

## Compliance Structure

### Basic Compliance Policy

As the leading Japanese financial services group with a global presence and a broad customer base, we remain conscious of the importance of our social responsibilities and public mission at all times. We define compliance as “the strict observance of all laws and regulations and the pursuit of fair and honest corporate activities that conform to the norms accepted by society” and view ongoing compliance as one of the basic principles of sound business management. Each of our group companies maintains its own compliance structure in line with the basic policies established by MHFG.

### Compliance Structure

The chief executive officer of MHFG, MHBK, MHTB and MHSC each generally oversees compliance matters of the respective company, and the chief executive officer, etc. also head their respective Compliance Committees at which important matters concerning compliance are discussed. The four companies also have individual compliance divisions under a chief compliance officer. These divisions are responsible for compliance planning and implementation and control overall compliance management at the respective

companies. At the level of each organizational unit (such as branches and divisions) at the four companies, the head of the unit is responsible for guidance and implementation related to compliance matters within such unit, and the compliance officer or the compliance administrator at each unit reviews the status of compliance.

MHFG has established the Internal Controls and Audit Hotline, a system designed for obtaining concerns regarding questionable accounting or auditing matters from in and outside the company.

Other core group companies have also established compliance structures adapted to the characteristics of their respective businesses.

MHFG monitors the status of compliance of the group through reports submitted by our core group companies and adopts appropriate responses when necessary.

Compliance at subsidiaries of our core group companies is monitored and managed by their respective parent.

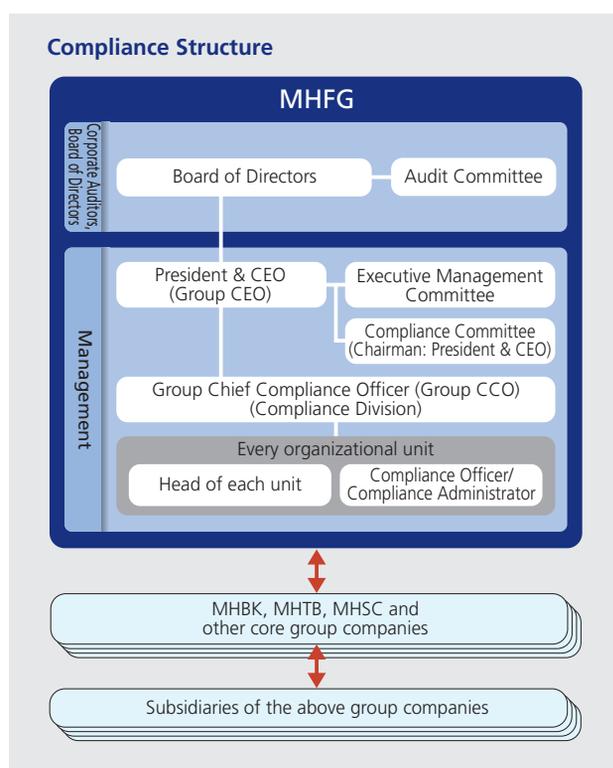
### Compliance Activities

We have established the Mizuho Code of Conduct, which sets forth clear and concrete standards of ethical behavior, and distributed it to all directors, senior management and employees of the group so that they are well aware of its content and act accordingly.

Each of our group companies has also prepared a compliance manual, which serves as a practical guidebook for rigorous compliance enforcement and clarifies the laws and regulations that the group companies must observe in pursuing their business activities and the compliance activities they are required to follow.

We conduct compliance training for directors, senior management and employees so that they are fully acquainted with the contents of the manual. We monitor the status of compliance levels through self assessments conducted by individual organizational units and monitoring conducted by the compliance division of each company.

Every fiscal year, each of our group companies establishes a compliance program, which contains concrete measures for compliance enforcement such as measures related to the management of the compliance framework, training and assessments. Progress regarding the implementation of the compliance program is monitored every six months.



## “Internal Controls and Audit Hotline”

—A system designed for obtaining concerns regarding questionable accounting or auditing matters—

### Reporting Items:

MHFG has established a hotline to receive reports from in and outside the company in connection with problems concerning internal controls and audits of accounts and financial reports.

### Contact Point:

This hotline has been established within an external law office. Please use conventional mail or e-mail for reporting.

Conventional mail:

Tsukiji Mitsui Bldg., Tsukiji 4-7-1, Chuo-ku, Tokyo  
104-0045

Mizuho Accounting Hotline, c/o Daiichi Fuyo Law Office

E-mail : kaikai-mizuho@daiichifuyo.gr.jp

- When reported matters are within the scope of the reporting items, MHFG will do reasonable efforts to investigate the facts behind the information received and report back on the results.
- Anonymous tips are also acceptable, but there are cases where it will not be possible to fully satisfy the intentions behind such tips owing to constraints on investigations and the inability to report back.
- Information on persons making such reports is not disclosed to third parties other than the group companies except in cases where the assent of the person in question has been obtained or such disclosure is required under laws and ordinances, etc.

(As of June 24, 2014)

## Management of Customer Protection Structure

### Basic Approach

We give first priority to our customers, and based on the policy that earning the trust of our customers is the basis for ensuring sound management and earning the trust of other stakeholders, we will continuously verify and improve the operations of the group from the perspective of customers in order to ensure adequacy of operations and improve customer convenience as well as compliance, and manage customer protection uniformly in the group.

### Overview of Management of Customer Protection

We define management of customer protection as described below, clarifying the group management structure as well as management methods, and ensuring that each company draws up customer protection management regulations.

Management of customer protection refers to the management required for achieving the following from the perspective of improving the protection of our customers and improving customer convenience.

1. Ensuring the adequacy and sufficiency of the explanation of transactions, products etc. as well as the provision of information (explanation of products etc.) to customers regarding transactions and products.
2. Ensuring the adequacy and sufficiency of handling customer consultations and complaints (customer service).
3. Ensuring the adequacy of the management of customer information (customer information management).
4. Ensuring the adequacy of managing customers and customer information in the event that our operations are outsourced (management of outsourcing).
5. Ensuring the adequacy of the management of conflicts of interest refers to the management of the measures to be taken in order to appropriately address various situations of conflicts of interest that have stemmed from transactions with customers (management of conflicts of interest).

In addition to designating the compliance division as the customer protection general management division, each company establishes its own management structure by

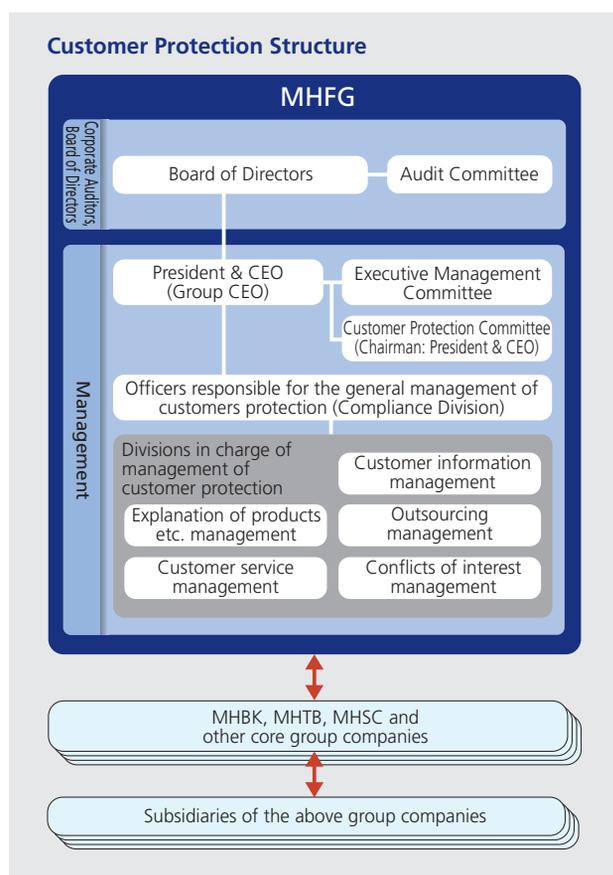
stipulating which divisions are in charge of management of explanation of products etc., management of customer service, management of customer information, management of outsourcing, and management of conflicts of interest (hereinafter customer management tasks).

The President & CEO of MHFG generally oversees management of customer protection, and also heads the Customer Protection Management Committee at which important matters concerning customer protection are discussed. The President & CEO also appoints officers responsible for the general management of customer protection in order to promote appropriate management of customer protection. The Compliance Division is in charge of general management and monitor management of each customer management task. The division responsible for each customer management task draws up and implement proposals concerning the management tasks under their jurisdiction. MHFG also provides centralized monitoring and management of customer protection management at the core group companies. The core group companies also manage customer protection management at their own group companies.

### Approaches to the Financial Alternative Dispute Resolution (ADR) System

In order to deal expeditiously, fairly and appropriately with complaints, etc., from customers, MHBK and MHTB have concluded the basic contract for the implementation of dispute resolution procedures with the Japanese Bankers Association, which is a designated dispute resolution institution as defined in Japan's Banking Act. MHTB has also concluded the basic contract for the implementation of dispute resolution procedures with the Trust Companies Association of Japan, which is a designated dispute resolution institution as defined in Japan's Trust Business Act and Act on Concurrent Operation, etc. of Trust Business by Financial Institutions.

The designated dispute resolution institution takes the steps towards resolution from a fair and neutral perspective in cases where the solutions to customers' complaints adopted by the two banks are not accepted.



The Designated Dispute Resolution Institution as Defined in Japan's Banking Act which MHBK and MHTB Concluded the Basic Contract with

The Designated Dispute Resolution Institution:

the Japanese Bankers Association

Contact:

Advisory Center of the Japanese Bankers Association

Tel.: +81-(0)3-5252-3772

The Designated Dispute Resolution Institution as Defined in Japan's Trust Business Act and Act on Concurrent Operation, etc. of Trust Business by Financial Institutions which MHTB Concluded the Basic Contract with

The Designated Dispute Resolution Institution:

Trust Companies Association of Japan

Contact:

Trust Consultation Center of the Trust Companies Association of Japan

Tel.: +81-(0)3-3241-7335

(As of June 24, 2014)

# Internal Control Systems

## Information Security Management System

### Basic Approach

As the advanced information-telecommunication society evolves and use of information increases exponentially, appropriate protection of the informational assets held by a company becomes a social responsibility, while appropriate usage of the same assets becomes the foundation of the company's competitiveness. As a provider of comprehensive financial services in Japan and abroad, we believe that appropriate protection and use of informational resources are extremely important issues.

