

MIZUHO

Mizuho Financial Group

The Current Status of the Major Banks in Japan

June 2005

Mizuho Research Institute

1. The NPL Problem

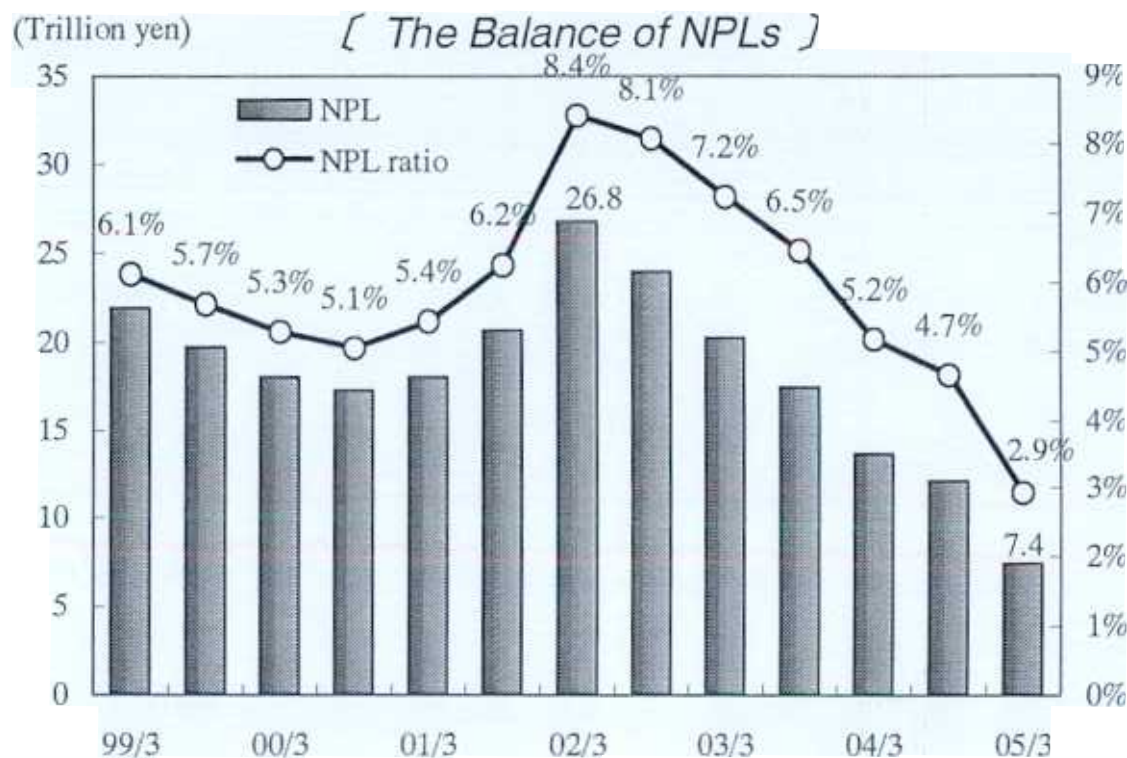
2. The Financial Conditions of the Major Banks

3. Business Prospects

1. The NPL problem in Japan is over.

Declining NPLs

- The NPLs of the Major Banks※ declined to 7.4 trillion yen in FY2004 from 26.8 trillion in FY2001.
- The NPL ratio (NPL/Gross Loans) declined from the peak of 8.4% to 2.9%.
 - The official target of the Government to halve the NPL is now achieved.
 - The present level of NPL ratio is reasonably low by the international standard.
 - The NPL ratio of Mizuho is the lowest of the 4 Mega Groups (Mizuho:2.2%, SMBC:3.3%, UFJ: 4.1%, MTFG: 2.7%)



※Major Banks=
 Mizuho,
 Mizuho Corporate,
 Tokyo Mitsubishi,
 Mitsui Sumitomo
 UFJ
 Resona
 Mitsui Trust
 Mitsubishi Trust,
 Sumitomo Trust,
 Mizuho Trust,
 UFJ Trust

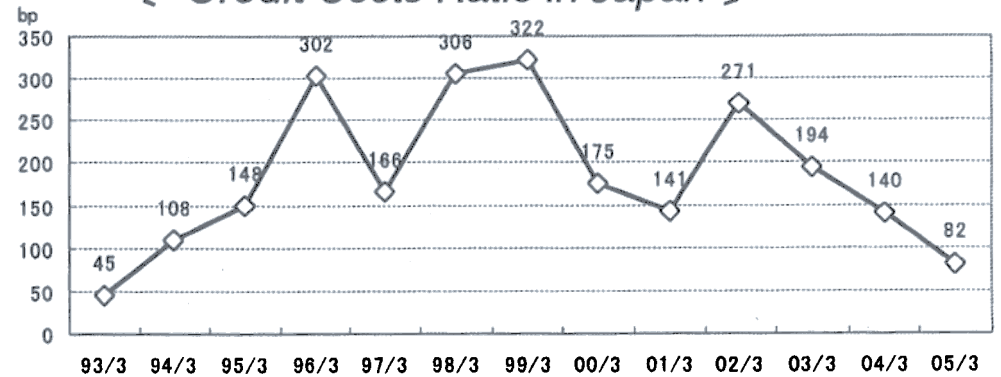
Declining Credit Costs

- Credit costs were surpassed by the business profit for 2 years in a row.
- Some banks recorded “negative credit costs” in FY 2003 and FY2004.
- The credit cost ratio (credit costs/gross loans) is nearing the international level.

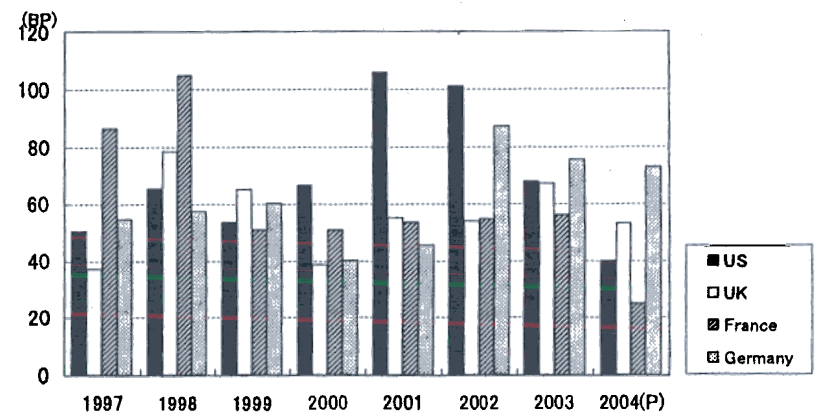
[Credit Costs of Major Banks]

