

# Growing alongside our customers and society through wide-ranging changes

Since my appointment as President & Group CEO in February 2022, I have been working to steadily move forward our business improvement plan, accounting for the lessons from our series of IT system failures and setting stable operations as our highest priority.

The business environment is extremely uncertain, and the obstacles confronting our customer base, and society as a whole, are becoming increasingly varied. We will continue to leverage our group's strengths to assist our customers and society in addressing such obstacles. To that end, we are listening to stakeholder feedback and engaging with our employees to foster a corporate culture where colleagues can take on new challenges without being held back by fears of failure. We will undertake wide-ranging changes and grow alongside our customers and society.

*M. Kihara*

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## Introduction: Ensuring stable operations

My name is Masahiro Kihara, and I became the President & Group CEO in February 2022. First, I sincerely apologize again for the significant inconvenience and concern we caused our customers, shareholders, and society as a result of the series of IT system failures at our subsidiary, Mizuho Bank.

January 17, 2022, the day I was named as the next Group CEO, was also the day we released our business improvement plan. The plan puts forward measures for preventing further IT system failure incidents, such as more thoroughly implementing preventative hardware maintenance and inspecting redundant IT systems to check that they are operating according to specifications. Aiming to minimize the impact on customers in the event of a failure, it also sets out plans for effective and complete system restoration and business continuity across 30 key operations, including settlements. As another component of the plan, we are reinforcing our personnel structure to better ascertain actual on-site IT conditions and ensure stable operations, and we are transforming our corporate culture to better facilitate efficient communication between Head Office and the frontlines.

In the six months since my appointment, our efforts to stabilize and improve operations so that customers can use our services with peace of mind have already yielded results. Even so, I will remain vigilant, and we will continue to steadily move forward our business improvement plan.

## The world is facing a time of unprecedented change

With the prolonged COVID-19 pandemic and Russia-Ukraine conflict, the global economic and social environment is in flux.

The COVID-19 pandemic brought about great progress in digitalization, as well as an expansion of flexible working styles unbound by location. In the wake of these shifts, career mobility has been gaining further momentum. People are also becoming more concerned about their own health and asset management, given their need to plan for longer post-retirement lifespans and to pass down assets to the next generation.

In addition, awareness of the Sustainable Development Goals (SDGs) has spread rapidly, and calls to limit the rise in temperature accompanying climate change to 1.5°C have been growing worldwide. The shift in public perceptions has made it of the utmost urgency to design effective, public-private transition plans to achieve both sustainable economic growth and decarbonization. Further, the Russia-Ukraine conflict has focused attention on economic security and self-sufficiency in energy and food. Such shifts are qualitatively different from those in the past and have been bringing to the fore a number of issues.

## Assisting our customers and society

Social issues in need of solutions are appearing one after another. We see the next 10 to 20 years as a period that will necessitate unprecedented change. Those of us at Mizuho must proactively contribute to this unprecedented change by evolving our own business model. This will entail leveraging not only the financial functions we have cultivated thus far but also the non-financial functions held by Mizuho Research & Technologies and Mizuho-DL Financial Technology, which develop and maintain varied technologies. Such change will also require us to bring together the expertise of a range of stakeholders across industry, government, and academia and dedicate ourselves to embarking on a long journey, one step at a time.

Mizuho came into being in 2000 through the merger of three long-standing financial groups. In the course of their extended histories, the three financial groups had formed relationships with an array of economic actors. The role of Mizuho is to work with these and other economic actors, supplying risk capital and consolidating wide-ranging expertise from our relationships in order to co-create a sustainable future for our customers and society.

Keeping this in mind, the Board of Directors and other members of management have held a number of discussions on the way Mizuho should be involved in the SDGs. As a result, in March 2022, we redefined our approach to sustainability at Mizuho as one in which Mizuho and society develop in parallel, and we reorganized the model of our materiality, which is one of our strategic priorities.

## Listening to our stakeholders

Listening to our customers and public opinion, understanding the changes that arise, and communicating those changes effectively and freely within our organization under a flatter organizational structure are key to Mizuho fulfilling our role.

In this new era, hierarchical and centralized decision-making leads to mistakes. Our employees worldwide are of different generations and have different experiences and values. Their diverse views are a significant part of our efforts to make positive contributions by uniting our group-wide functions and to uncover the value we can create by collaborating with other industries.

