Investor Relations Meeting for FY2021
Q&A Summary

Presenter
Masahiro Minami,
Director, President and Representative Executive Officer, Resona Holdings, Inc.

Q1. Regarding the KPIs under the medium-term management plan (MMP) featured on page 24 of the IR presentation material, over the course of the next three-years or so, a period that overlaps a part of the next MMP, how much improvement in the consolidated fee income ratio do you expect to see? What growth drivers do you expect to support growth in the consolidated fee income ratio? Also, with regard to the general direction of securities management, could you elaborate on your future plans for rebuilding the securities portfolio in light of Resona's recent measures to restore the soundness of its foreign bond and other holdings? Furthermore, the Company's current target for the consolidated cost income ratio, or overhead ratio (OHR), is set at the lower half of the 60%–70% range for FY2022, compared with the initial MMP target of around 60%. Could you tell us how much you intend to reduce OHR over the next three years?

A1. Having already launched discussions regarding the next MMP, we are currently deliberating on our future direction in the areas you mentioned.

Firstly, we have set our fee income target at JPY220.0 billion for FY2022. Our overall policy has been to secure robust fee income that enables us to cover total costs. We will further upgrade our initiatives to this end.

Although we have multiple profit drivers in mind, the first driver will be the succession-related business. This is unchanged from FY2021. In Japan, there is a strong need for solutions that support the smooth succession of businesses and assets. In the aftermath of the COVID-19 pandemic, we have confirmed that this need has become even more acute. As the Resona Group possesses both trust banking and real estate-related functions, we are confident that we can firmly expand this business by taking full advantage of our customer base.

The second profit driver is AUM. The balance of the fund wrap has been growing quite robustly, with the achievement of JPY1 trillion, a major landmark, in sight. As I have announced previously, in the AUM business we intend to introduce a new perspective employing long-term, asset formation and diversified investment vehicles at some point in the near future. In this way, we will develop our operations in the retail field.

The third driver is settlement. Amid the pandemic, demand for remote and contactless settlement methods grew considerably across society. At the same time, we expect the pace of digitalization now under way in such corporate fields as ordering systems and other operations handled by indirect business units to speed up even further. These operations are highly relevant to settlement. Therefore, we are aware of robust opportunities still in place in the settlement field. This projection also applies to individual consumer settlement, an area in which we are strong.

Lastly, the financial digital platform we are currently developing may well become a future profit driver. Specifically, we aim to secure profit sources by leveraging the sales capabilities and customer bases afforded by other banks.

In sum, the future of Resona's fee income-related operations is pretty bright.

As for securities, we have executed measures to restore the soundness of this portfolio in the fourth quarter of FY2021, including the expenditure of JPY55.0 billion. We recently undertook similar measures at the beginning of the first quarter of FY2022. Due to these actions, we believe that the portfolio's inherent risks have largely been reduced. While taking a prudent approach to curbing risk volume, we have improved the yield of the overall foreign bond portfolio to around 2.8% via, for example, the purchase of MBS with a yield of about 4%. We have thus developed a good foundation for achieving further improvement in profit even as we implement solid risk management.

Regarding OHR, although the ratio itself seems to have seen no significant improvement, this has been due to lower top-line income reflecting such outlays as those for executing measures to restore the soundness of our securities portfolio, and, in truth, our cost structure has been undergoing a steady change. On page 78 of the IR presentation material, you can see declines in expenses since FY2020, following the management integration of Kansai Mirai Financial Group (KMFG), to the present. We believe there remains considerable room for improvement in this area. We have also been engaged in the overhaul of our banking business process with an eye to reducing costs. We hope to report the tangible results of these efforts during the next MMP. In addition, when formulating the next MMP, we will begin with incorporating the target of reducing OHR to less than 60%.

