

IR Day 2021: Summary of Q&A

1. Retail & Business Banking Company

Q: What are the factors behind the strong business performance in the retail division and what do you think about its future sustainability?

A: In the last one or two years, we have accelerated collaboration among BK, SC and TB and expanded our asset management business base.

Specifically, we believe that the strong performance resulted from the fact that we have been able to capture diversified needs of our customers through the establishment of the sales framework tailored to customer segments, such as the introduction of a geographic area based approach and a separate organizational structure for corporate clients and retail customers.

On the other hand, the results of these measures have only just begun to emerge. There is still much room for growth in the asset management business, given the current situation in which Japanese household assets are concentrated on deposits.

Q: How do you evaluate the low MAU (= Monthly Active User) for 'Mizuho Direct'? Also, Mizuho is proceeding the collaboration with major platformers, such as Softbank and LINE, but will such efforts lead to an increase in MAUs in the future?

A: We recognize that our MAUs are at a relatively low level. In order to increase the number of MAUs, we are making efforts across organizations, such as enhancing personalized digital marketing for each customer and strengthening the UI/UX of applications.

The tie-up with a leading platformer aims to capture customers that Mizuho can't reach on its own. Therefore, we do not expect it will directly contribute to the increase in MAU in the short term. However, we think that building our track record of providing digital services will lead to more face-to-face transactions in a future.

Q: In the presentation, you emphasized the strengthening of listening skills and the collaboration among BK, TB and SC. However, the third-party investigative report i pointed out dificient focus on the customer's perspective and the corporate culture where such issues cannot be easily improved. What are the challenges?

A: We take the raised points such as difficient focus on the customer's perspective very seriously and are working on making improvements.

In the frontline, we are working to enhance our listening skills, identify the customer's potential needs by staying close to them, and provide a full range of financial and non-financial solutions through collaboration among BK, TB and SC. In addition, we established a VoC data analysis team to collect and analyze voices from customers and the frontline and information on SNS, etc. from various perspectives. Through these efforts, we will strengthen our focus on customer perspective.

Q: You explained that the profitability of housing loans is improving. What are the latest initiatives?

A: In the housing loan business, we have reduced the costs of channels and personnel through structural reform initiatives over many years, and as a result, we are now in a position where we can make sufficient profits even after credit costs. We are now able to selectively present interest rates that are comparable to those offered by Internet-only banks, which offier the lowest interest rates in the industry, and we think this makes us compettiive. Also, the credit quality has been well maintained since the conditions are presented based on thorough assessment of the customer's assets and financial situation.

Q: What is the quantitative image of RBC's Net Business Profits for the final year of the 5-year Business Plan?

A: Net Business Profits increased by about JPY 40 billion from FY18, of which stable revenue increase was just under JPY 20 billion. Although Gross Profits decreased by about JPY 40 billion due to the impact of the COVID-19 and others, we were able to offset the impacst mainly with cost reduction.

In FY23, we plan to increase Net Business Profits by an additional JPY 100 billion compared

to FY20. More than half of the growth will come from cost reduction, as well as strengthening of the corporate business and monetization of digital business.

Q: Is there any business impact from the IT system failures?

A: In foreign exchange transactions, there are some cases of shifting transactions to other banks. The impact is expected to be several hundred million yen a year. Although we need to continue monitoring whether it is temporary or will continue for a while, we don't expect the impact to be any greater.

Q: What measures do you think are necessary to increase the business value of J-Coin?

A: There was a challenge with the number of affiliated merchants, but now over 1 million of stores accept J-coin. Now, we hope to increase the number of J-Coin users in the future. As a new initiative, the J-Coin framework can now be used as part of a corporate expense management framework. In cooperation with municipalities, for example, we are considering the possibility of using J-Coin as an electronic substitute for community development coupons. We also hope to promote cooperation with other smartphone applications.

2. Corporate & Institutional Company

Q: With regard to sustainable finance, can we expect an increase in loan balance or an improvement in profitability? Also could you tell us more about how Mizuho's engagement model leads to business with its customers.

A: Sustainable finance has grown considerably over the past year or two. Based on our dialogue with clients, there are strong financial needs along with the needs for business structure transition from a sustainability perspective.

In addition to debt finance, there is growing interest in quasi-equity finance related to sustainability, and the market is expected to become quite big in the future. In terms of profitability, there is no significant difference compared with usual corporate loans.

Also, we have quantitative discussions with customers to achieve carbon neutral in the context of the government's new energy plan. As a concrete example, as we arranged for Kawasaki Kisen Kaisha, Ltd., there expected to be considerable demand for transition

finance in the future.

To realize a decarbonized or low-carbon society, we will make full use of all resources and work together with our customers to overcome challenges.

Q: What is Mizuho Group's leasing business strategy?

A: There is no change to our policy to enhance the collaboration between Mizuho Leasing Co., Ltd., an equity-method affiliate, and BK, TB, SC operations. For real estate-related businesses and equity-oriented real estate investment, which cannot be handled under Banking Act, etc., we would like to utilize Mizuho Leasing and strengthen group collaboration to respond to client needs. With regard to other leasing companies which we have close relationship with, we continue to work together with them on a regular business base.

Q: To what extent did the shift from cross-shareholdings to Strategic Investment (SI) field actually take place? What changes do you see in the risk profile?

A: In FY20, through the reduction of cross-shareholdings, about JPY 200 billion of RWA (based on Basel 3 finalization basis) was released, but in reality, RWA that exceeded this amount was invested in the SI field. The risk weight varies depending on the specific product design, such as hybrid loans and preferred stocks, but it is relatively lower than for cross-shareholdings.

