Investor Relations Meeting on May 20, 2021
Q&A Summary

Presenter

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

Q1: Please tell us your thoughts on the challenges Resona must overcome in order to realize sustainable bottom-line profit growth. In particular, did you identify specific new challenges after taking office as Resona Holdings' president or over the one-year course of responding to the COVID-19 pandemic?

A1: Currently, bridging gaps between our earnings power and our operational structure, which includes business processes and the cost structure, is the most significant challenge. The recent pace of decrease in net interest income (NII) from domestic loans and deposits has slowed, and going forward we must strive to expand and increase fee income, mainly from recurring fee businesses, based on customer consulting. The degree of our success in this endeavor is of the critical importance.

In addition, we need to review, dismantle where necessary and upgrade our business process structure, which currently requires a between 10,000 and 20,000 back-office professionals to operate, in a thoroughgoing manner. We have already begun tackling this task.

I consider these two initiatives to be the most pressing challenges. Digital transformation (DX) is expected to significantly affect our efforts in the course of implementing both initiatives. With DX as a key driver, we will do our best to transform our mode of business, taking full advantage of a digital- and data-driven approach.

Q2: Please explain the messages you have been communicating to employees in terms of transforming Resona's corporate culture. Also, could you discuss relevant measures, such as changes in evaluation systems for departments and branches, aimed at facilitating this transformation?

A: I believe that transforming a corporate culture is an extremely challenging task. The Resona Group's primary business has long been indirect financing employing its branch network. Of course, we intend to fully leverage our strengths in this field. However, we will also focus on taking on the business fields named as "new challenges" in our medium-term management plan (MMP) and to thereby discover the seeds of new profit. This is why we must help our employees significantly change their mindsets.

Last year, we launched Resona Garage. Taking advantage of this open-innovation facility, we will promote changes in employees' mindsets while continuously empowering them to experience small but tangible successes through innovation. Although these early steps might be small, we believe that, eventually, our efforts here will help blaze a significant path toward the transformation of our corporate culture.

Looking ahead, DX and sustainability transformation (SX) will become the focus of growing public attention. With this in mind, we will unflaggingly take on new challenges while ensuring that employees embrace a sound sense of crisis.

Efforts are also under way to review our performance evaluation systems. Similarly, our modes of branch operations will change drastically. We believe that going forward, we will begin to see signs of gradual change in our corporate culture in step with the accumulation of successes earned by employees who engage in everyday initiatives to take on new challenges.

Q3: You have stated that the number of branches run by Kansai Mirai Financial Group (KMFG) will be reduced by approximately 120; have you considered the possibility of further downsizing the KMFG branch network? What are your thoughts on its ideal configuration in light of such factors as the size of KMFG's deposit and lending portfolio and the most desirable ways to operate manned branches in the post-pandemic era?

A3: Initially, with the aim of optimizing the KMFG branch network, we intended to cut 90 branches. The decision to earmark an additional 30 branches, thereby redefining our reduction target to 120, has just been made. We believe our pace of reduction is quite a bit faster than that of other banks undertaking similar downsizing. In fact, we have pushed ahead with this reduction to the point that makes it somewhat difficult to promote an even faster pace.

We are currently discussing what further steps we could take for branch network optimization in the future. KMFG's customer base is centered in Osaka Prefecture. In light of this, we will formulate our vision regarding the integration of its branches and Resona Bank's branches in that region. This will allow us to identify the best way to maintain a robust face-to-face channel network in the Osaka region that fully utilizes Group facilities.

Q4: If Resona Bank reduces its policy-oriented stockholdings to zero, what negative consequences do you expect to emerge?

A4: Immediately after the “Resona Shock”—the management crisis that confronted us in 2003—we reduced policy-oriented stockholdings by a total of around JPY1 trillion on a book-value basis. Back then, such stockholdings and our businesses were closely intertwined, as was the prevailing transactional practice in the industry. It was against this backdrop that the Resona Group undertook to reduce such stockholdings, a practice in stark contrast to that of other banks hardly willing to do the same. As a result, we saw some negative impacts on profit.

However, business norms have since changed, as have the attitudes of our peers. We will accelerate to reduce policy-oriented stockholdings while engaging in sincere dialogue with our corporate customers.

