

Main Questions and Answers from Small Meeting on September 1, 2023

(Hosted by Ken Takamiya, Analyst at Nomura Securities)

Theme: Structured Finance Initiatives

Speakers: Hiroaki Suzuki, Director and Executive Officer, The Bank of Yokohama, Ltd.

Tatsuya Sumi, General Manager, Financial Solutions Department, The Bank of Yokohama, Ltd.

*** Sales Structure**

Q: There are approximately 180 personnel in the Financial Solutions Department, which is the direct sales force of the headquarters. Is this structure sufficient? Since the number of projects is increasing, will you gradually increase the number of personnel?

A: We are performing well in all asset classes, and we are confident that we will continue to see significant growth in the future. We have increased our human resources considerably, and we feel that there are further opportunities to acquire more in this market. We therefore plan to increase personnel in the future. In addition, since the volume has increased considerably, we believe that we must strengthen our defense as well as our offense. We intend to strengthen not only the front division but middle and rear divisions as well.

Q: Compared to when the Financial Solutions Department was established, has there been any change in the current composition of the workforce or the ratio of regular employees to external hires?

A: The ratio has not changed significantly since the department was established. Approximately one third were external hires or specialists at that time. The overall number of personnel is increasing in a balanced manner.

Q: What measures are you taking to increase productivity?

A: For the bank as a whole, productivity in the Corporate Division is high. We are therefore moving forward with efforts to transfer personnel from the Individual Division to the Corporate Division. Within the Corporate Division, the Financial Solutions Department and Yokohama, Kawasaki, and Tokyo are able to secure profitable assets, and personnel are therefore being relocated to these from other areas of Kanagawa Prefecture. However, simply transferring them to would result in neglecting Kanagawa, and we are therefore working to increase the productivity of each individual by returning people who have experience in the Solution Sales Department, Yokohama, Kawasaki, and Tokyo to other areas of the prefecture to share know-how.

Q: What is the background to your belief that the middle and rear divisions need to be strengthened?

A: The balance of structured finance is increasing, and we are also seeing an increase in the number of projects arranged by our bank. As a result, agent work, progress management, and covenant management work has increased considerably. We are working on strengthening personnel, but I believe further strengthening is necessary.

*** Sourcing**

Q: Regarding structured finance projects, tell us about the changes in the ratio and composition of projects derived from clients and brought in via funds etc.

A: When we started our activities there were a great many cases in which we participated in projects introduced by PE funds or by other banks, but at present, more than half of projects arranged by our bank are with our clients. By absorbing know-how we have been able to provide finance to our customers with whom we have a relationship, and that was originally our goal.

Q: Who is the starting point for obtaining structured finance in your sales branches?

A: From the branch manager to the person in charge, project sourcing has taken root as a normal activity.

When we established the Financial Solutions Department in 2019 we developed a top sales activity for branch managers, as we felt that in order to address the deep concerns of our customers it would be better to have persons of a certain age and experience respond directly to them, rather than the person in charge. We conducted these activities thoroughly over several years, and they became more widespread as section managers and other staff members joined us.

*** Profitability**

Q: What is the current state of profitability and what is your outlook for the future?

A: Structured finance is more than twice as profitable as ordinary finance. It has also been steadily increasing for the past year or two. There are two reasons why we are improving even as competition becomes tougher. The first is that, in the past, there were many projects in which we were a participant, however we are currently switching to projects arranged by the bank. We have a lot of control over the profitability of the projects, and this has produced considerable results. The other is finance originating from business succession. It is said that approximately two-thirds of companies in Kanagawa Prefecture have no successor. This is where we can use our existing relationships to gain the trust of our customers and to uncover projects. As we continue to arrange these types of projects we believe there is plenty of room for growth.

Q: Looking 5 or 10 years ahead, do you think you can grow further?

A: Our pipeline is sufficient, so we believe we can continue to grow. However, the purpose is not to develop structured finance itself, but to provide various consulting services, and in doing so, structured finance is one of the solutions to the problems. Over the past 4 or 5 years, each and every one of us has improved our abilities to solve problems, and this strengthened awareness has manifested itself in the field of structured finance. As a result of our solution proposals, there is a pattern of working together

on senior loans so that, although we do not know where or how much, we feel that it is still sufficient scope for expansion.

Q: In the first quarter results, your company's yield on domestic loans has improved. This is unusual for a regional bank. Will it also be raised in structured finance, and as a result of solution proposals, will working together on senior loans be positively reflected in the loan interest rate?

A: The projects we arrange have very high yields. If we include consulting, we won't be exposed to price competition, and I feel that if we take this to the next level, we can still improve yields and profitability.