| | 2004/3 | 2005/3 | (Hundred Million Yen) | |
|--------------------------|---------------|---------------|-----------------------|-----------------|
| | | | Change | 2006/3 Estimate |
| Mizuho Bank | 1,604 | 910 | ▲ 694 | 1,000 |
| Mizuho Corporate Bank | 609 | ▲ 614 | ▲ 1,222 | 400 |
| Tokyo Mitubishi | ▲ 1,566 | 1,122 | 2,689 | 500 |
| SMBC | 8,034 | 9,548 | 1,514 | 3,000 |
| UFJ Trust | 12,739 | 7,140 | ▲ 5,599 | ▲ 700 |
| Resona | 10,897 | ▲ 467 | ▲ 11,364 | 530 |
| Saitama Resona | 285 | 140 | ▲ 145 | 90 |
| Chuo Mitsui | 583 | 439 | ▲ 144 | 350 |
| Mitsubishi Trust | 249 | 21 | ▲ 227 | 50 |
| Sumitomo Trust | 203 | ▲ 15 | ▲ 217 | 200 |
| Mizuho Trust | 167 | 316 | 149 | 120 |
| UFJ Trust | 376 | 750 | 374 | 150 |
| Major Banks Total | 34,180 | 19,292 | ▲ 14,888 | 5,690 |

[Credit Costs Ratio in Japan]



[Credit Costs Ratio of Listed Banks in Major Countries]



But, NPL ratios of the loans to some industries remain high.

- NPL ratios of the loans to such industries as construction, wholesale/retail, real estate, and service are relatively high.
 - With the exception of construction, the NPL ratios in these industries are getting lower.

[NPL Ratio by Industry]

| Risk Management Loan/Gross Loan | Construction | | Wholesale/Retail | | Real Estate | |
|------------------------------------|--------------|-------|------------------|-------|-------------|------|
| | 04/3 | 05/3 | 04/3 | 05/3 | 04/3 | 05/3 |
| Mizuho | 8.9% | 5.6% | 10.6% | 4.8% | 7.2% | 4.4% |
| SMBC | 6.2% | 21.1% | 6.7% | 1.9% | 14.3% | 6.6% |
| UFJ | 19.2% | 20.3% | 20.4% | 10.6% | 16.1% | 7.2% |
| MTFG | 8.5% | 10.9% | 5.0% | 3.5% | 7.0% | 6.3% |
| Resona | 11.8% | 9.1% | 9.2% | 4.2% | 15.4% | 6.8% |
| Average of Major Banks | 11.4% | 14.0% | 10.2% | 4.7% | 11.9% | 6.0% |

| Risk Management Loan/Gross Loan | Financial/Insurance | | Service | | Total Including Others | |
|------------------------------------|---------------------|------|---------|------|---------------------------|------|
| | 04/3 | 05/3 | 04/3 | 05/3 | 04/3 | 05/3 |
| Mizuho | 0.7% | 0.1% | 4.6% | 2.8% | 4.7% | 2.3% |
| SMBC | 1.1% | 1.8% | 9.8% | 7.9% | 5.5% | 3.7% |
| UFJ | 6.8% | 0.5% | 7.9% | 6.2% | 9.2% | 4.6% |
| MTFG | 0.5% | 1.4% | 3.2% | 5.2% | 3.2% | 2.9% |
| Resona | 9.3% | 1.7% | 7.2% | 3.9% | 6.8% | 3.2% |
| Average of Major Banks | 2.3% | 0.9% | 5.9% | 4.9% | 5.5% | 3.1% |

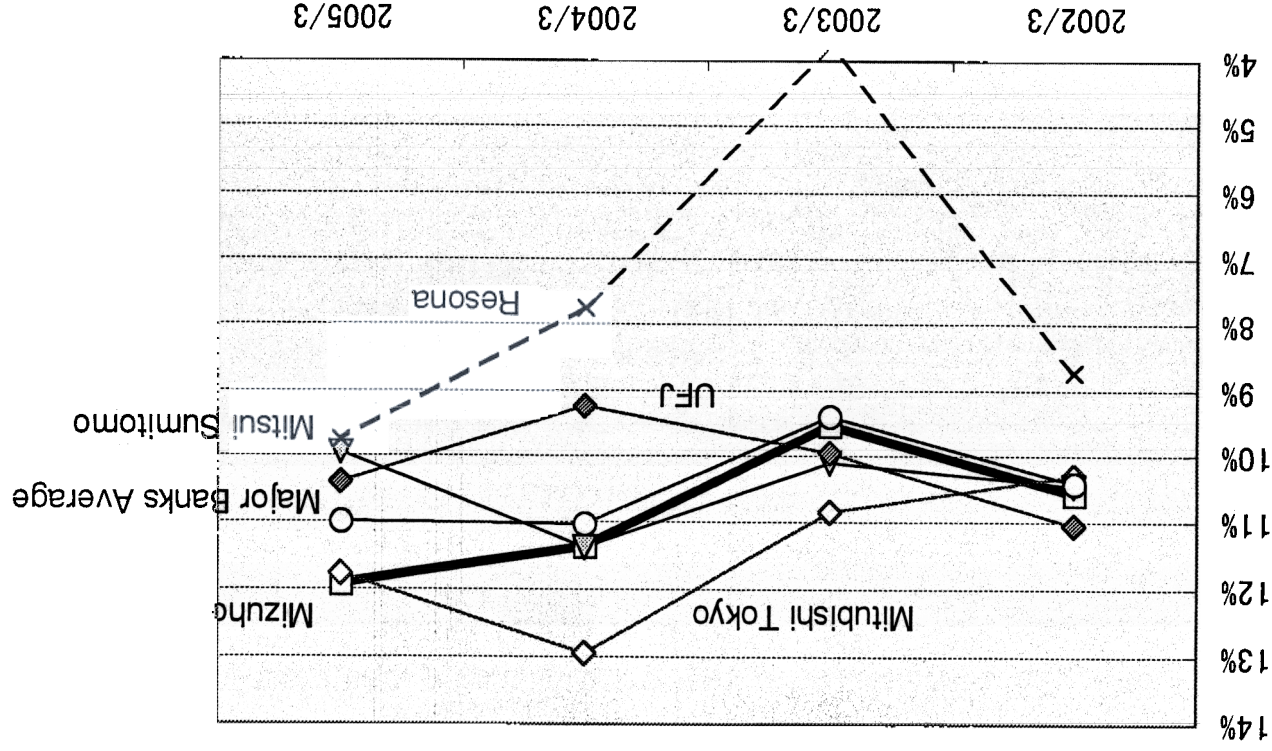
2. The Banks are in a healthier shape.

