Investor Relations Meeting for 1H of FY2021
Q&A Summary

Presenter
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Q1. Could you please tell us the President's intention behind the Company's recent decision on share buybacks? Is there a specific message you are seeking to communicate to the stock market through this move? Also, can we expect further share buybacks to be regularly undertaken by the Company in FY2022 and beyond?

A1. We have not changed our policy of pursuing improvement in corporate value while striking a balance between financial soundness, profitability and shareholder returns. As for the total shareholder return ratio, we have clearly stated that we are targeting a level in the mid-40% range over the medium term. Our decision on share buybacks is intended to shape a path toward this target. Also, taking Resona's current stock prices into account, it is our considered opinion that executing share buybacks is our most rational capital management option.

In addition, over the course of our repayment of public funds, we have seen the number of outstanding shares of our common stock greatly expand. We recognize this as an issue that must be addressed. To secure flexibility in future capital management, we have announced share buybacks amounting to JPY10 billion.

Our basic stance will remain unchanged in FY2022 and later. Generally, we plan to both increase dividends and share buybacks in a balanced matter. However, we may also consider placing greater emphasis on the latter in line with our aim of securing flexibility for the future.

Q2. Regarding the reduction of policy-oriented stockholdings (page 14 of the IR presentation material), if the Company maintains its current pace, it may well accomplish the reduction target by the end of FY2021. If that is the case, do you intend to maintain the pace of reduction going forward? Also, we believe that Resona could clearly announce its aim, like other banks, to completely divest such stockholdings. What are your thoughts in this regard?

A2. Reduction in our policy-oriented stockholdings is closely associated with the outcomes of dialogue with our corporate customers.

In the first half of FY2021, we reduced such stockholdings by JPY14.3 billion on a book value basis, with proceeds from divestment totaling JPY20.0 billion. Our reduction target, announced in May 2020 in conjunction with the announcement of the medium-term management plan (MMP), totals JPY30.0 billion on a book value basis over a three-year period (JPY10.0 billion per year). As our previous target under the former MMP was to achieve a JPY7.0 billion per year reduction, the pace of divestment is gradually accelerating. We are pretty confident that we will accomplish the current reduction target ahead of schedule and, therefore, intend to gear up the pace of reduction targeted in the upcoming reduction plan. That being said, we believe that the divestment of any such stockholdings is premised on robust dialogue with the corporate customers involved. This stance will remain unchanged.

Q3. Regarding the financial digital platform (pages 31 and 32 of the IR presentation material), Resona's endeavors to leverage external collaboration have been gaining momentum. Could you please share your vision, if any, of the proportion of overall profit growth these initiatives will contribute 5 or 10 years in the future?

A3. We intend to focus on developing a business ecosystem via the use of APIs and other technological solutions as well as by integrating face-to-face and digital channels, an endeavor Resona has publicly committed to pursuing. The range of corporate users has expanded to currently include such regional financial institutions as Mebuki FG, the Bank of Yokohama, the Hyakujushi Bank and the Keiyo Bank, not to mention Resona Group companies.

In terms of API-based collaboration, under which we offer our functions to a broad range of partners, including those from different sectors, we are planning to launch the verification testing of a multi-channel platform for facial recognition-based individual authorization by the end of FY2021.

The level of profit to be earned via these platform initiatives is dependent on increasing rate of number of corporate users and the speed at which the functions provided are enhanced. Nevertheless, we believe that these endeavors may well result in the creation of a robust volume of recurring fee income that will, in turn, contribute to the Group's operating results.

Currently, the balance of the fund wrap marketed by the Bank of Yokohama during the first six months of FY2021 is JPY26.5 billion. This demonstrates how we are positioned to utilize this partner's robust face-to-face sales capabilities, which are backed by sales channels serving promising customers in Kanagawa Prefecture. The partnership has also yielded an increase in the balance of assets managed by Resona Asset Management in a way that establishes a "win-win" relationship with customers. Thus, we have succeeded in securing a major earnings pillar outside the Group.

In the first half of FY2021, fund wrap-related income totaled approximately JPY3.8 billion. We recognize that strengthening these and other recurring fee businesses, along with securing greater flow-type income, will be key to bolstering core income.

Q4. Related to the same subject, investor expectations for the Resona Group would be strengthened by the disclosure of estimated profit levels based on its platform initiatives. Could you consider the disclosure of these or other future prospects?

