Mizuho Securities UK Holdings Ltd - Basel II Pillar 3 Disclosures

31st March 2012

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

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1 Introduction

1.1 Background

The European Union ('EU') Capital Requirements Directive ('CRD') imposes the implementation of 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.

Implementation of the CRD in the UK was by way of rules introduced by the Financial Services Authority ('FSA') through its General Prudential sourcebook ('GENPRU') and prudential sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). Among them are disclosure requirements applicable to banks, which are known as 'Pillar 3'. These 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. It also became subject to Pillar 2 and Pillar 3 requirements from the same date, as per UK FSA GENPRU and BIPRU Requirements.

This Pillar 3 disclosure is for MSUKH Group, which is done on a consolidated basis.

1.2 Comparison with Annual Report and Accounts

The Pillar 3 Disclosures 2012 have been prepared in accordance with the regulatory capital adequacy concepts and rules, rather than in accordance with the accounting standards. Therefore, some information in Pillar 3 Disclosure is not directly comparable with the financial information in the Annual Accounts, in particular credit capital requirement.

Unless otherwise stated, all figures are as at the 31st March 2012 financial year-end.

1.3 Location and Verification

These disclosures have been approved by the MSUKH Executive Committee and are published on the corporate website (www.uk.mizuho-sc.com). Not all Pillar 3 disclosures are applicable to the MSUKH Group. If a recommended disclosure is not made, this is because it is deemed to be non-applicable.

The disclosures are not subject to external audit, except when it refers to the Financial Statements. The Pillar 3 disclosure should be read in conjunction with the 'Mizuho Securities UK Holdings Ltd Financial Statements 2012', which is published on the corporate website.

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. If there is a material change to the business the Pillar 3 disclosure will be updated to reflect it.

1.5 Regulatory Capital Requirements

1.5.1 Credit 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 the risk weightings 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.

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The IRB advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. The MSUKH Group uses the standardised approach using ECAI credit ratings in calculating the credit capital component.

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 counterparty credit risk.

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 measures the market risk capital requirement using the FSA standard rules.

1.5.4 Operational Risk Capital Requirement

Basel II includes capital requirements for operational risk using three different methods of calculation. 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 determining its operational risk capital requirement.

1.6 About The MSUKH Group

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 and MHI is regulated by the UK FSA.