Both the capital adequacy ratio and Tier 1 ratio are improving.

■ With the exception of MTFG and SMBC, the BIS capital adequacy ratio is improving.

➤ The capital adequacy ratio of Mizuho is the highest of the 4 Mega Groups.

[Capital Adequacy Ratio of Major Financial Groups]



Declining DTAs

- The DTA ratios (Net Deferred Taxed Asset / Tier 1) declined from the peak of around 60% to 26.5% on average.

[DTA Ratio]

| | 2002/3 | 2003/3 | 2003/9 | 2004/3 | 2004/9 | 2005/3 | Yearly Change |
|----------------|--------|--------|--------|--------|--------|--------|---------------|
| Mizuho | 49.6% | 60.8% | 43.7% | 33.8% | 29.8% | 24.0% | -9.8%pt |
| MTFG | 31.0% | 41.6% | 26.9% | 17.0% | 16.2% | 10.0% | -7.0%pt |
| SMBC | 49.6% | 58.7% | 51.5% | 46.7% | 46.5% | 47.6% | 0.9%pt |
| UFJ | 49.2% | 59.5% | 51.7% | 64.2% | 54.7% | 47.3% | -16.9%pt |
| Resona | 65.8% | 99.5% | 12.7% | 5.9% | 4.9% | 3.6% | -2.3%pt |
| Mitsui Trust | 71.1% | 99.9% | 72.7% | 49.5% | 40.9% | 35.1% | -14.4%pt |
| Sumitomo Trust | 34.1% | 39.6% | 27.9% | 19.0% | 15.5% | 9.3% | -9.7%pt |
| Average | 47.3% | 57.1% | 41.5% | 35.0% | 31.6% | 26.5% | -8.6%pt |

Decreased Reliance on the “Public Funds”

- “Public Funds”, or the capital injected by the Government are constantly declining to 7.6 trillion yen.
 - The major banks have repaid 3.1 trillion of the “Public Funds”.
 - Mizuho repaid 0.81 trillion of the “Public Funds” in FY2004.
 - Mizuho announced that it plan to fully repay all the remaining “Public Funds” by FY2006. Mizuho could be the first to fully repay the funds among 3 Mega Groups (Mizuho, MTFG+UFJ, SMBC).

[Repayment History of Public Funds]

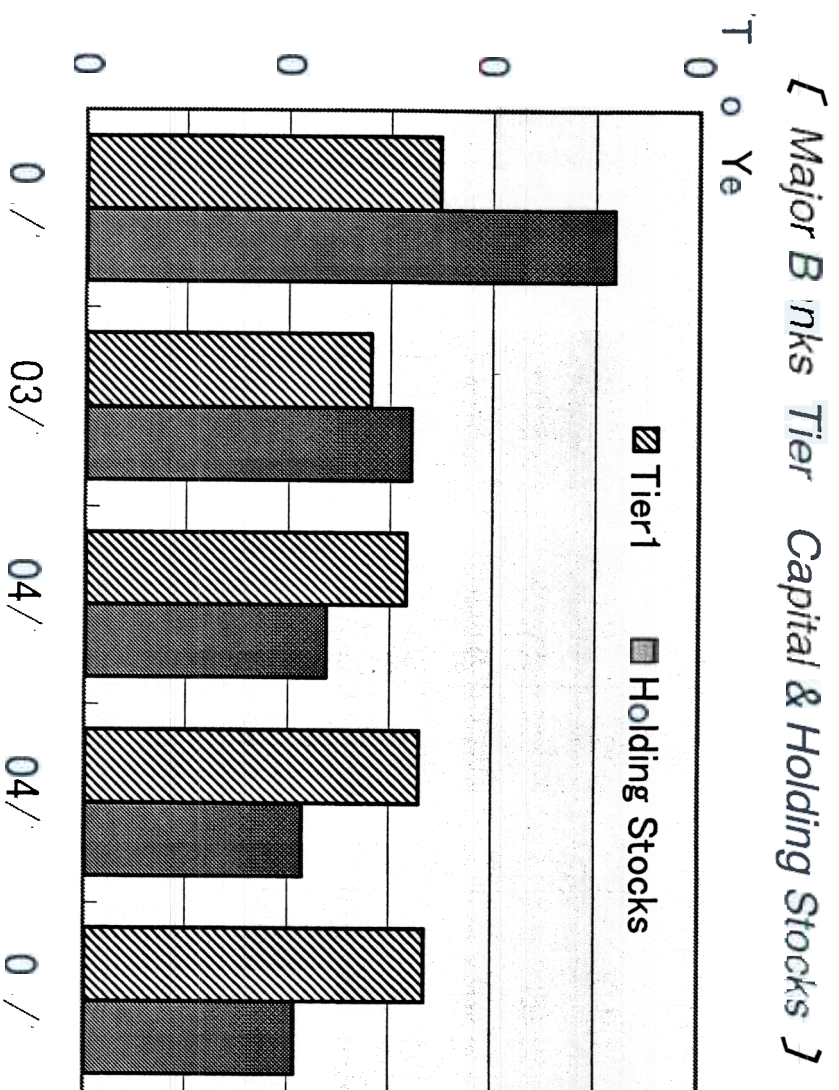
(Hundred Million Yen)

| Banks | Date | Repaid Security | Amount | Banks | Date | Repaid Security | Amount |
|--------------|--------------|-----------------|--------------|----------------|--------------|-----------------|--------|
| Mizuho | 03/3 | SD | 500 | UFJHD | 03/3 | SD | 2,500 |
| | 03/9 | SD | 500 | | Total | 2,500 | |
| | 04/3 | SD | 5,750 | Sumitomo Trust | 03/3 | SD | 1,000 |
| | 04/8 | PS | 2,327 | | 04/1 | PS | 1,000 |
| | 04/9 | SD | 2,250 | | 04/1 | SD | 1,000 |
| | 05/3 | PS | 2,500 | Total | 3,000 | | |
| | 05/3 | SD | 1,000 | Mitsui Trust | 01/3 | SD | 280 |
| | Total | 14,827 | 04/3 | | SD | 100 | |
| MTFG | 00/2 | SD | 1,000 | | 04/9 | SD | 400 |
| | 00/12 | PS | 1,500 | | 05/3 | SD | 1,000 |
| | 01/1 | PS | 2,000 | Total | 1,780 | | |
| Total | 4,500 | Major Banks | Total | 30,617 | | | |
| SMBC | 03/3 | | SD | 2,000 | | | |
| | 04/11 | | PS | 2,010 | | | |
| Total | 4,010 | | | | | | |

Less Vulnerability to Holding Stocks

Although still high by international standard, the ratio of holding stock to Tier 1 capital has declined over a long period.

