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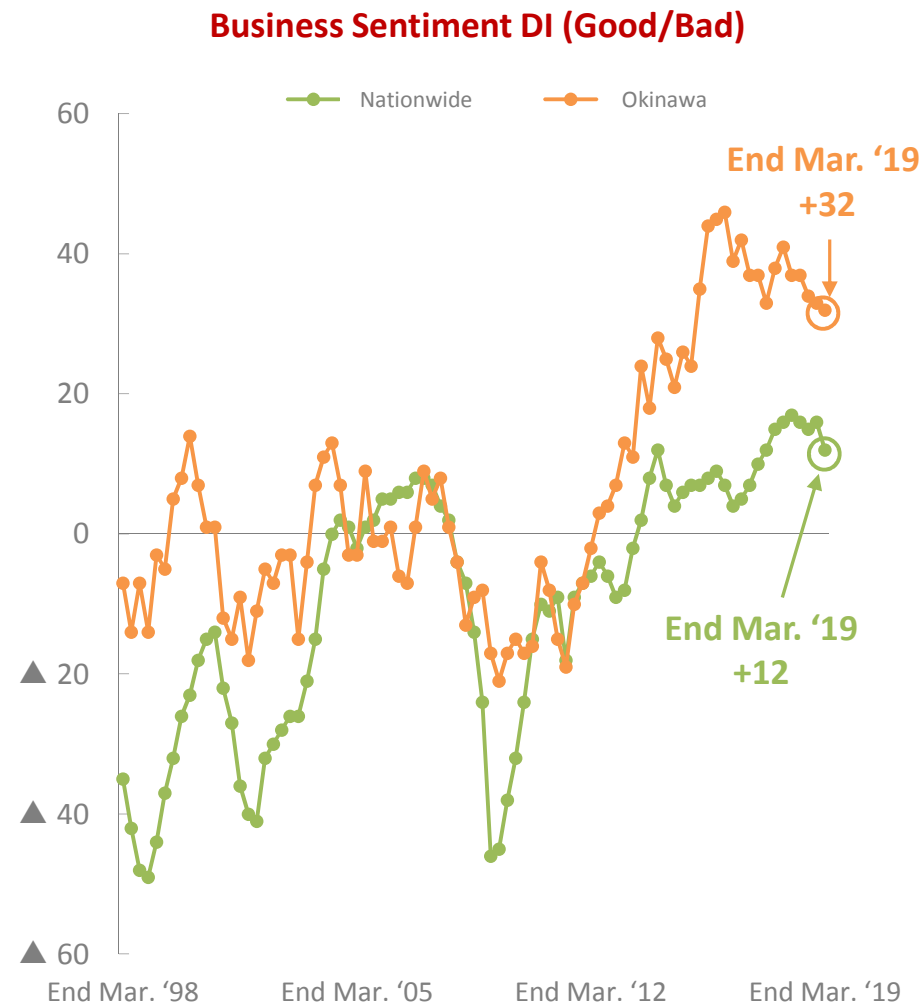
Annual Report

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-  [Tourism \(44KB\)](#)
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-  [Real Estate \(44KB\)](#)
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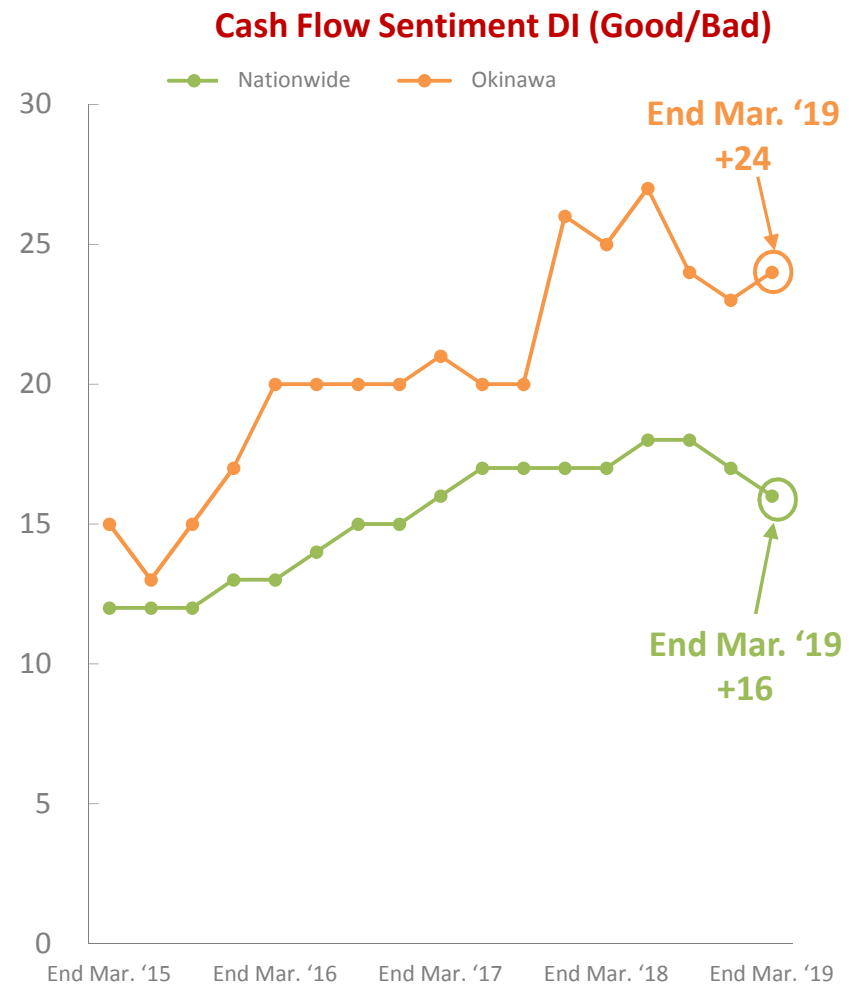
-  [Forecast for FY 2019 \(ending March 31, 2020\) \(26KB\)](#)
-  [Target Figures \(Customer Centric 2017 Mid-Term Management Plan\) \(41KB\)](#)
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-  [IT Systems \(170KB\)](#)
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-  [Productivity Improvement \(Use of Diverse Human Resources\) \(45KB\)](#)
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-  [Adapting to Changing Economic Conditions \(60KB\)](#)
-  [Next Mid-Term Management Plan Concept \(19KB\)](#)
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Tankan Survey

Although the business sentiment index indicates that business confidence has peaked, the trend still remains significantly above the national average.



* New base data has been used since Dec. 2014 and Dec. 2017 (discontinuous with the previous data).
Source: The Bank of Japan Naha Branch



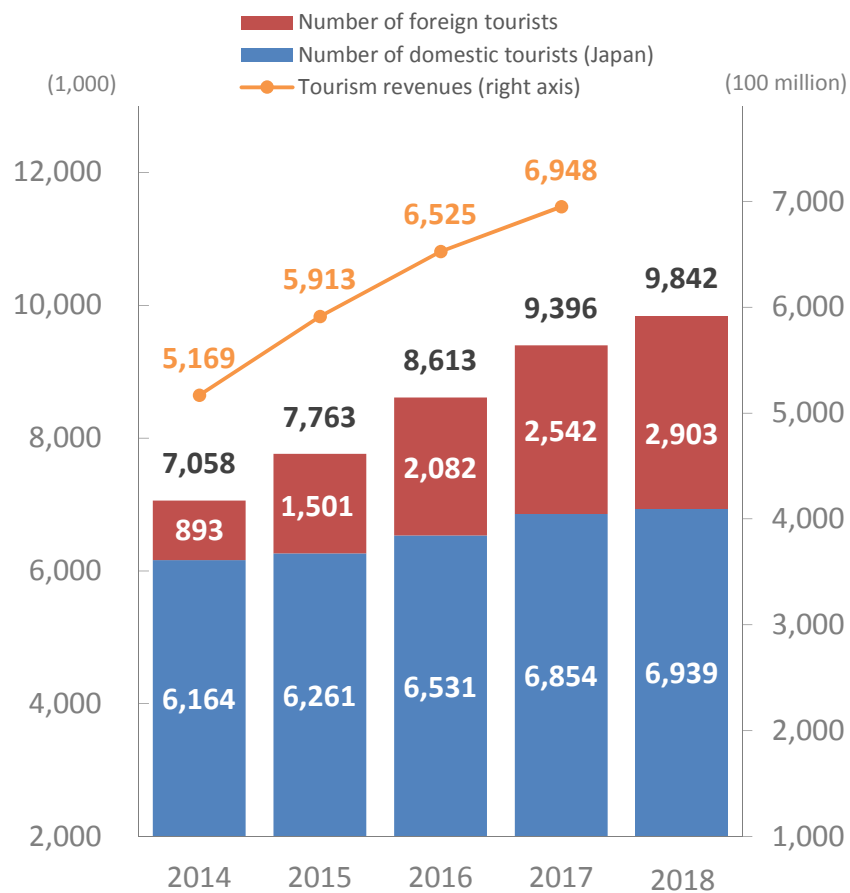
* New base figures have been used since Dec. 2014.
Source: The Bank of Japan Naha Branch

Tourism

In 2018, Okinawa had 9.84 million visitors, a record number for 6 consecutive years, reaching the same level as Hawaii.

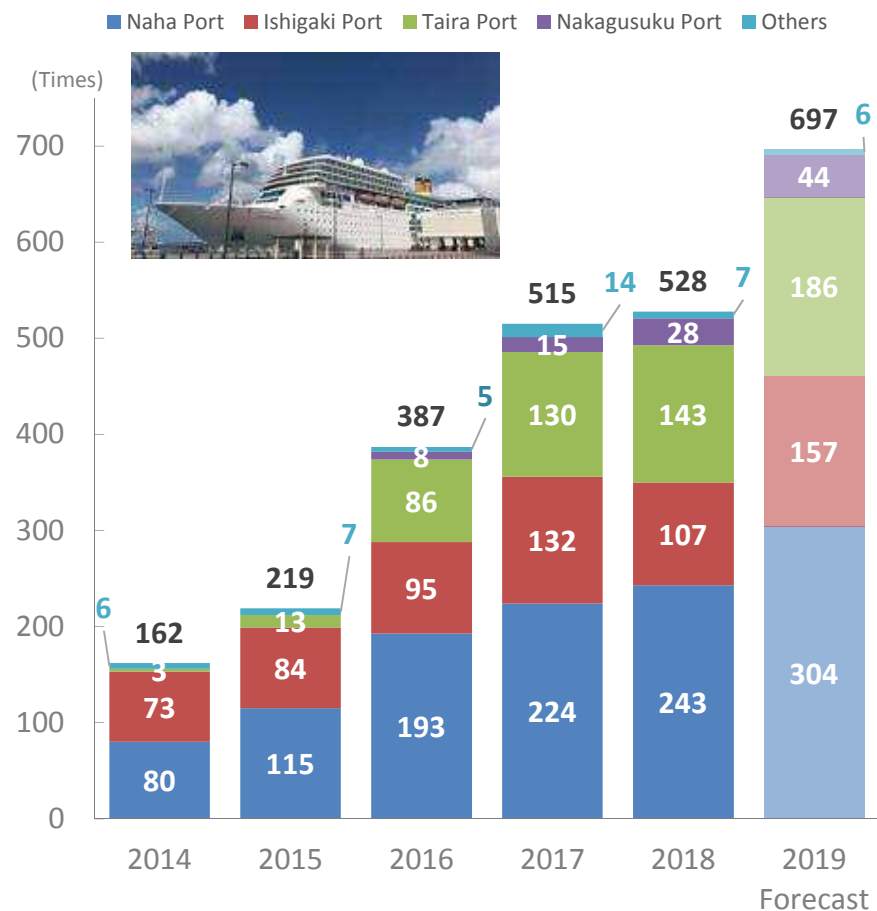
In 2019, cruise ships are also expected to call 697 times, a significant increase.

Number of Tourists and Tourism Revenues



(Source: Okinawa Prefecture)

Number of Cruise Ship Calls in Okinawa Prefecture



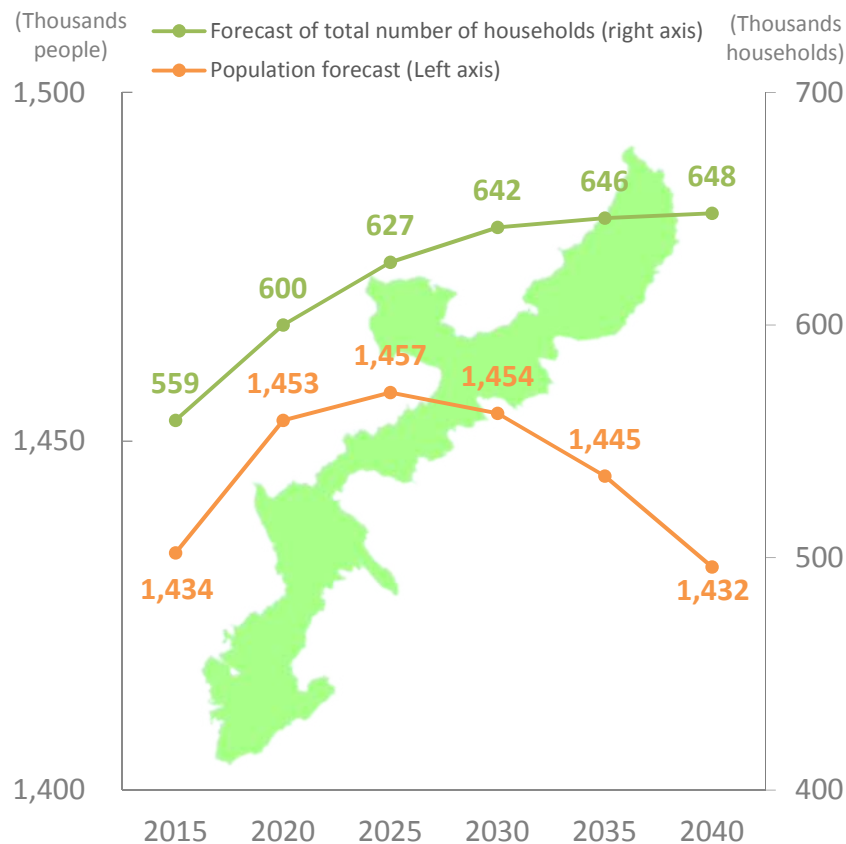
(Source: Okinawa General Bureau, Cabinet Office)

Population, Number of Households, and Housing Starts

Okinawa's population is expected to grow until 2025, while the number of households is expected to keep growing onward.

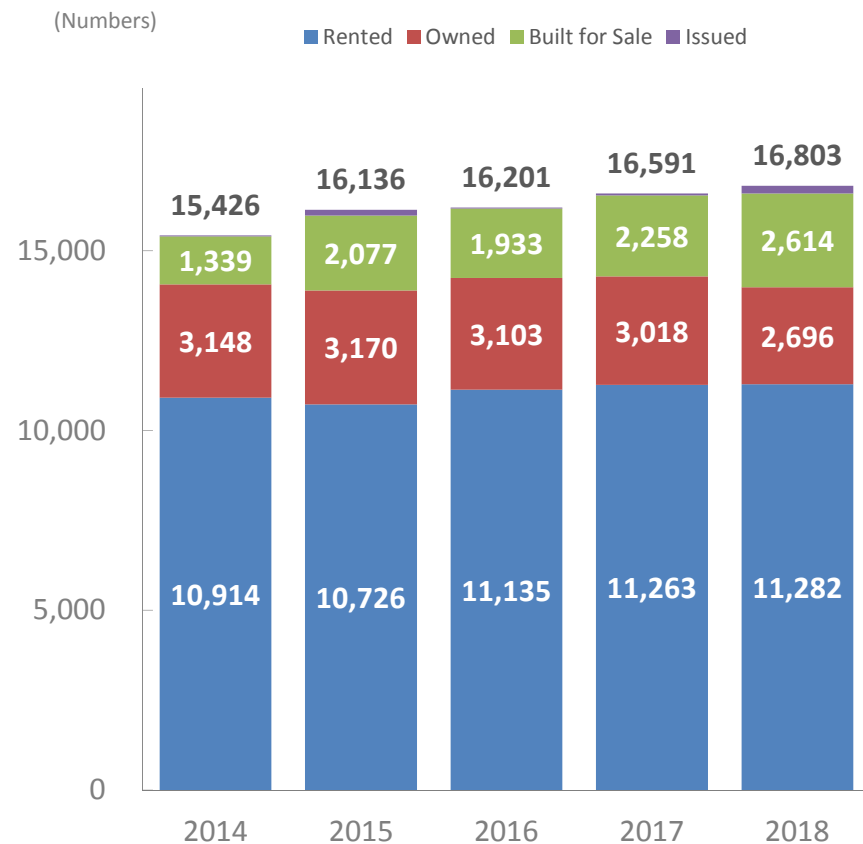
As the number of households increases, the number of new residential construction (housing starts) will also increase steadily.

Okinawa's Future Population and Number of Households



(Source: Data from Census and the Nansei Shoto Industrial Advancement Center (NIAC))

Okinawa Housing Starts

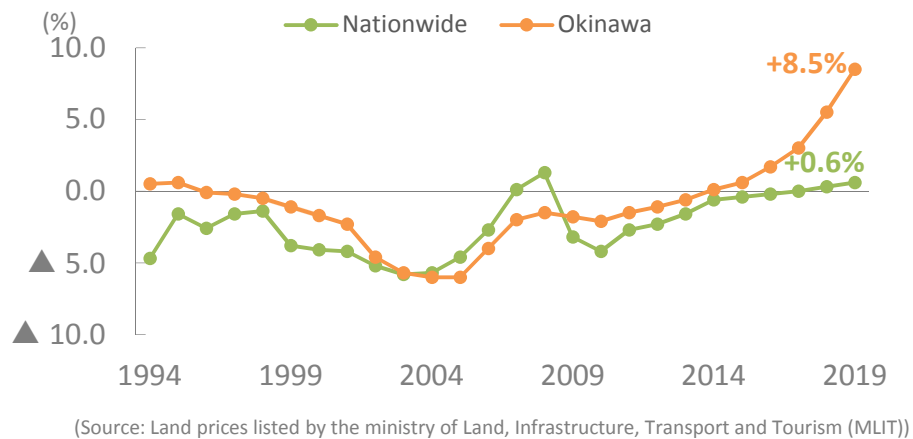


(Source: "Housing Starts Statistics" by Ministry of Land, Infrastructure, Transport and Tourism)

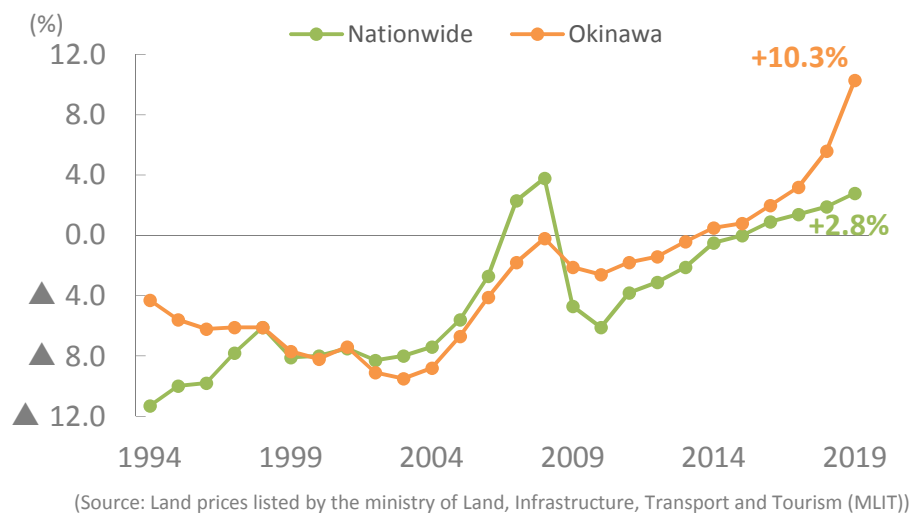
Real Estate

Growth rate of land prices and unit construction costs have surpassed the national average.

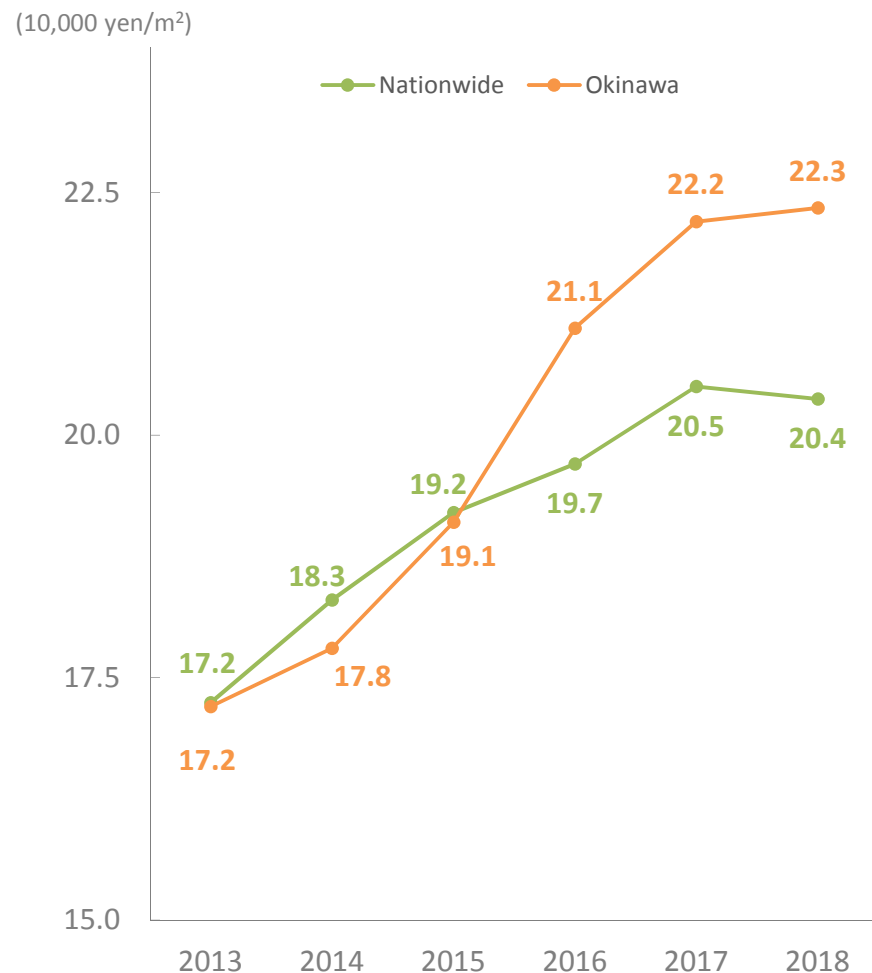
Price Growth Rate of Residential Areas



Price Growth Rate of Commercial Areas



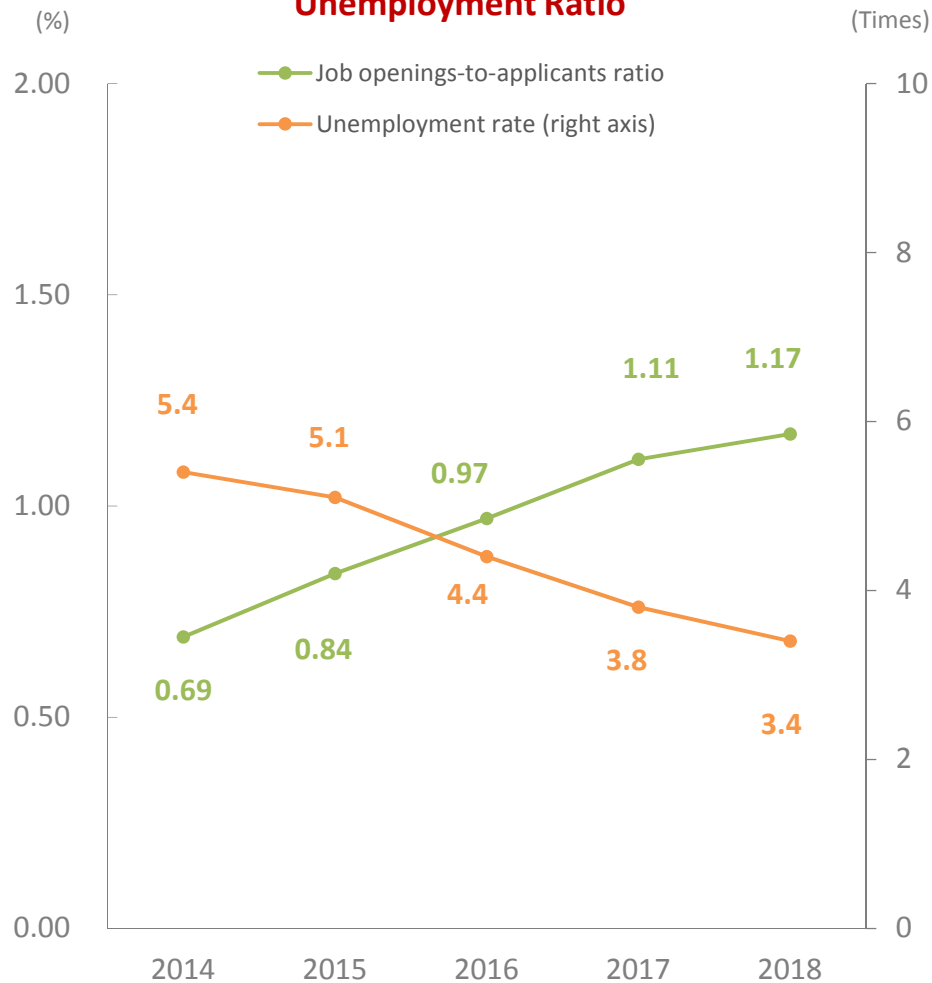
Unit construction cost



Employment

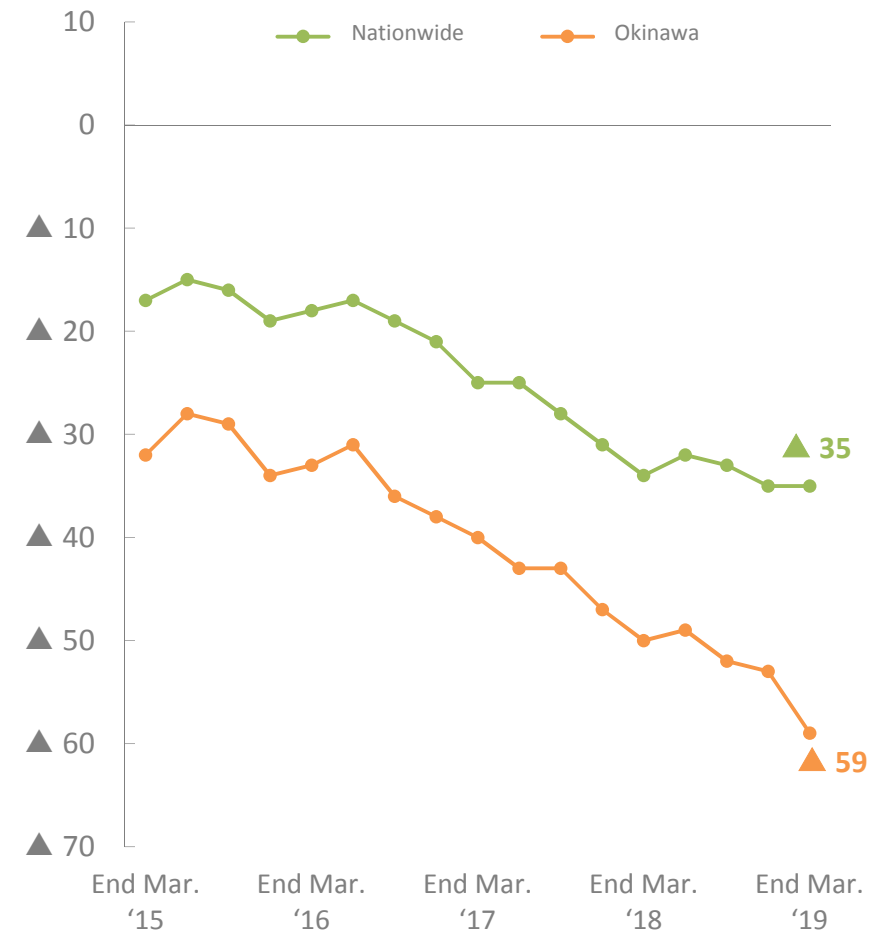
Employment has improved with an increase in the job-openings-to-applicants ratio and a decline in the unemployment ratio. Meanwhile, the labor shortage is currently getting worse.

