

Business Strategies

Progress Status of 18th Medium-Term Business Plan

Management numerical targets under Create the Future

Management numerical targets		Result		Target
		FY2017	FY2018	FY2020
Profitability	(1) ROE for consolidated net income	5.00%	5.04%	Approx. 4%
	(2) Business profit on core banking operations	¥8.1 billion	¥8.2 billion	Approx. ¥7.5 billion
	(3) Core OHR	72.4%	72.0%	Approx. 70%
Growth potential	(4) 10% increase in the number of major corporate customers	7,285	8,249	Approx. 8,000
	(5) 10% increase in the number of major individual customers	323,784	331,130	Approx. 350,000
Soundness	(6) Non-performing loan ratio	1.37%	1.18%	Approx. 1%
	(7) Capital ratio	10.14%	9.97%	Approx. 10%

*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

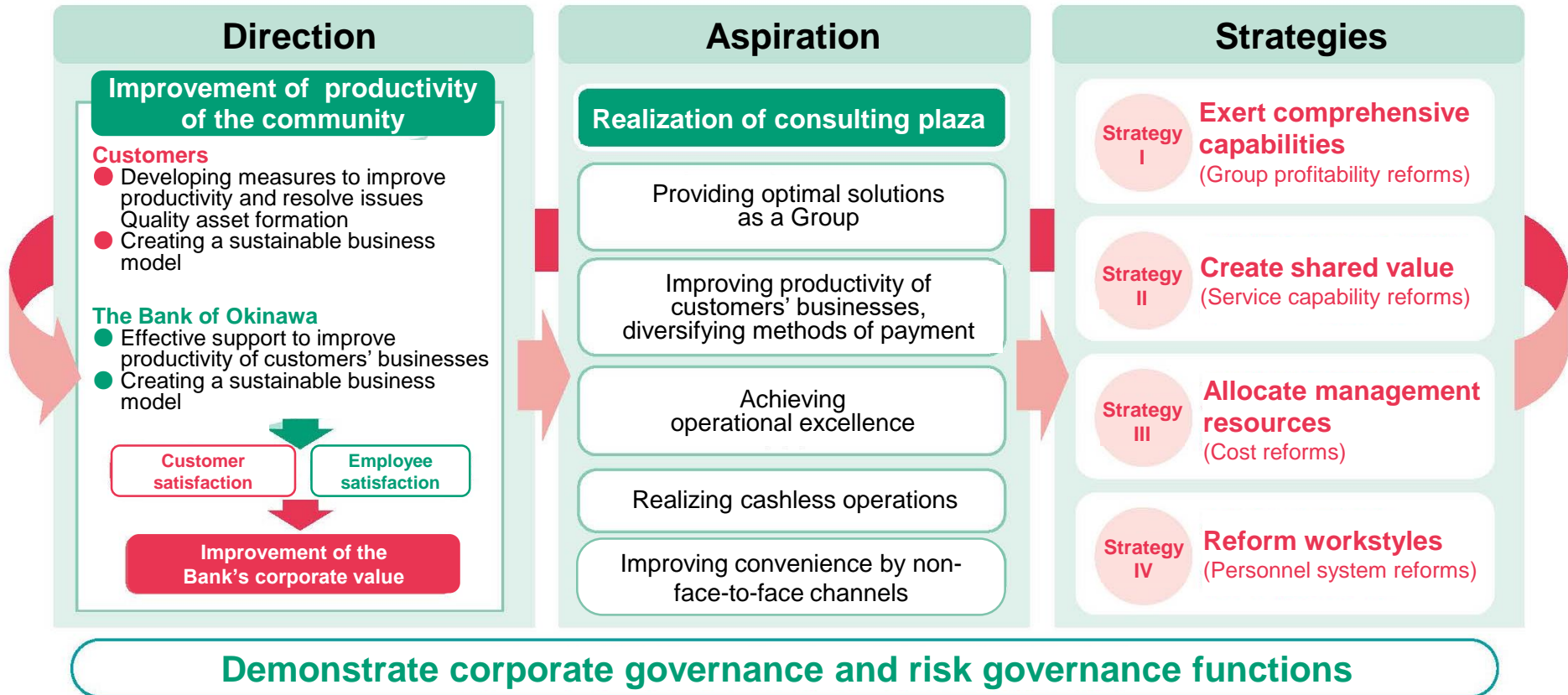


Carrying on the creation of new value set forth in the 17th Medium-Term Business Plan, our greatest mission is to contribute to the advancement of the regional economy based on new concepts to extend our business domain and expand services with the comprehensive capabilities of the Okigin Group. We aim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

