

# **The 6<sup>th</sup> Financial Service Conference**

# **MIZUHO**



***- A New Phase in Management Strategies -***

**September 2004**

**Mizuho Financial Group**

## I. A New Phase in Management Strategies

## II. Management Reforms and Progress toward Four Challenges

### 1. Resolution of Financial Issues

### 2. Acceleration of Cost-Cutting Efforts

### 3. Repurchase and Cancellation of Preferred Shares (Public Funds)

### 4. Completion of IT Systems Integration

## III. Measures to Enhance Top-Line Growth

## IV. In Closing

### Definitions

**3 Banks:** Aggregated figures for Mizuho Bank, Mizuho Corporate Bank, Mizuho Trust & Banking and their financial subsidiaries for corporate revitalization on a non-consolidated basis

**2 Banks:** Aggregated figures for Mizuho Bank, Mizuho Corporate Bank and their financial subsidiaries for corporate revitalization on a non-consolidated basis

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# **I. A New Phase in Management Strategies**

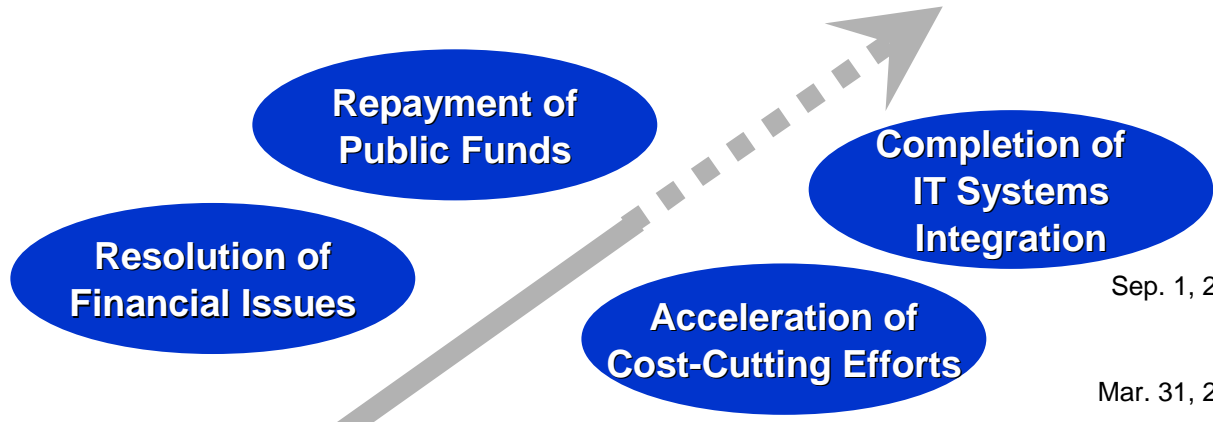
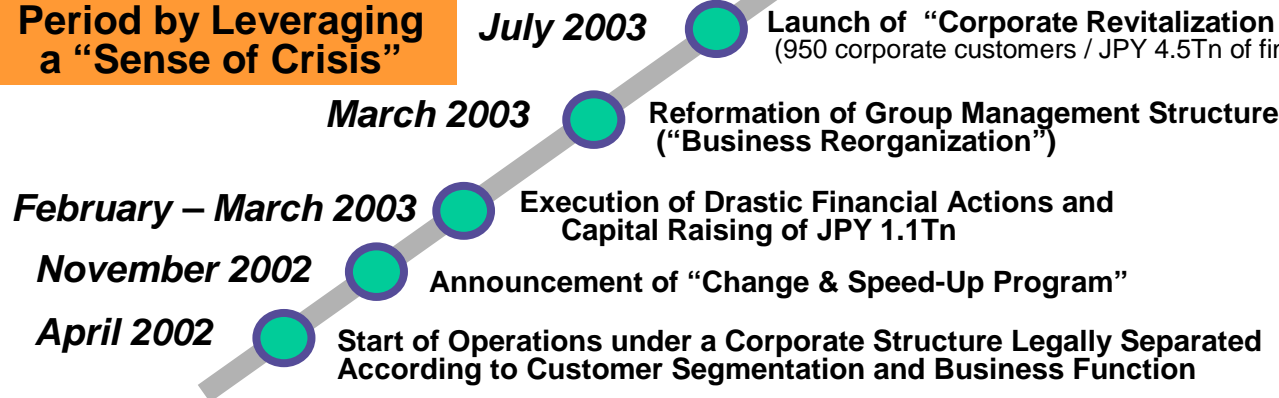
# A New Phase in Management Strategies

Management Focus Shifting from “Reestablishment of Business Infrastructure” to “Enhancement of Top-Line Growth”

## Measures to Enhance Top-Line Growth

A New Phase in Management Strategies Based on Steady Progress in Management Reforms

Carried Out Various Management Reforms within a Short Period by Leveraging a “Sense of Crisis”



Stock Price of Mizuho*	
Sep. 1, 2004	JPY 450,000
Mar. 31, 2004	JPY448,000
Sep. 30, 2003	JPY250,000
Apr. 28, 2003	JPY58,300
Mar. 31, 2003	JPY96,800
Sep. 30, 2002	JPY285,000
Mar. 29, 2002	JPY302,000

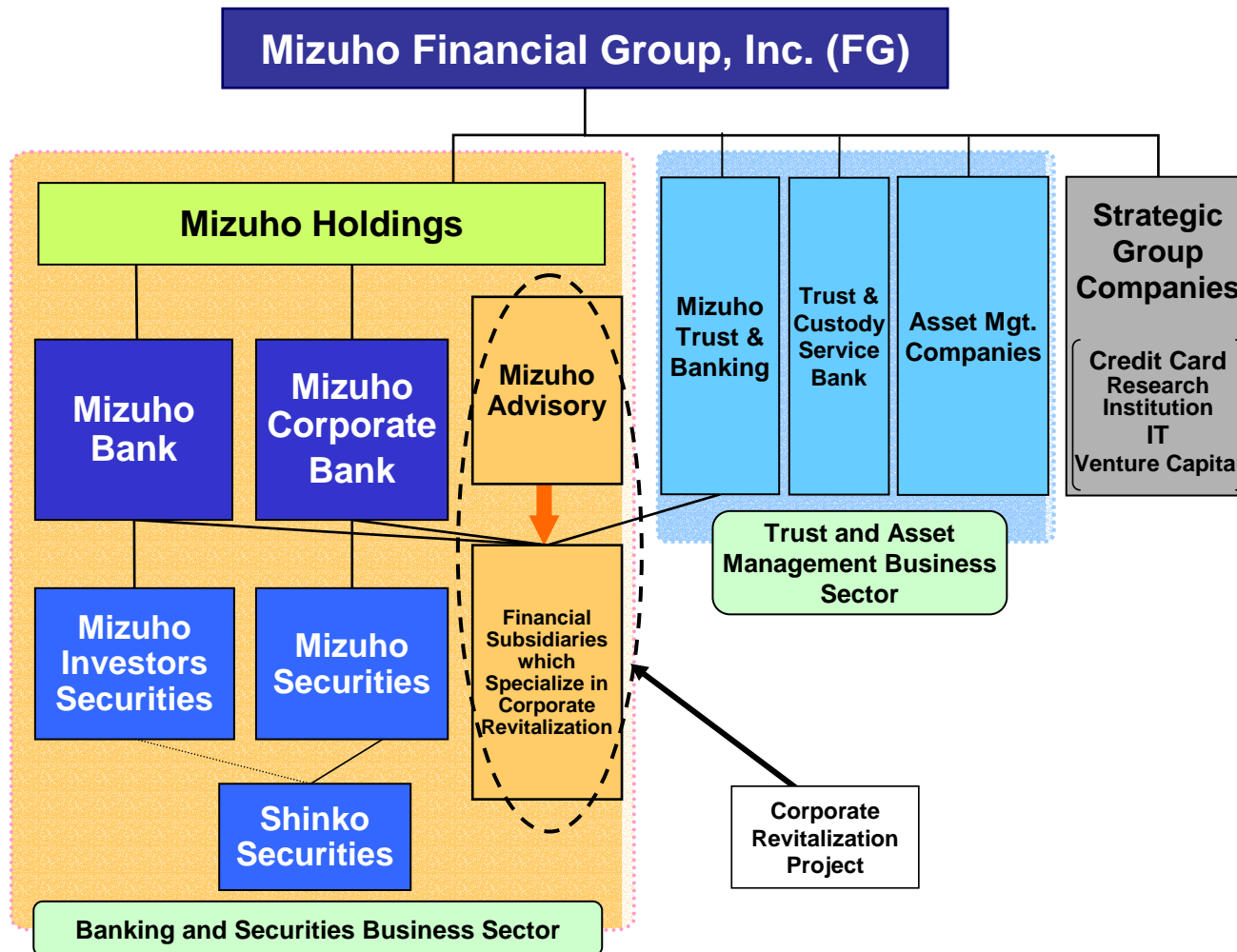
\*The stock price of Mizuho Holdings, Inc. before Mar 5, 2003

