

IR Day 2020

Summary of Q&A/Outside Director Session

1. Retail & Business Banking Company

Q: The importance of credit cards as a payment channel is increasing. Could you tell us your strategy for the credit card business?

A: Due to the impact of COVID-19, the need to avoid direct contact is increasing, and I believe that the shift to cashless payments by way of credit cards and other methods will accelerate more than ever to replace payments in cash. Under this situation, we think it is important to strengthen our relationship with Orient Corporation. In October, we are planning to release a new integrated credit card and ATM card with Orient Corporation, and as such we will strengthen our alliance with Orient Corporation even further.

Q: What are the strengths and weaknesses of Mizuho's retail business?

A:

Strength:

We can provide the best solutions for customers as an integrated group, with an established business structure that enables our banking, trust banking, and securities entities to cooperate with each other to provide the best services in a fairly organic manner.

Weakness:

Regarding online channels, we believe that we are little behind others since we have been concentrating on the transition of our core banking system until last year. We are currently trying to catch up through various initiatives.

Q: Please you tell us about the current situation and outlook regarding credit-related costs.

A: We do not consider the impact of COVID-19 to be small. However, compared to the global financial crisis a decade ago, financial institutions are steadily supporting SMEs, backed up by government support. On the other hand, as the economy will be shrinking even further, the hidden real impact may become more visible. We will talk to our clients and discuss possible options and support them through those options.

Q: Please tell us the strengths and challenges in Mizuho's asset management businesses for individuals and the business areas you will focus on.

A: Our strength is the unity of the group, integrating the services of the bank, trust bank, and securities.

The challenge, which is also applicable to Japan as a whole, is that cash accounts for an extremely high percentage of total personal financial assets. As Japan's population continues to be older and as we enter an age of longevity, the asset management businesses for individuals is expected to grow. Under those circumstances, what we would like to focus on is to develop personnel not only to have knowledge of products but also to be capable of offering consulting, an area which requires a personal touch.

2. Corporate & Institutional Company

Q: As for the reduction in cross share-holdings, it seems that the reduction has not proceeded due to the impact of COVID-19. Could you please tell us about the outlook?

A: Due to the impact of COVID-19, there are clients whose business results have been negatively impacted. In addition, face-to-face negotiations for the sale of shares have been difficult. As a result, the progress on reduction of cross-shareholdings has been slow.

On the other hand, since the establishment of Mizuho, we have reduced the amount of cross-shareholdings from JPY 7 trillion to JPY 1.3 trillion and we will not change our policy to reduce the amount by JPY 300 billion by the end of FY21. Together with such tail winds as the revision of the Corporate Governance Code, we will continue to talk to our clients including discussions between executives, and we aim to form new partnerships including the provision of equity/quasi-equity capital replacing cross-shareholdings.

Q: Could you tell us about the outlook of the investment banking business including quasi-equity loans?

A: As for the pipeline of hybrid loans and similar, it is JPY 1 trillion in total as shown on page 18. This includes our response to the need to restore capital for clients whose capital has been damaged due to the impact of COVID-19, and supporting the transformation of business structures and realization of growth strategies, including those that begin with M&A. Until this May, the need for clients to secure liquidity at hand was strong, but now that liquidity is secured in most cases, the demand for acceleration of initiatives towards business transformation and how to restore impaired capital has gradually increased. We would like to provide financing support firmly, taking risk and return perspectives into consideration, and support our clients' business structure transformation and industry realignment.

Q: Please explain the situation and outlook of credit related-costs including large-lot credit risk.

A: We recorded additional reserves in the fourth quarter last fiscal year from a forward-looking perspective, and as for the first quarter of this fiscal year, we have recorded a considerable amount of credit-related costs. Taking the current situation into consideration, we believe it is highly likely that credit-related costs will remain within the original estimate.

On the other hand, we cannot dispel concerns that the current impact of COVID-19 will be prolonged or the second wave will have a considerable impact on the financial market.

In this regard, as for credit risk management, we will keep a conservative stance. We will continue to strive to minimize our credit-related costs by ascertaining the actual conditions of our clients, address signs in advance, and at the same time strengthening support for our clients.

3. Global Corporate Company

Q: Please tell us the background behind the improvement to the loan spread and the outlook.

A: We have been focusing on profitability for a long time, and we have been asking for appropriate spread levels.

