

Risk governance

Risk governance is a part of Mizuho's corporate governance framework, and our risk appetite framework (RAF) is positioned at the center of the group's risk governance.

At Mizuho, we are promoting disciplined risk-taking and risk communication by fostering a sound risk culture, which has its foundations in the RAF and other risk governance efforts.

To ensure strong risk governance, we employ a check-and-balance system (second line) that operates in accordance with the principles of the "three lines of defense".

Reflecting on fiscal 2021

In fiscal 2021, with the spread of variants prolonging the impacts of the COVID-19 pandemic and placing downward pressure on the economy, Mizuho focused on exercising our financial intermediary functions and providing multifaceted support for our customers. The ongoing challenges of the current business environment required us to anticipate materialization of risk, including credit risk. Further, the Russia-Ukraine situation, which escalated at the end of the fiscal year, demonstrated the extent to which the materialization of geopolitical risk can impact the management of financial groups.

Following the series of IT system failures, we have been working on a group-wide basis to find effective ways of controlling non-financial risk such as system risk.

Current business environment and risk considerations

Looked at from a global perspective, the COVID-19 pandemic is slowing down, but we are still seeing localized increases in infections in certain countries and regions. It is too early to let our guard down, and we must prepare for the impact strict disease control measures will have on supply chains. In addition, intensified US-China friction and the Russia-Ukraine situation have created an overlap in the materialization of geopolitical risks. In each case, the respective nations are making deliberate efforts to reduce or eliminate their reliance on the other side, and the global divisions developing as a result demand vigilance. On top of this, soaring energy and food prices have brought about an accelerated rise in global inflation. We must give careful attention to the faster pace of monetary tightening, which is centered on the US and Europe and has the potential to lead to an extreme hike in interest rates and a global economic downturn that could even affect emerging economies.

Societal expectations regarding sustainability initiatives have been growing, and national governments are moving forward with climate change countermeasures. One example of this is the UN Climate Change Conference in Glasgow (COP26), where the Glasgow Climate Pact was adopted, reaffirming the goal of "pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels". It is increasingly important for us to provide our clients with financial and non-financial support for their climate change countermeasures based on constructive dialogue, and for us to implement our own risk management framework.

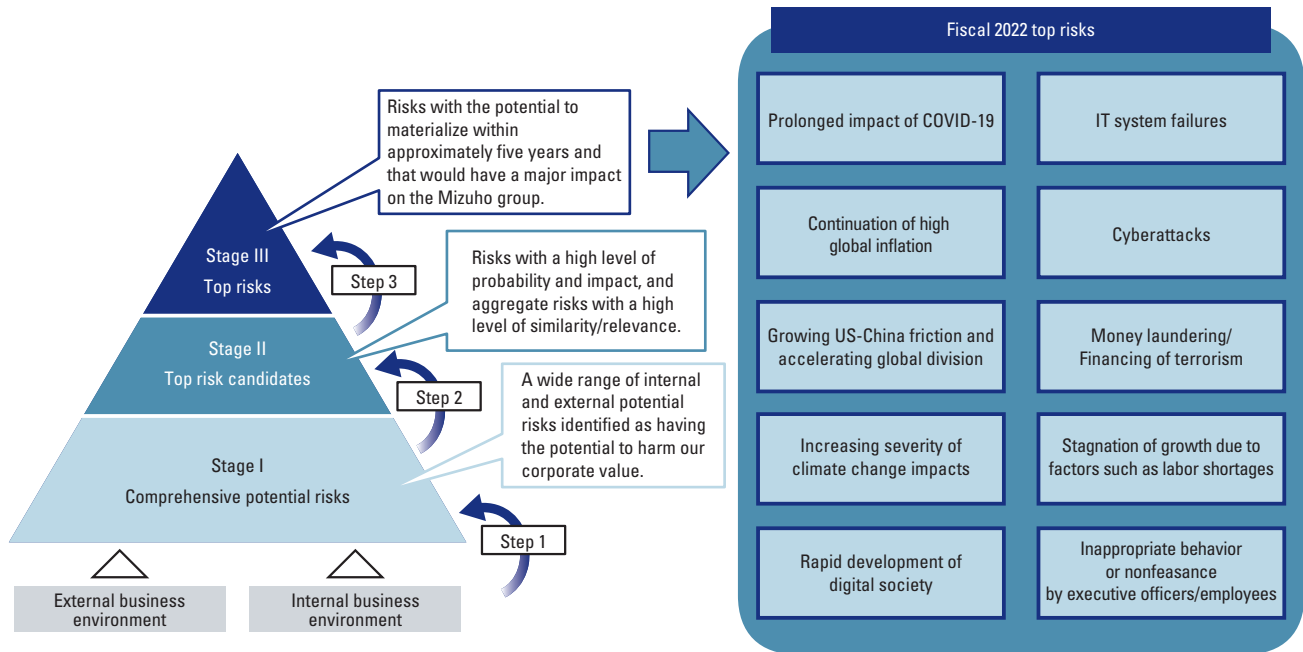
Other risk considerations include the prevention of further system failures, the strengthening of anti-money laundering measures and measures combating the financing of terrorism, preparation for potential cyberattacks, and securing of the personnel necessary for executing our business strategy. It is essential that we take into account the expectations and requirements of stakeholders and carry out operations with due consideration to multiple dimensions of risk.

