

Investor Relations Meeting for FY2024

Q&A Summary

Presenters

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

- Q1: Please describe what prompted the Company to introduce a DOE target in the context of shareholder returns. Considering that this DOE target is set at 3% for FY2029, the volume of share buyback could be substantial if the Company continues to record major profit growth. Does this target reflect the Company's intention to reduce the number of shares outstanding, which was announced some time ago? Do you intend to reduce the number of such shares to around 1.1 billion shares, the level prior to the capital increase?
- A1: In light of changes in the current business environment, we have concluded that this combination of two indicators, namely, the total shareholder return ratio and DOE, is best suited for the prevailing circumstances. Because our target for the total shareholder return ratio is unchanged from around 50%, when profit increases, the amount of funds available for allocation to share buyback is also greater. Depending on the pace of profit growth going forward, we may well be able to readjust the balance between buyback and our DOE target, which is set at around 3% for FY2029.
- Currently, the number of shares outstanding still amounts to 2.29 billion shares, and we consider this number quite large. Moreover, we recognize that reducing this total to 1.13 billion shares, the number recorded prior to the capital increase, will take time. We have therefore concluded that beginning by striving to reduce these shares to less than 2.00 billion shares as soon as possible is a more realistic approach.
- Q2: With regard to the Company's plan for the OHR, which is presented on page 13 of the IR presentation material ("Enhance Corporate Value through Structural Reforms"), our provisional calculation suggests that in five years from now this indicator could drop to the upper half of the 40% range. Is that correct?
- A2: First and foremost, we intend to announce management's strong determination to realize an extremely productive retail business backed by an OHR of less than 50%. Although it is hard to foresee the trend the policy rate may take, a variety of reform measures currently under way have begun to yield positive outcomes. We also aim to achieve gross operating profits in the mid-JPY900 billion range while curbing operating expenses to less than JPY500 billion. Having defined these milestones, we will strive to reduce the OHR to less than 50% as early as possible.

- Q3: We understand that the introduction of the DOE target reflects the Company's intention to deliver a stable dividend stream irrespective of the volume of full-year profit. In other words, however, the Company seems to intend to execute a large volume of share buyback if full-year profit turns out to be higher than expected. Is that right?
- A3: It's possible, but when the time comes for doing so, we will discuss and determine the best way to reward our shareholders based on the prevailing situation. For the first year and the second year, we expect our basic approach as explained earlier to prove well-balanced combination of dividends and share buyback.
- Q4: The Company also adopted a policy of holding treasury shares with a proportional upper limit of around 5% of the total number of shares outstanding. Please describe what prompted the Company to introduce this policy.
- A4: Our basic stance is to secure a variety of options regarding funding methods to be used when we need to execute inorganic growth investment, as we project that suitable methods will range from paying cash to utilizing treasury shares.
- Q5: Please share your views on the impact of U.S. tariffs. How will they affect the Company's profit in its main business, credit costs, the pace of reductions in policy-oriented stock holdings, and other aspects of its operations?
- A5: It is very hard to forecast the impact of U.S. tariffs. However, we expect their direct impact on our operating results to be insignificant due to such factors as the Company's relatively small overseas exposure and its traditional policy of refraining from taking on a large volume of foreign exchange risks.
- Our foremost concern is the impact of the tariffs on our SME customers. Although we are currently distributing questionnaires and carrying out other surveys targeting our corporate customers, it is difficult to get a clear response at this point in time. It is expected that the introduction of heavier tariffs will result in wide-ranging spillover effects, with the economic effects emerging in various ways. In any case, we deem it important to stay cautious and closely monitor the situation.
- As part of our FY2025 plan for credit costs, we have set our forecast for the ratio of credit expenses to total credit at 8.4bps, compared with 2.6bps recorded in FY2024, based on the uncertain circumstances. Our plan for proceeds from the divestment of policy-oriented stock holdings has similarly factored in a substantial amount of stress because of difficulties in forecasting stock prices, the timing of divestment and other factors.
- Q6: Please share your thoughts on target sectors in terms of the Company's inorganic growth investment as well as your views on the reorganization of regional banks.

