



**MIZUHO**

# Annual Report 2020

Mizuho International plc

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## **General Information**

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

Mr D. Weymouth	Chair and Independent Non-Executive Director
Mr S. Bakhshi	President and Chief Executive Officer
Mr M. Mochizuki	Deputy President and Senior Managing Director
Mr R. Tallentire	Chief Financial Officer and Senior Managing Director
Ms M. Erasmus	Senior Independent Non-Executive Director
Mr C. Newell	Independent Non-Executive Director
Mr D. Atkinson	Independent Non-Executive Director
Mr A. Takahashi	Non-Executive Director
Mr Y. Kanamori	Non-Executive Director
Mr S. Toda	Non-Executive Director

### **Company Secretary**

Ms S. Fox

### **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 the strategic report for the year ended 31 March 2020 for the Company and its principal subsidiary entity (together the “Group”).

## 1. Overview of the Group

The Group is the London based securities and investment banking arm of the Mizuho Financial Group, Inc. (“Mizuho Financial Group”), and is a wholly owned subsidiary of Mizuho Securities Co., Ltd (“MHSC”). The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, and is a member of the London Stock Exchange and LCH. Limited.

Mizuho Financial Group’s other entities in Europe, Middle East and Africa (“EMEA”) include Mizuho Bank, offering corporate banking services to clients, and Asset Management One, offering asset management to institutional and wholesale clients across the region.

Closely aligned with Mizuho Financial Group’s strategy, with a focus on client demand, the Group provides a wide range of investment banking products and solutions in the EMEA region.

### 1.1. Business Lines and Clients

There are two main business lines, Global Investment Banking, EMEA (“GIB”) and Global Markets, EMEA (“GMK”):

- GIB arranges and underwrites new debt issuances for major EMEA corporate clients and Financial Institution Groups (FIG) clients of Mizuho Bank. GIB also provides underwriting of international equity offerings and convertible bonds for Japanese and EMEA corporations, and M&A services for Japanese firms targeting EMEA assets.
- GMK provides sales and trading of debt securities and cleared derivatives for global and EMEA institutional investor clients, and the sourcing of European-originated products for Mizuho’s Japanese retail client base. GMK also provides Japanese equity sales, facilitation and investor relations services for European clients.

## 2. Business Strategy and Results

### 2.1. Business Strategy

The current year represents the first full year under the new President & CEO, Suneel Bakhshi, and the launch of several new initiatives (Section 3) targeting a new strategy. The Group’s new strategy focuses on achieving a step by step improvement in the quality of revenues through deeper collaboration with Mizuho entities and more product diversification. Decision making is data driven, benchmarked against market performance parameters and resulting from feedback from clients.

### 2.2. Business Results

Through the execution of several new initiatives (Section 3), revenue improvements were evident for the majority of the year and were supported by comparatively benign market conditions in spite of ongoing political uncertainties which included the US-China trade dispute and extended Brexit negotiations, in particular.

However, during the last six weeks of the financial year, the unprecedented situation presented by the global COVID-19 pandemic had a significant impact on markets and whilst the Group remained operationally effective, the performance was significantly affected during this period.

The Group recorded a loss for the year, results of which are summarised in table 2.3

# Strategic Report (Continued)

## 2. Business Strategy and Results (Continued)

### 2.3. 31 March 2020 Results Summary

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
Net income from operations	<b>157.5</b>	174.6
Administrative expenses & depreciation	<b>(208.2)</b>	(206.2)
Provision for liabilities	<b>0.6</b>	2.3
Loss on ordinary activities before taxation	<b>(50.1)</b>	(29.3)
Tax on loss on ordinary activities	<b>9.4</b>	9.8
Loss for the year	<b>(40.7)</b>	(19.5)

The results are driven by weaker revenue generation due to the impact of the COVID-19 pandemic on the global economy. The impact of this was felt predominantly in GMK, with losses concentrated in the Credit Trading and Loan Trading desks. GIB performance was mixed; equity issuance conditions were difficult but the uptick in issuance within primary debt markets, despite market volatility, was favourable. Staff and non-staff costs were the focus of efficiency initiatives to achieve long term savings as a Group, including consolidation efforts with Mizuho Bank, London branch. Some of these initiatives incurred costs during the reporting period but are expected to deliver savings going forward. Following business commencement of the Group's new subsidiary, Mizuho Securities Europe GmbH ("MHEU") in Frankfurt am Main, Germany in April 2019, additional costs in relation to headcount, office space and infrastructure were incurred during the reporting period.

## 3. Priorities and New Initiatives during the year

Several new initiatives were launched during the year under the new President and CEO, targeting a new strategy. The Group's new strategy focuses on achieving a step by step improvement in the quality of revenues through deeper collaboration with Mizuho entities and more product diversification. In addition, the initiatives launched aimed to address the change in the macroeconomic environment in the prior year which led to lower than expected cross-border issuance, a reduction in large event-driven transactions as well as significantly increased volatility in Credit markets adversely impacting ongoing client flow.

### 3.1. Deeper Collaboration with Mizuho Bank, London branch

Collaboration with Mizuho Bank, London branch was strengthened, with a focus on deepening the relationship between the two entities to leverage Mizuho's entire footprint and client connectivity in EMEA. Specifically, a number of projects were completed, targeting a more integrated business model. In the front office, the most significant of these projects has dual hatted the staff from the two entities in order to support greater collaboration across Loan Syndication, Capital Markets and Relationship Management. Loan Trading is a new business line for the Group following the transfer of the loan trading desk from Mizuho Bank, London branch. This allows the integration of Loan Trading with the Group's Sales teams and wider infrastructure and ultimately enhances decision making around primary distribution and our ability to develop new products for clients.

In the corporate functions, a project to consolidate the functions was launched during this reporting period, realising some staff cost savings already. The project will introduce efficiencies and unlock the benefits of 'One Mizuho' in London: seeking economies of scale, shared provision of services, and leveraging the Company's single location at Mizuho House.

## Strategic Report (Continued)

### 3. Priorities and New Initiatives during the year (Continued)

#### 3.2. Strengthening our presence in the EU

Following business commencement of MHEU, the Group established Mizuho Securities Europe GmbH Sucursal en España, officially registered with the Spanish securities markets supervisor, Comision Nacional del Mercado de Valores, to promote business in the Spanish, Portuguese and Italian market. The registration of the branch in Madrid and the commencement of operations confirms the Group's ongoing commitment to clients in the region. After the reporting period, MHEU also commenced the operation of its Paris branch to expand the business in the region.

#### 3.3. New Talent

In addition to the new President and CEO, the Group bolstered its management team including the appointment of a new Head of Global Markets, EMEA and a Head of Investment Banking, EMEA. The Group also hired senior bankers and traders into key business lines to spur the efforts to grow the Group's platform and to deepen the engagement with its client network.

#### 3.4. Organisational Optimisation

As well as reorganising teams to leverage upgraded talent and internal expertise effectively, and where appropriate streamline reporting lines, the Group also introduced initiatives to remove non-essential costs, including the robust management of 3<sup>rd</sup> party expenditure and further efficiencies in our core operating model.

### 4. Impact of COVID-19 Pandemic

In the weeks of and preceding the UK lockdown on 23 March 2020, the Group leveraged its strong infrastructure to remain fully operational by moving the vast majority of staff to remote working from home.

The Group retained a healthy liquidity and capital profile throughout March with regulatory ratios in excess of minimum requirements.

The results during the period were impacted by weaker revenue generation in GMK as spreads significantly widened. Looking forward the Group will continue to pursue a client-focused business model with more diverse revenue streams through product expansion in order to further protect the business during times of market stress.

### 5. IBOR Transition

Benchmark rates (such as the Interbank Offered Rates ("IBORs")) have been the standard benchmark for financial institutions for decades, and are widely used today to determine payments under many forms of financial products. These benchmark rates have been subject to increasing global regulatory scrutiny, with regulators signalling the need to use alternative risk free rates ("RFRs").

The Group IBOR Transition programme was mobilised in 2018, under the sponsorship of the Chief Financial Officer and interfacing with other Mizuho entities, including Mizuho Bank, London branch in EMEA, Mizuho Securities USA Inc. in Americas, and MHSC and Mizuho Financial Group in Japan to align topics which require global approach.

Activities across the IBOR transition programme work streams can be broadly categorised into the following:

## Strategic Report (Continued)

### 5. IBOR Transition (Continued)

#### 5.1. Developing new alternative rate products that reference the proposed replacement rates:

- The Group already has several capabilities live for the existing products, including SONIA swaps, Repos, FRNs, Futures, €STR Swaps, Repos, FRNs, TONAR Swaps, Repos and FRNs.
- For remaining RFR products, a phased delivery plan has been developed with input from functional and technology teams, considering anticipated client demand and regulatory/industry working group guidance.

#### 5.2. Transitioning outstanding IBOR contracts to RFRs:

- In addition to offering new RFR based products, the programme will also address the transition of IBOR contracts expiring after 2021 to RFRs.
- For any new IBOR issuances, risk disclaimers are being used, to ensure our counterparties are aware of IBOR discontinuation.
- A client engagement and communications strategy has been developed and rolled out to help mitigate conduct and reputational risk, with input from Sales, Legal and Compliance teams.

The Group is actively engaged in various industry wide discussions around the impact of IBOR reforms on various aspects of financial accounting and reporting. More details of this can be found in Accounting Policy 3D.

### 6. Key Performance Indicators (“KPI’s”)

The Group has put in place several initiatives (Section 3) to grow revenues and develop cost efficiencies going forward. In relation to Leverage Ratio, Liquidity Coverage and CET1 Ratio, the Group is committed to ensuring that full compliance with all relevant regulatory requirements is maintained. The Group has set out below KPIs to assess its main business performance effectively:

	<b>2020</b>	2019
	<b>Y-o-Y change</b>	Y-o-Y change
<b>Financial Business Performance KPIs</b>		
Net income from operations decrease	<b>(9.8)%</b>	(25.7)%
Administrative expenses (decrease)/increase	<b>(0.5)%</b>	0.6%
	<b>2020</b>	2019
	<b>%</b>	<b>%</b>
Leverage Ratio	<b>3.7</b>	3.7
Liquidity Coverage Ratio	<b>339.8</b>	415.5
CET1 Ratio	<b>20.0</b>	27.8

# Strategic Report (Continued)

## 7. Other Key matters (Continued)

### 7.1. Sustainability

The Group is committed to addressing the impacts of climate change, pursuing a sustainable business model and delivering on operational sustainability initiatives. In line with the Group's aspiration and values, it aims to integrate sustainability into its strategy to create shared value and growth across the business addressing social, environmental and economic opportunities. The Group recognises the global challenges facing individuals, communities and organisations and is establishing a responsible banking framework to support clients on their transition towards a low-carbon future. The Group has implemented various steps including:

- Appointment of a Senior Management Function for Financial Risk related to climate change (President & CEO);
- Appointment of Head of Sustainability to implement the Group's Sustainability strategy;
- Environmental management and reporting system in development;
- Introduction of climate change stress testing programme; and
- Embedding new Environmental Risk Framework in existing risk management frameworks such as Operational Risk and Third Party Risk.

Further details in relation to Sustainability are referenced in the Directors Report, under Streamlined Energy and Carbon Reporting.

### 7.2. Employee Welfare, Inclusion and Diversity

The success and reputation of the Group is driven by the commitment, hard work and integrity of the Group's employees. As the most important asset, it is crucial for the Group to support and develop its people through a collaborative working culture that supports personal growth.

The Group has a Staff handbook which sets out various policies, including the Equality, Inclusion and Diversity Policy, Transitioning at Work Policy, and Bullying and Harassment Policy.

The Group also has a varied suite of Employee Resource Groups, which have now merged with Mizuho Bank, London branch this year, to form a joint Inclusion Network. Together, the networks intend to generate greater impact and drive culture change across Mizuho. The new Inclusion Network currently includes the following streams: Cultural Diversity, Family, Gender, Multi-Faith, Pride and Future Leaders.

During the UK lockdown the Employee Resource Groups continued operating on a remote basis and with renewed focus to offer a sense of community and support to employees. Additional support was offered through more regular townhalls which were conducted remotely, with management providing reassurance and understanding for the unique circumstances facing individuals. A full suite of online resources were published for all employees; including wellbeing tips, opportunities to connect with other employees as well as steps to take if they develop Covid-19 symptoms.

The Group is one of the founding signatories of HM Treasury's Women in Finance Charter. This is one of a number of initiatives to target diversity and support employees in their broader lifestyle choices with the aim of further embedding an inclusive culture. Other initiatives include enhanced shared parental leave, membership of My Family Care, ingrained approach to flexible working, and mentoring programmes.

The Group remains fully committed to the journey of building a more representative workforce which embeds a culture of inclusiveness. The Group's pillars of building trust, inspiring diversity of thought and embedding a winning spirit are reinforced by the reward structure, seeking to progress towards a more balanced and inclusive workplace where everyone can thrive.

### 7.3. Corporate Social Responsibility ("CSR")

The Group extends its commitment to equality and diversity to the communities in which it operates, through its CSR initiatives, including, amongst others, working with its current OneMizuho charity partner, YoungMinds.

## **Strategic Report (Continued)**

### **7. Other Key matters (Continued)**

#### **7.3. Corporate Social Responsibility (“CSR”) (Continued)**

YoungMinds is the UK’s leading charity fighting for children and young people’s mental health. The Group’s contribution and fundraising programmes support two of the charity’s projects being the 360° Schools programme and the Parents’ Helpline. The 360° Schools programme provides support to those working in education. Via training, advice and information resources, they ensure that senior leaders, teachers and assistants in the classroom have the knowledge and confidence to make a difference to the lives of young people and make mental health and wellbeing a core, rewarding part of their job. The Parents’ Helpline is a free and confidential service, and is available to parents and carers worried about a child/young person’s behaviour, emotional wellbeing or mental health.

#### **7.4. Human Rights**

The Group has a zero-tolerance approach to slavery and human trafficking and is committed to acting ethically and with integrity in all its business dealings and relationships. The Group has an Anti-Slavery and Modern Slavery Policy to which all employees must adhere.

The Group invests in learning and development for all of its employees, including contractors, to ensure adherence to the Modern Slavery Policy. The Group conducts due diligence in relation to suppliers to ascertain the appropriate responses have been received from all of its suppliers to related questionnaires sent to them by the Group.

#### **7.5. Anti-Corruption and Anti-Bribery**

The Group is committed to carrying out business with the highest standards of integrity and fair dealing, and without the use of corrupt practices or acts of bribery to obtain an unfair advantage. The Group has an Anti-Bribery Policy, which sets out the policy and key controls implemented by the Group which include management oversight, individual’s responsibilities, the conduct of risk assessments, and specific procedures in relation to gifts, hospitality, facilitation payments, use of business partners/intermediaries and procurement.

Training and guidance in relation to this policy have been provided to employees. Employees are required to report any suspicions of bribery to the Compliance Department.

## Strategic Report (Continued)

### 8. Section 172 Statement

The Board and its Directors recognise that the long term success of our business is dependent on the way it interacts with its stakeholders. The below table sets out how key stakeholders' considerations are addressed by the group.

	Who are our stakeholders?	Why do we focus on these stakeholders?	How do we engage with them?	What do they tell us?	How do we respond?
<b>Clients</b>	<p>Our clients are Corporate, Financial Institutions and Institutional Investors across Japan and EMEA who come to us for our expertise, financial products and solutions.</p> <p><i>See Section 1.1 – Business Lines &amp; Clients</i></p>	<p>Our clients are at the centre of everything we do and are essential to the success of our business. We would not be able to continue to operate without them.</p>	<p>We engage with our clients in a variety of ways, focusing on building on existing and new relationships for the larger Mizuho network globally.</p> <p>We have a dedicated sales team and relationship managers for this purpose and supplement this coverage with Investor Roadshows and Conferences held globally.</p>	<p>We receive feedback from our clients in the form of league table results and through our engagement with industry research and surveys to uphold our strategy for data driven and market led decision making.</p> <p>Our clients value our leading Japanese expertise and seek more value added solutions and products to meet their changing demands.</p>	<p>We respond to our clients by adjusting the strategy towards more diversification of products and a wider solutions offering to meet their needs. We are also focusing on deeper collaboration with Mizuho Bank, London branch to allow an integrated coverage and product offering.</p> <p><i>See Section 3 – Priorities and New Initiatives</i></p>

# Strategic Report (Continued)

## 8. Section 172 Statement (Continued)

	Who are our stakeholders?	Why do we focus on these stakeholders?	How do we engage with them?	What do they tell us?	How do we respond?
<b>Our People</b>	<p>Through integrity, commitment and hard work, our people provide our clients with the best possible products and solutions that meet their needs. Our people are our brand ambassadors.</p>	<p>Our people are our most valuable asset. They are essential to our success by embodying our culture of inspiring trust, encouraging diversity of thought and demonstrating a winning spirit. It is crucial for us to protect and develop our people through a collaborative working culture that supports personal growth.</p>	<p>We have an established approach to engaging with our people and gaining their perspectives through Group employee pulse surveys as well as an annual global employee engagement survey.</p> <p>These results help to inform some of our decision making and benchmark our leaders and are shared at Executive Committee and Board level.</p> <p>Our leaders regularly share information on strategy, performance and the outlook of our business through face-to-face or virtual town halls and webinars. These help us to cultivate a two-way, transparent dialogue between management and our people, whereby they feel empowered to put forward ideas and suggestions. We also use digital channels of communication such as emails, intranet announcements as well as a staff app. We have an active suite of inclusion networks which support a culture that embraces diversity in all its forms.</p> <p><i>See Section 7.2 Employee Welfare, Inclusion and Diversity</i></p>	<p>A recent employee pulse survey reported that 95% of our people believe that our leadership has been proactive, with 90% feeling that leadership is appropriately visible and 90% sharing they feel that the company has demonstrated that employee wellbeing is a top priority.</p>	<p>Survey themes, comments and metrics are reviewed in detail at an Executive Committee level. Where possible quick wins or longer term improvements are implemented.</p> <p>Our Board also take an active interest in our people in terms of their engagement, wellbeing and development. Board members regularly attend employee town hall events and receive survey feedback and other personnel updates through regular formal HR briefings. Our Board uses this feedback to inform decision making.</p>
<b>Our Suppliers</b>	<p>Third parties who supply us with goods and services as well as financial intermediaries, contractors and consultants.</p>	<p>MHI's third-party strategy is determined by the Board in light of the Group's overall business strategy and objectives.</p> <p>We focus on fostering a relationship built on trust and transparency with our suppliers which is mutually beneficial.</p>	<p>We have a Third Party Risk Management Policy and a Procurement Policy which ensures the appropriate engagement, governance and control through the life cycle of the relationship.</p>	<p>Our suppliers continue to engage with us and keep an ongoing dialogue to develop partnerships further.</p>	<p>We continue our dialogue with suppliers in accordance with the MHI Third Party Risk Management Policy. The dialogue is ongoing in order to continually monitor that the business and ethical standards of suppliers align with our own.</p>

# Strategic Report (Continued)

## 8. Section 172 Statement (Continued)

	Who are our stakeholders?	Why do we focus on these stakeholders?	How do we engage with them?	What do they tell us?	How do we respond?
Our Communities	Our communities are defined as the local and global societies in which we operate.	A long-term / sustainable business model requires us to recognise the many global challenges facing individuals, our communities, and to support our clients on their transition towards a low-carbon future.	<p>Locally we interact with the City of London and have registered for workers votes in the City to make contributions to make local services responsive to our needs. We have also participated with our charity partner YoungMinds in the Lord Mayor's Show to engage with our neighbours in the Square Mile and raise the profile of our Charity partner.</p> <p>We work for local not-for-profit organisations and charity partners to make a difference to local communities, through skills-based and hands-on activities.</p> <p>We are committed to supporting our clients' transition towards a low carbon economy, and through the newly appointed Senior Management Function and Head of Sustainability engage with clients on this topic.</p> <p><i>See Section 7.1 – Sustainability</i></p>	<p>Our communities in the Square Mile and across London need the support and strength from large organisations such as us.</p> <p>Environmental, Social and Governance investing will extend deeper into the market and industries will need to be reconfigured in response to the shift in consumer behaviour and government policy.</p>	<p>We recognise the challenges facing our communities and our clients, and we are establishing a responsible framework in response. This includes the appointment of a Senior Management Function for Sustainability.</p> <p>Our partnership with Charity partner YoungMinds and work done through the Charity Committee (part of our governance framework) gives financial and time commitment to our community. We are committed to developing our positive impact and take part in Mizuho's global Volunteer Day, an annual opportunity for employees to give back to their local communities.</p> <p><i>See Section 7.1 Sustainability</i> <i>See Section 7.3 Corporate Social Responsibility</i></p>

## Strategic Report (Continued)

### 8. Section 172 Statement (Continued)

	Who are our stakeholders?	Why do we focus on these stakeholders?	How do we engage with them?	What do they tell us?	How do we respond?
<b>Our Investors</b>	Our sole shareholder is the parent, MHSC.	We need to deliver a long-term sustainable business model that delivers shareholder value.	Our shareholder is engaged through representation at our Board and the wider governance structure as well as regular informal and formal communication with counterparts at MHSC.  <i>See Directors Report Section 5 – Corporate Governance</i>	Our shareholder recognises the strength of our infrastructure and governance structure and demonstrate this through their ongoing support and constructive dialogue.  Our shareholder would like to see continued focus on delivering a sustainable business model.	Our Board focuses on delivering a sustainable business model with a strategy that is underpinned by client feedback and maximises the strength of Mizuho Financial Group.  Our Board-approved governance and limit structure ensures growth is commensurate and well monitored by the three lines of defence.  <i>See Section 2.1 – Strategy</i> <i>See Section 3 – Priorities and New Initiatives</i>
<b>Our Regulators</b>	The UK, EMEA and Japanese regulatory authorities.	We need to deliver a long-term sustainable business model that is compliant and is contributing successfully to the UK financial system to ensure we are able to provide a wide range of financial services by operating in a safe and sound manner, and with full regard to the protection of investors and the integrity of the markets we operate in.	There is an open and transparent dialogue with the regulators ensuring we meet all prudential and conduct based regulatory standards.  The Head of Legal & Compliance attends Board Meetings to ensure that Board decisions recognise the regulatory impact and environment.	Our regulator recognises the strength of our infrastructure and governance structure and demonstrates this through their ongoing support and constructive dialogue.  Our regulator would like to see continued focus on delivering a sustainable business model.	We continue to invest in ensuring strength in our three lines of defence to respond to the ongoing focus on governance and regulatory compliance across the industry.  Our Board focuses on delivering a sustainable business model with a strategy that is underpinned by client feedback and maximises the strength of Mizuho Financial Group.

