

# **Submission of Business Improvement Plan by Mizuho Bank, Ltd.**

**Outline of Recurrence Prevention and  
Improvement Measures**

**October 28, 2013**

**One MIZUHO**  
Building the future with you

**Mizuho Financial Group, Inc.**

**Mizuho Bank, Ltd.**

# Apology

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Mizuho Bank, Ltd. submitted a business improvement plan to the Japanese Financial Services Agency based on the business improvement order that we received on September 27, 2013.

We gravely accept the highly regrettable fact that our framework to prevent and sever relationships with anti-social elements was inadequate for certain captive loans. We would like to take this opportunity to express our most sincere apologies to our valued customers and other stakeholders for the inconvenience and concern that we have caused.

We formulated this business improvement plan by incorporating measures based on the fact-finding and identification of causes of the internal designated committee and recommendations of the Third-party Committee, which we established after receiving the business improvement order.

We intend to regain trust from our customers, shareholders, and the wider society by thoroughly implementing this business improvement plan. As a financial institution representing Japan and a member of the global financial community, we will enhance our framework to eliminate anti-social elements and fulfill our responsibility to society.

We appreciate your ongoing support and understanding.

Yasuhiro Sato

Group CEO, Mizuho Financial Group, Inc.  
President and CEO, Mizuho Bank, Ltd.

# Contents

<b>Understanding the Problems (1) Problems</b>	<b>P. 3</b>	<b>B K</b>
<b>Understanding the Problems (2) Background; Fundamental Causes</b>	<b>P.4</b>	<b>B K</b>
<b>Understanding the Problems (3) Characteristic of Scheme</b>	<b>P. 5</b>	<b>B K</b>
<b>Improvement Measures (1) Outline</b>	<b>P. 6</b>	<b>B K</b>
<b>Improvement Measures (2)-1 Recurrence Prevention Measures</b>	<b>P. 7</b>	<b>B K</b>
<b>Improvement Measures (2)-2 Conceptual Flowchart</b>	<b>P. 8</b>	<b>B K</b>
<b>Improvement Measures (3) Framework Enhancement</b>	<b>P. 9</b>	<b>B K</b>
<b>Improvement Measures (4) Improving Awareness, etc.</b>	<b>P.10</b>	<b>B K</b>
<b>Actions by FG</b>	<b>P.11</b>	<b>B K</b>
		<b>F G</b>

This presentation is an extract of our current recognition and business plan, which are based on internal investigations in Mizuho Financial Group, Inc. (FG) and Mizuho Bank Ltd. (BK, MHBK) as well as advice from the Third-party Committee, and are intended to improve captive loan business. Please refer to press releases dated October 28 from Mizuho Financial Group, Inc. and Mizuho Bank, Ltd. as well as the report from the Third-party Committee for details.

# Understanding the Problems (1) Problems <sup>\*1</sup>

- **Problem (1): Despite knowing the existence of multiple transactions with anti-social elements within a captive loan scheme<sup>\*2</sup> for more than 2 years, we did not implement thorough measures to prevent and eliminate these transactions.**

<sup>\*2</sup> The four-party captive loan scheme (“Captive Loan Scheme”) with Orient Corporation (“Orico”)

Entry Checks	( Action Implemented )	Entry checks based on Orico’s database	
	( Action Not Implemented )	Entry checks based on Mizuho Bank’s database	←
Post-Execution Checks	( Action Implemented )	Provision of Mizuho Bank’s Post-execution verification results to Orico (prevent recurring transactions with known anti-social elements)	
	( Action Not Implemented )	Terminate transactions through subrogation (All transactions identified as involving anti-social elements have been terminated)	←

- **Problem (2): Multiple transactions with anti-social elements within the Captive Loan Scheme had been reported no higher than the MHBK executive officer in charge (were not reported to the Compliance Committee and the Board of Directors).**

Reports to Compliance Committee and Board of Directors	( Fact )	Transactions with anti-social elements within the captive loan scheme were reported to the Compliance Committee and the Board of Directors in February and July of 2011.	
	( Incorrect Reporting )	Failure in basic actions such as verifying materials retrospectively led to misconceptions and discrepancy in reporting to the FSA.	

