A Message from the Executive Officer in Charge of Finance and Accounting

Narunobu Ota
Executive Officer in Charge of Finance and Accounting Division

1. Results for the Fiscal Year Ended March 2020

In the fiscal year ended March 31, 2020 (FY2019), the business environment surrounding financial institutions grew ever harsher as the trend toward ultra-low interest rates continued and U.S.-China trade friction and other factors contributed to a rising sense of uncertainty about the global economic outlook. Moreover, the emergence of the COVID-19 pandemic in the fourth quarter caused economic activities around the globe to fall into stagnation.

Amid these circumstances, net income attributable to owners of parent was ¥152.4 billion, a ¥22.7 billion decrease compared with the previous fiscal year that reflected the absence of that year's one-off gains from the management integration of Kansai Mirai Financial Group, Inc. (KMFG) and other factors. However, when the effect of said one-off gains is excluded from the previous fiscal year's results, net income attributable to owners of parent is shown to have increased ¥17.1 billion year on year. Also, we were able to keep the pace of decline in the loan to deposit spread to almost the rate initially expected and our ongoing cost reduction efforts yielded a decrease in operating expenses. In addition, we made steady progress in the promotion of the Resona Group App, the Resona Cashless Platform (RCP) and other forward-looking initiatives. In sum, the Group's income and cost structure reforms resulted in solid outcomes in FY2019.

A more detailed look at operating results reveals that gross operating profit increased ¥14.5 billion year on year to ¥658.6 billion.

Although income from domestic loans and deposits decreased ¥11.0 billion from the previous fiscal year, the annual average balance of loans grew 1.35%, while the decline in the loan to deposit spread was contained at 0.04%. The latter two indices were thus almost exactly in line with expectations. In particular, the year-on-year pace of decline in the loan to deposit spread has steadily slowed even during the course of a lingering declining trend.

Fee income fell ¥3.5 billion year on year, with its ratio to gross operating profit amounting to 28.8%. Although fees from insurance sales declined considerably due to deterioration in product value reflecting the lower U.S. interest rates, the Group was able to achieve more robust revenues from a fund wrap, settlement-related services, corporate solutions and other areas of focus.

Net gains on bonds (including futures) increased ¥19.1 billion year on year, representing significant growth mainly due to a rebound following a temporary fall in the previous fiscal year attributable to measures undertaken to improve the soundness of the market division's securities portfolio as well as the timely accumulation of trading profits.

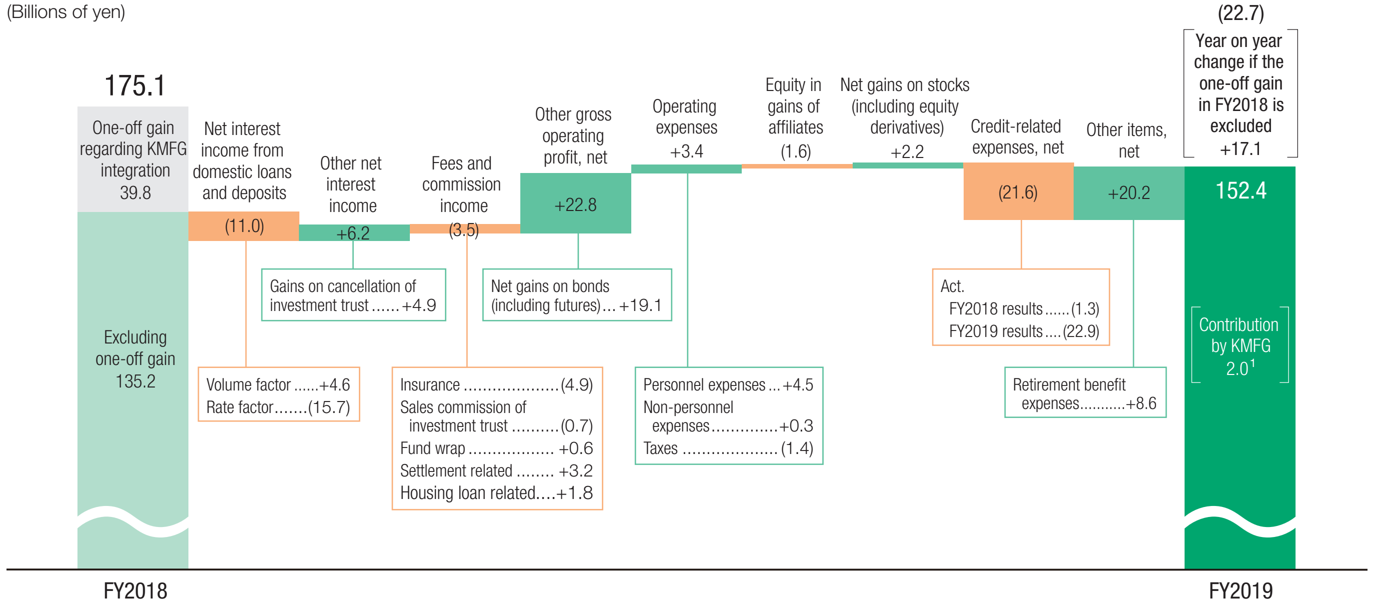
We have also seen improvement in expenses, with declines in both personnel and non-personnel expenses contributing to a ¥3.4 billion decrease in operating expenses.