We are striving to strengthen our information security management system, defining information security management as all acts associated with the appropriate protection and use of group informational assets. This includes adopting information security management measures to ensure the confidentiality, integrity and availability of our informational assets, and responding to requests for disclosure from "data subjects" (the people to whom specific information pertains) concerning personal information.

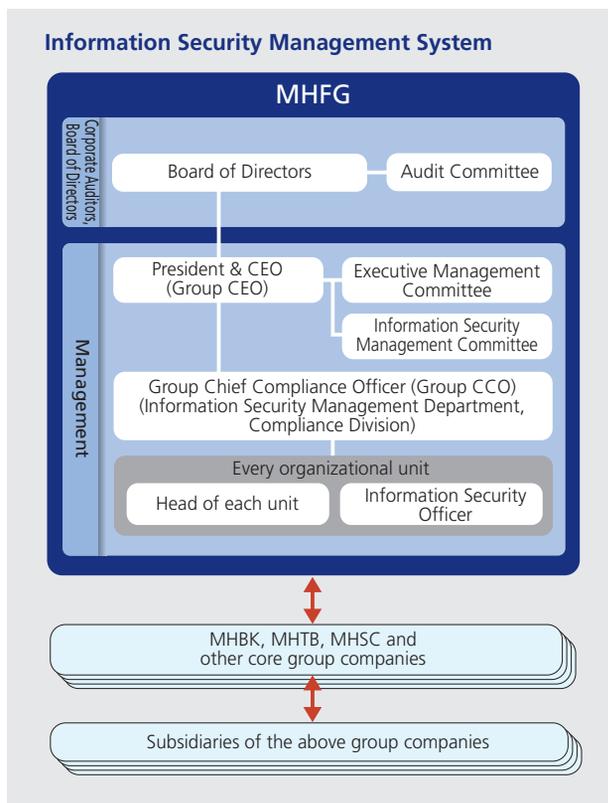
### Overview of the Information Security Management System

We have clarified the group management system as well as management methods for information security management, and each company has drawn up its own regulations concerning information security management. We are also building an information security management system, stipulating that the compliance divisions of the individual companies are to act as information security management divisions.

The President & CEO of MHFG appoints a chief information security officer who supervises planning, proposals and implementation in connection with overall group information security management, and the Information Security Management Committee handles discussions and coordination of cross-divisional issues relating to overall group information security management. In addition, the Information Security Management Department has been established within the Compliance Division to specialize in information security management and provide centralized monitoring and control of the information security management situation at our core group companies. The information security management situation at subsidiaries of our core group companies is monitored and managed by our core group companies themselves. In every organizational unit, the head of each unit is also responsible for information security management, and an information security management officer is appointed to check on how information is handled and ensure that personnel are fully aware of and well trained in safety management measures.

Based on this information security management system, we have drawn up and published the Privacy Policy Regarding Customer Information\* that complies with Japan's Law Concerning the Protection of Personal Information. We are also building a system to deal with requests for disclosure, and strengthening our safety management measures.

\* The Privacy Policy Regarding Customer Information includes the policy and procedures for management of customer information. Our group companies have each established privacy policies regarding customer information, which are published on their individual websites, in this annual review, and via other disclosure tools.



(As of June 24, 2014)

## Strengthening Disclosure Controls and Procedures

### Basic Principles

We are committed to growing together with our customers in a stable and sustainable manner and bringing together our group-wide expertise to contribute to the prosperity of economies and societies throughout the world as the leading Japanese financial services group with a global presence and a broad customer base. For this reason, we place one of the highest management priorities on continuing to disclose information to our customers, shareholders, and investors both in and outside Japan in a fair, timely and appropriate manner, in order that they may form proper judgments and appraisals of the group. To achieve this aim, we observe applicable domestic and international laws and regulations as well as stock exchange rules relating to corporate disclosure, and we establish and implement appropriate Disclosure Controls and Procedures.

### Outline of Disclosure Controls and Procedures

#### ● Establishment and Implementation of Disclosure Controls and Procedures

Our Disclosure Controls and Procedures are established to observe applicable domestic and international laws and

regulations as well as stock exchange rules and to implement fair, timely and appropriate corporate disclosure. The Disclosure Controls and Procedures are the process carried out by directors, officers and employees of our group and include internal controls designed to provide reasonable assurance regarding the reliability of Financial Reporting and the Preparation of Financial Statements. We have established the basic principles underlying our Disclosure Controls and Procedures as well as our internal rules related to Disclosure Controls and Procedures that govern the management framework for the entire group including group companies, and we endeavor to establish, implement and continuously improve our Disclosure Controls and Procedures. Our Disclosure Committee is the principal management body that is responsible for discussing and exploring matters relating to Disclosure Controls and Procedures.

#### ● Evaluation of Effectiveness of Disclosure Controls and Procedures

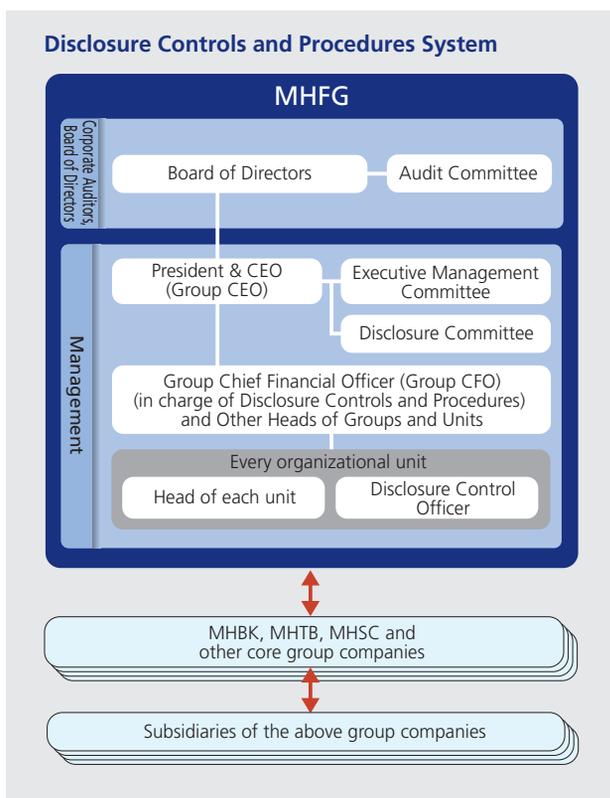
Our Disclosure Controls and Procedures are documented, and evaluation of the overall effectiveness of our Disclosure Controls and Procedures is conducted regularly by reviewing the contents of such documentation and their implementation. In addition, evaluation of the effectiveness and appropriateness of Disclosure Controls and Procedures is conducted through internal audits.

#### ● Others

We established a Code of Ethics for Financial Professionals to be observed by all directors and executive officers, as well as all managers and other employees within our group who engage in financial reporting, accounting or disclosure. We have also developed the Internal Controls and Audit Hotline, a system designed for obtaining concerns regarding questionable accounting or auditing matters from both inside and outside the group (please refer to page 46).

Moreover, we established Disclosure Policy which includes basic principles regarding disclosure and framework of Disclosure Controls and Procedures, and announce on our website as well as this annual review.

(As of June 24, 2014)



---

## Risk Management Structure

---

### Commitment to Risk Management

#### Basic Approach

Progress in financial deregulation and internationalization has led to growth in the diversity and complexity of banking operations, exposing financial institutions to various risks, including credit, market operations, information technology, legal, settlement and other risks. We recognize the conducting of operations tailored to the risks and managing such risks as a key issue relating to overall management. In order to implement our business strategy while maintaining our financial stability, we maintain comprehensive risk management and control measures. MHFG maintains basic policies for risk management established by its 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 human resources training necessary for appropriate levels of risk management. The policies also provide for audits to measure the

effectiveness and suitability of the risk management structure. In line with these basic policies, we maintain various measures to strengthen and enhance the sophistication of our risk management system.

#### Risk Management Structure

Each of our subsidiaries adopts appropriate risk management measures for its business based on the size and nature of its risk exposures, while MHFG controls risk management for the group as a whole. MHFG regularly receives reports and applications concerning the risk management situation from our core group companies and gives them appropriate instructions concerning risk management. Our core group companies each maintains its own system for managing various types of risk, regularly receiving reports on the status of risk at their respective subsidiaries, and gives them appropriate instructions concerning risk management.

### General Concept of Risk Management

#### Basic Approach

We classify our risk exposures according to the various kinds of risk, including credit risk, market risk, liquidity risk and

#### Approach to the Basel Regulatory Framework

The Basel Regulatory Framework, the regulations for international standards of the health of banks, have been revised in light of developments in risk management methods in order to better reflect the actual substance of the risks. We have been calculating capital adequacy ratios based on these regulations, known as Basel II, from March 31, 2007, when it was implemented in Japan. Basel II requires the observance of three main points. The first is minimum capital requirements relating to risk which should be maintained by banks. The second includes a supervisory review process with respect to assessment of risks that cannot be fully addressed through minimum capital requirements alone. The third is market discipline allowing for assessment by the market through appropriate disclosure. We have been calculating our capital adequacy ratios by applying the Advanced Internal Ratings-Based Approach for the calculation of credit risk from March 31, 2009, and the Advanced Measurement Approach for the calculation of operational risk from September 30, 2009. Due to the strengthening of the Basel II framework, we revised the calculation methods with regard to our securitization products and trading activities from December 31, 2011, when such strengthening was implemented in Japan. In

December 2010, the Basel III rules text was issued, pursuant to which the raising of capital requirement levels and the quality of capital were required and risk coverage was enhanced. In Japan, from March 31, 2013, the new minimum capital requirements began to be phased in, and we have been calculating capital adequacy ratios based on the revisions to capital adequacy guidelines published by the Financial Services Agency.

