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

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)

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.

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. Note that 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.

Formulation and monitoring of risk appetite

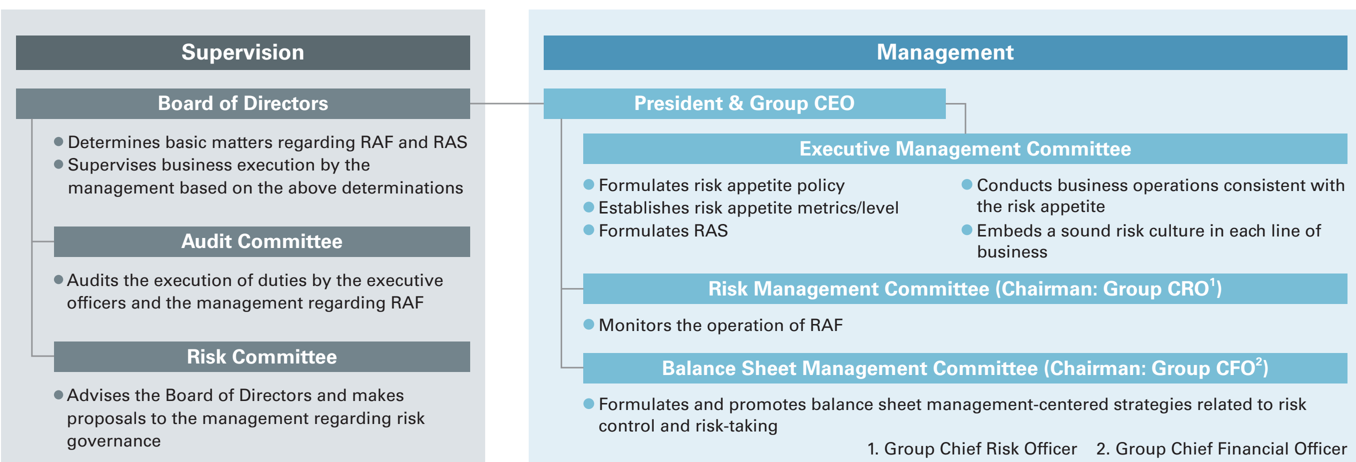
Risk appetite is determined through management discussions on the outlook for external factors such as the macroeconomic, regulatory, and competitive environment, along with potential risk events such as economic slowdown and turbulence in financial markets. These are then incorporated into main and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

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



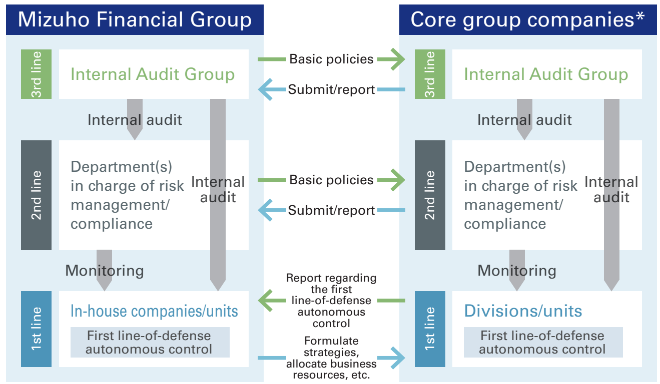
Three lines of defense

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	**Autonomous control function** 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).
Second line	**Risk management and compliance function** 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.
Third line	**Internal audit function** 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.

Our risk management and compliance framework



* Of the core group companies, Mizuho Bank, Mizuho Trust & Banking, Mizuho Securities, and Mizuho Americas 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.