## Strategic Report (Continued)

### 9. Outlook for the coming Financial Year

There is global uncertainty surrounding the impact of the COVID-19 pandemic; the Group continues to monitor the situation closely and take necessary measures to deal with the challenging market circumstances. The Group will work with all stakeholders to future proof and adjust the business model going forward and has the full support of its shareholder and the Board.

The Group will continue to pursue a client-focused business model, focusing on achieving a gradual improvement in the quality of revenues. This improvement will come through deeper collaboration with Mizuho entities, in particular through the newly dual hatted teams and through greater product diversification as the Group leverages opportunities that arise in the aftermath of the global pandemic to grow the product. This strategy, alongside its state of the art technology and a commensurate, reengineered operating model and cost base will be imperative for the Group's growth.

The Group will address returning to office working when guided by the UK authorities, with an emphasis on supporting the wellbeing and safety of staff. Additional measures to protect staff and ensure social distancing recommendations can be adhered to will be introduced. There will also be consideration given to longer term changes to working practices including increased remote working and the impact of this on the Group's infrastructure and cost base. Operational resilience remains a high priority for the Group, with the Bank of England bringing in specific regulation due during 2021; the Group continues to monitor this situation closely and evolve its strategy accordingly.

The Group has a strong governance, risk and control framework with key focus on conduct risk. In all its activities, the Group's people are at the centre, alongside its clients. A prerequisite for the sustainable success is the continuous promotion of Learning & Development, Inclusion & Diversity as well as Culture & Conduct initiatives.

The Group will focus further on supporting the strategy with a truly inclusive, ethically resilient culture which creates opportunities for growth.

By Order of the Board  
Sara Fox  
Company Secretary  
17 June 2020

# Directors' Report

The Directors who serve on the Company's board at the date of this report (the "Directors") present this report on the affairs of the Group, together with the financial statements for the year ended 31 March 2020.

## 1. Principal Activities

The Group provides investment banking and securities market services to clients of the group of companies headed by Mizuho Financial Group.

The Group has permissions from the 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 FCA. The subsidiary in Frankfurt (MHEU) has branches in Madrid and Paris, and in addition the Company has a branch in Dubai.

## 2. Results and Dividends

The Group recorded a loss of £40.7 million for the year ended 31 March 2020 (2019: £19.5 million). The Directors do not recommend the payment of a dividend in respect of the current financial year (2019: £nil).

## 3. Going Concern

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

The Directors' assessment of the Group's ability to continue as a going concern is based upon an assessment of the Group's business plans, together with related forecasts in respect of the Group's capital adequacy and liquidity positions, and stresses to those forecast positions. Consideration has been given to the inherent uncertainties arising from the COVID-19 pandemic and further information on the Directors' assessment can be found in Note 1.

## 4. Directors

The following served as Directors of the Company during the year ended 31 March 2020:

Executive Directors	Mr S. Bakhshi
	Mr M. Mochizuki
	Mr R. Tallentire

## Directors' Report (Continued)

### 4. Directors (continued)

Non-Executive Directors	Mr D. Weymouth (Chair and Independent Non-Executive Director) Ms M. Erasmus (Senior Independent Non-Executive Director) Mr C. Newell (Independent Non-Executive Director) Mr T. Sciard (Notified Non-Executive Director) (resigned 31 December 2019) Mr D. Atkinson (Independent Non-Executive Director) (appointed 1 February 2020) Mr A Takahashi (Non-Executive Director) Mr K. Fujii (Non-Executive Director) (resigned 31 March 2020) Mr H. Nagamine (Non-Executive Director) (resigned 31 March 2020)
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Since 31 March 2020 the following appointments to the Board have been made:

Non-Executive Directors	Mr Y. Kanamori (appointed 1 April 2020) Mr S. Toda (appointed 1 April 2020)
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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.

### 5. Corporate Governance

As the Group is not listed there is no absolute requirement to comply with the UK Corporate Governance Code. However, the Directors consider that Corporate Governance is an important matter and the Directors 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 six times a year).
- As at 31 March 2020 the Board consisted of three Executive Directors, and seven Non-Executive Directors (including an Independent Chairman and three other Independent Non-Executive Directors and three Non-Executive Directors).
- 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 and its members are the other Independent Non-Executive Directors. The chair of the Committee is expressly entitled to invite other Board members, the external auditors, the Head of Internal Audit, Head of Legal and Compliance 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, performance against risk appetite, risk management framework and risk culture. The Board Risk Committee meets not less than six times a year but may meet more often as deemed necessary. It is chaired by Mr. D. Weymouth, its members are the other Independent Non-Executive Directors. Meetings are also attended by the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer and the Head of Legal and Compliance. Other members of management or external advisers may be invited by the chair of the Committee.

## Directors' Report (Continued)

### 5. Corporate Governance (continued)

**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 Chair of the Board; iv) the Chair of the Board Risk Committee; or v) the Senior Independent Non-Executive Director. Once the Committee has been convened, the Chair of the Committee will be determined by the Chair of the Board or, in their absence, the Chair of the Board Risk Committee, or in their absence the Senior Independent Non-Executive Director. The members of the Committee will comprise its Chair, the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Chief Information Officer, the Deputy President, the Head of Global Markets, EMEA, the Head of Investment Banking, EMEA, the Head of Legal & Compliance, the Treasurer, the Chief Administrative Officer, a Deputy General Manager of MHSC, the Chair of the Board and the Senior Independent non-Executive Director.

**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 Chair of the Nomination Committee is Mr D. Weymouth and the other 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 Legal and Compliance and external advisors, may also be invited to attend meetings of the Committee.

**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 ("MRTs"). The Remuneration Committee meets at least four times a year with additional meetings as necessary. It is chaired by Ms M. Erasmus and the rest of its membership comprises the Chair of the Board and the two other Independent Non-Executive Directors; meetings are also attended by the Head of Human Resources. Meetings may also be attended by others by invitation. The Chair 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 Group. 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 Group, through its Board, delegates responsibility for the day to day running of the business of the Group to the Chief Executive Officer. The Chief Executive Officer in turn delegates powers for certain matters to executive management, including the Chief Financial Officer and the Chief Risk Officer. The Chief Executive Officer 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 Officer, 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.

## Directors' Report (Continued)

### 5. Corporate Governance (continued)

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

- Assets and Liability Committee
- Change and Implementation Committee
- Charity Committee
- Data and Info Sec Steering Committee
- Front Office Supervision Committee
- Health and Safety Committee
- Learning and Development and Inclusion Committee
- New Product Committee
- Risk Management Committee
- Underwriting and Reputational Risk Committee, and
- Valuation Control Committee

Those sub-committees, apart from the Charity Committee and the New Product Committee, act as consultative bodies to their respective Chairs, 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.

### 6. Performance Measurement and Management

The Group 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 Group include profit before taxation, capital utilisation, VaR utilisation and stress test exposures (these are disclosed within the financial statements and accompanying notes).

#### 6.1. Remuneration

The Group 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 Group'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. MRTs are subject to bonus deferral in accordance with the Remuneration Codes (i.e. deferral periods of three, five or seven 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 shares and is subject to a retention period of six or twelve months. The requirement is applied to both deferred and non-deferred awards. The Remuneration Codes require the Group 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 ten years for Senior Managers in the event of an investigation).

## Directors' Report (Continued)

### 6. Performance Measurement and Management (continued)

#### 6.2. Employment Policies

As set out in its Equality and Diversity Policy, the Group is committed to equal opportunities for all. The Group 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 Group values and respects the differences between all people in its employment. By promoting and ensuring an inclusive environment the Group can build on the collective and complementary skills, knowledge, background and networks of its people. Valuing inclusion and 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 Group 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 which inspires trust and where diversity of thought is valued and encouraged to enable each employee to 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 Group extends its commitment to equality and diversity to the communities in which it operates, through its Corporate Social Responsibility initiatives, including, amongst others, working with our current OneMizuho charity partner YoungMinds to improve young people's mental health.

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

The Group 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 Group. This is achieved through regular circulars distributed throughout the Group, through the intranet site and through the Directors' Report and Financial Statements which are made available to all employees.

### 7. Principal Risk and uncertainties

As an international investment banking and securities markets business within the group of companies headed by Mizuho Financial Group, the Group is affected by a range of risk factors. The Group'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.

#### 7.1. Risk Identification

Risk identification is conducted by examination of all activities of the Group and is captured in the risk register that consists of all risks from all risk areas to which the Group 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 Group's financial condition or results.

## **Directors' Report (Continued)**

### **7. Principal Risk and uncertainties (Continued)**

#### **7.1. Risk Identification (Continued)**

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

Liquidity Risk is the risk that the Group 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.

#### **7.2. 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.

#### **7.3. Risk Control**

As an overarching risk control, the Group 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 Group'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.

#### **7.4. 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.

#### **7.5. Financial Instruments**

The Group uses financial instruments for risk management purposes, as outlined in Accounting Policy 3D.

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

## Directors' Report (Continued)

### 8. Streamlined Energy and Carbon Reporting

Streamlined Energy and Carbon Reporting (SECR) is a Government scheme requiring companies to disclose energy and carbon emissions.

The Group has assessed greenhouse gas emissions using the 'GHG Reporting Protocol – A Corporate Accounting and Reporting Standard' and in accordance with Defra's 'Environmental Reporting guidelines: including Streamlined Energy and Carbon Reporting requirements'.

For this purpose the operations of the Company rather than the Group are reported on.

The reporting scope includes the following energy sources:

- Electricity used for the Company operations at the occupied buildings and data centres in the UK (scope 2, see row 1 in table below)
- Gas used to heat the Company operations at the occupied buildings in the UK and generator fuel (scope 1, see row 2 in table below)
- Transport fuel used for the Company UK operations under the Company's operational control (scope 1 and 3, see row 3 and 4 in table below)
- The scope currently excludes energy use at BCP sites. Energy use at these sites is not the direct responsibility of any entity within the Company, and is generally minimal.

#### 8.1. Company GHG emissions and energy use data for the financial year

	Energy (kWh)	Emissions (tCO <sub>2</sub> e)
Electricity <sup>1</sup>	3,968,446	1,034.5
Gas and generator fuel <sup>2</sup>	1,493,111	276.0
Transport fuel (scope 1) <sup>3</sup> owned or leased vehicles	10,015	2.3
Transport fuel (scope 3) <sup>4</sup> business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel	6,503	1.5
<b>Total</b>	<b>5,478,075</b>	<b>1,314.3</b>
Intensity ratio: tCO <sub>2</sub> e gross figure based from mandatory fields above/Average FTE <sup>5</sup>	11,631	2.79

#### Explanatory notes

1. Electricity used for Company operations at the occupied buildings in the UK and data centres.
2. Gas used for heating where this is measured.
3. Fuel and electricity used for operating one hybrid car.
4. Fuel used for operating employee vehicles driven for business use.
5. Full time employees.

#### Further explanatory notes

- All carbon emissions factors are taken from 'UK Government GHG Conversion Factors for Company Reporting' issued by Defra and BEIS, valid until 31/07/2020.
- The reporting scope covers energy used over reporting period from 1 April 2019 to 31 March 2020, in line with the financial year.

The Group are looking to accelerate progress in minimising our energy use and overall environmental impact. Over the past year the Group has put in place measures to help us achieve concrete energy and carbon savings over the coming years, including appointing a Head of Sustainability for the EMEA region. An ISO 14001 environmental management system is in development for the London Headquarters, which will put a framework in place to make continuous improvements over its lifetime. The Group will look to undertake energy saving measures as recommended within the Energy Saving Opportunity Scheme reports.

## Directors' Report (Continued)

### 9. Future Developments

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

### 10. Events since the balance sheet date

Following the UK lockdown on 23 March 2020 as a result of the COVID-19 pandemic, the first quarter of the new financial year represented a period where remote working practices were embedded on a much larger scale than ever before. The Group leveraged its strong infrastructure to remain fully operational by moving the vast majority of staff to remote working from home.

The Group reported a healthy liquidity and capital profile through the first quarter with regulatory ratios remaining in excess of minimum requirements. Revenue has normalised to pre-pandemic levels as liquidity returns to the market and healthy client flow resumed.

Following the initial period of relative inactivity from clients as their workforce adjusted to remote working, clients returned with two way flow, helped by the supportive measures introduced by some central banks and governments. Settlement has continued smoothly with relatively low trade fail levels. The stability provided by the major market clearing houses supported business continuity.

The Board of Directors reviewed and approved the revised strategy for the year ending 31 March 2021 which was bound by tighter stress loss limits, increased availability of hedging products and renewed focus on the existing growth and diversification strategy across the markets and investment banking business.

### 11. 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 Group'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 Group's auditors are aware of that information.

### 12. Independent Auditors

Ernst & Young LLP were reappointed as auditors of the Group during the financial year ended 31 March 2020. Ernst & Young LLP have expressed their willingness to continue in office and a resolution re-appointing them as Auditors of the Group and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board  
Sara Fox  
Company Secretary  
17 June 2020

## 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 the 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 Group and of the profit or loss of the Group 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group 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

## Opinion

We have audited the Consolidated Financial Statements of Mizuho International plc ("the Group" and "the Company") for the year ended 31 March 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 34 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102' or 'United Kingdom Generally Accepted Accounting Practice' or 'UKGAAP').

In our opinion, the Financial Statements:

- give a true and fair view of the Group's and the Company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UKGAAP including FRS 102 "The Financial Reporting Standard applicable in the UK"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Consolidated Financial Statements is not appropriate; or
- the Directors have not disclosed in the Consolidated Financial Statements any identified material uncertainties that may cast significant doubt about the Group's and the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Consolidated Financial Statements are authorised for issue.

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

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>• Impact of COVID-19</li> <li>• The risk of recording of fictitious transactions</li> <li>• The risk of management override of controls</li> <li>• The risk of inappropriate valuation of the fair value portfolio</li> </ul>
Materiality	• Overall materiality of £10.8m which represents 1.5% of the Group’s and Company’s total equity (see ‘Our application of materiality’ section below).

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Impact of COVID-19	Our response to the risk	Key observations communicated to the Audit Committee
<p>The COVID-19 pandemic has resulted in changes to societal behaviours and government measures being put in place, which are having and will continue to have a lasting economic impact on the UK and the global economy. The precise extent of that impact remains inherently uncertain. This increased uncertainty raises our risk assessment across the audit and in specific audit areas. We have therefore reperformed our risk assessment and altered our audit procedures to capture COVID-19 risks, in the following areas:</p> <p><b>Control environment and core operations:</b></p> <p>There is increased risk of misstatement due to disruption to processes and control activities following the government imposed measures and restrictions across the world. We observed a significant increase in the number of failed trades recognised as at 31 March 2020 (fail to deliver 2020: £578m (2019: £127m); and, fail to receive 2020: £477m (2019: £128m)), which was indicative of initial disruption in trading markets and operations during the pandemic.</p>	<p>Control environment and core operations:</p> <p>To assess the impact on the control environment, we amended our test of controls approach, with further testing performed for the period 1 January to 31 March 2020. We tested additional instances of the operational effectiveness of a control associated to a significant / fraud risk or high risk control, as well as performing additional enquiries and corroboration procedures. Where the Group uses a service organisation, we have performed additional audit procedures over management’s assessment of the control environment at these third party providers, which has included reviewing the pandemic response surveys.</p> <p>In relation to failed trades, we have performed procedures over extended sample sizes to review subsequent settlement, or inspected supporting correspondence with the counterparty, where the trades were yet to settle at the time of our audit procedures.</p>	<p>Control environment and core operations:</p> <p>From our extended procedures over the control environment, we have not identified control deficiencies or segregation of duties concerns, that have arisen as a result of the changes to the working environment brought about by the COVID-19 pandemic.</p> <p>Based on our extended sample sizes on failed and pending trades, we have obtained evidence of subsequent settlement and for those trades still pending at the date of testing, we inspected that the trades were confirmed with the counterparty and trade economics were matched. We did not identify any systemic settlement issues due to the impact of COVID - 19.</p>

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

<p><b>Going concern:</b></p> <p>The duration, outcome and economic consequences of the COVID-19 pandemic remain highly uncertain. There is a heightened risk that the going concern analysis has not appropriately considered the full effect of COVID-19 on the Group. There is also a risk that the note disclosures to the financial statements related to going concern are not in compliance with reporting requirements.</p>	<p><b>Going concern:</b></p> <p>We evaluated whether the directors' going concern assessment appropriately considered the impacts arising from Covid-19, performing the following:</p> <ul style="list-style-type: none"> <li>• we enquired of management on the rationale for forward looking projections and substantiated the inputs and risks identified. This included assessing: <ul style="list-style-type: none"> <li>○ the Group's capital and liquidity adequacy as of year end and projections for the upcoming 12 month period including their financial commitments;</li> <li>○ the 12 month P&amp;L forecast and benchmarking it against historical performance as well as post year end performance;</li> <li>○ the level of involvement by the Parent (including past evidence) and their ability to support the Group in the absence of future profitability;</li> </ul> </li> <li>• considered whether the Group's credit exposure is mitigated by active management of counterparty exposures as well as credit risk limits monitoring, both at year end and subsequent to year end;</li> <li>• enquired of management's post-COVID-19 strategy which is focused on a controlled risk reduction and recalibration of risk appetite. We assessed the results of the strategic plan based on actual performance post year end.</li> </ul>	<p><b>Going concern:</b></p> <p>Management has put in place a comprehensive response strategy focused on risk reduction. We observed that in the period post year end, management undertook the following;</p> <ul style="list-style-type: none"> <li>• established a Strategic Risk Forum which focuses on alignment between actual and projection against business plan and risk monitoring;</li> <li>• expanded the hedging strategy over high yield and credit portfolios;</li> <li>• implemented new risk limits at an individual trader level as well as business area and Global Markets level; and, increased the level of monitoring of internal risk limits;</li> <li>• addressed the bid-offer spread risk by reducing the size of the balance sheet within the credit markets (i.e. from £770m as of 31 March 2020 to £427m as of 30 April 2020).</li> </ul> <p>From our audit procedures performed, we concur with management that it is reasonable to adopt the going concern basis. We consider the disclosures in the financial statements related to going concern to be appropriate.</p>
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## Independent Auditor’s Report to the Members of Mizuho International plc (Continued)

