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## 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



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## Profile

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



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

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

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

In April 2010, we launched our new medium-term (four-year) management plan under the name RISING PLAN 2010 .

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## Message from the President

I would like to express my sincere gratitude to shareholders and other stakeholders of the Bank of the Ryukyus for their continued support.

The following is a report on the Bank's business performance and financial position for the fiscal 2010 business term (April 1, 2010 to March 31, 2011).

### Financial & Economic Environment

During fiscal 2010, despite continued signs of a general recovery buoyed by exports mainly to Asia, those signs of recovery faded at the end of the fiscal year due to the impact of the Great East Japan Earthquake that struck on March 11, 2011. The effects of the earthquake disaster on Japan's economic future and society have become a matter of grave concern.

Even though consumer spending continued to show signs of a partial recovery, such as the steady undertone that consumer nondurable goods, especially food and clothing, experienced in the second half, Okinawa Prefecture's economy remained weak due to low levels of construction work in both the public and private sectors. On the whole, the Prefecture's economy went into economic recession owing to a weak second half due to budget-minded tourists uncertain about the economic future and rising demand for foreign travel resulting from the opening of international routes at Haneda Airport. While the Bank suffered no direct damage from the Great East Japan Earthquake, post-earthquake effects had a tremendous impact on Okinawa's economy, causing a drastic reduction in the number of tourists visiting Okinawa Prefecture up until the end of the fiscal year.

### Business activities and performance results

Against this backdrop, in April 2010, we embarked on our "RISING PLAN 2010" medium-term management plan, the target of which is to improve and expand our business foundation for the next leap forward. In fiscal 2010, the first year of the plan, we



Isao Oshiro  
President

set the goal of rapidly implementing business, human resource and functional innovation. To achieve it, we expanded our channel infrastructure, strengthened deposit and assets-in-custody-related marketing, improved our corporate transaction marketing, and actively helped SMEs and other customers get financing. Further, in July 2010, we acquired and retired Type 1 Preferred Stock (public preferred stock) and completed the repayment of public funds.

The following describes our key efforts in this area. With respect to the expansion of our channel infrastructure, in July 2010, the Bank installed ATMs in virtually all of the FamilyMart and Lawson convenience stores in Okinawa Prefecture. By building an unparalleled ATM network in Okinawa Prefecture, we have increased the number of our contact points with customers and dramatically improved convenience. Not only did we broadcast TV commercials to inform many customers about our ATM network's convenience, we highlighted our further improvements in convenience through a direct salary deposit campaign. In February 2011, we opened the Ryugin Hello Plaza Ishida Branch, a mini branch for personal banking (official name: Yorimiya Branch Ishida Sub-Branch). With a general reception counter, it is a new style of branch where the branch manager guides customers, depending on their needs, directly to the reception counter, or provides consultation. In this way, we are expanding our marketing base to respond to the diversifying asset management needs of our customers.

As for deposits and assets-in-custody marketing, the Bank has further expanded its personal banking infrastructure through its operation of Life Plan, which provides suitable financial products and services tailored to the life stage of each customer. With the goal of leveraging a female perspective in product and service development, in fiscal 2009, we established Team Sunflower, a project team made up of female staff at our branches and we are developing products and services that are customer-centric. We have actively responded to diversifying customer needs by launching in December 2010 the Ryujin Mabuyer "fortune" time deposit that comes with a lottery ticket, a product that was put together by our female project team.

To meet the needs of our customers, we added to our lineup new investment trust products that invest in Japanese public and corporate bonds and foreign bonds as well as in stocks with well-paying dividends from Asia and Oceania.

To strengthen marketing capabilities for corporate transactions, we provided customers with diverse financing methods by launching new products, such as the TKC Monthly Closing Support Loan and the Doctor's Support Loan, in response to their needs. We also started a temp service for experts that includes CPAs and tax accountants, who together with the customer and the Bank, work to solve the customer's business problems. In addition, we provided our clients with problem solving financial capabilities through our participation in Food Selection 2010, where we helped clients expand their marketing channels.

