FY2023 H1 Financial Results Presentation: Summary of Q&A

Q: Evaluation of first half financial results and consideration of risk factors and earnings buffer in the second half

A: Our evaluation of the first half of the fiscal year is positive. We were able to counteract weak overseas demand for loans through overseas capital markets business and M&A solutions in Japan, resulting in a good performance with mutual complementarity of earnings. For the second half, there are signs of a pipeline buildup, for example in the real estate sector, which has been underperforming over the past year, and we aim to maintain the same level of earnings as the first half by monetizing these opportunities.

Regarding an 'earnings buffer', although we do not maintain such a concept, we are assuming a conservative exchange rate of 135 Yen per U.S. dollar. If we close the financial year at an exchange rate around 150, then there is a possibility of earnings exceeding expectations.

As for Credit-related costs, our plan for this fiscal year is 100 billion yen, and in the first half it remained at 11 billion yen. We will continue to strive to contain costs through predictive analysis-based risk management, but there remain potential risk factors, such as costs deriving from large specific customers, and a market turmoil resulting from higher US interest rates. We have therefore not made any changes to the annual outlook at this point

Q: Efforts for further improvement of ROE

A: One of the objectives outlined in our new Medium-term Business Plan is the transferal of low-profitability assets to high-profit ones. Fundamentally, improving our ROE boils down to our accomplishing of this. There also remains some room for reduction of our base expenses, and it is also important that we go through our business portfolio again, checking for areas with weaknesses, and business that can be discontinued.

The strengthening of businesses that do not consume assets is also crucial. As Japan begins to show signs of transitioning from the 20-year deflationary period to inflation, with the backing of the government, there is a growing momentum, particularly among the younger generation, in asset formation and asset management. The 200 trillion yen of personal financial assets undoubtedly presents a significant business opportunity, and we should actively expand such areas.

Q: Views regarding CET1 capital ratio management level and the clarification of such level, as well as the balance between total payout ratio, growth investment and share buybacks

A: While our current level of capital satisfies our necessary level, we assess whether it is truly sufficient or not through an ongoing thorough evaluation of changes in the economic environment, such as the fact that the US economy may be reaching its

peak, or increasing uncertainty in China and Europe. Given the heightened geopolitical risks, we believe that it is an appropriate time to approach capital management with more caution. We would like to secure CET1 ratio of at least 9.6-9.7%, but we do not see being in the lower 10%'s as necessary.
There are pros and cons to disclosing a specific ceiling for the management level of our CET1 ratio. While we understand the importance of clarity, disclosing a specific ceiling can lead to constraints in financial management and complicate communication. We will clearly convey our intentions as they progress, keeping stakeholders in the loop at each development.

We are aware of the total payout ratio of other banks and the expectations of some investors regarding share buybacks. We have no intention of ruling out the possibility of buybacks; we will consider them when opportunities arise. Although it would most likely have some positive effect on our stock price, as we have not implemented share buybacks for some time, what is crucial is sustainability. As such, we would like to thoroughly investigate the extent to which flexible implementation of share buybacks can reduce cost of capital.

When it comes to growth investments, we rigorously assess whether sufficient return can be obtained in comparison to our current cost of capital. We only pursue investments that align with our ROE targets. We need to focus on investments that align appropriately with our objectives.

We also need to consider the risk of our existing businesses becoming outdated. We cannot ignore the trend of digitization in retail securities, and it is unlikely that we can compete going forward with only in-person sales capabilities. Our investment in Rakuten Securities last year has already turned profitable, and although there may be some impact from their new zero commission scheme, we believe it is not a misguided investment considering these trends. It is difficult to provide quantitative explanations as Rakuten Securities is not publicly traded, but we hope you recognize our decision to invest as a result of thorough evaluation.

