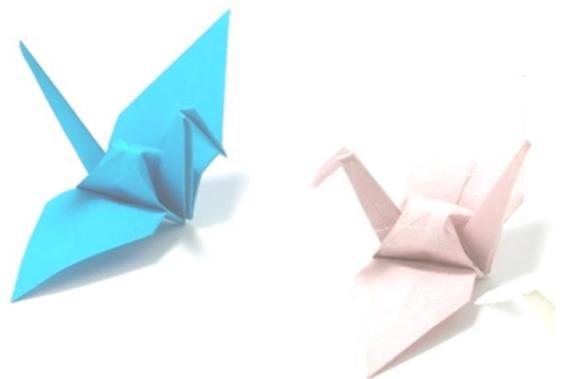


Mizuho International plc

**Financial Statements for the year
ended 31st March 2017**



Financial Statements for the year ended 31st March 2017

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General Information

Directors as at the date of signature of the Reports and Financial Statements

| | |
|-----------------|--|
| Mr D. Weymouth | Chairman and Independent Non-Executive Director |
| Mr M. de Jong | President and Chief Executive Officer |
| Mr M. Mochizuki | Deputy President and Senior Managing Director |
| Mr Y. Shibata | Deputy President and Senior Managing Director |
| Mr T. Sciard | Senior Independent Non-Executive Director |
| Mrs M. Erasmus | Independent Non-Executive Director (Appointed 17 th May 2017) |
| Mr C. Newell | Independent Non-Executive Director |
| Mr K. Fujii | Non-Executive Director |
| Mr H. Kawashima | Non-Executive Director (Appointed 1 st April 2017) |
| Mr H. Nagamine | Non-Executive Director (Appointed 1 st April 2017) |

During the year ended 31st March 2017 all of the above Directors, other than Mrs Erasmus, Mr Kawashima and Mr Nagamine, were in office; other directors in office during that year, but who resigned at the end of it, were:

| | |
|----------------|---|
| Mr K. Ohashi | Non-Executive Director (Resigned 31 st March 2017) |
| Mr T. Teramoto | Non-Executive Director (Resigned 31 st March 2017) |

Company Secretary

Mr B. Lanaghan

Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY
United Kingdom

Registered Office

Mizuho House
30 Old Bailey
London EC4M 7AU
Tel: 020 7236 1090

Registered in England and Wales Number 1203696

Strategic Report

The Directors of Mizuho International plc (the “Company”) present their strategic report for the year ended 31st March 2017.

Review of the businesses

With a focus on the activities of clients of the group of companies headed by Mizuho Financial Group Inc. (“Mizuho Group”), tailored products and solutions are provided to institutional and corporate clients across the EMEA region.

The Company’s wide range of services includes sales and trading of both debt and Pan-Asian equity securities for global and EMEA institutional investor clients, arranging and underwriting new debt issuances for non-Japanese clients, sourcing European-originated products for the Japanese retail client base, underwriting and distributing international equity offerings for Japanese corporations, and providing M&A services for Japanese firms targeting foreign firms.

| | 2017 | 2016 |
|--|-------------------|------------|
| | £ millions | £ millions |
| Client business | 220.2 | 144.1 |
| Legacy business | 0.1 | 1.5 |
| Net income from operations | 220.3 | 145.6 |
| Administrative expenses & depreciation | (195.6) | (159.2) |
| Provision for liabilities | (12.5) | (1.8) |
| Profit/(Loss) on ordinary activities before taxation | 12.2 | (15.4) |
| Tax on profit / (loss) on ordinary activities | - | - |
| Profit / (loss) for the year | 12.2 | (15.4) |
| Tier I Capital | 658.3 | 391.9 |

During the year ended 31st March 2017, which was the final year of Phase 1 of the 3+3 year business plan, the Company achieved significant goals, paving the way to embark on Phase 2 of its 3+3 year business plan.

Most significant was the completion of the Transformation Project marking the culmination of three years of dedication to change in the support functions. It has transformed the General Ledger, Derivative Settlement, Data Warehousing, Middle Office, Cash Management and Reconciliation systems. As a result, the Company can now meet client requirements more seamlessly, reacting to market changes and responding to increasing regulatory demands. In the context of supporting the ongoing business model during year ended 31st March 2017, the support functions have accelerated the provision of e-trading functionality, the support for Derivatives dealing and commenced the transfer to third parties of certain IT activities previously conducted by consultants based at the Company’s offices.

During the year, Mizuho Capital Markets (UK) Ltd (“MCMUK”) and Mizuho International Plc (“MHI”) completed a legal integration, of which MHI was the surviving legal entity, MHI acquired all of the MCMUK derivative business. This project was referred to as Project Links and was the joint project with Mizuho Bank (“MHBK”) to build an EMEA Client Derivatives function. The US Dollar swap desk is now operational and is executing business in addition to the EUR and GBP desks. The Company and MHBK continue to work closely on the next phase to further integrate their client-facing derivatives businesses.

The first half of the year ended 31st March 2017 also brought about the final phase of the office relocation project from Bracken House to Mizuho House. The program was a successful joint One Mizuho exercise between MHBK and the Company, providing new joint facilities to underpin the vision to provide improved flexibility and technology as well as improving the brand and profile of both MHBK and the Company within the City of London.

Strategic Report (Continued)

Review of the businesses (continued)

There has also been a change in the structure of the Company following the liquidation of Structured Credit America Ltd (“SCA Ltd”). In 2009, the Company’s US mortgage loan-backed securitisation business was transferred to the then newly established SCA Ltd with a view to eventual disposal of the positions comprised in that business. The Company and SCA Ltd were repositioned as subsidiaries of a UK-based holding company, Mizuho Securities UK Holdings (“MSUKH”), which was formed for that purpose. Having finalised the asset disposals, SCA Ltd was finally dissolved in June 2016; and MSUKH initiated its voluntary liquidation in July 2016 ahead of being dissolved in January 2017. As a result of this reorganisation, the Company has become a direct subsidiary of Mizuho Securities Co. Ltd (“MHSC”).

Despite the significant investment in infrastructure and momentous political upheavals during the year ended 31st March 2017, the Company has achieved a positive P&L. This positive performance was underpinned by revenues derived from record levels of European issuance, strong two way trading and a cautious risk strategy during periods of uncertainty.

KPIs

The Company’s performance against Key Performance Indicators (“KPIs”) was strong, with another year on year increase in Net income from operations as shown below.

| | 2017 | 2016 |
|-------------------------------------|---------------------|--------------|
| | Y-o-Y change | Y-o-Y change |
| Net income from operations increase | 51.3% | 10.5% |
| Administrative expenses increase | 22.9% | 22.3% |

The client-facing businesses have yielded combined revenue of £220.2 million compared with £144.1 million in the previous year.

The Fixed Income business saw an increase in revenues of over 92.9% compared to the previous year, with significant growth in Flow Corps, boosted by the ECB’s Corporate Sector Purchase Programme and supported by continued gains in market share through the use of electronic trading platforms. The addition of the newly integrated EMEA Flow Derivatives business, which is as a result of Project Links, and the continued growth in the Japanese Non Yen desk also provided significant upside.

The Equity business is run on a cost-plus basis. Year on year increases in commission reflected continued market share gains which saw increased revenues booked in the Company. However, primary sales fees have been limited. European equity activity has also commenced.

Equity Capital Markets (“ECM”) Syndication, which had exceptionally strong performance in the year ended 31st March 2016, experienced a decline in revenue in the year ended 31st March 2017. This reflected in part the preference of clients for selecting debt rather than equity markets for new issuance, due to the low and negative interest rate environment.

Debt Capital Markets (“DCM”) exhibited a strong performance, increasing cross border business, developing the emerging markets franchise and booking successful deals in the Uridashi market. The European Investment Grade market completed the year in record fashion with issuance of over €290 billion, and the Company’s involvement in the Volkswagen EUR8 billion transaction was the largest deal that the Company has lead-managed to date.

The principle risks and uncertainties faced by the Company are discussed in detail in the Directors’ report.

Future developments

The year ending 31st March 2018 represents the start of Phase 2 of the Company’s 3+3 year business plan, and is characterised by a focus on sustainable growth and profitability. Key initiatives will centre around a strengthened product offering and client base, as well as cost savings to be realised from operational efficiency initiatives.

Strategic Report (Continued)

Future developments (continued)

Further cost reduction initiatives are being investigated in close cooperation with MHBK London Branch, to realise joint efficiencies and work towards a more combined united operating model. Following the success of Project Links another phase is underway, which involves investigating the establishment of a broader integrated front office client facing business across MHBK and the Company.

In light of these combined initiatives, the negotiations and decisions around Brexit are key. The Company, like all other financial institutions, is conducting a detailed analysis on how its European business may operate in this new environment.

In all its activities the Company's people are at the centre of its focus alongside its clients. Therefore, further promotion of Learning & Development, Diversity and Culture & Conduct initiatives is essential for the Company's sustainable success. During the year ended 31st March 2017, the Company became a founding signatory to the HM Treasury's Women in Finance Charter, making a commitment at Board level to specifically promote gender diversity in senior positions firmly on its agenda.

The Company continues to pursue a cautious risk profile in support of Mizuho Group's global issuer and investor client franchise. It works continuously on advancing its governance, risk and control framework with a key focus on conduct risk.

By Order of the Board
Brian Lanaghan
Company Secretary

Directors' Report

The directors named below who are on the Board of Mizuho International plc at the date of this report (the "Directors") present this report on the affairs of the Company, together with the financial statements for the year ended 31st March 2017.

Principal Activities

The Company provides investment banking and securities market services to clients of the group of companies headed by Mizuho Financial Group, Inc. ("Mizuho Group").

The Company has permissions from the Prudential Regulation Authority ('PRA') for deposit taking and other activities relating to its investment businesses pursuant to the provisions of the Financial Services and Markets Act 2000, and operates under the rules of the PRA and the Financial Conduct Authority ('FCA'). The Company has an agent office in Frankfurt, Germany.

Results and Dividends

The Company recorded a profit of £12.2 million for the year ended 31st March 2017 (2016: loss £15.4 million). The Directors do not recommend the payment of a dividend in respect of the current financial year (2016: £nil).

Going Concern

The Company's Directors believe that there are no material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The Company's financial statements have been prepared on a going concern basis.

The Directors' assessment of the Company's ability to continue as a going concern is based upon an assessment of the Company's business plans, together with related forecasts in respect of the Company's capital adequacy and liquidity positions, and stresses to those forecast positions.

Directors

The following served as Directors of the Company during the year ended 31st March 2017:

| | |
|-------------------------|--|
| Executive Directors | Mr M. de Jong Mr M. Mochizuki Mr Y. Shibata |
| Non-Executive Directors | Mr D. Weymouth (Chairman) Mr T. Sciard Mr C. Newell Mr K. Fujii Mr K. Ohashi (Resigned 31 st March 2017) Mr T. Teramoto (Resigned 31 st March 2017) |

On 31st March 2017 Mr Ohashi and Mr Teramoto resigned, as shown above. Since then the following appointments to the Board have been made:

| | |
|-------------------------|---|
| Non-Executive Directors | Mrs M. Erasmus (Appointed 17 th May 2017) Mr H. Kawashima (Appointed 1 st April 2017) Mr H. Nagamine (Appointed 1 st April 2017) |
|-------------------------|---|

There are no Directors' interests requiring disclosure under the Companies Act 2006.

The Company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Directors' Report (Continued)

Corporate Governance

As the Company is not listed there is no requirement to comply with the UK Corporate Governance Code. However, the Directors consider that Corporate Governance is an important matter and have adopted a number of procedures as set out below:

- The Company's board of Directors ("the Board") meets at least four times each year and more frequently where business needs require (in practice at least ten times a year).
- As at 31st March 2017 the Board consisted of three Executive Directors, and six Non-Executive Directors (including the two Non-Executive Directors who resigned at the end of that day).
- In order to facilitate the effective conduct of business across the Company, the Board delegates certain matters to five committees, which comprise an Audit and Compliance Committee, a Board Risk Committee, a Crisis Management Committee, a Nomination Committee and a Remuneration Committee. Whilst the Board ultimately remains responsible for all delegated matters, the affairs of those committees are organised to encompass the conduct of the Company's business. The responsibilities and constitution of those committees, referred to in the singular below, are as follows:

The Audit and Compliance Committee is responsible for the review and monitoring of internal control functions, financial reporting, audit effectiveness and regulatory compliance. The committee meets on a quarterly basis and more frequently if required. It is chaired by Mr C. Newell who reports directly to the Board. Its members are Non-Executive Directors. The chairman of the Committee is expressly entitled to invite the external auditors, Chief Financial Officer, the Head of Internal Audit and the Chief Risk Officer and also any other members of management to attend the Committee's meetings.

The Board Risk Committee is responsible for reviewing the Company's risk appetite, risk profile and performance against risk appetite, risk management framework and risk culture. The Board Risk Committee meets not less than 6 times a year but may meet more often as deemed necessary. It is chaired by Mr D. Weymouth and the members include three other Independent Non-Executive Directors and two Non-Executive Directors; meetings are also attended by the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Head of Compliance, and the Chief Operating Officer Front Office. Other members of management or external advisers may be invited by the chairman of the Committee.

The Crisis Management Committee is responsible for managing a crisis or other situation impacting the Company, including the breach of an operating stage trigger as set out in the Company's Recovery Plan. The committee does not meet under normal operating conditions but may be convened at the request of i) any two of the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer and the Treasurer; ii) the Risk Management Committee; iii) the Chairman of the Board; iv) the Chairman of the Board Risk Committee; or v) an Independent non-Executive Director of the Board. Once the committee has been convened, the Chairman of the Committee will be the Chief Executive Officer or, in his absence, the Chief Financial Officer or, in his absence, the Deputy President responsible for Strategy. The Chairman may be replaced at any time by the Chairman of the Board, the Chairman of the Board Risk Committee or the Senior Independent Director. The members of the committee will comprise its Chairman, the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Chief Operating Officer Front Office, the two Deputy Presidents, the Head of Compliance, the Head of Legal, the Treasurer and the Chairman of the Board or an Independent non-Executive Director of the Board, if requested by the Board.

The Nomination Committee is responsible for the selection and recommendation of new members to the Board and the evaluation of performance of the Board. The committee meets as often as necessary to fulfil its responsibilities but not less than twice a year. The Chairman of the Nomination Committee is Mr D. Weymouth and the members of the committee are the three other Independent Non-Executive Directors; meetings are also attended by the Head of Human Resources; other individuals who are not members of the Committee, including for example the Company Secretary, the Head of Compliance and external advisers, may also be invited to attend the Committee.

Directors' Report (Continued)

Corporate Governance (continued)

The **Remuneration Committee** is responsible for approving the Company's remuneration policy for its employees generally and specific remuneration at or above certain senior levels including identified Material Risk Takers. The Remuneration Committee meets at least four times a year with additional meetings as necessary. It is chaired by Mr T. Sciard and its membership comprises the three other Independent Non-Executive Directors and two Non-Executive directors, including a member of the Audit and Compliance Committee and a member of the Board Risk Committee; meetings are also attended by the Head of Human Resources and the Chief Financial Officer may attend by invitation. Meetings may also be attended by invitation to the Chief Executive Officer, the Head of Compliance and the Chief Risk Officer. The Chairman of the committee is also entitled to invite any other staff members or external advisers to attend the committee's meetings.

The Company's organisational structure is designed to ensure that responsibilities are defined and authority is delegated only where appropriate, and that the Board receives regular management accounts containing a sufficient level of analysis of the financial performance of the Company. In respect of internal financial controls the Directors are responsible for ensuring that the Board meets regularly to review this information and takes appropriate decisions on all material matters.

The Company, through its Board, delegates responsibility for the day to day running of the business of the Company to the Chief Executive. The Chief Executive in turn delegates powers for certain matters to executive management, including the Chief Financial Officer and the Chief Risk Officer. The Chief Executive is assisted by the Executive Committee, the membership of which comprises the heads of the Front office business areas and the heads of significant support functions. The Executive Committee's role is to act as a consultative body to the Chief Executive, who therefore has the decision making responsibilities in relation to all matters, save in relation to charity and new product matters, where the Executive Committee's members are entitled to vote.

The Chief Executive has empowered the Executive Committee to delegate responsibility to thirteen sub-committees as follows:

- Assets and Liability Committee
- Change and Implementation Committee
- Charity Committee
- Executive Data Committee
- Front Office Supervision Committee
- Health and Safety Committee
- Information Risk Steering Committee
- Learning and Development Committee
- M&A Engagement and Reputational Risk Committee
- New Product Committee
- Risk Management Committee
- Underwriting Committee, and
- Valuation Control Committee

Those sub-committees, apart from the Charity Committee and the New Product Committee, act as consultative bodies to their Chairmen, who have the sole decision-making powers in relation to matters covered by those sub-committees. The members of the Charity Committee and the New Product Committee, on the other hand, have the right to vote on the matters covered by those sub-committees respectively.

Performance Measurement and Management

The Company and its business streams are managed in accordance with a variety of measures, which are reported on a regular basis to the Executive Committee. The primary measures that are used to monitor and manage performance within the Company include; profit before taxation, capital utilisation, VaR utilisation and stress test exposures (these are disclosed within the financial statements and accompanying notes).

