consolidated Statements of Comprehensive Income \(110KB\)](#)
-  [Consolidated Statements of Changes in Net Assets \(128KB\)](#)
-  [Consolidated Statements of Cash Flows \(119KB\)](#)
-  [Notes to Consolidated Financial Statements \(214KB\)](#)
-  [Non-Consolidated Balance Sheets \(125KB\)](#)
-  [Non-Consolidated Statements of Income \(119KB\)](#)
-  [Non-Consolidated Statements of Changes in Net Assets \(127KB\)](#)

BANK OF THE RYUKYUS, LTD. and consolidated subsidiaries

Consolidated Balance Sheets

As of March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Assets			
Cash and due from banks (Notes 4 and 7)	¥ 203,196	¥ 213,378	\$ 1,912,619
Call loans and bills bought (Note 4)	816	4,309	7,686
Monetary claims bought	117	174	1,109
Money held in trust (Note 4)	10,461	—	98,471
Securities (Notes 4, 5 and 7)	407,845	424,568	3,838,906
Loans and bills discounted (Notes 4, 6 and 7)	1,599,993	1,511,119	15,060,182
Foreign exchanges	9,405	7,305	88,533
Lease receivables and lease investment assets (Note 7)	21,333	21,259	200,809
Other assets (Note 7)	74,568	43,187	701,885
Property, plant and equipment (Note 9)	24,097	22,889	226,821
Intangible fixed assets	3,441	3,280	32,393
Net defined benefit asset	486	—	4,583
Deferred tax assets	4,136	4,763	38,933
Customers' liabilities for acceptances and guarantees (Note 10)	7,528	7,722	70,866
Allowance for loan losses	(8,669)	(10,440)	(81,601)
Total assets	2,358,761	2,253,518	22,202,195
Liabilities			
Deposits (Notes 4 and 7)	2,083,768	2,014,897	19,613,789
Negotiable certificate of deposits (Note 4)	24,042	22,925	226,304
Payables under repurchase agreements (Note 7)	43,793	16,280	412,213
Borrowed money (Notes 4 and 7)	42,116	42,493	396,430
Foreign exchanges	128	309	1,208
Bonds payable (Notes 4 and 8)	12,000	12,000	112,952
Other liabilities	22,976	20,129	216,269
Reserve for bonuses	695	573	6,547
Net defined benefit liability	622	1,944	5,864
Reserve for retirement benefits for directors and corporate auditors	19	13	185
Reserve for reimbursement of dormant deposits	175	205	1,648
Reserve for contingent losses	118	122	1,117
Reserve for point service program	147	136	1,389
Reserve for losses on interest payment	496	580	4,669
Deferred tax liabilities	2,193	—	20,643
Deferred tax liabilities for land revaluation (Note 11)	7,528	2,193	70,866
Acceptances and guarantees (Note 10)	2,240,823	7,722	21,092,093
Total liabilities	2,083,768	2,142,529	19,613,789
Net assets (Note 12)			
Capital stock	54,127	54,127	509,480
Capital surplus	11,437	10,054	107,657
Retained earnings	50,271	42,822	473,191
Treasury stock	(375)	(481)	(3,536)
Total shareholders' equity	115,460	106,522	1,086,792
Valuation difference on available-for-sale securities	1,497	1,905	14,092
Deferred gains on hedges	(0)	0	(0)
Revaluation reserve for land (Note 11)	1,323	1,323	12,457
Remeasurements of defined benefit plans	(580)	(1,463)	(5,468)
Total accumulated other comprehensive income	2,239	1,766	21,081
Stock acquisition rights	236	238	2,229
Non-controlling interests	—	2,461	—
Total net assets	117,937	110,988	1,110,102
Total liabilities and net assets	¥2,358,761	¥2,253,518	\$22,202,195

See accompanying notes to consolidated financial statements.

BANK OF THE RYUKYUS, LTD. and consolidated subsidiaries

Consolidated Statements of Comprehensive Income

As of March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Profit	¥8,884	¥ 6,721	\$83,631
Other comprehensive income:			
Net unrealized gains on available-for-sale securities	(408)	(2,939)	(3,845)
Deferred loss on derivatives under hedge accounting	(0)	1	(6)
Remeasurements of defined benefit plans	882	194	8,307
Total other comprehensive income	473	(2,744)	4,456
Comprehensive income	9,358	3,977	88,087
Attributable to			
Owners of the parent	9,258	3,750	87,147
Non-controlling interests	99	226	940

See accompanying notes to consolidated financial statements.

