Investor Relations Meeting on November 17, 2020
Q&A Summary

Presenter
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Q1. Please share any significant realizations or thought you may have had since assuming office, particularly in light of changes in society due to the influence of the COVID-19 pandemic. Specifically, please elaborate on your thoughts with regard to (1) Resona's medium- to long-term strategies and visions in this environment; (2) issues that must be addressed to achieve such visions and shortfalls the Company must overcome; and (3) concrete initiatives you have already launched or you are considering to launch.

A1. First off, there are gaps between the earnings power of our operations and the cost structure of the systems and processes supporting them. These gaps constitute our foremost issue. Amid ongoing changes in society, this problem also applies to the entirety of Japan's financial industry. Although Resona's sales personnel and back-office staff currently number approximately 5,000 and 20,000, respectively, we intend to overhaul our business processes, including the way we utilize this workforce, with the aim of rebuilding it in order to drastically improve our current cost structure.

We have seen our traditional norms and value systems utterly shaken by the COVID-19 pandemic. With this in mind, we are striving to assess new challenges our customers are now confronting as well as emerging social issues in the COVID-19 era, to this end, for example, sending out questionnaires to our corporate customers. In any case, I am confident that the Resona Group will be able to seize considerable business opportunities in this situation by employing its customer base and financial functions. I also consider the future direction of the Group's strategies for digitalization to be pretty much on-trend with the business environment.

In the first half, we have focused on accommodating customer requests for fundraising assistance. Going forward, we will shift our focus to providing robust solutions that accurately meet the needs of customers in light of changes in business challenges they typically face and newly emerging issues that will confront our society in the post-pandemic era. Securing success in this endeavor will be a matter of crucial importance.

In sum, we intend to steadfastly accommodate individual customer needs while taking full advantage of our own strengths as well as additional organizational functions acquired via external collaboration as we strive to help resolve issues confronting our customers.

Q2. Please offer your opinions on policies recently announced by the Bank of Japan (BOJ) with regard to “Special Deposit Facility”. Is it correct that this system should apply only to Kansai Mirai Financial Group (KMFG), and that since the Resona Group’s recent move toward making KMFG a wholly-owned subsidiary will result in just a change in Resona’s ownership proportion of KMFG, Resona’s focus will be placed on improving OHR and expenses to meet BOJ standards for said system? Do you think regional financial institutions can be incentivized by this BOJ announcement or other government measures, such as those aimed at encouraging mergers via subsidization, to vigorously pursue M&A opportunities? Do you expect these government measures to affect Resona’s management strategies going forward in these or other ways?

A2. As you have pointed out, said system applies only to two banks under KMFG. No matter how this system will be, we will just focus on rallying the entire strength of the Group to steadily promote cost structure reforms. That being said, I consider a BOJ initiative of this kind to be significantly valuable.

When it comes to how much government measures will incentivize the reorganization of the banking industry, I believe that financial institutions will be unlikely to choose to merge together unless they are sure about securing a “win-win” relationship with their merger partners. Therefore, the success of these assistance measures hinges on whether said measures can help create such advantageous situations for financial institutions.

Q3. We are sufficiently informed that Resona's shareholder return policy remains unchanged. However, do you really think that the Company will not be forced to push back its targeted timeline for achieving a total shareholder return ratio of 45%? For the time being, Resona must be focused on executing share buyback solely for the purpose of neutralizing the impact of dilution in EPS that result from share transactions aimed at making KMFG a wholly-owned subsidiary. What conditions does the Company require to enhance shareholder returns via share buyback?

A3. First of all, we need to accurately assess the magnitude of downside risks arising from COVID-19 pandemic fallout. However, we currently believe that the possibility of Resona's accomplishing its FY2020 performance target of ¥120.0 billion, which was announced in May, has gained strength.

On the other hand, we cannot comment on share buyback except that for neutralizing EPS. In the course of our ongoing efforts to raise our total shareholder return ratio to the mid-40% range in line with capital management policies under the medium-term management plan (MMP), we will discuss the optimal timing for reinstating our previous focus while giving due consideration to the status of profitability, capital adequacy ratio and other factors.