Direction of the 18th Medium-Term Business Plan

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).



Business Performance Forecasts for FY2019

Ordinary profit	10.5	7.8	(2.7)
Net income attributable to owners of the parent	7.1	5.2	(1.9)
[Non-consolidated]	FY18	FY19 (plan)	YoY change
Ordinary income	39.0	33.9	(5.1)
Gross business profit	28.7	28.7	0.0
Interest income	27.3	26.7	(0.6)
Fees and commissions	1.9	1.7	(0.2)
Other business profit	(0.6)	0.2	0.8
Expenses (excluding non-recurrent items)	21.2	21.9	0.6
Personnel expenses	9.4	9.6	0.1
Non-personnel expenses	10.2	10.7	0.4
Business profit on core banking operations	8.2	6.8	(1.4)
Provision of general allowance for possible loan losses	0.0	(0.3)	(0.3)
Net business profit	7.4	7.2	(0.2)
Non-recurrent items	2.1	(0.5)	(2.6)
Recoveries of written-off claims	0.2	0.1	(0.1)
Net gains (losses) on equity securities	1.9	0.0	(1.9)
Bad debt disposal	0.3	0.9	0.5
Ordinary profit	9.5	6.6	(2.9)
Extraordinary gains (losses)	0.0	0.0	0.0
Income before income taxes	9.4	6.6	(2.8)
Total income taxes and other taxes	2.6	1.9	(0.7)
Net income	6.8	4.7	(2.1)

Business performance points

Consolidated Basis

Net income attributable to owners of the parent is forecast to decrease by ¥2.0 billion year on year to ¥5.2 billion due to an expected decline in non-consolidated net income.

Ordinary Income

Interest on loans is forecast to increase, although decreases are expected in gain on sales of bonds, gain on sales of equity securities, and interests and dividends on securities.

	Average balance	Yield	Interest
Loans and bills discounted	366	(0.021%)	2
Securities	(346)	(0.149%)	(8)
Deposits	633	(0.001%)	(3)

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, due to a decline in business profit on core banking operations and gains (losses) on securities, in addition to an increase in credit cost and others.

