# IR Day 2023: Summary of Q&A

## 1. Retail & Business Banking Company and Asset Management Company

Q: How do you see the probability of RBC achieving Net Business Profit ROE target?

A: While there are still hurdles to overcome, we think the target is within an achievable range. We have implemented structural reforms in both individual and corporate business areas, reducing expenses and laying foundations, during the previous 5-Year Business Plan. While we recorded Net Business Profits of about JPY 20 billion in the first year of the previous Business Plan, we managed to grow profits to over JPY 90 billion at peak. Even under an unfavorable condition in FY22, we recorded just over JPY 70 billion, which implies that we have strengthened the business and financial foundations.

Partly as a positive effect of the front office reorganization in 2021, we have considerably expanded our deal pipeline for corporate business, and performance has been improved far better than before. Meanwhile, in the retail business, we consider certain investments are inevitable at this point. Upfront investments tend to require much time to show their effects and expenses increase somewhat at an initial stage of its implementation. However, we intend to grow our Gross Profits through the effective use of such investments.

We also feel there is customers' growing needs in RBC business area. Specifically speaking, in the individual area, there are opportunities by taking advantage of the growing momentum for asset formation business, in which Mizuho can demonstrate its strength, with edges of collaboration across the entities of bank, trust bank and securities, having Mizuho Bank in the center of the overall functions. With regard to corporates clients, as SMEs and mid-cap clients are in the phase of implementing business structural reforms and business succession, we see the market environment favorable.

Q: How is the status and progress of reforming corporate culture at RBC?

A: Since RBC has the largest number of staff in the group, the corporate culture reform is important. We are focusing to facilitate communications between the headquarters and branches since last year. After the IT system failures, senior executives are visiting branches for more direct and on-site communications with the employees, resulting in an improvement in the employee survey to some extent.

We need to promote culture transformation regardless of seniority. While the initiatives has been penetrated at the management level, it has not been enough to the on-site personnel. We have been changing the way of branch assessment to focus more on customer dedication, instead of driving branches performance solely by qualitative targets, which used to be done in the past. We are shifting the way of managing our organization to put more significance on the growth of each individual's strengths rather than top-down approach in a bureaucratic way. There are challenges, but we are gradually gaining positive reactions.

Q: How do you see risk of deterioration in credit cycle of SMEs after repayment of 'zero-zero loans' (loans with no interest and no collateral, governmental support program during COVID-19)?

A: While we incorporated a severe scenario in our plan, we also have a feel that SMEs' resilience toward the challenging economic environment is getting higher. Family-owned SMEs, which have generally been conservative, are even moving forward thinking of business structural reforms and business transformation. There is also a sense that if such SMEs' initiatives get active and the some corporates start to accelerate such efforts, the credit deterioration would be less likely to happen in such a large scale. Therefore, I am personally somewhat optimistic.

Q: How do you see the probability for RBC's individual, corporate and alliance business to achieve the targets, its breakdown and risk factors for each business?

A: I'm confident to achieve the targets both for our individual and corporate businesses. For individual business, we expect increase in Net Business Profits of JPY 20 billion, even including the negative impact of reducing residential mortgages. The key is whether we are able to continue the accumulation of AUMs. The target for corporate business is at achievable level by shifting from low-profitability assets into high-profit assets, and moreover, capturing potential business opportunities for M&A, MBO and LBO finance, which needs are growing from our clients, could make us more confident in achieving the targets.

The actual net increase required to achieve targets in alliance business is about JPY 10 billion, as the absence of negative impact coming from LINE Bank project in FY22. It is not that challenging, also considering that the upfront investment gradually showing effects to monetize.

Q: In proceeding NISA and AUM as KPIs, what do you expect in profit contribution?

A: (RBC)
The key to building up AUM is how to capture customers need for asset formation, including NISA. In Japan, it has been difficult to capture customers' future funds as a large portion of population tend to place their excess cash into deposit for a long. We think the point is how we serve and support customers to shift this excess money just sitting in the bank deposit into asset formation for the future.

In respond to these needs, we believe that it would be appropriate for the bank to play a centering role in assisting customers by providing asset formation products with controllable risk. It will require consulting by the bank on how to build assets for the future, and we see a large potential. We envision that our stable earnings will increase as we expand our asset formation business with having NISA as a driver.

A: (AMC)
In promoting NISA and iDeCo, there are strong initiatives from the government. Mizuho now accounts for about 20% of the industry's share of iDeCo enrollment, and is continuing to grow at a monthly pace. We feel the momentum is growing from `saving to investing', and joining iDeCo especially through branch channels is one of the increasing trend.

NISA and iDeCo bring new generations, such as both young and middle-aged, to investing. As their risk tolerance tends not to be that high, we are developing and offering low-risk products with stable medium- to long-term returns, intending to continuously expand products lineup.