Q2. On page 38 of the IR presentation material, a pie chart depicting the sector-based breakdown of financed emission balances can be seen. This chart suggests that the "Real estate / Construction" and "Automobile / Transport" sectors account for a major portion of Resona's financed emission portfolio. We suspect that this is primarily attributable to the large volume of funds being extended by the Group to these sectors. On the other hand, in terms of volume of CO_2 emissions to volume of funds extended, "Energy" and "Materials" seem to merit priority in reduction efforts. Is my understanding correct? Also, please explain the future direction of the Group's efforts to live up to its declaration to achieve net-zero financed emission. Moreover, could you also share more detailed timelines regarding your projected schedule for reductions in specific sectors?

A2. On a global basis, the "Energy" and "Materials" sectors are considered to merit the utmost priority in reduction efforts. This is exactly as you have said. On the other hand, we need to determine our priorities based on the careful analysis of our portfolios in order to determine the sectors in which we can best exercise our control. The proportion of real estate is indeed large due to such factors as the nature of transactions and the volume of funds extended. With this in mind, we deem it extremely important to formulate future reduction measures from the perspective of addressing Scope3 emissions based on an accurate understanding of the opportunities and risks our customers face in said sector.

Regarding the schedule for achieving net-zero financed emissions, our fundamental policy is to achieve net zero in 2050. Japan's Ministry of the Environment (MOE) announced a national goal of curbing greenhouse gas emissions nationwide by 46% compared with the FY2013 level. Our planning of initiatives references this and other input. At the same time, we need to decide for ourselves how to measure Scope3 emissions associated with our portfolio, which is dominated by SME customers. Unlike large enterprises, the quality of frameworks developed and initiatives undertaken by SMEs varies greatly by company. Given these circumstances, we launched new initiatives, including participating in a project subsidized by the MOE in FY2021. That being said, we would like you to understand that we are still in a preparatory stage in terms of precisely assessing the volume of and managing Scope3 emissions.

Q3. On the same subject, I have assumed that progress is being made, to a certain degree, in the analysis of CO_2 emissions from SMEs as an MOE-subsidized project conducted a survey covering a considerable number of samples from SMEs to estimate the volume of emissions based on a top-down analysis approach. Do you consider such progress still insufficient?

A3. We believe that there remain a number of issues. A clearly defined measurement framework for Scope3 emissions from SMEs is still absent even on a global basis.

With regard to our own approach, we would like to create a framework that enables us to robustly fulfill expectations for accountability. Although we are currently exploring various options, we intend to determine our own approach as early as possible.

Q4. Regarding the outlook for the market division and Resona's policy on the management of securities, over the past two years, the Company recorded losses on foreign bonds accompanying rises in U.S. interest rates. Could you explain what sets your new initiatives to reestablish Resona's strengths in the market division apart from previous efforts?

A4. Please let me briefly give an overview of the market division as I answer your question. The recent measures to restore the soundness of our securities holdings have targeted a portfolio that we hastily developed in 2020. At that time, we were rushing to reestablish our portfolio and ended up incorporating some instruments with low or no unrealized gains at absolute value. As a result, on a book-value basis this portfolio had less than robust yields. This is one reason it has been targeted.

Let me explain why acted so hastily at that time. We had assumed that, due to fallout from the COVID-19 pandemic, the world economy would remain sluggish for some time to come. Further, against this background, there had been widespread arguments in favor of the further progression of a negative interest rate policy in Japan. Thus, we thought that we needed to secure a risk buffer of a certain size while ensuring our resilience against ever lower interest rates. After that, although we forecast that a modest rise in interest rates might be possible during the COVID-19 pandemic, we thought that we would have plenty of time to take advantage of carry-forward profit to manage the above portfolio.

In reality, however, the U.S. economy saw rapid inflation as the repercussions of the COVID-19 pandemic faded, and U.S. monetary policy shifted at a breathtaking speed. Moreover, the Russian invasion of Ukraine served as a definitive factor forcing us to switch to emergency mode. The recent measures to restore the soundness of our securities portfolio are intended to secure our ability to flexibly adapt to the new environment that has emerged out of major external changes that transpired at an unexpected pace and exerted a deeper than expected impact. As such, we believe that we made a right decision in terms of addressing emergencies. However, we know that people might wonder why Resona's response differs from that of other domestic banks. We will strive to achieve good outcomes over the medium to long term so our decision will be proven right.

