

Business Strategies

PEOPLE'S BANK

Ⓞ 沖縄銀行

The Bank of Okinawa, Ltd

Results of the 17th Medium-Term Business Plan (Management Numerical Targets)

	Management numerical targets	FY17 (Target)	FY17 (Result)	Changes in the environment
Profitability	(1) ROE for consolidated net income	Around 4.5%	5.0%	Introduction of negative interest rates Declining productive population Aging society Advancing digitalization Workstyle reform
	(2) Business profit on core banking operations	¥7.2 billion	¥8.1 billion	
Growth potential	(3) 25% increase in the number of major corporate customers	7,000	7,285	
	(4) 25% increase in the number of major individual customers	350,000	323,784	
Soundness	(5) Non-performing loan ratio	Around 2%	1.37%	
	(6) Capital ratio	Around 11%	10.14%	

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



Results of the 17th Medium-Term Business Plan (Operational Reforms)

▷ We have utilized the time generated by reforms aimed at making operations more streamlined and efficient to increase facetime with customers, thereby enhancing our sales capabilities (increasing the value of our services)

- (1) Increasing operational efficiency: delegation of power, introduction of open teller machines, MIRAI, machines for immediate cash-card issuance, etc.
- (2) Increasing facetime with customers: introduction of Direct Banking Office, Okigin App, JCB Debit Cards, etc.
- (3) Increasing productivity: introduction of individual loan applications with tablets, CIPS with tablets, TKC FinTech, etc.

Materialization of a new sustainable business model whose value will be recognized by customers

Shifting personnel to focus on corporate banking and client relations

Increasing opportunities for facetime with customers

	FY14	FY17	Change
Corporate banking	114 people	159 people	+45
Client relations	117 people	171 people	+54
Total	231 people	330 people	+99

- ▷ Owing to the effects of operational reforms, we succeeded in reducing overtime hours by 64,000 hours across the Bank during the period of the 17th Medium-Term Business Plan.
- ▷ On the other hand, we are implementing training programs so personnel can immediately adapt to the personnel shifts.



18th Medium-Term Business Plan

Business Environment Surrounding Okigin

Global Trends

Ongoing steady economic recovery

Geopolitical risks

National Trends

Regional revitalization
(declining and aging population)

Competition with other business
formats

Services changing with advancement
of ICT

Trends in Okinawa

Okinawa 21st Century Vision

Okinawa Population Increase Plan

Okinawa Asia Economic Strategy
Initiative

Strong public and private construction demand

Naha Airport runway expansion project
Okinawa Urban Monorail extension project
Resort hotel plans, etc.

Tourists: robust inbound tourism

8.76 million in FY2016
(6.64 mn domestic; 2.12 mn overseas)

Growing population and number of households

Measures are being implemented to increase
the population, including natural increase and
social growth, as the population and number of
households are expected to decline long-term

Intensifying competition among financial institutions in Okinawa

We will build a business model that is
sustainable amid intensifying competition,
including entry into Okinawa by banks from
outside the prefecture and online banks

