Mizuho Securities UK Holdings Ltd
Basel III Pillar 3 Disclosures
31 March 2014

Mizuho Securities UK Holdings Ltd
Bracken House
One Friday Street
London
EC4M 9JA
Telephone +44 (0) 20 7236 1090
Fax +44 (0)20 7236 0484
Telex 925621

Contents

1 Introduction ... 4

1.1 Purpose of document ... 4
1.2 Overview of Basel framework and Pillar 3 ... 4
1.3 Notes on basis of preparation ... 6

2 Corporate Governance ... 8

2.1 Role of the Board ... 8
2.2 Directors responsibilities ... 8
2.3 Board composition ... 8
2.4 Board performance ... 9
2.5 Board committees ... 9

3 Risk Management Framework ... 11

3.1 Risk culture ... 11
3.2 Risk principles ... 11
3.3 Risk appetite ... 11
3.4 Risk governance and assigning responsibility ... 11
3.5 Risk Management function and approach ... 13
3.6 Strategy and planning ... 13
3.7 Adequacy of risk management arrangements ... 14

4 Risk profile, capital requirements and resources ... 15

4.1 Risk profile ... 15
4.2 Risk weighted assets and Pillar 1 capital requirements ... 16
4.3 Leverage ratio ... 16
4.4 Pillar 2 capital requirements ... 16
4.5 Capital resources ... 17

5 Market Risk ... 18

5.1 Risk management ... 18
5.2 Balance sheet split of trading and banking books ... 18
5.3 Internal risk measures ... 19
5.4 Pillar 1 requirements by risk category ... 19
5.5 Trading book securitisation risk ... 20
5.6 Non traded market risk ... 20

6 Counterparty Credit Risk ... 22

6.1 Risk management ... 22
6.2 Pillar 1 requirements ... 23
6.3 Analysis of counterparty risk exposures ... 23
6.4 Notional value of credit derivative transactions ... 25

7 Credit Risk ... 26

7.1 Risk management ... 26
7.2 Pillar 1 requirements ... 26
7.3 Analysis of credit risk exposures ... 26
7.4 Impairment adjustments ... 28

8 Operational Risk ... 29

8.1 Risk management ... 29

8.2 Pillar 1 requirements 29

9 Remuneration 30

9.1 The Board Remuneration Committee 30
9.2 Remuneration policy 30
9.3 Code Staff 30
9.4 Control functions 30
9.5 The link between pay and performance 30
9.6 The design characteristics of the remuneration scheme 31
9.7 Remuneration leverage 32
9.8 Remuneration awards and expenditure 32

1 Introduction

1.1 Purpose of document

This document sets out disclosures in respect of the Mizuho Securities UK Holdings Ltd (MSUKH) group required under European Union CRD IV legislation, consisting of the Capital Requirements Regulation[(1)] (CRR) and the Capital Requirements Directive [(2)] (CRD).

Pillar 3 disclosures, as required under Part Eight of the CRR provide market participants with information on a firm's risk governance, risk management processes, risk exposures, and capital resources.

Directive imposed disclosure requirements are implemented within the UK through Prudential Regulation Authority ('PRA') rules[(3)]. These disclosures provide market participants and other stakeholders with information in relation to a firm's governance and remuneration practices.

1.2 Overview of Basel framework and Pillar 3

The CRD IV legislation, designed to implement the Basel III reforms of the Basel Committee on Banking Supervision, came into force in the European Union on 1 January 2014. However, certain aspects of CRD IV are subject to phased implementation and may also be dependent on final technical standards to be issued by the European Banking Authority (EBA) and adopted by the European Commission, and ultimately implemented in the UK.

Prudential requirements under the Basel framework are categorised under three pillars as described below.

Pillar 1 – Industry minimum capital requirements

Risk based requirements

The first pillar of the Basel framework focuses on the determination of minimum capital requirements applicable to all firms to support exposures to credit, counterparty credit, market and operational risks. Capital requirements may also be expressed as risk weighted assets (RWAs), being a notional amount 12.5 times the size of the capital requirement.

Risk based minimum capital requirements may be determined using a number of approaches. These are summarised below, together with the approach adopted by MSUKH:

Table 1: Basel Pillar 1 risk based approaches

Approach	MSUKH	Summary
Credit Risk and Counterparty Credit Risk		
Standardised approach	✓	Standardised risk weightings are applied to credit risk exposures. Credit exposures in respect of counterparty risk must be calculated in accordance with prescribed methods, being either: mark-to-market, standardised, or the internal model method ('IMM'). Credit ratings supplied by external credit assessment institutions ('ECAIs') are used to determine the appropriate risk weight to be applied to exposure amounts. Credit risk mitigation techniques are recognised.

(1) Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.
(2) Directive 2013/36/EU of the European Parliament and of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.
(3) Section 4.3A.11 of the PRA's Senior Management Arrangements, Systems and Controls ("SYSC") sourcebook.

Table 1: Basel Pillar 1 risk based approaches (continued)

Approach	MSUKH	Summary
Credit Risk and Counterparty Credit Risk		
Internal Ratings Based (IRB) approach	×	There are two main IRB approaches for wholesale exposures: - The Foundation IRB approach allows banks to make their own internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of exposure at default ('EAD') and loss given default ('LGD') to standard supervisory parameters. - The IRB advanced approach allows banks to use their own internal assessment in determining PD, quantifying EAD and LGD.
Market Risk		
Standardised approach	✓	Requires the calculation of position risk requirements for each type of market risk within the trading book in accordance with standard rules.
Internal models approach	×	Capital requirements are calculated using internal Value at Risk ('VaR') models.
Operational Risk		
Basic Indicator approach	✓	Capital requirements are calculated as 15% of three year average income.
Standardised approach	×	Capital requirements are calculated from the three year average of aggregate risk weighted indicators. A firm's business must be split into defined business lines with specific risk weights applied to each business line.
Advanced Measurement approach	×	Capital requirements are calculated through the use of internal operational risk measurement systems.

Non risk based requirements

Under CRD IV risk based requirements are supported by a leverage ratio, under which firms are required to maintain Tier 1 capital in excess of a minimum ratio to a gross measure of exposures. Exposures comprise on and off balance sheet items, calculated from the accounting balance sheet subject to a defined set of adjustments. Whereas risk-weighted capital ratios differentiate capital requirements according to estimates of the relative riskiness of different asset classes, a leverage ratio weights all assets equally. The leverage ratio is intended to limit the risk of excessive leverage across the banking sector and to reinforce risk based requirements with a simple backstop measure.

In accordance with CRD IV banks are required to publish their leverage ratios from 2015, with a binding requirement across the EU expected to come into force from 2018.

Pillar 2 – Supervisory review process

The second pillar of the Basel framework is designed to assess the adequacy of a firm's capital resources by considering all material risks to the firm's business, including those not covered or adequately addressed by the first pillar, together with the impact upon the capital position that is forecast to occur using stressed macroeconomic scenarios.

Firms are required to conduct an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to review their capital resources in light of material risks identified, and the outcome of stress testing procedures performed. This internal assessment is subject to supervisory review and forms part of the PRA's own assessment of the risks to which firms are exposed, their risk management and capital adequacy (the SREP).

The PRA will set minimum capital requirements by issuing firms with specific Individual Capital Guidance (ICG). Where the PRA gives ICG to a firm it will generally specify an amount of capital (Pillar 2A) that the firm should hold at all times in addition to Pillar 1 requirements, in respect of risks not adequately covered within Pillar 1. The PRA may also notify firms of an amount and quality of capital that should be held as a Capital Planning Buffer (CPB), over and above the level of capital required by the ICG (Pillar 2B). The CPB provides a buffer which may be utilised in times of stress, to ensure that firms are able to maintain minimum capital requirements throughout the economic cycle.

Pillar 3 - Market discipline

The third pillar of the Basel framework requires public disclosure surrounding a firm's risk governance, risk management practices, its approach to capital management, capital resources and Pillar 1 capital requirements. These disclosures are intended to foster market discipline in relation to a firm's risk management practices.

1.3 Notes on basis of preparation

Scope of consolidation

These disclosures are prepared in respect of the consolidated MSUKH group (the Group). The scope of consolidation is consistent with the Group's UK accounting consolidation. The authorised institution within the MSUKH group is Mizuho International plc (MHI).

Basis of preparation

These disclosures have been prepared in accordance with regulatory capital adequacy concepts and rules rather than in accordance with accounting standards. Certain information provided within these disclosures is therefore not directly comparable with financial information contained within the Annual Accounts.

The table below shows the relationship between the Group's accounting balance sheet categories and the calculation of risk weighted assets by risk driver. The table does not include all inputs included in the calculation of risk weighted assets, but is intended to provide an overview of the link between accounting and Pillar 1 regulatory measures:

Table 2: Risk Weighted Asset calculation drivers split by balance sheet category

Accounting balance sheet category	**RWA risk type**		
	Credit risk	Counterparty credit risk	Market risk
Assets			
Reverse repurchase agreements	-	✓	✓
Trading financial assets	-	-	✓
Trading derivative assets	-	✓	✓
Derivative assets held for risk management	-	✓	-
Loans and advances to banks	✓	-	-
Financial investments	✓	-	-
Tangible fixed assets	✓	-	-
Other assets	✓	-	-
Prepayments and accrued income	✓	-	-
Liabilities and Equity			
Deposits by banks	-	-	-
Customer accounts	-	-	-
Repurchase agreements	-	✓	✓
Trading financial liabilities	-	-	✓
Trading derivative liabilities	-	✓	✓
Derivative liabilities held for risk management	-	✓	-
Debt securities in issue	-	-	-
Other liabilities, accruals and provisions	-	-	-

Not all Pillar 3 disclosure requirements under CRD IV are applicable to the MSUKH group. In such instances no disclosure is presented within this document.

Location and Verification

A standalone copy of these disclosures is located on the Group's website (www.uk.mizuho-sc.com). These disclosures should be read in conjunction with the Mizuho Securities UK Holdings Ltd Financial Statements 2014, which are also published on the corporate website.

Whilst the disclosures presented within this document do not require validation through external audit, they have been subject to internal governance procedures, including review and approval by the Group's Chief Financial Officer (CFO) and Chief Risk Officer (CRO) and the Board.