Business Profit on Customer Services

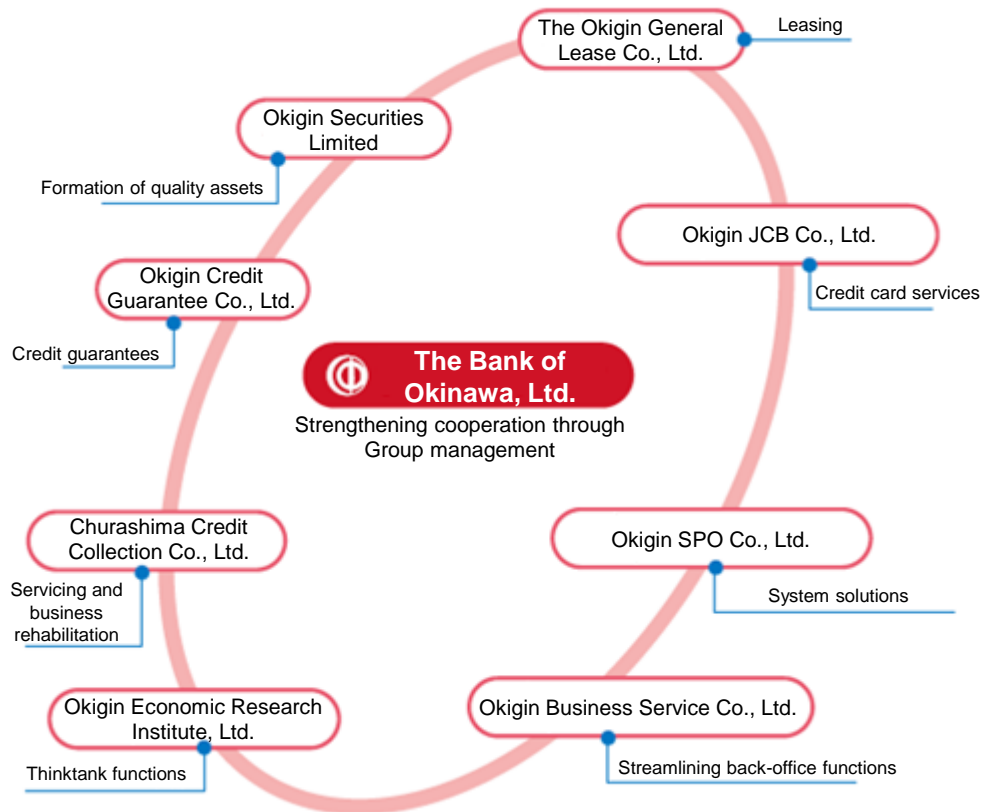
	(¥ million, %)		
	FY16	FY17	FY18
(1) Loans average balance	1,396,392	1,474,628	1,564,373
(2) Yield on loans	1.668	1.604	1.560
(3) Yield on deposits	0.061	0.042	0.044
(4) Loan / deposit spread ((2) - (3))	1.607	1.562	1.516
(5) Fees and commissions	2,264	2,084	1,943
(6) Operating expenses	21,743	21,691	21,582
(7) Business profit on customer services ((1) × (4) + (5) - (6))	2,960	3,426	4,077
(8) Deposits average balance	1,836,628	1,924,919	1,993,637
(9) Business profit margin on customer services ((7) ÷ (8))	0.161	0.178	0.204

* 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.

Strategy I. Exert Comprehensive Capabilities (Group Profitability Reforms)

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.

