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 2021 (FY2020)

In the fiscal year ended March 31, 2021, (FY2020), the business environment remained unclear due to the COVID-19 pandemic. Against this background, the Resona Group focused on the constant provision of financial assistance to customers while maintaining its own financial soundness. Although the Group's first-quarter operating results were particularly harsh due to the pandemic's impact, its overall performance was gradually reinstated to a recovery track thanks to employees becoming adept at new modes of sales activities in the midst of the pandemic.

Amid these circumstances, net income attributable to owners of parent was ¥124.4 billion. This, albeit representing a ¥27.9 billion decrease compared with the previous fiscal year, is 3.7% in excess of the full-year target of ¥120.0 billion.

On April 1, 2021, Resona Holdings completed procedures for making Kansai Mirai Financial Group (KMFG) a wholly owned subsidiary in line with the schedule. Thus, the Resona Group made a fresh start with a new structure in FY2021.

Here, I will explain the overview of FY2020 operating results. Firstly, gross operating profit declined ¥19.5 billion to ¥639.1 billion.

Net interest income from domestic loans and deposits decreased ¥2.2 billion from the previous fiscal year. While the annual average loan balance on an actual basis, which excludes loans to the Japanese and other government bodies, grew 3.25%, surpassing our plan, the loan rate declined 0.04%, which was almost in line with the plan. The year-on-year pace of decline in the loan rate has steadily slowed even in the midst of a lingering declining trend. Furthermore, the year-on-year pace of decline in income from domestic loans and deposits significantly decelerated to a level equivalent to one fifth of that seen in the previous fiscal year.

Fee income rose ¥1.2 billion year on year, with its ratio to gross operating profit amounting to 29.9%. Due to restrictions enforced on face-to-face business activities in light of the prevention of the COVID-19 infection, the recording of fee income had been slow in the beginning but gradually recovered. Full-year fee income exceeded that recorded in the previous fiscal year thanks to contribution of the fund wrap, corporate solutions, settlement-related services and other operations.

We have also seen a ¥1.6 billion year-on-year improvement in expenses, reflecting the positive effect of the thoroughgoing implementation of low-cost operations, which, in turn, helped curb both personnel and non-personnel expenses.

Core operating profit (income from domestic loans and deposits + fee income – expenses), rose from the previous fiscal year for the first time since FY2007. Although we are halfway toward the goal of income and cost structure reforms, the results discussed above are, we believe, a testament to outcomes of ongoing initiatives undertaken thus far.

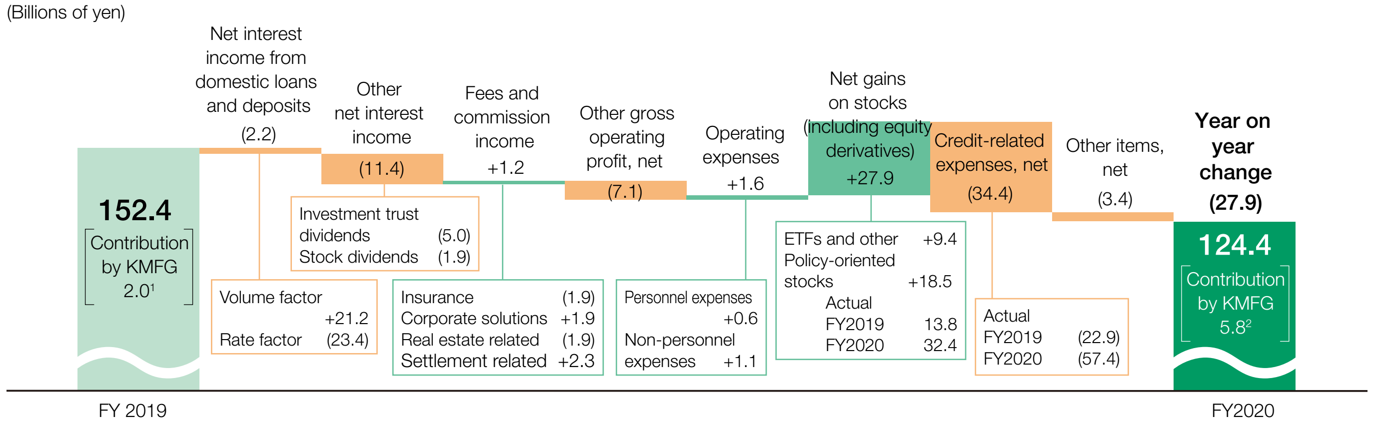
Credit-related expenses increased to ¥57.4 billion, up ¥34.4 billion year on year, due mainly to preemptive measures executed in line with an assumption that fallout from the COVID-19 pandemic will linger for some time. Nevertheless, to a certain degree the recording of these expenses helped mitigate future downside risk.