Frequency of disclosure and comparative balances

Disclosures are provided on an annual basis and published as soon as practicable after the publication of the financial statements and, unless otherwise indicated, all current year figures are stated as at the Group's financial year end, 31 March 2014.

More frequent disclosures are provided in the event that a material change occurs to the Group's business.

Comparative balances as at 31 March 2013 have generally been presented within this document, but have not been re-stated on a CRD IV basis. An indication of changes arising due to the introduction of CRD IV is however provided, where relevant for year-on-year comparison.

2 Corporate Governance

2.1 Role of the Board

The Board of Directors ("the Board") of Mizuho Securities UK Holdings Ltd has overall responsibility for the management of the group. The role of the Board is to provide leadership of the group within a framework of prudent and effective internal control, in order to maintain effective operations, control of financial affairs and compliance with law and regulation. The Board is responsible for the long term success of the Group and, to this end, sets the strategy and risk appetite for the Group, whilst ensuring that an effective risk management framework is maintained.

Certain matters are reserved for approval by the Board due to their significance. These matters include decisions concerning Board membership and corporate governance, group strategy, approval of risk appetite and risk management oversight, capital and liquidity matters, corporate structure, financial performance, remuneration policy and significant legal and regulatory matters. Matters not specifically reserved to the Board are delegated to the group's executive officers.

2.2 Directors responsibilities

Under UK company law, directors must promote corporate success by exercising independent judgement with reasonable care, skill and diligence, while having regard to the long-term consequences of their decisions.

Directors of UK regulated banks are also required by the PRA and FCA to act in accordance with their principles, including requirements in relation to observing proper standards of market conduct, dealing with regulators in an open and co-operative manner, taking reasonable steps to ensure that business is organised to facilitate effective control, and compliance with the regulatory system.

The principal roles on the MSUKH Board and the responsibilities attaching to those roles are summarised below:

Table 3: Roles on the Board

Role	Responsibilities
Chairman of the Board	- Leads the Board and sets the Board's agenda - Facilitates engagement and participation from all Board members - Ensures effective communication with the Group's shareholder - Acts as Chairman of the Board Nomination committee
Chief Executive Officer	- Recommends Group strategy to the Board - Responsible for implementation of strategy and day-to-day management of the Group's affairs
Non-executive Director	- Offers constructive challenge to management and oversees achievement of agreed objectives - Monitors operation of effective internal control and risk management
Senior Independent Director	- Acts as a sounding board for the Chairman - Available to act as an intermediary for other Board members and stakeholders

2.3 Board composition

The Board is made up of a majority of non-executive directors and the importance of maintaining an appropriate balance of skills, experience, diversity and independence is recognised. The Board Nomination Committee will assess on an annual basis the structure, size and composition of the Board, together with the balance of knowledge, skills and experience of Board members.

The Board composition at 31 March 2014 with regard to the balance of executive and non-executive membership is shown below:

Table 4: Board composition

Independence	
Independent Non-executive Directors	○ ○
Chairman and other Non-executive Directors	○ ○ ○
Executive Directors	○ ○

The Nomination Committee has set an initial target for representation of the minority gender on the Board at a minimum of ten per cent by the end of 2015. There is at present no such representation and the Committee is working towards the achievement of this objective. The Group is committed to diversity and respects the diversity and individuality of all persons, irrespective of nationality, gender, age, career-level, or lifestyle.

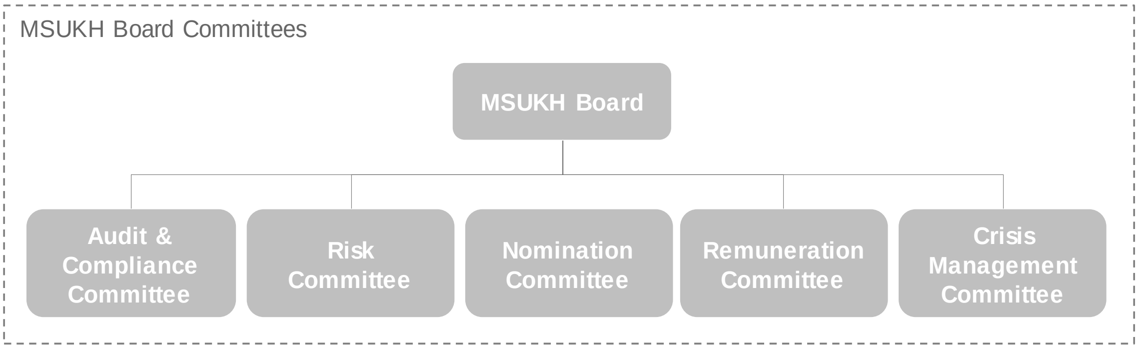
Directorships held by Board members are reviewed to ensure compliance with the PRA's requirements regarding the total number of such positions which may be held. As at 31 March 2014, the Board contained seven members who held a total of eight (1) directorships (inclusive of those held on the Board of MSUKH) in compliance with these requirements.

2.4 Board performance

Arrangements for induction of new Board members and ongoing training are in place to ensure that directors are fully informed of key business, legal and regulatory matters relevant to the performance of their roles. Review of Board performance and that of individual directors plays an important role in ensuring effective ongoing governance, and the group has made arrangements for the Board Nomination Committee to conduct annual performance evaluations and to make recommendations to the Board arising out of these reviews.

2.5 Board committees

The Board has established a number of sub-committees to enable detailed oversight of particular areas of Board responsibility and to facilitate oversight of senior management. Board and sub-committee meetings are held on a regular basis and sufficient time is allocated to ensure that relevant business is fully considered. The sub-committees of the Board are described below, together with a summary of their respective responsibilities:



(1) This disclosure is given in accordance with the definition used in Article 91 of CRD IV and implemented by the PRA, whereby directorships in organisations which do not pursue predominantly commercial objectives are not counted and directorships held within the same group are counted as a single directorship.

Table 5: Board committees

Committee	Role
Audit & Compliance Committee	Reviews the appropriateness and completeness of the internal control framework, receives reports from internal and external auditors and monitors the progress of remedial action with regards to control weaknesses. Reviews arrangements established by management for compliance with regulatory requirements and reviews any matters of significance regarding the Group's relationship with its regulators.
Risk Committee (1)	Makes recommendations to the Board concerning the Group's risk appetite, and reviews the supporting Board level limit framework and key metrics. Evaluates and reports to the Board on matters concerning the Group's overall risk profile and performance against risk appetite, giving consideration to key trends and concentrations, compliance with limits and significant risk issues. The Committee evaluates the Group's governance, risk and control framework. Provides input to the Board Remuneration Committee with regards to appropriate risk adjustments to be made to remuneration packages.
Nomination Committee	Reviews and makes recommendations with regards to Board composition, performance, and Board and senior management succession planning. Selects and recommends to the Board candidates for membership in accordance with its assessment of the balance of skills, experience, diversity and independence to be maintained on the Board.
Remuneration Committee	Sets and recommends to the Board the objectives, principles and parameters of the Group's remuneration policy. Reviews the individual remuneration arrangements of senior staff having regard to the impact on behaviour, risk appetite and profile of these arrangements, and the degree to which performance assessment takes account of current and potential future risks.
Crisis Management Committee	Oversees contingency measures enacted by the Group in response to the breach of recovery planning triggers.

(1) The Board Risk Committee met nine times during 2014.

3 Risk Management Framework

The Group maintains a prudent approach to risk to ensure that it can operate safely and to support sustainable business development in keeping with the Board's strategy. A culture which is supportive of strong risk management, in line with clear principles and tolerance for risk is led by the Board. The Group has a strong and independent Risk Management function responsible for the maintenance of risk control frameworks and for keeping the Board informed of the Group's risk profile.

3.1 Risk culture

The Group believes that a strong risk management culture is essential to achieve its business objectives. With ultimate responsibility for risk governance throughout the Group, the Board of Directors embeds a strong risk management culture through the establishment of an independent Risk Management function which works closely with the business and treats risk management as a shared responsibility between the business and risk management functions.

3.2 Risk principles

The Board has established clearly defined risk principles which describe the Group's key risk management objectives in support of its business strategy, which are summarised below:

- Maintain a predictable cautious to moderate risk profile;
- Ensure that effective control of balance sheet usage and concentration risk is exercised, without tolerating breaches of the Group's limit framework;
- Preserve strong capital and liquidity ratios and comply with all regulatory requirements;
- Maintain a diversified funding strategy with regards to both the sources and tenor of funding;
- Maintain and build the trust of shareholders, employees and business counterparties in its reputation and solvency; and
- Ensure that remuneration arrangements are aligned to the Group's risk appetite.

3.3 Risk appetite

The Board's risk appetite describes the levels and types of risk that the Group is prepared to accept in pursuit of its business strategy. The risk appetite is prudently quantified with reference to scenario and stress testing, and is set so as to ensure that the Group is able to maintain a sound financial position throughout the economic cycle.

The risk appetite is implemented through a supporting limit framework which ensures that all material sources of risk are controlled in a manner consistent with the Board's overall risk tolerance. The Group has adopted a structured approach to limit management which ensures that limit reporting and oversight take place at the appropriate level within the organisation. The status of the Group's overall risk profile in relation to the risk appetite is overseen by the Board.

3.4 Risk governance and assigning responsibility

Three Lines of Defence

In keeping with the Group's risk culture, responsibilities for risk management are assigned to multiple functions within the organisation under the three lines of defence model, to ensure that the Group's risk management framework is robust and effective.

Business and support functions which originate or accept risk are held responsible for the management and control of that risk in line with the Group's risk appetite, supporting limit framework and other related risk policies.

The second line of defence is provided by risk control functions which exercise independent oversight of the management of risk by those originating functions. The principal risk control functions comprise the Group's Risk Management and Compliance functions, supported by the Finance and Legal teams.

Independent and post-dated assurance with regard to the effectiveness of risk management strategies, policies and processes is provided by the Group's internal audit function and its external auditors.

Risk Governance

As described in Section 2, the Board retains responsibility for approval of the Group's risk appetite, risk management oversight and capital and liquidity matters, including compliance with applicable regulation. The heads of the principal risk control functions, being the Chief Risk Officer and the Chief Compliance Officer, are mandated through dual reporting lines to update and inform the relevant Board committees of matters relating to their functions and group wide risk management.

