



Pillar 3 Disclosure

2008

Mizuho International

Bracken House

One Friday Street

London

EC4M 9JA

Telephone +44 (0) 20 7236 1090

Fax +44 (0)20 7236 0484

1. Purpose of Document

This document satisfies Mizuho International plc's (or "MHI" or "The Bank") responsibilities under Pillar 3 of the Basel 2 framework.

This document should be read in conjunction with the bank's 2008 Annual Report, a copy of this report can be downloaded from the bank's website:

<https://www.mizuho-int.com/ReportAndAccounts.aspx>

The reference date for data used in this disclosure is 31st March 2008.

2. Introduction

The Capital Requirements Directive (CRD) enshrines a common framework for implementing the Basel 2 framework in the EU. The framework consists of 3 pillars:

- Pillar 1: minimum capital requirements.
- Pillar 2: Supervisory review including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3: enhanced market disclosure.

The specific requirements for UK regulated firms, such as MHI, are in the UK FSA Handbook, and in particular, the General Prudential Requirements (GENPRU) and the Banking and Investment Firms Prudential Requirements (BIPRU)

A summary of how the 3 pillars of Basel 2 apply to MHI follows:

2.1 Pillar 1

The minimum required capital ratio of 8% remains unchanged from Basel I. The changes relate to the definition and calculations of asset risk weights which are driven by counterparty and issuer ratings.

In addition to credit risk and market risk, Basel 2 also requires capital to be held for operational risk.

Table 2.1 summarises the approach MHI uses for calculating its minimum Pillar 1 capital requirement.

Table 2.1: MHI's approach for calculating Pillar 1 Capital Requirement

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach

2.2 Pillar 2

Pillar 2, or the Supervisory Review Process (SRP), comprises two processes:

- The Internal Capital Adequacy Assessment Process (ICAAP) and;
- the Supervisory Review and Evaluation Process (SREP).

Adherence to the SRP is designed to ensure MHI identifies and manages its material risks. This can include the allocation of capital as well as the use of sufficient management processes and controls to support the firm's risk appetite. The ICAAP submission provides a summary of MHI's risk appetite and risk taking policies as well

as the steps that MHI actively takes to control risks through the allocation of capital, mitigating management actions or some combination of both.

The MHI ICAAP includes an assessment of all the risk faced by the firm and whether the capital requirement under Pillar 1 combined with management actions would sufficiently cover these risks.

Other risk types considered under the ICAAP include liquidity risk, securitisation risk, business risk, interest rate risk in the non-trading book and concentration risk.

2.3 Pillar 3

The requirements for Pillar 3 disclosure are covered in Chapter 11 of BIPRU. The disclosure covers more detailed information on minimum capital requirements for different risk factors and details on risk and capital management. Many of these requirements are already covered off by FRS29 and are reflected in the Annual Report. Where this is the case, this document will provide a cross reference to the Annual Accounts.

Future Pillar 3 disclosures will be produced on an annual basis at the time of the MHI Annual Report.

3. Risk Management Disclosure

The bank's risk management objectives and policies for each of its main risk types are covered in note 30 of the 2008 Annual Report.

The Director's Report in the 2008 Annual Report also highlights some of the significant changes made within MHI's risk management and control function in response to the events that occurred over the course of 2007.

4. Application of Banking Consolidation Directive

Note 33 of the 2008 Annual Report contains details of these subsidiary entities that were consolidated for accounting purposes.

From a Regulatory Capital perspective, in the event of an accounting consolidation, the consolidation technique used by MHI for purposes of calculating regulatory capital is the method described under BIPRU 7.13 (3) – referred to as 'Second Method'. This is applied to each consolidated requirement component.

Accounting consolidation is performed on a line by line basis.

MHI makes a number of capital deductions from its capital resources. These relate to investments in private equity and a hedge fund.

5. Regulatory Capital Resources

A summary of MHI's Regulatory Capital resources is summarised in Section H of Note 30 in the 2008 Annual Accounts.