Q5: With regard to channel reforms, page 39 of the investor presentation material outlines cost reduction effects arising from these reforms. However, when it comes to cost reduction, reducing the number of Resona Bank (RB) branches and Saitama Resona Bank (SR) branches seems to have proved more effective than the current downsizing of the KMFG branch network. Do you intend to further reduce the number of RB and SR branches in the medium to long term?

A5: The Kinki Osaka Bank and Kansai Urban Banking Corporation, both of which maintain customer bases in Osaka, have just merged. Considering this situation, we must begin by optimizing the number of their branches through reduction. On the other hand, we have already substantially reduced the number of RB and SR branches, having begun even before the 2003 “Resona Shock.”

We have announced our aim of integrating digital channels and face-to-face channels, we are also striving to refresh our recognition of the necessity of manned channels for local communities.

In general, discussions regarding the optimization of bank branch networks tend to focus on simple numerical targets. However, we address this subject from a different perspective. We recognize it as a matter to be tackled in terms of how to significantly lower our branches’ break-even points, transform our sales approach to enhance value delivered to customers.

In terms of differentiating ourselves in the retail field and winning against competitors, we do not believe that the downsizing of face-to-face channel is the only solution. Our approach thus differs from that of other banks.

Q6: With regard to the “Special Current Account System for Strengthening Regional Financial Industries” sponsored by the Bank of Japan (BOJ), KMFG seems to have already achieved its target value in accordance with our own calculation. Could you provide your outlook for future profit contributionarising from this area?

A6: KMFG is pushing ahead with application procedures for the above system and we assume that its overhead ratio (OHR)wouldl clear the first-year benchmark under said system. We estimate that, once the fulfilment of necessary requirements is confirmed, profit contribution will total JPU1.5 billion to JPY1.8 billion annually.

Q7: With regard to total headcounts, page 38 of the investor presentation material describes the Resona Group’s downsizing plan (approximately 2,000) for the fiscal year ending March 31, 2022 (FY2021). As the Group already plans to cut the number of back-office employees by approximately 10,000 to 20,000, do you intend to accelerate downsizing during the course of the MMP period? Also, could you tell us the expected size of staff reallocation?

A7: As for the time frame for staff downsizing, we do not expect the target figure to be completely achieved by the end of the current MMP. Dismantling back-office operations will take considerable time. To help promote this task, business process reforms are currently under way.

As KMFG has just undergone management integration, it still has substantial redundancies in personnel. We also intend to streamline its branch network. Moreover, now we have made KMFG a wholly-owned subsidiary, we are better positioned to push ahead with the further integration of its back-office business units with those under Resona Holdings. Taking these and other factors into account, we believe that we will be able to secure sufficient human resources via, for example, staff reallocation. This is the background to the staff downsizing to be undertaken in FY 2021.

On the other hand, we will achieve over time redefining the missions of back-office employees by 10,000 to 20,000, as you have pointed out, while restructuring back-office operations undertaken by branches and all business processes that take place at the large administrative centers that support them.

Thus, many human resources currently tasked with back-office operations will be assigned to duties involving direct contact with customers or new businesses that could emerge going forward. This is our approach to staff reallocation. We expect that, even as we execute this reallocation process, we will see a reduction in the total headcount at a pace exceeding our initial plan due to natural attrition as, for example, individuals leave the workforce at retirement age.

Q8: The Resona Group App, the latest status of which is described on page 33 of the investor presentation material, is worthy of our attention as it has registered 3.67 million downloads, a number comparable to apps released by megabanks; has been rated as offering a superior user interface (UI) and user experience (UX); and boasts a higher frequency of use. However, players in other sectors tend to develop “super apps”. With this in mind, what are your plans for expanding the scope of informational content and services offered by the app and securing links between it and branches via the integration of digital and face-to-face channels? Moreover, although the Resona Group allows Mebuki Financial Group (FG) to offer the app to customers, do you intend to broaden the scope of regional banks entitled to do the same?

A8: We know that some have suggested the creation of a super app. However, we consider our app to be a contact point with customers. Having achieved more than 3.6 million downloads, our aim is to raise this number to 5.0 million in line with the MMP and with an eye to achieving 10.0 million downloads. As we strive to develop new services via collaboration with partners from different sectors, securing a sufficient number of viable contact points with customers is a matter of importance. Therefore, as we have always stated, we think that once a certain number is secured, we will begin recording revenues. Currently, we have made robust progress toward securing that number.