<sup>\*1</sup>: Main awareness of problems as of September 27, 2013

# Understanding the Problems (2) Background; Fundamental Causes

## Background

### Characteristics of Scheme

### Closed Nature of Functions for Severing Ties with Anti-social Elements

## Fundamental Causes

### (1) Low awareness of captive loans as MHBK claims

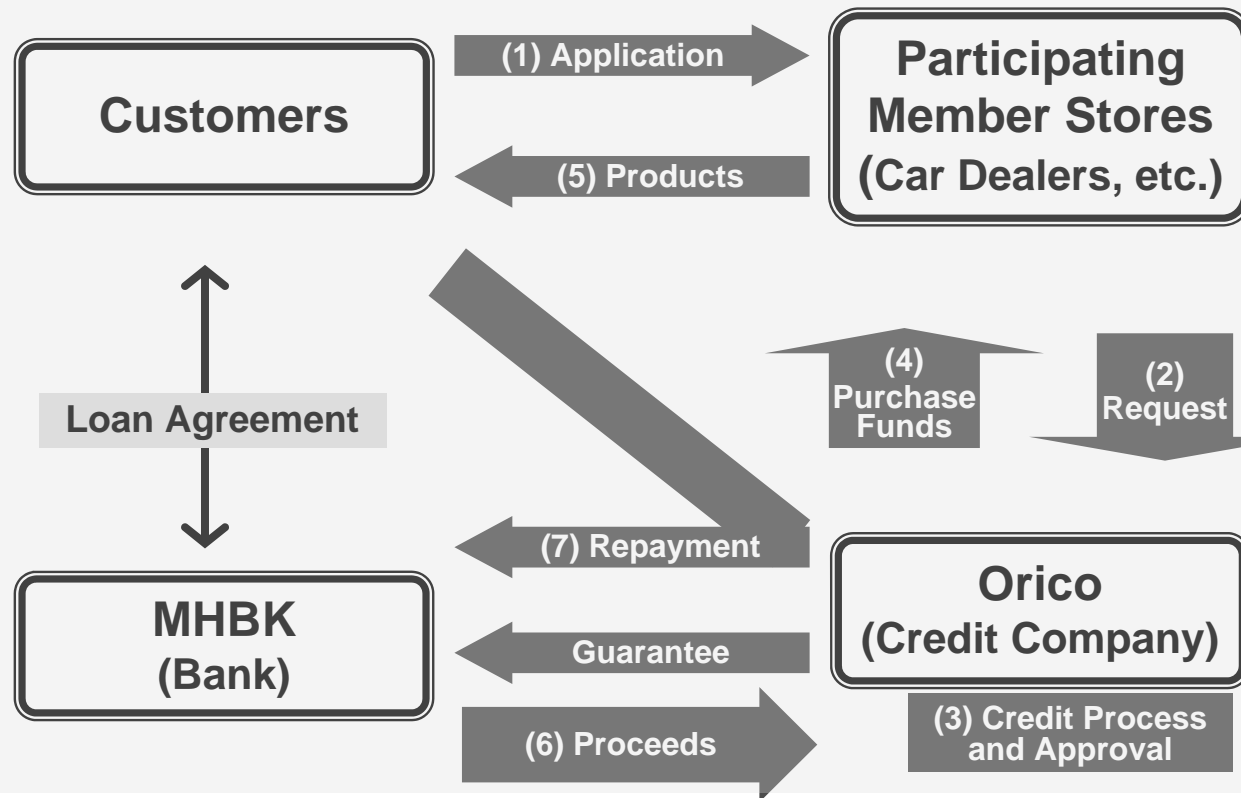
- The following features diluted awareness of the captive loans as MHBK claims:
  - (1) Proceeds are credited to Orico's account in a lump sum
  - (2) Individual loan collection is performed by Orico
  - (3) There is no direct contact between MHBK and individual borrowers
  
- In a society with increasing expectations on the standard of functions for severing ties with anti-social elements, our initiatives for severing ties with anti-social elements lacked a strong sense of risk, considering the public nature of, and social responsibility as, a financial institution