Directors' Report (Continued)

Performance Measurement and Management (continued)

Remuneration

The Company has adopted a Remuneration Policy that takes into account the Remuneration part of the PRA's Rulebook and the FCA's Remuneration Codes for dual-regulated firms (which are intended to promote effective risk management but retain the flexibility to change dependent on external factors including, but not limited to, legislative or regulatory measures in the future). The Company's remuneration practices, policies and procedures are consistent with the principles set out by the PRA and FCA in the documents referred to above. When determining the size of the overall bonus pool, the cost of economic or regulatory capital, liquidity and the need to maintain and/or strengthen a sound capital base are taken into account. Individual awards are then allocated using the results of a Balanced Scorecard Appraisal. Material Risk Takers (MRTs) are subject to bonus deferral in accordance with the Remuneration Codes (i.e. deferral periods of 3, 5 or 7 years); a general deferral plan is in place for all other staff whose bonus award is above a threshold set out in the Remuneration Policy. Bonus awards are subject to malus adjustment (including forfeiture) and deferred bonuses will vest only to the extent determined by the Remuneration Committee in its sole discretion, having regard to matters set out in the Remuneration Policy. At least 50% of any variable remuneration awarded to MRTs will be allocated in the form of awards based on Mizuho Financial Group Inc. shares and is subject to a retention period of six months. The requirement is applied to both deferred and non-deferred awards. The Remuneration Codes require the Company to be contractually entitled to apply clawback to the variable remuneration of MRTs for seven years after the award has been made (this can be extended to 10 years for Senior Managers in the event of an investigation).

Employment Policies

As set out in its Equality and Diversity Policy, the Company is committed to equal opportunities for all. The Company opposes all forms of discrimination including on the grounds of age, disability, gender (including gender reassignment), marriage and civil partnership, pregnancy and maternity, race, religion or belief and sexual orientation. Pursuant to the policy, members of staff, whether full time, part time or temporary, are to be treated fairly, equally and with respect.

The Company values and respects the differences between all people in its employment. By promoting and ensuring an inclusive environment the Company can build on the collective and complementary skills, knowledge, background and networks of its people. Valuing diversity is an integral part of our strategy for competing in the current and future marketplace and driving business performance and success.

The Equality and Diversity Policy applies to all aspects of employment, including recruitment and selection, appraisal, learning and development, promotion, pay and conditions. Selection for employment, promotion, learning and development or any other benefit is on the basis of aptitude and ability.

The Company promotes a high performance culture and learning organisation, building on individual and group skills and learning experiences; and is committed to creating a positive working environment in which each employee can develop their specialist knowledge and professional experience. All employees are supported and encouraged to develop their full potential and the talents and resources of our workforce will be utilised to maximise the efficiency of the organisation.

The Company extends its commitment to equality and diversity to the communities in which it operates, through its Corporate Social Responsibility initiatives.

All staff are made aware of the provisions of the Company's Equality and Diversity Policy through regular awareness sessions and full details of the policy are made available on the Company's intranet site. Staff have a positive responsibility to comply with this policy and ensure that its terms are put into effect.

Directors' Report (Continued)

Employment Policies (continued)

The Company places considerable value on the involvement of its employees and has a practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through regular circulars distributed throughout the Company, through the intranet site and through the Directors' Report and financial statements which are made available to all employees.

Principal Risk and uncertainties

As an international investment banking and securities markets business within the group of companies headed by Mizuho Group, Ltd., the Company is affected by a range of risk factors. The Company's risk management framework comprises risk identification, quantification, control and risk monitoring and reporting processes designed to achieve effective management in line with the risk appetite statement through a top-down delegation of authority.

Risk Identification

Risk identification is conducted by examination of all activities of the Company and is captured in the risk register that consists of all risks from all risk areas to which the Company is exposed. The risk register contains measures of materiality, mitigants and controls to ensure capital adequacy.

Market risk is the risk that changes in interest rates, foreign exchange rates, credit spreads, equity prices and other rates, prices, volatilities, correlations or other market conditions, such as liquidity, will have an adverse impact on the Company's financial condition or results.

Credit risk is the risk of financial loss to the Company if an issuer of a financial instrument or a customer fails to meet its contractual obligations.

Liquidity Risk is the risk that the Company, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due.

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

Risk Quantification and assessment

Risks identified in the risk register are quantified and assessed by various metrics including severe but plausible stress tests and key risks are identified to form the risk appetite statement. The risk capture methodology and results of the risk metrics are reviewed and challenged by senior management and measured against risk appetite limits.

Risk Control

As an overarching risk control, the Company operates a three lines of defence model to manage all risks.

- The first line is any business or support unit that originates risk, owns it and is responsible for that risk. The first line function is obliged to understand the implication of any risks run by it and to conduct its own supervision to control/manage the risk.
- The second line is provided by a number of functions (predominantly Risk Management, Compliance, Legal and Finance) who are responsible for conducting independent challenge, oversight and reporting of risk and validating the management of risks by the first line of defence.
- The third line of defence is provided by the Internal Audit Function that is independent of both the first and second lines of defence. The role of the third line is to independently check and verify the effectiveness of the first and second lines of defence and to escalate to Senior Management any deficiencies that it identifies.

The Company's risk controls are implemented in line with the risk appetite statement by setting various risk limits and policies owned by the Board which are cascaded down to more granular and specific limits which are owned by delegated risk management authorities.

Directors' Report (Continued)

Principal Risk and uncertainties (continued)

Risk Monitoring and reporting

For most risk metrics and limits, exposures are monitored daily by automated processes to support timely management information that includes a daily risk report to the Chief Executive Officer and Chief Risk Officer, weekly risk report to the Executive Committee and Risk Management Committee and monthly risk report to the Board Risk Committee.

Financial Instruments

The Company uses financial instruments for risk management purposes, as outlined in Accounting Policy 2D.

Further information around the Company's risk management objectives and policies, and its exposure to various risks, can be found in note 31.

Future Developments

The future developments of the Company are discussed in the Strategic Report.

Events since the balance sheet date

There have been no events after the balance sheet date that require disclosure.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

Ernst & Young LLP were reappointed as auditors of the Company during the financial year ended 31st March 2017. Ernst & Young LLP have expressed their willingness to continue in office and a resolution re-appointing them as Auditors of the Company and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board
B. Lanaghan
Company Secretary

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

The Companies Act 2006 law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102'). As provided by the Companies Act 2006, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Mizuho International plc

We have audited the financial statements of Mizuho International plc for the year ended 31st March 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, Director's Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the Members of Mizuho International plc (Continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Nicholas Dawes (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
25 Churchill Place
Canary Wharf
London
E14 5EY
Date*

1. The maintenance and integrity of the Mizuho International plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Comprehensive Income for the year ended 31st March 2017

| | Note | 2017 £ millions | 2016 £ millions |
|---|--------|--------------------|--------------------|
| Interest receivable | | 1.1 | 0.6 |
| Interest payable | | (11.9) | (15.8) |
| Net interest payable | | (10.8) | (15.2) |
| Fees and commissions receivable | 4 | 140.0 | 116.6 |
| Fees and commissions payable | 4 | (58.1) | (64.0) |
| Net fees and commissions | | 81.9 | 52.6 |
| Dealing profit | 5 | 144.5 | 100.7 |
| Other operating income | 6 | 4.7 | 7.5 |
| Net income from operations | | 220.3 | 145.6 |
| Administrative expenses | 7 | (174.8) | (146.4) |
| Depreciation and amortisation | 16, 17 | (20.8) | (12.8) |
| Provisions for contingent liabilities and commitments | 23 | (12.5) | (1.8) |
| Operating expenses | | (208.1) | (161.0) |
| Profit / (loss) on ordinary activities before taxation | | 12.2 | (15.4) |
| Tax on profit / (loss) on ordinary activities | 8 | - | - |
| Profit / (loss) for the year | | 12.2 | (15.4) |
| Other comprehensive income | | | |
| Profit / (loss) for the financial year | | 12.2 | (15.4) |
| Remeasurement gains and losses from defined benefit scheme | 25 | (4.5) | (0.4) |
| Total profit / (loss) recognised before tax | | 7.7 | (15.8) |
| Deferred Tax | | - | - |
| Total comprehensive income | | 7.7 | (15.8) |

All of the activities of the Company are classified as continuing.

Statement of Financial Position as at 31st March 2017

Registered number: 1203696

| | Note | 2017 £ millions | 2016 £ millions |
|--|------|--------------------|--------------------|
| Assets | | | |
| Cash and balances at central banks | | 112.5 | 27.3 |
| Loans and advances to banks | 10 | 166.4 | 106.9 |
| Reverse repurchase agreements with banks | | 4,091.3 | 3,268.7 |
| Reverse repurchase agreements with customers | | 5,106.9 | 3,176.7 |
| Debt and other fixed income securities | 11 | 4,054.6 | 5,268.4 |
| Equity Shares | 12 | 1.5 | 1.0 |
| Derivative assets | 13 | 1,498.4 | 424.0 |
| Shares in group undertakings | 15 | 5.8 | 3.8 |
| Intangible assets | 16 | 71.5 | 61.6 |
| Tangible fixed assets | 17 | 33.2 | 28.4 |
| Other assets | 18 | 193.0 | 752.2 |
| Prepayments and accrued income | | 60.1 | 73.8 |
| Total Assets | | 15,395.2 | 13,192.8 |
| Liabilities | | | |
| Deposits by banks | 19 | 318.9 | 613.1 |
| Customer accounts | 19 | 432.0 | 310.2 |
| Repurchase agreements with banks | | 2,448.5 | 2,462.1 |
| Repurchase agreements with customers | | 3,779.3 | 2,992.4 |
| Debt securities in issue | 20 | 1,387.9 | 879.3 |
| Short trading positions | 21 | 4,297.7 | 4,570.4 |
| Derivative liabilities | 13 | 1,433.1 | 421.4 |
| Other liabilities | 22 | 357.3 | 307.3 |
| Accruals and deferred income | | 141.7 | 116.2 |
| Provisions for liabilities | 23 | 17.2 | 14.4 |
| Subordinated liabilities | 24 | 45.2 | 45.2 |
| Total Liabilities | | 14,658.8 | 12,732.0 |
| Equity | | | |
| Called up share capital | 27 | 709.9 | 2,875.3 |
| Share premium account | | 15.6 | 15.6 |
| Pension reserve | | (1.3) | (16.8) |
| Profit and loss account | | 12.2 | (2,413.3) |
| Total Equity | | 736.4 | 460.8 |
| Total Liabilities and Equity | | 15,395.2 | 13,192.8 |

Approved and authorised for issue by the Board of Directors on and signed on its behalf by

Michiel de Jong
Chief Executive Officer

Statement of Changes in Equity for the year ended 31st March 2017

| | Share capital £ millions | Share premium account £ millions | Pension Reserve £ millions | Profit and loss account £ millions | Total equity £ millions |
|--------------------------------------|--------------------------------|---|----------------------------------|---|-------------------------------|
| At 1 st April 2015 | 2,840.3 | 15.6 | (16.4) | (2,397.9) | 441.6 |
| Increase in paid up share capital | 35.0 | - | - | - | 35.0 |
| Loss for the year | - | - | - | (15.4) | (15.4) |
| Other comprehensive income | - | - | (0.4) | - | (0.4) |
| At 31 st March 2016 | <u>2,875.3</u> | <u>15.6</u> | <u>(16.8)</u> | <u>(2,413.3)</u> | <u>460.8</u> |
| At 1 st April 2016 | 2,875.3 | 15.6 | (16.8) | (2,413.3) | 460.8 |
| Increase in paid up share capital | 267.9 | - | - | - | 267.9 |
| Share capital reduction | (2,433.3) | - | 20.0 | 2,413.3 | - |
| Profit for the year | - | - | - | 12.2 | 12.2 |
| Other comprehensive income | - | - | (4.5) | - | (4.5) |
| At 31 st March 2017 | <u>709.9</u> | <u>15.6</u> | <u>(1.3)</u> | <u>12.2</u> | <u>736.4</u> |

Notes to the Financial Statements

1. BASIS OF PREPARATION

Mizuho International plc is a public limited company incorporated in the United Kingdom and registered in England and Wales. The Registered Office is Mizuho House, 30 Old Bailey, London, EC4M 7AU.

The Company's financial statements have been prepared in compliance with Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102') and in accordance with the provisions relating to Banking Companies and Schedule 2 of the Companies Act 2006.

Accounting policies

The accounting policies that are significant in the context of the Company's financial statements are described in note 2. The accounting policies adopted by the Company in the preparation of the financial statements are consistent with those in the previous year.

Basis of measurement

The financial statements have been prepared under the historical cost convention, as modified for derivative financial instruments, financial assets and liabilities at fair value through profit and loss, which are measured at fair value.

Presentation currency

The financial statements are presented in Sterling which is the Company's functional currency and the financial information is presented in £ millions and has been rounded to the nearest £100,000 unless otherwise indicated.

Cash flow statement

In accordance with the scope exclusions contained in FRS 102, the Company has not prepared a cash flow statement as the Company is a qualifying entity and is included within publicly available consolidated financial statements of the Mizuho Financial Group, Inc. as described in note 34.

Segmental analysis

Segmental analysis of income and net assets has not been prepared as, in the opinion of the Directors, the Company has only one class of business, being investment banking, and operates in a global market which is not defined by geographical bounds. The Company does not operate in countries or groups of countries which could provide useful information by being segmented based on stability of regime, exchange control regulations, or exchange rate fluctuations.

2. SIGNIFICANT ACCOUNTING POLICIES

A – Financial instruments

The Company applies IAS 39: Financial Instruments for the recognition and measurement of financial instruments.

Regular way purchase or sale of financial assets (excluding derivatives)

Settlement date accounting is applied for the purposes of recognising and de-recognising financial assets.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A – Financial instruments (continued)

Recognition

Financial instruments are recognised when the Company becomes party to the contractual provisions of the relevant financial asset or financial liability. Financial instruments are initially recorded at fair value plus, in the case of financial instruments not measured at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

De-recognition of financial assets

A financial asset is de-recognised when:

- The contractual rights to receive the cash flows from the asset expire; or
- The Company has transferred substantially all the risks and rewards of the financial asset; or
- The Company has neither transferred nor retained substantially all the risks and rewards of the financial asset but has transferred control of the financial asset.

Where the Company neither transfers nor retains substantially all of the risks and rewards of ownership of a transferred asset, and retain control of the transferred asset, the Company will account for its continuing involvement in the asset. Under this approach, the Company will continue to recognise the transferred asset to the extent of the continuing involvement in that asset and recognise an associated liability such that the net carrying value of the transferred asset and associated liability is equal to the fair value of the retained rights and obligations.

De-recognition of financial liabilities

Financial liabilities are de-recognised when they have been extinguished as a result of the cancellation, discharge or expiry of the obligations specified in the contract.

Offsetting

Financial assets and liabilities are set off and the net amount presented on the Statement of Financial Position when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or where gains and losses arise from a group of similar transactions, such as the Company's trading activities.

B – Trading financial instruments

Non derivative financial instruments are classified as held for trading if they are acquired for the purpose of selling in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Non derivative trading financial instruments include reverse repurchase and repurchase agreements, trading debt and trading equity securities. Subsequent to initial recognition, trading financial instruments are measured at fair value. Changes in fair value, and gains or losses realised on de-recognition, are recognised in the Statement of Comprehensive Income and reported under dealing profit.

Reclassifications from trading non derivative financial assets

The Company will reclassify trading non derivative financial assets, other than those designated as at fair value through profit and loss upon initial recognition (see accounting policy E), if they are no longer held for the purpose of being sold or repurchased in the near term.

Non derivative financial assets, other than loans and receivables, may only be reclassified in rare circumstances.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C – Derivative financial instruments

Trading derivative instruments

Subsequent to initial recognition, trading derivative instruments are measured at fair value and disclosed as financial assets when the fair value is positive and financial liabilities when the fair value is negative. Changes in fair value, and realised gains or losses, are recognised in the Statement of Comprehensive Income and reported under net dealing profit / loss.

Derivative financial instruments held for risk management purposes

Derivative financial instruments held for risk management purposes comprise swaps and other derivative financial instruments designated in hedging relationships. These are used to hedge the Company's debt securities in issue (see accounting policy D – Hedge accounting). These instruments are measured and presented in the same manner as trading derivative instruments.

Embedded derivatives

Derivatives embedded within financial instruments that are not held for trading or designated at fair value through Statement of Comprehensive Income are separated from their host contracts and accounted for as derivatives if the economic characteristics of the embedded derivative are not closely related to those of the host contract and if a separate instrument with the terms of the embedded derivative meets the definition of a derivative.

Embedded derivatives are separated from their host contracts and are measured and presented in the same manner as trading derivative instrument at fair value through Statement of Comprehensive Income.

D – Hedge accounting

The Company uses derivative financial instruments to manage exposure to interest rate risk, credit risk, currency risk and price risk. The Company applies fair value hedge accounting when a transaction meets the criteria necessary to obtain hedge accounting treatment.

Hedge accounting is applied where a designated fair value hedging relationship exists between a derivative hedging instrument (see accounting policy C – derivative financial instruments held for risk management purposes) and a hedged financial liability. A fair value hedge of a financial liability represents a hedge against changes to the fair value of a liability that is attributable to a particular risk that could impact the Statement of Comprehensive Income.

A hedging relationship qualifies for hedge accounting if the following conditions are met:

- At inception, formal documentation is prepared to include:
 - Designation of the hedging relationship;
 - Identification of the hedging instrument and hedged item;
 - Nature of the risk being hedged; and
 - Description of how hedge effectiveness will be assessed.
- The hedge is expected to be highly effective (80 to 125%), and its effectiveness can be reliably measured; and
- The hedge is assessed for effectiveness on an ongoing basis.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D – Hedge accounting (continued)

The gain or loss from re-measuring the hedging instrument at fair value is recognised in the Statement of Comprehensive Income. The gain or loss on the hedged financial liability attributable to the hedged risk adjusts the carrying value of the hedged item and is recognised in the Statement of Comprehensive Income.