We have been identified as a G-SIB by the Financial Stability Board in November 2013. In case we are to be identified as a G-SIB in or after November 2014, the stricter capital requirements will be applied. Based on the Basel III framework, liquidity and leverage ratio regulation is scheduled to be implemented in the future. We are currently preparing for such implementation.

---

#### Glossary

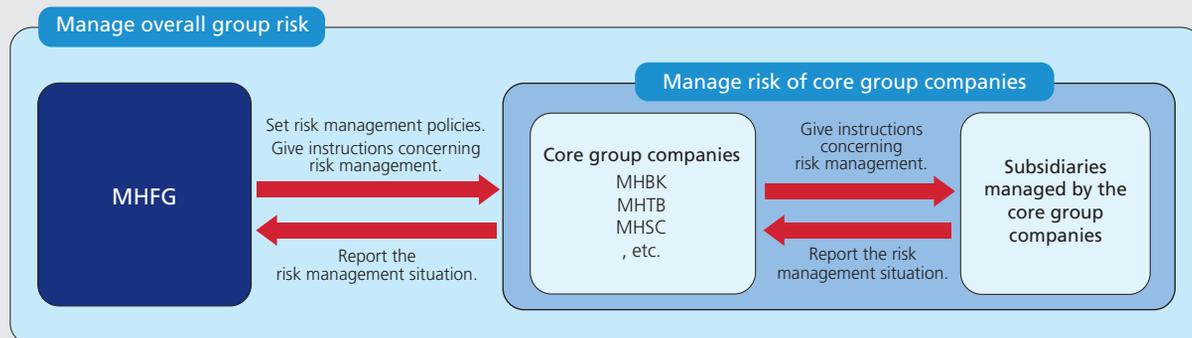
##### ► Advanced Internal Ratings Based (AIRB) Approach

AIRB is one of the calculation methods for credit risk assets provided for by Basel II. Under AIRB, both probability of default and loss given default used for calculation of credit risk assets are estimated by the bank's own internal experiences.

##### ► Advanced Measurement Approaches (AMA)

AMA is one of the calculation methods for operational risk assets provided for by Basel II. AMA is a risk asset calculation method based on statistics that not only utilizes data from internal losses experienced by the company, but also utilizes scenario data to calculate the impact of events that may be experienced in the future.

## Risk Management Structure



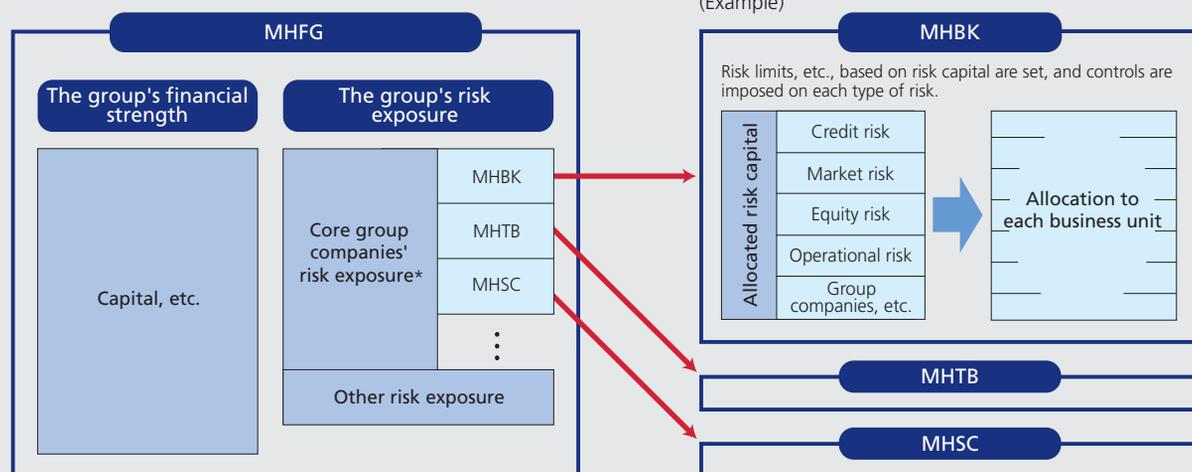
operational risk, and manage each type of risk according to its characteristics. In addition to managing each type of risk individually, we have established a risk management structure to identify and evaluate overall risk and, where necessary, to devise appropriate responses to keep risk within limits that are managerially acceptable in both qualitative and quantitative terms. In line with the basic policies relating to overall risk management laid down by MHFG, companies within the group identify risk broadly and take a proactive and sophisticated approach to risk management, including methodologies for operations that involve exposures to multiple categories of risk such as settlement and trust businesses.

### Risk Capital Allocation

We endeavor to obtain a clear grasp of the group's overall risk exposure and have implemented measures to keep such risks within the group's financial base in accordance with

the risk capital allocation framework. More specifically, we allocate risk capital to our core group companies, including their respective subsidiaries, to control risk within the limits set for each company. We also control risk within managerially acceptable limits by working to ensure that the overall risk we hold on a consolidated basis does not exceed shareholders' equity and other measures of financial strength. To ensure the ongoing financial health of MHFG and our core group companies, we regularly monitor the manner in which risk capital is being used in order to obtain a proper 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 MHBK, MHTB and MHSC by risk category, and is further allocated within their respective business units based on established frameworks.

## Allocation of Risk Capital



\* Including risk exposures of the subsidiaries of the core group companies.

# Internal Control Systems

## Stress Testing

We conduct stress testing based on several scenarios, such as economic recession and turmoil in financial markets. We have built a framework in which we use the results of stress testing for making business decisions such as, among other things, the identification of issues for purposes of the managing our business-planning. Our stress testing scenarios are formulated through discussions regarding historical stress events, underlying macroeconomic events and economic outlook, taking into account the probability of the event and its impact on us. We estimate the impact on us by setting parameters such as economic output, stock market and interest rate levels for each scenario.

## Credit Risk Management

### Basic Approach

We define credit risk as the group's exposure to the risk of losses that may be incurred due to a decline in, or total loss of, the value of assets (including off-balance-sheet instruments), as a result of deterioration in obligors' financial position. We have established the methods and structures necessary for grasping and managing credit risk, which has become increasingly complex due to financial deregulation, internationalization and the growing sophistication of transactions. MHFG manages credit risk for the group as a whole. More specifically, we have adopted two different but mutually complementary approaches in credit risk management. The first approach is "credit management," in which we manage the process for each individual transaction and individual obligor from execution until collection, based on our assessment of the credit quality of the customer. Through this process, we curb losses in the case of a credit event. The second is "credit portfolio management," in which we utilize statistical methods to assess the potential for losses related to credit risk. Through this process, we identify credit risks and respond appropriately.

### Credit Risk Management Structure

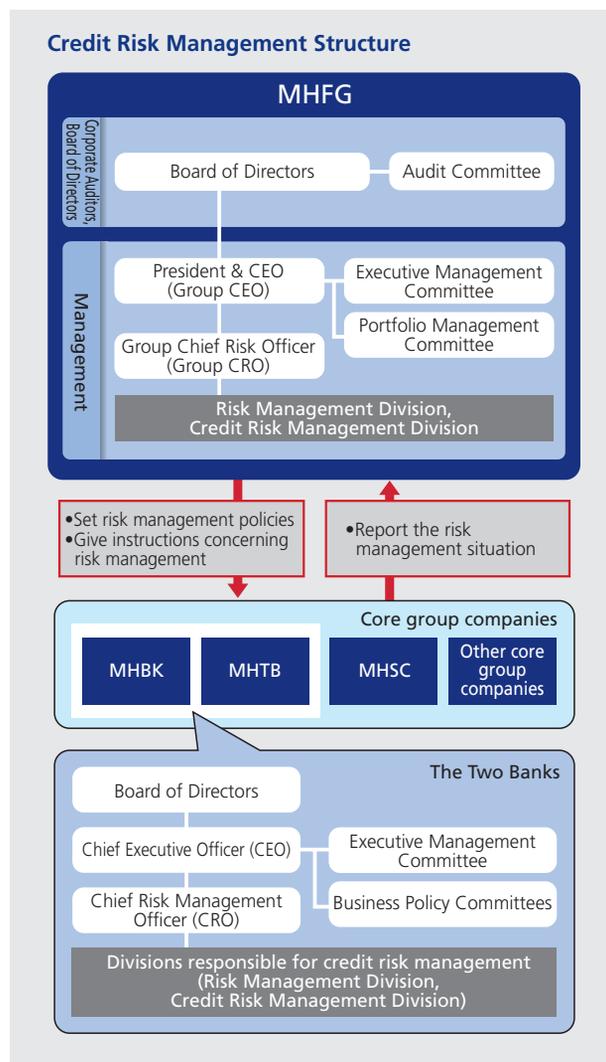
#### ● Credit Risk Management of MHFG

Our board of directors determines the group's key matters pertaining to credit risk management. In addition, the portfolio management committee of MHFG discusses and coordinates the basic policies in connection with credit risk management and matters in connection with overall credit portfolio management and credit risk monitoring for the group. Under the control of the Chief Risk Officer of MHFG, the Risk Management Division and the Credit Risk Management Division jointly monitor, analyze and submit suggestions concerning credit risk and formulate and execute plans in connection with basic matters pertaining to credit risk management.

#### ● Credit Risk Management at Our Core Group Companies

Our core group companies manage their credit risk according to the scale and nature of their exposures in line with basic policies set forth by MHFG. The board of directors of each company determines key matters pertaining to credit risk management.

The respective business policy committees of MHBK and MHTB (the two banks) are responsible for discussing and coordinating overall management of their individual credit portfolios and transaction policies towards obligors. The chief risk officer of each bank is responsible for matters relating to planning and implementing credit risk management. The credit risk management division of each bank is responsible for planning and administering credit risk management and conducting credit risk measuring and monitoring, and such division regularly presents reports regarding its risk management situation to MHFG. Each credit division



determines policies and approves/disapproves individual transactions in terms of credit review, credit management and collection from customers in accordance with the lines of authority set forth by each bank. In addition, each bank has established internal audit divisions that are independent of the business divisions in order to ensure appropriate credit risk management.

### Individual Credit Management

#### ● Credit Codes

The basic code of conduct for all of our officers and employees engaged in the credit business is set forth in our credit code. Seeking to fulfill the bank's public and social role, our basic policy for credit business is determined in light of fundamental principles focusing on public welfare, safety, growth and profitability.

