Mizuho Securities UK Holdings Ltd - Basel II Pillar 3 Disclosures

31st March 2013

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Content

1 Introduction

1.1 Background

The European Union ('EU') Capital Requirements Directive ('CRD') implements the Basel capital adequacy framework (Basel II) and applies it to all investment firms, building societies and banks. The CRD was formally adopted within the EU on 14th June 2006 and became effective in the UK on 1st January 2007.

The CRD was implemented in the UK through rules introduced by the Prudential Regulatory Authority (PRA) (Previously Financial Services Authority 'FSA') within its General Prudential sourcebook ('GENPRU') and prudential sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). These included disclosure requirements applicable to banks, which are known as 'Pillar 3'. These requirements are designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes and capital resources. Pillar 3 also aims to complement the requirements described under Pillar 1 and Pillar 2 of Basel II.

Mizuho Securities UK Holdings Ltd ('MSUKH'), Mizuho International plc ('MHI') and Structured Credit America Ltd ('SCA'), (collectively the 'MSUKH Group') has adopted the standardised approach to market and credit risk and the basic indicator approach for operational risk for its Pillar 1 calculations from 1st January 2008. MSUKH Group also became subject to Pillar 2 and Pillar 3 requirements from the same date, in accordance with UK PRA GENPRU and BIPRU Requirements.

The Pillar 3 Disclosures 2013 have been prepared for the MSUKH Group on a consolidated basis.

1.2 Comparison with Annual Report and Accounts

The Pillar 3 Disclosures 2013 have been prepared in accordance with regulatory capital adequacy concepts and rules, rather than in accordance with accounting standards. Therefore, some information in the Pillar 3 Disclosures is not directly comparable with financial information contained within the Annual Accounts.

Unless otherwise stated, all figures are as at 31st March 2013 financial year-end.

1.3 Location and Verification

These disclosures have followed a detailed internal governance process in terms of discussion and review by various working groups comprising senior members of the Finance, Risk and Compliance departments prior to final approval by the MSUKH Executive Committee. These disclosures are not subject to external audit.

Not all Pillar 3 disclosures under PRA rules are applicable to the MSUKH Group. If a recommended disclosure is not made, this is because it is deemed to be non-applicable.

The Pillar 3 disclosures should be read in conjunction with the 'Mizuho Securities UK Holdings Ltd Financial Statements 2013', both of which are published on the corporate website (www.uk.mizuho-sc.com).

1.4 Frequency of the disclosure

Disclosures are issued on an annual basis and published as soon as practicable after the publication of the Financial Statements. However, if there is a material change to the business the Pillar 3 disclosure will be updated to reflect it.

1.5 Pillar 1 Regulatory Capital Requirements

1.5.1 Credit Risk Capital Requirement

Basel II applies three approaches to the calculation of Pillar 1 credit risk capital requirements.

The standardised approach requires banks to use credit ratings designated by the External Credit Assessment Institutions ('ECAIs'), to determine risk weightings to be applied to rated counterparties.

The internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of 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. The MSUKH Group uses the standardised approach using ECAI credit ratings for calculating credit risk capital requirement.

1.5.2 Counterparty Credit Risk Capital Requirement

Counterparty credit risk, in both the trading and non-trading books, is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. Three approaches to calculating counterparty credit risk and determining exposure values are defined by Basel II: standardised, mark-to-market and internal model method ('IMM'). The MSUKH Group uses the mark-to-market method for calculating counterparty credit risk capital requirement.

1.5.3 Market Risk Capital Requirement

Market risk is the risk of movements in market risk factors, including foreign exchange, commodity prices, interest rates, credit spread and equity prices. The MSUKH Group calculates market risk capital requirements using the PRA standard rules.

1.5.4 Operational Risk Capital Requirement

Basel II requires capital requirements for the operational risk to be calculated using three different methods. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach, it is one of three different percentages of gross revenues allocated to each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements. The MSUKH Group adopts the basic risk indicator approach in calculating its operational risk capital requirement.

1.5.5 Basel III and CRD IV

In July 2011, the European Commission published proposals for a new Regulation and a Directive, known collectively as Capital Requirements Directive IV (CRD IV), to implement the Basel III framework in the EU. The majority of the Basel III proposals are in the Regulation, reducing the level of national discretion.

Subsequently during 2012, the EBA issued a number of consultations on the draft regulatory technical standards which will form part of the Regulation. The official CRD IV and Capital Requirements Regulation (CRR) were finally approved by the European Parliament, Council and Commission and published in July 2013. The PRA is currently engaged in a consultation process before the live date of 1st January 2014.

