

Progress in Repayment of Public Funds and
Direction of Future Capital Policies

May 18, 2007

 **Resona Holdings, Inc.**

I. Basic Policy Toward Repayment of Public Funds

The Resona Group announced, on May 23, 2006, the following "Basic Policy Toward Repayment of Public Funds":

- (1) To secure a source of funds for repayment as soon as possible;
- (2) To maintain an appropriate capital adequacy ratio; and
- (3) To avoid dilution of ordinary shares as much as possible.

II. Measures Taken for Early Repayment of Public Funds

1. Specific measures taken in and after FY2006

Based upon the aforementioned basic policy, the Resona Group has defined FY2006 as "a year to work toward full-scale implementation of repayment of public funds". To this end, the Group has endeavored to secure funds available for repayment as early as possible and has also commenced large-scale repayment as summarized below.

Date	Measures taken
May 23, 2006	Announcement of the "Basic Policy Toward Repayment of Public Funds"
June 28, 2006	Approval of creation of the terms for new preferred shares (Classes Four to Nine) at the General Meeting of Shareholders
August 31, 2006	Issue of the Class 4 preferred shares (total issue amount: ¥63 billion)
November 2, 2006	Partial repayment of the public funds perpetual subordinated loan (amount: ¥20 billion) borrowed under the Financial Function Early Strengthening Law
January 26, 2007	Repurchase and cancellation of the public funds preferred shares (total issue amount: ¥532.7 billion) issued under the Financial Function Early Strengthening Law
March 30, 2007	Request for sale in the market of the public funds ordinary shares issued under the Deposit Insurance Law
April 25, 2007	Resolution to issue the Class 9 preferred shares (total issue amount: ¥350 billion)

During FY2006, the Resona Group repaid ¥20 billion of the perpetual subordinated loan in November 2006 and repurchased and cancelled ¥532.7 billion (on the basis of issue prices) of the preferred shares in January 2007 (both of which were borrowed or issued under the Financial Function Early Strengthening Law). As a result of such repayments, the remaining balance of the public funds as of the end of March 2007 is as follows:

(Billions of Yen)

	Time of Issue	Mandatory Conversion First Call	Amount	Amount	Amount Repaid (2) - (1)
			Sep. 30, 2003 (1)	Mar. 31, 2007 (2)	
Total Public Funds Received			3,128.0	2,372.5	(755.4)
Preferred Shares			2,531.5	1,998.8	(532.7)
Early Strengthening Law			868.0	335.2	(532.7)
Class B	Mar. 1999	Apr. 2009	408.0	163.3	(244.6)
Class C	Apr. 2001	Apr. 2015	60.0	60.0	---
Class E	Mar. 1999	Dec. 2009	300.0	11.9	(288.0)
Class F	Mar. 1999	Dec. 2014	100.0	100.0	---
Deposit Insurance Law			1,663.5	1,663.5	---
Class 1	Jul. 2003	N/A	550.0	550.0	---
Class 2	Jul. 2003	N/A	563.5	563.5	---
Class 3	Jul. 2003	N/A	550.0	550.0	---
Subordinated Loans			300.0	80.0	(220.0)
Financial Function Stabilization Law			200.0	---	(200.0)
Early Strengthening Law	Mar. 1999	Mar. 2009	100.0	80.0	(20.0)
Ordinary Shares			296.4	293.7	(2.7)
Deposit Insurance Law	Jul. 2003	N/A	296.4	293.7	(2.7)

* Amount less than 0.1 billion yen is rounded down.

2. Progress in Accumulation of Funds Available for Repayment of Public Funds

Retained earnings on a group-wide basis, which are considered to be the primary source of funds for repayment of public funds, amounted to ¥904.4 billion as of the end of March 2007, which exceeded the target under the Managerial Reinvigoration Plan by ¥74.8 billion (target under the Plan: ¥829.6 billion after adjustment to reflect the repurchase and cancellation of the preferred shares in January 2007).

Upon the issuance of the Class 9 preferred shares which were resolved to be issued on April 25, 2007 (total issue amount: ¥350 billion), the Resona Group will secure the total surplus funds (retained earnings plus other capital surplus) in the amount of ¥1,254.4 billion, which is equivalent to 62% of the remaining balance of the public funds preferred shares on the basis of their issue prices (¥1,998.8 billion).