Job-openings-to-applicants Ratio and Unemployment Ratio



(Source: Okinawa Prefecture, the Cabinet Office, and the Ministry of Internal Affairs and Communications)

Employment Sentiment DI (Good/Bad)



Source: The Bank of Japan Naha Branch

Summary of Profit/Loss Trends

(Non-consolidated: Mar. 2015–Mar. 2019)

(Million yen)

	End Mar. '15	End Mar. '16	End Mar. '17	End Mar. '18	End Mar. '19	Year on Year
Profit from customer services *1	5,425	5,179	2,994	2,981	2,885	▲96
Deposit and loan balance *2	22,752	22,768	21,795	21,476	21,691	+215
Profit from service charges *3	4,729	4,849	4,893	5,277	5,347	+70
Expenses (▲)	22,056	22,438	23,694	23,772	24,153	+381
Profit/loss in Trading Division	4,078	4,172	4,386	4,937	3,238	▲1,699
Profit/loss in Securities & International Department	3,942	4,009	2,828	4,426	1,845	▲2,580
Gains/losses from forex and commodities trading	593	255	370	▲37	822	+858
Out of balance of 5 bond accounts	▲22	735	▲691	387	▲169	▲557
Out of balance of 3 share accounts	150	▲100	▲101	1,124	▲730	▲1,854
Policy-related investment	136	162	1,558	512	1,393	+881
Net credit costs (▲)	1,589	1,310	806	▲1,808	▲218	+1,590
Out of general provision for doubtful accounts	▲75	787	241	▲850	644	+1,494
Miscellaneous, corporate tax, etc. (▲)	3,618	2,989	1,562	1,899	967	▲932
Net income after tax	4,296	5,052	5,012	7,827	5,374	▲2,453

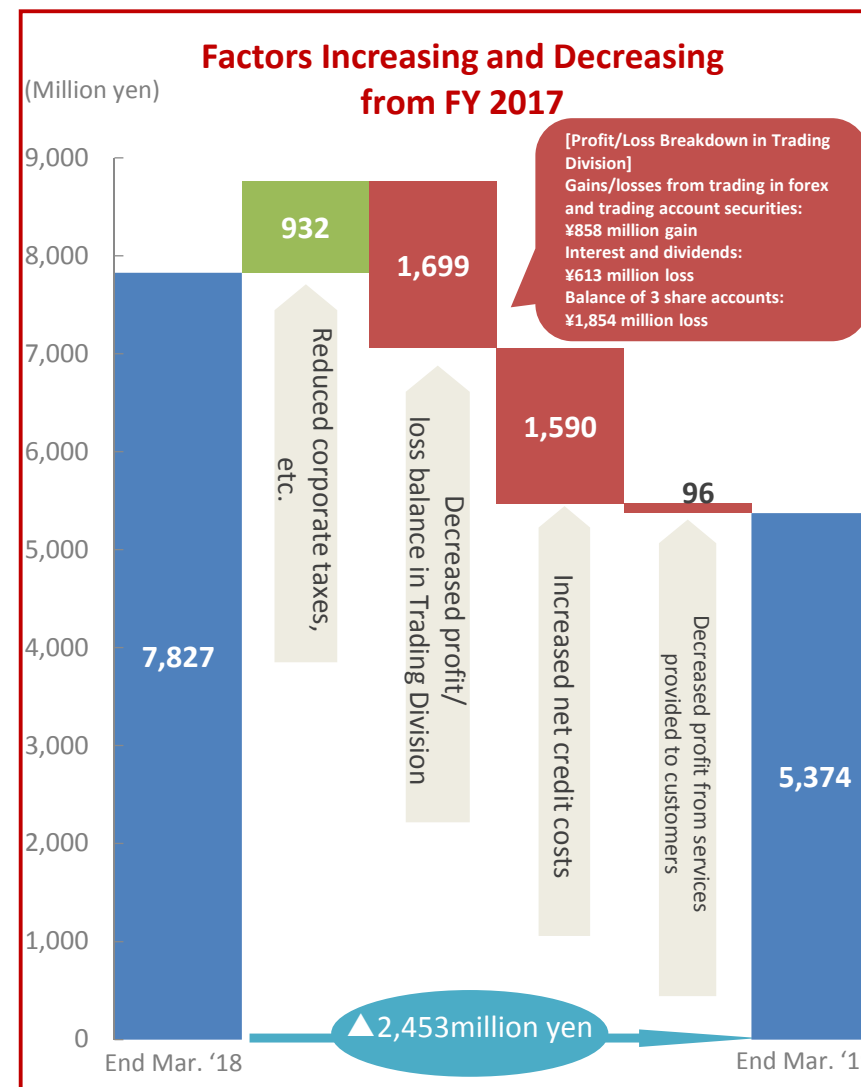
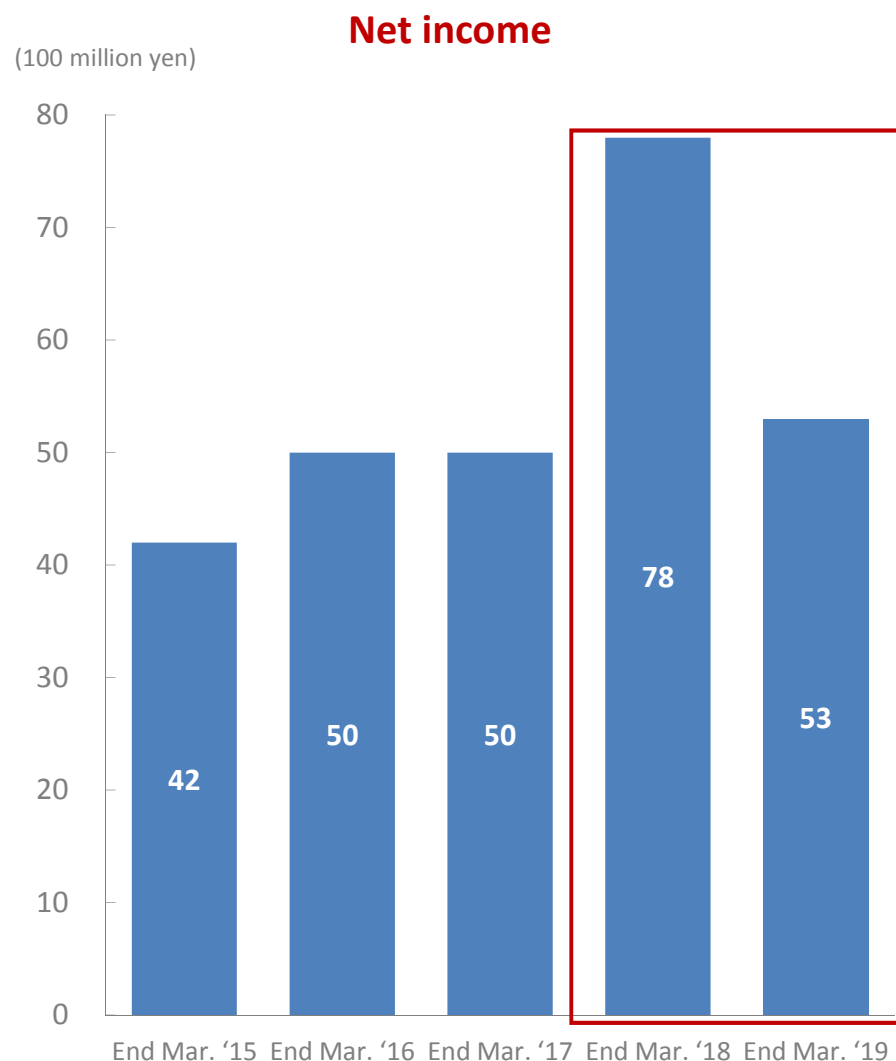
*1 Profit from customer services = Deposit and loan balance + Profit from service charges - Expenses

*2 Deposit and loan balance (incl. loan-related fees. The coupon rate was adopted for the interest rate on deposits).

*3 Profit from service charges (excl. loan fees).

Profit/Loss during Fiscal Year Ended March 31, 2019

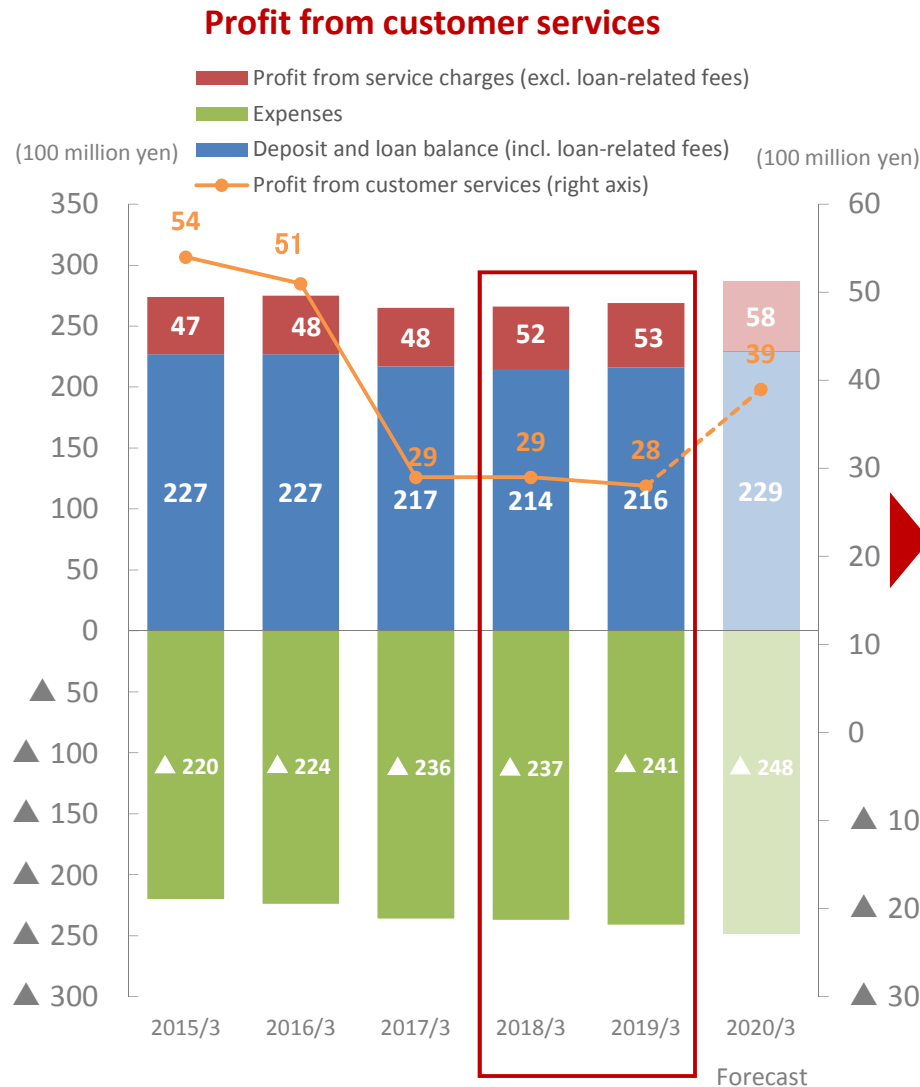
Reactionary rise in net credit costs; net income fell due to a decrease in the profit/loss balance in the Trading Division. Net income was the 4th highest in the bank's history.



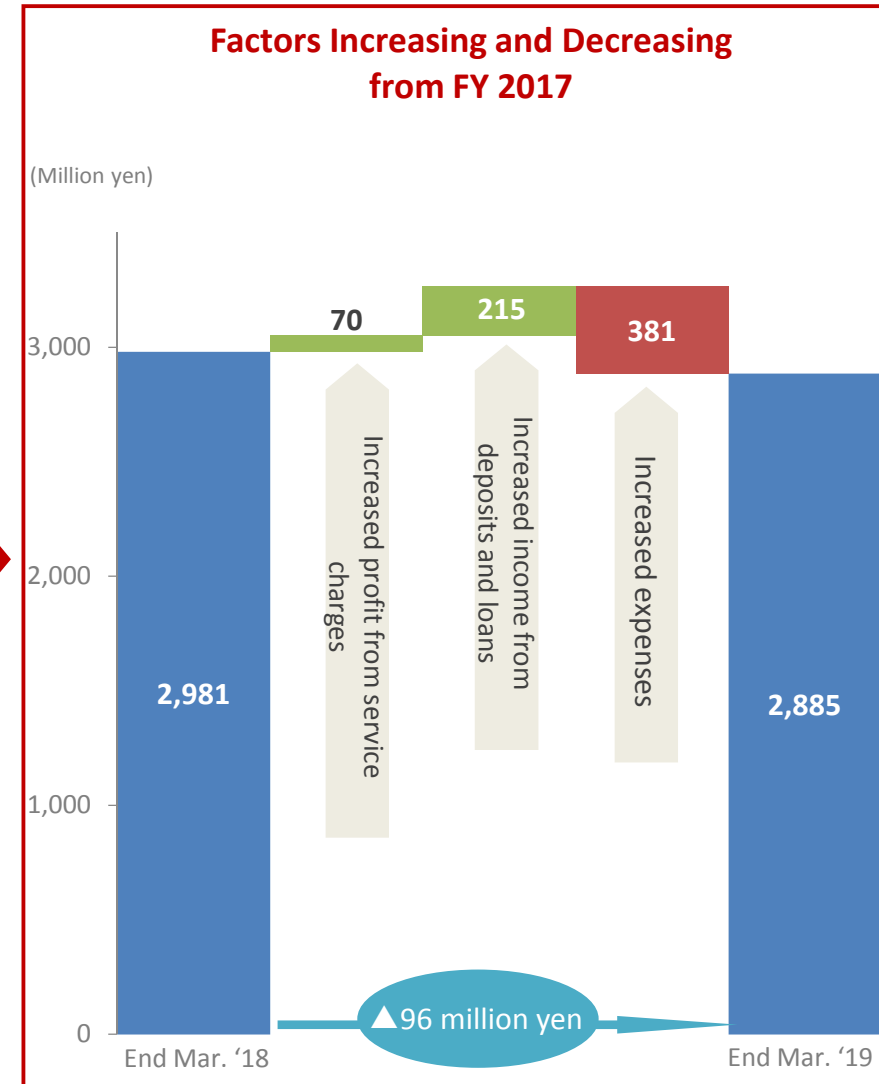
* "Reduced corporate taxes, etc." incl. other profit and loss balances.

Profit from Customer Services

The deposit and loan balance turned to positive, but total profit from services turned negative due to increased expenses.

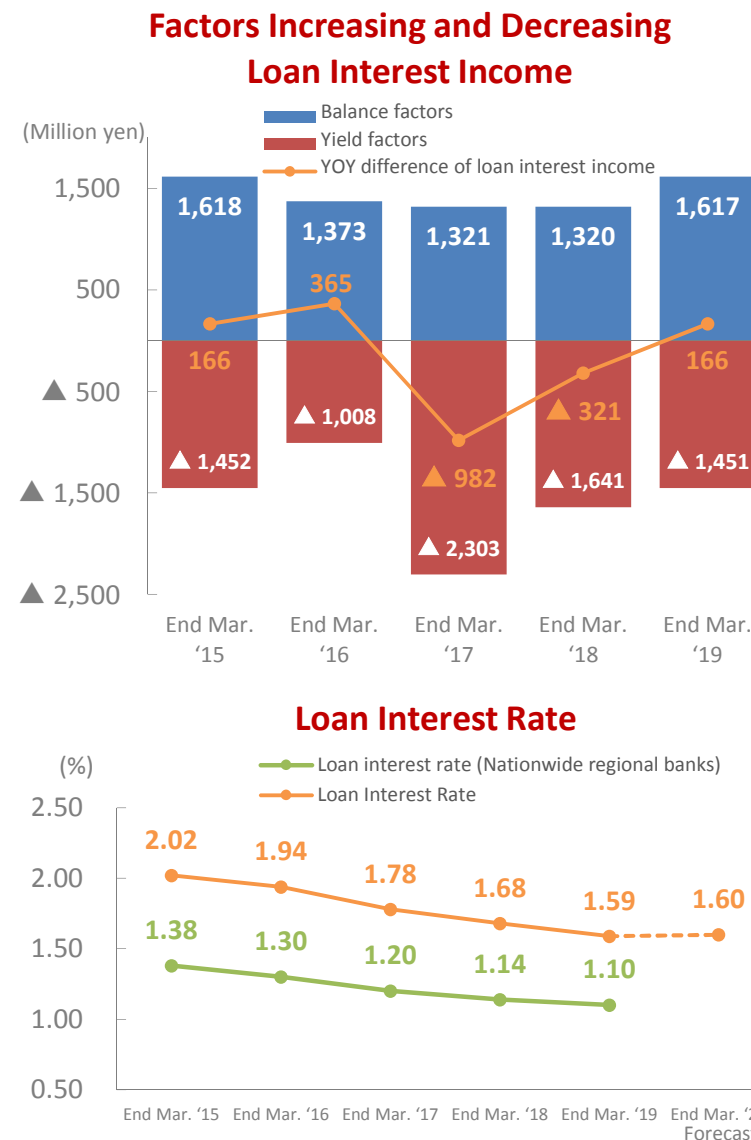
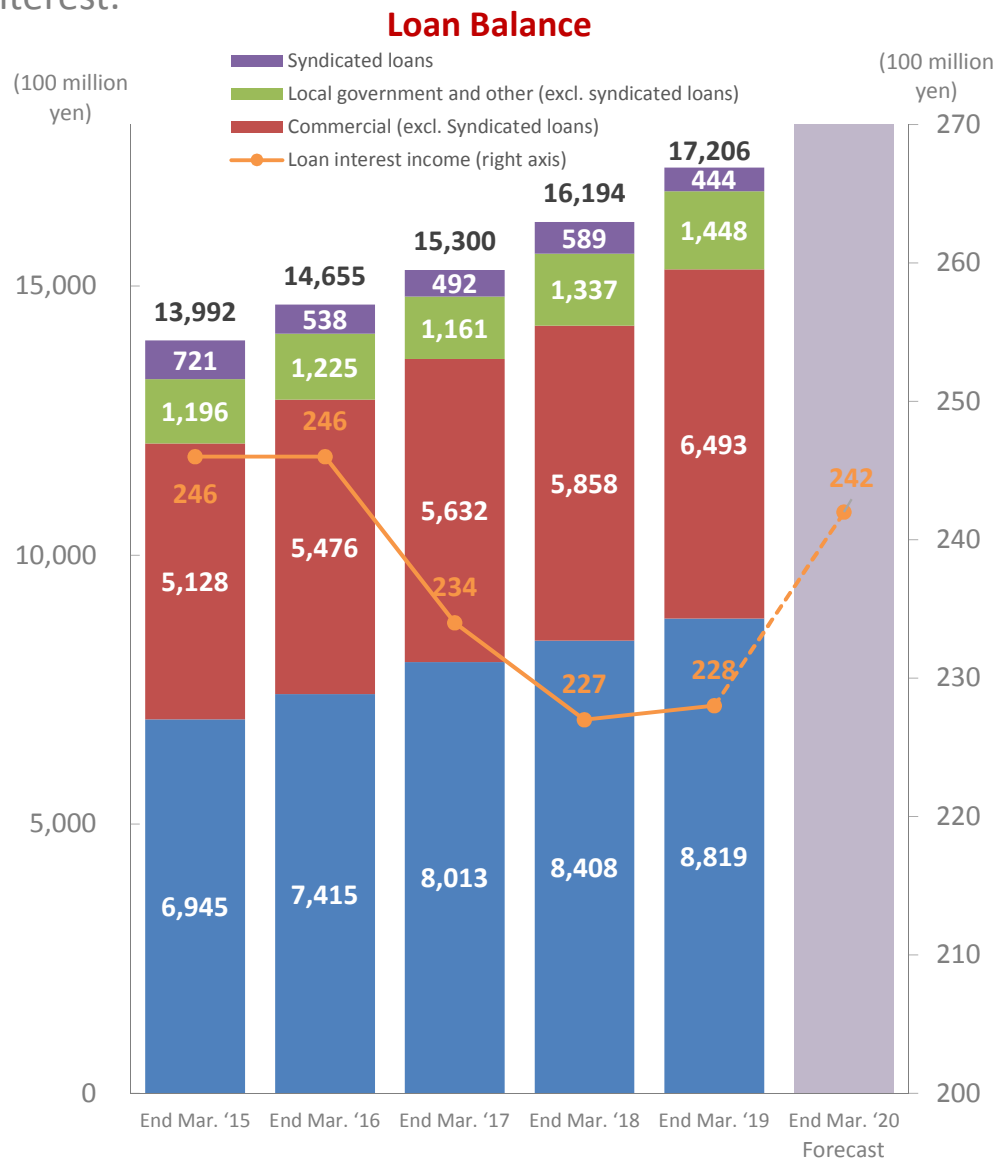


* Profit from customer services = Deposit and loan balance + Profit from service charges - Expenses



Loans

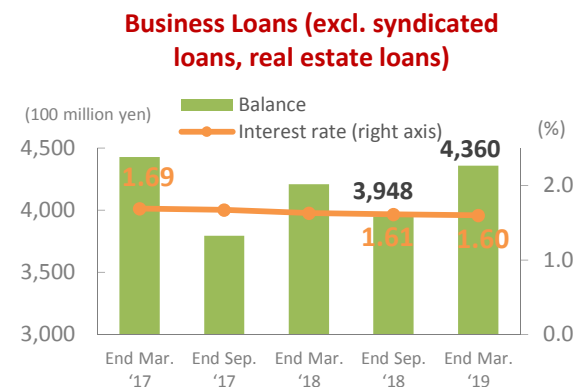
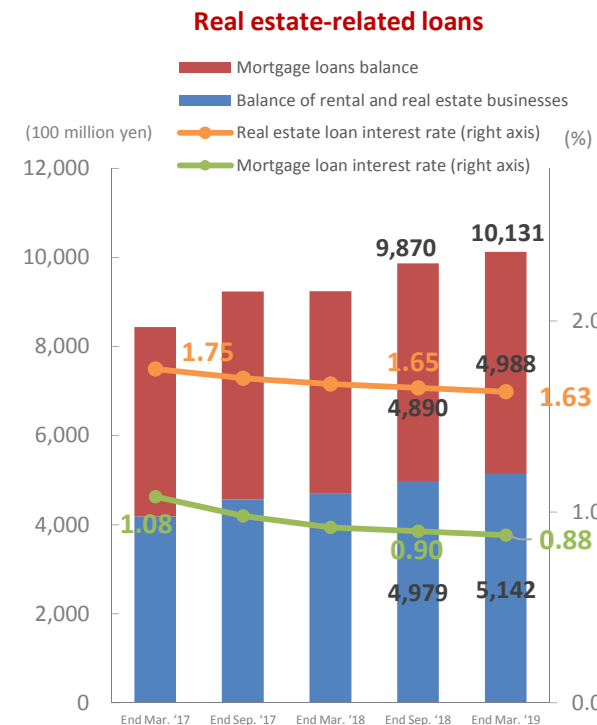
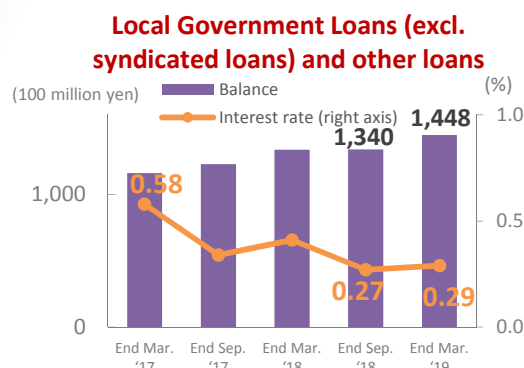
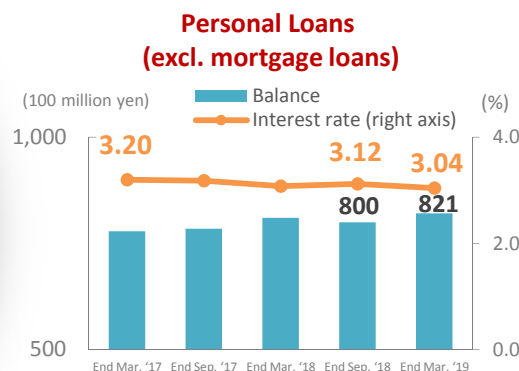
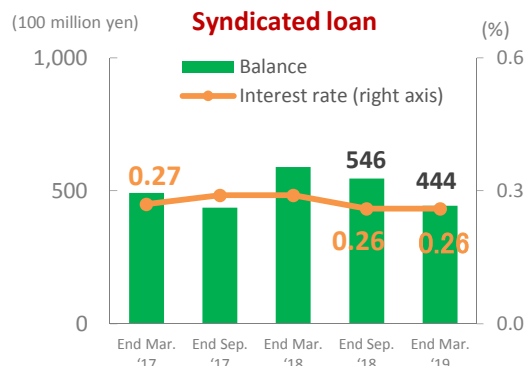
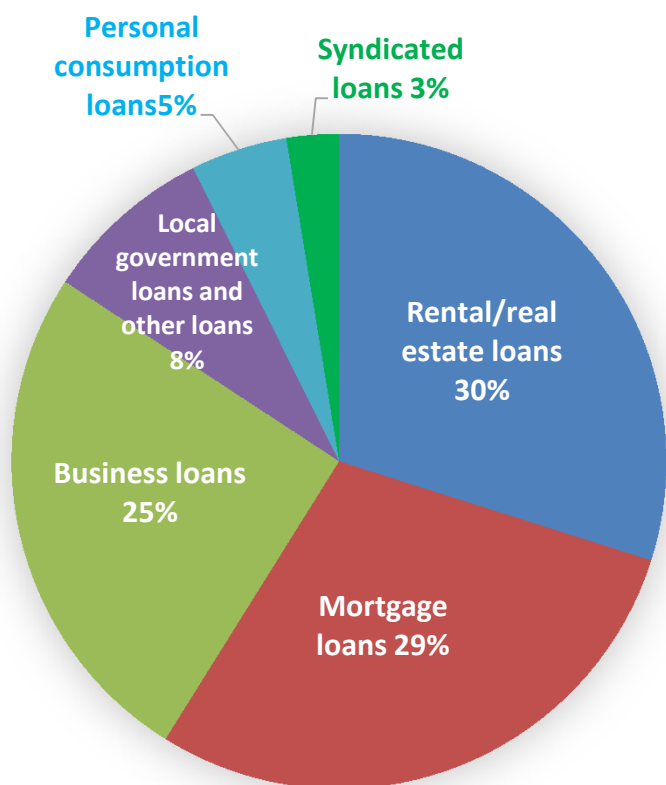
Although the yield declined, the balance steadily increased, turning into an increase in income from interest.