The Company prospectively discontinues hedge accounting for a hedged relationship if:

- The hedging instrument expires or is sold, terminated or exercised;
- The hedge no longer meets the criteria for hedge accounting; or
- The Company revokes the designation.

If hedge accounting is discontinued, for hedged financial liabilities recorded at amortised cost the difference between the carrying value of the hedged financial liability on termination of the hedge and the face value is amortised over the remaining term of the original hedge. If the hedged financial liability is de-recognised, the unamortised fair value adjustment is recognised immediately in the Statement of Comprehensive Income.

E – Financial instruments designated as at fair value through profit and loss

The Company may designate financial assets and financial liabilities at fair value through profit and loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Fair value gains or losses, together with net interest income / expense, arising from financial instruments designated as at fair value through profit and loss are recognised in the Statement of Comprehensive Income account and reported within net dealing profit / loss. The amount of each class of financial asset or liability that has been designated at fair value through profit and loss is set out in note 30.

F – Equity Shares

The Company classifies equity shares as at fair value through profit and loss. These are measured as described in accounting policy E.

G – Loans and advances

Subsequent to initial recognition, loans and advances are measured at amortised cost using the effective interest method (see Accounting Policy N) less impairment (see Accounting Policy M), with any resulting interest income taken to the Statement of Comprehensive Income.

H – Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repurchase agreements) are not de-recognised from the Statement of Financial Position. The corresponding cash received, including accrued interest is recognised on the Statement of Financial Position as Repurchase Agreements reflecting its economic substance as a loan to the Company.

Securities purchased under agreements to resell at a specified future date (reverse repurchase agreements) are not recognised on the Statement of Financial Position. The corresponding cash paid including accrued interest is recognised on the Statement of Financial Position as Reverse Repurchase Agreements reflecting its economic substance as a loan receivable by the Company.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H – Repurchase and reverse repurchase agreements (continued)

Repurchase and reverse repurchase agreements are classified as held for trading at fair value through statement of comprehensive income.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised in the statement of financial position, unless they are then sold to third parties, in which case, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measure at fair value with any gains or losses included in net trading income.

I – Deposits and debt securities in issue

Deposits and debt securities in issue are measured at amortised cost using the effective interest rate method except where the Company has designated financial liabilities as at fair value through profit and loss.

The Company has designated certain issued debt securities and deposits as at fair value, and these financial liabilities are measured as described in accounting policy E.

J – Fair value measurement

Fair value is the amount of which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. Financial instruments measured at fair value comprise:

- Trading financial instruments;
- Trading derivatives and derivatives held for risk management purposes;
- Embedded derivatives; and
- Financial assets and financial liabilities designated as at fair value through profit and loss.

Fair values are derived from quoted market prices or valuation techniques as described below:

Active market

Financial instruments that trade within an active market are valued using quoted market prices or rates available within that market. An active market exists where regular prices are provided by exchanges, dealers, brokers, industry groups or pricing services, and these prices represent actual market transactions.

Financial instruments may be priced from the most advantageous active market to which the Company has access, and this may result in the recognition of revenue on trade date ('day one profit'), to the extent that a fair value instrument has been traded at a favourable price in comparison to prices available within an active market.

Long positions are marked to the bid side, and short trading positions to the offered side of an active market. Where the Company holds positions which create offsetting risk positions, then those offsetting positions are valued at mid market rates, with any resulting net risk positions being marked to the bid or offered side as appropriate.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J – Fair value measurement (continued)

No active market

Financial instruments that do not trade within an active market are valued using a valuation technique, which may consist of:

- Analysis of current or recent third party transactions in the same instrument; or
- Reference to the value of other instruments, that are substantially the same as the instrument to be valued; or
- Use of a valuation model.

Valuation techniques, including valuation models, meet the following conditions:

- Consistency with accepted methodologies for pricing financial instruments;
- Inclusion of all relevant factors that market participants would consider in setting a price;
- Use of market observable data where possible; and
- Periodic calibration to actual market transactions where possible.

If, on trade date, a valuation technique results in a different estimate of fair value to the actual transaction price, then the valuation technique will be calibrated to the transaction price, so that no gain or loss is recognised except as described below.

Gains or losses will only be recognised subsequently, to the extent that they arise from changes in a factor (including time) that market participants would consider in setting a price.

Fair value estimates from valuation techniques may be used on trade date without calibration to the transaction price, resulting in the recognition of day one gains and losses, under the following conditions:

- Fair value is supported by current market transactions in the same instrument; or
- Fair value is based upon a valuation technique whose variables include only data from observable markets.

Day one gains or losses that do not meet these criteria are deferred and amortised over the life of the financial instrument to which they relate.

K – Cash and balances at central banks

Cash and balances at central banks in the statement of financial position comprise cash held with central banks and short term deposits with an original maturity date of three months or less. These balances are measured at amortised cost using the effective interest method less impairment, with any resulting interest income taken to the Statement of Comprehensive Income.

L – Foreign currencies

Foreign currency carrying values at initial recognition are translated into the functional currency at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency of the Company at the mid-market rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded using an average rate of exchange for the year. Foreign currency translation differences are included in operating income.

Non monetary items that are measured at historical cost in a foreign currency are translated into functional currency at the original transaction rate.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M – Identification and measurement of impairment

Financial assets

At the end of each financial reporting period, an assessment is made as to whether there is any objective evidence of impairment in the value of financial assets. Impairment losses are recognised 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 asset that can be estimated reliably.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognised in the Statement of Comprehensive Income and reflected in an allowance account against the impaired financial asset category. Interest on impaired assets continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Comprehensive Income. Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment been recognised.

Non-financial assets

On an annual basis, the Company will assess whether there are indicators of impairment against non-financial assets. Where there are indicators of impairment of individual assets, the Company will compare the carrying amount of the asset to the recoverable amount. The recoverable amount is determined as the higher of fair value less costs to sell or a value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in the Statement of Comprehensive Income unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply. Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment been recognised.

N – Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and that revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N – Recognition of income and expenses (continued)

Interest income and expense

Interest income and expense, in respect of financial instruments that are not recognised at fair value through profit and loss, are recognised in the Statement of Comprehensive Income using the effective interest rate method and are reported under interest receivable and payable. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of a financial asset or financial liability, or a shorter year where appropriate, to the carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset or financial liability. The calculation of the effective interest rate includes all the fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Fees and commissions

Fees and commissions are recognised as the service is performed. For services provided over a period of time, the income and expenses are recognised as the services are provided or received. For transaction based services, the income and expenses are recognised on completion of the underlying transaction.

Dealing profit / loss

Dealing profit / loss comprises gains less losses related to trading financial assets, trading financial liabilities, derivative instruments held for risk management purposes and the fair value hedge adjustments relating to the hedged items, and financial instruments designated as at fair value through profit and loss.

This includes all associated realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

O – Tangible fixed assets and depreciation

Tangible fixed assets held for use in the business are stated at cost less accumulated depreciation and impairment allowances. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

- Short leasehold properties and improvements thereto are written off on a straight line basis over the remaining life of the lease or twenty five years, whichever is shorter; and
- Fixtures, equipment and vehicles are depreciated on a straight line basis over periods between two and five years.

P – Intangible assets and amortisation

Intangible assets available for use are classified as Software, stated at cost less accumulated amortisation and impairment allowances.

Intangible assets classified as Software Development Expenditure include the directly attributable costs of the development and bringing into use of significant computer software systems, not yet deemed to be available for use. Amortisation is only applied once the asset is deemed available for use, and reclassified to Software.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P – Intangible assets and amortisation (continued)

Development costs for internal projects are capitalised when:

- it is feasible the project will be made available for use,
- there is the intention to complete the project,
- the intangible asset generated from the project has the ability to be used,
- it will generate probable future economic benefits,
- adequate resources are available to complete the project, and
- expenditure can be reliably attributable to the intangible asset during development.

This is assessed on a project by project basis. The development costs for any projects not meeting these capitalisation requirements will be expensed as incurred.

Software intangible assets are amortised on a straight line basis over their useful lives. The useful economic lines of software assets are determined to be between 4-5 years.

Q – Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are the differences between the Company taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent years.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

R – Operating leases

The Company has entered into commercial property leases as the lessee. As the lessee, it obtains the use of the property. The classification of such leases as an operating lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangement, whether it does not retain or acquire significant risks and rewards of ownership of these assets and accordingly the lease is not required to be recognised an asset and liability in the statement of financial position.

In the instance a portion of the building space is sublet, the rental income is classified as other operating income.

Operating lease income and expenses are recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

S – Share based payments

The Company engages in share based payment in transactions in respect of services received from certain employees of the Company. These payments may be cash or physically settled at the election of the employee on vesting. The fair value of the services received is measured by reference to the fair value of the shares granted. The cost of the employee services received in respect of the shares granted is recognised in the Statement of Comprehensive Income over the year that the services are received. With regard to continuing employees, the service year corresponds to the vesting year of the share awards, whilst the service years of former employees who retain rights as good leavers, are deemed to end once employment with the Company has ceased. The share based payment scheme is considered to be a cash settled scheme, because the Company has granted rights to equity instruments of its ultimate parent to its employees.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S – Share based payments (continued)

The cost of cash settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period, a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount for the liability are recognised in profit or loss for the period.

T – Pension costs

The Company operates defined contribution schemes and a defined benefit scheme.

Defined contribution schemes

Contributions to defined contribution schemes are recognised within the Statement of Comprehensive Income in the year in which they become payable.

Defined benefit scheme

This scheme is closed to new entrants and has no active remaining members.

The defined benefit pension scheme requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, which attributes entitlement to benefits to the prior years (to determine the present value of defined benefit obligation) and is based upon actuarial advice.

Past service costs are recognised in the Statement of Comprehensive Income on a straight line basis over the vesting year or immediately if the benefits have vested. The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year.

The interest on scheme assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of scheme assets of contributions received and benefits paid during the year. The difference between the interest on scheme assets and the interest cost is recognised in the Statement of Comprehensive Income as other finance income or expense.

Actuarial gains and losses are recognised in full in Other Comprehensive Income in the year in which they occur.

The total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of scheme assets gives rise to a defined benefit pension liability or surplus. The fair value of scheme assets is based on market price information.

Defined benefit pension liabilities are recognised on the Statement of Financial Position, whilst defined benefit pension surpluses are only recognised to the extent of their recoverability. Defined benefit pension surpluses are determined to be recoverable only where refunds have been agreed by scheme trustees at the balance sheet date.

U – Provisions

Provision is made where a present obligation arises as a result of a past event and it is probable that the Company will make a transfer of economic benefits to satisfy such obligation. Such provision is made based on the Directors' best estimate of the economic benefits to be transferred, discounted where relevant at an appropriate discount rate.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V – Business combination

A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

A business combination must involve the acquisition of a business, which generally has three elements, inputs, processes and outputs:

- Inputs are economic resources including employees, materials and non-current assets (including rights of use);
- Process are systems, standards, protocols, conventions or rules that when applied to inputs, create outputs;
- Outputs provide a return in the form of dividends, lower costs or other economic benefits to stakeholders.

Business combinations including group reconstructions may be accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measure reliably. Where:

- The contingent consideration is not considered probable and measureable or
- Contingent consideration previously measure is adjusted, the amounts are recognised as an adjustment to the cost of the business combination

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measure they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair value to the Company's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

On acquisition, goodwill is allocated to cash-generating units that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life. Where the Company is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding 5 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

3. ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The results of the Company are sensitive to accounting policies, assumptions and estimates that underlie the preparation of the financial statements.

When preparing the financial statements, it is the Directors' responsibility under applicable UK law to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

Notes to the Financial Statements (Continued)

3. ESTIMATES AND JUDGEMENTS (CONTINUED)

The accounting policies that are deemed critical to the Company's financial performance and position, in terms of the materiality of the items to which the policy is applied, or which involve a high degree of judgement and estimation are summarised below:

Valuation of financial instruments

The Company accounting policy for valuation of financial instruments is set out in accounting policy 2J. The valuation techniques used in measuring fair value of financial instruments are discussed further in note 30C.

Where valuation techniques are used, the inputs to these models are taken from observable markets where possible. Where observable market data is not available, a degree of judgement is required in establishing fair value.

Further disclosure on valuation techniques using non observable market data including sensitivity analysis is provided in note 30C and 31B.

Pension liability

The principal assumptions and estimates in determining the pension liability for the financial year are set out in note 25.

Provisions

The Company recognises provisions when: there is an obligation at reporting date (legal or constructive) resulting from a past event; it is probable that a transfer of economic benefits will be required and a reliable estimate can be made as to the amount of the obligation.

Provisions are distinguished from other liabilities, as there is uncertainty about the timing or amount of future expenditure required to settle the obligation, and the Company recognises provisions based upon its best estimate of such expenditure.

Share based payment

The estimates in determining the share based payment for the financial year are set out in note 32.

4. FEES AND COMMISSIONS

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Fees and commissions receivable | | |
| - Trading activities | 135.8 | 114.2 |
| - Fiduciary services | 4.2 | 2.4 |
| | <u>140.0</u> | <u>116.6</u> |
| Fees and commissions payable | | |
| - Trading activities | (58.1) | (64.0) |
| | <u>(58.1)</u> | <u>(64.0)</u> |

A reclassification has been made between Fees and Commissions Income (-£17.2 million), Fees and Commissions Expense (£18.1 million) and Dealing Profit (-£0.9m million), in the comparative financial information to show certain Mizuho intra-group revenues on a net rather than gross basis, to better reflect the Company's position as an agent in such transactions. The current year balances follow the same treatment.

Notes to the Financial Statements (Continued)

5. DEALING PROFIT

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Net interest expense from financial instruments held for trading | (28.0) | (8.9) |
| Net interest expense from financial instruments designated at fair value | (0.6) | (1.7) |
| Net gains from financial instruments held for trading | 172.3 | 109.7 |
| Net gains from financial instruments designated at fair value | 0.8 | 1.6 |
| | <u>144.5</u> | <u>100.7</u> |

Dealing profit includes foreign currency losses arising on the translation of foreign currency monetary assets and liabilities amounting to £0.2 million (2016: net profit £0.7million).

6. OTHER OPERATING INCOME

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Rental income | 4.4 | 7.5 |
| Net third party contribution on defined benefit scheme (note 25) | 0.3 | - |
| | <u>4.7</u> | <u>7.5</u> |

7. ADMINISTRATIVE EXPENSES

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Staff costs | | |
| Wages and salaries | 97.8 | 80.2 |
| Social security costs | 9.4 | 8.6 |
| Pension costs – defined contribution schemes | 4.4 | 3.8 |
| Share based payments | 2.6 | 0.8 |
| | <u>114.2</u> | <u>93.4</u> |
| Auditors' remuneration | | |
| Audit fees | 0.8 | 0.7 |
| Other services | - | - |
| | <u>0.8</u> | <u>0.7</u> |
| Rental charges payable under operating leases | 10.3 | 14.7 |
| Other administrative expenses | 49.5 | 37.6 |
| | <u>59.8</u> | <u>52.3</u> |
| | <u>174.8</u> | <u>146.4</u> |

Notes to the Financial Statements (Continued)

7. ADMINISTRATIVE EXPENSES (CONTINUED)

Average number of employees

| | 2017 Number | 2016 Number |
|--|----------------|----------------|
| Executive and senior managerial | 105 | 89 |
| Other managerial, supervisory and clerical | 355 | 328 |
| | <u>460</u> | <u>417</u> |

Directors' emoluments

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Directors' emoluments in respect of qualifying services | <u>3.7</u> | <u>3.3</u> |

| | 2017 Number | 2016 Number |
|--|----------------|----------------|
| Retirement benefits are accruing to Directors by virtue of their directorship of the Company | | |
| Other Mizuho Financial Group, Inc., group retirement plans | <u>2</u> | <u>3</u> |

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Aggregate emoluments of highest paid Director | <u>1.8</u> | <u>1.7</u> |
| Pension contributions made to highest paid Director | <u>nil</u> | <u>nil</u> |

Part of the compensation of the highest paid director is deferred to future years, of which £0.5 million (2016: £0.5 million) relates to deferred share awards. No other directors receive compensation under this scheme.

8. TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

Charge for taxation

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Current taxation | | |
| UK Corporation tax for the current year | - | - |
| Group relief | - | - |
| Current tax charge | <u>-</u> | <u>-</u> |
| Deferred taxation | | |
| Deferred tax charge | - | - |
| Tax on profit / (loss) on ordinary activities | <u>-</u> | <u>-</u> |

Notes to the Financial Statements (Continued)

8. TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES (CONTINUED)

Total taxation reconciliation

A reconciliation between the tax (expense)/credit and the accounting profit multiplied by UK standard rate of corporation tax is as follows:

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Profit / (loss) on ordinary activities before taxation | <u>12.2</u> | <u>(15.4)</u> |
| Profit / (loss) on ordinary activities multiplied by the standard rate 20% (2016: 20%) | (2.4) | 3.1 |
| Effects of: | | |
| - Utilised / (unrecognised) tax losses | 2.5 | (1.2) |
| - Movements in fixed asset timing differences | 0.6 | (2.1) |
| - Expenses not deductible for tax purposes | 0.2 | 0.5 |
| - Other short term timing differences | <u>(0.9)</u> | <u>(0.3)</u> |
| Current tax charge/(credit) | <u>-</u> | <u>-</u> |

Deferred taxation

The Finance (No. 2) Act 2015 reduced the tax rate to 19% (effective from 1 April 2017) and the Finance Act 2016 further reduced the tax rate to 17% (effective from 1 April 2020). These changes to the main tax rate had been enacted at the Balance Sheet date.