<p><b>Subsequent events:</b></p> <p>Covid-19 was still evolving as of 31 March 2020 year end. As a result, judgements were made by management to determine and evidence the conditions that existed at the balance sheet date, and in concluding whether events occurring after that date were adjusting or non-adjusting events.</p> <p><b>Fair Value:</b></p> <p>The impact of COVID-19 on the fair value portfolio has been addressed in the ‘Inappropriate valuation of the fair value portfolio’ KAM below.</p>	<p>Subsequent events:</p> <p>We inspected the relevant management information, as well as key meeting minutes, and held discussions with management to understand the impact of COVID-19 to the Group’s position as of 31 March 2020. We evaluated the completeness and appropriateness of the financial statement disclosures as they relate to events after the balance sheet date, and the disclosures provided in relation to the COVID-19 impact.</p>	<p>Subsequent events:</p> <p>Management have reviewed events that have occurred after the balance sheet date and concluded that there were no events that required adjustment to the year end position as at 31 March 2020. They also considered the adequacy of disclosure and determined there were no events occurring after the balance sheet date which warranted disclosure in the financial statements. We consider these conclusions to be appropriate.</p>
<p><b>Recording of fictitious transactions</b></p> <p>The risk that transactions recorded may be fictitious in nature, leading to dealing gains or losses and financial positions being misstated.</p> <p>Material misstatement to dealing gains and losses, and financial positions, may be affected through:</p> <ul style="list-style-type: none"> <li>• Long-dated positions, such as those that have a longer settlement than the portfolio average,</li> <li>• Fictitious trade settlement dates being re-dated in the future to avoid triggering identification,</li> <li>• Fictitious trades being ‘executed’ with counterparties with confirmation backlogs or who are known not to confirm trades.</li> </ul> <p>The above circumstances lead to a higher risk of fictitious trading.</p>	<p><b>Our response to the risk</b></p> <p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>• Testing the design and operating effectiveness of those key controls identified as detecting and preventing the recording of fictitious transactions. This included the following testing: <ul style="list-style-type: none"> <li>○ independent review and challenge of front office trade cancellations and amendments;</li> <li>○ reconciliations which utilise third party information (nostro/depot, broker accounts);</li> <li>○ third party confirmation controls;</li> <li>○ approval controls (in particular around collateral management, the cancellation and amendment of trades, static data, and resolution of failed trades); and</li> <li>○ review controls involving senior management (such as collateral reporting, dispute resolution, and controls over P&amp;L reporting).</li> </ul> </li> </ul>	<p><b>Key observations communicated to the Audit Committee</b></p> <p>We have not identified any indications of fraudulent activity during the year and have not identified any transactions recorded as at 31 March 2020 that are materially misstated. We noted the following results from our audit procedures:</p> <ul style="list-style-type: none"> <li>• Trades identified that met the higher risk criteria set out in our testing procedures were confirmed as genuine trades by testing to the evidence of subsequent settlement. For trades that had not settled at the date of testing, we inspected that the trade economics were matched and confirmed with the counterparty. No exceptions were noted.</li> <li>• The controls identified and tested, in aggregate, were concluded to be operating effectively.</li> </ul> <p>Consideration was given that other controls were operating effectively.</p>

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

	<ul style="list-style-type: none"> <li>• Substantive procedures to identify fictitious transactions were undertaken in relation to: <ul style="list-style-type: none"> <li>○ year-end front office and back office reconciliations;</li> <li>○ alleged trades; and</li> <li>○ any collateral disputes unresolved at the balance sheet date.</li> </ul> </li> <li>• Independent confirmation procedures were performed for a sample of trading and cash positions to counterparties / agents to test their existence.</li> <li>• Specific risks from long-dated and unconfirmed trades were further addressed by testing trades identified as unconfirmed for a longer period after the balance sheet date.</li> <li>• Analysis was undertaken of the trade population to identify trades which had settlement characteristics outside of the expected portfolio criteria. Any such trades were then directly tested to subsequent settlement evidence.</li> </ul>	
<p><b>The risk of management override of controls</b></p> <p>This is the risk that management can perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p><b>Our response to the risk</b></p> <p>We have evaluated the costs that are eligible for capitalisation for the extended sample of capitalised expenditure.</p> <p>To address risk arising from manual journal entries, we undertook risk assessed journal entry testing on general ledger journals, and on other adjustments made in the preparation of the Consolidated Financial Statements.</p>	<p><b>Key observations communicated to the Audit Committee</b></p> <p>We undertook our mandatory audit procedures which address the risk of material misstatement due to fraud and error, and management override of controls.</p> <p>Our enquiries of management and those charged with governance, and our general audit procedures did not identify anything to indicate fraudulent activity, or to be a matter for concern.</p>

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

<p>The specific risks relate to:</p> <ul style="list-style-type: none"> <li>• Inappropriate recognition of software development expenditure. There are a number of system enhancements required due to changing regulation, or commitments that the Group and the Company have agreed to. These system enhancements require management to exercise their judgment to determine whether the costs are eligible for capitalisation or whether the expense should be recognised.</li> </ul>	<p>We set a number of filters to identify journal entries with characteristics which may be indicative of fraudulent activity and determined from the complete population a sample to substantively test.</p> <p>We also considered whether any transactions could be considered significant or unusual – we do not believe any such transactions occurred in the current year.</p>	<ul style="list-style-type: none"> <li>• We confirmed that capitalisation criteria for software development expenses is met and the activities such as the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services were appropriately capitalised.</li> <li>• Our testing identified no unsubstantiated or unapproved journal entries.</li> </ul>
<p><b>Inappropriate valuation of the fair value positions</b></p> <p>We assessed that there was an increased risk of inappropriate valuation of positions held at fair value, which primarily arose due to:</p> <ul style="list-style-type: none"> <li>• high volatility in the financial markets arising from COVID-19, impacting the availability of observable pricing inputs and increasing the risk of inappropriate valuation of the fair valued positions; and,</li> <li>• widening bid-offer spreads and price volatility in the independent price verification ('IPV') testing of trading positions.</li> </ul> <p>The volatility in the markets and the widening credit spreads increased risk exposure and had a material impact on the performance of MHI. We noted material losses in the credit portfolio of the fixed income business, and as such, reassessed the valuation risk on fair value positions.</p>	<p><b>Our response to the risk</b></p> <p>Our testing strategy in relation to the fair value positions focused on a combination of walkthroughs and tests of controls and substantive testing procedures.</p> <p>Our walkthrough and tests of controls procedures included:</p> <ul style="list-style-type: none"> <li>• Performing walkthroughs around the IPV process and the process around model validation.</li> <li>• Testing the design and operating effectiveness of key controls around IPV and model validation. As a result of the changes to the working environment brought about by the COVID-19 pandemic, we extended our update tests of controls at year end. We focused on inquiries with management to identify areas of disruption due to the pandemic, inspection of client documentation as well as expanding our sample for controls deemed as higher risk.</li> </ul>	<p><b>Key observations communicated to the Audit Committee</b></p> <ul style="list-style-type: none"> <li>• Based on our extended procedures over the control environment, we have not identified any control deficiencies that have arisen as a result of the changes to the working environment brought about by the COVID-19 pandemic.</li> <li>• Our substantive testing procedures and the independent revaluation procedures performed by EY valuation specialists have not identified material misstatements in the trading portfolio held at fair value.</li> <li>• Based on our management enquiries and our review of the valuation committee minutes, we have noted that any valuation variances outside of IPV thresholds were closely monitored with adjustments made as necessary.</li> </ul>

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

	<p>Our substantive testing procedures included:</p> <ul style="list-style-type: none"> <li>• Reviewing balance movements between interim testing as at January 2020 and March 2020.</li> <li>• Utilising EY valuation specialists to value a sample of derivatives using independent pricing inputs as at 31 January 2020 and as at 31 March 2020; and, valuing the population of securities using independent pricing inputs as at 31 March 2020.</li> <li>• On account of widening bid offer spreads, less liquidity and fluctuating valuations, we have extended our samples of both lower estimation and higher estimation uncertainty products where movements were outside of expectations or testing thresholds set.</li> <li>• Conducting incremental management enquiries and inspection of valuation committee minutes to understand the impact of COVID-19, to assess that valuations outside of IPV thresholds were being monitored and variances were being appropriately addressed.</li> </ul>	<ul style="list-style-type: none"> <li>• As part of our post-year-end procedures, we have held subsequent discussions with management reviewing the valuation committee minutes noting no material issues. Appropriate disclosures have been made in the financial statements.</li> </ul>
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### An overview of the scope of our audit

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Group and the Company. This enables us to form an opinion on the Financial Statements. We take into account size, risk profile, the organisation of the Group and the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

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

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined overall materiality for the purposes of our audit of the Consolidated Financial Statements for both the Group and the Company to be £10.8 million (2019: £11.1 million), which is 1.5% of the Group's equity. We determined our materiality based on equity as the firm has not been profitable historically. Also, our expectation is that the main users of the Consolidated Financial Statements, such as the Prudential Regulation Authority and the immediate and ultimate controlling party, view capital preservation as a key consideration. The same basis of materiality was used in the previous year.

We set materiality during the planning phase of our audit using the 30 September 2019 equity position. During the course of our audit, we reassessed this initial materiality and concluded that it was appropriate to maintain the initial level of materiality through to the date of our audit opinion. Given that the Group and the Company made losses in the current year, we do not consider it appropriate to switch to an earnings-related basis of materiality at this point, as we still consider that the shareholders and stakeholders remain most concerned with the stability and capital position of the Group and the Company. Further, as there is no established pattern of profitability, changing the basis of materiality could lead to large movements in the materiality used period-on-period.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's and Company's overall control environment, our judgement was that performance materiality should be established at 50% (2019: 50%) of our planning materiality, namely £5.4 million (2019: £5.5 million). We set performance materiality at a level which is the lower end of our normal range. We consider it prudent to use the lower end of the range for our performance materiality as it reduces our detection risk (i.e. the risk that we do not detect a material error through our testing procedures).

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We reported to the Directors all uncorrected audit differences in excess of £538k (2019: £550k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 21. The Directors are responsible for the other information.

Our opinion on the Consolidated Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Consolidated Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters 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 Consolidated Financial Statements are prepared is consistent with the Consolidated Financial Statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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 Consolidated Financial Statements to be audited 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.

### **Responsibilities of Directors**

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the Directors are responsible for the preparation of the Consolidated Financial Statements and for being satisfied that they give a true and fair view and for such internal control as the Directors determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and the Company or to cease operations, or have no realistic alternative but to do so.

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

## Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the Consolidated Financial Statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group, the Company and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the Company and determined that the most significant are the UK Companies Act and UK Tax Legislation, the Financial Services and Markets Act 2000 and the Financial Services Act 2012. Further, by virtue of being part of the larger Mizuho Financial Group, the Group and the Company are directly impacted by the rules of the US Securities and Exchange Commission and the Japanese Financial Services Authority. By virtue of the Group's activities, the Group is also subject to the rules of various exchanges it transacts on, and the International Capital Market Association.
- We understood how the Group and the Company are complying with those frameworks through enquiring of management, and those responsible for legal and compliance matters. We also perform an inspection of the Group's and the Company's regulatory correspondence, and minutes of various board committees.
- We assessed the susceptibility of the Group's and the Company's Consolidated Financial Statements to material misstatement, including how fraud might occur, by considering the controls that the Group and the Company have established to address risks identified by the Group, or that otherwise seek to prevent, deter, or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved directly testing controls implemented at the entity level, such as the regular review, maintenance and communication of conduct policies, and the monitoring of compliance by staff of such policies. Further, we tested controls at the individual transaction level which address appropriate approval and oversight of the Group's and the Company's activities. We perform journal entry testing, which targets transactions or postings that have certain characteristics which could be indicative of fraudulent activity, and substantively test the appropriateness of the posting. Refer to the key audit matters above in relation to the recording of fictitious transactions and the risk of management override – both of which relate to areas of heightened financial statement fraud risk.
- The Group and the Company operates in a specialised industry, and as such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the Consolidated Financial Statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's Report.

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

## Other matters we are required to address

- We were re-appointed by the Company on 24 June 2017 to audit the Financial Statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 15 years, covering the years ending 31 March 2006 to 31 March 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and the Company and we remain independent of the Group and the Company in conducting the audit.
- We provided a reasonable assurance CASS (Client Money and Custody Assets) Audit to the Company, which has not been disclosed in the Annual Report or Financial Statements.
- The audit opinion is consistent with the additional report to the Audit and Compliance Committee.

## Use of our report

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.

*Peter Wallace (Senior statutory auditor)*  
*for and on behalf of Ernst & Young LLP, Statutory Auditor*  
*London*  
*18 June 2020*

### Notes:

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 Consolidated 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.*

## Consolidated Statement of Comprehensive Income for the year ended 31 March 2020

	Note	2020 £ millions	2019 £ millions
Interest receivable		3.1	2.4
Interest payable		(24.9)	(19.7)
<b>Net interest payable</b>		<b>(21.8)</b>	<b>(17.3)</b>
Fees and commissions receivable	5	128.2	153.1
Fees and commissions payable	5	(56.6)	(73.9)
<b>Net fees and commissions</b>		<b>71.6</b>	<b>79.2</b>
Dealing profit	6	107.4	112.3
Other operating income	7	0.3	0.4
<b>Net income from operations</b>		<b>157.5</b>	<b>174.6</b>
Administrative expenses	8	(176.6)	(177.4)
Depreciation and amortisation	16, 17	(31.6)	(28.8)
Provisions for contingent liabilities and commitments	23	0.6	2.3
<b>Operating expenses</b>		<b>(207.6)</b>	<b>(203.9)</b>
<b>Loss profit on ordinary activities before taxation</b>		<b>(50.1)</b>	<b>(29.3)</b>
Tax on loss on ordinary activities	9	9.4	9.8
<b>Loss for the year</b>		<b>(40.7)</b>	<b>(19.5)</b>
<b>Other comprehensive income</b>			
Loss for the financial year		(40.7)	(19.5)
Re-measurement gains and losses from defined benefit scheme	25	(0.3)	(1.9)
<b>Total loss recognised before tax</b>		<b>(41.0)</b>	<b>(21.4)</b>
Deferred Tax		-	-
<b>Total comprehensive expense</b>		<b>(41.0)</b>	<b>(21.4)</b>

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

The Company has taken the exemption from preparing Statement of Comprehensive Income under Section 408 of the Companies Act 2006.

## Consolidated Statement of Financial Position as at 31 March 2020

Registered number: 1203696

	Note	2020 £ millions	2019 £ millions
<b>Assets</b>			
Cash and balances at central banks		601.0	3.3
Loans and advances to banks	11	178.3	143.6
Reverse repurchase agreements with banks		963.0	2,052.7
Reverse repurchase agreements with customers		5,895.2	7,204.8
Debt and other fixed income securities	12	4,998.0	5,087.0
Equity Shares	13	1.6	1.2
Derivative assets	14	11,566.9	4,451.4
Shares in group undertakings	15	7.0	8.6
Intangible assets	16	67.8	73.2
Tangible fixed assets	17	27.9	31.2
Other assets	18	659.1	236.4
Prepayments and accrued income		79.3	90.7
<b>Total Assets</b>		<b>25,045.1</b>	<b>19,384.1</b>
<b>Liabilities</b>			
Deposits by banks	19	471.6	196.2
Customer accounts	19	909.7	610.0
Repurchase agreements with banks		1,614.4	1,734.2
Repurchase agreements with customers		3,638.8	4,572.0
Debt securities in issue	20	1,776.6	1,453.2
Short trading positions	21	3,728.3	5,208.7
Derivative liabilities	14	11,514.0	4,285.1
Other liabilities	22	504.3	380.7
Accruals and deferred income		139.0	153.6
Provisions for liabilities	23	3.9	4.9
Subordinated liabilities	24	45.3	45.3
<b>Total Liabilities</b>		<b>24,345.9</b>	<b>18,643.9</b>
<b>Equity</b>			
Called up share capital	27	709.9	709.9
Share premium account		15.6	15.6
Pension reserve		(5.9)	(5.6)
Profit and loss account		(20.4)	20.3
<b>Total Equity</b>		<b>699.2</b>	<b>740.2</b>
<b>Total Liabilities and Equity</b>		<b>25,045.1</b>	<b>19,384.1</b>

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

Suneel Bakhshi  
Chief Executive Officer  
17 June 2020

## Company Statement of Financial Position as at 31 March 2020

Registered number: 1203696

	Note	2020 £ millions	2019 £ millions
<b>Assets</b>			
Cash and balances at central banks		601.0	3.3
Loans and advances to banks	11	171.0	110.6
Loans and advances to customers	11	14.8	-
Reverse repurchase agreements with banks		963.0	2,052.7
Reverse repurchase agreements with customers		5,895.2	7,204.8
Debt and other fixed income securities	12	4,950.7	5,087.0
Equity Shares	13	1.6	1.2
Derivative assets	14	11,566.9	4,451.4
Shares in group undertakings	15	42.4	43.1
Intangible assets	16	67.8	73.2
Tangible fixed assets	17	26.6	29.9
Other assets	18	659.2	236.9
Prepayments and accrued income		84.9	91.3
<b>Total Assets</b>		<b>25,045.1</b>	<b>19,385.4</b>
<b>Liabilities</b>			
Deposits by banks	19	471.6	196.2
Customer accounts	19	909.7	610.0
Repurchase agreements with banks		1,614.4	1,734.2
Repurchase agreements with customers		3,638.8	4,572.0
Debt securities in issue	20	1,776.6	1,453.2
Short trading positions	21	3,728.3	5,208.7
Derivative liabilities	14	11,514.0	4,285.1
Other liabilities	22	508.5	380.7
Accruals and deferred income		136.2	152.8
Provisions for liabilities	23	3.8	4.8
Subordinated liabilities	24	45.3	45.3
<b>Total Liabilities</b>		<b>24,347.2</b>	<b>18,643.0</b>
<b>Equity</b>			
Called up share capital	27	709.9	709.9
Share premium account		15.6	15.6
Pension reserve		(5.9)	(5.6)
Profit and loss account		(21.7)	22.5
<b>Total Equity</b>		<b>697.9</b>	<b>742.4</b>
<b>Total Liabilities and Equity</b>		<b>25,045.1</b>	<b>19,385.4</b>

The Company's loss after taxation for the year ended 31 March 2020 was £44.2 million (2019: £17.3 million).

