

Dialogue between Professor Nozaki and Group CSO Ishida



Joined Saitama Bank in 1986. Became a professor at the Faculty of Integrated Social Sciences at Kyoto Bunkyo University in 2015 after serving in the research departments of foreign securities companies and financial institutions since 2000. Became a professor at Toyo University's Faculty of Global and Regional Studies in 2018 (incumbent).

Hironari Nozaki

Professor, Faculty of Global and Regional Studies, Toyo University



Shigeki Ishida

Group CSO, Director, Deputy President and Executive Officer

How Should the Resona Group Address the Radically Evolving Environment?

Once Again, We Are Living in a “World with Interest Rates.” How Will We Improve Corporate Value by Seizing Opportunities Arising from External Changes?

Nozaki In addition to changes in the macro environment, such as the Bank of Japan (BOJ) monetary policy, we have seen a radical shift in the general public's value systems and behavioral patterns. However, Resona has a history of adapting itself to changes. This is an aspect of the Group's distinctive strength.

Against this background, what do you consider to be the most noteworthy change? Please also share your recognition, as CSO, of opportunities and risks arising from these changes.

Ishida I recognize that external changes currently taking place, including the shift in the monetary policy, inflation, and labor shortages

as well as technological advancement, such as the emergence of generative AI, affect a diverse range of fields. These changes also include trends toward SX and DX in addition to a shift from savings to investment. In summary, we are at a point of major transition. Based on this recognition, we aim to accommodate the needs of customers and regional communities and help them resolve issues arising from these changes. This is our basic stance on how to improve corporate value.

I also deem it important to adapt to the reinstatement of a “world with interest rates,” which is an imminent issue requiring proper response. Interest rate hikes will entail both opportunities and risks. While opportunities will arise with improvements in the margins of loans and bonds, interest rate hikes could also lead to, for example, higher credit risks and expansion in unrealized losses on our bond holdings. Furthermore, as each financial institution is expected to execute more flexible pricing strategies, the competitive

environment surrounding the Group might evolve. This change similarly deserves attention.

Overall, however, I believe that the opportunities will far outweigh the risks arising from interest rate hikes. With this in mind, we are stepping up initiatives to help corporate customers to improve and rehabilitate their businesses, which will be affected by rising costs, even as we maintain appropriate risk control. These are part of preparatory steps under way to ensure that we can indeed seize opportunities arising from interest rate hikes.

Nozaki Resona's high sensitivity to interest rates is the subject of immense attention in the capital market. On the other hand, higher income arising from interest rate hikes might also cause the Group's workforce to be content with the status quo. Aren't you concerned about this scenario?

Ishida On the back of the prolonged negative interest rate environment, the Group has maintained considerable focus on expanding its fee businesses and thereby achieved major accomplishments by rallying its overall strength. In a “world with interest rates,” the profitability of assets is expected to naturally improve. However, we can never be dependent on this tailwind alone. Rather, we must strive to raise top-line income by leveraging both asset and fee businesses to achieve growth. In the inflationary period, the transition from savings to investment products is highly likely to accelerate amid the ongoing shift from savings to investment. We intend to robustly employ these and other opportunities to achieve business expansion.

What Solutions Will We Deliver amid Changes in Customer Value Systems and Behavior?

Nozaki It has been nearly three decades since Japan's financial industry has tangibly benefited from an interest rate of 1% or more. The business environment when the restrictive interest policy was instated was entirely different from what it is now. And, although the Resona Group boasts distinctive strengths backed by a deposit base with high retention, don't you feel anxiety regarding a possible outflow of depositors to competitors specializing in internet banking (“internet banks”) as these banks are now winning a growing number of accounts?

Ishida I fully agree with your views on the striking differences between the past and current business environments in terms of competitors. In particular, I consider the emergence of internet banks to be a major threat in the individual banking field. On the other hand, the Resona Group is capable of differentiating itself from internet banks in various ways.

First, we have the “Resona Group App.” This app has been constantly updated and its functions improved. Through the app, we aim to provide users with greater convenience than what mere internet banks can deliver.

Second, we have more than 800 manned branches. I believe that the advancement of a digital world will better position us to hone the strength of this branch network. Looking ahead, we will step up the use of digital technologies and integrate our face-to-face and digital channels, with the aim of differentiating ourselves from internet banks.

