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Q&A Summary

Presenters

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Q1. (Page 28) **Resona Cashless Platform (RCP) services launched in November 2018**: According to the presentation material, around 6,000 stores are expected to install settlement terminals that Resona will provide free of charge. Does this number exceed or fall short of your original estimate? Also, please tell us about your outlook for the future expansion of this service. In addition, we have heard that other financial institutions are considering following Resona's lead in providing such terminals free of charge. With this in mind, please discuss Resona's competitive advantages.

A1. The number of stores which will use RCP service is just as expected. Despite having drawn attention to this number in the material, our intention has been to provide this service to not only large corporations but also small- and medium-sized enterprises (SMEs) that we seek to benefit in anticipation of government-led return policies slated for execution following the planned consumption tax hike. Thus far, around 90 corporations have signed up for the service and plans call for increasing this number to 500 by the end of the fiscal year ending March 31, 2020. Although we are aware that other financial institutions have similar services in the works, we are confident about the competitiveness of RCP as it provides wallet services compatible with loyalty point services and other programs run by merchants. As such, the service we provide is far more than a simple distribution of settlement terminals free of charge; it is also a white-label service that brings benefits to both SME retailers and their consumers. This is one of reasons why our service is praised. Further, we have received inquiries regarding the service from a number of regional financial institutions and are encouraging these institutions to sign up for it.

Q2. (Page 33) **The balance of apartment loans**: The balance of these loans decreased from JPY3.59 trillion to JPY3.53 trillion. What are your future policies for these loans? Also, please tell us the total for the loans Resona has provided for subleasing schemes. In your opinion, is Resona free of problems in this area as its loan screening does not rely solely on subleasing schemes?

A2. Our screening utilizes future rent prediction systems while giving due consideration to the real estate market conditions. In the course of screening, we also assume real estate income and expenses based on stress testing. Moreover, the financial assets to be taken into account are, in principle, assets under the Resona Group's management. Thanks to these rules, our screening criteria have been made quite strict. Currently, the balance of apartment loans accounts for about 10% of all loans, which total JPY36 trillion. Of these, loans furnished to the apartments built by the largest subleasing operator in terms of the balance of such loans we have extended, account for 10 to 15% of the entire apartment loan portfolio. The coverage ratio for these loans is over 80%. In sum, Resona's loans for apartment and condominium operations are characterized by stringent screening, which ensures a high recovery rate. Looking ahead, we will maintain firm grip on these loans while paying close attention to conditions in the real estate market, demographic trends and the competitive environment.

Q3. **Outlook for credit cycles:** What are your projections for gross credit cycles and Probability of Default (PD) associated with domestic corporate customers? If you foresee PD growing, could you explain the contributing factors and background to said expectation?

A3. When setting the level of assumed stress, we must factor in short-term fallout from the US-China trade friction as well as the medium- to long-term impacts of the Osaka Expo and Tokyo Olympic games. Also, we will need to take into account possible future structural changes. The PD ratio itself is showing overall improvement, with the balance of risk weighted assets down JPY600 billion due to decreases in credit risk-related parameters. However, PD must be assessed in a meticulous manner, with close attention paid to sector- and region-specific conditions. In this sense, although we have not seen significant deterioration thus far, trends in the textile and food service industries seem to be diverging from the norm. We will engage in an ongoing analysis of these conditions while giving due consideration to stress scenarios and the results of macro and micro economy statistics. We will reflect the knowledge gained from these activities in screening process and loan monitoring, with the aim of robustly controlling credit costs.

Q4. **Resona's domestic banking operations and its relations with regional banks:** The Resona Group includes regional banks. What are your views on the status of domestic banking?

A4. Our business model shares a number of similarities with that of regional banks. Accordingly, we cannot consider the issues they are now confronting as somebody else's problem. As we need to engage in banking based on the assumption that the negative interest rate environment will continue going forward, we must shift our business model to increase the proportion of fee businesses. Specifically, we need to focus on steadily expanding recurring fee businesses rather than engaging in those that are highly volatile. In other words, we are working to break away from a business model dependent on net interest income at the earliest possible date. There remains much to be done to this end. In addition to increasing the number of branches that open on holidays, we must comprehensively reform our human resource development systems.

Having initiated recurring fee services, we found the need for our services to be strong. For example, our cashless platform service also serves as a de facto IT consulting service for retail industry constituents, and we promote this service as such. We are anticipating ever growing demand for services of this kind.

Q5. **RCP:** The RCP service reportedly made a strong start—what is the most notable advantage of such a service being provided by a bank rather than a card company?

