

# CONCORDIA

Financial Group

**Concordia Financial Group. Ltd.**

IR Day

February 29, 2024

**[Speakers]**

Tatsuya Kataoka	President and Representative Director/Representative Director, President of The Bank of Yokohama, Ltd.
Nobuo Onodera	Director/Representative Director, Managing Executive Officer of The Bank of Yokohama, Ltd.
Tomoki Arai	Director/Director and Managing Executive Officer of The Bank of Yokohama, Ltd.
Mitsuru Akiyoshi	Outside Director
Nobuyoshi Yamada	Outside Director
Mami Yoda	Outside Director/Director of The Bank of Yokohama, Ltd.
Shigeru Ishii	Outside Director of The Bank of Yokohama, Ltd.

**Kataoka:** Good morning, everyone. I am Tatsuya Kataoka, President of Concordia Financial Group.

Thank you very much for coming to the venue today despite your busy schedules and the cold weather, and for those participating online. Before we start IR Day, I would like to make a preliminary announcement. As we have disclosed, the President of Higashi-Nippon Bank will be changing on April 1.

For the past five years, Oishi from The Bank of Yokohama has been serving as the President of Higashi-Nippon Bank. The bank has moved from a phase of recovery to a phase of growth, and finally, it is on the right track. Higashi-Nippon Bank will celebrate its 100th anniversary this April. Since receiving the business improvement order, the employees of Higashi-Nippon Bank have adapted to significant changes and have managed to enter a phase of growth. This is thanks to the hard work of employees, as well as the advice and support from all of you. Thank you very much.

The successor will be a president from the Group, Mr. Sukegawa. We hope to introduce him to you at some point, so please look forward to it.

As the host mentioned earlier, today marks our third IR Day since the start of the FY2023.

In the first part today, regarding the Market Division, as mentioned in the materials distributed to you, we will discuss the reduction of performance volatility based on the logic tree disclosed last year. On page four, there is a section on ROE and capital allocation, but specifically, the efforts of The Bank of Yokohama's Market Division will be explained by Mr. Arai, the officer in charge. We look forward to your opinions.

In the second part, we will discuss Corporate Governance, which supports the enhancement of our corporate value. We have invited four outside directors from Concordia Financial Group: Directors Akiyoshi, Yamada, Yoda, and Ishii from The Bank of Yokohama. After sharing their thoughts, we have allocated plenty of time for an open exchange of opinions.

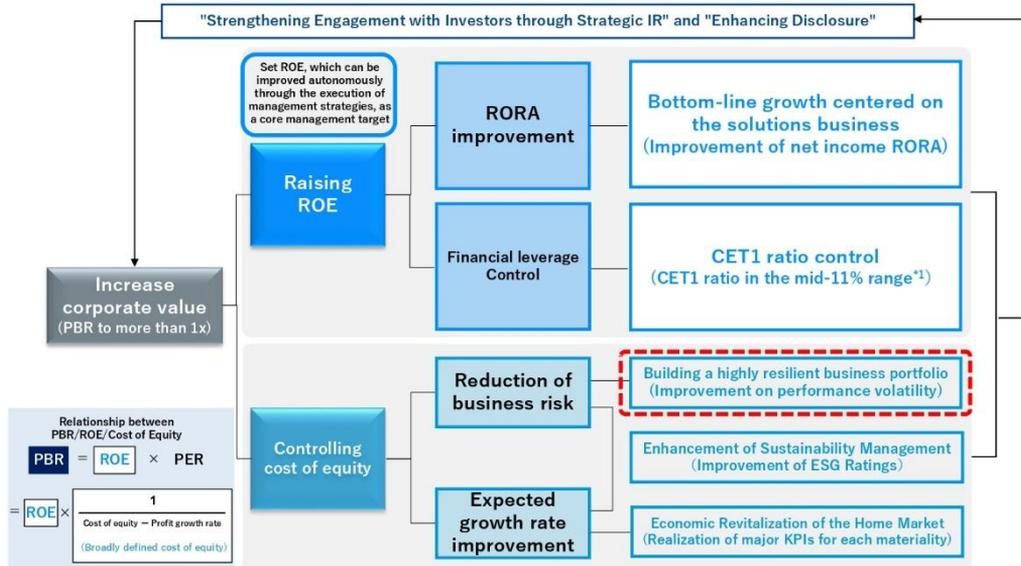
We have been placing great importance since last year on dialogue with analysts and investors from the sell-side and buy-side who are participating today. Your valuable advice and opinions have been very informative for our IR activities and our core business operations. We will continue to enhance our IR activities and improve the sophistication of our information disclosure. Today, we will take about 90 minutes of your time, and we believe your opinions will be invaluable to us. We will manage this event so that it can be a productive opportunity for all, so we ask for your continued cooperation.

# [Part One: Market Division]

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

May 22, 2023 Partially reproduced from information meeting reference material

### Aiming to Control Shareholder Capital Costs by Improving Performance Volatility in the Market Division



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\*1 Finalized and fully implemented Basel III basis (excluding valuation difference on available-for-sale securities)

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**Arai:** Let me give you a brief explanation. Starting from page three of the document you have, as Kataoka mentioned earlier, there is the logic tree we always show. The area enclosed in red dotted lines, which refers to the improvement of performance volatility, represents a challenge for the Market Division. Through addressing this, we aim to reduce the cost of shareholder equity.

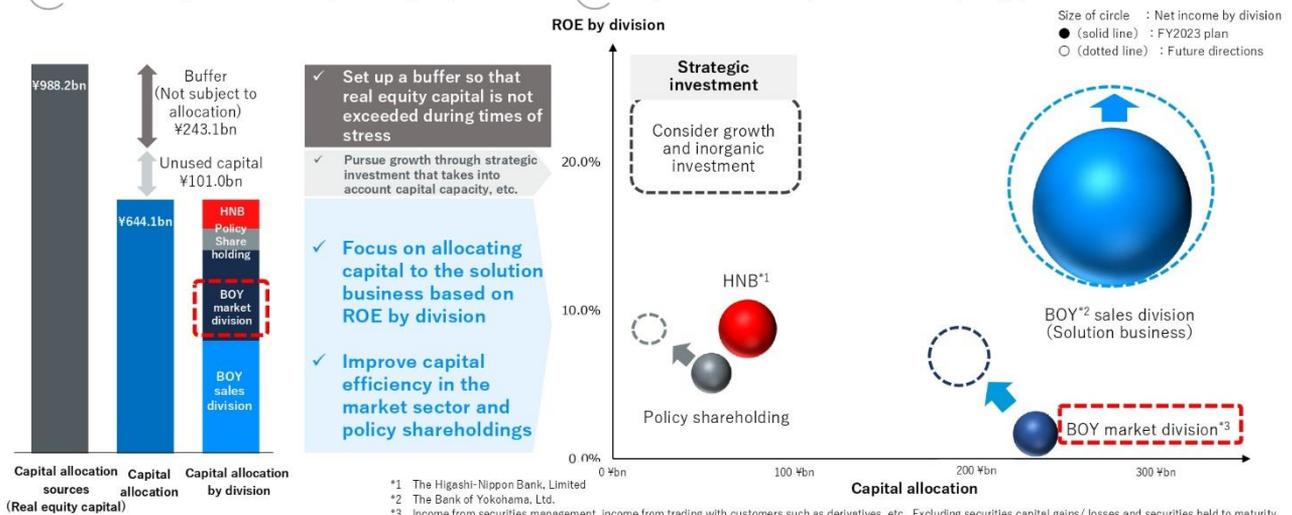
## Optimal capital allocation

May 22, 2023 Partially reproduced from information meeting reference material

### The Bank of Yokohama Recognizes that Improving Capital Efficiency is an Issue in its Market Division

#### Direction of capital allocation (FY2023 plan)

#### ROE by division and capital allocation (Image)



\*1 The Higashi-Nippon Bank, Limited

\*2 The Bank of Yokohama, Ltd.

\*3 Income from securities management, income from trading with customers such as derivatives, etc.. Excluding securities capital gains/ losses and securities held to maturity

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Then, on page four, which we have also shown before, if you look at the graph on the right side, our goal is to move the Market Division, located at the bottom right, upwards. To achieve this, we are currently working on restructuring our portfolio.

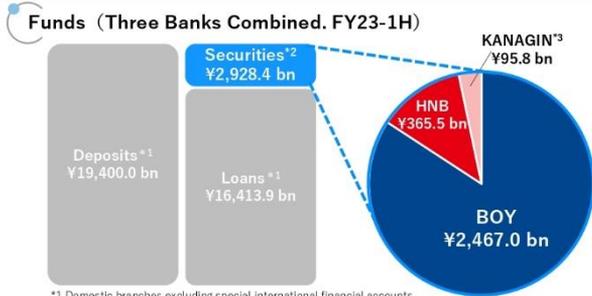
**Restructure securities portfolio**

# Restructure securities portfolio (Bank of Yokohama)

Unless otherwise stated, subsequent figures are for the Bank of Yokohama.