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

Suneel Bakhshi  
Chief Executive Officer  
17 June 2020

## Consolidated Statement of Changes in Equity for the year ended 31 March 2020

	Share capital £ millions	Share premium account £ millions	Pension Reserve £ millions	Profit and loss account £ millions	Total equity £ millions
At 1 April 2018	709.9	15.6	(3.7)	39.8	761.6
Loss for the year	-	-	-	(19.5)	(19.5)
Other comprehensive income	-	-	(1.9)	-	(1.9)
At 31 March 2019	<u>709.9</u>	<u>15.6</u>	<u>(5.6)</u>	<u>20.3</u>	<u>740.2</u>
At 1 April 2019	<b>709.9</b>	<b>15.6</b>	<b>(5.6)</b>	<b>20.3</b>	<b>740.2</b>
Loss for the year	-	-	-	<b>(40.7)</b>	<b>(40.7)</b>
Other comprehensive income	-	-	<b>(0.3)</b>	-	<b>(0.3)</b>
At 31 March 2020	<u><b>709.9</b></u>	<u><b>15.6</b></u>	<u><b>(5.9)</b></u>	<u><b>(20.4)</b></u>	<u><b>699.2</b></u>

## Company Statement of Changes in Equity for the year ended 31 March 2020

	Share capital £ millions	Share premium account £ millions	Pension Reserve £ millions	Profit and loss account £ millions	Total equity £ millions
At 1 April 2018	709.9	15.6	(3.7)	39.8	761.6
Loss for the year	-	-	-	(17.3)	(17.3)
Other comprehensive income	-	-	(1.9)	-	(1.9)
At 31 March 2019	<u>709.9</u>	<u>15.6</u>	<u>(5.6)</u>	<u>22.5</u>	<u>742.4</u>
At 1 April 2019	<b>709.9</b>	<b>15.6</b>	<b>(5.6)</b>	<b>22.5</b>	<b>742.4</b>
Loss for the year	-	-	-	<b>(44.2)</b>	<b>(44.2)</b>
Other comprehensive income	-	-	<b>(0.3)</b>	-	<b>(0.3)</b>
At 31 March 2020	<u><b>709.9</b></u>	<u><b>15.6</b></u>	<u><b>(5.9)</b></u>	<u><b>(21.7)</b></u>	<u><b>697.9</b></u>

## Consolidated Statement of Cash Flows for the year ended 31 March 2020

	Note	2020 £ millions	2019 £ millions
<b>Operating activities</b>			
Loss before tax		(50.1)	(29.3)
Adjusted for:			
Non-cash items included in loss before tax	29	38.0	78.6
Movement in Other Comprehensive Income		(0.3)	(1.9)
Provision for liabilities		(0.4)	(5.2)
Change in operating assets	29	(5,034.6)	(4,035.7)
Change in operating liabilities	29	5,383.6	4,229.7
		<u>336.2</u>	<u>236.2</u>
Net interest paid on financial instruments		(1.8)	(51.4)
Net interest paid from loans and advances to banks		(12.6)	1.1
Tax received		6.9	2.9
<b>Net cash flows from operating activities</b>		<u>328.7</u>	<u>188.8</u>
<b>Investing activities</b>			
Net investment in shares in group undertakings		1.9	(3.3)
Purchase of intangible assets		(21.4)	(31.0)
Purchase of tangible assets		(1.5)	(5.4)
<b>Net cash flows used in investing activities</b>		<u>(21.0)</u>	<u>(39.7)</u>
<b>Financing activities</b>			
Net proceeds from debt securities in issue		322.7	(317.7)
<b>Net cash flows from / (used in) financing activities</b>		<u>322.7</u>	<u>(317.7)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>630.4</b>	<b>(168.6)</b>
Effects of exchange rates on cash and cash equivalents		2.0	0.6
Cash and cash equivalents at beginning of the period		<u>146.9</u>	<u>314.9</u>
<b>Cash and cash equivalents at the end of the period</b>	29	<u>779.3</u>	<u>146.9</u>

The Company has taken the FRS102.1.12(b) exemption from preparing Statement of Cash Flows.

# Notes to the Consolidated and Company 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 Group's and 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 Group's financial statements are described in note 3. The accounting policies adopted by the Group in the preparation of the financial statements are consistent with those in the previous year. "Group" refers to the Group and the Company in the accounting policies that follow.

### 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.

### Going concern

In preparing the Group and Company financial statements, the Directors must satisfy themselves that it is reasonable for them to adopt the going concern basis. The Group's Directors, having given due consideration to various factors, believe that there are no material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. The full extent to which the COVID-19 pandemic may impact the Group's results, operations and liquidity is uncertain. Management continues to monitor the impact that the COVID-19 pandemic has on the Group, the industry and the economies in which the Group operates. Despite the market turmoil that has arisen from the COVID-19 pandemic, the Group's commitment and aspiration has not changed. The Group's strategy going forward is still focused on the diversification of revenue in the GMK business, further growth in GIB, partly to be achieved through greater integration with Mizuho Bank, London Branch, and a rationalisation of the cost structure to achieve a lean operating model, with particular attention on the post COVID-19 way of working. The expansion of product set in the GMK business, including more hedging products, will also enable the Group to mitigate the impact of similar market stress going forward. Accordingly, the Directors believe the preparation of the financial statements on a going concern basis remains appropriate, as the Group expects to be able to meet its obligations as and when they fall due for a period of at least 12 months from the date of approval of the Financial Statements.

### Presentation currency

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

### Segmental analysis

Segmental analysis of income and net assets has not been prepared as the Group has only one class of business, being investment banking, operates in a global market which is not defined by geographical bounds, and transacts in a homogenous set of products and services across a consistent client base. The Group 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.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 March 2020. The Group consolidates a subsidiary when it controls it. Control is the power to govern the financial and operating policies of a subsidiary so as to obtain benefits from its activities.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity but it has:

- power over more than half of the voting rights by virtue of an agreement with other investors;
- power to govern the financial and operating policies of the entity under a statute or an agreement;
- power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body

Profit or loss and each component of Other Comprehensive Income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### A – Financial instruments

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

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

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

For regular way purchases and sales, settlement date accounting is applied for the purposes of recognising and de-recognising financial assets.

#### Recognition

Financial instruments are recognised when the Group 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 Group has transferred substantially all the risks and rewards of the financial asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the financial asset but has transferred control of the financial asset.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### A – Financial instruments (continued)

Where the Group neither transfers nor retains substantially all of the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the Group will account for its continuing involvement in the asset. Under this approach, the Group 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 Group 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 Group'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, trading loans 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.

### 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 dealing profit.

#### Derivative financial instruments held for risk management purposes

Derivative financial instruments held for risk management purposes include swaps and other derivative financial instruments which are used to hedge the Group'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.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C – Derivative financial instruments (continued)

#### Embedded derivatives

Derivatives embedded within financial instruments that are not held for trading or designated at fair value through profit and loss 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 instruments at fair value through profit and loss.

#### D – Hedge accounting

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

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.

The Group 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 Group revokes the designation.

#### Fair value hedge

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.

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 is recognised in the Statement of Comprehensive Income.

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.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D – Hedge accounting (continued)

#### Net investment hedge

The Group's net investments in foreign operations, including monetary items as part of the net investment, are hedged for foreign currency risks using foreign currency borrowings. The effectiveness of the hedge is assessed on a monthly basis both prospectively and retrospectively. The effective portion of any gains or losses is recognised in Other Comprehensive Income and any ineffective portion is recognised in the Statement of Comprehensive Income. The cumulative gains or losses recognised in Other Comprehensive Income are recognised in the Statement of Comprehensive Income on full or partial disposal of the foreign operation, or other reductions in the Group's investment in foreign operation.

#### Impact of IBOR reforms

The Group is actively engaged in various industry wide discussions around the impact of IBOR reforms on aspects of statutory accounting and reporting. In September 2019, the International Accounting Standards Board (IASB) issued amendments to IFRS 9, IAS 39 and IFRS 7 standards under Phase 1 (which addresses pre-transition issues) of the IBOR reform project. The Financial Reporting Council (FRC) similarly amended UK GAAP FRS 102 standard in December 2019. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Application of the reliefs has the effect of preventing hedging relationships from being discontinued as a direct result of IBOR reform. However, any hedge ineffectiveness will continue to be recorded in the Statement of Comprehensive Income. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments are effective for accounting periods beginning on or after 1 January 2020, with early adoption permitted. The Group has decided against early adoption and proposes to follow standard timelines for adopting the new amendments.

The IASB in April 2020 followed up by issuing an Exposure Draft outlining proposals under Phase 2 (which deals with issues at the point of transition of interest rate benchmarks). It is expected that relevant amendments under Phase 2 will be finalised in the second half of 2020 with the FRC expected to follow suit shortly thereafter with amendments to FRS 102. The Group continues to monitor these developments and review impact on its financial statements.

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

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

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 Group.

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 Group.

Repurchase and reverse repurchase agreements are classified as held for trading at fair value through the 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 measured at fair value with any gains or losses included in dealing profit.

### 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 Group has designated financial liabilities as at fair value through profit and loss.

The Group has designated certain issued debt securities as at fair value in the previous years. These financial liabilities are measured as described in accounting policy E.

### J – Fair value measurement

Fair value is the amount at which an asset could be exchanged, a liability settled, or an equity instrument granted, 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:

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### J – Fair value measurement (continued)

#### 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 Group 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 Group 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.

#### 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.

#### Deferral of day one profits

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.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 Group at the mid-market rates of exchange ruling at the balance sheet date. 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.

On consolidation, the results of overseas business are translated into the presentation currency of the Group at the average exchange rates for the period where these approximate to the rate at the date of transaction. Assets and liabilities of overseas business are translated into the presentation currency of the Group at the exchange rate prevailing at the balance sheet date. Exchange differences arising are taken to other comprehensive income and then classified as other reserves.

### 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 Group will assess whether there are indicators of impairment against non-financial assets. Where there are indicators of impairment of individual assets, the Group 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

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### M – Identification and measurement of impairment

#### Non-financial assets (Continued)

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 Group and that revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### 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 Group's right to receive payment is established.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 improvement 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 (purchased or internally generated) which are 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.

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 attributed 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 four to five 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 Group 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.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### R – Operating leases

The Group 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 Group 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 as 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 Group engages in share based payment transactions in respect of services received from certain employees of the Group. 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 period 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 Group has ceased. The share based payment scheme is considered to be a cash settled scheme, because the Group has granted rights to equity instruments of its ultimate parent to its employees.

The cost of cash settled transactions is measured at fair value using the underlying share price. 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 Statement of Comprehensive Income.

### T – Pension costs

The Group 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.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### T – Pension costs (continued)

#### Defined benefit scheme (continued)

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 Group 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.

### V – Investment in subsidiary

In the parent company, investment in subsidiary is accounted at cost less any impairment allowances.

## 4. 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 Group are sensitive to accounting policies, assumptions and estimates that underlie the preparation of the financial statements. "Group" refers to the Group and the Company in the estimates and judgements that follow.

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.

The accounting policies that are deemed critical to the Group'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:

# Notes to the Consolidated and Company Financial Statements (Continued)

## 4. ESTIMATES AND JUDGEMENTS (CONTINUED)

### Valuation of financial instruments

The Group accounting policy for valuation of financial instruments is set out in accounting policy 3J. 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 is provided in Note 30C. Sensitivity analysis is provided in 31B.

### Provisions

The Group recognises provisions when there is an obligation at reporting date (legal or constructive) resulting from a past event and 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 Group recognises provisions based upon its best estimate of such expenditure.

## 5. FEES AND COMMISSIONS

	2020 £ millions	2019 £ millions
<b>Fees and commissions receivable</b>		
- Trading activities	120.9	145.3
- Fiduciary services	7.3	7.8
	<u>128.2</u>	<u>153.1</u>
<b>Fees and commissions payable</b>		
- Trading activities	(56.6)	(73.9)
	<u>(56.6)</u>	<u>(73.9)</u>

## 6. DEALING PROFIT

	2020 £ millions	2019 £ millions
Net interest income/(expense) from financial instruments held for trading	14.2	(34.2)
Net interest expense from financial instruments designated at fair value	(0.3)	(0.5)
Net gains from financial instruments held for trading	95.4	147.8
Net loss from financial instruments designated at fair value	(1.9)	(0.8)
	<u>107.4</u>	<u>112.3</u>

Dealing profit includes foreign currency gains arising on the translation of foreign currency monetary assets and liabilities amounting to £0.1 million (2019: £3.0 million).

## Notes to the Consolidated and Company Financial Statements (Continued)

### 7. OTHER OPERATING INCOME

	2020 £ millions	2019 £ millions
Rental income	0.1	0.1
Net third party contribution on defined benefit scheme (note 25)	0.1	-
Other	0.1	0.3
	<u>0.3</u>	<u>0.4</u>

### 8. ADMINISTRATIVE EXPENSES

	2020 £ millions	2019 £ millions
<b>Staff costs</b>		
Wages and salaries	93.0	88.4
Social security costs	10.7	11.0
Pension costs – defined contribution schemes	4.8	4.8
Share based payments	0.2	1.5
	<u>108.7</u>	<u>105.7</u>
<b>Auditors' remuneration</b>		
Audit fees	0.9	0.8
Other services	-	0.1
	<u>0.9</u>	<u>0.9</u>
Rental charges payable under operating leases	4.1	4.0
Other administrative expenses	62.9	66.8
	<u>67.0</u>	<u>70.8</u>
	<u>176.6</u>	<u>177.4</u>

### Average number of employees

	2020 Number	2019 Number
Executive and senior managerial	116	114
Other managerial, supervisory and clerical	380	390
	<u>496</u>	<u>504</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 8. ADMINISTRATIVE EXPENSES (CONTINUED)

#### Directors' emoluments

	2020 £ millions	2019 £ millions
Directors' emoluments in respect of qualifying services	<u>3.7</u>	<u>3.3</u>
	<b>2020 Number</b>	<b>2019 Number</b>
Number of directors who received shares in respect of qualifying services	2	2
Number of directors to whom retirement benefits are accruing under the Company's defined contribution scheme	<u>1</u>	<u>1</u>
	<b>2020 £ millions</b>	<b>2019 £ millions</b>
Aggregate emoluments of highest paid Director	<u>1.7</u>	<u>1.5</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 £0.3 million (2019: £0.3 million) relates to deferred share awards.

### 9. TAX ON LOSS ON ORDINARY ACTIVITIES

#### Charge for taxation

	2020 £ millions	2019 £ millions
<b>Current taxation</b>		
UK Corporation tax for the current year	(10.0)	(6.8)
Foreign tax	0.6	-
Prior year adjustments	-	(3.0)
Current tax credit	<u>(9.4)</u>	<u>(9.8)</u>
<b>Deferred taxation</b>		
Deferred tax charge	-	-
Tax on loss on ordinary activities	<u>(9.4)</u>	<u>(9.8)</u>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 9. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

### Total taxation reconciliation

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

	2020 £ millions	2019 £ millions
Loss on ordinary activities before taxation	<u>(50.1)</u>	<u>(29.3)</u>
Loss on ordinary activities multiplied by the standard rate 19%	<b>(9.5)</b>	(5.6)
Effects of:		
- Unrecognised tax losses	<b>1.2</b>	0.7
- Movements in fixed asset timing differences	<b>1.1</b>	1.5
- Net of income not taxable and expenses not deductible for tax Purposes	<b>0.7</b>	(0.3)
- Overseas tax rate differences	<b>0.2</b>	(0.3)
- Other short term timing differences	<b>(0.1)</b>	(0.8)
- Group relief received in excess of 19%	<b>(3.0)</b>	(2.0)
- Prior year adjustments	<u>-</u>	<u>(3.0)</u>
Current tax credit	<u><b>(9.4)</b></u>	<u>(9.8)</u>

### Deferred taxation

The UK corporation tax rate for the year ended 31 March 2020 was 19% (2019: 19%). Finance Act 2016 set the main rate of corporation tax at 17% which was to apply from 1 April 2020. Finance Bill 2020 subsequently amended the main rate of corporation tax to 19% for financial year 2020 and therefore the planned corporation tax rate reduction to 17% will no longer apply. These changes to the main corporation tax rate have been enacted at the Statement of Financial Position date. Additionally the Group will be subject to banking surcharge tax at 8%.

No deferred tax balance continues to be recognised on the Statement of Financial Position in line with the prior year as the Directors have concluded that the level of anticipated future profits will not support the quantum of deferred tax currently unrecognised at the Statement of Financial Position date. At 31 March 2020 the Company had an unrecognised deferred tax asset of £365 million (2019: £324 million), which includes trading losses with a gross value of £1,866 million (2019: £1,858 million). Under current UK tax legislation there is no prescribed time period for loss utilisation.

During the year, the Company surrendered tax losses under the UK group relief rules to a related party, Mizuho Bank, London branch for which it will receive payment at the rate which Mizuho Bank, London branch pays UK corporation tax, being 27% (corporation tax at 19% and UK banking corporation tax surcharge at 8%).

## Notes to the Consolidated and Company Financial Statements (Continued)

### 10. 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:

#### Group and Company

2020	Government debt securities £ millions	Other debt securities £ millions	Total £ millions
Carrying amount assets	449.6	711.5	1,161.1
Carrying amount associated liabilities	<u>261.6</u>	<u>700.4</u>	<u>962.0</u>
2019	Government debt securities £ millions	Other debt securities £ millions	Total £ millions
Carrying amount assets	760.6	526.2	1,286.8
Carrying amount associated liabilities	<u>618.3</u>	<u>511.8</u>	<u>1,130.1</u>

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

The Group and 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 Group 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 Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group 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:

	2020 £ millions	2019 £ millions
Liabilities financing transferred assets	962.0	1,130.1
Liabilities financing reverse repo transactions	<u>4,291.2</u>	<u>5,176.1</u>
Repurchase agreements	<u>5,253.2</u>	<u>6,306.2</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

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

#### Assets pledged as collateral

The Group pledges assets in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. The Group pledged securities as collateral in repurchase agreements or as margin with a fair value of £14,897.3 million (2019: £14,535.9 million). Of these, securities with a fair value of £1,161.1 million (2019: £1,286.8 million) are recognised on the Group's Statement of Financial Position.

#### Assets held as collateral

The Group 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 Group received securities as collateral in reverse repurchase agreements with a fair value of £16,036.0 million (2019: £16,947.4 million). Of these, securities with a fair value of £15,283.5 million (2019: £16,511.5 million) have been sold or re-pledged. The Group is obliged to return the same collateral to the owner on completion of the arrangement.

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

During the year, the Group 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 Group 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:

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
Carrying amount of purchased call options	<u>1.7</u>	<u>16.5</u>

### 11. LOANS AND ADVANCES

#### Group

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
<b>Loans and advances to banks</b>		
Repayable on demand	<b>167.8</b>	138.4
Other loans and advances	<b>10.5</b>	5.2
	<u><b>178.3</b></u>	<u>143.6</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 11. LOANS AND ADVANCES (CONTINUED)

#### Company

	2020 £ millions	2019 £ millions
<b>Loans and advances to banks</b>		
Repayable on demand	160.5	105.4
Other loans and advances	10.5	5.2
	<u>171.0</u>	<u>110.6</u>
<b>Loans and advances to customers</b>		
Other loans and advances	<u>14.8</u>	<u>-</u>

Interest Income arising from loans and advances to banks amounted to £3.0 million (2019: £2.1 million).

Other loans and advances comprises cash deposit held with Bank of England (“BOE”) in adherence to regulatory requirements.

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

### 12. DEBT AND OTHER FIXED INCOME SECURITIES

#### Group

	2020 £ millions	2019 £ millions
<b>Debt securities</b>		
Issued by public bodies	3,482.3	4,047.1
Issued by other issuers	1,515.7	1,039.9
	<u>4,998.0</u>	<u>5,087.0</u>

#### Company

	2020 £ millions	2019 £ millions
<b>Debt securities</b>		
Issued by public bodies	3,449.7	4,047.1
Issued by other issuers	1,501.0	1,039.9
	<u>4,950.7</u>	<u>5,087.0</u>

As at 31 March 2020, there were no unobservable day one profits in respect of debt securities (2019: £nil).

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

## Notes to the Consolidated and Company Financial Statements (Continued)

### 13. EQUITY SHARES

#### Group and Company

	2020 £ millions	2019 £ millions
Listed other than on a recognised UK exchange	-	0.1
Other financial investments	<u>1.6</u>	<u>1.1</u>
	<u>1.6</u>	<u>1.2</u>

Other financial investments relates to a carried interest financial investment in Apposite Healthcare Fund L.P and Apposite Healthcare Fund II L.P. In addition, the Group is also a member of Apposite Capital LLP. The value of these interests at 31 March 2020 was £1.5 million (2019: £1.0 million).

The group invested £0.2 million into a seat at the CME Group in 2016. The value of the CME Group interest at 31 March 2020 was £0.1 million (2019: £0.1 million).

Further details of the classification and fair value measurement of equity shares is disclosed in note 30 and note 31.

### 14. DERIVATIVE ASSETS AND LIABILITIES

#### Group and Company

	2020 £ millions	2019 £ millions
<b>Derivative assets</b>		
Trading derivative assets:		
Interest rate	11,531.9	4,393.9
Convertible bond options	7.0	46.9
Foreign currency	15.7	5.0
Credit	4.6	-
Total trading derivative assets	<u>11,559.2</u>	<u>4,445.8</u>
Derivative assets held for risk management	<u>7.7</u>	<u>5.6</u>
	<u>11,566.9</u>	<u>4,451.4</u>
<b>Derivative liabilities</b>		
Trading derivative liabilities:		
Interest rate	11,473.3	4,231.0
Convertible bond options	7.0	46.7
Foreign currency	24.6	3.5
Credit	5.4	0.1
Total trading derivative liabilities	<u>11,510.3</u>	<u>4,281.3</u>
Derivative liabilities held for risk management	<u>3.7</u>	<u>3.8</u>
	<u>11,514.0</u>	<u>4,285.1</u>

As at 31 March 2020, there were no unobservable day one profits in respect of trading derivative assets and liabilities (2019: £nil).

