Concordia Financial Group

Key Questions and Answers at IR Day

Q: Could you please explain why President Kataoka is strongly committed to efforts to enhance corporate value?

A: I have been serving as President and CEO for a year and a half now, and in the first year, I focused my activities primarily on our customers, who are among our stakeholders. The basis of our solutions business is the relationship we have with them. I believe we have been able to establish relationships by listening to many of our customers' stories and I was reassured that we have already made progress in building these relationships. In April of this year, which marks the second year, we formulated a group human resources strategy for our employees, who are also stakeholders.

Building relationships with customers and continuously investing in human resource development and cultivation cannot be sustained unless we align our perspectives with our shareholders and increase our corporate value. Therefore, we have been focusing on improving our corporate value as discussed internally in the first year. In order to firmly link employees, shareholders, customers, and the local community, we believe it is necessary to continuously improve our corporate value. This is seen as the third pillar following customer relations and group human resources strategy. I would like to make sure that all employees in the group understand these three points.

Specifically, we will hold a briefing for all group employees, including new recruits, on our efforts to enhance corporate value, and I will explain it myself. While it may be seen as something that is only for the shareholders, it's not. I plan to explain why employees must increase corporate value with materials that are easy to understand.

Our executives receive stock-based compensation linked to performance, but we want our employees to be on the same boat, actively hold shares of Concordia Financial Group, and feel the results of improving corporate value. Each person's job is completely different, but I think it's important to explain how their work contributes to the enhancement of corporate value, and I will continue to promote such initiatives.

Q: I would like to understand the growth logic for continuously increasing solution revenue in the future. Please explain from perspectives such as increasing the number of personnel, improving skills, and expanding customer share.

A: (Bank of Yokohama)

We believe that to grow our solution business, it is essential to provide solid consulting to our customers. In the past, our approach to customers was primarily centered on lending.

Banks have the advantage of having a very large customer base, a high level of trust, and more information on customers compared to other businesses. Rather than offering consulting as an afterthought to lending, we believe we should approach consulting as the starting point, and as a result, structured finance could be a solution in, for example, finance. Sales activities based on consulting are just beginning in recent years. We have transactions with 250,000 customers, including the 14,000 main target customers of strategic solutions and also middle and small-sized companies, but our proposal activities are not yet sufficient. We believe that there is still plenty of room for proposals.

Furthermore, we consider human resource development as a key point. We believe that it is crucial to develop not only the direct sales personnel of the headquarters but also the 400 sales branch staffs into personnel who can source and provide solutions.

In addition, 600 personnel division staffs are also conducting consulting sales to corporate owner customers, and the number of consultations regarding business succession is doubling every year. We believe that there is room to increase the number of cases from both the corporate and individual departments.

These activities have just begun, and we feel that there is sufficient room for expansion by continuously working on them, including human resource education.

(Higashi-Nippon Bank)

By leveraging the know-how and human resources of Yokohama Bank, we have expanded the solution revenues of Bank of Yokohama until fiscal 2022. In the area of M&A and business succession, we have been able to meet certain needs by deploying personnel from Bank of Yokohama to the responsible sections, but from April, we have been able to directly undertake M&A, and we expect growth in M&A and business succession-related revenue in the future. We believe there is room for growth as there are few financial institutions making proposals in this field to our customers.

In terms of human resource development, we aim to acquire solution skills at the same level as Bank of Yokohama, and last year we established a Financial Business School to educate for the improvement of solution skills.We hope to achieve further growth through these efforts.

Q: Could you please explain the interest rate sensitivity of structured finance? What are the types of interest rates and what is the duration? How do you perceive the follow-up rate when interest rates rise?

A: The duration varies depending on the type of asset and the project, but for example, in the case of LBO loans, the duration is generally around 5 to 7 years. The type of interest rate also depends on the customer, but it tends to fluctuate more and is based on TIBOR. If interest rates rise, we naturally expect profitability to increase even further.

Q: Could you please tell me about the collaboration status with Yokohama Capital and StormHarbour Securities, and about any functions that are lacking?

A: Yokohama Capital has been operating for a long time as a specialist subsidiary of Yokohama Bank, while

StormHarbour Securities has become a related company four years ago.

Yokohama Capital, as a venture capital firm based in Kanagawa and Tokyo, has been engaged in activities to find small and medium-sized enterprises and support their listings, and is currently focusing primarily on that area. In addition to venture support, they are also working on revitalization and buyouts.

StormHarbour Securities provides solutions in areas where banks cannot fully respond, such as in cases of capital policy support.

Yokohama Bank has been proposing mainly to small-cap companies that even major securities companies cannot fully cover among listed companies. In that segment, there may be needs related to equity rather than loans. In such cases, we use StormHarbour Securities as a differentiation.

If I were to mention a function that is lacking, I feel that Yokohama Capital is weak in initiatives to increase the corporate value of its investment targets after the investment execution. We must particularly strengthen this area, how to support the increase in our customers' corporate value, and from April we have completely renewed the structure of Yokohama Capital, brought in a young president, and started rebuilding the system. I believe that by firmly nurturing this area, it could become the next promising field, so as a sales department, we would like to put more effort into it from this fiscal year onwards.

Q: I think the characteristics and advantages of the M&A business handled by regional banks lie in PMI. How are you approaching PMI?

A: In the preliminary stages of PMI, one of the key characteristics of the entry point in our case is that customers feel confident and comfortable entrusting us with their M&A needs. When speaking with small and medium-sized business owners, we find that most companies are approached by M&A intermediaries. As we have had longstanding relationships with these companies, they feel assured and comfortable consulting us from the early stages. As a regional bank, we are committed to PMI in terms of providing comprehensive support throughout the process. Naturally, not all integration efforts are successful in every case, so we step in and provide various advice and support as needed, ensuring a detailed and tailored approach.

Q: We understand the importance of increasing assets with a high RORA in the future. However, in the disclosed capital allocation plan for this fiscal year, there is a buffer of 240 billion yen and unused capital of 100 billion yen. This can be seen as having assets with an RORA of 0%. Therefore, we believe it is necessary to make efforts to utilize the unused capital, even if it means a lower RORA, and convert it into profitable assets. Please let me know your company's perspective.

A: We believe that the primary focus should be on using unused capital after ensuring solid lending and investment opportunities. While we plan for capital allocation, it often happens that we are unable to fully utilize it. We aim to further enhance our mindset towards risk-taking and increase our risk assets. However, we also recognize the need for a more sophisticated approach to capital allocation.

In particular, we believe that the allocation of economic capital can be advanced based on the unique corporate culture and perspectives of each company. Capital is crucial in taking risks, and we want to clarify our approach to building risk assets and the necessary capital for them. In terms of improving ROE, there is also a valid perspective of returning unused capital. We are currently engaged in discussions to further advance our approach.