A4. We recognize that disclosing KPIs to investors and helping them confirm our progress is of importance. However, our platform initiatives were set only recently. We intend to disclose numerical targets in the near future.

Q5. Regarding digital transformation (DX), please explain your medium-term outlook on the cost effects of digital utilization and current progress in DX. Also, income per person per day from app-related transactions stands at 3.6 yen (page 29 of the IR presentation material), higher than initially forecast. Please explain the factors leading to these results and how sustainable this growth will prove.

A5. The impact of DX will be quite profound in the medium to long term. Currently, the greatest emphasis is being placed on deploying Group Tablets, which are capable of providing the same UI/UX as that of Resona Group App, at branches in January 2022. Our DX efforts are reaching a crucial stage, that is, the integration of consulting services and banking procedures, our publicly stated goal. Our current aim also encompasses abolishing branch spaces dedicated to back-office operations within a year. We are almost at the point at which we can shift the mission of our branches entirely to the provision of customer consulting, with DX serving as a key factor supporting these pursuits.

Through digital utilization, we are promoting business process reforms aimed at overhauling back-office operations at branches and completely eliminating intermediate processes that previously had been performed manually.

DX has already resulted in a reduction of approximately JPY3 billion to JPY4 billion in costs on a consolidated basis. In the first half of FY2021, despite our investment in, for example, terminals for use in the new branch system, we succeeded in keeping overall system investment costs at a level on par with the same period of the previous fiscal year at approximately JPY200 billion. We would like you to understand that our cost structure reforms are thus progressing steadily.

In addition, DX is positively affecting, albeit indirectly, top-line income. For example, debit cards have high affinity with Group App and other DX-driven products. Taking advantage of their combined strengths, we will be able to deliver new customer experience and value. Simultaneously, the shift in the cost structure will progress behind the scenes. As such, DX is creating a virtuous cycle.

Although DX’s impact on overall costs may be hard to assess due to some overlaps in the time frames for investment in existing and new systems, we believe that, over the course of structural reforms, our endeavors will eventually result in overall cost reductions.

Q6. Regarding Retail Transition Finance (page 25 of the IR presentation material), what was the response of the corporate customers who attended interviews you launched in October 2021 to assess their SDG-related initiatives? Could you also elaborate on relevant needs among these customers and their perceived progress?

A6. We are stepping up Retail Transition Finance by rallying the Group’s entire strength. Starting with each customer’s current situation, our assessment places emphasis on precisely understanding the risks and opportunities they might be facing going forward. In the course of facilitating customer dialogue on a Groupwide basis, we have already acquired feedback from approximately 10,000 respondents who filled in our questionnaires.

Although their stance varies greatly by individual corporations, we have seen tangible changes in customer awareness. Many of those who attended interviews posed questions like “What action should we take as the first step for sustainability transformation (SX)?” and wanted to learn about case examples of SX, the effects of SX and other specific information. Gradually, we are succeeding in engaging them in deeper dialogue.

In addition, the new loan products with conditions linked to ESG targets accomplishments, such as “Resona SX Framework Loan” and “TryNow” are now available via Group companies to offer tangible solutions to customers. These products are serving as a starting point for customers wanting to take a serious approach to ESG issues (page 25 of the IR presentation material). In the first half of FY2021, we have extended a cumulative total of approximately JPY320 billion in Retail Transition Finance.

Although our future achievements might be dependent on changes in customer awareness and the success of the Resona Group’s growth strategies, we believe that, reflecting our efforts to enhance our consulting and financing capabilities, Retail Transition Finance will gain considerable traction in the near future.

Q7. Regarding shareholder returns, do you consider increasing dividends to be another realistic option?

A7. As yet, our policy on the enhancement of shareholder returns has not been very specific regarding options. Over the medium to long term, however, we will of course consider both executing share buybacks and increasing dividends. On the other hand, in terms of pursuing a target total shareholder return ratio in the mid-40% range over the medium term as set forth in the MMP, our focus is leaning somewhat toward share buybacks. Once we have made progress in share buybacks and reducing the number of outstanding shares of common stock, we will certainly become more flexible with regard to options for shareholder returns.

Q8. When it comes to businesses’ stance on SX, there seem to be notable differences between retail customers and large corporations. Do you expect retail customers’ demand for sustainability and transition financing to become as robust as it is now among large corporations?