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## **II. Management Reforms and Progress toward Four Challenges**

# Management Reforms

## Reformation of Group Management Structure (Mar. 2003)



## Strengthening Corporate Governance

### Reformation of the Board of Directors

- **Reduced Number of Directors for Speedy Decision-making**  
<Total of 8 Directors on FG's Board (4 on a full-time basis)>
- **Invited Outside Directors to Enhance Management Supervision**

### Communication with Shareholders

- **Invited the Media to Observe General Shareholders' Meetings to Enhance Transparency**
- **Involved Top Management in IR Activities**  
<ex. CEO's overseas IR roadshow in FY03: 6 times /Total period spent: 2 months>

### Enhancing Appropriateness and Rationality of Management

- **Realize an "Open-style" Management through Establishment of the Advisory Board**

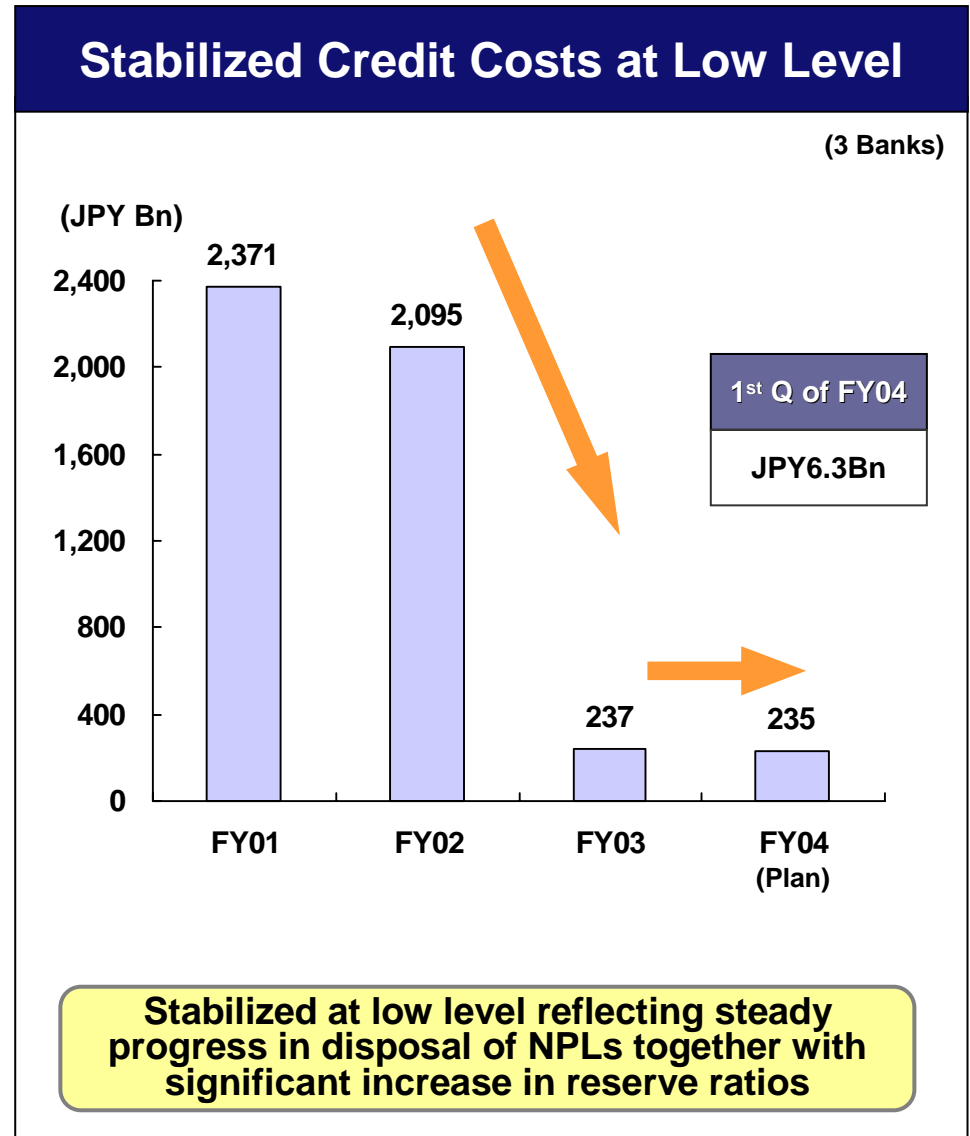
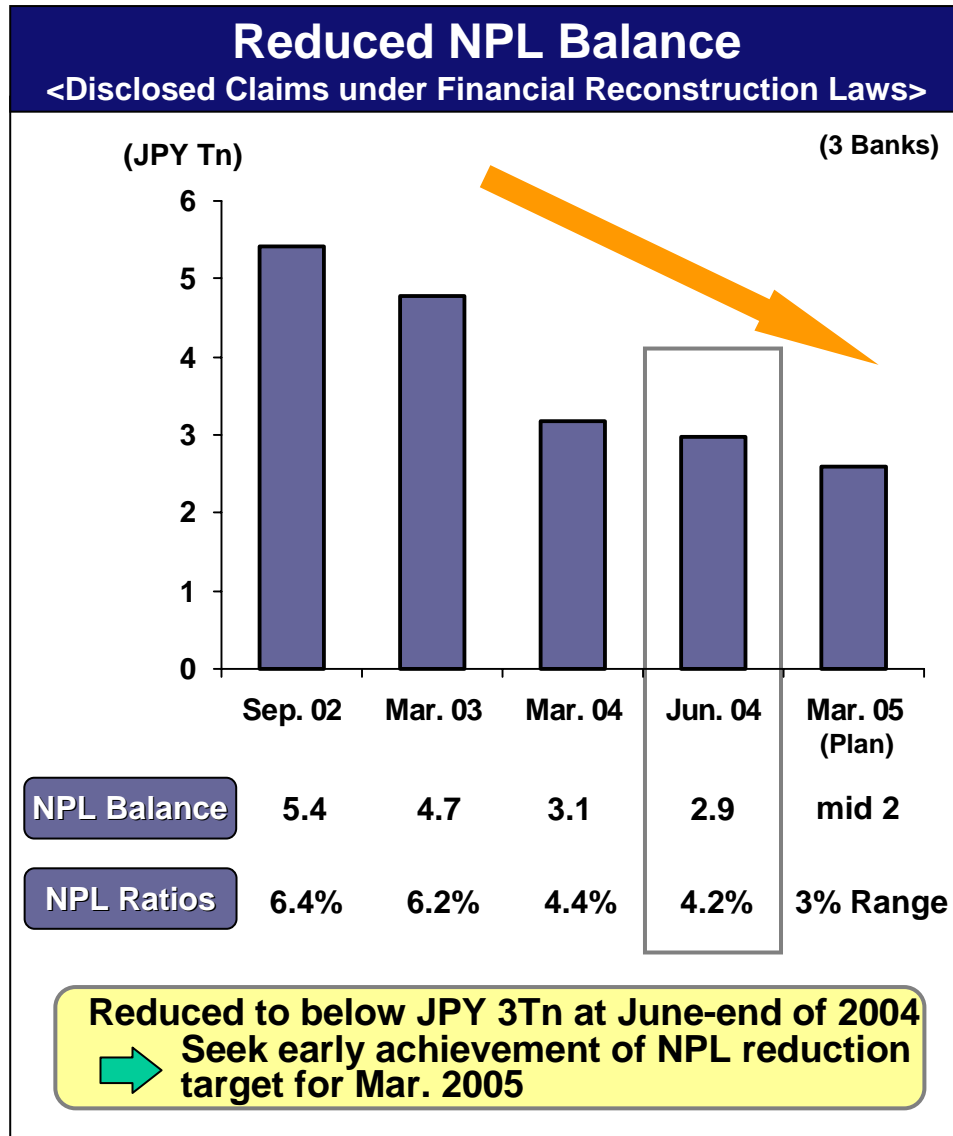
## Four Challenges - 1. Resolution of Financial Issues

