

## **Mizuho IR Day 2015**

### **(1) Board of Directors:**

#### **Hiroko Ota, Director (Independent Outside Director)**

##### **A) Presentation Summary**

Presentation material P.5

The biggest advantage that a company with three committees has is that the board of directors can focus on discussions that are suitable for board meetings, such as discussing the basic policies of management. As chairman, I have a thorough discussion with the deputy chairman as well as the corporate secretariat about every item on the agenda and all material presented at the meeting.

Presentation material P.6

Lively discussions are held at every board meeting. The existence of independent outside directors has increased motivation at the board meeting. Regarding the reduction of cross-shareholdings, various viewpoints were discussed, but Yasuhiro Sato, President and Group CEO, maintained a clear intention and the independent outside directors supported his view. In the meantime the three principle subsidiaries will decide the framework for examining whether the shares are meaningful and the board of directors is expecting to receive the report in August.

One of the major roles of the board of directors is to have an intensive discussion of P and C in the PDCA (Plan-Do-Check-Act) cycle, and then share the discussion with the management.

Presentation material P.7

Regarding the development process of the annual business plan, in January, it was still not clear how much the earnings potential could be enhanced from the four key focus areas. By February, however, it was substantiated and we discussed how it could be allocated among the three principle subsidiaries. In March, the annual business plan was finalized along with the performance measurement framework.

Presentation material P.8

The governance reforms have just begun, and there are still areas that need improvements or further actions. The Risk Appetite Framework (RAF) is highly valued, as it is an integrated management tool of risk management, financial strategy, and business strategy. The next challenge is how to further develop this framework.

Taking into consideration my year of experience as a board member, I will start to address the next medium-term business plan, which is the biggest topic for Mizuho. The next three years, the time

period of the next medium-term business plan, is undoubtedly going to be a crucial period for Mizuho. I will conduct the board meeting with a heightened sense of urgency.

## **B) Major Q&A**

Q: It appears that the statement made in Mizuho's Corporate Governance Report was taking a further step than what was required in the Corporate Governance Code, stating that as a basic policy, unless Mizuho considers the holdings to be meaningful, you will not hold the shares of other companies as cross-share holdings. What kind of discussions were held at the board meeting, and how will the board of directors be involved in the examination process of deciding whether holding the shares is meaningful or not?

A: All the board members share the same view: being the front-runner in corporate governance. Regardless of how it is stated in the Corporate Governance Code, we acknowledged that cross-share holdings should be reduced, considering the risk derived from share price fluctuation as well as from a capital management perspective. The three principle subsidiaries will examine the meaning of holding the cross-share holdings and will report to the board of directors.

Q: Is it possible that the wrong way of addressing misconduct, as in the past, may be repeated under the new governance system? What are the areas for improvement?

A: Issues such as appropriate sharing of information still need improvement. We need to clarify the penalty for those who fail to act instead of those who acted. For the past year, the screening conducted by the audit function has performed well. It is important to solidify this framework and create a culture that can promptly respond to matters when they occur.

Q: What are the differences between the independent outside directors of other mega-banks and Mizuho's independent outside directors?

A: I am not in a position to comment on other banks; however having an independent outside director as the chairman, who is able to set the agenda of the board meeting and lead the discussion should make a large difference in terms of governance.

Q: What are your thoughts on returns to shareholders?

A: I share the same view as Yasuhiro Sato, Group CEO, regarding capital management. Dividend payout ratio is currently 30 percent. However, it is also necessary to conduct strategic investments as well.

Q: Have you started to consider Group CEO, Yasuhiro Sato's successor?

A: Human resource management is discussed by the nominating committee, which is comprised completely of independent outside directors. Discussions have already started, but no decision in particular has been made yet. We will listen to the opinions from the management, but the nominating committee holds the authority to nominate without hearing from them.

## **(2) Branch Banking Group: Tetsuo Iimori, Managing Executive Officer**

### **A) Presentation Summary**

Presentation material P.10

99% of Japanese corporations are so-called "owner companies" where ownership and management are inseparable. Succession of the right to manage the company, or in other words, company shares held by the owner is a significant challenge for those companies. Thus, this challenge as a corporation and the challenge as an individual, which is how the family of those owners succeeds to the assets, are two sides of the same coin. Addressing these two sides in an integrated manner is Mizuho's integrated approach to both SMEs and their owners.

Presentation material P.11 and 12

Here, I would like to explain why we are focused on the integrated approach to both SMEs and their owners as one of the four key focus areas.