**Positioning of Securities Management**

To Secure Stable Income as a Means of Managing the Deposit and Loan Gap



**Trends in Market Division revenue (Three Banks Combined)**

(¥ bn)

	FY20	FY21	FY22	FY23-1H
Gross operating income	190.7	211.6	208.5	93.7
Market Division financial gains/losses	0.8	12.3	1.3	(12.0)
Interest and dividend income, etc.	18.5	19.0	16.8	10.6
Capital income	(17.6)	(6.6)	(15.4)	(22.7)
BOY	(2.2)	8.5	(2.1)	(13.8)
HNB	2.6	3.3	3.1	1.5
KANAGIN	0.4	0.4	0.4	0.2
<b>Market Division realized gains/losses*<sup>4</sup></b>	<b>28.0</b>	<b>(16.7)</b>	<b>(39.1)</b>	<b>6.0</b>

**Risk Assets (Mar-23), RORA, and ROE**



\*<sup>5</sup> The RORA of the Market Division is on a management accounting basis.  
\*<sup>6</sup> After Deducting Expenses  
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\*<sup>7</sup> The ROE of the Market Division is based on allocated capital (excluding policy shareholding), and the ROE of the entire FG is based on shareholder equity.

From page five onwards, I will explain about that.

Please go to page six. First, let's discuss the positioning of securities investments. As mentioned here, in the top left corner under the category of fund volume, there's what's called the deposit-loan gap, which is roughly JPY3 trillion. Filling this gap and then generating stable profits is the positioning of securities investments within our bank.

However, on the other hand, if you look at the transition of Market Division earnings, combined for the three lines, which is the second line from the top in light blue, in terms of financial gains and losses for the Market Division, it shows a performance trend with significant volatility at the current point.

H1 of FY2023 saw a negative financial result due to the selling off of foreign bonds at a loss.

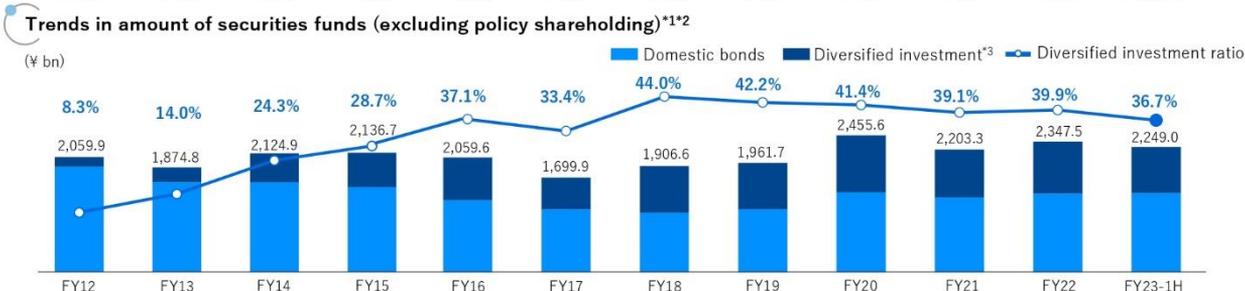
At the bottom of that table, there is something called the realized gains or losses of the Market Division. This includes the increase or decrease in the valuation gains and losses of securities to the financial gains and losses I just mentioned, which represents the so-called total return.

For FY2021 and FY2022, due to the expansion of valuation losses on bonds, primarily foreign bonds, we have seen significant negative figures, indicating a performance trend with considerable volatility over the past few years.

As shown in the chart below, regarding risk assets, RORA, and ROE, for FY2021 and FY2022, we are looking at a negative situation on a real earnings basis.

**Trends in Financial gains/losses and Amount of Securities Funds**

Increase Diversified Investment Ratio in Response to Declining Yen Bond Income in the Low Interest Rate Environment



\*1 FY12-15 is on a management accounting basis. \*2 Excluding shares and investments in subsidiaries and affiliated companies. \*3 Diversified investments in foreign bonds, stocks, J-REITs, etc.  
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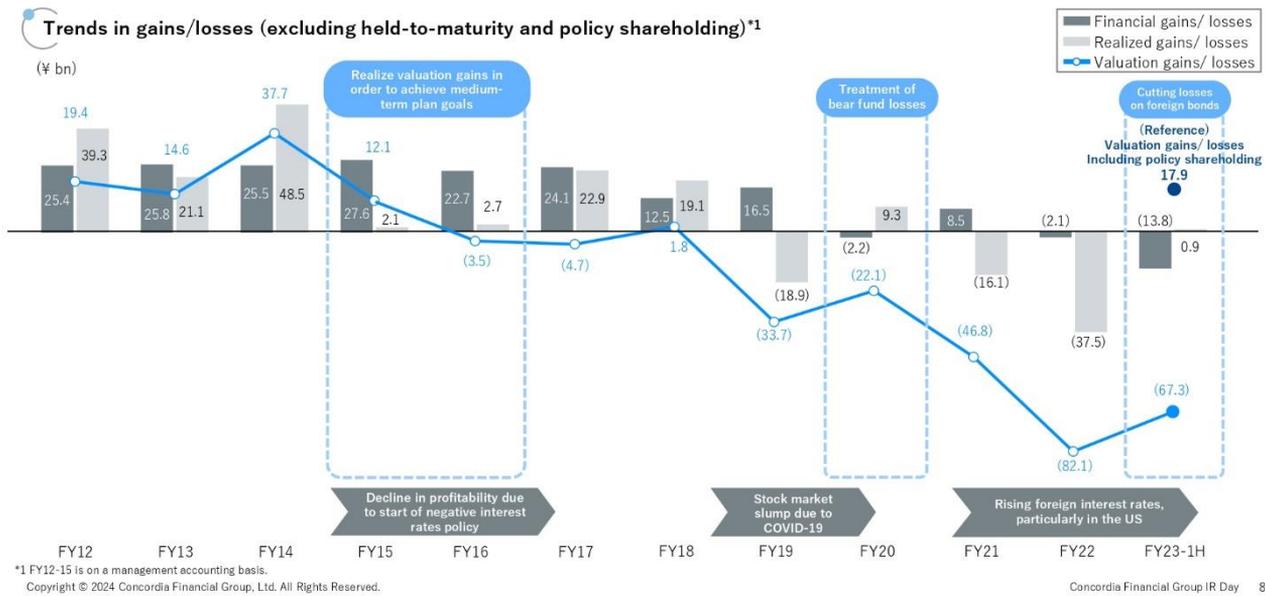
Please move to the next page. I will provide a somewhat extended retrospective on the Market Division. On page seven, bottom right, there are two graphs, but if you look at the top graph, it represents the trends in financial gains and losses.

The light blue portion of the bar graph represents the outlook for yen bond income earnings, and the rest is marked in gray. This starts from FY2012. In FY2012, out of JPY25.4 billion in financial gains and losses, JPY15.9 billion was from yen bond income earnings. As you can see, the income earnings from yen bonds have been decreasing steadily, and now we are almost at a point where there's hardly any left, necessitating the need to compensate for this loss in revenue.

In the lower graph, which shows the amount of securities funds, there are bars in dark and light colors; the lighter one represents yen bonds, while the darker one represents diversified investments such as foreign bonds, stocks, REITs, etc., other than yen bonds. The line graph indicates the percentage of these diversified investments.

The proportion of diversified investments, which was not even 10% in FY2012, has recently reached around 40%. This shows that we have been increasing diversified investments to compensate for the loss in revenue.

**Trends in gains/losses (Financial gains/ losses, Realized gains/ losses, Valuation Gains/ Losses)**  
 Rising Unrealized Losses Due to Realization of valuation gains to Achieve Financial Goals and Due to Rapid Changes in the Interest Rate Environment



On to the next page, please. Here, the dark gray portion of the bar graph represents financial gains and losses, while the lighter portion represents realized gains and losses, and the line graph indicates valuation gains and losses.

There are three dotted lines in light blue. The first one, from FY2015 to 2016, if you look at the line graph before that in FY2014, there was an unrealized gain of JPY37.7 billion at that time. During FY2015 and 2016, around the time when the negative interest rate policy started, and for our bank, when the management integration occurred, we realized these unrealized gains, securing financial revenue. This history has led to the line graph dropping below the surface, leaving us virtually without any unrealized gains, and then we faced the COVID-19 shock in FY2019, which significantly worsened our valuation gains and losses.