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### Resolution of Financial Issues

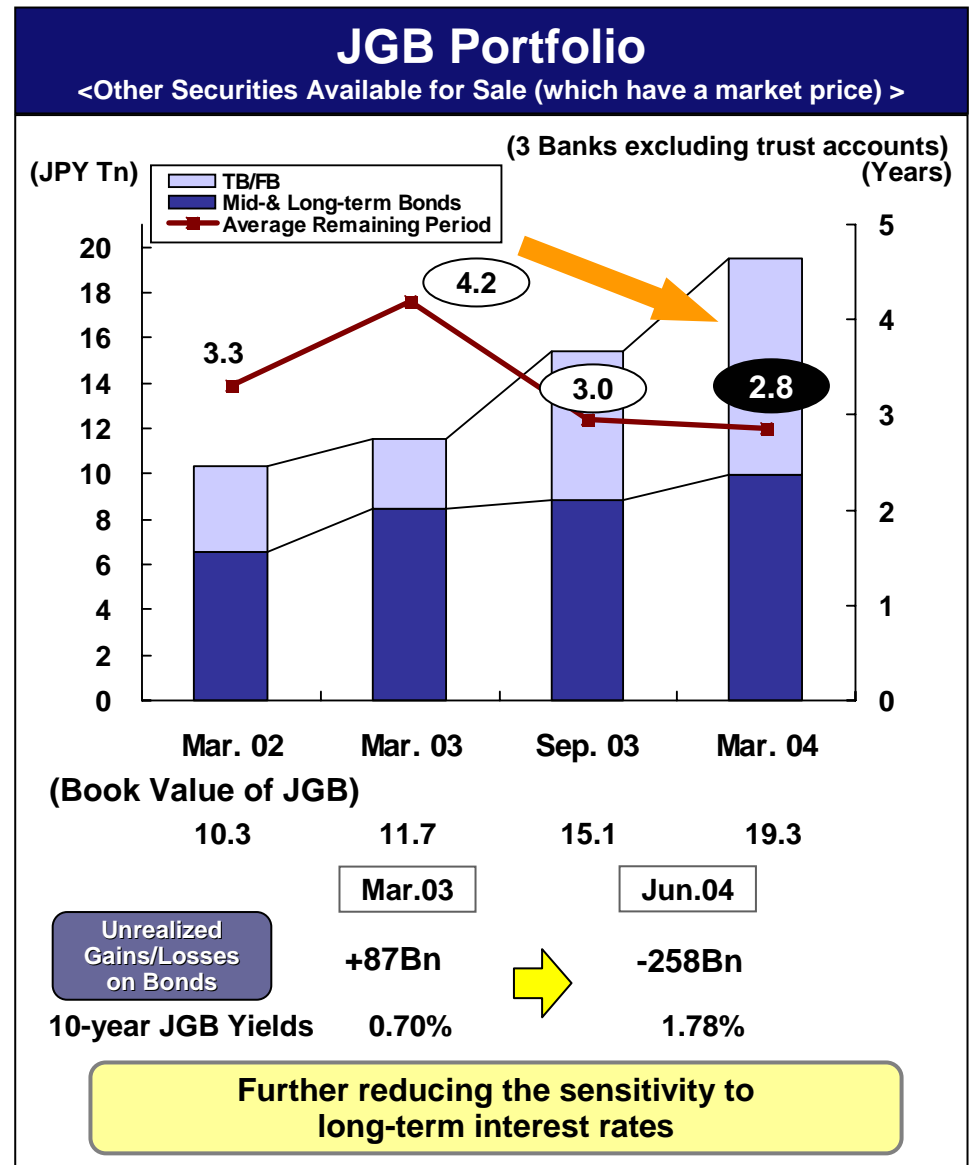
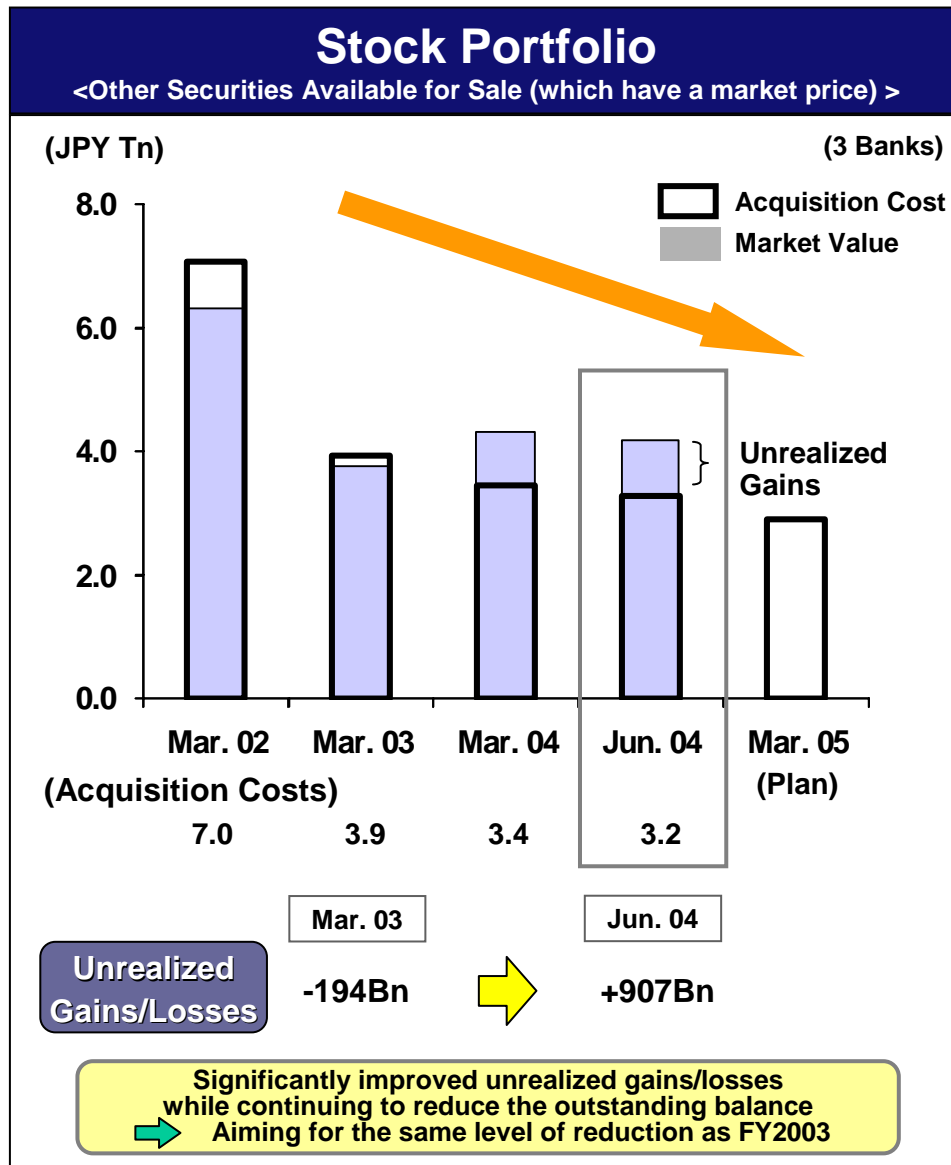
- **Significant Progress in Disposal of Non-Performing Loans (NPLs)**
- **Risk Management of Stock & JGB Portfolios**
- **Decrease in Net Deferred Tax Assets (DTAs)**