Responsibility for the day to day running of the business is delegated by the Board to the Group's Chief Executive Officer, who in turn mandates the heads of the principal control functions to assume responsibility for risk challenge and oversight. The Chief Executive Officer and the heads of the Risk and Compliance functions are assisted in the performance of this role by executive committees whose principal responsibilities in this regard are summarised below:

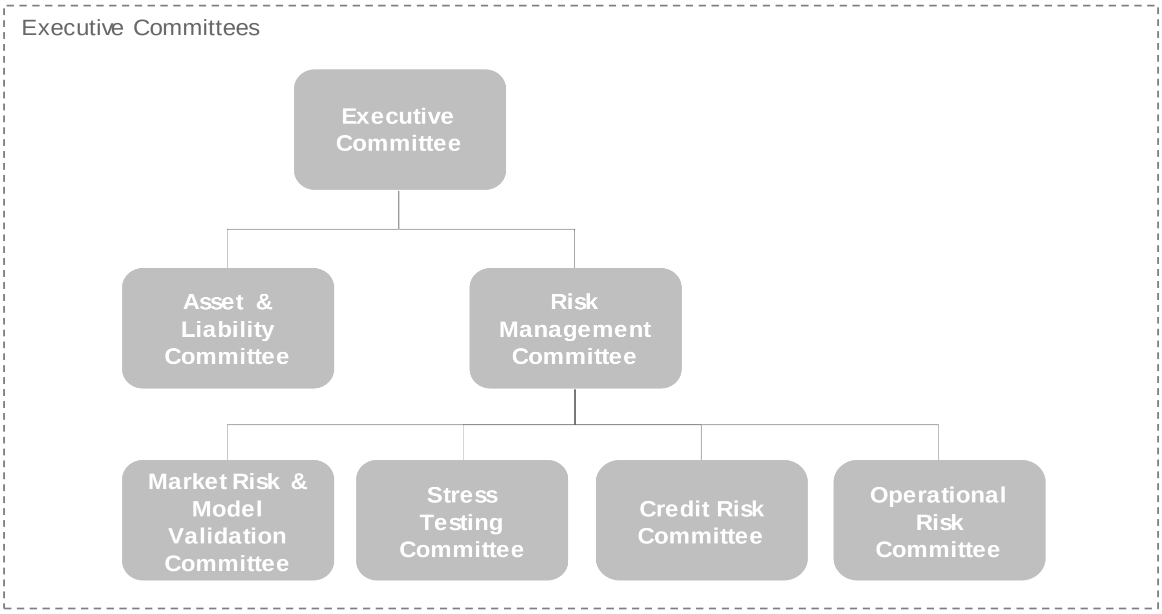


Table 6: Executive committees

Committee	Role
Executive Committee	Monitors performance against business plans and ensures that business is conducted in accordance with the Group's risk appetite.
Asset and Liability Committee	Considers the Group's balance sheet structure and utilisation of capital and liquidity resources.
Risk Management Committee	Oversight of firm wide risk profile and monitoring compliance with risk policy, limits & appetite.
Market Risk & Model Validation Committee	Ensures that an appropriate framework is maintained for managing market risks, including relevant policies, methodologies and models, limits and processes.
Stress Testing Committee	Reviews and advises on all firm wide stress testing matters, including relevant policies, scenario selection and methodology.
Credit Risk Committee	Ensures that an appropriate framework is maintained for managing counterparty, issuer, settlement and country credit risks, including relevant policies, methodologies, limits and processes.
Operational Risk Committee	Oversees the framework for managing operational risk, including relevant policies, methodologies, processes and business continuity arrangements.

3.5 Risk Management function and approach

The Group maintains a strong and independent Risk Management function which is headed by the Group's Chief Risk Officer. The function is mandated to oversee all material classes of risk to which the Group is exposed, other than conduct risks which are overseen by the Group's Compliance function.

The Risk Management function is structured to facilitate oversight of these principal risk classes and incorporates separate teams with responsibility for market, credit, liquidity and operational risk oversight. A common approach to risk oversight is adopted for each principal risk class, in accordance with risk policies established for those classes.

Risk Identification and assessment

All material risk exposures are identified and recorded within the Group's risk register, whilst responsibility for the assessment of those risks resides with both the business and the risk control functions. Risks and sub components of risk are assessed through the implementation of a variety of measures or metrics relevant to each risk class. Risk assessment measures are developed in accordance with accepted measurement methodologies for each class of risk, and the resulting assessments are classified according to severity, to provide clear identification of the Group's material exposures. Risk assessments are conducted in relation to both normal and stressed market conditions.

Control and mitigation

Risk exposures are managed by business and support functions using a range of techniques relevant to the individual risk class. Such techniques encompass market based hedging activities, credit risk mitigation techniques, diversification of funding sources and tenor, business continuity planning and the purchase of insurance.

Risk control limits and key risk indicators are established to ensure that risk exposures remain within specified levels, and that the Group is able to operate in accordance with its overall risk appetite. A comprehensive limit framework is maintained by risk class, with defined levels of authorisation to ensure that risk exposure levels are authorised and monitored at the appropriate level within the Group's governance hierarchy.

Monitoring and Reporting

Reporting of risk exposures in relation to risk limits, and more broadly with regards to trends in the Group's risk profile and emerging risks, is performed by the Risk Management function (and by the Compliance function with regards to conduct related matters). Reporting is conducted in relation to all principal risk factors, and is designed to enable effective governance of the Group's risk profile. In particular, the Board and its Risk Committee, together with those executive committees responsible for risk governance, are regularly informed of the Group's risk exposures and compliance with risk limits.

In addition to monitoring current risk exposures, the Group also monitors potential future adverse developments by establishing early warning indicators whose breach may indicate deterioration in the Group's capital and liquidity strength. Monitoring and reporting the status of these early warning indicators forms part of the Group's contingency planning arrangements.

3.6 Strategy and planning

The Group conducts formal business planning on an annual basis, through which the Board's strategic objectives are developed into detailed business plans. Commercial objectives and plans are established for all significant business lines, and from these financial projections are developed, which take account of expected macroeconomic and market conditions.

The Group's risk appetite is also formally reviewed on an annual basis as part of the business planning cycle, to ensure that business strategy and risk management activities are aligned. Business plans are also reviewed by the Group's Risk Management function to ensure that planned developments are achievable given the Group's risk management capabilities, and to form a view with regard to the balance of risk and reward attributable to planned activities.

As part of its business planning activities the Group also conducts capital planning to ensure that an appropriate balance between capital resources and capital requirements is maintained through the planning cycle. As part of its capital planning framework, the Group utilises stress tests to ensure that it is able to maintain a sound financial position in the event of severe economic stress. Stress tests are developed based upon potential future scenarios, selected in the light of the Group's risk profile and plausible future market and economic developments. Stress tests are conducted so as to apply selected scenarios in a consistent manner to the market, credit and liquidity risks to which the Group is exposed and to take account of any concentrations of exposure.

3.7 Adequacy of risk management arrangements

The Group assesses the adequacy of its risk management framework and of the amount of capital that it needs to hold in respect of its risk profile on an annual basis, or more frequently if required. This assessment is formally documented within the Group's ICAAP, and is approved by the Board of Directors.

The Group's 2014 ICAAP concluded that the risk management arrangements adopted by the Group were adequate in relation to its risk profile and strategy.

4 Risk profile, capital requirements and resources

4.1 Risk profile

Capital ratios

The Group has continued to maintain capital resources significantly above the minimum requirements established by the Basel Pillar 1 framework. The Group's ratio of tier 1 common equity to Pillar 1 risk weighted assets is given below, together with the ratio for Mizuho International plc, the Group's principal operating subsidiary:

Table 7: Tier 1 Capital Ratios

	2014 Group	2014 MHI	2013 Group	2013 MHI
Tier 1 capital ratio	50.3%	48.5%	48.8%	47.5%

Risk profile

The Group's business strategy is based on the provision of intermediation services within the capital markets for the Mizuho group's international client base. In keeping with this overall strategy, the Group operates Investment Banking and Markets and Products business lines. Investment Banking services chiefly comprise the underwriting and distribution of new debt and equity issuance on behalf of Mizuho clients together with the provision of mergers & acquisition services. Within its Markets and Products division the Group acts as Mizuho Securities' primary dealer and provider of secured financing in European debt securities and offers broking services in Japanese and Asian equities.

The Board requires that a cautious to moderate risk profile is maintained in pursuit of its strategy. The Group's Investment Banking and equity broking activities result in low levels of risk exposure as underwriting activity is predominantly conducted without accepting significant underwriting risk and equity broking activity does not expose the Group directly to equity market risk. Fixed Income trading activities result in low to moderate levels of risk as the Group maintains sovereign, financial and corporate inventory and provides secured financing to clients.

The Board's risk appetite is quantified with reference to stress testing by placing an aggregate limit on losses sustained over a one year period in a severe but plausible stressed scenario, and is also quantified with reference to the Group's internal capital measurement framework. The Group's risk appetite as quantified by these measures together with related exposures as at 31 March 2014 is shown below:

Table 8: Key risk profile metrics

	Actual Exposure 2014	Risk Appetite Limit 2014
Capital Risk Metrics	**£m**	**£m**
Risk Appetite Stress Loss	34	65
Internal Capital Usage	198	285

In addition to aggregated internal measures of risk, the Board also requires that the Group maintains surplus capital in excess of regulatory ICG to ensure that it can meet the PRA's capital requirements on an ongoing basis. As at 31 March 2014, the Group maintained an ICG capital surplus in excess of the minimum level set by the Board.

As described in section 3, these aggregate risk appetite measures are supported by a range of subsidiary limits and metrics which facilitate the control of individual risk factors at a detailed operational level.