### (2) Reliance on a specialized department for functions for severing ties with anti-social elements

- Actions led by a specialized department
  - ⇒ Notions prevailed in the bank that management of the process related to anti-social elements has a closed nature: other departments cannot be involved and external involvement is prevented
  - ⇒ The specialized department is relied on for elimination of transactions with anti-social elements

# Understanding the Problems (3) Characteristics of Scheme

## Overview of Captive Loans (four-party tie-up loans)



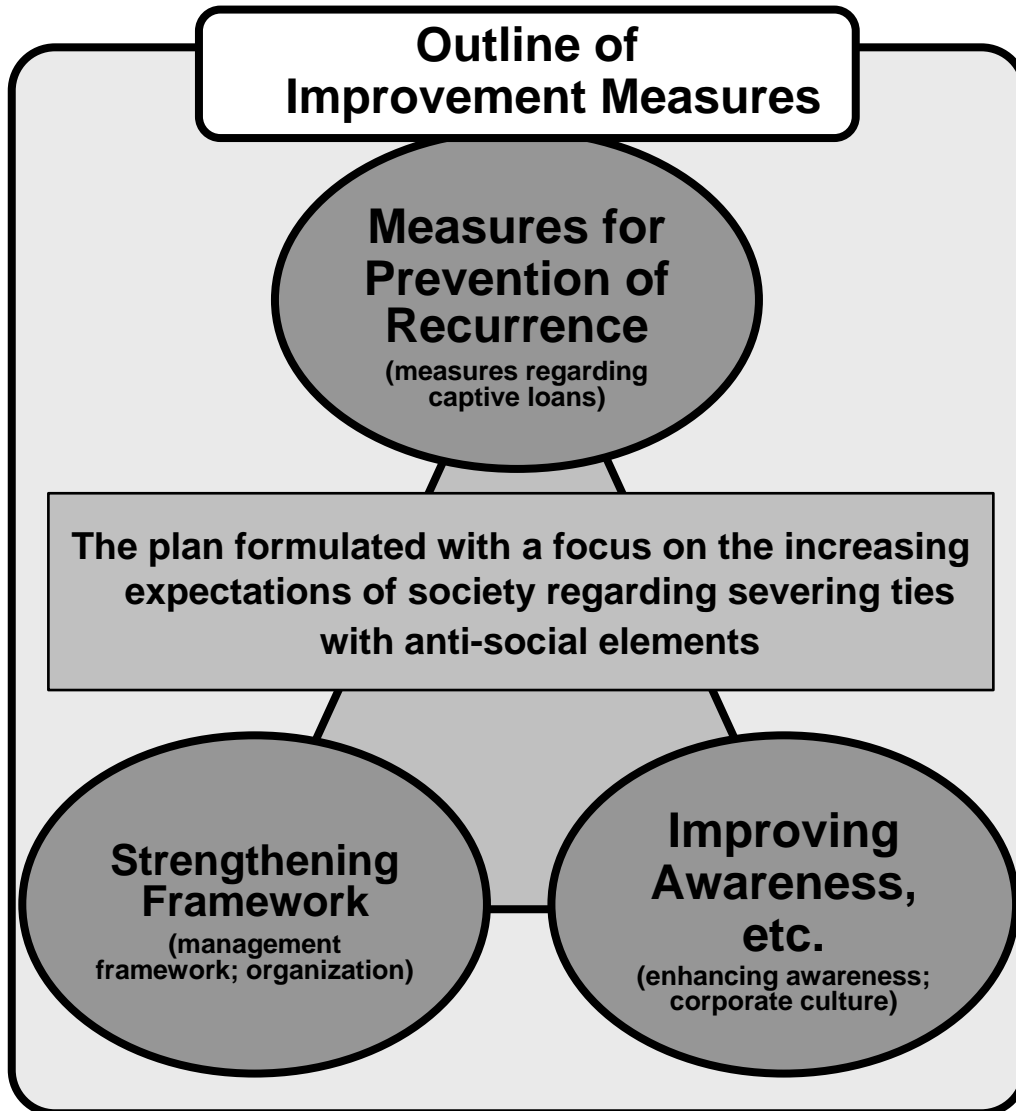
### Main Points of the Scheme

- Guaranteed by Orico
- There is no direct contact between MHBK and customers
- Funds do not go to the customers (disbursed to participating member stores)
- Loan execution and collection are not implemented on an individual basis (implemented in a lump sum)
- Orico performs management and collection of loans from individual customers