Financial Results Overview (Resona Holdings consolidated)

(Billions of yen)	FY2020	YoY change
Net income attributable to owners of parent	124.4	(27.9)
Gross operating profit	639.1	(19.5)
Net interest income	417.4	(13.6)
Net interest income from domestic loans and deposits	340.3	(2.2)
Fee income	191.4	+1.2
Fee income ratio (%)	29.9%	+1.0%
Other operating income	30.1	(7.1)
Net gains on bonds (including futures)	14.0	+2.7
Operating expenses (excluding Group banks' non-recurring items)	(415.5)	+1.6
Actual net operating profit	224.0	(17.9)
Net gains on stocks (including equity derivatives)	37.2	+27.9
Credit-related expenses, net	(57.4)	(34.4)
Other gains, net	(19.5)	(3.3)
Net income before income taxes and non-controlling interests	184.3	(27.8)
Income taxes and other	(54.6)	+2.1
Net income attributable to non-controlling interests	(5.2)	(2.2)

Factors Contributing to the Changes in Net Income Attributable to Owners of Parent (Resona Holdings consolidated)

(Billions of yen)



2 Forecast for the Fiscal Year Ending March 2022 (FY2021) and Progress of the Medium-term Management Plan (MMP)

For FY2021, our target for net income attributable to owners of parent is set at ¥145.0 billion, a ¥20.6 billion year on year improvement, while our forecast for common dividends per share amounts to ¥21 per share, unchanged from the previous fiscal year. With an eye to earning net income attributable to owners of parent of ¥160.0 billion in FY2022 and successfully concluding the final year of the MMP, we will strive to clarify a roadmap toward the achievement of this target.

Moving on, I will explain the earnings targets for FY2021 on a total of Group banks basis. Gross operating profit is expected to increase ¥16.0 billion from FY2020 results. While we anticipate an ongoing decrease in net interest income amid the low interest rate environment, we aim to increase fee income mainly through services related to succession, asset formation, settlement and other areas of focus.

Operating expenses are expected to be up ¥6.1 billion compared with FY2020 results. Despite tight controls on ordinary expenses and ongoing cost reductions attributable to integration synergies, we anticipate an overall increase in expenses due to such factors as an increase in depreciation and amortization associated with past investments.

On the other hand, we forecast that credit-related expenses will amount to ¥37.0 billion, a decrease of ¥15.3 billion from FY2020. While assuming that the COVID-19 pandemic will repeatedly surge and wane and thus cloud the business outlook, this forecast takes into account mitigated downside risks as a result of preemptive measures executed in FY2020.

We aim to raise the consolidated fee income ratio, a key performance indicator (KPI) under the MMP, to around 32% in FY2021 from 29.9% recorded in FY2020, with an eye to achieving a consolidated fee income ratio of 35% or more in the final year of the MMP.

Likewise, in line with the MMP's final-year target of curbing the consolidated cost income ratio at around 60%, we aim to improve our cost income ratio to lower half of the 60% range in FY2021 from 65.0% recorded in FY2020.

