Investor Relations Meeting for FY2022
Q&A Summary

Presenter
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Q1. As shown on page 44 of the IR presentation material, the Resona Group is targeting organic growth in the balance of loans and bills discounted. Please specify areas in which you intend to secure growth in general lending. Also, regarding inorganic growth, what type of investments are you currently considering?

A1. With regard to the balance of loans and bills discounted, we have seen emerging needs among corporate customers aiming to procure a growing volume of working capital as they look to exploit business opportunities arising with society's exit from COVID-19 pandemic emergency conditions. We expect these needs to remain robust. Also, due to changes in social trends, such as those associated with SX and DX, our customers are now confronting a host of novel issues. For example, we anticipate that funding needs associated with labor-saving solutions, such as the utilization of DX, will grow going forward. Moreover, funding needs are similarly strong in succession-related businesses, to which we have dedicated ongoing focus. We have long been a financial group specializing in the retail field. In line with our ongoing goal of realizing "Retail No. 1," we intend to expand the balance of loans and bills discounted in a finely tuned manner that accommodates needs among our SME customers. With regard to investment in human resources, our plans call for allocating around 200 additional employees to the corporate lending field. With a lending approach that starts from consulting, we will robustly extend support to our customers.

Regarding investment in inorganic growth, thus far we have been pursuing a wide range of alliances with regional financial institutions as well as partners from different sectors. These relationships include our investment in partners. Our policy going forward is to accelerate external collaboration. This includes looking to secure greater profit opportunities by reaching out to the customers of these aforementioned partners, augmenting our already solid customer base encompassing 16 million individual customers and 500,000 corporate customers.

Previously, we concentrated our management resources in the banking field. However, as we shift toward a new stage of capital utilization, we will also be working assiduously to strengthen our functions.

Q2. Regarding the outlook on fee income, the Resona Group seems to be anticipating that the momentum of fee income expansion will strengthen over the second and third years of the medium-term management plan (MMP). Please tell us why you expect this and the likelihood of the Group's achieving the goals of the MMP.

A2. Our plan for fee income is to secure growth of JPY27.0 billion over the course of the MMP period. In particular, we aim to increase fee income from such operations as succession, AUM and settlement. In the wake of the COVID-19 pandemic, greater customer needs for succession-related solutions have begun to materialize. We expect this will, in turn, lead to major business opportunities in real estate brokerage, M&A and other fields. In AUM, we are currently preparing for the roll out of new services designed to accommodate needs for long-term, savings-type asset management with internationally dispersed portfolios in light of the introduction of the new NISA and other system revisions. In particular, we will focus on enhancing our lineup of new products, including fund wrap variations. In the settlement business, we have seen a steady increase in the number of debit cards issued. These cards have strong affinity with the Resona Group App and are currently contributing to stable income growth. Looking ahead, we expect a certain amount of growth in the number of debit cards issued, and our roadmap for getting Resona Cashless Platform (RCP) on a profitable track is almost complete. Drawing on these operations, we will strive to maintain an upward trend in fee income.

Q3. On page 68 of the IR presentation material, you claim that the number of "Resona Loyal Customers" has increased by around 480,000 over the past five years. To what extent does this rise reflect the enhancement of the Group's customer segment capabilities as a result of various initiatives it has undertaken to date?
Also, in contrast, the number of customers listed under "Potential III" shows a decrease. The downward trend similarly applies to the overall number of customers. Could you please share your thoughts on these phenomena?

A3. In the course of integrating our face-to-face and digital channels, we aim to robustly raise the volume of per-customer income. Previously, we have been able to communicate directly with around only 10% of our customers. However, the Resona Group App was launched five years ago, and the use of this app has steadily become widespread among customers. As of now, we have recorded approximately 7.6 million downloads, a testament to our success at winning over a growing number of app users. This growth has, in turn, led to steady expansion in multifaceted transactions backed by digital-driven customer relationships. In sum, growth in the number of "Resona Loyal Customers" is, in my opinion, a result of the steady development of these transactional relationships.