I myself have been speaking directly with employees from a range of departments and age groups, and have learned much from doing so. Our stakeholders also include our entity heads, who are responsible for the frontlines; our outside directors, whose supervision enables us to maintain our focus on the core parts of our business; and, of course, our shareholders. By taking feedback from these stakeholders on board, we are integrating our approach of developing in parallel with our customers and society into our strategy and initiatives.

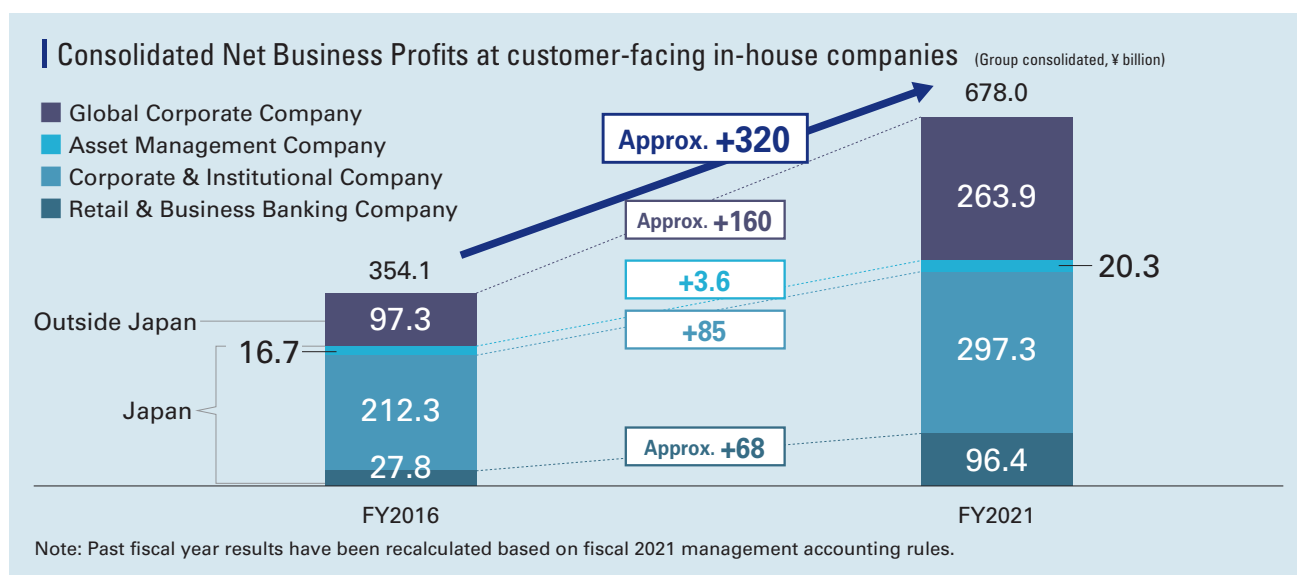
## Towards future growth

### Securing our strengths from the results of the 5-Year Business Plan

Fiscal 2021 was the third year of the 5-Year Business Plan we launched in fiscal 2019. The business environment remained challenging throughout. The first half was characterized by the COVID-19 pandemic and consequent mobility restrictions, supply limitations, and inflation, while the second half was characterized by lockdowns in China, the Russia-Ukraine conflict, and rising interest rates in the US. Despite these challenges, we were able to make progress on resolving the mismatch in our corporate resources through reforms to our business and finance structures, and we also achieved consistent results in our focus areas.

In Japan, we have been providing our retail customers with asset management consulting and asset succession services and our corporate clients with business portfolio strategy support and business succession consulting. We have also been shifting from a model of relationships based on cross-shareholding to a model of sharing business risk. Outside Japan, we have given particular attention to areas such as our trade-related settlement business in Asia and our capital market business centered on the US.

As a result, our Consolidated Net Business Profits came to ¥853.1 billion, a further increase over fiscal 2020, when we achieved our fiscal 2021 target of ¥700 billion one year ahead of schedule. Although our market divisions struggled in the second half, our customer divisions recorded their highest profits across all four in-house companies since the introduction of the in-house company system in fiscal 2016. Our Profit Attributable to Owners of Parent also increased in comparison to the previous fiscal year, even as we incurred credit costs from recording reserves for large-credit clients and for the Russia situation from a forward-looking perspective.





