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Realizing “Retail No. 1”

First of all, I would like to express my sincerest gratitude to all those who support our operations. I would also like to extend my wholehearted sympathy for people the COVID-19 pandemic has affected both directly and indirectly.

In April 2020, I assumed the position of President and Representative Executive Officer of Resona Holdings. The Resona Group’s earliest precursors emerged more than 100 years ago. This means that those of us here today owe a lot to a long line of people who have supported the Group over the century. With this in mind, I believe that my mission as President is to spearhead a drive to further enhance Resona’s strengths, which are backed by an extensive track record in the retail banking business, its field of specialty. I am also determined to ensure that Resona’s “DNA of reform” is embraced by all Group members—consisting of more than 30,000 officers and employees—and underpins their fearless and unceasing determination to transform the Resona Group into a company capable of delivering new customer value amid radically changing times.

Looking ahead, the Group will remain true to its fundamental stance “Customers’ happiness is our pleasure” and stay focused on serving local communities via the retail business, with the aim of becoming the best financial service group of choice for customers and realizing “Retail No. 1.”

1. Our Analysis of the Business Environment

The current global economy is severely damaged and remains mired in an unprecedented crisis due to various restrictions—including those on the movement of people and goods—imposed by governments around the world striving to contain COVID-19. As the pandemic continues to defy forecasts regarding containment, it is highly likely that social conditions will not stabilize for some time. Similarly, economies are in no way expected to regain their previous vitality any time soon. We need to confront these realities and future uncertainties.

The fallout from the COVID-19 pandemic is expected to effect changes in daily activities and conventional norms. I believe that, based on the premise that issues customers are facing will radically evolve in step with these changes, Resona should redefine its modes of business.

In the meantime, climate change continues to generate growing risks around the globe, while Japan is confronting problems arising from an ever-lower birthrate and a rapidly aging society. As such, there are a number of important social issues requiring solutions in the medium- to long-term.

We consider these changes to be new business opportunities. Going forward, we should realize innovation with new ideas in fields never before deemed profitable and thereby help resolve social issues. This will be, I believe, where we prove the true value of our business and improve our corporate value.

2. Resona's SDG-Oriented Management: Realizing Retail No. 1 by Helping Resolve Social Issues through Business and Innovation

Resona's Value Creation Model

Our value creation model starts with issues customers and society as a whole are confronting and prompts us to think deeply about how to bring solutions to such issues through our business operations. In doing so, we aim to take full advantage of Group strengths built up over many years while cherishing our contact points with customers. This approach continues unchanged and constitutes the axis of our corporate activities.

On the other hand, we have seen radical changes in industrial and social structures amid an overwhelmingly rapid

advance in technological development. Reflecting these changes, customers' value systems, modes of business and financial behaviors are also changing significantly. Striving to adapt to this changing landscape, we will create new customer experiences and deliver new customer value, breaking free of conventional concepts of what a bank should look like.

Our Priority Themes in Resolving Social Issues

In November 2018, we announced the Resona Sustainability Challenge 2030 (RSC2030), which identifies four priority

themes that the Group should tackle: (1) local communities; (2) the low birthrate and an aging society; (3) the environment; and (4) human rights. In line with these themes, efforts are currently under way to help resolve various social issues.

These themes were chosen based on their relevance to our Corporate Mission and fields of strength. We have also collected a wide variety of feedback from all employees, ranging from those in top management to frontline staff, to ensure that the themes selected resonate with the Resona Group's operations (see also pages 18 and 19).

