

## Risk governance

### Risk governance overview

Risk governance is a part of Mizuho's corporate governance framework, centered on our risk appetite framework (RAF). The Board of Directors determines fundamental matters regarding the RAF, along with its management systems and specific risk appetites, and incorporates these in document form as the risk appetite statement (RAS).

At Mizuho, we also work to foster and promote a sound risk culture to support this risk governance framework. The effective administration of the RAF leads to the creation of a sound risk culture, and at the same time, cultivating a sound risk culture creates a foundation for the disciplined risk-taking and risk communication which are promoted as part of the administration of the RAF.

To ensure strong risk governance, we maintain a risk management and compliance structure that operates in accordance with the principles of the "three lines of defense."

### Risk culture

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We foster a sound risk culture in which all executive officers and employees maintain a high level of awareness regarding risk, and endeavor to make proper judgments and take appropriate actions rooted in good sense and ethical standards. Such judgments and actions allow us to achieve our risk appetite and enhance our corporate value.

We have also established Behavioral Guidelines for a Sound Risk Culture, and work to ensure that executive officers and employees understand these principles through messages from senior management, training sessions and other measures. For Mizuho to put the "customer first principle" into practice and enhance our corporate value, it is essential that all members maintain an attitude of not simply avoiding risk, but rather taking

appropriate risk. These guidelines provide a foundation for the appropriate values and courses of action for Mizuho's executive officers and employees to take when approaching risks. The guidelines are aligned with the five Mizuho Values that form a part of Mizuho's Corporate Philosophy, and executive officers and employees can refer to them when they are unsure of a risk-related judgment that needs to be made in their daily work. Putting these guidelines into practice improves our ability to address and counter risks, and fosters a sound risk culture.

These initiatives are also important from the standpoint of internal control, ultimately helping to prevent inappropriate behavior by executive officers and employees.

### Risk appetite framework (RAF)

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The purpose of our RAF is to maximize our corporate value by securing sustainable and stable profits, and to fulfill our social responsibilities. Based on such purpose, our core risk appetite is to take appropriate risk and provide solutions based on our customers' actual needs, establishing our competitive advantage against our peers.

We have positioned the RAF as the corporate management framework to support taking the types and

levels of risk that we will accept in order to implement our business and financial strategies. We will further concretely define our risk appetite in our medium-term and fiscal year business plans. The risk appetite forms the basis for establishing our business strategy, resource allocation, and earnings plans as well as monitoring the operating status, thus integrating risk management, business strategy, and profits in order to achieve disciplined risk-taking that achieves an optimal balance of risk and return.

### ■ Systems for operating the risk appetite framework

Our risk appetite consists of a risk appetite policy that serves as the fundamental policy regarding our risk-taking activities, and risk appetite metrics that serve as a means of quantifying the level of risk-taking based on the risk appetite policy.

In implementing the RAF, the Board of Directors decides on basic matters, including the risk appetite policy, metrics, and levels of risk, and operations are supervised based on the Board's decisions. In addition, the Risk Committee, which advises the Board of Directors, provides advice regarding risk governance and offers suggestions to management.

### ■ Formulation and monitoring of risk appetite

Risk appetite is determined through management discussions on the outlook for external factors such as the macroeconomic, regulatory, and competitive environment, along with potential risk events such as economic slowdown and turbulence in financial markets. These are then incorporated into main and risk scenarios that are shared internally.