BANK OF THE RYUKYUS, LTD. and consolidated subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Shareholders' equity			
Capital stock:			
Balance at end of the previous year	¥ 54,127	¥ 54,127	\$ 482,459
Changes during the year	—	—	—
Balance at end of the year	¥ 54,127	¥ 54,127	\$ 482,459
Capital surplus:			
Balance at end of the previous year	¥ 10,054	¥ 10,054	\$ 94,639
Changes during the year:			0
Increase by share exchanges	114	—	1,079
Sale of treasury stock	(14)	0	(140)
Change in treasury stock of parent arising from transactions with non-controlling shareholders	1,283	—	12,079
Total changes during the year	1,382	0	13,018
Balance at end of the year	¥ 11,437	¥ 10,054	\$ 107,657
Retained earnings:			
Balance at end of the previous year	¥ 42,822	¥ 37,660	\$ 403,073
Changes during the year:			
Cash dividends	(1,335)	(1,332)	(12,574)
Profit attributable to parent of the owner	1,283	6,494	82,692
Total changes during the year	1,382	5,162	70,117
Balance at end of the year	¥ 11,437	¥ 42,822	\$ 473,191
Treasury stock:			
Balance at end of the previous year	¥ (481)	¥ (513)	\$ (4,536)
Changes during the year:			
Increase by share exchanges	612	—	5,768
Purchase of treasury stock	(595)	(1)	(5,608)
Sales of treasury stock	89	33	840
Total changes during the year	106	31	1,000
Balance at end of the year	¥ (375)	¥ (481)	\$ (3,536)
Total shareholders' equity:			
Balance at end of the previous year	¥106,522	¥101,328	\$1,002,657
Changes during the year:			
Cash dividends	(1,335)	(1,332)	(12,574)
Profit attributable to parent of the owner	8,785	6,494	82,692
Reversal of revaluation reserve for land	727	—	6,846
Purchase of treasury stock	(595)	(1)	(5,608)
Sales of treasury stock	74	33	700
Change in treasury stock of parent arising from transactions with non-controlling shareholders	1,283	—	12,079
Total changes during the year	8,938	5,193	84,134
Balance at end of the year	¥115,460	¥106,522	\$1,086,792

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	2018	2017	2018
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities:			
Balance at end of the previous year	¥ 1,905	¥ 4,845	\$ 17,937
Changes during the year:			
Net changes in items other than shareholders' equity	(408)	(2,939)	(3,845)
Total changes during the year	(408)	(2,939)	(3,845)
Balance at end of the year	¥ 1,497	¥ 1,905	\$ 14,092
Deferred gains on hedges:			
Balance at end of the previous year	¥ 0	¥ 0	\$ (6)
Changes during the year:			
Net changes in items other than shareholders' equity	(0)	1	(6)
Total changes during the year	(0)	1	(6)
Balance at end of the year	¥ (0)	¥ 0	\$ (0)
Revaluation reserve for land:			
Balance at end of the previous year	¥ 1,323	¥ 1,323	\$ 12,457
Changes during the year:			
Net changes in items other than shareholders' equity	—	—	—
Total changes during the year	—	—	—
Balance at end of the year	¥ 1,323	¥ 1,323	\$ 12,457
Remeasurements of defined benefit plans:			
Balance at end of the previous year	¥ (1,463)	¥ (1,657)	\$ (13,775)
Changes during the year:			
Net changes in items other than shareholders' equity	882	194	8,307
Total changes during the year	882	194	8,307
Balance at end of the year	¥ (580)	¥ (1,463)	\$ (5,468)
Total accumulated other comprehensive income:			
Balance at end of the previous year	¥ 1,766	¥ 4,510	\$ 16,626
Changes during the year:			
Net changes in items other than shareholders' equity	473	(2,744)	4,455
Total changes during the year	473	(2,744)	4,455
Balance at end of the year	¥ 2,239	¥ 1,766	\$ 21,081

BANK OF THE RYUKYUS, LTD. and consolidated subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Stock acquisition rights			
Balance at end of the previous year	¥ 238	¥ 204	\$ 2,244
Changes during the year:			
Net changes in items other than shareholders' equity	(1)	33	(15)
Total changes during the year	(1)	33	(15)
Balance at end of the year	¥ 236	¥ 238	\$ 2,229
Non-controlling interests			
Balance at end of the previous year	¥ 2,461	¥ 2,240	\$ 23,172
Changes during the year:			
Net changes in items other than shareholders' equity	(2,461)	221	(23,172)
Total changes during the year	(2,461)	221	(23,172)
Balance at end of the year	¥ —	¥ 2,461	\$ —
Total net assets			
Balance at end of the previous year	¥110,988	¥108,284	\$1,044,699
Changes during the year:			
Cash dividends	(1,335)	(1,332)	(12,574)
Profit attributable to parent of the owner	8,785	6,494	82,692
Reversal of revaluation reserve for land	727	—	6,846
Purchase of treasury stock	(595)	(1)	(5,608)
Sales of treasury stock	74	33	700
Change in treasury stock of parent arising from transactions with non-controlling shareholders	1,283	—	12,079
Net changes in items other than shareholders' equity	(1,990)	(2,489)	(18,732)
Total changes during the year	6,948	2,704	65,403
Balance at end of the year	¥117,937	¥110,988	\$1,110,102

See accompanying notes to consolidated financial statements.

