

STOCK CODE :8397

The Bank of Okinawa

Results Briefing Materials

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PEOPLE'S BANK

 沖縄銀行

We would like to express our deepest sympathies to those affected by the outbreak of the novel coronavirus (COVID-19).

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Outline of Business Results for the First Half of FY2020

Performance Highlights for FY2020 1H

The Okigin Group recorded net income attributable to owners of the parent of ¥2.1 billion. Ordinary income decreased due to decreases in interest income and fees and commissions. Ordinary profit increased slightly due to reductions in credit-related costs and non-personnel expenses (increased earnings).

FY2020 1H Business Performance

(¥ billion)	Consolidated	Non-consolidated
Ordinary Income	24.5	17.7
Ordinary Profit	3.5	3.1
Net Income	2.1	2.1

* Consolidated net income is net income attributable to owners of the parent

Outline of Results

[Consolidated]	FY19 1H	FY20 1H	YoY change
Ordinary income	25.4	24.5	(0.9)
Ordinary profit	3.5	3.5	0.0
Net income (*)	2.2	2.1	(0.0)

* Net income is net income attributable to owners of the parent

[Non-consolidated]	FY19 1H	FY20 1H	YoY change
Ordinary income	18.0	17.7	(0.3)
Gross business profit	14.7	14.4	(0.3)
Interest income	13.6	13.7	0.1
Gains (losses) on cancellation of investment trusts	0.0	(0.0)	(0.0)
Fees and commissions	0.8	0.7	(0.1)
Other business profit	0.2	(0.0)	(0.3)
Expenses (excluding non-recurrent items)	11.0	11.0	0.0
Personnel expenses	4.7	4.9	0.2
Non-personnel expenses	5.2	5.0	(0.1)
Real net business profit	3.7	3.4	(0.3)
Business profit on core banking operations	3.6	3.6	(0.0)
Excluding gains (losses) on cancellation of investment trusts	3.6	3.6	(0.0)
Provision of general allowance for possible loan losses	0.6	0.1	(0.4)
Net business profit	3.1	3.2	0.1
Non-recurrent items	(0.2)	(0.1)	0.0
Recoveries of written-off claims	0.0	0.0	(0.0)
Net gains (losses) on equity securities	(0.2)	(0.0)	0.1
Bad debt disposal	0.4	0.3	(0.1)
Ordinary profit	2.9	3.1	0.2
Extraordinary gains (losses)	(0.0)	(0.0)	(0.0)
Income before income taxes	2.8	3.0	0.2
Total income taxes and other taxes	0.8	0.9	0.1
Net income	2.0	2.1	0.0

[Non-consolidated]	Target	FY20 1H	Difference
Comparison with Forecast			
Ordinary income	17.3	17.7	0.4
Business profit on core banking operations	2.9	3.6	0.7
Net business profit	3.1	3.2	0.1
Ordinary profit	2.6	3.1	0.5
Net income	1.9	2.1	0.2

Business performance points (Non-consolidated)

Ordinary income

Decreased by ¥0.3 billion year on year to ¥17.7 billion year on year, due to decreases in fees and commissions and other business profit, despite an increase in interest income (decreased revenues).

Business profit on core banking operations

Decreased only slightly year on year to ¥3.6 billion, with an increase in interest income and expenses little changed, despite a decrease in fees and commissions.

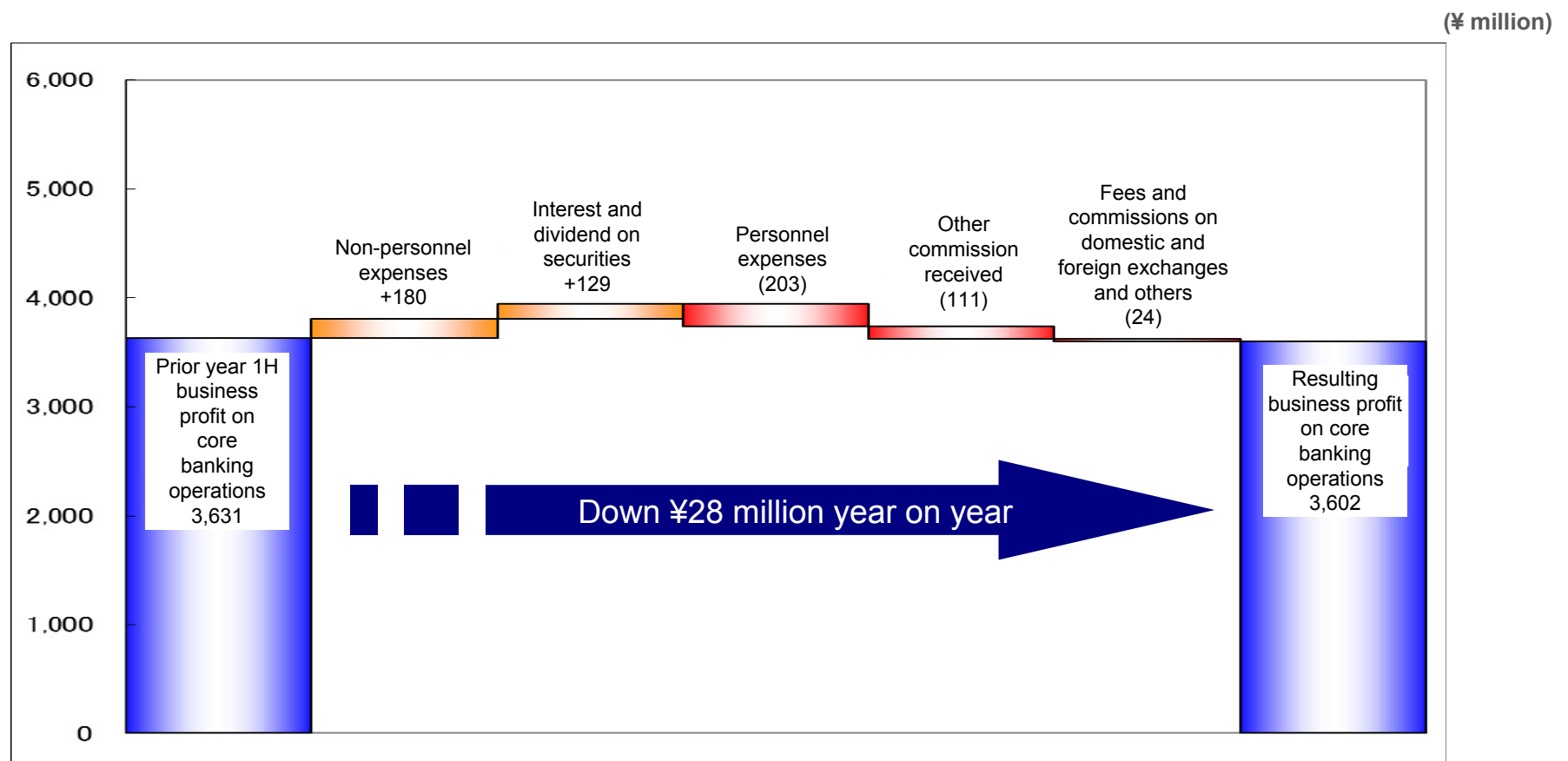
Ordinary profit

Increased by ¥0.2 billion year on year to ¥3.1 billion due to a decrease in credit cost and an improvement in net gains (losses) on equity securities (increased earnings).

Revenues decreased and earnings increased due to the above factors.

Changes in Business Profit on Core Banking Operations

Business profit on core banking operations decreased by ¥28 million year on year, mainly due to an increase in personnel expenses and a decrease in commission received, despite a reduction of non-personnel expenses and increases such as in interest and dividends on securities.



Deposits (Term-End Balance/Average Balance)

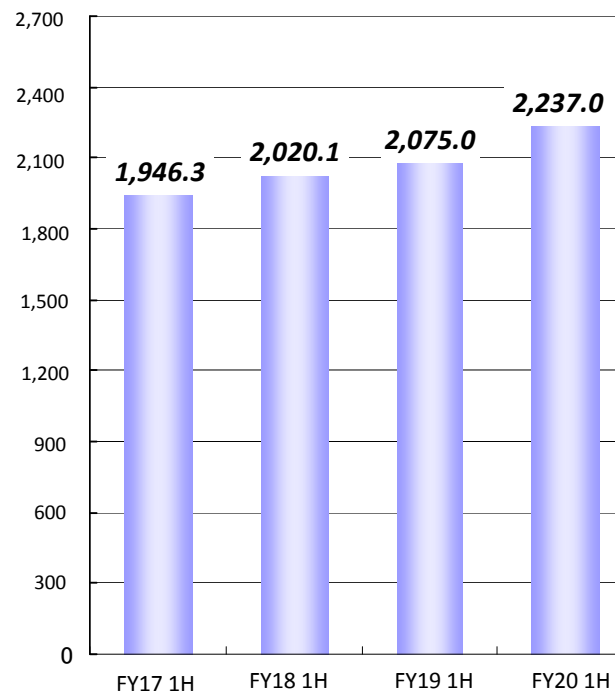
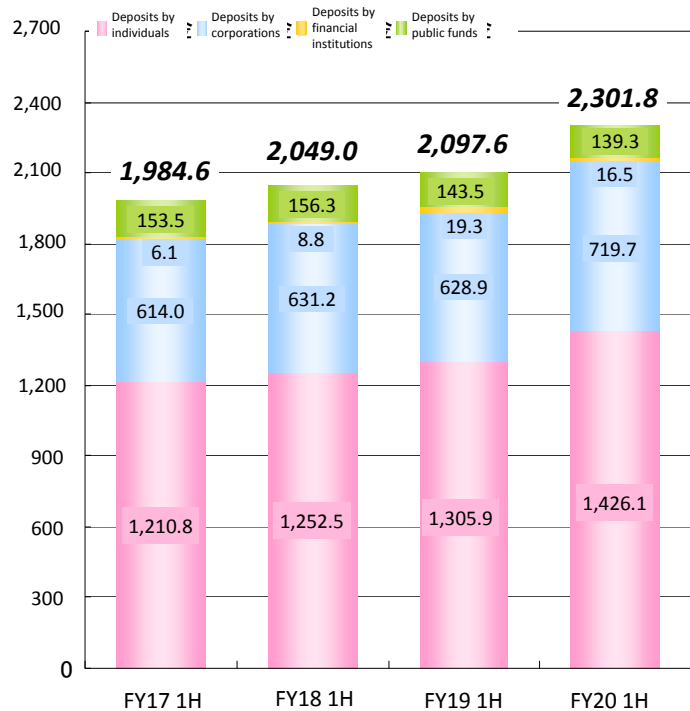
The term-end balance of total deposits rose by ¥204.1 billion (+9.73%) from the end of the 1H of the previous fiscal year, to ¥2,301.8 billion.

Deposits by individuals rose by ¥120.2 billion, deposits by corporations rose by ¥90.8 billion and public funds fell by ¥4.1 billion.

(¥ billion)

Term-end balance

Average balance



Factors for increase in deposits by individuals

- Yield from special cash payment
- Opening of new salary payment and pension accounts

Factors for increase in deposits by corporations

- Yield from financing for COVID-19 countermeasures and the Subsidy Program for Sustaining Businesses promoted by the government
- Enhanced function to trace funds by “Strong Relations Plan”

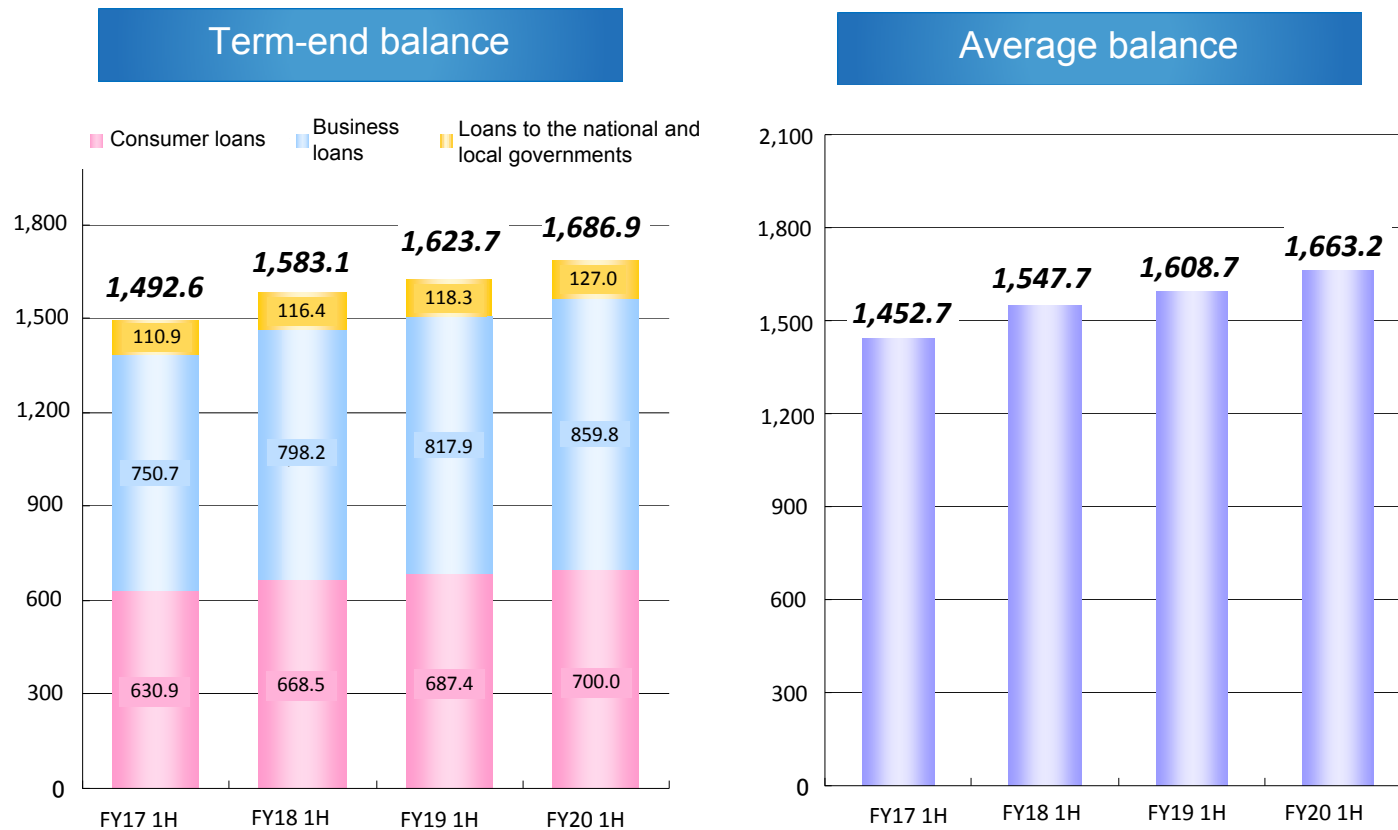
*Including trust accounts

Loans (Term-End Balance/Average Balance)

The term-end balance of total loans and bills discounted rose by ¥63.2 billion (+3.89%) from the end of the 1H of the previous fiscal year, to ¥1,686.9 billion.

Business loans and consumer loans rose by ¥41.8 billion and ¥12.6 billion, respectively.