Although future developments regarding the COVID-19 pandemic, including the possibility of third and fourth waves, demand close attention, we currently believe that there will be no substantial delays in the timeline for achieving our targeted total shareholder return ratio.

Q4. Thanks to the effect of loans they have extended to businesses influenced by the fallout from the COVID-19 pandemic, some regional banks recorded growth in first-half profits for the first time in multiple fiscal years. However, Resona did not. What do you think is preventing the Company from enjoying similar profit growth? Would you point to, for example, Resona's unique lending portfolio composition as a causative factor?

A4. Our deposit and loan income in the first half was down ¥3.0 billion from the same period of the previous fiscal year. An analysis of this decrease in light of volume and interest-rate factors reveals that deposit and loan income would have been up ¥8.6 billion year on year had the assessment been based solely on volume, due to the accumulation of average balance of loans and bills discounted. However, unfavorable interest-rates resulted in a substantial ¥11.6 billion decrease in interest income and thus net deposit and loan income declined ¥3.0 billion year on year. In particular, our housing loans, which account for 45% of the overall lending portfolio, have been subject to an ongoing downward trend in yields. Moreover, lending to government-related institutions has grown approximately ¥1.5 trillion. Lending of this kind produces no yield.

As such, despite growth in the volume of lending, the interest rate situation has been somewhat harsh. However, please note that our deposit and loan income in the first half of FY2019 was down ¥5.4 billion year on year. Given this, it can be said that our situation is far better than what was seen a year earlier.

Q5. Looking at the overall regional banking sector, do you think industry reorganization can be accelerated by the recent government- or BOJ-led measures? Please share your general thoughts regarding this subject.

A5. I think that a series of stimulus measures may well provide underlying support for the regional banking sector. However, the fundamental focus of each bank must be placed on executing their own management strategies. Also, they must be concerned about the impact of reorganization on the interests of their local customers. That being said, I think that these measures will eventually serve as a catalyst encouraging the industry as a whole to reorganize.

Q6. In the first half, Resona's fee income ratio stood at 29.4%, an improvement from the 28% recorded in the first quarter. However, the volume of fee income is still down from the same period of the previous fiscal year. Although this can be attributable to such factors as a decline in flow-type revenues yielded via, for example, sales of financial products, could you provide your future outlook on fee income and plans to counter this decline? Furthermore, please share your thoughts on your road map for securing a fee income ratio of 35% in line with the MMP.

A6. In the first quarter, we struggled considerably to earn fee income due to restrictions on face-to-face sales activities. However, our performance returned to a recovery track from the second quarter onward and remained robust during the subsequent period leading up to November. On the other hand, fee income from insurance- and real estate-related operations declined more than 30% from the same period of the previous fiscal year. We consider it important to restore fee income from these operations.

On the other hand, based on findings from customer interviews we have just confirmed that there are robust needs for real estate-related solutions among the approximately 2,400 corporations questioned. This indicates that we may be able to secure a considerable number of potential deals associated with both sales and purchases of real estate. Moreover, we have already increased the number of staff charged with handling requests from professional investors by around 40. Having striven to assess customer needs for succession solutions, we have become confident about the significant growth potential of our M&A- and real estate-related operations. In addition, we have confirmed the existence of substantial needs for settlement- and lending-related services. Given that these operations are currently enjoying substantial growth, we will be able to secure robust fee income from these sources as well.

We have struggled in the first half indeed, but we expect our operating results to remain on an upward trend in the second half. It is pointless to get excited about every short-term outcome, whether positive or negative, as our aim is to achieve our three-year targets under the MMP. Nonetheless, we can conclude that our underlying capabilities supporting growth in fee income, including recurring and flow-type income, are steadily building up.

Q7. (Page 27 of the presentation material) It was announced that Resona is planning to establish an investment subsidiary specializing in assisting in business succession by the end of FY2020. What is your vision with regard to the annual number of investments in SMEs and the size of investments? In addition, although Resona's plan seems to be aimed at taking advantage of the partial relaxation of regulations on investment in business corporations, could you share your thoughts on the business opportunities you expect to see following the revision of regulations regarding the scope of businesses?