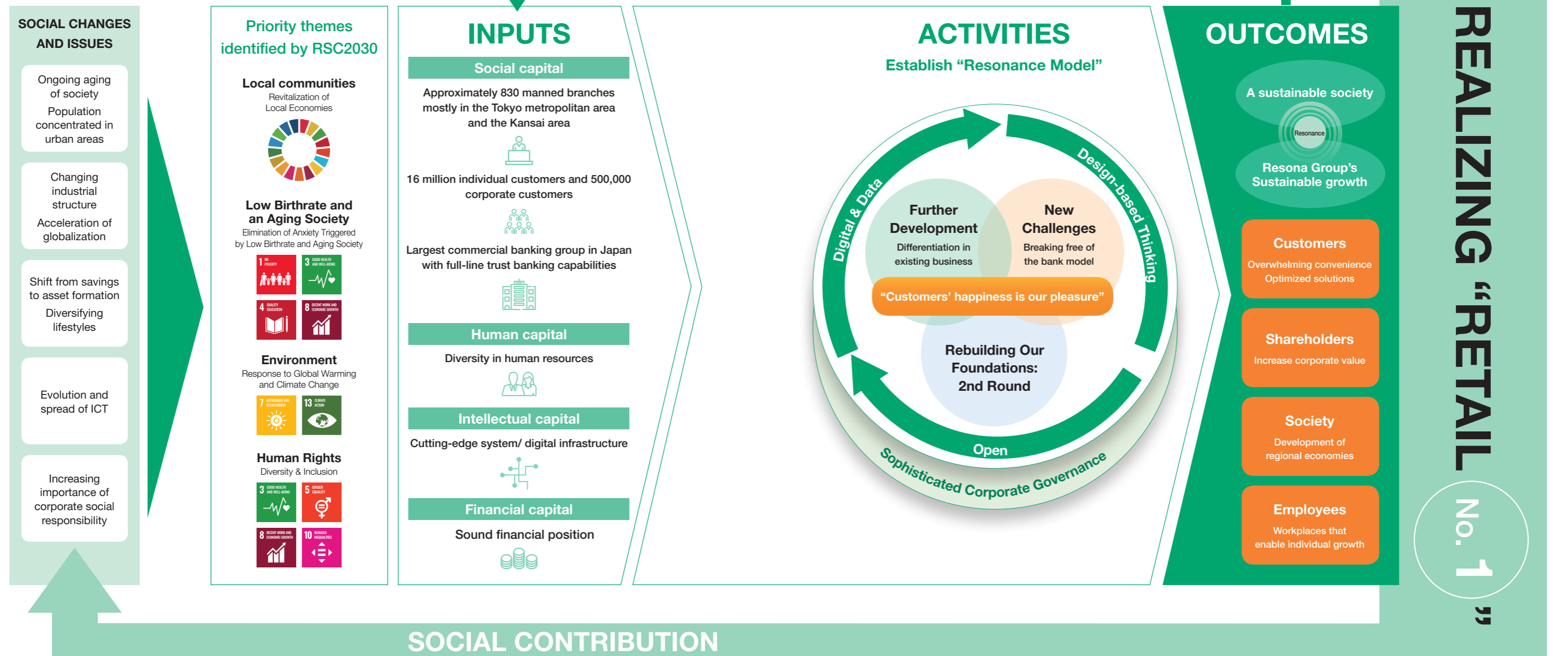
We believe that the Resona Group's raison d'être lies in its contribution to society via the provision of solutions to issues associated with these themes as said themes represent fields

in which the Group can take full advantage of its strengths. We will strive to identify new business opportunities in these fields while paying close attention to changes in social structures. By doing so, we hope to create a virtuous cycle of working hand in hand with customers to resolve social issues and thereby achieving corporate growth that will allow us to help further in finding solutions.

Resona's Strengths (see also pages 10 – 13)

Our distinctive strengths lie in a robust retail banking customer base serving mainly the Tokyo metropolitan and Kansai areas, solid customer-relations capabilities backed by a community-rooted business approach, full-line trust banking and real

Resona's Value Creation Model





estate brokerage capabilities, asset management capabilities acquired in the course of pension asset management and outstanding human resources. Going forward, we aim to innovate an even stronger Resona by employing “chemistry” arising from the resonance generated by the combination of human resources and leading-edge technologies, synergies between physical branches and digital channels, and the fusion of digital technologies and data.

Our Strengths as Japan’s Largest Retail Commercial Banking Group with Full-Line Trust Banking Capabilities

The Resona Group is composed primarily of Group banks boasting strengths in locally rooted financial services, these are, Resona Bank, Japan’s largest commercial bank equipped with full-line trust banking capabilities; Saitama Resona Bank, which commands an overwhelming share of the market in Saitama Prefecture; and Kansai Mirai Financial Group (KMFG), the largest regional financial institution of its kind in the Kansai area.

The need for solutions supporting the smooth succession of businesses and assets is expected to grow as is the need for asset management tailored to the anticipated coming “age of centenarians.” We are convinced that Resona can secure a significantly advantageous position in these fairly promising markets through the combination of three of its strengths: 1) a robust retail customer base (16 million individual customers and 500,000 corporate customers) developed over a long period of operation as a commercial bank; 2) full-line trust banking and real estate brokerage capabilities; and 3) asset management capabilities acquired in the course of pension

asset management that will allow us to better serve retail customers seeking such solutions.