To help customers deal with the evolving issues they are confronting, we intend to promote income and cost structure reforms by, for example, providing solutions supporting customer efforts to achieve sustainability transformation (SX), rebuilding our foundations via digital transformation (DX) and accelerating synergies deriving from the integration with KMFG.

KPIs under the MMP

Indicators	FY2020	FY2021 (target)	FY2022 (MMP)
Net income attributable to owners of parent	¥124.4 billion	¥145.0 billion	¥160.0 billion
KMFG	¥11.2 billion	¥15.0 billion	¥20.0 billion
Of which, contribution to Resona Holdings' consolidated income	¥5.8 billion	¥15.0 billion	¥20.0 billion
Consolidated fee income ratio	29.9%	32% level	Over 35%
Consolidated cost income ratio	65.0%	Lower half of the 60% range	60% level
ESG index selected by GPIF (domestic stock)[3]	Aim to be adopted for all indices		

FY2021 Earnings Targets and Dividend Forecasts

Consolidated Performance Targets

(Billions of yen)	Full-year targets	YoY change
Net income attributable to owners of parent	145.0	+20.6
KMFG's consolidated results	15.0	+9.2
Other differences	15.0	+1.9

Common Dividends per Share

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

Total of Group Banks

(Billions of yen)	Full-year targets	YoY change
Gross operating profit	599.0	+16.0
Operating expenses	(397.0)	(6.1)
Actual net operating profit	202.0	+9.9
Net gains on stocks (including equity derivatives)	30.5	(10.4)
Credit-related expenses, net	(37.0)	+15.3
Net income before income taxes	181.5	+18.2
Net income	127.5	+12.2

1 KMFG's consolidated net income x 51.2% 2 KMFG's consolidated net income x 51.2% (1Q – 3Q) and x 60.4% (4Q)
3 FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, MSCI Japan Empowering Women Index (WIN), S&P/JPX Carbon Efficient Index Series

3 Reduction in Policy-Oriented Stockholdings

Since the 2003 injection of public funds, we have reduced our holdings of policy-oriented stocks by approximately ¥1 trillion (acquisition price basis) via a course of financial reform, well ahead of other Japanese banks, with the intention of reducing our exposure to equity price fluctuation risk.

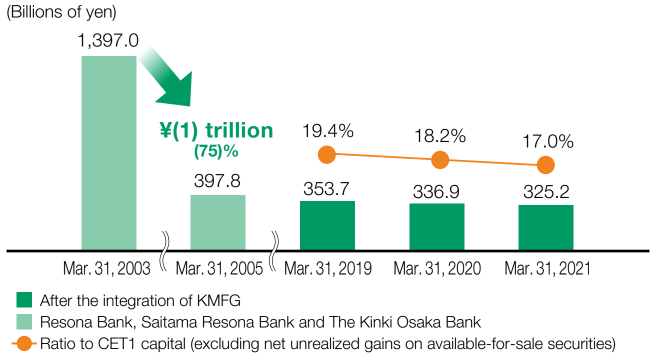
A few years ago, we announced a target of reducing such stockholdings by approximately ¥35.0 billion over a five-year period (¥7.0 billion/year) that began in April 2016 and have made steady progress toward this goal. As of March 31, 2020, we have progressed 93% of the way to our goal and are expecting the reduction target to be accomplished ahead of schedule. Realizing this fact, we refreshed our reduction target in conjunction with the formulation of the MMP in May 2020, resetting our goal and its deadline. We now aim to reduce our policy-oriented stockholdings by approximately ¥30.0 billion over the three fiscal years starting from April 2020 (¥10.0 billion/year). We have thus increased the speed of reduction. In FY2020, the first year of this refreshed plan, we successfully reduced policy-oriented stockholdings by ¥11.6 billion.