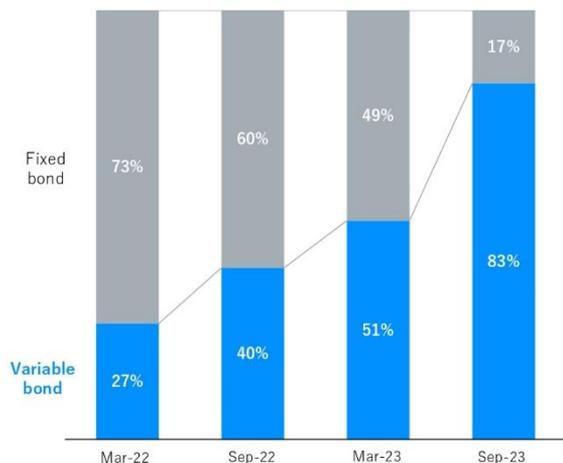
To prevent further deterioration of the valuation gains and losses, we introduced bear funds as a hedge that year, but we had to process the losses from those, and following that, due to significant interest rate increases, primarily in the US, our bond valuation gains and losses worsened significantly. This line graph shows a significant negative turn at our current position, indicating that our portfolio has been significantly damaged.

However, at present, after cutting losses on foreign bonds and adding policy shareholding stocks, the overall securities are showing positive valuation gains and losses, but there is still room for improvement.

**Response to negative-spread foreign bonds**

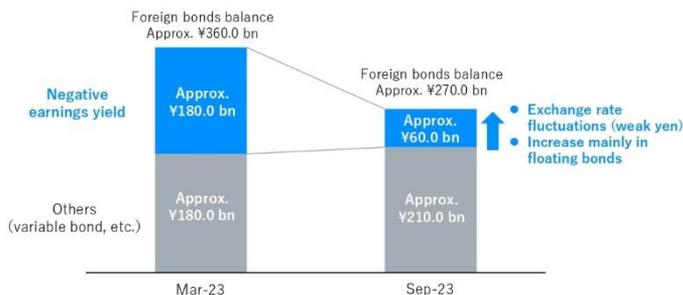
Positive Foreign Bond Income Thanks to Increased Ratio of Floating Bonds and to Cutting Losses on Foreign Bonds

Floating bond ratio for foreign bonds (spot)



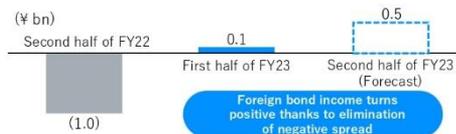
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Response to negative-spread foreign bonds



- Exchange rate fluctuations (weak yen)
- Increase mainly in floating bonds

Trends in foreign bond (spot) income earnings\*1



Foreign bond income turns positive thanks to elimination of negative spread

\*1 Foreign bonds (spot) income includes CLO.

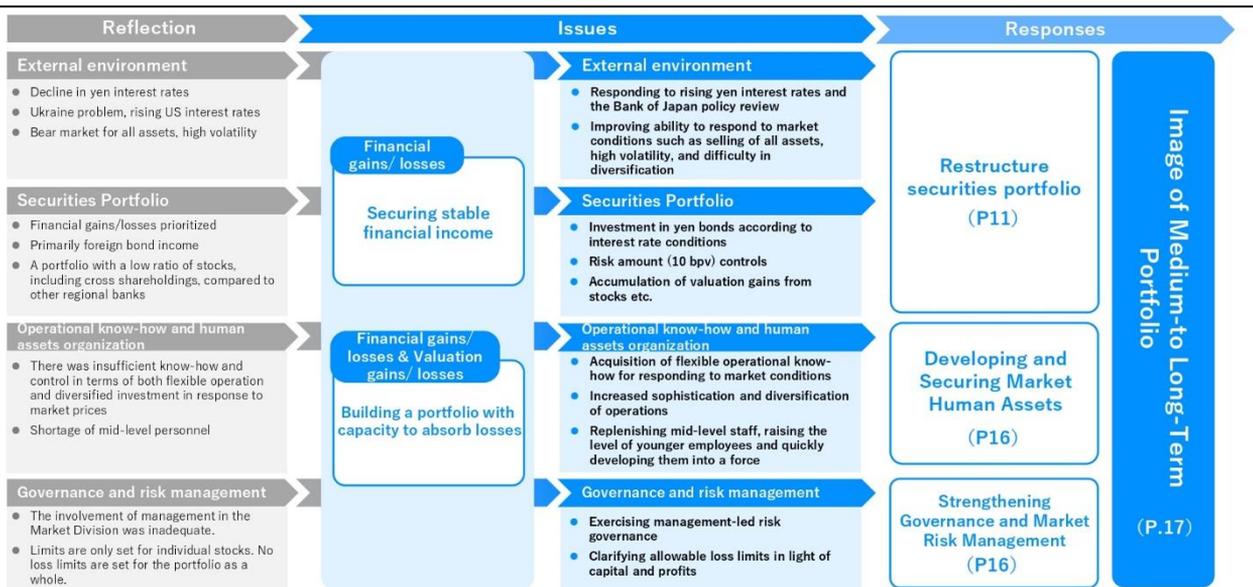
On to the next page, please. Regarding the impact of the rise in interest rates on foreign bonds, the most affected aspect was the negative spread. Let me explain the current situation of this.

On the left graph, gray represents fixed-rate bonds, and light blue represents variable-rate bonds, with a gradual build of variable-rate bonds, centered around CLOs. As of the end of September 2023, about 80% are variable-rate bonds.

Moreover, we cut losses on foreign bonds mainly in Q1, significantly minimizing the negative spread bonds. As shown on the bottom right, what was once a negative spread has now, in terms of total foreign bond holdings, become positive. Therefore, we have essentially resolved the risk of negative spreads in foreign bonds.

**Issues and Responses**

**Strengthening Measures to Secure Stable Financial Income and to Build a Portfolio Able to Absorb Losses**



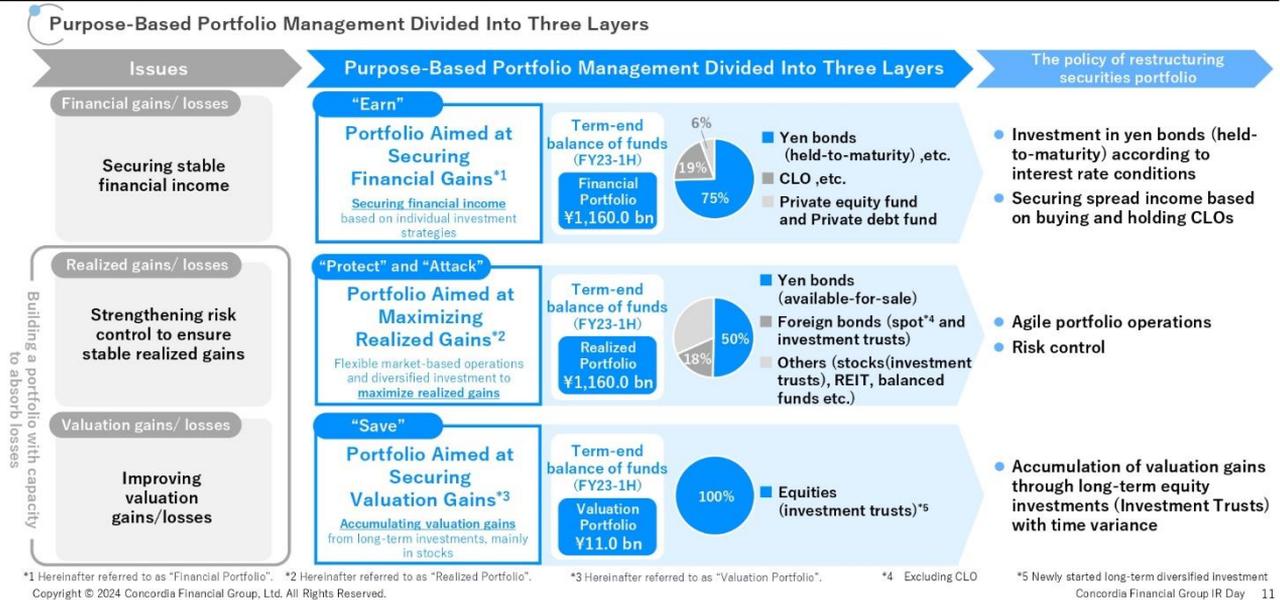
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On to the next page, please. This is a summary of our discussion so far. As a retrospective on the far left side, there was an increase in US interest rates in the external environment, and as for the securities portfolio, as mentioned earlier, there was a priority placed on financial income.