(¥ billion)



Factors for increase in business loans

- Proactive lending to SMEs through
 - loans based on business evaluation
 - financing for COVID-19 countermeasures

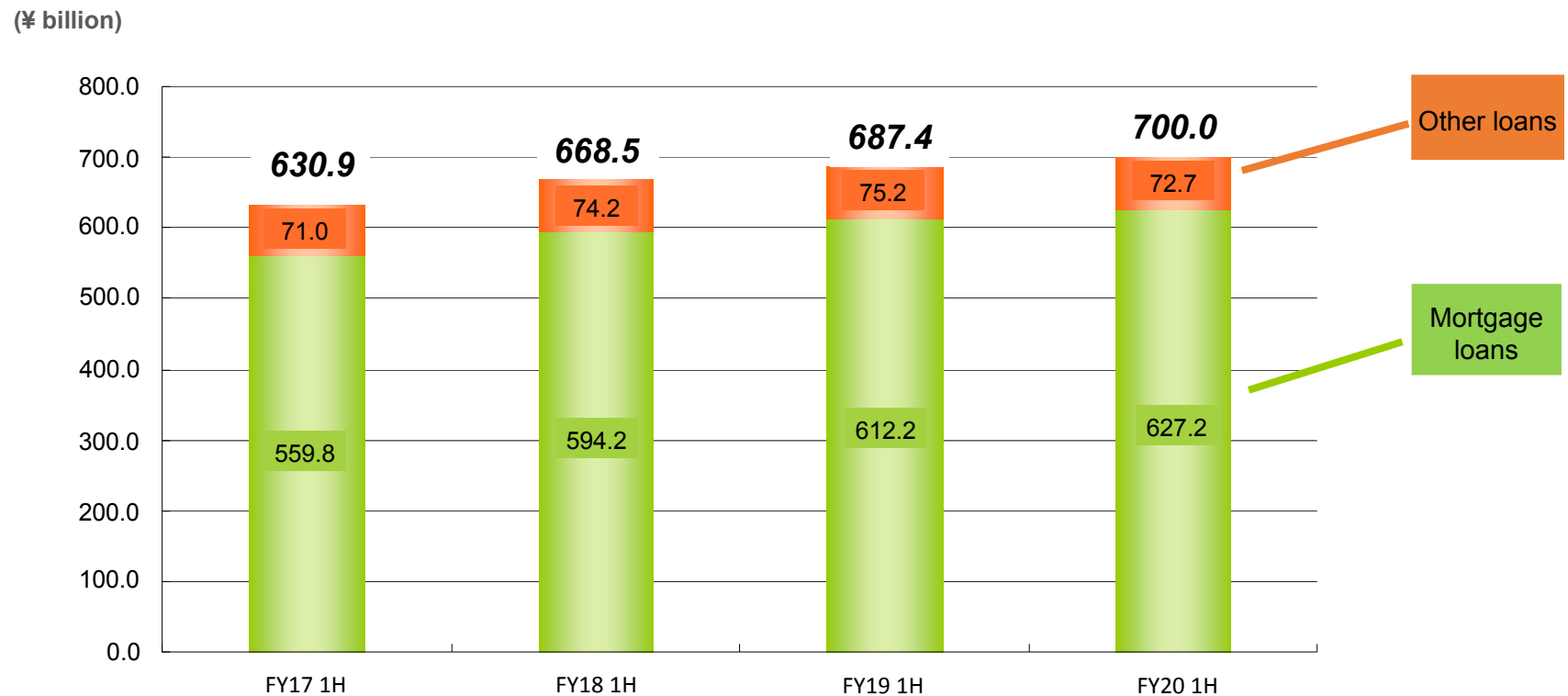
Factors for increase in consumer loans

- Mortgage loans

*Including trust accounts

Consumer Loans (Term-End Balance)

Consumer loans rose by ¥12.6 billion (+1.83%) year on year to ¥700.0 billion.
Of these, mortgage loans rose by ¥15.0 billion and other loans fell by ¥2.4 billion.



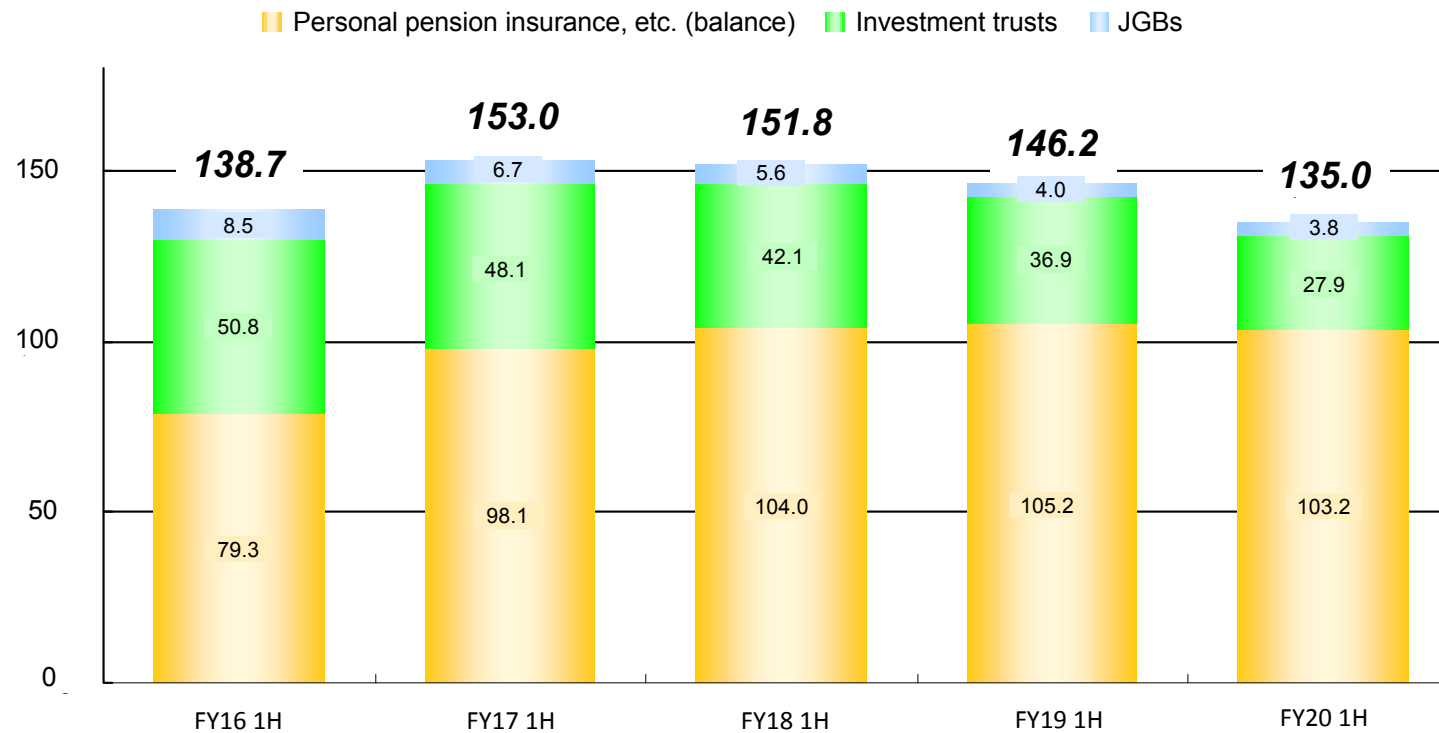
*Including trust accounts

*Consumer loans: Loans provided as funds closely tied to customer lifestyles. Typically referred to as personal loans or consumer loans

Assets in Custody

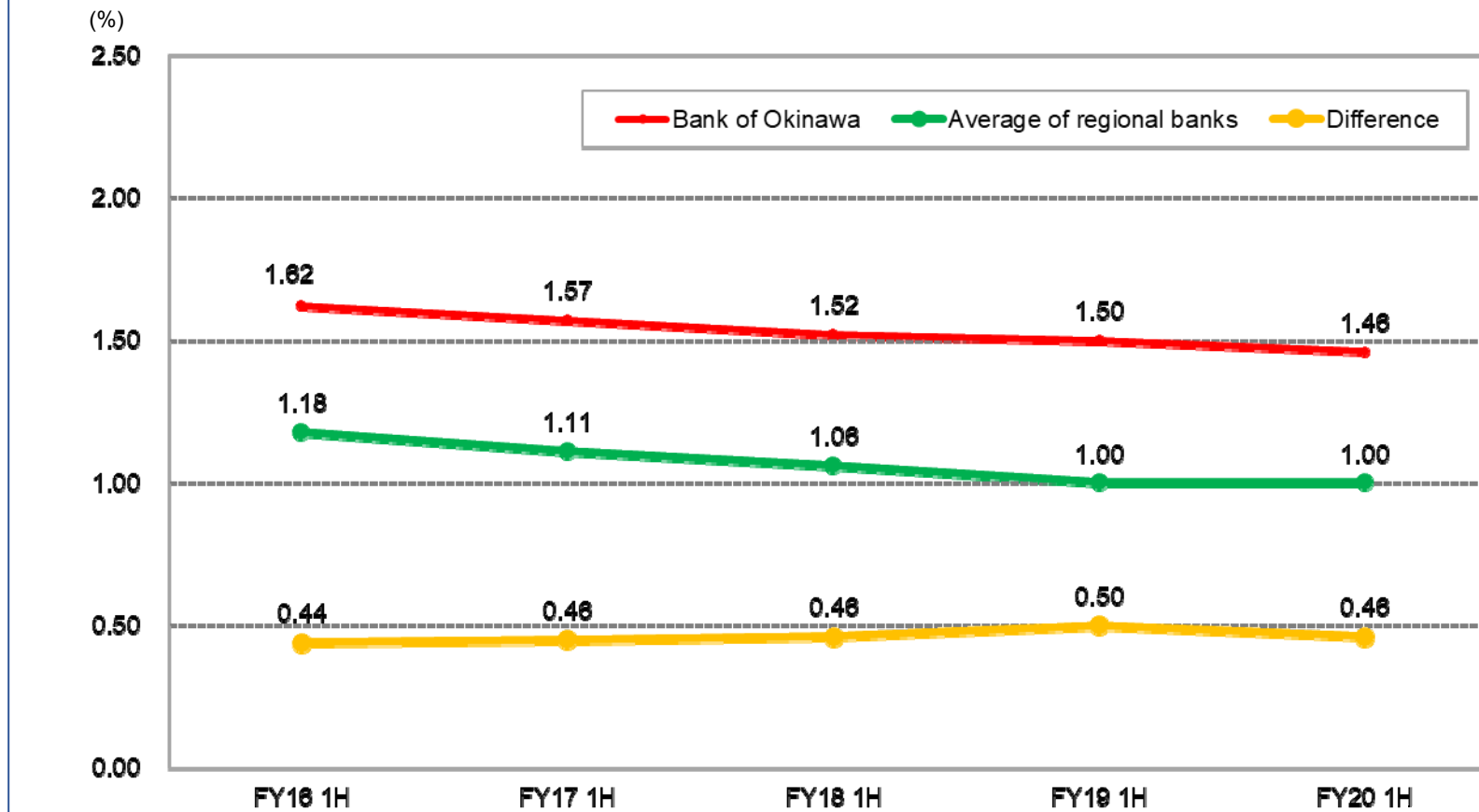
Assets in custody as a whole decreased by ¥11.2 billion year on year, due to decreases in all items.

(¥ billion)



Loan / Deposit Spreads (Domestic)

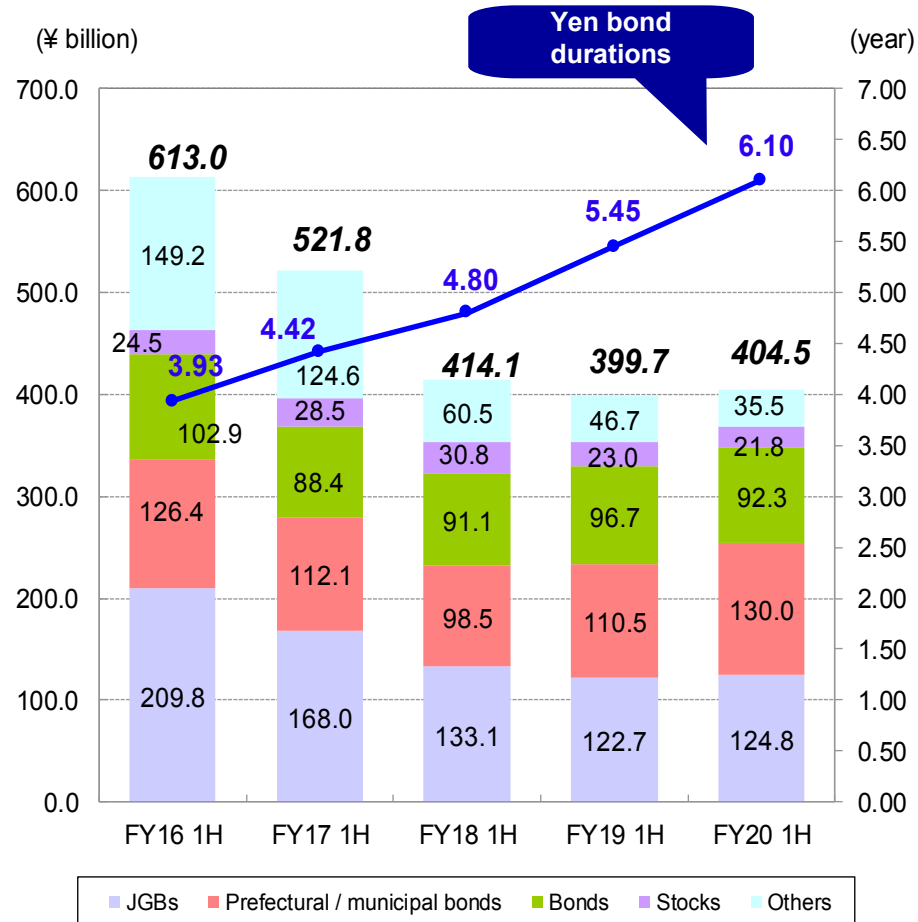
Loan / Deposit Spreads with Regional Bank Averages



Averages of regional banks are prepared by the Bank based on the financial results of regional banks posted on the website of the Regional Banks Association of Japan. However, because data for the 1H (ending September 30) is published in December of each year, the average of regional banks for FY19 is used for FY20 1H.

