

Concordia Financial Group

Key Questions and Answers at IR Day

[Part One: Market Division]

Q: Could you please tell me about the scope of authority given to the market division?

A: (Arai)

First, we decide on the general direction of market operations at the monthly ALM meeting. Therefore, the sense of direction for major increases or decreases is decided at the ALM meeting. As for the actual operation, the authority is delegated to the responsible executives and below, so while there are constraints such as the VaR (Value at Risk) framework, they can operate with a certain degree of freedom within their authority when the timing is right. Of course, they must properly report and verify the results of their actions.

Q: I would like to know about the basic principles of investing in foreign bonds.

A: (Arai)

In terms of foreign bond investments, the Financial Portfolio will primarily accumulate CLO, while the Realized Portfolio will focus on fixed-income securities. If we were to buy fixed-income securities now, we would end up with a reverse yield, so we are dealing with this cautiously. However, if we can see a certain degree of interest rate cuts, we will naturally be able to target capital, so we plan to accumulate to some extent within the range of authority I mentioned earlier. However, regarding foreign bonds, if yen bonds come with interest, we believe there will be a shift from foreign bonds to yen bonds in the medium to long term.

Q: On page 9, it was explained that 'as of the end of September '23, about 80% became variable bonds.' In this case, should we understand that 'variable bonds' primarily refers to CLO?

A: (Arai)

You can essentially consider variable bonds to be almost equivalent to CLO. Given that we still can't foresee a decline in interest rates, we have significantly reduced the position of foreign bonds themselves. As for when and how to accumulate, this is currently under consideration in the market division.

Q: Regarding the 'Accumulation of domestic and foreign stocks (investment trusts)' mentioned on page 15, I understand that it will reach about 10% of the funds by the fiscal year 2025. Could you please provide additional explanation on aiming for this level?

A: (Arai)

Compared to other banks, the Bank of Yokohama has a lower proportion of stock holdings and does not have much unrealized gains. Due to constraints on risk assets, it would be difficult to increase holdings indefinitely. Rather than mechanically accumulating, we will naturally watch the market and accumulate about 30 billion yen at a time, and we will review our response policy in about three years. The ratio of

risk assets may reach about 10% of the funds, but just before that, we would like to carefully verify whether that ratio is appropriate and accumulate while doing so.

Q: I understand that developing human assets engaged in Operations involves not only hiring from outside but also nurturing employees who have been working since graduating, and that this requires time and money. Could you please tell me how you plan to overcome the challenges of development?

A: (Arai)

Developing human assets can be quite difficult, but we are committed to persevering. Fortunately, when we recruit trainees for the market division internally, we consistently receive applications. In actual interviews, we find people who are not just saying 'I was just doing sales at the sales branch,' but also those who say, 'I am studying for the securities analyst exam because I want to be involved in the market division,' and such motivated human assets have been consistently emerging in recent years. We are steadily nurturing these motivated individuals by setting up certain programs for them to gain experience. However, on the other hand, the market division has a very high liquidity of human assets, so there are cases where young employees are leaving the company. For example, if we recruit five trainees and four passes, we assume that one or two of them may leave the company and plan our staffing accordingly. We fill any gaps that can't be filled with existing employees by hiring experienced people mid-career. Developing human assets can take five to ten years, but we want to continue doing it.

Q: On page 16, it was explained that 'Strengthening Governance and Market Risk Management' was achieved through measures such as holding monthly discussions among inside directors, setting a point to cut losses, and determining a tolerable loss limit. Could you please tell me about the specific changes that have been brought about by the strengthening of these efforts?

A: (Arai)

Until now, it was difficult for directors and executives who were not in charge of the market division to understand it. However, by having close discussions between the market division and the directors, what used to be just one of the topics at board meetings has become something that everyone sees as their own concern. I strongly feel that everyone now understands that in the past, the market division caused significant fluctuations in the Bank of Yokohama's earnings with its volatility and can discuss how to proceed in the future. For example, even with the decision to cut losses on foreign bonds, we are making management decisions based on a firm understanding of the decision to cut losses. Because various decisions can now be made very quickly, the market division has become more agile. I feel that we are moving in a very good direction.

Q: The Bank of Yokohama, The Higashi-Nippon Bank, and THE KANAGAWA BANK each have their own market divisions. Is there a necessity for this?