Credit-related expenses increased ¥21.6 billion year on year to ¥22.9 billion. This was mainly attributable to the absence of major reversal gains recorded in the previous fiscal year and the preemptive provisioning of loan loss reserves against certain loan portfolios.

Financial Results Overview

(Billions of yen)	FY2019	
		YoY change
Net income attributable to owners of parent	152.4	(22.7)
Gross operating profit	658.6	+14.5
Net interest income	431.1	(4.7)
Net interest income from domestic loans and deposits	342.6	(11.0)
Fee income	190.2	(3.5)
Fee income ratio (%)	28.8%	(1.2)%
Other operating income	37.3	+22.8
Net gains on bonds (including futures)	11.3	+19.1
Operating expenses (excluding Group banks' non-recurring items)	(417.1)	+3.4
Actual net operating profit	241.9	+16.3
Net gains on stocks (including equity derivatives)	9.3	+2.2
Credit-related expenses, net	(22.9)	(21.6)
Other gains, net	(16.2)	(23.3)
Net income before income taxes and non-controlling interests	212.1	(26.4)
Income taxes and other	(56.7)	+0.5
Net income attributable to non-controlling interests	(3.0)	+3.1

Factors Contributing to the Changes in Net Income Attributable to Owners of Parent
(Billions of yen)



2. Forecast for the Fiscal Year Ending March 2021 (FY2020)

For FY2020, our target for net income attributable to owners of parent is set at ¥120.0 billion, representing a decrease of ¥32.4 billion from FY2019 results. Our forecast for cash dividends per share is ¥21 per share, as we expect to be able to maintain full-year dividends at the same level as FY2019.

Moving on, I will discuss the consolidated performance targets for all Group banks taken together. Gross operating profit is expected to decline ¥24.3 billion from FY2019 results. We anticipate that profit will fall due to the ongoing decrease in net interest income amid the low interest rate environment and the inevitable fall off after particularly robust performance figures in the market division in the previous year. Moreover, we forecast only moderate growth in fee income due to such factors as restrictions on face-to-face marketing activities as part of countermeasures against the spread of COVID-19.

Operating expenses are expected to be up ¥4.1 billion compared with FY2019 results. Despite improvement in personnel expenses, we anticipate that the increase in system-related expenses and the impact of consumption tax hikes will result in an overall increase. Net gains on stocks (including equity derivatives), however, are expected to rise ¥4.8 billion, mainly as they rebound from a decline in the previous fiscal year. We also forecast that credit-related expenses will amount to ¥42.0 billion, an increase of ¥23.2 billion from FY2019, reflecting our projection that measures being enforced to counter the COVID-19 pandemic will affect a broad range of corporate customers.