In addition, we partially revised our Policy for Holding Policy-Oriented Stocks. Along with incorporating a clear statement that our basic policy is to continue reducing our remaining policy-oriented stockholdings, the revised document determines that even stocks deemed appropriate for ongoing holding via risk-return assessments, could be divested in light of the market environment and the Group's business and financial strategies.

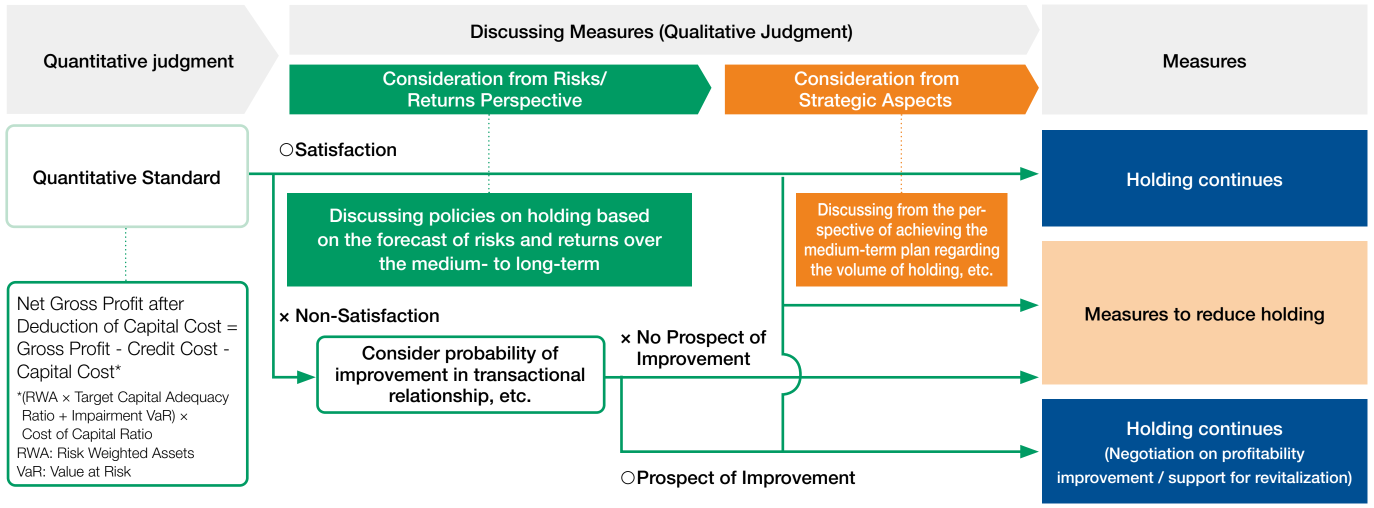
Outline of the Policy for Holding Policy-Oriented Stocks

- Since the capital enhancement with public funds, the Group has worked to reduce its balance of policy-oriented stocks and lessen the risk of price volatility. The Group maintains a basic policy of reducing the balance of policy-oriented stocks.
- The Group determines whether to hold policy-oriented stocks by evaluating the risks and returns, including the feasibility of developing a trading relationship over the medium- to long-term. The Group may also sell stocks with consideration given to the market situations, management and financial strategies, even if it considers the stocks appropriate for holding from the risk-return perspective.

Policy-oriented Stockholdings (acquisition price basis)



Verification Process of the Value of Holdings of Policy-Oriented Stocks



4 Tax-Compliance Initiatives

The Resona Group upholds a basic policy of complying with the tax-related laws and regulations enforced in all countries and regions in which it undertakes business activities and is committed to appropriately fulfilling its taxpayer responsibilities with respect for the spirit as well as the rule of such laws and regulations. Accordingly, the Group has established and announced a Tax Policy as outlined below.

Tax Policy

Basic Policy

In line with the Resona Standards, the Resona Group shall comply with tax-related laws and regulations while appropriately managing tax-related expenses via the maintenance of a proper tax compliance structure, with the aim of improving its corporate value.