- All the major groups attained the Government target to limit the holding stock within Tier 1 by September 2006



3. The business prospects are improving.

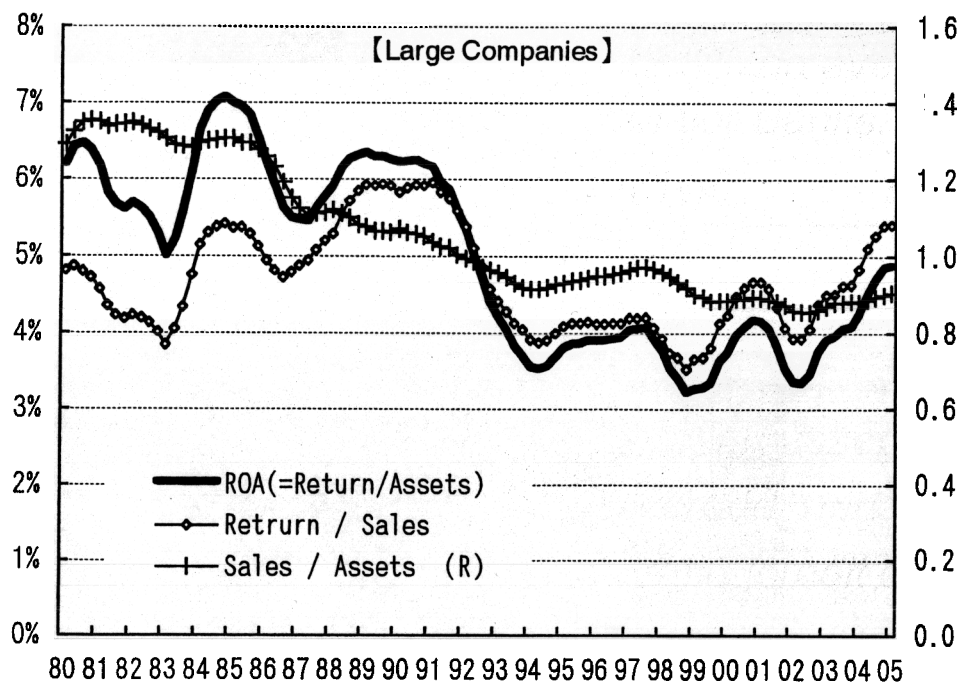
“The Corporate Japan” is Reviving.

Corporate profits are historically high level and the profitability is improving.

➤ The level of the corporate profits in FY2004 was the highest in its history.

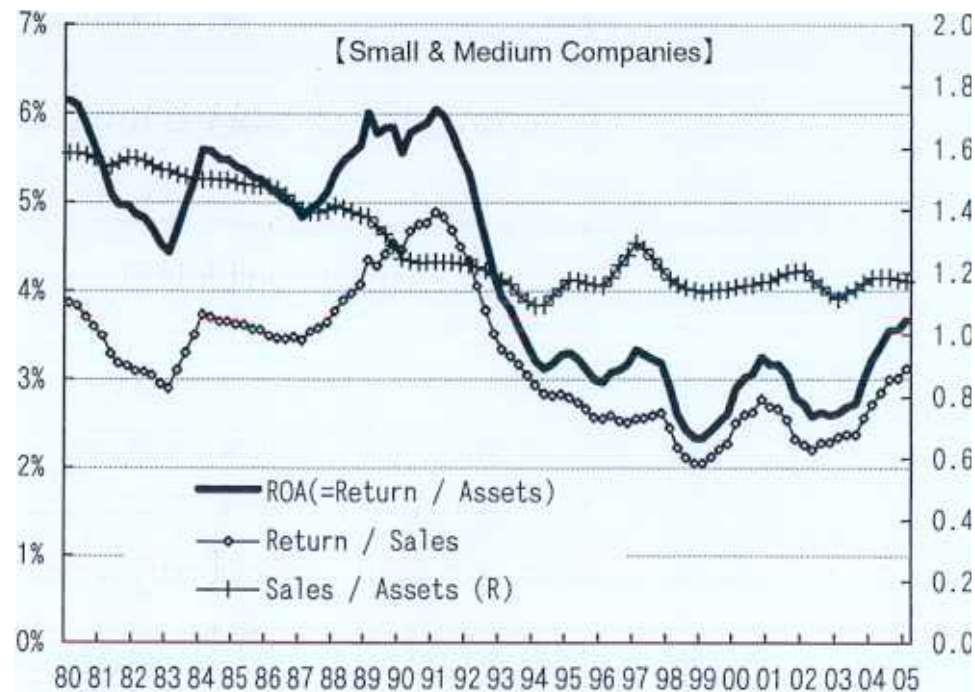
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[Profitability of Japanese Companies]



(Source) MOF

※Return: Operating Profit + Interest Received



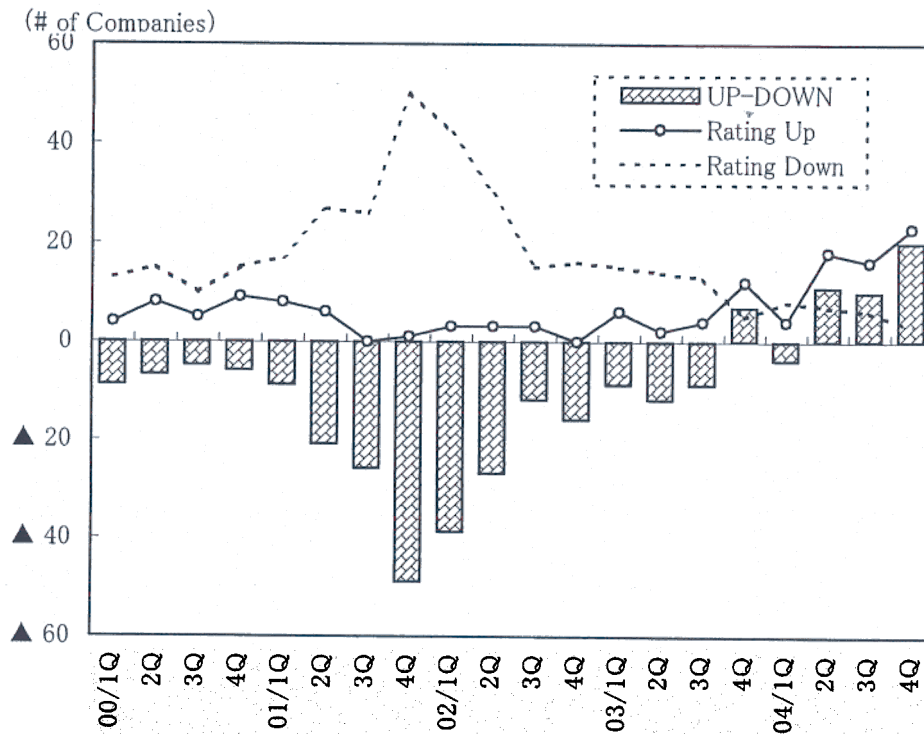
(Source) MOF

“The Corporate Japan” is Reviving (Continued).