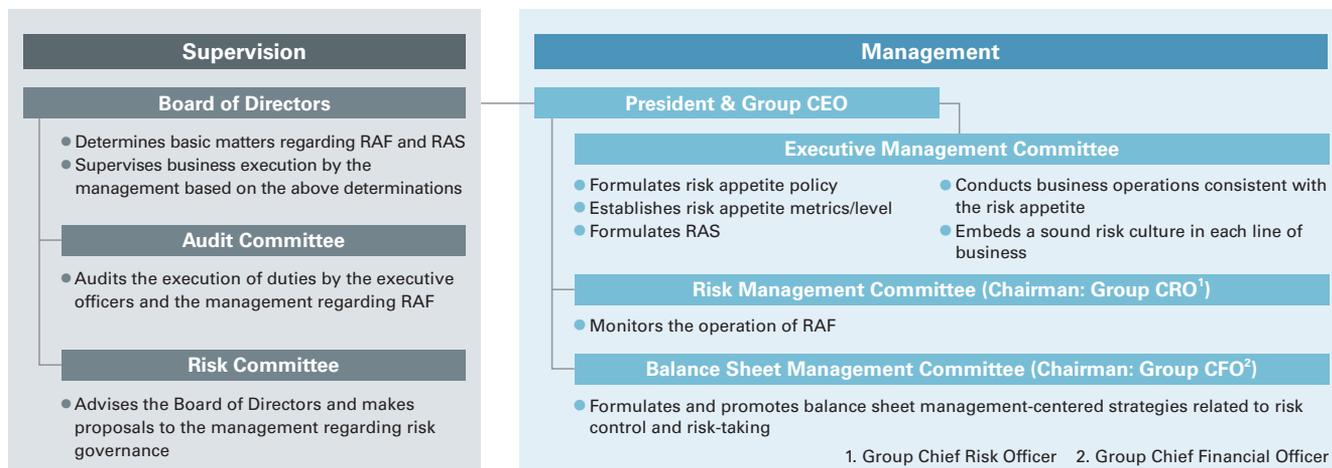
We then formulate a group-wide risk appetite policy based on our awareness of these external environments, create specific strategies and measures according to this policy, and determine corporate resource allocation and earnings plans. Our risk appetite metrics are expressed in terms of capital strength, profitability, and liquidity, utilizing measures such as CET1 Capital Ratio, ROE, and LCR.

On the other hand, to implement the RAF in the course of business operations, the Group CRO, Group CFO, and Group CSO provide assistance overseen by the Group CEO, and implement business strategy, financial strategy, and risk management from an overall perspective. Also, heads of in-house companies, units, and groups are responsible for planning and implementing strategies based on risk appetite, and as the individuals in charge of risk-taking, conduct operations. The Internal Audit Group provides objective and comprehensive assessments of the effectiveness of the RAF from an independent perspective and offers advice and recommendations for addressing any issues that arise.

Further, the risk appetite for the entire group is shared with the in-house companies that implement strategies, to ensure the effectiveness of the RAF. The in-house companies in turn formulate individual risk appetite policies to implement the group's overall policy, and set risk appetite metrics and levels to meet group metrics and levels.

Monitoring of the operational status for the established risk appetite is conducted by the Risk Management Committee (Chairman: Group CRO) on a quarterly basis and as necessary. As part of this process, the Group CRO and each in-house company work to identify issues related to risk and share information on these issues. This monitoring enables timely and appropriate actions, including flexible revisions to our risk appetite and strategies, to be discussed and carried out in the event of changes in the external environment that increase risk or impede our risk appetite and strategies.

### ■ Mizuho's RAF Control Structure



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## Three lines of defense

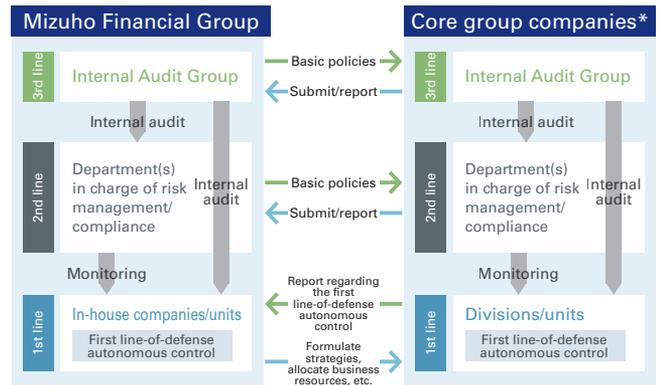
In accordance with the “three lines of defense” approach in the Corporate Governance Principles for Banks released by the Basel Committee on Banking Supervision and the definitions and roles outlined below, we ensure appropriate and effective risk governance through autonomous controls (first line) and a check-and-balance

system (second line), along with an independent third line of internal auditing. In addition, Mizuho Financial Group sets group strategies and allocates resources, monitoring the autonomous controls in the first line at core group companies in order to strengthen the system providing appropriate responses.

