

Mizuho Financial Group (8411 JP)

FUNDAMENTAL VIEW ¹

As of 07 Mar 2024

- Mizuho (A1/A-/A-) undertook large restructuring charges in FY18 to improve its weak returns. Its performance improved in FY20 and FY21, though a series of Japan IT system failures was a distraction. FY22 was a mixed year due to challenging revenue growth, but 3Q23 has been better.
- Mizuho's CET1 ratio buffer has improved but is somewhat low at 1.6%, but is acceptable given comfortable asset quality metrics.
- As one of the three megabanks, Mizuho's credit standing benefits from a strong expectation of government support, if needed.

RISKS & CATALYSTS

As of 07 Mar 2024

- Asset quality has been benign and not much affected by COVID-19 up to and throughout FY21; credit costs in FY22 decreased to a low 8 bp of loans and down to a further 1 bp in 9M23.
- The CET1 ratio (fully Basel III compliant and ex-security gains) is 1.6% above the 8% regulatory minimum, which is fairly low level but acceptable for now given benign asset quality.
- FY22 was a mixed year for Mizuho as the bottomline was propped up by reduced credit costs, while revenue growth continued to be anemic as was the case over the previous few years. 9M23 has been helped by a large trading beat.
- Mizuho has correctly started to make investments in building its capabilities (Greenhill/Rakuten), which it had shied away from for a 7-8yr period due to low capital levels and a focus on reducing expenses.

CREDIT QUALITY SCORE (CQS)²

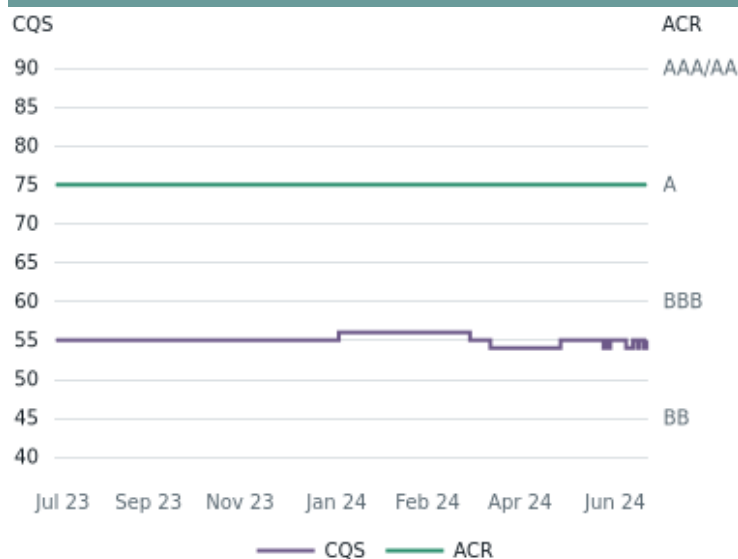
As of 21 Jun 2024

CURRENT CQS

55

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS

KEY METRICS

As of 07 Mar 2024

¥ BN	FY19	FY20	FY21	FY22	9M23
Net Interest Revenue/Ave Assets	0.36%	0.42%	0.44%	0.41%	0.35%
Operating Income/Average Assets	1.02%	1.03%	1.01%	0.96%	1.05%
Operating Expense/Operating Income	67%	64%	62%	63%	59%
Pre-Impairment Operating Profit / Average Assets	0.33%	0.37%	0.38%	0.34%	0.43%
Loan impairment (charge) or reversal/ave. loans	(0.21%)	(0.25%)	(0.28%)	(0.10%)	(0.02%)
ROAA	0.22%	0.22%	0.24%	0.23%	0.34%
ROAE	5.2%	5.3%	5.8%	6.1%	9.0%
CET1 Ratio excl. unrealised securities gains in AOCI	11.0%	10.5%	11.5%	11.3%	n/m

BUSINESS DESCRIPTION

As of 07 Mar 2024

- Mizuho is just about the third largest by asset size among Japan's three megabanks. It was formed in 2000 through the merger of the former "City" banks, Fuji and Dai-Ichi Kangyo, and the Industrial Bank of Japan, a provider of long-term industrial credit financed by bond issues.
- Its main units are Mizuho Bank and Mizuho Trust & Banking (focusing on asset management and related services). The group's other main business is Mizuho Securities, a leading player in debt capital markets in Japan and the US.
- It expanded in North America in 2015 by acquiring assets and staff from RBS and has successfully captured more markets and commercial banking business in conjunction with its securities arm. It also acquired Greenhill, a boutique M&A firm, in 2023.
- Mizuho is less diversified than its peers by product segment and has historically been more corporate focused.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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