Of course, we have in no way given up on increasing the overall number of customers. Current initiatives include developing a product and service framework that uses our digital financial platform to make our offerings available to the customers of our partner regional financial institutions. As this demonstrates, we are approaching the question of how to expand our overall contact points with customers from a wide perspective as part of diverse initiatives now under way. As for securing profit opportunities, we believe that we need to thoughtfully address any value that may arise from our relationships with customers over their lifetimes. If we succeed in this approach, per-customer income will flourish.

Q4. What are President Minami's personal views on the qualitative aspect of the Group's human resources in light of gap analysis based on the "As-Is / To-Be" framework?

A4. Please see page 38 of the IR presentation material for the status of our investment in human resources. With diversity and specialty as keywords, we revised our human resource system two years ago. In step with the changing times, we need to secure a robust pool of human resources who boast specialist strengths in such fields as IT, digital, data and M&A and who will play key roles outside the traditional branch manager-led hierarchy.

Under the new MMP, we are continuing to take a proactive approach to investment in human resources. Pushing ahead with structural change requires that we beat out the competition in acquiring human resources. Furthermore, we are promoting the reallocation of management resources, starting with clerical work and other back-office operations. Our policy is to reinforce human resources in our fields of focus and new business areas as well as systems and other elements supporting sustainable growth. For example, in the previous MMP period, we strove to secure a workforce of 1,000 employees to operate in such fields as systems and DX. In the new MMP period, this team needs to be expanded to approximately 1,800 workers and will include those made available to us via external collaboration.

In terms of promoting cost and income structure reforms, we are at the stage of proactively reconfiguring our human resource portfolio in order to resolve gaps in the current and ideal status of human resources. This is the Group's general direction for the future.

Q5. Please describe the background and details pertaining to the expected increase of JPY6.0 billion in interest income from yen bonds, etc., as part of the "Roadmap for Securing Profit" illustrated in page 27 of the IR presentation material.

A5. There are two major components underpinning this projection.
First, we will achieve an increase of about JPY1.0 billion via an approximately JPY500.0 billion expansion in the balance of held-to-maturity bonds. Second, we anticipate an increase of approximately JPY5.0 billion through comprehensive hedging (fixed receipts).

Q6. Regarding net interest income (NII) from domestic loans and deposits, could you share your outlook on future developments, such as the timing of turnaround and other changes? According to statistical data and other references, domestic funding needs do not seem weak. Nevertheless, do you think the Group can improve NII without relying on the external environment?

A6. Due to the expiration of the "zero-zero" loans, government-assisted, high-margin loans extended as part of pandemic countermeasures, we anticipate a negative impact of more than JPY8.0 billion on NII from loans and deposits over the course of next three years. We plan to offset this impact and raise the overall volume of NII from loans and deposits by more than JPY10.0 billion. With the margin on corporate lending having largely bottomed out, we will aim for the earliest-possible turnaround in NII from loans and deposits going forward while striving to expand the balance of loans and bills discounted through high-value-added lending services backed by consulting.
As for housing loans, the spreads for existing and freshly extended loans amount to approximately 0.95% and 0.6%, respectively. We expect the spread for existing loans to edge down somewhat. On the other hand, the proportion of loans with fixed interest rates in freshly extended loans has grown from 4% to 7% on the back of changes in the interest rate environment. With this in mind, we will strive to improve spreads even as we maintain robust customer relationships.
As for the overall NII from loans and deposits, we aim to achieve a turnaround in the second year of the MMP.

Q7. Regarding operating expenses, personnel expenses are on a growth trend at each bank in FY2023 due to expanded investment in human capital. Moreover, non-personnel expenses are seeing a similar upward trend due to the depreciation of the yen and inflation. It is therefore anticipated that the Group will remain under pressure on two fronts with regard to operating expenses. On the other hand, the banks are not positioned to arbitrarily increase lending and deposit spreads on the grounds of higher expenses. If inflation continues, controlling the cost income ratio will be difficult. To counter this situation, what measures are you currently considering?