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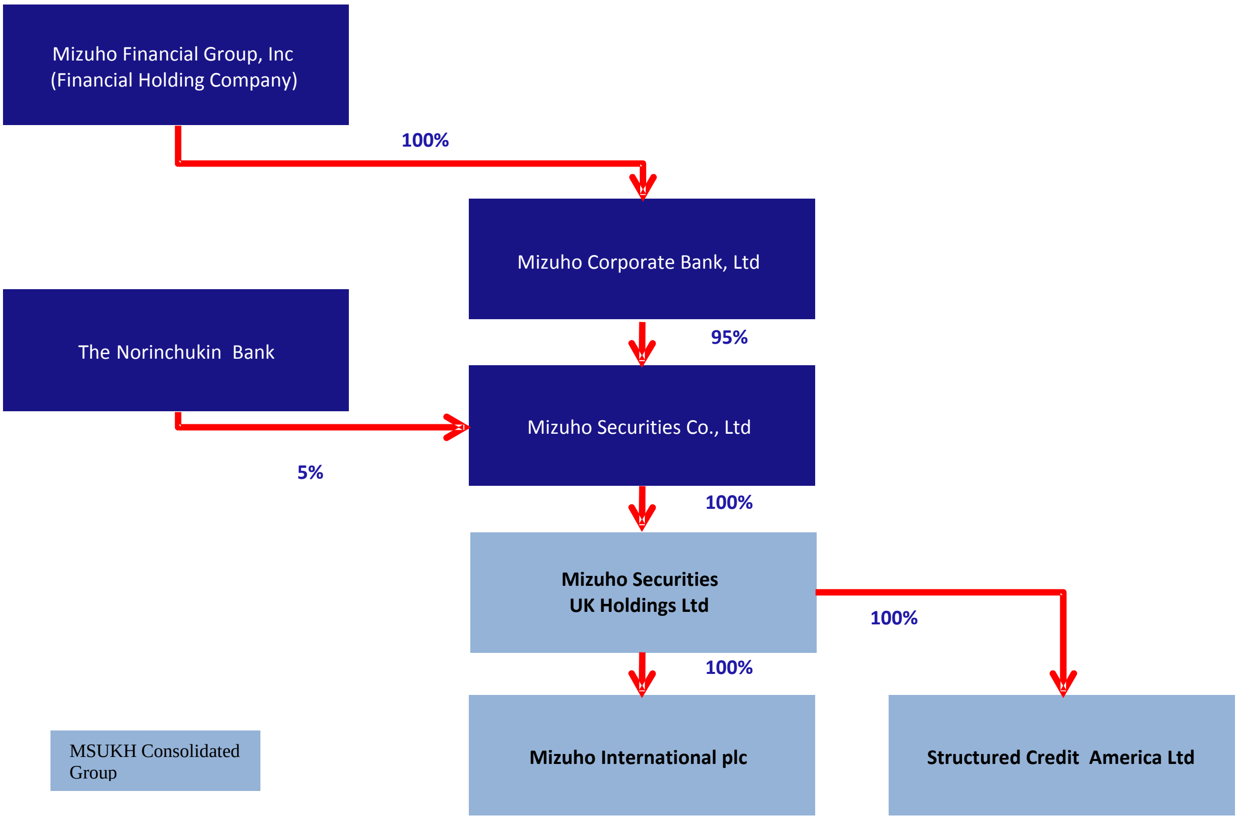

References in these disclosures to ‘the Company’ mean any or all of MSUKH, MHI and SCA as the context may require or admit.

Although under BIPRU 11.4.5 MHI is classified as a significant subsidiary; given that SCA is not actively trading and has small capital resources and a requirement that is continuously reducing due to trades maturing or being unwound, this Pillar 3 disclosure is completed on a consolidated basis for the MSUKH Group. The capital requirement for MHI and MSUKH is materially the same.

1.6.1 MSUKH’s Business Model

MSUKH’s business model focuses on a client-flow business. Limited risk is undertaken to the extent that it is required to support client activity. Under the MSUKH’s internal business plan, the Company has ceased to operate its legacy higher risk businesses or those businesses which typically involve complex derivative products. This has resulted in a significant reduction in the Company’s risk profile. The Company has sought to retain the appropriate staff to manage its legacy positions and minimise risks until they can be liquidated.

Further information can be found in director’s report of the 2012 Financial Statements.

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2 Risk Management Objectives and Policies