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

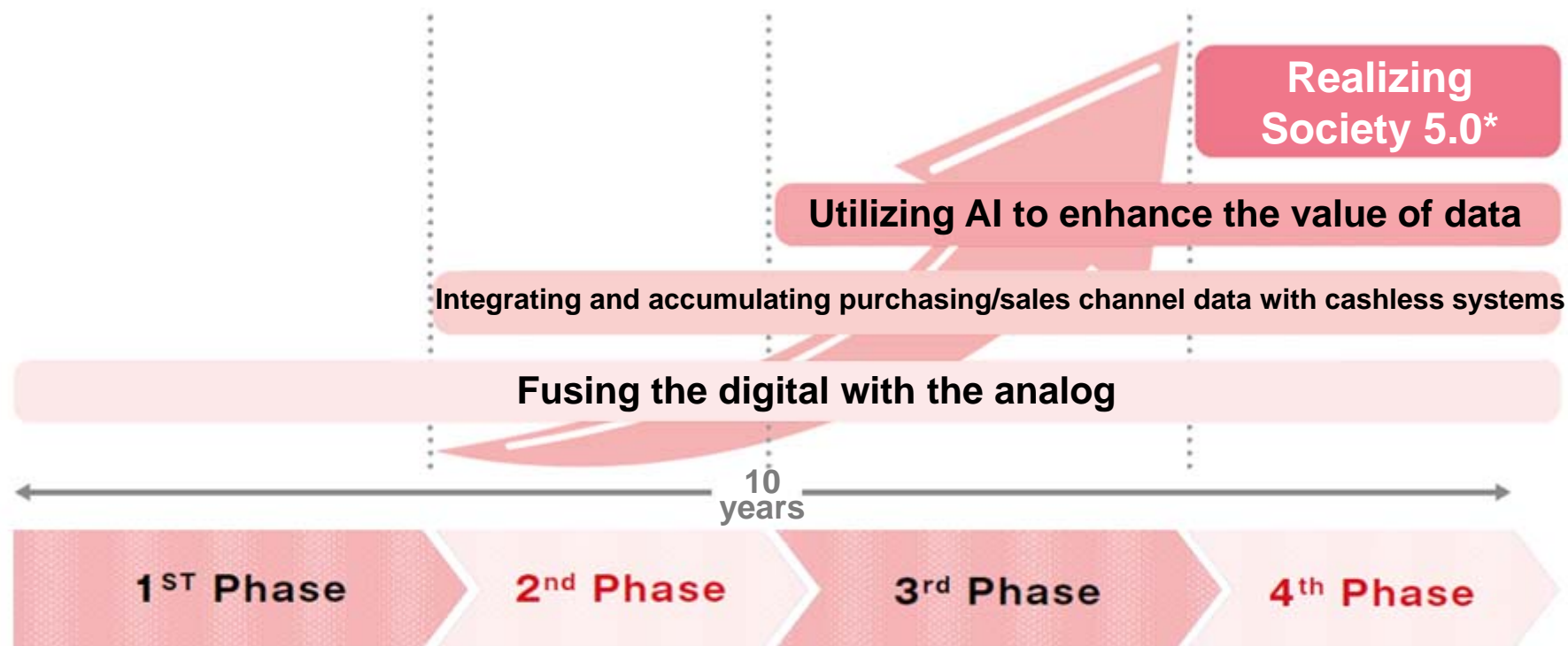


18th Medium-Term Business Plan

4. The Aspiration of the Okigin Group

Aspiration: 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).



*Society 5.0: As defined in government growth strategies, a human-centered society that balances economic advancement with the resolution of social problems by a system that highly integrates cyberspace and physical space (source: Growth Strategy 2017, Japan's Economic Revitalization Bureau, Cabinet Secretariat)

18th Medium-Term Business Plan (Basic Policy)

5. 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 skilful 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.



18th Medium-Term Business Plan

6. Basic Policy of the 18th Medium-Term Business Plan (2)

Strategies in the New Medium-Term Business Plan



<p>Strategy I</p>	<p>Exert comprehensive capabilities (Group profitability reforms)</p>	<p>Focus on across-the-board measures of the Okigin Group, and enhance profitability on a consolidated basis</p> <ul style="list-style-type: none"> (1) Enhance our comprehensive financial services operations (increasing convenience for customers with banking, leases, securities, credit cards, etc.) (2) Enhance profitability by overhauling operations at Group companies, etc.
<p>Strategy II</p>	<p>Create shared value (Service capability reforms)</p>	<p>Provide new services that utilize FinTech and ICT (simple, convenient, good value, peace of mind) and further reform operations</p> <ul style="list-style-type: none"> (1) Reform products and services, and obtain support from customers (2) Reform operational processes, and reform operations to support customers and branches
<p>Strategy III</p>	<p>Allocate management resources (Cost reforms)</p>	<p>Effectively allocate management resources, and develop a cost awareness (verify return on costs)</p> <ul style="list-style-type: none"> (1) Reform conventional branch strategies and client relations activities, and allocate resources to investment in digital systems (2) Effectively allocate human resources to branches and growth areas
<p>Strategy IV</p>	<p>Reform workstyles (Personnel system reforms)</p>	<p>Reform workstyles and improve productivity, in order to create true employee satisfaction</p> <ul style="list-style-type: none"> (1) Revise the personnel system (2) Skilful human resources (enhance consulting capabilities, contribute to formation of quality assets)