First is the aging of the corporate representatives. Second is the rise in asset value. Without preparation, the successor will receive shares that can't be monetized, and lose the means to pay inheritance tax. Mizuho's strength is in its capability of providing measures to control assets via processes such as "preparation", "reduction" and "transfer" in a unified manner, utilizing the banking, trust and securities functions.

Presentation material P.13

Although optimization of taxable income is now a plain vanilla solution, as it requires firm-wide collaboration between banking, trust and securities functions, it is becoming a significant business opportunity for Mizuho, which is adopting the integrated management between banking, trust and securities functions.

Presentation material P.14

“Area One MIZUHO Promotion Project” is the key source of transactions. This is to ask branches in the vicinity to select target customers and have the General Managers of Mizuho Bank, Mizuho Trust & Banking and Mizuho Securities provide services in a unified manner. Obviously we shall provide due care with respect to compliance. Expertise and practical intellect of our business frontline would not be commoditized.

Presentation material P.15

Through extensive exchange of human resources between Mizuho Bank, Mizuho Trust & Banking and Mizuho Securities, we are developing human resources with expertise capable to source transactions. This is a strength of Mizuho, having a group-wide common human resource platform.

## **B) Major Q&A**

Q: What are the challenges in developing human resources capable of promoting integrated approach to both SMEs and their owners?

A : Currently General Manager level staff are providing consultation to business owners. From now on, it will be necessary for the relationship manager themselves to find clues, therefore human resource development is important. As even General Manager level staff have strengths and weaknesses, according to the contents of consultations, we have established a support function within the head office, comprised of those with General Manager experience, and provide on-site support.

Q: What are the KPIs set for the Branch Banking Group?

A : In addition to Gross Profits, housing loan balance, investment products balance, the number of investment products customers and so forth are set for branches mainly targeting individual customers. The number of loan customers, loan balance and so forth are set for branches mainly targeting corporate customers.

Q : What is the breakdown between stock-and-flow profits with respect to the JPY 10Bn increase in Gross Profits associated with the enhancement of the integrated approach to both SMEs and their owners?

A : Gross Profits is intended to be increased by building-up flow profits.

### **(3) Corporate Banking Unit (Large Corporations) : Daisuke Yamada, Managing Executive Officer**

#### **A) Presentation Summary**

Presentation material P.19

Gross Profits of the Corporate Banking Unit (Large Corporations) has shown an upward trend, excluding the time of the Lehman Shock. Taking a look at portfolio by product, collaboration between banking, trust and securities functions and borderless business promotion are showing strong average annual growth rates. Upon the final year of the medium-term business plan, we will focus on the establishment of an overwhelming competitive edge in business with large corporations.

Presentation material P.20

Explaining the strategy of the Corporate Banking Unit (Large Corporations) in short, our largest challenges are motivation, development, appointment and allocation of human resources. The substance of the strategy is to cultivate relationship with each of our customers by accumulating individual transactions with an aim to establish the “Mizuho brand” in a sphere of large corporations, and then to expand these effects via “shower effects”.

Presentation material P.21

First of the four action plans is “super-large corporate customers”. We have chosen 39 corporations based on certain criteria and allocated distinguished human resources who meet the needs of each customer. We will allocate management resources to those customers with higher profitability, achieve results, establish the brand, and then realize the “shower effects”.

Presentation material P.22

Second is the acceleration of the collaboration between banking, trust and securities functions. We have revised Mizuho Securities’ business promotion structure from product unit basis to sector coverage based market-in basis. In addition, the responsibility of person in charge of each customer is now clarified.

Another measure is the enhancement in banking-securities dual-hat structure. For those customers without compliance issues for Mizuho, General Managers of Mizuho Bank are now able to propose M&A jointly with junior bankers of Mizuho Securities or vice versa in a natural manner.

Presentation material P.23

Third is M&A. Since M&A transactions offer profitable opportunities within the business value chain, the collaboration between banking, trust and securities functions is important. We are now making efforts to accumulate M&A information.

Real estate is the pivot of the collaboration between banking, trust and securities functions. For instance in a case of REIT, as there is the prospect of PO or IPO, it could lead to collaboration between banking, trust and securities functions. We have established the Corporate Real Estate desk within the head office of Corporate Banking Unit (Large Corporations) in order to accumulate real estate related information with the aim of future success.