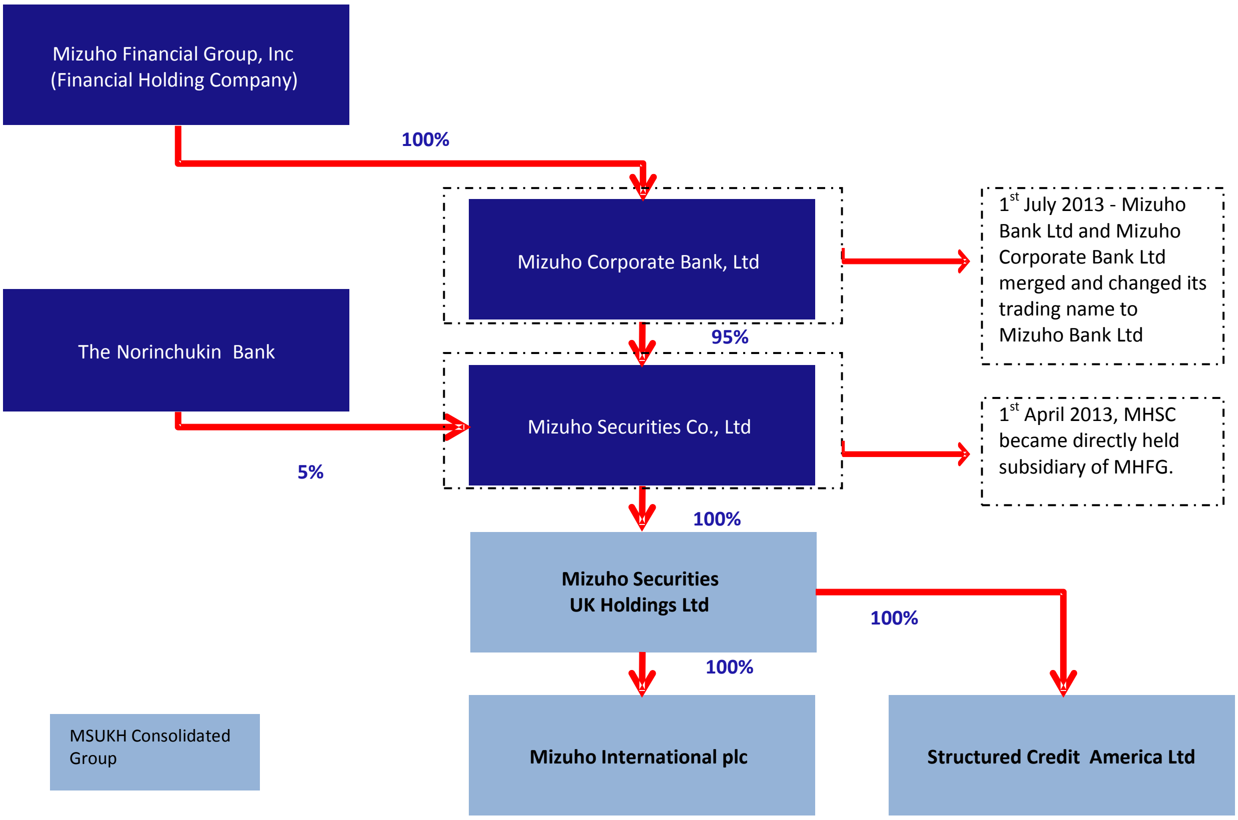
The MSUKH Group continues to assess the impact on a regular basis based on CRR published in June 2013 and on further consultation papers expected during 2013 and beyond.

1.6 About The MSUKH Group

As at 31st March 2013

MSUKH is the wholly owned European subsidiary of Mizuho Securities Co., Ltd ('MHSC'), which is owned by Mizuho Corporate Bank, Ltd (95%) and The Norinchukin Bank (5%). Mizuho Corporate Bank, Ltd ('MHCB') is a wholly owned subsidiary of the Mizuho Financial Group, Inc ('MHFG'). MSUKH has two active subsidiaries, Mizuho International plc ('MHI') and Structured Credit America Ltd ('SCA').

Both MHCB and MHFG are incorporated in Japan and are regulated by the Japanese FSA ('JFSA'). The three companies within the MSUKH Group are incorporated in the UK with MSUKH as a holding company and MHI as a significant subsidiary.



Changes since 1st April 2013

On 1st April 2013, MHSC became a directly held subsidiary of MHFG.

On 1st July 2013, Mizuho Corporate Bank, Ltd. ("MHCB") and Mizuho Bank, Ltd. ("MHBK"), both 100% owned subsidiaries of MHFG, merged resulting in MHCB as the surviving company in the merger, having changed its trading name to Mizuho Bank Ltd.

These changes had no regulatory or economic capital impact on the UK regulated group.

References in these disclosures to 'the Company' mean any or all of MSUKH, MHI and SCA as the context may require or admit.

This Pillar 3 disclosure is completed on a consolidated basis for the MSUKH Group as the capital requirements for both MSUKH Group and MHI are materially the same and are reflected in sections 3.1 and 4.2 as required under BIPRU 11.4.5. SCA is not included because of inactive trading and immateriality. .

1.6.1 MSUKH's Business Structure

MSUKH's business model focuses on a client-flow business. It has two business areas called Client Company and Legacy/SCA.

- Client Company ("Client Co.") – this represents the businesses that MHI is looking to build out in its 3 year plan, and consists of:
  - *Investment Banking* - Primary Debt and Equity Capital Markets ("DCM" and "ECM" respectively) & Advisory Departments.
  - *Markets & Products* - Fixed Income Sales & Trading, Equity Sales & Trading and Third Party Agent Lending Business.

- Legacy/SCA - The legacy businesses include structured credit and interest rate products and basis trades. The businesses also include MSUKH's strategic investment in a private equity fund called 'Apposite'. The Bank aims to liquidate all outstanding positions in the Legacy business in an orderly fashion.

Further information can be found in the directors report of the 2013 Financial Statements.

2 Risk Management Objectives and Policies

The MSUKH and MHI Board of Directors (each 'The Board') is ultimately responsible for the management of the MSUKH Group and/or Company as the case may be. The Boards, which consist of two Executive Directors and five non-Executive Directors, meet on a quarterly basis and more frequently if required.

The day-to-day management of the MSUKH Group is delegated by the Board of MSUKH to its Executive Committee, which receives regular updates as to the material risks taken. In order to effectively fulfil their risk and capital governance responsibilities, the Board of MSUKH is supported by a number of committees.