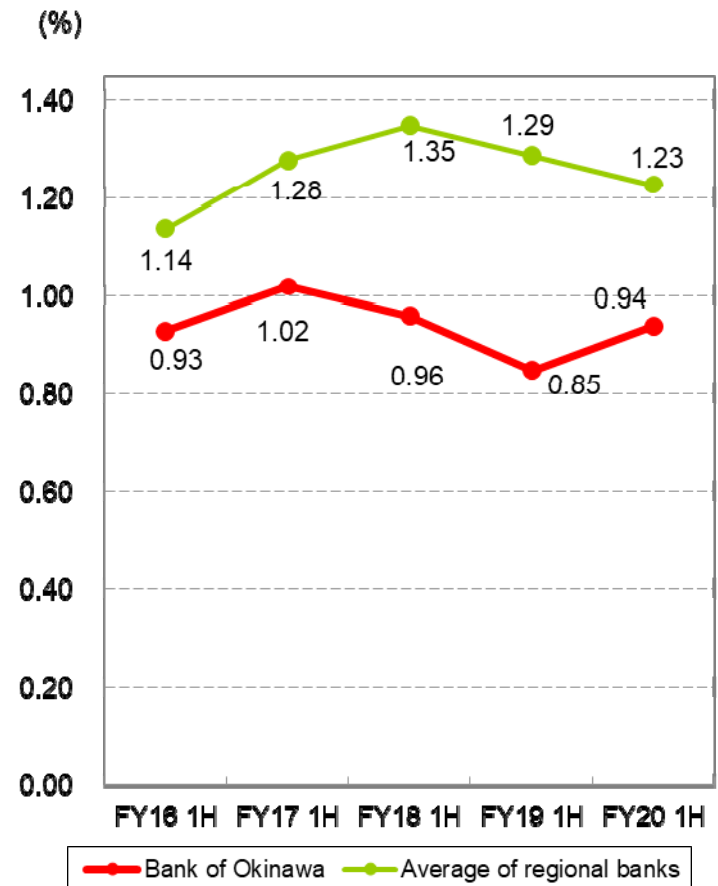
Securities (Term-End Balance)

Term-end balance and Yen bond durations



*The value of duration includes floating rate JGBs

Yield on securities

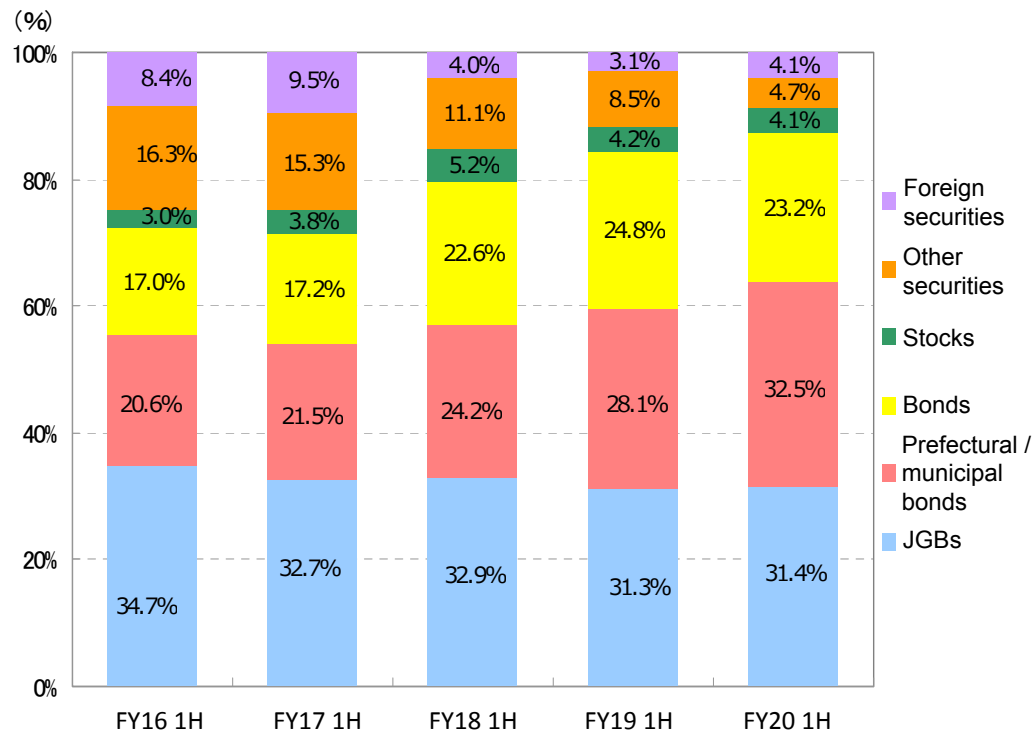


*Please see P11 for details on the calculation of averages of regional banks.

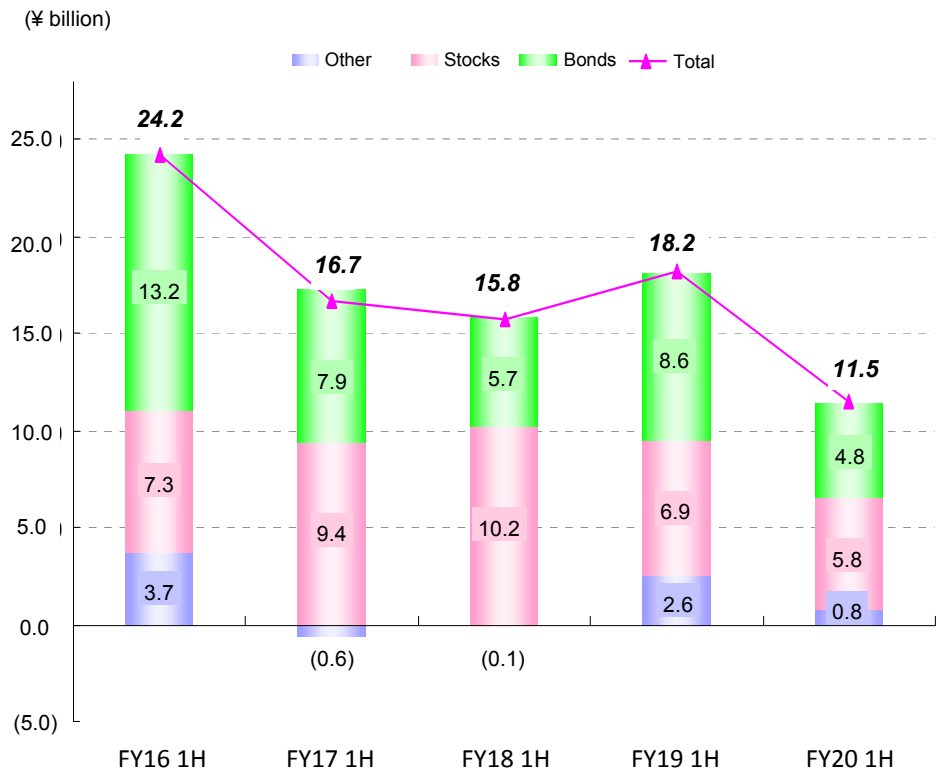
Securities Allocation and Changes in Valuation Gain/Loss

Continuation of rebalancing from yen bond holdings. Gain on valuation of securities decreased by ¥6.6 billion year on year, to ¥11.5 billion.

Securities composition percentage (acquisition cost at term-end)



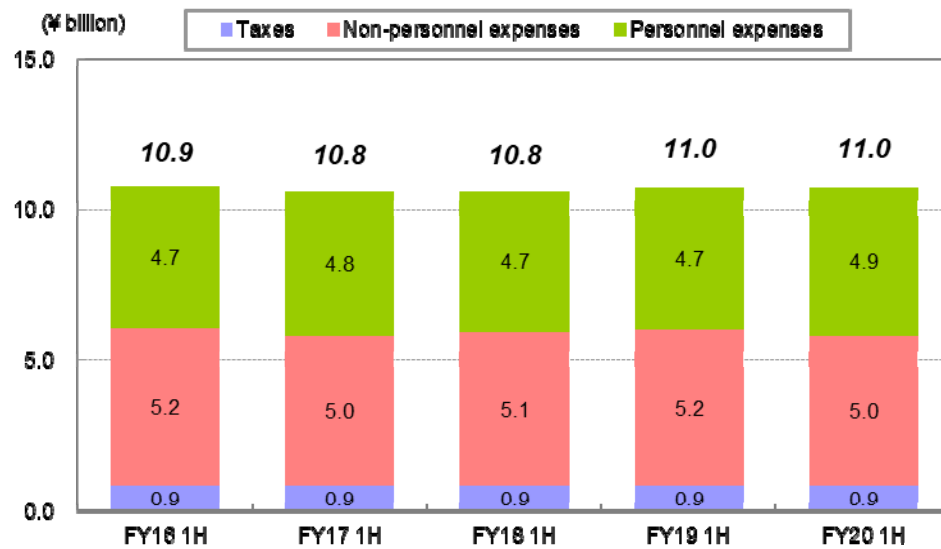
Gain (loss) on valuation of securities



Expenses

Expenses were roughly unchanged year on year, as non-personnel expenses decreased by ¥180 million year on year, while personnel expenses increased by ¥203 million year on year. Core OHR was 75.3%, up 0.2 percentage points year on year.

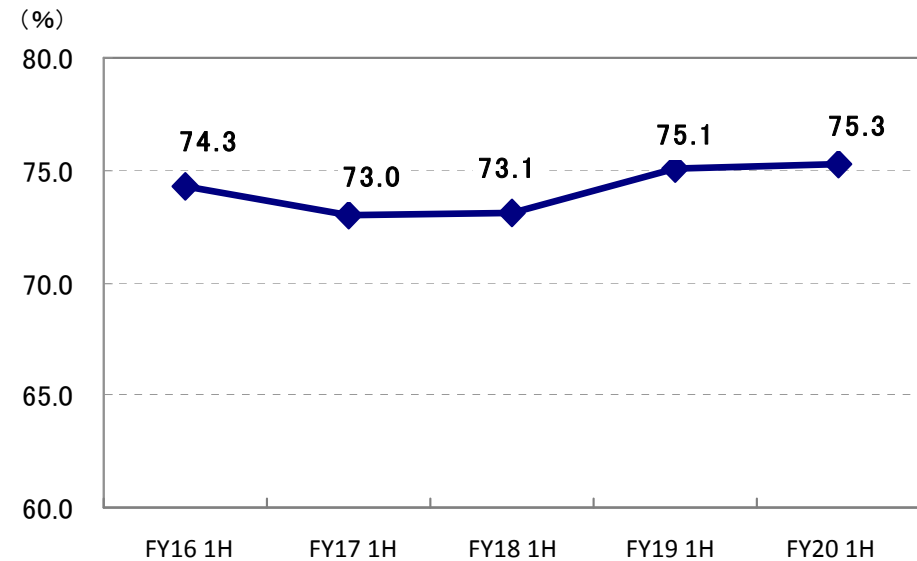
Expenses



Increase in personnel expenses

Decrease in non-personnel expenses

Core OHR



Increase in Core OHR

Capital Ratio

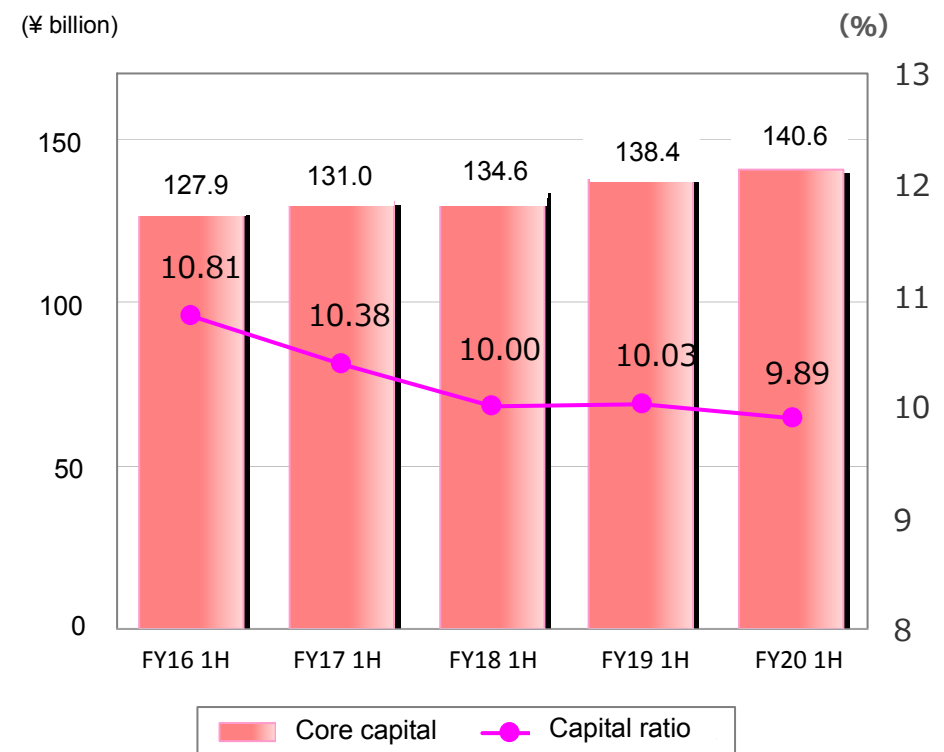
**Capital ratio (domestic standard) at 10.48% (consolidated), 9.89% (non-consolidated).
Although the capital ratio declined due to an increase in loans and bills discounted, soundness has been secured.**

	FY19 1H	FY20 1H	(¥ million, %) YoY change
[Consolidated]			
Capital ratio	10.67%	10.48%	(0.19)%
Capital	150,327	152,124	1,797
Basic elements of core capital	151,645	154,106	2,460
Adjustments to core capital (-)	1,318	1,981	662
Risk-weighted assets	1,407,978	1,450,590	42,612
[Non-consolidated]			
Capital ratio	10.03%	9.89%	(0.14)%
Capital	138,416	140,633	2,216
Basic elements of core capital	139,622	142,126	2,503
Adjustments to core capital (-)	1,205	1,492	286
Risk-weighted assets	1,379,605	1,421,603	41,998

Although capital ratio has decreased, soundness has been secured due to an increase in risk-weighted assets largely attributable to increases in loans to SMEs and individuals. The capital ratio of the Bank exceeds 9.46%, the average non-consolidated capital ratio of domestic standard regional banks in FY19.

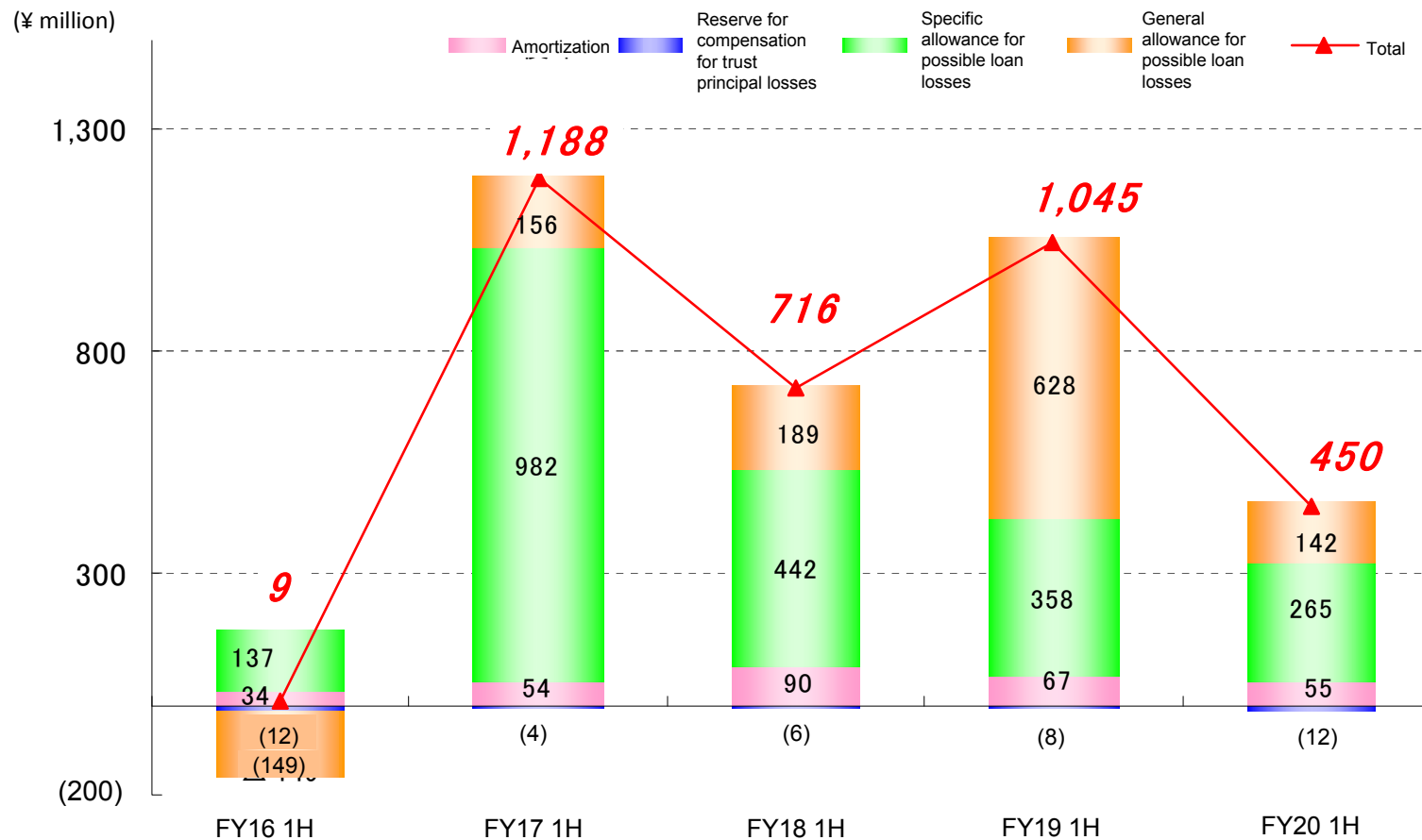
*Please see P11 for details on the calculation of averages of regional banks.