Implementing rules and principles

Demonstrate governance functions to steadily implement strategies



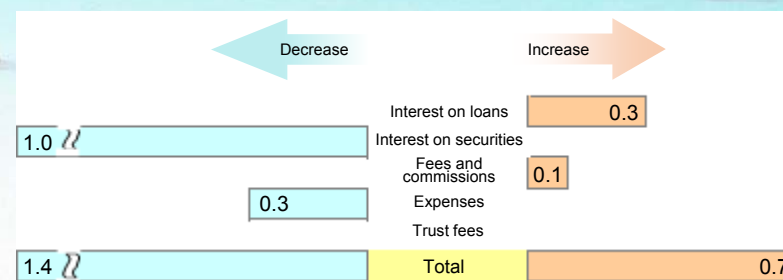
Business Performance Forecasts for FY2018

Non-consolidated	¥ billion		
	FY18	YoY comparison	
		FY17	YoY
Ordinary income	35.0	38.4	(3.4)
Gross business profit	29.0	27.8	1.2
Interest income	26.8	27.4	(0.5)
Fees and commissions	2.2	2.0	0.1
Fees and commissions (excluding trust fees)	2.0	1.8	0.2
Trust fees	0.1	0.2	(0.0)
Other business profit	0.0	(1.6)	1.6
Gains (losses) on bond trading	0.0	(1.5)	1.5
Expenses (excluding non-recurrent items)	21.6	21.2	0.3
Business profit on core banking operations	7.4	8.1	(0.7)
Provision of general allowance for possible loan losses	0.0	(0.0)	0.0
Net business profit	7.3	6.5	0.7
Non-recurrent items	0.0	2.2	(2.1)
Net gains (losses) on equity securities	0.5	1.7	(1.2)
Bad debt disposal (non-recurrent items)	0.8	0.2	0.6
Ordinary profit	7.4	8.8	(1.4)
Extraordinary gains (losses)	0.0	(0.0)	0.0
Net income	5.1	6.2	(1.0)
Credit costs	0.8	0.1	0.6

■ Year-on-year changes forecast of interest income

	Average balance	Yield	Interest
Loans and bills discounted	+70.1	(0.05)	+0.3
Securities	(81.3)	(0.07)	(1.0)
Deposits	+58.0	(0.00)	+0.0
Total	—	—	(0.5)

■ YoY comparison of business profit on core banking operations



Business Profit on Customer Services

	(¥ million, %)		
	FY18	FY17	FY16
(1) Loans average balance	1,544,779	1,474,628	1,396,392
(2) Yield on loans	1.555	1.604	1.668
(3) Yield on deposits	0.039	0.042	0.061
(4) Loan / deposit spread ((2) - (3))	1.516	1.562	1.607
(5) Fees and commissions	2,231	2,084	2,264
(6) Operating expenses	21,942	21,691	21,743
(7) Business profit on customer services ((1) × (4) + (5) - (6))	3,709	3,426	2,960
(8) Deposits average balance	1,982,962	1,924,919	1,836,628
(9) Business profit margin on customer services ((7) ÷ (8))	0.187	0.178	0.161