A5. RCP is a service tailored to meet needs among corporate customers, especially SMEs. In this light, banks are advantageously positioned as they typically maintain a large volume of transactions with SMEs. Domestic corporations total nearly 4 million and the Resona Group maintains transactions with approximately 500,000 of them. Instead of creating a new settlement method, Resona intends to assist these customers with their efforts to be responsive to various settlement methods. For example, we would like to relieve them of the burden of simultaneously maintaining three or four different settlement terminals. Moreover, we do not intend to stop with providing a settlement service; we are capable of offering innovative, data-driven solutions that we, as a bank, are particularly well-positioned to deliver as we accumulate data on the movement of cash. This is another of Resona's advantages.

Q6. (Page 22) **Digitalization:** What is the size of investment in Resona's new branch system? Also, what positive effects do you expect from the launch of the new branch system in terms of cost reduction?

A6. (Page 34) We have succeeded in halving the volume of clerical work via operational reforms undertaken from the fiscal year ended March 2005 to the fiscal year ended March 2016. We aim to halve the workload again by the end of the fiscal year ending March 2022. To this end, digitalization efforts and branch reforms are now under way. I would like to refrain from announcing a specific number regarding total investment as this would include investment in information systems in addition to branch reforms. However, we expect an ROI of approximately 33%, taking into account the amount invested and running costs, due to the optimization of staffing and the streamlining of operational centers. After including costs associated with branch downsizing, overall ROI is expected to amount to approximately 15%.

Q7. (Page 13) **Non-performing loans:** Although the balance of disclosed claims dropped compared with March 31, 2018, it rose again from September 30. Has there been a notable change in the environment from the start of the second half? Are you planning to implement any measures to prevent an increase in disclosed claims?

A7. In the first half, some large borrowers were upwardly reclassified. This resulted in the previous decrease in disclosed claims. At the same time, operating results for the second half incorporated the downward reclassification of a large borrower due to its application for the Business Reconstruction ADR in connection with corporate rehabilitation. Thus, although the balance of these claims seems to be fluctuating, the balance of loans classified as “special attention loans” or with even lower classifications is actually decreasing. We are convinced that, overall, our control over these loans is appropriate. We will stay committed to exercising such control.

Q8. **Branch strategies:** Although we were told that branches are playing an important role in Resona’s strategies, do you think that the Company’s current branch strategies can eventually eliminate future impairment risk? What are the key factors that will affect the success of these strategies?

A8. Our branch strategies are not necessarily considered countermeasures against impairment risk. Rather, we consider these strategies important in terms of customer services. Previously, Resona recognized considerable impairment losses soon after it received public funds. Looking ahead, we may possibly relocate some branches in the course of geographically optimizing the Group’s overall branch portfolio. Although such relocations may result in certain impairment losses, we expect such losses to be insignificant. Generally, our branch strategies are being discussed in the broader context of channel strategies aimed at enhancing our customer services.

Q9. Many regional financial institutions are struggling in the current harsh environment. What advantages do you think Resona has? Do the Company’s strengths lie in its regional sales network, size of businesses or management strategies?

Q9. Our strengths are attributable to the combination of a robust regional network, strong business foundations and optimal management strategies. With regard to our regional sales network, we maintain footholds in the Kanto and Kansai regions, both of which boast massive concentrations of economic activity. This network enables us to practice a locally rooted business management approach and thereby supports our strength. In addition, although we would never categorically state that the size of a corporation is definitive, we are convinced that a large corporate group is better positioned to take advantage of a broader range of options in terms of strategic investments, such as IT investment. Going forward, we will therefore take full advantage of our size when opportunities arise. Also, the size of the customer base is key to developing recurring fee businesses. Resona already boasts a large number of customers, and we will better utilize this robust customer base while swiftly adapting to a rapidly evolving management environment in order to seize business opportunities.

Q10. Resona is expected to play a leading role in the reorganization of regional financial institutions. Do you think that Resona's longstanding regional network in Osaka served as a key factor supporting steady progress in management integration with Kansai Mirai Financial Group (KMFG)? Also, please tell us your thoughts on the volume of integration-related tasks being undertaken in the recent one year.

A10. Clerical work process will be totally different after system integration. This involves such tasks as employee training and will not been an easy thing. However, we possess a wealth of past experience and know-how regarding system integration. In addition, partnerships with regional financial institutions do not necessarily require capital relationships. We will focus on promoting the mutual utilization of each other's functions and customer bases in the course of developing more robust partnerships.

Q11. **Evaluation of branch performance:** As part of its real channel strategies, the Company has announced a policy of maintaining a flexible approach to branch management. In this light, what changes do you intend to make in performance evaluation systems for branches? Do you intend to unify the evaluation systems now in place in Resona and KMFG branches?