Loans

Increased mortgage loans, especially lending to real estate agents. The interest rate charged to borrowers declined at a slower rate.

BREAKDOWN OF LOAN BALANCES BY USE



* Loan-related fees (consumer loan fees, group credit life insurance premiums) are deducted from yield calculation.

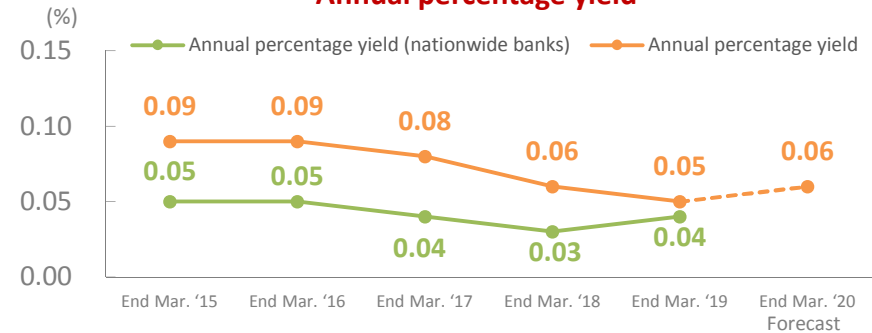
Deposits, etc.

Deposits for both retail and corporate customers are steadily increasing. Interest on deposits dropped due to a decline in yields.

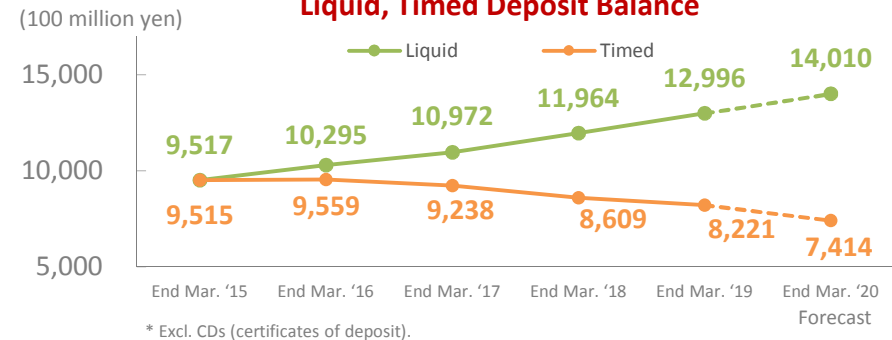
Balance of deposits, etc.



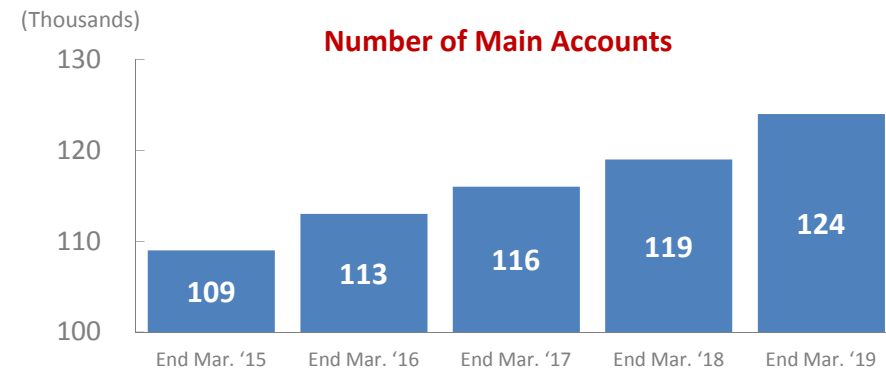
Annual percentage yield



Liquid, Timed Deposit Balance



Number of Main Accounts

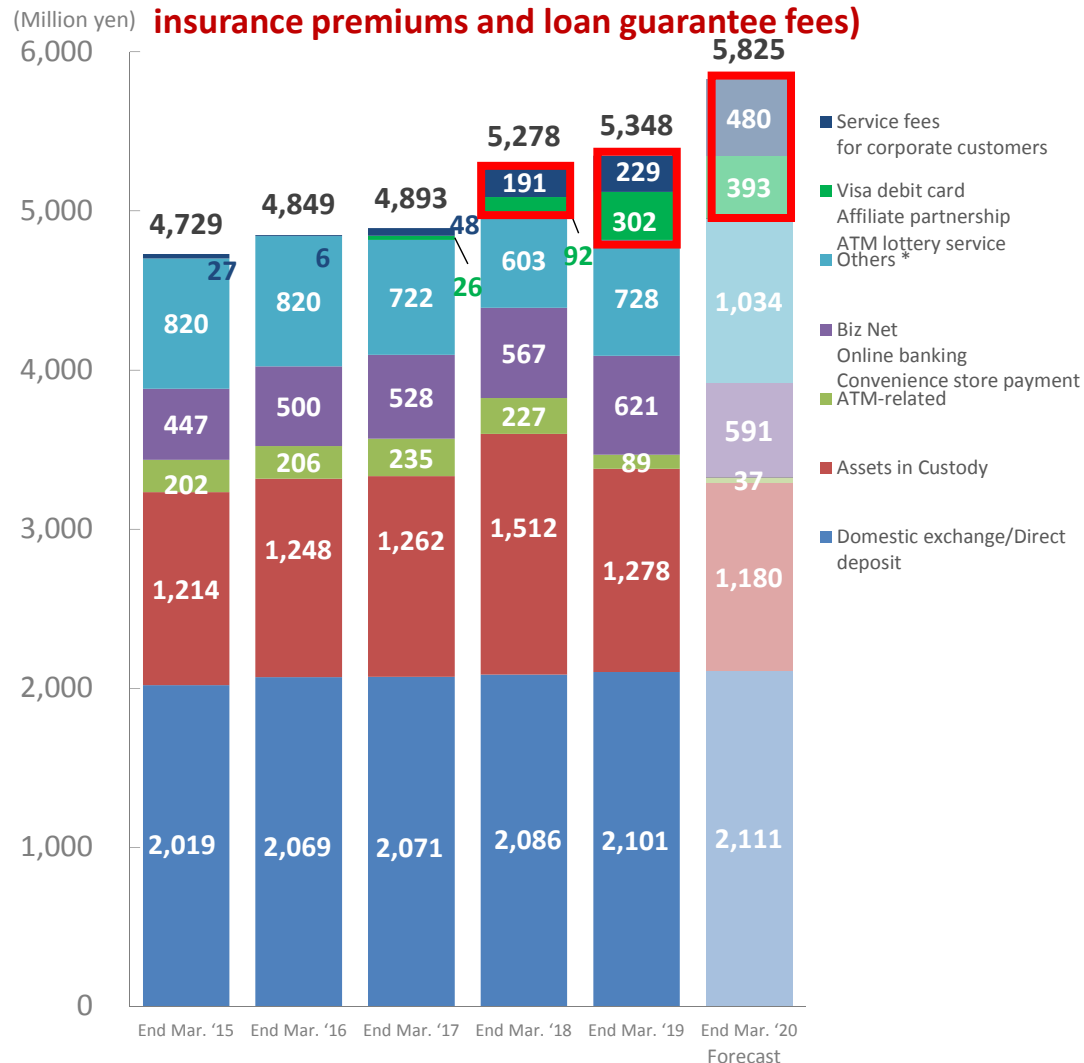


* The main account is a personal account that is used for a certain service or product, in addition to using direct deposit of payroll, pension, or mortgage loan.

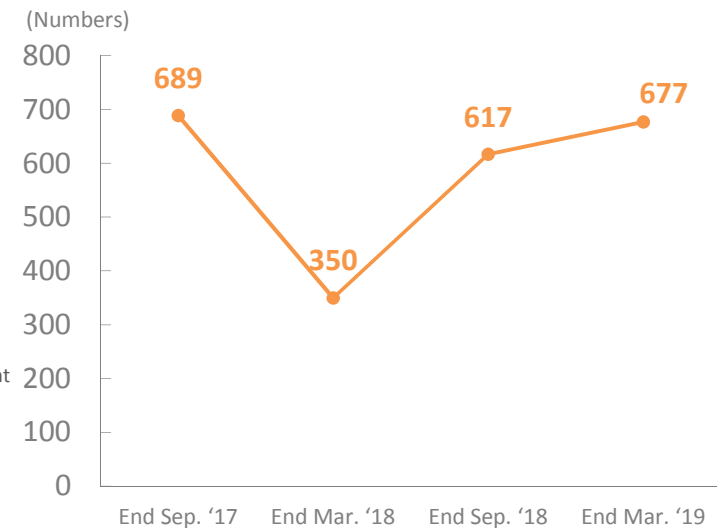
Profit from Service Charges

As the different types of revenue sources emerge, income from fees and charges is steadily increasing.

Trend of Profit from Service Charges (excl. group credit life insurance premiums and loan guarantee fees)

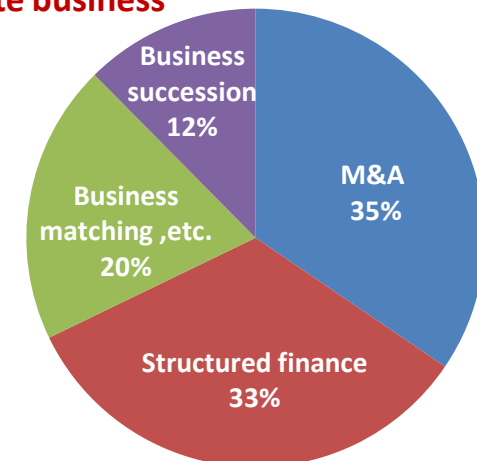


Number of visits for consulting activities



* September includes the results of the first half, and March includes the second half of the fiscal year.

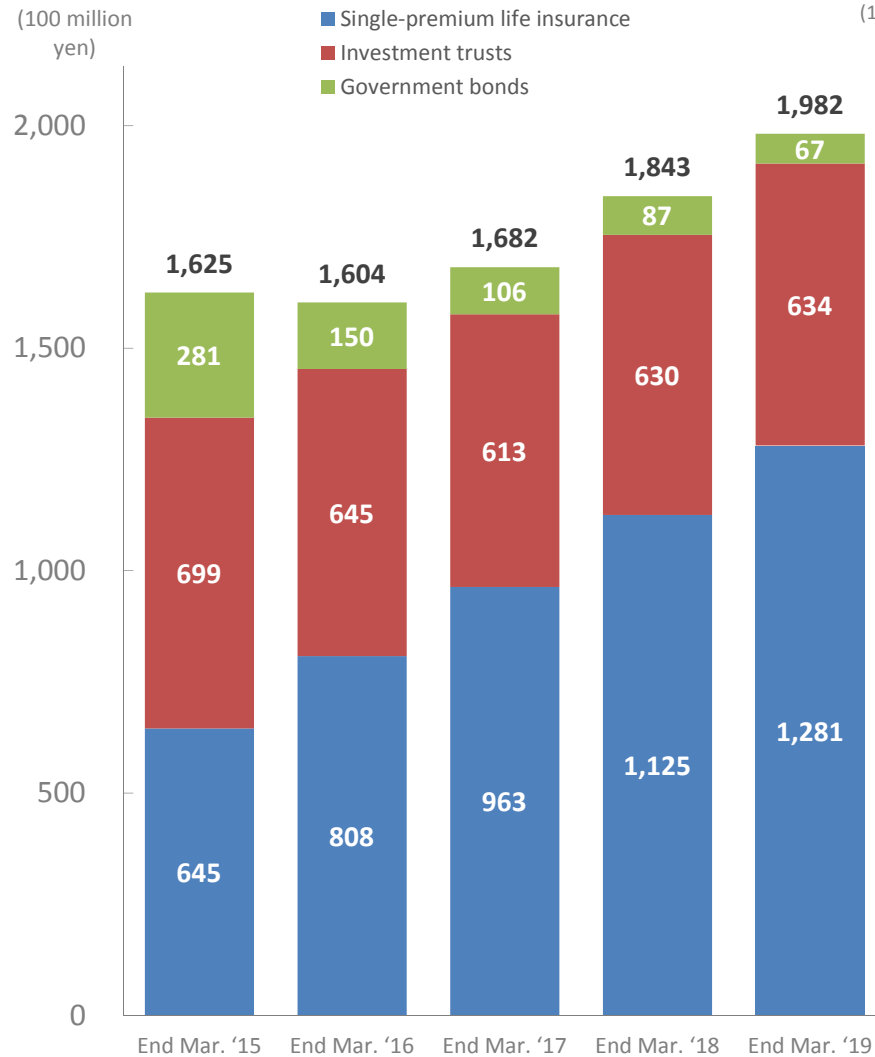
Revenue results per division in corporate business



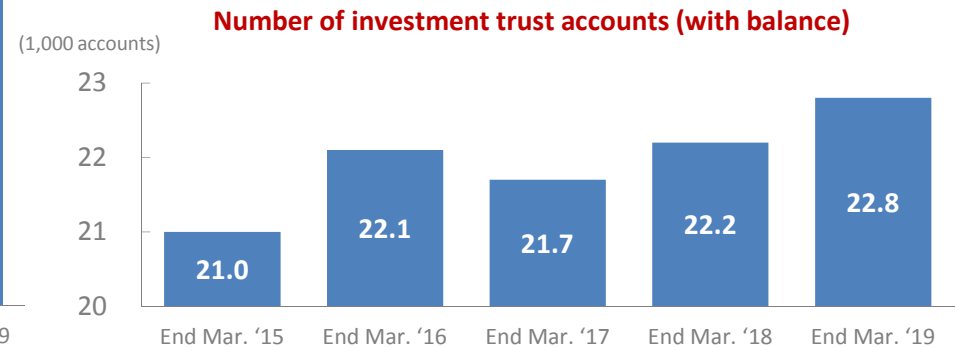
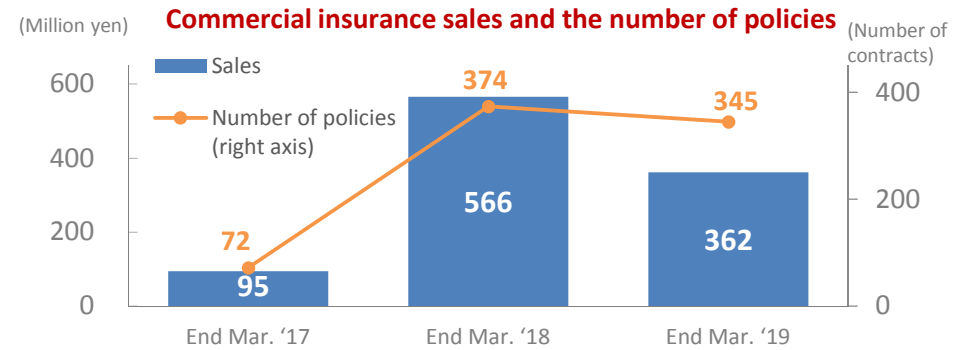
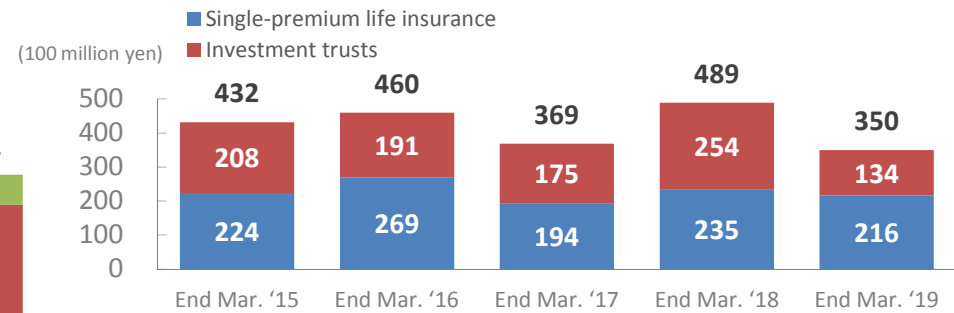
Assets in Custody

Balance steadily increased thanks to sales of single-premium life insurance and investment trusts.

Assets in custody balance



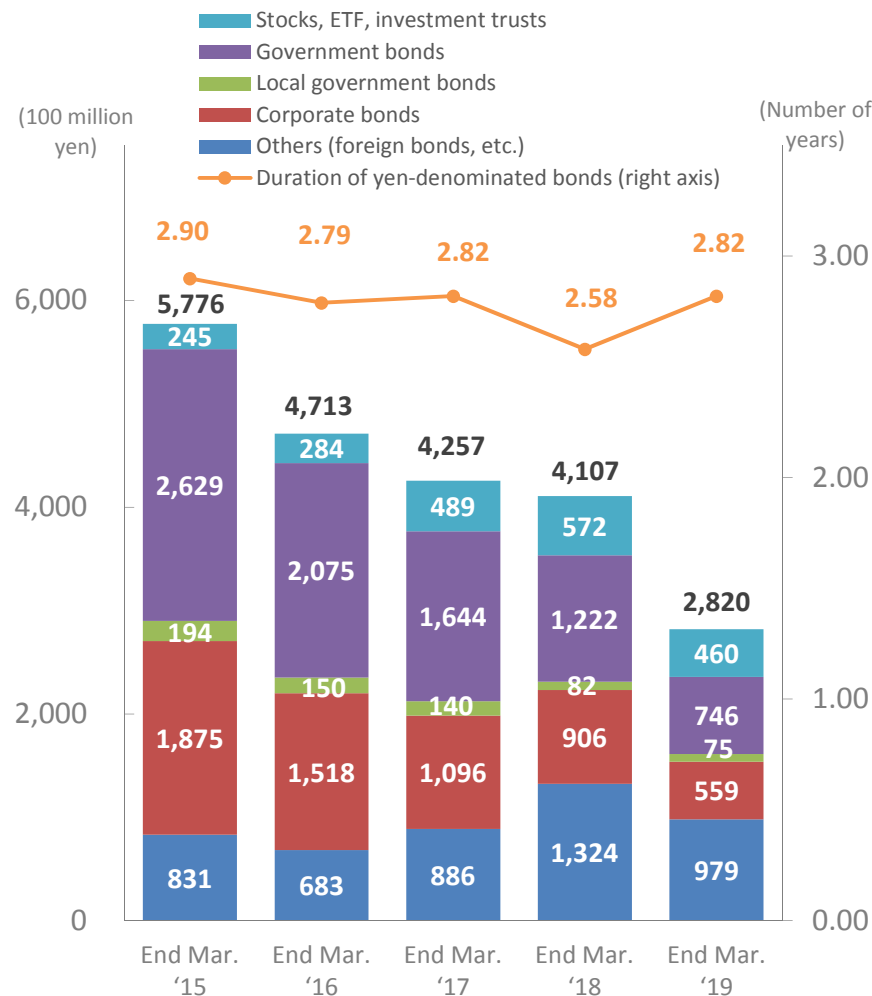
Assets on custody sales revenue



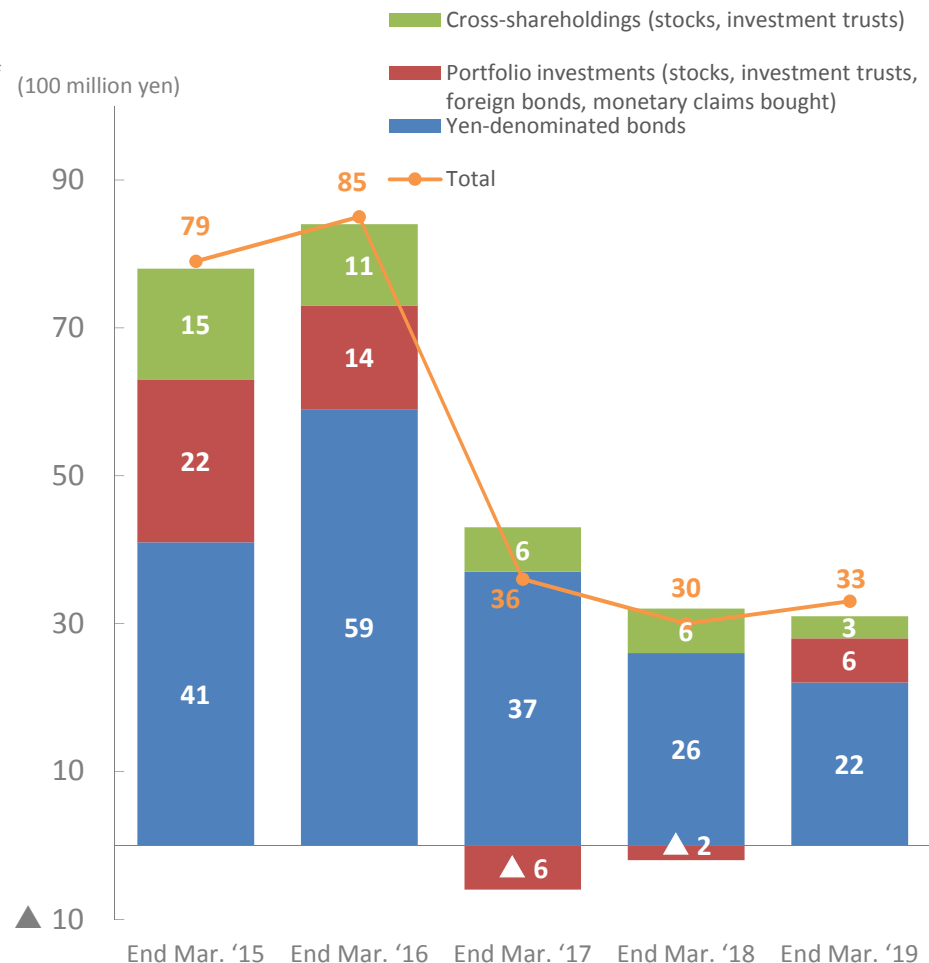
Securities

The balance decreased due to the redemption of government and corporate bonds and the sale of foreign bonds. The market value is greater than the book value.