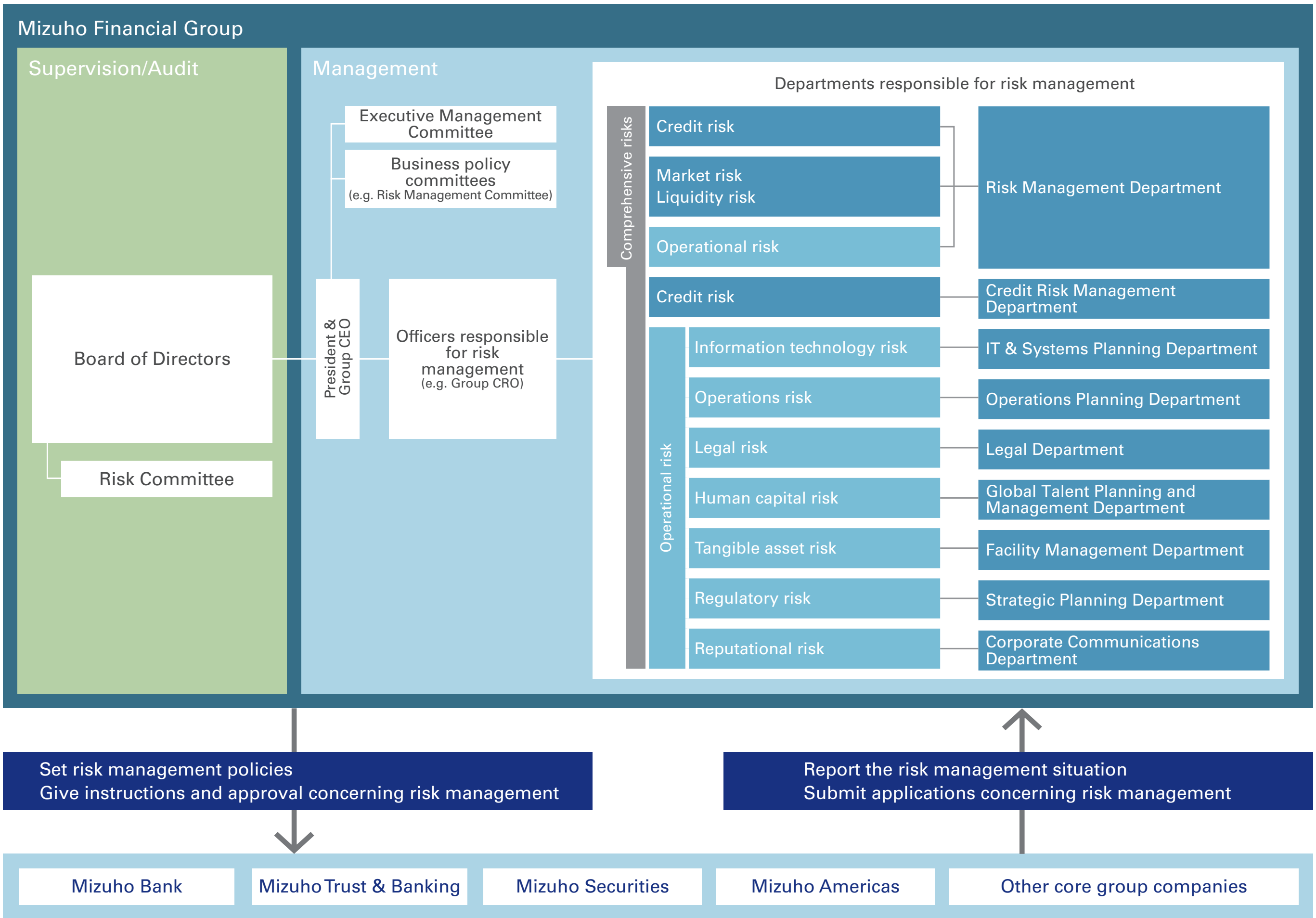
We classify and manage the risks that arise in our businesses according to the various kinds of risk, including credit risk, market risk, liquidity risk, and operational risk. Moreover, in each of our group companies we adopt the same approach of managing risks, such as settlement risk, trust banking 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.mizuho-fg.com/company/internal/r_management/index.html

