Financial Results Presentation Meeting on May 18, 2020
Q&A Summary

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

Q1. Please explain why you were appointed to take over from Mr. Higashi as president. Also, could you share your thoughts with regard to what the Board of Directors is expecting of you?

A1. I believe Resona has to adapt to changes in the business environment. That's the main reason why I was appointed. In addition to structural changes in society and the economy, we have seen the astonishing advance of digital and other technologies that will trigger radical changes, including in customer behavior, in the area of finance.

Amid these circumstances, I believe that we must reexamine the strengths Resona has accumulated to date while promoting a transition to data-driven digital operations, that is, broadly speaking, the across-the-board digitalization of our businesses, with the aim of meeting the needs of the next generation.

Q2. Please share your views on the issues Resona must tackle in the medium to long term going forward. Also, can you tell us your policies on addressing such issues?

A2. I think the business environment is extremely harsh and the primary factor contributing to such an environment is, in my opinion, a substantial discrepancy between the current level of profit available to Resona and the cost structure the Company has maintained. Retail banking is, and has always been, an inherently high-cost endeavor. We must therefore bring together new ideas and technologies to change this structure. I discussed “the restructuring of five businesses” in my presentation, and the reform of our business structure is indeed a matter of critical importance.

In the short term, we are confident that by reinforcing our human resources in terms of quality and quantity and providing consultation services to Resona's robust retail banking customer base we will secure greater profit in the field of business and asset succession. Also, we believe that it is quite rational and promising to provide the Resona Cashless Platform (RCP), commonly known as a "B to B to C" business, to our corporate customer base amid significant market changes happening in the settlement business. Therefore, Resona still has a lot of room for securing opportunities in this field via efforts to promote RCP.

In the medium to long term, we will strive to integrate our face-to-face channel network, which consists of more than 800 branches in the Tokyo metropolitan and Kansai areas and supports Resona's distinctive strengths, and digital channels that are expected to attract half a million customers over the next three years. This is a major task and requires a transition to data-driven operations. To accomplish this, we will transform the sales approach vis-à-vis face-to-face channels while simultaneously reducing costs. Furthermore, we will push ahead with operational process reforms aimed at ensuring all staff are capable of providing consulting services.

I have also touched on the Cross Functional Team (CFT) we have launched. In addition to pursuing new services in our areas of strength, we must develop a new, solid business model from the ground up. Also, our digitalization initiatives include promoting the "API economy." Specifically, we aim to act in collaboration with regional banks as well as external partners from other industries via the use of open platforms. In these ways, we will take on the challenge of seizing new profit opportunities.

Q3. (Page 41 of the presentation material) As part of Resona's capital management policies, the Company aims to secure a common equity tier 1 (CET1) ratio of approximately 10%. What are your assumptions with regard to the level of risk-weighted assets (RWAs)? Also, although the CET1 ratio target is set for March 31, 2023, why didn't you specifically define the timeline for accomplishing a total shareholder return ratio target of in the mid-40% range, instead merely stating that the Company aims to achieve it in “the medium term?”

A3. Our assumption for total RWA in fiscal 2022 is just over ¥21 trillion. The targeted total shareholder return ratio of in the mid-40% range was set with consideration given to capital accumulation in the period since Resona completed the repayment of public funds five years ago.

One of the issues is that we need to control the number of outstanding shares over the medium to long term, which will allow us to secure more flexibility regarding dividend payout. Although we cannot digitally define our timeline for achieving a target total shareholder return ratio, we expect that the ratio of in the mid-40% range will be achievable in the final year of the medium-term management plan, or shortly thereafter.

Secondly, we must pay attention to the impact of the novel coronavirus pandemic, a major factor contributing to uncertainty. We assume that the spread of the virus will lose momentum and be contained by the end of the first half of fiscal 2020 while anticipating that there will be no major resurgence, or so-called “second wave.” Based on these assumptions, we will closely monitor the pandemic’s impact, the trajectory and pace of economic recovery and Resona’s profitability and financial soundness even as we maintain a proactive stance toward enhancing shareholder returns.