A11. We expect the volume of clerical work undertaken at branches to decrease, eventually becoming nearly non-existent due to digitalization. In this way, each branch will become a base specializing in face-to-face consultation. Because of this, our evaluation system will have to focus more on how many contact points with customers each branch can maintain. Short-term performance evaluations will no longer be relevant. Our current system gives equal weight to performance in the short and medium to long

terms, so we are considering placing stronger focus on the latter. In addition, we have made it a rule to incorporate customer evaluations. Discussions are now under way to revise our system in a way that places more emphasis on customer evaluation.
(Answer by Mr. Kan from KMFG): Just as KMFG intends to introduce clerical work procedures and systems that are the same as those used at Resona, the company will embrace, in general, the same policy as Resona in terms of performance evaluation systems. However, we will also give due consideration to the regional characteristics of the areas in which we operate.

Q12. (Page 36) **Capital management:** Resona met its capital adequacy ratio target while its targeted ROE of 10% appears to be achievable. I do not expect any downside to its credit ratings, either. Although Resona's projected total shareholder return ratio for the fiscal year ending in March 2020 rises to 36.7%, this ratio is still relatively low. If Resona is to raise this ratio to around 50%, the Company must expend approximately JPY30 billion in share repurchases. In the medium to long term, does Resona aim to raise its total shareholder return ratio to around 40%? Also, do you have any future plan to regularly undertake share repurchases of around JPY10 billion?

A12. This theme will be specifically addressed in the course of formulating the next medium-term management plan. It is important to identify the level of sustainable profit. Giving consideration to such factors as shifts in credit cycles, we must also further increase our capital adequacy ratio. Nonetheless, our policy of striking a good balance among enhancing capital adequacy ratio, undertaking growth investment and enlarging shareholder returns remains unchanged. Looking ahead, we will thoroughly discuss the best form of shareholder returns, including the possibility of share repurchases.

Q13. (Page 33) **Apartment loans:** Reflecting the aging of borrowers, there will be changes in property owners, for example, through inheritance. How do you evaluate risks arising from the higher average age of borrowers?

A13. We have seen borrowers in their 70s being strongly motivated to engage in property operations. We refrain from simple judgments based on borrower age. Most of our customers engaged in apartment operations keep an eye to future needs with regard to succession while seeking the council of their families. Furthermore, these borrowers are sometimes better positioned to undertake property maintenance and other day-to-day tasks than those concurrently serving as property owners and salaried workers. Accordingly, we see no specific problems arising from borrower age.

Q14. **Status of KMFG from the viewpoint of Resona Holdings:** KMFG failed to meet its profit target in the first fiscal year since its inauguration. Moreover, the company downwardly revised its profit target for the second fiscal year. In order to facilitate the realization of synergies, shouldn’t Resona Holdings intervene as soon as possible?

A14. We believe that we have succeeded in expediting the integration with KMFG. That said, we actually spent a significant period of time in the first fiscal year after the inauguration developing basic platforms and discussing how to promote system integration. These activities could have been conducted more speedily. On the other hand, we succeeded in accomplishing a faster-than-expected integration of sales. For example, personnel exchanges have been very smooth. Moreover, as stated in page 12, year-on-year growth in the number of succession-related contracts newly acquired by KMFG amounted to 30%, well in excess of growth recorded by Resona Bank or Saitama Resona Bank. Although it takes some time until the Group begins to enjoy notable growth in profit, we nevertheless believe that we have made steady progress in our efforts aimed at pushing ahead with the integration process and realizing synergies.

Q15. Resona’s consolidated net income guidance for the fiscal year ending March 31, 2020 includes a swing increase of approximately JPY25 billion in the absence of the loss incurred to enhance the soundness of securities portfolio recorded in the previous fiscal year. This illustrates the fact that it can take a considerable period of time until various initiatives undertaken by the Company begin to take effect. Amidst these circumstances, Resona aims to achieve the targeted CET1 ratio of 9% ahead of schedule. The same ratio adjusted to reflect the finalized Basel 3 rules will also exceed the targeted 9% level in a year. Therefore, I think the Company will enter the phase in which it intends to allocate more to growth investment and shareholder returns. To this end, do you intend to upwardly revise your capital adequacy ratio target? If you were to increase growth investment going forward, what fields would you focus on?

A15. Our profit guidance for the current year reflects our recognition of severe operating environment. In principle, we will continue to apply “equal-weight” allocation policy, equally allocating our periodic profits to 1) investment for future growth, 2) strengthening of capital and 3) enlargement of shareholder return. In the current fiscal year, we must pay close attention to the timing of shifts in credit cycles. Accordingly, we must be ever more vigilant. In the face of a radically evolving environment, we will continue to swiftly execute various initiatives.

Q16. **RCP:** What benefits can merchants expect to enjoy when they chose Resona’s services? Please specify factors other than cost effectiveness.

A16. It has been only three months since the full-fledged launch of RCP, but we have received a number of inquiries from a variety of customers. As I mentioned earlier, Resona’s strength derives from its wealth of data on the movement of cash. Furthermore, our service stability represents a strength that is unique to banks. Although we will continue to provide our RCP service with lower fees, we will also strive to let our customers know about other benefits users can enjoy and the uniqueness of RCP as a service run directly by a bank.