

Main Questions and Answers from Small Meeting on January 26, 2024

(hosted by Toyoki Sameshima, analyst at SBI Securities)

Speaker: Tatsuya Kataoka, President and Representative Director, Concordia Financial Group, Ltd.

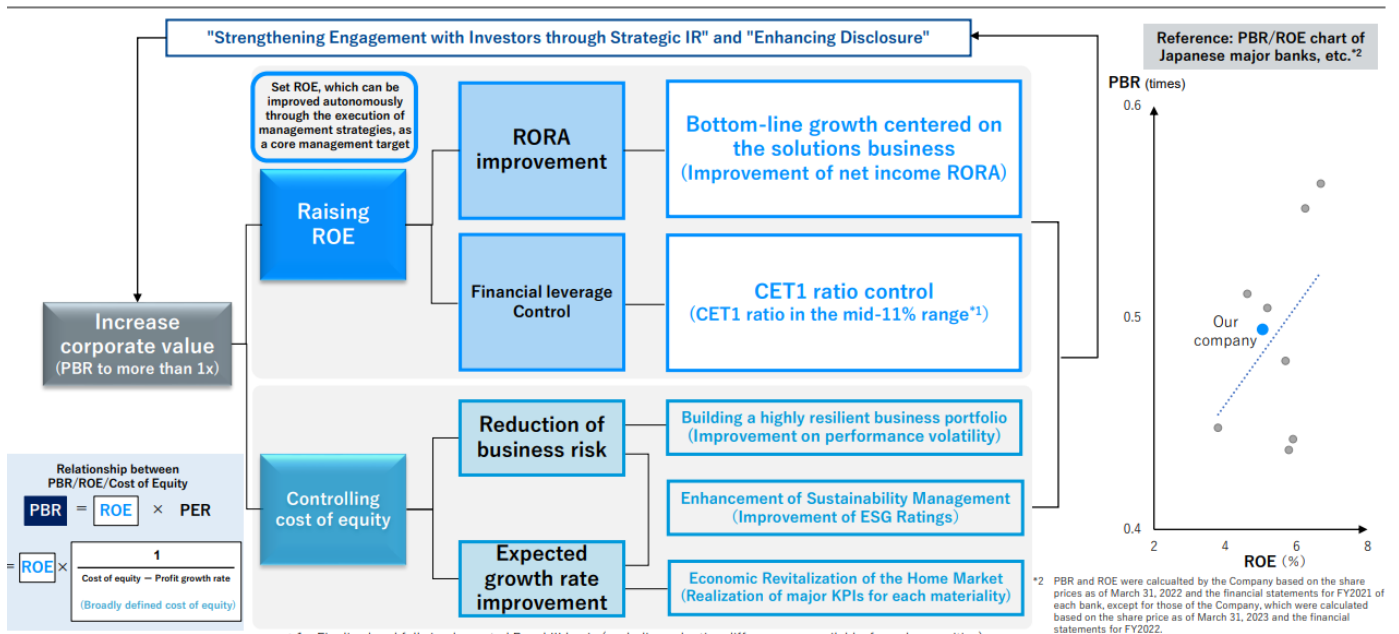
Improvement in corporate value and ROE

Q: We recognize that the efforts announced in May 2023 to improve corporate value and ROE using logic trees have become a model case for other banks. Was this something that was discussed after a request from TSE? Please tell us about the background behind the disclosure.

A: Although management had been aiming to improve ROE, there had been no exhaustive discussion on what specifically should be done. For this reason, since I assumed the position of president in 2022, I have increased the number of opportunities for discussion at board and management meetings, and have gradually deepened discussions among all executives, including not only the executives in charge but also outside directors. We created the logic tree for internal discussion and disclosed it as is. We did not create it at the request of TSE. We recognize that the most important thing is for all employees, not just management, to approach their daily work with the same awareness of increasing corporate value.

Direction of initiatives to improve corporate value (PBR logic tree)

Increase corporate value by raising ROE based on improving RORA and managing to control capital costs



Q: To what extent have improvements in ROE and RORA penetrated the workplace? What are the challenges for this penetration?