Top risk management

In light of the internal and external business environment, we designate risks that we recognize as potentially having a major impact on the Mizuho group as "top risks". Through our management of top risks, we are deepening our risk communication across the Mizuho group, integrating our perspectives on risk awareness, and ensuring consistency across related risk management operations. Regarding the designation of top risks, the Risk Committee, Board of Directors, and other bodies receive reports, and multifaceted discussions are held, which include participation from external experts and outside directors.

In addition, we are looking into risk control measures, such as measures for preventing the designated top risks, and follow-up responses. By incorporating these into our business plans, we are strengthening our risk governance.

Process for designating top risks



Towards further enhancement of risk governance

Going forward, we expect to see a further increase in risk factors with the potential to impact the management of financial institutions, and a rise in the number of cases characterized by a combination of risk factors. It is key for us to constantly be improving our risk management systems in order to serve our diverse stakeholders during this time of complex world affairs.

In recognition of this, at Mizuho we are not only strengthening existing risk management frameworks but also expanding the risk areas that we cover, and we are striving to minimize the impact of any risk that does materialize. Specifically, we are working to manage third-party risk (group risk brought about by our business partners, external providers, and suppliers), which has become increasingly important in recent years, and to strengthen our operational resilience so that critical operations can continue even amid unforeseen circumstances brought about by terrorism and cyberattacks, natural disasters, and other factors.

Also, we are further expanding our attention to geopolitical risk, avoiding foregone conclusions based on the probability of risk occurrence, and making appropriate provisions.

Regarding climate-related risk, due to the long time frame and the lack of established methods for quantifying risk, there are many hurdles to overcome in order to construct a risk management system. That being the case, we will strive to strengthen our risk control through a trial-and-error approach to scenario analyses and stress tests in each of the risk categories, and through efforts to improve risk analysis methods.

The above is an example. We will do our utmost to further strengthen our risk governance while keeping apprised of the ever-changing internal and external business environment.

Risk culture

We have established Behavioral Guidelines for a Sound Risk Culture, and work to ensure that executive officers and employees understand these guidelines using 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 we all maintain an attitude of not simply avoiding risk, but rather taking appropriate risk. These guidelines are a foundation that provides Mizuho’s executive officers and employees with the appropriate values and courses of action 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 help us maximize our corporate value by securing sustainable and stable profits, and fulfill our social responsibilities. Based on such a 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 for meeting our risk appetite. Risk appetite refers to 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.