A: (Arai)

As a prerequisite, there is a significant difference in the size of the portfolios. Both the Higashi-Nippon Bank and THE KANAGAWA BANK have market divisions, but the amounts are very small. On the other hand, from the perspective of maintaining human assets, we believe that there is a need to integrate to

a certain extent. THE KANAGAWA BANK just underwent a management integration last year, but for The Higashi-Nippon Bank, peripheral operations such as fund management and foreign exchange are almost integrated with the Bank of Yokohama. We also dispatch the division manager from the Bank of Yokohama. In terms of securities management, the proportion of the market division's earnings at The Higashi-Nippon Bank is slightly higher overall compared to the Bank of Yokohama, so we will consider integration at the timing of the next mid-term management plan, but at this point, we have not yet reached that stage.

Q: Could you please tell me about the degree of achievement of the 'Realized gains/losses Ratio 1%' mentioned on page 18?

A: (Arai)

The 'Realized gains/losses Ratio 1%' in the realized portfolio refers to the level we aim to achieve in the future. So far, we have primarily accumulated yen bonds for held-to-maturity. However, considering the lifting of the negative interest rates policy and the anticipated interest rate hikes, we have currently reduced the position of yen bonds in our realized portfolio. We are considering increasing our yen bond holdings when interest rates have risen to a certain extent. Since the yen bonds for held-to-maturity have accumulated to about 800 billion yen, we would like to secure profits while accumulating yen bonds in the realized portfolio, including firmly aiming for capital. About half of the realized portfolio is made up of yen bonds, but it also includes foreign bonds, stocks, etc. Considering these, we believe that the 'Realized gains/losses Ratio 1%' is somewhat realistic.

Q: Regarding the 'Realized gains/losses Ratio 1%' mentioned on page 18, is it correct to understand that the numerator is about 25 billion yen and the denominator is about 2.5 trillion yen?

A: (Arai)

The Realized gains/losses Ratio would be as such on a gross profit basis, but on a net profit basis after tax, the ratio would be slightly lower.

Q: On page 18, it says 'Elimination of valuation loss through portfolio restructuring (about 5 years)'. Given that the sales division is doing well, I believe it is also possible to expedite the handling of investment trusts bearing valuation losses. Could you please explain the background of why it would take about 5 years?

A: (Onodera)

We plan to gradually eliminate valuation losses over time by allocating the additional profits generated as a result of restructuring the securities portfolio in the market division. As you pointed out, the sales division has exceeded its budget, including this fiscal year. However, if we apply those profits each time to eliminate the market division's valuation losses, we would completely negate all upside expectations of our investors. Of course, there are parts that need to respond flexibly to changes in the financial environment, but unless there are such drastic changes, we are committed to addressing and working on processing valuation losses within the market division.

Q: There seems to be a trend in the market division to incur losses on securities in the fourth quarter for the next fiscal year. On the other hand, there is also a concept of generating more stable

profits consistently each quarter. Could you please tell me which approach the market division prefers?

A: (Arai)

What we aim for in the market division is to generate stable financial income. This will lead to a reduction in volatility and capital costs. However, we want to improve evaluation gains through self-help efforts by firmly generating realized gains that exceed that.

A: (Onodera)

I understand that investors may be sensing the volatility of our performance and a lack of commitment to our guidance. In terms of reducing capital costs, we must reduce the volatility of our performance. We will proceed with the treatment of valuation losses while ensuring stable financial income by restructuring our portfolio. We have been having discussions on how to achieve this, and now that our policy is firmly established, I believe that is why we are presenting today.

Q: Given the high hurdle of securing returns solely through credit, could you please tell me if there is a possibility of taking on more risk than lending if it is profitable?

A: (Arai)

It is indeed a challenging aspect, but it's not just about taking on credit. First, we allocate capital to our main business, such as lending. The basic idea is to manage surplus funds. Rather than taking risks in the market division to greatly increase profits, we believe it is of primary importance to secure stable earnings and build a sound portfolio.

Q: Is the procurement cost of the market division explicitly stated?

A: (Arai)

We have created a divider between procurement costs and ALM, and we clearly delineate which part is the market division and which part is the cost of ALM. Based on that cost, we manage the earnings of the market division.

【Part Two: Corporate Governance】

Q: Could you please tell me about the status of internal discussions on the reorganization of regional banks in the future?

A: (Akiyoshi)

We are always discussing the reorganization of regional banks. As Concordia Financial Group, we are always open and willing to undertake reorganizations that will contribute to our future growth and leverage the various assets we have. We are always discussing growth through reorganization, based in Kanagawa and Tokyo.

Q: Could you please tell me about the content of the discussions at the Board Meeting regarding the market division?