#### ● Internal Rating System

One of the most important elements of the risk management infrastructure of the two banks is the use of an internal

rating system that consists of credit ratings and pool allocations. Credit ratings consist of obligor ratings which represent the level of credit risk of the obligor, and transaction ratings which represent the possibility of ultimately incurring losses related to each individual claim by taking into consideration the nature of any collateral or guarantee and the seniority of the claim. In principle, obligor ratings apply to all obligors and are subject to regular reviews at least once a year to reflect promptly the fiscal period end financial results of the obligors, as well as special reviews as required whenever the obligor's credit standing changes. This enables the two banks to monitor both individual obligors and the status of the overall portfolio in a timely fashion. Because we consider obligor ratings to be an initial phase of the self-assessment process regarding the quality of our loans and off-balance-sheet instruments, such obligor ratings are closely linked to the obligor classifications and are an integral part of the process for determining the reserves for loan losses and write-offs in our self-assessment of loans and

### Connection between Obligor Ratings, Definition of Obligor Classifications of Self-Assessments, Claims Disclosed under the FRL and Non-Accrual, Past Due & Restructured Loans

Definition of Obligor Classifications of Self-Assessment	Obligor Ratings (Major Category)	Definition of Ratings	Category I (Non-Categorized)	Category II	Category III	Category IV (Non-Collateralized)	Claims Disclosed under the FRL	Non-Accrual, Past Due & Restructured Loans
Normal Obligators	A1–A3	Obligor whose certainty of debt fulfillment is very high, hence their level of credit risk is excellent.	All credit given to Normal Obligor.				Normal Claims	
	B1–B2	Obligor whose certainty of debt fulfillment poses no problems for the foreseeable future, hence their level of credit risk is sufficient.						
	C1–C3	Obligor whose certainty of debt fulfillment and their level of credit risk pose no problems for the foreseeable future.						
	D1–D3	Obligor whose current certainty of debt fulfillment poses no problems, however, their resistance to future environmental changes is low.						
Watch Obligor	E1	Obligor who require close watching going forward because there are problems with their borrowings, such as reduced or suspended interest payments, problems with fulfillment such as de facto postponements of principal or interest payments, or problems with their financial positions as a result of their poor or unstable business conditions.		Credit given to Watch Obligor other than those included in Category I.			Claims for Special Attention	Restructured Loans Loans Past Due for 3 Months or More
	E2 R							
Intensive Control Obligor	F1	Obligor who are not yet bankrupt but are in financial difficulties and are deemed to be very likely to go bankrupt in the future because they are finding it difficult to make progress in implementing their management improvement plans (including obligors who are receiving ongoing support from financial institutions).	Credit to obligors which has pledged collateral or is covered by guarantees, considered of high quality, such as deposit collateral.	Credit to obligors which is covered by general collateral, such as real estate and guarantees.	Credit given to Intensive Control Obligor other than those included in Category I and Category II.		Claims with Collection Risk	Non-Accrual Delinquent Loans
Substantially Bankrupt Obligor	G1	Obligor who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.						
Bankrupt Obligor	H1	Obligor who have already gone bankrupt, from both a legal and/or formal perspective.						

# Internal Control Systems

off-balance-sheet instruments (Please refer to Connection between Obligor Ratings, Definition of Obligor Classifications of Self-Assessments, Claims Disclosed under the FRL and Non-Accrual, Past Due & Restructured Loans).

Pool allocations are applied to small claims that are less than a specified amount by pooling customers and claims with similar risk characteristics and assessing and managing the risk for each such pool. We efficiently manage credit risk and credit screening by dispersing a sufficient number of small claims within each pool. We generally review the appropriateness and effectiveness of our approach to obligor ratings and pool allocations once a year in accordance with predetermined procedures.

- **Self-assessment, Reserves, Off-balance-sheet Instruments and Write-offs**

We conduct self-assessment of assets to ascertain the status of assets both as an integral part of credit risk management and in preparation for appropriate accounting treatment, including reserves for loan losses and off-balance-sheet instruments and write-offs. During the process of self-assessment, obligors are categorized into certain groups taking into consideration their financial condition and their ability to make payments, and credit ratings are assigned to all obligors, in principle, to reflect the extent of their credit risks. The related assets are then categorized into certain classes based on the risk of impairment. This process allows us to identify and control the actual quality of assets and determine the appropriate accounting treatment, including reserves for loan losses and off-balance-sheet instruments and write-offs. Specifically, the credit risk management division of each bank is responsible for the overall control of the self-assessment of assets of the respective banks, cooperating with the administrative divisions specified for each type of asset, including loan portfolios and securities, in executing and managing self-assessments.

- **Credit Review**

Prevention of new non-performing loans through routine credit management is important in maintaining the quality

of our overall loan assets. Credit review involves analysis and screening of each potential transaction within the relevant business division. In case the screening exceeds the authority of the division, the credit division at headquarters carries out the review. The credit division has specialist departments for different industries, business sizes and regions, carries out timely and specialized examinations based on the characteristics of the customer and its market, and provides appropriate advice to the business division. In addition, in the case of obligors with low obligor ratings and high downside risks, the business division and credit division jointly clarify their credit policy and in appropriate cases assist obligors at an early stage in working towards credit soundness.

- **Collection and Disposal of Non-performing Loans**

With respect to collection and disposal of non-performing loans, our specialist unit maintains central control and pursues corporate restructuring or collection efforts, as appropriate, toward taking the non-performing loans off-balance. Specifically, we believe that supporting the restructuring efforts of corporations is an important role for financial institutions, and we support corporations undergoing restructuring by reviewing business plans, advising on restructuring methods and utilizing corporate restructuring schemes such as divestitures and mergers and acquisitions, taking advantage of our group-wide resources. These efforts have been steadily producing satisfactory results. In addition, we work on final disposal of non-performing loans efficiently and swiftly by conducting bulk sales and by utilizing Mizuho Servicing, our subsidiary that specializes in performing debt collection services for our group companies.

In the case of debt forgiveness, we examine the borrower's condition carefully and make a determination based on the possible impact on the interests of shareholders and depositors. We provide debt forgiveness as per industry guidelines that are shared among members of the Japanese Bankers Association.

## Method for Reserves and Write-Offs

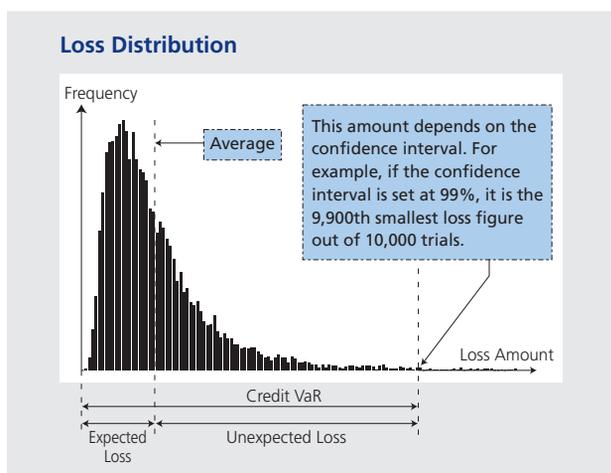
Normal Obligators	Calculate the value of estimated loss based on the probability of failure over the coming year for loans by obligor rating and appropriate it for the General Reserve for Possible Losses on Loans.
Watch Obligators	Calculate the estimated loss on loans based on the probability of failure over the next three years and appropriate it for the General Reserve for Possible Losses on Loans. Further, in regard to Special Attention Obligators, for obligors with large claims more than a certain amount, if the cash flow from the return of principal and interest payments can reasonably be estimated, set up a reserve under the DCF method.
Intensive Control Obligators	Provide an amount for Specific Reserve for Possible Losses on Loans as calculated by one of the following methods after deducting amounts anticipated to be recoverable from the sale of collateral held against the claims and from guarantors of the claims: a) an amount calculated based on the overall ability of the obligor to pay, or b) the estimated loss calculated on the basis of the balance and the probability of failure over the next three years. Further, for obligors with large claims more than a certain amount, if the cash flow from the return of principal and interest payments can reasonably be estimated, set up a reserve under the DCF method.
Substantially Bankrupt Obligators	Provide the entire balance after deducting amounts anticipated to be recoverable from the sale of collateral held against the claims and from guarantors of the claims for Specific Reserve for Possible Losses on Loans, or write-off the entire balance.
Bankrupt Obligators	

## Portfolio Management

### ● Risk Measurement

We use statistical methods to manage the possibility of losses by measuring the expected average loss for a one-year risk horizon (Expected Loss) and the maximum loss within a certain confidence interval (“credit Value-at-Risk (VaR)”). The difference between expected loss and credit VaR is measured as the credit risk amount (Unexpected Loss).

In establishing transaction spread guidelines for credit transactions, we aim to ensure an appropriate return from the transaction in light of the level of risk by utilizing credit cost data as a reference. Also, we monitor our credit portfolio from various perspectives and set guidelines noted below so that losses incurred through a hypothetical realization of the full credit VaR would be within the amount of risk capital and loan loss reserves.



### ● Risk Control Methods

We recognize two types of risk arising from allowing unexpected loss to become too large. One type is “credit concentration risk,” which stems from granting excessive credit to certain individual counterparties or corporate groups. The other type is “chain-reaction default risk,” which arises from

granting excessive credit to certain areas, industrial sectors and other groupings. We make appropriate management to control these risks in line with our specific guidelines for each. The individual risk management divisions of the two banks are responsible for monitoring adherence to these guidelines and reporting to their respective business policy committees (please refer to Allocation of Risk Capital and Control of Credit Risk).

## Market and Liquidity Risk Management

### Basic Approach

We define market risk as the risk of losses incurred by the group due to fluctuations in interest rates, stock prices and foreign exchange rates. Our definition includes the risk of losses incurred when it becomes impossible to execute transactions in the market because of market confusion or losses arising from transactions at prices that are significantly less favorable than usual. We define liquidity risk as the risk of losses arising from funding difficulties due to a deterioration in our financial position that makes it difficult for us to raise necessary funds or that forces us to raise funds at significantly higher interest rates than usual. MHFG manages market and liquidity risk for the group as a whole.