Presentation material P.24

Fourth is borderless business promotion. Since a significant amount of profits from large corporations is generated from overseas, overseas transactions are important. In order to capture customer fund flows, we have newly established the Global Transaction Business Promotion Force with an aim to extend our overseas lending while focusing on increasing foreign currency-denominated deposits.

In terms of business promotion toward large corporations, Mizuho is appointing a Managing Executive Officer responsible for each industry sector. Although most of the business promotions were conducted in Japan in the past, the significance of overseas is now increasing. At the same time, we are promoting business toward non-Japanese corporations in Japan.

Presentation material P.25

Our initiatives related to cross-shareholdings. Firstly, the commitment we have set in our medium-term business plan to reduce the amount of our stock portfolio to 25% or lower against our Tier1 Capital is achievable. In addition to that, there are perspectives on how we address the Corporate Governance Code. In Mizuho's Corporate Governance Report, we have mentioned our policy regarding cross-holdings of shares as well as our standards regarding the exercise of voting rights associated with cross-shareholdings. Accordingly, our standards regarding the exercise of voting rights should be emphasized as well. As we have mentioned in the Report, we may vote against the company's proposal in the future.

Reduction of cross-shareholdings is not an easy task, thus we are conducting daily discussions with our customers. Many customers are considering this issue calmly. We will discuss the examination of the meaningfulness of holding shares up until autumn.

The specific amount of reduction may not be clarified until we start our negotiation. Since it is a bilateral discussion and bank shareholdings are valuable for our customers, it would be important for us to avoid the negative aspect on Gross Profits and a decline in our corporate value.

Most important would be whether our customers' sentiment toward cross-shareholdings could be changed or not.

Lastly, updates on how we started FY15. Corporate Banking Unit (Large Corporations) seems to have got off to a good start. As shown on the upper left graph, according to our internal data, loan share within the 3 mega-banks recovered the level prior to the Lehman Shock. The pipeline showed approximately JPY 50Bn increase year-on-year and its quality is good. In terms of league tables, although we have missed some large scale transactions, the game has just begun. Please look forward to our FY15 results.

## **B) Major Q&A**

Q: What are your perspectives related to the possibility of a decrease in profit from customers or the possibility of losing your position to other banks after selling customers' shares?

A: From my experience in the past, selling of shares does not always have a positive impact on our top-line profit. Thus, in general, the business frontline will be nervous about selling shares as it could harm relationships. We will consider the balance between the pros and cons for each of our customers and provide efforts to maintain business relationships even after selling the shares. However, it won't be clear until we start our negotiations.

Q: Which do you think would be the tailwind in reducing the cross-shareholdings: other mega-banks to state policies regarding cross-holdings as Mizuho has done or changes in customers' mindset?

A: This is basically not about other mega-banks. Whether the selling of cross-shareholdings could progress in Japan or not depends on our customers' mindset. It would depend on how our customers think about cross-shareholdings from their corporate governance or financials perspective in response to the enactment of the Corporate Governance Code.

Q: Perspectives related to pro-cyclicality incorporated in cross-shareholdings: i.e., profitability of holding shares improves when the company's financial performance is good as share-price, dividend yield and so forth improves, while profitably worsens in the opposite situation.

A : Since we are building the relationship from a long-term perspective, small fluctuations in company performance results will not affect our policies regarding cross-shareholdings.

Q: Can you potentially consider newly or additionally acquiring customers' shares assuming or estimating future expansion in business opportunities?

A: If the acquisition works positively for the corporate value of both the customer and Mizuho, we will not exclude that option.

Q: What is the most needed management resource? Moreover, with respect to the human resources management framework, are you considering adopting a management framework similar to your global peers from the perspective of developing professionals in certain business areas?

A: The most needed management resource for us is “human resources”, the one and only means of production for a financial institution. The key to success in business promotion toward large corporations is human resource management. The need for generalists is lower compared with before. It is now significant to allocate a specialist who excels in a certain area as the relationship manager of our customer who requires such knowledge or specialty.

#### **(4) International Banking Unit : Tatsufumi Sakai, Managing Executive Officer**

##### **A) Presentation Summary**

Presentation material P.27

Our future vision is to secure our position as a core global bank and to establish a global top-level status and brand in the Loan Capital Market (LCM) or DCM area.

Presentation material P.28

Regarding gross profits for the last fiscal year, we had record high profits for 5 consecutive fiscal years. All regions grew steadily, centering on the United States which was successful in promoting an industry sector based approach and acquisition finance initiatives. As to loans, the balance grew satisfactorily, but the spread declined due to the competitive environment as well as special causes and other factors. RORA increased favorably. This was due to the increase in Net Fee and Commission Income, especially due to the heightened contribution from Mizuho Securities. Asset quality continued to improve steadily while the credit risk taking guideline was not relaxed.