2.1 Structure of Governance Functions

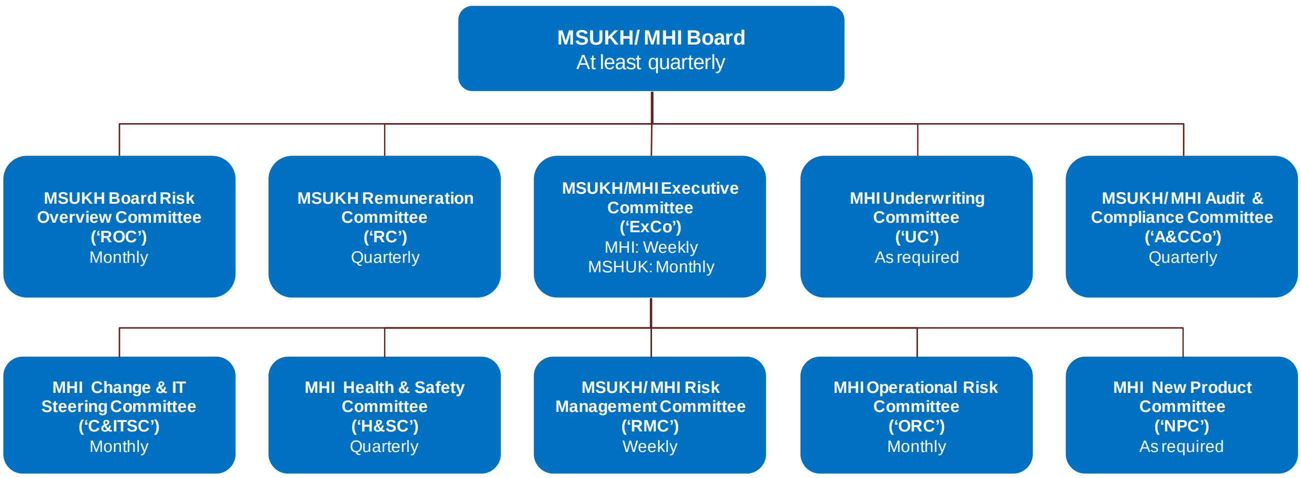
The MSUKH and MHI Board of Directors (each 'the Board') is ultimately responsible for the management of the MSUKH Group and/or Company as the case may be. The Boards, which consists of three Executive Directors and five non-Executive Directors, meet on a quarterly basis and more frequently if required. The day-to-day management of the business is delegated by the Boards to the Executive Committees of MSUKH and MHI ('ExCo'), which receive regular updates as to the material risks taken.

With regard to risk and capital governance, to effectively fulfil its responsibilities the Boards are supported by a number of committees of each of MSUKH and MHI which include the Risk Overview Committee ('ROC') of MSUKH, the Audit & Compliance Committees ('A&C Co') of MSUKH and MHI and an Underwriting Committee ('UC') of MHI.

To support the day-to-day business, the MHI ExCo has a number of sub-committees which for risk and capital governance include: Risk Management Committee ('RMC'), Operational Risk Committee ('ORC') and the New Product Committee ('NPC').

Each of the Boards believe a strong internal control environment, as outlined in the risk framework document (an internal document used in preparation of the ICAAP), is paramount to achieving its corporate objectives with the risk control functions seen as being fundamental to the identification and management of risks to which the MSUKH Group are exposed.

The diagram below illustrates the hierarchy within the governance framework and reporting lines between them.



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

- **The MSUKH Executive Committee** meets monthly, chaired by the Chief Executive Officer ('CEO'), and is responsible for running and controlling MSUKH.
- **The MSUKH Risk Overview Committee** meets every other month, chaired by a Non-Executive Director, and is responsible for supervision of the overall enterprise-wide risk framework across the MSUKH Group.
- **The MSUKH and MHI Audit & Compliance Committee** meets quarterly, chaired by a Non-Executive Director, and is responsible for the integrity of internal processes and controls in, and compliance by the MSUKH Group with, external regulations.
- **The MHI Underwriting Committee** meets as needed, chaired by the CEO, and is responsible for controlling underwriting exposures taken across the MSUKH Group.

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In turn, in order to support its control of the business, the MSUKH and MHI Executive Committees have a number of sub-committees, again with well-established mandates approved by the Boards. With regard to risk governance, the three main sub committees are:

- **The MSUKH and MHI Risk Management Committees** meet weekly, chaired by the Chief Risk Officer ('CRO'), and is responsible for setting market, credit and liquidity risk policies, setting appropriate limits including liquidity and regulatory capital limits, monitoring exposures against these limits, monitoring the capital resources of the company, reviewing reserving, IPV and Prudential Valuation Adjustments and reviewing any market, credit or liquidity risk aspects of new products, across the MSUKH Group.

- **The MHI Operational Risk Committee** meets monthly, chaired by the Head of Operational Risk, and is responsible for setting operational risk policy, monitoring operational risk levels through Credit Support Annexes ('CSA') and Key Risk Indicators ('KRI'), ensuring that MSUKH has a framework to assess whether disaster recovery and business continuity plans are adequate and identifying additional actions needed to keep operational risk at an acceptable level across the MSUKH Group.

