

FY2019 Financial Results Presentation: Summary of Q&A

Q: Please tell us how you view the downside risks of the future, as well as resource-related risks.

A: In this crisis, Credit-related Costs were the biggest risk factor. They were measured on an individual company basis for approximately 70% of the portfolio as a whole under certain macro and stress assumptions, and the remaining 30% was calculated using the macro approach. In both cases, conservative assumptions were made within the range of probability.

As for resource-related exposures, if oil prices remain within the USD 20 to 30 range, Credit-related Costs are expected to be around JPY 10 billion for some upstream transactions. Other than that, under the Global 300 strategy, so-called “oil majors” and state-run resource energy corporations occupy a large portion of our portfolio, and the overall impact will be minimal.

Q: What kind of instructions are you giving internally based on the experience of the last financial crisis?

A: Our premise is to maintain a strong defense. The previous financial crisis began with the deterioration of financial institutions’ financial soundness, and we were not able to extend sufficient credit to establish medium- to long-term trust and further business relationships. On the premise of securing capital resiliency, we will allow a temporary decline in the CET1 capital ratio to some extent, and support our customers firmly that will lead to improving overall profitability of the relationships. We are viewing this crisis as a call to action, to further deepen and evolve our structural reforms. Right now what I am communicating internally is not to and should not go back to the world before COVID-19. We will make sure that we revise and accelerate our existing efforts aimed at the next generation of financial services, such as areas where we have not yet fully digitalized, or the way our offices work.

Q: How do you view hedge transactions as Mizuho moves to a capital utilization phase?

A: In light of the business situation for our company, for the purpose of assessing stress resistance, it is appropriate to take hedging effects into consideration. In the sense that we have mitigated the downside risk, we value hedging transactions in terms of improving our financial resiliency to a certain extent. However, hedging is costly so we will not rely on this permanently. In the discussion of capital resiliency, we will examine the hedging effect. On the other hand, when looking at capital utilization, our stance that we will take account of the degree of dependence on hedging remains unchanged.

Q: What discussions did you have within your company regarding the downsizing of credit exposure for coal-fired power generation?

A: In our 5-Year Business Plan announced last year, we put sustainability at the forefront, and the Board of Directors has been discussing sustainability extensively from the beginning. We have recently established Environmental Policy in line with our code of conduct, alongside our Human Rights Policy.

Particularly, engagement is important to us. It is very important to conduct business on the basis of engagement from various perspectives such as economic, social, and industrial perspectives.

I would also like to comment on the background of setting quantitative reduction targets not on a corporate basis but on a project basis. For example, it is important for us to support these sectors which make efforts towards renewable energy for a low-carbon society.

I would like you to understand that this is a project-based reduction target based on the recognition that it is important for us to work together to support our business partners and advance towards a better society.

Q: What are the measures to improve profitability if the risk scenario is prolonged and the downward pressure on earnings continues?

A: Amid the rapid development of the world after COVID-19, it is important for us to further accelerate structural reforms in order to ensure our profit structure is resilient to future environmental deterioration.

In particular, there are things that are becoming apparent in the process of remote access and shift work. This is essentially the first step toward creating a more robust and efficient operations system without returning to the world before COVID-19.

In addition, the value of providing credit has been recently increased and overall profitability will improve further if risks are taken where they can be taken, whilst we pay attention to the balance with credit risk management. Of course, first and foremost we must protect the bottom line of capital resiliency firmly.

Q: Can you please tell us your strategies to strengthen your retail business and enhance digitalization? What are the differentiators?

A: In addition to how to accelerate our efforts to date, we are starting to consider how to use remote channels, through utilizing our strength of face-to-face channels integrated among BK, TB, and SC. In addition, under the new core banking system, STP will be rapidly promoted this fiscal year, and through this, we would like to deepen our structural reforms and utilize the strength we have obtained.

Q: Please tell us the background of your plan to increase profits in Markets in a situation where the markets are unstable and it is difficult to take risks.

A: As for Banking, we were able to build a fairly solid position in FY2019, so we can expect a certain amount of carry income this fiscal year even under the current interest rate environment.

In addition, we expect some growth in Sales and Trading this year. The previous fiscal year saw a sudden change in the credit market in March, resulting in a profit decline. However, as a whole, we are able to capture considerable flow from clients. In addition, our efforts to strengthen not only cash transactions but also derivative transactions are gradually bearing fruit, and we believe this, coupled with the increase in volatility, can be expected.

Q: What is behind the planned modification to the Articles of Incorporation to allow shareholders to make proposals on dividends?

A: Under the 5-Year Business Plan, we will strengthen our engagement with our varied stakeholders, including shareholders. We came to the conclusion that the right to propose dividends should be granted if granting the right to propose dividends leads to constructive dialogue with important shareholders.

We also took into account the fact that Basel regulatory capital requirements, which had been unclear in the past, have become quite clear. Although there is downward pressure on the CET1 Capital Ratio at present, the decision was made based on management's stance of emphasizing stronger engagement.

If there is no shareholder proposal for dividends, dividends can be paid without waiting for the General Meeting as before.