In addition, your FY2023 plan for operating expenses includes an expected increase of JPY16.7 billion from FY2022. However, the Group stated an anticipated volume of expenses for the third year of the MMP that is only JPY26.0 billion in excess of expenses as of FY2022. This seems to suggest that the pace of increase in expenses will be much slower in the second and third years of the MMP than it was in the first year. Please describe how you came to these projections and your thoughts on how it will play out.

A7. To achieve structural reforms, we need to first ensure that our approach to human resource acquisition is sufficiently competitive. At the same time, we recognize the importance of our employees feeling a sense of job fulfillment, which has the knock-on effect of enhancing motivation across the Company's entire workforce.

On the other hand, as I have previously stated, there are currently more than 10,000 employees running the back-office operations that support the retail business. Traditionally, the business processes these employees handle are labor-intensive. We have been addressing this situation through the introduction of IT and promotion of DX, which empower customers to complete various procedures themselves and otherwise enjoy the greater convenience afforded by digital channels. We deem it essential to execute business process reforms, including those described above, encompassing broad aspects of our operations.

This is the background of our plans for forward-looking investment to be executed under the MMP on various fronts. We believe that, from a medium- to long-term perspective, investment of this kind will provide us with the shortest possible pathway toward maximizing the Group's corporate value.

Structural reforms will also allow us the flexibility to control headcount. We are confident that overall personnel expenses will remain under control even as we raise wages per employee. That being said, our plans factor in a certain degree of growth in personnel expenses for the second and third years of the MMP and beyond.

Q8. In its approach to shareholder returns the Resona Group seems to have been prioritizing share buybacks over increasing the volume of cash dividends. However, recent stock price trends following financial results announcements seem to suggest that banks that deliver cash dividends in excess of forecasts are more appreciated than those focus on share buybacks. With the benefit of hindsight, are you now inclined to alter your approach to shareholder returns going forward? Or will you keep your focus on share buybacks as the first option for shareholder returns?

A8. We have striven to strike a balance between delivering cash dividends and undertaking share buybacks. This is our basic stance to shareholder returns.

During the period in which we were engaged in the repayment of public funds, we saw a major increase in the number of shares of common stock. We consider this increase to be an issue that must be addressed from the perspective of securing flexibility in capital policy going forward. We need to take a robust approach to counter this issue.

On the other hand, we have upgraded our total shareholder return ratio target. We have deleted the “medium to long term” time frame from the previous version of our target while upwardly revising the target itself to around 50%. It is my hope that these moves are appreciated as part of our efforts to enhance shareholder returns.

Q9. Regarding the momentum of fee income growth, based on comparisons between the results for FY2022 and plans for FY2023, it looks like the pace of growth is expected to slow down. Given that your plan is to raise fee income by JPY27.0 billion over the course of the new MMP period, won’t the pace of growth in the second year and beyond need to be quite fast, considering that your target for the first-year increase in fee income is set at only JPY2.4 billion? Could you please elaborate on the assumptions used in the formulation of this plan? Do you consider the likelihood of the Group’s achieving the plan’s goals to be high?

A9. Let me explain several factors.

First, we believe that we will be able to achieve major growth in fee income especially from succession, settlement and AuM. However, to do so we think that the AuM business needs to shift to the recurring fee-based model on a Groupwide basis even though this shift is likely to depress the volume of upfront sales fees and commissions. In the succession business, we need to take a long-term, consistent approach as succession-related deals typically require a certain period of time until their closing. As for the settlement business, there remains a need to expand the overall transaction volume.