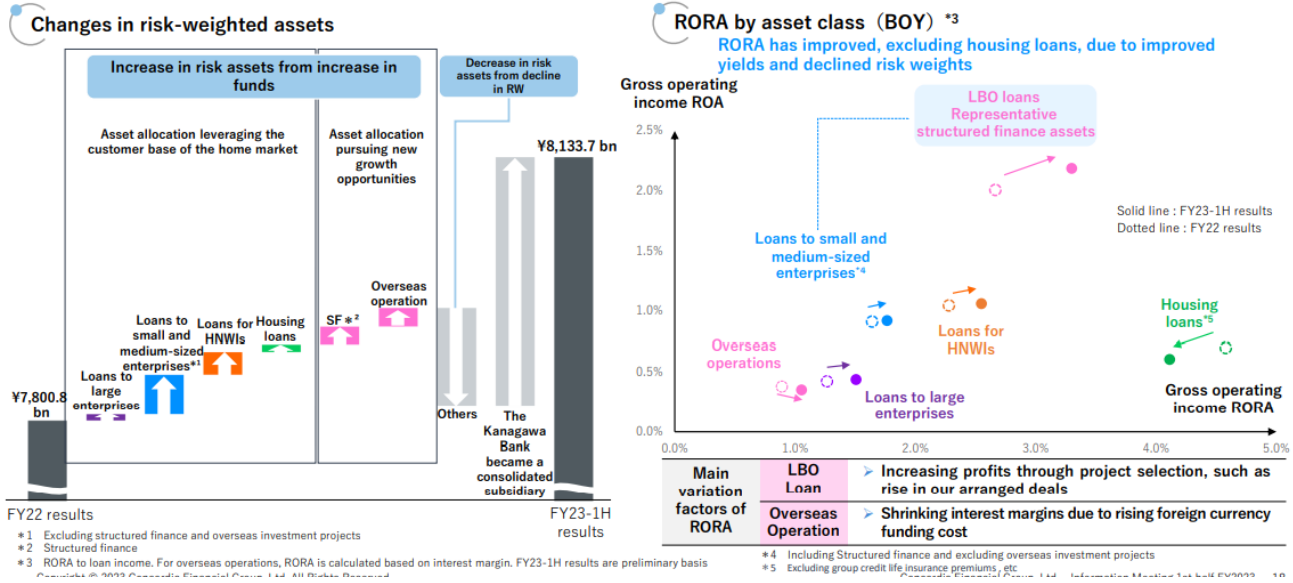
A: We recognize that this has penetrated the sales department. The Bank of Yokohama introduced RORA as an indicator for individual profitability management in 2011 with the aim of improving ROE, and has been using it in loan screening. For loan approvals, RORA is calculated for each company and project, and if standards are not met, improvement measures are taken. Although improvement measures are sometimes instructed by the screening department, it has become common practice for the sales department to organize and issue them themselves, and RORA has become pervasive in the sales department's daily activities. On the other hand, some employees in management departments such as the IT department and administrative departments do not feel a connection between their daily work and improving ROE and RORA to increase corporate value. Connections with improving ROE and RORA are carefully explained in each department to get members of the department on board. For example, a branch manager explains to subordinates that increasing customer satisfaction will reduce a company's volatility, or that reducing costs will lead to an increase in corporate value.

Q: Is it easy to transition from low-profit assets to high-profit assets? Isn't that a high hurdle that takes a considerable amount of time?

A: We are managing RORA by asset class with a view to transitioning to highly profitable assets. Our home markets of Kanagawa and Tokyo are areas with strong investment and loan needs for both corporations and individuals, and we are steadily allocating to high-margin assets by providing solutions to resolve customer issues. The balance of structured finance, a highly profitable asset, has grown to approximately 600 billion yen as of the end of September 2023, but I feel that there is still room for growth. It will take some time, but I want to move forward with asset replacement.

Strengthen profitability (Strengthen asset allocation to improve risk-return)