With respect to financial facilitation, all of our branches and loan centers responded properly and swiftly to customers who wished to discuss new loans and changes to loan conditions under our basic policy of facilitating financing in order to strengthen our role as a regional financial intermediary.

## Issues facing the Bank

The Great East Japan Earthquake is expected to have a long-term effect on the Japanese economy, thus there remains a sense of uncertainty about the future, including concerns that it will have a pervasive effect, especially on the tourism-related industry, a key industry in Okinawa Prefecture. Under these circumstances, the Bank will strengthen its sales force while conducting rigorous legal compliance.

In fiscal 2011, which marks the second year of our medium-term management plan “RISING PLAN 2010,” we will actively expand our customer base by effectively leveraging channel infrastructure improved and expanded in fiscal 2010 under our fiscal year business target of “Stronger marketing, human resources and functional innovation.”

By responding to changes in the financial and economic environment, appropriately responding to customer needs, and providing high-quality financial services, Ryugin will continue to contribute to local community development and work to earn a high degree of trust and support from customers as a leading bank that is indispensable to Okinawa.

March 2011

Isao Oshiro,

*President*

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## RISING PLAN 2010

**Goals of the plan** : Dramatically expand our business base Launch new “growth stage,” contributing to local economy

**Period of the plan** : April 2010 - March 2014

**Vision** : Achieve growth while contributing to local economic development based on a business model geared to “solution-type” services.

### Corporate Strategy

#### Business Innovation

Achieve next leap forward by developing measures unconstrained by conventional ideas about infrastructure of branches, business methods, products, etc.

- Upgrade and expand channel infrastructure
- Develop Life Plan marketing for individual transactions
- Strengthen marketing capabilities for corporate transactions

Support business innovation by implementing functional and human resource innovation

#### Human Resource Innovation

Increase the value of human resources, the Bank's core asset and support business innovation

- Revise personnel system
- Leverage diverse career backgrounds of staff
- Strengthen human resources

#### Functional Innovation

Change the Bank's systems to quickly spread marketing innovation

- Review organization to enhance earning capacity
- Ensure stable financial foundation
- Establish legal compliance structure and solid business structure

Establish legal compliance structure and solid business structure



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## Activities in Fiscal 2010

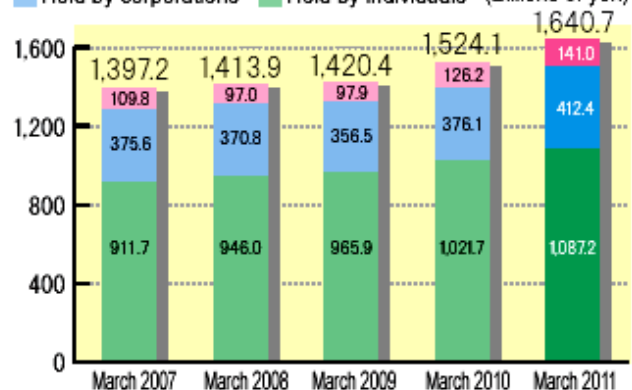
### Review of Operations (non-consolidated)

#### ◆ Deposits -- Exceeded ¥1,600.0 billion for the first time ever

The term-end balance of deposits increased by ¥116.6 billion from the previous term-end to ¥1,640.7 billion, the first time that deposits have ever exceeded the ¥1,600.0 billion mark. This was due to the strong performance of newly launched time deposits for individuals, and brisk deposits by private corporations and local governments and other public entities.

#### Deposits

■ Held by local governments and other public entities  
■ Held by corporations   ■ Held by individuals (Billions of yen)



Note1: Balance of total deposits consists of ordinary and trust banking accounts.