In addition, due to the COVID-19 situation, the value of providing credit has been increasing. This situation will not last forever, but looking at the capital markets, the spread levels have not declined significantly. At least for the time being, we consider that the current spread level will be maintained.

Q: The performance of US and European debt capital markets is fairly good, could you tell us about Mizuho's advantages compared to other Japanese megabanks?

A: We have been implementing our Global 300 Strategy, focusing on non-Japanese blue chip companies, where we provide various financial services to the same client, through taking advantage of deepened client relationships. This strategy proved to be effective. As stated on P.23, we have captured a high percentage of DCM deals from close clients who we provided emergency support to during the COVID-19 pandemic. We are not focused on considering our advantages in comparison with other Japanese megabanks. Rather, we consider our current position to have been established as a result of aiming for a top class position among Non-US banks in large markets like the US.

Q: Could you tell us about the credit-related costs situation and future outlook?

A: On page 22, you can see that the first quarter results this year were JPY 12.9 billion, which we believe is well under control in comparison with our initial estimate at the beginning of this fiscal year. Also, considering our clients' situation, we do not think that there are many clients that face sharply worsened conditions. In addition, the level of prices for natural resources has recovered to a level higher than we initially expected. This said however, if the COVID-19 situation is prolonged, there might be some clients that we need to pay more attention to depending on the industry. We will continue to pay careful attention to the situation.

Q: Please tell us about the risk factors GCC faces in the coming year.

A: Due to the impact of COVID-19, there are various risk factors such as the relationship between the US and China, Brexit, and the situation in the Middle East. The greatest risk factor I am concerned with is that these contingent risks rise, leading to the vulnerability of the global economy and a shock to our business.

Q: Please tell us about the direction of business for regions other than the US, such as Asia and Europe.

A: As for Asia, we would like to support corporates including Japanese clients. Regarding transaction banking which we have been strengthening, although there has been a decrease in profits affected by rate cuts globally, there is no big change in our strategies including securing non-JPY liquidity and capturing FX and trade finance business. We will conduct those strategies steadily.

In Europe, we think that the business will trend stably instead of expanding significantly. However, emerging markets is an area of risk to which we need to pay careful attention.

4. Global Markets Company

Q: Could you please tell us the reason why Sales & Trading in the US is performing well? What are the strengths and challenges in Sales & Trading as a whole?

A: As for this fiscal year, we have to take into consideration the tailwinds such as the very brisk environment for debt issuance, but regarding our initiatives, we consider that there are two factors that have contributed. The first is that we have proceeded with a strategy of integrating banking and securities operations in US. The fact that we have been able to take the same approach as US banks is the main reason. Second, we set up new infrastructure and systems including the ones for derivatives. We consider that this has led to profits gradually, now that it is 2 years since the infrastructure and system set up is mostly finished.

Regarding our strengths in Sales & Trading as a whole, in addition to the two points I mentioned, other strengths are the Japanese yen and the corresponding exchange, interest rate, and credit transactions. We would like to continue to make use of our strengths which we have accumulated in the Japanese financial market.

As for our challenges, we believe depending on the region, there are separated approaches by our banking entity and securities entity, resulting in relatively poorer services compared to our competitors. We would like to respond to the situation by proceeding with the strategy of integrating banking and securities even further.

Q: What is the reason why the carry income is increasing in banking? Please also tell us about your way of thinking on future operations.

A: We have recorded a write-down of a loss related to our foreign bond portfolio with unrealized losses at the end of FY2018, and we have reconstructed this portfolio in FY2019. We reconstructed it when the interest rate had been relatively high before COVID-19, and due to the impact of COVID-19, the US policy interest rate declined sharply, leading to the stable carry income. I think it is important for us for the time being to maintain the stable carry income as much as possible through effectively controlling interest rate risk.

Q: Could you tell us the breakdown for Net Business Profits between Banking and Sales & Trading?

A: This changes more or less depending on the market environment, but the rough image is banking: trading = 3:1.

5. Asset Management Banking

Q: Please tell us about the specific initiatives for reducing the G&A Expense ratio to 57% by FY23.

