

Discussion The need for sustainability



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Group CEO Masahiro Kihara, Group CSuO Yasuhiko Ushikubo, and Outside Director Yumiko Noda sat down together to discuss the global need for sustainability, sharing their views on current debates and initiatives as well as future challenges.

Recent trends in sustainability

Ushikubo The topic for today is sustainability. As it is quite a broad concept, I would like to break it up into three subtopics: management, business, and take-up by employees and the organization. We'll start with management. What challenges do you see in the existing state of affairs for sustainability, given the conversations you've had at various opportunities and your own experience?

Noda At the Japan Business Federation, where I serve as one of the vice chairs, we have put forward a policy of practicing **sustainable capitalism**. We see sustainability as a central theme of corporate management and are pursuing it as such. I believe three points are key when it comes to sustainability. The first goes almost without saying: **environmental conservation**. Right now, the earth's environment is in crisis. There is a pressing need for us to accelerate actual innovation towards green transformation and a circular economy. The second is **sustainability in society**. Corporations should **have a social viewpoint and contribute to the development of a fair and equitable society**. They should balance doing business with contributing to the betterment of society by investing in people and fulfilling their responsibilities in relation to supply chains and subcontractors. The third is **the complexity of the concept of sustainability**. Determining what counts as sustainable is no easy task. For example, green transformation demands renewable energy and a shift to electric vehicles, but these may lead to increases in geopolitical risk

surrounding rare earth minerals and loss of biodiversity. It is also necessary to think about impacts on society in areas such as local employment. **Corporate executives have to confront these innumerable, intractable contradictions and still make progress**. It is a considerable challenge.

Kihara When I attended the annual meeting of the World Economic Forum at Davos in January 2024, I also felt that more people were beginning to see sustainability as a difficult task. As you said, the dimensions of sustainability have been multiplying. Sustainability topics have already extended from the environment and climate change to the circular economy, human capital, and human rights. With populations aging, birth rates declining, and lifespans lengthening, health has also joined the list. What's more, Japan may be looking at more severe disparity due to inflation. In the face of these sustainability challenges, under our Purpose of "Proactively innovate together with our clients for a prosperous and sustainable future", **Mizuho has committed in our current medium-term business plan to creating both corporate value and social value**. However, it is very tough.

Noda I think that is why the spirit of the Purpose is so critical.

Kihara If we are to be a company that contributes to society, we must first challenge ourselves to become a sustainable company. In other words, we need to have a sound sustainability management structure in place. For human capital, we need to be accepting of people who have grown at Mizuho and then leave Mizuho to pursue

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—Group CEO Masahiro Kihara



other opportunities. For human rights, we need to stay on top of due diligence. For a circular economy, we need to take even greater action.

Ushikubo From the perspective of Mizuho's own management, I think it is important that we fulfill our role as a financial institution by providing risk capital for the transition to net zero. As the process will vary from country to country, we will meticulously respond to the needs of society and clients according to the situation in each location, contributing to resolving social issues while connecting stakeholders. Concurrently, we have to remain attentive to transition risks. We need to think about two axes: whether or not a particular sector has high carbon emissions and whether or not the client has the intention and planning to decarbonize their business. Disclosures are another important aspect. Global standards for sustainability disclosures are still in process and rules for Japan are still under discussion, too. We are preparing to comply with these, but it is not enough to simply follow the regulations. Communicating effectively through disclosures so as to deepen our stakeholders' understanding is also essential.

Sustainability business strategy to differentiate Mizuho

Noda Supporting clients' decarbonization is very important. Corporate management is often wandering around without a compass. The key point is whether or not Mizuho can get close to them and innovate together with them. The 20th century economy was a mass production, mass consumption, mass disposal economy. Turning it into a circular economy will require transforming the entire value chain—design, manufacturing, consumption, collection, and renewal. You could call this a revolution. The younger generation in Europe has taken notice of the fact that human activity is already crossing the so-called "planetary boundaries", beyond which we may cause irreversible changes to the earth's systems. In 2023, I met with the

European Commission's Environment Commissioner, who was 33 at the time, in Brussels. He said that transitioning to a circular economy is a matter of course—that there is absolutely no choice not to do it. To make it happen, it will be necessary to bring together a range of stakeholders. I expect that **Mizuho, being a linchpin of industrial finance in Japan, will be able to connect a wide range of related stakeholders.**

Kihara We will not be able to break with the past if we do not connect a variety of stakeholders. The Corporate & Investment Banking Company, our in-house company in charge of large corporate clients, has a Value Co-creation Team. Most of the members of this team have financial backgrounds, and some joined us from different sectors, such as Japanese trading companies. We are not only discussing and investing in creative business ideas with our clients but also constructing creative business platforms with them. For example, along with another Japanese company, we invested in an India-focused startup that has the technology to produce alternative fuel from landfill garbage. The technology alone will not be enough; it will be necessary to also have plants that can apply the technology. In that way, growth in business leads to growth in demand for financing, which in turn leads to growth in our finance business. Also, in constructing new value chains for business, **I want us to expand the breadth of connections**, beyond large companies to middle-market firms and SMEs. Changing the whole industrial structure is no small task. We need to come up with comprehensive designs for industries. We can't be so full of ourselves as to think we can do it alone. We want to and need to **talk with a wide range of stakeholders and create such comprehensive designs together.**

Noda That is really one of Mizuho's strengths and something I would like you to try to do. I used to work at a bank myself, and I know bankers tend to decide whether or not the bank will lend to a borrower just by looking at the borrower's financial statements. **Going forward,**

banks should take a more proactive role, enhancing their broad connections with clients and utilizing talent from a diversity of backgrounds.