*** LBO Loans**

Q: What is your impression of the volume of projects?

A: Half of the projects are for about 5 billion yen. The other half would be more than that. Some are more than 10 billion yen, but we also have projects for relatively small amounts.

Q: How do you handle screening?

A: We believe that entry screening and subsequent credit management are two extremely important factors. Since LBO loans are relatively high-risk, we have established very strict screening criteria. These criteria are reviewed as necessary with the changes in the economy over the past few years. These criteria are quite strict. In the screening system, the Financial Solutions Department receives the project, the Loan Department then reviews it, and it is then booked to the sales branch at the execution stage to maintain focus. Entry screening by the Financial Solutions Department is uniform, so there is no blurring of perspective. For the screening criteria, we look closely at both quantitative and qualitative aspects such as cash flow and sponsor status in the entry screening process. Since exit is critical for LBO loans, we consider progress management to be extremely important. Progress is monitored quarterly at sales branches, and this progress is further checked by both the Credit Department and the

Financial Solutions Department. The status of individual clients is compiled and summarized as a portfolio by the Risk Management Department, which is monitored periodically by the Management Committee. We work daily from the position that sales promotion together with screening and management are the two wheels of our business.

Q: What is your track record regarding defaults?

A: It is true that various industries have been affected by COVID-19 over the past few years, but there have been no defaults in the projects that we have arranged recently. We understand that there were some participation projects in the past that we worked on before we had a solid structure in place as we do today, but they were not at a level that would affect us. I mentioned that some projects are 10 billion yen or more, but after accepting them in the entry screening, we distribute them to other banks, so the finished product is smaller.

Q: Are these projects distributed to domestic banks?

A: Yes. We feel it is particularly important to work closely with regional banks, so we have developed this area quite a bit. Currently, we know what kind of projects each bank can handle, and we can therefore estimate where and how much we can guide them at the entrance stage.

*** Human Resource Development**

Q: In the April IR day document, it is stated that solution revenue = sales personnel x solution revenue per person, and that the sum of skill levels is a factor in raising solution revenue per person. What are you doing to raise the sum of skill levels across the bank?

A: We do training at the headquarters and OFF-JT in the field, but we believe that experience in the field is important. The M&A team at the headquarters, in particular the investment banking team, have skills

that the personnel at the sales branches lack, so it is very effective for sales personnel to accompany headquarters personnel on visits to customers so that they can experience making proposals to customers. In addition, we regularly hold study sessions for on-site managers using best practices. There are many things that can only be understood through experience in the field, and I feel that we are seeing considerable benefits from our efforts to strengthen these initiatives.

Q: How is skill level determined?

A: For example, we check and score whether a single person can make M&A proposals and whether they have a proven track record. One feature is that we look at the skill level not only in terms of so-called knowledge, but also in terms of whether it is accompanied by results, so we judge whether the applicant is competent or not. Skill levels are measured regularly and are steadily increasing.

Q: Regarding career paths, do headquarters sales personnel basically remain at headquarters as specialists, or do sales personnel at sales branches become trainees, and their skill levels increase?

A: We have a cycle in which personnel are transferred from sales branches to headquarters, and after acquiring a certain level of skill at headquarters are returned to sales branches, and personnel from sales branches come back to work for us. However, as the work is becoming more sophisticated and specialized, we are considering expanding the human resources system to include professionals trained in particular tasks. Basically, we want our employees to gain a broad range of knowledge through a cycle of employment, but we place importance on the individual's career path, so that if they wish to work hard in a specific position, we will respect that.

Q: What are your strengths in acquiring personnel able to provide solutions, and what makes the work attractive?

A: For example, those who have changed jobs from foreign companies say that they have very good

relationships with their customers. Foreign companies often don't listen to us, but because we work within extremely strong relationships, we are listened to and have a trusting relationship with our customers, who are often very grateful. I think the point of appreciation from customers has become especially important for young people as well.

*** Corporate Culture**

Q: I know you have always focused on solutions, but are there any areas that have been accelerated since Mr. Kataoka became president, such as changes in the company culture and atmosphere?

A: We established a solution delivery system during the previous medium-term management plan. We have a full line of products available, and have progressed with human resource development. Since President Kataoka became the head of the company, there has been a renewed and stronger call to further strengthen relationships with customers. Providing solutions will naturally not resonate without relationships. We also communicate at meetings and in integrated reports that our proposals are based on relationships of trust. We believe such awareness is most important in the sales department. Providing solutions based on relationships has resulted in projects such as structured finance. I believe the awareness of thinking from the customer's perspective and not simply in terms of sales is becoming more pervasive in the workplace.

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