# Four Challenges - 1. Resolution of Financial Issues (1)





# Four Challenges - 1. Resolution of Financial Issues (2)

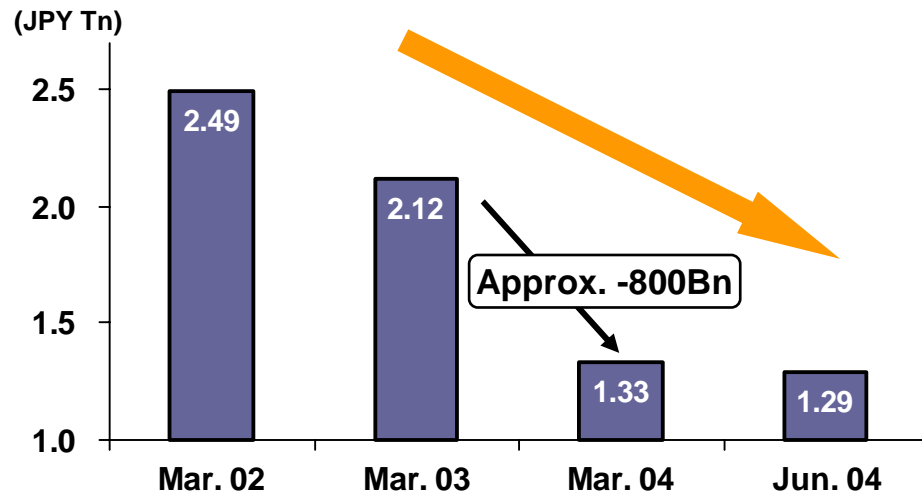


# Four Challenges - 1. Resolution of Financial Issues (3)

## Decrease in Net DTAs

(Consolidated Basis)

### Balance of Net DTAs



Approx. -800Bn

Net DTAs/ Tier I Ratios

Mar. 03: 60.8% → Mar. 04: 33.8% → Jun. 04: Approx. 31%\*

\*Adoption of simplified accounting methods

Significant decrease in Net DTAs (in both balance & ratio) steadily improved "Quality of Capital"

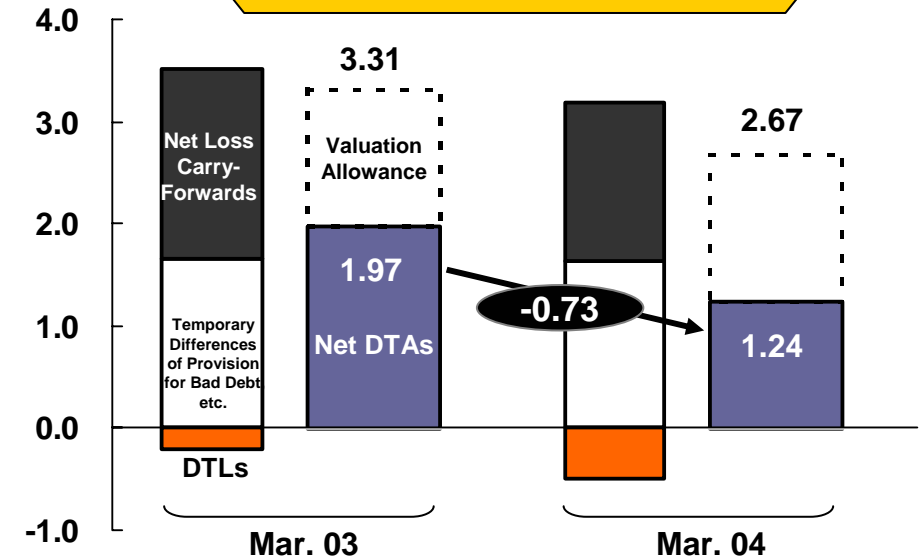
## Change in Net DTAs

<Factor Analysis>

(2 Banks excluding Revitalization Subsidiaries)

(JPY Tn)

### Breakdown of Net DTAs



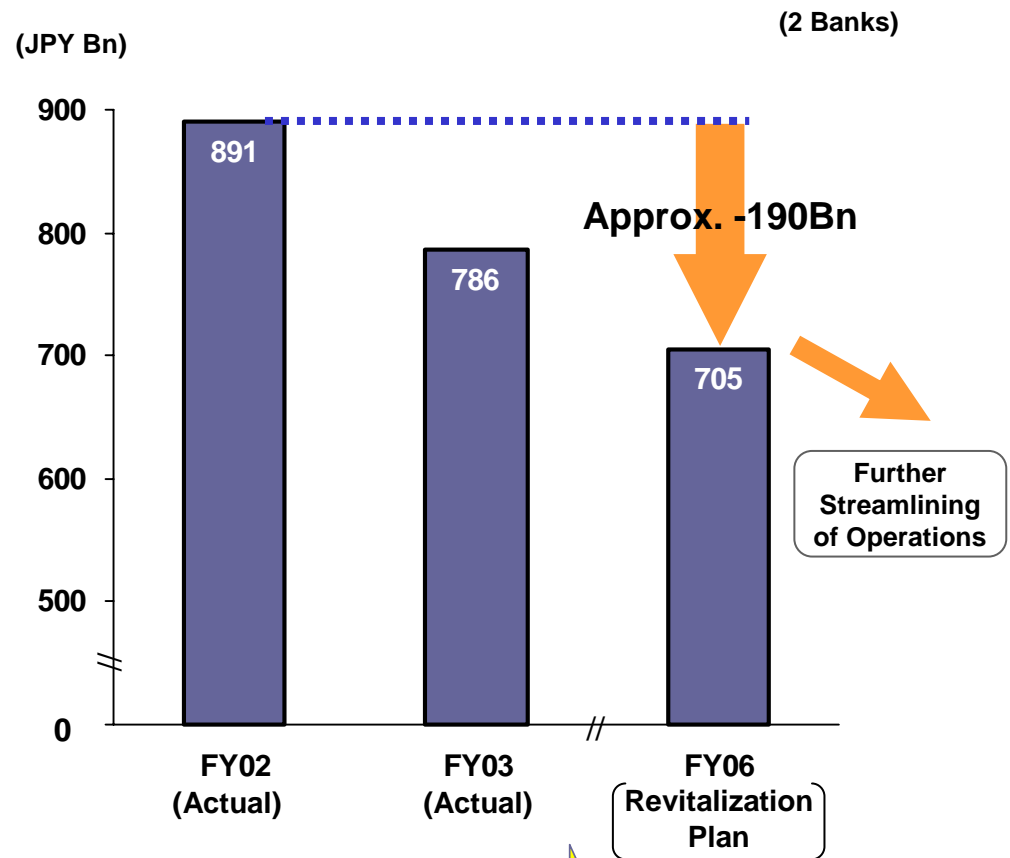
<Major Factors for Decrease in Net DTAs> .....-736Bn