In addition, we expect needs for asset management solutions to only grow stronger going forward. Accordingly, we will deliver value to customers by leveraging know-how amassed in the course of pension asset management.

Nozaki While consumer modes of household finance have been evolving due to changes in individual value systems and behavior, business corporations have long focused on securing surplus funds. In this field, what changes do you expect to see going forward?



Ishida With inflation expected to get worse, we forecast that funding demand will grow among business corporations due to the pressing need to deal with labor shortages and to promote SX and DX. In fact, the volume of funds extended in corporate financing grew considerably in FY2023. We will steadfastly accommodate the funding needs of our customers.

In terms of managing deposits entrusted by corporate customers, I believe that our settlement services could differentiate us from competitors. In recent years, we have seen remarkable advancement in B2C settlement services. On the other hand, similar services used in the B2B sector are largely based on the conventional framework. There is room for improvement.

In FY2023, we strengthened our capital and business alliance with Digital Garage. In these and other ways, we intend to leverage external insights in order to deliver innovative solutions in the field of B2B settlement.

In sum, I believe that future growth for the corporate banking business hinges on our efforts to seize burgeoning funding demand and provide settlement services.

Nozaki That's very interesting. The development of the B2B settlement system could also enable the Group to deliver high-value-added financial services, such as supply chain financing. I expect the Group to step up its initiatives in this area.

In addition, the Group is capable of assisting in business succession, business rehabilitation and startup endeavors with regard to the two aspects of debt and equity, as well as of providing solutions that leverage its trust banking functions. I expect that the Group can create new opportunities by fully taking advantage of these and other functions to deliver value-added solutions that have never before existed.

How Will We Utilize Capital?

Nozaki In connection with topics discussed thus far, I would like to ask you to share your thoughts on balance sheet management. Over the past 10 to 20 years, liquidity deposits have been the sole asset that increased amid the low-interest rate environment. If these deposits were considered speculative funds, their volume might decline going forward. Do you have in mind a future scenario in which the Group intentionally chooses to reduce the size of its balance sheet in order to enhance asset efficiency?

Ishida Instead of merely reducing the size of our balance sheet, we aim to improve asset efficiency via proactive balance sheet management. Specifically, we will push ahead with replacing items on the left side (asset side) of the balance sheet to increase assets with higher potential in terms of risk returns and cost returns, with the aim of improving profitability and asset efficiency.

Nozaki How about the Group's future plan on how to utilize capital in a way that serves the interest of shareholders?

Ishida In the course of repaying public funds, the Resona Group expended capital totaling more than ¥3 trillion. We have striven to accumulate high-quality capital since achieving the full repayment of these funds in June 2015.

As a result, we achieved a Common Equity Tier (CET)1 capital ratio* of around 10% at the close of the previous medium-term management plan (MMP) on March 31, 2023. Under the current MMP, the Group entered a new phase in which it proactively utilizes the capital to be created going forward.

With regard to how we will utilize capital, the current MMP's aim is to raise the volume of shareholder returns while enhancing growth investment. Specifically, we will utilize capital to achieve both organic growth (e.g., via lending) and inorganic growth (e.g., via M&A). Moreover, as part of in-house investment, we will allocate a cumulative total of ¥33 billion in additional funds to human capital-related investment over the course of three years and intend to invest ¥120 billion in system development over the same time frame, with the latter representing 1.5 times of similar investment undertaken over the course of the previous MMP.

We have also updated our plan for the reduction of policy-oriented stockholdings. Our current plan is to cut back on the balance of such stockholdings by more than two thirds of their book value over the course of the next six years. Capital freed up via the execution of this plan will be robustly allocated to investment aimed at securing sustainable growth. In this way, we intend to improve corporate value.

Nozaki Do you think the Group needs to reduce its balance of policy-oriented stocks to zero?

Ishida Once the updated plan has been completed in 2030, the balance of these stocks is expected to be only slightly more than 5% of the balance at the end of March 2003. As such, this plan was formulated based on our strong determination. We believe that steadily implementing this plan and reporting its results to stakeholders is of immediate importance.

Nozaki We have seen the remarkable enhancement of the content of shareholder returns, such as share buybacks, undertaken by many Japanese corporations. Personally, however, I believe that they should take a more forward-looking and innovative approach to capital utilization, rather than focusing on keeping up with their peers.

For example, these corporations need to disclose ROIC, investment horizon and other items to secure investor confidence in the targets they are aiming for.