Currently, rising inflation is driving a continued upward trend in interest rates, mainly in the US. Energy supplies have also been cut off from certain regions and food exports constrained in various countries in connection with levels of geopolitical risk. There is a need to be attentive to the possibility of the economy deteriorating.

At the same time, there is also a need to push forward initiatives for further growth. On the business side, we will invest additional resources in areas that produced promising results during the first half of our 5-Year Business Plan in order to secure these areas as our strengths. For example, because our US capital markets business achieved outsized growth during the first half of the plan, we will aim to further expand our market share in this business area. Beyond this, we will

also continue to advance sustainability transformation and digital transformation as a foundation for the coming era and the farther future, and we will create a virtuous cycle through which Mizuho will grow alongside our customers and society.

## Achieving the SDGs together with our customers

It is extremely important to address issues impacting society's sustainable development, such as climate change, human rights, and aging populations and declining birthrates, and create a brighter future for the next generation. In light of this, we have positioned sustainability transformation as not just one part of our strategy, but as our strategy itself. Responding to climate change, in particular, is a crucial facet of our business strategy. This has led us to clarify our goal of reaching net zero by 2050 and our actions for this goal. Looking towards the medium to long term, we will pursue efforts to limit temperature increase to 1.5°C. For our Scope 1 and Scope 2 emissions, we have brought forward our existing targets by 20 years, committing to becoming carbon neutral by fiscal 2030. For our Scope 3 emissions, we are setting fiscal 2030 targets on a sector-by-sector basis. Towards achieving a sustainable society through an orderly, just transition, we are undertaking engagement (constructive dialogue) with our clients and offering them both financial and non-financial support. In fiscal 2021, we engaged with a total of approximately 2,300 companies and supported them in designing and implementing sustainability strategies and initiatives, primarily ones aimed at realizing a low-carbon society and achieving the SDGs.

It is essential that we elevate our insight into individual business areas and the relationships between them, and mobilize all the functions across the Mizuho group—including banking, trust banking, securities, asset management, research, consulting, and leasing—to make ourselves our customers' top choice.

Among these functions, Mizuho Research & Technologies encompasses departments that have been supporting decarbonization in Japan since the time of the Kyoto Protocol, and it employs approximately 130 consultants who are familiar with technology and other aspects of the environmental energy field. Mizuho-DL Financial Technology has been applying its expertise in data science to ventures such as proof-of-concept trials for smart agriculture. Mizuho Leasing has been exercising its functions in business and asset holding.

Bringing together such group functions and leveraging them to their fullest will enable us to maximize our strengths.

For example, in May 2022, we reached a basic agreement with Aeon Mall under which Aeon Mall will procure renewable energy with financing arranged by Mizuho Bank, Mizuho Securities, and Mizuho Leasing. This agreement is expected to be one of the largest self-consignment<sup>1</sup> offsite corporate power purchase agreements<sup>2</sup> in Japan. We are also directing Mizuho Trust & Banking, Asset Management One, and Mizuho Research & Technologies' insights towards the development of new solutions. One outcome of this has been our Mizuho Positive Impact Finance product, which utilizes an impact analysis framework independently developed by Mizuho Research & Technologies to assess clients' societal impacts, and then supports initiatives that produce positive impacts. Another outcome has been our ESG investment products. In these ways, we have been distilling our diverse knowledge into our offerings.

Further, we are changing our risk-taking practices to share risk with our clients or share risk among a range of stakeholders and thus create new value in concert. In April 2022, we set a transition investment budget that could potentially grow to ¥50 billion as part of our efforts for the transition to low carbon. We will keep going beyond simple financial support and continue to design initiatives for creating environmental value together with our clients and society.

1. Self-consignment: When a company transmits power generated by a remote solar power facility to its own or its group's facilities through the power transmission and distribution system of a separate power transmission and distribution system operator.

2. Offsite corporate power purchase agreement: An agreement between a power company and client in which the power company provides the client with renewable energy generated offsite through the power transmission and distribution system of a separate power transmission and distribution system operator, at a price and for a term mutually agreed upon in advance.

## Providing services tailored to individual customers

Progress in digital technology has led to demand for financial services that are suited to individual life plans, conveniently available at any time or location, and without the pain points customers and society currently experience. As a foundation for growth, we are investing in IT and digital areas more proactively than before in order to make continual improvements to the convenience of our digital channels, and we are expanding marketing tailored to individual customer needs, integrating the partnership with Google we announced in March 2022.