### Market Risk Management Structure

#### ● Market Risk Management of MHFG

Our board of directors determines key matters pertaining to market risk management policies. The ALM & market risk management committee of MHFG broadly discusses and coordinates matters relating to basic asset and liability management policies, risk planning and market risk management and proposes responses to emergencies such as sudden market changes. The chief risk officer of MHFG is responsible for matters relating to market risk management planning and operations.

The Risk Management Division of MHFG is responsible for monitoring market risk, reports and analyses, proposals, setting limits and guidelines, and formulating and implementing

## Allocation of Risk Capital and Control of Credit Risk

Allocation of risk capital

Credit VaR

Credit concentration risk

Chain reaction default risk

- ① Individual company credit guidelines
- ② Corporate group-based credit guidelines

- ③ Geographical area/country-based credit guidelines
- ④ Industrial sector-based credit guidelines

Control

MHBK: Sets ①, ②, ③, ④  
MHTB: Sets ①, ②, ④

Equivalent to credit concentration risk amounts

Equivalent to chain reaction default risk amounts

# Internal Control Systems

plans relating to market risk management. The Risk Management Division assesses and manages the overall market risk of the group. It also receives reports from our core group companies on their market risk management that enable it to obtain a solid grasp of the risk situation, submitting reports to the President & CEO on a daily basis and to our board of directors and the executive management committee of MHFG on a regular basis.

To manage market risk, we set limits that correspond to risk capital allocations according to the risk profiles of our core group companies and thereby prevent market risk from exceeding our ability to withstand losses based on our financial strength represented by capital, etc. The amount of risk capital allocated to market risk corresponds to VaR and additional costs that may arise in order to close relevant positions. For trading and banking activities, we set limits for VaR and for losses. For banking activities, we set position

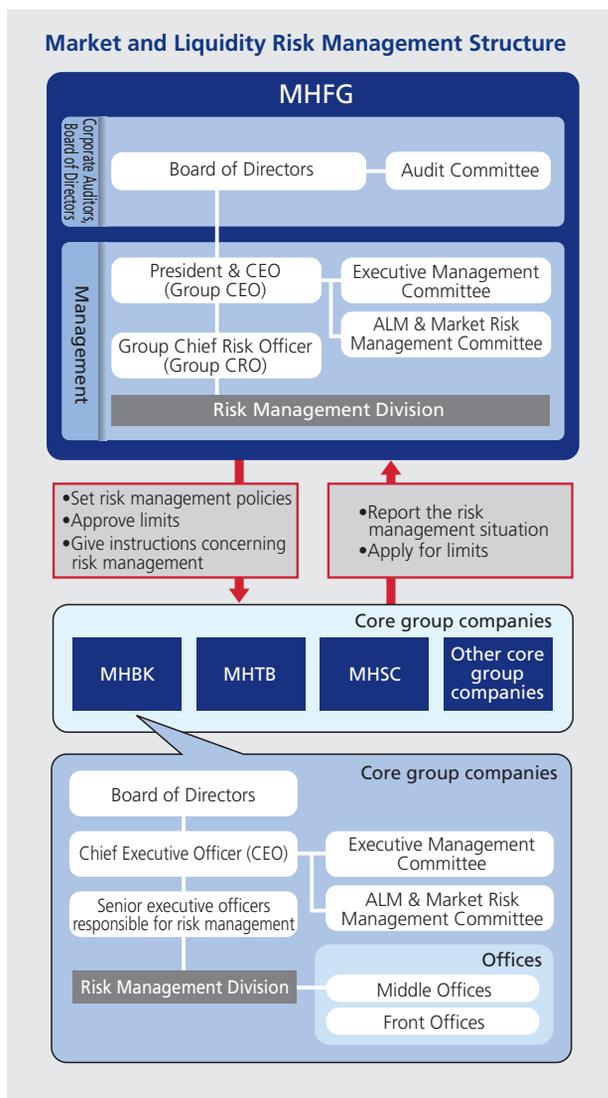
limits based on interest rate sensitivity as needed.

These limits are discussed and coordinated by the ALM & market risk management committee, discussed further by the executive management committee, then determined by the President & CEO. Various factors are taken into account including business strategies, historical limit usage ratios, risk-bearing capacity (profits, total capital and risk management systems), profit targets and the market liquidity of the products involved.

## ● Market Risk Management at Our Core Group Companies

MHBK, MHTB and MHSC, which account for most of the group's exposure to market risk, have formulated their basic policies in line with the basic policies determined by MHFG. Their boards of directors determine important matters relating to market risk management while their chief executive officers are responsible for controlling market risk. Their respective business policy committees, including their ALM & market risk management committees, are responsible for overall discussion and coordination of market risk management. Specifically, these committees discuss and coordinate matters relating to basic asset and liability management policies, risk planning and market risk management and propose responses to emergencies such as sudden market changes. The chief risk officer of each subsidiary is responsible for matters pertaining to planning and implementing market risk management. Based on a common group risk capital allocation framework, the above-mentioned companies manage market risk by setting limits according to the risk capital allocated to market risk by MHFG.

These companies have established specialized company-wide market risk management divisions to provide integrated monitoring of market risk, submit reports, analyses and proposals, set limits and formulate and implement plans relating to market risk management. The risk management divisions of each company submit reports on the status of market risk management to their respective chief executive officers and top management on a daily basis, and to their board of directors and executive management committee on a regular basis. They also provide regular reports to MHFG. To provide a system of mutual checks and balances in market operations, they have established middle offices specializing in risk management that are independent of their front offices, which engage in market transactions, and their back offices, which are responsible for book entries and settlements. When VaR is not adequate to control risk, the middle offices manage risk using additional risk indices, carry out stress tests and set stop loss limits as needed. They monitor their market liquidity risk for individual financial products in the market while taking turnover and other factors into consideration.



## Liquidity Risk Management Structure

### ● Liquidity Risk Management of MHFG

Our liquidity risk management structure is generally the same as the market risk management structure described above. However, the head of the Financial Control & Accounting Group of MHFG is additionally responsible for matters relating to planning and running cash flow management operations, while the Financial Planning Division is responsible for monitoring and adjusting the cash flow management situation and for planning and implementing cash flow management. Reports on the cash flow situation are submitted to the ALM & market risk management committee, the executive management committee and the President & CEO.

We measure liquidity risk using indices pertaining to cash flow, such as limits on funds raised in the market. Limits on liquidity risk are discussed and coordinated by the ALM & market risk management committee, discussed further by the executive management committee and determined by the President & CEO. We have established classifications for the cash flow conditions affecting the group, ranging from "normal" to "cause for concern" and "critical," and have established procedures for dealing with cases which are deemed to fall into the "cause for concern" or "critical" categories. In addition, we have established a plan of operations so that we may respond swiftly in emergency situations that affect our cash flow under which we will consider measures such as a reduction in the amount of investments made, an expansion of funding from financial markets and deposits, the sale of investment securities and borrowings from the central bank.

### ● Liquidity Risk Management at Our Core Group Companies

The liquidity risk management structures of MHBK, MHTB and MHSC are generally the same as the aforementioned market risk management structures, but the senior executives responsible for risk management are responsible for matters pertaining to planning and conducting liquidity risk management, while the senior executives of the asset and liability management and trading units are responsible for matters pertaining to planning and conducting cash flow management.

The methodologies used for ensuring precise control of liquidity risk include the formulation of management indices pertaining to cash flow, such as limits on funds raised in the market. As with MHFG, the above-mentioned companies have established classifications for the cash flow affecting them, ranging from "normal" to "cause for concern" and "critical," and have established procedures for cases which are deemed to fall into the "cause for concern" or "critical" categories.

Each subsidiary has adopted stringent controls that call for the submission of reports on liquidity risk management and cash flow management to the ALM & market risk management committee and other business policy committees, the executive management committee and the chief executive officer of each subsidiary.

## Status of MHFG's Market Risk

### ● Value-at Risk

We use the VaR method, supplemented with stress testing, as our principal tool to measure market risk. The VaR method measures the maximum possible loss that could be incurred due to market movements within a certain time period (or holding period) and degree of probability (or confidence interval).

### Trading Activities

VaR related to our trading activities is based on the following:

- variance co-variance model for linear risk and Monte-Carlo simulation for non-linear risk, which are simply aggregated to determine total risk;
- confidence interval: one-tailed 99.0%;
- holding period of one day; and
- historical observation period of one year.

The following tables show the VaR related to our trading activities by risk category for the fiscal years ended March 31, 2012, 2013 and 2014 and as of March 31, 2012, 2013 and 2014:

### VaR by Risk Category (Trading Activities)

(billions of yen)

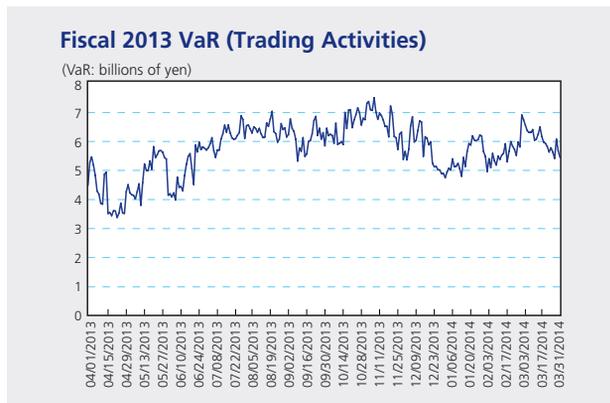
	Fiscal 2011			
	Daily average	Maximum	Minimum	At March 31
Interest rate	1.9	2.4	1.4	1.8
Foreign exchange	1.9	2.8	0.7	1.8
Equities	1.1	1.7	0.5	0.5
Commodities	0.0	0.1	0.0	0.0
<b>Total</b>	<b>3.8</b>	<b>4.8</b>	<b>2.8</b>	<b>3.0</b>

	Fiscal 2012			
	Daily average	Maximum	Minimum	At March 31
Interest rate	1.6	2.2	1.1	1.2
Foreign exchange	2.3	3.4	1.1	2.7
Equities	0.5	0.9	0.1	0.4
Commodities	0.0	0.0	0.0	0.0
<b>Total</b>	<b>3.4</b>	<b>4.6</b>	<b>2.6</b>	<b>3.5</b>

