Risk Appetite Framework (RAF)

Role of Risk Appetite Framework

The purpose of our risk appetite framework (RAF) is to (1) maximize our corporate value by securing sustainable and stable profits and (2) fulfill our social responsibilities. Based on such purpose, our core risk appetite is to take appropriate risk and providing solutions based on our customers’ actual needs, establishing our competitive advantage against our peers.

In order to achieve this core risk appetite, we will further concretely define our risk appetite in establishing our medium-term and fiscal year business plan. The risk appetite will be the basis for establishing our business strategy, resource allocation and budget thus integrating risk management and business strategy in order to maximize our risk-return.

The RAF is the cornerstone of Mizuho’s risk governance, and the Board of Directors is responsible for determining our risk appetites and other fundamental matters including the governance structure of RAF and the documentation of the Risk Appetite Statement (RAS).

Operation of Risk Appetite Framework

Formulation of Risk Appetite

Mizuho’s 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 means of quantifying the level of risk-taking based on the risk appetite policy.

Formulation of our risk appetite begins with discussions among management regarding our footing in external environments such as the macroeconomic environment, the regulatory environment and the competitive environment, and our future prospects. Main scenarios are then devised to be shared through the organization. Management also discusses risks that may adversely affect the Group, such as a recession or disturbances in the financial market, and devises risk scenarios.

We then formulate a 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 profit plans. Our risk appetite metrics is expressed in terms of capital strength, profitability and liquidity utilizing measures such as CET1 Capital Ratio, ROE and LCR.

Further, quantitative level of risk appetite metrics are cascaded down into our in-house companies, which are established according to the customer segments and are the driving forces of our strategies, to ensure the effectiveness of our RAF.

The companies formulate their own business plans and carry out their business activities based on the Group’s general risk appetite policy and the company’s specific risk appetite level.

Mizuho’s Risk Appetite Framework Control Structure

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*1. Head of Risk Management Group  *2. Head of Financial Control & Accounting Group
Monitoring of Risk Appetite

To ensure that the formulated risk appetite is achieved, the Group monitors progress on a quarterly basis, with additional monitoring carried out as necessary. Specifically, we monitor changes in external environments compared to the scenarios we set initially, and progress in implementing our strategies and level of our capital compared to the risk appetite policy and risk appetite level. This monitoring enables timely and appropriate actions, including revisions of our risk appetite and strategies, to be discussed and carried out in the event of environmental changes that increase risk or impede our risk appetite and strategies.

Verification of Risk Appetite by Stress Testing

We assess the suitability of our risk appetite and the validity of our business plans through stress testing that assesses the financial effect of the set risk scenarios on our capital and profitability. The results are analyzed and verified to confirm that the required capital ratio and business results can be achieved even if the risk scenarios occur. If those cannot be achieved, we discuss and then carry out a revision of our risk appetite and business plans.

Our stress testing also serves as a foundation for understanding the characteristics of our business portfolio and enables planning in advance about the course of action that should be taken if the risk scenario occurs, which will enhance our risk management.

Mizuho’s RAF Operation Process

Mizuho’s Risk Culture

By embedding sound risk culture, every director and employee maintains a high level of sensitivity and knowledge regarding risk and endeavors to make correct decisions and take appropriate actions. This enables us to achieve our risk appetite and strategies and maintain and improve our corporate value.

Mizuho has established Behavioral Guidelines for a Sound Risk Culture to heighten directors’ and employees’ risk sensitivity and improve their responses and countermeasures in the event of risks. Measures such as training are carried out so that these guidelines become ingrained in the minds of every director and employee.

These guidelines provide foundation for appropriate values and courses of action that should be employed by Mizuho’s directors and employees when approaching risks. Each director and employee can refer back to these guidelines if they are unsure of a judgment that needs to be made in their daily work. This improves their responses and countermeasures to risk and fosters a sound risk culture. These initiatives also prevent inappropriate behavior by directors and employees.