2.1 Structure of Governance Functions

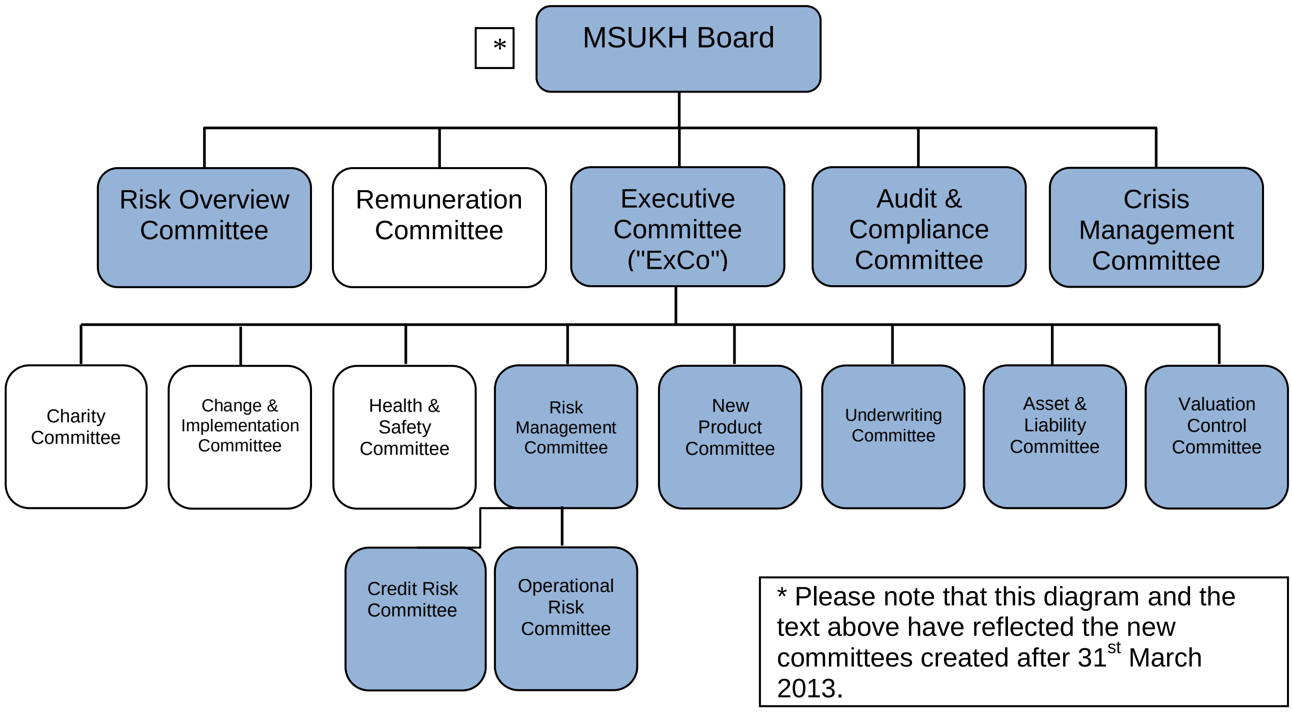
Organisational and committee structures have been appropriately defined to ensure the segregation of responsibilities between risk and business functions and to enable joint decision making. The Board meets on a quarterly basis (or more frequently as required).The day-to-day management and control of MSUHK is delegated to the MSUKH Executive Committee ("ExCo").

The Board also has responsibility to set the Risk Appetite, which includes the amount and type of risks that MSUKH is willing to take in pursuit of its strategic objectives and management of the key risks to achieve those objectives.

ExCo has a number of sub-committees with responsibilities for risk and capital governance. These include: Risk Management Committee ("RMC"), the New Product Committee ("NPC"), an Underwriting Committee ("UC"), the Asset and Liability Committee ("ALCO"), and the Valuation Control Committee ("VCC"). In addition, the Credit Risk Committee ("CRC") and the Operational Risk Committee ("ORC") are sub-committees of the RMC.

MSUKH believes that a strong internal control environment is a key part of its risk management framework and is paramount to achieve its corporate objectives. The risk control functions are seen as being fundamental to the identification and management of risks to which MSUKH is exposed.

The diagram below illustrates the MSUKH governance structure along with its reporting lines:



With regard to risk and capital governance, there are 4 main Board committees:

The MSUKH Executive Committee convenes weekly, chaired by the CEO, and is responsible for running and controlling the MSUKH Group.

The MSUKH Risk Overview Committee convenes every other month, chaired by a Non-Executive Director, and is responsible for the supervision of the overall firm-wide risk framework across the MSUKH Group.

The MSUKH Audit & Compliance Committee convenes quarterly, chaired by a Non-Executive Director, and is responsible for the integrity of internal processes and controls, in compliance with the MSUKH Group and with external regulations.

The MSUKH Crisis Management Committee convenes as requested by the Board to deal with a breach of Recovery and Resolution Plan (RRP) trigger.

In turn, in order to support its control of the business, the MSUKH Executive Committee has a number of sub-committees, again with mandates approved by the Board.

2.2 Managing Risk – Three Lines of Defence

The Board sets the overall risk appetite and assesses ongoing performance and exposure compared to risk appetite. To achieve this, the MSUKH Group's overarching Risk Management Framework operates under a three lines of defence model to manage all of its material risks.

The Three Lines of Defence

2.3 Risk Management Framework

Risk Management is considered as part of the governance around every business decision. The MSUKH Group has in place sound and effective processes together with strategies and systems to maintain a robust governance framework. Material business decisions are fully documented, compared against the risk appetite with a clear view on the risks involved and how they will be managed.

2.3.1 Risk Control

A comprehensive set of internal systems and processes is in place to ensure that risk management controls are executed in accordance with the guiding principles, minimum standards, risk appetite, limits and mandates.

The internal control framework comprises a number of individual risk statements, frameworks and policies that set out the roles and responsibilities and the governance of the internal control systems and processes in place at MSUKH. The MSUKH Group has invested, and will continue to invest, significant resources in its infrastructure and people to improve and maintain risk management and capital and liquidity monitoring capabilities.

2.3.2 Risk Identification and Measurement

All material risk exposures are identified, assessed, managed and reported in a timely manner. An appropriate set of metrics are currently in place to enable all material risks to be captured and reported at a detailed and consolidated level.

Risk Management Department (RMD) has developed internal methodologies to evaluate the market, credit, liquidity and operational risk profile of MSUKH and to support the assessment and measurement of risk exposures.

2.3.3 Risk Limits and Monitoring

A principal element of the MSUKH Group's risk management framework is a robust risk limit monitoring process and a policy framework for all relevant risk types as defined, reviewed and approved by the Risk Overview Committee, Risk Management Committee, Executive Committee and MHSC. The Risk Management Committee and the Operational Risk Committee are responsible for ensuring that appropriate control processes are in place to monitor exposure against all limits and KRIs while the Risk Overview Committee is responsible for its supervision.

The MSUKH Group produces daily capital reports, summarising the capital requirement against available capital resources and aims to maintain a sound capital position at all times and therefore considers not only its current position but also its projected capital base and requirements. These projections along with capital stress testing are updated, distributed to senior management and reviewed on a monthly basis.