	Fiscal 2013			
	Daily average	Maximum	Minimum	At March 31
Interest rate	2.0	2.7	1.5	1.6
Foreign exchange	4.1	5.6	1.1	4.8
Equities	1.0	3.1	0.2	0.4
Commodities	0.0	0.0	0.0	0.0
<b>Total</b>	<b>5.7</b>	<b>7.4</b>	<b>3.3</b>	<b>5.4</b>

# Internal Control Systems

The following graph shows VaR figures of our trading activities for the fiscal year ended March 31, 2014:



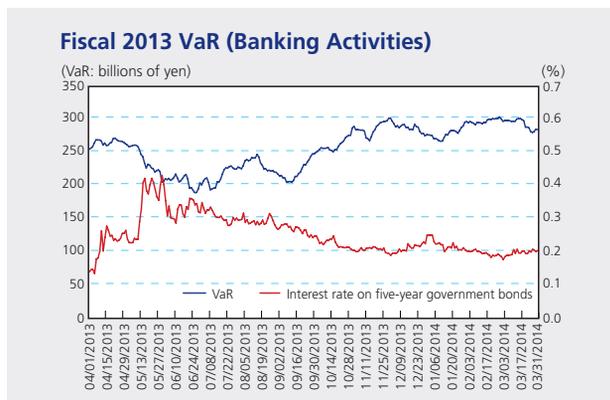
The following table shows VaR figures of our trading activities for the fiscal years indicated:

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Change
As of fiscal year end	3.0	3.5	5.4	1.8
Maximum	4.8	4.6	7.4	2.8
Minimum	2.8	2.6	3.3	0.6
Average	3.8	3.4	5.7	2.3
The number of cases where profits/losses exceeded VaR	2	4	1	(3)

## Non-Trading Activities

The VaR related to our banking activities is based on the same conditions as those of trading activities, but the holding period is one month.

The graph below shows the VaR related to our banking activities excluding our strategically-held equity portfolio for the year ended March 31, 2014.



The following table shows the VaR figures relating to our banking activities for the fiscal years indicated:

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Change
As of fiscal year end	263.7	215.9	281.7	65.8
Maximum	282.5	297.9	300.7	2.7
Minimum	210.3	213.3	186.8	(26.5)
Average	249.4	246.3	253.5	7.1

## Characteristics of VaR Model

VaR is a commonly used market risk management technique. However, VaR models have the following shortcomings:

- By its nature as a statistical approach, VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, particularly potential future events that are extreme in nature.
- VaR may underestimate the probability of extreme market movements.
- The use of a 99.0% confidence level does not take account of, nor makes any statement about, any losses that might occur beyond this confidence level.
- VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses.
- **Interest Sensitivity Analysis**

We also conduct interest sensitivity analyses of interest risk, our main source of market risk. The following table shows sensitivity to yen interest risk in our banking activities as of the dates indicated. Interest rate sensitivity (10 BPV) shows how much net present value varies when interest rates rise by 10 basis (0.1%), and it explains the impact of interest rate movements on net present value when short- and long-term interest rates behave differently.

	2012	2013	2014	Change
Up to one year	(10)	(7)	(2)	4
From one to five years	(54)	(56)	(47)	9
Over five years	(24)	(35)	(12)	22
Total	(89)	(99)	(62)	36

● **Stressed Value-at-Risk**

The stressed value-at-risk (“stressed VaR”) measurement is based on a continuous 12-month period of significant financial stress. Stressed VaR related to our trading activities is based on the following:

- variance co-variance model for linear risk and Monte-Carlo simulation for non-linear risk, which are simply aggregated to determine total risk;
- confidence interval: one-tailed 99.0%;
- holding period of one day; and
- historical observation period of one year of significant financial stress.

The following table shows stressed VaR figures of our trading activities for the fiscal years indicated:

**Stressed VaR (Trading Activities)**

	(billions of yen)			
	Fiscal 2011	Fiscal 2012	Fiscal 2013	Change
As of fiscal year end	6.8	9.2	12.6	3.4
Maximum	10.5	12.0	15.3	3.3
Minimum	5.0	5.0	8.3	3.2
Average	7.4	8.0	11.6	3.6

Note: Maximum, minimum and average figures of 2012 in the above table have been calculated for the period from October 1, 2011 to March 31, 2012.

● **Strategically-held Equity Portfolio Management Activities**

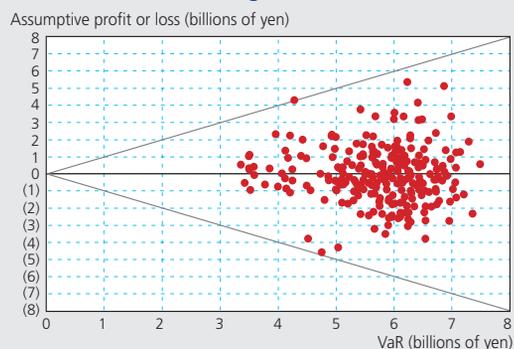
We take the market risk management approach with use of VaR and risk indices for strategically-held equity portfolio management activities as well as for trading activities and non-trading activities. The risk index for strategically-held equity portfolio management for the fiscal year ended March 31, 2014, consisting of the sensitivity of the strategically-held equity portfolio to a 1% change in the equity index of TOPIX, was 30.0 billion yen.

● **Back Testing and Stress Testing**

In order to evaluate the effectiveness of market risk measurements calculated using the value-at-risk method, we carry out regular back tests to compare value-at-risk with assumptive profits and losses. Assumptive profits and losses accounts for general market risk. The graph below shows daily value-at-risk of trading activities for the fiscal year ended March 31, 2014, and the corresponding paired distribution of profits and losses. We had one case where profits or losses exceeded value-at-risk during the period. In addition, we conduct evaluations of the assumptions related to the value-at-risk models. Based on the number of times profits or losses exceeded VaR through back testing and the results of the evaluation of the model assumptions, we will

make adjustments to the models as appropriate. Changes to fundamental portions of the VaR models are subject to the approval of our chief risk officer.

**Fiscal 2013 Back Testing**



Note: We conduct our back testing and assess the number of cases where profits/losses exceed VaR based on a 250 business day year. The expected average number of instances where one-day trading profits and losses exceeded VaR at the 99% confidence level is five.

Because the value-at-risk method is based on statistical assumptions, we conduct stress testing to simulate the levels of losses that could be incurred in cases where the market moves suddenly to levels that exceed these assumptions. The stress testing methods we use include the calculation of losses on the basis of the largest fluctuations occurring over a period of more than five years and the calculation of losses based on market fluctuations occurring during historical market events. In addition, we conduct stress testing based on a sharp drop in the price of securitization and other products due to diminished market liquidity. The table below shows the assumed maximum loss results of stress testing in trading activities using the methods described above:

**Fiscal 2013 Stress Testing**

At March 31, 2014 (billions of yen)

Assumed maximum loss result calculated by stress testing (holding period: one month)	97.9
Assumed maximum loss result calculated by stress testing based on a sharp drop in the price of securitization and other products due to diminished market liquidity (holding period: one year)	10.2

● **Outlier Criteria**

As part of the capital adequacy requirements under BIS Regulations, the losses arising from a banking book in

# Internal Control Systems

hypothetical interest rate shock scenarios under certain stress conditions are calculated and compared with broadly-defined capital. If the interest rate risk of the banking book leads to an economic value decline of more than 20% of broadly-defined capital, we will be deemed an “outlier” and may be required to reduce the banking book risk or adopt other responses. We measure losses arising from our banking book each month as a part of our stress tests.

The table below shows the results of calculations of losses in the banking book in cases where interest rate fluctuations occur under stress conditions. The results of calculations of losses in the banking book show that they are 4.4% of broadly-defined capital. Because the amount of risk on the banking book is therefore well under the 20% threshold and within controllable limits, we do not fall under the “outlier” category. The loss ratio to capital decreased from the previous fiscal year due mainly to the reduction of interest rate risk.

## Fiscal 2013 Results of Calculations under the Outlier Framework

(billions of yen)

	Amount of loss	Broadly-defined capital	Loss ratio to capital
At March 31, 2012	483.2	7,775.0	6.2%
At March 31, 2013	499.1	8,344.5	5.9%
At March 31, 2014	386.6	8,655.9	4.4%
Effect of yen interest rate	78.2	/	
Effect of dollar interest rate	209.3		
Effect of euro interest rate	75.7		

Notes: 1. In the above results of calculations of losses, a part of demand deposits without fixed intervals for amending applicable interest rates is deemed core deposits and is treated accordingly in the calculation.  
2. For the interest rate shock scenario used in connection with the above figures, we generate annual rate fluctuation data for five years derived from daily raw historical interest rate data of the past six years and then apply the actual fluctuation data, which show a rise in interest rates, at a 99.0% confidence level to the shock scenario.

### ● Market Risk Equivalent

In order to calculate the amount of capital necessary to meet the capital requirements relating to market risk (the “market risk equivalent”), we apply internal models to calculate general market risk (risks related to factors that apply generally to the market, e.g., interest rates, foreign exchange rates) and the standardized measurement method to calculate specific risks (risks other than general market risk, e.g., credit quality and market liquidity of an individual security or instrument). In addition, our internal models are applied to trading transactions with market liquidity based on the relevant holding period.

Under the internal models, the market risk equivalent is

expressed as the sum of ;

The higher of (i) VaR on the calculation date and (ii) the average of VaR for the preceding 60 business days (including the calculation date) multiplied by a multiplication factor ranging from 3.00 to 4.00 that is determined based on the number of times VaR is exceeded upon back testing; and

The higher of (i) stressed VaR on the calculation date and (ii) the average of stressed VaR for the preceding 60 business days (including the calculation date) multiplied by the same multiplication factor as used in the bullet point above.