A: (Yamada)

We receive reports on ALM at the monthly Board Meetings for the market division. Discussions about the market division are always held at management meetings of each bank as well. As for the discussions at the Board Meeting, for this term, the initial important theme was cutting losses on foreign bonds. In particular, we had discussions on how to reduce the reverse yield portion. In other words, at the Board Meeting, we discuss 'what are the current high priorities'. After the loss cut, many of the remaining unrealized losses are in investment trusts, and we are currently discussing how to specifically handle those investment trusts. Since the methods vary greatly depending on the type of investment trust, we are having discussions that we should take time to respond. In addition, we are also having discussions about risk limits, such as what extent is a warning point and at what level we must cut new losses.

Q: On page 22, it is mentioned that 'Direction of efforts to increase individual shareholders' was taken up as the annual theme at the Board Meeting. Could you please tell me about the discussions that were held?

A: (Akiyoshi)

For over a decade since around 2012, our individual shareholder ratio has been less than 10%. We have not been idle during this time, and although we have been frequently conducting IR activities for individual shareholders, unfortunately, our shareholder composition ratio is still less than 10%. We recognize that this is a considerably low level even compared to other major regional banks and mega banks, and we would like to somehow increase this ratio. Therefore, we have set such a theme. As for the reason why the individual shareholder ratio is low, it is difficult to specify. There are various opinions such as 'The name Concordia Financial Group is hard to understand,' but we feel that it is not just that. We would like to think more deeply about it, borrowing the strength of analysts and securities companies. We intend to do everything we should do, including continuing to work on increasing understanding among individuals, including IR, and we are currently considering what we can do for individual shareholders. While increasing our company's name recognition, we want to consider something that will resonate with individuals. Including dividend payout ratios, our returns are by no means inferior to other banks, and given that our performance has been improving significantly, we feel that now is the time to attack.

Q: Could you please tell me what issues the interviewees in the Succession Plan specifically perceive as challenges? And could you also tell me what their opinions are regarding the 'Direction of initiatives to improve corporate value'?

A: (Akiyoshi)

Interviewees in the Succession Plan each have a firm awareness of the problems with the tasks they are currently undertaking and have opinions on how they want to proceed in the future. I think this is very important. As for what we want to do with the Concordia Financial Group as a whole, the fact is that we haven't been able to discuss it at the level of thinking at the president's level in our interviews, because those we are interviewing are the future executive candidates. However, they always have the awareness of 'how should we change this' and 'I want to change this' in the tasks they are responsible for, and each of them properly conveys their opinions to us, so I think that is important. I always think to myself, 'if you hold a certain position, always think one step ahead.' If you are a section manager, think from the perspective of a department manager or higher. If you are a department manager, think from the perspective of an executive officer or division head. Thinking about what I should do now from that perspective, I used to tell my subordinates in my previous job. In that sense, I feel that many of the interviewees have a very high level of consciousness.

Q: Could you please tell me what you think is the bottleneck in promoting women's active participation in the banking industry, and at what speed you think it will change in the future?

A: (Yoda)

In Concordia Financial Group, we have one female executive officer each at the Bank of Yokohama and The Higashi-Nippon Bank, but there is still the challenge of having few in number. However, as a whole, the Concordia Financial Group has a female ratio of 36% (for the full year of 2022) for position holders and 16% (for the full year of 2022) for management position holders, and we have disclosed a goal to raise this female ratio in management positions to 25% by the year 2027. Let me now explain what can be done to achieve these goals. First, we have started a female leadership development project called the 'TSUBAKI Project' from last fiscal year, gathering young female leaders, namely those around their 30s. We explained about this at last year's IR Day, and we are continuing it this fiscal year following last year. Participants are recruited and recommended, and from this year, members who can participate by raising their hands in an open call will also join. In terms of specifics, we have set a period of about half a year, during which we listen to stories from various internal and external female management experienced people over seven days and reconsider their own careers. Therefore, as an answer, one is for women themselves to reconsider their own careers. Also, it has been revealed from various research that it is difficult for women to raise their hands actively, so we are working on eliminating such unconscious bias and making it possible for them to become conscious of it themselves. Another thing that I personally feel is very important is to create an environment. One of the reasons for the small number of female managers, especially in sales branches, in financial institutions is the long working hours, and I believe that by creating a workplace where everyone, including men, can work more easily through work style reforms, we can improve this situation. Also, in the succession plan, especially for women, there are few people who are in management positions, and we are conducting interviews and exchanging opinions with a wider range of members, including deputy department heads, as future upper-level candidate members. The male members of the outside directors are also very proactive

about women's active participation, and in such situations, we ask them about their concerns and so on.