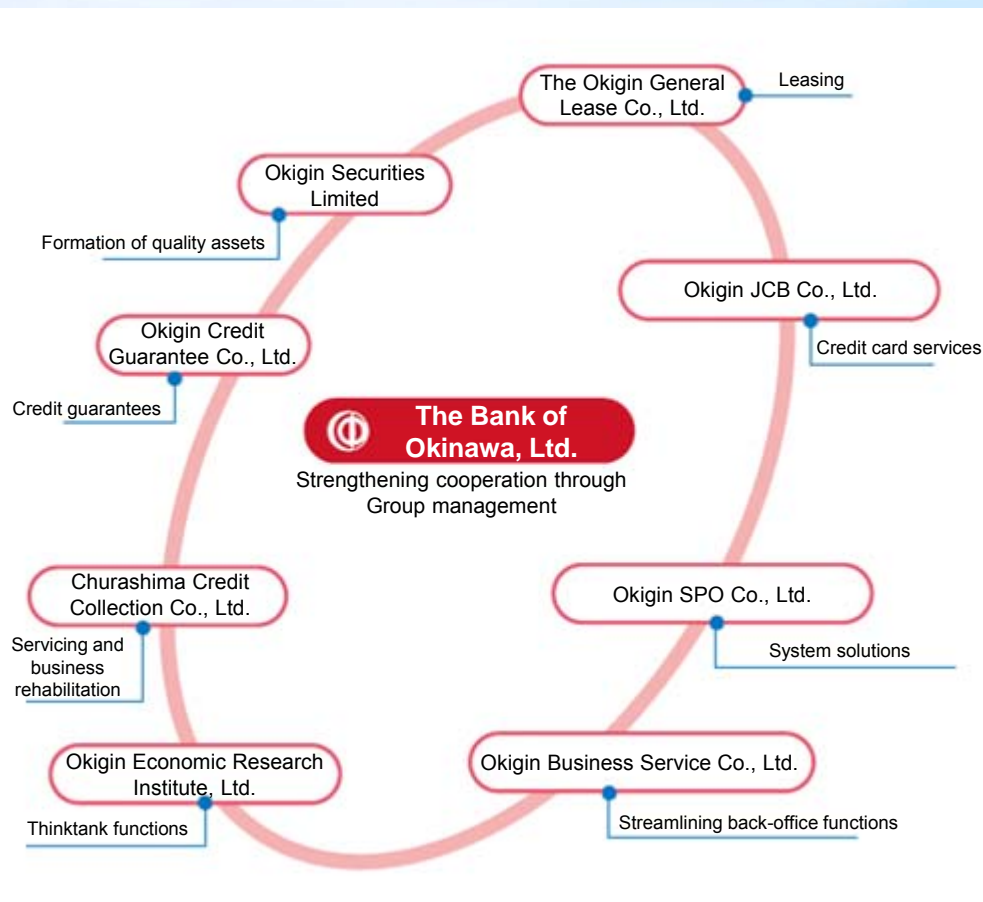
*Business profit margin on customer services = loans balance × loan / deposit spread + fees and commissions – operating expenses / deposits (average balance) (excerpt from FY2016 Financial Report, p16)

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



Group Strategy

Enhancing service capabilities as a comprehensive financial services provider:
meet customers' needs for asset formation and opportunities to generate income



Create systems to facilitate the provision of comprehensive financial services

- In order to build on our strength as a comprehensive financial group, we will build systems to facilitate the provision of a range of services to customers as a “one-stop provider.”
- We will act as an “asset management concierge” (consulting plaza) for customers, including combined banking and securities branches.

Thorough implementation of measures for “Bank-securities cooperation”

- Launch of customer referral to Okigin Securities (June 2017). Search for broad customer needs.
- Holding joint seminars with Okigin Securities to promote improvement of financial literacy, aimed at shifting from savings to investment.