BANK OF THE RYUKYUS, LTD. and consolidated subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities			
Income before income taxes	¥ 12,350	¥ 9,664	\$ 116,253
Depreciation	2,687	2,697	25,298
Increase (decrease) in allowance for loan losses	(1,771)	(670)	(16,673)
Increase (decrease) in reserve for bonuses	122	7	1,151
(Increase) decrease in net defined benefit asset	(195)	(366)	(1,839)
Decrease (increase) in net defined benefit liability	(354)	4	(3,333)
Increase (decrease) in reserve for retirement benefits for directors and corporate auditors	5	(60)	54
Increase (decrease) in reserve for reimbursement of dormant deposits	(30)	(18)	(285)
Decrease (increase) in reserve for contingent losses	(4)	1	(40)
Increase (decrease) in reserve for point service program	10	(492)	100
Increase (decrease) in reserve for losses on interest payment	(84)	(30,410)	(795)
Interest income	(29,872)	1,906	(281,184)
Interest expenses	1,536	(496)	14,463
Other gains (losses), net	(2,365)	(64,143)	(22,264)
Increase in loans and bills discounted	(88,873)	(14,869)	(836,538)
Increase in deposits	68,871	22,925	648,261
Increase in negotiable certificate of deposits	1,116	198	10,512
Increase (decrease) in borrowed money (excepting subordinated borrowings)	(376)	4,042	(3,543)
Decrease (increase) in due from banks (excluding due from central bank)	100	(3,467)	950
Decrease (increase) in call loans	3,548	5,318	33,402
Increase (decrease) in payables under repurchase agreements	27,513	(3,982)	258,971
Net change in foreign exchange accounts (assets)	(2,100)	208	(19,771)
Net change in foreign exchange accounts (liabilities)	(181)	(482)	(1,709)
Decrease (increase) in lease receivables and lease investment assets	(73)	—	(688)
Decrease (increase) in initial clearing margin for CCP	(29,300)	30,452	(275,791)
Interest and dividends received	30,100	(2,218)	283,329
Interest paid	(1,693)	(1,679)	(15,943)
Other, net	2,272	(45,930)	21,388
Subtotal	7,039	(3,399)	66,263
Income taxes paid	(1,344)	(49,329)	(12,656)
Net cash used in operating activities	(8,384)	(49,329)	(78,919)
Cash flows from investment activities			
Purchases of securities	(244,501)	(208,310)	(2,301,407)
Proceeds from sales of securities	134,379	113,619	1,264,871
Proceeds from redemptions of securities	125,890	136,564	1,184,964
Increase in money held in trust	(10,500)	(3,500)	(98,833)
Decrease in money held in trust	0	4,811	1
Purchases of property, plant and equipment	(3,047)	(2,685)	(28,683)
Purchases of intangible fixed assets	(1,251)	(780)	(11,780)
Proceeds from sales of property, plant and equipment	286	309	2,698
Payments for disposal of property, plant and equipment	(35)	(40)	(334)
Net cash provided by investment activities	1,221	39,988	11,497

BANK OF THE RYUKYUS, LTD. and consolidated subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Cash flows from financing activities			
Cash dividends paid	(1,334)	(1,333)	(12,564)
Cash dividends paid to minority shareholders	(6)	(4)	(65)
Payments of lease obligations	(479)	(599)	(4,512)
Purchases of treasury stock	(595)	(1)	(5,608)
Proceeds from sales of treasury stock	74	0	700
Purchase of investments in subsidiaries resulting in no change in scope of consolidation	(550)	—	(5,178)
Net cash used in financing activities	(2,892)	(1,939)	(27,227)
Effect of exchange rate changes on cash and cash equivalents	(25)	(3)	(241)
Increase (decrease) in cash and cash equivalents	(10,081)	(11,284)	(94,891)
Cash and cash equivalents at beginning of the year	213,040	224,324	2,005,273
Cash and cash equivalents at end of the year (Note 2)	¥202,959	¥213,040	\$1,910,382

See accompanying notes to consolidated financial statements.

BANK OF THE RYUKYUS, LTD. and consolidated subsidiaries

Notes to Consolidated Financial Statements

For the years ended March 31, 2018 and 2017

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of Bank of the Ryukyus, Ltd. (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 ¥106.24 per US\$1.00, the rate prevailing on March 31, 2018.

2. Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Bank and its six 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 Report No. 24).

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 Report 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) Deferred Assets

Bond issue expenses have been posted under assets. Bond issue expenses are amortized on a straight-line basis over the redemption period of the bonds.

(j) 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 ¥3,782 million (US\$35,599 thousand) as of March 31, 2018.

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

(k) 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.

(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 fiscal year end 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 Reimbursement of Dormant Deposits

Provision is made for possible losses on future claims on withdrawal of deposits which were derecognized as liabilities and recognized as gains under certain conditions in an amount deemed necessary based on the historical reimbursement experience. Provision is made for the payment on burden-sharing of loan losses between financial institution and credit guarantee associations in an amount estimated to be paid in the future.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

3. Issued but not yet Adopted Accounting Standards

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018)
- “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps.

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Calculate the value of the transaction.

Step 4: Allocate the transaction value to the performance obligations in the contract.

Step 5: Recognize the revenue when the corresponding performance obligation has been satisfied or is going to be satisfied.

(2) Scheduled date of application

Our Bank and our consolidated subsidiaries are scheduled to apply the accounting standards from the beginning of the consolidated fiscal year starting April 1, 2021.

(3) Impacts of the application of the relevant accounting standards

The impacts of adopting the relevant accounting standards are being evaluated.

4. Financial Instruments

Fair Values of Financial Instruments

A table below shows book values, fair values and difference of financial instruments as of March 31, 2018. A part of financial instruments, for which no fair values are obtainable such as unlisted stocks, are excluded from the table. (Please see (Note 1).)

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) Cash and due from banks	¥ 203,196	¥ 203,196	¥ —	\$ 1,912,619	\$ 1,912,619	\$ —
(2) Call loans and bills bought	816	816	—	7,686	7,686	—
(3) Securities						
Held-to-maturities debt securities	35,805	36,760	954	337,020	346,009	8,980
Available-for-sale securities	365,756	365,756	—	3,442,733	3,442,733	—
(4) Loans and bills discounted	1,599,993			15,060,182		
Allowance for loan losses (*1).....	(5,984)			(56,325)		
	1,594,009	1,604,576	10,566	15,003,850	15,103,313	99,454
Total assets	2,199,585	2,211,106	11,520	20,703,925	20,812,368	108,434
(1) Deposits	2,083,768	2,084,060	(291)	19,613,789	19,616,529	(2,739)
(2) Negotiable certificate of deposit	24,042	24,042	—	226,304	226,304	—
(3) Payables under securities lending transactions	43,793	43,793	—	412,213	412,213	—
(4) Borrowed money	42,116	42,039	77	396,430	395,698	725
(5) Bonds payable	12,000	11,992	7	112,952	112,877	66
Total liabilities	2,205,721	2,205,927	(205)	20,761,681	20,763,620	(1,930)
Derivative transactions (*2)						
Transactions not accounted for as hedge transactions	339	339	—	3,191	3,191	—
Transactions accounted for as hedge transactions	37	37	—	348	348	—
Total derivative transactions	377	377	—	3,549	3,549	—

(*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.

(Note 1) 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
(1) Real estate investment fund (*1)	¥3,765	\$35,439
(2) Unlisted stocks (*1)	2,157	20,303
(3) Investments in associations (*2)	360	3,389
Total	¥6,282	\$59,130

(*1) Unlisted stocks and real estate investment fund through private placement are excluded from the fair value disclosure since it has no quoted market price and no fair value is obtainable. For the fiscal year ended March 31, 2018, unlisted stocks amounted of ¥5 million (US\$47 thousand) are written off.

(*2) A part of the investment in associations of which partnership assets constitutes instruments for which no fair values are obtainable in the same manner as stocks are excluded from the fair value disclosure.

(Note 2) Maturity analysis for money claims and securities with contractual maturities

	Millions of Yen					
	Within 1 year	Over 1 year less 3 years	Over 3 years less 5 years	Over 5 years less 7 years	Over 7 years less 10 years	Over 10 years
Due from banks (*1)	¥171,885	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	816	—	—	—	—	—
Monetary claims bought	—	—	78	38	—	—
Money held in trust	—	—	—	—	—	—
Securities:						
Held-to-maturities:	3,699	5,000	20,157	—	—	6,948
Japanese government bond	—	—	20,157	—	—	6,948
Local government bonds	—	—	—	—	—	—
Corporate bonds	3,699	—	—	—	—	—
Other	—	5,000	—	—	—	—
Available-for-sale securities that have maturities ...	102,392	90,358	42,159	20,499	54,614	37,345
Japanese government bond	47,004	25,541	20,478	—	—	1,210
Local government bonds	—	—	1,512	5,146	—	1,425
Corporate bonds	24,387	40,592	8,999	3,904	2,101	6,296
Other	31,000	24,224	11,168	11,449	52,513	28,412
Loans and bills discounted (*2)	284,218	202,316	159,357	126,481	162,158	534,394
Total	¥563,012	¥297,675	¥221,752	¥147,019	¥216,773	¥578,688