**Different features from usual bank loans**

**Background that led to low awareness of captive loans as MHBK claims**

# Improvement Measures (1) Outline



## 1. Measures for prevention of recurrence

- Eliminate transactions with anti-social elements in captive loans

- Sever ties with anti-social elements in captive loans
- Strengthen entry checks for anti-social elements
- Strengthen post-execution checks for anti-social elements

## 2. Strengthening framework

- Increase involvement of the management level and reorganization of divisions in charge

- New establishment of an expert committee (the Anti-social Elements Elimination Committee)
- Appointment of an external director to the MHBK Board
- Deployment of a Deputy President as Chief Compliance Officer
- Reorganization of the Compliance Division

## 3. Improving awareness

- Increase executive and employees awareness, etc., and reviewing corporate culture

- Improvement of awareness regarding elimination of transactions with anti-social elements
- Strengthening cooperation (law enforcement agencies, legal professionals, etc.)
- Strengthening checking framework
- Improvement of corporate culture

# Improvement Measures (2)-1 Recurrence Prevention Measures

## (1) Termination of Transactions

### Termination of all transactions identified as involving anti-social elements under the Captive Loan Scheme

- All transactions identified as involving anti-social elements under the Captive Loan Scheme have been terminated by executing guarantee claims against Orico.

## (2) Strengthening of Entry Checks

### Establishing framework for Orico to share MHBK information on anti-social elements

- We provide MHBK information on anti-social elements to Orico.
- We will continue to provide information on anti-social elements to Orico periodically and aim to continuously improve their database.
- We will carry out entry checks by using the latest information held by MHBK.

## (3) Strengthening of Post Execution Checks

### Acceleration of termination through guarantee claims for anti-social transactions confirmed through post-execution verification processes

- We have shortened the post-execution check cycle for existing claims under the Captive Loan Scheme.
- We have shortened the timeframe until subrogation from Orico for claims that are newly determined to involve anti-social elements.

## (4) Clause to exclude anti- social elements

### Recommendation of the Third-Party Committee

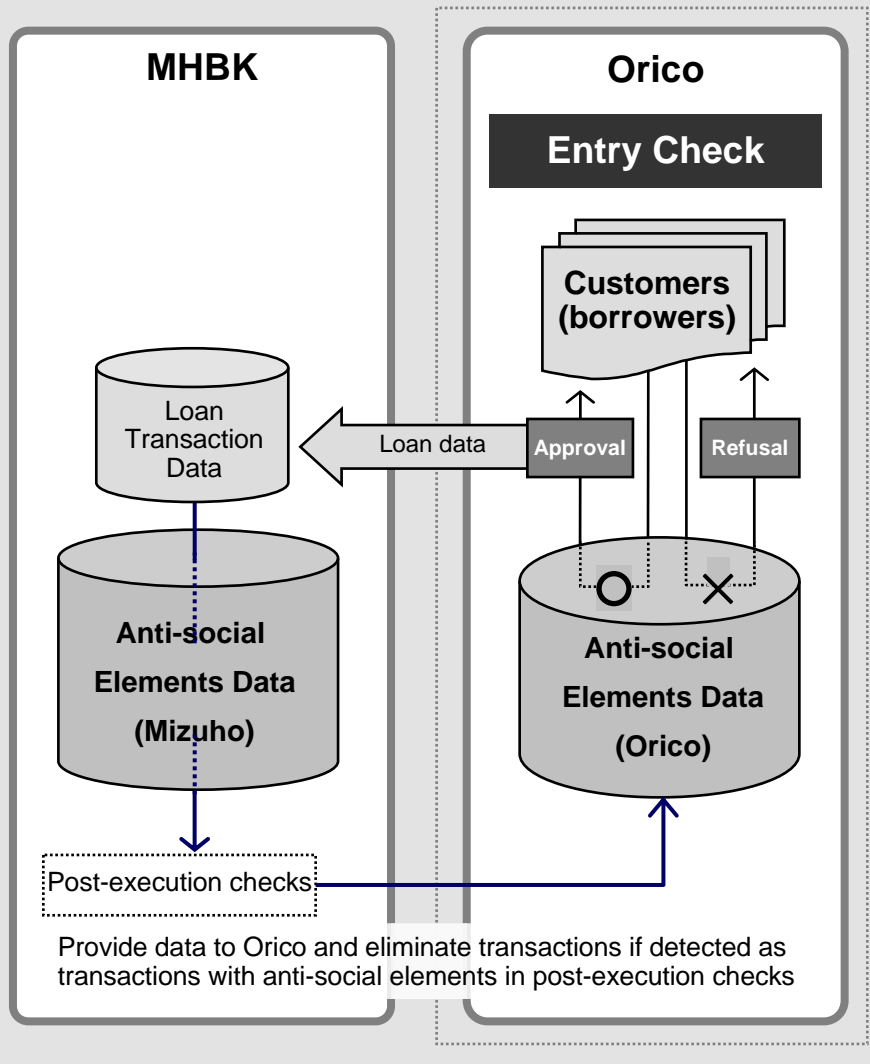
- We are considering introduction of a clause to exclude anti-social elements in loan agreements used in the Captive Loan Scheme.