### Our definition of the three lines of defense and their roles

First line	<p><b>Autonomous control function</b></p> <p>The first line-of-defense involves daily operations based on the rules, procedures, and risk appetite, and has a primary responsibility for risks and compliance matters accompanying the conduct of business as a risk owner, and for performing autonomous control activities (to identify, assess, and manage/control risks and compliance matters).</p>
Second line	<p><b>Risk management and compliance function</b></p> <p>The second line-of-defense oversees (monitors), measures, and assesses the first line’s autonomous control activities, and is responsible for establishing and implementing basic policies for risk management and compliance.</p>
Third line	<p><b>Internal audit function</b></p> <p>The third line-of-defense is independent of the first and second lines and involves assessment and examination of the operations of the first and second lines, and is responsible for providing advice and guidance to settle issues.</p>

### Our risk management and compliance framework



\* Of the core group companies, Mizuho Bank, MizuhoTrust & Banking, Mizuho Securities, Mizuho Americas, and Mizuho Research & Technologies conduct risk management and compliance based on the “three lines of defense” concept.

## Comprehensive risk management

### Basic approach

For the group as a whole, in order to ensure sound and stable corporate management and enhance our corporate value, appropriately managing risk and controlling risk are key issues relating to overall management, and therefore we are working to put in place risk management systems.

Mizuho Financial Group has established basic policies for risk management that are applicable to the group as a whole. In line with these basic policies, as a group we

analyze risk comprehensively from multiple perspectives and adopt a variety of measures to strengthen and enhance the sophistication of our risk management system.

We have positioned our RAF as the corporate management framework for realizing our risk appetite as well as comprehensive risk management as a framework for managing risk from every angle.

### Comprehensive risk management systems

We recognize that conducting operations tailored to the risks and managing such risks is a key issue relating to overall management. In order to implement our business strategies while maintaining our financial stability, we maintain comprehensive risk management and control measures.

Mizuho Financial Group maintains basic policies for risk management established by the Board of Directors that are applicable to the entire group. These policies clearly define the kinds of risks to be managed, set forth the organizational structure, and provide for the employee training necessary to ensure appropriate levels of risk management. The policies also provide for audits to measure the effectiveness and suitability of the management structure. In line with these basic policies,

we maintain various measures to strengthen and enhance the sophistication of our risk management system.

The Risk Management Committee chaired by the Group CRO provides integrated monitoring and management of the overall risk for the group. The Group CRO reports the risk management situation to the Board of Directors, the Risk Committee, and the Executive Management Committee regularly and as necessary. In addition, Mizuho Financial Group receives reports and applications for approval concerning the risk management situation from our core group companies and gives them appropriate instructions concerning risk management as necessary.