Kihara I think **the new shape of banking will be to look not only at a borrower's financial statements but at their growth potential.** The Japanese government's Green Transformation Implementation Council is seriously discussing the state of industry and their vision for 2040. I am considering what can be done to connect industry, government, and academia together and what Mizuho can do there.

Ushikubo One of our actions in fiscal 2023 was to formulate a sustainable business strategy, which was also discussed at the Board of Directors. We are trying to imagine a future in which society has achieved carbon neutrality, a circular economy, and so on, and we have to think about what Mizuho's strengths can contribute and what our aims should be, in both a short-term and medium- to long-term time frame. Mizuho's culture of emphasizing research is an important characteristic here, I think. Also, in terms of support in the short term, finance is key. Our sustainable finance target of ¥100 trillion by 2030 shows our commitment. In fiscal 2023, we released our Human Capital-based Management Impact Finance product in Japan, which comes with an impact assessment by the consulting division of Mizuho Research & Technologies. We've already had 10 Japanese companies sign up for it and had interest from many more. The concept of impact is an effective way to align the vectors of social contribution and corporate value. Over the medium to long term, as Group CEO Kihara said, our investment activities will be important. We have our Value Co-creation Investment Facility for the later stage and Transition Equity Investment Facility for the early stage. For hydrogen, we have announced that we will provide ¥2 trillion in financing by 2030.

Providing risk capital is one of the functions finance institutions are performing to support the Japanese government's initiatives. About the connecting aspect, we want to connect large corporations with middle-market firms, SMEs, and less urban areas in Japan, and to connect middle-market firms and SMEs that have promising technology with large corporations. Sustainability has a lot of areas for collaboration, even with competitors. I believe Mizuho might be able to convince our clients to join hands with their competitors.

Noda On the flip side, what are Mizuho's challenges in terms of sustainability?

Ushikubo One of our challenges is our global reach. We need to gather information from Europe, which is ahead on rulemaking for sustainability, and introduce Japan to the innovations that are advancing in other parts of the world. We want to strengthen our capacity here. Raising our literacy and sensitivity around global sustainability developments is a must. Part of this is sending our employees from Japan to our offices elsewhere so that they can assist local employees in identifying implications for Japan.

Noda There is a lot to do, but the highest priority is, as you implied, Mizuho's determination. **We are living in a time with no easy answers, and moving forward without stopping requires both determination and courage.** I heard Group CEO Kihara talked with Paul Polman, the former CEO of Unilever, recently. He has been continually advocating for sustainability for over 20 years and unwaveringly promoted Unilever's sustainability management. **Mizuho should be a financial institution supporting companies that have such determination and courage.**

Kihara Before I talked with Paul Polman, I read his book *Net Positive*. **His stance was not to quit the hard things, because those are the**



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ones that are most worth doing. I believe finance can give that sort of push to companies producing innovation. That's in line with the thinking of Eiichi Shibusawa, who founded one of our predecessor banks, First National Bank, along with many other companies. At the time, Japan didn't have any of the industries or companies that the US and Europe did. No one could have known for sure if those sorts of industries and companies would be successful in Japan. **But that is exactly why Shibusawa supported them.** That is the role of finance.

Sustainability mindset among employees

Ushikubo It takes more than just a few members of the organization to make innovation happen. Do you have any advice, from your experience in corporate management, for promoting awareness of sustainability among employees throughout the organization?

Noda My company is like Mizuho in that it does business all over Japan, employing nearly 10,000 people. Getting every employee in every region to adopt your corporate Purpose and a sustainability mindset is very ambitious. **What I think is important is that each leader, from executive management to the heads of business lines to general managers on down, talks about the Purpose in their own words.** It is also important that employees consider what the Purpose and sustainability mean in the context of their own work.

Ushikubo I agree that sending messages across the various layers of the organization is important. In fiscal 2023, as Group Chief Sustainability Officer, I held about 30 dialogues with employees, mainly employees in frontline offices who have contact with clients every day. I was surprised to find that early career employees in their first or second years would tell me Mizuho could still do a lot more for

sustainability or they hadn't been able to propose a solution for their client's sustainability needs and wanted to do better next time. I could see that the younger generation's interest in sustainability was far beyond my original understanding. In fiscal 2024, we are going to launch an employee-led working group that will call for and implement ideas to foster a sustainability mindset throughout Mizuho and provide solutions to our clients. It won't just be for the relationship managers of large corporate clients in related sectors or for the departments that handle large-scale project finance or for the departments that make policy proposals. **It will be for every employee to take ownership of sustainability themselves.** That will lead to specific plans and to uncovering sustainability needs that even our clients haven't realized yet.

Kihara We had one case of providing financing to a startup dealing in semiconductor-related materials that can reduce energy consumption in semiconductor manufacturing, where such consumption is quite large. We rewarded this deal internally as a good example of completing a deal even in the face of many challenges, but it is also a positive example of us taking on sustainability. I think it is important for employees to understand when they have done something that contributes to sustainability so that they can communicate it as well.

Noda It would be great if employees could take notice when their own work has contributed to sustainability, even if only in a small way. I look forward to talking more in the future about what Mizuho can do as a financial institution to contribute to a sustainable society and economy. I will be supporting Mizuho's innovations from my standpoint as an outside director.

Kihara Thank you for your time today.