As for the development of the app, we are engaged in various discussions with partners from different sectors, with the aim of enhancing its functions. That being said, adding functions often means a sacrifice in usability. It is well known that the excessive incorporation of new functions results in a negative impact on usability, UI and UX. Accordingly, we will strive to strike a balance between these factors as we promote development.

We have seen steady growth in the number of Mebuki FG customers who use our Group App. We offer a robust support structure as we aim to establish a “win-win-win” relationship between the Resona Group, the Mebuki FG and its customers. Although Mebuki FG is the first regional bank to be authorized to utilize our Group App, we have already secured API-based and other platforms offering robust scale. Therefore, we are ready to invite other regional financial institutions to join the circle of this collaboration. By doing so, we would like to develop a structure enabling us to raise the monthly number of active users to 10 million at the earliest possible date.

Q9: What do you think of the possibility of increasing dividends in FY2021, FY2022 or later? The total shareholder return ratio for FY2020 amounted to 38.8%. If the Resona Group were to earn greater profit in FY2021 and beyond, this ratio would decline unless dividends are increased. In light of the Group’s medium-term target of raising its total shareholder return ratio to the mid-40% level, do you intend to increase dividends or carry out share buy-back? Which is the preferable method for ensuring shareholder returns?

A9: Having made KMFG a wholly-owned subsidiary, we are engaging in share buy-back in line with our initial announcement, with the aim of achieving an “EPS neutral” status. Our general stance regarding shareholder returns remains unchanged. As for your question regarding choosing between increased dividends or share buy-back, we recognize that reducing the number of shares of common stock has been an ongoing management issue as Resona Holdings increased the number of such shares in the course of repayment of public funds. Therefore, premised on ensuring a stable stream of dividends, we will maintain a steadfast approach to shareholder returns and, to this end, consider specific measures, including further share buy-back and/or the payment of increased dividends, to achieve our medium-term target of raising the total shareholder return ratio to the mid-40% level.

Q10: We have just been briefed about a major challenge the Group is confronting due to gaps between earnings power and cost structure. At a presentation meeting held in the prior year, we were told that the Group will redefine missions of back-office employees by 10,000 in the course of restructuring business processes. Please explain progress vis-à-vis this target and the status of relevant initiatives.

A10: For us to resolve gaps between earnings power and cost structure, we need to reform our current business process on two fronts: namely, ensuring that branches execute all the reforms they can do and taking on the types of reforms that cannot be achieved unless our business process as a whole is dismantled and restructured.

Talking of the latter reforms, we currently employ an extremely massive accounting-related legacy system in addition to dedicated network lines and terminals used solely by financial institutions. At present, our customers fill in paper forms and branch staff working at terminals then enter the content of these forms manually using keyboards. The input is then checked for typos before the newly created paper documents are forwarded to the back office. As such, this process involves a great volume of operations. Accordingly, we are striving to consolidate these operations via the use of Group tablets, digital service offices through which we accommodate customer requests via display terminals, and other measures, with the aim of developing a process that eliminates the need for branches to handle any back-office operations. However, we are only halfway through these efforts.

We are also upgrading the current structure in which large administrative centers support branches. Should we be able to directly receive digital data from customers and enter it to our accounting-related system, we could eliminate all paper-based back-office processes between these facilities. We are thus promoting reforms to achieve this status, but we must also complete numerous system development projects and modify our terminals beforehand. This is one reason this task takes a time.

Although it is difficult to clarify the rate of progress, the volume of clerical work handled at branches is on a decreasing trend. Against our target of reducing the volume of such operations by 45% from the FY2014 level in the course of the MMP period, we had already achieved an approximately 34% reduction by the end of FY2020. In the course of addressing the remaining 11% over the next two years, we may be able to somewhat accelerate the pace of progress by finding ways to substantially decrease the volume of operations involving the use of a dedicated network and terminals.

Q11: Related to the same subject, the Business Process Reengineering Division was established as part of FY2021 reorganization. Is it an actual business unit tasked with spearheading business process reforms?