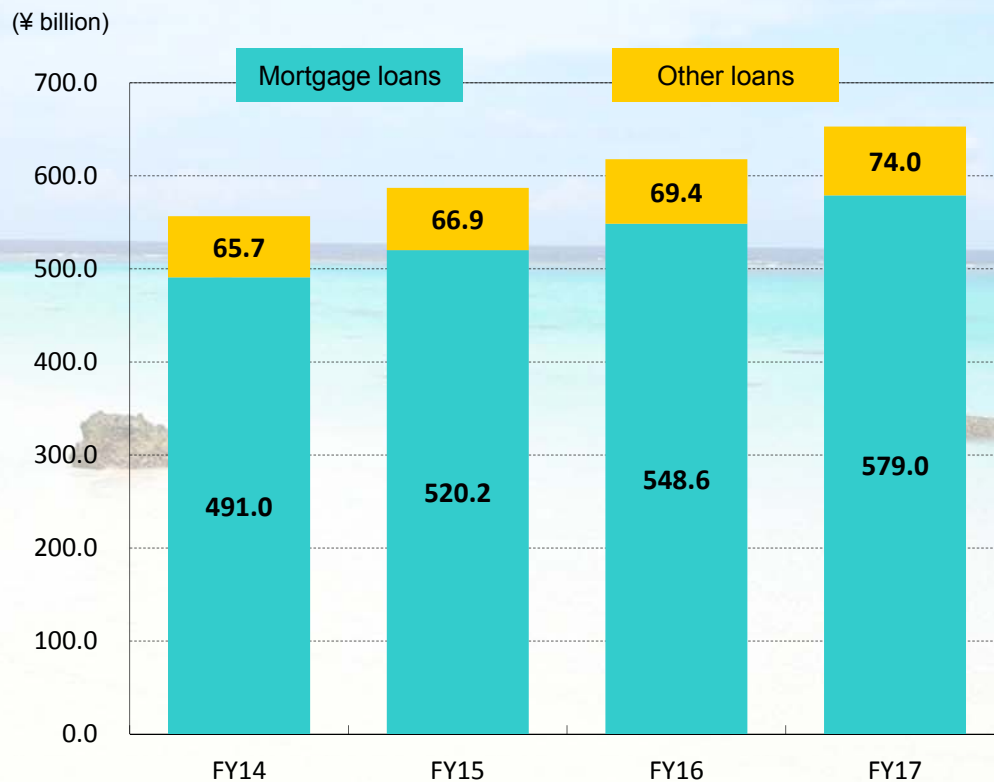


- ◆ Quality asset formation for customers
- ◆ Supporting customers' business continuity



Strategy for Consumer Loans

**Plan: Mortgage loans executed: ¥64.0 billion (YoY comparison of average balance: +3.5%)
YoY comparison of average balance of other loans: +4.39%**



Market environment

- ◆ Solid housing demand (growth in population and number of households)
- ◆ Higher personal spending on the back of improving economic outlook

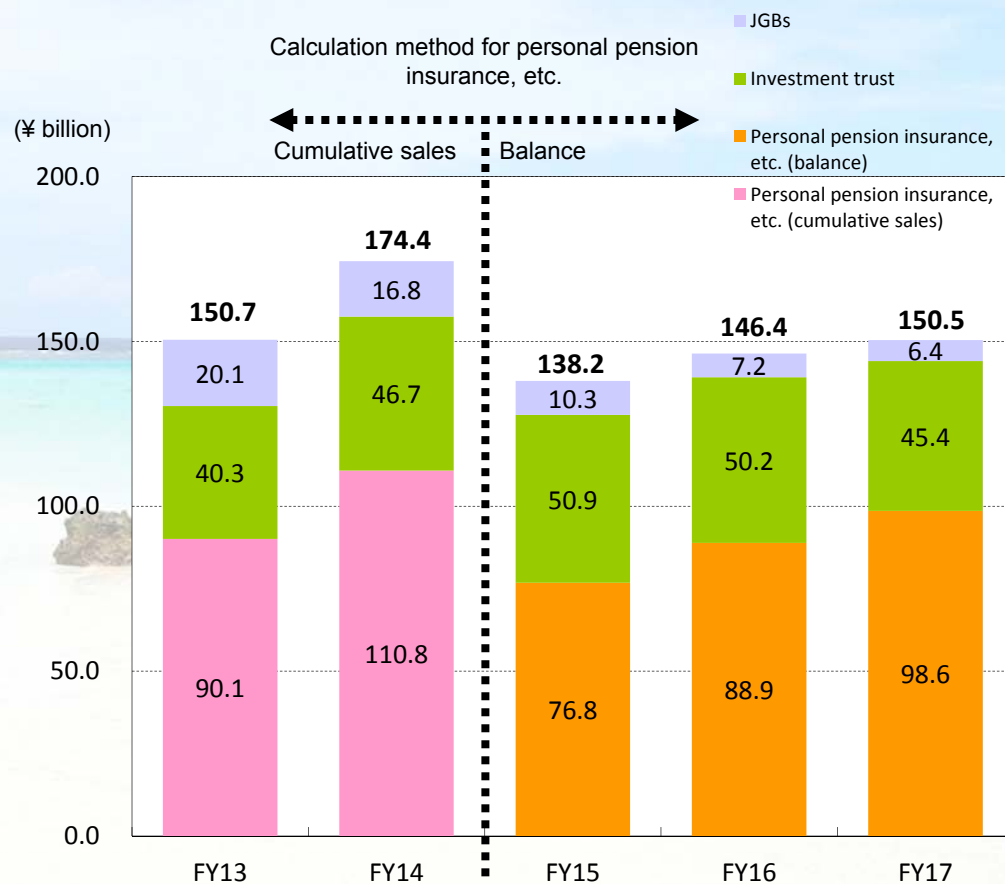
Okigin's strategies

- ◆ **Promotion of mortgage loans and apartment loans**
 - Strengthening relationships with customers and housing manufacturers
 - Differentiated products (non-guaranteed mortgages, new group credit services)
- ◆ **Strengthen loan sales**
 - Strengthen promotion of automotive loans
 - Strengthen online marketing
- ◆ **Digital strategy**
 - Promote Okigin App (account opening, loan applications)
 - Promote JCB Debit Cards (promote cashless transactions)
 - People's App (information distribution app)
 - Promote "Wallet+" (check balance and transaction history, targeted deposits)