- **The MHI New Product Committee** meets as needed, chaired by the Head of Security Services Department ('SSD'), and is responsible for reviewing and approving all new products, reviewing and approving the Approved Product Register and reviewing processes around existing products across the MSUKH Group.

The MSUKH Group has a 3 line of defence model to manage its risks, within which a number of functions work together and responsibilities are clearly defined. This model applies to all material risks which could have a significant impact on the MSUKH Group if they were to materialise. In keeping with the ethos of the Mizuho Group, there is a strong risk management culture with a conservative risk appetite.

Figure 1: The 3 Lines of Defence

2.2 Group Risk Appetite

The setting of risk appetite is a top-down process by which the Board expresses the appetite for the MSUKH Group as a whole, and across the individual business units and key risks. The business plan consistently reflects the Board's appetite through the allocation of capital, KRI's and risk limits.

The majority of the MSUKH Group's risk exposure is in the form of market, credit and operational risk. The MSUKH Group measures and manages these risks with the use of internal models and stress testing. More subjective risks are measured using processes that tend to be more qualitative in nature. The output from these measurements is routinely scrutinised by management to ensure that the MSUKH Group's risk-taking is consistent with its risk appetite. The MSUKH Group mitigates the risks that it is exposed to through its control framework and processes, and through the allocation of capital.

Over the last 2-3 years there has been a significant reduction in the Company's risk appetite. This reduction is reflected in the annual three year business plan. Further information can be found in the 'Directors' Report' in the 2012 Financial Statements.

2.3 Risk Management Framework

The MSUKH Group has in place sound and effective processes together with strategies and systems to maintain a robust governance framework. The MSUKH Group has, and will continue to, invest significant

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resources in its infrastructure and people to improve and maintain risk management, capital and liquidity monitoring capabilities.

A principal element of the MSUKH Group's risk management framework is a robust risk limit monitoring process and credit risk policy framework as defined by policies reviewed and approved by the Risk Management and Executive Committees.

The MSUKH Group aims to mitigate the effect of adverse market movements by making effective use of appropriate hedging strategies to maintain market and issuer risk exposures within market risk limits whilst balancing the cost of such hedging activities on the net revenue stream. Market risk exposures are monitored using various measures including Value-at-Risk ('VaR') (to a 99% confidence interval using Monte-Carlo simulation) details of which can be found in note 31 of MSUKH's Financial Statements.

As noted above, counterparty credit risks are also controlled through various policies and credit limits reviewed and approved by the Risk Management and Executive Committees. The MSUKH Group's primary counterparty credit risk mitigants are netting agreements and ISDA Credit Support Annexes and it is the MSUKH Group's policy to revalue all traded transactions and associated collateral positions on a daily basis. An independent Collateral Management function manages the collateral process, which includes pledging and receiving collateral and investigating disputes and non-receipts. Eligible collateral types and haircuts are controlled by appropriate policies which take into account liquidity of the collateral, price transparency and the potential for wrong-way risk.

The MSUKH Group identifies and reviews risks on an on-going basis using a variety of techniques, including looking at the business strategy & model, the business plan, new products and policies, external events etc. Risks that are identified through these processes are then measured and analysed using tools such as stress and scenario testing & key risk indicator ('KRI') monitoring.

The MSUKH Group has an exposure to the principal risk types set out 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 manages market risk in its trading portfolios through position and sensitivity limits, profit and loss limits, Value at Risk ('VaR') limits, and triggers placed on stress testing results. These limits are approved by the Risk Management Committee with stress triggers approved by the Executive Committee. In addition, the MSUKH Group has total VaR limits set by MHSC.

Further information on the sensitivity analysis of the portfolio and the VaR model can be found in Note 31B in the 2012 Financial Statements.

See section 1.5 for regulatory capital approach.

