

Round table discussion between the outside directors

Our six outside directors exchanged ideas on the challenges Mizuho must address as we move forward under the leadership of the new President & Group CEO Masahiro Kihara, taking into account the series of IT system failures and other issues.



Expectations for Mizuho under Group CEO Kihara

Izumi Kobayashi Mizuho is now moving forward under the leadership of Group CEO Kihara. How do you view the developments so far?

Kainaka I believe that we are off to a good start. Group CEO Kihara is picking up on feedback from the frontlines and working to institute corresponding measures, but he cannot take care of everything by himself. I think the crux of the matter is how the management team, which supports the Group CEO, can work together to put his ideas into action.

Izumi Kobayashi Has anyone else made any discoveries—for example, when visiting frontline offices?

Sato I recently visited an integrated branch offering banking, trust banking, and securities services, and I could see there is a growing awareness of the need to emphasize communication, among general managers and supervisors as well as other employees. Group CEO Kihara has an open personality, so some of his character may be coming through to the rest of the organization bit by bit.

Yamamoto Having observed the General Managers' Meeting and other meetings, I have the impression that participants' questions and feedback are becoming more positive and forward-looking. If Mizuho can set a firm direction as a company, I expect it will achieve strong forward momentum.

Tsukioka I also feel that communication is becoming more active and that Mizuho is heading in a good direction. On the other hand, we still need to make sure that communication leads to actual change. It is important to cultivate two-way communication with employees so that every level at Mizuho can be fully engaged in finding ways to carry out Mizuho's promises and in working on issues together.

Yoshimitsu Kobayashi The Board of Directors must also monitor these business execution line initiatives on a regular basis.

Kainaka Although earlier I said the new leadership is off to a good start, there are still issues to be addressed, as you pointed out. For example, when I visited a branch the other day, a long-time employee asked, “Why are we reforming our frontline offices? What are the benefits for our customers and for us employees?” Reforms can only be successful when they are properly explained to employees and accepted by employees. The current reforms have not yet gained traction throughout the organization, and I believe that both the Group CEO and the officers and employees around him should undertake greater efforts in this regard.

Tsukioka On the question of why Mizuho is carrying out these reforms, I think it is necessary to convey to employees the ways that Mizuho serves customers and society, and that they are at the forefront of delivering those services. This message must go hand in hand with the reforms, and cannot be effective if everyone is too busy with their daily tasks.

Yoshimitsu Kobayashi Mizuho has an opportunity to restart under the leadership of a younger Group CEO, and it should certainly also use this chance to communicate the message of a fresh, new Mizuho. The message should include a clear corporate identity, as well as the ways Mizuho’s recent changes will foster a greater sense of unity within the group.

Yamamoto That sort of message also requires specific information on what new challenges Mizuho will take on. Unfortunately, the past year was dedicated to reflecting on the IT system failures. I believe now is a good time for everyone to lay out the key points of the next phase of growth under the new leadership.

■ Towards more stable business operations and stronger governance functions responding to the IT system failures and other issues

Yamamoto The recent IT system failures and other issues were a good reason to revisit and clarify the division of roles between Mizuho Financial Group, which is the holding company, and each entity. The business improvement plan is based on Mizuho Financial Group allocating appropriate corporate resources and performing supervision for the rest of the group, while each entity strengthens its own frontline capabilities. I expect that in the future Mizuho will apply the lessons learned from the IT system failures to make it easier for the frontlines to act, and that the frontlines will come up with various proposals for improvements to speed up the preparedness for and response to such system failures.

Izumi Kobayashi I think there is also something that we should reflect on in regard to our perspective on the issues faced by frontline offices. Perhaps we should have given more attention to the strain carrying out the reforms was placing on the frontlines.

Yamamoto More thorough management and supervision are indispensable going forward. There must be more stringent visual control on matters such as frontline offices being overburdened and frontline capabilities growing stronger.





Kainaka That is an important point. As outside directors, we should conduct thorough monitoring and continue providing supervision, for example via the System Failure Response Evaluation Committee.

Tsukioka Conversely, past experience shows that reinforcing corporate governance sometimes leads only to the creation of new rules. We need to avoid creating a situation in which employees might think everything is fine as long as they are abiding by the rules.

Kainaka You are absolutely correct. There is a culture of just doing what one is supposed to do once the strategy and rules have been established, and we need to break away from that now. Of course we outside directors point out anything that comes to our attention, but all of Mizuho's employees, not just the Group CEO, are responsible for thinking on their own and furthering the execution of specific initiatives and strategy.