Strengthen well-focused asset allocation to improve risk-return



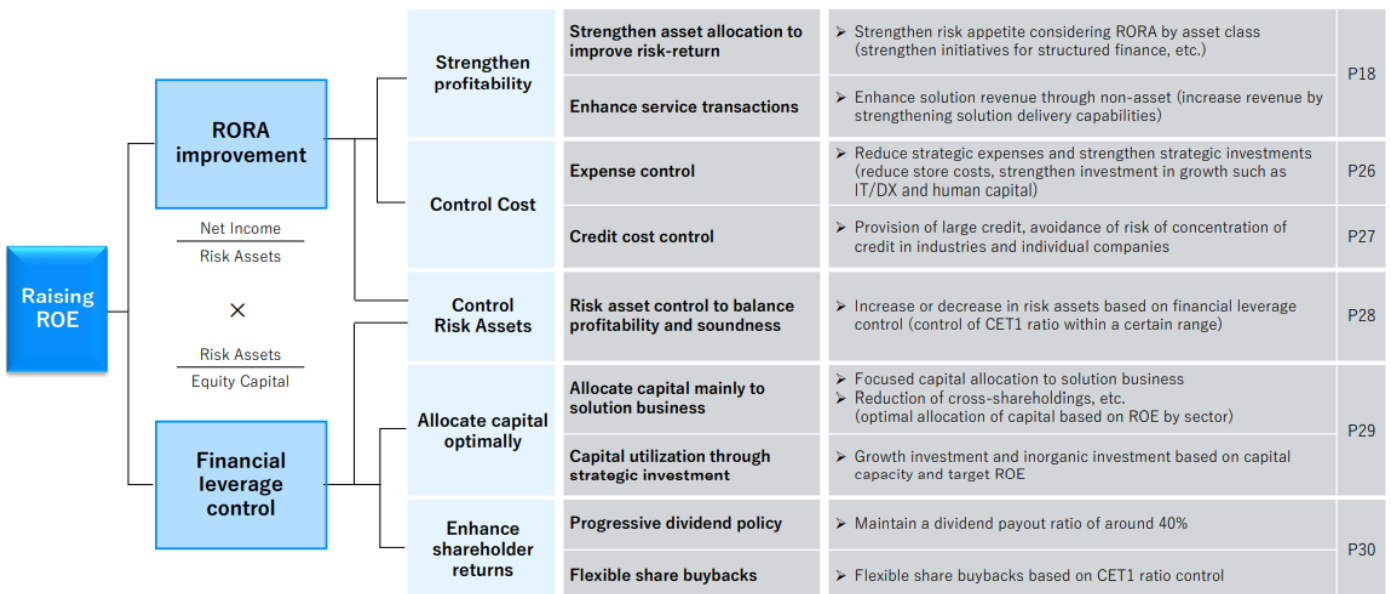
Q: I understand that your company's financial leverage is a little lower than at other banks. Are you considering increasing financial leverage to improve ROE?

A: As stated in the ROE logic tree, one of the keys to improving ROE is increasing financial leverage. We will also be conscious of increasing leverage while controlling risk assets, optimally allocating capital, and enhancing shareholder equity.

ROE logic tree

Slide from "Information Meeting" material from May 22nd, 2023

Management plan to strengthen 5 drivers for ROE improvement



Q: You are investing in human capital, including with wage increases, and in DX. Do you manage cost control using monetary amounts or indicators such as OHR?

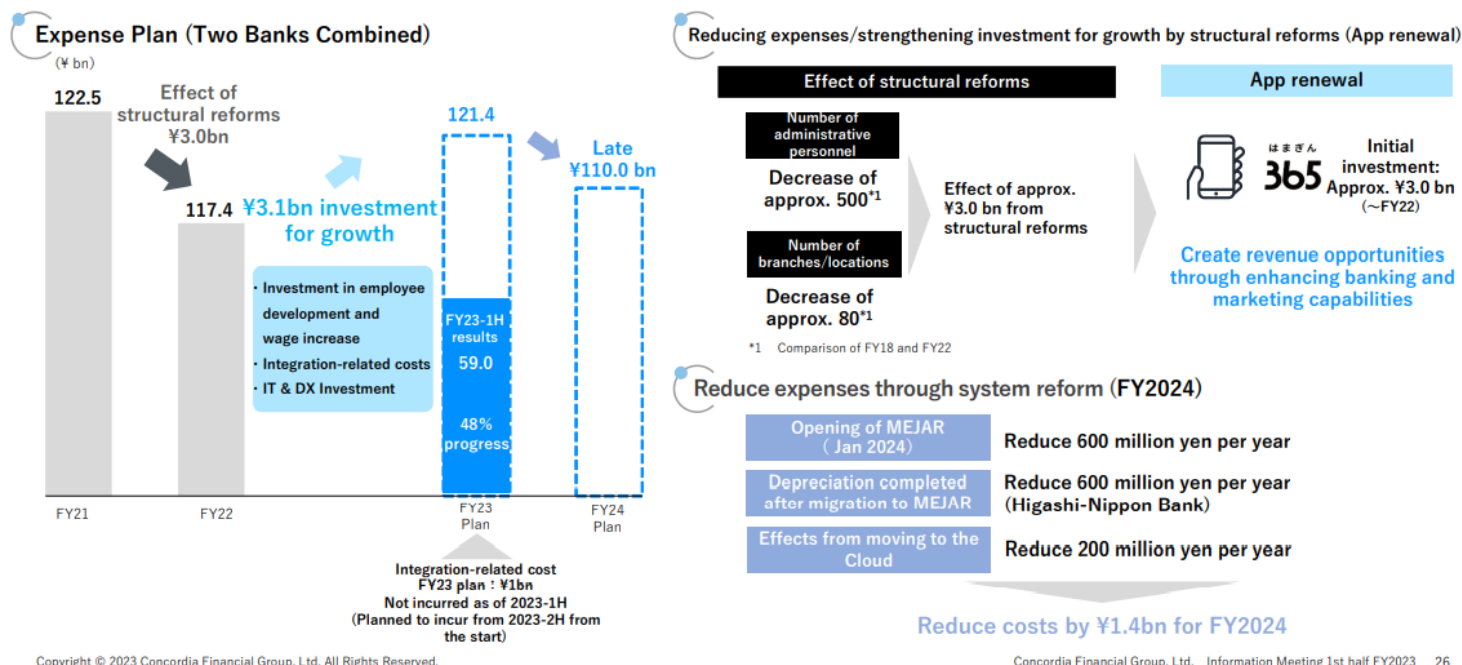
A: We manage with both monetary amounts and OHRs.