2.4.2 Credit Risk

Credit Risk is the risk of financial loss arising from a customer, an issuer of, or counterparty to a financial instrument failing to meet its contractual obligations.

The Risk Management department has the responsibility for performing credit analysis and due diligence on individual counterparties, customers and issuers, and for monitoring compliance with customer, counterparty, issuer, geographic, and product limits. Policy and limits are approved by the Risk Management Committee. The day to day management of credit risk is the responsibility of individual business units.

The Risk Management department analyses counterparty credit exposures to assess both current and potential credit risk. The potential credit risk exposure is based on estimates of future replacement costs over the remaining life of the instrument.

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

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of Credit Risk Management's analysis process, an appropriate credit limit will be established based upon levels defined in the appropriate policy.

Further information on MSUKH's exposure to credit risk can be found in Note 31C in the 2012 Financial Statements.

See section 1.5 for regulatory capital approach.

2.4.3 Liquidity Risk

Liquidity risk is the risk that the Company, despite remaining solvent, does not have sufficient financial resources to meet payment obligations as they fall due.

The process for managing and controlling the MSUKH Group's funding requirements is covered in the internal Liquidity Policy Statement. This is supported further by internal policy documents including the Statement of Liquidity Risk Appetite, Liquidity Stress Testing Policy and the Contingency Funding Plan. These policies have been approved by the Executive Committee and Board.

Liquidity is actively managed through dealings in the major wholesale money markets and repo markets, enabling access to short term funding, as well as the issuance of longer term Medium Term Note ('MTN') funding instruments.

Day to day management of the funding operation is delegated to the Treasury department which co-ordinates the day to day funding requirement in all currencies by monitoring cash flow projections.

As part of the liquidity management processes, stress testing analysis is undertaken on a routine basis, including the FSA prescriptive stress tests as per BIPRU 12.5 and the MSUKH Group's internal stress tests as per BIPRU 12.4. These stress tests look at potential currency mismatches, the lack of access to certain markets and the impacts upon collateral which the MSUKH Group would have to post in the event of multi-notch downgrade of MHCB (as per collateral counterparty collateral agreement). The analysis of the MSUKH Group shows that it has sufficient resources to withstand these severe stress scenarios.

Further information on liquidity risk management can be found in Note 31D in the 2012 Financial Statements.

2.4.4 Other Risks

Information on Operational Risk, Legal Risk and risks involving special purpose companies can be found in Notes 31E-G in the 2012 Financial Statements.

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3 Capital Resources

3.1 Total Available Capital

The following table shows the breakdown of the total available capital for the MSUKH Group on a consolidated basis as at 31st March 2012. The capital resources are calculated in accordance with GENPRU 2.

	As at 31.3.2012	As at 31.3.2011
	£'000	£'000
Total tier 1 capital	389,768	315,824
Deductions	-	-
Total tier 1 capital	**389,768**	**315,824**
Total tier 2 capital	**-**	**-**
Total tier 3 capital	**-**	**-**
Total Financial Resources	**389,768**	**315,824**

The table below shows the breakdown of the total available capital for the MHI, which is reportable under BIPRU 11.4.5 being a significant subsidiary of MSUKH.

	As at 31.3.2012	As at 31.3.2011
	£'000	£'000
Total tier 1 capital	344,604	268,750
Deductions	-	-
Total tier 1 capital	**344,604**	**268,750**
Total tier 2 capital	**-**	**-**
Total tier 3 capital	**-**	**-**
Total Financial Resources	**344,604**	**268,750**

3.2 Financial Resources

The MSUKH Group has a simple capital structure with Total Financial Resources consisting of Tier 1 capital only. Tier 1 capital comprises of the audited profit and loss, share premium and equity share capital.

The MSUKH Group does not have any innovative Tier 1 instruments. Further details on the share capital are provided in Note 25 in the 2012 Financial Statements.