- A6: Over the course of the current medium-term management plan (MMP) period, we have executed three inorganic growth investment deals. Specifically, we made two leasing companies wholly owned subsidiaries that were, in turn, merged into Resona Leasing Co., Ltd. We also stepped up our capital and business alliance with Digital Garage in addition to undertaking further investment in NTT Data Sofia. Looking ahead, although we may consider alliances with regional financial institutions, our current plans for external collaborations center on three forms: 1) collaboration based on capital utilization; 2) collaboration based on systems; and 3) collaboration via our financial digital platform. Other forms could include collaborations in settlement and IT fields. Over the medium to long term, we intend to consider an even broader range of collaboration, including working with overseas partners. Our present profit structure is largely dependent on the banking business. Given this, we would like to discover and take on deals that will enable us to expand the breadth of our business operations while yielding synergies.
- Q7: Looking at page 22 of the IR presentation material (“How We Utilize Capital”), the Company’s budget for inorganic growth investment to be undertaken over the course of the current MMP period amounts to JPY100.0 billion. However, the actual amount spent thus far appears to be less than JPY20.0 billion. Please describe your outlook regarding in what ways the remaining JPY80.0 billion will be utilized. Also, taking FY2023 and FY2024 operating results and FY2025 earnings forecasts into account, it is anticipated that your cumulative profit over the course of the MMP period will be approximately JPY130.0 billion in excess of the plan’s target. How will you utilize this excess? Is it correct to expect the Company to allocate the half of this amount to shareholder returns, with the remaining amount to be allocated to organic growth investment?
- A7: Our plan for the utilization of the excess profit is basically in line with your expectations. We will allocate half to shareholder returns while allocating the remainder to lending (organic growth investment), which remains robust. With regard to our inorganic growth investment budget, we have yet to expend the remaining JPY80.0 billion as you mentioned. We currently aim to robustly utilize the budgeted-for amount over the course of FY2025.
- Q8: With regard to earnings forecasts for FY2025, if proceeds from the divestment of policy-oriented stock holdings or profit in the Company’s main business turn out to be higher than expected, the Company may be better positioned to record a system-related impairment loss, replace its bond portfolio, or implement other non-profitable but essential measures that would negatively affect profit and loss. Could you name, if any, such items that could be considered and executed during FY2025?

A8: In FY2024, we executed the strategic replacement of our bond portfolio and thus recorded a loss of roughly JPY26.0 billion. Such measures are typically undertaken with reference to a careful assessment of the market environment. Currently, we recognize no particular item requiring additional allowances. On the other hand, we are poised to drastically push ahead with structural reforms as needed going forward. If there are items that can be collectively recorded as expenses, we may consider them as viable options.

Q9: Please describe methods for planning inorganic growth investment and the current status of relevant discussions.

A9: Our discussion is focused on determining what form the ideal ecosystem that would fulfil customer needs should take. More specifically, we are considering options that would give us footholds covering an even broader range of regions in line with our one-platform, multi-regional strategy. We are also looking to acquire supplementary functions related to areas in which we lack experience due to the focus on banking operations we have maintained since 2003. In addition, we have seen drastic changes in customers' financial behavior and breathtaking technological advancements. Accordingly, we hope to formulate fresh partnership networks related to IT and settlement as we need to augment our capacities to go beyond what we can do now in the IT field while anticipating major changes in the settlement field.

If we determine that the utilization of capital is necessary over the course of these discussions, we will of course allocate a robust volume of capital.

Q10: Are initiatives described in page 15 of the IR presentation material ("Middle- and Back-Office Reforms," etc.) directly linked to the Company's previously announced policy of workforce downsizing, which aims to reduce a total of 10,000 employees tasked with back-office operations? Please also describe the number of personnel allocated to Resona Business Service as well as the direction the Group intends to take in staff reallocations going forward.