Presentation material P.29

We will aim to further expand the blue-chip customer base both from quality and quantity perspectives. Regarding Super 30/50 customers, we are currently in the process of refining our account plan and also by reviewing the target customers annually, we are able to retain both quality and quantity of the customer base. For the Super 30/50 customers, in FY2014, we had 200 customer groups, which concentrated on high rating multi-national companies. For FY2015, with the succession of RBS customer base through the acquisition of the North American asset portfolio customer groups have expanded to over 250, and Mizuho’s relationship status has also improved.

Regarding the strengthening of the industry sector focused approach; we strengthened our efforts in

acquisition finance toward certain industries. As demonstrated in the bottom right-hand list, we participated in 80% of the top 20 large M&A deals and were bookrunners in approximately 40%, which demonstrates the enhanced market presence of Mizuho.

Presentation material P.30

Regarding the strengthening of the integrated management between banking and securities functions and capturing related business, we welcomed the DCM core personnel from RBS, enabling Mizuho to aim for the top 10 status in the US DCM market. On the other hand, we are focused on transaction banking as a stable source of income. We aim to capture the global trade flows and cash flows of multinational corporations by utilizing the Asia Transaction Banking Division centering on Asia, in other areas of the globe as well.

Presentation material P.31

Sustainable growth is supported by credit risk management and liquidity risk management. In order to address the downside risk in the global economy, we have already shifted our management resources to the developed countries. As to addressing the loan-to-deposit ratio, we are focused on increasing customer deposits and market funding including in currencies other than the US dollar. The keyword is “sustainable growth” and in order to be prepared for the next financial crisis, we will continue to duly control our credit risk and liquidity.

## **B) Major Q&A**

Q: Which areas of your overseas strategy require further strengthening and what are the issues to be addressed?

A: The main issue is foreign currency liquidity. For Japanese banks, there is adequate liquidity if Japanese yen is included. However, it is inadequate if we solely focus on foreign currencies. Self-supporting efforts are imperative, although global systemic support structures are being reinforced. Retaining US dollar retail deposits may be one option; however it is time consuming to address the US regulations. Therefore, it is important to diversify the liquidity source and to maintain the balance sheet growth at a sustainable level. Also, we need to enhance our awareness regarding the geopolitical risks and regulatory developments of each country.

Q: How do you plan to enhance liquidity management and credit functions?

A: Regarding liquidity management, loan drawdown and repayment schedules, etc. are monitored monthly by the ALM & Market Risk Management Committee, where the profitability of specific transactions are being deliberated including the liquidity risk as well as capital cost

aspects.

As to enhancement of credit review and approval functions, we are expanding the overseas regional credit review and approval functions while retaining the control by Tokyo head office. Moreover, the regional Portfolio Management Committees will monitor their respective regions while the Portfolio Management Committee in Tokyo will oversee the company-wide credit monitoring as well as industrial distribution.

Q: Out of the asset portfolio acquired from RBS, 10% is non-investment grade. How do you plan to manage that in the future?

A: For those non-investment grade assets, we selected those about which we have industry knowledge, are able to access their management and are able to oversee the risks.

Q: How do you plan to develop global talent?

A: For those seconded from Japan, we try to have junior staff gain experience working overseas at an early stage, while for senior staff, we do not adhere to the existing framework and will appoint them to the management position. On the other hand, for the appointment of locally hired staff, or national staff in our terminology, we are focusing on developing existing talent to become a management member. Also in Asia, we are recruiting fresh graduates who are very talented. These fresh graduates are those who will bear the next generation of Mizuho and we are proactively fostering them on a region-wide basis.

Q: What is the reason for the increase in non-interest income last fiscal year?

A: Contributions from large scale transactions have impacted non-interest income to a certain extent. The amount from an individual acquisition finance transaction is large, as we are able to earn an upfront fee from the loan and when it becomes permanent, we are able to earn fee from bond or equity financing.

Q: For the integrated management between banking and securities functions and the capturing of related business, the results are mainly concentrated in Europe and the Americas and have yet to take hold in Asia. How do you plan to resolve this situation?