Although the impact of the COVID-19 pandemic on our FY2019 operating results was limited, our FY2020 operating results forecasts are formulated based on the assumption that the fallout from the pandemic will, as described above, significantly affect gross operating profit, credit-related expenses and other performance indices. Nevertheless, the Resona Group will place the utmost priority on extending steadfast support to its customers via the close assessment of their operational status and fundraising status.

FY2020 Performance Targets

Resona Holdings (consolidated basis)

(Billions of yen)	Annual targets	YoY change
Net income attributable to owners of parent	120.0	(32.4)
KMFG[2]	3.0	
Difference	14.5	

Common dividends per share

	Dividends per share	YoY change
Common dividends (full-year dividend forecast)	¥21.0	—
Interim dividends	¥10.5	—

Total of Group banks

(Billions of yen)	Annual targets	YoY change
Gross operating profit	581.0	(24.3)
Operating expenses	(397.5)	(4.1)
Actual net operating profit	183.5	(28.4)
Net gains on stocks (including equity derivatives)	23.5	+4.8
Credit-related expense, net	(42.0)	(23.2)
Income before income taxes	152.5	(43.0)
Net income[3]	107.5	(35.0)

1 Consolidated net income earned by KMFG (¥3.9 billion x 51.2% (the ratio of Resona Holdings' equity stake))
2 The figure is determined based on the ratio of Resona Holdings' equity stake in KMFG (51.2%)
3 Net income attributable to non-controlling shareholders is not deducted from net income

3. Reduction in Policy-Oriented Stockholdings

Since the 2003 infusion of public funds, we have reduced our holdings of policy-oriented stocks by approximately ¥1 trillion via a course of financial reform, well ahead of other Japanese banks, with the intention of reducing our exposure to equity price fluctuation risk. A few years ago, we announced a target of reducing such stockholdings by approximately ¥35.0 billion over a five-year period that began in April 2016 and have made steady progress toward this goal. As of March 31, 2020, we have progressed 93% of the way to our goal and are expecting the reduction target to be accomplished well ahead of schedule. Realizing this fact, we decided to refresh our reduction target in conjunction with the formulation of a new medium-term management plan (MMP), resetting our goal and its deadline. We now aim to reduce our policy-oriented stockholdings by approximately ¥30.0 billion over the next three fiscal years, accelerating the pace of reduction. In addition, we aim to maintain the ratio of such stockholdings at approximately 15% of our CET1 capital (excluding unrealized gains on available-for-sale securities).

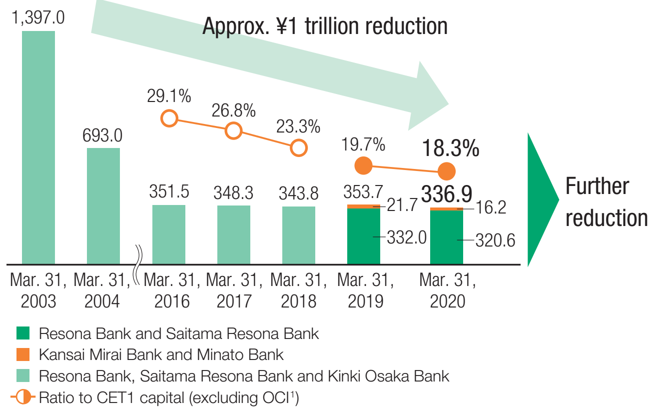
Looking ahead, we will strive to further reduce our policy-oriented stockholdings while undertaking risk-return assessments based on the medium- to long-term outlook for transactions with our corporate customers.