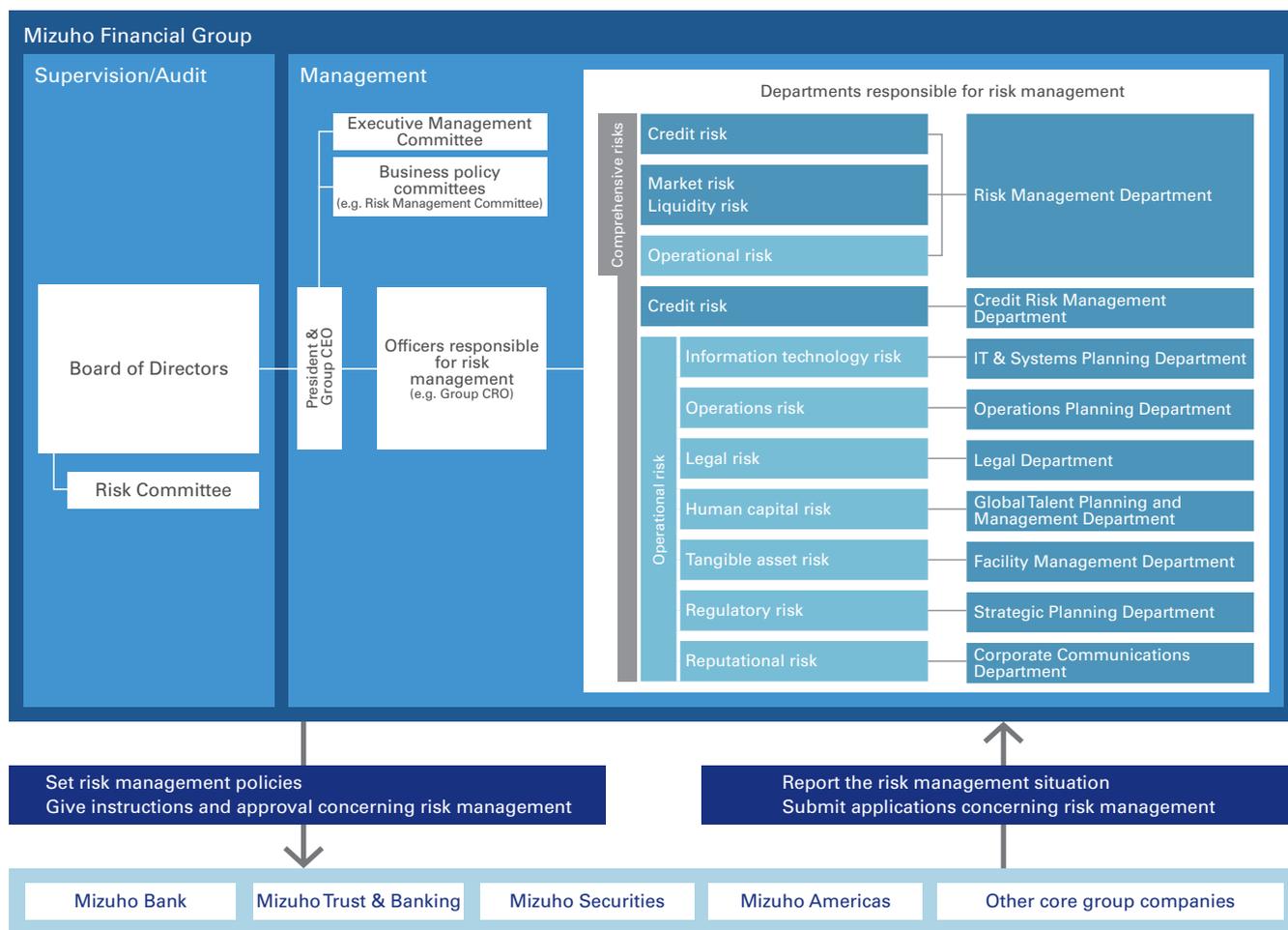
We classify and manage the risks that arise in our businesses according to the various kinds of risk, including credit risk, market risk, liquidity risk, and operational risk. Moreover, in each of our group companies we adopt the same approach of managing risks, such as settlement risk, trust banking operations risk, and other risks appropriately given their nature.

In addition to managing each type of risk individually, we have established a risk management structure to identify and evaluate overall risk and to keep risk within limits that are acceptable.

In line with the basic policies relating to overall risk management established by Mizuho Financial Group, we are working to take even more proactive and sophisticated approaches to risk management.

■ For more information on our risk management, please visit our website.

📄 [https://www.mizuhogroup.com/who-we-are/internal/r\\_management](https://www.mizuhogroup.com/who-we-are/internal/r_management)



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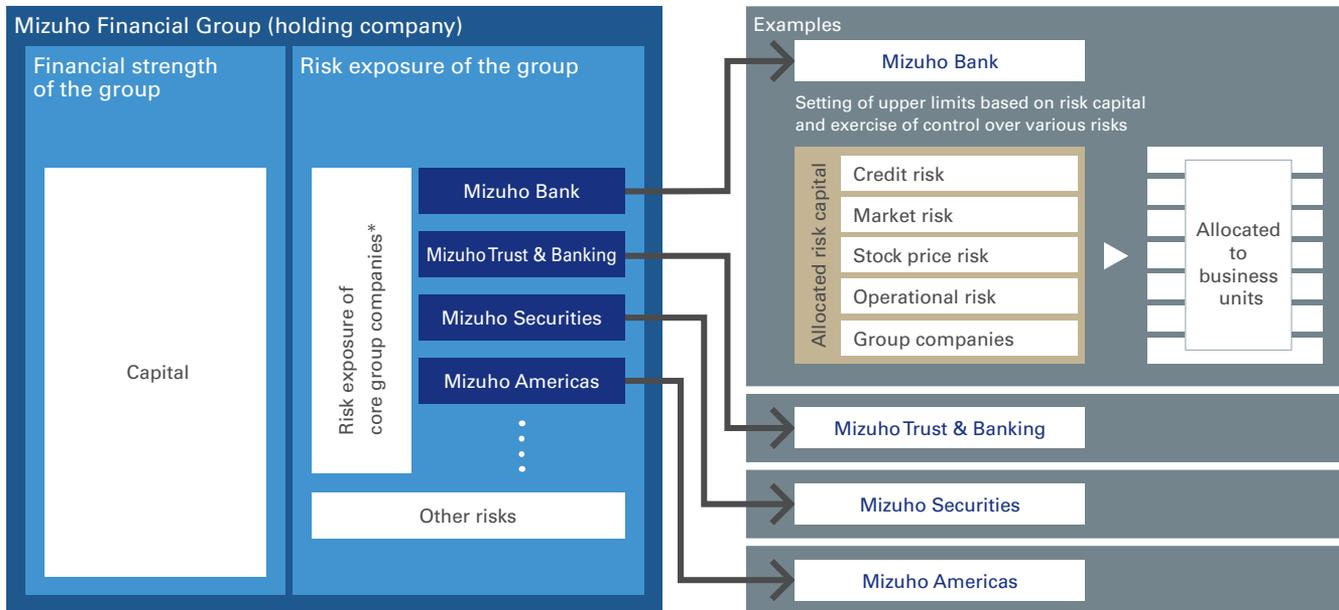
**Risk capital allocation**