Next, I will explain the concept underlying the measures we took to restore our portfolio's soundness in the fourth quarter of FY2021. As mentioned earlier, we were holding a foreign bond portfolio with a low yield, and if this portfolio had been left untouched in the current business environment, we would have ended up recording cash outflows of between JPY55.0 billion and JPY68.0 billion over a five- or six-year period. This projected outflow volume is based on the average duration of instruments in question, which span five to six years, and falls within the range of our estimates regarding the probable effect of strong interest rate hikes in the future. Such outflows would certainly erode our profit in a phased manner. Given these factors, we concluded that flexibly restructuring our portfolio would prove a good choice over the medium to long term in light of our need to restore the ongoing soundness of our securities and reestablish a high-margin portfolio.

As I discussed earlier, we divested low yield instruments on a book-value basis even as we carefully avoided a major increase in risk volume. This involved the incorporation of instruments with book-value yield of nearly 4%. Through these and other efforts, we have been able to steadily restructure our portfolio from a medium- to long-term perspective. As a result, the average yield of our foreign bond portfolio rose to 2.8%. We are thus confident that we have successfully minimized future risks while swiftly securing a robust overall yield that enables us to respond to possible changes in circumstances. We know that people have varying opinions regarding our decision. However, we are determined to yield solid profit by firmly implementing risk management based on a medium- to long-term perspective.

Q5. Regarding the monetization of the financial digital platform, could you describe your estimate of the platform's profitability? I would like you to, as President, share your thoughts on the expected size of the profit contribution it could make going forward.

A5. With regard to the financial digital platform, please see page 35 of the IR presentation material.

This page outlines various future possibilities arising from the platform, but I know that it is quite hard to clearly see how it enables Resona to achieve profitability. The overview of the platform is illustrated on page 34. User companies are now able to access the Group App so they can offer it to their customers. These companies include not only Resona Group companies but also Mebuki FG, which has already recorded 690,000 downloads of the Group App. In 2021, we also made our fund wrap available at the Bank of Yokohama via the use of an API connection. Thanks to the Bank of Yokohama's customers who came forward to use our fund wrap, the balance of the fund wrap sold by this bank alone amounts to JPY40.8 billion over a one-year span. In FY2021, fund wrap-related income recorded by Resona totaled JPY8.2 billion, and this amount includes a portion of income arising from the JPY40.8 billion-portfolio established by the Bank of Yokohama through fund wrap sales in said year. It is, of course, hard to describe the exact size of the profit that could be generated due to the platform. However, we can say that our initiatives have already yielded profit in, for example, the field of fund wraps as discussed above.

Other examples include the facial recognition-based authorization business. This business will yield several yen per transaction. Also, we recorded JPY4.3 billion in profit in FY2021 via VISA debit cards. The value of single transaction arising from such businesses is quite small. However, if one of them is capable of earning, say, JPY4.3 billion in profit over the course of a year, we could certainly expect the platform to eventually help us secure JPY10.0 billion or more upon the accumulation of a large number of transactions. This is our business model. We believe that our initiatives will generate robust synergies via the creation of an ecosystem supported by a platform of this kind.

With this in mind, we will focus on increasing the number of user companies as well as transactions. In addition, as part of functions afforded by the platform, we will strive to establish a diverse and extensive lineup of highly competitive products and services provided by partner companies, including those from different sectors. These endeavors will help us secure an increasing number of customer transactions, resulting in growth in profit arising from the platform. Our first milestone is to secure a top-line income of around JPY10.0 billion in four to five years.