While cutting costs through structural reforms, the company has generated funds for growth investments aimed at improving the top line.

In FY2023, total expenses and OHR increased due to the costs of integrating Kanagawa Bank with our business and due to temporary outsourcing costs for MEJAR renewal. In FY2024, we plan to raise wages the same degree as this year, so personnel costs are expected to be 1 billion yen more than in FY2023, which was not included in the mid-term plan budget. However, in addition to improving productivity and streamlining the workforce, we are also reducing expenses by 1.4 billion yen thanks to our system reforms, so we are firmly controlling both the amount of expenses and the OHR, and our objective is to keep the OHR for FY2024 in the low 50% range.

Control cost (Expense control)

Reduce expenses, strengthen investment to create new revenue opportunities



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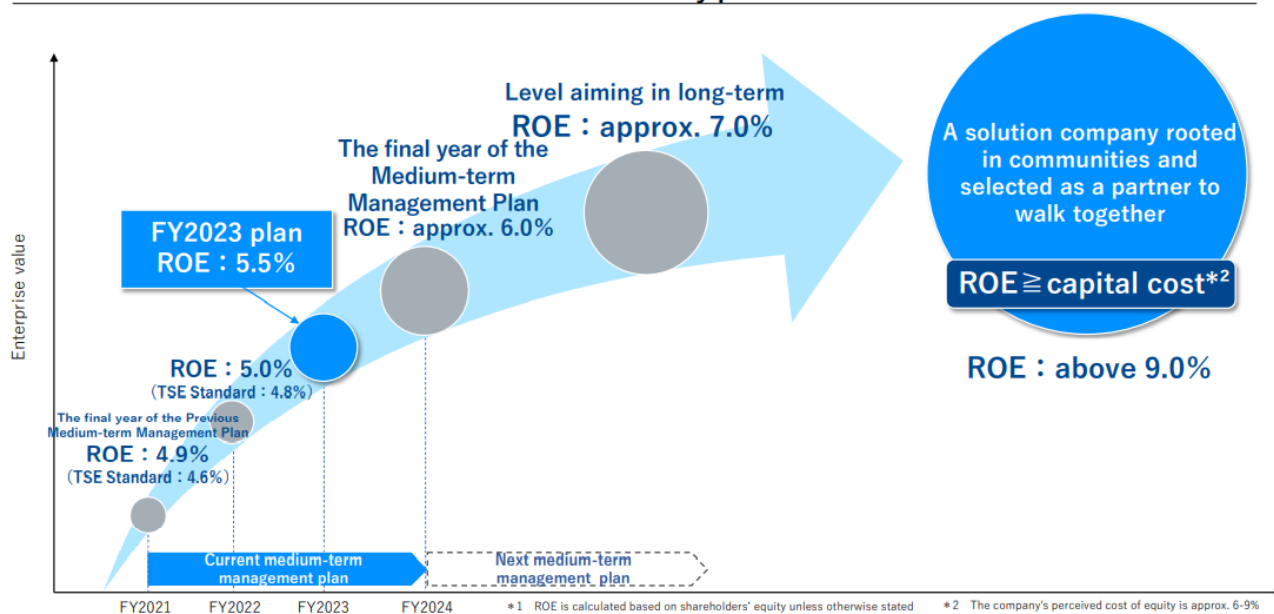
Q: ROE, which is a mid-term plan target indicator, is based on shareholders' equity, but the ROE that investors look at is based on TSE standards. I would also like to see the ROE target value based on TSE standards.

A: In our IR materials, we disclose ROE results based on TSE standards as well as on the basis of shareholder equity, but we will consider disclosing target figures as well, since these are actual figures only.