Trends in Capital and Capital Ratio (non-consolidated)



Credit Cost

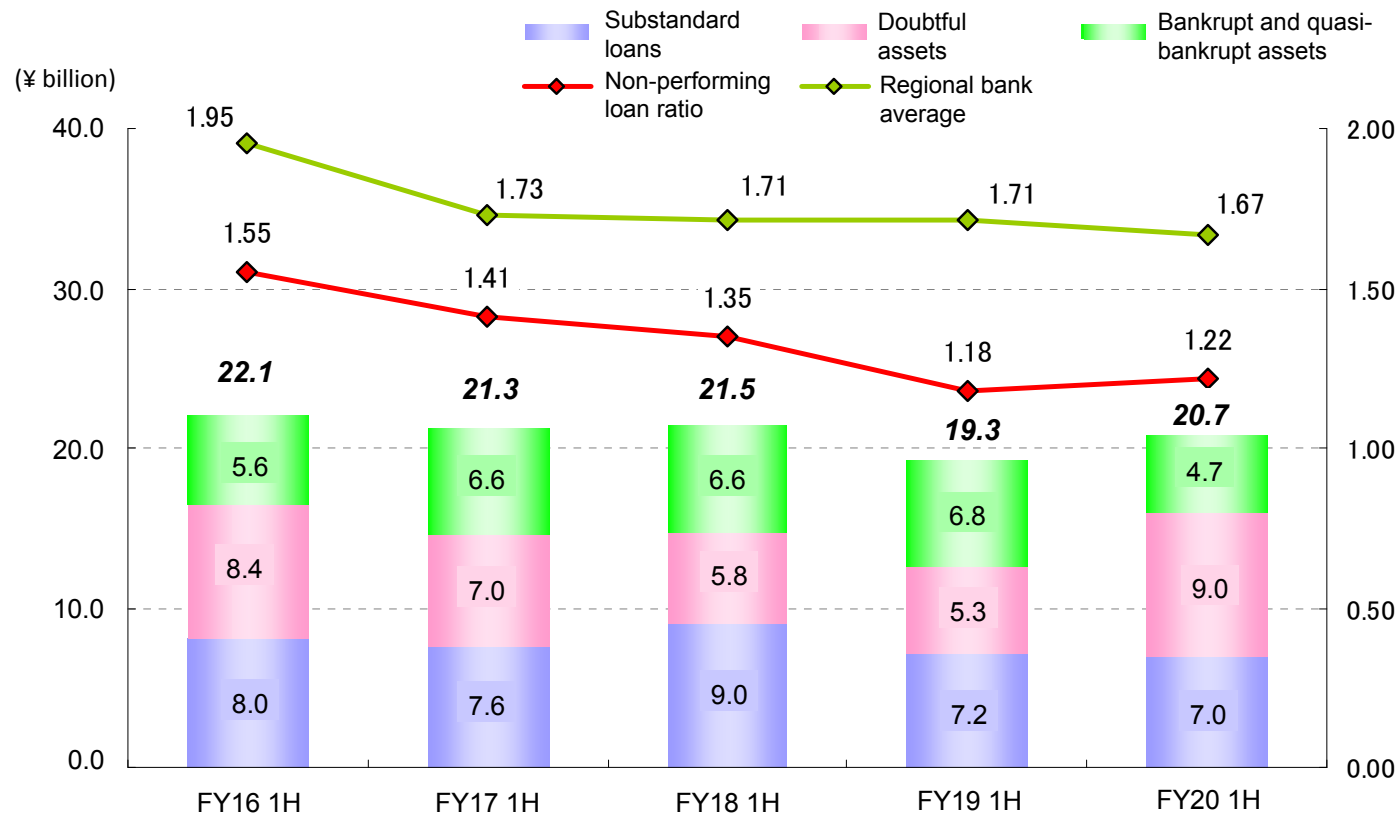
In overall terms, credit cost decreased by ¥595 million year on year to ¥450 million.



Mandatory Disclosure of Bad Debt under the Financial Reconstruction Law

¥20.7 billion (non-performing loan ratio: 1.22%)

The non-performing loan ratio remained at low level, below the regional bank average of 1.67%.



*Please see P11 for details on the calculation of averages of regional banks.

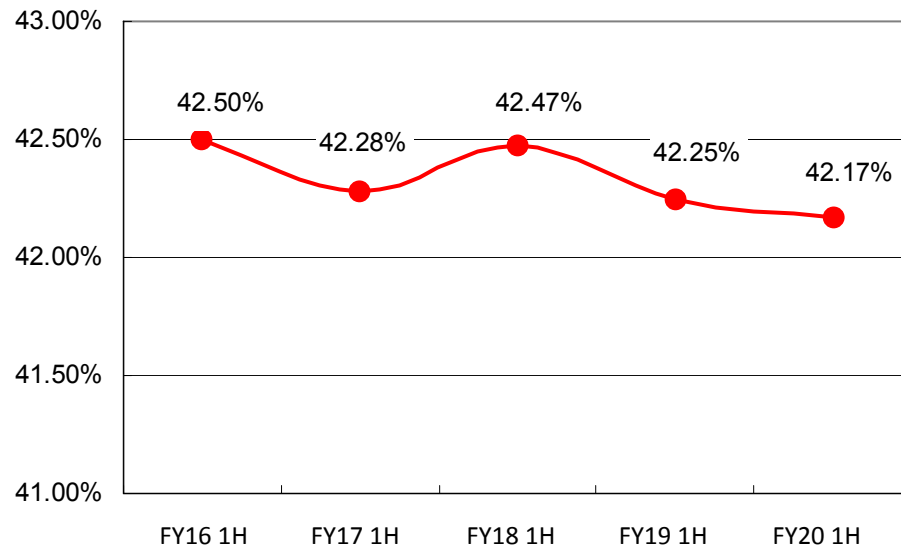
Our Share of the Market Served by the Three Okinawan Regional Banks

The share of loans and bills discounted and deposits both remained at a high level.

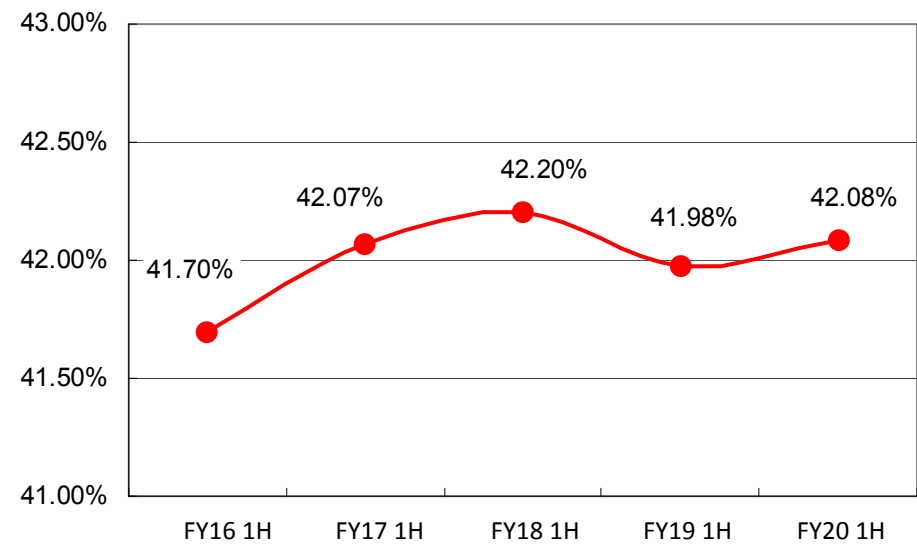
Loans and bills discounted: 42.17% (down 0.08 percentage points YoY)

Deposits: 42.08% (up 0.10 percentage points YoY)

Loans and bills discounted
(average balance)



Deposits
(average balance)



The Business Environment in Okinawa

Effects of Novel Coronavirus (COVID-19) Outbreak

The novel coronavirus (COVID-19) outbreak is having a serious impact on Okinawa's economy with businesses being suspended in the tourism sector, which is the major industry of Okinawa Prefecture, and events being cancelled and postponed. The Okigin Group has also had to partially reduce its operations in order to prevent the spread of the virus, placing top priority on the safety of its customers and employees. We will implement all possible safety measures for our employees so that they can continue to provide customers with services that they can use with peace of mind. We will promptly announce the impact on our profits and losses as soon as it becomes clear.

Effects on the market environment

Financial industry

Risk of increased allowances due to changes in terms and conditions as a result of the spread of COVID-19

Tourism industry, etc.

Risk of profit decline due to prolonged business suspension

Effects on the Group

Financial industry

Risk has not materialized at this point.

Tourism industry, etc.

We will actively provide support based on government policies.

Environment Surrounding the Group

External environment

Opportunities

- One of the few prefectures with a growing population (the only prefecture with a natural increase in population)
- Warm subtropical climate (which supports winter tourism)

Threats

- Growing and lingering effects of COVID-19
- Intensified competition due to entry from other industries (such as FinTech)
- Over banking, other banks' expansion into the prefecture

Internal environment

Strengths

- The only comprehensive financial service group in the prefecture to own a securities subsidiary.
- High capital ratio compared to other banks in the prefecture
- Stable increase in major customers

Weaknesses

- Low ratio of fees and commissions compared to other banks (There is a room for improvement).
- The ratio of real estate in loans at a regional bank is high (There is a room for development in business feasibility evaluation).

Profile of Okinawa Prefecture

Rate of change in population

Rank	Prefecture	Rate of change (%)
1	Tokyo	7.1
2	Okinawa	3.9
3	Saitama	2.7
4	Kanagawa	2.4
5	Aichi	2.1
6	Shiga	1.1
7	Chiba	0.8
8	Osaka	-0.4
9	Fukuoka	-0.7
10	Kyoto	-3.1
National average		-2.2

Source: Statistics Bureau, Ministry of Internal Affairs and Communications of Japan, Population Estimates

Rate of natural increase/decrease in population

Rank	Prefecture	Index (%)
1	Okinawa	2.0
2	Tokyo	-1.1
3	Aichi	-1.3
4	Shiga	-1.6
5	Kanagawa	-2.0
6	Saitama	-2.5
7	Fukuoka	-2.6
8	Chiba	-3.0
9	Osaka	-3.1
10	Hyogo	-3.6
National average		-3.8

Source: Statistics Bureau, Ministry of Internal Affairs and Communications of Japan, Population Estimates

Regional brand survey

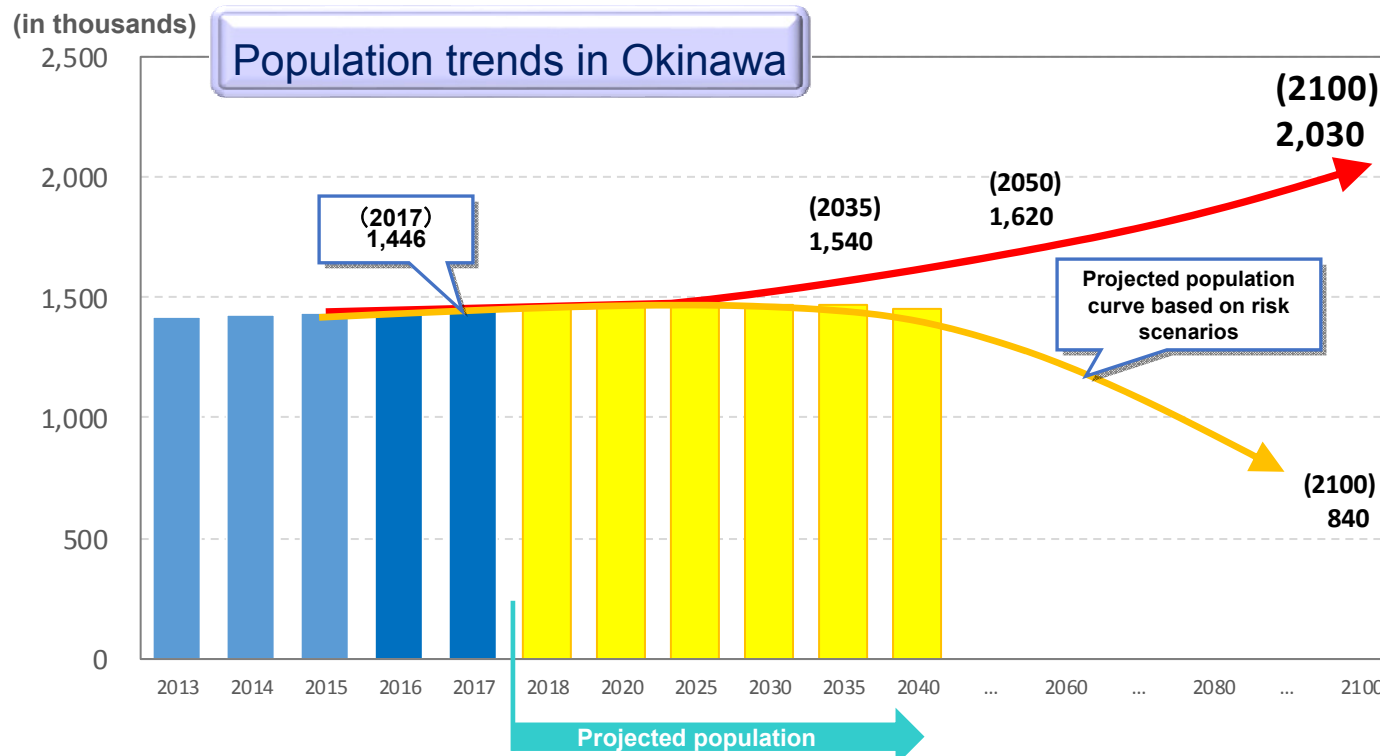
Rank	Prefecture	Attractiveness (Points)
1	Hokkaido	61.0
2	Kyoto	50.2
3	Tokyo	43.8
4	Okinawa	40.4
5	Kanagawa	34.5
6	Osaka	32.9
7	Nara	30.0
8	Fukuoka	29.6
9	Ishikawa	25.4
10	Nagano	24.8

Source: Brand Research Institute, Inc., Regional Brand Survey 2019

Population of Okinawa (Future Prospects)

The population of Okinawa is expected to take a downward turn in and after 2030

Population is on the increase at this stage, but active steps towards population growth are being taken now



Efforts to facilitate natural increase in population

Creation of a society that allows people to marry, give birth and raise children without undue worries

- Elimination of childcare waiting list
- Promotion of "health and longevity in Okinawa" campaign

Efforts to enhance growth of society

Creation of a dynamic society that is open to society

- Job creation and securing diverse human resources
- Increasing tourists and visitors

Aims to revitalize isolated islands and depopulated regions

Creation of a society that delivers well-balanced and sustainable population growth

- Improvement of conditions for long-term residence
- Industrial development by demonstrating attractive regional characteristics

