

Concordia Financial Group

Key Questions and Answers at IR Day

[Climate Change Initiatives]

Q : What are you doing now to develop human resources for the engagement? I am not sure if the current state of engagement skills is sufficient. I would also like to know if you have any policies regarding the use of outside human resources.

A: We have newly reorganized automobile and parts manufacturers as the priority sectors for the engagement. The executives in charge of the sales department have taken the lead in engaging in dialogue with major automobile and parts manufacturers. With the cooperation of external companies, we use discussion papers that summarize industry trends and issues for decarbonization , and share customer issues and future directions.

From now on, we will also have the employees of the sales branches involved in engagement. But there are a large number of companies. The depth of dialogue differs considerably from one company to another, and we recognize that how to prioritize the grades of dialogue as a large issue. We are currently working on a concrete action plan to address this issue.

Regarding human resource development, it is essential to improve their skills and develop their ability to engage in dialogue with the customers. In that sense, we have established a solid educational program for them and are now in the process of improving their knowledge. Ministry of the Environment is also working to establish various certification systems. When these are completed, we would like to educate our staff to encourage them to obtain the certifications and raise their level of education.

Q: Regarding data quality for private company, I would like to know the time frame needed to bring this to about two, and what the bottlenecks for your customers are.

A: In order to raise data quality, it is necessary to deepen engagement with customers. But, I think it will take a fair amount of time given the overall number of companies.

We would like to start with upstream clients who have a high degree of influence, who are located upstream in the supply chain in each respective industry. We believe that the environment will gradually change as we move forward with our efforts. We cannot expect that the same attitude of customers will continue for several years, so we recognize that the customers will spontaneously start to make calculations before disclosing their information.

As for bottlenecks, I think that one of the bottlenecks is that many of our customers are SMEs, and the pressure for disclosure is not so strong.

Also, although there may be some differences by industry, I believe that there is a gap between the companies upstream in the supply chain and other companies located where the pressure for disclosure is not so strong.

We believe that our customers themselves are becoming more aware of the importance and necessity of the SDGs through the SDG friends loan program, but when it comes to taking actions, it is costly, and perhaps the lack of resources on the part of our customers is a contributing factor. Therefore, we would like to politely inform them of the importance of this issue so that they can get started as soon as possible.

Q: I would like to know why the credit costs based on the scenario analysis are only a few hundred million yen per year based on simple calculations. I get the impression that your calculation of transition risk includes the automobile sector more advanced than other banks, but does it also include parts manufacturers?

A: this is the result of the calculation based on the current thinking, in line with the scenario analysis of the TCFD recommendations. We recognize the depth of the scenarios and the expansion of the target sectors as a challenge. We would like to work hard to advance the sophistication of our calculations one step at a time. As a result, we believe that the amount of impact may increase. As for the transition risk, the automotive sector we have analyzed includes finished vehicle manufacturers and companies that primarily produce internal combustion engine components.

Q: I would like to know the status of your engagement with automotive suppliers. Without a clear technological direction for finished vehicle manufacturers and others upstream in the supply chain, it will be difficult for suppliers to take concrete action, such as capital investment. What is the current stage in this regard?

A: We first talk with the management officials of our Tier 1 internal combustion-related customers. We have seen that passenger cars are ahead of commercial vehicles in terms of decarbonization efforts. And, we recognize that there are differences in response from one manufacturer to another. For the manufacturers that are ahead of others, I think the pressure is getting so strong that they are demanding visualization of GHG emissions for making even each single part of a component.

【Corporate Governance】

Q: There have been discussions about the P/B ratio below 1x on the TSE and other places, but does your company think you should achieve a P/B ratio of 1x? And, I would like to know if there is anything currently being discussed about improving corporate value and reviewing the business portfolio.

A: (Akiyoshi)

since a P/B ratio of less than 1x will eventually mean that the dissolution value is higher for the business, we cannot leave this unattended. I believe that the reasons why are still behind the slowdown in Japan's overall domestic growth and the fact that interest rates themselves, through monetary easing, have

become a major aggravating factor for the banking industry as well. But of course, we cannot let this unsolved.

Unlike the megabanks, regional banks unfortunately have limited overseas activities and are small, so they are forced to consider how to expand their activities domestically. We had discussions with employees when we formulated the mid-term business plan, and what came out of these discussions was that there is still much room for expansion and growth even at Concordia, which is mainly based in Kanagawa and Tokyo. Therefore, we believe that our first priority is to lay the foundation for further growth in the regions. Under the current medium-term plan, we would like to steadily improve the top line and reduce costs, achieve ROE of 6%, and bring it closer to 7%.

However, existing businesses alone are not enough, and we believe it is important to work out growth strategies for group companies. I believe that ROE can be improved by increasing the value of each group company and expanding non-banking businesses. In addition, the board of directors is actively discussing the use of capital to improve corporate value. We are currently discussing business portfolios, such as optimizing risk-return for each business field and examining the addition of new businesses. I'll let you know what I think when the time comes.