There are no deferred tax balances as at the balance sheet date in respect of both the current year and prior period. Based on the likely timing and level of future profits, the Directors have concluded that no deferred tax asset should be recognised in respect of tax losses and other timing differences. The net deferred tax asset available not recognised amounted to £325 million (2016: £330 million). This includes an amount of £1.6 million in respect of the EBT reserve.

9. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

Transferred financial assets that are not derecognised in their entirety

The following tables provide a summary of those financial assets that have been transferred in such a way as to not be fully derecognised, together with the associated liabilities:

| 2017 | Government debt securities £ millions | Other debt securities £ millions | Total £ millions |
|--|--|--|---------------------|
| Carrying amount assets | 683.6 | 386.9 | 1,070.5 |
| Carrying amount associated liabilities | <u>688.2</u> | <u>374.5</u> | <u>1,062.7</u> |

Notes to the Financial Statements (Continued)

9. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL (CONTINUED)

Transferred financial assets that are not derecognised in their entirety (Continued)

| 2016 | Government debt securities £ millions | Other debt securities £ millions | Total £ millions |
|--|--|--|---------------------|
| Carrying amount assets | 1,743.1 | 485.4 | 2,228.5 |
| Carrying amount associated liabilities | <u>1,740.4</u> | <u>470.9</u> | <u>2,211.3</u> |

Explanatory note on Transferred financial assets that are not derecognised in their entirety

1. *These financial assets have been transferred through repurchase agreements, and there are no liabilities that have recourse only to the transferred assets.*

The Company has a programme to borrow and lend securities and to sell securities under agreements to repurchase (repos) and to purchase securities under agreements to resell (reverse repos).

The securities lent or sold under agreements to repurchase are transferred to a third party and the Company receives cash in exchange, or other financial assets. These transactions are conducted under terms based on the applicable ISDA Collateral Guidelines. If the securities increase or decrease in value the Company may, in certain circumstances, require, or be required, to pay additional cash collateral. The Company has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition it recognises a financial liability in respect of cash received as collateral.

The associated liabilities are recorded within the Statement of Financial Position line item Repurchase agreements, together with liabilities which have financed reverse repo transactions:

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Liabilities financing transferred assets | 1,062.7 | 2,211.4 |
| Liabilities financing reverse repo transactions | <u>5,165.1</u> | <u>3,243.1</u> |
| Repurchase agreements | <u>6,227.8</u> | <u>5,454.5</u> |

Assets pledged as collateral

The Company pledges assets in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. The Company pledged securities as collateral in repurchase agreements with a fair value of £13,771.0 million (2016: £10,399.8 million). Of these, securities with a fair value of £1,070.5 million (2016: £2,228.5 million) are recognised on the Company's Statement of Financial Position.

Assets held as collateral

The Company holds certain assets as collateral which it is permitted to sell or re-pledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements.

The Company received securities as collateral in reverse repurchase agreements with a fair value of £16,345.6 million (2016: £11,243.2 million). Of these, securities with a fair value of £15,846.5 million (2016: £11,023.9 million) have been sold or re-pledged. The Company is obliged to return the same collateral to the owner on completion of the arrangement.

Notes to the Financial Statements (Continued)

9. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL (CONTINUED)

Transferred financial assets that are derecognised in their entirety – Purchased call options

During the year, the Company transferred convertible bonds that are subject to call options that were neither deeply in the money nor deeply out of the money at the date of transfer. The market for these convertible bonds was and is still regarded as liquid. Additionally the agreement with the majority of the option counterparties allows for cash settlement. The Company therefore determined that, although it had not transferred substantially all of the risks and rewards to the transferee, it had not retained control of the assets and, as such, it derecognised the convertible bonds.

The carrying amount of the purchased call options are as follows:

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Carrying amount of purchased call options | <u>133.6</u> | <u>86.7</u> |

10. LOANS AND ADVANCES

| | 2017 £ millions | 2016 £ millions |
|------------------------------------|--------------------|--------------------|
| Loans and advances to banks | | |
| Repayable on demand | 164.8 | 102.6 |
| Other loans and advances | <u>1.6</u> | <u>4.3</u> |
| | <u>166.4</u> | <u>106.9</u> |

Interest Income arising from loans and advances to banks and loans and advances to customers amounted to £0.9 million (2016: £0.6 million).

Other loans and advances comprises cash ratio deposit held with Bank of England (“BOE”).

Further details of the classification and fair value measurement of loans and advances to banks and loans and advances to customers are disclosed in note 30.

11. DEBT AND OTHER FIXED INCOME SECURITIES

| | 2017 £ millions | 2016 £ millions |
|-------------------------|--------------------|--------------------|
| Debt securities | | |
| Issued by public bodies | 2,455.4 | 3,885.2 |
| Issued by other issuers | <u>1,599.2</u> | <u>1,383.2</u> |
| | <u>4,054.6</u> | <u>5,268.4</u> |

As at 31st March 2017, there were no unobservable day one profits in respect of debt securities (2016: £nil).

Further details of the classification and fair value measurement of debt securities is disclosed in note 30.

Notes to the Financial Statements (Continued)

12. EQUITY SHARES

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Listed other than on a recognised UK exchange | 0.5 | 0.4 |
| Other financial investments | 1.0 | 0.6 |
| | <u>1.5</u> | <u>1.0</u> |

Other financial investments relates to carried interest financial investments in Apposite Healthcare Fund L.P and Apposite Healthcare Fund II L.P. The value of these interests at 31st March 2017 was £0.8 million (2016: £0.6 million). Post year end Apposite Healthcare Fund L.P. was placed into liquidation. The Company's investment will be repaid over time until all the Fund's investments have been exited and the Fund has been fully wound down. During the year, the Company invested £0.2 million into a seat in the CME Group. This value remained at £0.2 million at 31st March 2017.

Further details of the classification and fair value measurement of equity shares is disclosed in note 30.

13. DERIVATIVE ASSETS AND LIABILITIES

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Derivative assets | | |
| Trading derivative assets | 1,481.8 | 405.1 |
| Derivative assets held for risk management | 16.6 | 18.9 |
| | <u>1,498.4</u> | <u>424.0</u> |
| Derivative liabilities | | |
| Trading derivative liabilities | 1,429.3 | 416.3 |
| Derivative liabilities held for risk management | 3.8 | 5.1 |
| | <u>1,433.1</u> | <u>421.4</u> |

Additional disclosures relating to trading derivatives and derivatives held for risk management are included below.

Trading derivative assets and liabilities

| | 2017 £ millions | 2016 £ millions |
|---------------------------------------|--------------------|--------------------|
| Trading derivative assets | | |
| Interest rate | 1,167.7 | 236.9 |
| Convertible bond options | 282.1 | 144.6 |
| Foreign currency | 17.5 | 23.6 |
| Credit | 14.5 | - |
| | <u>1,481.8</u> | <u>405.1</u> |
| Trading derivative liabilities | | |
| Interest rate | 1,132.6 | 241.6 |
| Convertible bond options | 279.4 | 139.9 |
| Foreign currency | 2.2 | 33.2 |
| Credit | 15.1 | 1.6 |
| | <u>1,429.3</u> | <u>416.3</u> |

As at 31st March 2017, there were no unobservable day one profits in respect of trading derivative assets and liabilities (2016: £nil).

Notes to the Financial Statements (Continued)

13. DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

Further details of the classification and fair value measurement of trading derivative assets and liabilities are disclosed in note 30.

Derivatives held for risk management

| 2017 Assets | Non-hedge accounted £ millions | Fair value hedge accounted £ millions | Total £ millions |
|-----------------------------|--------------------------------------|--|---------------------|
| Primary instruments | | | |
| Interest rate | 1.4 | 0.4 | 1.8 |
| Foreign currency | 0.1 | 1.1 | 1.2 |
| Credit | 0.6 | 0.1 | 0.7 |
| | 2.1 | 1.6 | 3.7 |
| Embedded derivatives | | | |
| Interest rate | - | 0.3 | 0.3 |
| Foreign currency | - | 12.4 | 12.4 |
| Credit | - | 0.2 | 0.2 |
| | - | 12.9 | 12.9 |
| Total | | | 16.6 |
| | | | |
| 2017 Liabilities | Non-hedge accounted £ millions | Fair value hedge accounted £ millions | Total £ millions |
| Primary instruments | | | |
| Interest rate | 0.2 | 0.1 | 0.3 |
| Foreign currency | 0.2 | 1.8 | 2.0 |
| Credit | 0.1 | - | 0.1 |
| | 0.5 | 1.9 | 2.4 |
| Embedded derivatives | | | |
| Interest rate | 1.3 | - | 1.3 |
| Foreign currency | - | 0.1 | 0.1 |
| Credit | - | - | - |
| | 1.3 | 0.1 | 1.4 |
| Total | | | 3.8 |

Notes to the Financial Statements (Continued)

13. DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

Derivatives held for risk management (Continued)

| 2016 Assets | Non-hedged accounted £ millions | Fair value hedge accounted £ millions | Total £ millions |
|-----------------------------|---------------------------------------|---|---------------------|
| Primary instruments | | | |
| Interest rate | 2.0 | 1.1 | 3.1 |
| Foreign currency | 0.5 | 2.2 | 2.7 |
| Credit | 0.1 | 0.1 | 0.2 |
| | 2.6 | 3.4 | 6.0 |
| Embedded derivatives | | | |
| Equity | - | 0.5 | 0.5 |
| Foreign currency | - | 11.8 | 11.8 |
| Credit | - | 0.6 | 0.6 |
| | - | 12.9 | 12.9 |
| Total | | | 18.9 |
| | | | |
| 2016 Liabilities | Non-hedged accounted £ millions | Fair value hedge accounting £ millions | Total £ millions |
| Primary instruments | | | |
| Foreign currency | 1.1 | 1.3 | 2.4 |
| Credit | 0.1 | 0.1 | 0.2 |
| | 1.2 | 1.4 | 2.6 |
| Embedded derivatives | | | |
| Interest rate | 1.7 | - | 1.7 |
| Foreign currency | - | 0.7 | 0.7 |
| Credit | - | 0.1 | 0.1 |
| | 1.7 | 0.8 | 2.5 |
| Total | | | 5.1 |

The Company uses primary derivative instruments to manage exposure to interest rate risk, foreign currency risk and credit risk arising from its structured note issuance programmes (see note 20). These derivative instruments include interest rate swaps, foreign currency swaps, credit default swaps.

Further details of the classification and fair value measurement of derivatives held for risk management are disclosed in note 30.

Notes to the Financial Statements (Continued)

13. DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

Derivatives held for risk management designated as fair value hedges

The Company uses primary interest rate and other swap instruments to hedge its exposure to changes in fair value of fixed rate structured notes and structured note host contracts that are carried at amortised cost. The changes in fair values of the hedging derivative instruments and the hedged items attributable to the hedged risks are analysed below:

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Gains on hedging derivative instruments | <u>5.1</u> | <u>17.9</u> |
| Losses on hedged items attributable to hedged risk: | | |
| - Debt securities in issue (see note 20) | <u>(5.1)</u> | <u>(17.9)</u> |
| Losses on hedged items attributable to hedged risk | <u>(5.1)</u> | <u>(17.9)</u> |
| Ineffective portion of fair value hedges | <u>-</u> | <u>-</u> |
| Derivative assets designated as fair value hedges | <u>1.6</u> | <u>3.4</u> |
| Derivative liabilities designated as fair value hedges | <u>1.9</u> | <u>1.4</u> |

14. BUSINESS COMBINATION

On 9th January 2017 Project Links was finalised at which date the Company acquired the derivative business of Mizuho Capital Markets (UK) Ltd (MCM UK) which resulted in the EMEA region ('EMEA One Mizuho derivatives platform') derivative business operating out of one single regulated UK entity.

A combined EMEA derivatives business will enable Mizuho Bank (MHBK) and the MHI business to form a sophisticated client facing sales and trading platform from which services can be provided to a wide range of Mizuho's clients.

The acquisition will facilitate a more strategic and efficient approach to business planning, based on a consistent IT and Operations platform, common risk management framework, and consideration of regulatory issues.

The net assets of MCM UK were transferred to the Company for net cash consideration of £576,312.54. The acquisition of the net assets of MCM UK has been included in the Company's balance sheet at its fair value at the date of acquisition.

There was a consultation of staff of MCM UK and MHI pursuant to the Transfer of Undertaking Regulations 2006 (TUPE), following which 24 MCM UK employees transferred to MHI.

As a result of the business combination, the Company expects synergy benefits with regards to both revenue and costs. No goodwill arose from the acquisition.

Notes to the Financial Statements (Continued)

14. BUSINESS COMBINATION (CONTINUED)

Recognised amounts of identifiable assets acquired and liabilities assumed:

| | Fair value £ millions |
|--------------------------------|--------------------------|
| Trading Derivative Assets | 22.8 |
| Cash and Cash equivalents | 2.2 |
| Employee related receivables | 0.3 |
| Fixed assets | 0.1 |
| Trading Derivative Liabilities | (22.3) |
| Employee related payables | (2.5) |
| Total identifiable net assets | <u>0.6</u> |

The net revenue from the DRSE business and flow derivatives as a result of MHI's acquisition of MCM UK included in the profit and loss of MHI was £5.8 million as at 31st March 2017.

15. SHARES IN GROUP UNDERTAKINGS

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Listed other than on a recognised UK exchange | <u>5.8</u> | <u>3.8</u> |

The Employee Benefit Trust (EBT) is responsible for purchasing and holding shares of the Mizuho Group for the hedging of future liabilities arising as a result of the employee share based compensation scheme. The EBT is included in the Company's financial statements as part of the share base scheme for the benefit of employees. Further details of the share based payment scheme are disclosed in note 32.

16. INTANGIBLE ASSETS

| | Software £ millions | Software development expenditure £ millions | Total £ millions |
|--|------------------------|--|---------------------|
| Cost | | | |
| At 1 st April 2016 | 87.0 | 17.3 | 104.3 |
| Additions | 0.3 | 26.2 | 26.5 |
| Transfers / reclassification | 33.0 | (33.0) | - |
| Disposals | (0.4) | - | (0.4) |
| At 31st March 2017 | <u>119.9</u> | <u>10.5</u> | <u>130.4</u> |
| Accumulated depreciation and amortisation | | | |
| At 1 st April 2016 | 42.7 | - | 42.7 |
| Disposals | (0.2) | - | (0.2) |
| Charge for the year | 16.4 | - | 16.4 |
| At 31st March 2017 | <u>58.9</u> | <u>-</u> | <u>58.9</u> |
| Net book value | | | |
| At 31st March 2017 | <u>61.0</u> | <u>10.5</u> | <u>71.5</u> |
| At 31 st March 2016 | <u>44.3</u> | <u>17.3</u> | <u>61.6</u> |

Notes to the Financial Statements (Continued)

16. INTANGIBLE ASSETS (CONTINUED)

Intangible assets include a balance of £29.6 million (2016: £30.6 million) relating to the Transformation project, split between £29.6 million in Software (2016: £21.9 million) and £nil in Software development expenditure (2016: £8.7 million).

The Transformation project was completed in August 2016, which saw the final go live of Cash Phase 2. Through this project, the Company successfully implemented a flexible operating platform which is capable of supporting the Company's growth while significantly reducing the cost and time for supporting new product range and volumes. The project also helped reduce cost of compliance and the Company's operational risk. Any dependencies on legacy technology have been eliminated while internal controls have been further enhanced through the increased automation of reconciliation.

17. TANGIBLE FIXED ASSETS

| | Short leasehold property | Fixtures, equipment, integrated software and vehicles | Total |
|--|--------------------------------|---|-------------|
| | £ millions | £ millions | £ millions |
| Cost | | | |
| At 1 st April 2016 | 39.0 | 14.8 | 53.8 |
| Additions | 3.3 | 6.3 | 9.6 |
| Disposals | (18.7) | (1.0) | (19.7) |
| At 31st March 2017 | 23.6 | 20.1 | 43.7 |
| Accumulated depreciation and amortisation | | | |
| At 1 st April 2016 | 17.7 | 7.7 | 25.4 |
| Disposals | (18.3) | (1.0) | (19.3) |
| Charge for the year | 1.5 | 2.9 | 4.4 |
| At 31st March 2017 | 0.9 | 9.6 | 10.5 |
| Net book value | | | |
| At 31st March 2017 | 22.7 | 10.5 | 33.2 |
| At 31 st March 2016 | 21.3 | 7.1 | 28.4 |

18. OTHER ASSETS

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Unsettled repo receivables | 88.7 | 581.6 |
| Collateral pledged on derivatives trades | 28.6 | 101.7 |
| Clearing house default fund contribution | 50.3 | 21.1 |
| Other trade receivables | 18.5 | 32.4 |
| Trade receivables | 186.1 | 736.8 |
| Reimbursement of property exit costs | - | 8.1 |
| Other assets | 6.9 | 7.3 |
| | 193.0 | 752.2 |

Unsettled reverse repo receivables are all less than three months past due.

Notes to the Financial Statements (Continued)

19. DEPOSITS BY BANKS AND CUSTOMER ACCOUNTS

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Deposits by banks | | |
| Repayable on demand | 0.6 | 0.3 |
| With agreed maturity dates or periods of notice | <u>318.3</u> | <u>612.8</u> |
| | <u>318.9</u> | <u>613.1</u> |
| Customer accounts | | |
| Repayable on demand | - | 18.2 |
| With agreed maturity dates or periods of notice | <u>432.0</u> | <u>292.0</u> |
| | <u>432.0</u> | <u>310.2</u> |

Interest expense arising from Deposits by banks and Customer accounts amounted to £6.0 million (2016: £4.9 million). Of this, £5.3 million (2016: £4.5 million) was payable to Group entities.

Further details of the classification and fair value measurement of customer accounts are disclosed in note 30.