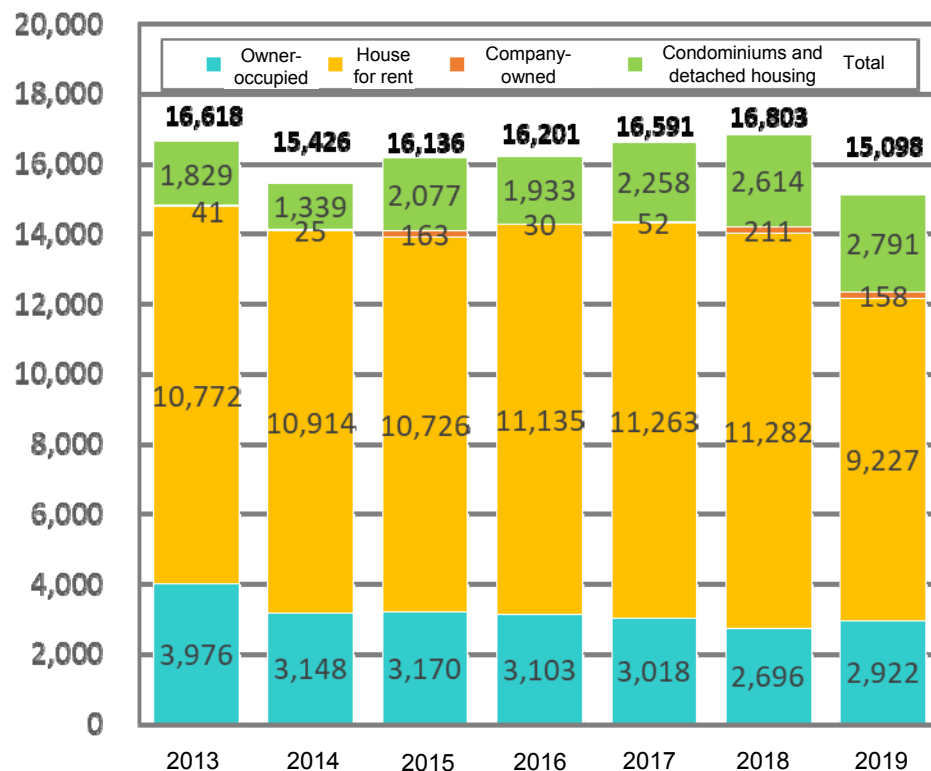
Projected future population: National Institute of Population and Social Security Research

(in thousands)	2015	2020	2025	2030	2035	2040
Okinawa	1,434	1,460	1,468	1,470	1,466	1,452
Japan	127,095	125,325	122,544	119,125	115,216	110,919

Housing Market Trends in Okinawa

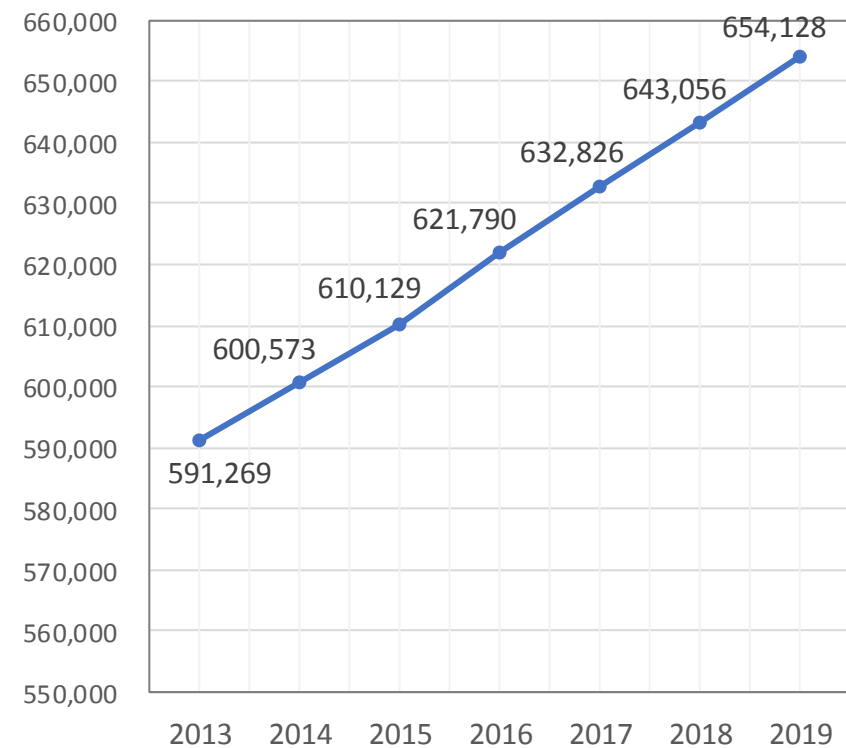
- Housing market in Okinawa remains strong
- According to the national census 2015, growth rate of population and number of households are both the highest in Japan

Number of new housing starts by housing type



Source: Ministry of Land, Infrastructure, Transport and Tourism, Statistics of Housing Starts

Total number of households in Okinawa

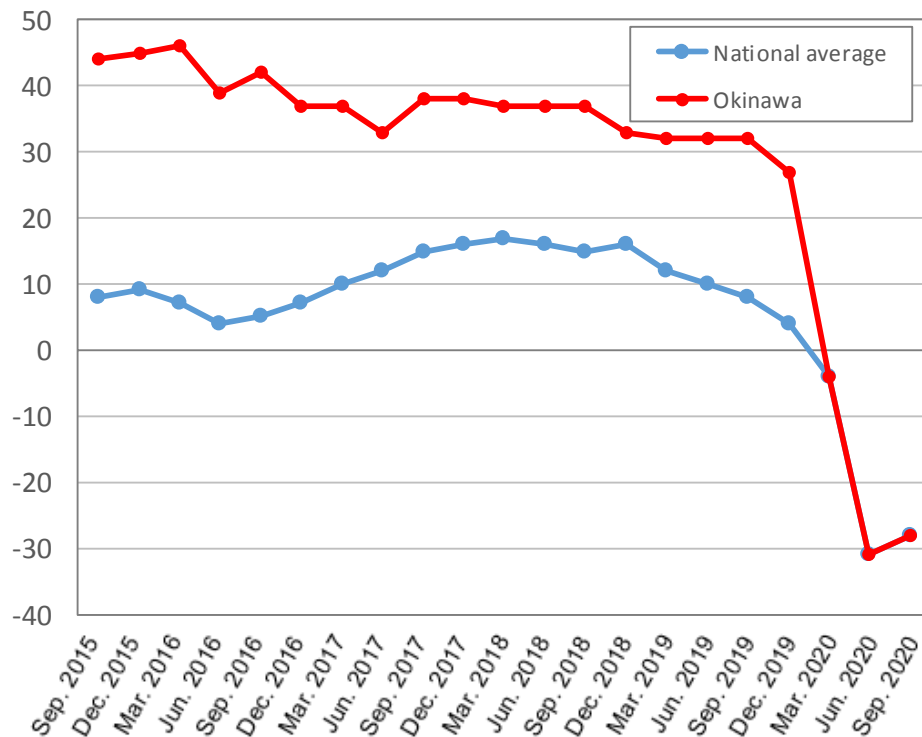


Source: Okinawa Prefectural Government, Department of Planning, Municipal Administration Division

Economic Trends in Okinawa (1)

BOJ Tankan

BOJ Tankan Business Confidence DI



Overview

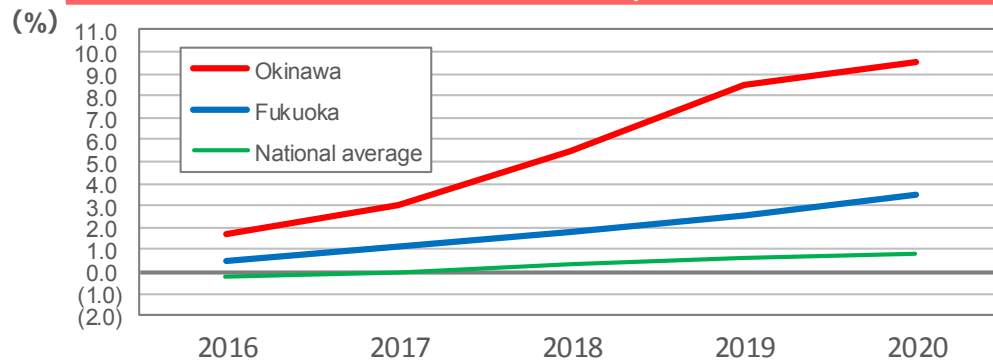
- ◆ Conditions in the prefectural economy remain challenging **due to the COVID-19 outbreak.**
- ◆ Conditions for **personal consumption** also remain unfavorable.
- ◆ The same applies for **tourism.**
- ◆ In terms of **public investment,** performance is solid.
- ◆ **Capital investment** has remained weak.
- ◆ **Residential investment** has remained weak.

Source: BOJ Naha Branch

Economic Trends in Okinawa (2)

Official land prices

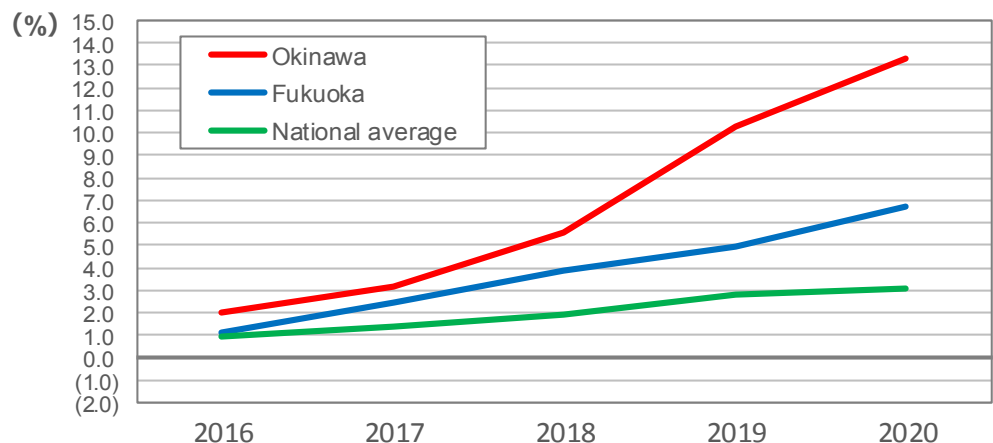
Residential land prices



Overview

◆ **Average residential land prices in Okinawa increased by 9.5%, after increasing 8.5% in the previous year** and continue to trend upward. There is growing housing demand due to an increase in population and low interest rates, which is considered to be a factor for a continuous rise in residential land prices. Residential land prices in Itoman City and Yomitan village have also increased due to an increase in the number of people seeking housing in the suburbs. However, much remains unclear as to what impact the COVID-19 outbreak will have on land prices.

Commercial land prices



◆ **Average commercial land prices in Okinawa increased by 13.3%, after increasing 10.3% in the previous year** and continue to trend upward. There is wide-ranging demand for commercial land in construction of hotels, drug stores, restaurants and other facilities, due to growing demand for tourism. As with residential land, much remains unclear as to what impact the COVID-19 will have on commercial land prices.

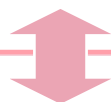
Business Strategies

Okigin Group Way (Basic Philosophy)

(1) Management Philosophy (Mission)

Regional involvement and contribution

Okigin's mission is to **contribute to the region** by connecting with customers, solving customers' problems to support their business continuity, assisting them in quality asset formation, and enhancing the value of the region and society as a whole (creating sustainable social value, enriching people's lives and increasing prefectural income), through **close involvement with the region**.



(2) Okigin Group's Ideal Vision

Enhance customer convenience by providing support through digital transformation utilizing ICT, combine this with analog (face-to-face) services to achieve optimal customer experience, and become the No.1 regional bank that grows with the region.

(3) Motto (Value: Value Judgment)

Mission	Contribute to the development of regional society by remaining aware of the bank's public mission.
	We will understand our public roles and act accordingly in order to enhance the value of regional society.
Service	Serve customers wholeheartedly with gratitude.
	We will connect with our customers and serve customers wholeheartedly with a spirit of gratitude and a welcoming smile.
Performance enhancement	Be commercially-minded and strive to enhance performance.
	We will aim for the sustainable growth of the Group in order to support the sustainable growth of regional society as a whole.
Harmony	Respect order, cherish harmony and strive to create a vibrant workplace.
	We will maintain order in society and within the Group, and create a highly motivated, vibrant workplace.
Self-improvement	Cultivate intellect, build character and nurture originality and a progressive spirit.
	We will utilize our expertise and creativity to help customers solve problems and assist in quality asset formation.

Progress Status of 18th Medium-Term Business Plan

Management numerical targets under Create the Future

		Result		Target
Management numerical targets		FY2018	FY2019	FY2020
Profitability	(1) ROE for consolidated net income	5.04%	3.77%	Approx. 4%
	(2) Business profit on core banking operations	¥8.2 billion	¥8.1 billion	Approx. ¥7.5 billion
	(3) Core OHR	72.0%	72.7%	Approx. 70%
Growth potential	(4) 10% increase in the number of major corporate customers	8,249	8,383	Approx. 8,000
	(5) 10% increase in the number of major individual customers	331,130	336,029	Approx. 350,000
Soundness	(6) Non-performing loan ratio	1.18%	1.22%	Approx. 1%
	(7) Capital ratio	9.97%	9.91%	9% level

*ROE for consolidated net income shown on a shareholders' equity basis.

18th Medium-Term Business Plan (Basic Policy)

Basic Policy of the 18th Medium-Term Business Plan (Tagline, Vision)

Tagline

18th Medium-Term Business Plan: Basic Policy

HAND IN HAND WITH CUSTOMERS – Create the Future –

- Utilize the full strength of the Okigin Group to create a sustainable future for the next generation together with local communities
- Increase opportunities for facetime with customers and create value by utilizing the time generated by operational reforms and skillful human resources
- Create the future for customers and the Okigin Group by supporting customers' formation of quality assets and business continuity

Period

April 2018 – March 2021 (three years)

Vision

A bank that works on new concepts and creates new value together with customers



Carrying on the creation of new value set forth in the 17th Medium-Term Business Plan, our greatest mission is to contribute to the advancement of the regional economy based on new concepts to extend our business domain and expand services with the comprehensive capabilities of the Okigin Group. We aim to become a comprehensive financial services provider that creates new value together with our customers.

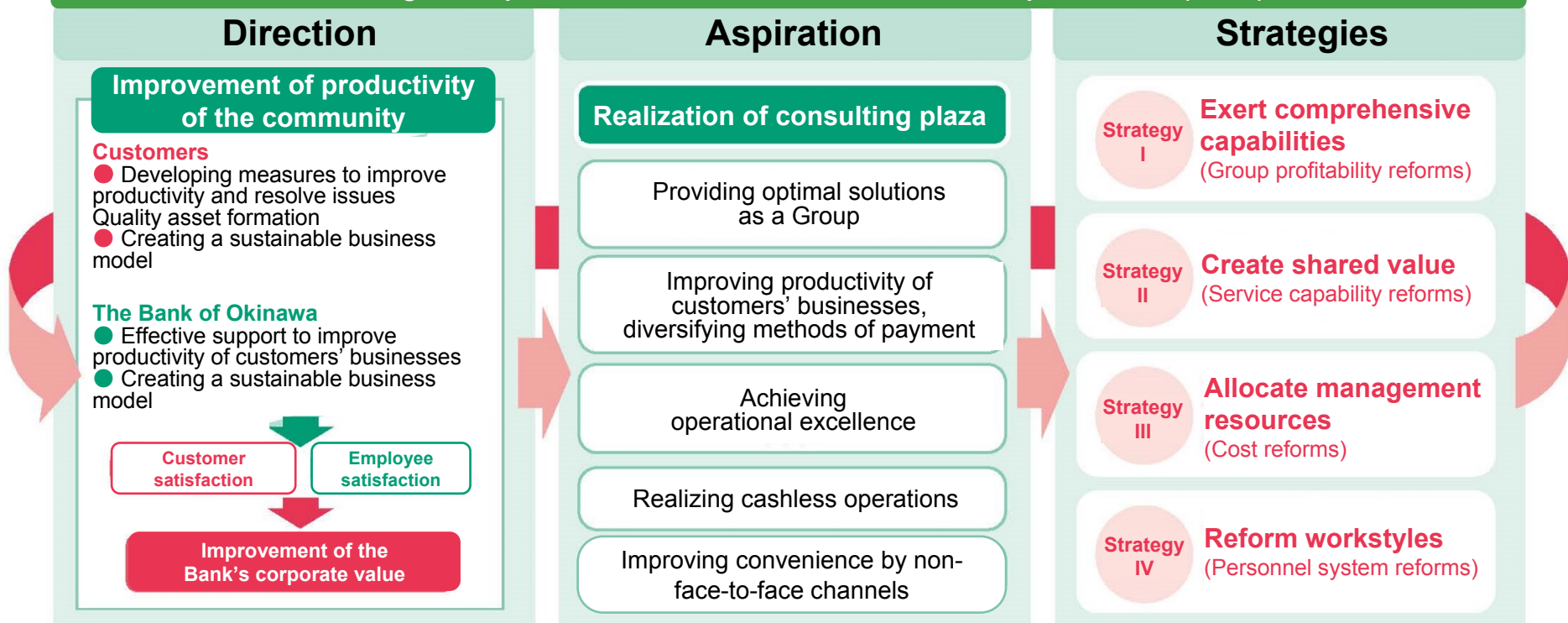
Direction of the 18th Medium-Term Business Plan

1. Direction of the 18th Medium-Term Business Plan

Aspirations The Okigin Group utilizing advanced ICT to grow with the region

We aspire to become the No. 1 bank in the region that grows in tandem with the community, improving customer convenience through ICT digital transformation and realizing excellent customer experience by fusing the digital with the analog (Face to Face).