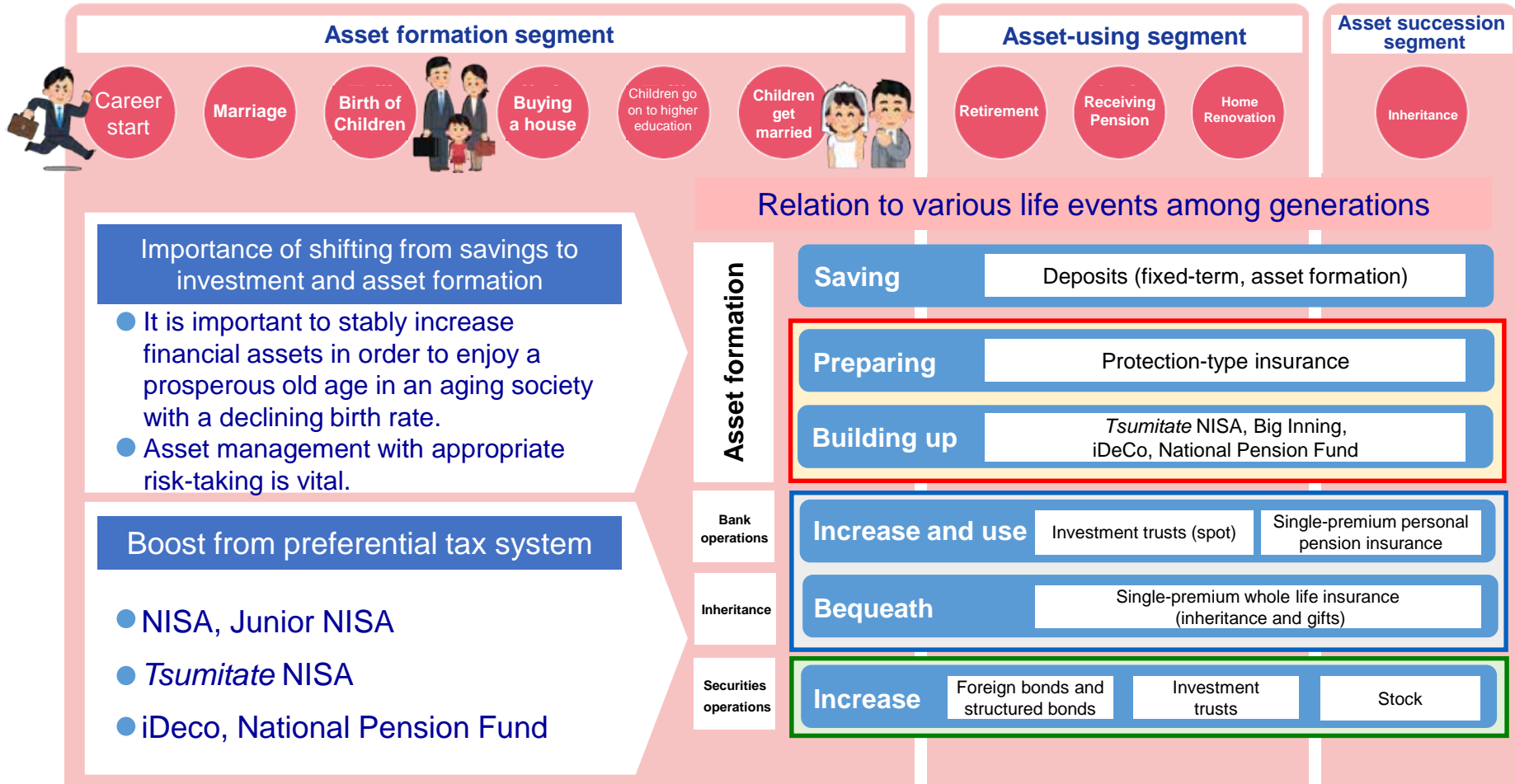


Quality asset formation for customers

Supporting customers' business continuity

Strategy II. Create Shared Value (Service Capability Reforms)

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



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

Cooperation with experts and supporting institutions

- Supporting applications for subsidies to support the enhancement of manufacturing, business, and service management capabilities
- Cooperation on dispatch of experts and support through various funds
- Support business start-up using business succession

FY2018 Results

Work Item	
1. Support medical business start-up	15 times
2. Management advisory meeting in cooperation with the Yorozu support base	30 times
3. Okigin Manager Training School	5 times total

Initiatives for business growth (assisting sales channel cultivation)

Participated in The Great Okinawa Trade Fair 2018

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 29-30, 2018 at Okinawa Convention Center
- About 3,100 individual meetings were held during the two-day fair. The ratio of contracts concluded is expected to increase by 7.4 points to about 32.5%, including anticipated contracts.
- 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

	2003 – 2015	2016	2017	2018	Total	
Utilization of SME Business Rehabilitation Support Co-operative	No. of cases handled by co-operative (cases)	141	11	11	17	180
	(of which, cases involving the Bank) (cases)	81	5	9	10	105
	Ratio	57.4%	45.5%	81.8%	58.8%	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 295 applications of all Okinawa, 169 applications (57.3%) were handled by the Bank.					

Strategy II. Create Shared Value (Service Capability Reforms)

Toward realization of cashless operations

Okigin StarPay® (payment terminal)



Strengthen promotion of affiliated stores



Introduction of new apps



[Main functions]

1. Confirming deposit balance and deposit / withdrawal details
2. Display details of borrowing balance and repayment schedule
3. Transfers between customer's own accounts (limit of ¥100,000 per day)
4. Sending money to registered friends by reading QR code or entering ID
5. Can send money by entering branch name, branch number and account number (limit of ¥30,000 per day)

Strategy III. Allocate Management Resources (Cost Reforms)

Review Group expenses through cost reform working

- Put together a cost reform working group to encourage appropriate execution of expenses and allocate management resources to more effective areas.
- Work to reduce non-personnel expenses, aiming for a reduction of about ¥0.5 billion in the figures expected for FY2020.