	Thousands of U.S. Dollars					
	Within 1 year	Over 1 year less 3 years	Over 3 years less 5 years	Over 5 years less 7 years	Over 7 years less 10 years	Over 10 years
Due from banks (*1)	\$1,617,893	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought	7,681	—	—	—	—	—
Monetary claims bought	—	—	734	358	—	—
Money held in trust	—	—	—	—	—	—
Securities:						
Held-to-maturities:	34,817	47,063	189,731	—	—	65,399
Japanese government bond	—	—	189,731	—	—	65,399
Local government bonds	—	—	—	—	—	—
Corporate bonds	34,817	—	—	—	—	—
Other	—	47,063	—	—	—	—
Available-for-sale securities that have maturities ...	963,780	850,508	396,828	192,950	514,063	351,515
Japanese government bond	442,432	240,409	192,752	—	—	11,389
Local government bonds	—	—	14,232	48,438	—	13,413
Corporate bonds	229,546	382,078	84,704	36,747	19,776	59,262
Other	291,792	228,012	105,120	107,765	494,287	267,432
Loans and bills discounted (*2)	2,675,245	1,904,330	1,499,972	1,190,521	1,526,337	5,030,064
Total	\$5,299,435	\$2,801,911	\$2,087,274	\$1,383,838	\$2,040,409	\$5,446,988

(*1) The amounts of due from banks that have no maturity, were ¥171,850 million (US\$1,617,564 thousand) were included in “Within 1 year.”

(*2) The amount of loans and bills discounted for “possible bankruptcy” and “legal bankruptcy,” excluding those without due dates, were ¥25,374 million (US\$238,837 thousand) and ¥105,691 million (US\$994,832 thousand).

(Note 3) Maturity analysis for corporate bonds, borrowed money and other interest-bearing debt

	Millions of Yen					
	Within 1 year	Over 1 year less 3 years	Over 3 years less 5 years	Over 5 years less 7 years	Over 7 years less 10 years	Over 10 years
Deposits (*)	¥1,968,491	¥ 97,368	¥17,908	¥ —	¥—	¥—
Negotiable certificate of deposits	24,042	—	—	—	—	—
Payables under securities lending transactions	43,793	—	—	—	—	—
Borrowed money	32,118	7,734	2,250	4	5	3
Corporate bonds	—	—	—	12,000	—	—
Total	¥2,068,445	¥105,103	¥20,159	¥12,004	¥ 5	¥ 3

	Thousands of U.S. Dollars					
	Within 1 year	Over 1 year less 3 years	Over 3 years less 5 years	Over 5 years less 7 years	Over 7 years less 10 years	Over 10 years
Deposits (*)	\$18,528,718	\$916,491	\$168,562	\$ —	\$—	\$—
Negotiable certificate of deposits	226,299	—	—	—	—	—
Payables under securities lending transactions	412,208	—	—	—	—	—
Borrowed money	302,316	72,797	21,178	38	47	28
Corporate bonds	—	—	—	112,952	—	—
Total	\$19,469,550	\$989,298	\$189,750	\$112,989	\$47	\$28

(*) The amount of demand deposits, were ¥1,266,937 million (US\$11,925,235 thousand) were included in “Within 1 year.”

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

Market values and valuation difference on available-for-sale securities with fair value as of March 31, 2018 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	¥ 1,948	¥ 1,124	¥ 824	\$ 18,336	\$ 10,580	\$ 7,756
Bonds:	180,726	179,055	1,670	1,701,111	1,685,382	15,719
Japanese government bond	95,107	94,235	871	895,209	887,001	8,198
Municipal bonds	8,236	8,084	151	77,523	76,092	1,421
Corporate bonds	77,382	76,734	648	728,370	722,270	6,099
Other	78,981	77,893	1,087	743,421	733,180	10,232
Sub-total	261,656	258,073	3,582	2,462,877	2,429,151	33,716
Fair value not exceeded consolidated balance sheet amount:						
Equity stocks	450	505	(55)	4,236	4,753	(518)
Bonds:	9,540	9,546	(6)	89,797	89,853	(56)
Corporate bonds	9,540	9,546	(6)	89,797	89,853	(56)
Other	94,227	95,636	(1,408)	886,926	900,188	(13,253)
Sub-total	104,218	105,689	(1,470)	980,968	994,814	(13,837)
Total	¥365,874	¥363,762	¥2,112	\$3,443,844	\$3,423,965	\$19,880

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 ¥510 million (US\$4,800 thousand) and to ¥1,386 million as of March 31, 2018 and 2017, 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 ¥24,790 million (US\$233,340 thousand) and ¥25,439 million as of March 31, 2018 and 2017, respectively. Loans, repayment of which is delinquent for three months or more but which do not come under the aforementioned categories, amount to ¥575 million (US\$5,412 thousand) and ¥586 million as of March 31, 2018 and 2017, 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 ¥2,875 million (US\$27,061 thousand) and ¥3,486 million as of March 31, 2018 and 2017, respectively.