The following table shows total market risk equivalent as of the dates indicated calculated using the standardized measurement method and internal models:

## Fiscal 2013 Market Risk Equivalent

At March 31, (billions of yen)

	2013	2014	Change
Calculated using standardized measurement method	74.1	62.8	(11.2)
Calculated using internal models	116.3	170.6	54.2
<b>Total market risk equivalent</b>	<b>190.5</b>	<b>233.5</b>	<b>43.0</b>

Note: VaR and stressed VaR used to calculate market risk equivalent is based on the following:

- variance co-variance model for linear risk and Monte-Carlo simulation for non-linear risk, which are simply aggregated to determine total risk;
- confidence interval: one-tailed 99.0%;
- holding period of 10 days; and
- historical observation period of one year.

## Operational Risk Management

### Basic Approach

We define operational risk as the risk of loss that we may incur resulting from inadequate or failed internal processes, people and systems or from external events. We recognize that operational risk includes information technology risk, operations risk, legal risk, human resources risk, tangible asset risk, regulatory change risk and reputational risk. We have determined risk management policies concerning risk management structures and methods for each kind of risk. MHBK, MHTB, MHSC and TCSB respectively manage operational risk in an appropriate manner pursuant to risk management policies determined by MHFG.

### Operational Risk Management Structure

MHFG, MHBK, MHTB, MHSC and TCSB share common rules for data gathering, and we measure operational risk on a regular basis, taking into account possible future loss events and the changes in the business environment and internal management.

We have established and are strengthening management methods and systems to appropriately identify, assess,

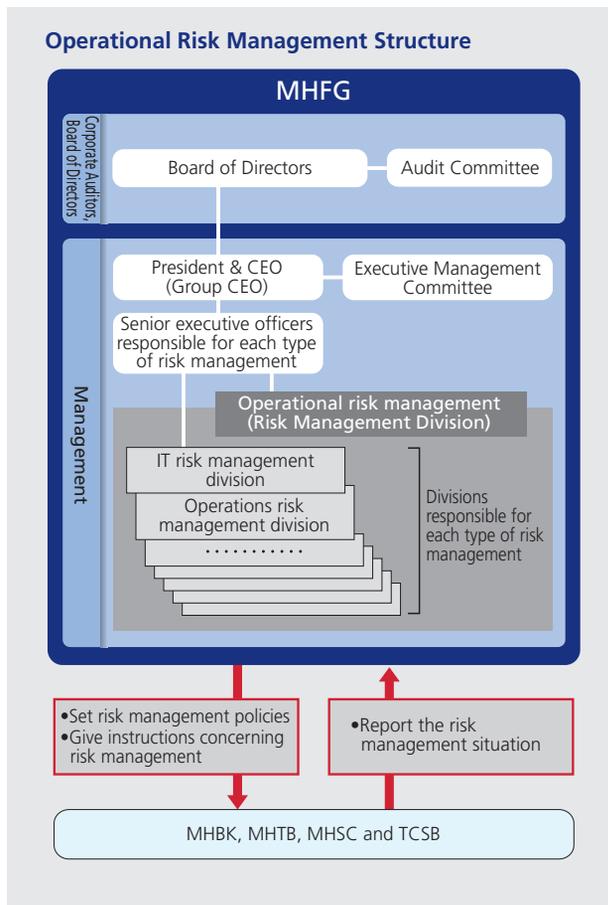
measure, monitor and control the operational risks which arise from the growing sophistication and diversification of financial operations and developments relating to information technology by utilizing control self-assessments and improving measurement methods.

**Glossary**

► **Control Self-Assessments**

An autonomous method of risk management in which risk inherent in operations is identified and, after evaluating and monitoring risks that remains despite implementing risk control, the necessary measures are implemented to reduce risk.

ratios based on Basel II. However, we use the Basic Indicator Approach (BIA) for entities that are deemed to be less important in the measurement of operational risk equivalent and for entities that are preparing to implement the AMA. The measurement results under the AMA are used not only as the operational risk equivalent in the calculation of capital adequacy ratios but also as Operational VAR for internal risk management purposes for implementing action plans to reduce operational risk, etc.



**Definition of Risks and Risk Management Methods**

As shown in the table on page 62, we have defined each component of operational risk and we apply appropriate risk management methods in accordance with the scale and nature of each risk.

**Measurement of Operational Risk Equivalent**

● **Implementation of Advanced Measurement Approach**  
 We have adopted the Advanced Measurement Approach (AMA) from September 30, 2009, for the calculation of operational risk equivalent in association with capital adequacy

# Internal Control Systems

	Definition	Principal Risk Management Methods
Information Technology Risk	Risk that customers may suffer service disruptions, or that customers or the group may incur losses arising from system defects such as failures, faults, or incompleteness in computer operations, or illegal or unauthorized use of computer systems.	<ul style="list-style-type: none"> <li>Identify and evaluate the risk by setting specific standards that need to be complied with and implementing measures tailored based on evaluation results to reduce the risk.</li> <li>Ensure ongoing project management in systems development and quality control.</li> <li>Strengthen security to prevent information leaks.</li> <li>Improve effectiveness of emergency responses by improving backup systems and holding drills.</li> </ul>
Operations Risk	Risk that customers may suffer service disruptions, as well as the risk that customers or the group may incur losses because senior executives or employees fail to fulfill their tasks properly, cause accidents or otherwise act improperly.	<ul style="list-style-type: none"> <li>Establish clearly defined procedures for handling operations.</li> <li>Periodically check the status of operational processes.</li> <li>Conduct training and development programs by headquarters.</li> <li>Introduce information technology, office automation and centralization for operations.</li> <li>Improve the effectiveness of emergency responses by holding drills.</li> </ul>
Legal Risk	Risk that the group may incur losses due to violation of laws and regulations, breach of contract, entering into improper contracts or other legal factors.	<ul style="list-style-type: none"> <li>Review and confirm legal issues, including the legality of material decisions, agreements and external documents, etc.</li> <li>Collect and distribute legal information and conduct internal training programs.</li> <li>Analyze and manage issues related to lawsuits.</li> </ul>
Human Resources Risk	Risk that the group may incur losses due to drain or loss of personnel, deterioration of morale, inadequate development of human resources, inappropriate working schedule, inappropriate working and safety environment, inequality or inequity in human resource management or discriminatory conduct.	<ul style="list-style-type: none"> <li>Conduct employee satisfaction surveys.</li> <li>Understand the status of vacation days taken by personnel.</li> <li>Understand the status of voluntary resignations.</li> </ul>
Tangible Asset Risk	Risk that the group may incur losses from damage to tangible assets or a decline in the quality of working environment as a result of disasters, criminal actions or defects in asset maintenance.	<ul style="list-style-type: none"> <li>Manage the planning and implementation of construction projects related to the repair and replacement of facilities.</li> <li>Identify and evaluate the status of damage to tangible assets caused by natural disasters, etc., and respond appropriately to such damage.</li> </ul>
Regulatory Change Risk	Risk that the group may incur losses due to changes in various regulations or systems, such as those related to law, taxation and accounting.	<ul style="list-style-type: none"> <li>Understand important changes in regulations or systems that have significant influence on our business operations or financial condition in a timely and accurate manner.</li> <li>Analyze degree of influence of regulatory changes and establish countermeasures.</li> <li>Continuously monitor our regulatory change risk management mentioned above.</li> </ul>
Reputational Risk	Risk that the group may incur losses due to damage to our credibility or the value of the Mizuho brand when market participants or others learn about, or the media reports on, various adverse events, including actual materialization of risks or false rumors.	<ul style="list-style-type: none"> <li>Establish framework to identify and manage, on an integrated basis, information that may have a serious impact on group management and respond to such risk in a manner appropriate to its scale and nature.</li> <li>Swiftly identify rumors and devise appropriate responses depending on the urgency and possible impact of the situation to minimize possible losses.</li> </ul>

We also recognize and manage Information Security Risk and Compliance Risk, which constitute a combination of more than one of the above components of operational risk, as operational risk.

## ● Outline of the AMA

### Outline of Measurement System

We have established the model by taking account of four elements: internal loss data; external loss data; scenario analysis and business environment; and internal control factors (BEICFs). A statistical approach (one year holding period/one-tailed 99.9 percentile confidence interval) is taken for the calculation of operational risk equivalent, employing both internal loss data (i.e., actually experienced operational loss events) and scenario data to reflect unexperienced potential future loss events in the measurement.

In the measurement of operational risk equivalent as of March 31, 2014, we did not exclude expected losses and also did not recognize the risk mitigating impact of insurance. In addition, we did not take into account the events related to credit risk in measuring operational risk equivalent.

### Outline of Measurement Model

Operational risk equivalent is calculated as a simple sum of those related to the seven loss event types defined by Basel II, large-scale natural disasters and litigation. In the measurement

of operational risk equivalent as of March 31, 2014, we did not reflect the correlation effects among operational risk related to each of the seven loss event types.

### Operational Risk by the Loss Event Type

Loss Distribution (Compound Poisson Distribution) Approach (LDA) is adopted for the calculation of operational risk. LDA is based on the assumption that Poisson Distribution applies to the occurrence frequency of operational risk events, and loss severity is expressed through a separate distribution. Operational risk is calculated for each of the seven loss event types employing both internal loss data, based on our actual experience as operational loss events and scenario data. Scenario data, expressed as numerical values of occurrence frequency and loss severity, reflects external loss data and BEICFs, in order to estimate unexperienced potential future loss events (of low frequency and high severity).

Frequency Distribution and Severity Distribution are estimated employing the above mentioned internal loss data and scenario data, and Monte-Carlo simulations are then applied to these distributions to measure operational risk.

The detailed steps of creation of scenario data are explained later in Scenario Analysis.

**Estimation of “Frequency Distribution” and “Loss Severity Distribution”**

Frequency Distribution is estimated by applying information on occurrence frequency of both internal loss data and scenario data to Poisson Distribution. Loss Severity Distribution is generated as the result of combining, through a statistical approach (Extreme Value Theory), of the actual distribution for the low severity distribution portion created by internal loss data and another loss distribution (Log-normal Distribution or Generalized Pareto Distribution) for the high severity distribution portion created by scenario data.

**Operational Risk of Large-scale Natural Disasters**

Monte-Carlo simulation is applied to the datasets expressed as a combination of the probability of occurrence of large-scale natural disasters and the probable loss amount in case of such occurrence, as opposed to estimating Frequency Distribution and Loss Severity Distribution.