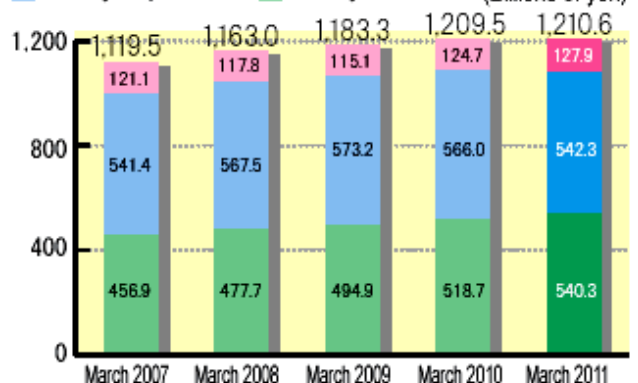
Note2: Figures appearing in the above graph have been rounded down.

#### ◆ Loans -- Increased lending to individuals

The term-end balance of loans increased by ¥1.1 billion year on year, to ¥1,210.6 billion on solid growth in lending to individual, particularly mortgage loans and apartment loans.

#### Loans

■ Held by local governments and other public entities  
■ Held by corporations   ■ Held by individuals (Billions of yen)

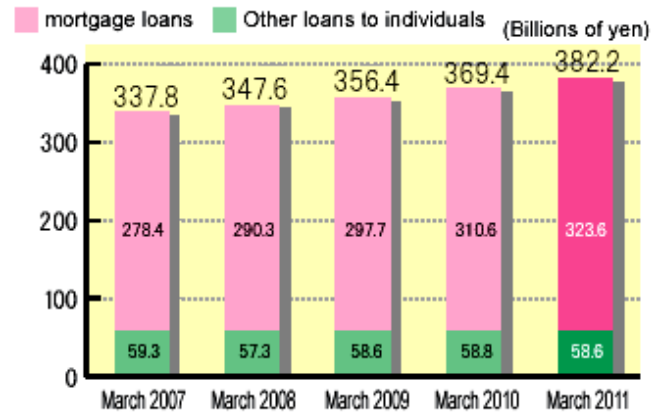


Note: Figures appearing in the above graph have been rounded down.

### ◆ Loans to Individuals -- Increased mortgage lending

The balance of loans to individuals increased ¥ 12.8 billion from the previous term-end to ¥ 382.2 billion, due to an increase in mortgage lending.

#### Loans to individuals

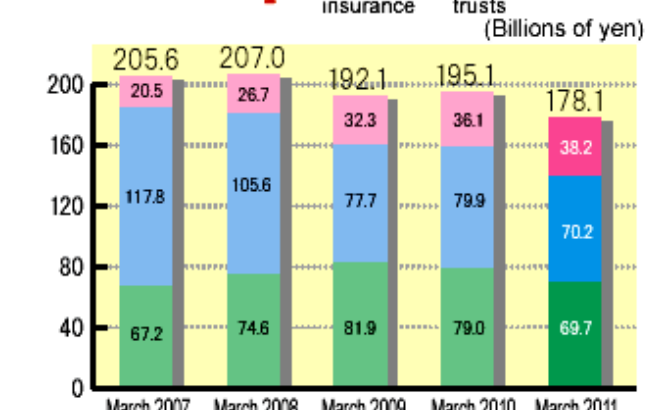


Note: Figures appearing in the above graph have been rounded down.

### ◆ Assets in custody -- Growth in personal pension insurance

Despite an increase in personal pension insurance plans, the term-end balance of assets in custody (personal pension insurance, investment trusts, and Japanese government bonds [JGBs]) decreased by ¥ 17.0 billion from the previous term-end, to ¥ 178.1 billion due to a year-on-year decline in investment trusts and JGBs. This was mainly attributable to a decrease in constant value for investment trusts and JGB interest rates.

#### Assets in custody



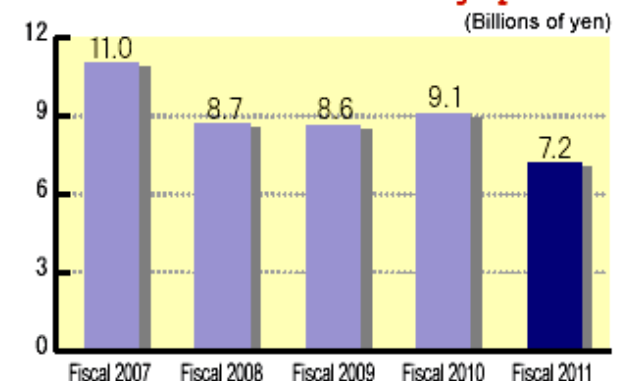
Note1: Personal pension insurance is total of contracted amounts.