In terms of human resources, our talent development is still a work in progress. Additionally, in terms of governance and risk management, there was a reflection that the involvement of the management team was not sufficient. Taking these factors into account, we are now aiming to ensure stable financial income and to construct a portfolio with the capacity to absorb losses, and we are currently working on its restructuring.

## Restructure securities portfolio (3-Tier Management of Financial, Realized, and Valuation)

### Starting Purpose-Based Portfolio Management Divided Into Three Layers: Financial, Realized, and Valuation



On to the next page, please. First, we manage the overall portfolio internally by dividing it into three types of portfolios. The topmost, the Portfolio Aimed at Securing Financial Gains (Financial Portfolio), is aimed at securing stable financial gains primarily through the maturity holding of yen bonds and the buy-and-hold strategy for CLOs, etc., to generate stable income earnings as financial income.

The Portfolio Aimed at Maximizing Realized Gains (Realized Portfolio) involves yen bonds and diversified investments to conduct agile portfolio operations while strictly controlling the amount of risk, aiming to maximize the total return, which includes both the financial gains and losses and the changes in valuation gains and losses mentioned earlier, through flexible operations adapted to the market conditions.

The Portfolio Aimed at Securing Valuation Gains (Valuation Portfolio) is focused on creating valuation gains primarily through stocks while employing time diversification. The idea is to build valuation gains with a slightly longer-term perspective.

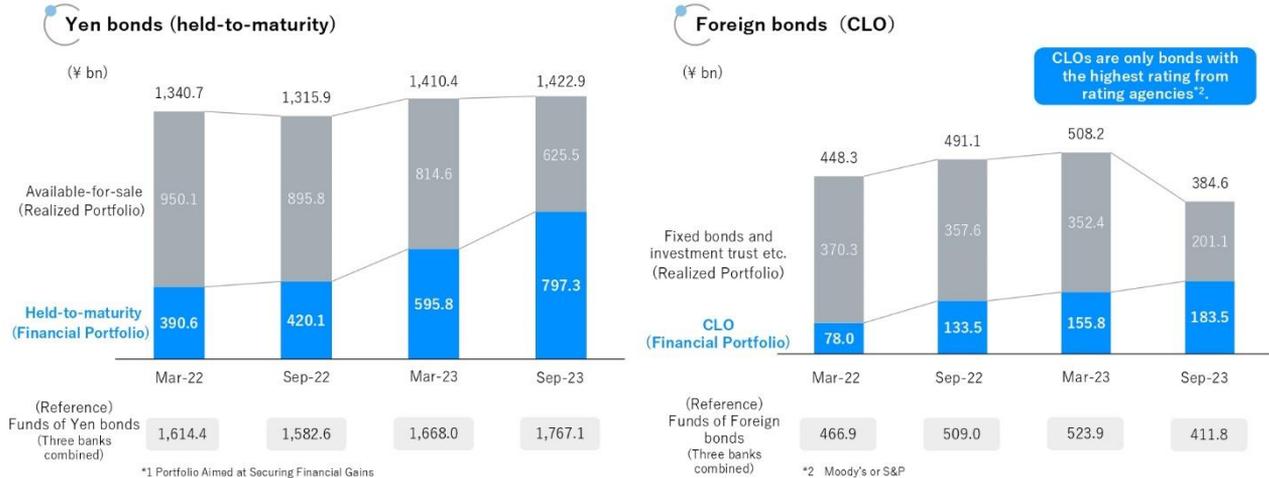
We are advancing internal management through these three portfolios.

## Restructure securities portfolio (Financial Portfolio)

Increasing Balance of Yen Bonds (held-to-maturity) and CLOs (variable bonds) in Light of Rising Interest Rates

"Earn"

Financial Portfolio\*1 : **Securing financial income** based on individual investment strategies



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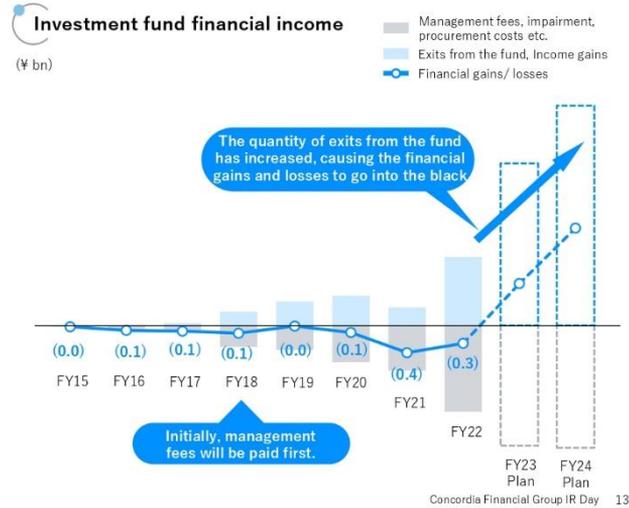
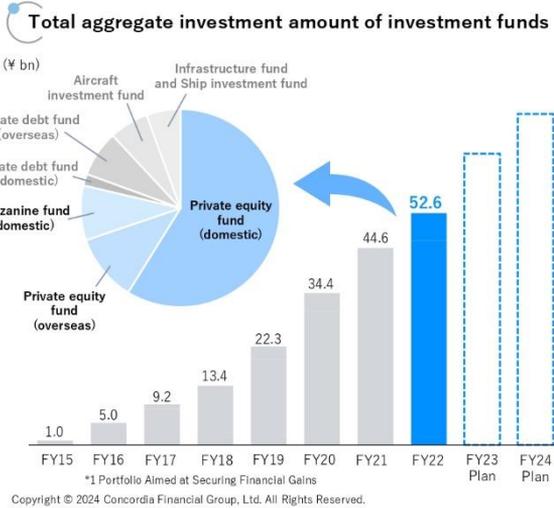
On to the next page, please. First, regarding the Financial Portfolio, as mentioned earlier, it includes CLOs and yen bonds held to maturity. We have been steadily accumulating yen bonds held to maturity, and as of the end of September last year, it amounted to just under JPY800 billion.

Regarding CLOs, we have about JPY180 billion, so I think we have managed to build a certain level of portfolio for the Financial Portfolio.

**Restructure securities portfolio (Financial Portfolio)**

**Strengthening Alternative Investments to Diversify Operations. The Quantity of Exits from the Fund Has Increased, Turning the Financial Gains and Losses into the Black, Becoming a Stable Source of Revenue Going Forward**

**“Earn”**  
**Financial Portfolio\*1 : Securing financial income based on individual investment strategies**



On to the next page, please. Another source of stable income in the Financial Portfolio that we are counting on comes from investments in investment funds, primarily focused on private equity. We have been steadily increasing our investments since around FY2015. Investment funds have a J-curve effect, so it took a while for them to start contributing to our earnings, but as the line graph on the right shows, we have finally started to emerge from the J-curve this fiscal year.

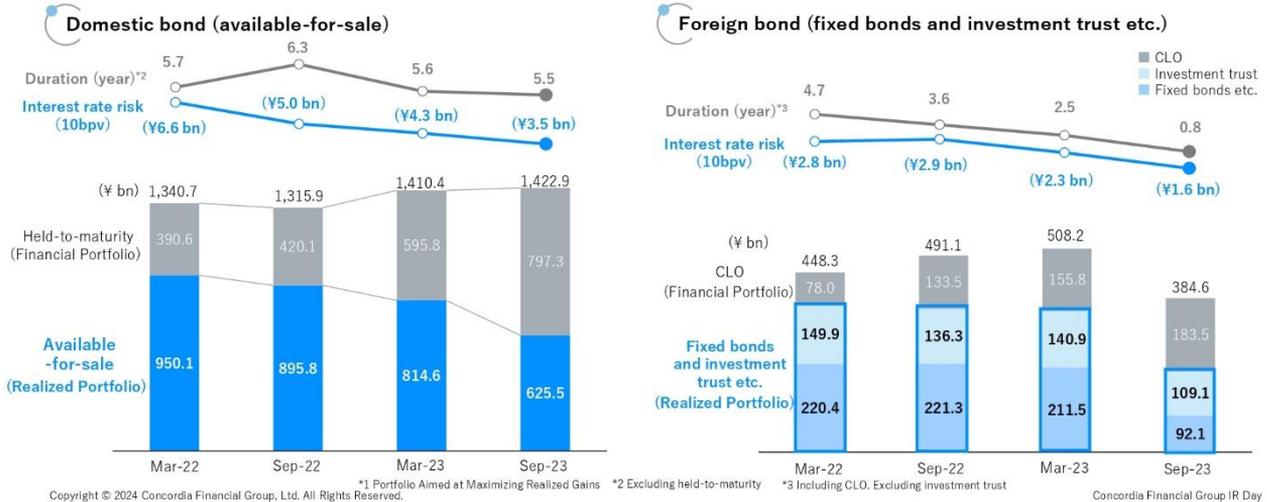
We are diversified into over 50 funds, and with stable exits beginning to occur, we expect to achieve stable income from FY2024 onwards. We consider this to be part of the Financial Portfolio as well.