**Operational Risk of Litigation**

Each litigation is converted into data according to the profile of the individual litigation to which Monte-Carlo simulation is applied, as opposed to estimating Frequency Distribution and Loss Severity Distribution. In the measurement process, we assume that final decisions will be made on all litigation within one year.

**Verification**

We confirm the appropriateness of the measurement model by verifying it, in principle, semi-annually.

● **Scenario Analysis**

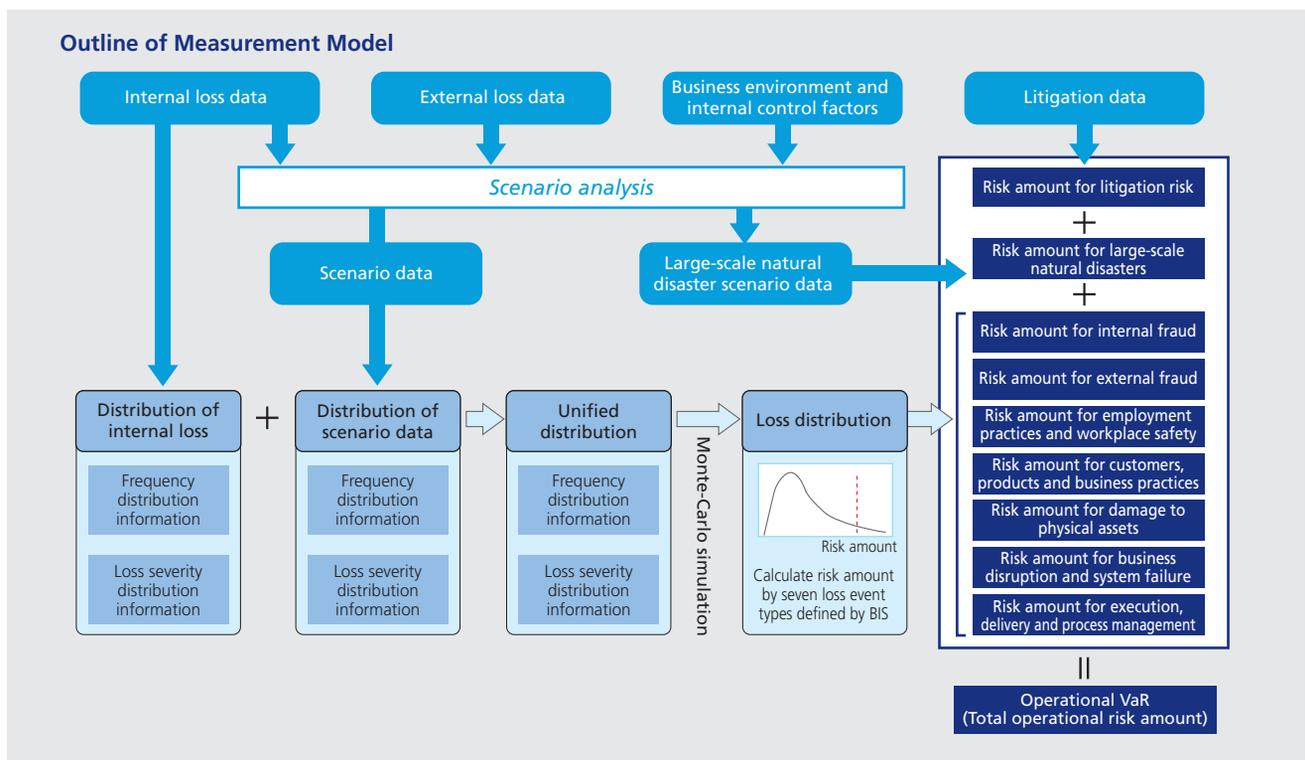
**Outline of Scenario Analysis**

In the process of scenario analysis, scenario data is created as numerical values of occurrence frequency and loss severity reflecting external loss data and BEICFs, in order to estimate unexperienced potential future operational risk events (of low frequency and high severity).

As for external loss data, we refer to data publicly reported by domestic and overseas media, and such data are reflected in the estimation of occurrence frequency and loss severity distribution in the process of scenario analysis. In addition, BEICFs are utilized as indices to adjust occurrence frequency and loss severity distribution in the process of scenario analysis.

We categorize scenario analysis into four approaches in accordance with the characteristics of each loss event type and risk management structures.

Approach	Loss event type(s) to be applied
A	Internal fraud/External fraud/Customers, products & business practices/Execution, delivery & process management
B	Employment practices and workplace safety
C	Damage to physical assets
D	Business disruption and system failure



# Internal Control Systems

At MHFG, loss event types to which Approach A is applied account for a considerable amount of operational risk. The detailed process of Approach A is explained below as a typical example of scenario analysis.

## Setting Units for Scenario Analysis

In order to ensure completeness and sufficiency, we set units that are commonly applied across group entities that adopt AMA (the Group Entities) by referencing and categorizing risk scenarios recognized through control self-assessment, internal loss data of the Group Entities and external loss data, etc. Then each of the Group Entities selects the unit on which scenario analysis is conducted from the units established on a groupwide basis in accordance with its business activities and operational risk profile.

## Estimation of Occurrence Frequency

Basic occurrence frequency (once a year) is calculated for each scenario analysis unit. If a certain scenario analysis unit has relevant internal loss data of a pre-determined threshold amount or above, its basic occurrence frequency is calculated based on such data, and if not, the basic occurrence frequency (the occurrence frequency per year of losses at or above a pre-determined threshold) is calculated with reference to the situation of occurrence of internal loss data of less than the threshold amount and/or external loss data. The basic occurrence frequency is then adjusted within a pre-determined range for the purpose of reflecting the most recent BEICFs to determine the final occurrence frequency.

## Estimation of Loss Severity Distribution

In order to estimate loss severity distribution, we use a pre-determined series of severity ranges. Basic loss severity distribution is calculated for each scenario analysis unit as an occurrence ratio (in percentile figures) of loss at each severity range when losses at or above a pre-determined threshold occurred, with reference to transaction amount data, external loss data, etc. Then the basic severity distribution is adjusted, if necessary, from the viewpoint of statistical data processing to determine the final loss severity distribution.

## Creation of Scenario Data

For each scenario analysis unit, scenario data is generated as a series of combinations of occurrence frequency per year at each severity range, based on the final occurrence frequency and the final loss severity distribution.

### Example of Scenario Data

	Severity range (billions of yen)					Total
	0.1	0.5	1	5	10	
Occurrence ratio (%)	40	30	15	10	5	100
Occurrence frequency (times)	0.4	0.3	0.15	0.1	0.05	1

(As of June 24, 2014)

## Internal Audit Structure

### Basic Approach

Internal audits are designed as an integrated process, independent from other business operations, for evaluating the extent to which internal control achieves its objectives in key areas, including appropriate risk management, efficient and effective business operations, reliable financial reporting and compliance with laws, regulations and internal rules. We conduct internal audits from an objective and comprehensive standpoint, independent of operational reporting lines, and offer advice and remedial recommendations in connection with any problems that may be identified. Through this process, internal audits assist the boards of directors of each of our group companies to fulfill their managerial duties efficiently and effectively.

In line with the Basic Policy for Internal Audit established by MHFG, our core group companies conduct internal audits, which include the auditing of their respective subsidiaries. In addition, with respect to the management of risks applicable across the group, we coordinate internal audits throughout the group to assess the risk management status of the group as a whole.

### Internal Audit Management Structure

#### ● MHFG

Our internal audit committee determines all important matters concerning internal audits. The committee is chaired by the President & CEO and is independent of our other business operations.

Our internal audit committee monitors and manages internal audits at our core group companies through internal audit reports submitted by such subsidiaries. Our internal audit committee discusses and makes decisions regarding internal audits at our core group companies and submits the results, together with the results of their examination of the internal audit reports, to our board of directors.

#### ● MHBK and MHTB

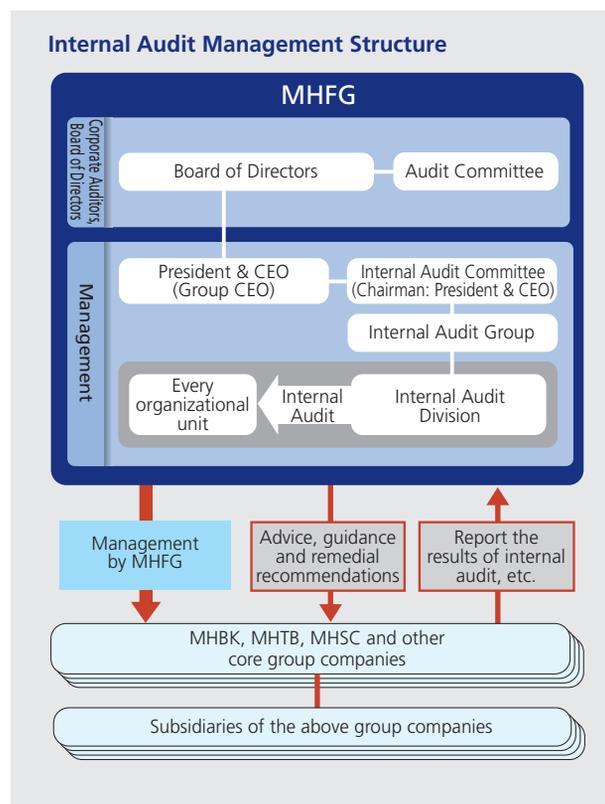
MHBK and MHTB have also established internal audit committees that are independent of their other business operations.

The two banks have established internal audit divisions and credit review divisions (Credit Assessment and Auditing Office at MHTB) to conduct internal audits at their respective domestic and overseas business offices, head office divisions and group companies. Specifically, the internal audit divisions assess the suitability and effectiveness of business activities associated with compliance and risk management. The credit review divisions (Credit Assessment and Auditing Office at MHTB) audit credit ratings and the status of credit

management in addition to auditing the self-assessment of assets to verify the accuracy and suitability of matters deemed necessary to assure the soundness of assets.

#### ● Other Core Group Companies

Other core group companies have also established effective and efficient internal audit structures adapted to the characteristics of their respective businesses.



(As of June 24, 2014)