Securities balance



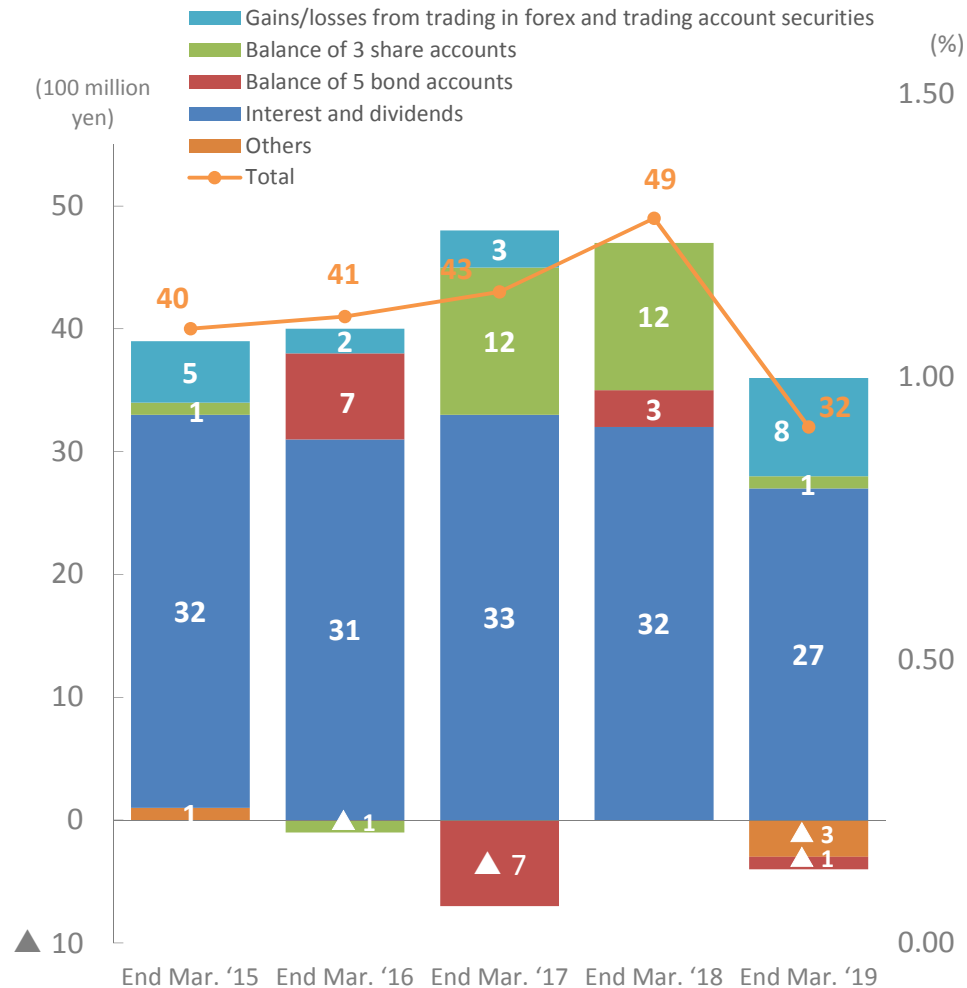
Difference between market value and book value of securities



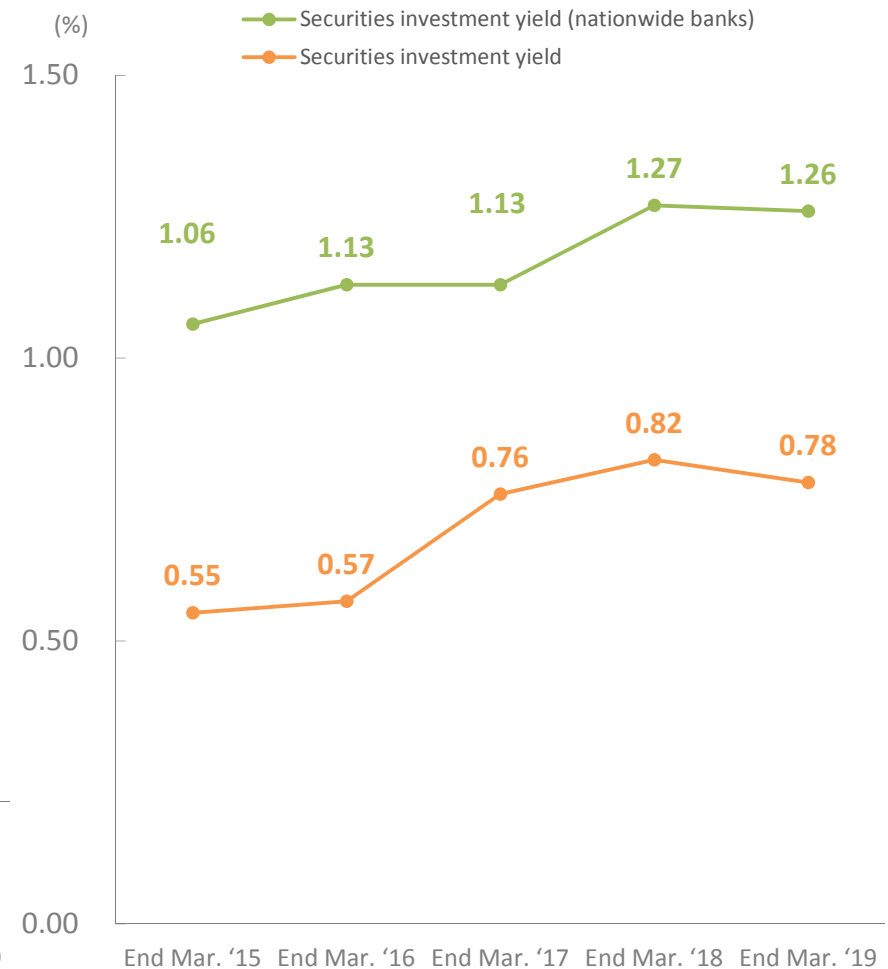
Securities

Profit from forex trading increased, but the profit/loss balance in Trading Division decreased due to the decreased balance of 3 share accounts, etc.

Profit/loss in Trading Division

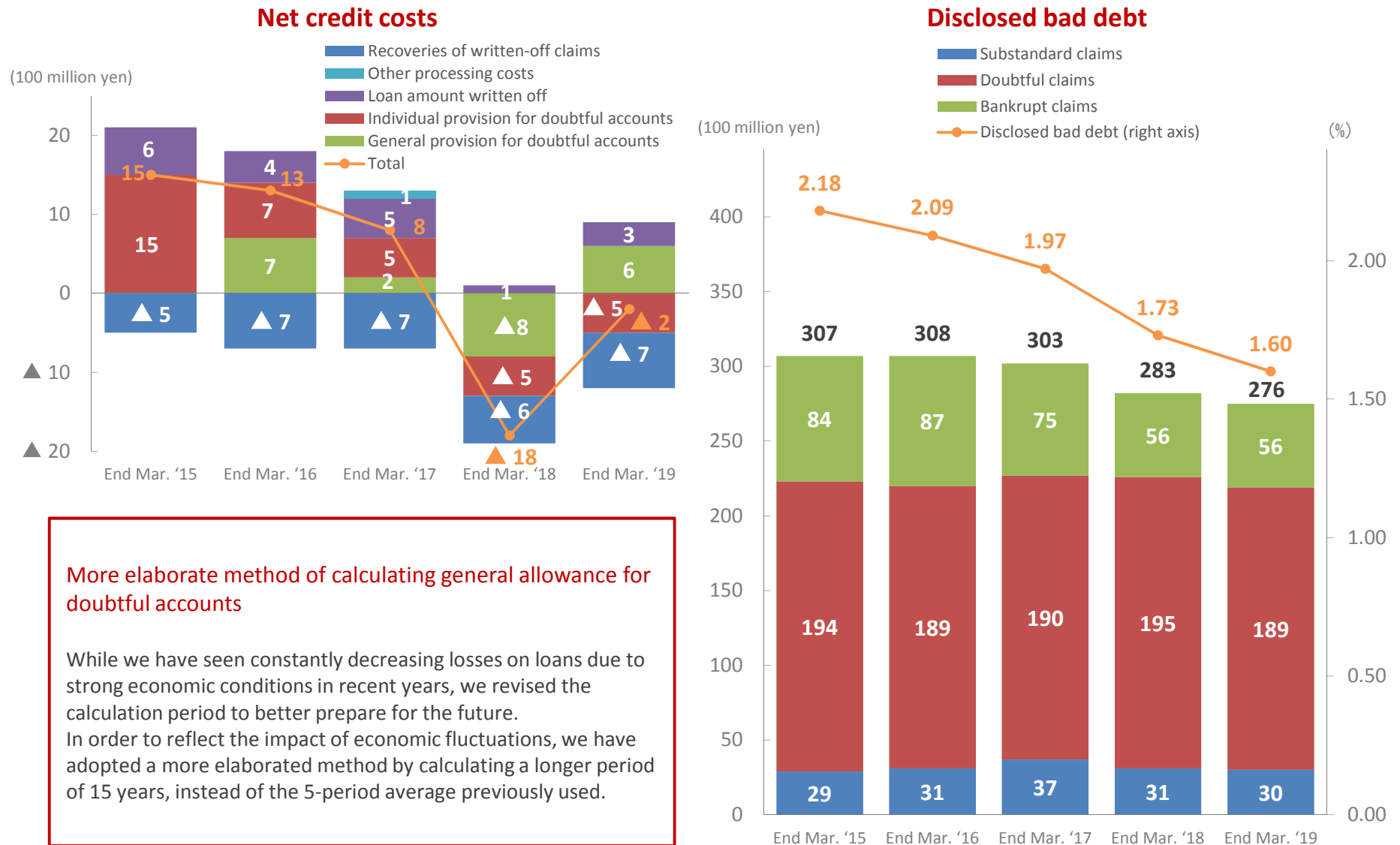


Securities investment yield



Net Credit Costs/Disclosed Bad Debt

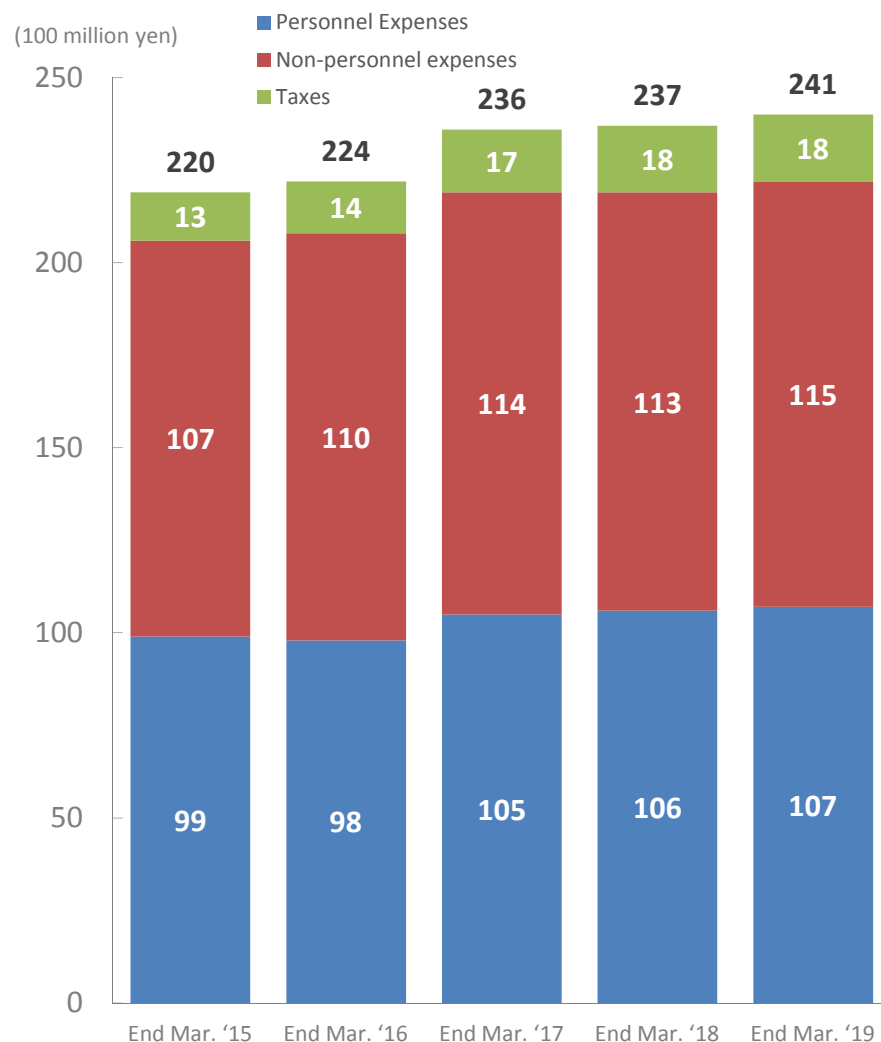
Net credit costs saw a significant increase mainly due to revised general allowance for doubtful accounts.



Expenses

Expenses increased due to investment to improve various revenue sources, convenience, and productivity.

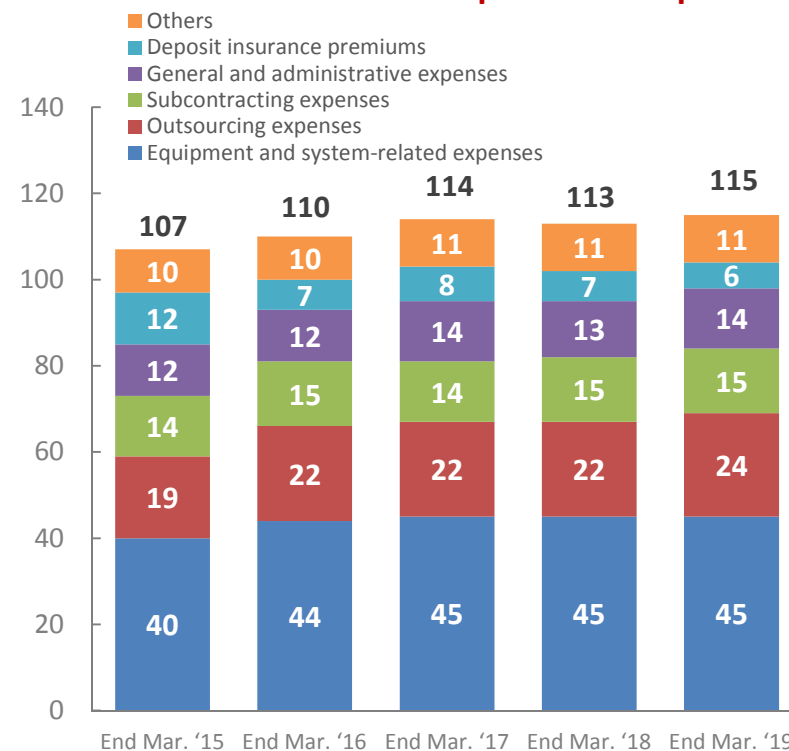
Expenses



* Personnel expenses include temporary services.

(100 million yen)

Breakdown of non-personnel expenses



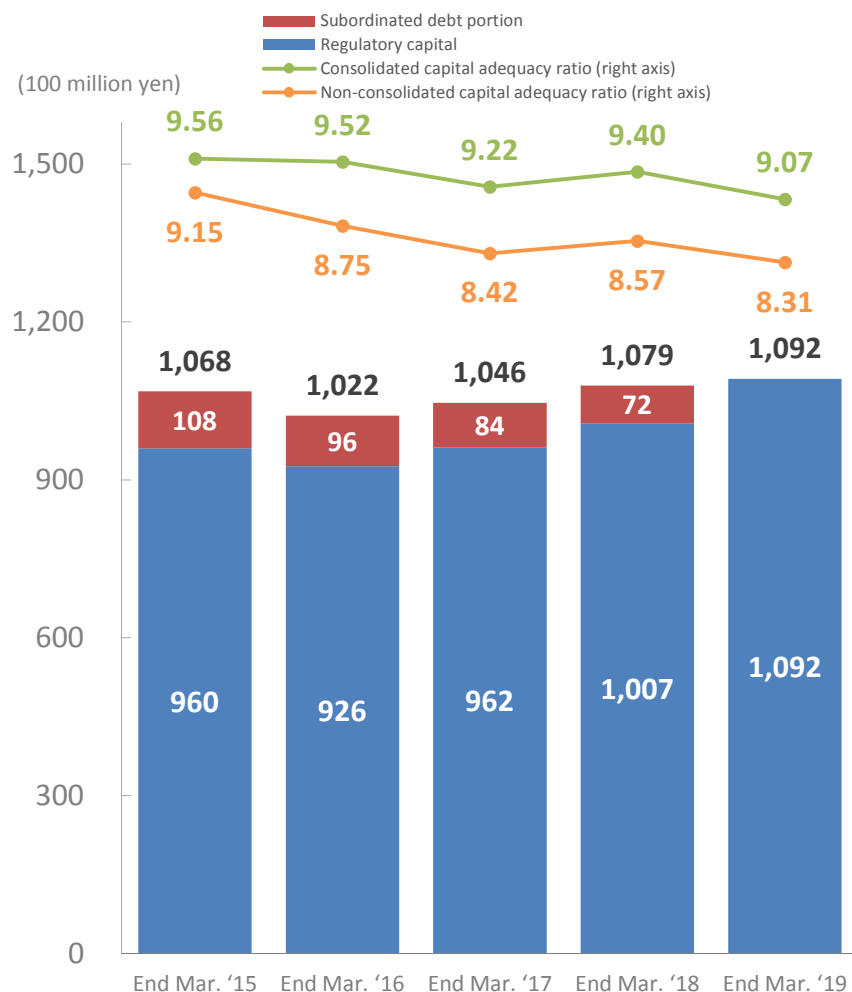
Major expense factors in FY 2018 include:

- Expansion of services for bank card affiliates
- Issuance of corporate debit cards
- Deployment of instant card issuance machines in all branches
- Preparation to introduce the next-generation terminal in sales offices
- Abolition of policy limiting the age of management positions

Capital Adequacy Ratio (CAR)

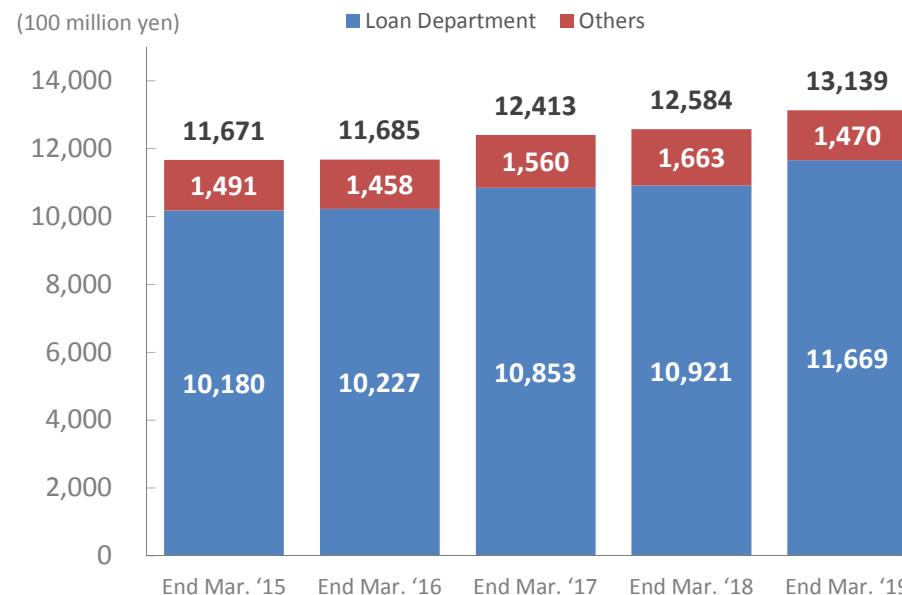
The capital adequacy ratio declined due to an increase in lending.

Regulatory capital and capital adequacy rate

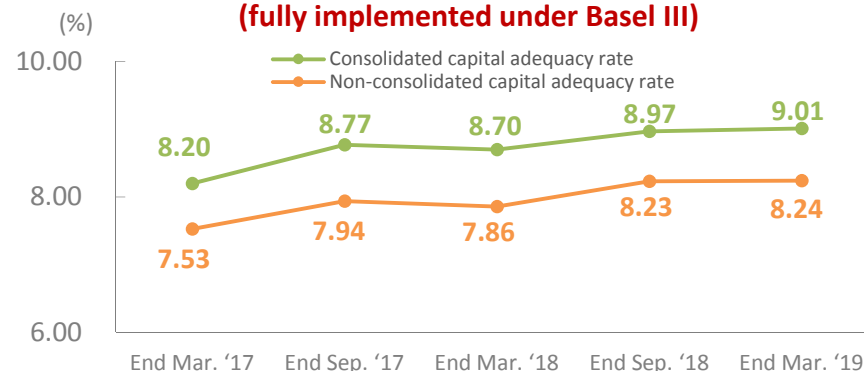


* In Sep. 2018, public offering was made to raise capital (5.6 billion yen). In Oct. 2018, subordinated debt (12 billion yen) was repaid before the maturity date.

Risk assets



Capital adequacy rate (fully implemented under Basel III)



* The fully implemented capital adequacy ratio was calculated by setting capital computation of subordinated debt and the difference in land revaluation as zero, and summing up the entire amount of intangible fixed assets and prepaid pension cost as adjusted capital.

Forecast for FY 2019 (ending March 31, 2020)

Profit growth is expected for both non-consolidated and consolidated financial results driven by the improved balance of deposits and loans.

Non-consolidated

(100 million yen)

	FY 2019 (ending Mar. '20)		FY 2018 (ended Mar. '19) Results
	Forecast	Year on Year	
Ordinary income	402	▲18	420
Ordinary profit	80	+7	73
Net income	55	+2	53

Consolidated

(100 million yen)

	FY 2019 (ending Mar. '20)		FY 2018 (ended Mar. '19) Results
	Forecast	Year on Year	
Ordinary income	602	▲19	621
Ordinary profit	93	+7	86
Profit attributable to owners of the parent	62	+1	61

* Year on year calculation is spreadsheet-based.

Target Figures (Customer Centric 2017 Mid-Term Management Plan)

Current mid-term management plan has been on track to achieve target numbers.

* Target numbers are estimates for FY 2019

Achieved

Consolidated net income
during the period
More than 5 billion yen

Achieved

Consolidated capital
adequacy rate
8-9%

Achieved

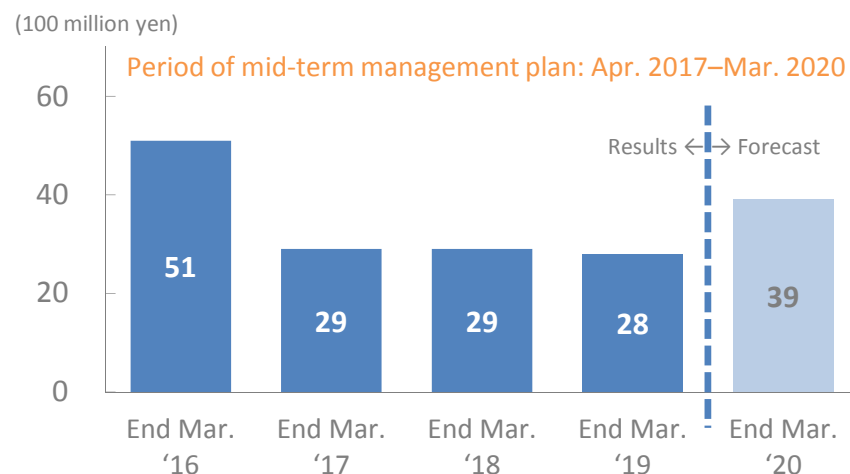
Average loan balance
1.6 trillion yen

Expected
results in
FY 2019

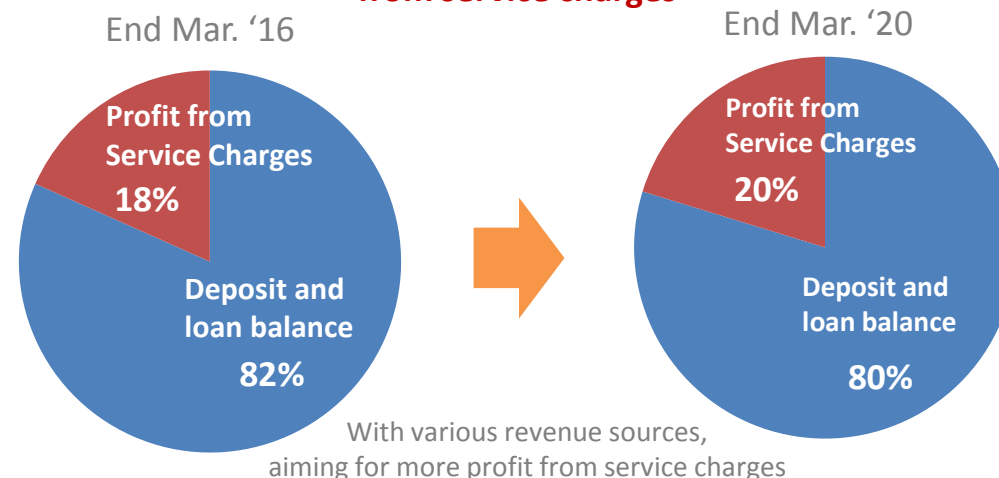
Average deposits balance
2,160 billion yen

* Deposits + CDs










Profit from customer services



Proportion of deposit/loan balance and profit from service charges



Summary of Business Strategy

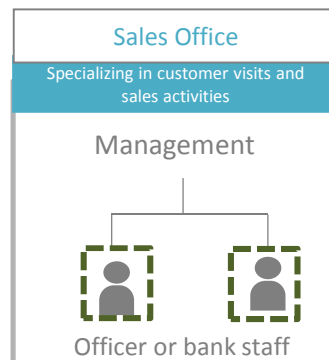
	Type of Business	Trend	Notable Initiatives
Increasing Revenues	Business Potential Evaluation and Sales		<ul style="list-style-type: none"> ■ Review the readiness of business potential evaluation and sales ■ Make use of our original Business Potential Evaluation Sheet ■ Review the interest rate guidelines
	Corporate Business		<ul style="list-style-type: none"> ■ Establish the Corporate Business Division (business succession, M & A, civil trust, structured finance)
	Bank card related services		<ul style="list-style-type: none"> ■ Issue Ryugin Visa Debit Card ■ Issue Corporate Business Debit Card ■ Efficiency acquiring card affiliates by partnering with various organizations
	Retail Business		<ul style="list-style-type: none"> ■ Review employee training system ■ Abolish internal transfer of sales agents ■ Start property inheritance consulting services for high-net-worth individuals ■ Outbound sales for personal consumption loans and insurance products
Reducing Costs	Branch Office Strategy		<ul style="list-style-type: none"> ■ Reduce branch offices with “branch-in-branch” (multiple branches in one location) ■ Introduce communication-driven design for branch offices
	IT Systems		<ul style="list-style-type: none"> ■ Use cloud service ■ Adjust system expenses to the right level; tighten the policy of system budget management
	Personnel Expenses		<ul style="list-style-type: none"> ■ Implement FTB (Flexible & Traditional bank) project ■ Establish a flat cash counter system (developing staff’s multi-skilling)
Adapting to Business Environment Changes	Productivity improvement		<ul style="list-style-type: none"> ■ Streamline the sale of assets in custody (deploy the conversation recording system, “Azukari” archives, and prospectus management/issuance system) ■ Hire diverse human resources (abolish the policy limiting the age of management positions, review the post-retirement age employment policy, and expand hiring of experienced workers) ■ Promote temporary workers and women (promote hiring of temps, review promotion requirements, and open a company-led day care center)
	Adapting to Changing Economic Conditions		<ul style="list-style-type: none"> ■ More elaborate method of calculating general allowance for doubtful accounts ■ Tighten the standard of the application review process for hotels, condos, and apartment loans

Business Potential Evaluation and Sales

Understanding customer needs and reviewing employee training to provide the best solutions to customers.