7. Pledged Assets

Assets pledged as collateral as of March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Securities	¥63,822	¥82,868	\$600,734
Lease receivables and lease investment assets	13,251	13,404	124,727
Due from banks	7,832	7,766	73,720
Loans and bills discounted.....	119	138	1,120
Other assets.....	18	22	169

Liabilities secured by assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deposits.....	¥43,793	¥16,280	\$412,208
Borrowed money	41,771	41,862	393,176
Payables under repurchase agreements.....	7,468	15,655	70,294

In addition, marketable securities, due from banks and other assets amounting to ¥27,047 million (US\$254,584 thousand), ¥15 million (US\$141 thousand) and ¥25 million (US\$235 thousand), respectively, were pledged as collateral relating to exchange settlements, guarantee deposits for future transactions, etc. as of March 31, 2018. No securities are pledged as collateral for loans payable by affiliates. Other assets included initial clearing margin for CCP of ¥29,300 million (US\$275,791 thousand), guarantee money of ¥932 million (US\$8,773 thousand) and initial margins of futures markets of ¥110 million (US\$1,035 thousand) as of March 31, 2018.

8. Bonds Payable

Bonds payable are all subordinated bonds.

9. Property, Plant and Equipment

The accumulated depreciation amounted to ¥20,478 million (US\$192,752 thousand) and ¥19,807 million as of March 31, 2018 and 2017, respectively.

Write-off permitted by the Japanese Tax Law on the property, plant and equipment amounted to ¥338 million (US\$3,181 thousand) as of March 31, 2018 and 2017.

10. 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.

11. 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."

Unrealized loss incurred after revaluation amounted to ¥5,085 million (US\$47,863 thousand) as of March 31, 2018.

12. Net Assets

(a) Common Stock

The Bank has 65,000 thousand authorized shares of common stock, of which 38,508 thousand shares were issued and outstanding as of March 31, 2018.

(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.

13. Other Expenses

¥264 million (US\$2,485 thousand) of direct charge-off of loans, ¥325 million (US\$3,059 thousand) of loss on sales of loans and ¥327 million (US\$3,078 thousand) of loss on sales of securities are included in “other expenses.”

14. Subsequent Events

Appropriation of Retained Earnings

The general shareholders’ meeting of the Bank, held on June 27, 2018, duly approved the following appropriation of the retained earnings existing as of March 31, 2018.

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends:		
Common stock (¥24.5 per share)	¥936	\$57,635

BANK OF THE RYUKYUS, LTD.

Non-Consolidated Balance Sheets

As of March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Assets			
Cash and due from banks	¥ 202,500	¥ 213,164	\$ 1,906,065
Call loans and bills bought	816	4,309	7,686
Monetary claims bought	117	174	1,108
Money held in trust	10,461	—	98,471
Securities	410,784	425,797	3,866,573
Loans and bills discounted	1,619,489	1,530,073	15,243,690
Foreign exchanges	9,405	7,305	88,533
Other assets	38,570	7,654	363,048
Property, plant and equipment	21,491	20,632	202,296
Intangible fixed assets	2,898	3,027	27,279
Prepaid pension cost	1,408	1,212	13,254
Deferred tax assets	2,893	3,390	27,236
Customers' liabilities for acceptances and guarantees	6,870	7,075	64,668
Allowance for loan losses	(5,805)	(7,687)	(54,650)
Total assets	2,321,902	2,216,130	21,855,257
Liabilities			
Deposits	2,088,580	2,024,515	19,659,078
Negotiable certificate of deposits	31,042	22,925	292,192
Payables under repurchase agreements	43,793	16,280	412,213
Borrowed money	25,069	25,080	235,972
Foreign exchanges	128	309	1,208
Bonds payable	12,000	12,000	112,952
Other liabilities	5,560	5,095	52,337
Reserve for bonuses	635	513	5,984
Reserve for retirement benefits	509	868	4,798
Reserve for reimbursement of dormant deposits	175	205	1,648
Reserve for contingent losses	118	122	1,117
Deferred tax liabilities for land revaluation	2,193	2,193	20,643
Acceptances and guarantees	6,870	7,075	64,668
Total liabilities	2,216,677	2,117,185	20,864,810
Net assets			
Capital stock	54,127	54,127	509,480
Capital surplus	10,000	10,000	94,126
Other capital surplus	99	0	940
Retained earnings:			
Legal retained earnings	2,311	2,044	21,759
Other retained earnings	36,018	29,794	339,030
Treasury stock	(375)	(481)	(3,536)
Total shareholders' equity	102,181	95,484	961,799
Valuation difference on available-for-sale securities	1,483	1,898	13,962
Deferred gains on hedges	(0)	0	(0)
Revaluation reserve for land	1,323	1,323	12,457
Total valuation and translation adjustments	2,806	3,222	26,419
Stock acquisition rights	236	238	2,229
Total net assets	106,225	98,945	999,860
Total liabilities and net assets	¥2,321,902	¥2,216,130	\$21,855,257

