

Summary of Q&A

Respondents

- Outside Director and Candidate for Chairperson of the Board of Directors :
Izumi Kobayashi (indicated as “I.K.”)
- Managing Executive Officer & Group CSO : Naoshi Inomata (indicated as “N.I.”)

Q.

What is the largest difficulty that Mizuho faces in its structural reforms?

A. I.K:

Mizuho faces various hurdles for its structural reforms, but the biggest challenge is related to HR matters especially in light of how to utilize the abilities of each and every employee. As the structure of society and client behaviors change due to the impact of COVID-19, I think that I would be able to say that Mizuho’s awareness under the current situation is that conventional business models are not necessarily what is in demand from clients. Up until now, Mizuho as a company faced the issue of digitalization which was seen as a large hurdle, but under the pressure of these circumstances Mizuho has no choice but to propel such initiatives with a sense of urgency, and I feel that such initiatives will see significant developments going forward.

When that happens, will there be an HR system in place that thoroughly evaluates hardworking employees? How will such an HR system be established? Mizuho will need to further utilize the abilities of each employee and change employee behaviors while gaining the understanding of customers regarding areas that we have been unable to make progress on so far. I see this as the centerpiece of the structural reforms.

Q.

The specified schedule and disclosures regarding reducing the balance of coal-fired power generation financing to zero was quite advanced. In contrast, corporate finance was not included in the targets. It is possible that such financing could be used as working capital. Have you considered this?

A. N.I:

Our understanding is that corporate finance in the energy sector is for general working capital, for other forms of power generation besides coal-fired power generation, and may be used for various purposes such as research and development expenses.

Such electric utility and energy companies ensure a stable energy supply which is essential for our daily lives and fulfill an important role, so I do not think that limiting our financing and thus limiting the business activities of these clients would be positive for society.

We will work to transform these businesses by conducting engagement with clients. As we do so, we will discuss the state of such corporate financing. The reason that we do not provide project financing for the new construction of coal-fired power generation facilities is that we believe such facilities have a large and direct role in resulting in global warming, and our policy is that we should first reduce such financing at first. In the meantime, we address corporate financing through engagement with clients.

Q.

Regarding projects that are underway outside of Japan, I believe the Vung Ang 2 project in Vietnam was already decided, but I feel that it is contradictory to establish the Environmental Policy that you mentioned while proceeding with the financing of such a project. Could you tell us your thoughts on this matter?

A. N.I:

I will refrain from commenting on specific projects. In general, there is a possibility that after careful consideration and comprehensively reviewing the implications for clients, partner countries, the Japanese government, and our varied stakeholders, we will support certain projects to which we had already committed prior to the effective date, to avoid impacting the funding of the applicable projects. However, such projects are on an extremely limited basis.

I.K:

In light of my position Outside Director I must refrain from commenting on specific projects, but my view is that the issue of coal-fired power generation is not something for one company to tackle, but rather something that we should encourage the government of Japan and concerned entities to take policy action on. On numerous occasions I have personally raised the question of how coal-fired power generation should be addressed—not in terms of individual projects—but by Japan as a nation. I would like to hold discussions at the Board of Directors regarding how Mizuho should respond as a company, taking account of the overall movement.

Q.

What is Mizuho's medium- to long-term policy on sustainability considering the EU's finance taxonomy and "green recovery" plan?

A. N.I:

Addressing climate change is in and of itself a medium- to long-term initiative. We have identified climate change as a medium- to long-term "emerging risk", and we believe that it must be addressed immediately.

Regarding the discussions on taxonomy that are proceeding in advance in the EU, we understand that there are discussions on adjusting risk-weights after classifying assets into "green" or "brown" assets. However, we believe that further discussions are necessary as it can be difficult to actually classify such assets. Europe is ahead of us, and their methods could very well become the standard in the future, so it is important to keep a sharp eye on the situation as we address this.

However, such initiatives impact not only Mizuho but our clients as well, so we will engage in meaningful dialogue with our valued clients such as electric utility companies and energy companies. In this way, we believe that supporting innovation and the transformation of business structures will contribute to the realization of a low-carbon society over the medium to long term.

Q

Regarding Mizuho's response to the "new normal" after COVID-19, with Mizuho changing, what sort of challenges is it facing?

A. I.K:

There is currently much discussion worldwide about what new business opportunities the "new normal" will bring. At the moment, it is difficult to say specifically where these opportunities will be. However, I believe the regulatory framework for traditional financial institutions must become more open.

On the topic of digital currency, standardization is a considerable challenge in the market. There is no problem with having multiple digital currencies, but, for digital currencies to gain greater public acceptance, it is extremely important that a variety of them be commonly useable across a variety of locations. The COVID-19 situation has brought attention to the fact that, even if large commercial facilities may accept a particular digital currency, small shops may not.

This has made me think that developing a relatively low-cost platform is key to the financial industry. Along those lines, those of us in the industry should devote more thought to the further enhancement of online banking and the balance of services at retail branches. As you know, we need to shift from retail branches, which have extremely large costs, to online banking. The “new normal” makes new investment essential. However, because financial institutions do not necessarily have much insight into future growth industries and technologies, we will have to employ experts, deepen our knowledge, and act more quickly than competitors.

Q

There was a comment about “the role of financial institutions in an era of digital transformation”. What specific role do you see them fulfilling? Does Mizuho have adequate capital and ability to respond, to achieve the plan it has set out? Can you give some concrete examples?

A. I.K :

Regarding the role of financial institutions in an era of digital transformation, I do not have an answer, either. As someone who has been involved in the finance industry, I have not yet seen an answer as to how financial institutions, within a highly regulated industry, can construct a new model going forward. Financial institutions around the world are looking for a model for success, and Mizuho has not yet found its answer.