A7. As a matter of fact, we are planning to establish an investment subsidiary early next year. Also, we have already heard from several tens of interested corporate customers. Although we are not positioned to state the specific number or amount of investments, we intend to steadily accommodate customer requests once the subsidiary is launched.

We consider that the relaxation of regulations can be a major contributor to the creation of business opportunities. Our Cross Functional Team (CFT) is currently striving to reidentify promising fields in which Resona can seize new opportunities after deregulation. For example, we may be able to better serve regional trading companies. Accordingly, we welcome deregulation as it generally serves a tailwind for our business development initiatives, including those executed under the leadership of the CFT.

Q8. During the first half of FY2020, especially the first three months, Resona seems to have taken a conservative approach to provisioning loan loss reserves. Do you intend to maintain such an approach in the second half and beyond? If Resona takes a less prudent approach, may the Company well underestimate credit costs?

A8. In the face of fallout from the COVID-19 pandemic, we have focused on accurately assessing the status of our customers. In the first quarter, the ratio of progress against our full-year plan for credit cost quickly reached 31.8%. However, the customer situation has stabilized substantially from the second quarter onward. This is, we believe, thanks to the remarkable effects of government-led support measures aimed at supporting a broad range of sectors.

Against this backdrop, we have developed a robust support structure for serving well over 200 corporate customers categorized as main and sub-main borrowers. To this end, we established a new organization to steadfastly accommodate individual needs of major borrowers and other customers.

However, we have seen that the current financial position of some customers has deteriorated, causing them to fall into “Watch Obligors” category. Therefore, we are in no way optimistic about the future. While the impact of the COVID-19 pandemic is significant, we believe that a sense of anxiety about the prolongation of pandemic fallout will serve as the primary negative factor going forward. With this in mind, we will remain attentive to the status of our customers while paying close attention to the Company’s operating results for FY2020 and beyond.

Q9. Although Resona is actively extending fundraising support, what is your assessment regarding the expected proportion of lending to be replaced by capital loans? Please share your quantitative projection.

A9. We have actually extended fundraising support on an as-necessary basis even before the emergence of the pandemic. We have also launched a fund worth ¥10.0 billion in tandem with the Development Bank of Japan while working to establish a joint fund worth ¥5.0 billion via collaboration with Resona Capital, our affiliate. Furthermore, we have set a facility for subordinated capital loans totaling ¥5.0 billion. For these lending vehicles, we received inquiries from several corporate customers with whom we are currently engaged in negotiations.

Q10. In general, digitalization is believed to facilitate cost reductions and contribute to downward revisions of commission fees derived from operations other than business succession, such as settlement and remittance services as well as the sale of financial products, including insurance, in addition to housing loan-related operations. We have thus concluded that digitalization will lead to a lower commission fee ratio. Is our understanding correct?

A10. Generally, per transaction commission fees are expected to gradually decline due to the intensification of competition and advances in technologies. Nevertheless, we will be able to undertake a major overhaul of our cost structure even in an environment in which commission fees are on the downtrend.

To this end, our aim is to secure a sufficient number of contact points with customers via digitalization. This is a matter of the foremost importance. Once a certain number is secured, we will begin recording revenues. We believe that the execution of strategies employing the network effect is a key to succeeding in this endeavor.

In addition to taking advantage of the Resona Group App, we are poised to introduce tablet terminals capable of simultaneously processing customer consulting and procedures. Tablets will serve as excellent alternatives to traditional channels and are expected to effect major changes in customer contact points. We recognize that the coming of a digital era will better position us to leverage these alternatives even as we update our commission fee systems and pursue overall improvement in customer convenience.

Q11. Generally speaking, the inclusion of a regional bank into the scope of consolidation will not place significant burden on the parent company should the two companies effectively employ digitalization to integrate middle- and back-office operations while leaving personnel, wage and pension systems untouched at both. Is that correct?