- Decrease in Net Loss Carry-forwards by positive taxable income (JPY820Bn) -324Bn
- Increase in Valuation Allowance by conservative estimation of future taxable income -97Bn
- Increase in Gross Deferred Tax Liabilities (DTLs) due to increase in Unrealized Gains on Other Securities -248Bn

Positive Taxable Income will further reduce Net DTAs

# Four Challenges - 2. Acceleration of Cost-Cutting Efforts

## Realize Further Cost Reduction



\* Expense Ratio: Ratio of G&A Expenses to Gross Profits

### Results of Cost Reduction Efforts & Contributing Factors (FY2003)

- Personnel**
  - JPY 59Bn
  - Reduction in employees' annual salaries: -10% on average, -20% for general managers
  - Reduction in no. of employees: -1,325
- Non-Personnel**
  - JPY 45Bn
  - Accelerated consolidation of branches: Consolidated/closed 122 domestic branches
  - Reduction in facility-related costs: Consolidation of office space across the entire group

### Cost-Cutting Measures from FY2004 to FY2006

- Reduction in headcount as planned
- Reduction in facility-related costs by streamlining domestic branch network
- Reduction in maintenance costs through IT systems integration, etc

### Promotion of Further Cost Reduction after FY2006

# Four Challenges - 3. Repurchase and Cancellation of Preferred Shares (Public Funds)

**Started Repurchase of Preferred Shares (Public Funds) Aiming to Avoid “Dilution” Based on Steady Improvement of Financial Conditions**

**Steady accumulation of retained earnings**  
(Combined retained earnings of major group companies: over JPY 800Bn as of Mar. 2004)

**Sustainable earning base due to significant reduction in credit costs**

**Maintenance / improvement of Tier 1 & BIS Capital Ratio**  
(Tier 1 Ratio:5.75%, BIS Capital Ratio: 11.35% as of Mar. 2004)

**Repurchase within the estimated Consolidated Net Income of JPY 330Bn in FY04**

**Avoidance of dilution effect on common shares at “mandatory conversion”**

**Improvement in quality and efficiency of capital**

## Details of Repurchased Preferred Shares

Series/Classes	Repurchased no. of Shares	Repurchase Price	Issued Price
1 <sup>st</sup> Series Class I	33,000	@JPY1,802K	@JPY3,000K
9 <sup>th</sup> Series Class IX	107,000	@JPY1,686K	@JPY1,250K

**Issued Amount (Aggregation) JPY 232.7Bn\***

\*equivalent to approx. 12% of total Preferred Shares (Public Funds) of JPY 1,949Bn

## Procedures

**Repurchase & Cancellation**

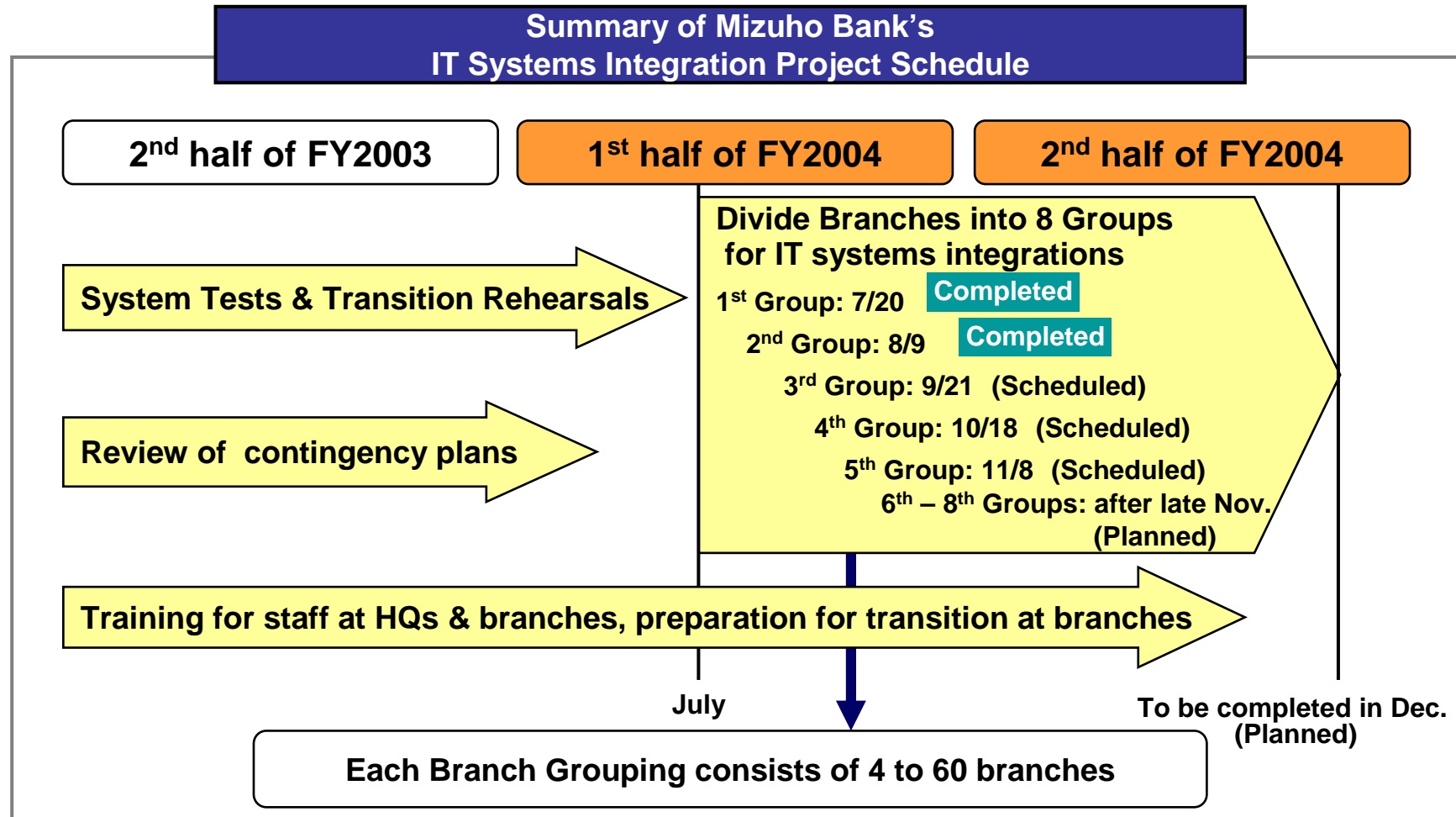
**Debit of “Other Capital Surplus” for cancellation**