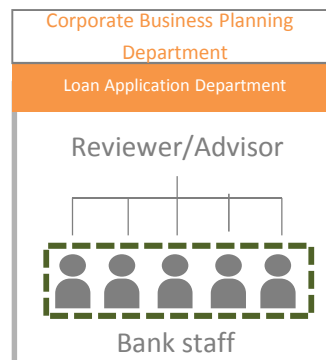
Reviewing the preparedness of business potential evaluation and sales (Started in Oct. 2018)

- Divided tasks of business potential sales agents into “sales activities” in sales offices and “administrative tasks preparing loan application documents and conducting customer due diligence” at corporate headquarters.
- Intensive OJT at headquarters to promote faster skill development of young bankers.
- Started a pilot in Oct. 2018 and currently put into effect at 24 branches. Expected to implement in all branches in Oct. 2019.
- In pilot-run branches, the number of loan application documents prepared and hours of customer visits doubled.



Purposes

- - Focus on customer visits to increase proposals
- - Improve proposal skills



Purposes

- - Expedite loan application process
- Intensive OJT for young bankers to be ready for work in the early stage of their careers (standardized training)

Make use of our original Business Potential Evaluation Sheet (Feb. 2018)

- The Business Potential Evaluation Sheet was created based on communication with the customer about strengths and weaknesses of the business, as well as a customer’s financial information.
- Based on the business issues raised, our sales office and cooperate headquarters provide the best solutions.
- Since Apr. 2019, a new, simpler version of the Business Potential Evaluation Sheet has been created to be used for small and medium-sized businesses, focusing on quantitative analysis. This is used to identify the needs for stabilizing its cash flow.



Revision of interest rate guidelines (Mar. 2019)

- In order to ensure appropriate interest rates that reflect credit risk, we have raised the interest rate standard, which should be complied by branch offices and corporate headquarters.

Corporate Business

Establishing a system with various consulting services for corporate customers to increase income revenue from fees.

Established the Corporate Business Division (Apr. 2017)

- Integrated consulting services for corporate customers.
- A clear fee structure was to aim to gain steady income from fees by fostering professionalism in bank staff and providing customer-centric services.
- A wide variety of professionals have been in place, including CPAs, SME management consultants, experienced workers who has worked in other banks or other industries.
- 26 staff members as of March 31, 2019.

Service Details

[Business succession]

- Targeting customers considering handing over treasury shares and/or business assets, our seasoned staff and certified tax accountants offer advice such as future directions for the company and how to avoid disputes.

[Mergers and Acquisitions]

- Targeting customers who have no successors within their families or businesses, we offer advice on steps of the M & A process and address concerns and questions. Using our networks inside and outside Okinawa prefecture, we introduce potential businesses that may take over the business and assist in the process to completion.

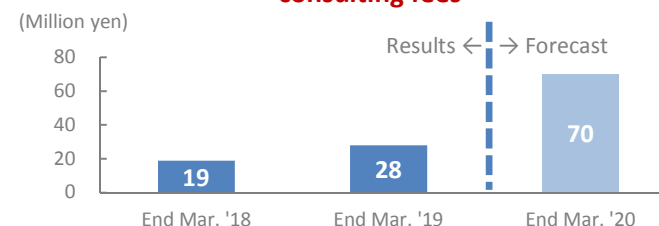
[Civil Trusts]

- Targeting customers who are concerned about asset management of family members, we offer consulting services, including trust scheme design and recommendations.

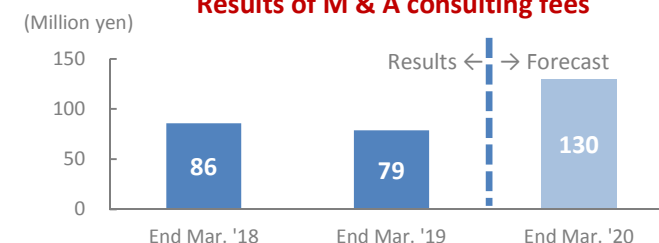
[Structured Finance]

- Targeting corporate customers who wish to ensure long-term stable funds, we offer advice on placement of private bonds and assist with the arrangement of syndicated loans.

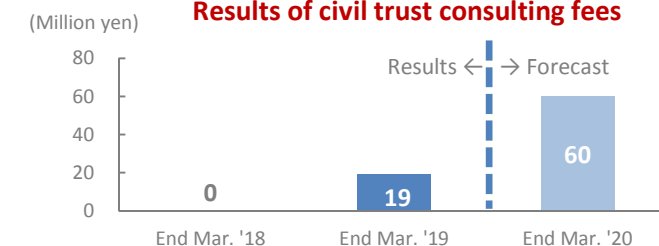
Results of business succession consulting fees



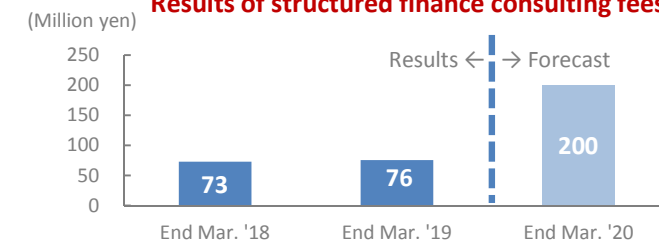
Results of M & A consulting fees



Results of civil trust consulting fees



Results of structured finance consulting fees



Bank Card Services (Ryugin Visa Debit Card)

Starting card service directly from our bank by issuing international card brands of Visa and Mastercard

Issuance of Ryugin Visa Debit Card (Oct. 2015)

Mar. 2018 Support of 3-D Secure began

Jul. 2018 Immediate card issuance over the bank counter began

Sep. 2018 Issuance of Ryugin Visa Business Debit Card for corporate customers began

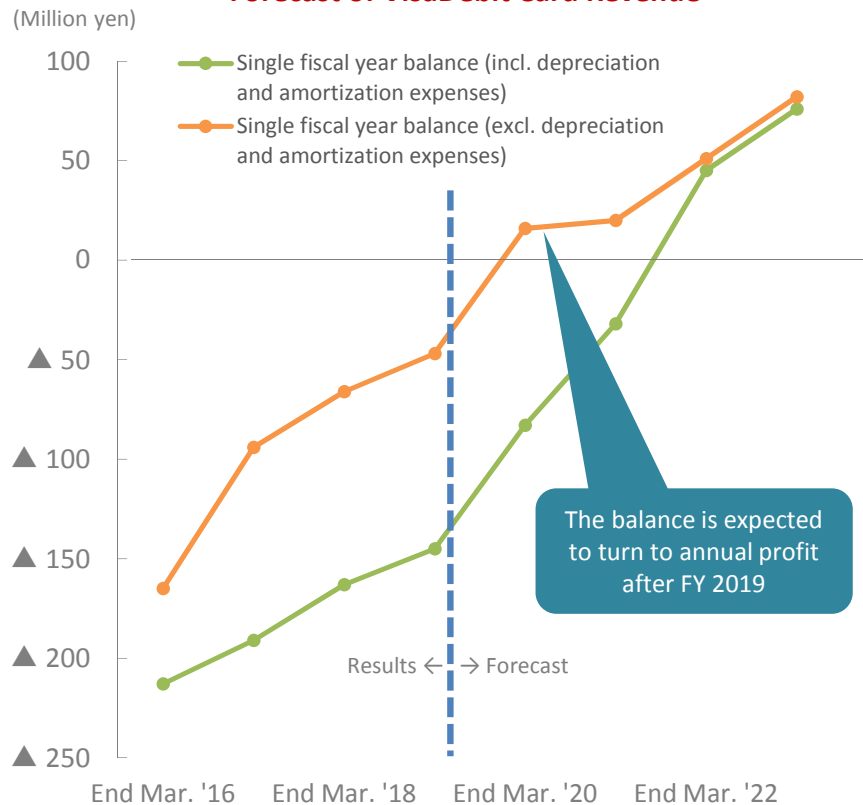
Apr. 2019 Number of cards issued exceeded 110 thousand

Issuance of Business Debit Card for corporations (Sep. 2018)

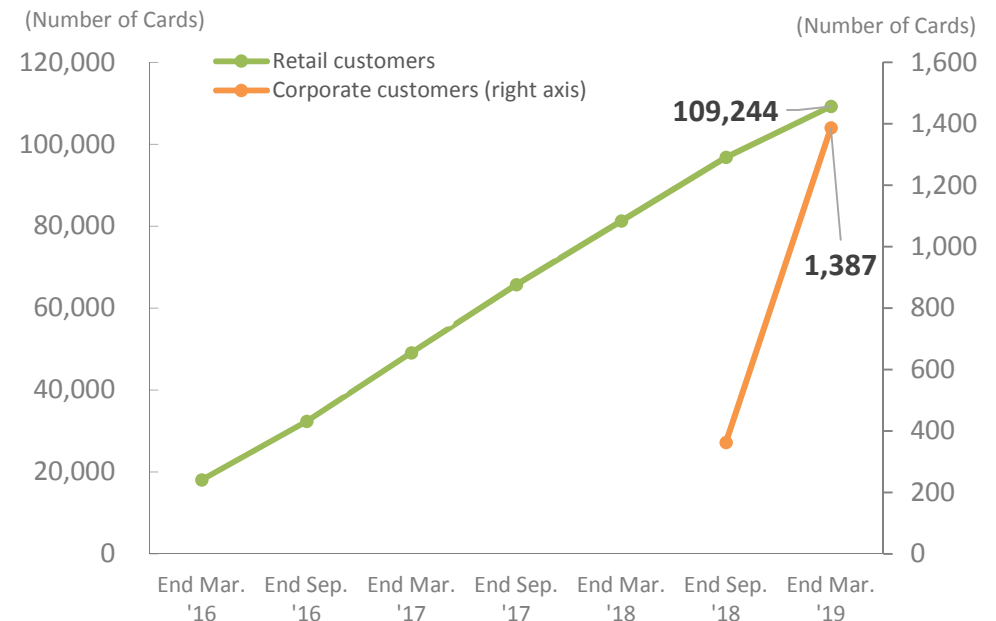
- Streamlined the expense payment operation for corporate customers; promoted the settlement process for B2B transactions.



Forecast of VisaDebit Card Revenue



Cumulative number of Ryugin Visa Debit Card issuance



Bank Card Services (Card Affiliates)

Speeding up the process of gaining card affiliates by adding organizations as agencies.

Efficiency acquiring card affiliates by partnering with various organizations

- Jun. 2018 Formed an affiliate partnership with The Hida Credit Cooperative(Gifu Prefecture)
Formed an affiliate partnership with Zamami Village Tourism Association (Okinawa Prefecture)
- Nov. 2018 Formed an affiliate partnership with local chambers of commerce, including Ishigakijima, Miyakojima, and Kumejima
- Apr. 2019 Awarded by the Cabinet Office as a financial institution's "notable initiative example" investing in regional revitalization
- Sep. 2019 Formed an affiliate partnership with Amami Credit Union (Kagoshima Prefecture)



Oct. 11, 2017
Press conference
when forming an
affiliate
partnership with
The Hida Credit
Cooperative



Jun. 20, 2018
Announcement of forming an affiliate
partnership with Zamami Village Tourism
Association

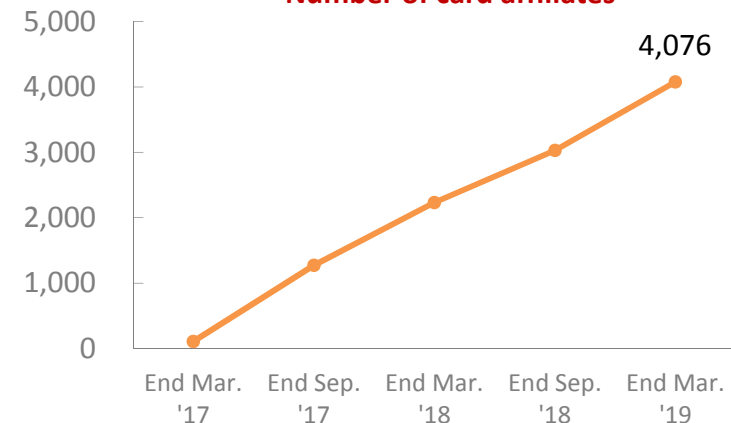


Apr. 16, 2019
The Cabinet Office Award as a financial
institution's "notable initiative example"
investing in regional revitalization



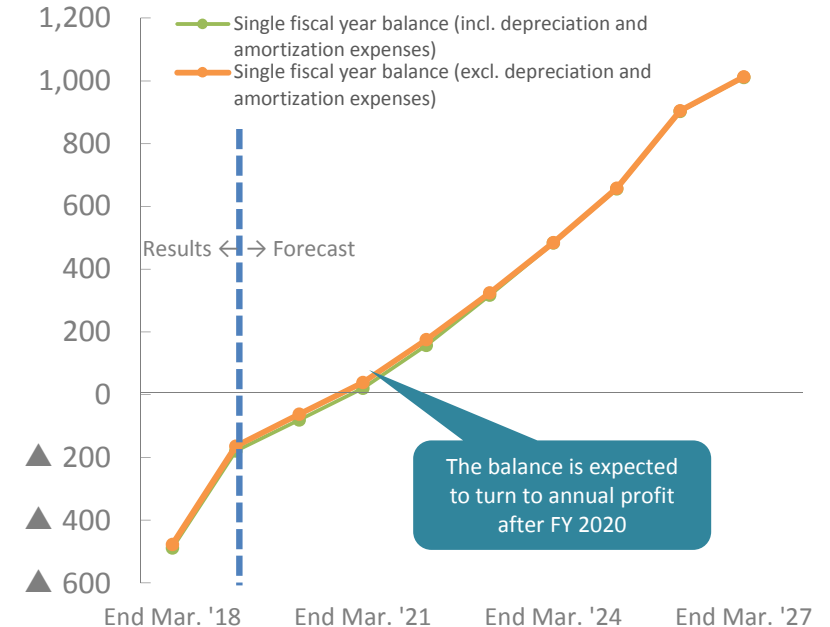
May 15, 2019
Press conference when forming an
affiliate partnership with Amami Credit
Union

(Number of Affiliates)



(Million yen)

Card affiliate partnership: Revenue forecast

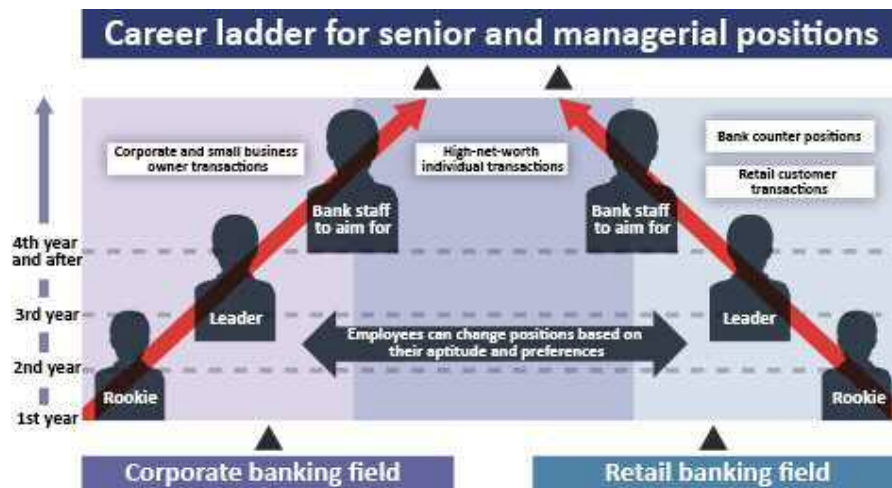


Retail Business

Expanding private banking business by providing specialized employee training for retail customers and using unique tools.

Restructuring the employee training system (Apr. 2019)

- Eliminated the hiring categories of “future management positions” and “clerical positions,” and changed the employee training program into two career fields of corporate and retail banking.
- Restructured the employee training period from previous first five years only to throughout the employment life cycle for all levels, including management.

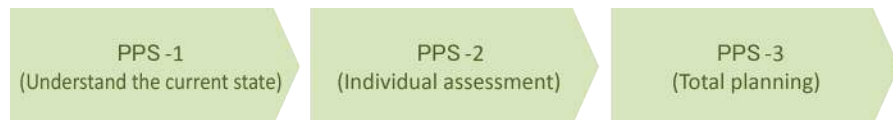


Abolishing internal transfer of sales agents (Apr. 2019)

- In order to build strong customer relationships, the policy now allows sales agents to stay in the same branch without requiring to transfer, if the agents wish to stay.
- Meanwhile, in order to strengthen restriction of responsibilities and revitalize long-term employees, we have expanded the policy to allow employees to take consecutive days off.

Starting property inheritance consulting services for high-net-worth individuals (Jun. 2018)

- Starting property inheritance consulting services, considering, 1. The method of dividing property; 2. Setting aside money for inheritance tax; and, 3. The lack of sufficient service in Okinawa Prefecture for customers who need to save on taxes.
- Targeting high-net-worth individuals over 60 years old with 300 million yen or more in assets.
- Providing the “Personal Support Sheet (PSS),” which lists assets and liabilities for individuals, as a fee-based service.
- Offering advice on how to 1. divide property, 2. set aside money for taxes, and 3. deal with inheritance taxes.
- Supporting customers as needed in making a will, assisting in advancement, and carrying out the sale of assets.

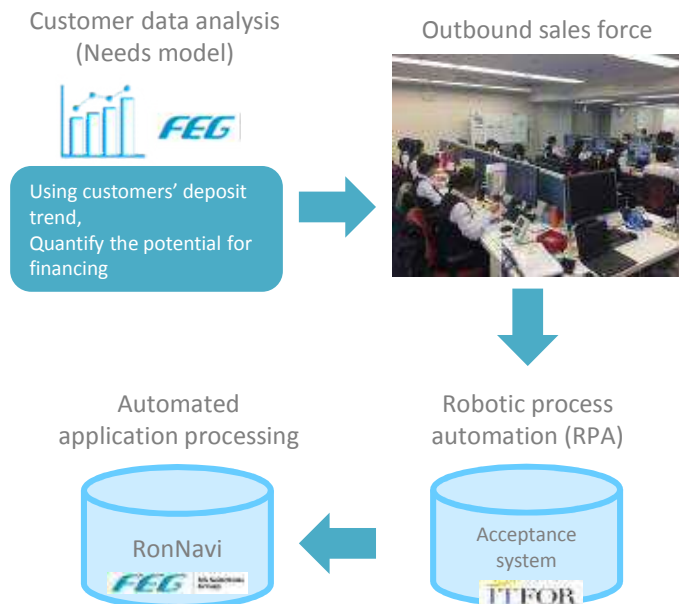


Retail Business

Efficient outbound sales at the Direct Banking Center (DBC).

Outbound sales for personal consumption loans and insurance products

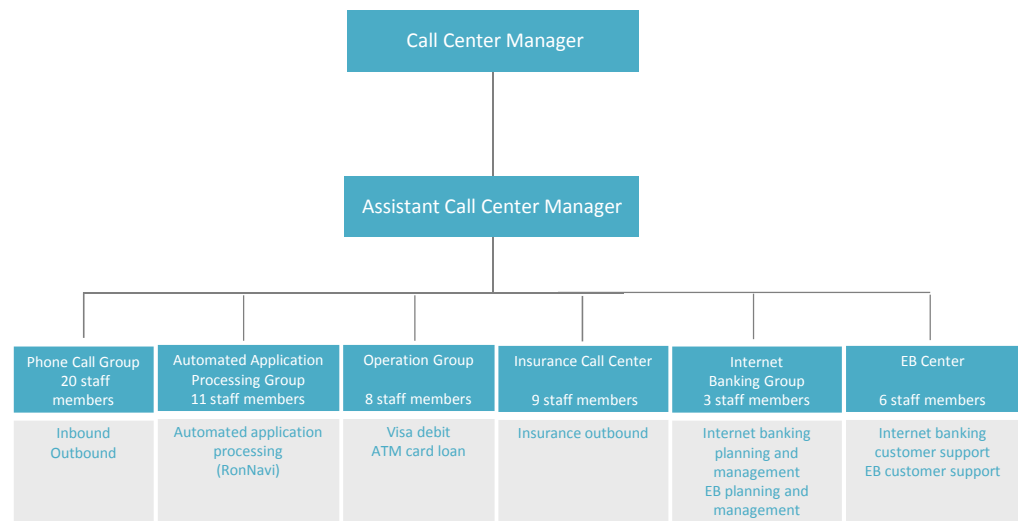
- Efficient outbound sales driven by customer data analysis (Needs model) from a third-party consulting service.
- 26 call center staff are in place from a specialized outsourcer.
- In addition to outbound sales, we carry out cross-selling. Introducing different products/services to existing customers, up-selling (e.g., proposing to refinance at another bank), and employment verification.



History of DBC

- Jun. 1999 New Telephone Banking Center was established
- Oct. 2002 Automated application process of Unsecured Personal Loan put into service
- Oct. 2013 Automated application process of a personal consumption loan "RonNavi" put into service
- Apr. 2016 Outbound operation for personal consumption loans began
- Apr. 2017 Call center operation for insurance products began
- Nov. 2017 Implemented a RPA system "NICE Real-Time Solution" for the acceptance system

Organizational chart and services of DBC



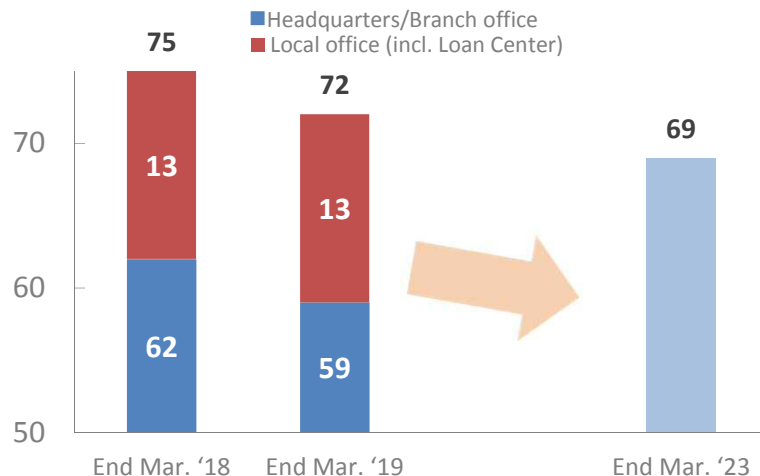
Branch Office Strategy

Reduce the number of branch offices and costs with “branch-in-branch” (“B in B”: multiple branches in one location).

Reduce branch offices with “branch-in-branch (B in B)”

- Implement a new revenue management system to manage profitability by branch down to the last detail.
- Merge low-profitability branches into B-in-B to save on non-personnel expenses and reduce fixed costs.

Expected number of branch offices



* “Branch-in-branch” was counted as one branch office.

Headquarters (Newly opened in Mar. 2019)



Introduce communications-driven design for branch offices

- Establish stylish branch offices different from traditional bank branches to attract local customers.
- Anticipating the trend toward reduced operations and cashless transactions, significantly reduce working spaces and expand spaces used to communicate with customers.

GOOD DESIGN AWARD 2017

Gushikawa Branch (Opened in Feb. 2017)



GOOD DESIGN AWARD 2018

Makiminato Branch (Opened in Mar. 2018)



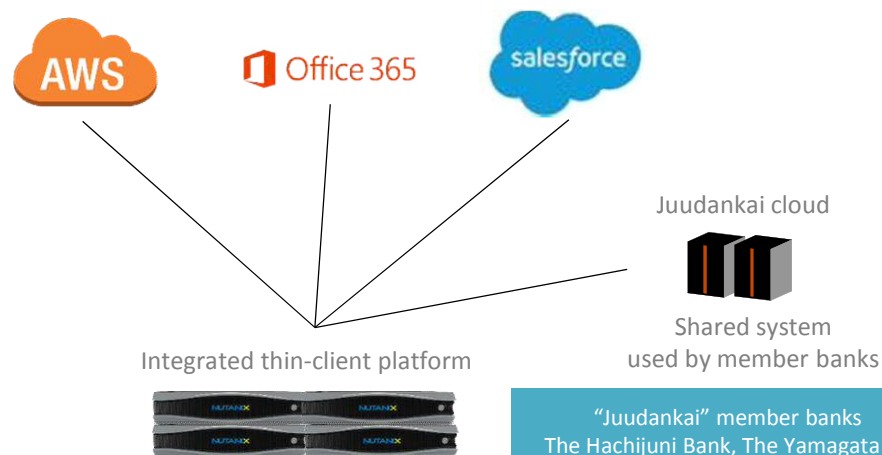
* Photo: Koichi Shimamura Photography, Inc.

IT Systems

Making effective use of cloud services to aim to reduce system costs and expedite development.

Making use of cloud services

- While maintaining the same robustness in accounting and information systems, we actively use cloud services for subsystems, aiming to reduce costs, improve convenience, and create new value.
- Multi-cloud is adopted for networking to maintain scalability and allow us to select the optimal cloud environment for flexible configuration.



Results from cloud services

Adopted cloud services for our website (Apr. 2018)



- The use of Amazon Web Services (AWS), which offers a high-security environment, has enhanced cybersecurity measures to protect against cyber-attacks such as DDoS attacks.

Use of cloud for regulations/rules servers (Apr. 2019)



- The information of regulations and rules were used to be stored in different formats, but now the data can be searched and viewed at any time, from anywhere, and by any device (PCs, iPad, iPhone).
- Installing a regulation management server and a regulation release server on cloud has allowed us to administrate those servers for a large amount of data at low cost.

Use of cloud for intranet (Running as needed since Apr. 2019)



- Reduced costs for server updates.
- Advanced information sharing to enhance communication.
- Flexible response to work style changes.

Development of call-answering system using Amazon Connect (Expected to put into operation in Jul. 2019)



- Using cloud to integrate the first level of call support for 72 branch offices to reduce the workload of call staff.
- The use of cloud allows us to reduce running costs and costs of landline telephones.