- Notes: 1. The Japanese yen amounts stated in non-consolidated financial statements have been rounded down to the nearest million yen.
 2. The conversion of Japanese yen amounts into U.S. dollars has been made at the exchange rate of ¥106.24 per US\$1.00, the rate prevailing on March 31, 2018.

BANK OF THE RYUKYUS, LTD.

Non-Consolidated Statements of Income

For the years ended March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Income			
Interest income:			
Interest on loans and discounts	¥25,965	¥26,286	\$244,407
Interest and dividends on securities	3,274	3,369	30,821
Other interest income	518	433	4,876
Other operating income	12,726	11,031	119,789
Total income	42,484	41,121	399,893
Expenses			
Interest expenses:			
Interest on deposits	1,295	1,626	12,198
Other interest expenses	146	163	1,380
General and administrative expenses	23,772	23,694	223,758
Other expenses	6,549	8,267	61,650
Total expenses	31,764	33,751	298,986
Income before income taxes	10,720	7,369	100,907
Income taxes:			
Current	2,217	1,350	20,870
Deferred	676	1,006	6,364
Total income taxes	2,893	2,357	27,234
Net income	¥ 7,827	¥ 5,012	\$ 73,673

	Yen		U.S. Dollars
Per share of common stock:			
Net income — basic	¥ 205.21	¥ 131.58	\$ 1.93
Net income — diluted	204.20	130.94	1.92
Cash dividends applicable to the year	42.00	35.00	0.40

- Notes: 1. The Japanese yen amounts stated in non-consolidated financial statements have been rounded down to the nearest million yen.
 2. The conversion of Japanese yen amounts into U.S. dollars has been made at the exchange rate of ¥106.24 per US\$1.00, the rate prevailing on March 31, 2018.

BANK OF THE RYUKYUS, LTD.

Non-Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Shareholders' equity			
Capital stock:			
Balance at end of the previous year	¥54,127	¥54,127	\$509,480
Changes during the year	—	—	—
Balance at end of the year	¥54,127	¥54,127	\$509,480
Capital surplus:			
Balance at end of the previous year	¥10,000	¥10,000	\$ 94,127
Changes during the year	—	—	—
Balance at end of the year	¥10,000	¥10,000	\$ 94,127
Other capital surplus:			
Balance at end of the previous year	¥ 0	¥ —	\$ 1
Changes during the year:			
Increase by share exchanges	114	—	1,079
Sales of treasury stock	(14)	0	(140)
Total changes during the year	99	0	939
Balance at end of the year	¥ 99	¥ 0	\$ 940
Retained earnings:			
Legal retained earnings:			
Balance at end of the previous year	¥ 2,044	¥ 1,777	\$ 19,244
Changes during the year:			
Cash dividends	267	266	2,515
Total changes during the year	267	266	2,515
Balance at end of the year	¥ 2,311	¥ 2,044	\$ 21,759
Retained earnings brought forward:			
Balance at end of the previous year	¥29,794	¥26,381	\$280,445
Changes during the year:			
Cash dividends	(1,603)	(1,599)	(15,088)
Net income	7,827	5,012	73,673
Total changes during the year	6,223	3,412	58,585
Balance at end of the year	¥36,018	¥29,794	\$339,030
Total retained earnings:			
Balance at end of the previous year	¥31,838	¥28,159	\$299,689
Changes during the year:			
Cash dividends	(1,335)	(1,332)	(12,574)
Net income	7,827	5,012	73,673
Total changes during the year	6,491	3,679	61,099
Balance at end of the year	¥38,330	¥31,838	\$360,788

Notes: 1. The Japanese yen amounts stated in non-consolidated financial statements have been rounded down to the nearest million yen.