4.2 Risk weighted assets and Pillar 1 capital requirements

The Group's Pillar 1 capital requirements and risk weighted assets as at 31 March 2014 are set out below by risk class. These requirements are further analysed in the following sections as referenced below:

Table 9: Risk weighted assets and Pillar 1 capital requirements

	Section	2014 Risk Weighted Assets	2014 Pillar 1 Capital Requirements	2013 Risk Weighted Assets	2013 Pillar 1 Capital Requirements
		£m	£m	£m	£m
Interest Rate Position Risk	5	630.9	50.5	438.9	35.1
Equity Position Risk	5	1.4	0.1	16.0	1.3
Foreign Currency Position Risk	5	1.0	0.1	2.4	0.2
Market Risk Total		**633.3**	**50.7**	**457.3**	**36.6**
Counterparty Credit Risk	6	123.8	9.9	161.0	12.9
Credit Risk Capital Component	7	64.3	5.1	122.9	9.8
Credit Risk Total		**188.1**	**15.0**	**283.9**	**22.7**
Operational Risk	8	87.1	7.0	168.1	13.4
Total		**908.5**	**72.7**	**909.3**	**72.7**

(1) The Group has no investments in collective investment undertakings or commodities.

4.3 Leverage ratio

Implementation of the leverage ratio requirements has commenced with bank level reporting to PRA from 31 March 2014. Public disclosure is required in 2015, with supervisory compliance expected to come into force from 1 January 2018.

The MSUKH Group continues to assess the impact of the leverage ratio on a regular basis, and will provide public disclosure of its ratio in accordance with EU and UK requirements.

4.4 Pillar 2 capital requirements

As outlined in section 1.2, the PRA prescribes ICG to firms as part of its supervision of the banking sector. The MSUKH Group has been given an ICG by the PRA and maintains capital which exceeds this requirement.

The MSUKH ICAAP provides an assessment of risks not covered or not fully captured through Pillar 1 capital requirements together with the firm's own quantification of those risks. The group ensures that it maintains capital which also exceeds this internal assessment of risk exposures (to the extent that this assessment exceeds ICG requirements). Some of the key risks assessed within the ICAAP under Pillar 2a include:

Risks not fully captured under Pillar 1

- Operational risk – operational risk losses measured using the group's stress testing approach to potential operational risk scenarios.
- Concentration risk – the risk of additional losses arising due to a higher level of default correlation than is assumed in Pillar 1 approaches, for example due to sectoral concentrations.
- Counterparty risk – additional counterparty risk exposure measured using the group's credit portfolio model (CVaR).

Risks not included under Pillar 1

- Pension risk – the risk of additional defined benefit pension contributions arising due to adverse movements in market rates or increases in longevity.
- Liquidity risk – additional costs incurred in a liquidity stress scenario.
- Structural foreign exchange risk – the risk of deterioration of the group's capital surplus due to the revaluation of non-sterling risk assets with regard to foreign exchange rates.
- Banking book interest rate risk – the risk of losses due to adverse interest rate movements which impact non trading assets and liabilities.

The MSUKH Group has also been set a Pillar 2B Capital Planning Buffer (CPB) requirement by the PRA. The MSUKH ICAAP forecasts capital requirements and capital resources under stressed scenarios, which enables the Group to make an internal assessment of the capital buffer required to ensure that it will continue to meet the PRA's ICG throughout the economic cycle. The Group maintains capital which exceeds the higher of the PRA's CPB requirements and its internal assessment of potential future capital needs.

4.5 Capital resources

The MSUKH Group's capital resources consist solely of common equity Tier 1 capital, which comprises equity share capital, audited profit and loss and other reserves. The Group has not issued any innovative Tier 1 instruments or Tier 2 capital instruments.

During the year ended 2014, called up and fully paid up share capital of the MSUKH Group was increased by £45m. Further details with regard to share capital are provided in Note 24 of the Group's 2014 Financial Statements. The difference between Total Equity as disclosed within the MSUKH Group's 2014 Financial Statements and regulatory capital arises from the different treatment of own credit adjustments in respect of fair value financial liabilities and from regulatory prudent valuation adjustments, as shown below:

Table 10: Capital resources reconciliation

Capital Resources composition	**2014 Capital Resources**	**2013 Capital Resources**
	£m	**£m**
Share capital	847.3	802.3
Reserves	(389.3)	(358.4)
Total Equity as per Note 24 of the 2014 Financial Statements	458.0	443.9
Own credit adjustments in respect of fair value financial liabilities	(0.2)	(0.3)
Prudent valuation adjustment (1)	(0.9)	-
Total common equity tier 1 capital	456.9	443.6
Total tier 2 capital	-	-
Total Capital Resources	456.9	443.6

(1) The requirement to reduce capital resources in respect of prudent valuation adjustments was introduced by the CRR from 1st January 2014.

5 Market Risk

5.1 Risk management

Market risk is the risk of financial loss or reduced valuation arising from adverse market movements (including changes in interest rates, foreign exchange rates, credit spreads and bond prices, equity prices and their associated volatilities).

Market risk appetite forms a component of the Group's overall risk appetite and is approved by the Board. The Group provides liquidity to customers of the wider Mizuho Group in European debt products, and holds inventory in its core product classes. The Group's market risk appetite is to maintain a cautious to moderate risk profile, whilst focusing upon client transaction flows in actively traded vanilla products.

The Group's market risk exposures arise principally from its trading operations in European government, SSA and corporate debt products. Exposures are partially mitigated through the execution of offsetting transactions in other debt instruments or through the use of derivative contracts. Whilst the Group does not trade foreign exchange on behalf of clients, foreign exchange exposures arise from profit and loss earned in foreign currencies and these exposures are regularly hedged by the Group's Treasury function. Market risk exposures also arise from non trading activities and commitments.

Market risk is managed in accordance with a variety of risk measures including sensitivity based measures (e.g. sensitivity to a basis point move in interest rates or credit spreads), Value at Risk (VaR), stress testing and ageing measures. Market risk limits are set and monitored using these measures as appropriate on a business line basis. Key risk exposures, which incorporate the effect of hedging activity, are monitored by the Group's Risk Management function on a daily basis.

Market risk exposure is routinely monitored by the Risk Management Committee, and is overseen by the Board Risk Committee and the Board. Significant exposures are escalated in accordance with market risk policy.

5.2 Balance sheet split of trading and banking books

Trading books comprise those positions that are held with trading intent or to hedge elements of the trading book. Trading intent must be evidenced through strategies, policies and procedures established by firms to manage positions or portfolios.

Trading book assets and liabilities are subject to regulatory Pillar 1 market risk capital requirements. Whilst non trading assets and liabilities are not subject to Pillar 1 market risk capital requirements, any significant market risk exposures arising from such positions are considered under Pillar 2.

The Group's balance sheet is split between trading and non trading or 'banking' books as shown below:

Table 11: Balance sheet split by trading and banking books

Balance sheet category	2014 Trading Book £m	2014 Banking Book £m	2014 Total £m
Reverse repurchase agreements	24,398.2	-	24,398.2
Trading financial assets	3,904.4	3.2	3,907.6
Derivative assets	137.9	66.8	204.7
Loans and advances to banks	-	98.7	98.7
Financial investments	-	-	-
Tangible fixed assets	-	12.7	12.7
Other assets, prepayments & accruals	149.6	114.4	264.0
Total Assets	28,590.1	295.8	28,885.9
Deposits by banks		744.1	744.1
Customer accounts		275.8	275.8
Repurchase agreements	23,465.2		23,465.2
Trading financial liabilities	2,600.9		2,600.9
Derivative liabilities	152.5	29.1	181.6
Debt securities in issue	-	976.6	976.6
Other liabilities, provisions & accruals	75.3	108.4	183.7
Total Liabilities	26,293.9	2,134.0	28,427.9

5.3 Internal risk measures

The Group has continued to manage its market risk at low levels over the past year, with average VaR of £1.4m (2013: £0.9m). The table below shows the Group's internal VaR measurement by risk factor:

Table 12: VaR by risk factor

	2014				2013			
VaR by risk factor	Close £m	Average £m	High £m	Low £m	Close £m	Average £m	High £m	Low £m
Interest rate risk	0.6	0.7	1.9	0.2	0.5	0.4	1.5	0.1
Credit spread risk	1.1	0.8	1.3	0.2	0.6	0.5	0.9	0.1
Futures basis risk	0.2	0.2	0.6	-	0.1	0.4	1.4	-
Equity risk	0.1	0.1	1.8	-	0.1	0.2	0.5	-
Foreign exchange risk	0.1	-	0.1	-	-	-	0.1	-
Total VaR(1)	1.6	1.4	3.4	0.7	1.0	0.9	1.9	0.4

(1) Total VaR assumes some diversification across risk types, and does thus not represent the simple sum of component risk factors.

5.4 Pillar 1 requirements by risk category

The Group's principal source of market risk derives from specific interest rate risk within the Group's trading inventory of fixed income securities. Specific interest rate risk represents exposure to rates relevant to the pricing of individual debt securities (the risk that trading securities may default is not specifically addressed within the Pillar 1 framework, and forms part of the Pillar 2 assessment of market risk).

The Pillar 1 requirements in respect of specific interest rate risk have risen year on year principally due to the impact of Basel III changes to risk weights applicable under the standardised approach.

The table below shows the Group's Pillar 1 market risk capital requirements, calculated using the standardised approach by risk factor:

Table 13: Pillar 1 market risk capital requirements by risk factor

Pillar 1 by risk factor	**2014 £m**	**2013 £m**
General interest rate risk	5.8	14.8
Specific interest rate risk (1)	44.6	20.3
General equity risk	0.1	0.5
Specific equity risk	0.1	0.8
Foreign exchange risk	0.1	0.2
Total Market Risk	50.7	36.6

(1) Includes specific risk requirements in respect of securitisation positions.

5.5 Trading book securitisation risk

Securitisation is a structured finance process which typically involves the repackaging of a pool of financial assets into tranches of securities of ascending seniority which bear the risk of the underlying asset pool.

The Group ceased conducting securitisation business in 2007 and has nearly fully divested itself of legacy asset backed securities (ABS) acquired at that time. Secondary market trading of ABS may be conducted on behalf of clients within the Fixed Income trading business.

