

Concordia Financial Group

Key Questions and Answers at IR Day

【Solution business related】

Q: What are your bank's strengths in the solutions business compared to other banks? In addition, if there are any challenges, please let us know.

A: We have an absolutely large number of clients in the home market. There are more listed companies that are not that large in scale. We have established a system that enables us to provide high value-added solutions to these companies. The quality of proposals I think is one of the challenges, especially compared to megabanks. We will brush up on this.

Q: With your structured finance balance growing so much, what are your thoughts on whether you need to worry about credit risk and whether it could be a constraint in some way in terms of capital? Credit costs were planned to gradually decline in the medium-term plan. If you look at LBO, are you thinking that credit costs will increase somewhat?

A: Management at the beginning of the period, these are key points. Especially for LBOs, a high level of covenants and performance management is conducted by the solution sales department. They are working closely with the Risk Management department to ensure thorough management of covenants, including management during the term. we expect credit costs to increase slightly for LBOs. We now have a well-staffed risk management department in place. We will have a certain amount of credit costs, but we will conduct risk-taking within a well-controlled range. We recognize that there is still a buffer of assets that can be risked and there is still room to grow.

Q: You have been able to build up your loan balance, it has increased considerably since about the end of the previous medium-term management plan, and is now one of the highest among major regional banks. What has changed about this?

A: until the previous medium-term plan, we had been more conservative in structured finance, and had not been working on this area very much. Since we have focused our efforts on this zone after establishing the system over

the three years of the previous medium-term plan, the balance has grown significantly. Naturally, senior loans are also growing, leading to a synergistic increase in the balance.

Q: About the amount of corporate service revenue, JPY13 billion, on the lower right-hand side of page seven. Despite the growth of all items, this amount of corporate service revenue will increase by only JPY300 million in FY2024 compared to FY2021. Please let us know some background on this.

A: Corporate service has a fairly large volatility of revenue per case in the solutions business. Trying to force this area to move forward is also risky. Since we are also working on the entrance phase and mid-term management, we want to be cautious here. Therefore, this is a target that must be achieved, and in reality, it should be considered to be a little higher.

The establishment of the solutions business in the previous medium-term plan has changed our direction, and results were achieved in FY2021. There is a certain degree of market. In that context, are these figures for FY2021 appropriate for the current team to absorb the needs that will arise from the market at that time. Therefore, I think that a slight increase is a healthier form of growth than a constant, steady rise. It does not mean that we will slow down, but rather that our earnings will become more positive as we add more people.

Q: You have indicated the use of AI models. What kind of process do you use now to make proposals to customers? How many deals do you think you can get in the future? Please explain the number of deals, potential, hit rate.

A: In April and October, each branch holds individual company policy discussions for each business partner, including customers that only deposit money. Branch managers and headquarters personnel take time to formulate policies at the beginning of each fiscal year, while digging deeper into the actual situation to determine what to propose for each individual company.

We set both short-term goals and, of course, medium- and long-term goals. Based on the policy established at the beginning of the term, the person in charge of the relationship with the customer makes proposals on a one-on-one basis to the customer. The customer's situation changes from moment to moment. So, the policy is revised through weekly, monthly, or bi-monthly reviews. It's hard to have statistical data.

We are working to see if we can estimate the activity of efficiently exploring customer needs, and to some extent narrow down that estimation before having a conversation with the customer. We believe this will contribute to more efficient sales activities. This is a corporate initiative, but in the case of individuals, we have long collected past information on customers in the form of EBM to estimate customer needs and have been able to achieve a certain degree of success. We will follow that concept and put in a structure for corporates.

【Developing human resources and Reskilling related】

Q: What is the point of the rate of penetration, depth, and speed of these series of human resource reforms?

A: We have relatively achieved the speed for the framework for human resources who are responsible for this solution business or for reskilling. We believe that the main point is how motivated they are to go about it. As is the case with this medium-term management plan, since April, executives including CEO have been traveling to each site to ask how we can encourage young people to take on new challenges or what obstacles stand in the way of them taking on new challenges.

Q: A very discussed system was in place, such as reskilling of human capital portfolio reform. On the other hand, if there are many difficulties in making this effective, including the communication skills of those at the middle management level at the field level. I would like to know more about the support from the headquarters.

A: During the six months of the training, we share individual concerns with headquarters and the department in charge, and provide careful monthly guidance. In particular, we are strongly asking the department in charge to be close to the reskilling subject. We are in the process of strongly requesting the department in charge to first listen carefully to the way of thinking and then work together with the person to design his/her career, rather than to improve skills. So, the system is almost ready, and we would like to respond with our hearts and minds.

Q: You have also set a target for the ratio of female managers, which I think is a very high goal given the current situation. I would like to know what measures will be taken to achieve this.

A: Currently, about 20% of the branch managers at The Bank of Yokohama are women. Therefore, we don't think that the hurdles to raising the rate to 22% are so high. We are very focused on the advancement of women. We are running a project called TSUBAKI from this fiscal year, which aims to promote women's activities. The purpose of this program is to develop human resources who will be responsible for the next generation of management. We hold monthly training sessions for mid-career professionals in their late 20s to early 30s who are active in their work and have the potential to take on management responsibilities in the future.

Usually, training programs establish clear objectives in terms of practical matters, such as how to enhance the abilities of the trainees, but this is not the case with TSUBAKI. We tell them that we want them to take on management in the future. So we would like them to come to the training with that kind of preparedness.

Q : How has turnover changed over the past few years? Is it decreasing or staying the same with this approach?

I also think that as you improve skills of employees, you now have the problem of how to retain them.

A: The turnover rate for employees in their first 10 years with the Bank is approximately 20% for each year, and maximum 30%. Job turnover has decreased a bit due to the pandemic, but with an eye toward after-COVID, turnover has been gradually increasing again recently. When we invest in human capital and the skills of our employees improve, it is good for us, but it also raises their market value, which in turn leads to a certain number of job changes. Career ownership is important in this context. What kind of future image do you want to portray within the Bank and what kind of person do you want to become? By listening carefully to this and following up thoroughly to become the person they want to be in 5 or 10 years, the Human Resources department is trying to somehow halt the increase in turnover. The ban on dual employment and side jobs has been lifted since last year. We are fostering a culture of increasing one's own market value from a young age.

Q: What is the financial impact of the suspension of sales of structured bonds.

A: If we had nothing to sell to those who had bought structured notes, the impact would be in the hundreds of millions of yen on a half-year basis. But we still have a product lineup that meets the needs of our customers. So I think it is possible to minimize the impact of the structured bonds.