Q: Would you consider presenting in more detail the path to achieving the ROE level you are aiming for over the long term? For example, some banks disclose the timing for achieving this, the level of net profit, and how they are accumulating risk assets toward that goal. I hope that your company will also disclose this information, for example when announcing your financial results in May 2024.

A: An ROE of 7% was set on the assumption that interest rates would not rise, and we envisioned the target date for achieving it to be the final year of the next mid-term plan. Next year's budget is currently under discussion, and we believe that it is necessary to construct a budget that also takes into account the end of negative interest rates. Although companies are disclosing ROE improvement thanks to interest rate increases, we are also considering increasing ROE further through a certain amount of positive growth. We would like to provide a concrete path and concrete plan as soon as possible. We will consider whether we can announce this in the May financial results. This depends on the status of internal discussions.

Our vision
Implement the strategy set in the Medium-term Management Plan to attain our goals and enhance ROE*1 at a steady pace




Talent portfolio reforms and increased engagement

Q: Why are the scores in the employee awareness survey in the mid-term plan KPI progress evaluation lower than for the previous year? Could it be that as employee awareness improves, the standards expected of the company increase, resulting in a lower score?

A: We recognize that one of the factors is that we are in a period of transition in structural reform. Although efforts are being made to improve the efficiency of office work through digitization, there are cases in which work is duplicated, and burdens increased due to personnel changes occurring before reductions in work volume. However, we are already taking measures, such as allocating human resources, and newly assigned personnel are acclimating to their new work, so we believe that improvements can be made. We provide opportunities for dialogue with employees, and we feel that their awareness has improved.

As we continue to develop human resources, the demands of employees on their companies are increasing year by year. In particular, we are aware that there is a strong desire to feel a sense of growth as soon as possible, and as top management, we would like to respond appropriately.

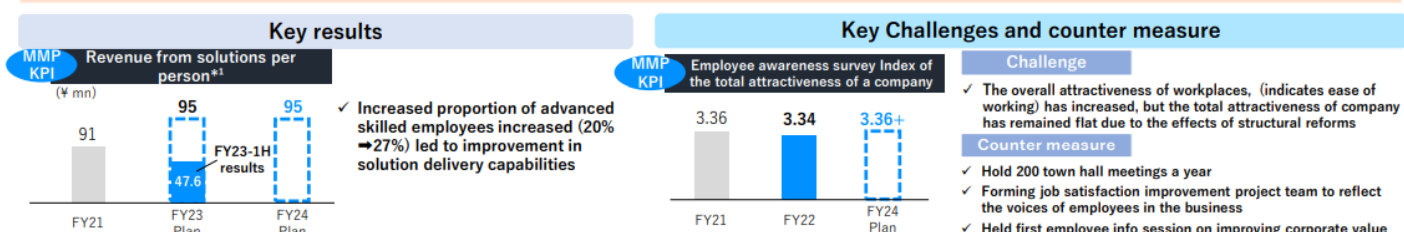
Change Evaluation of the progress of the Medium-term Management Plan

Change
General assessment 
○ : 7, △ : 6, × : 2


Strengthen efforts to improve engagement and increase the number of app users

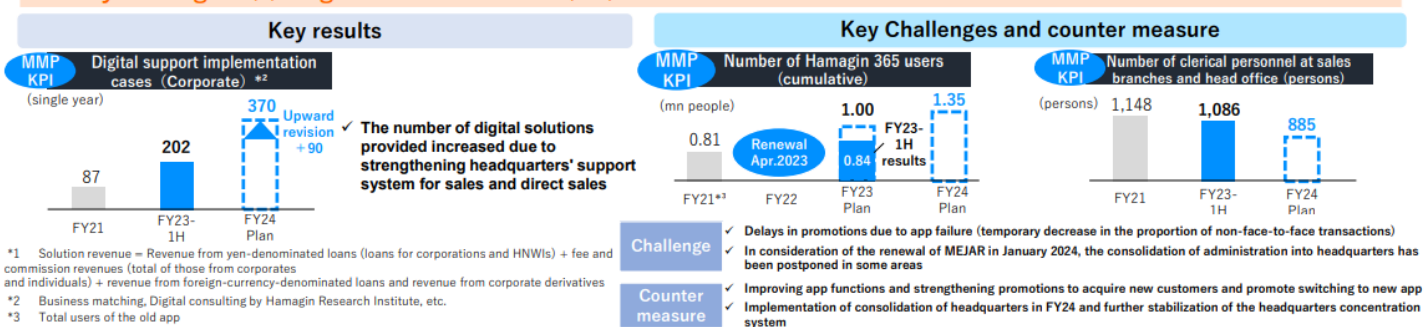
Priority Strategies (3): Talent Portfolio Reforms and an Increase in Engagement

Assessment : 



Priority Strategies (4): Digital Transformation (DX)

Assessment : 



*1 Solution revenue = Revenue from yen-denominated loans (loans for corporations and HNWIs) + fee and commission revenues (total of those from corporates and individuals) + revenue from foreign-currency-denominated loans and revenue from corporate derivatives

*2 Business matching, Digital consulting by Hamagin Research Institute, etc.