20. DEBT SECURITIES IN ISSUE

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Debt securities – amortised cost | 862.5 | 401.2 |
| Debt securities – adjusted for fair value hedge accounting | 493.6 | 447.8 |
| Debt securities – designated at fair value through profit and loss | <u>31.8</u> | <u>30.3</u> |
| | <u>1,387.9</u> | <u>879.3</u> |

Interest expense arising from Debt securities accounted at amortised cost (including those adjusted for fair value hedge accounting) amounted to £4.9 million (2016: £10.2 million).

Further details of the classification and fair value measurement of debt securities in issue are disclosed in note 30.

Debt securities adjusted for fair value hedge accounting

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Net loss recognised in the statement of comprehensive income | <u>(5.1)</u> | <u>(17.9)</u> |
| Contractual amount at maturity | <u>481.7</u> | <u>434.0</u> |

The net loss recognised in the statement of comprehensive income arising on debt securities that have been adjusted for fair value hedge accounting represents fair value movements relating to interest rate risk effectively hedged by the risk management derivatives designated as fair value hedges of interest rate risk (see note 13).

Notes to the Financial Statements (Continued)

20. DEBT SECURITIES IN ISSUE (CONTINUED)

Debt securities designated at fair value through profit and loss

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Net loss recognised in the statement of comprehensive income | <u>(0.4)</u> | <u>(2.4)</u> |
| Contractual amount at maturity | <u>31.2</u> | <u>29.9</u> |

Certain debt securities in issue were designated at fair value since these are managed on a fair value basis. The net loss recognised in the Statement of Comprehensive Income arising on debt securities that is attributable to changes in the Company's credit risk amounted to £nil (2016: £nil).

21. SHORT TRADING POSITIONS

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Short trading positions in debt securities: | | |
| - Government securities | 3,923.4 | 4,204.1 |
| - Other public sector securities | 11.1 | 2.0 |
| - Other securities | <u>363.2</u> | <u>364.3</u> |
| | <u>4,297.7</u> | <u>4,570.4</u> |

As at 31st March 2017, there were no unobservable day one profits in respect of bonds (2016: £nil).

Further details of the classification and fair value measurement of short trading positions are disclosed in note 30.

22. OTHER LIABILITIES

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Unsettled repo payables | 10.0 | 29.4 |
| Collateral received on derivatives trades | 336.0 | 226.6 |
| Other trade payables | <u>5.9</u> | <u>31.4</u> |
| Trade payables | 351.9 | 287.4 |
| Other liabilities | 3.1 | 9.9 |
| Tax and social security payable | <u>2.3</u> | <u>10.0</u> |
| | <u>357.3</u> | <u>307.3</u> |

Unsettled repo payables are all past due for less than three months.

Notes to the Financial Statements (Continued)

23. PROVISIONS FOR LIABILITIES

| | Employment Matters £ millions | Regulatory Matters £ millions | Infrastructure £ millions | Total £ millions |
|--------------------------------------|-------------------------------------|-------------------------------------|------------------------------|---------------------|
| At 1 st April 2016 | - | - | 14.4 | 14.4 |
| <i>Provisions raised</i> | | | | |
| Charged through income statement | 3.7 | 7.1 | 3.5 | 14.3 |
| Dilapidation provision | - | - | 2.9 | 2.9 |
| Released | - | - | (1.8) | (1.8) |
| Utilised for the year | - | - | (12.6) | (12.6) |
| At 31st March 2017 | 3.7 | 7.1 | 6.4 | 17.2 |

Employment matters

This amount includes costs arising from previous employee relationships. Historically, the Company has made use of certain employee trust arrangements. As a result of provisions set out in the Finance Bill 2017, the Company has reconsidered its exposure to related employment matters. Utilisation of this provision is expected to be within three years.

Regulatory matters

The Company engages services on external professional advisors to assist them in implementing regulatory change, providing current market insight and responding to regulatory matters. Utilisation of this provision is expected to be within two years.

Infrastructure

The Company continues to make enhancements to its systems, control framework and work place to drive efficiencies and realise synergies within its business. Infrastructure provisions relate to such projects committed to as at the balance sheet date. Utilisation of this provision is expected to be within one year.

Also included within infrastructure provisions is a dilapidation provision. As at 31st March 2016, the Company held a provision of £12.6 million in relation to the estimated costs of its exit from Bracken House. This exit was completed during the current year, and the provision utilised. A provision of £2.9 million was then raised during the current year in relation to the estimated costs of the Company's exit of its new premises, Mizuho House. This provision will be charged to the income statement over the life of the lease.

In addition, the Company held an onerous lease provision of £1.8m in the previous year as under the previous rental agreement on the premises, the Company was be required to make contractual lease payments until January 2017, even though the Company fully vacated the premises in August 2016. Accordingly the Company provided for the period when payments were made but where no benefit to the Company is enjoyed. This provision was released during the current year.

24. SUBORDINATED DEBT

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Wholly repayable within five years | 0.2 | 0.2 |
| Not wholly repayable within five years | 45.0 | 45.0 |
| | 45.2 | 45.2 |

Notes to the Financial Statements (Continued)

24. SUBORDINATED DEBT (CONTINUED)

On 2nd April 2015, Mizuho International plc issued £45.0 million in subordinated debt to Mizuho Securities. The debt is denominated in GBP, matures on 2nd April 2025, with an average interest rate for the period to 31st March 2017 of 2.2% (2016: 2.3%). Early repayment may not be demanded by Mizuho Securities. The interest expense on subordinated debt for the year was £1.0 million (2016: £1.0 million).

25. PENSION LIABILITIES

Defined benefits scheme

The Company operate a defined benefits scheme, the Mizuho International plc Retirement Benefits Scheme ('Scheme'), which is a final salary scheme, established in 1978 and currently governed by the trust deed and rules dated 18th September 1998. The Scheme is a "registered pension scheme" for tax purposes. All members were contracted-out of the State Second Pension during active membership of the Scheme.

In accordance with the trust deed the Company, as Principal Employer, has the power to appoint and remove the Trustees of the Scheme. The three Trustees include a Company representative, an independent corporate Trustee and a member nominated Trustee.

There are no active members remaining in the Scheme, and it is closed to new entrants and future benefit accrual. There were 204 deferred members and 32 pensioner members who have pensions paid directly from the Scheme as at 31st March 2017.

A full valuation was undertaken as at 31st March 2015 and updated to 31st March 2017 by a qualified independent Actuary.

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

| | 2017 % p.a. | 2016 % p.a. |
|---|----------------|----------------|
| Discount rate | 2.5 | 3.4 |
| Inflation assumption (RPI) | 3.4 | 3.1 |
| LPI Pension increases (capped at 5% p.a.) | 3.3 | 3.1 |
| CPI linked increases | 2.4 | 2.1 |

The underlying mortality assumption is based upon the standard table known as S2PA on a year of birth usage with CMI_2016 future improvement factors and long-term rate of future improvement of 1.0% p.a. (2016: S2PA on a year of birth usage with CMI_2015 future improvement factors and a long term rate of future improvement of 1.0% p.a.). This results in the following life expectancies:

- Male age 65 now has a life expectancy of 21.9 years (previously 22.0 years)
- Female age 65 now has a life expectancy 23.7 years (previously 24.0 years)

The amounts recognised in the Statement of Financial Position are as follows:

| | 2017 £ millions | 2016 £ millions |
|--|--------------------|--------------------|
| Present value of Scheme liabilities | (52.4) | (43.3) |
| Market value of Scheme assets | 55.1 | 47.2 |
| Restriction of Recognisable Surplus under FRS 102 Para 28.22 | (2.7) | (3.9) |
| Deficit in the Scheme | - | - |
| Related deferred tax asset | - | - |
| Net pension liability | - | - |

Notes to the Financial Statements (Continued)

25. PENSION LIABILITIES (CONTINUED)

The amounts to be recognised in the Statement of Comprehensive Income for the year are as follows:

| | 2017 | 2016 |
|--------------------------------------|-------------------|------------|
| | £ millions | £ millions |
| Interest on Scheme assets | 1.4 | 1.4 |
| Interest on Scheme liabilities | (1.4) | (1.4) |
| Contribution paid by a related party | 0.3 | - |
| | 0.3 | - |

Changes in the present value of the Scheme liabilities are as follows:

| | 2017 | 2016 |
|---|-------------------|------------|
| | £ millions | £ millions |
| Present value of Scheme liabilities at 1 st April | 43.3 | 45.0 |
| Interest on Scheme liabilities | 1.4 | 1.4 |
| Benefits paid | (2.8) | (3.1) |
| Actuarial losses | 10.5 | - |
| Present value of Scheme liabilities at 31 st March | 52.4 | 43.3 |

Changes in the fair value of the Scheme assets for the year are as follows:

| | 2017 | 2016 |
|---|-------------------|------------|
| | £ millions | £ millions |
| Market value of Scheme assets at 1 st April | 47.2 | 51.4 |
| Interest on Scheme assets | 1.4 | 1.4 |
| Return on assets | 4.8 | (2.9) |
| Benefits paid | (2.8) | (3.1) |
| Contributions paid by the Company | 4.2 | 0.4 |
| Contributions paid by a related party | 0.3 | - |
| Market value of Scheme assets at 31 st March | 55.1 | 47.2 |

The agreed contributions to be paid by the Company for the forthcoming year ending 31st March 2018 are £2,327,000 payable by the Company. A further contribution of £128,000 is to be paid by DLIBJ Asset Management International, a third party company. All contributions are subject to review at future actuarial valuations (2017: £2,327,000 payable by the Company and £128,000 by DLIBJ Asset Management International).

The amount payable by the Company of £1.9m for the year ending 31st March 2016 was paid in April 2016.

The major categories of Scheme assets as a percentage of total Scheme assets for the year are as follows:

| | 2017 | 2016 |
|--------------------------------------|-------------|------|
| | % | % |
| Equities and Diversified Growth Fund | 59 | 52 |
| Bonds | 31 | 48 |
| Liability Driven Investments ("LDI") | 10 | - |
| | 100 | 100 |

Notes to the Financial Statements (Continued)

25. PENSION LIABILITIES (CONTINUED)

Analysis of amounts recognisable in the Other Comprehensive Income for the year are as follows:

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Return on assets | 4.8 | (2.9) |
| Actuarial losses | (10.5) | - |
| Restriction of Recognisable Surplus under FRS 102 Para 28.22 | 1.2 | 2.5 |
| Remeasurement gains and losses recognised in other comprehensive income | (4.5) | (0.4) |

Movements in the surplus / (deficit) during the year are as follows:

| | 2017 £ millions | 2016 £ millions |
|---|--------------------|--------------------|
| Deficit in Scheme at 1 st April | - | - |
| Amounts recognised in the Statement of Comprehensive Income | 0.3 | - |
| Contributions paid by the Company | 4.2 | 0.4 |
| Remeasurement gains and losses recognised in other comprehensive income | (4.5) | (0.4) |
| Deficit in Scheme at 31 st March | - | - |

Employment benefit plans

The Company currently operates a Group Personal Pension ('GPP') arrangement which is a defined contribution scheme. Subject to meeting certain qualifying conditions, all staff joining the Company are eligible to become members of the GPP.

The GPP provides employees with a tax-efficient way of saving for retirement. It is a low-cost, flexible and portable arrangement which the Company also contributes towards.

Contributions are currently subject to the maximum limits as laid down by H M Revenue & Customs for the tax year in question. Company contributions are made as a percentage of salary and/or bonus waivers through a salary sacrifice arrangement.

The assets of the GPP are held separately from those of the Company in independently administered funds. During the year ended 31st March 2017 the Company made contributions of £5.4 million (2016: £5.2 million) to the GPP of which £1.6 million related to the employees' salary sacrifice arrangements (2016: £1.6 million). The total expense to the Company was £3.8 million (2016: £3.6 million).

Notes to the Financial Statements (Continued)

26. RELATED PARTY BALANCES

Included within assets and liabilities are the following balances due to/from Mizuho Financial Group entities:

| 2017 | Controlling entities ⁽¹⁾ £ millions | Other related £ millions | Total £ millions |
|--|---|---|-----------------------------|
| Assets | | | |
| Loans and advances to banks | - | 75.1 | 75.1 |
| Reverse repurchase agreements with banks | 1,031.2 | 97.6 | 1,128.8 |
| Debt and other fixed income securities | - | 38.8 | 38.8 |
| Derivative assets | 288.3 | 1.1 | 289.4 |
| Shares in group undertakings | 5.8 | - | 5.8 |
| Other assets | 14.0 | 5.4 | 19.4 |
| Prepayments and accrued income | 5.3 | 3.3 | 8.6 |
| | <u>1,344.6</u> | <u>221.3</u> | <u>1,565.9</u> |
| Liabilities | | | |
| Deposits by banks | 74.6 | 243.7 | 318.3 |
| Repurchase agreements with banks | 1.1 | 41.8 | 42.9 |
| Derivative liabilities | 2.4 | 0.6 | 3.0 |
| Other liabilities | 291.9 | 0.6 | 292.5 |
| Accruals and deferred income | 19.0 | 14.9 | 33.9 |
| Provision for liabilities | - | 2.9 | 2.9 |
| Subordinated liabilities | 45.2 | - | 45.2 |
| | <u>434.2</u> | <u>304.5</u> | <u>738.7</u> |

Included within the Statement of Comprehensive Income are the following transactions due to/from Mizuho Financial Group entities:

| 2017 | Controlling entities ⁽¹⁾ £ millions | Other related £ millions | Total £ millions |
|---------------------------------|---|---|-----------------------------|
| Interest payable | (1.0) | (4.1) | (5.1) |
| Fees and commissions receivable | 57.6 | 15.0 | 72.6 |
| Fees and commissions payable | (30.9) | (12.9) | (43.8) |
| Dealing profit | 151.5 | 46.0 | 197.5 |
| Other operating income | - | 4.2 | 4.2 |
| Administrative expenses | 11.0 | (0.2) | 10.8 |
| Total income from Affiliates | <u>188.2</u> | <u>48.0</u> | <u>236.2</u> |

Notes to the Financial Statements (Continued)

26. RELATED PARTY BALANCES (CONTINUED)

| 2016 | Controlling entities ⁽¹⁾ £ millions | Other related parties £ millions | Total £ millions |
|--|---|-------------------------------------|---------------------|
| Assets | | | |
| Loans and advances to banks | - | 69.2 | 69.2 |
| Reverse repurchase agreements with banks | 1,601.3 | 83.5 | 1,684.8 |
| Debt and other fixed income securities | - | 9.4 | 9.4 |
| Derivative assets | 198.6 | 22.8 | 221.4 |
| Shares in group undertakings | 3.8 | - | 3.8 |
| Other assets | 16.1 | 8.6 | 24.7 |
| Prepayments and accrued income | 6.6 | 1.5 | 8.1 |
| | <u>1,826.4</u> | <u>195.0</u> | <u>2,021.4</u> |
| Liabilities | | | |
| Deposits by banks | 41.7 | 492.8 | 534.5 |
| Customer accounts | 18.2 | - | 18.2 |
| Repurchase agreements with banks | 8.0 | 8.0 | 16.0 |
| Short trading positions | - | - | - |
| Derivative liabilities | 3.2 | 15.3 | 18.5 |
| Other liabilities | 222.3 | 3.5 | 225.8 |
| Accruals and deferred income | 5.2 | 0.9 | 6.1 |
| Subordinated liabilities | 45.2 | - | 45.2 |
| | <u>343.8</u> | <u>520.5</u> | <u>864.3</u> |
| 2016 | | | |
| | Controlling entities ⁽¹⁾ £ millions | Other related parties £ millions | Total £ millions |
| Interest payable | (1.1) | (3.7) | (4.8) |
| Fees and commissions receivable | 39.6 | 5.4 | 45.0 |
| Fees and commissions payable | (23.6) | (6.9) | (30.5) |
| Dealing profit | 54.6 | 83.1 | 137.7 |
| Other operating income | - | 7.3 | 7.3 |
| Administrative expenses | 8.9 | 2.1 | 11.0 |
| Total Income from Affiliates | <u>78.4</u> | <u>87.3</u> | <u>165.7</u> |

Explanatory notes on controlling entities

1. Controlling entities includes the Company parent, Mizuho Securities UK Holdings Limited, its parent company, Mizuho Securities Co. Limited, and the Company's ultimate parent, Mizuho Financial Group, Inc. All other entities within the Mizuho Financial Group structure are reported under the category 'Other related parties'.

Notes to the Financial Statements (Continued)

27. SHARE CAPITAL

| | 2017 Number | 2017 £ millions | 2016 Number | 2016 £ millions |
|--|----------------|--------------------|----------------|--------------------|
| Issued called up and fully paid | | | | |
| Ordinary shares of GBP 10 each | 70,985,797 | 709.9 | 155,730,381 | 1,557.3 |
| Ordinary shares of JPY 2,000 each | - | - | 135,000,000 | 1,318.0 |
| | | <u>709.9</u> | | <u>2,875.3</u> |

The Company's share capital was increased by 1,790,000 shares at a total value of £17,900,000 on 25th August 2016, and by a further 25,000,000 shares at a total value of £250,000,000 on 30th September 2016.

On 15th March 2017, a share capital reduction was undertaken to cancel the cumulative loss on MHI's balance sheet. On this date, 135,000,000 JPY ordinary shares and 111,534,584 GBP ordinary shares were cancelled. The overall value of the reduction was £2,433,323,794.

28. OPERATING LEASE COMMITMENTS

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2017 £ millions Buildings | 2016 £ millions Buildings |
|---|---------------------------------|---------------------------------|
| Not later than one year | 1.6 | 9.6 |
| Later than one year and not later than five years | 16.9 | 12.2 |
| Later than five years | 54.2 | 55.5 |
| | <u>72.7</u> | <u>77.3</u> |

During the year, the Company moved office premises from Bracken House to Mizuho House and had a status change from lessor to lessee. The new registered building, Mizuho House, is under an operating lease.