Strategy for Assets in Custody, etc. (Non-consolidated)

Promote customers' asset formation to accumulate higher balances



Okigin's strategies

- ◆ **Enhancement of dedicated staff**
 - Tracking by dedicated staff for assets in custody
 - Acceptance of seconded staff to the Bank from securities and insurance companies / mid-career recruitment
 - Holding joint seminars with Okigin Securities
- ◆ **Shortening time required for procedures with tablets**
 - Accepting applications for both investment trusts and insurance by tablet
 - Introduction of proposal tools via tablets (asset management navigator)
- ◆ **Sales of life insurance for corporate customers**
 - Handling products for corporate managers (May 2016)
- ◆ **Sales of iDeCo, promoting funded investment trusts**
 - Promoting by holding seminars and campaigns
 - Expanding customer base with funded investment trusts



Measures for Revitalization of Regional Communities (Business Start-up, Growth and Improvement)

Cooperation with experts and support institutions

- Supporting applications for subsidies to support the enhancement of manufacturing, business, and service management capabilities
- Support through Manufacturing Development Funds
- Support business start-up using business succession

FY2017 Results

Work item	
1. Support medical business start-up	8 cases
2. Management advisory meeting in cooperation with the Yoroazu support base	23 times
3. Okigin Manager Training School	5 times total

Initiatives for business growth (assisting sales channel cultivation)

Participated in The Great Okinawa Trade Fair 2017

For the sake of the success of the Okigin Churashima Business Meeting, the Bank participated in the Great Okinawa Trade Fair, a large-scale international business exhibition, as a regular member.

- Held on November 27-28, 2017 at Okinawa Convention Center
- About 3,300 individual meetings were held during the two-day fair
- About 100 employees of the Bank supported the operation of the fair

Initiatives for business improvement and rehabilitation

- Provide business improvement support utilizing CIPS (Consulting & Communication Improve management Proposal Sales), the Bank's proprietary consulting tool
- Support business improvement and rehabilitation by utilizing SME Business Rehabilitation Support Co-operative and other external organizations

Utilization of SME Business Rehabilitation Support Co-operative		2003 - 2014	2015	2016	2017	Total
	No. of cases handled by co-operative (cases)	126	15	11	11	163
	(of which, cases involving the Bank) (cases)	72	9	5	9	95
	Ratio	57.1%	60.0%	45.5%	81.8%	58.3%
Utilization of Business improvement schedule formulation support program by certified supporting institution	Held seminars regarding the certified supporting institution and all-branch explanatory meeting by inviting lecturer from SME Section, Economy and Industry Department of Okinawa General Bureau. Of 259 applications of all Okinawa, 154 applications (59.4%) were handled by the Bank.					



Branch Network Strategy

Efficient branch allocation through area marketing Setting up branches focusing on customer convenience

- April 2015 Haebaru Branch relocated, newly built and re-opened for business
- July 2015 Newly built Nago Branch relocated, newly built and re-opened for business
- February 2016 Itoman Branch relocated and re-opened for business

[Schedule for newly building/relocating]

- ◆ June 2018 Kokuba Branch
- ◆ August 2018 Motobu Branch



Haebaru Branch



Nago Branch



Itoman Branch



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.

	FY13	FY14	FY15	FY16	FY17
Share price (yen)	4,355	5,040	3,695	4,260	4,490
Common dividend (yen)	65	70	70	70	70
Commemorative dividend (yen)	0	0	15	0	0
Total dividends (yen)	65	70	85	70	70
Dividend yield (%)	1.49%	1.38%	2.30%	1.64%	1.55%
Share buy back (million yen) (Note)	602	1,055	467	—	—

(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%)