A11. To date, a capital alliance involving system integration has been the mainstream method used by regional banks seeking reorganization. However, a strategic alliance announced in June 2020 by Resona and Mebuki FG is focused on collaborating in the digital field and leveraging API-based platforms, which are capable of helping us provide products and services in a speedier manner at lower costs than ever before. Going forward, we expect alliances of this kind to be popular among financial institutions seeking to achieve greater synergies in terms of expanding top-line revenues.

The digitalization of back-office operations can be similarly accomplished by overhauling operational processes and rebuilding them into digital processes on an end-to-end basis. Currently, however, Resona's voluminous back-office operations require several tens of thousands of clerical professionals who support them, and it will therefore be some time before its middle- and back-office operations are completely digitized and automated. Accordingly, developing an alliance framework employing API-based collaboration is currently the best and realistic solution. Looking ahead, we will accelerate initiatives like this.

Q12. Could you share your long-term vision for the Resona Group's total human resource compositions, including expected changes in the proportions of sales and back-office employees? Also, could you set a timeframe for these changes?

A12. We have yet to determine details of our vision regarding future human resource compositions. First and foremost, we must start with overhauling and rebuilding existing back-office processes that require a clerical staff of 20,000.

This endeavor requires the reallocation of our management resources. To this end, redefining the missions of clerical staff and allocating these human resources to customer contact points and new businesses is a matter of importance. In particular, redefining staff missions entails system reforms in addition to operational process reforms. However, we will also be able to achieve significant cost reductions should we succeed in reforms in these fields. We will therefore swiftly take on these reforms.

Q13. Do you think it will be possible to transform back-office business units from a “cost center” to a profit contributor through the initiatives you have just discussed?

A13. We believe it will take time for the cost structure reforms being executed at other banks to transform their back-office business units into profit contributors. These reforms must first transform their operational processes and accelerate digitalization before yielding results. As we prioritize overhauling our operational process and changing our cost structure, we think that redefining the missions of 20,000 clerical staff is our foremost issue. Therefore, we have yet to discuss concrete plans for boosting profitability via the transformation of back-office business units at other banks.

Q14. It would seem to be much easier to develop banking and back-office operational processes from the ground up, just as an example in China. Could you explain Resona’s stance?

A14. Banking systems currently used by domestic financial institutions require dedicated terminals and communication lines, including for securing connections with the Zengin (all-bank) System provided by the Japanese Banks’ Payment Clearing Network. Operation of these banking systems is quite a complex endeavor. In contrast, our operational process reforms are designed to optimize the resulting systems with an eye to facilitating the building of similar systems from the ground up. We aim to achieve a safe and secure transition from existing legacy assets to a next-generation model via the use of innovative technologies. This is the main issue we are currently tackling.

Q15. The completion of operational process reforms is expected to take more than three years. Given changes in the business environment under the influence of the COVID-19 pandemic, do you intend to consider the acceleration of this timeframe? Also, please elaborate on the new missions to be assigned to 20,000 clerical staff.

A15. Since the “Resona Shock” in 2003, we have been consistently taking on operational process reforms, and doing everything we could. However, the fundamental reform of operational process could not occur without technological advancement. We believe that the use of innovative technologies will empower our reforms, allowing us to tap into areas that we had not been able to update. Accordingly, we consider the possibility of the technology-driven approach to be significant in terms of resolving gaps between our earnings power and cost structure.

As you have pointed out, we are also being called to address the question of how to swiftly push ahead with these reforms. However, there is no magic wand. Take tax payments, for example. Undertaking this type of procedure typically involves the preparation of paper documents at bank counters, and the eventual forwarding of these documents to local governmental agencies. If the customer chooses to use such payment methods as Pay-easy, however, the tax payment procedure can be digitally completed via the use of the Resona Group App. Moreover, our plans call for deploying tablet terminals at all branch counters in April 2021. Such terminals are expected to have easy-to-navigate screen layouts, like those offered by the Group App, and thereby enable customers to complete many procedures in as little as 30 seconds. Should the use of these terminals become the mainstay form of banking, the need for back-office operations will disappear. Looking ahead, we will steadily expand the scope of these and other procedures and strive to reduce the volume of back-office operations to zero.