We endeavor to obtain a clear grasp of the group’s overall risk exposure and implement measures to make sure this exposure is within limits that are acceptable and are in accordance with the risk capital allocation framework.

More specifically, we allocate risk capital to our core group companies (including their subsidiaries) to control risk within the limits set for each company. We also control risk within acceptable limits by working to ensure that the overall risk on a consolidated basis does not

exceed our financial strength. To ensure the ongoing financial soundness of Mizuho Financial Group and our core group companies we regularly monitor the manner in which risk capital is being used in order to obtain an accurate grasp of the risk profile within this framework. Reports are also submitted to the Board of Directors and other committees of each company. Risk capital is allocated to Mizuho Bank, Mizuho Trust & Banking, Mizuho Securities, and Mizuho Americas by risk category, and is further allocated within their respective business units.

**Framework for allocating risk capital**



\*Includes the risk exposure of group companies that are managed by core group companies

**Top risk management**

At Mizuho Financial Group, we specify risks that are recognized to have a major potential impact on the group as “top risks”, and have introduced top risk management methods.

We gather wide-ranging information on potential risk events which may harm our corporate value in light of our particular vulnerabilities, the external business environment, and other factors. With this information, we assess risk contagion channels, probabilities, impacts, and similar to identify critical potential risk events. We then designate top risks with consideration to the difficulty of risk control and based on discussions at the executive management level.

Through this approach, we endeavor to deepen communication regarding risks, seek to create common perspectives regarding risks, and work to secure consistency in awareness of various types of risks.

For the top risks that are identified, the status of controls is confirmed, and, when deemed necessary consideration is given to additional risk controls. In addition, the Risk Committee, Board of Directors, and other bodies receive reports on these top risks, allowing for multifaceted confirmation from external experts and outside directors regarding the appropriateness of the designation of top risks, status of controls, and other considerations.

As of March 2021, the items on page 86 have been designated as top risks.