Renewed Target for Reduction in Policy-Oriented Stockholdings under the New MMP

Former target	New target	Cumulative total
March 31, 2016 – March 31, 2021 (five years) ¥(35.0) billion Results as of March 31, 2020 ¥(32.6) billion…(1) Achieved 93% in four years	March 31, 2020 – March 31, 2023 (three years) ¥(30.0) billion…(2)	March 31, 2016 – March 31, 2023 (seven years) ¥(62.6) billion …(1) + (2)
Against a target of maintaining the ratio of policy-oriented stockholdings at less than 20% of CET1 capital (excluding OCI[1]); the ratio is kept at 18.3% as of March 31, 2020	Around 15% of CET1 capital (excluding net unrealized gains on available-for-sale securities)	

Policy-Oriented Stockholdings

(Billions of yen)



4. Capital Management

Our basic capital management policy is to strike an optimal balance between 1) investment for financial soundness, 2) profitability and 3) shareholder returns.

Under the new MMP, we strive to secure sufficient capital under the currently applicable Japanese standard. Simultaneously, we strive toward the target of raising our CET1 ratio from 9.1% as of March 31, 2020 under the international standard (based on regulations to be effective upon the enforcement of the finalized Basel 3; excluding net unrealized gains on available-for-sale securities) to around 10% by March 31, 2023. The target for our capital adequacy ratio entails the following three points.

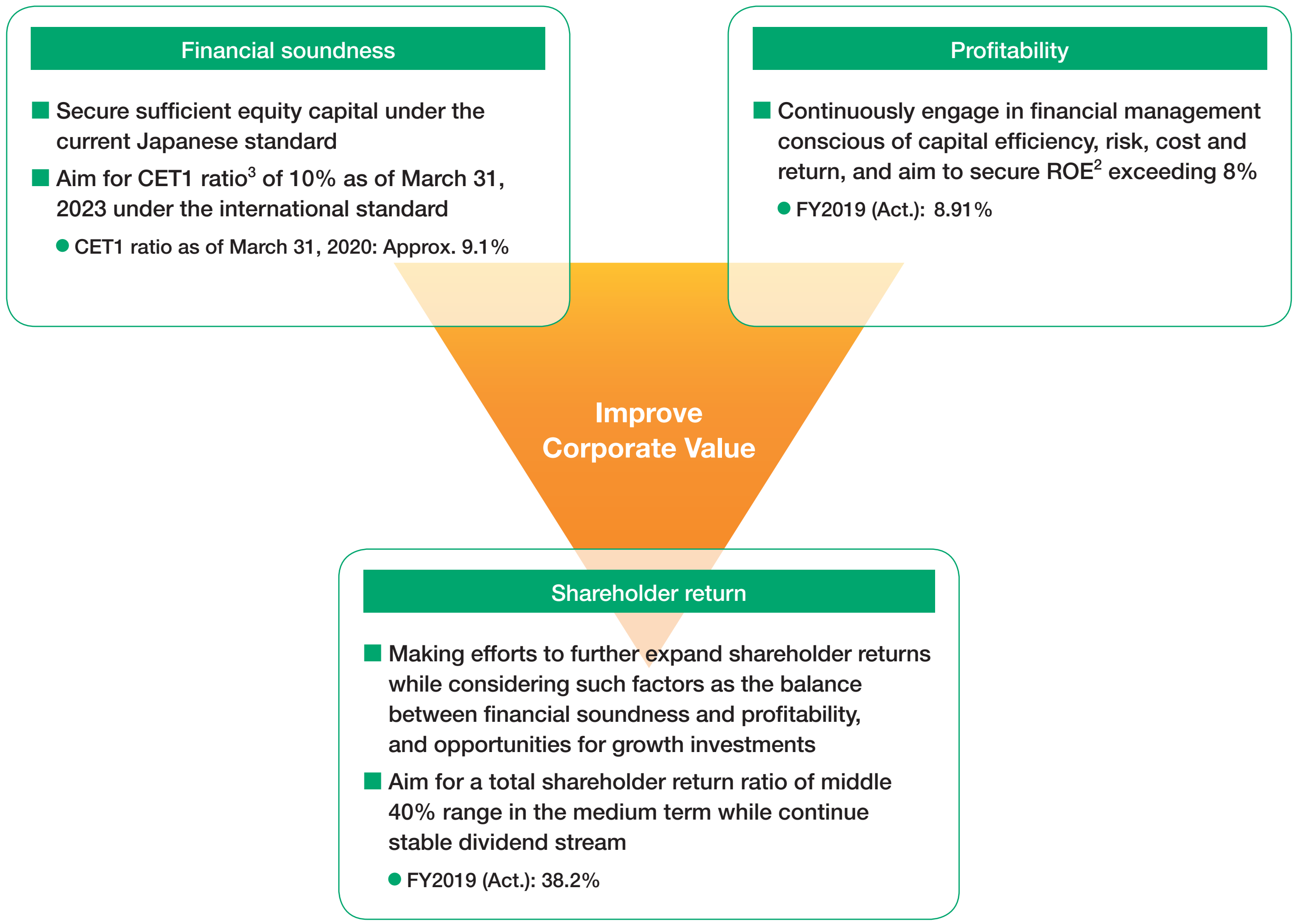
- Further contribute to regional communities and economic development by, for example, steadily supplying funds and providing services
- Secure capital as a financial institution that is trusted worldwide and generate sustainable growth
- Ensure strategic flexibility for responding to investment opportunities and changes in financial regulations