Q: Not only have you visited sales branches, but you have also visited subsidiaries. Could you please tell me about the governance situation at the subsidiaries and your experiences during your actual visits?

A: (Akiyoshi)

We believe that we cannot grow and would lose in competition if we only conduct traditional banking operations. In terms of how to strengthen our solutions business, we recognize that our group companies play a very important role. In the future, when financial institutions provide financial services as a financial business, they need to provide solutions, not just lend money, and how to increase added value depends on how we strengthen our group business, which we recognize as a very important issue. Therefore, not only the support to customers by Hamagin Research Institute, but also the discussion about whether the current situation is good for securities subsidiaries, we are having very strong discussions now. Including such points, we believe that we cannot win the future competition unless we increase our overall strength as a group. As we have set out in our annual theme, we believe that we still need to discuss these matters in considering the medium to long-term direction of our group companies. There is not much to gain just by visiting business companies, but as one of the recent topics, when I talked with Hamagin Research Institute, they showed me the project map of Kanagawa Prefecture. Looking at it again, it is clear at a glance how many new projects there are in Kanagawa Prefecture, centered on Kanagawa, and how many people are moving in various ways in Kanagawa. After all, this region is indeed important to us and we have not yet fully attacked it. I was reminded of such important things and made to think again that there is more to do in this region. I think there are various ways of looking at it, but I felt that I could learn things I don't know just by being in the Concordia Financial Group from the business companies.

A: (Yoda)

As part of governance, we sometimes share the results of internal audits, for example, at the Board of Directors meeting and ask questions. During these times, various issues on the ground surface on paper, but there are things that you only understand by actually visiting the site, whether they are positive points or perceived issues. For this fiscal year, I had the opportunity to visit the group companies and could confirm what kind of environment and what kind of people are working there. For example, at Hamagin Research Institute, consulting work is very popular among young people, and I could see firsthand that it is being greatly strengthened by young people. I could also feel that they are using big data to develop various businesses by actually visiting the site, talking with the president of Hamagin Research Institute, and going around each department. I feel that these on-site visits provide us with very useful information from a governance perspective.

Q: Could you please tell me the strengths and areas for improvement in the Board of Directors of Bank of Yokohama and Concordia Financial Group?

A: (Ishii)

I feel that quite deep discussions are taking place at the Board of Directors. I think the best point is that the executive department is willing to listen. The so-called outside directors are not just for show, but properly respond to and consider what we, as outside directors, have said, proposed, or asked. I think this is a very excellent point.

Various improvements have been made in the operation, and recently, for example, the seating arrangements in the Board of Directors are changed each time, changing the sense of distance and atmosphere of the place when speaking. I would like to see more of such improvements continue. If I dare to mention a negative point, the Board of Directors of Concordia Financial Group and Bank of Yokohama are integrated, but there are also The Higashi-Nippon Bank and THE KANAGAWA BANK as subsidiary banks. As a theme for the future, I think it is an important point of discussion on how to incorporate related companies into the discussion when discussing how to manage the group. This is because, in order to strengthen our solutions in the future, we will need the power of related companies, and I think that it is necessary to understand the actual situation of these related companies in more detail.

As I mentioned earlier about visiting the field, the fact that I include related companies when visiting the field is because I recognize it as a very important point as an outside director. I hope that we can increase the density of that part in the discussions at the Board of Directors in the future.

Q: While bank stocks are rising due to the impact of the macro environment, for example, once expectations for interest rate hikes are gone, will the management strategies and growth strategies put forth by individual banks be reflected in the stock price or PER?

A: (Yamada)

Bank stocks tend to be heavily influenced by the macro environment, and once the current market settles, I believe that differences between individual banks will start to emerge. Where do these differences originate? I believe they come largely from the strategic and tactical initiatives of each bank.

Specifically, in addition to management that has placed a great deal of importance on the amount and quality of loans until now, how to acquire deposits will also become very important in the future. Whether these balances are being achieved is the first point.

Next, I believe solutions are where the biggest differences will emerge. As I explained earlier, the incorporation of THE KANAGAWA BANK into the group is a major means of strengthening its solutions, and this is one point where it can differentiate itself from other banks. Of course, this takes time, so I believe steady effort is needed to gain recognition.