## Restructure securities portfolio (Realized Portfolio)

Reduce the Amount of Funds and Risk in Order to Enable Flexible Operations in Response to Changes in the Interest Rate Environment

“Protect” and “Attack”

**Realized Portfolio**\*1 : Flexible market-based operations and diversified investment to **maximize realized gains**



On to the next page, please. This is about the Realized Portfolio. The goal here is to maximize realized gains. Given that we are anticipating a rise in interest rates for both yen and foreign bonds, we have been managing interest rate risk conservatively, as we have shown in terms of duration and 10 basis point value.

Looking at yen bonds on the left, the light blue part of the lower bar graph represents other securities. We have reduced the volume of funds and kept the duration relatively low, significantly reducing our interest rate risk.

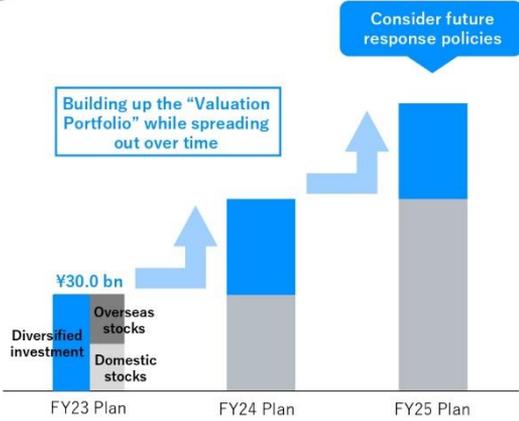
Similarly, for foreign bonds on the right, since they are mostly variable, the duration is currently at 0.8 years, indicating that we are taking almost no interest rate risk.

Restructure securities portfolio (Valuation Portfolio)

Start of Investment in Domestic and Foreign Stocks (investment trusts) to Accumulate valuation gain

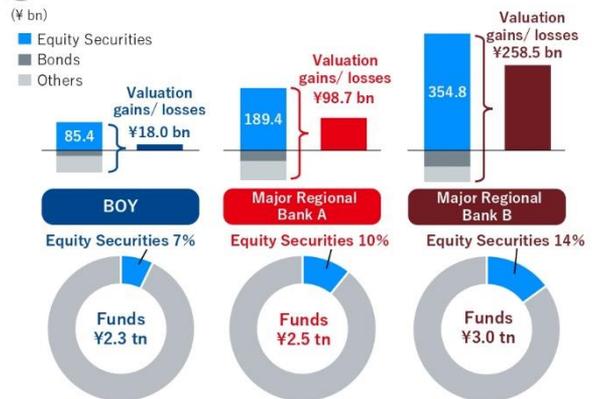
“Save”  
Valuation Portfolio\*1 : Accumulating valuation gains from long-term investments, mainly in stocks

Accumulation of domestic and foreign stocks (investment trusts)



\*1 Portfolio Aimed at Securing Valuation Gains  
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Comparison of valuation gains and losses on securities (including policy shareholding) with other banks\*\*3

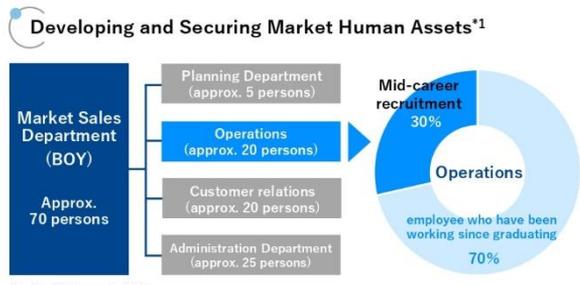


\*\*2 valuation gains/losses exclude bonds held-to-maturity; amount of funds includes bonds held-to-maturity (standards as of end of September 2023, non-consolidated basis).  
\*\*3 Compiled from company disclosures

On to the next page, please. This is the third portfolio, the Valuation Portfolio. The strategy here is basically to steadily accumulate domestic and international stocks over time, distributing investments.

On the right side, there’s a comparison with other banks. Since we have been somewhat proactive in dealing with policy-held stocks, the volume of funds in stocks, including policy shareholding stocks, is slightly lower compared to other banks. From the perspective of generating unrealized gains, we plan to gradually and steadily accumulate stocks to a certain extent within this Valuation Portfolio, while distributing investments over time.

Strengthening Efforts to Build a Sustainable Organizational Structure and to Reduce Volatility



\*1 As of February 1, 2024



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On to the next page, please. This page is about the organizational structure and personnel involved in portfolio management. Starting with human resources, as shown in the top left diagram, there are about 70 people in the Market Sales Department of The Bank of Yokohama, including back-office staff, with around 20 people directly involved in operations. As shown in the adjacent pie chart, approximately 30% of the total are mid-career hires actively contributing.

Below that, regarding efforts to strengthen the system, we are fundamentally working on two main pillars. First, we internally recruit young trainees and hire several of them each year. Our Market Sales Department handles everything from operations to administrative tasks within one division, so we are developing specialized personnel through various programs.

The second pillar is securing experienced professionals. We actively hire individuals with operational experience from major banks as mid-career hires. Additionally, we employ seniors with specific professional skills on an individual basis. We are strengthening our system with these two pillars.

The third point is the utilization of external expertise. We have third-party evaluations from major banks regarding our operational track record, receive investment advice from asset managers, and also send people to external organizations for training as part of our steady efforts in this area.

Regarding governance and risk management enhancement, shown on the right side, involves engagement with the Market Division’s board members. Previously, discussions mainly revolved

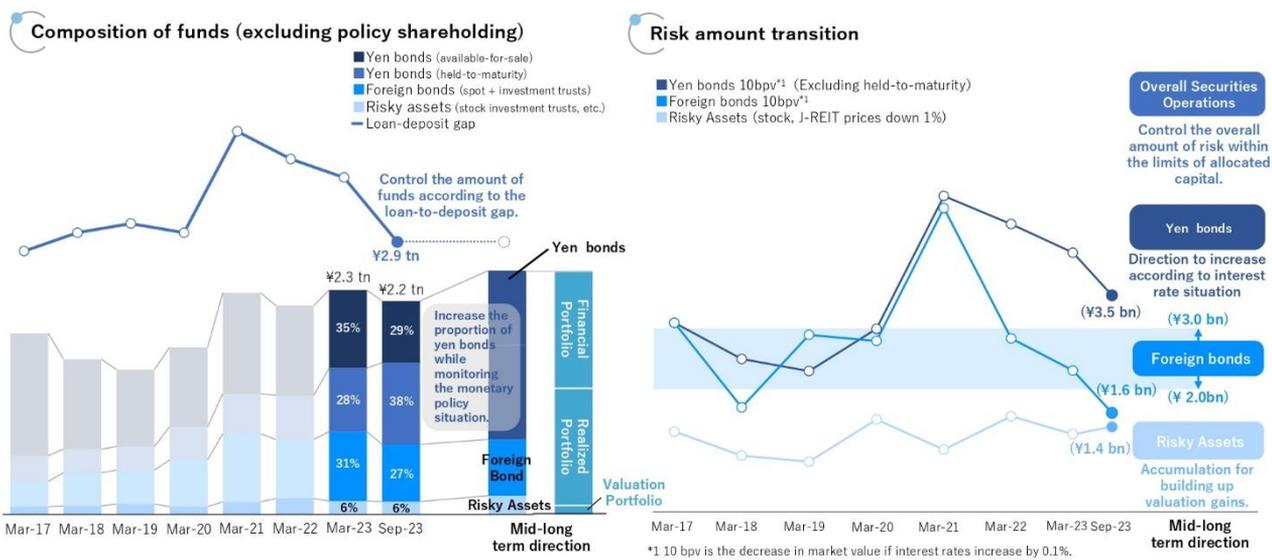
around budgets and monthly ALM meetings. In addition, separate from these, we started monthly board meetings focused on internal directors. We discuss various themes related to securities to deepen understanding and strengthen engagement.

In terms of risk management, shown in the bottom right, we have newly set risk limits related to valuation losses since September last year. At the very bottom, you'll see the "tolerable loss limit," which is essentially a hard limit set to ensure that valuation gains and losses do not exceed this amount.

