



# ***Mizuho International plc - Basel II Pillar 3 Disclosures***

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# 1 Overview

## 1.1 Background

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

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

Mizuho International plc ('MHI', 'Mizuho International', 'the Company') has adopted the standardised approach to market and credit risk and the basic indicator approach for operational risk for its Pillar 1 calculations from 1<sup>st</sup> January 2008. It also became subject to Pillar 2 and Pillar 3 requirements from the same date.

## 1.2 Basis and Frequency of the Disclosure

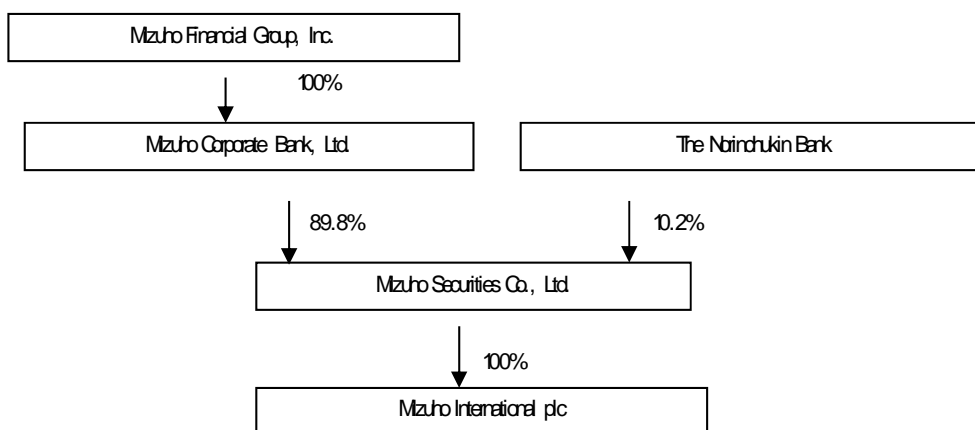
This disclosure document has been prepared by MHI in accordance with the requirements of Pillar 3 under BIPRU 11.

Unless otherwise stated, all figures are as at the 31<sup>st</sup> March 2009 financial year-end.

Future disclosures will be issued on an annual basis and published as soon as practical after the publication of the 2009 Financial Statements.

## 1.3 Structure as of 31<sup>st</sup> March 2009

Mizuho International plc is a wholly owned European subsidiary of Mizuho Securities Co., Ltd. ('MHSC', 'Mizuho Securities'), which is jointly owned by Mizuho Corporate Bank, Ltd. (89.8%) and the Norinchukin Bank (10.2%). Mizuho Corporate Bank, Ltd. is a wholly owned subsidiary of the Mizuho Financial Group, Inc.



As of 31<sup>st</sup> of March 2009 Mizuho International did not have any regulated or operational subsidiaries. On 7<sup>th</sup> May 2009, MHSC merged with Shinko Securities with the new company known as Mizuho Securities Co., Ltd.

## 1.4 Location and Verification

These disclosures have been approved by the Mizuho International Executive Committee and are published on MHI's corporate website ([www.mizuho-int.com](http://www.mizuho-int.com)). Not all Pillar 3 disclosures are applicable to MHI. In the case where a disclosure is omitted, it is deemed to not be applicable.

The disclosures are not subject to external audit, except when it refers to the Financial Statements. The Pillar 3 disclosure should be read in conjunction with the document 'Mizuho International plc Financial Statements 2009', which is published on the MHI corporate website.

## 2 Risk Management Objectives and Policies

### 2.1 Group Risk Appetite

Over the last 12 to 18 months there has been a significant reduction in the Company's risk appetite. This reduction is reflected in the 3-year business plan, which commenced from April 2009. MHI's business model will focus on a low risk, client-flow business. Higher risk and more capital intensive businesses will cease, resulting in a significant reduction in the Company's risk profile. The Company has retained the appropriate staff to manage its Legacy positions and minimise risks until they can be liquidated.

Further information can be found in the 'Directors' Report' section of the 2009 Financial Statements.

### 2.2 Risk Management

MHI has an exposure to the following principal risk types. The full analysis of all risks that MHI could be exposed to is documented in the Company's Internal Capital Adequacy Assessment Process ('ICAAP') document.

#### Market Risk

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

MHI manages market risk in its trading portfolios through position and sensitivity limits, profit and loss limits, Value at Risk ('VaR') limits, and triggers placed on stress testing results. These limits are approved by the Risk Committee with stress triggers approved by the Executive Committee. In addition, MHI has total VaR limits set by its parent, Mizuho Securities.

Further information on the sensitivity analysis of the portfolio and the VaR model can be found in Note 33B in the 2009 Financial Statements.

#### Credit Risk

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

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

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

External credit ratings are used to assess the counterparty default risk. In the case where an external rating is not available, a rating based upon the Company's internal credit rating methodology is used. On the basis of Credit Risk Management's analysis process, an appropriate credit limit will be established based upon levels defined in the appropriate policy.