IT Systems

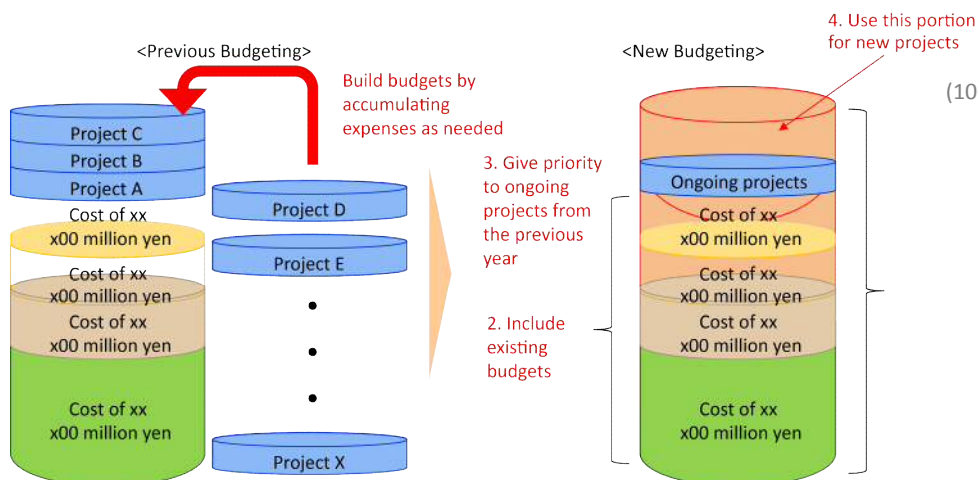
In order to control system investment and expenses, strictly applying rules related to system development investment.

Adjusting system expenses to the right level

- As a general rule, any revenue improvement projects that have no prospect of profit (ROI of less than 20%) within five years are withdrawn.
- In principle, we don't allow EUC (end-user computing), which means the end-user divisions possess systems on their own without going through the system division.
- In general, price negotiations with vendors require involving the system division staff who handle the matter.

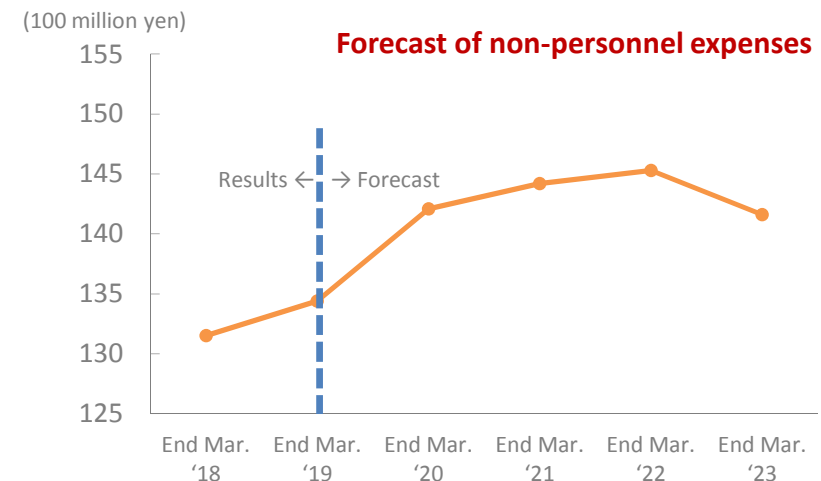
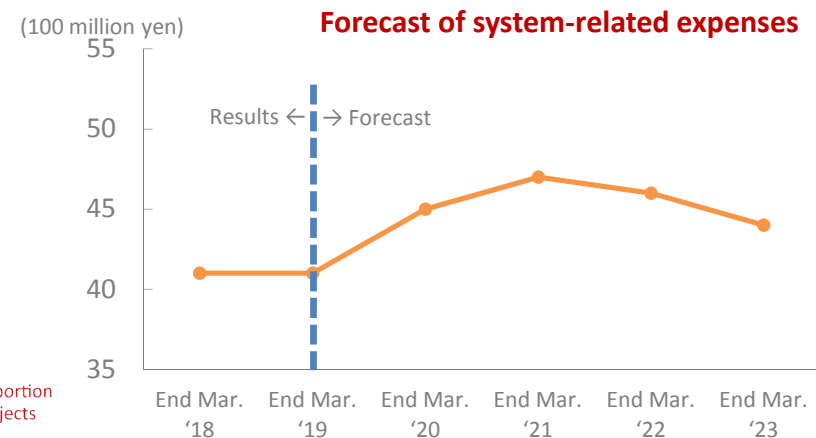
Tightening the policy of system budget management

- In order to control increasing expenses, our new policy requires defining a cap for system expenses at the beginning of the year and operating within this budgeted amount.



Outlook

- System-related expenses will increase for the time being due to large-scale investment for renewing the systems, expected to peak in FY 2020.
- Non-personnel expenses are also expected to peak in FY 2021 due to expense-reduction measures related to branch expansion and system investment.



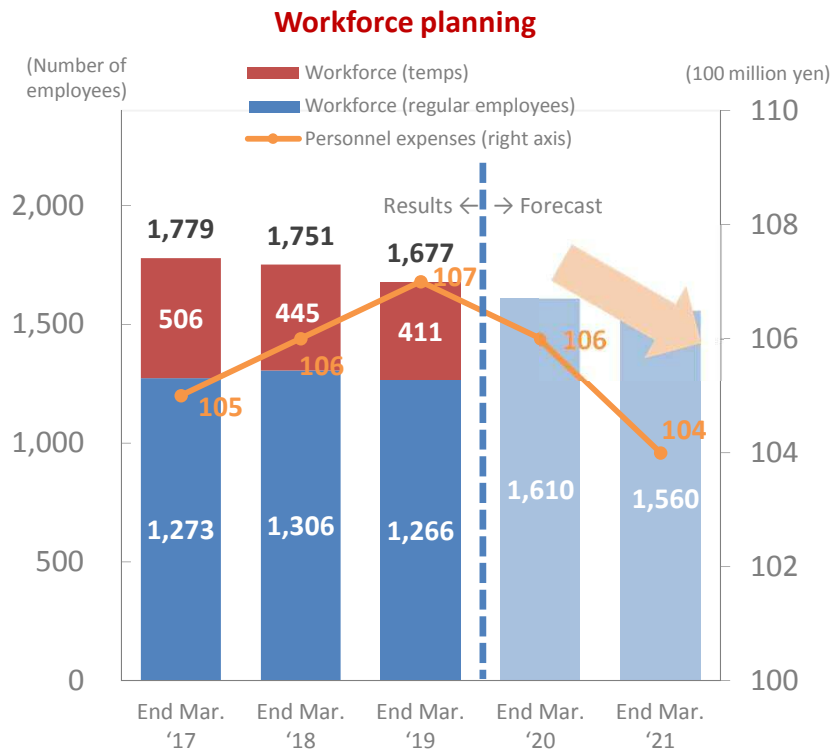
Personnel Expenses

Reducing the labor force to bring down labor costs by trimming down tellers.

Working toward reducing staff

In addition to trimming down tellers, the following plan will also be implemented to reduce the labor force and costs.

- Limit hiring of new graduates and temporary workers to fill positions.
- Promote external transfers.



* Excl. externally transferred staff and employees on leave.

FTB (Flexible & Traditional Bank) project (Expected to carry out the pilot in Oct. 2019)

- Use tablet devices, taking the initiative in significantly reducing the workload of bank counters and the number of tellers.
- Achieve paperless, “seal-less,” and “operation-less.”

FTB tablet screenshot image



Establishing a flat cash counter system (developing staff's multi-skilling) (Oct. 2018)

- Establish a system by which all staff members working at bank counters (incl. asset management consulting) acquire the same skills in terms of counter tasks (multi-skilling).
- 1. Enhance profitability at the bank counter, 2. improve the readiness of business potential sales agents replaced by counter staff, and 3. Establish a structure that does not require a substitute for a counter position from another department.
- Review the placement of management positions to trim down tellers.

Productivity Improvement (Streamlining Sales of Assets in Custody)

Used systems to significantly reduce the workload of sales agents of assets in custody.

Deployed a conversation recording system (checked by a third person before signing a contract) (Oct. 2016)

- Aug. 2016 Implemented Skype for Business on tablet devices in sales offices.
- Oct. 2016 Deployed the conversation recording system to cut the process of creating negotiation records done by assets in custody sales agents.
- To enhance fair sales, third-party specialized staff at headquarters objectively check customers' understanding of critical information when selling products that involve risk before applying.
- Voice recording ensures maintaining evidence.
- Carried out study sessions to help sales agents acquire basic skills regarding assets in custody.

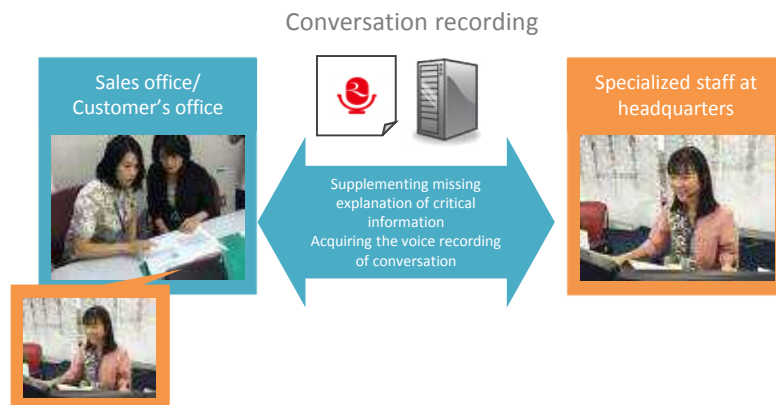
Introduced "Azukari" archives (May 2015)

- Platform for digitizing and managing stored forms for assets in custody.
- Eliminated complex operational processes and reduced the workload of sales assistants.
- Prevented stored paper-based documents from piling up.
- Digitization helped reduce workload of auditors and others in examining documents.

Deployed the system to manage and issue prospectus (Aug. 2018)

- The system allows sales office staff to print a prospectus from a multi-purpose color printer for each sale.
- Eliminated administrative tasks related to prospectuses and stored documents at sales offices, such as replacing, managing stock status and the latest versions, and monthly check, resulting in simplified operational processes.
- Prevents issuing expired prospectuses and other documents.

Illustration of recording a conversation



Productivity Improvement (Use of Diverse Human Resources)

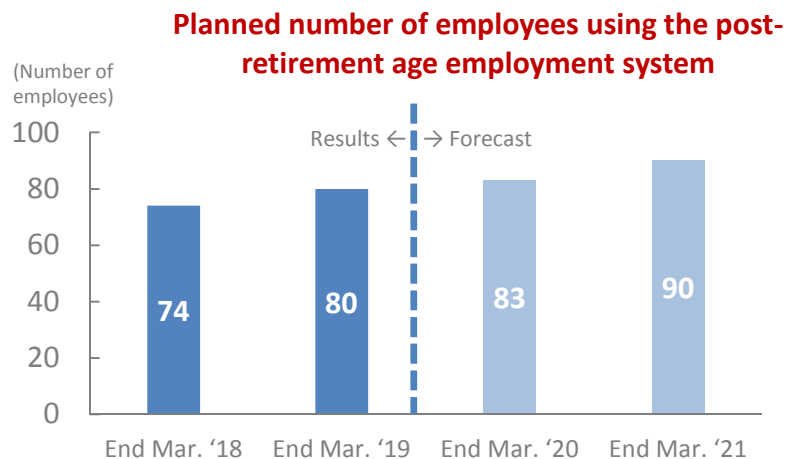
Initiatives to improve employee motivation and secure diverse human resources.

Abolishing the policy limiting the age of management positions (Apr. 2018)

- Changed to policy that does not lower the salary of employees 55 or older and allows promotions and raising their salary.
- Established a balanced pay structure for raising the salary of management positions at a slower rate and putting more weight on merit.

Revising the post-retirement age employment policy (Apr. 2018)

- Applicable to employees age 60–65
- Revised the policy that secures the annual salary equivalent to the bank clerk for employees with performance comparable to the bank clerk based on the performance review.
- Offering balanced compensation to improve their motivation and creating an environment that allows seasoned employees to work to the best of their ability.



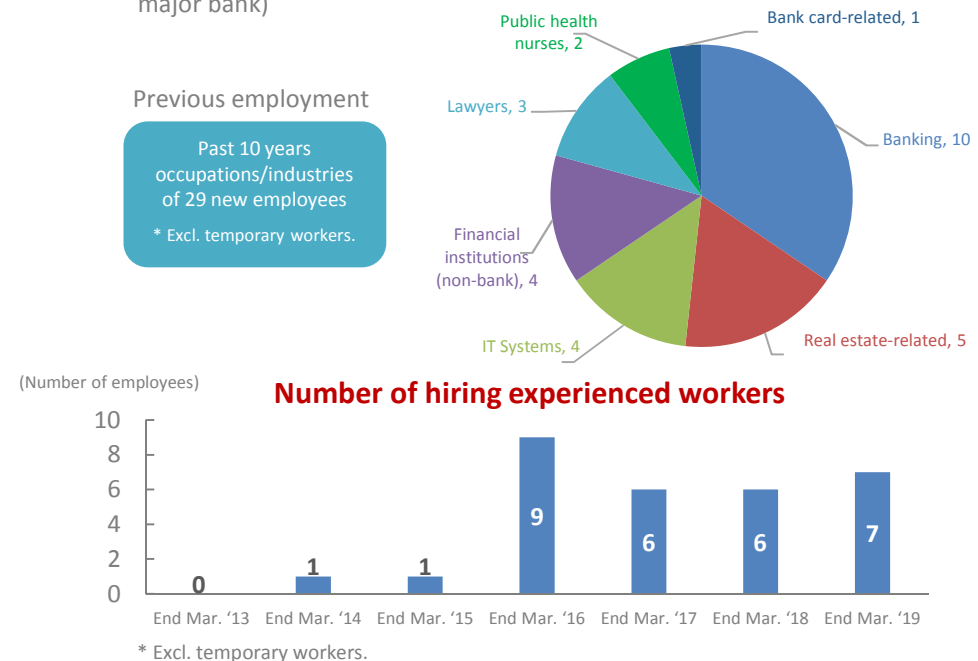
Expanding hiring of experienced workers

Purposes

- Secure specialists
- Revitalize the organization
- Remedy distorted employee age composition

Success examples

- Loan Application Review Manager (previously worked at a major bank)
- Department Manager of Retail Department, Sales Management Division (previously worked a major bank)
- Department Manager of IT Systems Department, Business Management Division (previously worked a regional bank)
- Assistant Manager of Sales Promotion Department (previously worked at a major life insurance company)
- Assistant Manager of General Planning Department (previously worked a major bank)

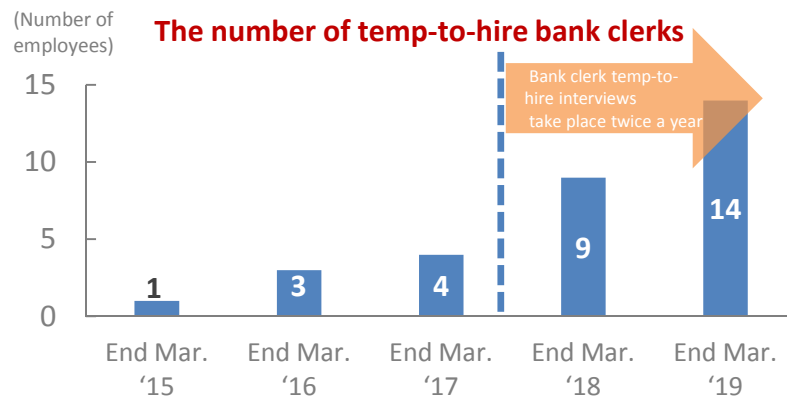


Productivity Improvement (Promoting the Success of Temps and Female Employees)

Initiatives to make use of the power of temps and female employees, who account for a half of bank clerks, as useful resources of the organization.

Promoting the hiring of temporary workers (Jul. 2017)

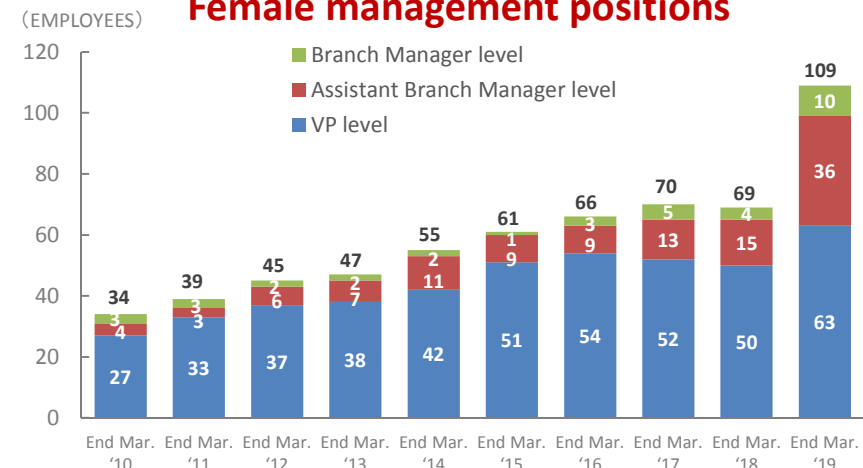
- Expanded the opportunity of bank clerk temp-to-hire interviews to twice from once a year.
- Clearly laid out promotion qualifications (certification, etc.) and eliminated the limit of years of service.



Revising promotion requirements (Apr. 2018)

- In addition to required years of service for each requirement, maternity and childcare leaves are now factored in, giving more promotion opportunities for female employees with children.

Female management positions



Opening of a company-led day care center (Apr. 2019)

- Opened a company-led day care center "Nijihiro Tamago Day Care Center."
- Particularly accepting children ages 0-2, who tend to be on a day care waiting list, to improve employee benefits and provide support for female employees to prevent them from career loss.

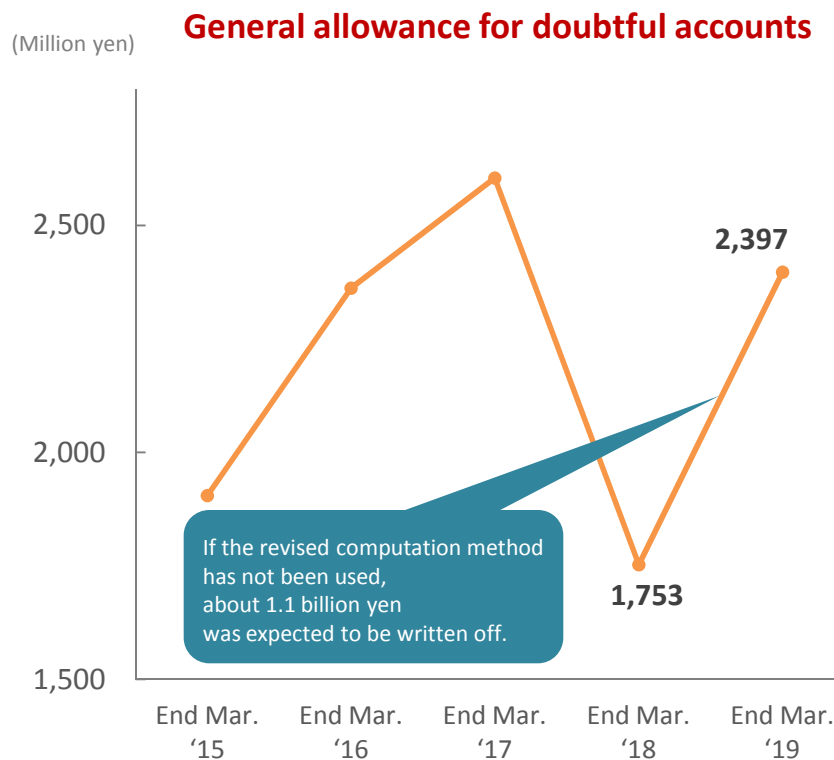


Adapting to Changing Economic Conditions

Anticipating economic stagnation 2–3 years down the road and preparing to deal with it in the early stage.

Adopting a more elaborate method of calculating general allowance for doubtful accounts (Jun. 2018)

- Instead of the 5-period average previously used, we have adopted a different method of calculating the 15-years average, which is less susceptible to economic fluctuations.



Tightening the standard of the application review process for hotels, condos, and apartment loans (Oct. 2018)

- New hotels
 - Changed to long-term loans and the perspective that reflects the risks of economic trends.
 - As for loans over 100 million yen, we evaluate based on the break-even point of the occupancy rate, equity ratio, ADR (average daily rate), RevPAR (daily revenue per available room), etc. with a 25-year term or less as a standard.
- Condominiums
 - Taking into account the borrower's personal traits/information, considering the risk of unsold units.
 - At least 10% of the total cost of the ongoing project is expected.
 - Taking into consideration the stance of other banks on the project, comparison with similar projects in the area, sales history of past projects, ownership status after the increase in the consumption tax.
- Apartments
 - Started loan application reviews based on the DSCR, LTV ratio, and overall ranking index of the project. In addition, a stricter review is applied to the loans to acquire income properties by individuals.

■ Project scoring table

	LTV	Over 150%	Over 140% up to 150%	Over 130% up to 140%	Over 120% up to 130%	Over 110% up to 120%	Upto 110%
DSCR							
1.5% or higher		75	80	85	90	95	100
1.4% or higher, but less than 1.5		70	75	80	85	90	95
1.3% or higher, but less than 1.4		65	70	75	80	85	90
1.2% or higher, but less than 1.3		60	65	70	75	80	85
1.1% or higher, but less than 1.2		55	60	65	70	75	80
1.0% or higher, but less than 1.1		50	55	60	65	70	75
0.9% or higher, but less than 1.0		45	50	55	60	65	70
0.8% or higher, but less than 0.9		40	45	50	55	60	65
less than 0.8%		35	40	45	50	55	60

(Reference)

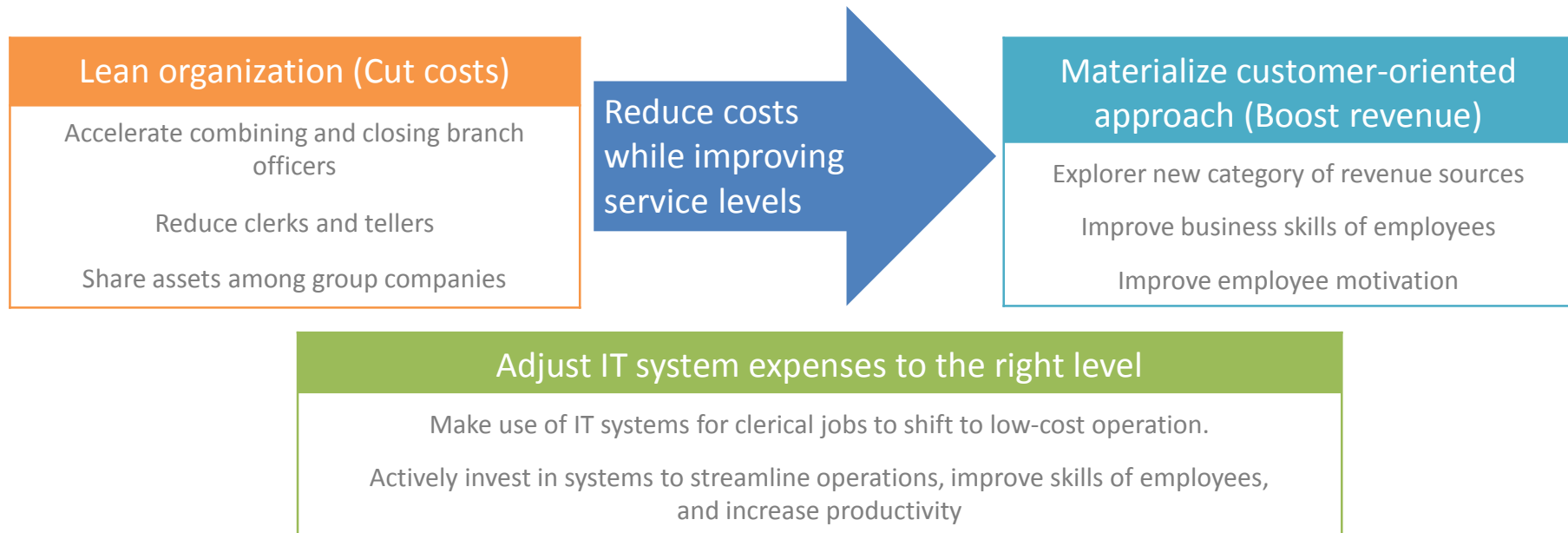
DSCR *** Debt Service Coverage Ratio
(Debt Service Coverage Ratio: indicates ability to repay debt)
Formula = Net Cash Flow (NCF) ÷ Annual repayment amount

LTV *** Loan To Value Ratio
(Loan To Value Ratio: indicates the ratio of borrowings to assets)
Formula = Loan balance ÷ Appraised value of property

➡ Project rank










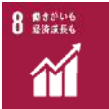
Next Mid-Term Management Plan Concept

Assuming the negative interest rate policy would continue, we are aiming for the steady growth of the profit from services to customers (Deposit and Loan Balance + Profit from Service Charges – Expenses). The starting point is to maintain the capital adequacy ratio.



ESG Initiatives

Aiming to materialize a sustainable society and improve corporate value in the medium to long term.

