

Concordia Financial Group
Main Questions and Answers on Investor Relations Day

Questions about business performance:

Q. The ROE target of 6% in the new medium-term management plan seems to be an ambitious figure. As a management team, how committed are you to this target?

A. To achieve the ROE targets, it is necessary to achieve net business profit of over 100 billion yen and consolidated net income of over 70 billion yen. We have not stretched the lending increase rate, service transaction profit increase rate, etc. compared to the previous medium-term management plan. We understand that an ROE of 6% is a figure that we can commit to reaching by strengthening our solution business in the home market, realizing the fruits of structural reforms, and allocating assets to highly profitable fields.

Q. During the period of the previous medium-term management plan, there were special factors such as an increase in demand for funds due to the coronavirus pandemic. In the new medium-term management plan too, you are planning a large increase in domestic deposit and loan interest rates, but what are the assumptions including yields?

A. The rate of increase in lending in the new medium-term management plan is planned to be slightly lower than in the previous medium-term management plan. It is also assumed that yields will decrease.

The increase in loans during the previous medium-term plan period was not limited to those related to the coronavirus pandemic. The Bank of Yokohama has been increasing its loan balance through various initiatives such as loans in highly profitable fields.

Higashi-Nippon Bank had a large increase in loans related to the coronavirus pandemic, but the loan balance of Higashi-Nippon Bank is not a large proportion of the loan balance of the entire group.

Q. In formulating the plan, please provide information on how factors such as the Russian situation and stagflation were incorporated, as well as the assumptions about interest rates and exchange rates.

A. The medium-term management plan does not incorporate any assumptions about another wave of the coronavirus pandemic, the Russian situation, or soaring resource prices. We forecast no change in the domestic interest rate policy, an exchange rate in which the yen depreciates 2-3 yen, and a stock market rise in the 2000-yen range. We will review the assumed figures in accordance with future market conditions.

The depreciation of the yen will not have a significant impact on our finances, but it will have an

impact on our customers. In Kanagawa Prefecture, we have many customers on the import side, so we plan to provide solid support for them.

Q. Should we regard the plan figure of 100 billion yen for core net business profit for the two banks as the minimum? May we expect further growth from the Kanagawa Prefecture market?

A. We consider 100 billion yen to be the minimum. I think it is important how far we can grow our business performance with the additions in the new structure.

Q. What are the factors increasing current net income in "Other" in the figure on the right of Page 11 in the medium-term management plan materials?

A. "Other" in the consolidated current net income for the fiscal group primarily means a reduction in fixed asset disposal losses. In the period of the previous medium-term management plan, we aimed to improve productivity through structural reforms. As reforms for branch channels, we made some savings by consolidating or downsizing 112 branches for the two banks, two years ahead of plan.

The plan is to slow down the pace of consolidation/downsizing during the new medium-term management plan.

Q. The strategic investment quota was 50 billion yen in the previous medium-term management plan. What is your thinking about when and how your past investments will contribute to profits, about when you will go into the black, and about the hurdle rate?

A. We have made strategic investments of a little less than 20 billion yen.

We set individual hurdle rates at the time of initial investment, but we do not disclose them.

We think that it takes about five years until there is a contribution to profits and we realize a return on our investment.

Strategic investments include the CVC fund launch and a silent partnership business with the TV Tokyo Group. One of our investment objectives is not only to invest, but also to collaborate with customers' businesses. We believe that we can add value as an extension of organic growth.

Questions concerning the Concordia Financial Group:

Q. I would like to ask about the governance and organization of the Concordia Financial Group. For example, are there any ideas to make a non-subsidiary bank leasing company or guarantee company into a subsidiary of the holding company?

A. Until now, the role of the holding company has been to focus on rebuilding Higashi-Nippon

Bank to enable it to stand on its own. Now that Higashi-Nippon Bank has a system in place to generate stable profits, as the next step, I think the time has come to reconsider the role of the holding company.

