

FY2017 1H Financial Results Presentation: Main Q&A

Q: What led you to announce the fundamental structural reform?

A: The changes in the business environment and Mizuho's current situation led us to this decision.

First, with regard to changes in the business environment, there are two changes that I consider important:

1. Top line profit has reached a plateau due to prolonged low interest rates and margins have declined with intensifying competition in the lending business. This is a structural change that has occurred in the financial industry. We need to secure bottom line profit through cost reductions under such changes.
2. In the coming ten years, it is possible that technology development will completely reshape the financial industry, and we need to adapt ourselves to such change.

Second, I want to touch on Mizuho's current situation. Over the last several years, we have reorganized the group structure by adding the 4th pillar (asset management) and 5th pillar (research & consulting) to the banking, trust banking, and securities functions that were operating collaboratively under the One Mizuho strategy. However, it is clear that our earning power has been declining. It is necessary for us to establish substantial cost controls in order to operate a sustainable business in ten years' time.

Based on these considerations, we launched a taskforce in April. The fundamental structural reforms that we have announced were established through discussions with our independent outside directors, and in-house company and unit heads. The medium-term business plans and annual plans will be designed based on these fundamental structural reforms.

Q: What are the key points of the fundamental structural reform?

A: The fundamental structural reforms are comprised of four pillars: 1. optimizing the organization & staffing; 2. structurally reforming IT systems; 3. restructuring the branch network; and 4. strengthening earning power.

1. Optimizing the organization & staffing:

By utilizing technology and other measures, we will reduce the number of personnel by 19,000 by the end of March 2027. This reduction will not only be done by reducing *tokuteishoku* employees (operations specialist employees), but also by reducing *kikanshoku* employees (generalist managerial track employees), through external transfers and other means. This includes, in particular, those hired during the mass hiring period.

At the same time, we will shift a number of our staff from back/head office to front office and promote the active participation of a diverse workforce. We set a target of

increasing the front office ratio by 7% to 45% by the end of March 2027.

2. Structurally reforming IT systems:

We will strengthen our IT platform through the integration of various IT systems and implementation of the Next-generation IT System. The Next-generation IT System will enable us to develop new products more cost-effectively and quickly; therefore, we expect a boost in productivity once we complete implementation.

3. Restructuring the branch network:

By applying a hub-and-spoke model that integrates banking, trust banking, and securities services, we aim to reduce the number of locations by 100 by the end of March 2025. At the same time, we will utilize digital channels to provide banking, trust banking, and securities services at every branch. Moreover, we are also making progress in building an online platform fully capable of handling banking, trust banking, and securities services.

4. Strengthening earning power:

In addition to our traditional asset finance or consulting businesses, which includes promotion of a shift from savings to investment and asset building, we will explore new areas, such as retail finance (J.Score), small-size business finance, and AI/algorithmic trading that utilize technological innovations.

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