Further sophistication of measures to be considered in order to eliminate transactions with anti-social elements in cooperation with Orico.

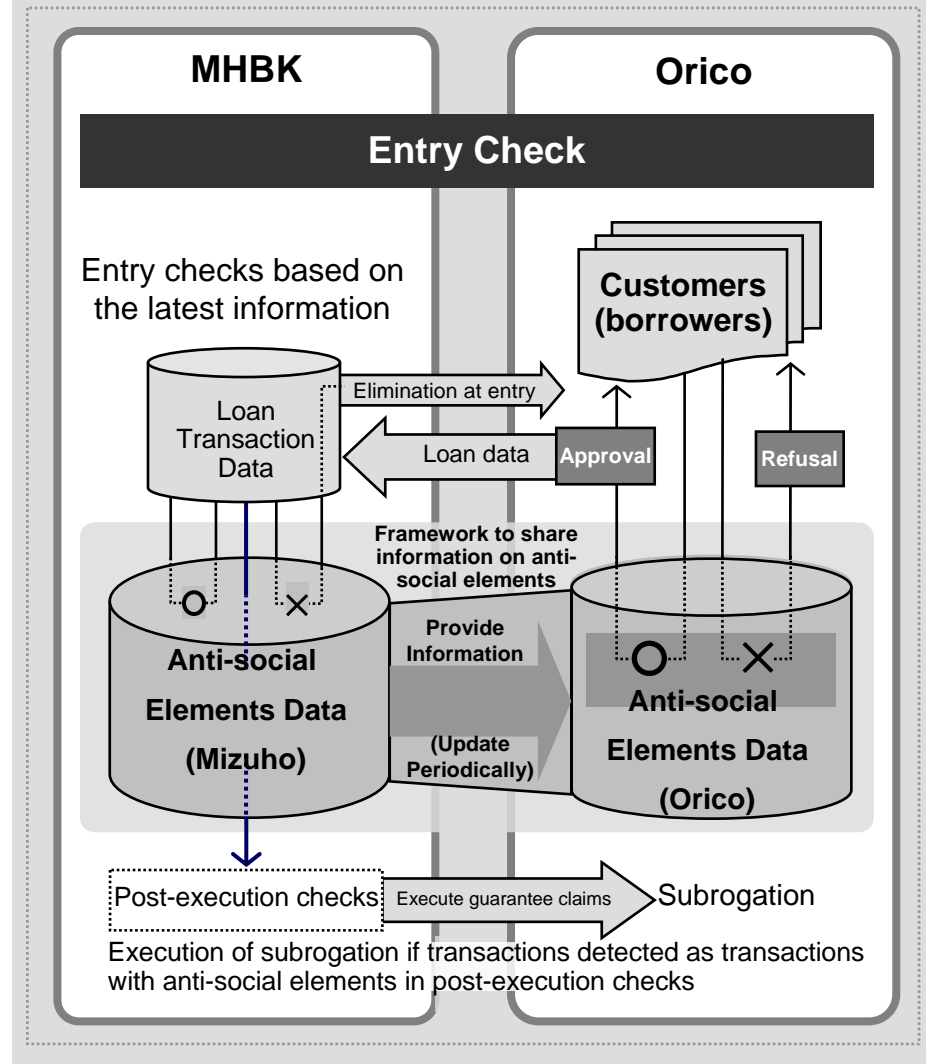


# Improvement Measures (2)-2 Conceptual Flowchart

## Prior to Measures to Prevent Recurrence



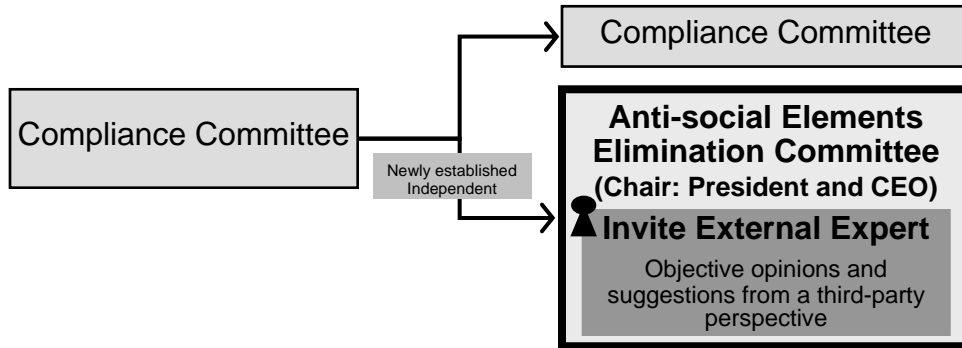
## After Measures to Prevent Recurrence



# Improvement Measures (3) Framework Enhancement

## (1) New Establishment of the Anti-social Elements Elimination Committee

A committee to be established to monitor the status of actions toward eliminating anti-social elements as well as our products and services, research the latest trends in the banking industry, collect specialized information, and provide recommendations.