Changes	Item	Factors in change, measures, etc.
Decrease (- ¥500 million)	Investment related (- ¥300 million)	<ul style="list-style-type: none"> ● Review of branches and ATMs ● Strengthen cost-effectiveness measurement ● Review of expenses through investments to increase efficiency
	Operations consignment expenses (- ¥100 million)	<ul style="list-style-type: none"> ● Review of expenses through investments to increase efficiency ● Strengthen cost-effectiveness measurement
	General expenses (- ¥100 million)	<ul style="list-style-type: none"> ● Strengthen management of forecast versus actual results for expenses in each division ● Implement bank-wide action to reduce expenses

Strategy III. Allocate Management Resources (Cost Reforms)

Branch Network Strategy

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

- May 2018 Tokyo Branch relocated
- June 2018 Kokuba Branch relocated and newly built
- July 2018 Motobu Branch relocated and newly built

[Schedule for newly building/relocating]

- ◆ July 2019 Yaeyama Branch
- ◆ Under construction Yogi Branch

Kokuba Branch



Motobu Branch



Efforts to consolidate branches through branch-in-branch method

Carrying out branch consolidation through branch-in-branch method based on market analysis.
Strategically allocate employees to growth markets.

Strategy IV. Reform Workstyles (Personnel System Reforms)

Introduction of new personnel system

Before change

Declining motivation

- The diversification and sophistication of work duties has made it difficult to separate jobs into the current categories of career track and general positions.
 - Although there is no great difference between the results expected in career track and general positions, there is a limit on promotions for general positions.
- ⇒ **This has led to a decline in motivation among both career track and general position employees.**

Future vision

Skillful human resources

- Build a sustainable business model that can be applied in a constantly changing environment.
 - A highly productive workplace environment where all employees can feel motivated and demonstrate their abilities.
- ⇒ **Skillful human resources who can provide wide-ranging consulting for customers based on advanced expertise and professional ethics are essential.**

Solutions

Carry out workstyle reforms to realize wonderful lives for all employees

- **Personnel system reforms**
(eliminate general positions, establish new career track positions limited to regions, reform human resources development)
- **Reform of work hours**
- **Reform of vacation and leave system** (life plan leave, etc.)

Challenges

Rebuilding organizational culture

- The division of work duties based on the current position system cannot handle diversified bank operations.
 - The system hinders growth by limiting opportunities for employees to feel motivated and use their skills.
- ⇒ **Need to rebuild organizational culture where all employees continue to work with a sense of security, fit into the environment, and grow.**

Strategy IV. Reform Workstyles (Personnel System Reforms)

Introduction of new personnel system

[Main initiatives starting in FY2019]

Initiatives	Date of implementation	Content
Elimination of general positions	Apr. 2019	Eliminate general positions with a limited range of work duties and unify all positions as career track to respond to diversifying customer needs.
Establishment of new regional career track positions	Apr. 2019	Establish new regional career track positions for employees who would have difficulty working in remote locations, in consideration of employees' work-life balance.
HR development reforms	Apr. 2019	Introduce a training system that lets all employees choose independently and allows them to imagine a variety of career goals.
Review of work hours	Apr. 2019	Eliminate specific days for finishing work on time, and make 5:00 p.m. the finishing time across the Bank. Set the start time and working hours at 8:30 a.m., and 7 hours and 30 minutes per day, respectively.
Establish life plan leave	Apr. 2019	Establish a new cooperative system to cover cases where an employee would otherwise be forced to resign, such as when relocating due to a spouse's transfer.
Expand re-employment system	Apr. 2019	Amend the re-employment system by significantly relaxing the age requirements, etc., and making it possible to be re-employed under the same conditions as at the time of retirement.
Establish refresh leave	Apr. 2019	Establish a new two-day vacation per year to create a system that guarantees employees can take four vacation days in a row by combining the two days with weekends and holidays.
Strengthen mid-career recruitment	Apr. 2019	Actively carry out mid-career recruitment in light of dramatically changing trends in the banking industry.