Risk event	Top risks		Primary risk control measures
	Risk scenario		
Prolonged impact of COVID-19	<ul style="list-style-type: none"> <li>Increased credit costs due to prolonged impact of COVID-19 on corporate earnings, affected by a delayed end to the pandemic resulting from the spread of variants and other factors, as well as rapid social change.</li> <li>Deterioration of markets-related earnings due to interest rate hikes, increased volatility, and other factors resulting from fiscal uncertainty. Instability in foreign currency funding and expansion of the loan-to-deposit ratio due to increased demand for foreign currency financing.</li> </ul>		<ul style="list-style-type: none"> <li>Credit risk management: Specify and revise areas of our portfolio which should be subject to stronger management in light of the impacts on our clients' business environment and other factors, then record additional reserves or take other steps as needed.</li> <li>Market risk management: Monitor the amount of risk and losses based on the market environment, including interest rate hikes and declines in stock prices, and promote hedging strategies for asset holdings.</li> <li>Foreign currency liquidity risk management: Expand monitoring indicators and increase monitoring frequency.</li> <li>Predictive management based on monitoring changes in the external environment and other information.</li> </ul>
Intensification of US-China friction	<ul style="list-style-type: none"> <li>Increase in credit costs due to factors including the conflation of friction in areas such as technological competition, national security, and human rights, supply chain disruption, and tensions in regard to conditions in East Asia, particularly Taiwan. Turmoil in financial markets resulting in deterioration of markets-related earnings.</li> </ul>		
Inflation concerns and interest rate hikes in the US	<ul style="list-style-type: none"> <li>Deterioration of markets-related earnings due to the manifestation of inflation concerns resulting from improved employment rates and other factors and a sudden rise in long-term US interest rates based on an outlook for an early return to normal for monetary policy measures.</li> <li>Business stagnation resulting from cash flow issues at clients with low credit ratings in the Americas region and the repercussions to emerging economies.</li> </ul>		
Rapid advancement of social change occurring due to climate change	<ul style="list-style-type: none"> <li>Increased credit costs and loss in value of cross-shareholdings arising from deteriorating performance and difficulty in securing financing at clients with a delayed response to the sudden increase in momentum toward climate change action.</li> <li>Damage to our own corporate value due to a delay in the Mizuho group's response to climate change or similar factors.</li> </ul>		<ul style="list-style-type: none"> <li>Strengthen our response to transition risk via stronger engagement, enhanced risk control for carbon-related sectors, and other efforts.</li> <li>Revise our Environmental Policy in order to clarify our transformation to a portfolio aligned with the targets in the Paris Agreement and other efforts.</li> <li>Set a target for reducing the Mizuho group's greenhouse gas (GHG) emissions.</li> <li>Predictive management based on monitoring changes in the external environment and other information.</li> </ul>
IT system failure/ Cyber attacks	<ul style="list-style-type: none"> <li>Large-scale data breach due to a major IT system failure or cyber attack causing wide-spread inconvenience or disadvantage to customers and damaging trust, leading to the loss of business opportunities.</li> </ul>		
Money laundering/ Financing of terrorism	<ul style="list-style-type: none"> <li>Economic losses stemming from government fines/penalties as a result of insufficient AML/CFT measures. Loss of business opportunities due to reduced industry standing on a global basis and damage to customer trust.</li> </ul>		<ul style="list-style-type: none"> <li>Formulate and implement measures to prevent further incidents following a recent series of IT system failures (revise system failure management and prepare a system contingency plan (SCP)).</li> <li>Strengthen management in response to expanded use of cloud services and the remote access environment.</li> </ul>
Inappropriate behavior or nonfeasance by employees/ executive officers	<ul style="list-style-type: none"> <li>Damage to customer trust and loss of business opportunities stemming from public disapproval of inappropriate behavior or nonfeasance deemed to be out of line with social norms.</li> </ul>		
Rapid development of digital society	<ul style="list-style-type: none"> <li>Stagnation in Mizuho's digitalization strategy due to factors including the rapid expansion of revolutionary financial services, the rise of new economic landscapes, and the resulting intensification of competition as companies from other industries enter the field of finance.</li> </ul>		<ul style="list-style-type: none"> <li>Predictive management based on monitoring policy trends relevant to our digitalization strategy and initiatives at other companies.</li> </ul>

\*A violation of laws, regulations, or rules; or an action or misfeasance in conflict with the social responsibility or public duty expected of the Mizuho group.  
 Note: The risks described here are only some of the possible risks we are aware of. For more comprehensive information on the group's risks, please refer to our Form 20-F and other related documents.

## Stress testing

We assess the suitability of our risk appetite and the validity of our business plans through stress testing, calculating and assessing the financial effect on our capital adequacy ratio and on our business.

We carry out stress testing based on scenarios formulated taking into account current economic conditions and future outlooks, vulnerabilities in the Mizuho group's business and finance structures, and other factors. We can confirm whether our capital adequacy ratio, performance, and other indicators are sufficient in the case that stress events actually materialize. If such indicators fall below the necessary level, we reconsider and revise our risk appetite and business plans. In addition, we confirm the balance

between owned capital and risk capital, including interest rate risk in the banking book, at the post-stress stage to assess the adequacy of the capital level.

Furthermore, to structure robust risk management systems, stress testing is also used to manage risk in various risk categories, such as market risk.

This process also serves as a foundation for understanding the characteristics of our business portfolio and enables planning in advance regarding the course of action which should be taken if a stress event occurs, and is conducted regularly to enhance our risk management capabilities.

### Mizuho's stress testing