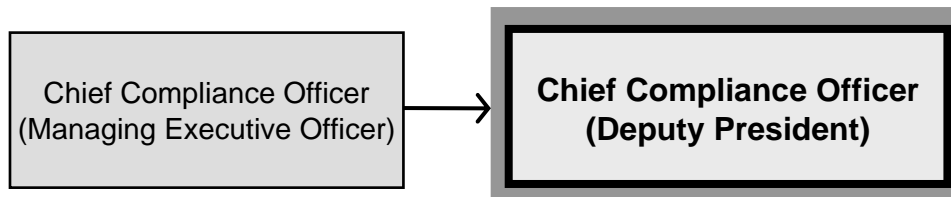


### Recommendation of the Third-party Committee

- Clarify operational rules to improve the effectiveness of debate
- Clarify details that must be reported regarding important matters related to our response to anti-social elements

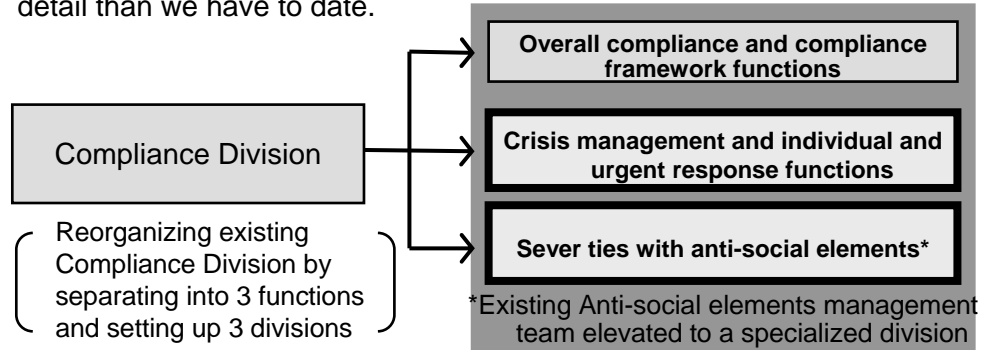
## (3) Deployment of a Deputy President as the Chief Compliance Officer

We have clarified that restoration of the trust of our customers, shareholders, and the wider society through thorough compliance is our most important management challenge.