The Okigin Group's efforts to achieve the Sustainable Development Goals (SDGs)



Demonstrate corporate governance and risk governance functions

Basic approach to stakeholder engagement

Business Performance Forecasts for FY2020

	(¥ billion)		
[Consolidated]	FY19	FY20 (plan)	YoY change
Ordinary income	52.1	48.7	(3.4)
Ordinary profit	8.1	5.5	(2.6)
Net income attributable to owners of the parent	5.5	3.3	(2.2)
[Non-consolidated]	FY19	FY20 (plan)	YoY change
Ordinary income	37.0	34.3	(2.7)
Gross business profit	29.1	28.4	(0.6)
Interest income	27.9	26.8	(1.0)
Of which, gains (losses) on cancellation of investment trusts	0.7	(0.1)	(0.8)
Fees and commissions	1.6	1.4	(0.1)
Other business profit	(0.4)	0.0	0.4
Expenses (excluding non-recurrent items)	21.7	22.0	0.3
Personnel expenses	9.5	9.7	0.2
Non-personnel expenses	10.6	10.7	0.0
Real net business profit	7.3	6.3	(1.0)
Business profit on core banking operations	8.1	6.5	(1.5)
Excluding gains (losses) on cancellation of investment trusts	7.3	6.6	(0.7)
Provision of general allowance for possible loan losses	(0.2)	0.4	0.6
Net business profit	7.5	5.9	(1.6)
Non-recurrent items	(0.8)	(0.8)	0.0
Recoveries of written-off claims	0.1	0.3	0.2
Net gains (losses) on equity securities	(0.3)	(0.0)	0.2
Bad debt disposal	1.2	1.3	0.1
Ordinary profit	6.7	5.0	(1.7)
Extraordinary gains (losses)	(0.0)	(0.0)	0.0
Income before income taxes	6.6	4.9	(1.7)
Total income taxes and other taxes	1.7	1.5	(0.1)
Net income	4.9	3.3	(1.5)

Business performance points

Consolidated basis

Net income attributable to owners of the parent is forecast to decrease by ¥2.2 billion year on year to ¥3.3 billion due to an expected decline in non-consolidated net income.

Ordinary income

Decreases are expected in interest on loans and discounts, and interest and dividends on securities, but we will endeavor to reduce interest expenses.

	(¥ billion)		
	Average balance	Yield on securities	Interest
Loans and bills discounted	+61.6	(0.066)%	(0.1)
Securities	+9.3	(0.165)%	(0.8)
Deposits	+206.5	(0.033)%	(0.6)

Business profit on core banking operations

Business profit on core banking operations is forecast to decrease due to decreases in interest income, and fees and commissions, along with increases in personnel expenses, non-personnel expenses and others.

Ordinary profit

Ordinary profit is forecast to decrease, mainly due to decreases in interest income and fees and commissions, and increases in credit cost, expenses and others.

Business Profit on Customer Services

(¥ million, %)

	FY18 1H	FY19 1H	FY20 1H
(1) Loans and bills discounted average balance	1,546,237	1,607,530	1,662,275
(2) Yield on loans and bills discounted	1.557	1.526	1.475
(3) Yield on deposits	0.042	0.061	0.018
(4) Loan / deposit spread ((2) - (3))	1.515	1.465	1.457
(5) Fees and commissions	1,051	862	733
(6) Operating expenses	11,016	11,095	11,158
(7) Business profit on customer services	1,780	1,574	1,717
(8) Deposits average balance	1,993,616	2,052,766	2,218,935
(9) Business profit margin on customer services	0.178	0.152	0.154

***(7)** = (1) × (4) × elapsed days ÷ 365 + (5) - (6)

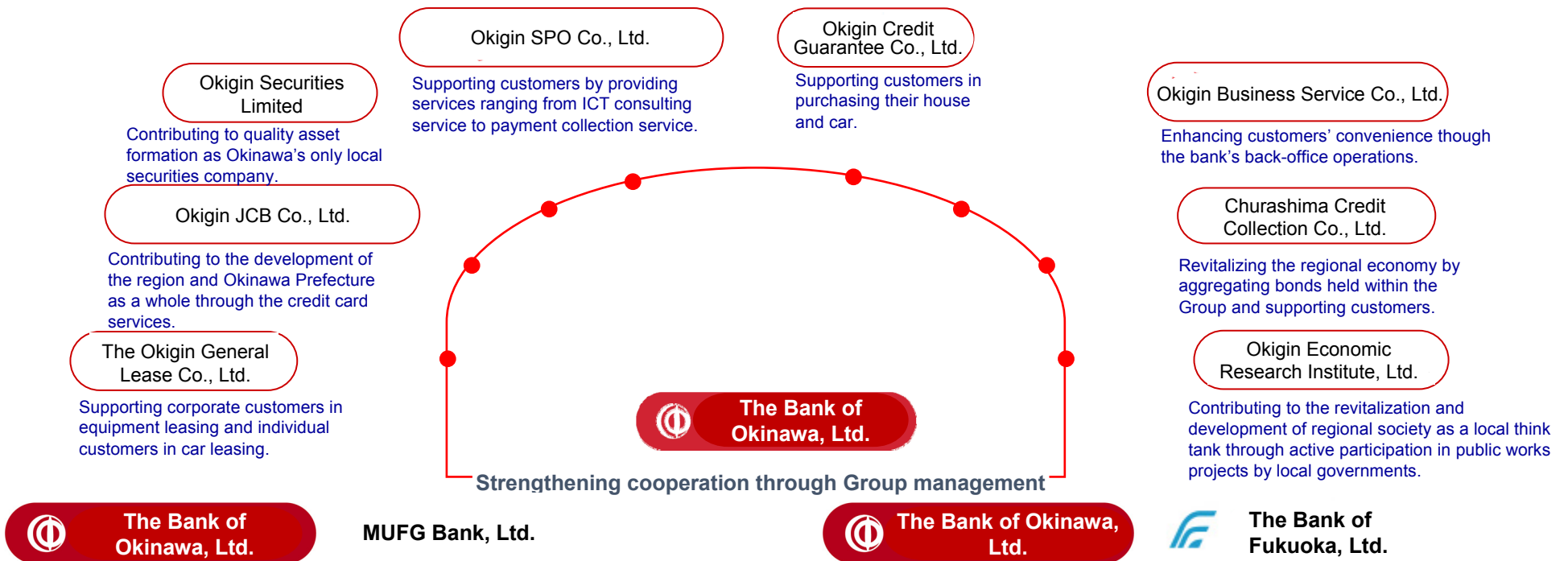
***(9)** = (7) ÷ (8) × 365 ÷ elapsed days × 100

*Items (1) through (4) and (8) are from banking account.

*Item (4) is the overall spread for domestic and international operations.

Strategy I. Exert Comprehensive Capabilities (Group Profitability Reforms)

Contribute to enhancing customers' productivity and quality asset formation by exerting the Okigin Group's collective capabilities as a comprehensive financial services provider and providing high value-added financial services through alliance.

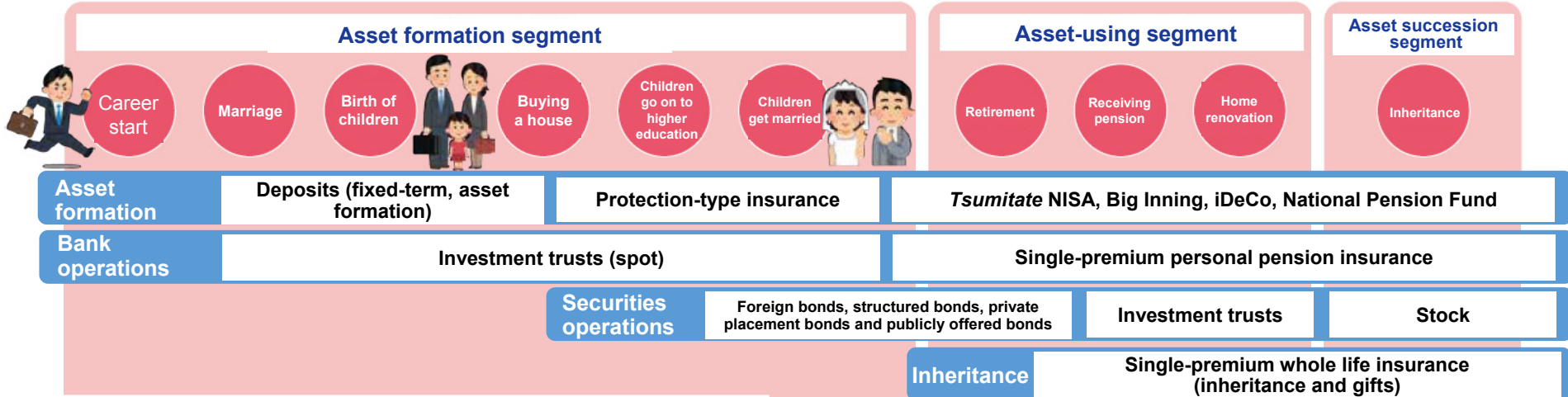


In order to promote local industries in Okinawa, we have signed a comprehensive partnership agreement with MUFG Bank. The public and private sectors are working together in a regional revitalization initiative, combining the information, knowledge and domestic and international network functions of MUFG Bank with Okigin's consulting functions and corporate networks.

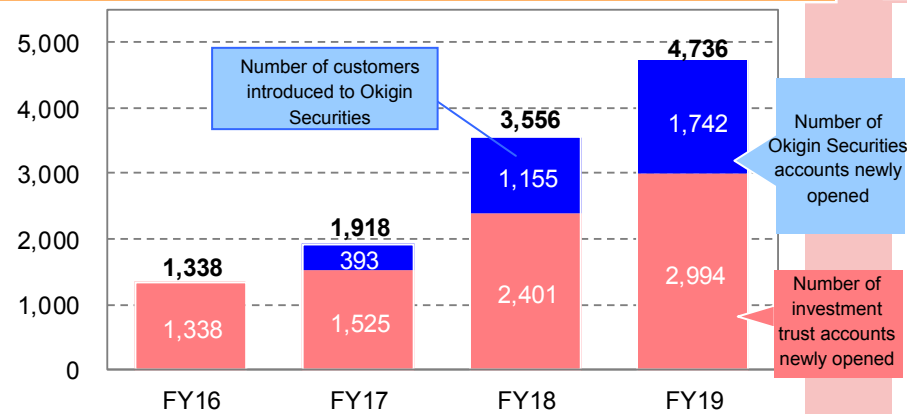
By signing a partnership agreement on regional economy revitalization with The Bank of Fukuoka to mutually introduce customers, share functions and know-how, and collaborate on other aspects of operations, we play a role in connecting the economies of Okinawa and Fukuoka prefectures, and at the same time, contribute to the revitalization of the regional economy through the provision of business support to our customers.

Strategy II. Create Shared Value (Service Capability Reforms)

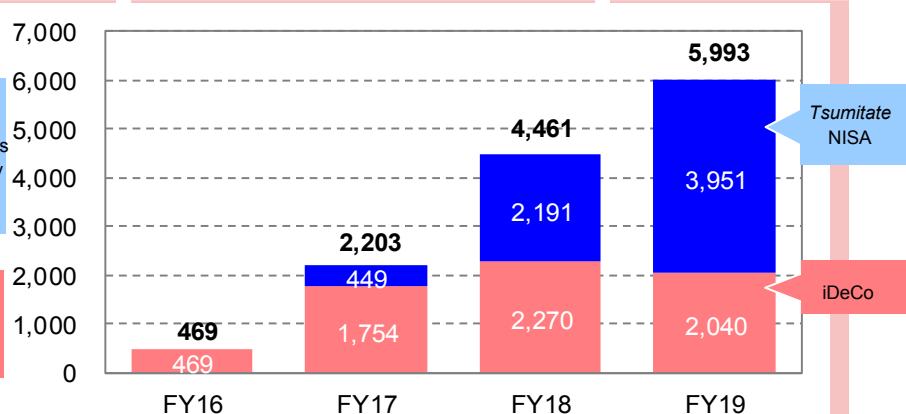
Support customers' formation of quality assets by providing products and services according to their life plans.