A8. If we were to take a snapshot of the current status of the transition financing market, it would show the pursuit of SX mostly confined to large corporations. However, if we were to take medium- to long-term social trends into account, we believe it would show that national and local governments, private companies and individual citizens will all become part of the large social trend toward SX. For example, there has been an uptick in the acquisition of energy-saving residential housing like ZEH, while investment and asset management products incorporating

ESG perspectives are likely to exert greater social impact. We expect our SME customers to similarly become more conscious about pursuing SX and addressing ESG issues as part of their management strategies, including value chain and supply chain management.

Considering that SMEs account for 99% of domestic businesses, we believe that assisting them in their SX efforts is also essential to getting Japanese society on track toward SX and enhancing national strength. The Resona Group has long been supported by a great number of SME customers. Because of this, we believe that helping them pursue a new growth stage through SX in line with the abovementioned trend will equally position us to reach a higher growth stage. Accordingly, we will serve as a "running partner" for SMEs and provide them with our insights into how to enhance their growth potential. This kind of approach will be key to the retail finance business going forward. Therefore, we will steadfastly maintain this approach rather than being overly focused on achieving numerical targets.

Q9. Regarding channel reforms (page 35 of the IR presentation material), relevant articles outline a schedule for the Company's initiatives up to March 31, 2023. What changes do you expect to occur in the subsequent periods?

A9. The content of channel reforms is largely unchanged from what we have disclosed previously. We know that discussions regarding these reforms tend to focus on the number of branches a bank can slash, but we are not envisioning the future mode of branch operations based on how they functioned 10 years in the past. Rather, we aim to integrate consulting services and banking procedures along with downsizing branch facilities, with spaces dedicated to back-office operations completely being eliminated. We are thus envisioning the creation of a new mode of branch operations with considerably lower break-even points. Our focus is placed on how to develop a network of such branches.

As we have positioned the retail channel as our main channel, we will secure branches operating under new systems in each region so that we remain capable of providing face-to-face services. Although we will, of course, strive to integrate face-to-face and digital channels and advance data utilization, we consider it important to ensure that the value of our face-to-face services can be felt by customers in regional communities. We therefore would like all of you to understand that our channel reforms are premised on the development of a completely new type of face-to-face channel.

With regard to the number of branches, we are halfway through reforms as we must first optimize the mission of each branch based on its geographical location. We must also consider adjusting the size of branch facilities, for example, one location may require full-line banking facilities while another requires only a small branch. Although we intend to disclose specific numerical targets in the next MMP, we are confident that we can continue on this course of updating our channel networks as we have room for facility downsizing and replacement as well as the redefinition of branch missions.

The need for non face-to-face, no-physical-contact services has grown since the emergence of the COVID-19 pandemic, and we are better positioned than before to meet opportunities through our new businesses employing digital channels, including the Group App, which provides us with unique strength. In any case, instead of simply pursuing numerical targets in terms of the number of physical branches, we will be focused on delivering new value through the integration of face-to-face and digital channels, with an eye to optimizing the overall composition of our branch network.

Q10. Could you share your personal opinions regarding the reorganization and merger of regional banks?

A10. Previously, partnerships with regional financial institutions have largely been premised on capital alliances and the integration of accounting-related systems. However, the status of regional financial institutions varies, with each boasting unique strengths, struggling in areas of weakness and facing differing needs. Thanks to recent technological advancement, we are now capable of accurately supplementing their functions through the API-based economy. In this regard, our financial digital platform can be considered a pioneering endeavor due to its ability to swiftly secure connections between participants at lower costs without cumbersome procedures.

We believe our primary focus should be the establishment of wide-ranging connections with regional financial institutions, and the possibility of capital alliances should be discussed subsequently. We consider this the most realistic approach. Specifically, we will take full advantage of the financial digital platform and establish API-based collaboration with a range of regional financial institutions to secure a robust volume of transactions and a greater number of contact points with customers.

These factors will be a matter of critical importance in light of our goal of winning the competition as a financial service provider in anticipation of the coming of a network-based society. Accordingly, we will assiduously accelerate these endeavors.