At the same time as we are improving the convenience of our digital channels, we are also shifting the focus of our branches from administrative operations to consulting. Branch employees' use of tools such as tablets has allowed them to spend less time on processing and more time serving customers.

While enhancing our own digital channels, we are coordinating with tech companies that have a presence in people's everyday lives in order to extend our financial services to customers we would otherwise not be able to reach. An example of this is our partnership with PayPay, a Japanese company that provides electronic payment services. Over six million PayPay account holders use their PayPay points to make investments, and our partnership is allowing us to provide this customer segment with investment opportunities on the PayPay Securities platform. Other currently active initiatives in this area include preparing for the launch of a new bank, subject to approval by relevant authorities, in cooperation with Line, a social media platform that boasts 92 million monthly users in Japan.

We are also looking to expand into markets outside Japan, taking into consideration synergies with Mizuho's business

and significance for society at large. The investments we made in fiscal 2021 in Vietnamese payment app Momo and Philippine digital bank Tonik are allowing us to not only capture growth in Asia but also facilitate financial inclusion. These wide-ranging collaborations are one way in which we are improving our skills and knowledge in digital transformation.

## Enhancing foundations to create value

Essential to every sort of change is our employees' ability to give constructive feedback and take on new challenges. I see corporate culture, human resources approaches and frameworks, and productivity improvements as interconnected parts of a single whole, and I am endeavoring to transform them at Mizuho.

### Changing our corporate culture, the foundation of everything

To strengthen our business for further growth and promote and improve our sustainability and digital transformation, it is critical that our employees have a strong sense of direct involvement and responsibility, put forth new ideas, and embrace new opportunities under an open corporate culture.

I am practicing an "open and accountable" management style focused on employee feedback, discussion, and communication. This is integral to building a decentralized organization that welcomes and utilizes constructive criticism from individuals rather than relying on entrenched hierarchies; a Mizuho where employees can feel change happening and pursue new innovations without fear of failure.

Since my appointment, I have talked with employees in over ten small meetings, and I have also been responding to approximately 620 proposals for ways to improve work styles, making progress step by step. We have also launched employee-driven working groups. Alongside our communication initiatives, work style reforms, and support for independent action, all of us across the organization will consider what sort of values and principles we should share at Mizuho.

### Further reinforcing our strengths as a united group

An extremely important component of transforming our corporate culture is to ensure employees can find meaning in their everyday work at Mizuho, and feel fulfilled, supported, healthy, and secure.

Improving the sense of fulfillment will require supporting employees' growth by understanding the way different skills and work styles shape individual careers. It will also require enabling employees to take on stimulating work in a wide array of fields. We will become an organization of highly self-driven, expert professionals who communicate openly with one another.

Up until now, we have supported career development while placing emphasis on areas of expertise, transferring employees to experience related divisions, such as the IT systems and customer divisions or the products and industry research and customer divisions, in a cross-divisional fashion. Going forward, we will build on what we have done thus far to create a human resources framework covering Mizuho Bank, Mizuho Trust & Banking, Mizuho Securities, and Mizuho Research & Technologies together with the holding company Mizuho Financial Group. Doing so will further

augment the strengths we have in our connections as a unified group. The future group-wide framework will expand the fields of employee participation and extend the group's strengths.

To put in place a more supportive working environment, we will eliminate excessive workloads, unnecessary processes, and wasteful perfectionism, and apply digital transformation to the streamlining of daily operations. These efforts will realize thorough productivity improvements. To create a workplace where diverse professionals can fully exercise their individual skills and colleagues can maximize their synergies, we will improve our diversity and inclusion, and our corporate wellbeing. In this way, Mizuho and our employees will grow alongside each other, creating value for customers, improving lives, and resolving social issues.

## In conclusion: Commitment to continuous growth

The main focus for fiscal 2022 will be ensuring stable operations and implementing our business improvement plan. We will not allow memories of the IT system failures to fade into the past. Rather, we will firmly entrench the many improvements we are currently undertaking; strengthen our operations, personnel, and organization; transform our corporate culture; and establish a foundation for growth and new ventures.

We will control risk appropriately in view of changes in the economy and finance under an uncertain business environment. Lastly, we will listen to our stakeholders, consider ways to offer value to society over the next 10 to 20 years, and strive for continuous growth.

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Mizuho Financial Group