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

## Notes to the Consolidated and Company Financial Statements (Continued)

### 14. DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

#### Derivatives held for risk management

#### Group and Company

2020 Assets	Within a fair value hedge relationship £ millions	Other <sup>1</sup> £ millions	Total £ millions
<b>Primary instruments</b>			
Interest rate	1.1	0.4	1.5
Foreign currency	1.3	-	1.3
Credit	-	0.1	0.1
	2.4	0.5	2.9
<b>Embedded derivatives</b>			
Foreign currency	4.8	-	4.8
	4.8	-	4.8
<b>Total</b>			7.7
2020 Liabilities	Within a fair value hedge relationship £ millions	Other <sup>1</sup> £ millions	Total £ millions
<b>Primary instruments</b>			
Interest rate	0.2	-	0.2
Foreign currency	3.0	-	3.0
Credit	-	0.3	0.3
	3.2	0.3	3.5
<b>Embedded derivatives</b>			
Interest rate	-	0.2	0.2
	-	0.2	0.2
<b>Total</b>			3.7

# Notes to the Consolidated and Company Financial Statements (Continued)

## 14. DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

### Derivatives held for risk management

#### Group and Company

2019 Assets	Within a fair value hedge relationship £ millions	Other <sup>1</sup> £ millions	Total £ millions
<b>Primary instruments</b>			
Interest rate	0.8	0.8	1.6
Foreign currency	0.3	-	0.3
Credit	-	0.4	0.4
	<u>1.1</u>	<u>1.2</u>	<u>2.3</u>
<b>Embedded derivatives</b>			
Foreign currency	<u>3.3</u>	<u>-</u>	<u>3.3</u>
	<u>3.3</u>	<u>-</u>	<u>3.3</u>
<b>Total</b>			<u>5.6</u>

2019 Liabilities	Within a fair value hedge relationship £ millions	Other <sup>1</sup> £ millions	Total £ millions
<b>Primary instruments</b>			
Interest rate	0.1	-	0.1
Foreign currency	2.1	0.9	3.0
Credit	-	0.1	0.1
	<u>2.2</u>	<u>1.0</u>	<u>3.2</u>
<b>Embedded derivatives</b>			
Interest rate	<u>-</u>	<u>0.6</u>	<u>0.6</u>
	<u>-</u>	<u>0.6</u>	<u>0.6</u>
<b>Total</b>			<u>3.8</u>

#### Explanatory notes on other

1. *Other includes derivatives which are held for risk management purposes on certain Fair Value Option debt issuances which are not in a designated hedge accounting relationship.*

The Group 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 and 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 Consolidated and Company Financial Statements (Continued)

### 14. DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

#### Derivatives held for risk management

#### Derivatives held for risk management designated as fair value hedges

The Group 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:

#### Group and Company

	2020 £ millions	2019 £ millions
Gains/(losses) on hedging derivative instruments	<u>1.3</u>	<u>(3.0)</u>
(Losses)/gains on hedged items attributable to hedged risk:		
- Debt securities in issue (see note 20)	<u>(1.3)</u>	<u>3.0</u>
(Losses)/gains on hedged items attributable to hedged risk	<u>(1.3)</u>	<u>3.0</u>
Ineffective portion of fair value hedges	<u>-</u>	<u>-</u>
Derivative assets designated as fair value hedges	<u>2.4</u>	<u>1.1</u>
Derivative liabilities designated as fair value hedges	<u>3.2</u>	<u>2.2</u>

### 15. SHARES IN GROUP UNDERTAKINGS

#### Group

	2020 £ millions	2019 £ millions
Listed other than on a recognised UK exchange	<u>7.0</u>	<u>8.6</u>

#### Company

	2020 £ millions	2019 £ millions
Listed other than on a recognised UK exchange	<u>7.0</u>	<u>8.6</u>
Investment in subsidiary	<u>35.4</u>	<u>34.5</u>
	<u>42.4</u>	<u>43.1</u>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 15. SHARES IN GROUP UNDERTAKINGS (CONTINUED)

### Listed other than on a recognised UK exchange

The Employee Benefit Trust (“EBT”) is responsible for purchasing and holding shares of the Mizuho Financial Group for the hedging of future liabilities arising as a result of the employee share based compensation scheme. The EBT is included in the Group’s and 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.

### Investment in subsidiary

<u>Subsidiary</u>	<u>Country of Incorporation</u>	<u>MHI’s ownership</u>
Mizuho Securities Europe GmbH	Germany	100%

The Company has a wholly owned subsidiary, MHEU, a company incorporated in Germany. The Group is exposed to foreign currency risk through its net investment in foreign operations in MHEU. The Group hedges this currency risk on its net investment through EUR denominated borrowing as the hedging instrument. Gains/losses on the hedging instrument relating to the effective portion of the hedge are recognised in Other Comprehensive Income, while any gains/losses on the ineffective portion are recognised in the Statement of Comprehensive Income. Hedge ineffectiveness occurs in a net investment hedge if the net asset value designated at the start of the period falls below the amount of the hedging instrument. The Company assesses hedge effectiveness of the net investment hedge on a monthly basis, both on a prospective and retrospective basis.

As at 31 March 2020, the fair value of financial instruments designated as hedge of net investment in foreign operations was £35.4 million (2019: £33.1 million).

The amount of gains recognised in the income statement on the ineffective portion of the hedge during the period was £26,312 (2019: £39,485).

## Notes to the Consolidated and Company Financial Statements (Continued)

### 16. INTANGIBLE ASSETS

#### Group and Company

	Software	Software development expenditure	Total
	£ millions	£ millions	£ millions
<b>Cost</b>			
At 1 April 2019	126.5	27.3	153.8
Additions	0.1	21.3	21.4
Write offs	(0.4)	-	(0.4)
Transfers / reclassification	28.2	(28.2)	-
<b>At 31 March 2020</b>	<b>154.4</b>	<b>20.4</b>	<b>174.8</b>
<b>Accumulated depreciation and amortisation</b>			
At 1 April 2019	80.6	-	80.6
Write offs	(0.4)	-	(0.4)
Charge for the year	26.8	-	26.8
<b>At 31 March 2020</b>	<b>107.0</b>	<b>-</b>	<b>107.0</b>
<b>Net book value</b>			
<b>At 31 March 2020</b>	<b>47.4</b>	<b>20.4</b>	<b>67.8</b>
At 31 March 2019	45.9	27.3	73.2

During the financial year, the Group capitalised £28.2 million (2019: £14.2 million) of internally developed software.

## Notes to the Consolidated and Company Financial Statements (Continued)

### 17. TANGIBLE FIXED ASSETS

#### Group

	Short leasehold property	Fixtures, equipment, integrated software and vehicles	Total
	£ millions	£ millions	£ millions
<b>Cost</b>			
At 1 April 2019	24.2	22.4	46.6
Additions	0.2	1.3	1.5
<b>At 31 March 2020</b>	<b>24.4</b>	<b>23.7</b>	<b>48.1</b>
<b>Accumulated depreciation and amortisation</b>			
At 1 April 2019	3.3	12.1	15.4
Charge for the year	1.3	3.5	4.8
<b>At 31 March 2020</b>	<b>4.6</b>	<b>15.6</b>	<b>20.2</b>
<b>Net book value</b>			
<b>At 31 March 2020</b>	<b>19.8</b>	<b>8.1</b>	<b>27.9</b>
At 31 March 2019	20.9	10.3	31.2

#### Company

	Short leasehold property	Fixtures, equipment, integrated software and vehicles	Total
	£ millions	£ millions	£ millions
<b>Cost</b>			
At 1 April 2019	23.5	21.7	45.2
Additions	-	1.3	1.3
<b>At 31 March 2020</b>	<b>23.5</b>	<b>23.0</b>	<b>46.5</b>
<b>Accumulated depreciation and amortisation</b>			
At 1 April 2019	3.2	12.1	15.3
Charge for the year	1.3	3.3	4.6
<b>At 31 March 2020</b>	<b>4.5</b>	<b>15.4</b>	<b>19.9</b>
<b>Net book value</b>			
<b>At 31 March 2020</b>	<b>19.0</b>	<b>7.6</b>	<b>26.6</b>
At 31 March 2019	20.3	9.6	29.9

## Notes to the Consolidated and Company Financial Statements (Continued)

### 18. OTHER ASSETS

#### Group

	2020 £ millions	2019 £ millions
Unsettled repo receivables	375.3	9.2
Collateral pledged	181.4	146.2
Clearing house default fund contribution	56.6	51.6
Other trade receivables	23.6	12.7
<b>Trade receivables</b>	<b>636.9</b>	<b>219.7</b>
Other assets	22.2	16.7
	<b>659.1</b>	<b>236.4</b>

#### Company

	2020 £ millions	2019 £ millions
Unsettled repo receivables	375.3	9.2
Collateral pledged	181.4	146.2
Clearing house default fund contribution	56.6	51.6
Other trade receivables	23.8	12.7
<b>Trade receivables</b>	<b>637.1</b>	<b>219.7</b>
Other assets	22.1	17.2
	<b>659.2</b>	<b>236.9</b>

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

Collateral pledged relates to repo, reverse repo, futures and derivative transactions.

## Notes to the Consolidated and Company Financial Statements (Continued)

### 19. DEPOSITS BY BANKS AND CUSTOMER ACCOUNTS

#### Group and Company

	2020 £ millions	2019 £ millions
<b>Deposits by banks</b>		
Repayable on demand	2.1	9.2
With agreed maturity dates or periods of notice	<u>469.5</u>	<u>187.0</u>
	<u>471.6</u>	<u>196.2</u>
<b>Customer accounts</b>		
With agreed maturity dates or periods of notice	<u>909.7</u>	<u>610.0</u>
	<u>909.7</u>	<u>610.0</u>

Interest expense arising from Deposits by banks and Customer accounts amounted to £14.4 million (2019: £9.8 million). Of this, £5.9 million (2019: £3.5 million) was payable to Mizuho Financial Group entities.

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

### 20. DEBT SECURITIES IN ISSUE

#### Group and Company

	2020 £ millions	2019 £ millions
Debt securities – amortised cost	1,135.1	991.7
Debt securities – adjusted for fair value hedge accounting	625.9	443.6
Debt securities – designated at fair value through profit and loss	<u>15.6</u>	<u>17.9</u>
	<u>1,776.6</u>	<u>1,453.2</u>

Interest expense arising from Debt securities accounted at amortised cost (including those adjusted for fair value hedge accounting) amounted to £9.7 million (2019: £8.9 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

#### Group and Company

	2020 £ millions	2019 £ millions
Net gains recognised in the statement of comprehensive income	<u>1.3</u>	<u>3.0</u>
Contractual amount at maturity	<u>622.4</u>	<u>441.4</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 20. DEBT SECURITIES IN ISSUE (CONTINUED)

#### Debt securities designated at fair value through profit and loss

##### Group and Company

	2020 £ millions	2019 £ millions
Net gains/(loss) recognised in the statement of comprehensive income	<u>0.2</u>	<u>(0.6)</u>
Contractual amount at maturity	<u>15.7</u>	<u>17.4</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 (2019: £nil).

### 21. SHORT TRADING POSITIONS

##### Group and Company

	2020 £ millions	2019 £ millions
Short trading positions in debt securities:		
- Government securities	3,064.5	4,887.1
- Other public sector securities	250.1	86.0
- Other securities	<u>413.7</u>	<u>235.6</u>
	<u>3,728.3</u>	<u>5,208.7</u>

As at 31 March 2020, there were no unobservable day one profits in respect of bonds (2019: £nil).

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

## Notes to the Consolidated and Company Financial Statements (Continued)

### 22. OTHER LIABILITIES

#### Group

	2020 £ millions	2019 £ millions
Unsettled repo payables	235.9	4.2
Collateral received	232.5	355.6
Other trade payables	23.4	7.7
<b>Trade payables</b>	<b>491.8</b>	<b>367.5</b>
Other liabilities	9.2	10.3
Tax and social security payable	3.3	2.9
	<b>504.3</b>	<b>380.7</b>

#### Company

	2020 £ millions	2019 £ millions
Unsettled repo payables	235.9	4.2
Collateral received	232.5	355.6
Other trade payables	23.8	7.7
<b>Trade payables</b>	<b>492.2</b>	<b>367.5</b>
Other liabilities	13.7	10.3
Tax and social security payable	2.6	2.9
	<b>508.5</b>	<b>380.7</b>

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

Collateral received relates to repo, reverse repo and derivative transactions.

### 23. PROVISIONS FOR LIABILITIES

#### Group

	Employment Matters £ millions	Regulatory Matters £ millions	Infrastructure £ millions	Total £ millions
At 1 April 2019	-	1.0	3.9	4.9
Charged through income statement	0.1	(0.6)	-	(0.5)
Released	-	-	(0.1)	(0.1)
Utilised for the year	-	0.2	(0.6)	(0.4)
<b>At 31 March 2020</b>	<b>0.1</b>	<b>0.6</b>	<b>3.2</b>	<b>3.9</b>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 23. PROVISIONS FOR LIABILITIES (CONTINUED)

#### Company

	Employment Matters £ millions	Regulatory Matters £ millions	Infrastructure £ millions	Total £ millions
At 1 April 2019	-	1.0	3.8	4.8
Charged through income statement	0.1	(0.6)	-	(0.5)
Released	-	-	(0.1)	(0.1)
Utilised for the year	-	0.2	(0.6)	(0.4)
<b>At 31 March 2020</b>	<b>0.1</b>	<b>0.6</b>	<b>3.1</b>	<b>3.8</b>

#### Regulatory matters

The Group engages services of 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 one year.

#### Infrastructure

The Group 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 are dilapidation provisions for Mizuho House and Taunustor 1 raised in prior years. These provisions will be charged to the Statement of Comprehensive Income over the life of the respective leases.

### 24. SUBORDINATED DEBT

#### Group and Company

	2020 £ millions	2019 £ millions
Wholly repayable within five years	0.3	0.3
Not wholly repayable within five years	45.0	45.0
	<b>45.3</b>	<b>45.3</b>

On 2 April 2015, the Group issued £45.0 million in subordinated debt to MHSC. The debt is interest bearing, and resets every three months based on LIBOR plus an agreed margin. The debt is denominated in GBP and matures on 2 April 2025, with an average interest rate for the period to 31 March 2020 of 2.5% (2019: 2.5%). Early repayment may not be demanded by MHSC. The interest expense on subordinated debt for the year was £1.1 million (2019: £1.1 million).

# Notes to the Consolidated and Company Financial Statements (Continued)

## 25. PENSION LIABILITIES

### Group and Company

#### Defined benefits scheme

The Group 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 18 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 Group, as Principal Employer, has the power to appoint and remove the Trustees of the Scheme. The three Trustees include a Group 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 165 deferred members and 52 pensioner members who have pensions paid directly from the Scheme as at 31 March 2020.

A valuation of the scheme has been estimated as at 31 March 2020 by a qualified independent actuary, based on the results of the actuarial valuation as at 31 March 2018, adjusted for the different assumptions required under FRS102 and taking into consideration subsequent cash flows.

The principal actuarial assumptions at the balance sheet date were as follows:

	2020 % p.a.	2019 % p.a.
Discount rate	2.3	2.4
Inflation assumption (RPI)	2.8	3.4
LPI Pension increases (capped at 5% p.a.)	2.7	3.3
CPI linked increases	1.8	2.4

The underlying mortality assumption is based upon the standard table known as S3PA on a year of birth usage with Continuous Mortality Investigation\_2018 ("CMI") future improvement factors and long-term rate of future improvement of 1.0% p.a.). This results in the following life expectancies:

- Male age 65 (previously 60) now has a life expectancy of 26.2 years (previously 26.2 years)
- Female age 65 (previously 60) now has a life expectancy 28.7 years (previously 28.6 years)

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

	2020 £ millions	2019 £ millions
Present value of Scheme liabilities	(44.6)	(47.1)
Market value of Scheme assets	61.3	57.8
Restriction of Recognisable Surplus	(16.7)	(10.7)
Deficit in the Scheme	-	-
Related deferred tax asset	-	-
<b>Net pension liability</b>	<b>-</b>	<b>-</b>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 25. PENSION LIABILITIES (CONTINUED)

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

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
Interest on Scheme assets	1.1	1.2
Interest on Scheme liabilities	<b>(1.1)</b>	(1.2)
Contribution paid by a related party	<b>0.1</b>	-
Loss on Scheme changes	-	(0.4)
	<u>0.1</u>	<u>(0.4)</u>

The loss on Scheme changes of nil (2019: £0.4 million) relates to the estimated impact of Guaranteed Minimum Pension equalisation in light of recent market-wide developments in this matter.

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

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
Present value of Scheme liabilities at 1 April	<b>47.1</b>	45.9
Interest on Scheme liabilities	1.1	1.2
Benefits paid	<b>(0.8)</b>	(2.7)
Actuarial (gains)/losses	<b>(2.8)</b>	2.3
Loss on Scheme changes	-	0.4
Present value of Scheme liabilities at 31 March	<u>44.6</u>	<u>47.1</u>

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

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
Market value of Scheme assets at 1 April	<b>57.8</b>	55.1
Interest on Scheme assets	1.1	1.2
Return on assets	<b>2.9</b>	1.9
Benefits paid	<b>(0.8)</b>	(2.7)
Contributions paid by the Group	<b>0.2</b>	2.3
Contributions paid by a related party	<b>0.1</b>	-
Market value of Scheme assets at 31 March	<u>61.3</u>	<u>57.8</u>
Actuarial return on scheme assets	<u>4.0</u>	<u>3.1</u>

Actuarial valuations are carried out every three years on behalf of the Trustees of the scheme, by a qualified independent actuary. The actuarial assumptions underlying the actuarial valuation are different to those adopted under FRS102.

## Notes to the Consolidated and Company Financial Statements (Continued)

### 25. PENSION LIABILITIES (CONTINUED)

The last such actuarial valuation was at 31 March 2018. This showed that the Scheme's assets were insufficient to cover the liabilities on the funding basis. A recovery plan was agreed with the Company, which eliminated the deficit by payment of additional contributions. The Scheme's Schedule of Contribution dated 2 June 2019 therefore has no contributions payable in respect of any deficit, and requires the Company to pay an amount of £227,000 per annum (2019: £227,000) in respect of expenses administering the scheme. These payments are subject to review following the next actuarial valuation, due as at 31 March 2021.

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

	<b>2020</b>	2019
	%	%
Equities and Diversified Growth Fund	<b>24</b>	34
Bonds	<b>67</b>	50
Liability Driven Investments ("LDI")	<b>8</b>	13
Cash	<b>1</b>	3
	<b>100</b>	100

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

	<b>2020</b>	2019
	£ millions	£ millions
Return on assets	<b>2.9</b>	1.9
Actuarial gains/(losses)	<b>2.8</b>	(2.3)
Restriction of Recognisable Surplus	<b>(6.0)</b>	(1.5)
Remeasurement losses recognised in other comprehensive income	<b>(0.3)</b>	(1.9)

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

	<b>2020</b>	2019
	£ millions	£ millions
Deficit in Scheme at 1 April	-	-
Amounts recognised in the Statement of Comprehensive Income	<b>0.1</b>	(0.4)
Contributions paid by the Group	<b>0.2</b>	2.3
Remeasurement gains and losses recognised in other comprehensive income	<b>(0.3)</b>	(1.9)
Deficit in Scheme at 31 March	-	-

## Notes to the Consolidated and Company Financial Statements (Continued)

### 25. PENSION LIABILITIES (CONTINUED)

#### Employment benefit plans

The Group currently operates a Group Personal Pension ('GPP') arrangement which is a defined contribution scheme. Subject to meeting certain qualifying conditions, all staff joining the Group 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 Group 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. Group 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 Group in independently administered funds. During the year ended 31 March 2020 the Group made contributions of £5.6 million (2019: £5.9 million) to the GPP of which £1.5 million related to the employees' salary sacrifice arrangements (2019: £1.6 million). The total expense to the Group was £4.1 million (2019: £4.3 million).