Q4. (Page 28 of the presentation material) Asset succession is an area of growing need, and megabanks, regional banks, securities companies and other specialist firms are stepping up to get involved in this business. Amid this environment, could you describe the Resona Group’s competitive advantages in this field? Although your policy of reinforcing staff specializing in succession is understandable, do you have any other plans to carry out concrete measures aimed at securing greater profit?

A4. Under the new medium-term management plan, the succession business is positioned as a driver for securing greater fee income. The Resona Group boasts a robust retail banking customer base, consisting of 16 million individual customers and 500,000 corporate customers, as well as sophisticated, full-line trust banking capabilities, putting it in possession of the significant advantages arising from the combination of these two major assets. We aim to almost double the number of real estate and M&A deals from the current levels and will also allocate a significant number of additional staff to achieve this goal.

The analysis of our latest data revealed that approximately half the potential transactional deals we handled did not reach closing. We will address this issue by reinforcing our human resources and striving to bring to closing the greatest possible number of potential deals.

Q5. Resona's roadmap for securing profit under the medium-term management plan seems to be based on the assumption that, in the post-pandemic period, cashless payment will gain in popularity. However, it can also be argued that stagnant consumption in the post-pandemic period may result in a deceleration in the current shift to cashless payment. What are your plans for securing new customers in B to C businesses and increasing the volume of transactions in said period?

A5. There are a variety of opinions regarding the nature of the impact the pandemic will have on the popularization of cashless payment and on how swiftly this impact will be felt. Nevertheless, with regard to the settlement business, we anticipate significant progress in our initiatives to promote RCP, a platform we have already released. Even though the transaction amount being processed via RCP remains low to date, we believe that it should increase to approximately ¥1,500 billion going forward. This will, in turn, result in an approximately ¥5.0 billion increase in profit.

Looking at individual customers, the amount of debit card transactions can also be significant. We anticipate that this, currently totaling ¥160.0 billion, will rise to nearly ¥300.0 billion. The annual number of new account openings totals approximately 500,000 on a consolidated basis, and we are providing each new customer with a cash card equipped with debit card functions. We are doing so with the expectation that debit card payment will gain considerable popularity going forward.

Q6. With regard to expenses, we understand Resona’s initiatives to improve productivity and thereby achieve greater efficiency. On the other hand, what are the assumptions underlying Resona’s investment plans aimed at securing growth in top-line income?

A6. As we aim to step up system investment for strategic purposes, we are anticipating that funds earmarked for such forward-looking investment will account for more than 60% of our system investment budget for a while. Although this won’t necessarily result in a sudden inflation in the budget, we certainly expect that, through the major overhaul of our system platforms (as described in page 39 of the presentation material), we will reduce operational costs and significantly accelerate the pace of system development. We will therefore be able to rapidly update various system functions and quickly release new products and services.

Q7.I am interested in your views on the level Resona must achieve in terms of expenses over the long term, for example, in 2030. Having heard of your determination to break away from the traditional, inherently high-cost operational structure of a retail business, we would like to also know about your business plans for the period after the completion of the three-year medium-term management plan. Moreover, what are your thoughts on inorganic and organic measures Resona will undertake to curb the cost-to-income ratio going forward?

A7. I believe we must push ahead with the reform of operational processes. Resona indeed has a good track record with regard to making significant reductions in costs; nevertheless, we are taking on reforms that employ new ideas and approaches. So, our back-office operations, which are currently supported by more than 10,000 clerical work specialists, will undergo drastic structural change.

Simply put, we aim to realize branches in which consulting services and banking procedures are integrated so that on-site clerical work goes to zero. This is a major point of our reforms.

Accordingly, we will eliminate redundant operational processes while simultaneously promoting digitalization. Based on these measures, we are planning a drastic overhaul of our system infrastructure and platforms (as described in page 39 of the presentation material), which should lead to considerable reduction in system costs.