Note 2: Figures appearing in the above graph have been rounded down.

### ◆ Business profit on core banking operations -- Decreased year on year

Business profit on core banking operations is a key indicator of profitability. It represents net business profit (the total sum of profits on ordinary banking operations including deposits, loans, and foreign exchange), after the elimination of one-time factors. It is roughly equivalent to the operating income of companies outside the banking

#### Business Profit on Core Banking Operations



Note1: Business profit on core banking operations is net business profit prior to provision to the general reserve for possible

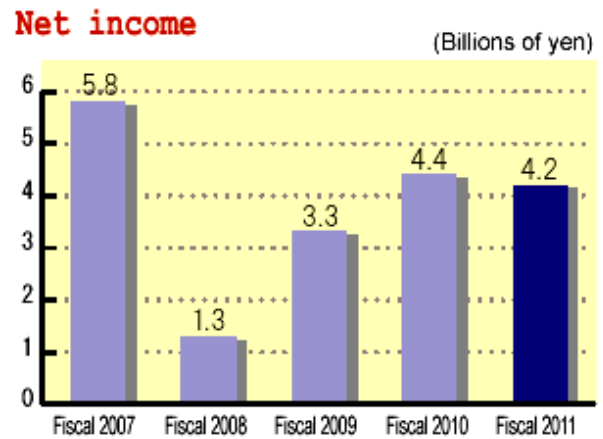
sector.

For the reporting term, business profit on core banking operations decreased by ¥ 1.9 billion year on year to ¥ 7.2 billion. This was due chiefly to lower interest on loans, higher interest payments on deposits, and a decline in interest and dividend income on securities.

loan losses, after deduction of write-offs under the trust account and gain (loss) on bond trading.  
 Note2: Figures appearing in the above graph have been rounded down.

◆ **Ordinary profit and net income --**  
**Down due to lower business profit on core banking operations**

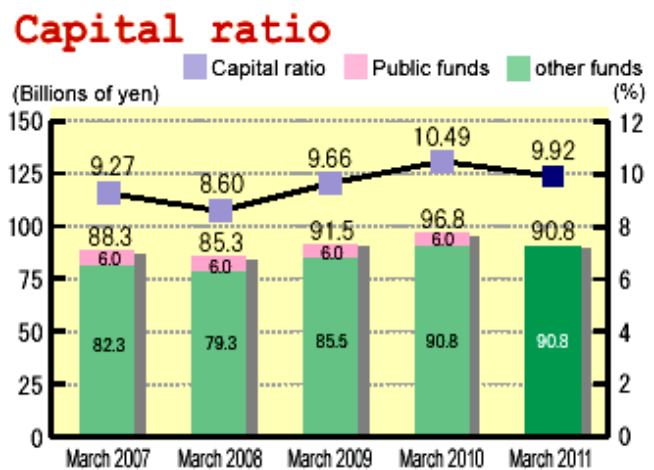
Despite lower credit costs, ordinary profit decreased by ¥0.1 billion year on year, to ¥5.7 billion and net income decreased by ¥0.2 billion to ¥4.2 billion, due to declining business profit on core banking operations.



◆ **Capital ratio -- Down due to repayment of public funds**

A bank's capital ratio is one of the chief indicators of the safe nature of its management and the soundness of its assets. It indicates the extent to which a bank's capital is adequate to cover possible losses on its loans and similar assets. The minimum domestic standard (for banks operating solely in Japan) is 4%, and the minimum standard for bank also operating overseas is 8%.

The Bank's capital ratio as of March 31, 2011 decreased 0.57 percentage point from the previous term-end to 9.92%, due mainly to repayment of public funds which more than offset higher profit.