Naturally, to avoid exceeding this limit, we have established another point, a loss cut point, which, if breached, triggers measures to minimize risk. This is part of our efforts to simultaneously strengthen risk management.

**Image of Medium-to Long-Term Portfolio (fund composition ratio, risk amount)**

Change Asset Allocation While Controlling the Amount of Funds and Risk in an Integrated Manner



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On to the next page, please. As we move forward with these initiatives, let's discuss what comes next. First, the composition of funds and the risk amount trend. On the left side, regarding fund volume as of the end of September 2023, there is a certain proportion of yen bonds, and the medium to long-term direction is indicated on the right side.

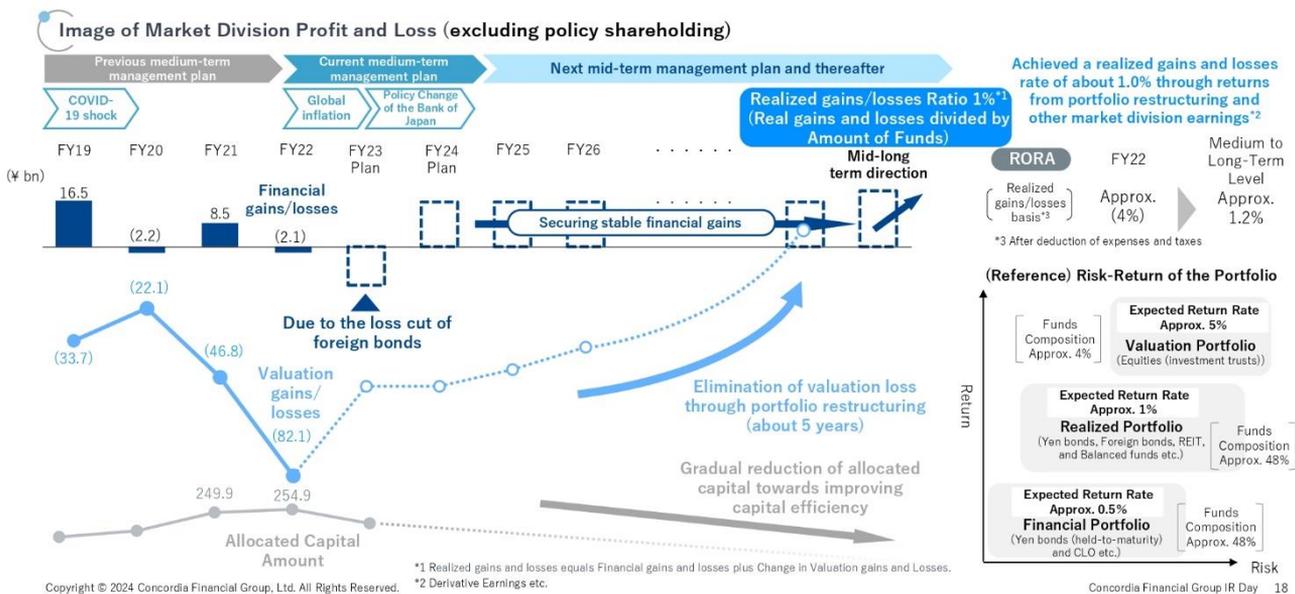
Due to the difficulty in securing income from yen bonds to supplement earnings, we have primarily operated with foreign bonds. However, moving forward, while keeping an eye on financial policies and depending on the deposit-loan gap, we plan to gradually increase the proportion of yen bonds.

Next to that, regarding the amount of risk, due to the rise in interest rates, we have somewhat reduced interest rate risk. Going forward, for yen bonds, depending on the interest rate environment, we may take on a bit more interest rate risk. As for foreign bonds, we might take on slightly more interest rate risk than the current level, but we aim to keep it controlled to a reasonable extent.

For risk assets, especially stocks, as mentioned earlier, we plan to steadily accumulate them, so we are thinking of increasing them slightly.

**Image of Medium-to Long-Term Portfolio (Market Division gains/losses)**

Realizing a Market Division Realized gains/losses Ratio of 1% by Securing Stable Financial Gains and by Eliminating Valuation Losses



On to the next page, please. This is about the future P&L image. We are showing a slightly longer-term image, covering the previous medium-term plan, the current medium-term plan, and beyond the next medium-term plan. It appears that the valuation losses, which hit bottom in FY2022, have started to recover this fiscal year, thanks to our loss cutting measures and risk-controlled operations. It seems like we may have hit the bottom.

However, we still have a significant amount of valuation losses remaining. From next fiscal year onwards, as we are currently working on building a portfolio that can secure stable earnings, based on this, we will be able to ensure a stable financial income. The realized gains/losses, exceeding this, are noted here as a realized gains/losses rate of 1%. For example, if it's JPY2.5 trillion, 1% would be JPY25 billion, and a portion of that JPY25 billion would go towards stable finance, with the rest being used to resolve valuation losses and towards restructuring the portfolio.

To improve capital efficiency, we plan to slightly reduce capital allocation.

Given the substantial size of the yen bond portfolio, earnings will significantly depend on the interest rates of yen bonds, though we are currently looking at an actual earnings rate of about 1%.

However, if the interest rate on yen bonds were to rise by, say, 50 basis points, considering that other products would also increase, simply put, it would mean a 0.5% increase on JPY2.5 trillion, which is JPY12.5 billion. Thus, JPY25 billion in actual earnings would become JPY37.5 billion. There is a potential for upside depending on how yen bond interest rates move. Nonetheless, our first priority is to ensure stable financial earnings and aim to resolve valuation losses through portfolio restructuring. That concludes the explanation.

## [Part Two: Corporate Governance]

### Profile of outside directors



**Mitsuru  
Akiyoshi**

Year appointed	Profile
2015	Executive Vice President and Representative Director , Marubeni Corporation CEO , Food & Consumer Products Group
2019	President and Representative Director , MG Leasing Corporation (currently Mizuho Marubeni Leasing Corporation) <b>Outside director of the Company (currently)</b> Outside Audit & Supervisory Board Member of INPEX Corporation and Teikoku Oil (currently, INPEX Corporation) (currently)
2022	Advisor (Part-time), Mizuho Marubeni Leasing Corporation (currently)



**Yoshinobu  
Yamada**

Year appointed	Profile
1995	Managing Director , Merrill Lynch Japan Securities Co.
2008	Representative Partner, Olivant Advisors
2009	Managing Director , Deutsche Securities Inc.
2019	Senior Advisor, PwC Advisory LLC
2020	<b>Outside director of the Company (currently)</b>

### Profile of outside directors



**Mami  
Yoda**

Year appointed	Profile
2005	Managing Director, Standard & Poor's International, LLC
2017	Associate Professor, Department of English Language and Culture Communication, Faculty of Arts and Sciences, Sagami Women's University
2020	Associate Professor, Graduate School of Social Entrepreneurship, Sagami Women's University <b>Outside director of the Company (currently)</b>
2022	Professor, Department of English Language, Culture, and communication, Faculty of Arts and Sciences, Sagami Women's University (currently) Professor, Graduate School of Social Entrepreneurship, Sagami Women's University (currently) <b>Director (non-executive), the Bank of Yokohama, Ltd. (currently)</b>



**Shigeru  
Ishii**

Year appointed	Profile
2001	President and Representative Director, Sony Bank, Inc.
2016	President and Representative Director, Sony Financial Holdings, Inc.
2018	President and Representative Director, Sony Financial Ventures, Inc.
2021	<b>Outside Director, the Bank of Yokohama, Ltd. (currently)</b>
2023	Outside Director, Sumitomo Life Insurance Company (currently)

## Annual Theme of the Board Meeting, Succession Plan

### Annual Theme of the Board Meeting

- ✓ The Board Meeting has established annual theme focusing on strategies to increase corporate value over the medium- to long-term, and thus enrich strategic discussions.

#### Primary annual theme (FY2022)

- Discussion points and directions for advancement for Risk Appetite Framework (RAF)
- Group human resources strategy
- Direction of medium-to long-term securities operations
- Regional bank platform strategy

#### Annual theme (FY2023)

May 2023	Disclosure Policy for Securities Reports and Corporate Governance Reports Revision of cross shareholding reduction policy
July	Medium- to long-term direction of group businesses (leasing business, think tank business)
September	Medium- to long-term direction of group businesses (securities business, investment fund business/general)
October	Strategies for effective use of capital surplus (1st time)
November	Progress follow-up based on market securities portfolio restructuring policy
December	Direction of international strategy Strategies for effective use of capital surplus (2nd time)
January 2024	Direction of efforts to increase individual shareholders

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### Succession plan

- ✓ Monitoring the status of formulation and operation by the Compensation and Personnel Committee (composed solely of outside directors)
- ✓ Improving the effectiveness of the succession plan through interviews with candidates by outside directors



- Selection of president and CEO candidates from each pool
- Select and systematically train the target group taking into account the composition of the Board Meeting.