Number of investment trust accounts newly opened + Number of Okigin Securities accounts newly opened



Number of customers who joined iDeCo + Tsumitate NISA



Implementing the Okigin Fiduciary Duty Basic Policy: seeking the best interests of customers

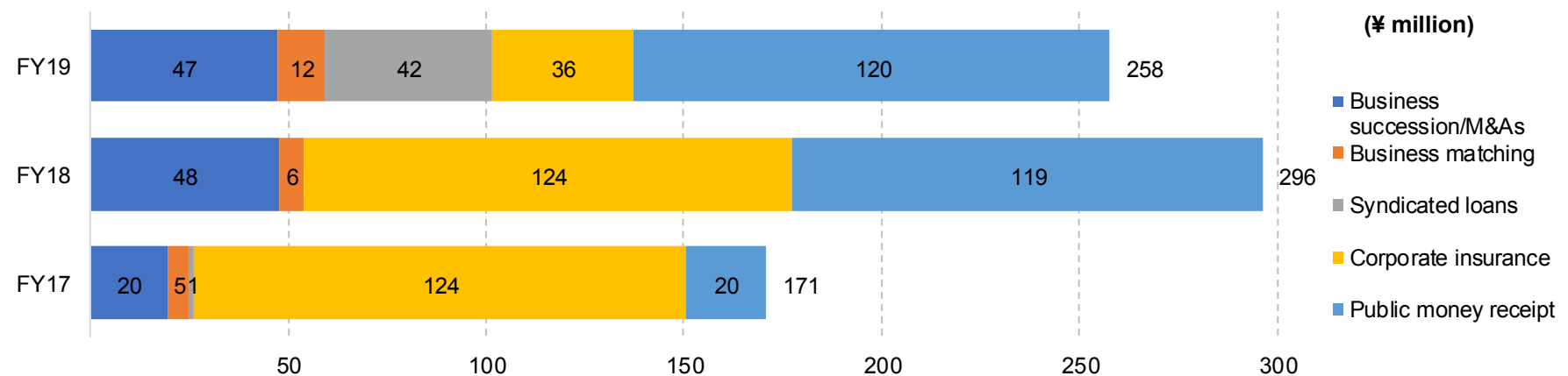
Strategy II. Create Shared Value (Service Capability Reforms)

Provide various solutions according to the life stage of customers' businesses

Stage	Customer needs	Services of the Okigin Group
Start-up phase	<ul style="list-style-type: none"> Funds for startup/new business Support for formulating the business plan 	<ul style="list-style-type: none"> Support for formulating the business plan, funds to support startup Leases Support through utilization of funds Convenient payment methods
Growth phase Stable phase	<ul style="list-style-type: none"> Support for expanding sales channels and business matching Enhancing productivity and profitability 	<ul style="list-style-type: none"> Visualization of business operations and solving issues through the use of CIPS Business matching Rationalization of back-office operations
Stagnation phase	<ul style="list-style-type: none"> Support for formulating the business improvement plan Stabilizing the cash flow 	<ul style="list-style-type: none"> Support for formulating the improvement plan, active utilization of external organizations Capital subordinated loans (DDS)
Regeneration phase	<ul style="list-style-type: none"> M&As, business succession 	<ul style="list-style-type: none"> Support for M&As Drastic business revitalization through the utilization of external organizations



Track record of solution provision



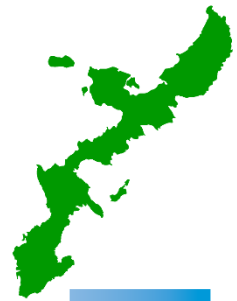
Strategy II. Create Shared Value (Service Capability Reforms)

Strengthen support to customers who have been affected by the spread of COVID-19

1 Revitalize the regional economy through smooth demonstration of financial intermediary functions

Effects of the spread of COVID-19 on the prefectural economy

- Significant decline in the number of tourists
- Reduction in the scale of economic activities due to reasons such as refraining from holding events
- ⇒ Concerns over the reduction in customers' sales and deterioration in their cash flow



The Bank of Okinawa, Ltd.

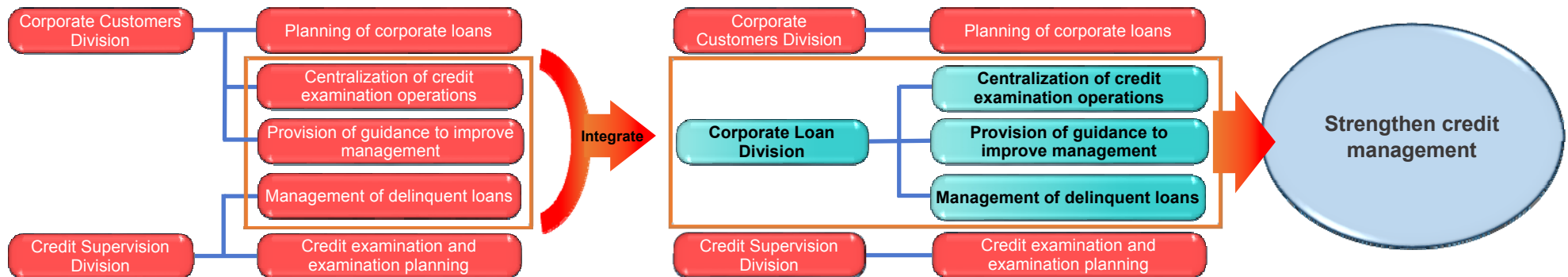
[Major initiatives]

- Maintenance of the business continuity structure
- Establishment of a helpdesk at all branches
- Establishment of loans to support the countermeasures against COVID-19
- Handling of crisis-related guarantees
- Response to changes in terms and conditions and exemption of fees required to change terms and conditions
- ⇒ Financial support and response to changes in repayment terms

Revitalization of the regional economy

Demonstrate financial intermediary functions in a prompt and fine-tuned manner

2 Deepen relations with customers by strengthening credit management



Strategy II. Create Shared Value (DX: Digital Transformation)

Expand non-face-to-face channels: Low-cost operations without lowering the quality of services provided to customers

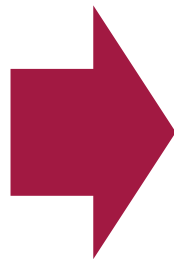
Enhancement of customer convenience

Rationalization of clerical work at branches

Cost reduction

Okigin app

From opening an account to applying for a personal loan on a smartphone.



Okigin Smart

*No. of downloads: 16,556



Okigin Smart

- Balance inquires
- Deposit/withdrawal details
- Transfers/small amount remittance
- Confirmation of borrowing balance and details
- Partial mortgage prepayments

Wallet+

*No. of downloads: 45,832



- Balance inquires
- Deposit/withdrawal details
- Purpose-specific deposits
- THEO+
- Various coupons
- Information

Okigin StarPay



- Smartphone payment terminal
- (1) OKI Pay
- (2) LINE Pay
- (3) au Pay
- (4) PayPay
- (5) WeChat Pay
- (6) Alipay

OKI Pay

*No. of downloads: 6,694



- QR code payment
- Search for stores where the app can be used
- Link to myCoin

[Cashless Strategy]

We offer customers enhanced convenience by reducing their cashless handling costs, while also achieving a reduction in our office expenses. Moreover, a part of the expenses curtailed from not having to issue a passbook is donated to organizations engaged in measures to alleviate poverty in Okinawa Prefecture and other regional contribution activities, as a way of promoting SDGs.

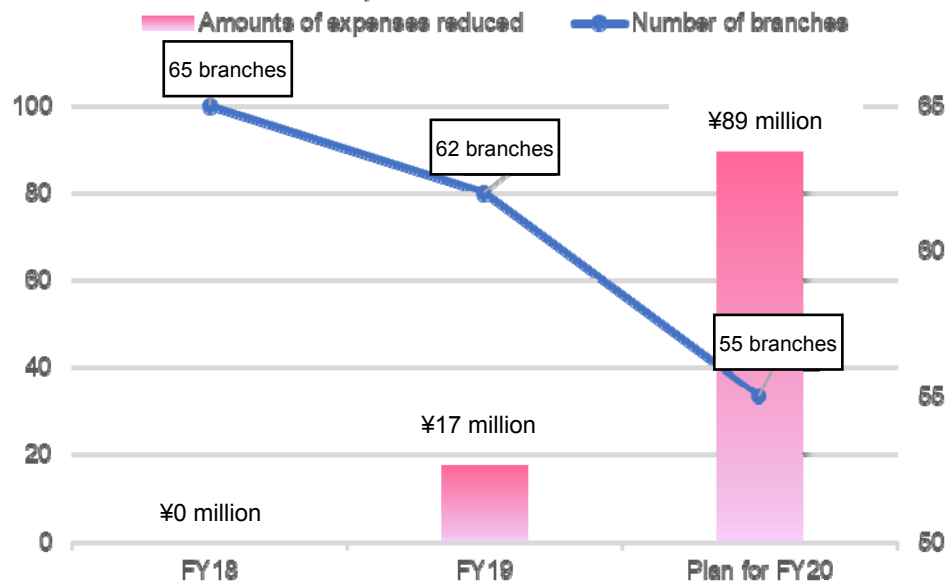
Strategy III. Allocate Management Resources (Cost Reforms)

Review branch networks and improve operational efficiency

Efforts to consolidate branches through branch-in-branch method

Branch consolidation is carried out through branch-in-branch method based on market analysis, and employees are strategically allocated to growth markets.

Changes in the number of branches and expenses reduced

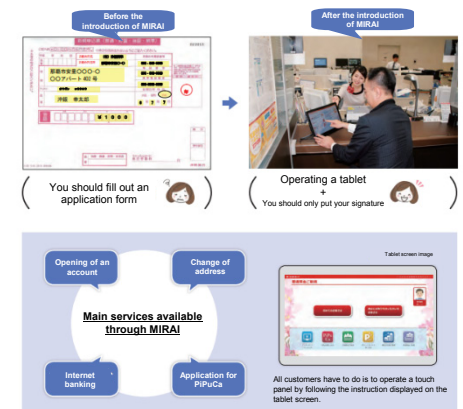


* A branch-in-branch is counted as one branch.

Enhancement of productivity through operational reforms

(1) Utilization of tablet computers (MIRAI)

We have developed and introduced a helpdesk support system called MIRAI which can accept applications for opening an account and changing addresses, as well as for cash cards and internet banking, through a tablet computer.

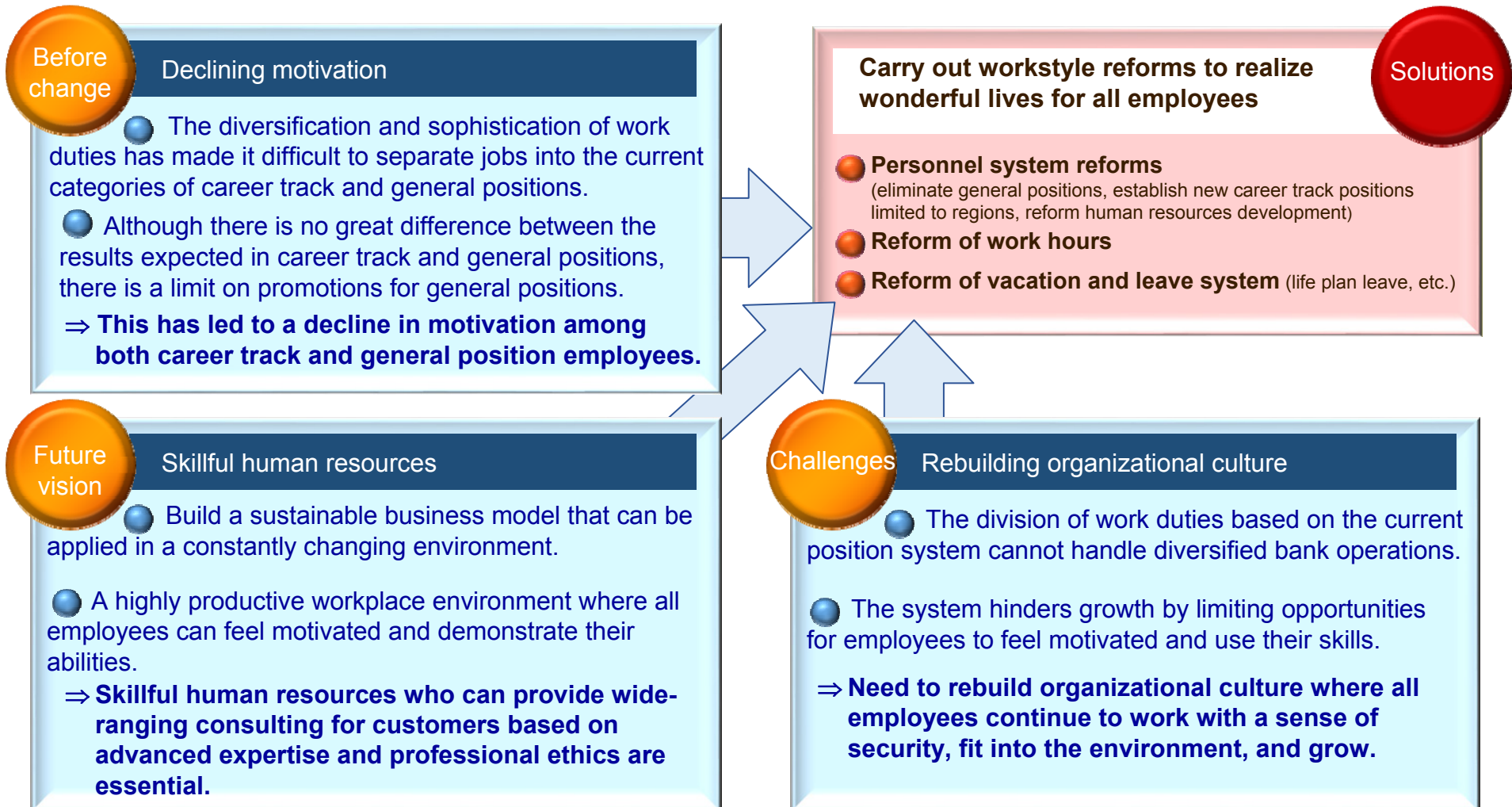


(2) Centralization of branch clerical work at head office

Execution of loans, storage and management of cards that are returned by postal mail, and other tasks are handled centrally at our head office to streamline clerical work.

Strategy IV. Reform Workstyles (Personnel System Reforms)

Introduction of new personnel system



Strategy IV. Reform Workstyles (Personnel System Reforms)

Workstyle reform in the 18th Medium-Term Business Plan

Large category	Initiatives	Date of implementation	Content
Reform of the personnel evaluation system	Introduction of process evaluation Review of certificate tests, etc.	Apr. 2020	<ul style="list-style-type: none"> Introduce process evaluation to increase employee motivation by appropriately evaluating and developing human resources that can contribute to solving customers' problems and quality asset formation.

Efforts towards workstyle reform

Personnel system reforms

Establish new regional career track positions, eliminate general positions, establish life plan leave, and expand re-employment system.

HR development reforms

Set individual career plans and goals, and establishment of job challenge system

Introduction of process evaluation

Introduce process evaluation to increase employee motivation by appropriately evaluating and developing human resources that can contribute to solving customers' problems and quality asset formation. Appropriately evaluate activities that contribute to customers based not only on business performance but also on business strategies.

Recognized under the 2020 Certified Health & Productivity Management Organization Recognition Program (large enterprise category)



We were recognized under the large enterprise category of the 2020 Certified Health & Productivity Management Organization Recognition Program, a program that was established by the Ministry of Economy, Trade and Industry in 2016.

Promotion of female participation and career advancement in the workplace

- Support for the formation of female network (Cross-industrial exchange, external training, training for rehired retirees and part-time workers)
- Systematic development of female staff responsible for corporate customers
- Holding female manager training courses

Efforts to Improve Management Structure

Establishment of a long-term relationship of trust with customers Business management structure

Through a more sophisticated compliance risk management and an improved management structure, we will establish a long-term relationship of trust with customers, and in turn, re-establish our long-term business model.

	Current response	Future direction
Customer-oriented business operations	<ul style="list-style-type: none"> ● Instill and establish the Okigin Fiduciary Duty Basic Policy ● Disclose progress of efforts to realize wonderful lives for customers 	<ul style="list-style-type: none"> ● Provide products and services according to customers' life stages and implement continuous improvement efforts ● Visualize implementation and improvement efforts (Set KPIs)
Strengthening of risk governance	<ul style="list-style-type: none"> ● Take and control risks appropriately ● Comply with the basic policy on compliance risk management 	<ul style="list-style-type: none"> ● Introduce a risk appetite framework (RAF) ● Review the risk management system such as for identifying conduct risk
Response to financial crimes	<ul style="list-style-type: none"> ● Respond to financial crimes such as money laundering and terrorist financing ● Respond to antisocial forces 	<ul style="list-style-type: none"> ● Strengthen measures taken by the countermeasures office against financial crimes such as money laundering and terrorist financing ● Instill the basic policy on response to antisocial forces
Corporate governance	<ul style="list-style-type: none"> ● Improve corporate value and ROE ● Take initiatives to enhance corporate governance ● Make stable returns to shareholders 	<ul style="list-style-type: none"> ● Strengthen the Group governance structure and exert comprehensive capabilities as a Group through the establishment of a sustainable business model ● Enhance governance through the establishment of a voluntary advisory committee ● Maintain a stable dividend payout ratio

Business management structure based on a risk-based approach

Response to Corporate Governance Code

- **Policy on Cross-Shareholding: Clarify policy to reduce cross-held shares and report on the purpose of any cross-held shares to the Board of Directors**
- **Secure transparency and objectivity in the nomination and compensation determination process by establishing a voluntary Nomination and Compensation Advisory Committee**

(Excerpt from Corporate Governance Report)

[Principles 1-4]

○Policy on Cross-Held Shares

The Bank holds cross-held shares when deemed necessary for improving the sustainable corporate value of our business partners and the Group.