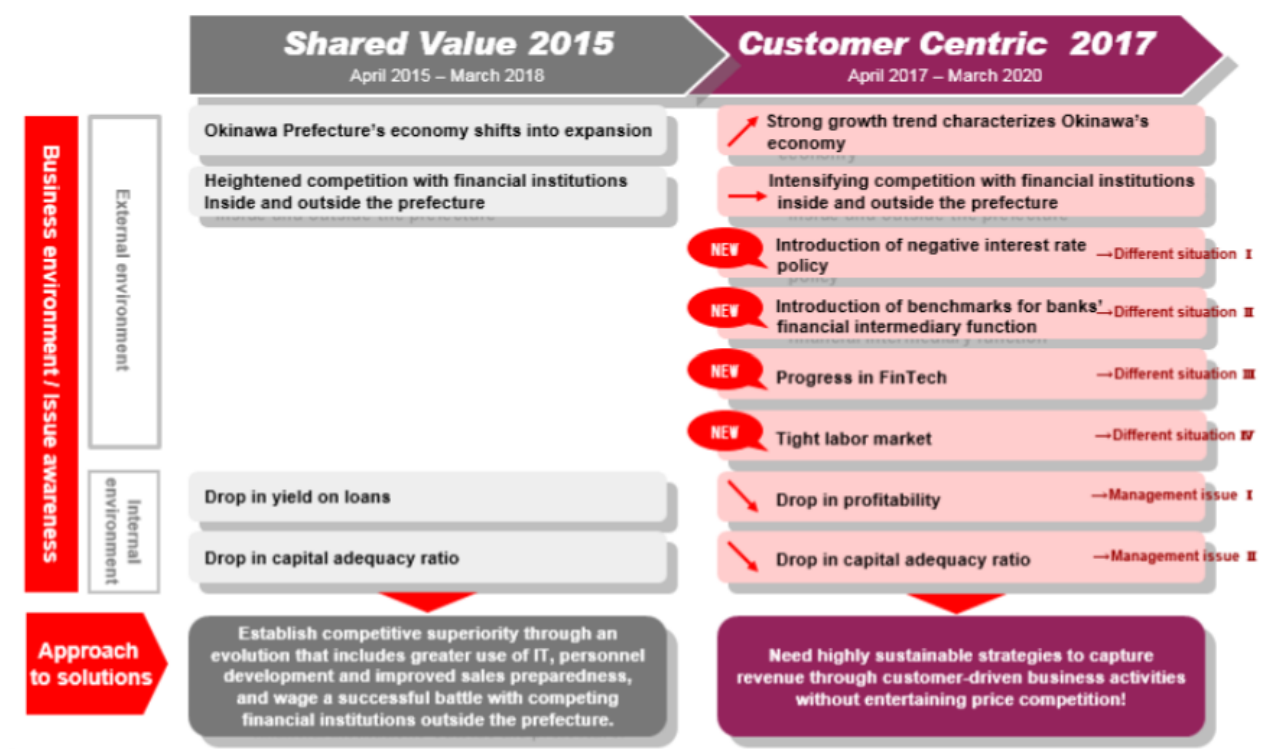
	Projects	Major Efforts
(E) Environmental	<ul style="list-style-type: none"> ● Saving energy  ● Carbon offsetting  ● Universal design  ● Paperless 	<ul style="list-style-type: none"> • Became the first certified Nearly ZEB in Okinawa Prefecture (in headquarters) (76% energy saving based on the BEI: Building energy-efficiency index).  • Implemented carbon offsetting in emissions of CO2 at the “Nice Heart Bazaar” (an event selling outstanding products from employment assistance offices, etc. in one place) • Implemented carbon offsetting by creating a universal design passbook using eco clothing, environmentally friendly material.  • Reduced paper usage by setting a paperless meeting policy and using DocuWorks, PDF, document management systems, etc.
(S) Social	<ul style="list-style-type: none"> ● Human rights  ● Regional revitalization ● Local contribution activities 	<ul style="list-style-type: none"> • Made same-sex partners eligible for mortgage loans with the joint home loan system for married couples. * A married same-sex couple registered on the family register in a municipal office as a partnership.  • The Ryugin Regional Revitalization Support Private Placement Bonds A portion of the fee paid by customers to Bank of the Ryukyus when issuing the private bond are donated to schools in Okinawa Prefecture, educational and cultural institutions, or donated for the purpose of preserving traditional cultures, protecting environment, and promoting tourism, etc.  • Ryugin Yuimaru Support Group, Ryugin Globalization Promotion, Bingata Design Contest Foundation, etc.
(G) Governance	<ul style="list-style-type: none"> ● Women’s success   ● Establishment of voluntary advisory body (designation, compensation) 	<ul style="list-style-type: none"> • Opened a company-led day care center in Apr. 2019 to improve employee benefits and provide support for female employees to prevent their career loss.  • Established the Corporate Governance Committee.

Customer Centric 2017

New Medium-Term Management Plan: Customer Centric 2017

Significance of Medium-Term Management Plan

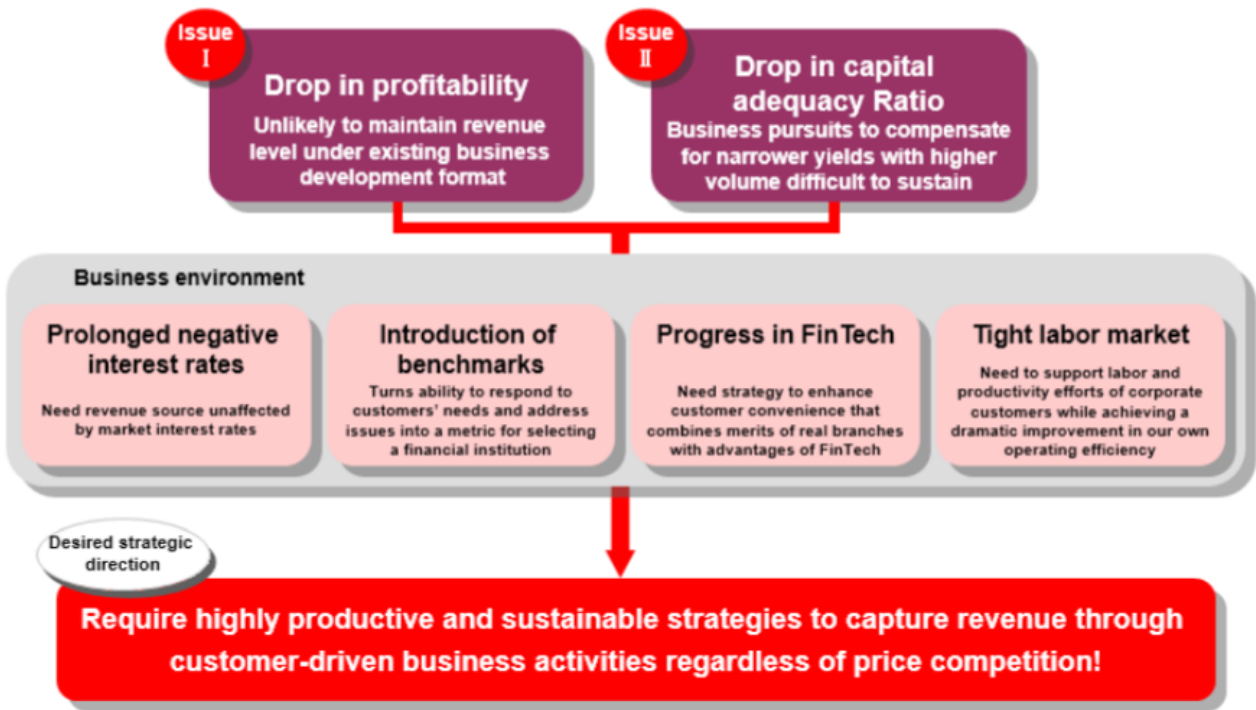
Issues that the Bank must address have taken on more critical importance due to changes in the business environment that were not identified at the time the previous medium-term management plan was drafted. We ended the previous medium-term management plan early and have defined new strategies that will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

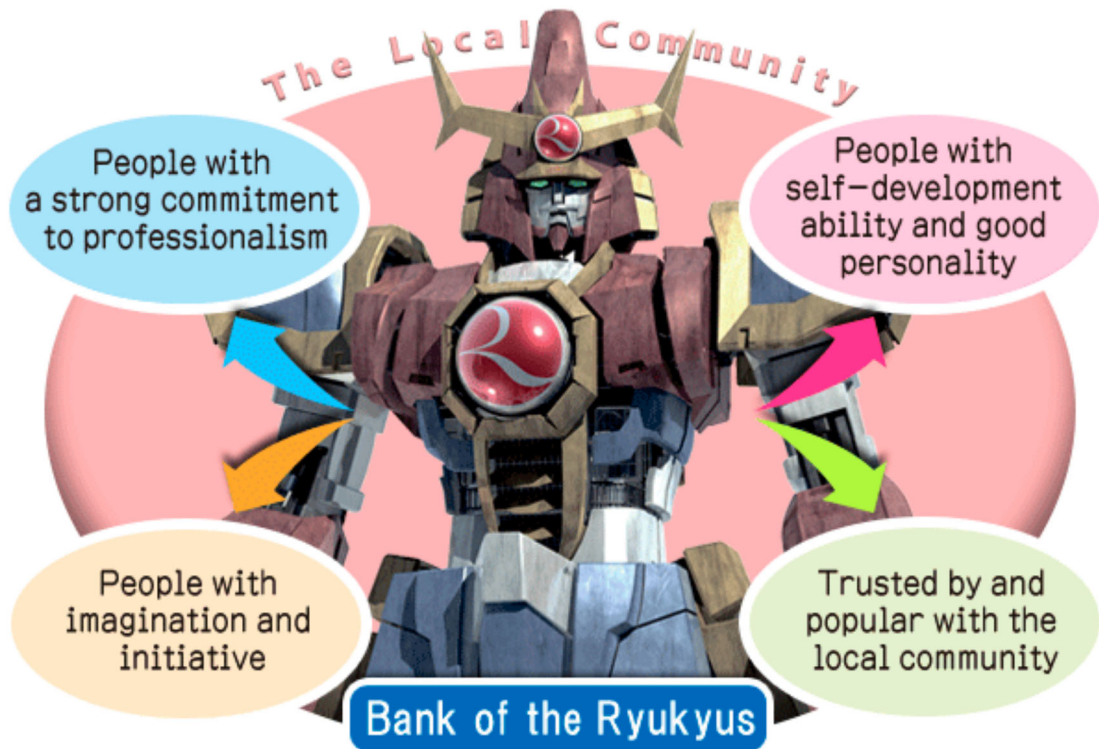
Bank of the Ryukyus (“the Bank”) has long followed a management philosophy of fostering a relationship of trust with the local community so as to contribute to the development of regional society. To continue putting this philosophy into practice in the future, the Bank and its group will enhance the 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:

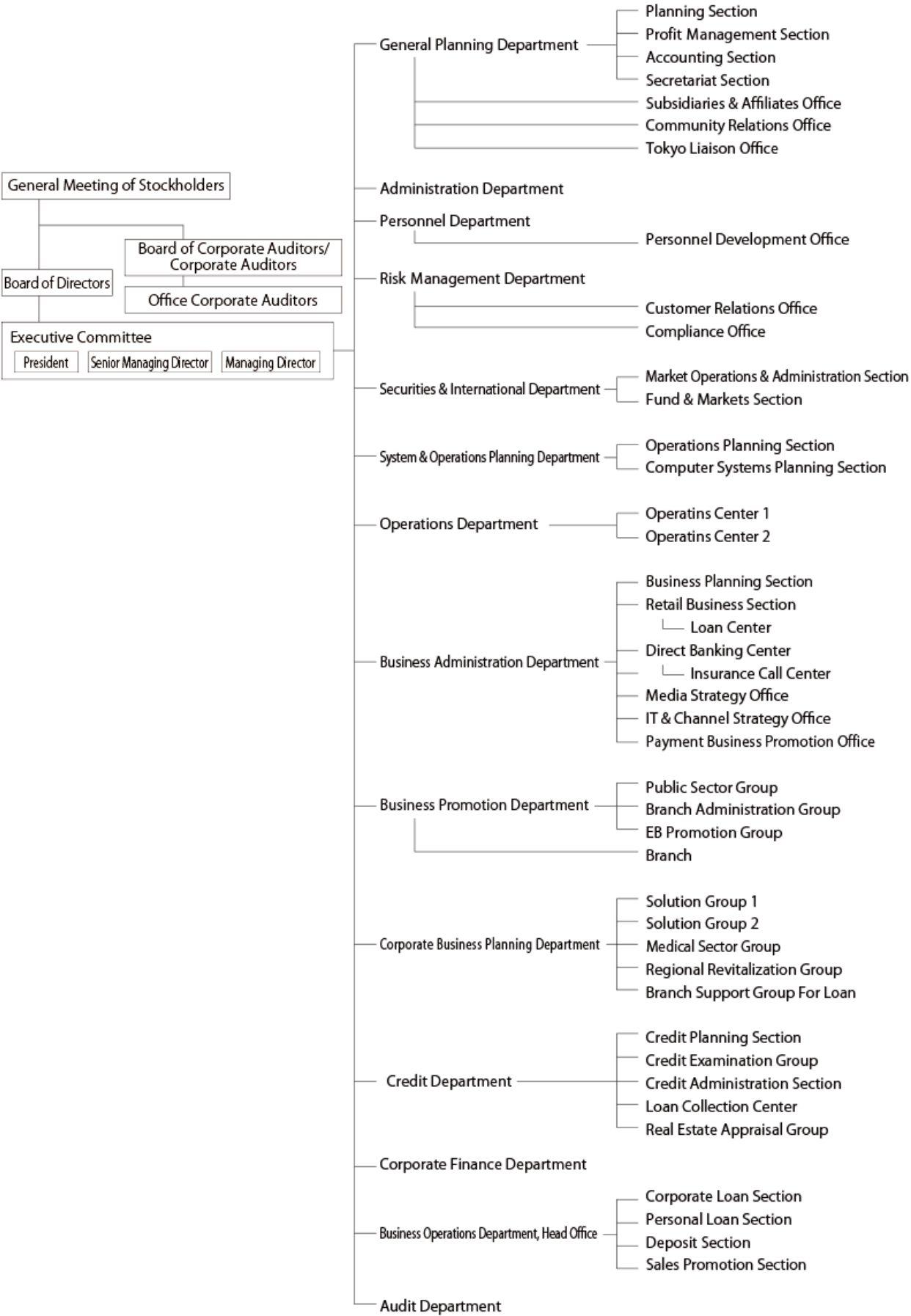
1. People with a strong commitment to professionalism
Ability to demonstrate strong business knowledge and competence. Determination to achieve goals.
2. People with imagination and initiative
Constant awareness of potential problems and a will to make changes when necessary. Ability to set an example 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

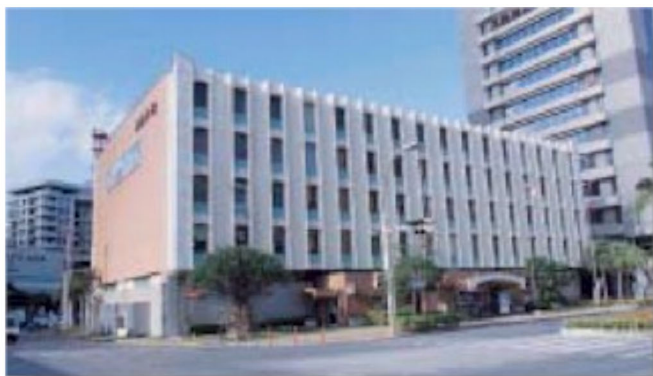
(As of June 17, 2019)



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 September 1999, for the twin purposes of ensuring the soundness of its assets and strengthening its financial position, the Bank implemented a capital increase through a third-party allocation of new shares in the amount of ¥ 22.7 billion, while

simultaneously receiving an injection of ¥ 40 billion in public funds.

While strengthening its financial foundations through the issuance of preferred stock, the Bank also repaid ¥ 34 billion out of the abovementioned ¥ 40 billion in public funding in October 2006, and the remaining ¥ 6 billion in public funding was repaid in July 2010.

In April 2017, we launched our new medium-term management plan under the name Customer Centric 2017.

Corporate Data

Annual Report

Non-Consolidated Data

(As of March 31, 2019)

Date of Establishment	May 1, 1948
Paid-in Capital	¥ 56,967million
Total Assets	¥ 2,351,674million
Number of Employees	1,417
Number of Offices (including Head Office and Sub-branches)	75
Number of Shareholders	13,610
Stock Listings	Tokyo Stock Exchange & Fukuoka Stock Exchange

Service Network

(As of March 31, 2019)

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 April 1, 2020)

Chairman

Tokei kinjo

President

Yasushi Kawakami

Senior Managing Director

Tomoyuki Matsubara

Managing Directors

Keishi Fukuhara

Yasushi Tokashiki

Yasushi Shiroma

Directors (Part-time)

Kaoru Iguchi

Tatsuro Ishimine

Outside Directors

Yoshiro Shimoji

Masanori Fukuyama

Standing Corporate Auditor

Ryoji Toyoda

Outside Corporate Auditors

Shunsuke Takahashi

Kyoko Nakayama

Hiroshi Kitagawa

Executive Officers

Hitoshi Kinjo

Bank of The Ryukyus Group Companies

(As of March 31, 2019)

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 Research Institute., Ltd.*

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

Phone: 098-835-4650

Established: June2006

Paid-in Capital: ¥ 23 million

Line of Business:

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

Okinawa Credit Service Co., Ltd.*

3-10, Matsuyama 2-chome, Naha, Okinawa 900-8609, Japan

Phone: 098-901-0094

Established: August 2008

Paid-in Capital : ¥ 279million

Line of Business: Credit cards, financing

*Consolidated subsidiaries

Message from the President

Annual Report



Yasushi Kawakami
President

Greetings to all and my sincerest thanks for your continued support.

The following is a report on our operations and accounts for the 103rd Term (April 1, 2018 to March 31, 2019).

Financial & Economic Environment

During fiscal 2018, the Japanese economy staged a gradual recovery as corporate earnings turned upward against the backdrop of improved exports amid a continued recovery by overseas economies as well as a gradual increase in production. Thanks to this, employment figures improved steadily, leading to a recovery in consumer spending. Toward the end of the year, however, a slowdown was seen in overseas economies, particularly that of China, owing to the negative effect of US-China trade friction. In response, export activity in Japan showed a weakened tone, with production

flattening out, and the economy as a whole appeared to be heading for a slowdown. Turning to the economy of Okinawa Prefecture, despite temporary periods of fallback in tourism into the prefecture due to natural disasters such as typhoons, the overall trend in the number of tourists continued to increase, and the tourism industry maintained a strong tone. The construction industry also generally maintained a favorable trend, thanks to a high level of capital investment in the construction of commercial facilities and hotels, among others. Amid these circumstances, the employment situation improved steadily, and despite a negative impact from the warmer-than-usual winter on certain categories of consumer spending, consumption as a whole remained firm, leading to a continued expansion of the prefectural economy.

Business Activities and Performance Results

Amid this environment, during fiscal 2018—the second year of our Customer Centric 2017 medium-term management plan—we worked to expand our customer base and strengthen the Bank's non-interest income via a solutions-driven business based on consulting services, in pursuit of the goal of developing a customer-centric revenue model. We also vigorously pursued measures to enhance operational efficiency and reform our personnel training system.

Regarding our corporate business strategy, to ensure that the prefectural economy remains vigorous we maintained our policy of actively meeting customers' funding needs, providing support for business succession, and designing inheritance plans that make use of family trusts. In addition, to further improve our ability to offer solutions to the issues facing our customers through the use of business viability assessments, we rolled out new services and financial products such as our Long-Term Continuous Support Loan—aimed at supporting customers' cash flow—and the Ryugin Regional Revitalization Support Private Placement Bonds, through which we aim to power both the growth of corporations and the economic development of Okinawa Prefecture. In addition, jointly with the Okinawa Times newspaper company, we held the Okinawa Startup Program for the second successive year, and also worked actively to invest in local companies through the BOR (Bank of The Ryukyus) Venture Fund No.1 Investment Business Limited Partnership. In these ways, we took steps to create and nurture startup companies that are unique to Okinawa Prefecture.

In our retail customer business strategy, to help customers build the sort of assets they will need for each stage of their lives, we held over 650 seminars during the reporting fiscal year to keep our customers fully informed about the options available to them. We also revamped our financial products, reinforced employee training programs, and took steps to lighten the Bank's administrative workload. For this, we adopted a new system

for the management and issuance of investment trust sales prospectuses and other measures.

Turning to our card strategy, the number of Ryugin Visa Debit Card (for individuals) cards issued has topped 100,000, and in September 2018 we followed up this success with the issuance of a new version for corporate customers. In our card services (credit, debit, and prepaid) for affiliated stores, which we commenced in January 2017, we have begun handling electronic money and QR codes at our proprietary RPG-T multi-mode clearance/payment terminals, and have expanded the number of brands handled for payments to twenty-two. We have also been promoting the adoption of cashless payment processes and offering new cashless services by acquiring more newly affiliated stores in collaboration with various chambers of commerce and tourism associations located on the islands of Ishigakijima, Miyakojima, and Kumejima, notably the Zamami-Village Tourism Association. This initiative aimed at realizing “cashless islands” has been the receipt of an award by the Minister of State for Regional Revitalization, having been selected in fiscal 2018 by a special Cabinet secretariat—established to revitalize communities and create an effective workforce as well as employment opportunities—as a distinctive example of a measure taken by a financial institution to contribute to the revitalization of regional economies. Going forward, the Bank will continue contributing to the development of local communities—not only on Okinawa Island but also on remote islands, where it has been difficult to offer financial services hitherto—through its financial intermediary functions.

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 among financial institutions both within the prefecture and elsewhere in Japan. In response to these issues, in fiscal 2019—the final year of our Customer Centric 2017 medium-term management plan—we have set the realization of a customer-centric revenue model as our prime business goal, and are working to provide solutions to our customers’ issues by mobilizing the resources of the whole BOR Group.

Specifically, the Bank is following a number of policies. By reforming our staff training model, we plan to increase the number of employees capable of offering our customers high value-added services. By rethinking the way we operate branches, we intend to thoroughly overhaul our administrative processes for greater efficiency, and by creating opportunities for staff to spend more time interacting with our clients, we hope to firmly embed the new customer-centric business model. We will rapidly implement the various measures we have announced in the areas of corporate business strategy, retail customer business strategy, and card strategy, aiming to realize our customer-centric

revenue model.

Going forward, to achieve our management goal of being a trusted bank whose name is familiar to everyone in our local region and which contributes to the social and economic development of the regional community, we will continue working to solve regional issues and to provide the products and services that our customers truly need.

June 2019

Yasushi Kawakami,
President

Financial Section

Annual Report

Financial Data [PDF files]

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 [Non-Consolidated Statements of Changes in Net Assets \(127KB\)](#)

Bank of The Ryukyus, Limited and consolidated subsidiaries

Consolidated Balance Sheets

As of March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Assets			
Cash and due from banks (Notes 4 and 7)	¥ 254,210	¥ 203,196	\$ 2,290,393
Call loans and bills bought (Note 4)	707	816	6,377
Monetary claims bought	74	117	668
Money held in trust (Note 4)	15,148	10,461	136,485
Securities (Notes 4, 5 and 7)	279,114	407,845	2,514,772
Loans and bills discounted (Notes 4, 6 and 7)	1,698,859	1,599,993	15,306,424
Foreign exchanges	8,992	9,405	81,020
Lease receivables and lease investment assets (Note 7)	22,183	21,333	199,873
Other assets (Note 7)	78,328	74,568	705,722
Property, plant and equipment (Note 9)	23,985	24,097	216,106
Intangible fixed assets	4,266	3,441	38,440
Net defined benefit asset	479	486	4,324
Deferred tax assets	4,181	4,136	37,677
Customers' liabilities for acceptances and guarantees (Note 10)	7,788	7,528	70,171
Allowance for loan losses	(8,708)	(8,669)	(78,461)
Total assets	2,389,613	2,358,761	21,529,991
Liabilities			
Deposits (Notes 4 and 7)	2,154,239	2,083,768	19,409,308
Negotiable certificate of deposits (Note 4)	31,428	24,042	283,164
Payables under repurchase agreements (Note 7)	21,734	43,793	195,821
Borrowed money (Notes 4 and 7)	19,120	42,116	172,270
Foreign exchanges	108	128	978
Bonds payable (Note 8)	—	12,000	—
Other liabilities	22,557	22,976	203,238
Reserve for bonuses	696	695	6,274
Net defined benefit liability	810	622	7,301
Reserve for retirement benefits for directors and corporate auditors	25	19	234
Reserve for reimbursement of dormant deposits	109	175	990
Reserve for contingent losses	95	118	859
Reserve for point service program	158	147	1,425
Reserve for losses on interest payment	438	496	3,946
Deferred tax liabilities for land revaluation (Note 11)	2,188	2,193	19,717
Acceptances and guarantees (Note 10)	7,788	7,528	70,171
Total liabilities	2,261,498	2,240,823	20,375,696
Net assets (Note 12)			
Capital stock	56,967	54,127	513,266
Capital surplus	14,275	11,437	128,620
Retained earnings	54,701	50,271	492,846
Treasury stock	(347)	(375)	(3,130)
Total shareholders' equity	125,596	115,460	1,131,602
Valuation difference on available-for-sale securities	1,639	1,497	14,772
Deferred gains on hedges	(0)	(0)	(8)
Revaluation reserve for land (Note 11)	1,312	1,323	11,826
Remeasurements of defined benefit plans	(719)	(580)	(6,478)
Total accumulated other comprehensive income	2,232	2,239	20,112
Stock acquisition rights	286	236	2,581
Total net assets	128,115	117,937	1,154,295
Total liabilities and net assets	¥2,389,613	¥2,358,761	\$21,529,991

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

See accompanying notes to consolidated financial statements.

Bank of The Ryukyus, Limited and consolidated subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Profit	¥6,105	¥8,884	\$55,006
Other comprehensive income:			
Net unrealized gains on available-for-sale securities	142	(408)	1,284
Deferred loss on derivatives under hedge accounting	(0)	(0)	(8)
Remeasurements of defined benefit plans	(138)	882	(1,245)
Total other comprehensive income	3	473	31
Comprehensive income	6,108	9,358	55,037
Attributable to			
Owners of the parent	6,108	9,258	55,037
Non-controlling interests	—	99	—

See accompanying notes to consolidated financial statements.