6. Regulatory Capital Requirements

Although MHI has its own internal models for estimating capital requirements, the capital estimated is lower than what is calculated under the standardised approach to Regulatory Capital so in practice the Bank is constrained by the availability of Regulatory Capital. This is periodically assessed as part of the ICAAP review.

Therefore the outputs from internal models such as market risk along with Regulatory Capital are used to control the business.

As of the assessment date, the Senior Management of the bank were of the opinion that there are adequate resources and contingency in place to support current and foreseeable activities. Senior management periodically reviews the position of MHI against scenarios it believes the bank is vulnerable to.

A summary of MHIs minimum (8%) Pillar 1 capital requirements are summarised in Table 6.1.

Table 6.1: Minimum Pillar 1 Capital Requirement

Category	Exposure Class	Capital Requirement (£000s)
Non Trading Book Credit Risk	Central Govt's & Central Banks	0
	Region Govt's & Local Authorities	0
	Retail Exposures	0
	Exposures secured by Real Estate	0
	Other	40 513
	Subtotal	40 513
Trading Book Risk	Interest Rate Risk	134 430
	Equity Risk	1 867
	Option Risk	3
	CIU	0
	Counterparty Risk	19 262
	Concentration Risk	7 122
	Subtotal	162 684
Trading & Non Trading Book Risk	Commodity Risk	0
	Foreign Exchange Risk	2 211
	Subtotal	2 211
	Operational Risk	22 660
Total Requirement		228 068

In determining risk weightings for use in its regulatory capital calculations, MHI uses S&P, Moody's and Fitch as External Credit Assessment Institution (ECAI) for all product types except for securitised sub-prime assets, where S&P and Moody's are used as the ECAI.

7. Credit Risk

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

Risk Management has specific responsibility for the implementation of the Company's credit policy for all activities, for performing credit analysis and due diligence on individual counterparties and issuers, and for monitoring compliance with individual counterparty, issuer, geographic and product limits. Policy and limits are established by the Risk Committee. Day-to-day management of credit risks is the responsibility of the individual business units.

Risk Management analyses counterparty credit exposures to assess both current and potential credit risk. Current credit exposure represents the replacement cost of

those instruments where the position is currently in-the-money. Potential credit exposures are based on estimates of future replacement costs over the remaining life of the instrument.

The maximum exposure to Credit Risk for financial assets, including derivatives, recognised on the balance sheet is presented in Section 30(C)(ii) of the Annual Report.

Section 30(C)(iii) of the Annual Report provides a detailed break down of MHI's concentration of exposure broken down by Credit Quality. This section also provides details of the bank's most material securitisation exposures.

8. Collateral and other credit enhancements

A summary of MHI's collateral (and other credit enhancements obtained) can be found in Note 30 C (iv) of the 2008 Annual Accounts. The types of collateral accepted by the bank are described in policies approved by MHI's Risk Committee. Credit support in the form of guarantees are assessed on a case by case basis.

9. Non-Trading book exposures (Interest rate risk)

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

A tabular summary of MHI's interest rate risk exposure in the non trading book allocated by time bands can be found in Note 30 B (iii) of the 2008 Annual Accounts.

10. Securitisation

Securitisation is a structured finance process, which involves pooling and repackaging of cash-flow-producing financial assets into securities that are then sold to investors.

MHI uses Special Purpose Companies (SPC's) to securitize primary and derivative financial instruments. On securitisation, the Company may enter into derivative transactions with these SPCs, and may retain notes or derivative instruments issued by these SPCs on securitisation.

MHI's roles and involvement in the securitisation process are summarised in Section E of Note 30 in the 2008 Annual Accounts.

MHI accounting policies relating to securitisation are summarised in Section L of Note 2 in the 2008 Annual Accounts.

Details regarding the valuation of these exposures are given in note 29 of the 2008 Annual Accounts.