*3 Total users of the old app

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Q: The evaluation of major consulting qualifications in the progress evaluation of mid-term plan KPIs is also low. What kind of initiatives are you taking?

A: It's not simply a matter of obtaining a qualification, but as of the first half of FY2023, our level of major consulting qualifications is not rated highly, and we are providing training and support for our personnel to hone their skills. Specifically, the bank's self-development support funds, which were previously paid when students passed a qualification exam, are now paid as a fixed amount when they take on that challenge.

Progress of Major KPIs of the Medium-Term Management Plan (MMP)*1 ↑ : Items which target has been revised upward for its solid progress

Overall solid progress has been made, while challenges remain

General assessment of each basic theme

Growth **Change** **Sustainability**

Growth Deepening and expansion of Solution Business					Change Digital Transformation (DX)				
MMP KPI	FY21	FY23-1H	FY24 Plan	Assessment**	MMP KPI	FY21	FY23-1H	FY24 Plan	Assessment**
Number of corporate partners (companies)	1,313	2,192	2,900	○	Number of users of Hamagin 365 smartphone apps(cumulative total)(persons)**3	0.81 mn	0.84 mn	1.35 mn	△
Number of individual partners (persons)	12,125	18,613	24,000	○	Digital support implementation cases (single year) (cases)	87	202	370	○
Number of corporate payment main customers (companies)	36,385	39,929	44,000	△	Percentage of strategic expenses in IT and digital expenses**4	24%	29.7%	30%+	○
Number of individual main customers (persons)	1.76 mn	1.77 mn	1.79 mn	○	Percentage of transactions on non-face-to-face channels	32%	39.3%	48%	△
Structured finance balance (end balance)	¥365.7bn	¥549.0 bn	¥590.0 bn	○	Number of clerical personnel at sales branches and head office (persons)	1,148	1,086	885	×
Balance of assets in custody of the Group (end balance)	¥1,108.4 bn	¥1,303.8 bn	¥1,400.0 bn	○	Sustainability Contribution to Sustainable Regional Communities				
Foreign currency loan balance (end balance)	¥458.1 bn	¥645.5 bn	¥570.0 bn	○	MMP KPI	FY21	FY23-1H	FY24 Plan	Assessment**
Number of solutions offered overseas (single year) (solutions)	107	195	325	○	Amount of sustainable finance Provided (cumulative)	-	¥2.4 tn	¥2.6 tn	○
Change Talent Portfolio Reforms and Increase in Engagement					Number of sustainability-related solutions provided (single year) (solutions)	-	279	500	○
MMP KPI	FY21	FY23-1H	FY24 Plan	Assessment**	GHG emissions reduction rate of the Group (cumulative)<FG>**4	38.3%	72.9%	80.0%	△
Revenue from solutions per person (single year)	¥91 mn	¥47.6 mn	¥95 mn	○	Number of cases involved to address issues in local communities (single year)	9	10	15	○
Percentage of persons with advanced skills	20%	27%	24%	○	Number of financial education course participants (cumulative) (persons)	35k	107k	189k	○
Number of holders of major consulting qualifications (cumulative) (persons)	340	395	550	×	Sustainability Sophistication of Governance				
Number of human resources specialized (in IT/digital) at head office (cumulative) (persons)**4	64	103	130	○	MMP KPI	FY21	FY23-1H	FY24 Plan	Assessment**
Number of human resources specialized (in market/international) at head office (cumulative) (persons)	212	213	250	△	Number of measures toward sophistication of risk control (single year) (measures)	-	2	5	△
Time invested in talent development per person (hours)	10.2	6.4	16.2	△	Compliance Awareness Survey results (percentage of positive responses)	77.9%	81.7%	82.0%	○
Number of job post openings under the reskilling system (cumulative)	43	209	280	○	External evaluation indicators <FG> (such as acquisition of certificates) (items)	-	6	9	○
Percentage of female managers	17%	19.5%	22%	△	*1 KPI of Bank of Yokohama unless otherwise stated. No KPI setting for priority strategy in Growth "Making use of Strategic Investment and Alliances"				
Percentage of mid-careers in managerial position	14%	14.9%	14%+	○	*2 ○: Above the required achievement rate (50%) and achievement of the plan estimated, △: Under the required achievement rate (50%) and achievement of the plan estimated, ×: Challenge to achieve the plan				
Employee Attitude Survey results**4	3.36	3.34	3.36+	△	*3 Number of former app users for FY21(Renewal in April 2023)				

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*4 Evaluation items based on annual results. The results listed in FY23-1H are FY22 results

Q: Please explain why progress on the mid-term plan KPI for the ratio of women in management positions has been unsatisfactory.