Tsukioka I agree. The capacity of the organization and the people within it will not improve if people just go along with the tasks that others give them. I would certainly like to help encourage the Group CEO and employees to take on challenges and be in charge of their own transformation.

Izumi Kobayashi Although Mizuho has perfected the creation of rules and frameworks, its employees are being overwhelmed by trying to implement them. Mizuho could have done better on ascertaining the causes of the problems on the spot and identifying the actions to take in response.

Sato Risk-related matters such as compliance tend to be like addition: one problem increases the number of tasks. On the other hand, Group CEO Kihara's initiative to eliminate excessive workloads and unnecessary processes is more like subtraction. That entails taking responsibility for the risks that come with such subtraction, which cannot be done without each individual thinking independently.

Izumi Kobayashi So we need to change the culture of addition to one of subtraction, and furthermore enhance the capacity to manage risk.

Kainaka I think that these issues became apparent with the IT system failures. Anytime there is trouble it is essential to have a person who can look at the whole picture and provide direction as a kind of commander. At the same time, the person who acts as the commander must take on the associated risk. Mizuho's response was delayed because it was unclear who the commander was, and the confusion resulted in a continuing back-and-forth between the people involved.

Yoshimitsu Kobayashi To avoid reducing matters to simple armchair discussions, Mizuho needs to create more opportunities for specialized training and make setting priorities a common practice. Real-world training is also important for fire drills, for example.

Izumi Kobayashi The structure of the specialized training is critical. As Director Yamamoto remarked earlier, the roles of Mizuho Financial Group



and each entity have been reorganized. Is there anything else about the corporate governance structure that has come to your attention?

Yoshimitsu Kobayashi In the typical holding structure, the role of the holding company revolves around how to promote the brand itself, as well as how to handle business strategy, medium-term business plans, the business portfolio, and risk control. Daily operations are left to the operating companies. In contrast, I feel that Mizuho's holding company has too much of a role. The division of roles between the holding company and the entities is a crucial point for the proper execution of duties.

Sato I agree unequivocally with Director Kobayashi. That said, the holding company should be responsible for group-wide reforms to corporate culture. Will the holding company be able to implement reforms if it has no understanding of the frontlines?

Yoshimitsu Kobayashi Certainly, the Mizuho Financial Group CEO must be responsible for matters such as culture, in addition to the corporate brand, business strategy, and future direction. Within that same structure, the in-house company heads, who work under the Group CEO, are concerned with profitability. The entity heads act as the opposite of the in-house company heads, and the entity heads should engage in active debates with the in-house company heads about matters such as the stability of IT systems and employee morale.

Kainaka The in-house company system itself is a well thought out system, but it cannot be effective if the in-house companies provide directions for everything and the entities just do as they are told. I think this aspect will improve now that various outside directors have been selected for the entities.

Izumi Kobayashi Under the system, the entities implement the strategy formulated by the in-house companies. For the system to be more than mere theory, the entities must also provide feedback to the in-house companies on frontline issues and, in doing so, be part of the foundation for sound management. In that sense, it is important for the Board of Directors to understand not only the views of the in-house companies but also the issues at the entities and to look at the overall picture through this lens. The entities alone may be responsible for each individual issue, but the Board of Directors is responsible for supervising Mizuho Financial Group's overall business execution, constantly examining the allocation of corporate resources and strategies to see if there is any overreach.

Yamamoto I think it is very clear. After all, the group is only as good as the frontlines. It is important to operate in a way that maximizes the capabilities of the entities.

Yoshimitsu Kobayashi It is actually similar for manufacturing facilities. In the Meiji period (1868 to 1912), the power held by business offices and factories was overwhelmingly strong, but as time went on this changed to a system where only the upper echelons of the hierarchy were taking action, rather than the frontlines. What we have come to realize at this juncture is just how important the balance between the two sides is.



Corporate culture reform

Izumi Kobayashi While that balance—the relationship between the holding company and entities—is important, I believe it is equally important to



be united as one Mizuho. I think what binds the organization together is Mizuho's purpose, which Director Tsukioka has repeatedly expounded upon. What are your thoughts on this?

Tsukioka I think it is necessary to return to the starting point when a large incident like this occurs. The Group CEO should convey a clear message of why the company is where it is, and where it is headed. If everyone takes another look at Mizuho's purpose, it will generate energy and drive at the frontlines and become an engine for the Kihara administration.

Kainaka I believe a corporate philosophy should be easy to understand and resonate with each employee's outlook and way of life. When I served as an outside director at another company in the past, we first rewrote the corporate philosophy to be easy to understand and something that would

convince each employee. A philosophy that is abstract and difficult cannot take root. All employees must have a shared awareness of what kind of company it is and what kind of traditions it has.