A11: Exactly. The Cross Functional Team (CFT) has been engaged in relevant planning during FY2020 in a way that leaves no sanctuary with regard to reforms. Thanks to the CFT, we were able to draw up a highly feasible reform plan.

Having established the Business Process Reengineering Division, we are currently rallying our Group-wide strengths to swiftly execute this plan.

Q12: Do you think keeping KMFG as an intermediate holding company is really necessary? Is it possible for Kansai Mirai Bank (KMB) and Minato Bank (MB) to one day be placed directly under Resona Holdings' umbrella?

A12: In the course of reorganization, we conducted a variety of simulations. Considering our initiatives in face-to-face channels, we recognize that KMB and MB are totally different from RB in terms of sales platforms, marketing methods and types of customer base. Taking these differences into account, we discussed whether to let Resona Holdings (HD) take over control or to maintain KMFG as an intermediate holding company and honor its sales approach. We concluded that the latter arrangement will work better in the current circumstances.

With regard to issues arising from redundancies in human resources, although we will do our utmost to integrate the back-office business units of HD and KMFG, we have similarly concluded that KMFG should remain in place as the entity charged with supervising sales departments based in and near Osaka in light of differences in region-specific conditions and sales methods. In the course of the abovementioned operational integration with HD, we will also strive to resolve as many cost-related issues as possible.

Q13: What is your current evaluation of progress in long-term initiatives to increase fee income? For FY2021, the Group intends to pursue ambitious plans for fee income. Could you explain specifically what you intend to do to raise fee income in FY2021 and beyond? Also, the number of M&As undertaken by the Group seems to be relatively small compared with other dedicated financial institutions. Please provide your current evaluation of these endeavors and describe future initiatives.

A13: We consider raising fee income a matter of extreme importance in terms of promoting medium- to long-term reforms in the earnings structure. To this end, we will secure greater fee income via initiatives in three key areas, namely, succession-related solutions, including real estate and M&A; settlement-related operations; and assets under management (AUM) in the asset formation field.

In FY2020, despite robust demand for real estate, the deal-making process was often protracted. This was due in part to a discrepancy between seller and buyer expectations on the back of rarely decreasing real estate prices. Nevertheless, we have confirmed growth in the current number of real estate and M&A deals in progress, including those backed by transactional intelligence in our pipelines.

When considering what we can do to support the smooth succession of assets and businesses in the medium to long term, we recognize a substantial and ongoing need for relevant solutions and are aware of a growing number of customers for whom the COVID-19 crisis has prompted a desire to prepare for future succession. With this in mind, we will strive to meet customer needs in a way that takes full advantage of our M&A- and real estate-related functions to best serve our customer base. As the succession-related field is equipped with a robust growth potential, we allocate a considerable volume of management resources.

With regard to settlement, along with revenues from the Resona Cashless Platform (RCP), we are earning a steady stream of revenues from debit cards, which are now yielding annual revenues that total JPY3.3 billion. We expect the latter to be a robust revenue base supported by a broad range of customers in the long term even though the volume of fees paid by each individual may be small. Moreover, debit cards have substantial affinity with the Group App. We believe that we will be able to considerably raise settlement-related income by accurately assessing customer needs for non-contact and non face-to-face settlement services.

As for the asset formation business, we anticipate growing opportunities arising from needs for long-term, asset-formation and diversified investment vehicles. Although we have not yet developed specific products, we expect to be able to meet these needs via the integration of technologies and the sales channels provided by a number of our branches. Furthermore, the balance of our fund wrap, a product recently made available at the Bank of Yokohama, exceeds JPY500 billion. As such, we believe that customer needs for stable asset management are growing.

In the final year of the MMP, we intend to achieve a JPY12 billion to JPY13 billion increase in real estate-related income, mainly from brokerage services, compared with the level recorded in FY2019 prior to the initiation of the MMP. Similarly, we aim to achieve an at least JPY3 billion increase in M&A-related income, a JPY2 billion to JPY3 billion increase in debit card-related income, an approximately JPY5 billion increase in RCP-related income, an approximately JPY4 billion increase in fund wrap-related income and an approximately JPY2 billion increase in investment trust- and insurance-related income.

We have positioned raising fee income as a central objective of our medium- to long-term reforms of earnings structure. Therefore, although we have seen discrepancies between results and some targets, we will continuously strive to achieve all our targets.