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4 Capital Adequacy

4.1 Capital Management

The MSUKH Group has adopted the standardised approach to market and credit risk and the basic indicator approach to operational risk to calculate the Basel II Pillar 1 minimum capital requirement.

It is the MSUKH Group's policy to maintain capital resources consistent with its risk appetite.

The MSUKH Group produces daily capital reports, summarising the capital requirement against available capital resources. This is distributed to senior management, business heads as well as senior management at MHSC. The MSUKH Group 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 capital requirements. Capital projections and capital stress testing are updated and reviewed by senior management on a monthly basis.

4.2 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 4.4 and the trading book capital component; (2) the operational risk capital requirement calculated under the basic indicator approach; and (3) the market risk capital component 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 31.3.2012	**As at 31.3.2011**
Minimum Capital Requirement 8%	**£'000**	**£'000**
Interest Rate PRR	18,695	22,430
Equity PRR	799	337
Foreign Currency PRR	89	89
Market Risk Total	**19,583**	**22,856**
Counterparty Risk Capital Component	11,872	28,324
Concentration Risk Capital Component	0	838
Credit Risk Capital Component	17,178	32,115
Credit Risk Total	**29,050**	**61,277**
Operational Risk capital requirement	25,654	25,654
Total Pillar 1 Capital Requirement	**74,287**	**109,787**

Note: The Operational Risk requirement reduced to £13.4m post finalisation of the 2012 financial statements.

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4.3 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 31.3.2012	As at 31.3.2011
Minimum Capital Requirement 8%	**£'000s**	**£'000**
Exposure Classes	**15,766**	**30,189**
Financial Institutions	9,119	17,130
Corporate	0	0
Insurance	6,647	13,059
Other	**1,412**	**1,926**
Fixed and other assets	1,412	1,926
Credit risk minimum capital requirement	**17,178**	**32,115**

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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:

As at 31.3.2012
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*
1	0%	AAA to AA-	80,147	80,147
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
Total			80,147	80,147

As at 31.3.2012
Central Counterparties

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

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As at 31.3.2012
Financial Institutions

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000*	Exposure value after credit risk mitigation £'000*
1	20%	AAA to AA-	70,847	70,847
2	50%	A+ to A-	203,242	203,242
3	50%	BBB+ to BBB-	3,111	3,111
4	100%	BB+ to BB-	356	356
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
	50%	Unrated	17,276	17,276
Total			294,832	294,832

As at 31.3.2012
Corporates

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000*	Exposure value after credit risk mitigation £'000*
1	20%	AAA to AA-	0	0
2	50%	A+ to A-	0	0
3	100%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	150%	B+ to B-	0	0
6	150%	Below B-	0	0
	100%	Unrated	22,068	22,068
Total			22,068	22,068
GRAND TOTAL			**587,567**	**587,567**

* The exposure includes collateral credit risk mitigation

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As at 31.3.2011
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*
1	0%	AAA to AA-	43,289	43,289
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	11,790	11,790
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
Total			55,079	55,079

As at 31.3.2011
Central Counterparties

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000*	Exposure value after credit risk mitigation £'000*
1	0%	AAA to AA-	164,060	164,060
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
Total			164,060	164,060

As at 31.3.2011
Financial Institutions

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000*	Exposure value after credit risk mitigation £'000*
1	20%	AAA to AA-	280,188	280,188
2	50%	A+ to A-	355,389	308,756
3	50%	BBB+ to BBB-	739	739
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
	50%	Unrated	42,221	42,221
Total			678,537	631,904

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As at 31.3.2011
Corporates

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000*	Exposure value after credit risk mitigation £'000*
1	20%	AAA to AA-	0	0
2	50%	A+ to A-	0	0
3	100%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	150%	B+ to B-	0	0
6	150%	Below B-	0	0
	100%	Unrated	116,265	116,265
Total			116,265	116,265
GRAND TOTAL			**1,013,941**	**967,308**

* 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.