**Avoidance of potential dilution effect of approx. 4.3% on common shares**

**Make efforts toward the early repayment of remaining public funds of preferred shares while maintaining/ improving the level of capital**

# Four Challenges - 4. Completion of IT Systems Integration

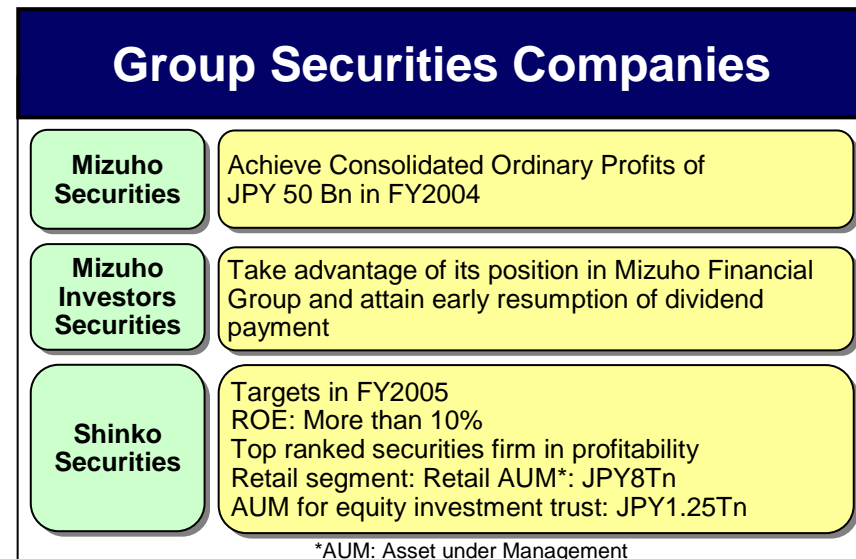
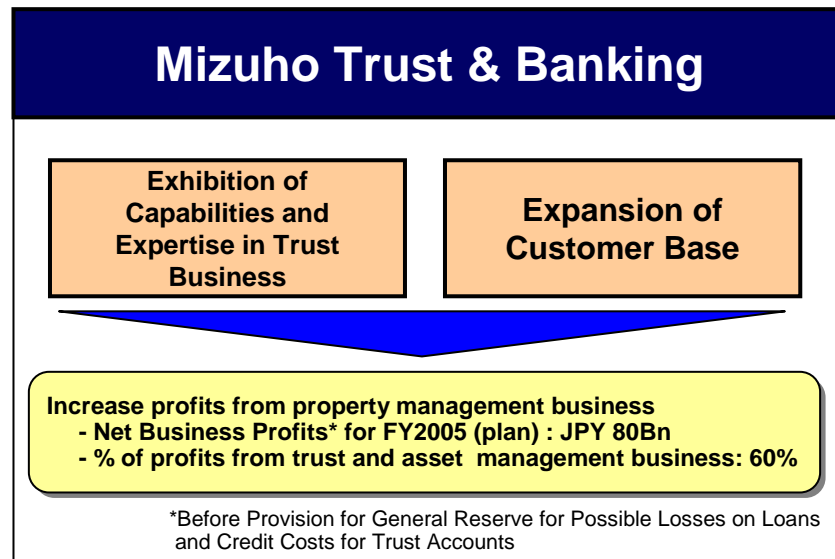
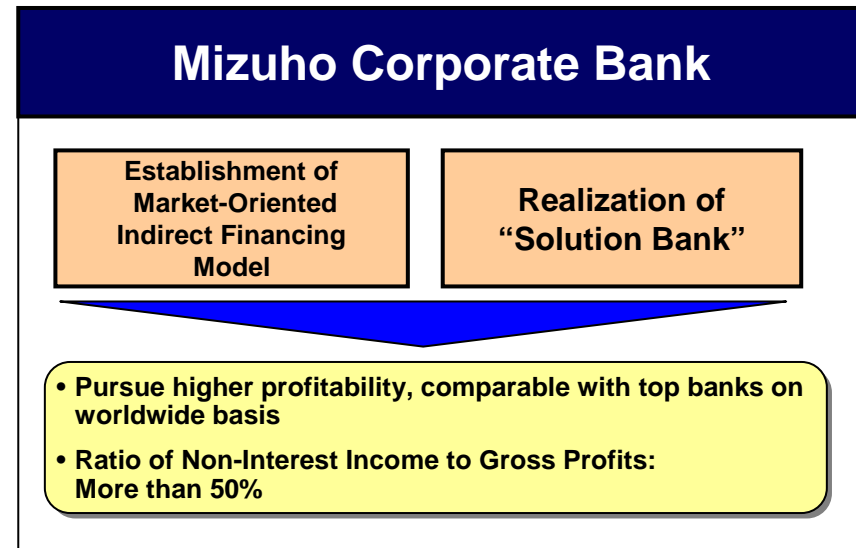
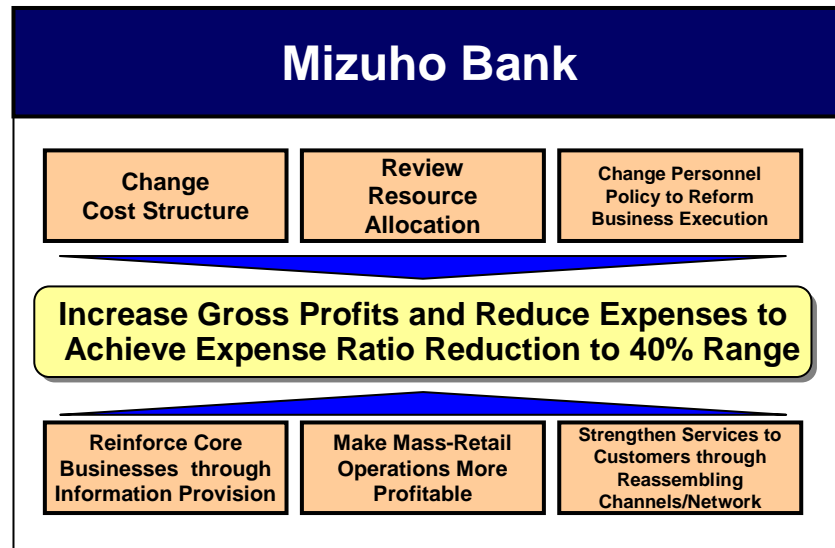
## Implement Complete and Safe IT Systems Integration through Stringent Project Management