Our Strengths Nurtured through the Resona Reform

In June 2003, Resona received an injection of public funds totaling ¥1,960 billion under the Deposit Insurance Act. Drawing on lessons learned in the course of thoroughly analyzing the root causes of the setback that led to this event, the Resona reform was initiated to restore the Company’s standing as a genuine retail bank. We have nurtured the “DNA of reform” to secure a resilient corporate culture that is lending us another source of strength in the face of an evolving business environment.

The Resona reform involved upgrading the governance structure as well as financial, service and operational reforms.

In upgrading the governance structure, Resona Holdings became the first domestic banking group to transition to a “company with a nominating committee” system, which made the majority of the renewed Board of Directors outside directors from a variety of industries. This composition has been maintained to the present, with the Nominating, Compensation and Audit committees all chaired by outside directors. The Board of Directors has been engaged in brisk discussion to ensure that the views of external stakeholders are deeply reflected in the Company’s business management.

Over the course of the financial reform, we disposed of non-performing loans on a thoroughgoing basis while drastically reducing our holdings of policy-oriented stocks. Furthermore, we diversified our loan portfolio to small lots and established a structure for managing securities that places greater emphasis on ensuring stability. Thanks to these efforts, our balance sheet remained sound even in the midst of the worldwide recession triggered by the Lehman Crisis, supporting our strong and stable financial position to this date.

To achieve the service reform, we strove to ensure that no customer would be asked to wait even a minute and lengthened operating hours at our branches by shifting the closing time to 5 p.m. Through engagement in these and other initiatives aimed at breaking free of the old norms long dominating the banking industry, all employees were able to embrace Resona’s fundamental stance “Customer’s happiness is our pleasure.”

Lastly, as part of the operational reform, over the course of a decade starting in 2005, we halved the volume of clerical work at branches with the aim of simultaneously enhancing customer convenience and the productivity of banking operations. Drawing on the success of our efforts to establish a platform that allows a relatively small staff to efficiently handle operations, we also increased to 30 the number of branches specializing in consultation and operating even on weekends and national holidays. Resona has thus succeeded in securing cost advantages in the field of retail banking—a type of business that is typically believed to be cost-intensive. Looking ahead, we will continue to pursue low-cost operations by, for instance, reconstructing our business process and promoting digitalization.

3 . The New Medium-term Management Plan Aimed at Establishing a Resonance Model (see also pages 14 to 41)

Resonance Model

Having refreshed its top management in May 2020, the Resona Group announced a new medium-term management plan (MMP) aimed at establishing a “Resonance Model” and spanning a period of three years. The word “resonance” is also the origin of Resona’s company name, and the new MMP stipulates a long-term vision in which the Group engages in the simultaneous pursuit of the creation of a sustainable society and sustainable corporate growth, ensuring “resonance” between these two endeavors.

Specifically, initiatives to establish the Resonance Model will include pushing ahead with “further development” aimed at differentiating ourselves and enhancing the strengths of our existing business; taking on the “new challenges” of creating new businesses in a way that breaks free of the bank model; and “rebuilding our foundations: 2nd round,” meaning the development of a next-generation business platform supporting the two strategies described above.

Furthermore, we will innovate our business model and management foundations using the drivers “Digital & Data,” “Design-based Thinking” and “Open.” Although readers are advised to turn to page 14 and later sections of this report for details of the new MMP, here I focus on describing my underlying thoughts regarding the MMP.

Rebuilding Our Foundations

Looking back, we were able to make steady progress in the execution of the Omni Strategy, which was fundamental to the former MMP. On the other hand, we are only halfway through completing our income and cost structure reform goals, and the profit target under the former MMP has not been met. All of us must squarely face these realities. We are indeed struggling with the declining profitability of the traditional, lending-centered banking business model due to changes in the flow-of-funds structure, the prolonged ultra-low interest rate environment and increasingly intense competition among existing industry players as well as against new players making entries from different sectors. We therefore need to take decisive measures to eliminate substantial discrepancies between the top-line revenues currently available from the conventional business platform and the cost structure the Company has maintained.

To this end, while steadily continuing with operational reforms, we must set our sights above merely streamlining and strive to structurally transform the banking business as a whole over the long term. This requires refreshing our focus on efforts aimed at rebuilding our foundations. In this way, we will fully dismantle the inherently high-cost structure of the retail business.