As I mentioned earlier, Resona is confronting a large discrepancy between its current level of profitability and its cost structure. To resolve this issue, we aim to drastically improve our cost structure via operational process reforms and system overhauling. Although it may take some time to do so, we will steadfastly endeavor to transform our cost structure.

Q8. (Another question regarding the same subject) Please explain the positioning of the consolidated cost income ratio target of 60% under the medium-term management plan. Is it the final target or an interim target?

A8. Our three-year target for consolidated cost income ratio doesn’t necessarily factor in the expected effect of CFT initiatives employing new ideas and approaches. These initiatives are actually not expected to exert a major effect until the three-year period has passed. Therefore, our ultimate goal is to reduce our cost-income ratio to even less than 60% and steadily keep it at this level in the retail-banking businesses via efforts to transform our cost structure.

Q9. Please explain your assumptions and thoughts regarding credit costs. What is your estimate of how long it will take for the economy to recover after the containment of the novel coronavirus? Do you expect to see economic recovery immediately upon the containment of the virus or do you think it will take longer, like three to six months? Also, don’t you think the economy will never fully recover after the containment of the virus?

A9. Although the novel coronavirus pandemic is contributing to uncertainty in so many major ways, we do expect the spread of the virus to decelerate and be somewhat contained by the end of the first half of fiscal 2020. On the other hand, we anticipate that the trajectory and pace of economic recovery will be less than robust. A “V” shaped recovery is unlikely. Moreover, the decline in domestic demand is expected to be extreme as the pandemic’s impact on employment materializes. Although we hope for the earliest possible containment of the virus, we should be prepared to deal with the ongoing negative impact of the pandemic for two years or so going forward.

Q10. With regard to business alliances with regional banks, does Resona intend to enter capital alliances when proposed by these banks? If answer is yes, what conditions do you set to accept such proposal?

A10. First and foremost, each business alliance must be formed in a way that benefits to both Resona and its partner bank. Amid the radical evolution of technologies, we have seen the emergence of new schemes, such as the API economy, capable of providing customers with an even broader range of products and services in a steady manner. Thanks to these trends, banks are now becoming able to form alliances with regional financial institutions under a novel framework and engage in strategic collaboration with partners from other industries. I think there is a growing shift away from the previous business alliance model, which required a capital relationship or systems integration.

This doesn’t mean, however, that we would reject any proposals for capital alliances. We intend to engage in ongoing, open discussion with regional financial institutions based in the Tokyo metropolitan and Kansai areas and others in areas near Resona Group operational bases. We do hope to work with them on various fronts, including collaboration in non face-to-face channels via the use of ever-advancing technologies.

Q11. Do you have any concerns about the possible negative effects of overlaps between Kansai Mirai Financial Group (KMFG) and other Resona Group banks in terms of customer base and areas of profit? Also, how do you plan to establish a KMFG brand while ensuring that all Group banks coexist harmoniously?

A11. The Resona Group aims to penetrate and expand its share in the Osaka market. This is the matter of extreme importance. In addition, we don’t believe the overlap in Resona’s customer base and KMFG’s customer base is significant. As we have already completed the system integration process for Kansai Mirai Bank (KMB), we will go on to pursue cost reduction effects arising from this integration. Moreover, a robust lineup of leading-edge Resona Group products and services is now accessible to KMFG’s customers. We will encourage KMFG to fully take advantage of this lineup and thereby enhance the Resona Group’s market presence in Osaka by taking a balanced approach that promotes both “co-creation” and “collaboration.” In sum, Resona will continue to act in collaboration with KMFG and steadily promote operational integration on many fronts, including back-office operations.