Q11. Regarding the perspective of “co-creation,” as part of Resona’s financial digital platform initiatives the Company announced partnerships with IBM Japan and NTT DATA in July 2021. Both of these partners are major players in Japan. However, although such long-established IT firms are highly capable of building secure systems, they also seem to spend a considerable time developing them. Given that there are a number of agile venture startups and BaaS firms, what are your thoughts on potential advantages the Company can gain through the co-development of the platform with these partners?

A11. Among the main reasons for the partnerships with IBM Japan and NTT DATA is their track record in providing host systems for regional financial institutions. Currently, roughly 70% to 80% of such institutions employ systems provided by one or the other of these firms. When it comes to developing API-based collaboration, it will be more efficient, secure and scalable to team up with regional financial institutions employing the same vendors’ products. If we are to pursue API-based collaboration with regional financial institutions across Japan, we must first partner with such system vendors. This will, we believe, serve as a significant factor in promoting collaboration. At some point in the near future, we expect our partnerships with the two firms to transition into full-scale business development.

Q12. Regarding the future direction of collaboration with regional financial institutions (page 32 of the IR presentation material), we really understand the importance of securing contact points with customers. However, looking at the map featured in the slide in question, the Resona Group seems to be pretty much focused on collaborating with partners operating near its urban branch locations. Could you please share your insights obtained in the course of proposal activities targeting these institutions and relevant discussions? Also, could you describe how you perceive the need for such collaboration among the Group’s potential partners?

A12. We are currently engaged in multifaceted discussions with a variety of regional financial institutions, including those that we have yet to publicly name as partners.

Until recently, most have insisted on forming capital alliances and/or integrating accounting-related systems before launching collaboration. Now, however, they seem increasingly interested in the possibility of a “third option” based on our assessment of their strength and weakness—an option designed to accurately meet their unique needs through API-based collaboration and other solutions.

Furthermore, our partner financial institutions have begun building track records under this partnership. For example, the Bank of Yokohama has sold fund wrap subscriptions totaling JPY26.5 billion in six months, while the Joyo Bank and the Ashikaga Bank saw banking apps offered by the Resona Group reach 440,000 downloads. These achievements, in turn, have prompted interest in collaboration with us among a growing scope of financial institutions.

We are convinced that establishing “win-win” collaborations is the only way we can maintain long-lasting partnerships. We, too, consider such collaboration to abound in new possibilities in terms of reaching out to new customers through partner financial institutions and delivering new value to them. Looking ahead, we will promote these initiatives at an even faster pace and build up a robust track record.

Q13. Further question on the same subject. Developing the financial digital platform via partnerships with system vendors could be beneficial in terms of streamlining system and other cost elements. On the other hand, can we expect the Group to achieve future profit growth supported by system licensing fees and other income through the utilization of this platform in the provision of Group App and other income-generating operations?

A13. We consider monetizing this platform to be essential. In addition to helping us secure income per single transaction, this platform will bring us fresh profit opportunities each time a corporate user introduces it. Although the volume of income per transaction might not be so robust and we therefore need to secure large numbers of both, we will be eventually positioned to enjoy a considerable revenue source as we expand the scope of operations powered by the platform.

In addition, the types of collaboration are diverse. For example, our collaboration with the Keiyo Bank involves not only providing Group App but also offering syndicated loans and other products through face-to-face channels. In this way, we are also engaged in a type of collaboration that employs digital data to earn greater income.

As discussed above, our efforts are not intended to invite our potential partners to uniformly become platform users. We are open to various types of strategic alliance. Looking ahead, we will strive to develop even more diverse forms of external alliance while providing our partners, including those from different sectors, with our functions and thereby delivering new value on various fronts. Should we succeed in these efforts, we will make our platform more convenient and profitable while promoting collaboration.

Q14. Regarding the three preconditions for considering future share buybacks (page 40 of the IR presentation material), do you intend to keep them unchanged well into the future? Please explain the sustainability of the preconditions for share buybacks.

A14. Although the COVID-19 pandemic now seems to be somewhat stabilized, we can never relax our vigilance. We are also facing surges in crude oil prices and the emergence of such supply-side restrictions as semiconductor shortages. Under these circumstances, we recognize that providing our customers with robust financial functions is our primary mission.

Based on this recognition, we must, of course, stay conscious of the current levels of revenues and equity capital. However, we also consider achieving our stated target for the total shareholder return ratio under the MMP to be another important mission. We will be steadfast in our pursuit of this target.