Q6. Page 27 of the IR presentation material, which is titled “Message from the Top Management / Adapt to Changes,” features a strata-type graph illustrating a rough time frame for how Resona’s profit will be enhanced. Could you elaborate on your thoughts regarding the time frame for initiatives described as “new seeds for growth” in terms of when these seeds will yield tangible contributions to operating results? Also, please discuss priorities in resource allocations and their weighting along with immediate results you have seen thus far on a business-by-business basis.

A6. We feel that the immediate outcomes of platform-related initiatives have been positive. We believe that the platform business is quite promising as we expect expansion in the range of products and services it can offer going forward. These include, of course, the fund wrap in addition to the Group App, which is now made available via

Mebuki FG.

In the field of SX, on the other hand, customer initiatives among SMEs differ by company in many ways. However, we have seen a steady shift in customer awareness and behavior. Looking ahead, we need to remain a forerunner in terms of such shift. In doing so, we will enhance our consulting capabilities in finance and other fields while delivering a fresh impact on SMEs. This is our mission. We are pretty confident about our ability to make progress in these efforts while steadily reporting their results.

As illustrated in page 37 of the IR presentation material, a variety of tangible products and services have already been released. Achieving numerical results is, of course, important, but we are also committed to taking a genuinely customer-centric consulting approach to serving SMEs and helping each customer take a step forward from their current situation. To this end, we engage in robust dialogue with them regarding actions to be taken based on an assessment of the risks and opportunities they are facing. For example, we have already sent out questionnaires to 31,000 respondents. We believe that the cumulative effect of these and other initiatives will prove a valuable asset.

Next, I will discuss the time frames presented on page 27 regarding how Resona enhances profit. Taking a look at our past track record, we have achieved more than 5 million downloads of the Group App in the four years since its release in 2018. If downloads recorded by Mebuki FG are included, 10 million downloads may well be achievable. Among fee businesses, such recurring fee businesses as VISA debit cards require a certain period of time until the realization of profitability. However, over the decade since its launch, the debit card business has now grown to record JPY4.3 billion in profit. Furthermore, settlement needs among general public have radically shifted to remote and contactless methods due to the COVID-19 pandemic. We can therefore conclude that this business will yield large profit going forward. In addition, our plans call for accelerating the digitalization of BtoB businesses. We consider these operations to be a "volume zone" where we can enjoy ongoing growth in profit going forward.

To date, we have worked hard to cultivate our DX ability in the field of individual transactions. Now, we are well-positioned to apply this ability in the corporate field. Moreover, we can also employ DX in business process reforms. We will thus develop new seeds for growth into strong earnings pillars over the course of three to five years.

Q7. Regarding Retail Transition Finance explained in page 37 of the material, could you please explain the breakdown of the cumulative total balance of funds extended in FY2021 (JPY845.8 billion) in terms of proportions accounted for by corporate and individual borrowers? Please also elaborate on your thoughts on the pace of the expected increase in the balance of such financing toward your target of JPY10 trillion.

A7. As a result of initiatives discussed earlier, the balance of Retail Transition Finance came to JPY845.8 billion. Of this, corporate lending accounted for approximately JPY760.0 billion. Housing and other individual loans accounted for around JPY37.0 billion, while finance associated with individual asset management accounted for approximately JPY49.0 billion.

The balance of lending in housing and other individual loans as well as finance associated with individual asset management has not increased quickly, but has almost got on a growth track. In the field of asset management, we forecast that our offerings associated with ESG-related investment and impact investment will steadily gain popularity among our customers over time. Resona Asset Management has distinctive strength in this field. Accordingly, we will be able to achieve robust growth.

In the field of housing loans, we similarly expect that keen interest in ESG issues and SDGs will become commonplace among individual customers, with the increasing popularity of relevant loan products, such as those supporting the purchase of zero-emission housing (ZEH). This trend will spread at an even faster pace going forward. We will secure growth opportunities in this field as we remain attentive to changes in customer awareness and behavior.

Q8. Regarding the human resource reallocations described on page 41, which is titled “Human Resource Management,” Resona has already undertaken reallocations over the past two years, and one more year is left for the Company to conclude its reallocation plan. Could you discuss progress being made thus far with regard to the planned number of employees subject to reallocation (1,690)? Please also explain the positive effect of reallocations in the aspect of business operations.