Q: regarding the management integration with KANAGAWA BANK, when did you hear about it and what kind of discussions actually took place?

A: (Yamada)

We had received a variety of information from the early stages. At that time, what we, the outside directors, considered was whether it would be beneficial to all four kinds of stakeholders.

In the case of shareholder value, what is the ROI, how much return is there for the amount of investment.

From the perspective of customers and local communities, we believe that expanding our solutions to Kanagawa Bank's customers will also benefit the local community as a whole. Regarding employees, it is important to take advantage of the experience of the management integration with Higashi-Nippon Bank and expand it in a positive direction.

Q: We have heard the integrated management system (CFG and BOY). However, I think it would be better to return BOY to the stand-alone entity. One thing I would like to ask is whether it is necessary for your company to be a holding company.

A: (Yamada)

We have not experienced any problems or challenges with this structure, and we think it is running very well.

HNB itself has been reborn as a bank specializing in SMEs, and is currently undergoing a very strong revitalization and showing profitability, so we do not think it is necessary to place it under BOY.

In order to increase corporate value, it is important to grow not only the BOY and HNB, but also affiliated companies such as non-bank businesses. For that reason, I think it is very important to maintain the holding company.

Q: Each of you outside directors has other jobs as well, and I am sure you are busy with those as well, but please tell us how much you consider Concordia as your own business.

A: (Akiyoshi)

When I joined CFG in 2019, I was the top executive of a business company, and it was necessary to allocate my time appropriately, but I has already retired, and now I'm only an outside auditor of a listed company and our company. In terms of time, I believe that I will be able to complete the tasks sufficiently, and that I will be able to fully concentrate on our company.

(Yamada)

I have a lot of feelings for our company. I have been engaged in making proposals and consulting for the banking industry, but since doing so would create a conflict of interest, I basically no longer do so. Therefore, I am able to secure enough time and participate in most management meetings as an observer.

(Yoda)

I am a full-time university teacher, and I believe that among the outside directors, my time is the most limited. However, the schedule is shared with the secretariat at a fairly early stage, and basically there are no schedule conflicts regarding board meetings, prior briefings, etc. Personally, I have very strong feelings about it. Born in downtown Tokyo and grew up in Kanagawa, I still teaches at a university in Kanagawa Prefecture, and is a director of various industrial promotion foundations related to local governments. In addition, I'm a member of the renewable energy committee for the western part of the prefecture. I think it is very important to see what happens to the Bank of Yokohama, which is number one in Kanagawa Prefecture.

Q: I thought that the incorporation of external evaluation indicators into the compensation system was a very unique initiative of your company, What initiatives do you think should be addressed from an ESG perspective to contribute to the enhancement of corporate value?

A: (Akiyoshi)

It is our mission as a regional financial institution to take the initiative in activating ESG within the region, and we hope that this will ultimately serve as a catalyst for the development of the region. We believe that it is important for us to develop together with the local community through ESG initiatives. The reason for including it in the officer evaluation is to ensure that each officer fully recognizes the importance of ESG. As a result, I believe that it will lead to our own incentives, and I believe that advancing ESG initiatives will lead to growth expansion for both the region and our company.

Q: Regarding the human resource development and organizational climate reform, I understand that you are working very hard on these issues, how much information do you send out to students and young people whom you would like to work at Concordia? I would like to ask whether there are any self-evaluation or future challenges in this regard.

A: (Yoda)

Recruiting new graduates is not as easy as it used to be in the banking industry as a whole.

We have communicated our efforts through various media, and I believe that the fact that we are focusing on education can be conveyed, but we recognize that this alone is not enough. There was talk of a PBR of less than 1x, but students are looking to the future. It is important to have a well-developed training system and acquire skills, but more than that, it is important for recruiting new graduates to be able to communicate what kind of growth story we can draw together with the community. I personally feel that it is.

Q: Regarding the DX strategy , what is the future issues.

A: (Yamada)

There are two points: the mainframe/accounting system and how to think about apps centered on smartphones. As for the accounting system, we believe that the trend will advance from mainframes to open systems, and from open systems to cloud systems. With the addition of the Hiroshima Bank to MEJAR, system-wise cooperation is progressing, but it is necessary to check whether there are any issues in the process. In addition, it is a project that takes a long time, and it is necessary to solve problems one by one while receiving reports.

With regards to apps, it is fundamentally necessary to look at the customer's point of view and figure out how to create something that is easy for the customer to use and has the merits. It is also important to provide guidance on how to use the product at the store. I feel that this is gradually progressing at our company as well. We believe that the issue is banking for SMEs or services for local governments, and we would like to support internal considerations.