◆ **Credit rating -- 'A'**

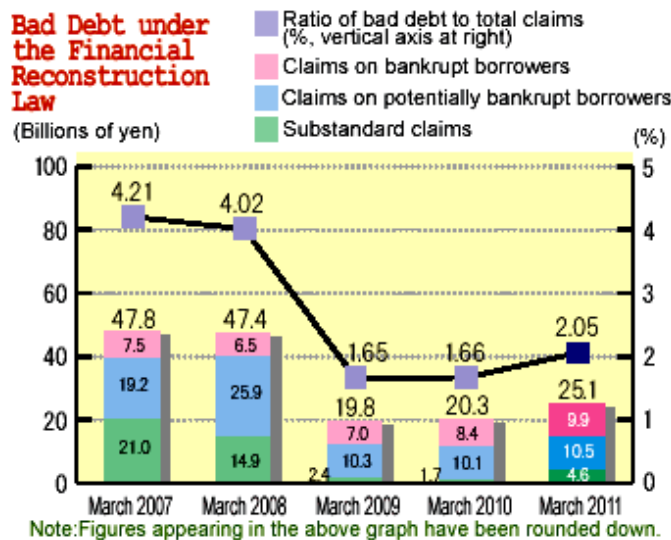
Credit ratings (issued by impartial credit rating agencies) with respect to companies that have issued bonds and other investment instruments represent judgments as to the probable ability of the company to repay the principal of, and pay the interest accruing to, such investment instruments. Japan Credit Rating Agency (JCRA), Japan's leading credit rating agency, awarded the Bank a healthy "A" rating for its long-term debentures, the sixth-highest rating out of a total of 20.

Rating	Definitions
High	
AAA	The highest level of capacity of the obligor to honor its financial commitment on the obligation
AA (+-)	A very high level of capacity to honor the financial commitment on the obligation
A (+-)	A high level of capacity to honor the financial commitment on the obligation
BBB (+-)	An adequate level of capacity to honor the financial commitment on the obligation. However this capacity is more likely to diminish in the future than in the cases of the higher rating categories
BB (+-)	Although the level of capacity to honor the financial commitment on the obligation is not considered problematic at present, this capacity may not persist in the future.
B (+-)	A low level of capacity to honor the financial commitment on the obligation, giving cause for concern.
CCC	There are factors of uncertainty that the financial commitment on the obligation will be honored, and the possibility of default
CC	A high default risk
C	A very high default risk
Low	
D	In default

Note: Credit ratings range from AAA to D and are further subdivided into a total of 20 ratings by the use of a plus (+) or minus (-) sign for ratings from AA to B.

◆ **Bad debt disclosure -- Bad debt level and ratio remain low**

Bad debt (claims subject to disclosure under the Financial Reconstruction Law) increased ¥4.8 billion from the previous term-end to ¥25.1 billion. The bad debt ratio (ratio of bad debt to total claims) rose by 0.39 percentage point to 2.05%, remaining at a low level.



◆ **Business performance forecasts for fiscal 2011 -- Revenue and profit increases expected**

For the year ending March 2012, we forecast higher revenue and profit due to increased loans, especially to individuals, and stronger marketing of assets in custody.

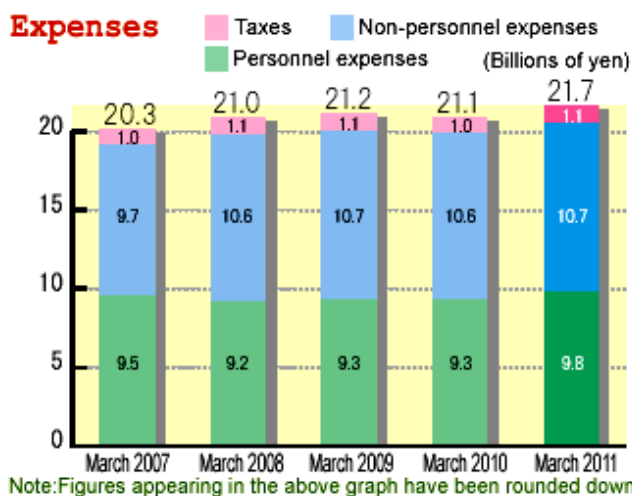
### Forecasts for fiscal 2011 (Billions of yen)