MSUKH also closely monitors operational risk levels and sets reporting limits to detect when these levels rise or exceed thresholds. The Operational Risk Committee sets these reporting levels, which are ratified by the Risk Management and the Executive Committees. Market, credit and counterparty risk exposures are monitored daily against Head Office and Risk Management Committee limits by the Risk Management Department. The liquidity risk and regulatory capital exposures are monitored daily against Risk Management Committee limits by the Regulatory Reporting Division.

In the event of a Risk Management Committee or Head Office Limit excess, the reporting and escalation procedures are followed.

The MSUKH Group has an exposure to the principal risk types set out as below:

2.4 Main Risks

2.4.1 Market Risk

Market risk is the risk that changes in the value of a position arising from movements in interest rates, credit spreads, stock prices, exchange rates and other market risk factors will have an adverse impact on the Company's financial condition or results.

The MSUKH Group has a total Value at Risk ('VaR') limit set by MHSC; and within total VaR limit it has set its own internal VaR limit and manages market risk in its trading portfolios through position and sensitivity limits, profit and loss limits, VaR limits and triggers placed on stress testing results. These limits are approved by the Risk Management Committee while stress triggers are approved by the Executive Committee.

Further information on the sensitivity analysis of the portfolio and the VaR model can be found in Note 31B in the 2013 Financial Statements.

See section 1.5 for the regulatory capital approach under Pillar 1.

2.4.2 Credit Risk

Credit Risk is the risk of financial loss arising from the default or credit quality deterioration of a counterparty (or default of specific products) to which the firm has directly provided credit, or for which the firm has assumed a financial obligation. The Credit Risk Management Department has the responsibility for performing credit analysis and setting appropriate limits within the risk appetite framework for individual counterparties or customers and issuers, and also for geographic, single name and sector concentration and product limits. Policy and limits are approved by the Risk Management Committee and delegated to Credit Risk Management for day-to-day management of credit risk.

The Credit Risk Management Department also analyses counterparty credit exposures to assess both current and potential credit risk exposure. The potential credit exposure to counterparty risk is based on estimates of future replacement costs over remaining life of the instruments looking at historical volatilities using confidence levels and correlated risks.

External credit ratings are used to assess the counterparty default risk. Where an external rating is not available, a rating based upon the MSUKH Group's internal credit rating methodology is used. On the basis of the Credit Risk Management Department's analysis, an appropriate credit limit will be established based upon levels as defined in conjunction with the risk appetite framework. In case of counterparties with CSA/GMRA agreements for derivatives/Security Financing Transactions ('SFT') transactions collateral is called or placed when the credit risk limits are exceeded.

Further information on MSUKH's exposure to credit risk can be found in Note 31C in the 2013 Financial Statements.

See section 1.5 for regulatory capital approach under Pillar 1.

2.4.3 Operational Risk

Operational risk is the risk of "losses resulting from inadequate or failed internal processes, people and systems or from external events". MSUKH includes regulatory (including Conduct Risk), legal and compliance risks within this definition.

MSUKH 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 Risk Management Committee monitors the continued effectiveness of the control environment by comparison to agreed key risk indicators and losses incurred by external entities of similar nature and size.

A formal review of the operational risks to which the business is exposed is performed by all departments on a semi- annual basis or following a significant change in business processes or systems, or the occurrence of a relevant and significant external event. The results of this review are back-tested against both internal and external loss data to validate the completeness of the risks identified and the assessed residual risk exposure.

2.4.4 Liquidity Risk

Liquidity risk is the risk that the firm, although solvent, does not have sufficient liquid financial resources available to meet its obligations as they fall due or can only secure such resources at an excessive cost.

Day-to-day operational management of the liquidity and funding operation is performed by the Treasury Department which co-ordinates the daily funding requirement of the MSUKH Group and performs an ongoing assessment of liquidity risk implications of actual performance against business and funding plans.

The Risk Management and Finance Departments monitor the Treasury operations and ensure adherence to the firm's liquidity risk appetite, limits framework as approved by the Risk Management Committee and regulatory policy. They also oversee and challenge by independently reviewing risk metrics including outright risk sensitivities, the current and projected asset and liability profile, and the development and operation of stress scenario calculations. As part of the liquidity risk management, stress testing analysis is undertaken on a daily basis. These liquidity metrics are further reviewed and approved by the Assets and Liability Committee.

Further information on the liquidity risk management can be found in Note 31D of 2013 Financial Statements.

2.4.5 Other Risks

Information on Operational Risk, Legal Risk and risks involving special purpose companies can be found in Notes 31E-G of the 2013 Financial Statements.

Pension Risk

Pension Risk is the risk that the obligations of the firm, whether contractual or otherwise, to a pension scheme may affect its ability to meet its liabilities as they fall due. The principal risk associated with a defined benefit pension plan is of future financial or demographic factors creating a funding shortfall leading to contribution requirements which place an unsustainable burden on the firm's financial resources.

The firm sponsors one defined benefit pension plan, the Mizuho International plc Retirement Benefits Scheme ("the Scheme"). The Scheme closed to new members in 1996, and accrual of further liabilities ceased on the retirement of the last active member prior to the 31st March 2009 actuarial valuation of the Scheme. The requirement to fund the Scheme is borne jointly by the MSUKH Group and 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 MSUKH 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.

2.5 Internal Risk assessment

The MSUKH Group measures Pillar 1 Credit and Counterparty and Market Risk regulatory capital using the Standardised Approach and the Basic Indicator Approach for Operational risk as explained in section 1.5. To determine whether Pillar 1 adequately covers risks, the MSUKH Group calculates Internal Risk Measures using its own models and then compares the results with the Pillar 1 calculation. This measure is based on a combination of stress tests for market risk, Credit and Counterparty VaR for credit and counterparty risks, and the internally generated risk control self assessment and scenario analysis for Operational risk.

The MSUKH Group also calculates and monitors the capital planning buffer in order to ensure that sufficient capital is set aside not to breach its minimum capital requirements under the worst scenario of the forward looking stress testing assumptions.