Also, the Resona Group shall take proper action aimed at ensuring that its business bases maintain appropriate tax compliance in conformity with the laws and regulations enforced by countries and regions in which they operate and that they abide by international taxation guidelines announced by relevant authorities.

5 Capital Management

Over the course of the period from May 12, 2021 to June 11, 2021, we executed share buybacks totaling 88,000,000 shares of treasury stock. This move was intended to neutralize the diluting effect on earnings per share (EPS) of making KMFG a wholly owned subsidiary. On the other hand, the move exerted a positive impact on our book value per share (BPS). Taking this into account, we believe that the acquisition of 100% equity in KMFG has better positioned us to improve our market value. In addition, our Common Equity Tier1 (CET1) capital ratio has been largely unaffected by the share buyback undertaken to neutralize the EPS-diluting effect of making KMFG a wholly owned subsidiary. Accordingly, the move had no impact on our shareholder return policy.

In line with its basic capital management policy, the Resona Group aims to maintain an optimal balance between 1) financial soundness, 2) profitability and 3) shareholder return. In addition to maintaining a stable stream of cash dividends, we aim for a total shareholder return ratio in the mid-40% range over the medium term. In these ways, we will strive 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.

Implementation of share buyback to neutralize the dilutive effect on EPS of Making KMFG a wholly owned subsidiary of Resona Holdings

- Number of shares acquired: 88,000,000
- Total worth of shares acquired: ¥40.9 billion
- Period of acquisition: May 12, 2021 to June 11, 2021
- Method of acquisition:
  Market buying on the Tokyo Stock Exchange
  (1) Purchase through Off-Floor Treasury Share Repurchase Trading on TSE (ToSTNeT-3)
  (2) Market buying pursuant to the discretionary purchase agreement

(Provisional calculation)

	After making KMFG a wholly owned subsidiary (Equity ratio: 100%)	Prior to making KMFG a wholly owned subsidiary (Equity ratio: 51.2%)	Change in EPS ((1)-(2))/(2)
Consolidated net income of Resona Holdings (FY2021 earnings target)	¥145.0 billion	¥137.6 billion	
KMFG's contribution	¥15.0 billion	¥7.6 billion	
Total number of shares issued	2.50 billion shares	2.29 billion shares	
EPS	¥57.8	¥59.9	(3.5)%
	(1)	(2)	

Number of shares repurchased: 88,000,000 shares (2,500,000,000 x 3.5%)

Making efforts to further expand shareholder returns as our basic policy is to strike an optimal balance between financial soundness, profitability and shareholder return.

Financial soundness

- Secure sufficient equity capital under the current Japanese standard
- Aim for a CET1 ratio[1] of 10% as of March 31, 2023 under the international standard
  - CET1 ratio as of March 31, 2021: Approximately 9.0%

Profitability

- Continuously engage in financial management conscious of capital efficiency, risk, cost and return, and aim to secure ROE[2] exceeding 8%
  - FY2020 (Actual): 6.88%

Improve Corporate Value

Shareholder return

- Making efforts to further expand shareholder returns while considering such factors as the balance between financial soundness and profitability as well as opportunities for growth investments
- Aim for a total shareholder return ratio in the mid-40% range over the medium term while maintaining a stable dividend stream
  - FY2020 (Actual): 38.8%

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

6 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 the COVID-19 pandemic caused us to cut back on opportunities for face-to-face dialogue during FY2020, we nevertheless stepped up our efforts to reach out to shareholders and investors via the use of digital platforms, to this end taking full advantage of non face-to-face communication tools, providing online shareholder seminars and hosting web-based briefings for individual investors.

In addition, we aim to be constantly included in all four of the ESG indices selected by Government Pension Investment Fund (GPIF). Looking ahead, we will continue to disclose information fairly and impartially and will maintain a constructive dialogue with shareholders and investors.