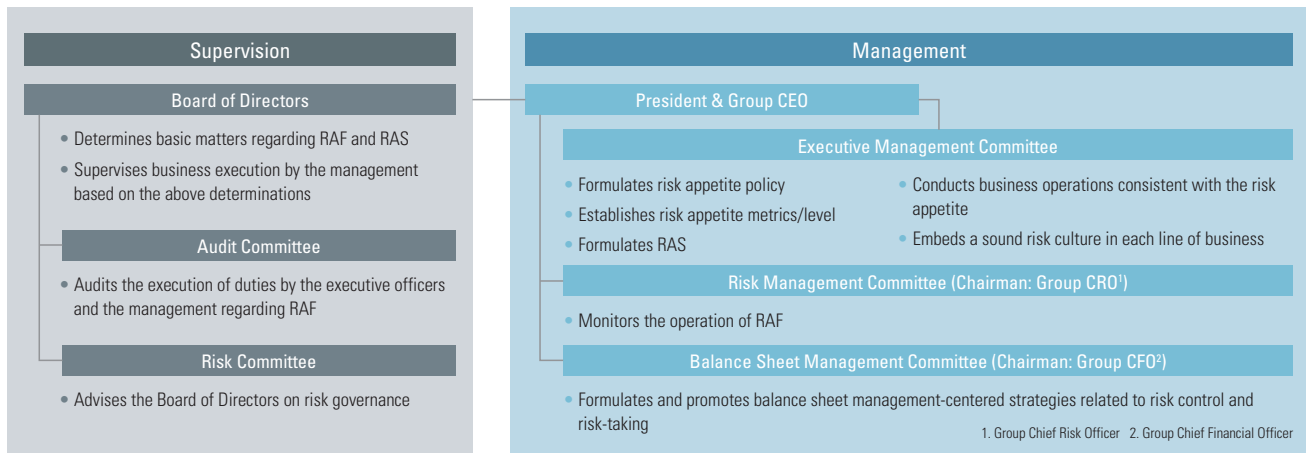
In implementing the RAF, the Board of Directors determines basic matters concerning the RAF and also decides on a risk appetite statement (RAS), which documents the RAF’s management system and Mizuho’s risk appetite. Operations are supervised based on the Board’s decisions. In addition, the Risk Committee, which advises the Board of Directors, provides advice regarding risk governance.

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

Risk appetite is determined through management discussions on the outlook for external factors such as the macroeconomic, regulatory, and competitive environment, along with top risks and other potential risk events. These are then incorporated into baseline scenarios and risk scenarios that are shared internally.

Based on our awareness of these external environments, we then formulate a risk appetite policy that acts as our group-wide policy on risk-taking. We create specific strategies and measures according to this policy, and determine corporate resource allocation and earnings plans. Our risk appetite levels are quantified in terms of capital strength, profitability, and liquidity, which are the foundations of our corporate value.

Mizuho’s RAF Control Structure



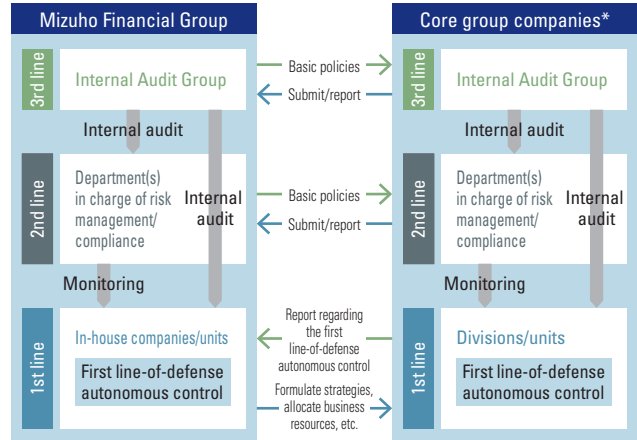
Three lines of defense

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

Our risk management and compliance framework



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

Comprehensive risk management

At Mizuho, the appropriate management and control of risk is a key issue relating to overall management and is necessary for ensuring sound and stable corporate management and for enhancing our corporate value. Therefore, we are working to put in place risk management systems.

Mizuho has established basic policies for risk management that are applicable to the group as a whole by resolution of the Board of Directors. In our basic policies for risk management, we stipulate risk areas, and the requisite organizational structure and employee training for ensuring 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, Mizuho analyzes risk comprehensively from multiple perspectives and adopts 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 positioning our comprehensive risk management as a framework for managing risk from every angle.

Operational resilience

In recent years, with the pandemic, large-scale natural disasters, cyberattacks, and numerous other events, the threats that could impact the operations of financial institutions and have an outside impact on stakeholders have continued to become both more diverse and severe.