3 Capital Resources

3.1 Total Available Capital

The MSUKH Group has a simple capital structure with Total Financial Resources consisting of Tier 1 capital only, which comprises audited profit and loss, reserves, share premium and equity share capital. The MSUKH Group does not have any innovative Tier 1 instruments or Tier 2 instruments.

During the year ended 2013, called up and fully paid up share capital of the MSUKH Group was increased by £58m. Further details with regard to share capital are provided in Note 26 of the 2013 Financial Statements. The only difference between Total Equity as disclosed within the MSUKH Group's 2013 Financial Statements and regulatory capital relates to treatment of own credit adjustments in respect of fair value financial liabilities.

The following table shows the reconciliation and breakdown of total available capital for the MSUKH Group on a consolidated basis, as well as MHI, which is a significant subsidiary of MSUKH. The capital resources are calculated in accordance with GENPRU 2.

	As at 31.03.2013		**As at 31.03.2012**	
	MSUKH	**MHI**	**MSUKH**	**MHI**
	£'000	**£'000**	**£'000**	**£'000**
Total Equity as per Note 26 of the 2013 Financial Statements	443,926	425,192	392,832	347,668
Own credit adjustments in respect of fair value financial liabilities	(363)	(363)	(3,064)	(3,064)
Total tier 1 capital	**443,563**	**424,829**	**389,768**	**344,604**
Total tier 2 capital			**-**	**-**
Total tier 3 capital			**-**	**-**
Total Capital Resources	**443,563**	**424,829**	**389,768**	**344,604**

As part of the firm's pension risk assessment conducted in 2013, MHI elected to deduct its committed pension deficit reduction amount from its tier 1 capital which is allowed under GENPRU 1.3.9R. Therefore an amount equal to the total expected future contributions of £9.7m has been earmarked against capital through a direct deduction.

4 Capital Adequacy

4.1 Minimum Capital Requirement – Pillar 1

The minimum capital requirement is calculated as the sum of: (1) the credit risk requirement in the non trading book described in 4.2 and the trading book capital requirement; (2) the operational risk capital requirement calculated under the basic indicator approach; and (3) the market risk capital requirement which includes position risk requirement and foreign currency requirement, being the amount of regulatory capital required to cover the risk of losses on open foreign currency positions from fluctuations in FX rates.

The MSUKH Group does not have any investments in collective investment undertakings or commodities.

	As at 31.03.2013		As at 31.03.2012	
Minimum Capital Requirement 8%	**£'000 MSUKH**	**£'000 MHI**	**£'000 MSUKH**	**£'000 MHI**
Interest Rate PRR	35,110	35,002	18,695	18,491
Equity PRR	1,276	1,276	799	799
Foreign Currency PRR	195	195	89	89
Market Risk Total	**36,581**	**36,473**	**19,583**	**19,379**
Counterparty Risk Capital Component	12,884	12,881	11,872	11,746
Concentration Risk Capital Component	0	0	0	0
Credit Risk Capital Component	9,832	9,832	17,178	17,178
Credit Risk Total	**22,716**	**22,713**	**29,050**	**28,924**
Operational Risk capital requirement	13,445	12,410	25,654	23,618
Total Pillar 1 Capital Requirement	**72,742**	**71,596**	**74,287**	**71,921**

4.2 Minimum Capital Requirement – Credit Risk (non-trading book)

The table below shows the MSUKH Group's overall minimum capital requirement for credit risk calculated under the standardised approach and expressed as 8% of the risk weighted exposure.

	As at 31.03.2013	As at 31.03.2012
Minimum Capital Requirement 8%	**£'000s**	**£'000**
Exposure Classes	**8,626**	**15,766**
Financial Institutions	8,626	9,119
Corporate	0	0
Insurance	0	6,647
Other	**1,206**	**1,412**
Fixed and other assets	1,206	1,412
Credit risk minimum capital requirement	**9,832**	**17,178**

Note: There is no capital requirement under exposure class 'insurance' as all life insurance policies were sold during the year.

5 Counterparty Credit Risk, Mitigation, Dilution and Reporting

5.1 Overview of Counterparty Risk in the Trading Book

Counterparty credit risk is defined as a risk of financial loss to the Company if a counterparty to a financial instrument or a customer fails to meet its contractual obligations. The evaluation of a counterparty rating is based on the external ratings provided by designated ECAIs. Unrated *credit institutions* are assigned weightings equivalent to a Credit Quality Step of 3 and *other entity types* equivalent to a Credit Quality Step of 4.

The following tables show the exposure values, used in calculating minimum capital requirement (Pillar 1), associated with each credit quality step for total credit risk exposures:

Government, Central Banks and International Organisations

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000		Exposure value after credit risk mitigation £'000*	
			31.03.2013	**31.03.2012**	**31.03.2013**	**31.03.2012**
1	0%	AAA to AA-	76,595	80,147	76,595	80,147
2	20%	A+ to A-	0	0	0	0
3	50%	BBB+ to BBB-	0	0	0	0
4	100%	BB+ to BB-	0	0	0	0
5	100%	B+ to B-	0	0	0	0
6	150%	Below B-	0	0	0	0
Total			**76,595**	**80,147**	**76,595**	**80,147**

Central Counterparties

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000		Exposure value after credit risk mitigation £'000*	
			31.03.2013	**31.03.2012**	**31.03.2013**	**31.03.2012**
1	0%	AAA to AA-	284,630	190,520	284,630	190,520
2	20%	A+ to A-	0	0	0	0
3	50%	BBB+ to BBB-	0	0	0	0
4	100%	BB+ to BB-	0	0	0	0
5	100%	B+ to B-	0	0	0	0
6	150%	Below B-	0	0	0	0
Total			**284,630**	**190,520**	**284,630**	**190,520**

Financial Institutions

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000		Exposure value after credit risk mitigation £'000*	
			31.03.2013	**31.03.2012**	**31.03.2013**	**31.03.2012**
1	20%	AAA to AA-	85,222	70,847	85,222	70,847
2	50%	A+ to A-	222,977	203,242	219,723	203,242
3	50%	BBB+ to BBB-	17,457	3,111	17,457	3,111
4	100%	BB+ to BB-	734	356	734	356
5	100%	B+ to B-	0	0	0	0
6	150%	Below B-	0	0	0	0
	50%	Unrated	39,384	17,276	39,384	17,276
Total			**365,774**	**294,832**	**362,520**	**294,832**