Currently, we handle these procedures via Quick Navi, ATMs and bank counters, the installation of which entails costs and investment. However, most of our procedures are now poised to shift to tablet terminals or other digitized methods. If we wholeheartedly embrace a digitalization perspective for all possible procedures, our approach to investment and costs will change. The same applies to operational process reforms. Although we are planning to complete these initiatives in three years, we actually expect them to yield a notable financial effect in the fourth year or later.

Q16. (Page 37 of the presentation material) Resona expects to accelerate downsizing and staff reallocation by making KMFG a wholly-owned subsidiary. What areas do you intend to reallocate staff to?

A16. Areas requiring a greater number of staff include the succession business, digital-related initiatives and new businesses to be executed under the MMP. Also, we are considering the reallocation of staff to the Digital Service Office (DSO), which is expected to take over complex procedures that are currently handled by bank counter staff.

Although these figures are approximate and may be corrected later, we aim to reallocate 300 staff to the succession field, 200 to digital and IT fields, 700 to new business fields and 400 to DSO.

Q17. Please explain your plans for helping each Group bank in the Kansai area secure its own customer base without intragroup competition and thereby establishing the Kansai Mirai brand.

A17. In Osaka, the Resona Group's share of the banking industry amounts to approximately 25%, which breaks down to 14% commanded by Resona Bank and 11% by KMFG. Although more than 10% of local customers who have accounts in these banks overlap, we consider this proportion to be insignificant in light of our historical background.

A 25% local market share means that 75% of market is untouched. Instead of focusing our energy inward, we will strive to reach out to potential customers in Osaka and win them over as a group. To this end, the Management Structure Deliberation Council will discuss strategies aimed at rallying the Resona Group's management resources while helping each Group bank take full advantage of its brand capabilities and sales approach.

With KMFG positioned to spearhead the sales activities described above, we will push ahead with discussion aimed at determining the details of these strategies.

Q18. It is believed that the deregulation will allow Resona to engage in leasing its own real estate. Could you explain your thoughts on how to utilize idle spaces at branches?

A18. In the past, we temporarily engaged in the commercial utilization of some of our real estate holdings. It was successful. Moreover, we are in possession of some properties that are expected to fit this purpose.

In addition, in the course of downsizing and replacing our branches, we have already begun effectively utilizing idle spaces. Pushing ahead with operational process reforms, we will also realize a next-generation branch system in which all counters are removed. This system will enable a branch to operate in a considerably smaller space. Furthermore, the use of tablet terminals capable of simultaneously processing consulting and procedures will help us break free from constraints regarding space and time. This is, we believe, a future worldview resulting from our pursuit of new business processes.

Looking ahead, we will flexibly update our network strategies in step with progress in operational process reforms and changes in customer needs even as we seek to effectively utilize our real estate holdings.

Q19. Please share your impression of progress made through the alliance with Mebuki FG in the digital field. Also, can we expect Resona to launch second and third alliances in this field?

A19. The strategic and business alliance with Mebuki FG has progressed quite steadily. This alliance is extremely significant as it enables us to secure contact points with customers in Ibaraki and Tochigi prefectures, which had been underserved by Resona, via the use of the Resona Group App. In addition to the use of the Group App, we are currently engaged in discussion with Mebuki FG regarding possible collaboration in the reform of branch operational processes.

We also intend to expand the scope of alliances with other regional financial institutions via the use of APIs. We have positioned initiatives of this kind as a promising way of cultivating partnerships with them. We will therefore focus on developing these alliances into major platforms supporting future expansion.

Q20. In the course of making KMFG a wholly-owned subsidiary, Resona is expected to integrate the former's branches and reallocate its staff. Because of this, some KMFG staff may be anxious about their future. Could you please offer a message for KMFG staff?

A20. This move is aimed at helping KMFG resolve immediate issues it is confronting by bringing to bear the entire strength of the Resona Group. Accordingly, I hope that our colleagues at KMFG consider it to be an opportunity to further upgrade its existing strengths.

I know that their opinions may differ by individual. However, I aspire to work hand in hand with them, focusing on rallying the overall strengths of the Group and taking on what we all can do to improve its presence in the Kansai area and to deliver new value to customers.