Looking at our current stock price, our PBR stands at around 0.4 times. If this PBR level continues, we may well be positioned to consider share buybacks as a viable option.

Q15. Although fee income earned by the Group in the first half of FY2021 appeared steady, what do you think about its future sustainability?

A15. Please take a look at page 10 of the IR presentation material. Our plan for FY2021 fee income is to secure JPY210 billion, up 10% from the previous fiscal year. We have heard that some people doubted the probability of such a fast pace of growth. However, the first-half results represent a progress ratio of more than 50% against this plan.

As we have stated previously, this is a result of our ongoing efforts to develop recurring fee businesses, which range from fund wrap and settlement-related operations, including VISA debit cards, to Group App, with each helping us meticulously secure a constant stream of fee income. Just as quiet yet constant snowfalls result in the great accumulation of snow, income from these businesses will continue to build up in FY2022.

Based upon these achievements, we have also striven to develop a consulting-centered business model that starts with addressing issues customers and society are facing. Employing this model, we have achieved robust outcomes in corporate solutions, real estate- and trust-related operations, AUM and other businesses. We will work further to solidify these foundations and gear up the pace of business development.

In line with the MMP, we are aiming for fee income of around JPY235 billion in FY2022. To this end, we are rallying the Group's entire strength to promote the development of solid business platforms. We believe that achieving this target is quite possible.

Q16. Looking at page 19 of the IR presentation material, KMFG's contribution to HD's consolidated income amounted to JPY5.8 billion in the 12 months of FY2020 and JPY10.6 billion in the first six months of FY2021. Its current full-year target for contribution to FY2021 consolidated income stands at JPY15.0 billion. Should KMFG succeed in keeping up the growth momentum seen in the first half of FY2021, it could possibly contribute even JPY20.0 billion in FY2021, thereby meeting its target for FY2022 ahead of schedule. Growth in the Resona Group's income in FY2021 seems to be partially due to KMFG becoming a wholly owned subsidiary of Resona Holdings. Given these factors, could you provide your projections on the pace of growth driven by Group synergies in FY2022 and later?

A16. Please take a look at page 34 of the IR presentation material. As for Group synergies, we have set a target of securing JPY23.0 billion in net top-line revenues and costs for FY2022. Taking current progress into account, we are pretty convinced that the results of these pursuits will be robust. Especially, in the area of cost reductions, KMFG's consolidated OHR for the first half of FY2021 amounted to approximately 71%, down 8.8% from the same period of the previous fiscal year. Historically, KMFG's earnings power has been much higher than that of other regional financial institutions, while its weak point lies in productivity. As we have previously stated, we strove to execute reforms in this field and have now begun to see the emergence of cost-side synergies. For FY2022, KMFG will be well-positioned to aim for OHR of less than 70%.

Q17. With regard to expenses for FY2021, we believe that the Resona Group can achieve greater cost reductions than before in light of the effect of KMFG becoming a wholly owned subsidiary. Under the leadership of President Minami, the Group has been executing major reforms for some time. We expect these reforms to yield an impact on profit and loss over the course of the next MMP. In this regard, please share your current projections on the timing and magnitude of cost reduction effects expected to emerge from FY2023 onward.

A17. The considerable investments we have made in DX have included outwardly obvious as well as less visible endeavors. Having positioned these DX investments as an inevitable process, our plans for FY2021 call for investing approximately JPY26.0 billion in the development of the new branch system and other DX projects. These investments, including those associated with the financial digital platform, also account for an increasing proportion of the overall investment budget.

Nevertheless, the current amount of total expenses has hardly grown despite expanding expenses associated with the above investments. This is primarily due to the emergence of considerable cost reduction effects, indicating the success of our efforts to offset the growing size of investment with cost reductions.

We expect the upcoming round of business process reforms at branches to reach completion in about three years. The need for investment in next-generation systems will, of course, continue to stand, but our overall expenses will be 30% higher should we fail to execute any of these reforms. Going forward, we intend to step up internal discussions regarding these reforms so that we can clearly present our vision under the next MMP regarding the absorption of growth in various expenses and securing a steady reduction in overall costs.

We are currently in the process of provisionally calculating a projection of expenses in four years. As we intend to sufficiently invest in digital technologies, the overall level of expenses will not be drastically reduced due to temporary overlaps in the timing of spending. However, we will do our utmost to curb costs while absorbing expenses arising from investments.

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