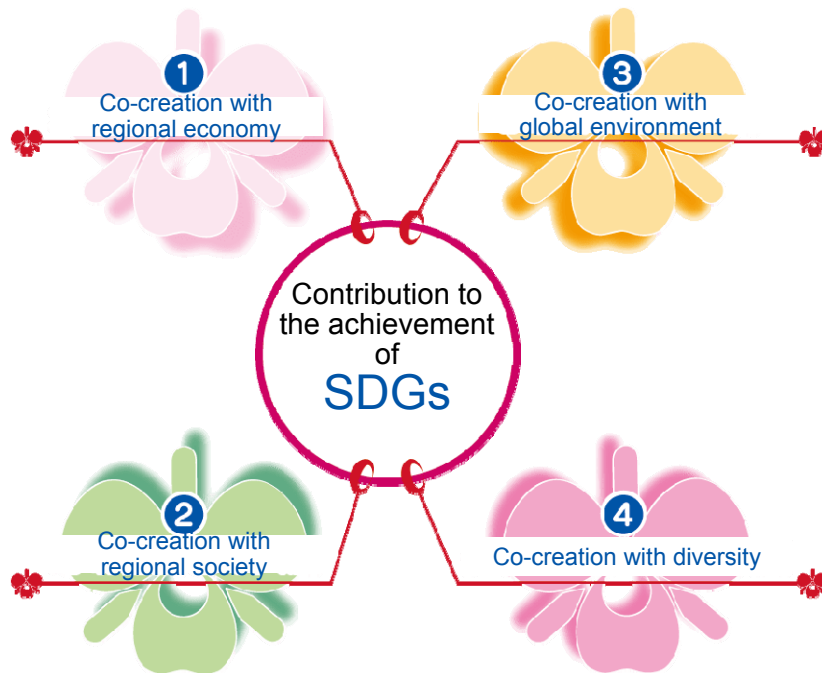
The Bank verifies the necessity of cross-shareholding by looking at the mid- to long-term economic rationality, future prospects, relationship with the regional economy, etc. for each stock. With comparison and verification of the stock to capital costs, etc., as well as to the standard yield expected when the Bank makes loans, the Bank will reduce shareholdings that are deemed unnecessary in terms of economic rationality. The purpose of cross-shareholding, etc. is reported to and verified by the Board of Directors each year.

In addition to looking at cross-shareholdings in light of capital costs, the Bank verifies and compares cross-shareholdings with the standard yield expected when making loans, and the purpose, etc., of holding the shares is reported annually to the Board of Directors. Based on the report, the Bank reduced cross-shareholdings during the fiscal year ended March 31, 2020.

	FY17	FY18	FY19	Difference
Cross-held stocks	18 stocks	16 stocks	15 stocks	(1) stocks

Efforts to Deepen Sustainable Development Goals (SDGs)

Established the Okigin Group SDG Declaration in March 2019 to promote efforts to realize a sustainable regional society



Co-creation with regional society



We have held the Okinawa preliminaries of the Economics Koshien (a national financial quiz tournament for high-school students) since the second tournament, with the aim of promoting financial and economic education for high school students. This is part of our financial education activities, creating opportunities for high school students to enjoy learning about financial economics.



Co-creation with global environment



As an event to celebrate the founding of the Bank, beach clean-up activities for Okigin Group employees were organized and implemented by new employees hired in FY2019, creating opportunities for environmental conservation.

Co-creation with regional economy



In cooperation with MUFG Bank and the Okinawa branch office of the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN, the Churashima Business Meeting has created opportunities by matching Okinawa-based tourism business operators that have problems with solutions providers in Okinawa and other prefectures.

Co-creation with diversity

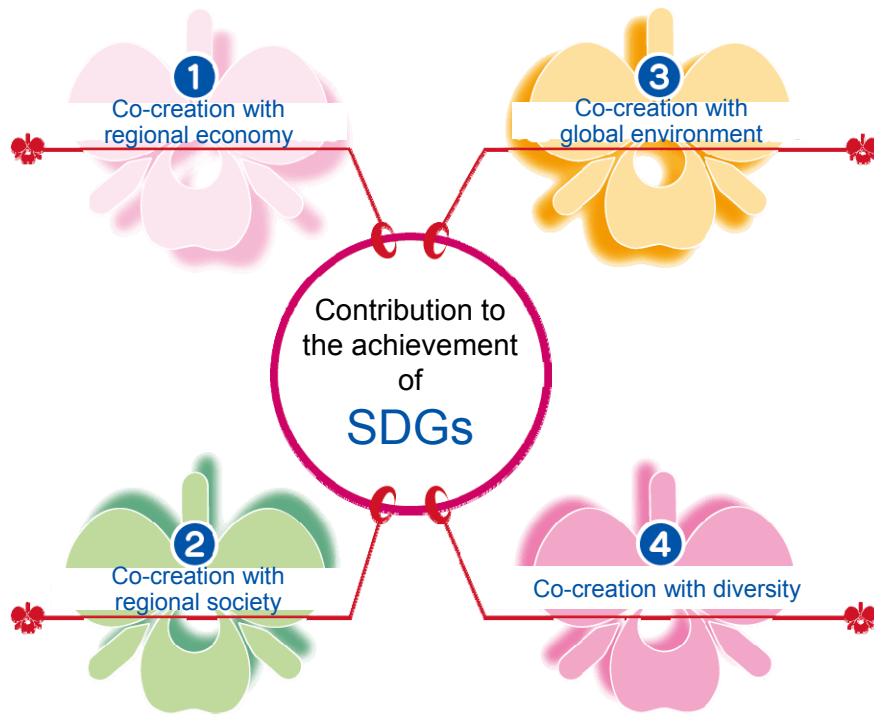


We have obtained the Eruboshi Certification from the Okinawa Labour Bureau. Eruboshi is a certification system established based on the Act on the Promotion of Female Participation and Career Advancement in the Workplace that came into full effect in April 2016. We promote female participation and career advancement in the workplace and create employment opportunities through workstyle reforms.



Governance Structure to Achieve SDGs

Review of the governance structure to achieve of the Okigin Group SDG Declaration

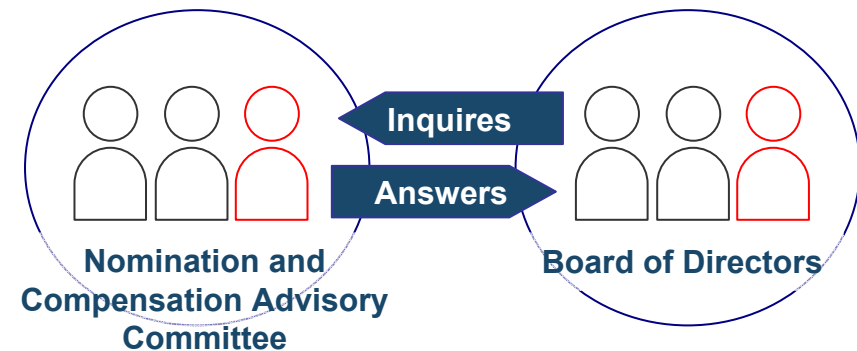


Review of the corporate governance structure

Corporate Governance Structure



Establish a Nomination and Compensation Advisory Committee as a voluntary advisory body to the Board of Directors regarding the nomination and compensation of Directors



- Have one third of the Board of Directors comprised of Independent Outside Directors
- Appoint female Independent Outside Directors
- Secure transparency and objectivity in the evaluation and determination processes regarding the nomination and compensation of Directors and Corporate Auditors
- Continue to strengthen corporate governance

Dividend Policy

Strengthen management structure and continue stable dividends

The Bank will flexibly use capital with the aim of optimizing capital efficiency and make stable returns to shareholders while maintaining a sound capital ratio to reinforce its management structure.

Basic Policy on Dividends

The Bank's basic policy on appropriation of surplus is to aim to strengthen its management structure while providing stable dividends in light of the public nature of the banking business.

18th Medium-Term Business Plan Policy on Shareholder Returns

Common dividend

Regardless of performance, we aim for a yearly common dividend of ¥70.

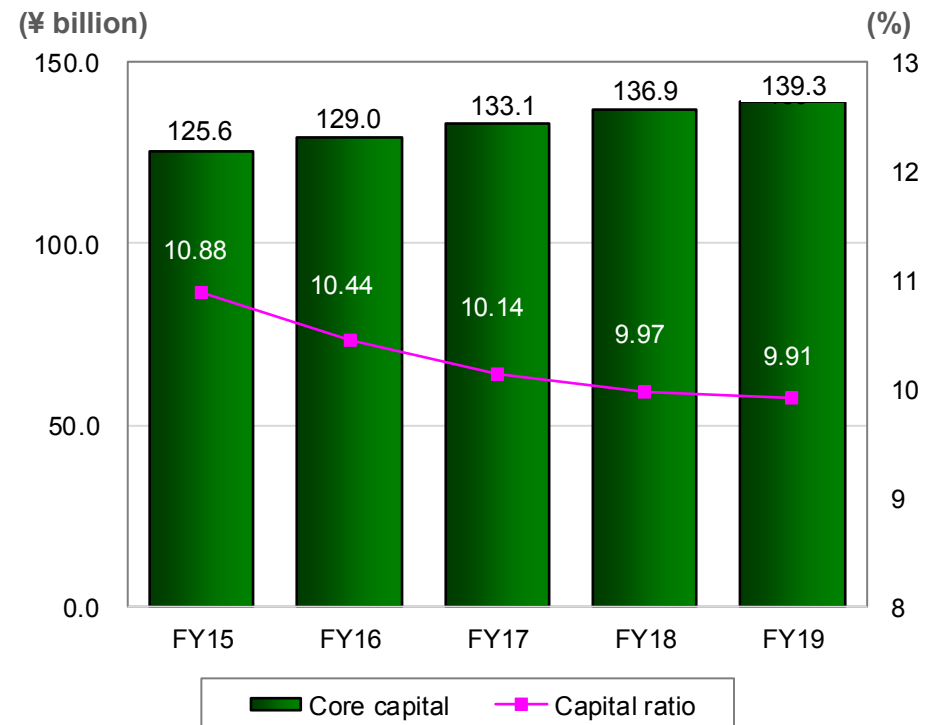
Performance-linked dividend

If the Bank's net income for the fiscal year exceeds ¥7.0 billion, we will consider paying a special dividend.

Total return ratio

The Bank sets a target of 30% of net income for the fiscal year for total shareholder returns.

Capital Ratio Trends



Shareholder Returns

Commemorating the 60th anniversary of the Bank's founding, the dividend for the fiscal year ended March 31, 2016 was ¥85 per share, an increase of ¥15.

Additionally, the Bank implemented a share split (1.2 shares for 1 share) with July 1, 2016 as the effective date.

The Bank has maintained an annual dividend of ¥70 even after the share split.

	FY15	FY16	FY17	FY18	FY19
Share price (yen)	3,695	4,260	4,490	3,445	3,155
Common dividend (yen)	70	70	70	70	70
Commemorative dividend (yen)	15	0	0	0	0
Total dividends (yen)	85	70	70	70	70
Dividend yield (%)	2.30%	1.64%	1.55%	2.03%	2.21%
Share buy back (million yen) (Note)	467	—	—	—	500

(Note) The share buy back shown is via a resolution of the Board of Directors.

	Number of shares held	Annual dividend expected (common dividend)
Before share split (FY15)	100 shares	¥7,000
After share split (FY16)	120 shares	¥8,400 (dividend increase by 20%)

Supplemental Materials

Business Performance

(¥ billion)

[Non-consolidated]	FY17 1H	FY18 1H	FY19 1H	FY20 1H	YoY change
Ordinary income	19.5	18.9	18.0	17.7	(0.3)
Gross business profit	14.8	13.9	14.7	14.4	(0.3)
Interest income	13.8	13.7	13.6	13.7	0.1
Of which, gains (losses) on cancellation of investment trusts		0.0	0.0	(0.0)	(0.0)
Fees and commissions	1.0	1.0	0.8	0.7	(0.1)
Of which, trust fees	0.1	0.0	0.0	0.0	0.0
Excluding trust fees	0.9	0.9	0.7	0.6	(0.1)
Other business profit	(0.0)	(0.7)	0.2	(0.0)	(0.3)
Gains (losses) on bond trading	0.0	(0.8)	0.1	(0.1)	(0.3)
Expenses (excluding non-recurrent items)	10.8	10.8	11.0	11.0	0.0
Real business profit	4.0	3.1	3.7	3.4	(0.3)
Business profit on core banking operations	3.9	3.9	3.6	3.6	(0.0)
Excluding gains (losses) on cancellation of investment trusts		3.9	3.6	3.6	(0.0)
Provision of general allowance for possible loan losses	0.1	0.1	0.6	0.1	(0.4)
Net business profit	3.8	2.9	3.1	3.2	0.1
Non-recurrent items	0.3	0.6	(0.2)	(0.1)	0.0
Net gains (losses) on equity securities	0.9	1.1	(0.2)	(0.0)	0.1
Bad debt disposal (non-recurrent items)	1.0	0.5	0.4	0.3	(0.1)
Ordinary profit	4.2	3.6	2.9	3.1	0.2
Extraordinary gains (losses)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Net income	2.5	2.4	2.0	2.1	0.0
Credit cost	1.1	0.7	1.0	0.4	(0.5)
Non-performing loan ratio	1.41%	1.35%	1.18%	1.22%	0.04pt
Capital ratio	10.38%	10.00%	10.03%	9.89%	(0.14)pt

Term-End Balance, Average Balance, Yield, and Loan Balance by Industrial Segment

Term-end balance / Average balance / Yield

(¥ billion)

		FY17 1H	FY18 1H	FY19 1H	FY20 1H
Loans and bills discounted	Term-end balance	1,492.6	1,583.1	1,623.7	1,686.9
	Average balance	1,452.7	1,547.7	1,608.7	1,663.2
	Yield on securities	1.61%	1.55%	1.52%	1.47%
Securities	Term-end balance	521.8	414.1	399.7	404.5
	Average balance	511.7	419.6	386.1	375.6
	Yield on securities	1.02%	0.96%	0.85%	0.94%
Deposits	Term-end balance	1,984.6	2,049.0	2,097.6	2,301.8
	Average balance	1,946.3	2,020.1	2,075.0	2,237.0
	Yield on securities	0.04%	0.03%	0.02%	0.01%

* Term-end and average balances are calculated on the basis of loan and bill discounted/deposit balances of the banking and trust accounts.

* Yields on loans and bills discounted and deposits are those used for domestic operations only.

Loan balance by industrial segment

	FY17 1H	FY18 1H	FY19 1H	FY20 1H
Manufacturing	34.7	34.6	34.9	36.8
Agriculture and forestry	1.4	2.0	2.4	2.6
Fishery	0.4	0.4	0.5	0.9
Mining and quarrying of stone and gravel	3.2	3.2	2.2	2.5
Construction	44.3	47.6	48.4	54.0
Electricity, gas, heat and water supply	5.6	6.6	12.7	13.1
Telecommunications	10.1	10.1	10.9	11.3
Transport and postal activities	14.7	13.4	10.3	10.8
Wholesaling and retailing	99.9	98.8	97.2	94.8
Finance and insurance	27.9	21.9	19.2	21.9
Real estate, and goods rental and leasing	422.3	482.5	513.8	527.3
Miscellaneous services	172.6	180.0	178.3	200.3
Local government bodies	110.9	116.4	118.3	127.0
Others	543.4	564.9	574.0	582.9
Total	1,492.6	1,583.1	1,623.7	1,686.9

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