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

Use of independent, voluntary advisory committees: Explain (Will consider voluntary advisory committees in future)

(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, 2019.

	FY17	FY18	Difference
Cross-held stocks	18 stocks	16 stocks	(2) stocks

Social Contribution Initiatives

We will strengthen our efforts related to the Sustainable Development Goals (SDGs) and contribute to the creation of a sustainable society with the aim of further improving our corporate value



Okigin Group SDG Declaration

The Okigin Group, a comprehensive financial services group, will help achieve the SDGs put forward by the United Nations by practicing our management philosophy of “deeply rooted in the community / contribution to the community),” with the aim of creating a sustainable future and realizing a sustainable society together with regional society and all our stakeholders.

Masayasu Yamashiro, President
The Bank of Okinawa, Ltd.

Key initiatives of the Okigin Group

Co-creation with regional economy: Realizing a sustainable society for the regional economy



Co-creation with regional society: Realizing a dynamic future



Co-creation with global environment: Realizing an environmentally friendly regional society



Co-creation with diversity: Realizing a society that respects diversity and is capable of co-creation



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.

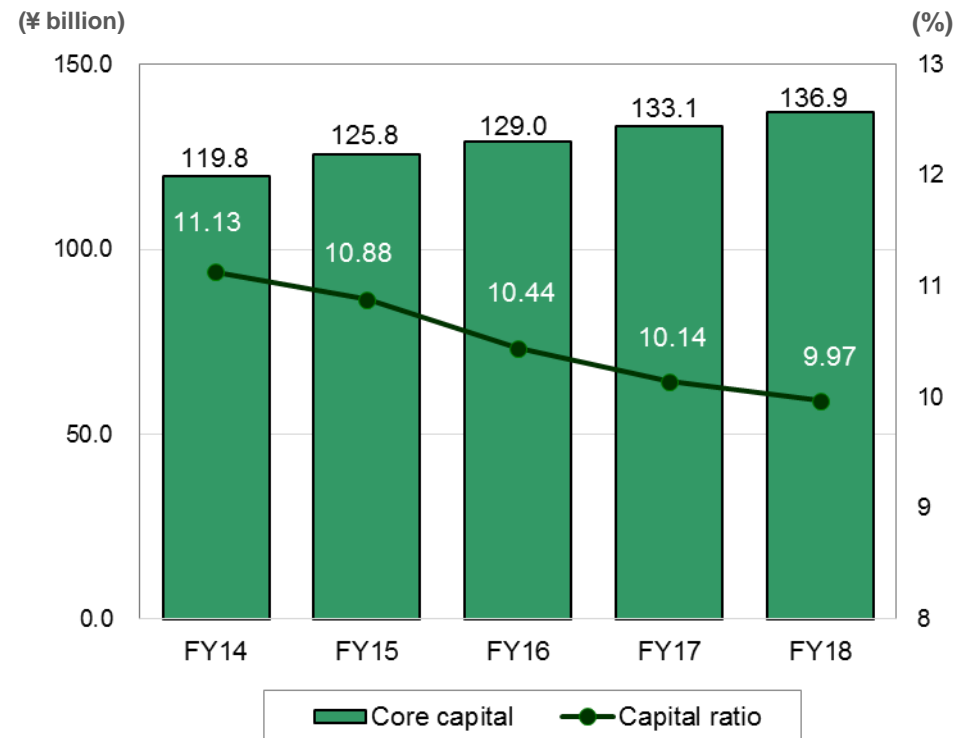
Performance-linked dividend

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.

	FY14	FY15	FY16	FY17	FY18
Share price (yen)	5,040	3,695	4,260	4,490	3,445
Common dividend (yen)	70	70	70	70	70
Commemorative dividend (yen)	0	15	0	0	0
Total dividends (yen)	70	85	70	70	70
Dividend yield (%)	1.38%	2.30%	1.64%	1.55%	2.03%
Share buy back (million yen) (Note)	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%)