As stated above, we have been engaged in a variety of initiatives under the Resona reform, continuously striving to move beyond conventional banking frameworks. Building on the success of these initiatives, we will take full advantage of

our “DNA of reform” while employing fresh ideas and approaches in the challenging pursuit of disruptive innovation in the wake of the rapid advancement of technologies.

Currently, our back-office operations are supported by more than 10,000 dedicated clerical professionals and complicated accounting-related legacy systems. We aim to drastically change this structure. To this end, in April 2020 we launched a Cross Functional Team (CFT), a dedicated body tasked with spearheading across-the-board efforts to enhance customer convenience and thoroughly streamline and reconstruct our business processes via the proactive utilization of unconventional ideas and the incorporation of external inputs regarding digital technologies and other cutting-edge fields.

Although it may take a little longer than the period of the new MMP, our ultimate aim is to realize a branch system capable of handling all procedures in a single line and completely eliminating the need for on-site clerical work by integrating consulting services and banking procedures. Specifically, this system is expected to employ tablet terminals that enable branch staff to complete all procedures starting with making proposals. The resulting system will have no need for dedicated clerical professionals. This will allow all employees to engage in sales and consulting.

We will likewise accelerate the simplification and upgrading of other existing systems with an eye to employing ever advancing technologies. To this end, we will allocate greater funds to digitalization-related strategic investment, with the aim of significantly accelerating development speed and securing our ability to release new products and services at an even faster pace.

The drastic downsizing of branch networks has been a rising trend throughout the banking industry. In its efforts, the Resona Group is placing strong focus on maintaining customer convenience while streamlining operations. For example, we employ a “branch-in-branch” method that integrates branches operating in close proximity, mainly targeting those run by Kansai Mirai Bank.

I believe that, despite a growing shift toward digital channels, our face-to-face channels will remain a source of strength supporting our financial services. Accordingly, we will strive to update our network of more than 800 domestic branches encompassing the Tokyo metropolitan and Kansai areas into a new growth driver by lowering their break-even points and adjusting their respective missions. On the other hand, the Resona Group App, one of our digital channels, recorded more than 2,300,000 downloads, a number representing steady growth since its release. We intend to further develop such channels, creating a next-generation, data-driven network that employs a combination of face-to-face and digital channels. We will thus create a structure capable of providing as many customers as possible with hassle-free, convenient services that are accessible anytime, anywhere and designed to meticulously meet their individual needs.

Further Development

“Further development” under the new MMP means reviewing Resona’s strengths and then enhancing such strengths in a way that aligns them with changing times. This initiative will help us secure yet another source of opportunities for robust growth. For example, the succession business, on which the Group focuses, represents a field in which Resona can draw on the combined advantage of its robust customer base and full-line trust banking and real estate brokerage capabilities amid growing needs for the smooth transfer of assets and businesses to the next generation. Moreover, in anticipation of the age of centenarians, we are strengthening our asset formation support business by continuously nurturing consulting specialists over the medium- to long-term. At the same time, we aim to roll out products targeting investment professionals to retail customer segments, fully employing the asset management capabilities we have accumulated in the course of our involvement in corporate pension management over many years. To this end, in January 2020 we consolidated the Group’s asset management functions into Resona Asset Management. Looking ahead, we will continue to differentiate ourselves by taking full advantage of Resona’s unique strengths deriving from a combination of its superior capabilities in fields of the retail business, trust banking and asset management.

“Further Development” × “New Challenges”

Furthermore, we will simultaneously take on “further development” and “new challenges” in fields in which we expect to see the positive outcomes of ongoing initiatives launched under the former MMP. In the settlement business, we will deliver unique products and services to an ever-expanding cashless market, with the aim of significantly benefiting the Japanese economy as a whole. Currently, we are providing each new individual customer who opens an account with a cash card equipped with contactless debit card functions. We also offer access to the Resona Cashless Platform (RCP) fully launched in fiscal 2019 to our corporate customers. We will continue to seize new profit opportunities by reallocating sufficient management resources to growth fields and securing our ability to accommodate society’s needs.

In addition, although KMFG, which launched full-scale operations in April 2018, is only halfway toward its initially planned performance targets, it has been able to secure a solid footing toward the future realization of synergies in terms of top-line revenues and cost effectiveness. For example, Kansai Mirai Bank was inaugurated via the April 2019 merger of Kansai Urban Banking Corporation and Kinki Osaka Bank, with the subsequent integration of their administrative platforms and IT systems completed over the course of just a six-month period.