Residual ABS positions held by ECAI rating band are shown below together with their associated Pillar 1 capital requirements, which form a part of the overall specific risk exposure. These exposures are shown gross and net of credit risk mitigation (CRM):

Table 14: Securitisation exposures and capital requirements by rating band

		2014			**2013**		
Rating band	**Risk Weight**	**Gross exposure £m**	**Exposure post CRM £m**	**Capital requirement £m**	**Gross exposure £m**	**Exposure post CRM £m**	**Capital requirement £m**
AAA to AA-	20%	-	-	-	-	-	-
A+ to A-	50%	-	-	-	-	-	-
BBB+ to BBB-	100%	-	-	-	-	-	-
BB+ to BB-	100%	-	-	-	-	-	-
B+ & below	1250%	0.3	0.3	0.3	0.1	0.1	0.1
Total		**0.3**	**0.3**	**0.3**	**0.1**	**0.1**	**0.1**

5.6 Non traded market risk

Market risk exposures which arise from non trading activities are not captured or fully captured through Pillar 1 capital requirements, and thus attract Pillar 2 charges. The market risk exposures which arise in respect of non trading activities are summarised below:

Table 15: Summary of non traded market risk

	Principal risk factors			
	Interest rate	**Inflation**	**Credit spread**	**Equity**
Banking book	●	○	○	●
Pension scheme	●	●	●	●

Equity risk in the banking book

Banking book equity investments, being those which are not held for trading intent, attract credit risk capital requirements under the standardised approach.

The Group's most significant non trading equity investment constituted a holding in a private equity healthcare fund. This holding was sold during the year realising a loss on disposal of £3.1m. The Group retains a carried interest in this fund, representing a contractual interest in the fund's performance in excess of predefined thresholds.

The Group maintains holdings of Mizuho Financial Group shares in connection with share based remuneration arrangements as discussed in section 9.

The Group also held shares in the London Clearing House (LCH), which were originally acquired in connection with LCH membership requirements for repo trading activity. These shares were sold during the year following the relaxation of these requirements.

The balance sheet value of non trading equity investments is shown below by investment category. These holdings are recorded on the balance sheet at fair value, with revaluation gains taken through profit and loss:

Table 16: Banking book equity by category

Banking book equity	**2014 Balance Sheet value £m**	**2013 Balance Sheet value £m**
Private equity	-	58.5
Exchange traded	3.2	2.5
Other	-	0.9
Total Banking book equity	3.2	61.9

Interest rate risk in the banking book

The non trading book principally comprises net balances of unsecured funding raised and managed by the Group's Treasury function in support of trading activities. Funding is raised across a range of maturities to ensure diversification of repayment risk and is issued on both a fixed and floating rate basis. The Group's policy is to minimise interest rate risk in the banking book through the use of derivative interest rate hedges, which leaves the Group exposed to falling short term interest rates. A fall in short term interest rates of 100 basis points would result in a loss attributable to the non trading book of £4m. A summary of the Group's non trading notional interest rate risk exposure by maturity band is included in Note 29B of the 2014 Financial Statements.

Pension scheme market risk

The Group sponsors one defined benefit pension plan, the Mizuho International plc Retirement Benefits Scheme ("the Scheme"). The Scheme closed to new members in 1996. Accrual of further liabilities ceased on the retirement of the last active member, prior to the 31 March 2009 actuarial valuation of the Scheme. The requirement to fund the Scheme is borne jointly by the Group and by DIAM Asset Management Limited in proportion to the historical association of Scheme members to those employers.

The Scheme's investment strategy is set by the Trustees, in consultation with the Group and recorded in the Scheme's Statement of Investment Principles. The strategy involves retaining longevity risk within the Scheme and holding a proportion of return seeking assets.

With regards to market risks, the Scheme's assets give rise to interest rate, credit spread and equity risk and the Scheme's liabilities give rise to interest rate and inflation risk.

6 Counterparty Credit Risk

6.1 Risk management

Counterparty credit risk is the risk of financial loss if a counterparty to a financial instrument or a customer fails to meet its contractual obligations.

Credit Risk appetite forms a component of the Group's overall risk appetite and is approved by the Board. The Group employs a number of metrics in support of its overall credit risk appetite, and these are used to limit and monitor the counterparty credit risk exposures in accordance with credit risk policies.

The Group is exposed to counterparty credit risk principally through derivative contracts and repo contracts arising from its trading activities.

Counterparty credit risk methodology

The Group accepts and places limits upon counterparty credit risk exposure in accordance with its methodology for assessing such risk. Counterparty credit risk is evaluated by determining the potential size of counterparty exposures which may arise from transactions together with an assessment of the creditworthiness of the obligor.

The potential size of counterparty exposures is a function of both current and potential future exposures. Potential future exposures to counterparty default which may arise through derivative and repo contracts are estimated using historical volatilities of key pricing variables to those contracts over their remaining life.

Counterparty credit quality is assessed using external credit ratings where available or alternatively an internal rating is assigned in accordance with internal credit rating methodology.

Counterparty credit limits are established by product in accordance with the Group's methodology for measuring counterparty credit risk, taking into account documentation held for netting and collateral management, and consistent with the overall credit risk appetite.

Counterparty credit risk mitigation

Risk mitigation techniques are used to reduce counterparty credit risks arising from trading activities. These techniques include the use of netting agreements, acceptance of collateral and execution of transactions with central counterparties, whereby credit risk to individual counterparties is replaced by exposure to a central counterparty (the Group does not make use of third party guarantees or credit derivatives to mitigate counterparty risk exposures).

Derivatives and repo trading activity is undertaken using netting agreements on a collateralised basis, unless exceptions are approved in accordance with credit policies, and collateral arrangements are governed by standard agreements (such as Credit Support Annexes to ISDA Master Agreements and Global Master Repurchase Agreements). The forms of collateral which may be accepted are subject to internal credit policy, which seeks to ensure that in the event of counterparty default the value of collateral held will be sufficient to compensate for losses arising from such default. Repo trading activity is principally conducted using high quality government collateral, and trading in sub investment grade corporate securities is minimal. The Group only accepts high quality collateral for margining purposes, which for repurchase transactions must be of at least equivalent quality to the collateral of the underlying transaction. Collateral is revalued on a daily basis in accordance with collateral management procedures.

In order to recognise the effects of credit risk mitigation, a number of conditions must be met, and in particular agreements must be legally enforceable and legal title to collateral must be passed to the Group. Once these conditions are satisfied the effect of collateral is reflected through reductions in measures of credit exposure.

Credit valuation adjustments are established in accordance with valuation policies for derivative and repo transactions. Credit valuation adjustments with respect to individual counterparties are based upon the potential size of exposures to those counterparties, taking account of legally enforceable netting and collateral agreements, together with market pricing of the creditworthiness of those counterparties.

Correlated risk

Correlated or "wrong way" risk arises where the probability of counterparty default is positively correlated with the size of the potential exposure to that counterparty. The Group adopts an integrated market and credit approach to stress testing which highlights correlated exposures across a range of scenarios.

Credit policies have been implemented to mitigate wrong way risk, including the use of collateral agreements, prevention of acceptance of collateral issued by a connected entity to the transaction counterparty, and over-collateralisation. Wrong way risk is further controlled through the operation of a credit limit framework in respect of specific counterparties, groups of counterparties and countries.

Collateral requirements in the event of a rating downgrade

The Group also considers the effects of a downgrade in the rating of Mizuho Bank, whose rating is referenced within the Credit Support Agreements under which the Group may be required to pay collateral to its counterparties. Stress testing is conducted which incorporates the impact of a three notch downgrade in the rating of Mizuho Bank, and this modelling indicates that the Group has sufficient available liquidity resources to manage the cash requirements which may arise in such a situation.

6.2 Pillar 1 requirements

The Group's risk weighted assets and Pillar 1 counterparty risk requirements, in respect of counterparty risk arising within trading and non trading books, are set out below as calculated under the Standardised Approach:

Table 17: Counterparty credit risk weighted assets and Pillar 1 capital requirements

	2014		2013	
	Risk Weighted Assets £m	**Pillar 1 Capital Requirements £m**	**Risk Weighted Assets £m**	**Pillar 1 Capital Requirements £m**
Counterparty Credit Risk	123.8	9.9	161.0	12.9

6.3 Analysis of counterparty risk exposures

Risk weighted assets and exposures by product type

An analysis of counterparty credit risk RWAs and exposures as at 31 March 2014 by product type is given below:

Table 18: Counterparty credit risk weighted assets and exposures by product type

	2014		2013	
	Risk Weighted Assets £m	**Credit Risk Exposure (1) £m**	**Risk Weighted Assets £m**	**Credit Risk Exposure £m**
Derivative contracts (2)	54.7	52.2	70.4	193.6
Securities financing contracts	68.7	636.1	90.6	535.1
Other	0.4	-	-	-
Total	123.8	688.3	161.0	728.7

(1) Credit Risk Exposure is shown as the credit exposure, calculated in accordance with Pillar 1 standard rules using the mark to market approach, less deductions in respect of credit risk mitigation.

(2) The CRR introduced a new requirement to hold capital in respect of credit valuation adjustments. Whilst not materially impacting the Group's capital requirements as at 31 March 2014, this has increased the measurement of risk weighted assets in relation to credit exposures.