As starting with low-cost passive investment products as an entry point, customers could move to more highly value-added products according to their level of financial literacy, we envision offering a multilayered product lineup such as high-fee active funds and profit assets.

Q: In the AMC mid-term Business Plan, do you expect that the probability of profits growing linearly until FY25?

A: We expect that the impact of the introduction of the new NISA system in 2024 will result in a larger top-line increase in the second half of the mid-term period. We are looking forward to the penetration of the NISA system, which we expect also bring positive wave to DC, including iDeCo. In Japan, the shift from DB to DC is slow but gradual. Against the backdrop of changes in the system, we believe that it will become much easier for product supply to individual customers, which could contribute to our top line. The compensation rate for the publicly offered investment trust business is higher than that for the investment advisory business, and it is assumed that as the shift to publicly offered investment trusts progresses, it will boost our top line.

Q: What is AMC's expansion strategy in AUM and the missing part in operational functions?

A: We will shift management resources to areas with a high probability of market expansion or large potential in fee-pools. Institutional investors such as pension funds and financial institutions have a high risk tolerance and are shifting their assets under management to private assets. In response to these trends, we are using the expertise of Asset Management One Alternative Investments (AMOAI) and Mizuho Trust & Banking to expand our capability of offering of solutions. Personal wealth-building businesses are also our high priority.

We recognize our missing functions as private debt and private equity. In areas where in-house production is limited, AMC is considering in-organic investment while exchanging information with management and finance departments.

## 2. Corporate and Investment Banking Company

Q: Are there any signs of improvement in corporate loan spreads?

A: In terms of loan spreads in corporate financing, excluding product-related financing, we have seen some decline mainly due to the absence of COVID-19 specific demands. On the other hand, we have maintained and improved the overall level of loan spread with high-spread hybrid finance, in providing financial supports for clients.

Growing demand for sustainable finance is apparent. There was a strong need for renewable energy project finance from 2019 to 2020, sustainability-linked loans from 2020 to 2021, and we see a new trend of transition finance at present. Since transition finance tends to be provided in a larger volume with a deeper level of risk taking than plain loans, we believe there is room for negotiation with clients to increase the spread on long-term loans.

Q: What growth drivers do you plan for M&A VC, real estate VC and SI?

A: There is awareness-raising towards improving ROE, for example the Next TSE reforms and the situation of many corporates with PBR below 1.0x. We consider that corporate actions will increase towards strengthening the earning power and increasing asset efficiency, such as overseas business acquisitions, domestic industry restructuring, and de-listing involving funds, and that will bring us more business opportunities. Furthermore, we believe that the initiatives as CRE strategies will be more active, such as the disposal of factories and the non-operational assets.

In the Strategic Investment area, there was a demand for hybrid financing in providing financial supports to clients during the COVID-19 pandemic, however this demand is expected to decline. On the other hand, the balance in non-marketable funds have increased in recent years, which will contribute to our profits. As certain period of times, - i.e. seven to eight years - will be necessary to show profit contribution in fund business due to J-curve effect, not a large impact appears during this Medium-term Business Plan, but it is expected to appear in the final year and afterwards.

Q. What is Mizuho's strength relative to its peers in the M&A business?

A: We implemented the Industry Group (IG) /Regional Group (RG) framework two years ago, which is a reorganization in front-line offices focusing cross industry and sector initiatives, and we have started to enhance sales capabilities, strengthen management foundation and to develop specialists/experts in each industry and sectors. In order to address global agendas such as climate change, IG system properly functions to provide solutions not only to individual clients within the same industry sectors, but also across various sectors. From this fiscal year, we will expand our scope of activities to collaborate more with global companies in GCIBC, mid-Cap companies and innovation companies in RBC. Provision of risk money such as to co-creating values is also one of our characteristics.

Starting this fiscal year, we have integrated CIC and the investment banking areas of GPU, and new CIBC organization expanded with headcounts of about 5,000. Our uniqueness lies in the integrated structure of coverage and products to provide solutions, and personnel rotation across the business line, especially across entities such as BK-TB-SC, which is our competitive advantage in soft power.

Q: New plans to sell cross-shareholdings

A: We have been working on reducing cross-shareholdings on schedule in the previous mid-term Business Plan. However, the more decrease in the balance, the more difficult it becomes to proceed as the overall matrices gets smaller. On the other hand, as some changes in clients' stance in the wake of the Corporate Governance Code and the TSE reforms, there have been more cases where we managed to sell cross-shareholding. While Mizuho believes careful engagement is necessary to avoid negative impact on business relationship, we simultaneously intend to change the way of building client relationship without heavily relying on cross-shareholdings, and more as a business partner. It is our management's commitment to reduce the cross-shareholdings additionally by JPY 300 billion (acquisition cost basis) while gaining the understanding of our clients.