Q12. Resona’s stated goals under the new medium-term management plan include raising net income attributable to owners of the parent to ¥160.0 billion in three years and thereby securing it at a level on par with the pre-pandemic period while stably enhancing shareholder returns. Looking at the outcomes of the previous medium-term management plan, Resona hasn’t met any of its targets except those associated with shareholder returns. We actually believe that the previous plan’s initial targets were too ambitious and little more than what Resona would have actually achieved even in the absence of the novel coronavirus pandemic, which emerged in the plan’s final year. Now we hear that the new medium-term management plan aims to achieve considerable growth in fee income, which we believe also constitutes quite an ambitious target. Could you elaborate on your initiatives aimed at achieving this target and explain the differences between such initiatives and those implemented under the previous management plan?

A12. In the succession business, we have seen considerable need for the smooth succession of assets and businesses to the next generation. We are quite well-positioned in this field to take full advantage of our functional strengths, such as retail banking platforms, full-line trust bank capabilities and asset management functions. In addition, we also believe that success in this field hinges on maintaining a robust pool of sales staff in terms of both quality and quantity and securing a large number of potential deals. Accordingly, we will direct our management resources as soon as possible toward the qualitative enhancement of our human resources and the establishment of a structure that helps them gain swift access to sales leads. Our success in these twofold efforts will certainly result in significant profit growth.

In the settlement business, we are currently looking to achieve growth via the use of a number of business frameworks built under the previous medium-term management plan. For example, RCP has already secured a stable foothold and is currently expected to attract a greater number of customers from a variety of demographic segments and thereby become a profit contributor going forward. With this in mind, we will go on to pursue quantitative expansion via RCP and secure steady business growth. Of course, we also expect to see a considerable increase in settlement profit.

Lastly, we anticipate growing synergies arising from the integration with KMFG. Furthermore, as we intend to broaden the scope of collaboration with regional banks, we expect to meet new profit opportunities in the course of sharing information and otherwise working with them.

Q13. Could you describe how much forward-looking reserve has been included in credit-related expenses for fiscal 2020 forecasts?

A13. Given the extremely uncertain external conditions, we formulated our forecasts for credit-related expenses based on the certain assumptions. For fiscal 2020, we specified sectors that are likely to be directly affected by the novel coronavirus pandemic, for example, the restaurant, retail and accommodation industries. We then assumed that the negative financial impact of the pandemic would materialize in these industries, especially with regard to the performance of businesses that are relatively small in size or weak in financial position. These are our assumptions for estimating credit-related expenses. In the course of this estimation, we employed a forward-looking perspective as we currently believe that the impact of the novel coronavirus is likely to linger for around two years going forward.

Q14. Do you think Resona is relatively more vulnerable to the impact of the novel coronavirus, or do you think the opposite is true? Generally speaking, retail banking customers hold relatively weaker financial positions. Resona is therefore exposed to such risks as credit costs arising from this customer characteristic and a larger workload. On the other hand, Resona seems to not be vulnerable due to limited overseas exposure and housing loans that account for a high proportion in its loan portfolio. Could you also share your views on comparisons between Resona and regional banks in this regard?

A14. In comparison with megabanks, Resona is, as you pointed out, better positioned with regard to credit risks as low credit risk housing loans account for approximately 45% of the current portfolio and it has limited overseas exposure. Furthermore, compared with the period prior to the worldwide recession triggered by the Lehman Brothers bankruptcy, Resona has seen a significant improvement in the quality of its lending portfolio. In addition, our portfolio is well-diversified and encompasses a number of small accounts. This can, we believe, greatly help us mitigate risks arising from the current crisis. We think that the pandemic’s impact on Resona’s performance is manageable due to the aforementioned reasons.

We must consider a number of factors when comparing Resona and regional banks. We believe that our expectation of an approximately 20 bps credit-related expense ratio to corporate lending portfolio for fiscal 2020 is likely conservative, considering the characteristics and quality of our lending portfolio.

In addition, compared with key regional banks, Resona has not to date achieved impressive growth in its lending balance. However, Resona's staff has always been conscious of the qualitative aspect of operations, including the provision of credits, day in and day out. We expect the effects of these steadfast efforts to eventually help us make a big difference among our peers in the industry.