

February 9, 2017

Questions relating to SMC Corporation

Dear Resona Holdings Board Members,

Mr. Kazuhiro Higashi, Director, President and Representative Executive Officer,
Mr. Tetsuya Suga, Director and Representative Executive Officer,
Mr. Yuji Koga, Director and Representative Executive Officer,
Mr. Koaru Isono, Director,
Ms. Emi Ozono, Non-executive Director,
Mr. Toshio Arima, Non-executive Director,
Ms. Yoko Sanuki, Non-executive Director,
Mr. Mitsudo Urano, Non-executive Director,
Mr. Tadamitsu Matsui, Non-executive Director,
Mr. Hidehiko Sato, Non-executive Director.

As you may be aware, we at Well Investments Research published a report on December 13, 2016 which noted our concerns with regards to your client SMC Corporation (“SMC”). Through our extensive due diligence, it has come to our attention that Resona Holdings (“Resona”) is involved in potentially serious accounting and corporate governance issues at SMC. We outline these below.

According to our analysis, the potential risk exposure Resona has to SMC is significant. Based on the reported consolidated capital of 1,879.1 billion yen as of Dec. 31, 2016, Resona’s exposure to SMC may be as high as 12.8% of Resona’s book value, or 239.5 billion yen. (Calculated based on an estimated credit balance of 25 billion yen, estimated receivables through factoring facilities of 43.6 billion yen, a direct equity holding of 1,959,800 SMC shares of [equivalent to 62.0 billion yen at 31,620 yen per share], and 3,443,500 shares of SMC shares pledged by TON Finance [equivalent to 108.9 billion yen at the 31,620 yen per share level]).

We believe that as a leading Japanese company who prides itself on its corporate governance, you have a responsibility to investigate the raised concerns, to find out the truth and to provide answers for your stakeholders. As such, we would very much appreciate if you could probe the issues stated listed below, and disclose your findings publicly through a press release or by other means at least by the 15th of this month. For your information, we plan to make the content of this letter public in the coming days.

1. Every single Chief Financial Officer and many members of the senior management team at SMC Corporation are from Resona Bank (formerly Asahi Bank, Kyowa Bank). Please explain whether any measures are taken to prevent a conflict of interests between these individuals and Resona Bank?
2. Resona not only extends a large amount of credit through lending and factoring of receivables to SMC, but also seems to extend credit to TON Finance, a holding company of SMC, as well as other

entities that seem to be related to the families of SMC founders. How does Resona regard the conflict of interests that lies between SMC and its founders, and what specific measures has Resona implemented to prevent any problems rising from this?

3. As per filings in Japan and in the Netherlands, TON Finance has pledged a significant number of SMC shares to Resona Bank as collateral for an undisclosed loan. (We note that based on the filings made in the Netherlands, there seems to be not one but multiple pledges on the said shares.) Resona Bank is also named in the filings as the representative of TON Finance in Japan. Please explain what these pledges are for, the terms and the amount of the extended credit, and who are the borrowers.
4. According to TON Finance's regulatory filings in the Netherlands, the number of pledged SMC shares at the end of Dec 2013 was 1,450,000. This increased to 3,443,500 shares by the end of Dec 2014. These figures, however, are different from the ones in the filings made in Japan, which state that the number of pledged SMC shares is 3,836,235. Please note that Mr. Kazumasa Yajima, an employee of Resona Bank, is named as the contact person in the regulatory filings, and as such Resona Bank is accountable to explain why such discrepancies exist in regulatory filings.
In addition, based on the regulatory filings in the Netherlands, it appears that shares of SMC held by TON Finance were sold down significantly in 2012. Based on our estimates, the sales amounted to approximately 2,720,000 shares (i.e., $3,836,235 \text{ shares} \times 6,288,445,380 / 8,883,958,880$). Hence, we estimate that the SMC stake held by TON Finance decreased to around 1,112,000 shares at the end of 2013. However, the number of pledged shares as disclosed in the Dutch regulatory filing as of the end of 2013 was 1,430,000 shares (as noted above, this figure differs from the Japanese regulatory filing made on Jan 28th, 2009). Then, the number of pledged shares increased to 3,443,500 at the end of 2014. As the statutory proxy for TON Finance in Japan, we believe Resona Bank has the responsibility to explain these discrepancies in regulatory filings.
5. Based on SMC corporate filings, we believe that Resona Bank has a significant amount of loans outstanding to SMC and to the families of company founders. What is your total amount of loans outstanding with SMC, the families of its founders, and other related entities including, but not limited to, TON Finance?
6. Through a private investigator and discrete interviews, we have discovered the following:
 - a. TON Finance BV, an Amsterdam-based paper company, is acting as the de facto auditor for a large number of consolidated and non-consolidated overseas SMC subsidiaries.
 - b. The statutory representative for TON Finance in Japan is Mr. Kazumasa Yajima, who is an employee of Resona Bank. However, former SMC employees say in interviews that Mr. Yajima acts as SMC's "internal auditor" despite the fact that he is a Resona Bank employee.
 - c. Resona is aware of accounting issues at SMC's overseas subsidiaries.

- d. Toyo Warehouse, a consolidated SMC subsidiary (whose President is a former employee of Resona, and which is located in the same building as SMC's external auditor Seiyo Audit Corporation) is "audited" by an SMC employee and a former Resona Bank employee.

We would like to hear your comments on the above.

7. From SMC filings, it appears that your subsidiary, Resona Kessai, holds a significant amount of SMC's accounts payables. These are explained to have been factored by SMC counterparties to Resona Kessai. Can you please explain the nature of this agreement, the terms of the receivables and the scale of this exposure, as well as the cost benefit that is achieved through such transactions?

Your assistance in investigating the outlined concerns and in providing explanations to the investment community is greatly appreciated. Thank you for your time and for fulfilling your duties as independent directors to improve the corporate governance at Resona Holdings and in Japan at large.

We wish your company a highly prosperous future and look forward to your contribution to making proactive disclosure a standard practice in Japan's capital market, which we feel sure will deepen the trust of the international investment community toward our market.

Best regards,

Yuki Arai, Research Director
Well Investments Research