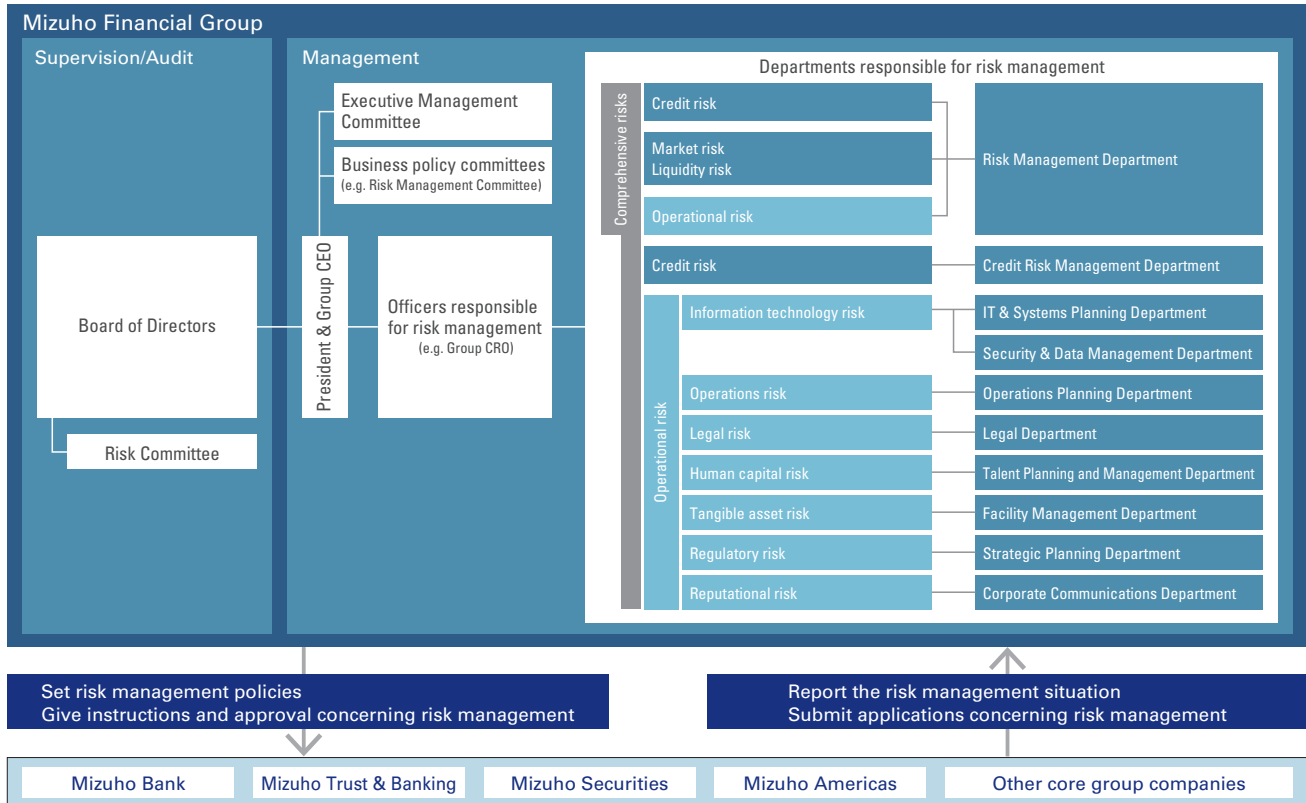
Regulatory authorities in each country, especially in the UK, have been developing policies aimed at avoiding the significant impact of stakeholders being unable to take on risk in the case of unprecedented circumstances. The Principles for Operational Resilience were published by the Basel Committee on Banking Supervision in March 2021, and were standardized internationally as the appropriate response for financial institutions.

In light of the system failures, Mizuho recognizes that enhancing our ability to respond to crises is an important business challenge. Understanding that interruptions in operations can occur, we are currently implementing our approach to operational resilience: a framework to ensure that the impacts of such an interruption are limited to a certain level. This is part of the initiatives we are pursuing in our business improvement plan and takes into account the potential impacts on our customers and on markets.

Also, under the commitment of executive management, we will endeavor to further strengthen our operational resilience by instituting the step-by-step process below in our business continuity management.

- 1) Specify operations that have the potential to have a large impact on customers and markets;
- 2) Increase transparency regarding resources needed for critical operations;
- 3) Establish what constitutes an impact so significant that risk cannot be tolerated (impact tolerances);
- 4) Confirm the appropriateness of impact tolerances via stress testing.

Mizuho's comprehensive risk management system



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

📄 https://www.mizuhogroup.com/who-we-are/internal/r_management

Stress testing

At Mizuho, 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.

Looking at liquidity risk, through our stress testing we have verified that by taking certain measures for the future balance sheet with consideration to the business plan, we will be able to maintain adequate funds even in the case of stress inherent to Mizuho or stress across the market as a whole.

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 capital adequacy stress testing