In May 2020, KMFG announced its new medium-term management plan in conjunction with Resona Holdings’ announcement of the new MMP. In line with a basic policy of maintaining a competitive, yet collaborative relationship with each other, all Group banks will be hard at work to move forward toward a new growth stage.

New Challenges/Open

As we aim to take on the “new challenges” that breaking free of the bank model entail, we have positioned “open” as an important keyword. We need to accommodate customers with ever more diverse and complex value systems and their needs for increasingly sophisticated solutions. Accordingly, we will strive to bring in new ideas that go beyond the conventional banking frameworks and employ wide-ranging connections to deliver new value to customers and society as a whole. This is a matter of crucial importance for the Resona Group. The CFT, which I touched on earlier, is also expected to play a key role in these initiatives.

Today, no bank is in a position where it can expect to win customer loyalty without working for it. Moreover, although we are called on to help resolve the issues confronting customers, we are no longer able to provide sufficient solutions by using only our in-house expertise and know-how. In order to secure our ability to satisfy diversifying customer needs, we need to proactively engage in external collaboration to incorporate fresh insights while sharing customer bases with partners.

We have also seen changes in terms of how we collaborate with regional financial institutions. The strategic utilization of APIs and other technological solutions, which enable a type of collaboration that had previously required full-scale system integration, allows Resona and such institutions to share a broader range of products and services. From the customer perspective, we will steadily incorporate open platforms and collaborate with partners from a broad range of fields, including those from different sectors, thereby delivering new customer experience.

Digital & Data and Design-based Thinking

The Resona Group is facing a growing need to ensure its capability to respond to disruptive changes in the business environment, and it is time for the Group to structurally renovate itself via digital and corporate transformation.

With regard to the outlook for customer contact points, for example, we believe that Resona must integrate digital channels and face-to-face channels via data-driven operations to secure a competitive edge in the domestic retail finance field. This is essential given the considerable variation in customers’ IT literacy due to a significant proportion of our customer portfolio being elderly. At present, we have access to high-quality data collected via robust face-to-face channels supported by more than 800 physical branches. At the same time, we are positioned to acquire data from Resona Group App, which is expected to record 5 million downloads in three years, and other digital channels that serve as high-frequency and wide-ranging data sources. We also employ a variety of insights gleaned via wide-ranging collaboration with external partners. Indeed, data and inputs from these sources will be variable tools supporting our future business development. Accordingly, we will strive to utilize data effectively to secure our ability to precisely forecast customer behavior and ensure robust customer communications in terms of quality and

quantity, with the aim of delivering easily accessible, user-friendly financial services.

“Design-based Thinking” means, in addition to breaking free of the bank model, we must thoroughly use the customer perspective in our operations. Our future success hinges on what solutions we can deliver and how we help resolve issues customers are confronting. To this end, Resona needs to shift away from its conventional, lending-centered banking

4. Final Words

Currently, countries around the world are in the middle of battling against the spread of COVID-19. As a financial institution supporting Japan’s social infrastructure, the Resona Group is committed to continuing its business operations, including smoothly providing financial services and extending fundraising assistance, in a way that places the utmost priority on helping customers maintain their livelihoods and keep their businesses going amid this crisis.

In addition, the COVID-19 pandemic has triggered major changes affecting social norms and value systems. In the post-pandemic period, our society may undergo an unprecedented, radical paradigm shift that will lead to a massive transition to alternative life- and working styles. If that is the case, we will be called upon to help resolve new issues our customers and society as a whole are confronting. Accordingly, aligning our capabilities with these changes and delivering optimized solutions is a matter of crucial importance for the Resona Group.

framework. We believe that these efforts will help us establish “win-win” relationships with customers and naturally position us to increase fee income. In the medium- to long-term, we aim to secure a volume of fee income robust enough to cover all expenses via the execution of income and cost structure reforms and have positioned the new MMP as the first step toward achieving this aim.

In this regard, I am confident that, despite the current turbulence, Resona can evolve into an even stronger and more creative company by fully taking advantage of the unique strengths it has accumulated in the course of specialization in the retail business over many years as well as its “DNA of reform.”

I sometimes meet people who ask me what “Retail No. 1” means. My answer is we want to make Resona a top-tier retail finance brand whose name immediately comes to mind. Going forward, we will continuously strive to deliver overwhelming convenience and optimized solutions to our customers while contributing to the development of regional economies. Furthermore, we will create a workplace that empowers every employee to achieve individual growth. In these ways, we will do our utmost to enhance corporate value for the Group.

We are counting on your continued support.