A comparison of a decrease in dividend income from reduced cross-shareholdings with the return from the SI field shows a clear net increase in the top line revenue. Considering that a substantial portion of risk capital used to be allocated to cross-shareholdings, we regard the approach to the SI field as a fundamental strategy to strengthen the relationship with clients by carefully engaging with them while at the same time improving our ROE.

3. Global Corporate Company

Q: Gross Profits of Non-IG businesses exceeded that of IG in FY 21 Q1. How will you work on Non-IG businesses in the future?

A: In the Americas IG DCM market in FY21 Q1, the issuance volume decreased to about half of the previous year, partly due to the reactionary fall from the booming market in FY20. On the other hand, the Non-IG DCM and LCM markets recovered from the latter half of FY20 and shows very high year-on-year growth. Reflecting this market environment, Non-IG overtook IG in FY21 Q1.

Non-IG business is one of the growth areas for GCC, but it is also high in risk. With this in mind, although we will hold some bank loans, which are the core of client relationship, we will keep them below a certain level out of our entire portfolio by selectively looking at credits. At the same time, we will expand capital market-related non-interest income, such as LCM and DCM, and control underwriting risks through hedging, for example.

Q: With regard to sustainability initiatives for the Global300 clients, what are Mizuho's competitive advantages and differentiators in the face of competition with peers?

A: From the perspective of the Global300 customers in EMEA and the Americas, we believe that our advantage lies in placement capability leveraging our investor network in Japan and other Asian countries. For example, we believe that for green, ESG, and other sustainability-related loans businesses, we are able to demonstrate our strengths in a format so-called Ninja loans to be placed to Japanese investors.

On the other hand, for Global300 in Asia, the market for sustainability-related businesses is still in its infancy, and we, as pioneers, are at the stage of creating markets together with our clients.

4. Global Markets Company

Q: Short-term and long-term outlook for U.S. dollar interest rates. Also, I would like you to tell us about your banking operations policy based on this.

A: In terms of U.S. dollar interest rates, I believe that the COVID-19 situation and the trend of core inflation rate in the United States are key factors. Although upward pressure on interest rates will remain strong for the time being, we do not expect they will not rise rapidly. On the other hand, if we take the view that the world of with-COVID will not change much from now and that the recent rise in core inflation rate is only temporary, we cannot rule out the possibility of interest rates falling.

As for short-term interest rates (policy interest rate), based on these scenarios, there is no objection to the view that conditions for starting tapering will be fulfilled in line with economic normalization, but there is a possibility that policy interest rate will not rise or the timing of the rise will be later than expected.

As for long-term interest rates, we think it is natural to expect the yield on 10 year U.S. Treasury Bonds to approach 1.50% in anticipation of an increase in policy interest rate at the end of FY22 or the beginning of FY23. On the other hand, based on the current environment, it is hard to imagine a situation where the rate exceeds 1.75%.

In banking operations, it is very important to manage interest rate risk by hedging with derivatives and spot sales, and to replace the portfolio appropriately while using the roll-down effect. In addition, when U.S. interest rates rise, asset allocation to stocks will be carefully carried out by looking at the overall portfolio and the correlation between U.S. interest rates and stocks.

At the same time, it is necessary to maintain the quality of assets under management by reducing the amount of risk in the entire portfolio in the event of a sudden market change, such as a situation where all type of assets are sold. We believe that managing the portfolio while maintaining operational surplus in preparation for such a market environment will lead to stable banking operations over the long term.

Q: The percentage of carry income in banking is around 60%. How do you evaluate this? Will the ratio be further increased in the future?

A: With negative interest rates continuing in Japan and Europe, the investment vehicles that can generate carry income are limited. Considering this point, we believe that the current percentage of carry income is appropriate. Although it is not impossible to increase the ratio to more than 60%, it may become difficult to control interest rate risk when volatility rises, so we believe that the current level is appropriate.

Q: Regarding the strengthening of S&T business profitability, what is the trend in Net Business Profits after deducting expenses? Also, what regions are expected to see further growth in earnings?

A: Growth rate in Net Business Profits has exceeded that of Gross Profits. This is partly because costs were high in FY18 due to upfront investment in line with the development of the derivatives business foundation, but it is also because we were able to steadily increase Gross Profits recovering fixed costs.

By region, Americas continues to have a large scale of business, and we expect to see further increase in its earnings with the strengthening of the CIB model approach and others. In addition, although S&T business in Japan is relatively mature, we believe that discussions on the lifting of so-called firewall regulations can be a major turning point, and how to monetize this will be a future challenge.

Q: In relation to the loss incidents in the United States at the end of FY20, what is the current status of the risk management framework?

A: Responding to losses on equity swaps arised in the United States, we conducted a comprehensive review of all market transactions, including non-equity transactions. In the process, the framework and processes of risk management and the items of follow-up monitoring were identified and we are working on making enhancements on a global basis. In addition, we are taking concrete steps to make the most of the lessons learned from this case, such as risk sensitivity and how to deal with the risks at the front, not only at the middle office.

5. Asset Management Company

Q: When making an inorganic investment in the asset management field, will it be invested via Asset Management One Co., Ltd.?

A: Asset Management One Co., Ltd. is a joint venture with Dai-ichi Life Insurance Company, Ltd., but there are no rules in place regarding inorganic investment with Dai-ichi Life. The investment could be through Asset Management One Co., Ltd. or FG.

Q: You plan to improve ROE to 6.6% in FY21, but this does not seem high compared to other global listed asset management companies. From this perspective, what are your medium- to long-term ROE targets?

A: We are currently in the process of improving ROE and will work to further increase. Capital efficiency is generally high in the asset management business, but ROE at present seems to be low due to the influence of goodwill write-offs and other factors.

Given the different methods used to calculate ROE for each company, I hope you would kindly understand that we cannot provide a specific target level to compare with other companies, which could be misleading.