The total lease payments recognised as an expense by the Company for the year ended 31st March 2017 were £10.3 million (2016: £11.5 million). Future minimum lease receivables were recognised on a straight line basis over the life of the lease.

The Company held surplus office space in its previous registered office Bracken House which was let to related parties and a third party. The Company's annual rental income from the space let out in Bracken House under the non-cancellable operating leases for the year ended 31st March 2017 was £4.4 million (2016: £7.5 million). The Company vacated these premises during the financial year.

29. CONTINGENT LIABILITIES

In the normal course of business the Company can be involved in various lawsuits. There is no current lawsuit against the Company.

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A Classification of financial assets and financial liabilities

| 2017 | Held for trading £ millions | Designated as at fair value £ millions | Loans and receivables £ millions | Total £ millions |
|--|--------------------------------|---|--|---------------------|
| Financial assets: | | | | |
| Cash and balances at central banks | - | - | 112.5 | 112.5 |
| Loans and advances to banks | - | - | 166.4 | 166.4 |
| Reverse repurchase agreements with banks | 4,091.3 | - | - | 4,091.3 |
| Reverse repurchase agreements with customers | 5,106.9 | - | - | 5,106.9 |
| Debt securities | 4,054.6 | - | - | 4,054.6 |
| Equity shares | 0.5 | 1.0 | - | 1.5 |
| Derivative assets | 1,481.8 | 16.6 | - | 1,498.4 |
| Shares in group undertakings | 5.8 | - | - | 5.8 |
| Trade receivables | 2.3 | - | 183.8 | 186.1 |
| Prepayments and accrued income | 27.5 | - | 24.4 | 51.9 |
| | <u>14,770.7</u> | <u>17.6</u> | <u>487.1</u> | <u>15,275.4</u> |

| 2017 | Held for trading £ millions | Designated as at fair value £ millions | Financial liabilities £ millions | Total £ millions |
|--------------------------------------|--------------------------------|---|--|---------------------|
| Financial liabilities: | | | | |
| Deposits by banks | - | - | 318.9 | 318.9 |
| Customer accounts | - | - | 432.0 | 432.0 |
| Repurchase agreements with banks | 2,448.5 | - | - | 2,448.5 |
| Repurchase agreements with customers | 3,779.3 | - | - | 3,779.3 |
| Debt securities in issue | - | 31.8 | 1,356.1 | 1,387.9 |
| Short Positions | 4,297.7 | - | - | 4,297.7 |
| Derivative liabilities | 1,429.3 | 3.8 | - | 1,433.1 |
| Trade payables | 4.0 | - | 347.9 | 351.9 |
| Accruals and deferred income | 38.5 | - | 39.4 | 77.9 |
| Subordinated liabilities | - | - | 45.2 | 45.2 |
| | <u>11,997.3</u> | <u>35.6</u> | <u>2,539.5</u> | <u>14,572.4</u> |

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

A Classification of financial assets and financial liabilities (continued)

| 2016 | Held for trading £ millions | Designated as at fair value £ millions | Loans and receivables £ millions | Total £ millions |
|--|--------------------------------|---|--|---------------------|
| Financial assets: | | | | |
| Cash and balances at central banks | - | - | 27.3 | 27.3 |
| Loans and advances to banks | - | - | 106.9 | 106.9 |
| Reverse repurchase agreements with banks | 3,268.7 | - | - | 3,268.7 |
| Reverse repurchase agreements with customers | 3,176.7 | - | - | 3,176.7 |
| Debt securities | 5,268.4 | - | - | 5,268.4 |
| Equity shares | 0.4 | 0.6 | - | 1.0 |
| Derivative assets | 424.0 | - | - | 424.0 |
| Shares in group undertakings | 3.8 | - | - | 3.8 |
| Trade receivables | - | - | 736.8 | 736.8 |
| Prepayments and accrued income | 57.7 | - | - | 57.7 |
| | <u>12,199.7</u> | <u>0.6</u> | <u>871.0</u> | <u>13,071.3</u> |

| 2016 | Held for trading £ millions | Designated as at fair value £ millions | Financial liabilities £ millions | Total £ millions |
|--------------------------------------|--------------------------------|---|--|---------------------|
| Financial liabilities: | | | | |
| Deposits by banks | - | - | 613.1 | 613.1 |
| Customer accounts | - | - | 310.2 | 310.2 |
| Repurchase agreements with banks | 2,462.1 | - | - | 2,462.1 |
| Repurchase agreements with customers | 2,992.4 | - | - | 2,992.4 |
| Debt securities in issue | - | 30.3 | 849.0 | 879.3 |
| Short positions | 4,570.4 | - | - | 4,570.4 |
| Derivative liabilities | 421.4 | - | - | 421.4 |
| Trade payables | - | - | 287.4 | 287.4 |
| Accruals and deferred income | 55.8 | - | - | 55.8 |
| Subordinated liabilities | - | - | 45.2 | 45.2 |
| | <u>10,502.1</u> | <u>30.3</u> | <u>2,104.9</u> | <u>12,637.3</u> |

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

B Fair value hierarchy

The Company has allocated its financial instruments into a three-level fair value hierarchy based on the priority of the inputs to the valuation methodology.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorisation is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Statement of Financial Position are categorised based on the inputs to the valuation techniques as follows:

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require market data inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assertions about the assumptions a market participant would use in pricing the asset or liability.

The availability of observable market data will vary from product to product and is affected by a wide variety of factors, including but not exclusive to the type of product and the liquidity of markets and other characteristics particular to the product. Where the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Company considers market data that is current as of the measurement date, irrespective of whether that date falls within a period of market dislocation. In such circumstances the observability of market data may be reduced for many products. This condition could cause an instrument to be reclassified between levels within the fair value hierarchy.

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

B Fair value hierarchy (continued)

The following tables show the analysis of the fair values for fair value instruments disclosed in note 30A above categorised in accordance with the hierarchy described above.

| 2017 | Level 1 £ millions | Level 2 £ millions | Level 3 £ millions | Fair value Total £ millions |
|--|-----------------------|-----------------------|-----------------------|-----------------------------------|
| Reverse repurchase agreements with banks | - | 4,091.3 | - | 4,091.3 |
| Reverse repurchase agreements with customers | - | 5,106.9 | - | 5,106.9 |
| Debt and other fixed income securities | 3,051.7 | 995.5 | 7.4 | 4,054.6 |
| Equity securities | 0.5 | 0.2 | 0.8 | 1.5 |
| <i>Interest rate</i> | 6.0 | 1,164.0 | (0.2) | 1,169.8 |
| <i>Convertible bond option</i> | - | - | 282.1 | 282.1 |
| <i>Foreign currency</i> | - | 17.5 | 13.5 | 31.0 |
| <i>Credit</i> | - | 15.6 | (0.1) | 15.5 |
| Derivative assets | 6.0 | 1,197.1 | 295.3 | 1,498.4 |
| Shares in group undertakings | 5.8 | - | - | 5.8 |
| Financial assets | 3,064.0 | 11,391.0 | 303.5 | 14,758.5 |
| Repurchase agreements with banks | - | 2,448.5 | - | 2,448.5 |
| Repurchase agreements with customers | - | 3,779.3 | - | 3,779.3 |
| Short trading positions | 4,022.8 | 274.8 | - | 4,297.6 |
| <i>Interest rate</i> | 0.6 | 1,132.4 | 1.2 | 1,134.2 |
| <i>Convertible bond option</i> | - | - | 279.4 | 279.4 |
| <i>Foreign currency</i> | - | 2.4 | 1.9 | 4.3 |
| <i>Credit</i> | - | 15.2 | - | 15.2 |
| Derivative liabilities | 0.6 | 1,150.0 | 282.5 | 1,433.1 |
| Debt securities in issue | - | - | 31.8 | 31.8 |
| Financial liabilities | 4,023.4 | 7,652.6 | 314.3 | 11,990.3 |

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

B Fair value hierarchy (continued)

| 2016 | Level 1 £ millions | Level 2 £ millions | Level 3 £ millions | Fair value Total £ millions |
|--|-----------------------|-----------------------|-----------------------|-----------------------------------|
| Reverse repurchase agreements with banks | - | 3,268.7 | - | 3,268.7 |
| Reverse repurchase agreements with customers | - | 3,176.7 | - | 3,176.7 |
| Debt and other fixed income securities | 3,910.3 | 1,351.4 | 6.7 | 5,268.4 |
| Equity securities | 0.4 | - | 0.6 | 1.0 |
| <i>Interest rate</i> | 20.4 | 220.3 | (0.7) | 240.0 |
| <i>Convertible bond option</i> | - | - | 144.6 | 144.6 |
| <i>Equity</i> | - | - | 0.5 | 0.5 |
| <i>Foreign currency</i> | - | 23.2 | 14.9 | 38.1 |
| <i>Credit</i> | - | 0.2 | 0.6 | 0.8 |
| Derivative assets | 20.4 | 243.7 | 159.9 | 424.0 |
| Shares in group undertakings | 3.8 | - | - | 3.8 |
| Financial assets | 3,934.9 | 8,040.5 | 167.2 | 12,142.6 |
| Repurchase agreements with banks | - | 2,462.1 | - | 2,462.1 |
| Repurchase agreements with customers | - | 2,992.4 | - | 2,992.4 |
| Short trading positions | 4,206.8 | 360.2 | 3.4 | 4,570.4 |
| <i>Interest rate</i> | 13.4 | 229.2 | 0.7 | 243.3 |
| <i>Convertible bond option</i> | - | - | 139.9 | 139.9 |
| <i>Foreign currency</i> | - | 33.5 | 2.8 | 36.3 |
| <i>Credit</i> | - | 0.3 | 1.6 | 1.9 |
| Derivative liabilities | 13.4 | 263.0 | 145.0 | 421.4 |
| Debt securities in issue | - | 0.6 | 29.7 | 30.3 |
| Financial liabilities | 4,220.2 | 6,078.3 | 178.1 | 10,476.6 |

C Methods and valuation techniques used to determine fair values

Fair value is the amount of which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

The Company carries positions in financial instruments at a point within the bid-ask range that meets the Company's best estimate of fair value. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

The Company determines the fair value of financial instruments either by using prices obtained directly from external data, estimated on the basis of the price established in recent transactions involving similar instruments or by using valuation techniques. These valuation techniques incorporate generally accepted models commonly used by the financial community. They maximize the use of observable inputs and minimize the use of unobservable inputs. They are calibrated to reflect current market conditions.

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

C Methods and valuation techniques used to determine fair values (continued)

The fair value for many cash instruments and OTC derivative contracts are derived using pricing models. Pricing models take into account the contract terms as well as multiple input parameters, including, where applicable, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates.

Valuation adjustments are applied as appropriate, when some factors such as model, liquidity and credit risks are not captured by the models or their underlying inputs, but are nevertheless considered by market participants when setting the exit price. The exit costs are priced in terms of bid-mid and mid-ask spreads, which are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for a financial instrument or market data point, spreads are derived from observable levels of similar positions.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market parameters are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market or credit risks, the Company measures the fair value of those financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

The methods and valuation techniques used to determine fair values used for financial instruments shown at fair value on the Statement of Financial Position are described in more detail below by class of financial instrument.

Reverse repurchase and repurchase agreements

Reverse repurchase agreements and repurchase agreements are carried on the Statement of Financial Position at fair value, with changes in fair value taken through the Other Comprehensive Income.

The fair value of is determined in accordance with relevant market derived interest rates, which principally vary by reference asset type, currency, maturity and the degree of market demand for collateral which underlies individual contracts. Where appropriate, transactions with the same counterparty are reported on a net basis.

Debt and other fixed income securities

Highly liquid securities are priced from readily available quoted prices. Less liquid securities are priced giving consideration to quoted prices & market derived rates for those securities.

Illiquid securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. These securities are priced using relevant proxy market data as far as possible, and this data chiefly comprises market rates derived from more liquid securities of that issuer, rates implied from recent transactions in that or proxy securities and rates derived from credit derivative markets.

Equity shares

Listed equity securities traded in active markets are valued using exchange prices or dealer price quotations, and positions held in funds are priced based upon fund manager quotations.

Other financial investments included in equity shares principally comprised an investment in a private equity fund, which is valued based upon regular valuation reports provided by the fund manager.

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

C Methods and valuation techniques used to determine fair values (continued)

Derivative assets and liabilities

The fair value of OTC derivatives is taken to be the sum of the estimated future cash flows arising from the instrument, discounted to present value at the date of measurement, using valuation techniques commonly used by the financial markets - "net present value" (NPV).

Credit derivatives

Credit derivatives that reference liquid reference assets, indices or issuers are valued using observable interest rates, credit spreads and recovery rates. To the extent that credit spreads are unobservable, these are determined with reference to recent transactions or proxy spreads from relevant debt securities.

Other derivatives

Vanilla interest rate and currency derivatives are priced using industry standard models that incorporate observable market interest and currency rates.

Interest rate, currency and equity derivatives that incorporate option related or other more complex features are priced using industry standard and proprietary valuation techniques. These utilise input parameters which include FX rates, interest rates, and equity prices, together with relevant volatility and correlation rates, and other model parameters. Certain derivative transactions executed with other Mizuho group counterparties have been priced using valuations provided by those counterparties, and those valuations have been based on the techniques described above.

Overnight Indexed Swaps ("OIS") discounting has been applied to the Company's derivative transactions conducted under agreements which provide for collateralisation of credit exposures, taking account of factors such as margin thresholds and the currency of collateral provided.

XVA

XVA fair value adjustments comprise Credit Valuations Adjustments ("CVA"), Debt Valuations Adjustments ("DVA"), Margin Valuations Adjustments ("MVA") and Funding Valuations Adjustments ("FVA"), which in themselves include Funding Benefit Adjustments ("FBA") and Funding Cost Adjustments ("FCA")

The effect on the Profit & Loss for the following derivative fair value adjustments is:

| | 2017 | 2016 |
|---------------------------------|-------------------|------------|
| | £ millions | £ millions |
| CVA gain / (loss) | 1.8 | (2.2) |
| DVA gain / (loss) | (0.9) | 0.9 |
| FVA gain / (loss) | (1.0) | 4.4 |
| MVA gain / (loss) | (1.1) | - |
| Total XVA reserve gain / (loss) | (1.2) | 3.1 |

Credit valuation adjustment

The CVA is the mark to market cost of protection required to hedge credit risk from counterparties in the Company's derivative and repo portfolio, and depends on expected and potential future exposures, default probability and recovery rates. The assessment takes into account whether collateral, netting arrangements or break clauses are in place.

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

C Methods and valuation techniques used to determine fair values (continued)

XVA (continued)

Credit valuation adjustment (continued)

The Company applies credit-related valuation adjustments to its derivative and repo portfolios. The impact of changes in the counterparty's credit data is considered when measuring fair value. In determining the expected exposure, the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging independent third-party credit default swap ("CDS") spread data. Where CDS spread data is unavailable for a specific counterparty, CDS spread data that reference a comparable counterparty may be utilized. The Company also considers collateral held and legally enforceable master netting agreements that mitigate the Company's exposures.

In respect of counterparties that are regarded as distressed, the adjustment is determined through a more judgemental consideration of the likelihood of recovery with regards to the circumstances of those individual counterparties. Key items taken into consideration include the size of the Company's and third party claims upon the counterparty in comparison to the counterparty's available assets.

Debit valuation adjustment

DVA are taken to reflect the credit quality of the Company in the valuation of liabilities measured at fair value. This is determined symmetrically to the CVA on the same products & calculation methodologies, based on the negative potential and expected exposures and the Company's own creditworthiness. The Company's credit spread is observed through the CDS market to estimate the probability of default and loss given default as a result of a systemic event affecting the Company.

Funding valuation adjustment

The Company's FVA framework incorporates the impact of funding to its valuation estimates for derivatives. The methodology leverages its existing CVA and DVA calculation practices. The framework incorporates the Company's best estimate of the funding cost or benefit that a relevant market participant would consider in the transfer of a derivative. The FVA methodology applies to both assets and liabilities. The key inputs within this process are the expected funding requirement arising from the Company's positions with each counterparty, giving consideration to the collateral arrangements. A hypothetical funding cost for a transfer to a market participant with similar credit standing as the Company, as exercised in the principal market, has been applied.

Margin valuation adjustment

During the year, the Company introduced a framework (MVA) to report the impact on funding costs associated with the posting of margin. Initial margin must be funded as in the majority of cases, its re-hypothecation is not permissible. Those derivatives which require the posting of margin will price in those related costs within the fair value representation.

The methodology adopted incorporates the ISDA proposed model (SIMM) and the Company's own assessment of the market risk sensitivities prevalent in the derivatives portfolio. The funding level applied within the calculation is identical to that consumed within the FVA model.

Debt securities in issue

Debt securities – adjusted for fair value hedge accounting

The carrying amount of financial liabilities measured at amortised cost are adjusted by the amount of the changes in the fair value associated with those hedged risks.

Notes to the Financial Statements (Continued)

30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

C Methods and valuation techniques used to determine fair values (continued)

Debt securities in issue (continued)

Debt securities – designated at fair value through profit and loss

Debt securities in issue designated at fair value through profit and loss are priced using an industry standard discounted cash flow analysis model that incorporates the valuation of the relevant market rates which drive the calculation of coupon and principal payments, together with an assessment of the Company's own credit spread

31. RISK MANAGEMENT

This note presents information on the Company's exposure to financial and other risks and how it manages those risks. The Company has exposure to various risks from its use of financial instruments, including market risk, credit risk and liquidity risk. This note also presents information on how the Company manages operational risk, legal risk and its regulatory capital requirements.