Striving to secure profitability despite a harsh operating environment, we will continue with financial management centered on enhancing capital efficiency and risk and cost returns, with the aim of securing an ROE[2] of more than 8% and thereby keeping our position of advantage in the domestic banking sector.

We have also steadily enhanced shareholder returns. For example, we paid cash dividends of ¥21 per common share for FY2019, an amount on par with cash dividends paid for a year earlier. At the same time, we have executed share repurchases totaling ¥10.0 billion. This is the first move of its kind for Resona Holdings since its inauguration with the exception of share buybacks associated with the repayment of public funds.

Going forward, we will maintain a stable stream of cash dividends while striving to further enhance shareholder returns in a way that balances financial soundness and profitability as well as giving due consideration to seizing growth investment opportunities. Specifically, we aim for a total shareholder return ratio in the mid-40% range over the medium term.

Direction of Capital Management



5. Dialogue with Shareholders and Investors

The Resona Group emphasizes constructive dialogue with shareholders and investors to achieve sustainable growth and increase corporate value over the medium to long term. Although we proactively sought to increase opportunities for dialogue during FY2019, the number of relevant dialogue events was down due to the cancellation of some presentation meetings as part of measures aimed at preventing the spread of COVID-19 in the fourth quarter.

Our dialogue with domestic and overseas institutional investors includes interim and full-year results briefings. We also conduct teleconferences for quarterly results, business strategy information meetings, and one-on-one interviews.

Our dialogue with individual investors encompasses online information meetings and meetings at such venues as the branches of securities companies. We also take advantage of opportunities to provide more information by hosting shareholder seminars and participating in events like the Nikkei IR Fair 2019.

We will continue to disclose information fairly and impartially and will maintain a constructive dialogue with shareholders and investors.

Overview of IR Activities during the Fiscal Year

	Number of occasions	Total participants
IR meetings for individual investors	9	1,721
IR meetings for domestic and overseas institutional investors and analysts, response to media coverage, etc.	194	549 (companies)
Shareholder seminars	1	470
Total	204	2,740

1 Other comprehensive income
2 Net income attributable to owners of parent / Total shareholders' equity (simple average of the balances at the beginning and end of the term)
3 Based on regulations to be effective upon the enforcement of the finalized Basel 3; excluding net unrealized gains on available-for-sale securities