As we strive to develop recurring fee-based businesses as the core of income growth, we expect them to yield greater profit effect in the latter part of their development timeframes as their growth requires the accumulation of assets. We consider this to be fundamental to the structure of these businesses. We will also allocate and invest in human resources, but it will be some time before these endeavors yield tangible results. These are the factors that we have taken into consideration when making our business projections.

Q10. The Resona Group plans to increase its balance of housing loans over the three-year period of the MMP. Meanwhile, some megabanks have announced their intention to strategically reduce risk-weighted assets (RWAs) associated with housing loans. Do you think this trend could possibly lead to an upside impact on or otherwise affect the Resona Group's operations?

A10. Megabanks' strategies differ from ours. In fact, our basic stance is to set ourselves apart from them. For more than a century, the Resona Group has been specializing in the retail business. We believe that the Group's reason for being lies in the provision of housing loans and other services for SMEs. If megabanks intend to walk away from the housing loan market, the Group may well benefit.

Under the MMP, we expect to achieve increases of JPY2.6 trillion and JPY1.0 trillion in our balances of general lending and housing loans, respectively. We will diligently strive to meet these targets.

In addition, we do not consider a housing loan to be a standalone lending product. Today, we have become able to secure Group App-based, non-face-to-face connections with approximately 90% of our housing loan customers. These connections lay the groundwork for the creation of new customer transactions based on longer timespans. Building on these and other accomplishments, we intend to promote the further development of the housing loan business.

Q11. The Group's plan includes expected growth in credit-related expenses. Although this projection is understandable in light of the planned expansion in the lending balance, we still suspect that your stance is a bit too conservative. Please explain your views on credit cycles and other factors in this area.

A11. Currently, fallout from the COVID-19 pandemic is gradually subsiding, while the impact of yen depreciation and resource price surges is, albeit slowly, materializing. There remains a major gap between the corporate price index and consumer price index. However, SMEs are highly likely to face substantial repercussions in the area of pricing. We therefore need to pay close attention to trends regarding price revisions and other aspects of business affecting them. That being said, no major changes in credit cycles are currently apparent.

Our plan sets the assumed ratio of credit-related expenses at around 11bps, the average of the ratio for the past three years. While the growth rate of our balance of loans and bills discounted remains on par with that of top-tier regional banks, our projection on credit-related expenses may indeed be considered relatively conservative. However, the outlook for circumstances three years into the future is not clear. In any case, we do think that there is room for improvement in this area.

Q12. Looking at personnel expenses, the considerable growth seen in the first year of the MMP can be attributed to the simultaneous upward revision in basic salary. On the other hand, what is your rationale for the projections for second- and third-year personnel expenses, namely, no substantial growth?

Do you expect the pace of investment in human capital to decline? If the Group intends to not increase basic salary after the first year, isn't there a risk of losing human resources via resignation?

A12. Personnel expenses are expected to increase by JPY4.0 billion in the first year of the MMP. We also anticipate growth in the second and third years.

We similarly forecast an increase in essential non-personnel expense items.

Currently, more than 10,000 of our 28,800 Group employees provide support through back-office operations. However, this headcount will decrease in step with progress in human resource reallocations upon the success of the DX-driven reform of business processes. We of course intend to raise wages per employee. Our plans factors in these projections to determine the expected volume of personnel expenses as a whole.

Q13. In conjunction with this financial results announcement, the Resona Group announced share buybacks. Nevertheless, its stock price declined. We think that factors leading to this decline included the Group's forecast of a profit decrease. We believe that the Group could have announced a FY2023 profit target of JPY160.0 billion via, for example, the revision of fee income composition. Could you provide your rationale for the profit target of JPY150.0 billion?

A13. First off, our plan assumes that interest rates will remain unchanged. In addition, our new MMP is informed by our strong determination to execute structural reforms. We need to precisely ascertain gaps between our earnings power and our operational structure, including business processes and systems, with an eye to navigating the Group into the next generation regardless of changes in interest rates and other external conditions. The foremost point of the MMP is to decisively take on structural reforms. This is the message we aimed to convey through the announcement of the MMP.