A: There are three points. Firstly, four years have passed since Asset Management One was established, and PMI has been completed once, but we would like to look back again to see if there is any room for further reduction. Secondly, including what we became aware of through responding to COVID-19, we will reduce fixed expenses through revising work styles utilizing digital technologies such as RPA. Thirdly, we would like personnel expenses to be linked stronger to performance and to be variable, which we aim to achieve through HR system reform.

Q: About the inorganic growth strategy, could you please tell us specifically which region and business you are considering?

A: We are constantly discussing which business region and business is suitable for our inorganic growth strategy, in terms of the asset management business which is considered to have high capital efficiency. We think the target will be opportunities which can contribute to the expansion of our portfolio in the asset management business, and generate added value through complementary products.

6. Outside Director Session

- Summary of presentation

- 1. 5-Year Business Plan and summary of progress
 - Due to the spread of COVID-19, we conducted a re-evaluation of the feasibility of the 5-Year Business Plan when we were formulating the business plan for FY20. We will stick to the original targets for FY23, which will be the final year of the 5-Year Business Plan.
 - As you can see in the Appendices, the financial results for FY20 Q1 show steady performance. We feel that results are beginning to emerge through the unified group operations of banking, trust banking, and securities, which we have advanced by introducing an In-House Company System in FY16.
 - As for credit-related costs, they are now within estimates, but the outlook remains uncertain. We acknowledge that even greater cost management efforts are essential, including further reduction in G&A expenses to maintain the momentum for Customer Groups, which have been performing well.

- 2. Matters of vital importance deliberated on in the three statutory committees
 - Nominating Committee: Strengthened initiatives such as allocating key personnel strategically and building a structure where senior executives in corporate departments would be able to serve concurrently in the three core companies, to strengthen the integrated operations even more.
 - Compensation Committee: By increasing the percentage of performance-linked compensation, it has conducted initiatives such as linking shareholders' returns and executive compensation.
 - Audit Committee: Conducting initiatives such as monitoring personnel/personnel expense control. Also, it has been monitoring the consolidation of Mizuho Research Institute and Mizuho Information & Research Institute.

- 3. Future challenges
 - Through the response to COVID-19, we think that the effectiveness of digital technologies has been proven, not only in administrative operations, but also across all business fields, including sales. It has become an urgent issue to draw on this digitalization to effectively promote the streamlining of operations, and thereby significantly improve work productivity.

4. Conclusion

We will strengthen the unified group strategy across banking, trust banking, and securities based on management's commitment to achieve the 5-Year Business Plan without fail. Mizuho will definitely be able to establish a robust position as a leader of the next generation of financial services, if we can overcome each issue persistently while steadily building a robust earnings base.

▪ Summary of Q&A

Q: What kind of discussions were held in the Board of Directors meetings for the target for reducing loans for coal-fired power generation facilities?

A: The conclusion which was arrived at was the result of thorough deliberation at the Board of Directors' meetings. The discussion points included how to set the macro reduction target such as reduction of the loan balance by half by 2030 and to achieve that target of zero by 2050 in light of the loans which are currently outstanding. Also, when we decided we would not finance capital investment related to new coal-fired power generation facilities, there was a discussion at the Board of Directors' meeting about if it included the replacement for those facilities. Through those discussions we reached the current conclusion.

Q: This year, Mizuho Financial Group celebrates the 20th year anniversary since its predecessor, Mizuho Holdings was formed. In your view as an Outside Director, what have been the obstacles that have hindered change and transformation of Mizuho up to this point? Also, could you give your thoughts on whether there is any risk of such obstacles emerging again in the future, which could impede change and transformation?

A: Ever since the start of Mizuho Financial Group, the greatest challenge has been the struggle to bring together the energies of each predecessor organization to operate as a unified company with effective governance in place. I believe that this has been solved by the One Mizuho strategy, implementation of governance reforms, and the introduction and strengthening of the In-House Company System carried out by the former CEO, Mr. Sato.

Also, one area that was in need of improvement was the formulation of the business plan at a senior management level. However, I believe that under the current CEO, Mr. Sakai, with the formulation of the 5-Year Business Plan, we have discussed it thoroughly, and we have drawn up a very concrete business plan with high feasibility.

Another major issue was the legacy IT system. I believe IT system failures have had an immeasurable negative impact on Mizuho. However, Mizuho decided it would build a new system from scratch, and Mizuho successfully accomplished the challenging project. In my opinion, Mizuho has completely overcome the major issues it had in the past.