#### Succession plan process



- Report to the Compensation and Personnel Committee (composed solely of outside directors)

**FY2022: 31 candidates**  
**FY2023: 21 candidates**

Concordia Financial Group IR Day 22

**Akiyoshi:** I would like to talk about the annual theme of the board meeting and the succession plan.

Our company aims to enrich and vitalize discussions toward enhancing corporate value. At the beginning of the year, we select an annual theme related to management strategies and policies, which energizes our discussions at the board meetings.

Regarding the theme for FY2022, as shown on page 22, we have focused our discussions on the direction of effective capital utilization and the formulation of a group talent strategy. Especially towards achieving our medium-term management plan, we have had repeated discussions on enhancing the risk appetite framework, and the linkage with capital allocation and financial budgets.

As explained using the logic tree, we believe these discussions have led to a more concrete organization than ever before in terms of optimizing allocated capital by division, improving division-specific risk-return, enhancing ROE, and controlling shareholder capital costs, among others.

For FY2023, as you can see on the bottom left, we are currently discussing the medium to long-term direction of group business and strategies for the effective utilization of capital surplus.

Regarding our governance, while of course, it includes what might be called defensive governance, such as strengthening internal controls and compliance, we recognize that what we

especially need to focus on now is so-called offensive governance. This involves strengthening profitability and accelerating growth.

With this understanding, we want to ensure that the board of directors continues its discussions from a medium to long-term perspective about growth strategies that align with our vision as a regional financial institution.

Next, I'd like to talk about the succession plan. Our company is formulating a succession plan for top management and systematically developing talents who will lead management in the future.

As shown on page 22, top right, we have established a pyramid-shaped succession plan. This plan clearly divides into three groups: a director pool, an executive officer pool, and a candidate pool, considering not just the candidates for president and bank president but also the composition of board members and subsequent executive officers for candidate development.

The specific process of the succession plan involves expanding their knowledge and capabilities through planned job responsibilities, rotations, training, seminars, as well as providing insights through external assessments and interviews with us, the outside directors.

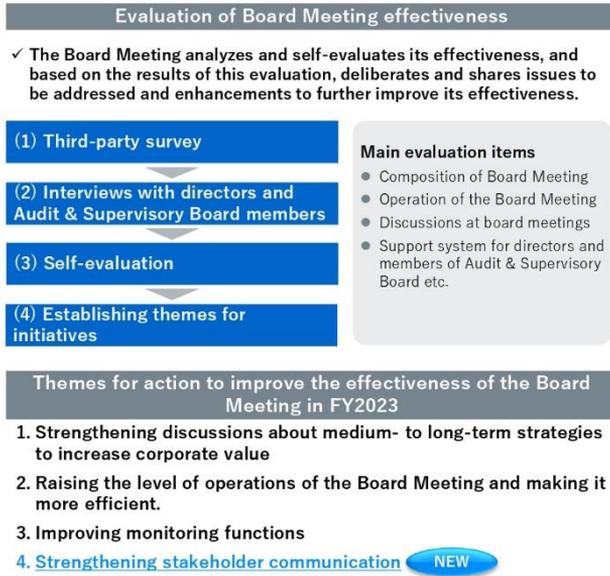
What I believe is characteristic of our approach is the interviews conducted by us, the outside directors, throughout the year. As a result, in FY2022, we conducted interviews with 31 candidates, and so far in 2023, with 21 candidates—a significantly large number.

Candidates are selected without gender distinction, targeting talents who will lead the future. From my personal impressions through the interviews, I feel that there are many employees with high problem awareness and excellent potential to take on management roles.

Progress is monitored by the Compensation and Personnel Committee, composed solely of outside directors, and we strive to improve the effectiveness of the succession plan. That is all from me.

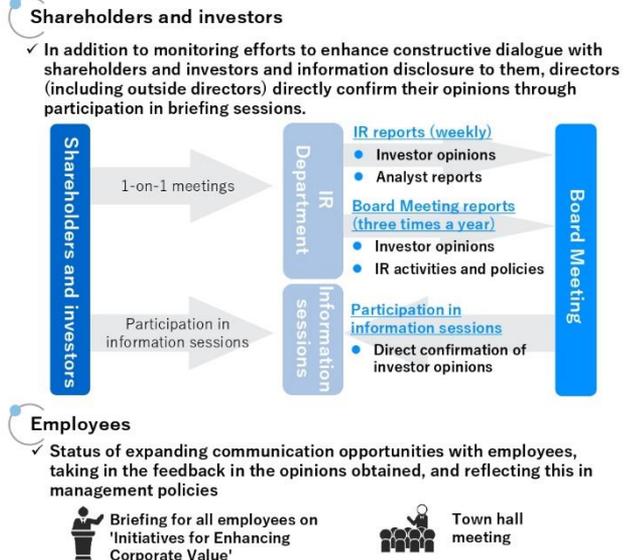
## Evaluation of Board Meeting Effectiveness

### Evaluation of Board Meeting Effectiveness



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### Strengthening stakeholder communication



Concordia Financial Group IR Day 23

**Yamada:** I'm Yamada. Thank you. I would like to talk about the Evaluation of Board Meeting Effectiveness, as shown on the left side of page 23.

What exactly is an effectiveness evaluation? It's designed to assess whether the board of directors, considered a cornerstone of corporate governance, is functioning to enhance corporate value and to lead to improvements.

We conduct surveys by third parties and interviews with directors and auditors to analyze and self-evaluate effectiveness. Based on this, we select themes for the next fiscal year to work on improvement.

The theme for FY2023, as listed at the bottom left, includes strengthening discussions about medium- to long-term strategies to increase corporate value, raising the level of operations of the Board Meeting and making it more efficient, and improving monitoring functions. These are continued from the previous fiscal year, and this year, we've added strengthening stakeholder communication.

On the right side of page 23, regarding strengthening stakeholder communication, I'll first talk about communication with shareholders and investors. Our company established an IR department in April 2022 and has been striving for proactive communication. I personally have regular meetings with the IR department. Besides, I receive weekly reports from the IR department on opinions from shareholders and investors during individual meetings, analyst

reports, and stock price trends. The activities and policies of IR are reported and discussed at the board of directors three times a year.

For example, our approach to capital cost is informed by feedback from you all. Our receipt of the Grand Prix at this year’s Nikkei Integrated Reporting Awards is also supported by various opinions from you, and I would like to express my gratitude once again.

Next, regarding communication with employees, in FY2022, we held over 200 town hall meetings, a dialogue between management and employees, and we are continuing this effort in FY2023.

As a new initiative for FY2023, President Kataoka held a briefing for all employees on efforts to enhance corporate value. Although we introduced this at the interim financial results briefing last November, targeting all 6,000 employees of the Group, we explained what corporate value is and what specifically can be done to enhance it in simple terms, and held a Q&A session.

Understanding varies among participants depending on their job functions, but we received many positive comments such as “It was valuable to hear the president’s words in real time” and “My understanding of the necessity of corporate value deepened”. I feel that understanding of the direction and strategy our company aims for is steadily increasing at the operational level.

As Akiyoshi also explained earlier, in interviews for the succession plan, we assess candidates’ understanding of enhancing corporate value and check the penetration status at the operational level. We intend to enrich discussions at the board of directors based on stakeholders’ opinions going forward. That is all from me.

## Activities of outside directors Enhancing Deliberations of the Board Meeting

### Sales Branches inspections

✓ In order to deepen the understanding of subsidiary bank operations and sales sites, operations at Sales Branches are observed and interviews and discussions are held with regional headquarters managers and branch managers.

Year	Primary achievements of observation
	
FY20	<ul style="list-style-type: none"> <li>Eastern Regional Headquarters</li> <li>Tsurumi Branch</li> <li>Kanda Branch</li> <li>Shinjyuku Branch</li> </ul>
FY21	<ul style="list-style-type: none"> <li>Tokyo Branch</li> <li>Kawasaki Regional Headquarters</li> <li>Musashikosugi Branch</li> <li>Azumabashi Branch</li> <li>Kashiwa Branch</li> <li>Shibuya Branch</li> </ul>
FY22	<ul style="list-style-type: none"> <li>Head Office District Headquarters</li> <li>Kencho Branch</li> <li>Southern Regional Headquarters</li> <li>Yokosuka Branch</li> <li>Ueno Branch</li> <li>Senju Branch</li> <li>Toneri Branch</li> </ul>
FY23	<ul style="list-style-type: none"> <li>Hamagin Finance Research Institute</li> <li>Fuchu Branch</li> <li>Head Office</li> <li>Kofukuji Branch</li> <li>Rokkakubashi Branch</li> </ul>

Business Integration (Jun 2023)

### Directors' study sessions

(inside and outside directors of the Concordia Financial Group and the Bank of Yokohama participated.)