Further analysis of credit risk exposure in respect of derivative contracts is given below, and shows the impact of netting benefits from legally enforceable netting agreements and collateral arrangements:

Table 19: Derivative counterparty credit risk exposures

	2014 Credit Risk Exposure £m	2013 Credit Risk Exposure £m
Gross positive fair value of derivative contracts	142.6	153.3
Potential future credit exposure	40.8	63.1
Netting benefits	(67.2)	(90.4)
Netted credit exposure on derivative contracts	116.2	126.0
Collateral (held) / placed	(64.0)	67.5
Total Net Derivatives Credit Risk Exposure	52.2	193.5

Counterparty credit risk exposures by exposure class

An analysis of counterparty credit risk exposures as at 31 March 2014 by principal exposure class is given below:

Table 20: Counterparty credit risk exposures by exposure class

	2014 Credit Risk Exposure £m	2013 Credit Risk Exposure £m
Government, Central Banks and International Organisations	145.5	76.6
Central counterparties	307.9	284.6
Financial institutions	234.9	362.5
Corporates	-	5.0
Total	688.3	728.7

Counterparty credit risk exposures by credit quality

The Group has maintained a cautious approach with regards to the credit standing of its counterparties. An analysis of counterparty credit risk exposures as at 31 March 2014 by credit quality, in accordance with the credit quality steps (CQS) used within the Pillar 1 Standardised Approach, is given below:

Table 21: Counterparty credit risk exposures by credit quality step

	2014 Credit Quality Steps 1 £m	2 £m	3 £m	4 £m	N/a [1] £m	Total £m
Government, central banks & international organisations	145.5	-	-	-	-	145.5
Central counterparties	-	-	-	-	307.9	307.9
Financial institutions	131.9	103.0	-	-	-	234.9
Corporates	-	-	-	-	-	-
Total Credit Risk Exposure	**277.4**	**103.0**	**-**	**-**	**307.9**	**688.3**

Table 21: Counterparty credit risk exposures by credit quality step (continued)

	2013					
	Credit Quality Steps					
	1 £m	2 £m	3 £m	4 £m	N/a (1) £m	Total £m
Government, central banks & international organisations	76.6	-	-	-	-	76.6
Central counterparties (2)	284.6	-	-	-	-	284.6
Financial institutions	85.2	219.7	17.5	0.7	39.4	362.5
Corporates	-	-	-	-	5.0	5.0
Total Credit Risk Exposure	**446.4**	**219.7**	**17.5**	**0.7**	**44.4**	**728.7**

(1) Uniform regulatory treatment applied.

(2) Qualifying central counterparties attract a uniform 2% risk weighting from 1st January 2014 irrespective of credit quality, whereas prior to this date they attracted a 0% risk weighting and were classed within Credit Quality Step 1.

Under the standardised approach, credit ratings assigned by credit rating agencies are used in the calculation of risk weighted assets. The PRA determines which rating agencies may be used in the calculation of risk weights, of which MSUKH uses ratings assigned by Standard & Poor's, Moody's and Fitch. Credit exposures must be assigned to one of six credit quality steps if a rating is available. Risk weight percentages are assigned based upon the credit quality step, exposure class and maturity of each credit exposure. Where an external credit rating is not available or where exposures exist to central counterparties, a default treatment is applied as specified by regulatory guidance.

Exposures are assigned to credit quality steps based upon external ratings as illustrated below:

Table 22: Assignment of ratings to credit quality steps

	Standard and Poor's	Moody's	Fitch
Credit quality step 1	AAA to AA-	Aaa to Aa3	AAA to AA-
Credit quality step 2	A+ to A-	A1 to A3	A+ to A-
Credit quality step 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB
Credit quality step 4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
Credit quality step 5	B+ to B-	B1 to B3	B+ to B-
Credit quality step 6	CCC+ and below	Caa1 and below	CCC+ and below

6.4 Notional value of credit derivative transactions

The counterparty credit risk exposures described in the analysis above include credit derivative contracts which give rise to both counterparty credit risk exposure to the counterparty to the contract, as well as credit exposure to the reference entity specified within the contract.

The following table shows the notional value of the credit derivative transactions outstanding as at 31 March 2014, arising in respect of the Group's own credit portfolio or through intermediation activities. Transactions in respect of the Group's own credit portfolio comprise both hedges of market risk associated with trading inventory and hedges used in connection with the issuance of structured notes:

Table 23: Notional value of credit derivative transactions

	2014		2013	
Notional value of outstanding transactions	Own Credit portfolio		Own Credit portfolio	
	Protection Purchased £m	Protection Sold £m	Protection Purchased £m	Protection Sold £m
Credit default swaps	3.0	21.6	29.1	5.1

7 Credit Risk

7.1 Risk management

Credit Risk is the risk of financial loss arising from the failure of a counterparty to meet its contractual obligations. The credit risk associated with counterparty transactions is discussed in Section 6 and the credit risk arising from exposure to issuers of traded debt is discussed within Section 5.

Credit Risk appetite forms a component of the Group's overall risk appetite and is approved by the Board. The Group employs a number of metrics in support of its overall credit risk appetite, and these are used to limit and monitor the credit risk exposures in accordance with credit risk policies.

The principal sources of non trading credit risk exposures arise from funding operations through the placement of cash resources and deposits with third parties, whilst exposures also arise in the ordinary course of business through short term receivables and investment in fixed assets. The Group does not undertake commercial or retail lending activity and does not extend credit through the provision of guarantees.

Non trading credit risk exposures are measured in accordance with balance sheet carrying values, after taking account of any applicable credit risk mitigation arrangements and adjustments for credit impairment.

7.2 Pillar 1 requirements

Risk weighted assets and Pillar 1 credit risk capital requirements calculated under the Standardised Approach are set out below:

Table 24: Credit risk RWAs and pillar 1 capital requirements by exposure class

	2014		2013	
	Risk Weighted Assets £m	Pillar 1 Capital Requirements £m	Risk Weighted Assets £m	Pillar 1 Capital Requirements £m
Financial institutions	12.3	0.9	107.8	8.6
Corporates	-	-	-	-
Fixed assets and other assets	52.0	4.2	15.1	1.2
Total	64.3	5.1	122.9	9.8

7.3 Analysis of credit risk exposures

Credit risk exposures by credit quality

Credit risk exposures before and after credit risk mitigation and risk weighted assets by credit quality, in accordance with the credit quality steps used within the Standardised Approach, are given below:

Table 25: Credit risk exposures and RWAs by credit quality step

	2014			
	Gross Credit Exposure £m	Credit Risk Mitigation £m	Net Credit Exposure £m	Risk Weighted Assets £m
Credit quality step 1	6.1		6.1	-
Credit quality step 2	61.2	-	61.2	12.2
Credit quality step 5	3.2	-	3.2	3.2
Uniform regulatory treatment	48.9	-	48.9	48.9
Total	119.4	-	119.4	64.3

	2013			
	Gross Credit Exposure £m	Credit Risk Mitigation £m	Net Credit Exposure £m	Risk Weighted Assets £m
Credit quality step 1	2.5		2.5	-
Credit quality step 2	72		72	11.8
Credit quality step 6	64.0	-	64.0	96.0
Uniform regulatory treatment	15.1	-	15.1	15.1
Total	153.6	-	153.6	122.9

Gross credit exposures by exposure class

Gross credit risk exposures, before the impact of credit risk mitigation, as at year end and averaged over the financial year are summarised below:

Table 26: Gross credit risk exposures by exposure class

	2014		2013	
	Average Gross Exposure £m	Year End Gross Exposure £m	Average Gross Exposure £m	Year End Gross Exposure £m
Government, central banks & international organisations	4.2	6.1	2.2	2.5
Financial institutions	136.5	64.4	154.3	114.6
Corporates	-	-	-	-
Fixed assets and other assets	58.7	48.9	68.2	36.5
Total	199.4	119.4	224.7	153.6

Geographic distribution of gross credit exposures

The geographic distribution of gross credit exposures as at 31 March 2014 is given below:

Table 27: Geographic distribution of gross credit risk exposures

	2014					
	UK £m	Japan £m	US £m	Europe £m	Other £m	Total £m
Government, central banks & international organisations	6.1	-	-	-	-	6.1
Financial institutions	13.0	20.4	8.3	22.5	0.2	64.4
Corporates	-	-	-	-	-	-
Fixed assets and other assets	48.9	-	-	-	-	48.9
Total Credit Risk Exposure	**68.0**	**20.4**	**8.3**	**22.5**	**0.2**	**119.4**

	2013					
	UK £m	Japan £m	US £m	Europe £m	Other £m	Total £m
Government, central banks & international organisations	2.5	-	-	-	-	2.5
Financial institutions	78.3	4.9	2.6	26.0	2.8	114.6
Corporates	-	-	-	-	-	-
Fixed assets and other assets	36.5	-	-	-	-	36.5
Total Credit Risk Exposure	**117.3**	**4.9**	**2.6**	**26.0**	**2.8**	**153.6**

Residual maturity of gross credit exposures

The residual maturity of gross credit exposures as at 31 March 2014 is given below:

Table 28: Residual maturity of gross credit risk exposures

	2014				
	Less than 1 year £m	**1 to 5 years £m**	**5 to 10 years £m**	**Over 10 years £m**	**Total £m**
Government, central banks & international organisations	6.1	-	-	-	6.1
Financial institutions	61.2	3.2	-	-	64.4
Corporates	-	-	-	-	-
Fixed assets and other assets	46.2	2.7	-	-	48.9
Total Credit Risk Exposure	**113.5**	**5.9**	**-**	**-**	**119.4**

	2013				
	Less than 1 year £m	**1 to 5 years £m**	**5 to 10 years £m**	**Over 10 years £m**	**Total £m**
Government, central banks & international organisations	2.5	-	-	-	2.5
Financial institutions	49.9	0.7	-	64.0	114.6
Corporates	-	-	-	-	-
Fixed assets and other assets	29.3	7.2	-	-	36.5
Total Credit Risk Exposure	**81.7**	**7.9**	-	**64.0**	**153.6**

Single Issuer exposures

Single issuer concentration risk is the risk associated with significant issuer, credit and counterparty risk exposures to a single entity or group of connected entities. If firms hold exposures to single entities or groups in excess of 25% of their own capital resources [(1)], they are required to hold additional Pillar 1 capital in respect of concentration risk.

As at 31 March 2014 the Group had no Pillar 1 concentration risk capital requirements.

7.4 Impairment adjustments

At each balance sheet date, the Group assesses whether those financial and other assets which are not accounted for at fair value through profit and loss, are impaired. As at 31 March 2014, no adjustments in respect of asset impairment were made (2013: no impairment adjustments were made).

Financial assets are treated as impaired when objective evidence demonstrates that a loss event has occurred following the initial recognition of an asset, and that the loss event has an impact on the asset's future cash flows which can be reliably estimated.

Impairment losses in respect of financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the profit and loss account, whilst interest on impaired assets continues to be recognised through the unwinding of the discount. If subsequent events result in a reduction in the estimate of impairment losses, this reduction is accounted for through profit and loss.

Impairment losses in respect of other assets are measured as the difference between their carrying values and recoverable amounts, and this is recognised through profit and loss.

(1) Or in excess of €150m, if greater than 25% of a firm's capital resources, where exposures are incurred towards financial institutions.