### 26. RELATED PARTY BALANCES

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

#### Group

2020	Controlling entities <sup>1</sup> £ millions	Other related £ millions	Total £ millions
<b>Assets</b>			
Loans and advances to banks	-	58.2	58.2
Reverse repurchase agreements with banks	170.4	27.3	197.7
Debt and other fixed income securities	10.9	11.9	22.8
Derivative assets	9.3	26.8	36.1
Shares in group undertakings	7.0	-	7.0
Other assets	15.6	46.9	62.5
Prepayments and accrued income	11.4	8.4	19.8
	<u>224.6</u>	<u>179.5</u>	<u>404.1</u>
<b>Liabilities</b>			
Deposits by banks	28.0	441.5	469.5
Repurchase agreements with banks	13.3	62.2	75.5
Derivative liabilities	3.4	9.9	13.3
Other liabilities	18.9	45.6	64.5
Accruals and deferred income	18.1	26.3	44.4
Provision for liabilities	-	3.1	3.1
Subordinated liabilities	45.3	-	45.3
	<u>127.0</u>	<u>588.6</u>	<u>715.6</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 26. RELATED PARTY BALANCES (CONTINUED)

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

2020	Controlling entities <sup>1</sup> £ millions	Other related £ millions	Total £ millions
Interest receivable	0.2	0.1	0.3
Interest payable	(1.2)	(5.8)	(7.0)
Fees and commissions receivable	38.1	22.0	60.1
Fees and commissions payable	(23.1)	(14.9)	(38.0)
Dealing profit	32.8	-	32.8
Other operating income	-	0.3	0.3
Administrative expenses	7.4	(9.1)	(1.7)
Tax on loss on ordinary activities	-	10.0	10.0
Total income/(expense) from Affiliates	<u>54.2</u>	<u>2.6</u>	<u>56.8</u>

### Company

2020	Controlling entities <sup>1</sup> £ millions	Controlled entities <sup>2</sup> £ millions	Other related parties £ millions	Total £ million
<b>Assets</b>				
Loans and advances to banks	-	-	58.0	58.0
Loans and advances to customers	-	14.8	-	14.8
Reverse repurchase agreements with banks	170.4	-	27.3	197.7
Debt and other fixed income securities	10.9	-	11.9	22.8
Derivative assets	9.3	-	26.8	36.1
Shares in group undertakings	7.0	35.4	-	42.4
Other assets	15.5	0.1	46.9	62.5
Prepayments and accrued income	11.4	7.9	8.4	27.7
	<u>224.5</u>	<u>58.2</u>	<u>179.3</u>	<u>462.0</u>
<b>Liabilities</b>				
Deposits by banks	28.0	-	441.5	469.5
Repurchase agreements with banks	13.3	-	62.2	75.5
Derivative liabilities	3.4	-	9.9	13.3
Other liabilities	18.9	4.6	45.6	69.1
Accruals and deferred income	17.9	2.0	25.8	45.7
Provision for liabilities	-	-	2.9	2.9
Subordinated liabilities	45.3	-	-	45.3
	<u>126.8</u>	<u>6.6</u>	<u>587.9</u>	<u>721.3</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 26. RELATED PARTY BALANCES (CONTINUED)

#### Group

2019	Controlling entities <sup>1</sup> £ millions	Other related parties £ millions	Total £ millions
<b>Assets</b>			
Loans and advances to banks	-	66.1	66.1
Reverse repurchase agreements with banks	479.3	167.2	646.5
Debt and other fixed income securities	5.1	1.6	6.7
Derivative assets	49.0	3.0	52.0
Shares in group undertakings	8.6	-	8.6
Other assets	16.4	13.7	30.1
Prepayments and accrued income	8.8	13.6	22.4
	<u>567.2</u>	<u>265.2</u>	<u>832.4</u>
<b>Liabilities</b>			
Deposits by banks	26.0	92.1	118.1
Repurchase agreements with banks	-	17.2	17.2
Derivative liabilities	2.6	1.7	4.3
Other liabilities	56.6	1.9	58.5
Accruals and deferred income	20.9	25.0	45.9
Provision for liabilities	-	3.1	3.1
Subordinated liabilities	45.3	-	45.3
	<u>151.4</u>	<u>141.0</u>	<u>292.4</u>
2019	Controlling entities <sup>1</sup> £ millions	Other related parties £ millions	Total £ millions
Interest receivable	0.1	0.1	0.2
Interest payable	(1.2)	(3.5)	(4.7)
Fees and commissions receivable	46.0	19.7	65.7
Fees and commissions payable	(43.4)	(15.4)	(58.8)
Dealing profit	32.4	(1.7)	30.7
Other operating income	-	0.1	0.1
Administrative expenses	7.3	(8.1)	(0.8)
Total income from Affiliates	<u>41.2</u>	<u>(8.8)</u>	<u>32.4</u>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 26. RELATED PARTY BALANCES (CONTINUED)

### Company

2019	Controlling entities <sup>1</sup> £ millions	Controlled entities <sup>2</sup> £ millions	Other related parties £ millions	Total £ millions
<b>Assets</b>				
Loans and advances to banks	-	-	65.9	65.9
Reverse repurchase agreements with banks	479.3	-	167.2	646.5
Debt and other fixed income securities	5.1	-	1.6	6.7
Derivative assets	49.0	-	3.0	52.0
Shares in group undertakings	8.6	34.5	-	43.1
Other assets	16.4	0.6	13.6	30.6
Prepayments and accrued income	8.8	0.6	13.6	23.0
	<u>567.2</u>	<u>35.7</u>	<u>246.9</u>	<u>867.8</u>
<b>Liabilities</b>				
Deposits by banks	26.0	-	92.1	118.1
Repurchase agreements with banks	-	-	17.2	17.2
Derivative liabilities	2.6	-	1.7	4.3
Other liabilities	56.6	-	1.9	58.5
Accruals and deferred income	20.9	-	25.0	45.9
Provision for liabilities	-	-	2.9	2.9
Subordinated liabilities	45.3	-	-	45.3
	<u>151.4</u>	<u>-</u>	<u>140.8</u>	<u>292.2</u>

#### Explanatory notes on controlling entities

1. *Controlling entities includes the Company's parent, Mizuho Securities, 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'.*
2. *Controlled entities includes the Company's subsidiary, MHEU.*

## 27. SHARE CAPITAL

### Group and Company

	2020 Number	2020 £ millions	2019 Number	2019 £ millions
<b>Issued called up and fully paid</b>				
Ordinary shares of GBP 10 each	<b>70,985,797</b>	<b>709.9</b>	70,985,797	709.9

## Notes to the Consolidated and Company Financial Statements (Continued)

### 28. OPERATING LEASE COMMITMENTS

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

#### Group

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
	<b>Buildings</b>	Buildings
Not later than one year	4.6	4.5
Later than one year and not later than five years	18.4	17.8
Later than five years	42.2	46.1
	<u>65.2</u>	<u>68.4</u>

The total lease payments recognised as an expense by the Group for the year ended 31 March 2020 were £4.1 million (2019: £4.0 million). Future minimum lease receivables were recognised on a straight line basis over the life of the lease.

#### Company

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
	<b>Buildings</b>	Buildings
Not later than one year	4.3	4.2
Later than one year and not later than five years	17.0	16.9
Later than five years	41.9	45.7
	<u>63.2</u>	<u>66.8</u>

The total lease payments recognised as an expense by the Company for the year ended 31 March 2020 were £3.9 million (2019: £3.9 million). Future minimum lease receivables were recognised on a straight line basis over the life of the lease.

### 29. NOTES TO THE CASH FLOW STATEMENT

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
<b>Non-cash items included in loss before tax</b>		
Net foreign exchange difference	(2.0)	(0.7)
Net interest (payable)/receivable on financial instruments	(4.5)	53.1
Net interest receivable from loans and advances to banks	12.5	(1.1)
Depreciation and amortisation	31.6	28.8
Losses/(gains) on revaluation of debt securities in issue	0.7	(2.5)
(Gains)/losses on shares in group undertakings	(0.3)	0.7
Loss on disposal of tangible assets	-	0.3
	<u>38.0</u>	<u>78.6</u>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 29. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

	2020 £ millions	2019 £ millions
<b>Change in operating assets</b>		
Reverse repurchase agreements with banks	1,089.7	688.1
Reverse repurchase agreements with customers	1,309.6	(2,707.8)
Debt and other fixed income securities	89.0	161.4
Equity shares and other variable yield securities	(0.4)	0.1
Derivative assets	(7,115.6)	(2,315.3)
Other assets	(417.5)	178.1
Prepayments and accrued income	10.6	(40.3)
	<u>(5,034.6)</u>	<u>(4,035.7)</u>
<b>Change in operating liabilities</b>		
Deposits by banks	275.4	(201.8)
Customer accounts	299.7	272.1
Repurchase agreements with banks	(119.7)	(115.0)
Repurchase agreements with customers	(933.3)	1,332.7
Short trading positions	(1,480.4)	647.6
Derivative liabilities	7,229.0	2,254.5
Other liabilities	123.1	9.8
Accruals and deferred income	(9.6)	32.1
Provision for liabilities	(0.6)	(2.3)
	<u>5,383.6</u>	<u>4,229.7</u>
<b>Cash and cash equivalents is defined as including:</b>		
Cash and balances at central banks	601.0	3.3
Loans and advances to banks	178.3	143.6
<b>Cash and cash equivalents at the end of the period</b>	<u>779.3</u>	<u>146.9</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 29. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

#### Analysis of changes in net debt

	At 1 April 2019 £ millions	Cash Flows £ millions	Interest and finance charges £ millions	Changes in market value/ exchange rate £ millions	At 31 March 2020 £ millions
Cash and balances at central banks	3.3	597.7	-	-	<b>601.0</b>
Loans and advances to banks	143.6	29.6	3.1	2.0	<b>178.3</b>
Net derivatives held for risk management <sup>1</sup>	1.8	1.5	-	0.7	<b>4.0</b>
Deposits by banks and customers <sup>2</sup>	(806.2)	(560.7)	(14.4)	-	<b>(1,381.3)</b>
Debt securities in issue	(1,453.2)	(313.0)	(9.7)	(0.7)	<b>(1,776.6)</b>
Subordinated liabilities	(45.3)	1.1	(1.1)	-	<b>(45.3)</b>
	<u>(2,156.0)</u>	<u>(243.8)</u>	<u>(22.1)</u>	<u>2.0</u>	<u><b>(2,419.9)</b></u>

#### **Explanatory notes on analysis of changes in net debt**

1. *Net derivatives held for risk management include derivatives in a designated hedge accounting relationship to hedge structured debt issuances as well as for certain Fair Value option elected debt issuances. For more details, refer to Note 14 and Note 20*
2. *Deposits by banks & customers have been combined together for presentation purposes for this note*

## Notes to the Consolidated and Company Financial Statements (Continued)

### 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

#### A Classification of financial assets and financial liabilities

##### Group

2020	Held for trading £ millions	Designated as at fair value £ millions	Loans and receivables £ millions	Total £ millions
<b>Financial assets:</b>				
Cash and balances at central banks	-	-	601.0	601.0
Loans and advances to banks	-	-	178.3	178.3
Reverse repurchase agreements with banks	963.0	-	-	963.0
Reverse repurchase agreements with customers	5,895.2	-	-	5,895.2
Debt and other fixed income securities	4,998.0	-	-	4,998.0
Equity shares	-	1.6	-	1.6
Derivative assets	11,559.2	7.7	-	11,566.9
Shares in group undertakings	-	7.0	-	7.0
Trade receivables	12.7	-	630.7	643.4
Prepayments and accrued income	39.3	-	27.6	66.9
	<u>23,467.4</u>	<u>16.3</u>	<u>1,437.6</u>	<u>24,921.3</u>

2020	Held for trading £ millions	Designated as at fair value £ millions	Financial liabilities £ millions	Total £ millions
<b>Financial liabilities:</b>				
Deposits by banks	-	-	471.6	471.6
Customer accounts	-	-	909.7	909.7
Repurchase agreements with banks	1,614.4	-	-	1,614.4
Repurchase agreements with customers	3,638.8	-	-	3,638.8
Debt securities in issue	-	15.6	1,761.0	1,776.6
Short Positions	3,728.3	-	-	3,728.3
Derivative liabilities	11,510.3	3.7	-	11,514.0
Trade payables	18.5	-	470.4	488.9
Accruals and deferred income <sup>1</sup>	29.8	-	42.8	72.6
Subordinated liabilities	-	-	45.3	45.3
	<u>20,540.1</u>	<u>19.3</u>	<u>3,700.8</u>	<u>24,260.2</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

#### A Classification of financial assets and financial liabilities (continued)

##### Group

2019	Held for trading £ millions	Designated as at fair value £ millions	Loans and receivables £ millions	Total £ millions
Financial assets:				
Cash and balances at central banks	-	-	3.3	3.3
Loans and advances to banks	-	-	143.6	143.6
Reverse repurchase agreements with banks	2,052.7	-	-	2,052.7
Reverse repurchase agreements with customers	7,204.8	-	-	7,204.8
Debt and other fixed income securities	5,087.0	-	-	5,087.0
Equity shares	0.1	1.1	-	1.2
Derivative assets	4,445.8	5.6	-	4,451.4
Shares in group undertakings	-	8.6	-	8.6
Trade receivables	1.8	-	222.8	224.6
Prepayments and accrued income	49.7	-	31.8	81.5
	<u>18,841.9</u>	<u>15.3</u>	<u>401.5</u>	<u>19,258.7</u>

2019	Held for trading £ millions	Designated as at fair value £ millions	Financial liabilities £ millions	Total £ millions
Financial liabilities:				
Deposits by banks	-	-	196.2	196.2
Customer accounts	-	-	610.0	610.0
Repurchase agreements with banks	1,734.2	-	-	1,734.2
Repurchase agreements with customers	4,572.0	-	-	4,572.0
Debt securities in issue	-	17.9	1,435.3	1,453.2
Short positions	5,208.7	-	-	5,208.7
Derivative liabilities	4,281.3	3.8	-	4,285.1
Trade payables	4.9	-	359.8	364.7
Accruals and deferred income <sup>1</sup>	45.5	-	39.2	84.7
Subordinated liabilities	-	-	45.3	45.3
	<u>15,846.6</u>	<u>21.7</u>	<u>2,685.8</u>	<u>18,554.1</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

#### A Classification of financial assets and financial liabilities (continued)

##### Company

2020	Held for trading £ millions	Designated as at fair value £ millions	Loans and receivables £ millions	Total £ millions
<b>Financial assets:</b>				
Cash and balances at central banks	-	-	601.0	601.0
Loans and advances to banks	-	-	171.0	171.0
Loans and advances to customers	-	-	14.8	14.8
Reverse repurchase agreements with banks	963.0	-	-	963.0
Reverse repurchase agreements with customers	5,895.2	-	-	5,895.2
Debt and other fixed income securities	4,950.7	-	-	4,950.7
Equity shares	-	1.6	-	1.6
Derivative assets	11,559.2	7.7	-	11,566.9
Shares in group undertakings	-	7.0	-	7.0
Trade receivables	12.7	-	630.9	643.6
Prepayments and accrued income	39.3	-	32.1	71.4
	<u>23,420.1</u>	<u>16.3</u>	<u>1,449.8</u>	<u>24,886.2</u>

2020	Held for trading £ millions	Designated as at fair value £ millions	Financial liabilities £ millions	Total £ millions
<b>Financial liabilities:</b>				
Deposits by banks	-	-	471.6	471.6
Customer accounts	-	-	909.7	909.7
Repurchase agreements with banks	1,614.4	-	-	1,614.4
Repurchase agreements with customers	3,638.8	-	-	3,638.8
Debt securities in issue	-	15.6	1,761.0	1,776.6
Short Positions	3,728.3	-	-	3,728.3
Derivative liabilities	11,510.3	3.7	-	11,514.0
Trade payables	18.5	-	470.8	489.3
Accruals and deferred income <sup>1</sup>	29.8	-	43.0	72.8
Subordinated liabilities	-	-	45.3	45.3
	<u>20,540.1</u>	<u>19.3</u>	<u>3,701.4</u>	<u>24,260.8</u>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

#### A Classification of financial assets and financial liabilities (continued)

##### Company

2019	Held for trading £ millions	Designated as at fair value £ millions	Loans and receivables £ millions	Total £ millions
Financial assets:				
Cash and balances at central banks	-	-	3.3	3.3
Loans and advances to banks	-	-	110.6	110.6
Reverse repurchase agreements with banks	2,052.7	-	-	2,052.7
Reverse repurchase agreements with customers	7,204.8	-	-	7,204.8
Debt and other fixed income securities	5,087.0	-	-	5,087.0
Equity shares	0.1	1.1	-	1.2
Derivative assets	4,445.8	5.6	-	4,451.4
Shares in group undertakings	-	8.6	-	8.6
Trade receivables	1.8	-	223.4	225.2
Prepayments and accrued income	49.7	-	31.8	81.5
	<u>18,841.9</u>	<u>15.3</u>	<u>369.1</u>	<u>19,226.3</u>

2019	Held for trading £ millions	Designated as at fair value £ millions	Financial liabilities £ millions	Total £ millions
Financial liabilities:				
Deposits by banks	-	-	196.2	196.2
Customer accounts	-	-	610.0	610.0
Repurchase agreements with banks	1,734.2	-	-	1,734.2
Repurchase agreements with customers	4,572.0	-	-	4,572.0
Debt securities in issue	-	17.9	1,435.3	1,453.2
Short positions	5,208.7	-	-	5,208.7
Derivative liabilities	4,281.3	3.8	-	4,285.1
Trade payables	4.9	-	359.8	364.7
Accruals and deferred income <sup>1</sup>	45.5	-	39.2	84.7
Subordinated liabilities	-	-	45.3	45.3
	<u>15,846.6</u>	<u>21.7</u>	<u>2,685.8</u>	<u>18,554.1</u>

#### Explanatory note on classification of financial assets and financial liabilities

3. *Accruals and deferred income contains accrued interest relating to financial liabilities, including deposits by banks, customer accounts, repurchase agreements and debt securities in issue.*

# Notes to the Consolidated and Company Financial Statements (Continued)

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

### B Fair value hierarchy

The Group 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 Group 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 Group in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Group 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 Consolidated and Company 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 categorised in accordance with the hierarchy described above.