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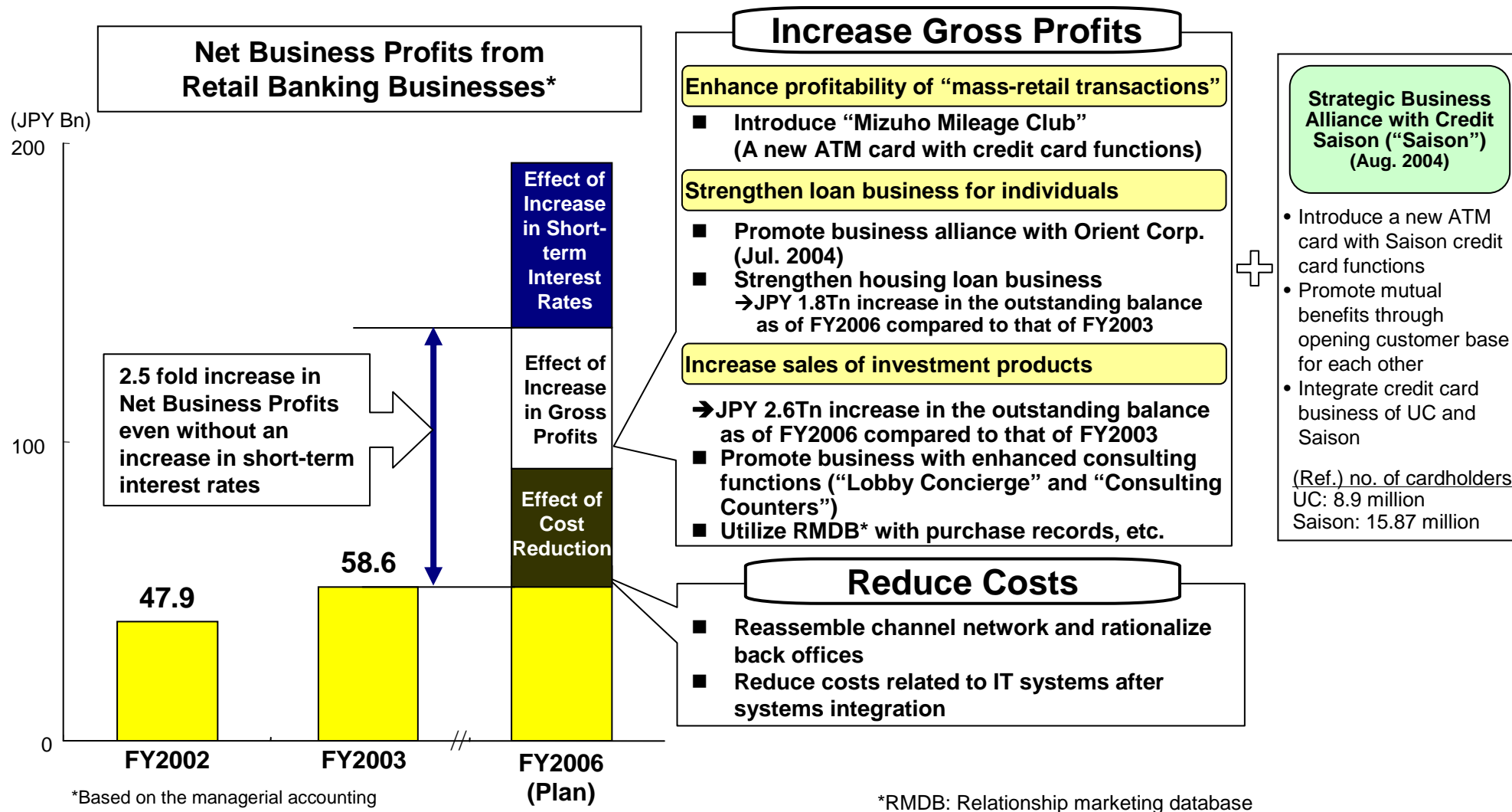
## **III. Measures to Enhance Top-Line Growth**

# Business Goals for Major Group Companies



# Mizuho Bank's Business Strategies for Retail Banking (1)

## Promptly Implement Business Strategies to Establish Profitable and Efficient Business Model





# Mizuho Bank's Business Strategies for Retail Banking (2)

## Enhance Profitability of "Mass-Retail Transactions"

### "Mizuho Mileage Club"

(1) Enhance profitability from "Mass-Retail Transactions" by introducing a co-branded fee-free credit card (a new ATM card with credit card functions)

Increase usage

Improve profitability by introducing new revolving function

(2) Retain existing customers and increase "targeted customers"

Improve retention of customers by introducing mileage function

Enhance preferential services to "targeted customers"

(3) Enhance Data-Based Marketing by sharing customers' credit card purchase records and transaction information with group companies

Retain "mass-retail customers" in order to take advantage of possible increases in future deposit income

### Strategies for Credit Card Business

Enhance Brand Power, Marketing Strategies and Service Provision Capabilities  
→ Acquire new customers and retain existing customers

Pursue Economies of Scale  
→ Enhance cost competitiveness

### Strategic Business Alliance with UC and Saison

Issue "Mizuho Mileage Club" Card Co-branded with UC & Saison

#### Integration in the Credit Card Business

UC: Integrating the management of member stores and processing business  
Saison: Consolidating the card-issuing business

Establish the most powerful business alliance in the credit card industry

# Mizuho Bank's Business Strategies for Retail Banking (3)

## Strengthen Loan Business for Individuals (Alliance with Orient Corporation (Orico))

Estimates (FY2007)

Utilize Orico's member merchant network and Mizuho's Corporate customer base

### Expand "Captive Loan\*" Guaranteed by Orico

⇒ "Captive Loan\*": Increase JPY 600 Bn

\*Installment loans for shopping originated through affiliated merchant network

- Expand channels for applications that are convenient and simple
- Utilize advanced underwriting & marketing expertise for unsecured loans
- Increase credit limits for customers and encourage customers to maximize use of credit limits

### Launch New Unsecured Loan Products Guaranteed by Orico: "Mizuho-Orico Loan Card"

⇒ "Card Loan" products: Increase JPY 200 Bn

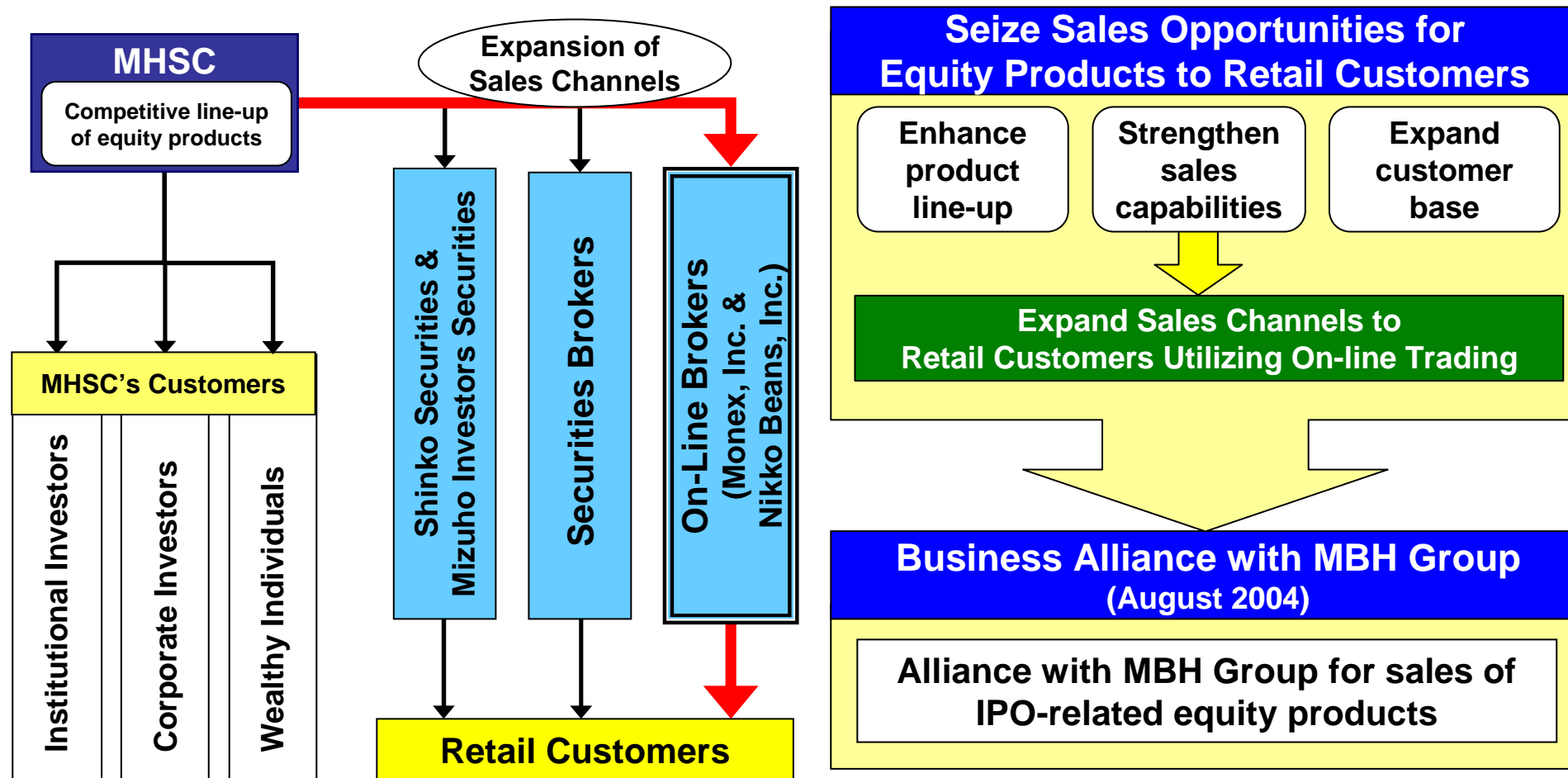
### Transfer Guarantee Business for Unsecured Loans from UC to Orico