8 Operational Risk

8.1 Risk management

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk appetite forms a component of the Group's overall risk appetite and is approved by the Board. The Group has no tolerance for inappropriate staff behaviour which may result in damage to its reputation or to the interests of its clients.

The principal operational risks to which the Group is exposed include the risk of fraud, legal risks arising from inadequate due diligence, cyber risk, risks associated with information technology development or failure, and regulatory censure.

Operational risk exposures are assessed and measured using a variety of approaches including: risk and control self assessments, the setting and reporting of key operational risk indicators, internal loss event reporting, external loss event capture and scenario stress testing.

The Group mitigates such risks through the maintenance of a comprehensive system of internal controls, which incorporates a strict segregation of duties between front and back office functions, the purchase of external insurance, and business continuity planning. Root cause analysis is undertaken to investigate internal instances of operational loss or near miss incidents. In cases where internal controls cannot be implemented to reduce operational risk to an acceptable level, consideration is given to avoiding or transferring the risk altogether.

Operational risk reporting is undertaken routinely to the Risk Management Committee and to the Operational Risk Committee. Significant matters are escalated to the Board Risk Committee and to the Board.

8.2 Pillar 1 requirements

As at 31 March 2014 the Pillar 1 capital requirement in respect of operational risk was £7.0m (2013: £13.4m), as calculated under the Basic Indicator Approach.

9 Remuneration

9.1 The Board Remuneration Committee

The Group's corporate governance arrangements are summarised in section 2. As part of these arrangements the Board has established a Remuneration Committee (RemCo) to approve remuneration policy and to set specific remuneration at certain levels. RemCo members are appointed by the Board and solely comprise Non-Executive Directors. The RemCo reports to the Board through its Chairman. The remuneration of the Group's Executive Board Directors is approved by the RemCo. The RemCo also exercises oversight in respect of the remuneration of Code Staff (see 10.3 below). Between 1 April 2013 and 31 March 2014 the RemCo held nine meetings.

9.2 Remuneration policy

The Group maintains a remuneration policy (the Remuneration Policy) which applies to all employees together with staff seconded from other Mizuho Group entities (the wider Mizuho Group). The policy takes into account the PRA's Remuneration Code and related guidance and is intended to promote effective risk management whilst retaining the flexibility to make changes dependent upon external factors including, but not limited to, future legislative or regulatory changes. The policy also provides a market based remuneration framework, which enables the Group to recruit and retain high calibre staff and promote fairness and consistency throughout the employment relationship whilst not compromising the Group's high standards of control and risk management.

The Remuneration Policy and its implementation will be reviewed and approved by the RemCo from time to time and not less than annually. Any changes to this policy will be made only upon approval by the RemCo as appropriate and will be subject to ratification by the Board of Directors. RemCo ratified a revised Remuneration Policy in March 2014.

9.3 Code Staff

Code Staff are defined as staff including senior management, risk takers, heads of control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the Group's risk profile. When identifying Code Staff for 2014/15 onwards, the Group will have regard to the qualitative and quantitative criteria developed by the European Banking Authority. A list of Code Staff is held by the Group's Human Resources function (HR). Staff that appear on this list are notified by HR of their status and of the implications of being defined as Code Staff.

As at 31 March 2014, 23 members of staff were identified as Code Staff: comprised of 18 significant influence functions (of whom five were also risk takers), three other members of senior management and two risk takers. Two Code Staff were identified during the year and two Code Staff left the Group's employment.

9.4 Control functions

The compensation of employees engaged in control functions is based principally on the achievement of objectives linked to those functions and Group-wide performance. Compensation for the heads of those control functions is approved by the RemCo.

9.5 The link between pay and performance

The Remuneration Policy is designed to align employee rewards with performance and aims to protect and promote shareholder interests by incentivising staff to deliver sustained performance and create long-term value through delivery of the Group's goals. The policy also provides a market competitive remuneration structure to attract and retain high calibre staff.

The Group's policy is that variable remuneration awards are conditional, discretionary and contingent upon a sustainable and risk-adjusted performance, in excess of that required to fulfil the employee's job description as part of the employee's terms of employment. In particular for Front Office staff, performance is assessed on a range of both quantitative and qualitative measures. Awards of variable remuneration are therefore capable of forfeiture or reduction at the Group's discretion, including down to zero.

Variable remuneration will be paid only if it is sustainable in the context of the Group's financial situation and is justified on the basis of individual, departmental, Group or wider Mizuho Group performance.

The Head of Human Resources, Chief Compliance Officer, Chief Risk Officer and Chief Financial Officer are each involved in the process of reviewing and setting remuneration and bonuses. Any concerns regarding an individual's activities or conduct raised in the course of the annual appraisal process or otherwise will be escalated to these individuals and where necessary to the RemCo and will be taken into account by management when remuneration and bonus awards are determined.

9.6 The design characteristics of the remuneration scheme

During the period in question variable remuneration for Code Staff (who were not subject to the de minimis concession) was paid in cash and shares and elements were subject to deferral. Code Staff who fell under the de minimis concession were paid in cash only. Variable remuneration is subject to the following design characteristics:

Risk Adjustment

The bonus pool is determined from performance figures which inherently factor in risk adjusted accounting measures. The bonus pool is further adjusted for risk by RemCo. The CRO attends RemCo and contributes to discussion on the size of the bonus pool relative to risk issues by reference to a number of metrics including adherence to the firm's risk appetite statement.

The Board and RemCo are of the view that a purely formulaic approach to bonus adjustment is not suitable at this point in time given the size and nature of the Group's activities and because it can promote a false impression of precision. In addition, the Group is in an evolving process of revising its budget and strategy for future years – which means that a more flexible discretionary approach to adjusting bonus pools is required in its current state e.g. for retaining and attracting key staff. Current potential discretionary risk adjustments include, but are not limited to, the cost of capital, cost of funding and potential long tail risks.

The CRO and CFO can recommend discretionary or formulaic adjustments to accrued bonus pools at any point throughout the year via the RemCo or the Board Risk Committee where relevant performance metrics are discussed.

Deferral Policy

During the period in question (April 2013 to March 2014) variable pay for Code Staff and certain other staff was subject to a deferral plan. The deferral plan for Code Staff (who were not subject to the de minimis concession) provided for deferral of between 40% and 60% of variable pay for a period of three years in line with the Remuneration Code. For all other staff subject to the deferral plan (and Code Staff who fell under the de minimis concession), the deferral plan provided for cash deferrals of between 20% and 60% of variable pay over a prescribed threshold for a period of three years.

Malus - Performance Adjustment

Malus refers to the Group's ability to prevent a deferred bonus from vesting and is also referred to as performance adjustment. Deferred bonuses will only vest to the extent determined by the Remuneration Committee in its discretion having regard to such matters as it considers appropriate, including but not limited to the following matters:

All staff subject to deferral, including Code Staff:

- Any restatement or recalculation of individual, departmental, Group, or wider Mizuho Group financial performance (including but not limited to adjustments made following the discovery of incorrect or false accounting);
- Any other circumstances as required by law or by any regulator.

Code Staff only:

- whether vesting is:
  a) sustainable according to the financial situation of the Group;
  b) justified on the basis of individual, departmental, Group or wider Mizuho Group performance;
- considerations regarding:

a) any assessment or reassessment of individual, departmental, Group or wider Mizuho Group performance;

b) any evidence of an individual's misbehaviour or material error;

c) any material downturn in departmental, Group or wider Mizuho Group financial performance;

d) any material failure of risk management suffered by the individual's department, the Group or the wider Mizuho Group.

- evidence regarding:

a) any conduct in which the individual participated or for which the individual was responsible resulting in significant losses to the individual's department, the Group or the wider Mizuho Group;

b) any failure of the individual to meet appropriate standards of fitness or propriety (including, without limitation, any such standards set by a regulator, the Group or the wider Mizuho Group) or to comply with Group or wider Mizuho Group policies;

- misconduct or material failure of risk management which the individual could:

a) reasonably be expected to be aware of but failed to take adequate steps to promptly identify, assess, report, escalate or address; or

b) by virtue of the individual's role or seniority, be deemed indirectly responsible or accountable for, including, without limitation, by virtue of being senior staff in charge of setting Group or wider Mizuho Group culture or strategy.

Employee behaviours

An Evaluation Committee, made up of Executive Committee members, meets on an annual basis to assess individual staff behaviours, the results of which form part of the appraisal and remuneration process. This is in addition to the specific involvement of the CFO, CRO, Head of Human Resources and Chief Compliance Officer.

The RemCo will use information in respect of corporate performance and risk management to make informed decisions when reviewing the appropriateness of the overall bonus pool and specifically the remuneration of Code Staff and higher earners. The bonus pool is agreed with the parent company, Mizuho Securities, with final approval by RemCo.

Clawback

When awarding variable remuneration for 2014/15 onwards, the Group will have regard to the final rules on clawback developed by the PRA and released on 31 July 2014.

9.7 Remuneration leverage

Remuneration leverage is the ratio of the fixed to the variable component of remuneration. The Group ensures that fixed and variable components of total remuneration are appropriately balanced and sets fixed remuneration at a level which permits a fully flexible bonus policy (including the award of no variable remuneration in appropriate circumstances). In respect of 2014/15, the maximum leverage ratio for all staff (including Code Staff) has been set at 1:2, shareholder approval having been obtained for such a ratio for Code Staff in accordance with the Remuneration Code.