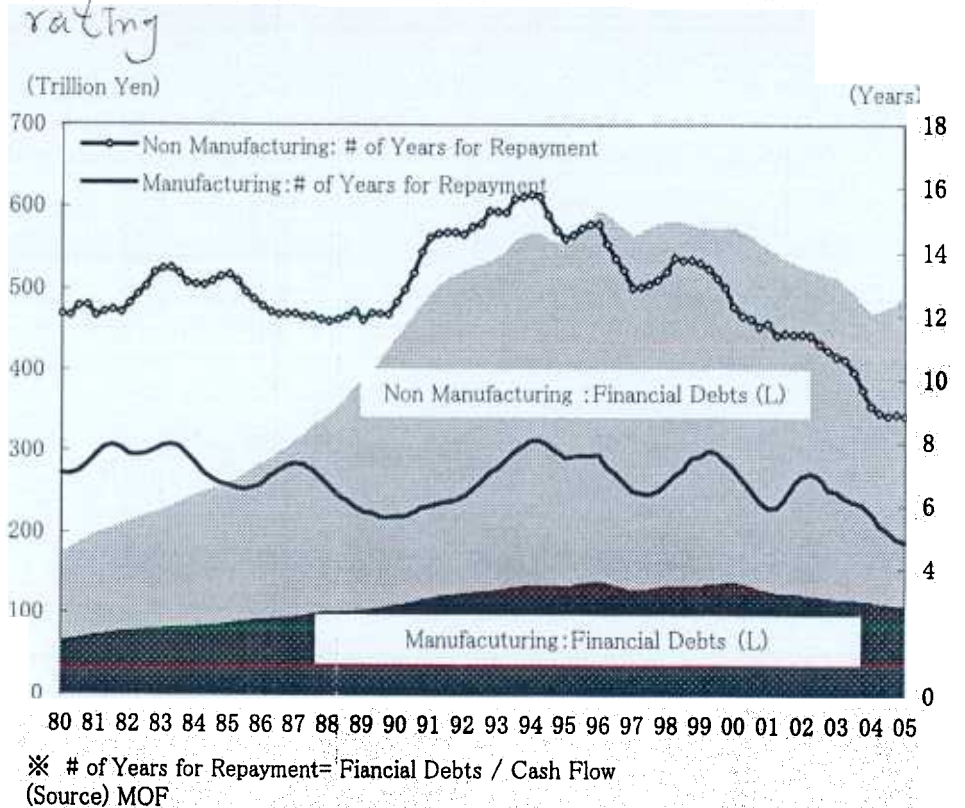
- Credibility as witnessed by the rating from the major rating agencies are improving.
- As is indicated by the number of years for the repayment of debts, “Excessive Debts” are on a declining trend and are at the lowest level in more than 20 years.

[Rating Changes of the Japanese companies]

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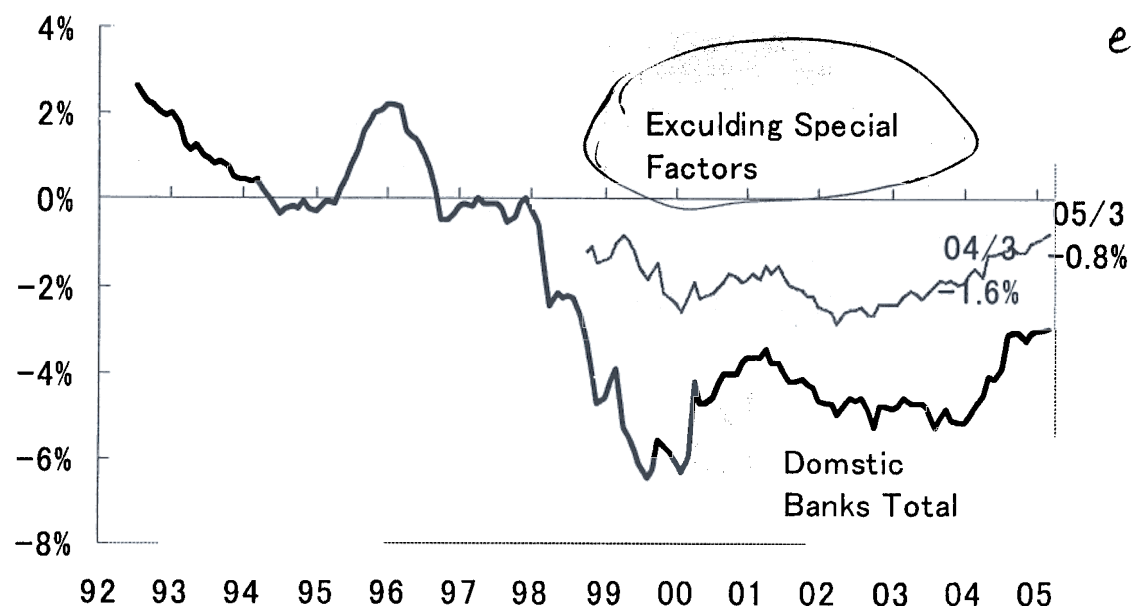
[Number of Years to Repay the Debts]



Less Pressures For The Bank Loan Repayment

- Although the balance of bank loan is still declining, its pace of decline is getting more moderate.
 - Financing needs of some of the Blue chip companies are increasing.