⇒ Outstanding balance of new unsecured loan products

	:JPY420Bn
"Card Loan" products	:JPY200Bn
Others	:JPY220Bn

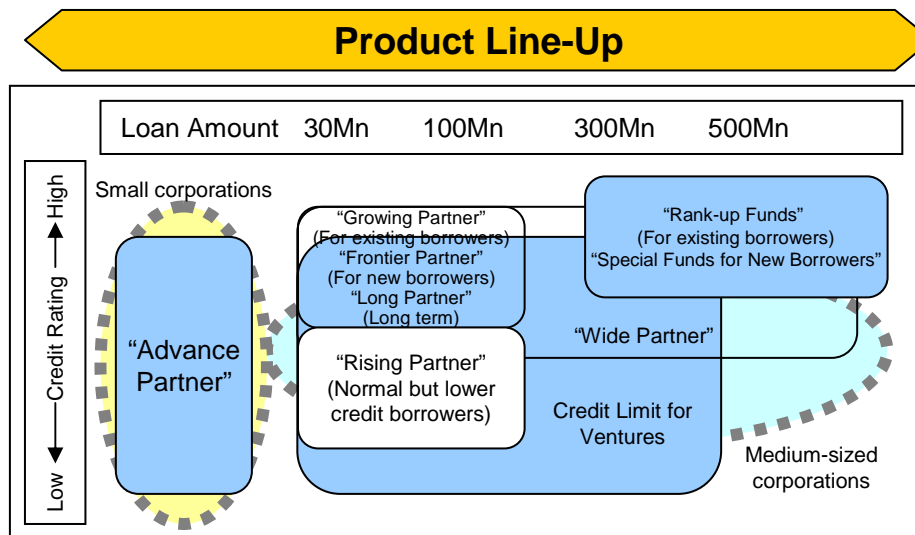
# Business Strategies for Retail Customers through Business Alliance with On-Line Brokers

**Expand Sales of Equity Products of Mizuho Securities (MHSC) through Monex Beans Holdings (MBH) Group**

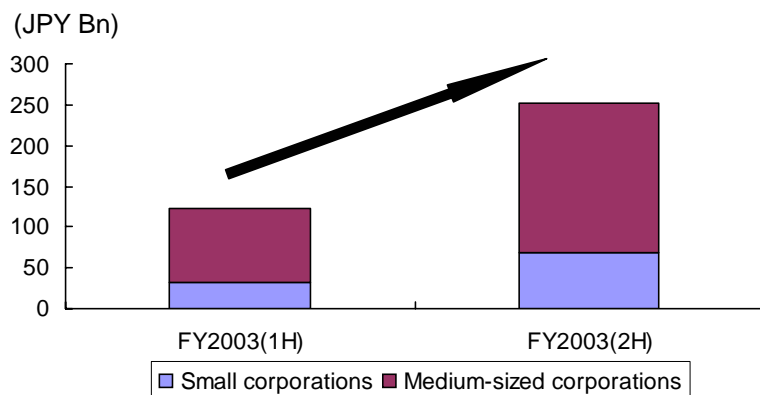


# Mizuho Bank's Business Strategies for SMEs

## Loan Products According to Customer Segmentation



## Origination of Standardized Unsecured Loans



## Current Status

- Limited growth of loan volume
- Slow down in loan spread improvement
- Steady increase in non-interest income

## Measures

### Revise business strategies for small corporations

- More focus on maintaining customer base & maximizing profits
- Reorganization of “Business Finance Centers”
- Improvement of “Advance Partner”

### Increase risk-taking for middle-credit risk borrowers

- Promotion of “risk-return” driven approach
- Review of branch operations
- Review of credit approval process

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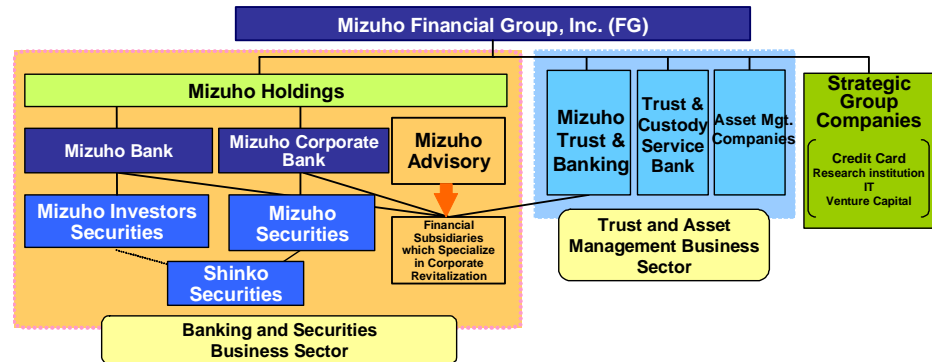
## IV. In Closing

# In Closing

- Beginning of “Mega-competition” in the primary battlefields of retail & SME markets -

**At present, Mizuho already has sufficient business base & full financial service functions within the Group**

- Largest domestic customer base  
<Our challenge is to take full advantage of this base>
- Capabilities to provide comprehensive financial services of the Group  
(e.g. securities, trust, credit card)



*Toward a new stage: competition on the speed at which profitability is enhanced  
- Lead Mizuho by leveraging a “sense of crisis” for new competition -*

**Carry out measures to enhance top-line growth promptly & steadily**

- Form & utilize “business alliances” flexibly with companies outside the banking business  
(e.g. consumer credit, credit card, securities)
- Establish business models in focused business areas (e.g. retail, SMEs) in preparation of a change of zero-interest rate policy
- Pursue synergies utilizing Mizuho’s largest domestic customer base

**Realize more benefits of the consolidation through further streamlining of operations**

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Mizuho's statements contained in this material of the current expectations are forward-looking statements subject to significant risks and uncertainties, and actual results may differ materially. Factors that could cause actual results to differ materially include, but are not limited to, changes in overall economic conditions, changes in market rates of interest, further declines in the value of equity securities or real estate, further deterioration of the quality of loans to certain industry sectors and the effect of new legislation or government directives.