A: Current progress does seem unsatisfactory, but I believe that we can achieve this goal. We are currently building a pool of female managers and already have several dozen. We hope to have them build up their track records, then promote them to managerial positions. The Compensation and Personnel Committee is also discussing training methods separately. We believe that we can achieve the KPI in the final year of the mid-term plan, but achieving 22% in itself is not enough. We will need to increase

this going forward. With this in mind, we are creating a succession plan that includes future director candidates.

Q: How many people do you think need to be recruited in the reskilling open recruitment in the next mid-term plan and beyond?

A: We have reduced our administrative workload by about 30% and are currently re-skilling our human resources with 240 people over the next three years. Although the end of FY2024 will be a temporary end-point, we intend to set new target levels once we have made existing operations more efficient.

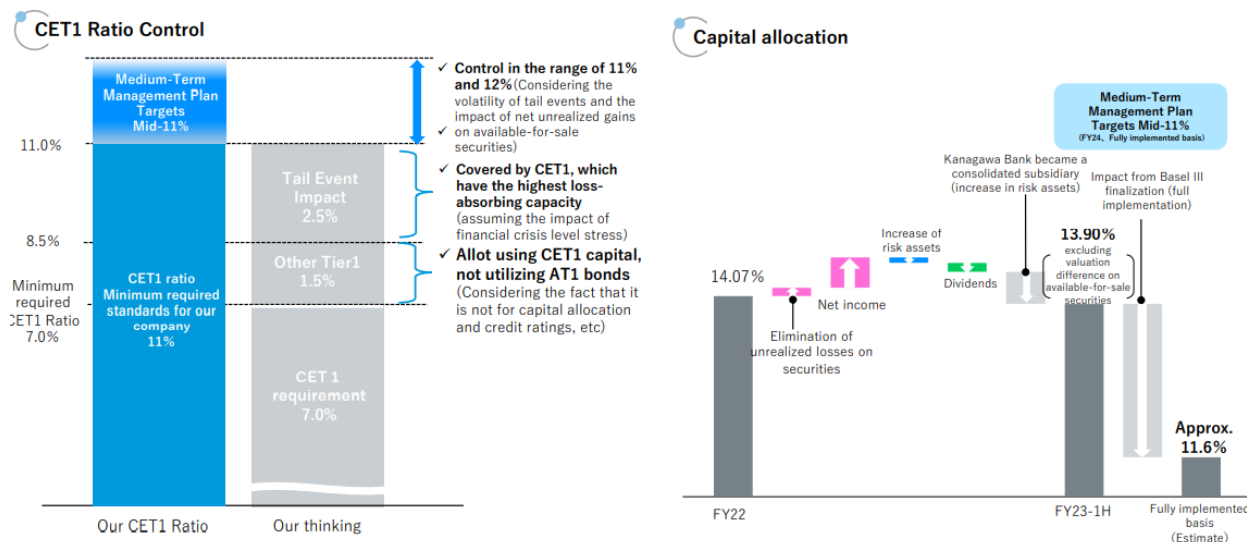
Capital policy:

Q: Your company's dividend payout ratio is around 40%, which we consider to be a standard level compared to the megabanks and major regional banks. What would it take to raise this standard even further? For example, what would be required to aim for a total payout ratio of 60%?

A: The key points in raising the perspective on returns are the level of capital and the way it is utilized, and we are currently discussing this within the company. Including other Tier 1 portions, the company's equity capital is currently handled with Common Equity Tier 1. I believe that by organizing our approach to Common Equity Tier 1 and capital allocation, we will be able to solidify our approach to capital utilization. At that time, we will also change the level of the dividend payout ratio as necessary.