[The Yearly Change of the Outstanding Domestic Loan Balance]



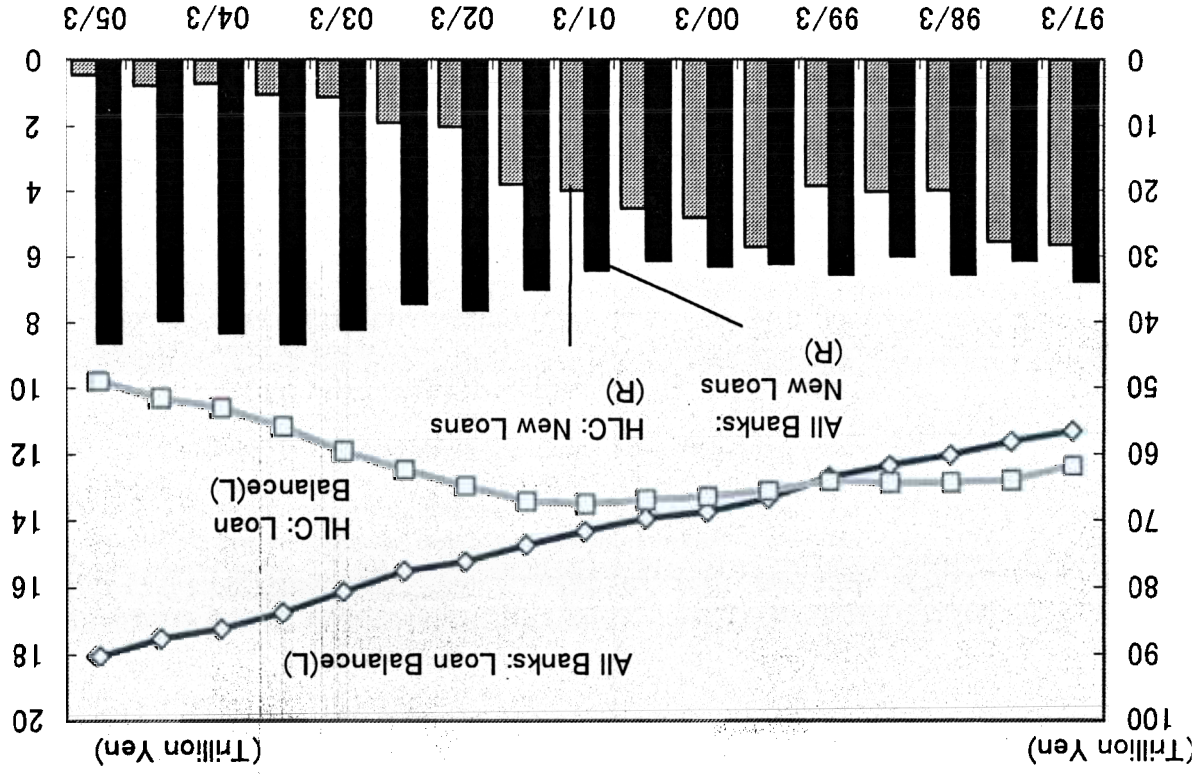
※ Special Factors include securitisation of loans, charge offs, loan disposals

(Source) BOJ

The Housing Loans Are On a Increasing Trend.

■ The Housing Loan Corporation (Governmental organisation) is scaling down its businesses and is expected to be privatised in 2007.

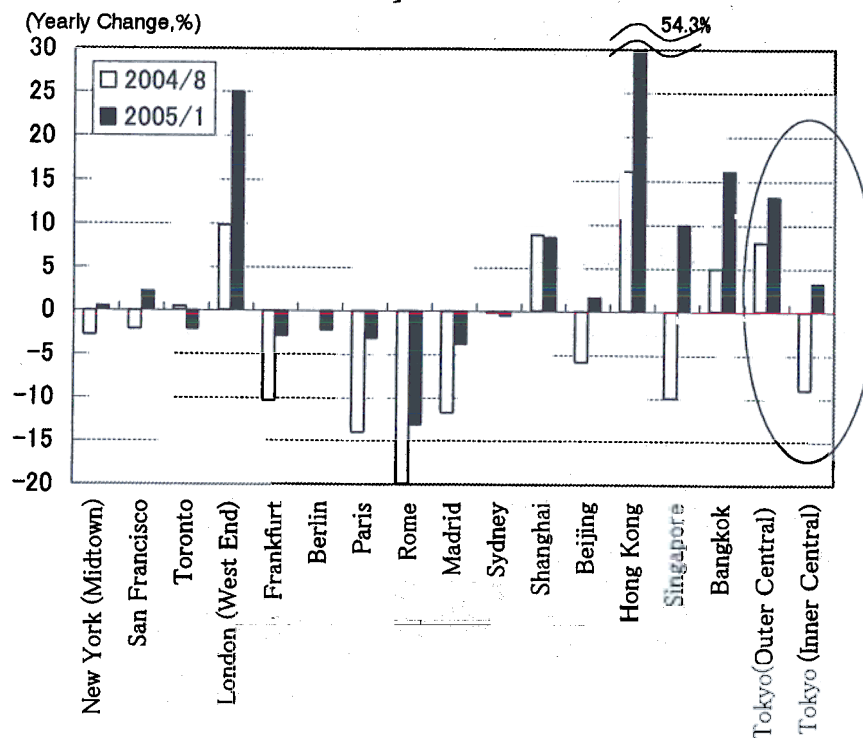
[The Housing Loan Balance of Private Banks and HLC]



Stabilisation of Real Estate Prices

- The decline in real estate prices is slowing on a national basis.
- Some of the real estate prices at the urban area is increasing thanks to the flow of investors funds (both domestic and international) to the real estate market.
 - REIT was first listed in Japan in 2001 and is now 2 trillion yen market (The fifth biggest market in the world).

[Office Rents of the Major Cities Around the Globe]