#### Group

2020	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Fair value Total £ millions
Reverse repurchase agreements with banks	-	963.0	-	963.0
Reverse repurchase agreements with customers	-	5,895.2	-	5,895.2
Debt and other fixed income securities	2,907.8	2,090.2	-	4,998.0
Equity securities	-	0.1	1.5	1.6
<i>Interest rate</i>	14.7	11,518.5	0.2	11,533.4
<i>Convertible bond option</i>	-	-	7.0	7.0
<i>Foreign currency</i>	-	15.7	6.1	21.8
<i>Credit</i>	-	4.7	-	4.7
Derivative assets	14.7	11,538.9	13.3	11,566.9
Shares in group undertakings	7.0	-	-	7.0
<b>Financial assets</b>	<b>2,929.5</b>	<b>20,487.4</b>	<b>14.8</b>	<b>23,431.7</b>
Repurchase agreements with banks	-	1,614.4	-	1,614.4
Repurchase agreements with customers	-	3,638.8	-	3,638.8
Short trading positions	3146.7	581.6	-	3,728.3
<i>Interest rate</i>	12.5	11,461.0	0.2	11,473.7
<i>Convertible bond option</i>	-	-	7.0	7.0
<i>Foreign currency</i>	-	24.5	3.1	27.6
<i>Credit</i>	-	5.7	-	5.7
Derivative liabilities	12.5	11,491.2	10.3	11,514.0
Debt securities in issue	-	-	15.6	15.6
<b>Financial liabilities</b>	<b>3,159.2</b>	<b>17,326.0</b>	<b>25.9</b>	<b>20,511.1</b>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

#### B Fair value hierarchy (continued)

##### Group

2019	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Fair value Total £ millions
Reverse repurchase agreements with banks	-	2,052.7	-	2,052.7
Reverse repurchase agreements with customers	-	7,204.8	-	7,204.8
Debt and other fixed income securities	3,317.7	1,769.3	-	5,087.0
Equity securities	-	0.2	1.0	1.2
<i>Interest rate</i>	23.0	4,372.5	-	4,395.5
<i>Convertible bond option</i>	-	-	46.9	46.9
<i>Foreign currency</i>	-	5.0	3.6	8.6
<i>Credit</i>	-	0.4	-	0.4
Derivative assets	23.0	4,377.9	50.5	4,451.4
Shares in group undertakings	8.6	-	-	8.6
<b>Financial assets</b>	<b>3,349.3</b>	<b>15,404.9</b>	<b>51.5</b>	<b>18,805.7</b>
Repurchase agreements with banks	-	1,734.2	-	1,734.2
Repurchase agreements with customers	-	4,572.0	-	4,572.0
Short trading positions	4,898.4	310.3	-	5,208.7
<i>Interest rate</i>	1.9	4,229.2	0.6	4,231.7
<i>Convertible bond option</i>	-	-	46.7	46.7
<i>Foreign currency</i>	-	4.3	2.2	6.5
<i>Credit</i>	-	0.1	0.1	0.2
Derivative liabilities	1.9	4,233.6	49.6	4,285.1
Debt securities in issue	-	-	17.9	17.9
<b>Financial liabilities</b>	<b>4,900.3</b>	<b>10,850.1</b>	<b>67.5</b>	<b>15,817.9</b>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

#### B Fair value hierarchy (continued)

##### Company

2020	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Fair value Total £ millions
Reverse repurchase agreements with banks	-	963.0	-	963.0
Reverse repurchase agreements with customers	-	5,895.2	-	5,895.2
Debt and other fixed income securities	2,875.2	2,075.5	-	4,950.7
Equity securities	-	0.1	1.5	1.6
<i>Interest rate</i>	14.7	11,518.5	0.2	11,533.4
<i>Convertible bond option</i>	-	-	7.0	7.0
<i>Foreign currency</i>	-	15.7	6.1	21.8
<i>Credit</i>	-	4.7	-	4.7
Derivative assets	14.7	11,538.9	13.3	11,566.9
Shares in group undertakings	7.0	-	-	7.0
<b>Financial assets</b>	<b>2,896.9</b>	<b>20,472.7</b>	<b>14.8</b>	<b>23,384.4</b>
Repurchase agreements with banks	-	1,614.4	-	1,614.4
Repurchase agreements with customers	-	3,638.8	-	3,638.8
Short trading positions	3,146.7	581.6	-	3,728.3
<i>Interest rate</i>	12.5	11,461.0	0.2	11,473.7
<i>Convertible bond option</i>	-	-	7.0	7.0
<i>Foreign currency</i>	-	24.5	3.1	27.6
<i>Credit</i>	-	5.7	-	5.7
Derivative liabilities	12.5	11,491.2	10.3	11,514.0
Debt securities in issue	-	-	15.6	15.6
<b>Financial liabilities</b>	<b>3,159.2</b>	<b>17,326.0</b>	<b>25.9</b>	<b>20,511.1</b>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

#### B Fair value hierarchy (continued)

##### Company

2019	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Fair value Total £ millions
Reverse repurchase agreements with banks	-	2,052.7	-	2,052.7
Reverse repurchase agreements with customers	-	7,204.8	-	7,204.8
Debt and other fixed income securities	3,317.7	1,769.3	-	5,087.0
Equity securities	-	0.2	1.0	1.2
<i>Interest rate</i>	23.0	4,372.5	-	4,395.5
<i>Convertible bond option</i>	-	-	46.9	46.9
<i>Foreign currency</i>	-	5.0	3.6	8.6
<i>Credit</i>	-	0.4	-	0.4
Derivative assets	23.0	4,377.9	50.5	4,451.4
Shares in group undertakings	8.6	-	-	8.6
<b>Financial assets</b>	<b>3,349.3</b>	<b>15,404.9</b>	<b>51.5</b>	<b>18,805.7</b>
Repurchase agreements with banks	-	1,734.2	-	1,734.2
Repurchase agreements with customers	-	4,572.0	-	4,572.0
Short trading positions	4,898.4	310.3	-	5,208.7
<i>Interest rate</i>	1.9	4,229.2	0.6	4,231.7
<i>Convertible bond option</i>	-	-	46.7	46.7
<i>Foreign currency</i>	-	4.3	2.2	6.5
<i>Credit</i>	-	0.1	0.1	0.2
Derivative liabilities	1.9	4,233.6	49.6	4,285.1
Debt securities in issue	-	-	17.9	17.9
<b>Financial liabilities</b>	<b>4,900.3</b>	<b>10,850.1</b>	<b>67.5</b>	<b>15,817.9</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

### 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 Group carries positions in financial instruments at a point within the bid-ask range that meets the Group'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 Group 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.

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 Group, 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 Group believes market participants would use in pricing the asset or liability at the measurement date. Where the Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market or credit risks, the Group 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 Statement of Comprehensive Income.

The fair value 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.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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

#### 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

Common and preferred shares traded in active markets are valued using dealer price quotations or exchange prices recorded on the security exchange on which the security is principally traded.

Exchange traded funds are valued at the closing price recorded by the security exchange on which the security is principally traded.

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

#### Derivatives

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 Group’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.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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

#### XVA

XVA fair value adjustments comprise Credit Valuations Adjustments (“CVA”), Debit 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 Statement of Comprehensive Income for the following derivative fair value adjustments is:

#### Group and Company

	2020 £ millions	2019 £ millions
CVA gain	-	-
DVA (loss)	-	-
FVA (loss)	(0.1)	(0.5)
MVA (loss) / gain	(0.5)	0.2
Total XVA reserve loss	(0.6)	(0.3)

#### *Credit valuation adjustment*

The CVA is the mark to market cost of protection required to hedge credit risk from counterparties in the Group’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.

The Group 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 Group 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 Group also considers collateral held and legally enforceable master netting agreements that mitigate the Group’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 Group’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 Group 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 Group’s own creditworthiness. The Group’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 Group.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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

#### XVA (continued)

##### *Funding valuation adjustment*

The Group's FVA framework incorporates the impact of funding to its valuation estimates for derivatives. The framework incorporates the Group'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 Group'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 Group, as exercised in the principal market, has been applied.

##### *Margin valuation adjustment*

The Group's MVA framework reports the impact on funding costs associated with the posting of Initial margin. Such margin must be funded as in the majority of cases, its re-hypothecation is not permissible. Those derivatives which require the posting of such margin will price in those related costs within the fair value representation.

The methodology adopted incorporates the ISDA proposed model (SIMM) and the Group'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.

##### *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 Group's own credit spread.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT

This note presents information on the Group's and the Company's exposure to financial and other risks and how it manages those risks. The Group 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 Group manages operational risk, legal risk and its regulatory capital requirements.

### A Risk management framework

The Group 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 Group 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 Chair 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 Group 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 six sub-committees:

- Credit Risk Committee
- Market, Methodology & Model Risk 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 Chair, who have the sole decision-making powers in relation to the matters covered by those sub-committees.

# Notes to the Consolidated and Company 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 Group's financial condition or results.

#### Principal market risks

The principal market risks to which the Group is exposed are FX risk, interest rate risk, and credit spread risk. The Group's fixed income sales and trading business is the primary source of interest rate and credit spread risk in the Group's trading portfolios. These include trading in securities and derivatives and related 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 Group 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 set by MHSC. These limits and risk policies are approved by the delegated risk management authorities as defined in the Group's risk management framework. In addition, the Group has total VaR and Market Risk and Credit Risk Capital limits set by Mizuho Securities, the parent company of the Mizuho Securities group.

The Group ensures compliance with the Volcker rule by conducting relevant controls and monitoring of metrics implemented in the Group's three lines of defence model in accordance with the Group'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 Group. 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 Group specific events to market wide downturns. As part of its efforts to continually reassess and expand the range of stress scenarios, the Group is taking into consideration impact of COVID-19 for the financial year ended 31 March 2020 as well as for the next year.

#### *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 Group'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 Consolidated and Company 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:

2020		Average	Maximum	Minimum
VaR Risk Factor	£ thousands	£ thousands	£ thousands	£ thousands
Interest Rate	1,079	1,070	1,975	575
Credit Spread	4,195	1,532	5,620	734
Equity	-	38	292	-
FX Risk	200	83	345	8
Total VaR <sup>1</sup>	3,988	1,697	5,095	924

2019		Average	Maximum	Minimum
VaR Risk Factor	£ thousands	£ thousands	£ thousands	£ thousands
Interest Rate	741	781	1,126	523
Credit Spread	943	1,046	2,368	278
Equity	-	-	26	-
FX Risk	138	99	329	15
Total VaR <sup>1</sup>	1,023	1,271	2,034	879

#### 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 Group'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 Group'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 Group'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 Group's market risk profile is reviewed at the weekly Risk Management Committee and also periodically reviewed by the Market, Methodology and Model Risk Committee, the Executive Committee and the Board Risk Committee.

# Notes to the Consolidated and Company 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 Group'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.

#### Group

2020	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	601.0	-	-	-	-	-	601.0
Loans and advances to banks	167.8	-	-	-	-	10.5	178.3
Equity shares - other financial investments	-	-	-	-	-	1.6	1.6
Other assets	181.4	-	-	-	-	465.0	646.4
Prepayments and accrued income	-	-	-	-	-	40.0	40.0
<b>Assets</b>	<b>950.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>517.1</b>	<b>1,467.3</b>
Deposits by banks	189.6	254.0	28.0	-	-	-	471.6
Customer accounts	909.7	-	-	-	-	-	909.7
Debt securities in issue	1,083.3	163.9	264.3	252.5	6.7	-	1,770.7
Other liabilities	232.5	-	-	-	-	253.3	485.8
Accruals and deferred income	-	-	-	-	-	109.2	109.2
Provisions for liabilities	-	-	-	-	-	3.9	3.9
Subordinated liabilities	45.3	-	-	-	-	-	45.3
Shareholders' funds	-	-	-	-	-	699.2	699.2
<b>Liabilities and equity</b>	<b>2,460.4</b>	<b>417.9</b>	<b>292.3</b>	<b>252.5</b>	<b>6.7</b>	<b>1,065.6</b>	<b>4,495.4</b>
Off balance sheet items <sup>1</sup>	(557.9)	34.4	264.3	252.5	6.7	-	-
<b>Interest rate sensitivity gap</b>	<b>(2,068.1)</b>	<b>(383.5)</b>	<b>(28.0)</b>	<b>-</b>	<b>-</b>	<b>(548.5)</b>	<b>(3,028.1)</b>
<b>Cumulative gap</b>	<b>(2,068.1)</b>	<b>(2,451.6)</b>	<b>(2,479.6)</b>	<b>(2,479.6)</b>	<b>(2,479.6)</b>	<b>(3,028.1)</b>	<b>(3,028.1)</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### B Market Risk (Continued)

#### Sensitivity analysis – non trading financial instruments (continued)

##### Interest rate risk sensitivity (continued)

##### Group

2019	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	3.3	-	-	-	-	-	3.3
Loans and advances to banks	138.4	-	-	-	-	5.2	143.6
Equity shares - other financial investments	-	-	-	-	-	1.1	1.1
Other assets	146.2	-	-	-	-	88.4	234.6
Prepayments and accrued income	-	-	-	-	-	41.0	41.0
<b>Assets</b>	<b>287.9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>135.7</b>	<b>423.6</b>
Deposits by banks	135.7	34.5	26.0	-	-	-	196.2
Customer accounts	610.0	-	-	-	-	-	610.0
Debt securities in issue	1,005.0	37.6	129.1	271.3	6.2	-	1,449.2
Other liabilities	355.6	-	-	-	-	20.2	375.8
Accruals and deferred income	-	-	-	-	-	108.1	108.1
Provisions for liabilities	-	-	-	-	-	4.9	4.9
Subordinated liabilities	45.3	-	-	-	-	-	45.3
Shareholders' funds	-	-	-	-	-	740.2	740.2
<b>Liabilities and equity</b>	<b>2,151.6</b>	<b>72.1</b>	<b>155.1</b>	<b>271.3</b>	<b>6.2</b>	<b>873.4</b>	<b>3,529.7</b>
Off balance sheet items <sup>1</sup>	(437.9)	32.0	128.4	271.3	6.2	-	-
<b>Interest rate sensitivity gap</b>	<b>(2,301.6)</b>	<b>(40.1)</b>	<b>(26.7)</b>	<b>-</b>	<b>-</b>	<b>(737.7)</b>	<b>(3,106.1)</b>
<b>Cumulative gap</b>	<b>(2,301.6)</b>	<b>(2,341.7)</b>	<b>(2,368.4)</b>	<b>(2,368.4)</b>	<b>(2,368.4)</b>	<b>(3,106.1)</b>	<b>(3,106.1)</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### B Market Risk (Continued)

Sensitivity analysis – non trading financial instruments (continued)

*Interest rate risk sensitivity (continued)*

#### Company

2020	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	601.0	-	-	-	-	-	601.0
Loans and advances to banks	160.5	-	-	-	-	10.5	171.0
Loans and advances to customers	1.2	-	-	-	-	13.6	14.8
Equity shares - other financial investments	-	-	-	-	-	1.6	1.6
Other assets	181.4	-	-	-	-	465.1	646.5
Prepayments and accrued income	-	-	-	-	-	45.6	45.6
<b>Assets</b>	<b>944.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>536.4</b>	<b>1,480.5</b>
Deposits by banks	189.6	254.0	28.0	-	-	-	471.6
Customer accounts	909.7	-	-	-	-	-	909.7
Debt securities in issue	1,083.3	163.9	264.3	252.5	6.7	-	1,770.7
Other liabilities	232.5	-	-	-	-	257.5	490.0
Accruals and deferred income	-	-	-	-	-	106.4	106.4
Provisions for liabilities	-	-	-	-	-	3.8	3.8
Subordinated liabilities	45.3	-	-	-	-	-	45.3
Shareholders' funds	-	-	-	-	-	697.9	697.9
<b>Liabilities and equity</b>	<b>2,460.4</b>	<b>417.9</b>	<b>292.3</b>	<b>252.5</b>	<b>6.7</b>	<b>1,065.6</b>	<b>4,495.4</b>
Off balance sheet items <sup>1</sup>	(557.9)	34.4	264.3	252.5	6.7	-	-
<b>Interest rate sensitivity gap</b>	<b>(2,074.2)</b>	<b>(383.5)</b>	<b>(28.0)</b>	<b>-</b>	<b>-</b>	<b>(529.2)</b>	<b>(3014.9)</b>
<b>Cumulative gap</b>	<b>(2,074.2)</b>	<b>(2,457.7)</b>	<b>(2,485.7)</b>	<b>(2,485.7)</b>	<b>(2,485.7)</b>	<b>(3014.9)</b>	<b>(3014.9)</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### B Market Risk (Continued)

#### Sensitivity analysis – non trading financial instruments (continued)

##### Interest rate risk sensitivity (continued)

##### Company

2019	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	3.3	-	-	-	-	-	3.3
Loans and advances to banks	105.4	-	-	-	-	5.2	110.6
Equity shares - other financial investments	-	-	-	-	-	1.1	1.1
Other assets	146.2	-	-	-	-	88.9	235.1
Prepayments and accrued income	-	-	-	-	-	41.6	41.6
<b>Assets</b>	<b>254.9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>136.8</b>	<b>391.7</b>
Deposits by banks	135.7	34.5	26.0	-	-	-	196.2
Customer accounts	610.0	-	-	-	-	-	610.0
Debt securities in issue	1,005.0	37.6	129.1	271.3	6.2	-	1,449.2
Other liabilities	355.6	-	-	-	-	20.2	375.8
Accruals and deferred income	-	-	-	-	-	107.3	107.3
Provisions for liabilities	-	-	-	-	-	4.8	4.8
Subordinated liabilities	45.3	-	-	-	-	-	45.3
Shareholders' funds	-	-	-	-	-	742.4	742.4
<b>Liabilities and equity</b>	<b>2,151.6</b>	<b>72.1</b>	<b>155.1</b>	<b>271.3</b>	<b>6.2</b>	<b>874.7</b>	<b>3,531.0</b>
Off balance sheet items <sup>1</sup>	(437.9)	32.0	128.4	271.3	6.2	-	-
<b>Interest rate sensitivity gap</b>	<b>(2,334.6)</b>	<b>(40.1)</b>	<b>(26.7)</b>	<b>-</b>	<b>-</b>	<b>(737.9)</b>	<b>(3,139.3)</b>
<b>Cumulative gap</b>	<b>(2,334.6)</b>	<b>(2,374.7)</b>	<b>(2,401.4)</b>	<b>(2,401.4)</b>	<b>(2,401.4)</b>	<b>(3,139.3)</b>	<b>(3,139.3)</b>

#### 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 Group to interest rate risk on these structures.

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### C Credit Risk

#### Control environment

Credit risk is the risk of financial loss to the Group 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 Group's credit risk profile. Further it ensures compliance with credit risk limits and policies to ensure that the Group operates within the agreed credit risk appetite framework. The Group's credit risk limit framework cascades down from the Group's risk appetite owned by the Board and it includes limits for country, sector, asset class and counterparty.

The Group'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 Group'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 Group'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.

#### 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 3A.

## Notes to the Consolidated and Company Financial Statements (Continued)

### 31. RISK MANAGEMENT (CONTINUED)

#### C Credit Risk (Continued)

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

#### Group

2020	Maximum exposure £ millions	Collateral <sup>1</sup> £ millions	Netting <sup>2</sup> £ millions	Net exposure to credit risk £ millions
<b>On-balance sheet:</b>				
Cash and balances at central banks	601.0	-	-	601.0
Loans and advances to banks	178.3	-	(8.3)	170.0
Reverse repurchase agreements with banks	963.0	(954.1)	(0.3)	8.6
Reverse repurchase agreements with customers	5,895.2	(5,868.1)	(3.3)	23.8
Debt and other fixed income securities	4,998.0	-	-	4,998.0
Derivative assets	11,566.9	(93.2)	(11,448.3)	25.4
Trade receivables	636.9	(309.5)	(21.4)	306.0
<b>Total on-balance sheet</b>	<b>24,839.3</b>	<b>(7,224.9)</b>	<b>(11,481.6)</b>	<b>6,132.8</b>
<b>Off-balance sheet:</b>				
Credit lines and other commitments <sup>3</sup>	80.8	(80.6)	-	0.2
<b>Total off-balance sheet</b>	<b>80.8</b>	<b>(80.6)</b>	<b>-</b>	<b>0.2</b>
<b>Total</b>	<b>24,920.1</b>	<b>(7,305.5)</b>	<b>(11,481.6)</b>	<b>6,133.0</b>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 31. RISK MANAGEMENT (CONTINUED)

#### C Credit Risk (Continued)

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

##### Group

2019	Maximum exposure £ millions	Collateral <sup>1</sup> £ millions	Netting <sup>2</sup> £ millions	Net exposure to credit risk £ millions
<b>On-balance sheet:</b>				
Cash and balances at central banks	3.3	-	-	3.3
Loans and advances to banks	143.6	-	(33.8)	109.8
Reverse repurchase agreements with banks	2,052.7	(2,042.9)	-	9.8
Reverse repurchase agreements with customers	7,204.8	(7,203.1)	(0.5)	1.2
Debt and other fixed income securities	5,087.0	-	-	5,087.0
Derivative assets	4,451.4	(191.9)	(4,218.6)	40.9
Trade receivables	219.7	(9.2)	(16.8)	193.7
<b>Total on-balance sheet</b>	<b>19,162.5</b>	<b>(9,447.1)</b>	<b>(4,269.7)</b>	<b>5,445.7</b>
<b>Off-balance sheet:</b>				
Credit lines and other commitments <sup>3</sup>	0.1	-	-	0.1
<b>Total off-balance sheet</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>0.1</b>
<b>Total</b>	<b>19,162.6</b>	<b>(9,447.1)</b>	<b>(4,269.7)</b>	<b>5,445.8</b>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 31. RISK MANAGEMENT (CONTINUED)

#### C Credit Risk (Continued)

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

#### Company

2020	Maximum exposure £ millions	Collateral <sup>1</sup> £ millions	Netting <sup>2</sup> £ millions	Net exposure to credit risk £ millions
<b>On-balance sheet:</b>				
Cash and balances at central banks	601.0	-	-	601.0
Loans and advances to banks	171.0	-	(8.3)	162.7
Reverse repurchase agreements with banks	963.0	(954.1)	(0.3)	8.6
Reverse repurchase agreements with customers	5,895.2	(5,868.1)	(3.3)	23.8
Debt and other fixed income securities	4,950.7	-	-	4,950.7
Derivative assets	11,566.9	(93.2)	(11,448.3)	25.4
Trade receivables	637.1	(309.5)	(21.4)	306.2
<b>Total on-balance sheet</b>	<b>24,784.9</b>	<b>(7,224.9)</b>	<b>(11,481.6)</b>	<b>6,078.4</b>
<b>Off-balance sheet:</b>				
Credit lines and other commitments <sup>3</sup>	80.8	(80.6)	-	0.2
<b>Total off-balance sheet</b>	<b>80.8</b>	<b>(80.6)</b>	<b>-</b>	<b>0.2</b>
<b>Total</b>	<b>24,865.7</b>	<b>(7,305.5)</b>	<b>(11,481.6)</b>	<b>6,078.6</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### C Credit Risk (Continued)

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

#### Company

2019	Maximum exposure £ millions	Collateral <sup>1</sup> £ millions	Netting <sup>2</sup> £ millions	Net exposure to credit risk £ millions
<b>On-balance sheet:</b>				
Cash and balances at central banks	3.3	-	-	3.3
Loans and advances to banks	110.6	-	(33.8)	76.8
Reverse repurchase agreements with banks	2,052.7	(2,042.9)	-	9.8
Reverse repurchase agreements with customers	7,204.8	(7,203.1)	(0.5)	1.2
Debt and other fixed income securities	5,087.0	-	-	5,087.0
Derivative assets	4,451.4	(191.9)	(4,218.6)	40.9
Trade receivables	219.7	(9.2)	(16.8)	193.7
<b>Total on-balance sheet</b>	<b>19,129.5</b>	<b>(9,447.1)</b>	<b>(4,269.7)</b>	<b>5,412.7</b>
<b>Off-balance sheet:</b>				
Credit lines and other commitments <sup>3</sup>	0.1	-	-	0.1
<b>Total off-balance sheet</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>0.1</b>
<b>Total</b>	<b>19,129.6</b>	<b>(9,447.1)</b>	<b>(4,269.7)</b>	<b>5,412.8</b>

#### 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 above, and is calculated after taking account of the effect of collateral described above as well as netting posted on the balance sheet in accordance with FRS102. The amount shown under Maximum exposure is after FRS 102 netting.
- Credit lines and other commitments**  
Off-balance sheet balance includes a reverse repo commitment where the Group's maximum exposure is represented by the contractual principal amount of the commitment. Were this commitment to be drawn down, the counterparty would be expected to post collateral at least equal to the contractual principal amount and this is reflected as such in the collateral balance.