A8. As for human resource reallocations, please see page 41 of the IR presentation material.

Figures presented in the slide include planned figures. Looking at our achievements over the last two years, downsizing measures resulted in decreases of 1,140 employees at Resona Holdings (HD) and 2,240 employees at KMFG. Thus far, a total of 1,110 employees have been reallocated. On a consolidated basis, the total headcount has been cut 2,280. The number of employees reallocated at HD amounts to 460 and 160, respectively, in strategic and digital fields. The consolidation of back-office operators will be initiated going forward.

As I have touched on briefly, the DX-driven overhaul and restructuring of our business process is now under way. We have found these processes to hold the potential to exert a significant reduction effect. We believe that we will be able to achieve highly positive outcomes in near future via, for example, the shift of management resources. We are looking forward to reporting tangible numerical results as part of the announcement of the next MMP.

Q9. Regarding foreign bonds, the volume of unrealized losses on these instruments held by domestic banks has been growing from the level held as of March 31, 2022. However, when attending the financial results briefings hosted by other banks, I did not receive the impression that these institutions believe they must undertake measures to cut losses immediately. Although additional measures are scheduled to carry out by Resona to cut losses on foreign bonds in the first quarter of FY2022, do you really think that the Company had to execute these measures whether or not they lowered profit or the stock price? Some people may argue that Resona should instead endure cash outflows for a few years. Please once again elaborate on your stance vis-à-vis measures to cut unrealized losses.

A9. As you have pointed out, some will argue that only thing we have to do is put up with it for the time being. However, each company has to comprehensively consider what the right decision for it is and trust the judgment exercised by its management regarding such factors as market outlook and portfolio status.

The foreign bond portfolio we acquired in 2020 had brought us only a poor yield. In the face of the monetary environment influenced by radical easing policies due to the pandemic at that time, we structured a portfolio worth JPY500.0 billion to JPY600.0 billion with the hope of being able to compensate for quickly falling net interest income. However, that portfolio is no longer appropriate in the current climate of rapid hikes in interest rates. Maintaining this portfolio may be one option, but we have concluded that, as discussed earlier, continuing to hold it will result in total outflows of JPY50.0 billion to JPY60.0 billion, eroding our profit over the course of five to six years in a phased manner due to its negative spread.

Moreover, Russia’s invasion of Ukraine erupted on February 24, 2022, making the future outlook even murkier. We thus decided to undertake risk-reduction measures, replace the book-value portfolio and otherwise do our best to swiftly create a better portfolio that would enable us to obtain a robust volume of carry-forward profit over the medium to long term.

I think I may regret more than anyone that we failed to meet the earning targets we had committed to. Nevertheless, I believe that we made right decision, exercising sound management judgment as we strove to assess the situation from the medium- to long-term perspective. Even though the eventual consequence of our decision has yet to be revealed, we will do our utmost to achieve better results in FY2022 and beyond, thereby proving that ours was right decision.

Q10. On the same subject, you have mentioned that major losses would otherwise be recorded in a phased manner if you were to continue holding of the portfolio in question. Does this mean that higher procurement costs would lead to a negative spread and result in losses?

A10. We are not engaged in the management and procurement of deposits and lending overseas. Rather, when interest rates associated with market procurement rise sharply, our yield may turn negative. The recording of losses would be inevitable if we were to opt for continued holding. We of course examined this as an option but stayed focused on determining most optimal action in light of the overall status of our portfolio, expected rises in market interest rates that would radically affect us going forward and increased costs of procurement.

Needless to say, we are keeping a firm grip on risk volume. This is an assumption we always maintain to ensure sound management. We have given comprehensive consideration to these and other factors and thus concluded that what must be done now is to replace our book-value portfolio from a medium- to long-term perspective via the incorporation of high-margin bonds, restructuring it to secure more stable income from the yield.