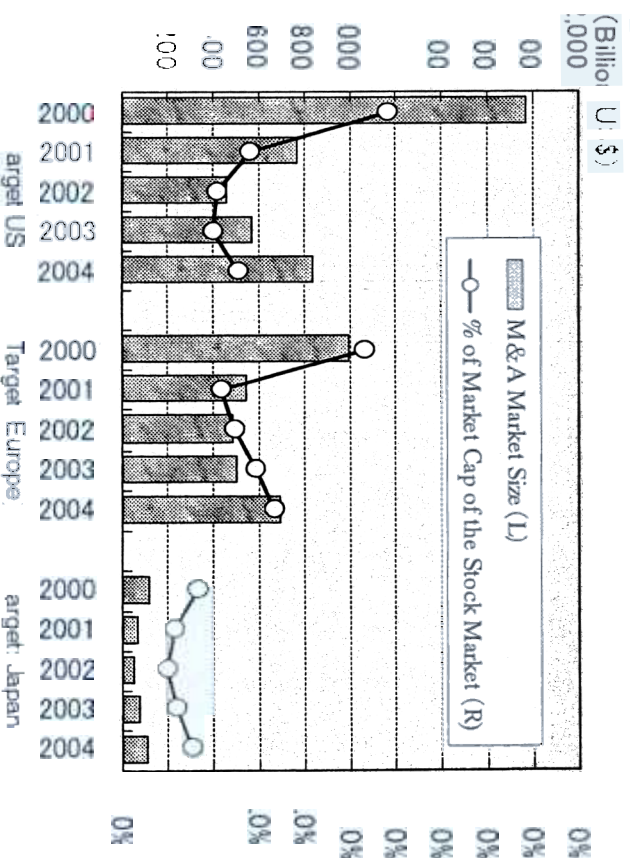
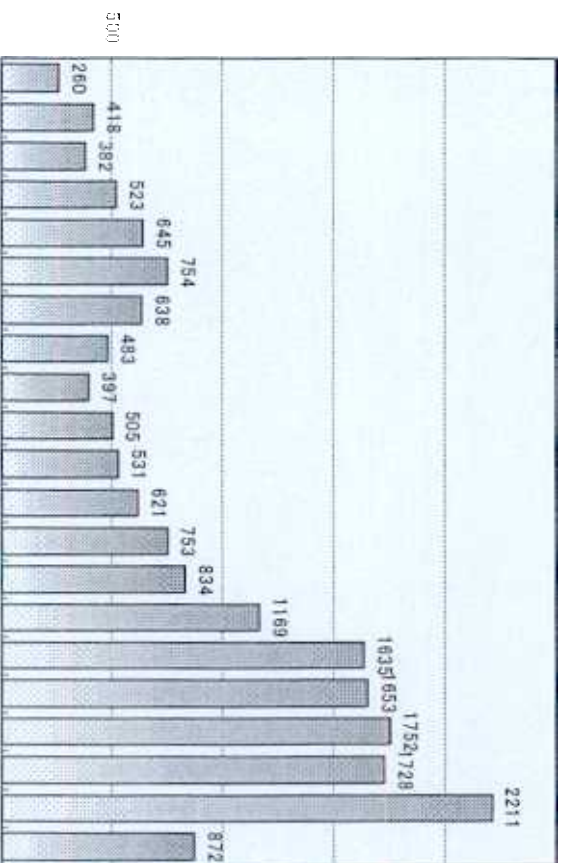
(Source) CB Richard Ellis "Global Market Rents"

Opportunities for the Investment Banking Business

M&A market growing both in number and amount

- The number of announced M&A deals recorded 22.2% as year and the highest figure in the Japanese M&A history
- The market is however still mainly by the international standard and expected to grow further
 - ✓ TOB or the defense against TOB is very hot issue in Japan

The Number of Announced M&A Deals in Japan [Comparison of the Global M&A Market]



Re...

Bloomberg

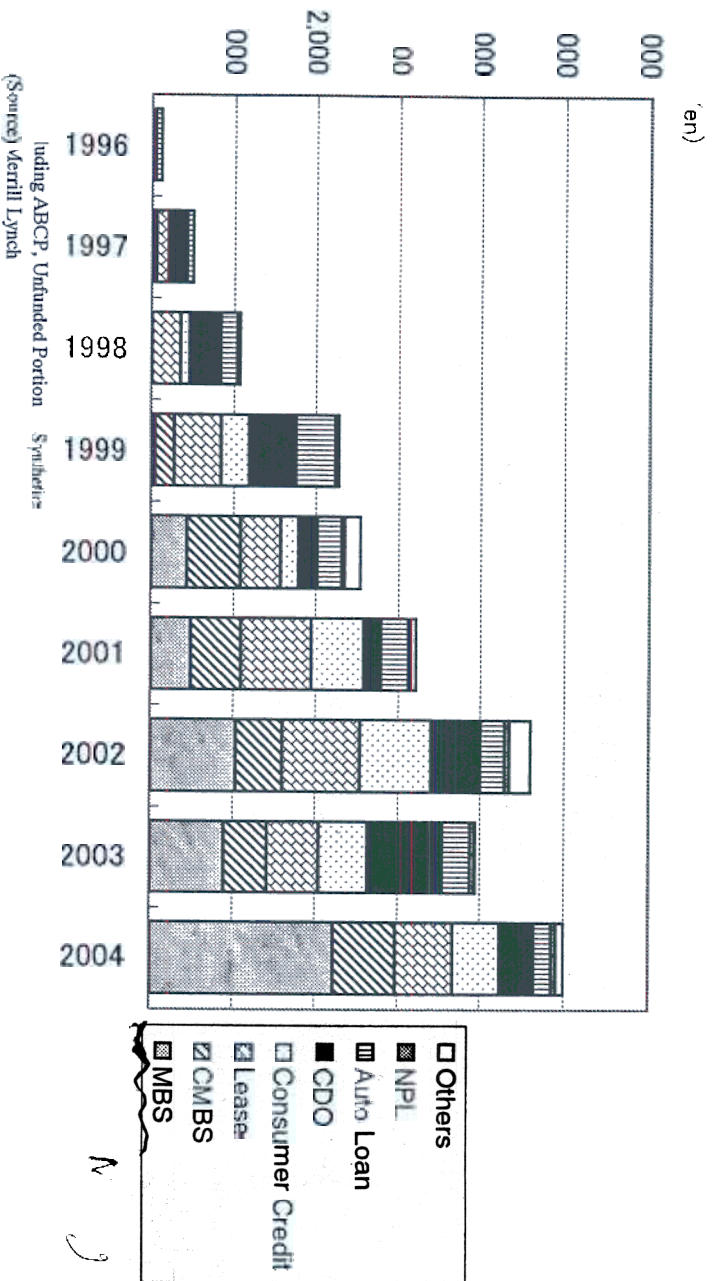
Opportunities for the Investment Banking Business (Continued)

Securitisation market is also developing

➤ Approximately 5 trillion yen of ABS was issued in 2004.