Corporates

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000		Exposure value after credit risk mitigation £'000*	
			31.03.2013	**31.03.2012**	**31.03.2013**	**31.03.2012**
1	20%	AAA to AA-	0	0	0	0
2	50%	A+ to A-	0	0	0	0
3	100%	BBB+ to BBB-	0	0	0	0
4	100%	BB+ to BB-	0	0	0	0
5	150%	B+ to B-	0	0	0	0
6	150%	Below B-	0	0	0	0
	100%	Unrated	4,991	22,068	4,991	22,068
Total			**4,991**	**22,068**	**4,991**	**22,068**

GRAND TOTAL	**731,990**	**587,567**	**728,736**	**587,567**

* The exposure includes collateral credit risk mitigation

5.1.1 Counterparty Credit Risk on Derivatives in the Trading Book

The MSUKH Group uses derivative instruments to hedge its consolidated market risk. Collateralisation of the derivatives is one of the main tools used by the market to manage counterparty credit exposure. The value of the collateral received can be offset against the market value of derivatives where legally enforceable netting arrangements are in place. Positive and negative exposures are offset with the same counterparty provided that a legally enforceable netting agreement is in place.

The table below shows the exposure to counterparty credit risk for derivative contracts at 31st March 2013 for the MSUKH Group:

Counterparty Credit Risk
As at 31.03.2013

	Gross Positive Fair Value of Contracts	Total Netting Benefits	Netted Current Credit Exposure	Collateral (Received)/ Placed	Net Derivatives Credit Exposure
	£'000	£'000	£'000	£'000	£'000
Trading Book	153,274	(90,389)	126,022	67,542	193,564
Total	**153,274**	**(90,389)**	**126,022**	**67,542**	**193,564**

Counterparty Credit Risk
As at 31.03.2012

	Gross Positive Fair Value of Contracts	Total Netting Benefits	Netted Current Credit Exposure	Collateral (Received)/ Placed	Net Derivatives Credit Exposure
	£'000	£'000	£'000	£'000	£'000
Trading Book	142,089	(86,646)	204,124	95,858	299,982
Total	**142,089**	**(86,646)**	**204,124**	**95,858**	**299,982**

Net Derivative Credit Exposure represents the credit exposure to derivatives transactions after taking into account legally enforceable netting agreements and collateral arrangements with counterparties. Note that the 'Netted Current Credit Exposure' is inclusive of the PRA prescribed Potential Future Exposure ('PFE') add-ons which are not included as part of the Gross Positive Fair Value calculation.

5.2 Credit Derivatives

The majority of credit derivatives held on the balance sheet are part of the legacy business and are no longer actively traded. Credit derivatives were originally used for proprietary trading and as a credit risk mitigation tool. As at 31st March 2013, single name and index credit derivatives are still used to hedge exposures within the new business model.

Banking book credit derivatives are used to allow credit exposure to be transferred from an issuer to the counterparty of a credit derivative. In MSUKH's instance this does not have an effect on total exposure, as the MSUKH Group has fully funded protection through issuing CLNs and sold protection to a counterparty, making the total exposure net flat.

The table below summarises the MSUKH Group's trading book *notional* CDS credit derivative exposures which are held as part of our own credit portfolio.

As at 31.03.2013	Protection Sold	Protection Purchased	Total
	£'000	£'000	£'000
Credit Default Swaps - Trading book	5,139	29,133	34,272
Total	**5,139**	**29,133**	**34,272**

As at 31.03.2012	Protection Sold	Protection Purchased	Total
	£'000	£'000	£'000
Credit Default Swaps - Trading book	7,381	65,217	72,598
Total	**7,381**	**65,217**	**72,598**

5.3 Impairment Provisions

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred, and that the loss event has an impact on the future cash flows on the financial assets.

As of 31st March 2013, the MSUKH Group did not have any impairment provisions.

5.4 Non Trading Book Credit Exposures

The gross credit risk exposure in the non trading book before any mitigation as at 31 March 2013 and averaged out for the years ended 2012 and 2013 is summarised as follows:

	Average Gross Credit exposure Over the year ended		Total Gross Credit exposure As at	
	31.03.2013 £'000	31.03.2012 £'000	31.03.2013 £'000	31.03.2012 £'000
Government	2,217	762	2,472	3,047
Financial Institutions	154,260	191,558	114,610	167,135
Corporate	0	0	0	0
Other items	68,217	172,676	36,523	100,749
Total	**224,694**	**364,996**	**153,605**	**270,931**

The following table shows the exposure values associated with each credit quality step for non-trading book credit risk exposure:

Exposure by ECAI ratings

	Credit Quality Step	Risk Weight	S & P Rating	Non-Trading Book Credit Exposure	
				31.03.2013	31.03. 2012
				£'000	£'000
Government	1	0%	AAA to AA-	2,472	3,047
Financial Institutions	2	20%	A+ to A-	50,607	48,217
	3	50%	BBB+ to BBB-	0	61,647
	6	150%	Below B-	64,003	57,271
Corporates				0	0
Other items	Unrated	100%	Unrated	36,523	100,749
Total				**153,605**	**270,931**

Geographical distribution of these exposures as at 31st March 2013 is as follows:

Geographical distribution

	UK	Japan	US	Europe	Rest of the World	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Government	2,472					2,472
Financial Institutions	78,263	4,870	2,615	26,030	2,832	114,610
Other items	36,523					36,523
Total	**117,258**	**4,870**	**2,615**	**26,030**	**2,832**	**153,605**

31st March 2012

Geographical distribution

	UK	Japan	US	Europe	Rest of the World	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Government	3,047					3,047
Financial Institutions	61,303	47,035	11,092	27,843	19,862	167,135
Other items	17,665		83,084			100,749
Total	**82,015**	**47,035**	**94,176**	**27,843**	**19,862**	**270,931**