9.8 Remuneration awards and expenditure

Aggregate Code Staff remuneration by business area

Aggregate remuneration awards to Code Staff by business area are shown below:

Table 29: Aggregate Code Staff remuneration by business area

	2014	2013
	Aggregate Remuneration awards £m	**Aggregate Remuneration awards £m**
Investment Banking	1.1	0.6
Markets and Products	4.5	4.2
Central functions	6.4	6.9
Total	12.0	11.7

Aggregate remuneration of Code Staff by type of award

Aggregate remuneration awards in respect of Code Staff by type of award, split between senior management and other staff, are set out below:

Table 30: Aggregate Code Staff remuneration by type of award

	2014		**2013**	
Code Staff Aggregate Remuneration	**Senior management £m**	**Other Code Staff £m**	**Senior management £m**	**Other Code Staff £m**
Fixed remuneration				
- Cash	5.3	1.1	5.6	1.1
Variable remuneration:				
- Non Deferred Cash	1.3	0.1	0.9	0.4
- Non Deferred Shares	1.1	0.1	0.7	0.3
- Deferred cash	1.4	0.1	0.9	0.5
- Deferred shares	1.4	0.1	0.9	0.4
Total variable remuneration	5.2	0.4	3.4	1.6
Total remuneration	**10.5**	**1.5**	**9.0**	**2.7**

The number of Code Staff in respect of whom remuneration awards were made during the year is as follows:

Table 31: Number of Code Staff subject to awards

	2014		**2013**	
Code Staff numbers	**Senior management**	**Other Code staff**	**Senior management**	**Other Code staff**
Number of code staff	20	5	27	5

Total outstanding deferred remuneration

The amounts of deferred remuneration which have been awarded to employees but have not yet been paid, split between vested and unvested awards and shown separately for senior management and other code staff, are shown below. Total outstanding deferred remuneration as at 31 March 2014 is shown below including unsettled awards made in respect of the current and preceding financial periods:

Table 32: Analysis of total outstanding deferred remuneration

	2014	
Outstanding deferred remuneration	**Senior management £m**	**Other Code Staff £m**
Vested deferred remuneration	-	-
Unvested deferred remuneration	5.3	2.1
Total outstanding deferred remuneration	**5.3**	**2.1**

Adjustments and payment of deferred remuneration

Adjustments made in respect of previously awarded deferred remuneration and payments of deferred awards during the year, split between senior management and other Code Staff, are shown below:

Table 33: Deferred remuneration adjustments and payments

	2014	
Deferred remuneration	**Senior management £m**	**Other Code Staff £m**
Deferred remuneration adjustments	-	-
Deferred remuneration payments	1.0	0.8

Sign on and severance payments

Sign on payments made and severance payments awarded and made during the year, split between senior management and other Code Staff, are shown below:

Table 34: Analysis of sign on and severance payments

	2014		2013	
Sign on and severance payments	**Senior management £m**	**Other Code Staff £m**	**Senior management £m**	**Other Code Staff £m**
Sign on				
- Payments made	-	-	0.1	-
Severance				
- Payments awarded	-	0.3	0.7	0.1
- Highest single award		0.3	0.2	0.1
- Payments made	-	0.3	0.7	0.1

The number of Code Staff in respect of whom sign on payments and severance awards and payments were made during the year is as follows:

Table 35: Number of Code Staff subject to sign on and severance payments

	2014		2013	
Code Staff numbers	**Senior management**	**Other Code Staff**	**Senior management**	**Other Code Staff**
Sign on payments made	-	-	1	-
Severance payments awarded	-	1	6	1
Severance payments made	-	1	6	1

Remuneration bandings

The number of individuals who were awarded remuneration of EUR 1 million and above is shown below in remuneration bandings:

Table 36: Remuneration bandings

	2014
Remuneration Awarded EUR millions	**Number of individuals**
1 to 1.5	4
1.5 to 2	1
Over 2	-

GLOSSARY

Asset backed securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. In the case of Collateralised Debt Obligations (CDOs), the reference pool may itself comprise asset backed securities.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	In December 2010, the BCBS issued the Basel III rules, which were subsequently updated in June 2011. This revised framework strengthened global regulatory standards on bank capital adequacy and liquidity. The phasing in of these new requirements started on 1 January 2014 and full implementation is expected by 1 January 2019.
CRD IV	Represents the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) that implement the Basel III proposals in Europe.
Counterparty credit risk	Counterparty credit risk is the risk of financial loss if a counterparty to a financial instrument or a customer fails to meet its contractual obligations.
Credit quality step (CQS)	Credit quality steps are used to derive the risk weights used in the calculation of risk weighted assets and capital requirements under the Standardised approach for credit risk and certain aspects of market risk.
Credit risk	Credit Risk is the risk of financial loss arising from the failure of a counterparty to meet its contractual obligations.
Credit risk mitigation (CRM)	Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as acceptance of collateral, netting agreements, credit insurance, credit derivatives and other credit guarantees.
Credit exposure	Credit exposure is a measure of the potential exposure to credit losses arising from transactions of varying classes. Credit exposures may be expressed both before and after the effects of credit risk mitigation.
Equity risk	Equity risk is the risk of financial loss or reduced valuation arising from adverse changes in equity prices (a component of market risk).
European Banking Authority (EBA)	An independent EU authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.
External credit assessment institutions (ECAI)	External ratings are used to assign risk weights within the Standardised approach to credit risk for sovereigns, corporates and institutions (and are also used in the measurement of certain classes of market risk). These ratings must be provided by PRA approved rating agencies, known as ECAIs.
Fair value	The value of an asset or liability when it is transacted on an arm's length basis between knowledgeable and willing parties.
Foreign exchange risk	Foreign exchange risk is the risk of financial loss or reduced valuation arising from adverse changes in foreign exchange rates (a component of market risk).
Institution	In accordance with the Capital Adequacy Directive and the Banking Consolidation Directive, an institution is a credit institution or an investment firm.
Interest rate risk	Interest rate risk is the risk of financial loss or reduced valuation arising from adverse changes in interest rates, credit spreads and bond prices (a component of market risk).
Leverage ratio	A non risk based measure of the ratio of Tier 1 capital to total exposures (comprising principally the sum of balance sheet including derivative, securities financing and off balance sheet exposures).

Market risk	Market risk is the risk of financial loss or reduced valuation arising from adverse market movements (including changes in interest rates, foreign exchange rates, credit spreads and bond prices, equity prices and their associated volatilities).
Minimum capital requirement	Minimum capital to be held at all times in respect of credit, market, concentration and operational risk (together with other risk factors identified under Pillar 2).
Operational risk	Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events.
Pillar 1	The first pillar of the Basel framework, which sets industry wide approaches to the calculation of minimum capital requirements.
Pillar 2	The second pillar provides for supervisory review of the capital requirements of individual firms. Under Pillar 2, firms must undertake a comprehensive assessment of the risks to which they are exposed and determine how much capital is needed in respect of these risks. Supervisors are required to review these assessments in forming their own view of the capital requirements of individual institutions.
Pillar 3	The third pillar provides a consistent and comprehensive disclosure framework in respect of risk management and capital requirements, as a means of promoting market discipline.
Position risk capital requirement	A capital requirement applied to a position treated under market risk rules as part of the calculation of market risk capital requirement.
Prudential Regulation Authority (PRA)	The UK's prudential regulator of deposit takers, insurers and major investment firms. The PRA forms a part of the Bank of England and its primary objective is to ensure the safety and soundness of firms that it regulates.
Regulatory capital resources	Regulatory capital resources represent the sum of Tier 1 Capital and Tier 2 Capital after taking into account any regulatory adjustments.
Risk appetite	Risk appetite is an expression of the amount of risk that firms are willing to take in pursuit of their strategic objectives (typically determined with regard to capacity to sustain losses and still fulfil obligations under a range of stressed conditions).
Risk weighted asset (RWA)	A measure of a firm's exposures adjusted for the risks associated with those exposures. RWAs may thus be greater or lesser than the underlying exposure measure (to the extent that the applicable risk weights are greater or lesser than 100%). Risk weightings are established in accordance with the Basel Capital Accord as implemented by the EBA and the PRA
Securitisation	Securitisation is a structured finance process which typically involves the repackaging of a pool of financial assets into tranches of securities of ascending seniority which bear the risk of the underlying asset pool.
Standardised approach	In relation to various risks measured under Pillar 1, a method for calculating capital requirements using ECAI ratings, supervisory risk weights and other supervisory factors.
Tier 1 capital	Tier 1 capital comprises Core Tier 1 capital plus innovative Tier 1 securities and preference shares less deduction for significant/insignificant holdings in credit or financial institutions, qualifying holdings and various regulatory adjustments.
Tier 2 capital	Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision less various regulatory adjustments.
Trading book	The trading book consists of all positions in Capital Requirements Directive (CRD) financial instrument and commodities held either with trading intent or in order to hedge other elements of the trading book, and which are either free of any restrictive covenants on their tradability or are able to be hedged.
Value at risk (VaR)	VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level.

INDEX OF TABLES

Table	Title	Page
Table 1	Basel Pillar 1 risk based approaches	4
Table 2	Risk Weighted Asset calculation drivers split by balance sheet category	6
Table 3	Roles on the Board	8
Table 4	Board composition	9
Table 5	Board committees	10
Table 6	Executive committees	12
Table 7	Tier 1 Capital Ratios	15
Table 8	Key risk profile metrics	15
Table 9	Risk weighted assets and Pillar 1 capital requirements	16
Table 10	Capital resources reconciliation	17
Table 11	Balance sheet split by trading and banking books	19
Table 12	VaR by risk factor	19
Table 13	Pillar 1 market risk capital requirements by risk factor	20
Table 14	Securitisation exposures and capital requirements by rating band	20
Table 15	Summary of non traded market risk	20
Table 16	Banking book equity by category	21
Table 17	Counterparty credit risk weighted assets and Pillar 1 capital requirements	23
Table 18	Counterparty credit risk weighted assets and exposures by product type	23
Table 19	Derivative counterparty credit risk exposures	24
Table 20	Counterparty credit risk exposures by exposure class	24
Table 21	Counterparty credit risk exposures by credit quality step	24
Table 22	Assignment of ratings to credit quality steps	25
Table 23	Notional value of credit derivative transactions	25
Table 24	Credit risk RWAs and pillar 1 capital requirements by exposure class	26
Table 25	Credit risk exposures and RWAs by credit quality step	26
Table 26	Gross credit risk exposures by exposure class	27
Table 27	Geographic distribution of gross credit risk exposures	27
Table 28	Residual maturity of gross credit risk exposures	28
Table 29	Aggregate Code Staff remuneration by business area	33
Table 30	Aggregate Code Staff remuneration by type of award	33
Table 31	Number of Code Staff subject to awards	33
Table 32	Analysis of total outstanding deferred remuneration	34
Table 33	Deferred remuneration adjustments and payments	34
Table 34	Analysis of sign on and severance payments	34
Table 35	Number of Code Staff subject to sign on and severance payments	34
Table 36	Remuneration bandings	35