A Risk management framework

The Company has established a comprehensive framework for managing financial and other operational risks which is evolving with its business activities in response to developments in markets and products.

The Company operates a Risk Management function which is independent from the Front Office businesses. The Risk Management function is led by the Chief Risk Officer who reports directly into the Chief Executive Officer with independent oversight provided by the Chairman of the Board Risk Committee. The Risk Management function comprises of the following departments:

- Credit Risk
- Market Risk
- Model Validation
- Operational Risk
- Regulatory and Liquidity Risk
- Risk Analytics
- Risk Reporting

The Company has a Risk Management Committee, chaired by the Chief Risk Officer who advises the Executive Committee and Board Risk Committee on risk methodologies, limits and policies, for market, credit liquidity and operational risk and monitors compliance with these limits.

The Risk Management Committee has seven sub-committees:

- Aged Asset Committee
- Credit Risk Committee
- Market Risk and Model Validation Committee
- Operational Risk Committee
- Prudential Regulation Committee
- Risk Management Governance & Control Committee
- Stress Testing Committee

Each of those sub-committees act as consultative bodies to their Chairmen, who have the sole decision-making powers in relation to the matters covered by those sub-committees.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

B Market Risk

Control environment

Market risk is the risk that changes in interest rates, foreign exchange rates, credit spreads, equity prices and other rates, prices, volatilities, correlations or other market conditions, such as liquidity, will have an adverse impact on the Company's financial condition or results.

Principal market risks

The principal market risks to which the Company is exposed are FX risk, interest rate risk, and credit spread risk. The Company's fixed income sales and trading business is the primary source of interest rate and credit spread risk in the Company's trading portfolios. These include trading in debt securities and related derivative hedges.

Risk Management is responsible for monitoring compliance with all market risk limits and policies. Management of all market risks is the responsibility of the individual business units.

Risk analysis – trading financial instruments

The Company measures and manages the market risk in its trading portfolios through position and sensitivity limits, as well as profit and loss and Value at Risk (VaR) limits, and stress testing limits. These limits and risk policies are approved by the delegated risk management authorities as defined in the Company's risk management framework. In addition, the Company has total VaR and Market Risk and Credit Risk Capital limits set by Mizuho Securities, the parent company of the Mizuho Securities group.

The company ensures compliance with the Volcker rule by conducting relevant controls and monitoring of metrics implemented in the Company's three lines of defence model in accordance with the Company's business desk designation.

Stress Testing

Stress testing is an essential component of the tools used for managing risk within the organisation and provides information regarding risks borne by the Company. This assists senior management in understanding the potential impact of stress events on its business strategy and its available capital resources.

Stress scenarios address a wide range of severities and time horizons, taking into account correlation and diversification across both risks and asset classes. A broad set of severe but plausible scenarios and extreme reverse stress scenarios are used from Company specific events to market wide downturns.

Value at Risk

VaR is a statistical measure that produces an estimate of the potential decrease in the market value of a portfolio over a specified time horizon at a given confidence level under normal market conditions. The Company's VaR is calculated on a daily basis and assumes a time horizon of one day and a confidence level of 99 per cent. Regular back testing of VaR is conducted to ensure effectiveness of the VaR model and its assumptions.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

B Market Risk (Continued)

Risk analysis – trading financial instruments (continued)

Value at Risk (continued)

A summary of the daily VaR and risk statistics for the trading portfolios, based on a 99 per cent confidence level and a one day time horizon, segregated by type of market risk, is presented below:

| 2017 | | Average | Maximum | Minimum |
|------------------------------|-------------|-------------|-------------|-------------|
| VaR Risk Factor | £ thousands | £ thousands | £ thousands | £ thousands |
| Interest Rate ⁽¹⁾ | 940 | 819 | 2,122 | 435 |
| Credit Spread | 1,362 | 1,096 | 1,999 | 429 |
| Equity | - | 7 | 289 | - |
| FX Risk | 431 | 153 | 472 | 25 |
| Total VaR ⁽¹⁾ | 1,811 | 1,483 | 2,132 | 821 |

| 2016 | | Average | Maximum | Minimum |
|------------------------------|-------------|-------------|-------------|-------------|
| VaR Risk Factor | £ thousands | £ thousands | £ thousands | £ thousands |
| Interest Rate ⁽¹⁾ | 962 | 890 | 1,517 | 409 |
| Credit Spread | 743 | 644 | 1,699 | 351 |
| Equity | 88 | 9 | 633 | - |
| FX Risk | 142 | 96 | 211 | 19 |
| Total VaR ⁽¹⁾ | 1,248 | 1,279 | 2,197 | 695 |

Explanatory note on VaR Risk Factor

1. The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.

Sensitivity analysis – non trading financial instruments

Currency risk sensitivity

The Company's foreign currency loans and advances to banks and customers and investments are funded in matched currencies, and in addition funding raised from debt security issuance is also used to support trading activities on a matched currency basis. Foreign currency derivatives are used when required to swap between relevant asset and liability currencies. Consequently no significant currency exposure arises on non trading book activities.

Interest rate risk sensitivity

The Company's non trading books comprise assets and liabilities which are not held or issued for trading purposes. These include the raising and provision of funding to support the Company's trading activities, acceptance of customer deposits and investment activities. Funding and deposit taking activity, including related derivative hedging, is conducted in such a manner as to minimise, where possible, interest rate risk.

The Company's market risk profile is reviewed at the weekly Risk Management Committee and also periodically reviewed by the Market Risk and Model Validation Committee, the Executive Committee and the Board Risk Committee.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

B Market Risk (Continued)

Sensitivity analysis – non trading financial instruments (continued)

Interest rate risk sensitivity (continued)

The tables below summarise the interest rate sensitivity gaps within the Company's non trading book. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing or the maturity date.

| 2017 | Less than 3 months £ millions | 3-6 months £ millions | 6-12 months £ millions | 1-5 years £ millions | Over 5 years £ millions | Non interest bearing £ millions | Total £ millions |
|---|--|-----------------------------|------------------------------|----------------------------|-------------------------------|--|---------------------|
| Cash and balances at central banks | 112.5 | - | - | - | - | - | 112.5 |
| Loans and advances to banks | 164.8 | - | - | - | - | 1.6 | 166.4 |
| Equity shares - other financial investments | - | - | - | - | - | 1.0 | 1.0 |
| Other assets | - | - | - | - | - | 193.0 | 193.0 |
| Prepayments and accrued income | - | - | - | - | - | 60.1 | 60.1 |
| Assets | 277.3 | - | - | - | - | 255.7 | 533.0 |
| Deposits by banks | 167.2 | 77.1 | 74.6 | - | - | - | 318.9 |
| Customer accounts | 432.0 | - | - | - | - | - | 432.0 |
| Debt securities in issue | 996.0 | 120.9 | 170.0 | 72.6 | 15.8 | - | 1,375.3 |
| Other liabilities | - | - | - | - | - | 357.3 | 357.3 |
| Accruals and deferred income | - | - | - | - | - | 141.7 | 141.7 |
| Provisions for liabilities | - | - | - | - | - | 17.2 | 17.2 |
| Subordinated liabilities | 45.2 | - | - | - | - | - | 45.2 |
| Shareholders' funds | - | - | - | - | - | 736.4 | 736.4 |
| Liabilities and equity | 1,640.4 | 198.0 | 244.6 | 72.6 | 15.8 | 1,252.6 | 3,424.0 |
| Off balance sheet items ⁽¹⁾ | (349.2) | 98.0 | 162.8 | 72.6 | 15.8 | - | - |
| Interest rate sensitivity gap | (1,712.3) | (100.0) | (81.8) | - | - | (996.9) | (2,891.0) |
| Cumulative gap | (1,712.3) | (1,812.3) | (1,894.1) | (1,894.1) | (1,894.1) | (2,891.0) | (2,891.0) |

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

B Market Risk (Continued)

Sensitivity analysis – non trading financial instruments (continued)

Interest rate risk sensitivity (continued)

| 2016 | Less than 3 months £ millions | 3-6 months £ millions | 6-12 months £ millions | 1-5 years £ millions | Over 5 years £ millions | Non interest bearing £ millions | Total £ millions |
|---|-------------------------------------|-----------------------------|------------------------------|----------------------------|-------------------------------|--|---------------------|
| Cash and balances at central banks | 27.3 | - | - | - | - | - | 27.3 |
| Loans and advances to banks | 106.9 | - | - | - | - | - | 106.9 |
| Equity shares – other financial investments | - | - | - | - | - | 0.6 | 0.6 |
| Other assets | - | - | - | - | - | 752.2 | 752.2 |
| Prepayments and accrued income | - | - | - | - | - | 73.8 | 73.8 |
| Assets | 134.2 | - | - | - | - | 826.6 | 960.8 |
| Deposits by banks | 377.3 | 235.8 | - | - | - | - | 613.1 |
| Customer accounts | 310.2 | - | - | - | - | - | 310.2 |
| Debt securities in issue | 266.7 | 276.0 | 166.0 | 160.9 | 9.7 | - | 879.3 |
| Other liabilities | - | - | - | - | - | 307.3 | 307.3 |
| Accruals and deferred income | - | - | - | - | - | 116.2 | 116.2 |
| Provisions for liabilities | - | - | - | - | - | 14.4 | 14.4 |
| Subordinated liabilities | 45.2 | - | - | - | - | - | 45.2 |
| Shareholders' funds | - | - | - | - | - | 460.8 | 460.8 |
| Liabilities and equity | 999.4 | 511.8 | 166.0 | 160.9 | 9.7 | 898.7 | 2,746.5 |
| Off balance sheet items ⁽¹⁾ | (395.0) | 94.9 | 166.0 | 134.1 | - | - | - |
| Interest rate sensitivity gap | (1,260.2) | (416.9) | - | (26.8) | (9.7) | (72.1) | (1,785.7) |
| Cumulative gap | (1,260.2) | (1,677.1) | (1,677.1) | (1,703.9) | (1,713.6) | (1,785.7) | (1,785.7) |

Explanatory note on interest rate sensitivity

1. Off balance sheet items:

Where interest rate swaps are hedging debt securities in issue with greater than three months' maturity, the notional of these swaps has been disclosed as an off balance sheet item banded with reference to its next floating rate reset date, to reflect the true sensitivity of the Company to interest rate risk on these structures.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

C Credit Risk

Control environment

Credit risk is the risk of financial loss to the Company if an issuer of a financial instrument or a customer fails to meet its contractual obligations.

The Risk Management Department performs independent credit analysis and due diligence on individual entities relevant to the Company's credit risk profile. Further it ensures compliance with credit risk limits and policies to ensure that the Company operates within the agreed credit risk appetite framework. The Company's credit risk limit framework cascades down from the Company's risk appetite owned by the Board and it includes limits for country, sector, asset class and counterparty.

The Company's counterparty credit exposures are quantified to assess both current and potential credit risk. Current credit exposure represents the replacement cost of those instruments which have a positive carrying value. Potential credit exposures are based on estimates of future replacement costs over the remaining life of the instrument.

The Company's credit risk profile is reviewed at the weekly meeting of the Risk Management Committee and also periodically reviewed by the Credit Risk Committee, the Executive Committee and the Board Risk Committee.

The Company's risk policies define levels of authority for approval of standard transactions. Authority levels are governed by the counterparty's credit quality as well as the nature and potential risk of the transactions.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

C Credit Risk (Continued)

Maximum exposure and effects of collateral and other credit enhancements

The maximum exposure to credit risk for financial assets, including derivatives, recognised on the Statement of Financial Position is typically the carrying amount and is represented on the table below which analyses maximum exposure to credit risk by asset class, representing credit risk arising from counterparty default.

The maximum exposure is shown gross of the use of master netting and collateral agreements unless such credit enhancements meet the offsetting requirements as set out in note 2A.

| 2017 | Maximum exposure £ millions | Collateral(1) £ millions | Netting (2) £ millions | Other items(3) £ millions | Net exposure to credit risk £ millions |
|--|--------------------------------|-----------------------------|---------------------------|------------------------------|---|
| On-balance sheet: | | | | | |
| Cash and balances at central banks | 112.5 | - | - | - | 112.5 |
| Loans and advances to banks | 166.4 | (71.2) | - | - | 95.2 |
| Reverse repurchase agreements with banks | 4,091.3 | (4,058.1) | (5.4) | - | 27.8 |
| Reverse repurchase agreements with customers | 5,106.9 | (4,908.9) | (38.6) | - | 159.4 |
| Debt securities | 4,054.6 | - | - | - | 4,054.6 |
| Derivative assets | 1,498.4 | (330.7) | (114.2) | (13.0) | 1,040.5 |
| Trade receivables | 186.1 | (88.7) | (14.1) | - | 83.3 |
| Total on-balance sheet | 15,216.2 | (9,457.6) | (172.3) | (13.0) | 5,573.3 |
| Off-balance sheet: | | | | | |
| Credit lines and other commitments | 0.1 | - | - | - | 0.1 |
| Total off-balance sheet | 0.1 | - | - | - | 0.1 |
| Total | 15,216.3 | (9,457.6) | (172.3) | (13.0) | 5,573.4 |

Notes to the Financial Statements (Continued)

31 RISK MANAGEMENT (CONTINUED)

C Credit Risk (Continued)

Maximum exposure and effects of collateral and other credit enhancements (continued)

| 2016 | Maximum exposure £ millions | Collateral(1) £ millions | Netting (2) £ millions | Other items(3) £ millions | Net exposure to credit risk £ millions |
|--|--------------------------------|-----------------------------|---------------------------|------------------------------|---|
| On-balance sheet: | | | | | |
| Cash and balances at central banks | 27.3 | - | - | - | 27.3 |
| Loans and advances to banks | 106.9 | (52.8) | - | - | 54.1 |
| Reverse repurchase agreements with banks | 3,268.7 | (3,263.5) | - | - | 5.2 |
| Reverse repurchase agreements with customers | 3,176.7 | (3,018.7) | (12.3) | - | 145.7 |
| Debt securities | 5,268.4 | - | - | - | 5,268.4 |
| Derivative assets | 424.0 | (207.2) | (49.4) | (12.9) | 154.5 |
| Trade receivables | 736.8 | (581.6) | (69.4) | - | 85.8 |
| Total on-balance sheet | 13,008.8 | (7,123.8) | (131.1) | (12.9) | 5,741.0 |
| Off-balance sheet: | | | | | |
| Credit lines and other commitments | 0.1 | - | - | - | 0.1 |
| Total off-balance sheet | 0.1 | - | - | - | 0.1 |
| Total | 13,008.9 | (7,123.8) | (131.1) | (12.9) | 5,741.1 |

Explanatory notes on collateral and other enhancements obtained

- Collateral received:**
Collateral received in the form of securities or cash in respect of reverse repurchase transactions, derivative transactions under relevant credit support agreements, and from a related party under a collateralised funding arrangement is shown above within Collateral.
- Netting and set-off:**
The impact of netting and set-off under legally enforceable master netting agreements is disclosed within Netting and set-off above, and is calculated after taking account of the effect of collateral described above.
- Other items:**
The impact of purchased credit protection in respect of debt securities (in derivative or cash form) is disclosed within Other items and is capped at the notional value of the protection. Embedded derivative assets, which have been separated from host securities in issue and reflected within the Maximum exposure of Derivative assets, have been offset within Other items, as these assets bear no exposure to the creditworthiness of third parties.

Concentrations of exposure to credit risk

Concentrations of exposure to credit risk exist when a number of counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly impacted by changes in economic, political or other conditions. Significant concentrations of exposure to credit risk are discussed below.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

C Credit Risk (Continued)

Maximum exposure and effects of collateral and other credit enhancements (continued)

Reverse repurchase agreements

The Company's repo trading activities give rise to counterparty risk exposures, which as noted above, are mitigated through the execution of netting agreements and the agreement of margin requirements; such that net counterparty exposures are maintained at a low level. The largest counterparty exposure as at 31st March 2017, excluding central counterparties, totalled £26 million (2016: £9 million), and no remaining exposures exceeded £14 million (2016: £7 million).

Debt securities

The Company's debt trading activities give rise to issuer risk exposures in respect of debt securities held for trading, which total £4,054.6 million (2016: £5,268.4 million). The Company's holdings of debt securities are diversified by issuer, geographic region and industry sector. A summary of the most significant geographic exposures by class of debt is given as follows:

| 2017 | Government £ millions | Other public sector £ millions | Other £ millions | Total £ millions |
|--------------|--------------------------|--------------------------------------|---------------------|---------------------|
| France | 630.1 | 45.1 | 106.3 | 781.5 |
| Germany | 444.2 | 9.5 | 131.5 | 585.2 |
| US | 211.4 | - | 171.5 | 382.9 |
| Japan | 280.5 | 22.8 | 77.1 | 380.4 |
| Italy | 298.6 | - | 9.3 | 307.9 |
| UK | 35.2 | - | 127.1 | 162.3 |
| Other | 287.0 | 191.0 | 976.4 | 1,454.4 |
| Total | 2,187.0 | 268.4 | 1,599.2 | 4,054.6 |
| 2016 | Government £ millions | Other public sector £ millions | Other £ millions | Total £ millions |
| Germany | 1,098.2 | 18.6 | 284.5 | 1,401.3 |
| Italy | 861.2 | - | 43.7 | 904.9 |
| France | 662.9 | 26.6 | 109.1 | 798.6 |
| Japan | 287.6 | 19.9 | 44.7 | 352.2 |
| US | 152.5 | - | 87.7 | 240.2 |
| UK | 4.6 | - | 78.5 | 83.1 |
| Other | 593.3 | 159.8 | 735.0 | 1,488.1 |
| Total | 3,660.3 | 224.9 | 1,383.2 | 5,268.4 |

Derivatives

The Company's derivative trading activities give rise to counterparty risk exposures which as noted above are principally mitigated through the execution of netting agreements and the agreement of margin requirements. The largest such counterparty exposure as at 31st March 2017 totalled £37.1 million (2016: £16.7 million). Counterparty exposure totalled £1,040.5 million as at 31st March 2017 (2016: £154.5 million), and all exposures greater than £1 million were against investment grade-rated financial institutions, clearing houses or other Mizuho Financial Group subsidiaries. There have been no defaults historically against these counterparties.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

C Credit Risk (Continued)

Credit quality

The following table represents an analysis by credit quality rating designation of collateral received in respect of reverse repurchase agreements, debt and similar securities and loans and advances, based on internal credit ratings or their equivalent. The internal credit ratings are derived from S&P, Moody's and Fitch. For Japanese securities, the ratings are derived from Japanese rating agencies. For securities where external ratings are not available, the rating is internally calculated by the Company.