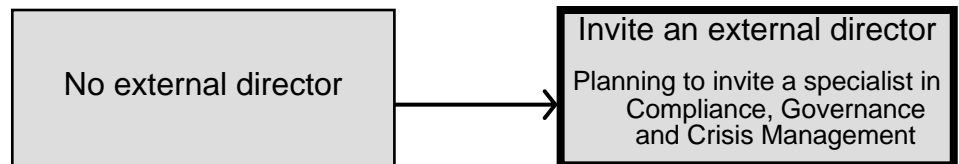
## (2) Reorganization of the Compliance Division

We will increase management involvement in Compliance Division functions by reorganizing and separating to respond in even more detail than we have to date.



## (4) Appointment of an External Director to MHBK

We will appoint an external director to increase management transparency as well as further strengthen compliance measures.



# Improvement Measures (4) Improving Awareness, etc

## (1) Increasing Awareness

### Further improvement in executive and employee awareness regarding eliminating transactions with anti-social elements

- Enhance the content of compliance training by establishing an independent compliance topic regarding the elimination of anti-social elements across all levels of the organization from executives to general managers and employees.

## (2) Strengthening Cooperation

### Strengthening cooperation with law enforcement agencies, legal professionals, etc.

- Strengthen day-to-day exchange of information with specialists such as law enforcement agencies, other related bodies, and legal professionals.
- Hold periodic training sessions with specialists as lecturers.

## (3) Checking Frameworks

### Strengthening frameworks for checking for anti-social elements in products and services

- Comprehensive review of credit products ⇒ Confirmed that there are no deficiencies in our measures to eliminate transactions with anti-social elements in any credit products other than the Captive Loan Scheme
- Strengthening of measures to eliminate transactions with anti-social elements when considering new products

Recommendation of the Third-Party Committee

## (4) Follow-up Structures

### Considering follow-up structures for compliance programs and business plans

- Consider effective operations for continuous management and follow-up of organizational issues in our compliance programs and business planning

## (5) Corporate Culture

### Reviewing the Mizuho Code of Conduct based on the increasing expectations of society

- Conduct a review of the Mizuho Code of Conduct based on the increasing expectations of society in relation to severing ties with anti-social elements
- Promote continued actions in cooperation with the One MIZUHO Promotion Project Team

\* Together with the above, we will strengthen our consideration frameworks in relation to findings and recommendations for improvement and penetration of cooperative efforts toward internal audit (Recommendation of the Third-Party Committee)

# Actions by FG

## (1) Framework Enhancement

### Strengthening frameworks to eliminate transactions with anti-social elements

- Create a new division responsible for elimination of transactions with anti-social elements by elevating status of the existing department to a division, and promoting reorganization of the Compliance Group
- Deploy a Deputy President as the Group Chief Compliance Officer
- Establish the Anti-social Elements Elimination Committee chaired by the Group CEO
- Implement initiatives to ensure effective debate in the Anti-social Elements Elimination Committee
- Appoint an external director who is a specialist in compliance, governance, and crisis management
- Strengthen management reporting and contact structure regarding information on anti-social elements

## (2) Improving Awareness, etc.

### Improving awareness by revising the Code of Conduct

- Enhance compliance training for further improvement in the awareness of executives and employees regarding severing ties with anti-social elements
- Review the Mizuho Code of Conduct based on the increasing expectations of society in relation to severing ties with anti-social elements
- Promote continued actions in cooperation with the One MIZUHO Promotion Project Team

## (3) Governance

### Further sophistication of group governance

- Consider expanding consulting bodies to the Board of Directors in order to reflect the opinions of external experts and from the perspective of enhancing sophistication of group governance