Control risk assets (CET1 ratio)

Implement balanced capital management with controlling CET1 ratio range



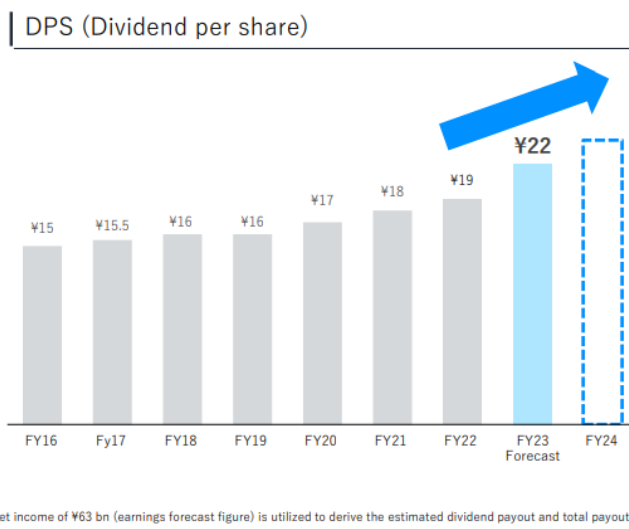
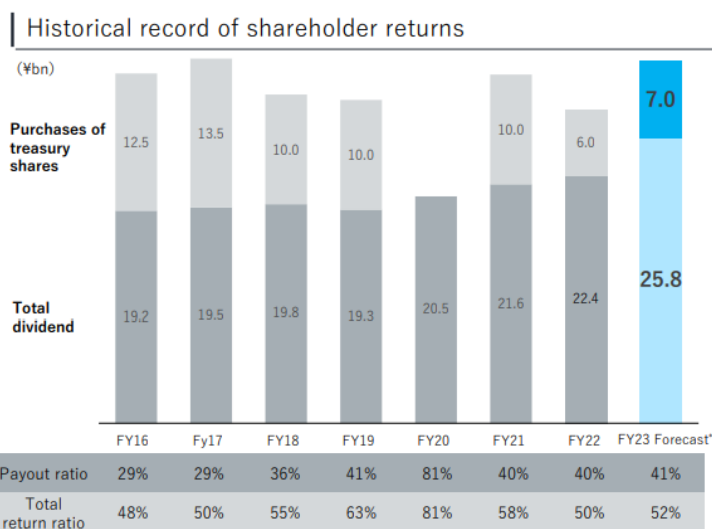
Q: Is it possible to consider establishing a returns policy that is linked to the target level of the Common Equity Tier 1 ratio? In the case of dividend payout ratios, it gives the impression that dividends will be lowered if profits decline, so wouldn't it be better to set it in a way that eliminates concerns about dividend reductions (for example, dividend on equity (DOE))?

A: We understand investors' concerns about dividend reductions, so we have set out a policy of “progressive dividends.” I do not believe that the current disclosure content is necessarily the best, so while also taking into account everyone's opinions, I would like to consider this for the next mid-term business plan to make our capital strategy and investors' perspectives match.

Enhancement of shareholder returns

Announced ¥7.0 bn share buyback, which will lead to the highest level of shareholder return since establishment of Concordia FG

Shareholder returns policy	Dividend	● Target the payout ratio of about 40%, with the basic principle of progressive dividends
	Purchases of treasury shares	● Conduct purchases of treasury shares flexibly and expeditiously according to market conditions and business prospects



	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23 Forecast ^{*1}
Payout ratio	29%	29%	36%	41%	81%	40%	40%	41%
Total return ratio	48%	50%	55%	63%	81%	58%	50%	52%

*1 Net income of ¥63 bn (earnings forecast figure) is utilized to derive the estimated dividend payout and total payout ratio
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Governance

Q: You serve as both President of Concordia FG and President of Bank of Yokohama. What are the advantages and disadvantages of this?

A: Being president of both allows me to discuss strategies based on a thorough understanding of not only the Bank of Yokohama but also Higashi Nippon Bank. Being able to consider the situation on the ground when communicating with investors is another advantage. In the current system with two

subsidiary banks under the FG umbrella, I feel it is better to have one person fill both positions, but if the number of other business lines increases in the future, I think it would be better to have two different people heading up Concordia FG and the Bank of Yokohama.

Q: Is the reason for having only two subsidiary banks directly under the Concordia FG umbrella that the other affiliates are not large enough?

A: Whether to make an affiliate a subsidiary of the Bank of Yokohama or a subsidiary of the Concordia FG in parallel with the Bank of Yokohama depends on the nature of its business. For example, if most of its customers are business partners of the Bank of Yokohama, we believe that placing the company under the Bank of Yokohama umbrella is better for governance and for information sharing for business purposes. On the other hand, if more than half of the customers are not Bank of Yokohama business partners, we may have the option of expanding the affiliate's business by placing it in parallel with the Bank of Yokohama. I don't think it would be a good idea to make all our affiliated companies direct subsidiaries of the Concordia FG. Governance is the key.

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