Reverse repurchase agreements with banks

| 2017 | Government £ millions | Bank £ millions | Corporate £ millions | Total £ millions |
|--------------|--------------------------|--------------------|-------------------------|---------------------|
| AAA | 1,469.6 | 481.1 | 74.9 | 2,025.6 |
| AA- to AA+ | 878.5 | 48.2 | 123.5 | 1,050.2 |
| A- to A+ | 491.7 | 35.4 | 307.7 | 834.8 |
| BBB+ to BBB- | 11.7 | 7.4 | 151.9 | 171.0 |
| BB+ to B- | - | - | 9.7 | 9.7 |
| Total | 2,851.5 | 572.1 | 667.7 | 4,091.3 |

| 2016 | Government £ millions | Bank £ millions | Corporate £ millions | Total £ millions |
|--------------|--------------------------|--------------------|-------------------------|---------------------|
| AAA | 445.1 | 145.6 | 3.9 | 594.6 |
| AA- to AA+ | 1,511.2 | 46.5 | 64.8 | 1,622.5 |
| A- to A+ | - | 103.3 | 269.7 | 373.0 |
| BBB+ to BBB- | 511.7 | 11.6 | 128.8 | 652.1 |
| BB+ to B- | - | 1.9 | 20.5 | 22.4 |
| Unrated | - | - | 4.1 | 4.1 |
| Total | 2,468.0 | 308.9 | 491.8 | 3,268.7 |

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

C Credit Risk (Continued)

Credit quality (continued)

Reverse repurchase agreements with customers

| 2017 | Government £ millions | Corporate £ millions | Total £ millions |
|--------------|--------------------------|-------------------------|---------------------|
| AAA | 739.0 | 0.2 | 739.2 |
| AA- to AA+ | 2,921.8 | - | 2,921.8 |
| A- to A+ | - | 191.5 | 191.5 |
| BBB+ to BBB- | 1,254.4 | - | 1,254.4 |
| Total | 4,915.2 | 191.7 | 5,106.9 |

| 2016 | Government £ millions | Corporate £ millions | Total £ millions |
|--------------|--------------------------|-------------------------|---------------------|
| AAA | 1,237.4 | - | 1,237.4 |
| AA- to AA+ | 1,152.5 | - | 1,152.5 |
| A- to A+ | - | 153.0 | 153.0 |
| BBB+ to BBB- | 633.8 | - | 633.8 |
| Total | 3,023.7 | 153.0 | 3,176.7 |

Debt securities, loans and advances and cash and balances at central banks

| 2017 | Debt securities £ millions | Loans and advances £ millions | Cash and balances at central banks £ millions |
|--------------|----------------------------------|-------------------------------------|--|
| AAA | 1,209.8 | - | - |
| AA- to AA+ | 1,350.3 | 18.0 | 112.5 |
| A- to A+ | 724.6 | 147.7 | - |
| BBB+ to BBB- | 737.2 | 0.7 | - |
| BB+ to B- | 28.7 | - | - |
| CCC+ to C | 0.5 | - | - |
| Unrated | 3.5 | - | - |
| | 4,054.6 | 166.4 | 112.5 |

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

C Credit Risk (Continued)

Credit quality (continued)

Debt securities, loans and advances and cash and balances at central banks (continued)

2016

| | Debt securities £ millions | Loans and advances £ millions | Cash and balances at central banks £ millions |
|--------------|-------------------------------|-------------------------------------|--|
| AAA | 1,811.7 | - | - |
| AA- to AA+ | 1,343.2 | 18.2 | 27.3 |
| A- to A+ | 577.6 | 88.6 | - |
| BBB+ to BBB- | 1,515.7 | 0.1 | - |
| BB+ to B- | 18.0 | - | - |
| CCC+ to C | 0.4 | - | - |
| Unrated | 1.8 | - | - |
| | <u>5,268.4</u> | <u>106.9</u> | <u>27.3</u> |

D Liquidity Risk

Liquidity Risk is the risk that the Company, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. The Company considers its current liquidity risk to be low, resulting from a prudent liquidity risk appetite when measured against severe yet plausible stress scenarios, a healthy and stable balance of high quality liquid assets, and a matched funding profile.

The Company's liquidity risk management framework enables and ensures continuous review of the Company's liquidity position.

Control environment

The Company manages its liquidity risk in accordance with the requirements set out in the *Prudential Regulation Authority's Rulebook*, and specifically in the *Internal Liquidity Adequacy Assessment* section. The Company maintains liquidity resources that are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. Liquidity and funding is actively managed through operating in the wholesale money markets and repurchase agreement markets. The Company documents its approach to liquidity risk management and its assessment of the appropriate level of liquidity resources consistent with its liquidity risk appetite through its *Internal Liquidity Adequacy Assessment Process*.

Stress testing

Liquidity mismatches and stress testing results are monitored and reported on a daily basis, and are formally reviewed at the weekly meeting of the Risk Management Committee. The stress testing results are also periodically reviewed by the Asset and Liability Committee, the Executive Committee and the Board Risk Committee.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

D Liquidity Risk (Continued)

Residual contractual maturity of financial liabilities

The table below summarises the maturity profile of the Company's financial liabilities:

| 2017 | Carrying Amount £ millions | Contractual Amount £ millions | Repayable on demand £ millions | Less than three months £ millions | 3-6 months £ millions | 6-12 months £ millions | 1-5 years £ millions | Over 5 years £ millions |
|---|-------------------------------|----------------------------------|-----------------------------------|--------------------------------------|--------------------------|---------------------------|-------------------------|----------------------------|
| Financial liabilities: | | | | | | | | |
| Deposits by banks | 318.9 | 318.9 | 0.6 | 166.6 | 77.1 | 74.6 | - | - |
| Customer accounts | 432.0 | 432.0 | - | 432.0 | - | - | - | - |
| Repurchase agreements with banks | 2,448.5 | 2,448.5 | 42.0 | 1,556.5 | 658.5 | 191.5 | - | - |
| Repurchase agreements with customers | 3,779.3 | 3,779.3 | 59.4 | 2,731.9 | 914.6 | 73.4 | - | - |
| Short positions ⁽¹⁾ | 4,297.7 | 3,985.3 | 357.9 | 3,578.4 | 7.5 | 41.5 | - | - |
| Derivative liabilities ⁽²⁾ | 1,433.1 | 1,436.0 | - | 3.3 | 2.7 | 17.0 | 614.5 | 798.5 |
| Debt securities in issue | 1,387.9 | 1,375.3 | - | 168.7 | 77.1 | 380.0 | 700.1 | 49.4 |
| Trade payables | 351.9 | 351.9 | - | 351.9 | - | - | - | - |
| Accruals and deferred income ⁽³⁾ | 77.9 | 77.9 | - | 77.9 | - | - | - | - |
| Subordinated liabilities | 45.2 | 54.8 | - | 0.4 | 0.2 | 0.5 | 4.3 | 49.4 |
| | 14,572.4 | 14,259.9 | 459.9 | 9,067.6 | 1,737.7 | 778.5 | 1,318.9 | 897.3 |

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

D Liquidity Risk (Continued)

Residual contractual maturity of financial liabilities (continued)

| 2016 | Carrying Amount £ millions | Contractual Amount £ millions | Repayable on demand £ millions | Less than three months £ millions | 3-6 months £ millions | 6-12 months £ millions | 1-5 years £ millions | Over 5 years £ millions |
|---|-------------------------------|----------------------------------|-----------------------------------|--------------------------------------|--------------------------|---------------------------|-------------------------|----------------------------|
| Financial liabilities: | | | | | | | | |
| Deposits by banks | 613.1 | 613.1 | 0.3 | 376.9 | 235.9 | - | - | - |
| Customer accounts | 310.2 | 310.2 | 18.2 | 292.0 | - | - | - | - |
| Repurchase agreements with banks | 2,462.1 | 2,462.1 | 430.7 | 1,503.3 | 528.1 | - | - | - |
| Repurchase agreements with customers | 2,992.4 | 2,992.4 | 15.5 | 2,367.2 | 490.1 | 119.6 | - | - |
| Short positions ⁽¹⁾ | 4,570.4 | 4,050.6 | 547.3 | 3,484.2 | 13.1 | 6.0 | - | - |
| Derivative liabilities ⁽²⁾ | 421.4 | 421.4 | - | 21.5 | 0.1 | 19.6 | 185.7 | 194.5 |
| Debt securities in issue | 879.3 | 832.8 | - | 75.7 | 39.7 | 288.6 | 355.5 | 73.3 |
| Trade payables | 287.4 | 287.4 | - | 287.4 | - | - | - | - |
| Accruals and deferred income ⁽³⁾ | 55.8 | 55.8 | - | 55.8 | - | - | - | - |
| Subordinated liabilities | 45.2 | 55.9 | - | 0.5 | 0.3 | 0.5 | 4.0 | 50.6 |
| | 12,637.3 | 12,081.7 | 1,012.0 | 8,464.5 | 1,307.3 | 434.3 | 545.2 | 318.4 |

Explanatory notes on residual contractual maturity of financial liabilities

- Short trading positions:**
Short trading positions principally comprise short trading positions in debt securities. The contractual maturity of short trading positions has been presented based upon the maturity of the related reverse repurchase contracts through which the Company has borrowed securities to facilitate the trading short trading positions.
- Derivative liabilities**
The contractual maturity of derivative liabilities has been represented based on the varying value of the derivatives (net present value) rather than based on the contractual future cashflows
- Accruals and deferred income**
Included within accruals and deferred income are fees and other coupon related payables

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

E Operational Risk

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

Control environment

The Company manages its exposure through an Operational Risk Framework overseen and managed by Operational Risk Management. The Framework includes risk identification and assessment, control and monitoring, and capital management.

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

Operational risk is reviewed, assessed and monitored against defined tolerance statements via the Company's corporate governance structure. In addition, the Company maintains and tests contingency facilities to support operations in the event of business disruption and has purchased insurance where required by law or regulation and to address selected business risks.

The Company's operational risk profile is reviewed at the weekly meeting of the Risk Management Committee and also periodically reviewed by the Operational Risk Committee, the Executive Committee and the Board Risk Committee.

F Legal Risk

Legal risk is the risk that the business activities of the Company have unintended or unexpected legal consequences and includes risk arising from inadequate documentation, legal or regulatory incapacity, insufficient authority of a counterparty and uncertainty as to the validity or enforceability of a contract. The Company identifies and manages legal risk through effective use of its legal services department, which is independent of the front office, and external legal advisors.

G Regulatory Capital Management

The primary objectives of the Company's capital management process is to ensure that the regulated Company entities comply with all externally imposed capital requirements and maintain a strong capital position in order to support the Company's business.

The Company maintains an effectively managed capital base to cover risks inherent in the business. Since the beginning of January 2014 the Capital Requirements Directive and the Capital Requirements Regulation, jointly CRD IV have been the relevant supervisory statements on the prudential requirements for credit institutions and investment firms within the EU. Accordingly the Company's capital adequacy is monitored under the requirements of CRD IV as implemented by the Prudential Regulation Authority.

The Company also performs regular capital projections that include scenario analysis, which are reviewed by the senior management of the Company and are consistent with requirements under Basel Pillar II.

The methodology used by the Company for calculating capital is based upon CRD IV standardised approach requirements for market, credit, settlement, credit valuation adjustment and counterparty risk and the Basic Indicator Approach for Operational Risk. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

Notes to the Financial Statements (Continued)

31. RISK MANAGEMENT (CONTINUED)

G Regulatory Capital Management (Continued)

The Company's regulatory capital is analysed below:

| | 2017 £ millions | 2016 £ millions |
|--------------------------------|--------------------|--------------------|
| Tier 1 Capital | 658.3 | 391.9 |
| Tier 2 Capital | 45.0 | 45.0 |
| Total capital resources | 703.3 | 436.9 |

Regulatory capital consists of Tier 1 and Tier 2 capital. 2017 Tier 1 comprises share capital, share premium and retained earnings and current year profit. Tier 2 is comprised of a subordinated loan facility. Certain adjustments are made to UK GAAP based results and reserves as prescribed under CRD IV requirements.

The Company has complied with all regulatory requirements throughout the year.

Return on assets (Net profit or loss divided by total balance sheet) is 0.1%.

H Special Purpose Companies

Control environment

The Company may enter into transactions with customers in the ordinary course of business which involve the establishment of special purpose companies.

Where the transactions involve the use of special purpose companies arranged by the Company, these special purpose companies are authorised upon establishment to ensure appropriate purpose and governance. The activities of the special purpose companies sponsored or administered by the Company are closely monitored by senior management. The Company's involvement with the most significant types of special purpose companies and related transactions is described below.

Structured credit intermediation transactions

The Company has used special purpose companies to intermediate structured credit transactions. The Company enters into credit derivative transactions with these special purpose companies. Such special purpose companies were arranged by the Company or by third parties.

The Company has used special purpose companies to provide structured credit transactions to third parties who wish to obtain exposure to reference debt securities. The third parties obtain the risks and rewards of the reference assets through the notes issued by these special purpose companies. The Company may enter into interest rate derivatives with these special purpose companies.

Consolidation assessments have been carried out with respect to all such special purpose companies. The Company does not treat any of these companies as subsidiaries.

32. SHARE BASED PAYMENT

The Company has adopted a deferral plan as part of its remuneration policy, that creates a mechanism to reward staff in line with the longer term performance of their respective divisions and the Company as a whole. The plan also aims to encourage the ongoing retention and motivation of employees over the longer term.

Notes to the Financial Statements (Continued)

32. SHARE BASED PAYMENT (CONTINUED)

The deferral plan applies to MRTs and other staff whose variable remuneration exceeds defined thresholds. Half of the variable remuneration awarded to MRTs is required to be in the form of shares in the Mizuho Financial Group (or the cash equivalent value of such shares at distribution). Either 40% or 60% of the total variable remuneration of MRTs must be awarded in deferred form, which vests over three and / or five and / or seven years from the date of the non deferred awards, and is subject to forfeiture conditions. Share based remuneration may also be awarded to non MRTs in the context of hiring, by way of buyout of existing bonus arrangements (including any deferral and / or retention years). Such share based remuneration will be subject to appropriate performance adjustment requirements.

Subject to good leaver provisions, deferred bonuses / awards may be forfeited in the following circumstances: voluntary resignation; or termination of employment for misconduct or gross misconduct; or an employee's failure to comply with the Company's professional standards and / or the PRA's Principles of Approved Persons; or restatement or recalculation of individual, departmental, and / or corporate financial performance; or in the case of MRTs only, assessment or reassessment of individual, departmental, and / or corporate financial performance; material error; or a material failure of risk management.

The cost of share based awards has been recognised in the profit & loss account in a time apportioned manner over the relevant vesting years. The liability on the Statement of Financial Position comprises this accrued cost, less any vested awards that have been paid out. Details of awards made, share based payment liabilities and expenses recognition are provided below:

| | 2017 | 2016 |
|---|-------------------|------------|
| | £ millions | £ millions |
| Carrying value of share based payment liability | 5.0 | 3.2 |
| Expense arising from share-based payment transactions | 2.6 | 0.8 |

33. COUNTRY BY COUNTRY TAX PAYMENTS

| Country/ Business | Income | Profit before tax | Capital | Retained earnings | Tangible assets | Tax paid | Subsidies received | Average number of employees |
|------------------------------|--------------|----------------------|--------------|----------------------|--------------------|------------|-----------------------|-----------------------------------|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | |
| UK (Banking) | 219.1 | 12.1 | 709.9 | 12.2 | 33.2 | - | - | 459 |
| Germany (Primary debt) | 1.2 | 0.1 | - | - | - | - | - | 1 |
| Total | 220.3 | 12.2 | 709.9 | 12.2 | 33.2 | - | - | 460 |

The Company is committed to responsible management of its tax affairs. Tax is managed in accordance with Local laws and the Company is transparent in its interaction with tax authorities. In the UK, the Company has reaffirmed our adoption of the HMRC's Code of Practice on Taxation.

Notes to the Financial Statements (Continued)

34. PARENT UNDERTAKINGS

Mizuho International plc is directly owned by Mizuho Securities Co Ltd a company which is incorporated in Japan. The Company's ultimate parent undertaking is Mizuho Financial Group, Inc., which is incorporated in Japan.

Copies of the group financial statements for Mizuho Financial Group, Inc. can be obtained from:

Corporate Communications
Public Relations Office
Mizuho Financial Group, Inc.
Otemachi Tower
1-5-5 Otemachi, Chiyoda-ku, Tokyo
100-8176, JAPAN
http://www.mizuho-fg.com/investors/financial/fin_statements/index.html