[Class 9 Preferred Shares]

Resona Holdings resolved to issue the Class 9 preferred shares on April 25, 2007 (the scheduled issue date is June 5, 2007). The Class 9 preferred shares are the only "convertible" preferred shares authorized to be issued under the Articles of Incorporation of Resona Holdings and have a number of features designed to limit the dilution of ordinary shares. Such features include those designed to limit the exercise of the Acquisition Rights by the holder thereof. In addition, when the ordinary share price exceeds the prescribed threshold, the issuer (Resona Holdings) can exercise the Acquisition Clause (right to acquire the Class 9 preferred shares in exchange for a combination of cash and ordinary shares).

III. Future Course of Capital Management

1. Target level of capital adequacy ratios

The targets of the consolidated capital adequacy ratio and the consolidated Tier 1 ratio of the Resona Group are 9% or more and 5% or more, respectively.

2. Quality of capital

Based on the issuance of the Class 9 preferred shares, Resona Holdings intends to maintain a high quality of capital primarily comprised of shareholders' equity even once it repurchases and cancels the existing public funds preferred shares.

3. Preferred dividends

Resona Holdings' basic approach toward repayment of the public funds preferred shares is to repurchase and cancel them by utilizing accumulated retained earnings and to refinance them with new preferred shares to be issued. Resona Holdings will make efforts to ensure that total preferred dividends on such new preferred shares will not exceed the current level of preferred dividends.

[Level of annual preferred dividends for the new preferred shares]

Class 4 preferred shares ¥2.5 billion; Class 9 preferred shares ¥3.2 billion

IV. Measures to Restrain Dilution

**Public fund preferred shares (Convertible into ordinary shares)
Remaining amount: ¥1,998.8bn (infusion amount basis)**

Class 9 preferred shares (¥350.0bn)	Retained earnings (End March 2007) (¥904.4bn)	Retained earnings to be accumulated in FY2007, FY2008 and FY2009 (¥513.0bn)	Issuance of non-convertible PS and other
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Class 9 are the only convertible preferred shares

* Amount necessary for actual repayments may differ from the infusion amount of public fund preferred shares

1. With respect to dilution, as indicated in the “Basic Policy Toward Repayment of Public Funds” above, the Resona Group intends to “avoid dilution of ordinary shares as much as possible”.
2. The only "convertible" preferred shares authorized to be issued under the current Articles of Incorporation of Resona Holdings are the Class 9 preferred shares (¥350 billion) which Resona Holdings resolved to issue on April 25, 2007. Hereafter, Resona Holdings will consider issuing the Classes 5 to 8 preferred shares, which are authorized to be issued under the current Articles of Incorporation and which are all categorized as "bond-type" and therefore not convertible into ordinary shares.
3. We will limit the dilution of ordinary shares by repayment of the public funds preferred shares which are "convertible" preferred shares, by utilizing retained earnings (accumulated profits) and other capital surplus secured through issuances of new preferred shares.

V. Specific Approaches to Repayment of Public Funds

1. Remaining public funds preferred shares (¥1,998.8 billion on the basis of issue prices)
The basic policy is to repurchase these by utilizing accumulated retained earnings and proceeds (other capital surplus) from issuances of new preferred shares in the market. The Resona Group plans to accumulate an additional ¥513.0 billion of total retained earnings in the three year period starting from April 2007 till the end of March 2010 under its Managerial Reinvigoration Plan. Together with the proceeds from issuances of new "bond-type" preferred shares, the Resona Group intends to secure surplus funds in an amount exceeding the remaining balance of the public funds preferred shares.

2. Remaining public funds subordinated loan (¥80.0 billion on the basis of nominal amount)
The Resona Group intends to repay the entire remaining amount by the first call date falling on the end of March 2009.

3. Remaining public funds ordinary shares (¥293.7 billion on the basis of issue price)
On March 30, 2007, the Resona Group submitted a request for sales in the market of part of the ordinary shares subscribed with public funds to the relevant authorities. We plan to discuss further details including methods and timing with the relevant authorities as soon as circumstances permit.