2. The conversion of Japanese yen amounts into U.S. dollars has been made at the exchange rate of ¥106.24 per US\$1.00, the rate prevailing on March 31, 2018.

BANK OF THE RYUKYUS, LTD.

Non-Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Treasury stock:			
Balance at end of the previous year	¥ (481)	¥ (513)	\$ (4,535)
Changes during the year:			
Increase by share exchanges	612	—	5,768
Purchase of treasury stock	(595)	(1)	(5,608)
Sales of treasury stock	89	33	839
Total changes during the year	106	31	1,000
Balance at end of the year	¥ (375)	¥ (481)	\$ (3,536)
Total shareholders' equity:			
Balance at end of the previous year	¥ 95,484	¥91,773	\$898,762
Changes during the year:			
Cash dividends	(1,335)	(1,332)	(12,574)
Net income	7,827	5,012	73,673
Increase by share exchanges	727	—	6,846
Purchase of treasury stock	(595)	(1)	(5,608)
Sales of treasury stock	74	33	700
Total changes during the year	6,697	3,711	63,038
Balance at end of the year	¥102,181	¥95,484	\$961,799
Valuation and translation adjustments			
Valuation difference on available-for-sale securities:			
Balance at end of the previous year	¥ 1,898	¥ 4,838	\$ 17,867
Changes during the year:			
Net changes in items other than shareholders' equity	(414)	(2,940)	(3,905)
Total changes during the year	(414)	(2,940)	(3,905)
Balance at end of the year	¥ 1,483	¥ 1,898	\$ 13,962
Deferred gains on hedges:			
Balance at end of the previous year	¥ 0	¥ 0	\$ 6
Changes during the year:			
Net changes in items other than shareholders' equity	(0)	1	(6)
Total changes during the year	(0)	1	(6)
Balance at end of the year	¥ (0)	¥ 0	\$ (0)
Revaluation reserve for land:			
Balance at end of the previous year	¥ 1,323	¥ 1,323	\$ 12,457
Changes during the year:			
Net changes in items other than shareholders' equity	—	—	—
Total changes during the year	—	—	—
Balance at end of the year	¥ 1,323	¥ 1,323	\$ 12,457
Total valuation and translation adjustments:			
Balance at end of the previous year	¥ 3,222	¥ 6,161	\$ 30,330
Changes during the year:			
Net changes in items other than shareholders' equity	(415)	(2,939)	(3,911)
Total changes during the year	(415)	(2,939)	(3,911)
Balance at end of the year	¥ 2,806	¥ 3,222	\$ 26,419
Stock acquisition rights:			
Balance at end of the previous year	¥ 238	¥ 204	\$ 2,244
Changes during the year:			
Net changes in items other than shareholders' equity	(1)	33	(15)
Total changes during the year	(1)	33	(15)
Balance at end of the year	¥ 236	¥ 238	\$ 2,229

BANK OF THE RYUKYUS, LTD.

Non-Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Total net assets			
Balance at end of the previous year	¥ 98,945	¥98,139	\$931,336
Changes during the year:			
Cash dividends	(1,335)	(1,332)	(12,574)
Net income	7,827	5,012	73,673
Increase by share exchanges	727	—	6,846
Purchase of treasury stock	(595)	(1)	(5,608)
Sales of treasury stock	74	33	700
Net changes in items other than shareholders' equity	(417)	(2,905)	(3,926)
Total changes during the year	6,280	805	59,112
Balance at end of the year	¥105,225	¥98,945	\$990,447

Corporate Governance

Basic Concept and Basic Policies

Toward the realization of its corporate philosophy, the Bank of the Ryukyus fully recognizes its responsibilities to a range of stakeholders—its customers, including shareholders, employees and local communities—while building the mechanisms to carry out transparent, fair, quick and confident decision making. The Bank also regards the basic concept of corporate governance as working toward its sustainable growth and improvements in its corporate value. In fulfilling its responsibilities with regard to corporate governance, the Bank regards the following as its basic policies.

1. Respecting the rights of its shareholders, the Bank develops an environment in which its shareholders can exercise their rights appropriately and effectively and works to ensure the substantive equality of its shareholders.
2. By cooperating with its wide-ranging stakeholders, who include its shareholders, customers, employees and local communities, the Bank works to foster a corporate culture and climate that respects sound business ethics.
3. In addition to the appropriate disclosure of company information, including that of a non-financial nature, and working to ensure the transparency and fairness of management, the Bank works on constructive dialogue with shareholders so that its sustainable growth and corporate value increase over the medium to long term.
4. Given the fiduciary responsibilities and accountability that its Board of Directors and Board of Corporate Auditors have toward shareholders, the Bank devises plans for its sustainable growth and increase in its corporate value, while endeavoring to supervise business execution and ensure audit effectiveness.