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The table below shows the exposure to counterparty credit risk for derivative contracts at 31st March 2012 for the MSUKH Group:

Counterparty Credit Risk
As at 31.3.2012

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

Counterparty Credit Risk
As at 31.3.2011

	Gross Positive Fair Value of Contracts £'000	Total Netting Benefits £'000	Netted Current Credit Exposure £'000	Collateral (Received)/ Placed £'000	Net Derivatives Credit Exposure £'000
Trading Book	170,971	(102,630)	219,755	76,522	296,277
Total	170,971	(102,630)	219,755	76,522	296,277

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 FSA prescribed Potential Future Exposure ('PFE') add-ons which are not included as part of the Gross Positive Fair Value calculation.

5.2 Credit Risk Limits and Policies

The counterparty limits used for exposure management are set in respect of Total Credit Exposure. Maximum limits are based on policy and are determined by the counterparty credit assessment and nature of the products being traded. Transactions that would exceed the maximum prescribed level must be approved by the Risk Management Committee, and, for certain products or transactions, by the MHSC Risk Management department. There are also Issuer Risk limits which comprise 'Loss-Given-Default' values (assuming recovery) and upgrade/downgrade measures. These limits are set and approved by the Risk Management Committee.

In case of counterparties with CSA/GMRA agreements for derivatives/Security Financing Transactions ('SFT') transactions collateral is called or placed where the credit risk limits are exceeded.

5.3 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 2012, 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

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MSUKH Group has fully funded bought protection through issuing CLNs and sold protection to a counterparty, making the exposure net flat.

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

As at 31.3.2012	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**

As at 31.3.2011	Protection Sold	Protection Purchased	Total
	£'000	£'000	£'000
Credit Default Swaps - Trading book	91,231	235,927	327,158
Total	**91,231**	**235,927**	**327,158**

5.4 Impairment Provisions

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

As of 31st March 2012 the MSUKH Group did not have any impairment provisions.

5.5 Non Trading Book Credit Exposures

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

As at 31.3.2012

	Average Gross Credit exposure	Total Gross Credit exposure
	£'000	£'000
Government	762	3,047
Financial Institutions	191,558	167,135
Corporate	0	0
Other items	172,676	100,749
Total	364,996	270,931

**Other items: life policies and other investments*

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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 31st March 2012 £'000
Government	1	0%	AAA to AA-	3,047
Financial Institutions	2	20%	A+ to A-	48,217
	3	50%	BBB+ to BBB-	61,647
	6	150%	Below B-	57,271
Corporates				0
Other items	Unrated	100%	Unrated	100,749
Total				270,931

Geographical distribution of these exposures as at 31st March 2012 is as follows:

Geographical distribution

	UK £'000	Japan £'000	US £'000	Europe £'000	Rest of the World £'000	Total £'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 2012 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	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		140,355	270,931

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As at 31.3.2011

	Average Gross Credit exposure £'000	Total Gross Credit exposure 31st March 2011 £'000
Financial Institutions	211,690	221,845
Corporates	497	0
Other items*	307,824	185,646
Total	520,011	407,491

**Other items: life policies and other investments*

Exposure *by ECAI ratings*

	Credit Quality Step	Risk Weight	S & P Rating	Non-Trading Book Credit Exposure 31st March 2011 £'000
Government				0
Financial Institutions	2	20%	A+ to A-	26,194
	3	50%	BBB+ to BBB-	54,016
	6	150%	Below B-	97,533
	Unrated	100%	Unrated	44,102
Corporates				0
Other items	Unrated	100%	Unrated	185,646
Total				407,491

Geographical distribution

	UK £'000	Japan £'000	US £'000	Europe £'000	Rest of the World £'000	Total £'000
Financial Institutions	77,239	31,961	50,408	3,129	59,108	221,845
Other items	24,077		161,569			185,646
Total	101,316	31,961	211,977	3,129	59,108	407,491

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By maturities

	Up to 12 months	1-5 years	5-10 years	More than 10 years	Total
	£'000	£'000	£'000	£'000	£'000
Financial Institutions	84,684	39,728		97,433	221,845
Other items	24,077			161,569	185,646
Total	108,761	39,728	0	259,002	407,491

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6 Market Risk

6.1 Market Risk Overview

Market risk is defined as the risk that the value of a position will change due to movements in market factors. The main market risk factors are:

- Equity Risk – the risk that equity prices will change;
- Interest Rate Risk – the risk that interest rates will change; and
- Currency Risk – the risk that foreign exchange rates will change.