On the other hand, if interest rates rise, it will have a major positive impact on profit. Our plan for credit-related expenses, to a certain degree, incorporates a conservative outlook. Taking these factors into account, we may be able to achieve a higher-than-expected profit through capital utilization in the form of inorganic investment.

Q14. Regarding the inorganic strategy described on page 37 of the IR presentation material, could you explain the results of inorganic investment undertaken in the course of the previous MMP period?

A14. The most notable component of inorganic investment undertaken during the previous MMP period was the consolidation of KMFG to make it a wholly owned subsidiary. Along with the investment of cash in this consolidation, we implemented a share exchange to acquire an equity stake in KMFG. Accordingly, the capital charges incurred were not significant. Other investment included the additional acquisition of an equity stake in an IT-related company and the execution of small-scale investments in Digital Garage, BrainPad and other alliance partners in the digital field. Similarly, these did not entail significant cash outflows or major capital charges.

Q15. Regarding initiatives to improve corporate value as stipulated on page 46 of the IR presentation material, we assume that the capital cost will amount to around 8%. Is that correct? If the ratio amounts to 8%, this is on par with ROE. In light of this, the Group's PBR could be, theoretically, more than 1 time. Please provide us with the status of discussions under way at the Board of Directors with regard to its current recognition of PBR, the Group's market reputation following the announcement of the new MMP and other relevant topics.

A15. Although we do not disclose our capital cost, the capital cost actually falls short of 8%. It is between 7% and 8%.

When it comes to discussions by the Board of Directors regarding PBR, all of us on the Board, including outside directors, are frustrated by the Group's PBR, which remains below 1 time. That being said, the entire banking sector is now in the grips of an unfavorable environment due to the negative interest policy and other factors.

Accordingly, the trend toward lower PBR is widespread in the industry. We are not positioned to control assumed interest rates. Therefore, we are strongly determined to reform our own business and cost structures. We believe that, looking ahead, we need to provide the market with clear estimates on our future growth in PBR. This will be achieved via inorganic investment and other capital utilization measures.

Q16. The Group's new MMP consists of three-year endeavors focused on structural reforms. Meanwhile, over the next three years the possibility of interest rate hikes is considered to be higher than ever. Can we expect that, if the interest rate hikes do occur and lead to an upside impact, the Group will record a commensurate increase in annual profit? Or, if this scenario comes into play, do you intend to allocate a greater volume of funds to execute further structural reforms?

A16. Structural reforms now under way entail some degree of burden on our human resources and systems. Even if we were to enjoy an abundance of funds, it would be hard to quickly execute such reform one after another. However, the new MMP factors in in-depth projections on reform-related costs that will arise in areas that we can touch. If we happen to record an expected increase in top-line revenues, we would simply translate this increase into a contribution to higher annual profit. That being said, we are not positioned to accurately predict future developments in the interest rate environment, the volume of credit-related expenses, the divestment of policy-oriented stockholdings or other matters that will affect our stock prices. Also, our plan does not factor in inorganic profit growth. We do believe, however, that there remains a possibility of an upside impact in these areas.

Q17. The Resona Group's Corporate Mission states that it will "develop further with regional societies." Do these "regional societies" refer to Tokyo, Osaka and Saitama? Or do they refer to all regions in which the Group operates its branches? Please elaborate on what areas you refer to by "regional societies."

A17. Generally, the Resona Group has focused on the two business axes of regional societies and the retail market. We have positioned these as the core of business development. We do allocate a considerable volume of management resources to the Tokyo metropolitan area and the Kansai area, but we already have in place a framework for making our functions available to the customers of partner regional financial institutions connected through our financial digital platform. We now need to deliver new value to a broad swathe of regional societies that transcends the scope of the aforementioned two key market areas by drawing on this framework. We indeed use the same expression when referring to “regional societies,” but this expression now bears a broader meaning.

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