The residual maturity breakdown of exposures by exposure class as at 31st March 2013 is as follows:

By maturities

	Up to 12 months £'000	1-5 years £'000	5-10 years £'000	More than 10 years £'000	Total £'000
Government	2,472				2,472
Financial Institutions	49,907	700		64,003	114,610
Other Items	29,331	7,192			36,523
Total	**81,710**	**7,892**	**0**	**64,003**	**153,605**

31st March 2012

By maturities

	Up to 12 months £'000	1-5 years £'000	5-10 years £'000	More than 10 years £'000	Total £'000
Government	3,047				3,047
Financial Institutions	86,479	23,385		57,271	167,135
Other Items	17,665			83,084	100,749
Total	**107,191**	**23,385**	**0**	**140,355**	**270,931**

6 Concentration Risk Capital

Concentration risk is the risk of focusing significant finances/exposure on a single counterparty/issuer or group of connected counterparties.

As of 31st March 2013 the MSUKH Group did not have a concentration risk capital requirement.

7 Exposure to Equity Risk in the Non-Trading Book

As at 31st March 2013, the Company had small holdings of equities for investment purposes and as part of the membership requirement for the London Clearing House.

8 Exposure to Interest Rate Risk in the Non-Trading Book

The Company's non trading book comprises assets and liabilities which are not held for trading activities. These include the raising and provision of funding to support the Company's trading activities.

The MSUKH Group seeks to minimise interest rate risk where possible through hedging with derivatives.

A summary of MSUKH's interest rate risk exposure in the Company's non-trading book allocated by time bands can be found in Note 31B of the 2013 Financial Statements.

9 Securitisation

Securitisation is a structured finance process. The MSUKH Group has historically been involved in the repackaging of cash-flow-producing financial assets into securities that are then sold to investors.

The securitisation business is a legacy business with all existing positions to be unwound (as and when appropriate) in the future.

The MSUKH Group's main exposure to securitisations relates to asset backed securities. These assets are held within SCA.

The table below shows total securitisation exposures split by relevant credit ratings. The risk weights of the securitisation positions are derived from ECAIs such as Moody's and Standard & Poor's ('S&P'):

Credit Quality Step	**Risk Weight**	**S & P Rating**	**Gross Exposure Value £'000**		**Exposure value after credit risk mitigation £'000**	
			31.3.2013	**31.3.2012**	**31.3.2013**	**31.3.2012**
1	20%	AAA to AA-	0	0	0	0
2	50%	A+ to A-	0	0	0	0
3	100%	BBB+ to BBB-	0	0	0	0
4	100%	BB+ to BB-	0	0	0	0
	1250%	B+ & below	108	379	108	379
Total			**108**	**379**	**108**	**379**

Note that over the last 12 months the exposure decreased in line with the Company's objective of winding down these positions in line with its strategy of exiting its credit structuring businesses and very little exposure is now left.

The MSUKH Group's role and involvement in the securitisation process is summarised in Note 31H of the 2013 Financial Statements.

10 Disclosure on Remuneration

10.1 The Remuneration Committee

The Remuneration Committee approves the remuneration policy of MSUKH and MHI and specific remuneration at certain levels. Committee members are appointed by the Board and comprise solely Non-Executive Directors. The Committee reports to the Board through its Chairman. The remuneration of the Company's Executive Board Directors is approved by the Remuneration Committee. The Remuneration Committee also has oversight for the remuneration of all Code Staff (see 10.3 below).

10.2 The Remuneration Policy

The Remuneration Policy applies to all employees of the MSUKH Group together with staff seconded from other Mizuho Group entities. The Remuneration Policy has been designed to facilitate the attraction and retention of high calibre staff and to promote fairness and consistency throughout the employment relationship whilst not compromising the Company's high standards of control. It is consistent with, and promotes, effective risk management. External consultants were formally appointed to advise on the practical application of the Remuneration Code 2011 and associated disclosures. The Remuneration Policy is communicated to and agreed with relevant stakeholders and is reviewed not less than annually by the Remuneration Committee.

10.3 Code Staff

Code Staff are defined as staff including senior management, risk takers, staff engaged in 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 Company's risk profile.

As at 31st March 2013 the Company identified 22 Code Staff, this comprised 18 significant influence functions (of whom eight were also risk takers), two other members of senior management and two risk takers. Nine Code Staff joined the Company during the year and ten Code Staff left.

10.4 Control Functions

The compensation of employees engaged in control functions is based principally on the achievement of objectives linked to those functions and the business units which they oversee are not involved in its determination. Compensation for the heads of those control functions are reviewed by the Remuneration Committee.

10.5 The Link between Pay and Performance

Financial and non-financial matters are considered in determining the bonus pool. The size of the bonus pool for all employees is based on an assessment of the financial performance of the Company, based principally on risk adjusted profits (rather than revenues). The fact that the Company makes a loss may, but will not necessarily, result in no bonuses being paid. Bonuses may still be paid in these circumstances if justified on other grounds. Non financial aspects include progress made in developing and servicing a quality client base and maintaining an efficient and appropriate infrastructure and control environment which complies with regulatory requirements.

Discretionary bonuses are awarded in line with business strategy, objectives, values and the long term needs of the Company, and take into account individual, departmental, and corporate performance, and retention. Assessment of individual performance is measured both informally through feedback throughout the year, and formally via the annual appraisal review, which includes an assessment of an individual's financial performance as well as their non-financial behaviour, control and risk awareness.

The Head of Compliance, the Chief Risk Officer and the Chief Financial Officer are involved in the process to review and set remuneration and bonuses. Concerns regarding an individual's activities or conduct are raised and are taken into account by management.

10.6 The Design Characteristics of the Remuneration Scheme

10.6.1 Risk Adjustment

The Company seeks to promote effective risk management and ensure that suitable mechanisms are in place to align risk and reward. When determining variable remuneration, the cost of economic and regulatory capital and liquidity is taken into account, together with the need to maintain and/or strengthen a sound capital base. The Chief Executive Officer, the Chief Risk Officer and the Chief Financial Officer adjust allocated regulatory capital where they believe that this does not adequately reflect the risk being run by a business line. The MSUKH Group is developing a relatively simple client-based business dealing in vanilla cash products. It does not have a proprietary business and does not deal in complex instruments. Other than the discounting of future cash flows as part of standard marking to market of financial instruments to arrive at their fair value, future earnings streams are not recognised upfront.