Bank of The Ryukyus, Limited and consolidated subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Shareholders' equity			
Capital stock:			
Balance at end of the previous year	¥ 54,127	¥ 54,127	\$ 487,676
Changes during the year	—	—	—
Issuance of new shares	2,840	—	25,590
Total changes during the year	2,840	—	25,590
Balance at end of the year	¥ 56,967	¥ 54,127	\$ 513,266
Capital surplus:			
Balance at end of the previous year	¥ 11,437	¥ 10,054	\$ 103,049
Changes during the year:			
Issuance of new shares	2,840	—	25,590
Increase by share exchanges	—	114	—
Sale of treasury stock	(2)	(14)	(19)
Change in treasury stock of parent arising from transactions with non-controlling shareholders	—	1,283	—
Total changes during the year	2,838	1,382	25,571
Balance at end of the year	¥ 14,275	¥ 11,437	\$ 128,620
Retained earnings:			
Balance at end of the previous year	¥ 50,271	¥ 42,822	\$ 452,939
Changes during the year:			
Cash dividends	(1,686)	(1,335)	(15,198)
Profit attributable to owners of the parent	6,105	8,785	55,006
Reversal of revaluation reserve for land	10	—	99
Total changes during the year	4,429	7,449	39,907
Balance at end of the year	¥ 54,701	¥ 50,271	\$ 492,846
Treasury stock:			
Balance at end of the previous year	¥ (375)	¥ (481)	\$ (3,384)
Changes during the year:			
Increase by share exchanges	—	612	—
Purchase of treasury stock	(2)	(595)	(19)
Sales of treasury stock	30	89	273
Total changes during the year	28	106	254
Balance at end of the year	¥ (347)	¥ (375)	\$ (3,130)
Total shareholders' equity:			
Balance at end of the previous year	¥115,460	¥106,522	\$1,040,280
Changes during the year:			
Issuance of new shares	5,680	—	51,180
Cash dividends	(1,686)	(1,335)	(15,198)
Profit attributable to owners of the parent	6,105	8,785	55,006
Reversal of revaluation reserve for land	10	—	99
Increase by share exchanges	—	727	—
Purchase of treasury stock	(2)	(595)	(19)
Sales of treasury stock	28	74	254
Change in treasury stock of parent arising from transactions with non-controlling shareholders	—	1,283	—
Total changes during the year	10,135	8,938	91,322
Balance at end of the year	¥125,596	¥115,460	\$1,131,602

Bank of The Ryukyus, Limited and consolidated subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities:			
Balance at end of the previous year	¥ 1,497	¥ 1,905	\$ 13,488
Changes during the year:			
Net changes in items other than shareholders' equity	142	(408)	1,284
Total changes during the year	142	(408)	1,284
Balance at end of the year	¥ 1,639	¥ 1,497	\$ 14,772
Deferred gains on hedges:			
Balance at end of the previous year	¥ (0)	¥ 0	\$ (0)
Changes during the year:			
Net changes in items other than shareholders' equity	(0)	(0)	(8)
Total changes during the year	(0)	(0)	(8)
Balance at end of the year	¥ (0)	¥ (0)	\$ (8)
Revaluation reserve for land:			
Balance at end of the previous year	¥ 1,323	¥ 1,323	\$ 11,925
Changes during the year:			
Net changes in items other than shareholders' equity	(10)	—	(99)
Total changes during the year	(10)	—	(99)
Balance at end of the year	¥ 1,312	¥ 1,323	\$ 11,826
Remeasurements of defined benefit plans:			
Balance at end of the previous year	¥ (580)	¥ (1,463)	\$ (5,233)
Changes during the year:			
Net changes in items other than shareholders' equity	(138)	882	(1,245)
Total changes during the year	(138)	882	(1,245)
Balance at end of the year	¥ (719)	¥ (580)	\$ (6,478)
Total accumulated other comprehensive income:			
Balance at end of the previous year	¥ 2,239	¥ 1,766	\$ 20,179
Changes during the year:			
Net changes in items other than shareholders' equity	(7)	473	(67)
Total changes during the year	(7)	473	(67)
Balance at end of the year	¥ 2,232	¥ 2,239	\$ 20,112

Bank of The Ryukyus, Limited and consolidated subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Stock acquisition rights			
Balance at end of the previous year	¥ 236	¥ 238	\$ 2,134
Changes during the year:			
Net changes in items other than shareholders' equity	49	(1)	447
Total changes during the year	49	(1)	447
Balance at end of the year	¥ 286	¥ 236	\$ 2,581
Non-controlling interests			
Balance at end of the previous year	¥ —	¥ 2,461	\$ —
Changes during the year:			
Net changes in items other than shareholders' equity	—	(2,461)	—
Total changes during the year	—	(2,461)	—
Balance at end of the year	¥ —	¥ —	\$ —
Total net assets			
Balance at end of the previous year	¥117,937	¥110,988	\$1,062,593
Changes during the year:			
Issuance of new shares	5,680	—	51,180
Cash dividends	(1,686)	(1,335)	(15,198)
Profit attributable to owners of the parent	6,105	8,785	55,006
Reversal of revaluation reserve for land	10	—	99
Increase by share exchanges	—	727	—
Purchase of treasury stock	(2)	(595)	(19)
Sales of treasury stock	28	74	254
Change in treasury stock of parent arising from transactions with non-controlling shareholders	—	1,283	—
Net changes in items other than shareholders' equity	42	(1,990)	380
Total changes during the year	10,177	6,948	91,702
Balance at end of the year	¥128,115	¥117,937	\$1,154,295

See accompanying notes to consolidated financial statements.

Bank of The Ryukyus, Limited and consolidated subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities			
Income before income taxes	¥ 8,541	¥ 12,350	\$ 76,958
Depreciation	2,786	2,687	25,103
Impairment loss on fixed assets	32	—	290
Increase (decrease) in allowance for loan losses	39	(1,771)	352
Increase (decrease) in reserve for bonuses	0	122	7
(Increase) decrease in net defined benefit asset	151	(195)	1,365
Decrease (increase) in net defined benefit liability	(154)	(354)	(1,390)
Increase (decrease) in reserve for retirement benefits for directors and corporate auditors	6	5	56
Increase (decrease) in reserve for reimbursement of dormant deposits	(65)	(30)	(587)
Decrease (increase) in reserve for contingent losses	(23)	(4)	(210)
Increase (decrease) in reserve for point service program	10	10	95
Increase (decrease) in reserve for losses on interest payment	(58)	(84)	(523)
Interest income	(29,469)	(29,872)	(265,514)
Interest expenses	1,535	1,536	13,838
Other gains (losses), net	(1,223)	(2,365)	(11,022)
Increase in loans and bills discounted	(98,866)	(88,873)	(890,767)
Increase in deposits	70,470	68,871	634,923
Increase in negotiable certificate of deposits	7,385	1,116	66,546
Increase (decrease) in borrowed money (excepting subordinated borrowings)	(22,996)	(376)	(207,194)
Decrease (increase) in due from banks (excluding due from central bank)	(346)	100	(3,126)
Decrease(increase) in call loans	151	3,548	1,367
Increase (decrease) in payables under repurchase agreements	(22,059)	27,513	(198,750)
Net change in foreign exchange accounts (assets)	413	(2,100)	3,724
Net change in foreign exchange accounts (liabilities)	(19)	(181)	(178)
Decrease (increase) in lease receivables and lease investment assets	(843)	(73)	(7,599)
Decrease (increase) in initial clearing margin for CCP	(2,700)	(29,300)	(24,327)
Interest and dividends received	30,590	30,100	275,612
Interest paid	(1,692)	(1,693)	(15,249)
Other, net	564	2,272	5,082
Subtotal	(57,838)	7,039	(521,118)
Income taxes paid	(3,447)	(1,344)	(31,060)
Net cash used in operating activities	(61,286)	(8,384)	(552,178)
Cash flows from investment activities			
Purchases of securities	(184,870)	(244,501)	(1,665,650)
Proceeds from sales of securities	162,604	134,379	1,465,036
Proceeds from redemptions of securities	151,205	125,890	1,362,333
Increase in money held in trust	(5,000)	(10,500)	(45,049)
Decrease in money held in trust	—	0	—
Purchases of property, plant and equipment	(2,056)	(3,047)	(18,532)
Purchases of intangible fixed assets	(1,984)	(1,251)	(17,876)
Proceeds from sales of property, plant and equipment	527	286	4,753
Payments for disposal of property, plant and equipment	(54)	(35)	(492)
Net cash provided by investment activities	120,371	1,221	1,084,523

Bank of The Ryukyus, Limited and consolidated subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Cash flows from financing activities			
Repayments of subordinated bonds	(12,000)	—	(108,118)
Proceeds from issuance of shares	5,646	—	50,873
Cash dividends paid	(1,689)	(1,334)	(15,226)
Cash dividends paid to minority shareholders	(0)	(6)	(0)
Payments of lease obligations	(417)	(479)	(3,763)
Purchases of treasury stock	(2)	(595)	(19)
Proceeds from sales of treasury stock	28	74	254
Purchase of investments in subsidiaries resulting in no change in scope of consolidation	—	(550)	—
Net cash used in financing activities	(8,435)	(2,892)	(75,999)
Effect of exchange rate changes on cash and cash equivalents	17	(25)	155
Increase (decrease) in cash and cash equivalents	50,667	(10,081)	456,502
Cash and cash equivalents at beginning of the year	202,959	213,040	1,828,624
Cash and cash equivalents at end of the year (Note 2)	¥253,626	¥202,959	\$2,285,126

See accompanying notes to consolidated financial statements.

Bank of The Ryukyus, Limited and consolidated subsidiaries

Notes to Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

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 ¥110.99 per US\$1.00, the rate prevailing on March 31, 2019.

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 ¥2,705 million (US\$24,372 thousand) as of March 31, 2019.

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, 2019. 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	¥ 254,210	¥ 254,210	¥ —	\$ 2,290,393	\$ 2,290,393	\$ —
(2) Call loans and bills bought	707	707	—	6,377	6,377	—
(3) Securities						
Held-to-maturities debt securities	32,768	33,810	1,042	295,234	304,622	9,388
Available-for-sale securities	243,009	243,009	—	2,189,468	2,189,468	—
(4) Loans and bills discounted	1,698,859			15,306,424		
Allowance for loan losses (*1).....	(5,910)			(53,248)		
	1,692,949	1,704,212	11,263	15,253,167	15,354,645	101,478
Total assets	2,223,645	2,235,951	12,305	20,034,643	20,145,518	110,865
(1) Deposits	2,154,239	2,154,438	(199)	19,409,308	19,411,100	(1,792)
(2) Negotiable certificate of deposit	31,428	31,428	—	283,164	283,164	—
(3) Payables under repurchase agreements	21,734	21,734	—	195,821	195,821	—
(4) Borrowed money	19,120	19,129	(8)	172,270	172,349	(79)
Total liabilities	2,226,521	2,226,730	(208)	20,060,555	20,062,438	(1,883)
Derivative transactions (*2)						
Transactions not accounted for as hedge transactions	289	289	—	2,604	2,604	—
Transactions accounted for as hedge transactions	29	29	—	261	261	—
Total derivative transactions	318	318	—	2,865	2,865	—

(*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).....	¥ 816	\$ 7,352
(2) Unlisted stocks (*1)	2,015	18,155
(3) Investments in associations (*2)	504	4,541
Total	¥3,336	\$30,057

(*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, 2019, unlisted stocks amounted of ¥8 million (US\$72 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)	¥220,164	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	707	—	—	—	—	—
Monetary claims bought	—	53	20	—	—	—
Securities:						
Held-to-maturities:	5,000	10,377	40,439	—	—	6,950
Japanese government bond	—	10,077	10,039	—	—	6,950
Corporate bonds	—	300	400	—	—	—
Other	5,000	—	—	—	—	—
Available-for-sale securities that have maturities ...	52,375	81,424	11,464	24,657	45,345	9,043
Japanese government bond	—	45,709	—	—	—	1,196
Local government bonds	—	—	6,031	—	388	941
Corporate bonds	33,546	14,672	732	99	199	5,653
Other	18,829	21,042	4,700	24,557	44,757	1,252
Loans and bills discounted (*2)	294,611	212,379	168,802	130,970	165,928	579,050
Total	¥572,859	¥304,234	¥190,726	¥155,627	¥211,273	¥595,045

	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)	\$1,983,638	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought	6,370	—	—	—	—	—
Monetary claims bought	—	—	180	—	—	—
Securities:						
Held-to-maturities:	45,049	93,495	364,348	—	—	62,618
Japanese government bond	—	—	90,450	—	—	62,618
Corporate bonds	—	—	3,604	—	—	—
Other	—	—	—	—	—	—
Available-for-sale securities that have maturities ...	471,889	733,616	103,289	222,155	408,550	81,476
Japanese government bond	—	411,830	—	—	—	10,776
Local government bonds	—	—	54,338	—	3,496	8,478
Corporate bonds	302,243	132,192	6,595	892	1,793	50,933
Other	169,646	189,585	42,346	221,254	403,253	11,280
Loans and bills discounted (*2)	2,654,392	1,913,497	1,520,876	1,180,016	1,494,982	5,217,137
Total	\$5,161,357	\$2,741,094	\$1,718,407	\$1,402,171	\$1,903,532	\$5,361,249

(*1) The amounts of due from banks that have no maturity, were ¥220,124 million (US\$1,983,278 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 ¥24,733 million (US\$222,840 thousand) and ¥122,382 million (US\$1,102,640 thousand), respectively.

(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 (*).....	¥2,042,508	¥ 98,624	¥13,105	¥—	¥—	¥—
Negotiable certificate of deposits.....	31,428	—	—	—	—	—
Payables under securities lending transactions.....	21,734	—	—	—	—	—
Borrowed money	7,076	8,859	3,173	4	4	3
Total.....	¥2,102,748	¥107,483	¥16,278	¥ 4	¥ 4	¥ 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 (*).....	\$18,402,631	\$888,585	\$118,074	\$ —	\$—	\$—
Negotiable certificate of deposits.....	283,161	—	—	—	—	—
Payables under securities lending transactions.....	195,819	—	—	—	—	—
Borrowed money	63,753	79,818	28,588	364	364	27
Total.....	\$18,945,382	\$968,403	\$146,662	\$364	\$364	\$27

(*) The amount of demand deposits, were ¥1,381,518 million (US\$13,003,746 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, 2019 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	¥ 888	¥ 378	¥ 509	\$ 8,001	\$ 3,406	\$ 4,586
Bonds:	106,698	105,523	1,175	961,330	950,743	10,587
Japanese government bond.....	47,564	46,905	659	428,543	422,606	5,937
Municipal bonds.....	7,534	7,361	173	67,880	66,321	1,559
Corporate bonds	51,599	51,256	342	464,898	461,807	3,081
Other	92,615	89,577	3,037	834,445	807,073	27,363
Sub-total.....	200,202	195,479	4,723	1,803,784	1,761,231	42,553
Fair value not exceeded consolidated balance sheet amount:						
Equity stocks	665	746	(80)	5,992	6,721	(721)
Bonds:	3,647	3,648	(1)	32,859	32,868	(9)
Corporate bonds	3,647	3,648	(1)	32,859	32,868	(9)
Other	38,568	40,888	(2,320)	347,491	368,394	(20,903)
Sub-total.....	42,881	45,282	(2,401)	386,350	407,983	(21,633)
Total	¥243,083	¥240,762	¥2,321	\$2,190,134	\$2,169,222	\$20,912

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 ¥425 million (US\$3,829 thousand) and to ¥510 million as of March 31, 2019 and 2018, 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 ¥24,323 million (US\$219,146 thousand) and ¥24,790 million as of March 31, 2019 and 2018, respectively. Loans, repayment of which is delinquent for three months or more but which do not come under the aforementioned categories, amount to ¥990 million (US\$8,920 thousand) and ¥575 million as of March 31, 2019 and 2018, 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 ¥2,387 million (US\$21,506 thousand) and ¥2,875 million as of March 31, 2019 and 2018, respectively.

7. Pledged Assets

Assets pledged as collateral as of March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Securities	¥68,404	¥63,822	\$616,308
Lease receivables and lease investment assets	13,739	13,251	123,786
Due from banks	8,883	7,832	80,034
Loans and bills discounted	99	119	892
Other assets	23	18	207

Liabilities secured by assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deposits	¥21,734	¥43,793	\$195,819
Borrowed money	19,073	41,771	171,844
Payables under repurchase agreements	7,885	7,468	71,042

In addition, marketable securities, due from banks and other assets amounting to ¥3,699 million (US\$33,327 thousand), ¥15 million (US\$135 thousand) and ¥37 million (US\$333 thousand), respectively, were pledged as collateral relating to exchange settlements, guarantee deposits for future transactions, etc. as of March 31, 2019. No securities are pledged as collateral for loans payable by affiliates. Other assets included initial clearing margin for CCP of ¥32,000 million (US\$288,314 thousand), guarantee money of ¥904 million (US\$8,145 thousand) and initial margins of futures markets of ¥1,188 million (US\$10,704 thousand) as of March 31, 2019.

8. Bonds Payable

Bonds payable are all subordinated bonds.

9. Property, Plant and Equipment

The accumulated depreciation amounted to ¥20,903 million (US\$188,332 thousand) and ¥20,478 million as of March 31, 2019 and 2018, respectively.

Write-off permitted by the Japanese Tax Law on the property, plant and equipment amounted to ¥253 million (US\$2,279 thousand) and ¥338 million as of March 31, 2019 and 2018, respectively.

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 ¥4,371 million (US\$39,382 thousand) as of March 31, 2019.

12. 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 March 31, 2019.

(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

¥455 million (US\$4,099 thousand) of direct charge-off of loans, ¥283 million (US\$2,550 thousand) of loss on sales of loans, ¥1,423 million (US\$12,821 thousand) of loss on sales of securities and ¥302 million (US\$2,721 thousand) of loss on money held in trust are included in "other expenses."

14. Subsequent Events

Appropriation of Retained Earnings

The general shareholders' meeting of the Bank, held on June 27, 2019, duly approved the following appropriation of the retained earnings existing as of March 31, 2019.

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends:		
Common stock (¥17.5 per share)	¥750	\$6,757

Bank of The Ryukyus, Limited

Non-Consolidated Balance Sheets

As of March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 2)
	2019	2018	2019
Assets			
Cash and due from banks	¥ 253,544	¥ 202,500	\$ 2,284,393
Call loans and bills bought	707	816	6,377
Monetary claims bought	74	117	668
Money held in trust	15,148	10,461	136,485
Securities	282,070	410,784	2,541,406
Loans and bills discounted	1,720,644	1,619,489	15,502,699
Foreign exchanges	8,992	9,405	81,020
Other assets	39,628	38,570	357,050
Property, plant and equipment	21,527	21,491	193,955
Intangible fixed assets	3,782	2,898	34,078
Prepaid pension cost	1,256	1,408	11,321
Deferred tax assets	2,867	2,893	25,834
Customers' liabilities for acceptances and guarantees	7,163	6,870	64,542
Allowance for loan losses	(5,733)	(5,805)	(51,661)
Total assets	2,351,674	2,321,902	21,188,167
Liabilities			
Deposits	2,159,185	2,088,580	19,453,873
Negotiable certificate of deposits	39,428	31,042	355,243
Payables under repurchase agreements	21,734	43,793	195,821
Borrowed money	47	25,069	424
Foreign exchanges	108	128	979
Bonds payable	—	12,000	—
Other liabilities	5,810	5,560	52,349
Reserve for bonuses	636	635	5,731
Reserve for retirement benefits	344	509	3,103
Reserve for reimbursement of dormant deposits	109	175	990
Reserve for contingent losses	95	118	859
Deferred tax liabilities for land revaluation	2,188	2,193	19,717
Acceptances and guarantees	7,163	6,870	64,542
Total liabilities	2,236,851	2,216,677	20,153,631
Net assets			
Capital stock	56,967	54,127	513,266
Capital surplus	12,840	10,000	115,688
Other capital surplus	97	99	880
Retained earnings:			
Legal retained earnings	2,648	2,311	23,867
Other retained earnings	39,379	36,018	354,806
Treasury stock	(347)	(375)	(3,130)
Total shareholders' equity	111,586	102,181	1,005,377
Valuation difference on available-for-sale securities	1,638	1,483	14,758
Deferred gains on hedges	(0)	(0)	(8)
Revaluation reserve for land	1,312	1,323	11,826
Total valuation and translation adjustments	2,949	2,806	26,576
Stock acquisition rights	286	236	2,582
Total net assets	114,823	105,225	1,034,535
Total liabilities and net assets	¥2,351,674	¥2,321,902	\$21,188,167

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 ¥110.99 per US\$1.00, the rate prevailing on March 31, 2019.

Bank of The Ryukyus, Limited

Non-Consolidated Statements of Income

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 2)
	2019	2018	2019
Income			
Interest income:			
Interest on loans and discounts	¥26,132	¥25,965	\$235,445
Interest and dividends on securities	2,796	3,274	25,195
Other interest income	685	518	6,175
Other operating income	12,441	12,726	112,091
Total income	42,054	42,484	378,906
Expenses			
Interest expenses:			
Interest on deposits	1,195	1,295	10,767
Other interest expenses	265	146	2,388
General and administrative expenses	24,153	23,772	217,621
Other expenses	9,163	6,549	82,559
Total expenses	34,776	31,764	313,335
			65,571
Income before income taxes	7,277	10,720	
Income taxes:			17,594
Current	1,952	2,217	
Deferred	(49)	676	(448)
Total income taxes	1,903	2,893	17,146
Net income	¥ 5,374	¥ 7,827	\$ 48,425

	Yen		U.S. Dollars
Per share of common stock:			
Net income — basic	¥ 131.29	¥ 205.21	\$ 1.24
Net income — diluted	130.64	204.20	1.23
Cash dividends applicable to the year	35.00	42.00	0.33

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 ¥110.99 per US\$1.00, the rate prevailing on March 31, 2019.

Bank of The Ryukyus, Limited

Non-Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 2)
	2019	2018	2019
Shareholders' equity			
Capital stock:			
Balance at end of the previous year	¥ 54,127	¥ 54,127	\$ 487,676
Changes during the year			
Issuance of new shares	2,840	—	25,590
Total changes during the year	2,840	—	25,590
Balance at end of the year	¥ 56,967	¥ 54,127	\$ 513,266
Capital surplus:			
Balance at end of the previous year	¥ 10,000	¥ 10,000	\$ 90,098
Changes during the year	—	—	—
Issuance of new shares	2,840	—	25,590
Total changes during the year	2,840	—	25,590
Balance at end of the year	¥ 12,840	¥ 10,000	\$ 115,688
Other capital surplus:			
Balance at end of the previous year	¥ 99	¥ 0	\$ 899
Changes during the year:			
Increase by share exchanges	—	114	—
Sales of treasury stock	(2)	(14)	(19)
Total changes during the year	(2)	99	(19)
Balance at end of the year	¥ 97	¥ 99	\$ 880
Retained earnings:			
Legal retained earnings:			
Balance at end of the previous year	¥ 2,311	¥ 2,044	\$ 20,827
Changes during the year:			
Cash dividends	337	267	3,040
Total changes during the year	337	267	3,040
Balance at end of the year	¥ 2,648	¥ 2,311	\$ 23,867
Retained earnings brought forward:			
Balance at end of the previous year	¥ 36,018	¥ 29,794	\$ 324,520
Changes during the year:			
Cash dividends	(2,024)	(1,603)	(18,238)
Net income	5,374	7,827	48,425
Reversal of revaluation reserve for land	10	—	99
Total changes during the year	3,361	6,223	30,286
Balance at end of the year	¥ 39,379	¥ 36,018	\$ 354,806
Total retained earnings:			
Balance at end of the previous year	¥ 38,330	¥ 31,838	\$ 345,347
Changes during the year:			
Cash dividends	(1,686)	(1,335)	(15,198)
Net income	5,374	7,827	48,425
Reversal of revaluation reserve for land	10	—	99
Total changes during the year	3,698	6,491	33,326
Balance at end of the year	¥ 42,028	¥ 38,330	\$ 378,673

Bank of The Ryukyus, Limited

Non-Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 2)
	2019	2018	2019
Treasury stock:			
Balance at end of the previous year	¥ (375)	¥ (481)	\$ (3,384)
Changes during the year:			
Increase by share exchanges	—	612	—
Purchase of treasury stock	(2)	(595)	(19)
Sales of treasury stock	30	89	273
Total changes during the year	28	106	254
Balance at end of the year	¥ (347)	¥ (375)	\$ (3,130)
Total shareholders' equity:			
Balance at end of the previous year	¥102,181	¥ 95,484	\$ 920,636
Changes during the year:			
Issuance of new shares	5,680	—	51,180
Cash dividends	(1,686)	(1,335)	(15,198)
Net income	5,374	7,827	48,425
Increase by share exchanges	—	727	—
Purchase of treasury stock	(2)	(595)	(19)
Sales of treasury stock	28	74	254
Reversal of revaluation reserve for land	10	—	99
Total changes during the year	9,405	6,697	84,741
Balance at end of the year	¥111,586	¥102,181	\$1,005,377
Valuation and translation adjustments			
Valuation difference on available-for-sale securities:			
Balance at end of the previous year	¥ 1,483	¥ 1,898	\$ 13,365
Changes during the year:			
Net changes in items other than shareholders' equity	154	(414)	1,393
Total changes during the year	154	(414)	1,393
Balance at end of the year	¥ 1,638	¥ 1,483	\$ 14,758
Deferred gains on hedges:			
Balance at end of the previous year	¥ (0)	¥ 0	\$ (0)
Changes during the year:			
Net changes in items other than shareholders' equity	(0)	(0)	(8)
Total changes during the year	(0)	(0)	(8)
Balance at end of the year	¥ (0)	¥ (0)	\$ (8)
Revaluation reserve for land:			
Balance at end of the previous year	¥ 1,323	¥ 1,323	\$ 11,925
Changes during the year:			
Net changes in items other than shareholders' equity	(10)	—	(99)
Total changes during the year	(10)	—	(99)
Balance at end of the year	¥ 1,312	¥ 1,323	\$ 11,826
Total valuation and translation adjustments:			
Balance at end of the previous year	¥ 2,806	¥ 3,222	\$ 25,289
Changes during the year:			
Net changes in items other than shareholders' equity	142	(415)	1,287
Total changes during the year	142	(415)	1,287
Balance at end of the year	¥ 2,949	¥ 2,806	\$ 26,576
Stock acquisition rights:			
Balance at end of the previous year	¥ 236	¥ 238	\$ 2,133
Changes during the year:			
Net changes in items other than shareholders' equity	49	(1)	449
Total changes during the year	49	(1)	449
Balance at end of the year	¥ 286	¥ 236	\$ 2,582

Bank of The Ryukyus, Limited

Non-Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2019 and 2018

	Millions of Yen (Note 1)		Thousands of U.S. Dollars (Note 2)
	2019	2018	2019
Total net assets			
Balance at end of the previous year	¥105,225	¥ 98,945	\$ 948,059
Changes during the year:			
Issuance of new shares	5,680	—	51,180
Cash dividends	(1,686)	(1,335)	(15,198)
Net income	5,374	7,827	48,425
Increase by share exchanges	—	727	—
Purchase of treasury stock	(2)	(595)	(19)
Sales of treasury stock	28	74	254
Reversal of revaluation reserve for land	10	—	99
Net changes in items other than shareholders' equity	192	(417)	1,735
Total changes during the year	9,597	6,280	86,476
Balance at end of the year	¥114,823	¥105,225	\$1,034,535

- 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 ¥110.99 per US\$1.00, the rate prevailing on March 31, 2019.



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.