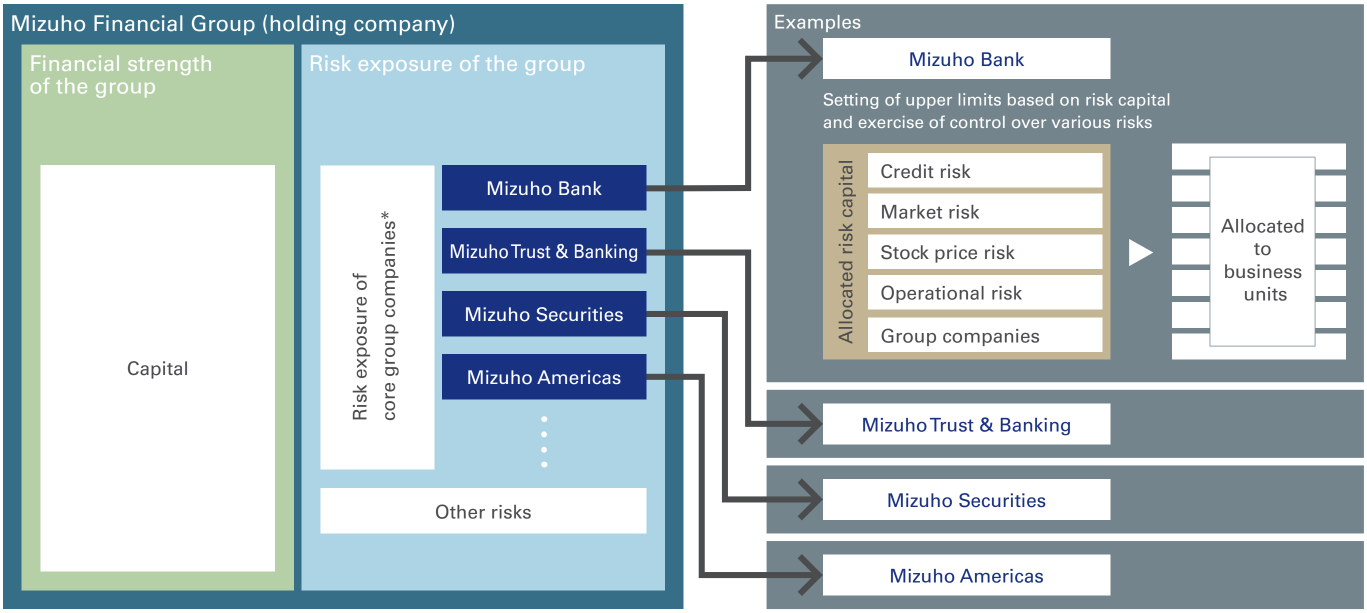


Risk capital allocation

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

We specify risks that are recognized to have a major potential impact on the group as "top risks" and "emerging risks", and have introduced top risk management methods. As part of our top risk management, emerging risks are those viewed as major risks that must be addressed in the next few years despite the fact that materialization of the risks will occur over a medium- to long-term time frame, or risks that must be recognized even though they may manifest over the long term.

Based on assessments of the likelihood, impact, and other characteristics of monitored risks, and after careful deliberation by management, top risks and emerging risks are designated and managed accordingly. 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 and emerging risks that are identified, the status of controls is confirmed, and, when deemed necessary, consideration is given to additional risk controls.

As of March 2020, the items in the following table have been designated as top risks and emerging risks. Of note, COVID-19 is considered to be a risk event that laterally impacts various risks.

Top risks	Potential risks	Examples of initiatives
Worsening credit risks arising mainly from global economic stagnation	● Slowdown of the global economy, regional economic deterioration, and turbulence in financial markets due to factors such as COVID-19 and US-China trade friction ● Sudden deterioration in the credit standing of obligors where we are heavily exposed and in credit standing of major clients	● Specify 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 based on a stress analysis and future outlook
Sudden drop in the value of assets arising mainly from financial market turbulence	● Decline in stock prices, sudden fluctuations in currency values, drying up of liquidity due to turmoil in financial markets from the impact of COVID-19 ● Worsening valuation of securities due to higher interest rates	● Set discussion points based on the market environment and establish a framework to enable a response at the earliest possible stage ● Implement a hedging strategy for held assets based on the financial impact
Destabilization of foreign currency procurement	● Greater-than-expected outflows of funds, deterioration in liquidity conditions due to turmoil in financial markets, and accompanying rise in funding costs	● Expand stable foreign currency funding methods ● Strengthen balance sheet control by utilizing risk indicators for foreign currency liquidity
Major system failure	● Emergence of costs due to IT system failures, government fines, and damage to reputation	● Build a framework for appropriate reporting as well as cause analysis and the establishment of measures to prevent reoccurrence following system recovery based on the rank of the system failure ● Ensure the effectiveness of responses in the event of a system failure via regular drills
Cyber attacks	● Emergence of additional costs and damage to reputation due to suspension of services as a result of cyberattacks, data falsification, information leakage, improper funds transfer, etc.	● Prepare our defenses by continually strengthening countermeasures such as system monitoring and defence in depth
Money laundering/ Financing of terrorism	● Government fines/penalties and damage to reputation because of flaws in policies to prevent money laundering and financing of terrorism	● Continue to enhance anti-money laundering measures and other efforts in line with laws/regulations and guidelines from Japan's Financial Services Agency

Emerging risks	Potential risks	Examples of initiatives
Climate change risks	● Financial loss accompanying the stranding of our invested assets and reputational damage	● Strengthen our response to the TCFD Recommendations such as establishing an Environmental Policy, tightening our policy on financing and investment for coal-fired power generation, and conducting scenario analyses
Strategic risks	● Lower profitability mainly due to intensifying competition in the financial industry, weak earnings for interest business from the prolonging of negative interest rate policies	● Promote new initiatives for the next generation of financial services through strategic alliances and other forms of collaboration ● Accelerate revisions to our channels via operational optimization, strengthening consulting, etc. through use of our new core banking system, MINORI

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 Securities Report, 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

1. Preparing scenarios

- Current economic conditions and future outlook
- Vulnerabilities of the group's business and financial structure

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Preparation of scenarios common across the group

2. Calculation of risk impact

- Calculation of the impact on the group when the risk scenario materializes
- Main items to calculate: Capital adequacy ratio, losses, VAR, etc.

3. Analysis and use of results

- Appropriateness of risk-taking and verification of suitability of the business plans
- Assessment of capital adequacy