✓ Participation in study sessions led by external experts on themes such as Digital/IT, Market/ALM, Sustainability, and Open Innovation.

Year	Theme	Topic
May-23	Digital / IT	Interactive AI
Jul-23	Business Strategy	Industry trends for group businesses
	Market/ALM	Third-party evaluation of the Bank of Yokohama's operational performance
Aug-23	Digital / IT	Cybersecurity (system risk)
Sep-23	Open Innovation	Open innovation
	Sustainability	ESG rating
Oct-23	Business Strategy	Overview of new business at other banks
Nov-23	Market/ALM	ALM operation with yen interest rates rising
Dec-23	Sustainability	Biodiversity
	Digital / IT	Contingency plan for unexpected situations during full-scale “MEJAR” renewal
Jan-24	Market/ALM	Macro market trends for 2024
	Digital / IT	How technology will change the way we work in the future
Feb-24	Digital / IT	Cybersecurity (cyber exercises)
	Open Innovation	Open innovation

**Yoda:** Next, I would like to explain the Activities of Outside Directors towards Enhancing Deliberations of the Board Meeting, as mentioned on page 24.

To enrich the deliberations of the board of directors, opportunities for information input to outside directors have been enhanced, which has helped to eliminate the information gap with the executive department.

Specifically, as shown on the left side of the document, branch inspections are one distinctive initiative. To deepen understanding of the business and sales operations of subsidiary banks, we visit multiple branches, inspecting the business operations and conducting meetings and discussions with regional managers and branch managers.

As you can see in the table, up until FY2022, we conducted inspections of about two to three branches annually at both Bank of Yokohama and Higashi-Nippon Bank. In FY2023, in addition to these, we have also conducted inspections of branches of Kanagawa Bank.

The contents of the meetings and discussions during these visits cover a wide range of topics, including the local economic situation, competition with other banks, sales strategies, challenges in branch operations, and the status of talent development.

What was particularly striking this time was the opportunity to directly understand the perception of the management integration with Bank of Yokohama during the inspection of Kanagawa Bank branches. While there were some voices of unease due to differences in bank culture, it became clear that there was an expectation for solutions that had not been possible before, digitalization of operations, and training.

The PMI of the management integration with Kanagawa Bank is an important theme for the board of directors. We intend to reflect the voices from the field, confirmed during the branch inspections, in future discussions, utilizing the lessons and experiences from the integration of Bank of Yokohama and Higashi-Nippon Bank.

Another distinctive feature is the officer study sessions involving both internal and outside directors, as shown on the right side of the document. As you can see, the themes are diverse, including digital, IT, market, ALM, sustainability, and open innovation, and are held almost every month.

I feel that the content is of high quality, often involving external experts. The financial business is greatly influenced by both domestic and international economic environments and financial policies, and the speed of technological innovation is very fast. Having the opportunity for such

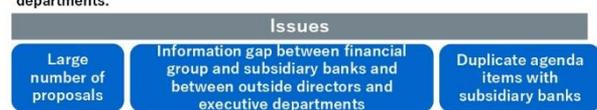
input is a great way to eliminate the information gap between internal and external environments, and I believe it's beneficial for us as outside directors to perform our roles effectively.

Our directors come from various backgrounds, and by utilizing these opportunities to update our information and actively exchange opinions based on our knowledge, we hope to enhance the level of the board of directors. That concludes my remarks.

### Integrated Operation of the Board Meeting, Observer Participation in the Management Meeting, and Advance Briefings for the Board Meeting (eliminating the information gap)

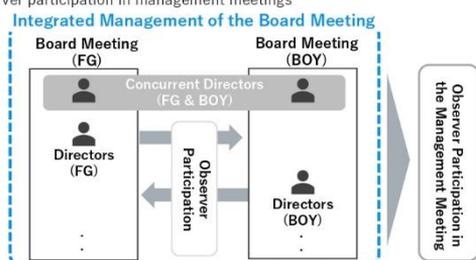
#### Integrated Management of the Board Meeting and Observer Participation as in the Management Meeting

- ✓ Integrated management of the Concordia Financial Group and the Bank of Yokohama's Board Meeting will eliminate the information gap between the financial group and subsidiary banks; outside directors participating in management meetings as observers will eliminate the information gap with executive departments.



#### Start of integrated management of Board Meeting and observer participation in management meetings (FY2021 -)

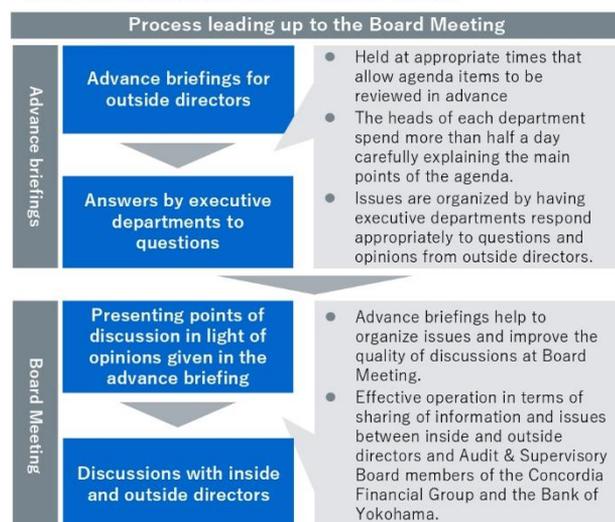
- Board Meetings of the holding company and subsidiary bank (the Bank of Yokohama) were held on the same day, with mutual observer participation. Observer participation in management meetings



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#### Advance briefings for Board Meeting

- ✓ Through advance briefings at the appropriate time and time, issues can be sorted out with executive departments in advance, improving the quality of discussions and making Board Meeting more efficient.



Concordia Financial Group IR Day 25

**Ishii:** Next, I would like to explain about the integrated operation of the board meetings of Concordia Financial Group and Bank of Yokohama as one of the measures to eliminate the information gap.

Just before my appointment, I heard there were challenges such as the volume of agenda items and information disparities due to Concordia directors not holding concurrent positions in subsidiaries.

However, since FY2021, we started the integrated operation of the board meetings, and from FY2022, we were able to attend the management meetings of each company, which I believe has deepened our understanding of each agenda item.

To be specific, the board meetings of Concordia and Bank of Yokohama are scheduled on the same day, with the Concordia board meeting held after the conclusion of The Bank of Yokohama's board meeting. All outside directors participate in both companies' board meetings, ensuring a system where everyone can attend and ask questions.

Furthermore, as shown on the right, there is a pre-meeting briefing. This not only provides a good understanding of the execution status but also allows outside directors to engage in deep discussions using this opportunity, which I find to be extremely beneficial.

Additionally, now we can observe management meetings, so we fully understand the points emphasized and the discussions held before they are brought to the board, allowing us to grasp the execution status more deeply.

Through these measures, I feel we are able to have discussions that are deeply rooted in reality and much more profound.

Especially, questions raised during the pre-meeting briefings, if they can be answered on the spot, are addressed immediately. However, since there is usually a week until the board meeting, it allows time to organize the points and discuss them again or report them at the board meeting, significantly contributing to the enrichment and evolution of the deliberations.

Based on these experiences, I feel that we can further enhance and enrich the discussions and resolutions of the board of directors in the future. That concludes my remarks.

**Kataoka:** Today, we went a bit over our originally planned time, but I'm very grateful for the candid exchange of opinions we've had. In particular, we received various opinions on governance, and it helped me recognize anew the perspectives our outside directors hold.

There was a mention of being open to listening earlier. Comparing governance from 7 to 10 years ago, I personally feel it has significantly changed. I believe there are two reasons for this. First, our outside directors are not merely commentators but provide practical advice based on their past experiences.

The second reason is the considerable time spent throughout the year, including visits to branches, which has greatly reduced the information gap, allowing for discussions on the same footing. We've had some tough feedback and also moments where we've had to say, "That's not quite right," which means healthy discussions have become possible.

Going forward, we will continue to discuss various topics, such as digital strategy and subsidiary companies, within the board meetings. We also plan to create opportunities, like today's IR Day, to explain and hear your opinions on initiatives related to subsidiary companies and future actions. I believe there will be various requests, but I kindly ask for your frank guidance.

Thank you very much for today.