A: The market situation in Asia differs from that of Europe and the Americas. When focusing on corporate finance, the relationship between bonds and loans is extremely strong in the United States. Europe is between that of North America and Asia. For Asia, the relationship correlation is low. As for the Asian bond market, it is 1/7 the size of North America. However, when we focus on profitability, Asian loan business is quite high even on a stand-alone basis. As we need to lay the foundations for future growth, we will secure

business opportunities by fostering the bond market in Asia.

Q: How prepared are you to take on the credit risk of customers with a comparatively lower credit rating in order to continue growth?

A: For our overseas business, we plan to retain the credit at an investment grade level and at the same time expand the related business transactions. For those customers where we can obtain the information needed to conduct credit assessment, we are considering the possibility of expanding the credit range.

## **(5) Asset Management Unit :** **Katsunobu Motohashi, Managing Executive Officer**

### **A) Presentation Summary**

Presentation material P.32

“Promote integration of the group-wide asset management functions” and “Strengthen capability to respond to customer needs” are the two focus points for the Asset Management Unit. For the former point, we aim to increase AUM by integrating the asset management companies in the group and by promoting further cooperation between the product and sales division. For the latter point, we will take measures to strengthen our capability to make comprehensive proposals. For instance, as corporate pension, especially defined contribution pension, receives more attention from the market, Mizuho Bank, which engages in defined benefit pension business, and Mizuho Trust & Banking, which engages in defined contribution pension business, can coordinate together to provide a seamless business promotion structure that enables them to provide a comprehensive proposal for customers’ pension plan needs by establishing a seamless business promotion structure.

Presentation material P.33

There are three reasons why asset management business is one of our Four Key Focus Areas. First, is the potential growth of the market size for asset management. Second, high capital efficiency and profit stability associated with asset management business. Finally, Mizuho’s ability to differentiate itself from its peers in asset management business.

Presentation material P.34

Regarding Mizuho’s position in this market, Mizuho has JPY 37Tn defined benefit pension AUM and JPY 13Tn publicly and privately offered investment trusts. The defined contribution pension with more than one million people enrolled is the largest number in the industry. We also have the

largest AUM entrusted from GPIF.

Regarding measures, the most significant characteristics of Mizuho's consolidation of the asset management functions in the group is consolidating not only the group asset management companies but also the asset management functions of Mizuho Trust & Banking. By such consolidation, we will be able to address the diversified needs of our customers utilizing our group-wide capabilities.

Next is about strengthening our capability to respond to customer needs. The dark blue part represents the area that Mizuho's group asset management companies and Mizuho Trust & Banking cover. The light blue part, active and alternative products overseas, is the area where we collaborate with overseas asset management companies; strengthen gate-keeping functions; and seek inorganic growth.

Presentation material P.35

The concept of promoting integration of the group-wide asset management functions is to consolidate each company's product function into one, centralizing the skills and expertise, and then to build a solid platform that can respond to any customer needs by developing and providing quality products. Being Japan's first asset management company, which integrates mutual fund, investment trust, and trust bank functions, we will further advance our product development skills to differentiate ourselves. At the same time, we will establish a governance system that is highly independent and transparent, meeting the global standard. As for human resources, in order to build highly professional teams, we will structure an appraisal system that is convincing to all. Finally, we will use part of the capital generated from the consolidation to IT investments.

Presentation material P.36

This page illustrates the image of how Mizuho's asset management business will function within the group. Through the integrated management between the banking, trust, and securities functions and asset management companies, we will strengthen our capabilities to respond to customer needs, therefore materializing the group-wide profit opportunities.

## **B) Major Q&A**

**Q: What are the pros and cons of consolidating the asset management functions in the group?**

**A:** The largest positive aspect is the ability to provide products which foresee customer's needs by sharing the asset management skills and know-how of the respective companies. On the other hand, it is important to gain customers' understanding to entrust their assets to the new company.

Q: Which would be the target for inorganic growth, the asset management company or the asset servicing company?

A: Asset management company

Q: What is the difference between business alliance and capital alliance?

A: Capital alliance allows Mizuho to obtain the expertise from the partner, in addition to partaking in the growth of the partner as a shareholder. Business alliance, on the other hand, doesn't have those, but we will judge on a case-by-case basis.

Q: How do you foresee your growth in the future?

A: For this year, we will increase our profit by building up our AUM. So far it is progressing favorably.

Q: In the context of the strengthening the asset management business, would the distribution channel be Mizuho's strength?

A: Mizuho's approach is not centered on what channels we have, but is centered on our customer needs. It is important to capture customer (individual, corporate, and pension) needs and provide a product that fits, regardless of where the product is made, internally or externally.

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