A10: The reform initiatives described in page 15 of the IR presentation material not only consist of back-office operational reforms but include a comprehensive set of reforms ranging from frontline, middle- and back-office operations to Head Office functions.

For example, although the Head Office is currently staffed with approximately 8,000 employees, we have seen drastic changes in their duties due to the emergence of generative AI. Therefore, we need to revamp business processes and introduce workstyle reforms at an even faster pace. We have already acquired most of the items necessary for effecting these changes.

At the moment, we are not positioned to announce the specific number of employees to be transferred via staff reallocations. However, we believe that the

reform measures stated above will redefine our employees' missions and, ultimately, change our human resource portfolio. This means that individuals who have previously supported back-office operations could be tasked with frontline operations or appointed to create new frameworks and mechanisms. In other words, human resources at indirect departments could be transferred to take on duties aimed at contributing to the enhancement of top-line income. These transfers will, in turn, result in the major reform of our cost structure. This is the general direction of our staff reallocations.

In addition, the number of staff at Resona Business Service currently amounts to roughly 2,000.

Q11: What are your thoughts on financial results to be yielded by the Group's financial digital platform and the timing of the manifestation of such results?

A11: The cumulative profit effect of the financial digital platform thus far amounts to approximately JPY10.0 billion. We intend to achieve a cumulative total of around JPY20.0 billion by the end of FY2028. This amount factors in a portion of the new alliances we expect to form going forward.

In this area, we need to work steadfastly to achieve outcomes. However, we are convinced that our initiatives to generate profit through expansion in customer numbers and transactions in the era of digital technology have enhanced our underlying earnings power and that this, in turn, is what led to the recording of all-time high fee income for the fourth consecutive fiscal year.

Q12: Are you considering divesting, withdrawing from or downsizing any businesses included in the Group's existing business portfolio?

A12: Basically, the Resona Group is a financial group that leverages the combination of a traditional banking business with trust banking and real estate functions. Currently, we have no plans to withdraw from a major part of any of our businesses.

Q13: Please elaborate on your policy for shareholder returns in light of the total shareholder return ratio target and the DOE target, especially the timing of dividend increases and share buyback. Do you intend to undertake these measures sometime in the second half or near the end of the fiscal year?

A13: For FY2025, we disclosed a full-year dividend forecast of 29 yen per share, up 4 yen year on year. At the same time, we announced a JPY30.0 billion budget set aside for share buyback. Taking these figures into account, the total shareholder return ratio at this point in time amounts to around 40% against our target for FY2025.

Our basic stance for dividends is to steadily and sustainably increase the volume of

dividends over the course of the period leading up to FY2029. We will also consider the timing of share buyback going forward while paying attention to trends in operating results and other factors.

Q14: Looking at the Company's fee income plan, settlement-related income is expected to grow, while income projections for the corporate solutions business seem to be more conservative. Is there a possibility of upward revisions to these forecasts during the fiscal year? Or can you foresee the possibility of deviation from expectations?

A14: Under our FY2025 plan, fee income is expected to be up approximately JPY22.0 billion from the JPY208.6 billion recorded three years ago. Although our FY2025 projection may seem somewhat weak, we have taken into account the absence of a major real estate-related deal like that undertaken in FY2024. In addition, corporate solutions business income was negatively affected by a decrease in income from private placement bonds. However, this decrease is merely a technical factor attributable to our shift toward general lending to better accommodate customer needs. In summary, we expect fee income to remain on a constant growth track. With this in mind, we will monitor progress under our fee income plan and may consider updating it.

Q15: When the Company considers M&A, does the use of treasury shares enable it to sign a deal requiring an ever-greater amount of monetary consideration than before?

A15: When executing M&A, treasury shares could be utilized for such transactions as share exchanges. Accordingly, we hold treasury shares in order to secure resources to be utilized for such purposes as making an M&A counterpart into a subsidiary.

END