✓ Largely as compared with straight corporate bond issuance (gross 5.8 trillion on yen)

[Development of Securitisation Market in Japan]

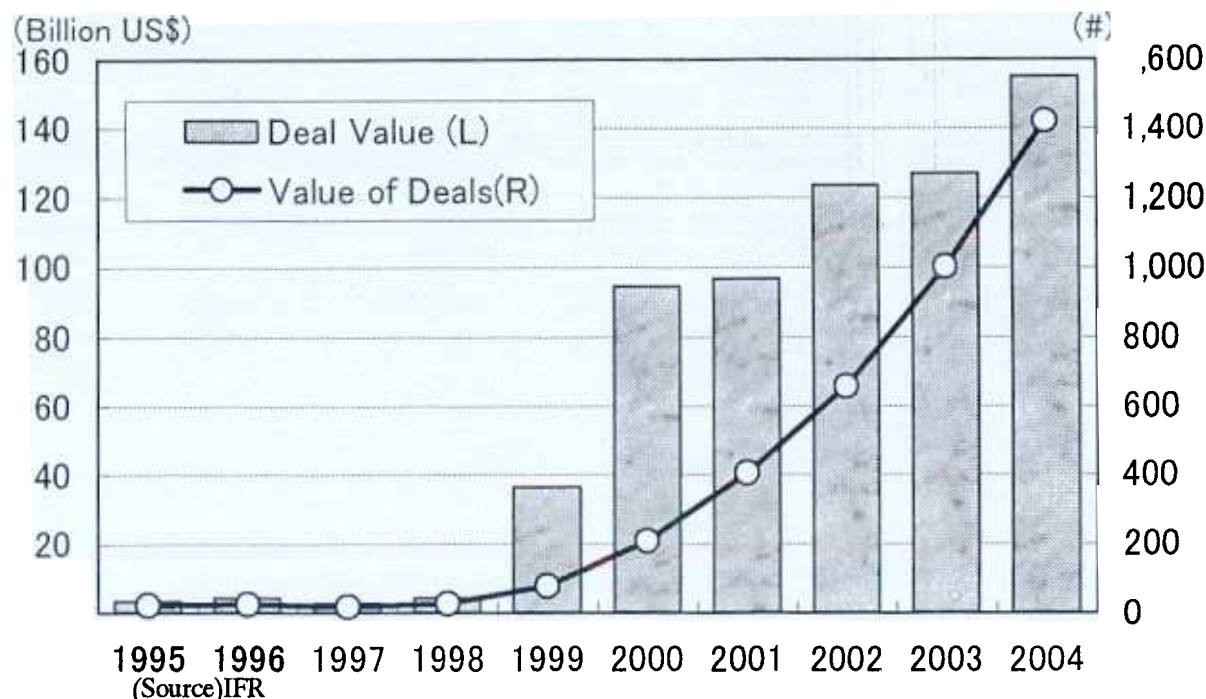


(Source) Merrill Lynch

Opportunities for the Investment Banking Business (Continued)

- **Syndicated loan market is rapidly developing in Japan.**
 - The arranger can both diversify the risk and increase the fee income.
 - ✓ Mizuho is THE Market Leader in this business in Japan.
 - The loan trading market is also looming.

[Development of Syndicated Loan Market in Japan]

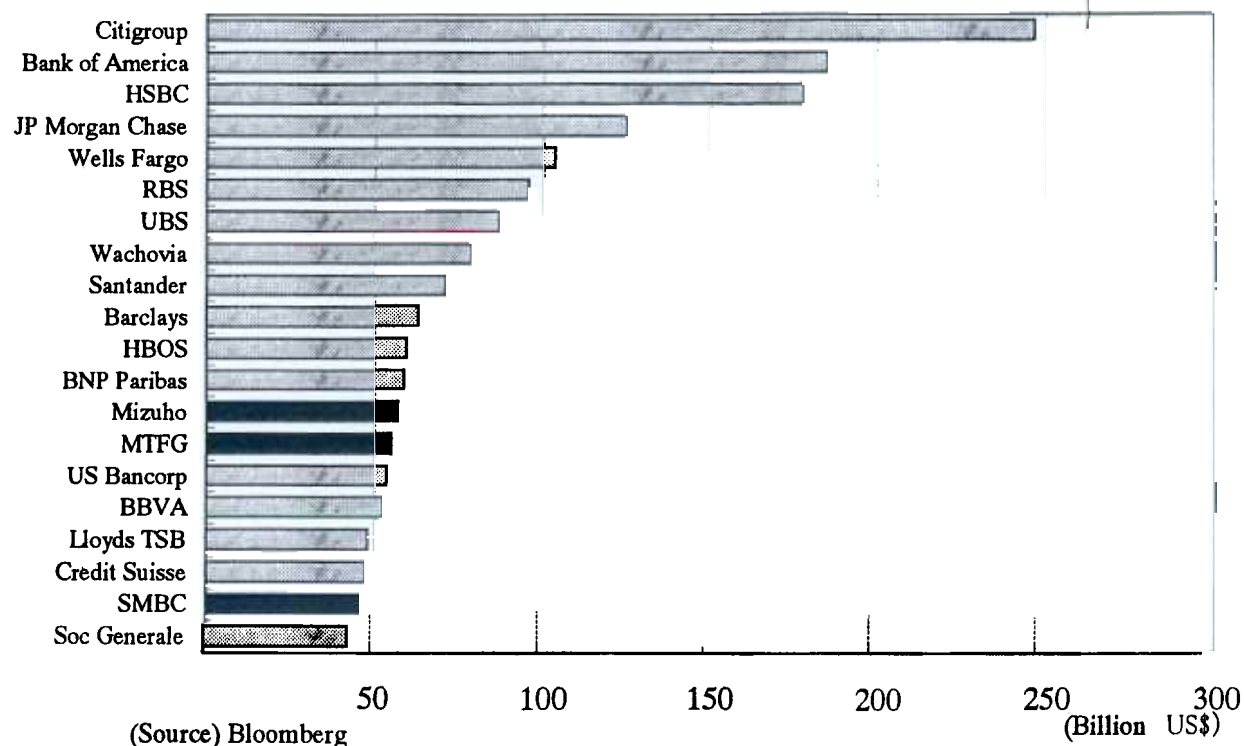


Mizuho 40%
 市場
 30 b.
 25 basis point
 依此不同

The Market Realise These Developments.

- *The recovery of the share prices of the major banking group in Japan partly reflects these developments we have seen in this report.*
 - *Mizuho is now the 13th biggest banking group in the world in terms of market capitalisation.*
- *Last, not least, the ongoing deregulation in Japan should further provide the business opportunities for the major banking groups.*

[*Top 20 Banking Groups in Japan by Market Capitalisation (As of 15 June 2005)]*



The Possible Risks Going Foreword

- *The change in macro environment*
 - *Japanese economy, US economy, Chinese economic & political environments*
- *The burst of bubble (if any)*
 - *The existence and the extent of the bubble could be only known after its burst.*
 - *Source of possible bubble*
 - ✓ *Real estate in urbane area*
 - ✓ *Global hedge fund & private equity (Remember that international investors / hedge funds / private equity play larger roles in the the Japanese market)*
- *We believe, however, that these risks are rather minor at this stage.*