#### 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 Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### C Credit Risk (Continued)

#### *Reverse repurchase agreements*

The Group'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 31 March 2020 totalled £7 million (2019: £7 million), and no remaining exposures exceeded £4 million (2019: £2 million).

#### *Debt and other fixed income securities*

The Group's holdings of debt and other fixed income 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:

#### Group

2020	Government £ millions	Other public sector £ millions	Other £ millions	Total £ millions
France	548.4	139.6	181.2	869.2
Germany	428.1	13.2	212.3	653.6
US	222.6	-	178.2	400.8
Japan	620.1	115.1	115.0	850.2
Italy	244.3	-	26.9	271.2
UK	88.3	14.1	244.9	347.3
Spain	250.9	0.5	25.3	276.7
Netherlands	70.6	-	146.7	217.3
Other	124.2	602.3	385.2	1,111.7
<b>Total</b>	<b>2,597.5</b>	<b>884.8</b>	<b>1,515.7</b>	<b>4,998.0</b>
2019	Government £ millions	Other public sector £ millions	Other £ millions	Total £ millions
France	486.2	46.0	133.8	666.0
Germany	479.9	55.2	301.9	837.0
US	121.7	3.6	115.6	240.9
Japan	395.4	158.2	20.2	573.8
Italy	857.2	-	15.8	873.0
UK	45.2	1.3	129.5	176.0
Spain	415.5	6.2	53.9	475.6
Netherlands	61.0	-	59.5	120.5
Other	165.5	749.0	209.7	1,124.2
<b>Total</b>	<b>3,027.6</b>	<b>1,019.5</b>	<b>1,039.9</b>	<b>5,087.0</b>

## Notes to the Consolidated and Company Financial Statements (Continued)

### 31. RISK MANAGEMENT (CONTINUED)

#### C Credit Risk (Continued)

##### *Debt and other fixed income securities (Continued)*

##### Company

2020	Government £ millions	Other public sector £ millions	Other £ millions	Total £ millions
France	536.1	139.6	169.9	845.6
Germany	421.0	13.2	210.8	645.0
US	222.6	-	177.7	400.3
Japan	620.1	115.1	114.6	849.8
Italy	244.3	-	26.9	271.2
UK	88.3	14.1	244.8	347.2
Spain	250.1	0.5	25.3	275.9
Netherlands	70.6	-	146.7	217.3
Other	111.8	602.3	384.3	1,098.4
<b>Total</b>	<b>2,564.9</b>	<b>884.8</b>	<b>1,501.0</b>	<b>4,950.7</b>

2019	Government £ millions	Other public sector £ millions	Other £ millions	Total £ millions
France	486.2	46.0	133.8	666.0
Germany	479.9	55.2	301.9	837.0
US	121.7	3.6	115.6	240.9
Japan	395.4	158.2	20.2	573.8
Italy	857.2	-	15.8	873.0
UK	45.2	1.3	129.5	176.0
Spain	415.5	6.2	53.9	475.6
Netherlands	61.0	-	59.5	120.5
Other	165.5	749.0	209.7	1,124.2
<b>Total</b>	<b>3,027.6</b>	<b>1,019.5</b>	<b>1,039.9</b>	<b>5,087.0</b>

##### **Derivatives**

The Group'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 31 March 2020 totalled £3.5 million (2019: £19.7 million). Counterparty exposure totalled £25.4 million as at 31 March 2020 (2019: £40.9 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 Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### C Credit Risk (Continued)

#### Credit quality

The following table represents an analysis of the carrying value of reverse repurchase agreements based on the credit quality rating designation of the underlying collateral received, and by internal credit ratings (or their equivalent) for debt and similar securities and loans and advances balances. 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 Group.

#### *Reverse repurchase agreements with banks*

#### Group and Company

2020	Government £ millions	Bank £ millions	Corporate £ millions	Total £ millions
AAA	220.5	187.6	12.3	420.4
AA- to AA+	116.6	12.0	8.9	137.5
A- to A+	94.5	69.0	92.3	255.8
BBB+ to BBB-	56.3	3.9	61.5	121.7
BB+ to B-	12.5	-	15.1	27.6
<b>Total</b>	<b>500.4</b>	<b>272.5</b>	<b>190.1</b>	<b>963.0</b>

  

2019	Government £ millions	Bank £ millions	Corporate £ millions	Total £ millions
AAA	254.5	172.2	4.2	430.9
AA- to AA+	644.3	20.1	149.7	814.1
A- to A+	13.0	363.2	227.7	603.9
BBB+ to BBB-	88.2	19.9	91.7	199.8
BB+ to B-	0.3	3.1	0.6	4.0
<b>Total</b>	<b>1,000.3</b>	<b>578.5</b>	<b>473.9</b>	<b>2,052.7</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### C Credit Risk (Continued)

#### Credit quality (continued)

#### *Reverse repurchase agreements with customers*

#### Group and Company

2020	Government £ millions	Bank £ millions	Corporate £ millions	Total £ millions
AAA	1,421.4	16.3	-	1,437.7
AA- to AA+	4,118.4	-	-	4,118.4
A- to A+	-	0.5	2.7	3.2
BBB+ to BBB-	326.0	0.9	3.6	330.5
BB+ to B-	0.6	-	4.8	5.4
<b>Total</b>	<b>5,866.4</b>	<b>17.7</b>	<b>11.1</b>	<b>5,895.2</b>

2019	Government £ millions	Bank £ millions	Corporate £ millions	Total £ millions
AAA	2,293.5	114.7	-	2,408.2
AA- to AA+	4,700.3	-	-	4,700.3
BBB+ to BBB-	96.3	-	-	96.3
<b>Total</b>	<b>7,090.1</b>	<b>114.7</b>	<b>-</b>	<b>7,204.8</b>

#### *Debt and other fixed income securities, loans and advances and cash and balances at central banks*

#### Group

2020	Debt and other fixed income securities £ millions	Loans and advances £ millions	Cash and balances at central banks £ millions
AAA	1,322.5	-	-
AA- to AA+	1,355.8	57.5	601.0
A- to A+	1,329.1	120.2	-
BBB+ to BBB-	870.9	0.5	-
BB+ to B-	98.3	-	-
CCC+ to C	11.8	-	-
Unrated	9.6	0.1	-
	<b>4,998.0</b>	<b>178.3</b>	<b>601.0</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### C Credit Risk (Continued)

#### Credit quality (continued)

*Debt and other fixed income securities, loans and advances and cash and balances at central banks (continued)*

#### Group

2019

	Debt and other fixed income securities £ millions	Loans and advances £ millions	Cash and balances at central banks £ millions
AAA	1,409.6	-	-
AA- to AA+	1,312.1	46.8	3.3
A- to A+	843.4	96.4	-
BBB+ to BBB-	1,509.7	0.4	-
BB+ to B-	12.2	-	-
	<u>5,087.0</u>	<u>143.6</u>	<u>3.3</u>

#### Company

2020

	Debt and other fixed income securities £ millions	Loans and advances £ millions	Cash and balances at central banks £ millions
AAA	1,315.4	-	-
AA- to AA+	1,326.2	53.7	601.0
A- to A+	1,323.6	116.7	-
BBB+ to BBB-	866.1	0.5	-
BB+ to B-	98.0	-	-
CCC+ to C	11.8	-	-
Unrated	9.6	14.9	-
	<u>4,950.7</u>	<u>185.8</u>	<u>601.0</u>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### C Credit Risk (Continued)

#### Credit quality (continued)

*Debt and other fixed income securities, loans and advances and cash and balances at central banks (continued)*

#### Company

2019

	Debt and other fixed income securities £ millions	Loans and advances £ millions	Cash and balances at central banks £ millions
AAA	1,409.6	-	-
AA- to AA+	1,312.1	14.0	3.3
A- to A+	843.4	96.2	-
BBB+ to BBB-	1,509.7	0.4	-
BB+ to B-	12.2	-	-
	<u>5,087.0</u>	<u>110.6</u>	<u>3.3</u>

### D Liquidity Risk

Liquidity Risk is the risk that the Group, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. The Group 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, which may vary year on year in composition over several balance sheet asset categories, and a well-matched funding profile.

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

#### Control environment

The Group 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 Group 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 Group 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 Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### D Liquidity Risk (Continued)

#### Residual contractual maturity of financial liabilities

The tables below summarises the maturity profile of the financial liabilities:

#### Group

2020	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
<b>Financial liabilities:</b>								
Deposits by banks	471.6	471.6	2.1	187.5	254.0	28.0	-	-
Customer accounts	909.7	909.7	-	909.7	-	-	-	-
Repurchase agreements with banks	1,614.4	1,614.4	372.1	872.4	303.6	66.3	-	-
Repurchase agreements with customers	3,638.8	3,635.5	8.6	2,722.6	667.5	236.8	-	-
Debt securities in issue	1,776.6	1,770.8	-	480.4	244.1	371.0	657.2	18.1
Short positions <sup>1</sup>	3,728.3	3,333.8	754.0	2,547.0	31.0	1.8	-	-
Derivative liabilities <sup>2</sup>	11,514.0	11,514.1	-	70.2	55.4	91.5	3,930.7	7,366.3
Trade payables	488.9	488.9	-	488.9	-	-	-	-
Accruals and deferred income <sup>3</sup>	72.6	82.4	-	70.6	4.8	1.3	4.0	1.7
Subordinated liabilities	45.3	50.0	-	0.6	0.3	0.4	3.5	45.2
	<b>24,260.2</b>	<b>23,871.2</b>	<b>1,136.8</b>	<b>8,349.9</b>	<b>1,560.7</b>	<b>797.1</b>	<b>4,595.4</b>	<b>7,431.3</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### D Liquidity Risk (Continued)

#### Residual contractual maturity of financial liabilities (continued)

##### Group

2019	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
<b>Financial liabilities:</b>								
Deposits by banks	196.2	196.2	9.2	126.5	34.5	26.0	-	-
Customer accounts	610.0	610.0	-	610.0	-	-	-	-
Repurchase agreements with banks	1,734.2	1,734.2	73.8	945.0	449.4	266.0	-	-
Repurchase agreements with customers	4,572.0	4,571.5	-	3,836.6	489.8	245.1	-	-
Debt securities in issue	1,453.2	1,449.2	-	321.7	40.5	403.1	667.1	16.8
Short positions <sup>1</sup>	5,208.7	4,897.7	374.1	4,460.3	63.3	-	-	-
Derivative liabilities <sup>2</sup>	4,285.1	4,285.3	0.1	38.0	15.5	42.8	1,304.0	2,884.9
Trade payables	364.7	364.6	-	364.6	-	-	-	-
Accruals and deferred income <sup>3</sup>	84.7	108.6	-	81.9	11.1	7.5	4.4	3.7
Subordinated liabilities	45.3	52.9	-	0.5	0.3	0.5	4.9	46.7
	<b>18,554.1</b>	<b>18,270.2</b>	<b>457.2</b>	<b>10,785.1</b>	<b>1,104.4</b>	<b>991.0</b>	<b>1,980.4</b>	<b>2,952.1</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### D Liquidity Risk (Continued)

#### Residual contractual maturity of financial liabilities (continued)

##### Company

2020	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
<b>Financial liabilities:</b>								
Deposits by banks	471.6	471.6	2.1	187.5	254.0	28.0	-	-
Customer accounts	909.7	909.7	-	909.7	-	-	-	-
Repurchase agreements with banks	1,614.4	1,614.4	372.1	872.4	303.6	66.3	-	-
Repurchase agreements with customers	3,638.8	3,635.5	8.6	2,722.6	667.5	236.8	-	-
Debt securities in issue	1,776.6	1,770.8	-	480.4	244.1	371.0	657.2	18.1
Short positions <sup>1</sup>	3,728.3	3,333.8	754.0	2,547.0	31.0	1.8	-	-
Derivative liabilities <sup>2</sup>	11,514.0	11,514.1	-	70.2	55.4	91.5	3,930.7	7,366.3
Trade payables	489.3	489.3	-	489.3	-	-	-	-
Accruals and deferred income <sup>3</sup>	72.8	82.4	-	70.6	4.8	1.3	4.0	1.7
Subordinated liabilities	45.3	50.0	-	0.6	0.3	0.4	3.5	45.2
	<b>24,260.8</b>	<b>23,871.6</b>	<b>1,136.8</b>	<b>8,350.3</b>	<b>1,560.7</b>	<b>797.1</b>	<b>4,595.4</b>	<b>7,431.3</b>

# Notes to the Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### D Liquidity Risk (Continued)

#### Residual contractual maturity of financial liabilities (continued)

##### Company

2019	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
<b>Financial liabilities:</b>								
Deposits by banks	196.2	196.2	9.2	126.5	34.5	26.0	-	-
Customer accounts	610.0	610.0	-	610.0	-	-	-	-
Repurchase agreements with banks	1,734.2	1,734.2	73.8	945.0	449.4	266.0	-	-
Repurchase agreements with customers	4,572.0	4,571.5	-	3,836.6	489.8	245.1	-	-
Debt securities in issue	1,453.2	1,449.2	-	321.7	40.5	403.1	667.1	16.8
Short positions <sup>1</sup>	5,208.7	4,897.7	374.1	4,460.3	63.3	-	-	-
Derivative liabilities <sup>2</sup>	4,285.1	4,285.3	0.1	38.0	15.5	42.8	1,304.0	2,884.9
Trade payables	364.7	364.6	-	364.6	-	-	-	-
Accruals and deferred income <sup>3</sup>	84.7	108.6	-	81.9	11.1	7.5	4.4	3.7
Subordinated liabilities	45.3	52.9	-	0.5	0.3	0.5	4.9	46.7
	18,554.1	18,270.2	457.2	10,785.1	1,104.4	991.0	1,980.4	2,952.1

#### 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 Group 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 cash flows
- Accruals and deferred income*  
Included within accruals and deferred income are fees and other coupon related payables

# Notes to the Consolidated and Company 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 Group 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 Group's corporate governance structure. In addition, the Group 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 Group'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 Group 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 Group 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 Group's capital management process is to ensure that the regulated Group entities comply with all externally imposed capital requirements and maintain a strong capital position in order to support the Group's business.

The Group 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 Group's capital adequacy is monitored under the requirements of CRD IV as implemented by the Prudential Regulation Authority.

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

The methodology used by the Group 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 Group 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 Consolidated and Company Financial Statements (Continued)

## 31. RISK MANAGEMENT (CONTINUED)

### G Regulatory Capital Management (Continued)

The Group's and Company's regulatory capital is analysed below:

	2020 £ millions	2019 £ millions
Tier 1 Capital	623.7	662.5
Tier 2 Capital	45.0	45.0
<b>Total capital resources</b>	<b>668.7</b>	<b>707.5</b>

Regulatory capital consists of Tier 1 and Tier 2 capital. 2020 Tier 1 comprises share capital, share premium, retained earnings, current year loss and adjustments as required under the Capital Requirement Regulations. Tier 2 is comprised of a subordinated loan facility.

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

### H Special Purpose Companies

#### Control environment

The Group 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 Group, 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 Group are closely monitored by senior management. The Group's involvement with the most significant types of special purpose companies and related transactions is described below.

#### **Structured credit intermediation transactions**

The Group has used special purpose companies to intermediate structured credit transactions. The Group or its related company enter into derivative transactions with these special purpose companies. Such special purpose companies were arranged by the Group.

The Group 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.

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

## Notes to the Consolidated and Company Financial Statements (Continued)

### 32. SHARE BASED PAYMENT

The Group 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 Group as a whole. The plan also aims to encourage the ongoing retention and motivation of employees over the longer term.

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 Group'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; or a material error; or a material failure of risk management.

The cost of share based awards has been recognised in the Statement of Comprehensive Income 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:

	<b>2020</b>	2019
	<b>£ millions</b>	£ millions
Carrying value of share based payment liability	<b>6.7</b>	7.9
Expense arising from share-based payment transactions	<b>0.2</b>	1.5

## Notes to the Consolidated and Company Financial Statements (Continued)

### 33. COUNTRY BY COUNTRY TAX PAYMENTS

Country (Business)	Income £ millions	(Loss)/ profit before tax £ millions	Capital £ millions	Retained earnings £ millions	Tangible assets £ millions	Tax paid £ millions	Average number of employees
UK (Banking)	138.3	(52.3)	709.9	(18.9)	26.6	(0.2)	468
Germany (Primary debt)	18.8	3.9	31.4	1.4	1.2	-	24
United Arab Emirates (Primary debt)	-	(1.6)	-	(2.9)	-	-	2
Spain (Primary Debt)	0.5	-	-	-	0.1	-	2
Consolidated adjustments	(0.1)	(0.1)	(31.4)	-	-	-	-
<b>Total</b>	<b>157.5</b>	<b>(50.1)</b>	<b>709.9</b>	<b>(20.4)</b>	<b>27.9</b>	<b>(0.2)</b>	<b>496</b>

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

During the year, the Group also received £6.7 million from a related party, Mizuho Bank, London branch for the tax losses surrendered in the previous year under the UK group relief rules. This is not included with the £0.2 million tax refund for UK as above.

### 34. PARENT UNDERTAKINGS

Mizuho International plc is directly owned by Mizuho Securities Co., Ltd a company which is incorporated in Japan. The Group'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  
[https://www.mizuho-fg.com/investors/financial/fin\\_statements/index.html](https://www.mizuho-fg.com/investors/financial/fin_statements/index.html)