Q11. Please elaborate on your expectations for future growth and expansion to be achieved by Resona in the cashless payment field as presented on page 31. Although debit card-related income has increased around JPY1.0 billion annually, other players in different sectors, including logistics, communications and transportation, have achieved annual growth of about 30% in terms of the value of cashless transactions. Looking ahead, could you share your views on the growth rate of Resona’s cashless operations and other expectations for business expansion?

A11. We are aware of the high growth rates achieved by our non-bank competitors operating in the field of cashless payment. Meanwhile, we expect the rate of growth for our debit cards and other operations in the personal banking field to eventually surpass the current rate by quite a bit. Thus far, around 3 million debit cards have been issued, but there is a time lag between their being issued and their becoming a daily staple form of payment for the customer. Because of this, the time line for profit growth inevitably lags behind the expansion of the customer base. In the personal banking field, however, we think we have room for further expansion via, for example, combinations of the Group App and other various services.

We similarly consider our operations in the BtoB field, including those targeting SMEs, to offer room for growth. Our plans call for rolling out DX know-how we developed in the personal banking field to the corporate field. We will thus aim for profit expansion in the latter field, too.

In the DX field, we are making customer transactions even simpler and easier. This will, in turn, empower customers to complete transactions themselves by operating the Group App, tablets in the branches and other terminals. In this way, we will be better position to overhaul clerical process traditionally undertaken in our back-office spaces. We will also curb costs via digitalization.

Q12. At present, Resona might possibly fail to meet its target for the Common Equity Tier 1 (CET1) capital ratio, a KPI defined under the MMP. To improve the capital adequacy ratio, what policies do you intend to implement?

A12. Under the MMP, we aim for a CET1 capital ratio of around 10% (based on finalized Basel 3; excluding net unrealized gains on available-for-sale securities). On the other hand, our CET1 capital ratio as of March 31, 2022 was around 9.3%. Taking this into account, we set our CET1 capital ratio target for FY2022 on the higher half of the 9% range. Differences between this target and the MMP target are mainly attributable to the unexpected negative factors arising from the COVID-19 pandemic and the measures we had to undertake in FY2021 to restore the soundness of our securities portfolio.

However, the marking of a record best in fee income since the inauguration of the Resona Group indicates our core profit is on a steady growth track. This suggests stable progress in the reform of our profit and cost structure over the medium to long term. With regard to the CET1 capital ratio, we might be unable to meet our target under the MMP, but our direction over the medium to long term will be unchanged. We will continue to implement various initiatives to achieve good results.

Q13. Given the current external environment, it is understandable that Resona took measures to restore the soundness of its foreign bond and other holdings. However, I would like you to explain rationale for undertaking further measures in the first quarter of FY2022 instead of completing all necessary measures to restore the soundness of the portfolio in question by the end of FY2021.

A13. We originally intended to complete measures to restore the soundness of our foreign bond holdings, especially those of securities without substantial rationales for continued holding, by the end of FY2021, so that we could embark on FY2022 with a reduced risk of negative yield. Consequently, however, a number of further measures had to be implemented in FY2022 due to the need to align our policies by the end of March in light of such circumstances as the ongoing conflict between Russia and Ukraine. Some other measures have similarly been delayed due primarily to technical reasons associated with liquidity.

Q14. Resona aims for a total shareholder return ratio in the mid-40% range in the medium to long term. Depending on progress as of the end of the interim period, can we expect Resona to carry out shareholder return measures, such as share repurchases, should the likelihood of the Company's achieving FY2022 targets become higher?

A14. First and foremost, we would definitely like to secure net income attributable to owners of the parent of JPY150.0 billion, which is a bare minimum target for FY2022. We forecast that it will look like we are making a slow start based on our operating results for the first three months due to the measures undertaken to restore the soundness of our securities portfolio. On the other hand, we are currently raising fee income and other income from our main business in a steady manner. We will consider undertaking proactive shareholder return measures upon confirming overall progress in our operating results.

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