Up until now, there has been concern that the digital landscape will do away with traditional financial institutions. However, the COVID-19 pandemic has made abundantly clear that there are some things only financial institutions with capital and credit management capability can do (in comparison with non-financial institutions). On the other hand, the advance of digitalization will surely attract a range of participants to areas, such as payments, where there are effective technological solutions, and competition will intensify.

In light of this, an essential issue for Mizuho to explore going forward will be how it can let go of its unneeded resources and develop a new business model, while also strengthening its capital in a highly regulated industry and gaining even greater trust from its customers.

I feel that the recent challenges have actually revealed some hints as to how Mizuho, as a financial institution, can develop a new model with trustworthiness at its core.

I understand this may not be a satisfactory answer. We will continue discussions further on a new business model making the most of Mizuho's strengths, both its strengths as a financial institution and its own particular strengths, and incorporate the views of investors as well.

Q

If the scope of the analysis of transition risk and physical risk is expanded further in scenario analysis based on the TCFD recommendations, how much increase or decrease is expected in credit cost ?

A. N.I :

Currently, we do not include all sectors in our calculations. For the electric utilities, oil and gas, and coal sectors, we have only included activities in Japan. This is because we carried out our selections for scenario analysis based on which clients we would be able to engage with directly and proactively—what we would be able to control for, in other words. Going forward, we are going to further enhance our risk and scenario analysis, and we will be looking into measurement of impacts and sensitivity as a next enhancement.

Q

What is Mizuho's stance on cybersecurity?

A. N.I:

We are aware that cybersecurity is a significant risk for management. All entities in the group confirm and report on their cybersecurity measures, and it is positioned as a critical item in our risk management.

I.K :

Both as members of the Board of Directors and as Outside Director, we recognize that cybersecurity risk is an extremely significant issue. At the Board of Directors meetings, I have been checking about Mizuho's specific cyber risk countermeasures. Mizuho's employees receive training in cybersecurity measures, and Mizuho has made the necessary upgrades to its IT systems. On the other hand, cyberattacks continue to become more sophisticated day by day. The Board of Directors believes it is important for Mizuho to remain alert to cybersecurity as a top risk and apply new insights and capital to responding to it. Such initiatives do not have a single, perfect end point. Rather, in the Board of Directors' view, they are something that Mizuho must always continue to pursue.

Q

Why has only Mizuho among other banks received the proposal to partially amend the Articles of Incorporation in relation to climate change?

A. N.I:

From the perspective of external evaluations, I don't believe that Mizuho has lagged behind the other Japanese megabanks in regards to sustainability initiatives thus far.

Another reason is the Urgewald Report which NGOs use to compile data regarding coal-fired power generation (in this report, Mizuho is ranked as the highest globally in terms of investment in coal-fired power generation). The report is based on limited data as it compiled using only publically available data and as a result seems to be inaccurate. For example it includes working capital investment with no relation to coal-fired power generation.

Additionally, I would like to point out that the shareholder proposal was made prior to our announcement regarding our disclosure of new climate change-related initiatives.

Q

As the impact of COVID-19 is putting downward pressure on capital, Mizuho's level of capital adequacy seems low compared to the other Japanese megabanks. In light of this, as Outside Director, what discussions have you had with the business execution line in regard to capital strategy?

A. I.K:

We have held multi-faceted discussions within the Risk Committee and the Board of Directors. Although Mizuho's level of capital is behind that of the other Japanese megabanks, we determined that a sufficient level of capital adequacy can be maintained even when considering the effects of COVID-19. We confirmed that there was no particular concern under either current capital requirements nor on a Basel III fully-effective basis.

We also discussed returns to shareholders. We discussed this in depth at the Board of Directors and did not merely approve the proposal presented to us by the business execution line. Prior to discussion at the Board of Directors, we held detailed discussions at the Risk Committee, including receiving expert opinions.

However, we are only just starting to understand the full impact of the COVID-19 and we cannot let our guard down. In particular we are paying attention to the potential for downgraded credit ratings among Mizuho's clients and the degree to which this may increase Mizuho's Credit-related Costs. We are committed to doing what needs to be done.

This does not mean that Mizuho will only record Credit-related Costs to prepare for risk, but also provide clients with ample proposals and support their business comprehensively including solving credit-related issues, therefore fulfilling our role as a financial institution.

We are considering how to do what needs to be done in the current situation while keeping an eye on the level of capital. Mizuho's level of capital has improved compared to the time of the last global financial crisis. The current situation is truly difficult, and I would like the business execution line to do what needs to be done with the capital we have available.

Q

Digital transformation requires investment, but I do not think that Japanese banks currently have the expense structure to allow for large-scale investment. How do you plan to balance both sides, and what is your overall direction?

A. I.K:

It might be true that digital transformation requires large-scale investment, but Mizuho has already invested significantly in IT systems, and compared to other companies who have not yet made such an investment, the structure of our IT system allows for less expensive and more flexible operations. I believe Mizuho has an advantage in this regard.

In terms of other new developments, they are not necessarily in-house developments. It might be a joint development with partners or participation in projects developed by partners, or it might be a partnership sharing results without investments. Therefore, it is not necessary to assume that Mizuho will bear all the costs, in fact collaboration is necessary for transforming into a new type of financial group.

When including various costs such as running costs, the cost of investment in digital transformation is not necessarily higher than other feasible investments such as expanding our branch network or acquiring a bank franchise outside Japan. For Mizuho to do what needs to be done going forward and do it smartly, it does not necessarily just mean investing money, which is proven not only by Mizuho but also by other companies. In order to cultivate such smart initiatives internally, it might be necessary to seek outside advice and talent, and that is something we can do right now.