Ishida I think it is important to balance the volume of profit to be returned to shareholders and the volume of growth investment. Also, prior to allocating a higher proportion of profit to growth investment, we need to share a scenario for future growth with all stakeholders. This is a matter of the foremost importance. We also recognize strong needs among market participants to see shareholder returns. Accordingly, we will consider and update our policy on capital utilization by taking prevailing circumstances into account.



Nozaki For business corporations, including financial institutions, the stock market must be a place for finding funding, rather than a place for spending. Therefore, we have to conclude that investors' fondness for share buybacks suggests the presence of doubts regarding the growth potential of the corporations they invest in. In this light, the Resona Group should clearly communicate the expected outcomes of its investments and then announce a growth story that will inform its plan for effective capital utilization. Once it succeeds in doing so, the Group will, I believe, naturally gain a robust reputation among investors.

Ishida I agree. We intend to announce our growth story to secure investor appreciation. In believe that, to that end, communicating robust operating results is of foremost importance.

How Can We Practice the Purpose More Effectively to Achieve Further Growth?

Nozaki For the Group to aim for further growth, it is extremely important to practice the Purpose, which was established in 2023, more effectively.

The Resona Group has been a pioneer among domestic financial groups in terms of boldly shifting the focus of its management vision from banking operations to financial services. Furthermore, the Group has identified a Purpose aimed at realizing "Beyond Finance," which, as the slogan implies, transcends the conventional framework of finance, thereby clarifying its commitment to delivering diverse value that, in turn, enables customers and society as a whole to enjoy a brighter future. I consider this move praiseworthy.

In our efforts to realize this Purpose, "issues," referring to difficulties that customers and society as a whole are confronting, constitutes a keyword. The Group should enable not only each employee but its entire organization to amass the conceptual capabilities needed to discover opportunities that addressing these issues yields. I think, however, ensuring that the Purpose is homogeneously understood and supported throughout the organization will be an extremely hard task. Could you elaborate on initiatives now under way to this end?

Ishida For us to realize the Purpose, it is important that each officer and employee adopts it as their own. This also applies to the realization of "Retail No. 1," our Long-Term Vision.

With this in mind, we launched a "My Purpose" Project that empowers each of our 30,000 employees to establish their own purposes. This project helps each participant engage in discussion with their colleagues to develop their own understanding of "Beyond Finance." In this way, we are encouraging employees to formulate their own purposes based on what they can do for a "Brighter Future." Through these and other initiatives, we strive to empower employees to discover resonance between their individual values and the Purpose, as we believe that doing so will be the most effective way of entrenching it in our culture.

We also distribute messages from top management while airing TV commercials and otherwise employing various media outlets. Recently, we became a title partner for B.LEAGUE, a professional male basketball league in Japan. This is yet another profound example of our efforts to disseminate our Purpose.

We also feel the need to clarify that all of our in-house initiatives and rules must be designed to facilitate the realization of the Purpose and the Long-Term Vision. To that end, we have updated our risk appetite statement and incorporated new clauses that position our risk appetite framework (RAF) as a framework that supports the realization of our Purpose and Corporate Mission. Also, I think it is important that every Group member is provided with details on how these and other frameworks, including that for

customer-oriented business conduct, are linked with the Purpose and the Long-Term Vision.

Nozaki It is understandable that the main focus of the RAF is risk management. However, I think that updating each component of the RAF in light of its linkage with the Purpose is also vital. This updating process should also involve a thorough review of the Group's mode of business operations. In addition, care should be taken that the Group's principles of customer-oriented business conduct do not devolve into a set of rules to which only lip service is paid. The genuine aim of these principles must not fall by the wayside. Moreover, I believe that linking the evaluation of employee performance with the degree of achievement in realizing the Purpose is another matter of importance.

Ishida In terms of evaluating the performance of employees, we have reduced the weighting placed on quantitative evaluations and begun shifting our focus to assessing the processes by which they handle their tasks. Of course, we need to improve many aspects of our evaluation system, and we often struggle to find the best ways to do so. Nevertheless, we continue to strive to revise our system to ensure that employees are highly rated for doing what needs to be done, not just for achieving higher numerical results.

In addition, we will continue to update our RAF so that it not only serves as a single-purpose framework for risk management but also functions as a framework for supporting the allocation of management resources, including staffing and infrastructure, to realize the Purpose and the Long-Term Vision.