10.6.2 Deferral Policy

During the period in question (April 2012 to March 2013) 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 PRA Code on Remuneration. For all other staff (and Code Staff who fell under the *de minimis* concession) the deferral plan provided for deferral of between 20% and 60% of variable pay over a prescribed threshold for a period of three years.

Under the Remuneration Policy, the deferred portion of any variable pay is subject to performance measures and risk adjustment.

10.6.3 Performance Adjustment

The Remuneration Policy outlines forfeiture provisions that enable the MSUKH Group to withdraw/not pay awards granted in prior periods which have been deferred. The situations in which this may occur include:

- Where there is evidence that the individual has failed to comply with the Company's professional standards and conduct;
- The Remuneration Committee in its discretion deems it appropriate, having regard to any restatement or recalculation (in each case during the relevant bonus year or during the vesting period) of individual, departmental and/or corporate financial performance (including but not limited to following the discovery of incorrect or false accounting); or
- In the case of Code Staff only, additionally, the Remuneration Committee at its discretion, deems it appropriate, having regard to (i) any assessment or reassessment of individual, departmental and/or corporate performance; (ii) any evidence of the individual's misbehaviour or material error; or (iii) any material failure of risk management suffered by the Company or the individual's department, in each case during the relevant bonus year or during the vesting period.

10.7 Variable Components of Remuneration

The Remuneration Policy is designed to ensure that fixed and variable components of total remuneration are appropriately balanced. The Company has set fixed remuneration at a level which allows it to operate a fully flexible bonus policy (allowing it to award zero bonuses in appropriate circumstances). The main parameters for the variable component bonus scheme are set out in section 10.5, above. The rationale for the variable component bonus scheme is to facilitate the attraction and retention of high calibre staff.

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 subject to deferral. Code Staff who fell under the *de minimis* concession were paid in cash only.

10.8 Quantitative Information on Remuneration for Code Staff

Aggregate remuneration expenditure for Code Staff for year to 31.03.2013

	£'000
Global Investment Banking	570
Markets and Products	4,219

Remuneration for Code Staff for year to 31.03.2013

	Senior Management	**Non Senior Management**
Number of Code staff*	27	5
	£'000	**£'000**
Fixed Pay		
Cash based Fixed Remuneration	5,629	1,118
Variable Pay		
Cash	928	428
Shares	680	294
Deferred cash	888	442
Deferred shares	877	441
Total variable pay	**3,373**	**1,605**
Overall Total	**9,002**	**2,723**

Deferred Remuneration for Code Staff paid out as at 31.03.2013

	Senior Management	**Non Senior Management**
Number of Code staff*	27	5
	£'000	**£'000**
Deferred cash paid out	**958**	**1,067**

Analysis of sign-on and severance payments for Code Staff for year to 31.03.2013

	Senior Management	Non Senior Management
	£'000	£'000
Sign-on Payments		
Made in the year	120	0
Number of beneficiaries	1	0
Severance Payments		
Made in the year	716	80
Number of beneficiaries	6	1
Highest severance payment to an individual	169	80

* This includes any leavers and joiners during the year

Glossary

A

Asset Backed Securities (ABS)

Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of Collateralised Debt Obligations (CDOs), the reference pool may be ABS.

B

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 text, which was updated in June 2011, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements were to be phased starting on 1 January 2013 with full implementation expected by the 1 January 2019. The implementation in UK will start on 1 January 2014.

C

CRD IV

Represents the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) that implement the Basel III proposals in Europe.

Credit quality step

Credit Quality Steps (CQS) are used to derive the risk-weight to be applied to exposures treated under the Standardised approach to credit risk.

Credit risk

Credit risk is the potential for loss due to the failure of counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures may arise from both the banking and trading books.

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 collateral, netting agreements, credit insurance, credit derivatives and other guarantees.

E

Exposure

Credit exposures represent the amount lent to a customer, together with any undrawn commitment.

EBA (European Banking Authority)

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)

For the Standardised Approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk weights. These external ratings must come from PRA approved rating agencies, known as External Credit Assessment Institutions (ECAI); namely Moody's, Standard & Poor's and Fitch.

F

Fair value

The value of an asset or liability when it is transacted on an arm's length basis between knowledgeable and willing parties.

I

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 (IRR)

Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.

M

Minimum capital requirement

Minimum capital required to be held for credit, market, concentration and operational risk.

P

Pillar 1

The first Pillar of the three pillars of Basel II, which provides the approach to the calculation of the minimum capital requirements for credit, market and operational risk. Minimum capital requirements are 8 per cent of the risk-weighted assets.

Pillar 2

Pillar 2, 'Supervisory Review', requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

Pillar 3

Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

Position Risk Requirement (PRR)

A capital requirement applied to a position treated under market risk rules as part of the calculation of market risk capital requirement.

R

Regulatory capital

Regulatory capital represents the sum of Tier 1 Capital and Tier 2 Capital after taking into account any regulatory adjustments. The Group is required to maintain regulatory capital at a minimum of 8 percent of its risk weighted assets.

Risk appetite

Risk appetite is an expression of the amount of risk we are willing to take in pursuit of our strategic objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of different stress trading conditions.

Risk weighted assets (RWAs)

A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.

S

Securitisation

Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a Special Purpose Entity (SPE) which then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.

Standardised Approach

In relation to various risks under Pillar 1, a method for calculating capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights.

T

Tier 1 capital

Tier 1 capital comprises Core Tier 1 capital plus innovative Tier 1 securities and preference shares less material holdings in credit or financial institutions.

Tier 2 capital

Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.

Trading book

Trading book is defined as per the PRA's Handbook BIPRU. BIPRU 1.2.3 states 'The trading book of a firm consists of all position in 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 ability to be hedged'

V

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.