When it comes to solutions, there are two types: for corporations and for individuals. We have already addressed the solutions business on IR Day, and for corporations, various initiatives are taking root, and the know-how of the human resources hired at the head office is spreading to the branches. Naturally, we want to expand corporate solutions by extending this to The Higashi-Nippon Bank and THE KANAGAWA BANK. I believe this is a crucial point that not only our customers, but also the local economy, will appreciate.

As we move into an aging society, naturally, there will be a great deal of demand for business succession in companies. Not just how to handle business succession, but also how to utilize former factory sites and so on, various requests will emerge. It's important that our company deals with these swiftly. I believe

we have already been able to accumulate such know-how.

For individuals, there is a great deal of demand for inheritance. As yesterday's population statistics showed, the number of deaths is greater than the number of births, and particularly in terms of how to handle inheritance, advanced know-how such as apartment loans and asset management is necessary. Therefore, I believe that steady efforts towards such individual and corporate solutions will create a difference from other banks. This competitive edge doesn't easily show on the surface, so it's difficult to see from the outside, but by checking the performance, for example, the status of service transaction income, I believe you can get a sense of the situation. I believe we are entering an era where such aspects will be appreciated.

A: (Ishii)

As an outside director of Bank of Yokohama, I would like to make two points.

The potential of Bank of Yokohama, as Director Akiyoshi also explained, lies in the fact that regional investment activities continue to be very active. I believe it is a prominent feature even in the Kanto region that the potential of the region is so large, as regional banks are indeed engaged in activities rooted in the region. The other point is that despite this, it is very unfortunate that Bank of Yokohama still has a relatively low share in Kanagawa Prefecture for a regional bank. I believe there is upside potential in this area.

Therefore, I believe that by once again thoroughly engaging in activities in the region, we can increase our earnings, and as an outside director, I consider THE KANAGAWA BANK to be one of the major stepping stones towards this goal.

Q: It may seem that it would be better to line up not only subsidiary banks but also other subsidiaries under the holding company and make governance effective. Could you please share your opinion?

A: (Ishii)

That is one way of thinking, but I believe that the balance with efficiency is important. Also, I think there are various ways to clarify the responsibilities of each entity, and in my experience, governance is not necessarily strengthened just by placing it directly under the holding company.

If we are to strengthen substantive governance, I think it will not go well unless we either prepare personnel who are duplicated between the holding company and the field, or considerably enlarge the holding company. This is my personal view, but I feel that the current form is relatively balanced.

However, how to design the institution and how to design the organization are always issues, so I would like to consider the opinion you gave me and think about it myself.

Q : Could you please tell me how you perceive the digital strategy as an outside director?

A: (Yamada)

There are two points of discussion in DX: one is the DX of the bank itself, and the other is the support for DX for customers.

As for the bank itself, we were able to successfully complete the opening of MEJAR and the renewal of the core system at the end of this year and the beginning of the new year. After the opening, we will move on to the cloud. This will be carried out in cooperation with NTT Data and the participating banks

of MEJAR, but it will take some more time to move to the cloud, so we will proceed while observing various situations.

As for DX support for customers, Hamagin Research Institute has a lot of know-how, and when such topics come up, we provide a wide range of support while utilizing the know-how of Hamagin Research Institute.

Q: Could you tell me about the challenges and potential of the digital strategy at Bank of Yokohama?

A: (Ishii)

I should preface my response by saying that this will contain a lot of personal opinion.

Basically, Bank of Yokohama is currently aiming for a solutions business, so I believe a big point is how to utilize digital in solutions. In particular, my impression is that digital can be utilized more in sharing knowledge effectively among everyone.

In addition, one more important thing, which will put a burden on the field, is that there are a lot of demands, not only in the banking industry, to replace what is currently available with a system.

However, I believe that sufficient effects cannot be achieved unless BPR is properly carried out when defining requirements. This means that we also need to reform the consciousness of the field, so I believe that the difficulty of digital lies more in reforming the consciousness of the people who use it rather than the difficulty of the technology itself.

However, where I see potential in Bank of Yokohama's efforts is in spreading digital knowledge to the field. I have high expectations for this area in the future.

In addition, regarding AI and ChatGPT, there are a lot of directives, and most of them are on paper, but at least within the company, using ChatGPT will make things much simpler and greatly reduce various mistakes. Bank of Yokohama has already started this trial, so I have high expectations for this area. Looking back at the system itself, we are aiming for the future clouding of MEJAR, so I see there is enough awareness about using technology in that sense. I also evaluate that the recent change of MEJAR went well, so I am relieved.