6.2 Monitoring of Market Risk

Market risk is measured through the calculation of VaR, sensitivity exposures and stress testing.

Although the MSUKH Group internally measures risk through VaR and monitors this risk using VaR limits and sensitivities, it calculates its market risk capital requirement using the standardised approach under BIPRU.

6.3 Specific Risk

Specific risk is defined as the risk of a price change in an investment due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying investment.

7 Concentration Risk Capital

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

As of 31st March 2012 the MSUKH Group did not have a concentration risk capital requirement.

8 Exposure to Equity Risk in the Non-Trading Book

As at 31st March 2012, the Company had small holdings of equities for investment purposes and as part of the membership requirement for the London Clearing House.

9 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 2012 Financial Statements.

10 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.

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

As at 31.3.2012

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

As at 31.3.2011

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	20%	AAA to AA-	0	0
2	50%	A+ to A-	0	0
3	100%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
	1250%	B+ & below	708	708
Total			708	708

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

The MSUKH Group's role and involvement in the securitisation process is summarised in Note 31E in the 2012 Financial Statements.

MSUKH accounting policies relating to securitisation are summarised in Note 2L in the 2012 Financial Statements.

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11 Disclosure on Remuneration

11.1 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 11.3 below).

11.2 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 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. For purposes of determination of the Remuneration Policy 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.

11.3 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 2012 the Company identified 23 Code Staff, this comprised 18 significant influence functions (of whom four were also risk takers), three other members of senior management and two risk takers. Four Code Staff joined the Company during the year and five Code Staff left.

11.4 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.

11.5 The Link between Pay and Performance

Financial and non-financial matters are considered in determining the bonus pool. For all employees assessment of financial performance of the Company will be 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.

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11.6 The Design Characteristics of the Remuneration Scheme

11.6.1 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.

11.6.2 Deferral Policy

During the period in question (April 2011 to March 2012) variable pay for Code Staff and certain other staff were 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 FSA 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.

11.6.3 Performance Adjustment

The Remuneration Policy contains forfeiture provisions which 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.

11.7 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 11.5, 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.

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11.8 Quantitative Information on Remuneration for Code Staff

Aggregate remuneration expenditure for Code Staff for year to 31.03.2012

	£'000
Global Investment Banking	1,918
Markets and Products	4,831

Remuneration for Code Staff for year to 31.03.2012

	Senior Management	**Non Senior Management**
Number of Code staff*	20	5
	£'000	**£'000**
Fixed Pay		
Cash based Fixed Remuneration	5,520	887
Variable Pay		
Cash**	1,308	615
Shares	805	510
Deferred cash**	1,035	765
Deferred shares	1,020	765
Total variable pay	**4,168**	**2,655**
Overall Total	**9,688**	**3,542**

Deferred Remuneration for Code Staff paid out as at 31.03.2012

	Senior Management	**Non Senior Management**
Number of Code staff*	20	5
	£'000	**£'000**
Deferred cash paid out**	**2,124**	**448**

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Analysis of sign-on and severance payments for Code Staff for year to 31.03.2012

	Senior Management	Non Senior Management
	£'000	£'000
Sign-on Payments		
Made in the year	400	0
Number of beneficiaries	1	0
Severance Payments		
Made in the year	54	0
Number of beneficiaries	1	0

* This includes any leavers and joiners during the year
** This includes any discretionary contributions made to an Employee Benefit Trust

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