We will also consider making a leasing company or other bank subsidiary into a subsidiary of the holding company or incorporating a new operating company into the group to contribute to the sales of the Bank of Yokohama and Higashi-Nippon Bank.

Q. As consolidated management becomes more important, I think it will be necessary to carry out personnel exchanges from subsidiaries to banks or from banks to subsidiaries. Are there any plans to revise the personnel system?

A. During the period of the previous medium-term management plan, both the Bank of Yokohama and Higashi-Nippon Bank significantly revised their personnel systems. They were revised greatly toward being based on pay for results, performance, and skills, and the salary system was also changed.

In the past, most of the transfers were one-way, from banks to subsidiaries, but we are also working on secondments on the premise of returning to the banks. For example, as a sort of succession plan, a staff member one step down from an officer position at a bank can be promoted to the president of a subsidiary, racks up achievements, and then returns to the bank to be appointed as an executive officer.

We have already taken the approach of sending even non-executive employees at each level to different companies to gain experience and bring them back to the bank.

Q. What is your evaluation of the series of reform programs for Higashi-Nippon Bank? Also, can we say that these programs are over?

A. Structural reforms have been completed to a certain extent, and reforms in the consciousness of proper bank employees are in progress, enabling efficient management. However, this is not the end of the reforms. Further strengthening of profitability is necessary. We recognize our current state as being about seven tenths up the mountain. We will make it possible to generate stable profits without dispatching human resources from the Bank of Yokohama.

Q. What reflections did management make after seeing the employee survey? Or what did you feel you had to change?

A. It was the first time for both banks to conduct an employee survey. We found that our younger employees, in particular, are more serious than expected about the future of the Group. We are aware that ensuring psychological safety will lead to vitality in the company, so that anyone can express their thoughts and feelings with confidence within the organization. We are even more aware now that we must consciously make changes to achieve such a culture.

Questions about capital:

Q. You have set the figure of the mid-11% range as the target for the common stock Tier 1 ratio, higher than at the major banks. What is the reason for that?

A. This is based on an 8% total capital adequacy ratio, a ratio which is regulated. We added a capital buffer of 2.5% and also considered tail event risk. We will continue to discuss the required levels and buffers. From the perspective of soundness, we do not think that more is better. We also recognize the importance of increasing capital efficiency.

Q. What is your capital allocation policy for the next three years? Please give us an overview of the allocation for organic areas, inorganic areas, and shareholder returns.

A. In organic areas, we will steadily accumulate senior loans and tackle high value-added finance areas. In inorganic areas, we are not thinking of working on projects for investment or for profits. Of course, if a project contributes to improving corporate value, we will actively consider it according to the opportunity. We will also consider a project that is beneficial to a stakeholder group, such as customers or employees. We want to allocate surplus capital to shareholder returns in a well-balanced manner.

The order of priority for capital allocation is organic areas, shareholder returns, and inorganic areas.

Other questions:

Q. Are there any quantitative targets in the medium-term management plan for climate change, for example a Scope 3 calculation schedule? Are there any bottlenecks in setting these quantitative targets?

A. The sustainable finance target is set as a long-term KPI. In addition to our finance line-up, such as loans, our solution line-up is expanding, for example with SDG business feasibility evaluation as one part of business feasibility evaluation and sustainability evaluation in collaboration with external businesses. We also perform impact evaluation, but we have just started to study about Scope 3 and would like to proceed with our efforts in this area in the future.

Q. Are there any changes to the shareholder return policy, such as the total return ratio and the payout ratio?

A. This will be explained clearly at the financial results briefing in May.

Previously, it showed the total return ratio as a yardstick, but now the payout ratio target is shown. We are thinking in terms of moving this forward, with no thoughts of moving it backward.

Q. You said that you are aiming to be "Regional Bank No. 1", but at what point would you be able to say that you are No. 1?

A. We are aiming to be numerically No. 1 too, but what is most important is that in addition to this, we tackle our work with the awareness that "We are Number One among regional banks". This goes for headquarters and branches alike. I think that this awareness will be reflected in the numbers too.

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