Q: Approach to foreign bond and JGB investment

A: The increase in the duration of foreign bond holdings to 1.6 years comes from partial changes in our method of hedging, while our position itself remains largely unchanged. The increase in the balance of holdings is mostly a product of Yen depreciation – we still maintain an extremely conservative approach with a minimal position. Hold-to-Maturity investments have slightly increased, but that's the extent of it. While U.S. interest rates are set to decline sharply going forwards, inflationary trends are still not fully clear, and while we acknowledge the potential for a flexible recovery in foreign bond investment going forwards, we do not know when the time will be for that.
Regarding JGBs, while we expect the BOJ to abolish its negative interest rate policy next year, it's still unclear to what level the yield on a 10Y JGB will reach, and as such, the most likely scenario is that we maintain our cautious approach here. Keeping

unrealized gains & losses under control is a crucial aspect of maintaining financial soundness; however, carry income is also a vital source of income, and in this respect we would like to consider position building should the right conditions present themselves.

Q: Approach to mass retail

A: There are two essential aspects that must be addressed in our approach to mass retail: the acquisition of deposit accounts, and the capturing of the asset formation segment. As for monetization in the field of retail going forwards, our focus will be on asset management business from high net worth individuals. It is important that we establish a framework that allows us access to that segment over the long-term, 10 to 20 years into the future. In this regard, as the only ones to have secured a foothold in the field of online securities brokerage (Rakuten Securities), we are confident that this will become another of our strengths going forward.

While we have acquired around 24 million individual deposit accounts, unfortunately, in the past two years, there have been more closed than opened. In order to turn this trend around, it is necessary to enhance the convenience of both digital and in-branch services, as customers are now using multiple channels. In essence, we will gradually streamline our physical branches while strengthening our digital channels.

As for mortgage business, we will extend mortgage loans only to customers that have the potential to become core customers, such as by engaging simultaneously with Mizuho in asset management business, or transferring their salary accounts to us. Aside from that, we will not engage in interest rate competition, and we have no intention of changing this policy even if interest rates rise.

Q: Outlook on future interest income amidst increasing expectations of rising domestic interest rates

A: We acknowledge that this is an area with significant upside potential depending on changes in the macroeconomic environment. Firstly, regarding loans business, we expect fixed-rate lending profits to improve in line with any rise in interest rates. Additionally, domestic capital expenditure has been increasing relating to a variety of backgrounds, such as labor-saving investment from labor shortages, digital transformation (DX), sustainability and climate change adaptation, and supply chain restructuring from heightened geopolitical risks. Alongside our research capabilities, we are deepening relationships with our clients by offering strategic proposals prior to lending, thereby capturing funding needs at an early stage, and translating them into financing proposals. We have been working on these efforts, and they are precisely the kind of capabilities in high demand at this particular juncture, and we will firmly capture capital expenditure requirements going forwards.

As the interest rate competition environment is challenging, we will focus on enhancing the added value to our financing and improving their overall profitability.

Furthermore, should domestic interest rates return to positive levels, deposits will

become a strong source of revenue. Liquid deposits are particularly essential, and we are committed to expanding our customer base and are implementing various measures to achieve that. More specifically, not only is it crucial to preserve our deposit base by maintaining and expanding our corporate and institutional client base, we must also maintain our retail customer base, as well as capture more settlement accounts, that are stickier in terms of deposit balance. We will also strive to enhance customer experience as outlined in our new medium-term business plan, encouraging customers to utilize Mizuho Bank's deposit accounts as their main salary and settlement accounts.

We have disclosed our estimation of the financial impact on earnings from domestic interest rate increases, but it is important to note that the primary assumption there is the abolishing of negative interest rates. The actual timing of the removal could be around January next year, should a certain increase in wages be identified, or we may need to wait until the spring labor negotiations ('Shuntō'). Should there be further interest rate increases thereafter, there is a possibility of additional revenue growth, but we maintain the view that this should be considered on a slightly longer-term time frame.

Q: Strategies for expanding capital market revenues and controlling expenses in the U.S. market?

A: Capital markets business in the first half was somewhat weak, due to the influence of U.S. financial policies and economic conditions, though we expect recovery in the second half. We have been expanding our business at a considerable pace, which is something we can be proud of. However, we also feel that regulations there have become tighter. In this context, what is increasingly important is achieving a balance between top-line growth and the company's corporate foundations (IT systems, cybersecurity, compliance, risk management, etc.). Therefore, we will make solid investments in areas that require expense allocations to strengthen the foundation, and achieve sustained growth on top of that foundation.
Regarding expense control, we are operating effectively with a unified understanding between our U.S. entities and head office.