Nozaki I have heard that the Group is about to change the definition of revenue, on which the RAF is structured, to include such non-monetary elements as human capital and customer satisfaction. I am excited to see results of this initiative because none of the other financial institutions seem to have done anything like this.

What Direction Should We Take in Executing Human Resource Strategy and Human Capital Reforms?

Nozaki I would also like to hear your thoughts on human capital reforms. For financial institutions, the design of incentives is key and needs consideration. Furthermore, reskilling and upskilling are important aspects of the skill development support extended to employees and it is essential to enhance the mobility of human resources across the board. In this regard, it is good for the Resona Group to facilitate human resource exchanges involving various entities, including those outside the Group.

In terms of incentive design, I consider share-based compensation to be quite promising. To ensure that shareholders and employees share the same values despite representing two different stakeholder groups, enabling the latter to become shareholders is

instrumental. This should be done via the use of schemes other than the employee stockholding association. Based on this perspective, do you have a plan to expand the scope of individuals eligible for share-based compensation?

Ishida For employees, being exposed to expertise in unfamiliar fields can be quite beneficial, be it via reskilling or up-skilling programs.

Currently, the Group's human resource strategy places strong focus on enabling employees to undergo "boundary-transcending" programs. We are therefore encouraging them to put themselves forward to take advantage of in-house and external opportunities to this end. At present, most employees tend to remain at the same department for many years as a growing volume of the tasks they handle require increasingly specialized skills. This is exactly why facilitating interactions among departments and entities is now more important than ever. We believe that enabling employees to transcend all sorts of boundaries will help the Group best leverage strengths arising from the diversity and other aspects of its human resource portfolio.

The success of a financial institution ultimately hinges on the capabilities of its human resources. Accordingly, the company cannot grow unless each employee achieves growth. With this in mind, we have set a specific target of raising the ratio of mid-career hires and others with "boundary-transcending" experience to the overall number of newly appointed senior managers to 100% by the end of FY2030.

Currently, we provide share-based compensation only to officers even though I consider granting similar compensation to employees to be a promising option. I think, however, that the Group should continuously study the possibility of such compensation.

Nozaki I found the "boundary-transcending" initiatives undertaken by the Group to be quite instrumental, as these are not merely intended to facilitate job rotation with the aim of nurturing generalists but to expose employees to fresh insights.

Mr. Hosoya, former Chairman, stated that "bankers' norms do not necessarily coincide with the common-sense ideas held by external people." The Group now seems to be expanding this concept to incorporate external perspectives. I see this move in a positive light.

In addition, a company should not hinder employees in their pursuit of external opportunities to achieve personal growth. This is why proactively hiring alumni is so important. The Resona Group should work to enhance the attractiveness of its organization so that its ex-employees can rediscover the positive aspects of working at the Group after gaining external experience and develop a desire to be reinstated.

Ishida We also focus on hiring alumni. To date, there have been a number of individuals who have chosen to rejoin the Group after leaving it. Currently, we are striving to help these and other alumni develop a network among themselves. This network is expected to help mitigate psychological barriers that ex-employees may confront when considering applying for positions at the Group.

Our Thoughts after the Dialogue



Nozaki I have seen that "Hosoya-ism" has taken deep root at the Resona Group and supplanted "bankers' common sense" in guiding its efforts to completely reform services one after another. This phenomenon helped me to discard the preconception that "banks cannot change" and see their potential.

Moreover, structural reforms undertaken by the Group in the past, including those related to branch layouts, are now serving as models for other banks. Looking ahead, I would like to see the Group leading the entire industry as it embodies its "Beyond Finance" concept in the ongoing pursuit of innovation and value creation while serving as a role model for not only banks but other financial groups. I will continue to cheer on its endeavors.

Ishida I feel that the professor's remarks are representative of the expectations many stakeholders have with regard to the Resona Group. I think it's important that we continuously strive to live up to these expectations.

What enables Resona to remain viable is the support of its stakeholders. Accordingly, we will leverage our "DNA of Reform" cultivated over many years and prove ourselves to be a financial group capable of staying on the cutting edge. I would ask stakeholders to take a good look at how we intend to evolve, especially amid a major shift in the business environment. Thank you very much.

* Based on the full enforcement of the finalized Basel 3 regulations; excluding net unrealized gains on available-for-sale securities