## 3. Global Corporate and Investment Banking Company

Q: What are the risks and challenges in the medium and long term?

A: In the macro environment, we consider the risk factors in three ways; the U.S., China and national security. First, we are closely watching the U.S. interest rate trend and the impact on emerging economies, whether the U.S. economy will have a soft or hard landing. Next, we are also monitoring to see whether China, with the world's second largest GDP after the U.S., can continue to sustain 4~5% growth and the ripple effects of its economy on ASEAN and Europe. Finally, we see the possibility of drastic changes in Japan’s national security in broader sense, that is, not only limiting to geopolitical security but also economic security such as semiconductor and energy-related and food security. We will closely watch how these risk factors can affect our topline and credit-related costs.

Looking back over the past four years, Gross Profits increased 9% and risk-weighted assets 4%, while expenses grew only 2%. Gross Profits ROE has improved from 19% in FY19 to 23% and we aim for 25% in FY25. In light of these, our current challenges are keeping `balance sheet control, expenses and governance’. First of all, while we set the target limit for Non-JPY loans at USD 300 billion, we don’t expect Non-JPY lending to continuously increase given foreign currency liquidity. Balance sheet control is important in that regard. Next, in terms of expense, we originally planned to reduce the expense ratio from the 60% level to the mid- 50% level during the previous mid-term Business Plan, and the ratio is now at 49% in FY22. As businesses expand, more sophisticated governance structure is required, which increases the cost. In terms of governance, U.S. authority now categorizes Mizuho as a financial institution in the Large & Complex category. Looking ahead to future growth, we will build a governance structure that will enable integrated management and operations of credit, market and underwriting risks.

Q: How do you evaluate Greenhill acquisition and what is the revenue potential?

A: Compared to IG LCM/DCM business, Mizuho does not have a very strong international presence in M&A business. The acquisition of Greenhill will bring approximately 370 people to the company's international M&A business, and it also saves time in enhancing capabilities and recruiting talented people. We will leverage Greenhill's capabilities and Mizuho's domestic and global client base to grow our global M&A business. Synergy revenue is expected through providing Mizuho’s functions to Greenhill, such as LCM, DCM, ECM and derivatives, and vice versa.

While the U.S. accounts for 2/3 of the global capital market fee pool and M&A accounts for just under 60%, there is room for expansion as Mizuho's share is still limited. In the medium to long term, having a global M&A advisory function is also important in terms of providing services to clients and ECM, which has room for future growth.

## 4. Global Markets Company

(Banking)

Q: What is Mizuho’s approach in repositioning the foreign bond portfolio?

A: Amid the sharp rise in U.S. policy interest rates, market conditions have made it difficult to secure carry income, and since the second half of 2022, we have continued to operate in a risk-constrained manner. As long as the inverted yield condition continues, we think it is better not to take interest rate risks for the time being.

Conversely, if the shape of the yield curve normalizes, or if there is a clear prospect of securing carry income, repositioning of bond portfolio could be considered in the overall balance of Mizuho, including the Customer Groups.

However, it is also necessary to keep in mind that the reversal of the difference between long- and short-term interest rates is itself an unprecedented situation in history, which may be indicating some sort of risk in the market. With regard to future interest rate trends, we will assume various scenarios and enhance our response.

Q: In regards to ‘strengthening the ability to manage the JPY interest rate’, what is the expected size of earnings while BOJ monetary policy also drawing attentions?

A: We have huge excess deposits on our JPY balance sheet. Against this backdrop, we have been forced to operate in the market at negative interest rates in order to park our excess deposit. In addition, it is difficult to invest in long-term JGB to better prepare for rising interest rates. As mentioned, the investment environment has changed significantly, partly due to the introduction of negative interest rates, and the scale of earnings has decreased accordingly compared to the previous period.

Currently, on the assumption that the YCC will be abolished in FY23 and negative interest rates will be lifted in FY24, we expect the market-based investment Gross Profits to improve by about JPY 15 billion annually. However, a further rise in interest rates in the context of changing inflation and wage trends in Japan could lead to a further improvement in earnings.

(S&T)
Q: With the strong performance of S&T in the U.S. and elsewhere, how do you see the sustainability of profits?

A: In FY22, we built up profits by capturing the flow of interest rate business and foreign exchange transactions while credit and equity business remained weak.

In FY23 and beyond, there is a risk that demand for interest-rate-related businesses will decline as we assume an end to rising U.S. interest rates. On the other hand, we believe the need in credit and equity businesses is expected to grow.

This diversification of products has made it possible for one product to supplement profits with another when the market remains weak. In that sense, we believe that profits are becoming more sustainable.