	Forecast for fiscal 2011	Results in fiscal 2010	Difference
Operating revenue	38.0	37.8	+0.2
Ordinary income	6.5	5.7	+0.8
Net income	4.3	4.2	+0.1

#### ◆ Expenses --

#### Increased due to upfront investments for expanding business infrastructure

Overall expenses were up ¥0.6 billion year on year to ¥21.7 billion from increases in both personnel and non-personnel expenses due to upfront investments for expanding business infrastructure.










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## Financial Section

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<a href="#">Consolidated Statements of Comprehensive Income</a>	<a href="#">(80KB)</a>	
<a href="#">Consolidated Statements of Changes in Net Assets</a>	<a href="#">(136KB)</a>	
<a href="#">Consolidated Statements of Cash Flows</a>	<a href="#">(172KB)</a>	
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<a href="#">Supplementary Financial Information (Unaudited) Statements of Trust Assets and Liabilities</a>	<a href="#">(41KB)</a>	

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## Corporate Data

### Non-Consolidated Data (As of March 31, 2011)

Date of Establishment	May 1, 1948
Paid-in Capital	¥ 54,127 million
Total Assets	¥ 1,767,318million
Number of Employees	1,201
Number of Offices (including Head Office and Sub-branches)	71
Number of Shareholders	14,048
Stock Listings	Tokyo Stock Exchange & Fukuoka Stock Exchange

### Service Network (As of March 31, 2011)

#### Head Office and Securities & International Department

11-1, Kumoji 1-chome (P.O. Box 310), Naha, Okinawa 900-0015, Japan

Telex: J79827

Phone: 098-866-1212

Fax: 098-863-8504

SWIFT: RYUB JPJZ

#### Tokyo Branch

Kanda 21 Building 4F, 2-2-16, Kandata-cho, Chiyoda-ku, Tokyo 101-0046, Japan

Phone: 03-5296-8611

Fax: 03-5296-8616

### Board of Directors (As of June 28, 2011)

#### President

Isao Oshiro

#### Senior Managing Director

#### Directors

Shinichi Ishikawa

Taketora Miyagi

Michitoshi Tokeshi

#### Executive Officers

Hirokazu Arakaki

Yoshimichi Kawamae

Ryota Nakamura

Keiya Miyagi

**Standing Corporate Auditor**

Hirohisa Irabu

Masahiko Higa

Hajie Miyazato

**Managing Directors**

Toukei Kinjo

Ikuo Yasuda

Touru Ikehata

**Corporate Auditors**

Seiyu Ishikawa

Shinichi Goya

Tomoyuki Matsubara

Hidehiro Hayashi

Koumei Takara

**Bank of the Ryukyus Group Companies** (As of June 28, 2011)

**Ryukyu Leasing Co., Ltd.**

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

Phone: 098-866-5500

Established: May 1972

Paid-in Capital: ¥ 346 million

Line of Business: General leasing

**Ryugin Hosho Co., Ltd.\***

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

Phone: 098-832-1200

Established: July 1979

Paid-in Capital: ¥ 20 million

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

**Ryugin Business Service Co., Ltd.\***

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

Phone: 098-863-4572

Established: September 1983

Paid-in Capital: ¥ 10 million

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

**Ryugin DC Co., Ltd.\***

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

Phone: 098-862-1525

Established: April 1984

Paid-in Capital: ¥ 195 million

Line of Business: Credit cards, financing

**Ryugin Office Service Co., Ltd.\***

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

Phone: 098-876-7130

Established: June 1999

Paid-in Capital: ¥ 10 million

Line of Business: Clerical services

**Ryugin Research Institute., Ltd.\***

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

Phone: 098-835-4650

Established: June2006

Paid-in Capital: ¥23 million

Line of Business:

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

\*Consolidated subsidiaries

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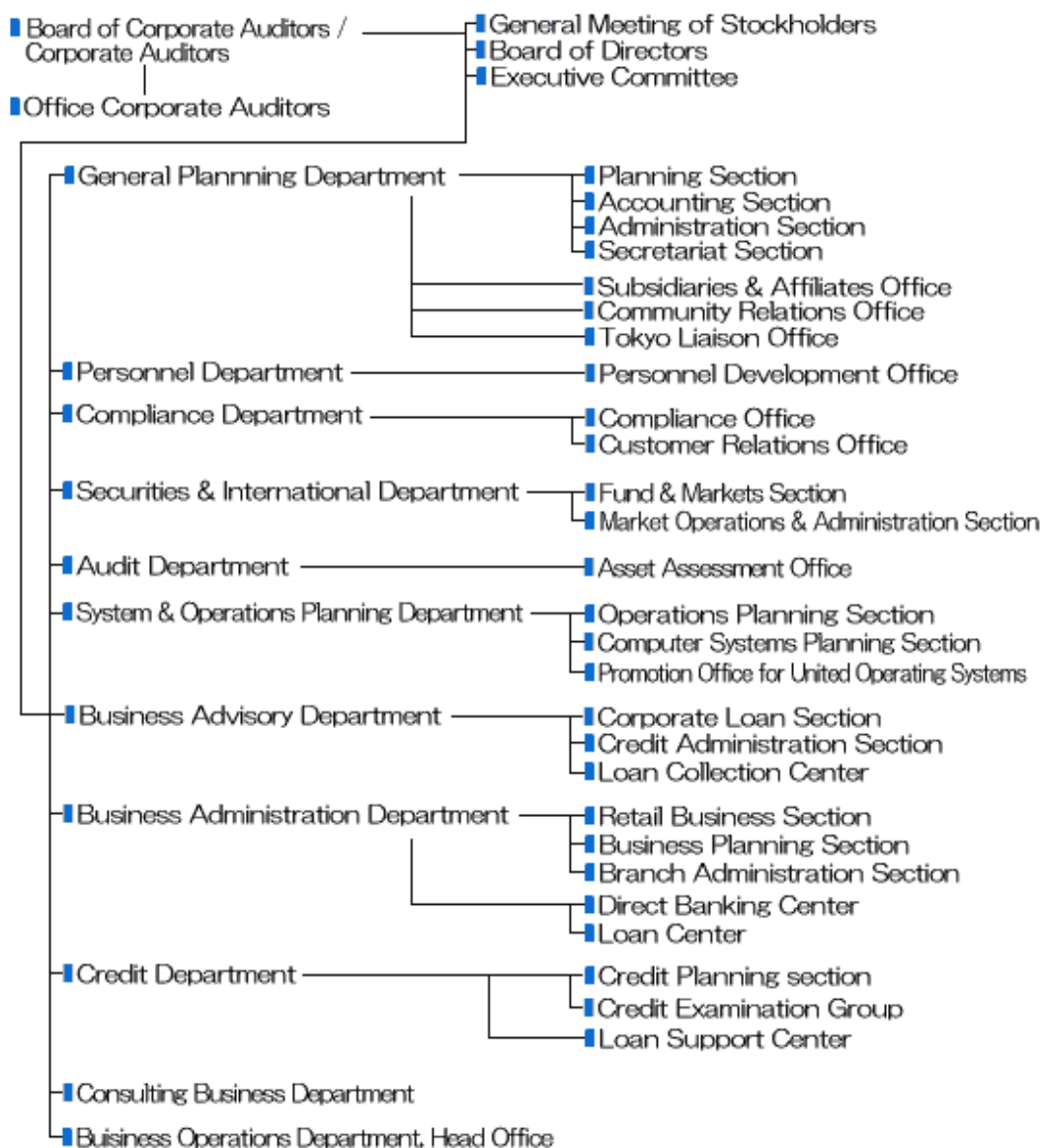
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