Tsukioka On several occasions in the past I have also gone back to the company's starting point to create a clear corporate philosophy. The philosophies we ended up with as the result of employee-driven thinking were very simple. I have found that holding repeated dialogue sessions attended by the CEO and continuing such initiatives for three or four years leads to a single philosophy coming together. In this sense, words that are easy to understand are ideal for a corporate purpose or philosophy.

Yoshimitsu Kobayashi When appointed as CEO many people assert their differences from their predecessor, and I think that level of determination and spirit is necessary. I am sure that Group CEO Kihara is thinking a lot about this right now.

Yamamoto From the employees' perspective, even if they are told that corporate culture is the issue, in certain aspects they will not know what they should do about that. It is important for Mizuho to set forth, under the leadership of Group CEO Kihara, what its purpose and aims are.

Izumi Kobayashi Group CEO Kihara also recognizes this as part of his role. I understand he has begun bringing together a range of employees, including those on the frontlines and younger employees, to exchange views with executive management. We at the Board of Directors should closely follow the progress on this.

Results of the 5-Year Business Plan and future growth strategy

Izumi Kobayashi Next, regarding business performance, while we are seeing results from the 5-Year Business Plan, issues such as low ROE still remain. Growth strategy, including capital utilization, is key in the current phase. What are your thoughts on this?

Yoshimitsu Kobayashi Under the 5-Year Business Plan so far, we have reached a level at which we can aim for a Common Equity Tier 1 capital ratio in the middle of the 9 – 10% range and Consolidated Net Business Profits of ¥900 billion for fiscal 2023. There are still issues with capital efficiency, but I believe it is necessary to firmly stay on course while considering what steps Mizuho should take in the next 5, 10, or even 20 years. In these drastically changing times, the era of finance being the lifeblood of economic activity has come to an end, and over the next 10 years we must pioneer new approaches while integrating the idea of "beyond finance". There is a need to carefully consider the balance

between Mizuho's advancement of the sustainability-related initiatives it has been pursuing, Mizuho's leveraging of digital transformation to move forward a hybrid model of "real" and digital finance, and Mizuho's globalization, which includes Mizuho's employees.

Yamamoto Regarding digital transformation, the fact that Mizuho has talented personnel who went through the experience of developing MINORI, the new core banking system, is a significant asset. Further, Mizuho has the experience of working on new endeavors such as J-Coin Pay, and expertise such as the consulting capabilities at Mizuho Research & Technologies. I believe Mizuho has plenty of advantages, and is now in the phase of turning these advantages into something tangible to put out into the world. The business environment is becoming more conducive to taking on new challenges, so I would certainly like to see a shift toward execution.

Sato Mizuho is still keeping up with its competitors in the fields of banking, trust banking, and securities. However, digital transformation is truly the new battlefield. At present, Mizuho is exploring and trying various new ventures, but there needs to be conversation about which of those ventures Mizuho will focus on going forward.

Tsukioka Mizuho has been sowing some seeds in the form of J-Coin Pay and partnerships with PayPay Securities, Line, and Google. Even so, we need further clarification on how these will be developed, what their aims are, and what they will contribute to customer satisfaction.

Kainaka For the many ventures Mizuho has worked on, the capacity to shape them into products will be a crucial aspect. Mizuho has an abundance of talented personnel, so the question is how to strategically determine directionality and see these efforts to completion. I have high hopes for Group CEO Kihara on this.

Izumi Kobayashi Mizuho's employees are talented and take their work seriously, but I can see that they tend to all face the same direction. Although employee talent is key, it is also key for the company to have diversity through the active participation of employees with a variety of viewpoints.

Yoshimitsu Kobayashi From that perspective, a certain degree of independence and self-reliance is required. I find that people who create new innovations are often what I might call rebellious. Cultivating innovation requires carefully balanced management which maintains cooperation and cohesion while also developing personnel who want to step away and try new ventures outside that.

Izumi Kobayashi We at the Board of Directors also come into contact with various employees on the business execution line, so what you are saying is that it is also important for us to find such people and encourage them.

In closing (from the Chairman of the Board of Directors)

Izumi Kobayashi At the recent General Meeting of Shareholders, shareholders expressed criticism regarding the reappointment of directors, including us outside directors. It is necessary for us to show shareholders that we are headed in a better direction in terms of Mizuho's corporate governance and the performance of our supervisory functions. I believe this point to be especially important in fiscal 2022. I will keep the views we have exchanged here today in mind for future Board of Directors meetings, and I look forward to continuing to work with you.