Further information on MHI's exposure to credit risk can be found in Note 33C in the 2009 Financial Statements.

#### Liquidity Risk

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

MHI has an approved liquidity policy which covers all trading and non trading activities and requires the expected cash flows in all currencies to be managed within prescribed limits set by the FSA. Mismatches between inflow, outflow and available assets are formally reviewed at the weekly meeting of the Risk Committee.

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

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

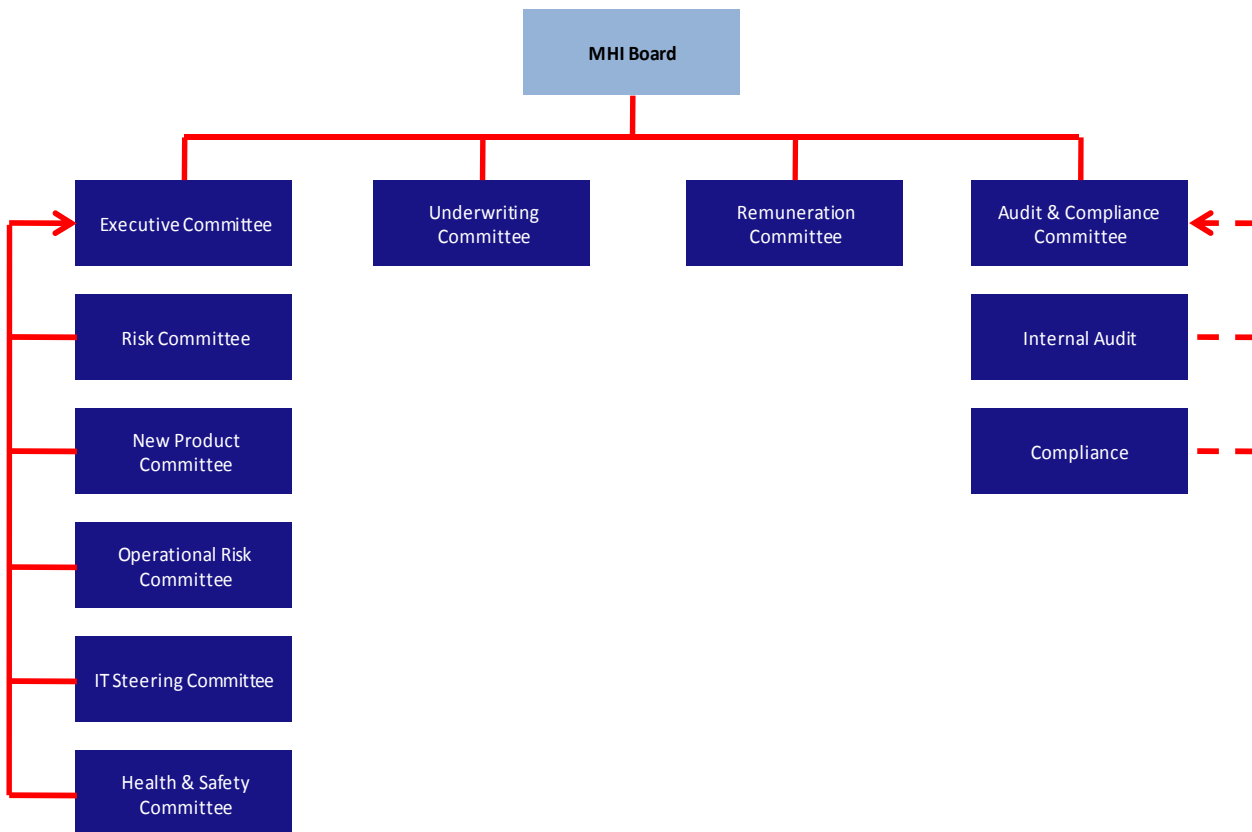
Further information on liquidity risk management can be found in Note 33D in the 2009 Financial Statements.

**Other Risks**

Information on Operational Risk, Legal Risk and risks involving special purpose companies can be found in Note 33E-G in the 2009 Financial Statements.

**2.3 Structure of Governance Functions**

The MHI Board of Directors ('the Board') is ultimately responsible for the management of the company. The Board meets on a minimum quarterly basis (and more frequently if required). The day to day management of the business is delegated to the Executive Committee. To effectively fulfil its responsibility the Executive Committee is supported by a number of other committees as illustrated below.



MHI believes that a strong internal control environment is paramount to achieving its corporate objectives with the risk management and control function seen as a fundamental part of the environment required to identify and manage the risks to which the Company is exposed.

### 3 Capital Resources

#### 3.1 Total Available Capital

The following table shows the breakdown of the total available capital for Mizuho International plc as at 31<sup>st</sup> March 2009. The capital resources are calculated in accordance with GENPRU 2.

	£'000
Core Tier 1	354,197
Deductions	(2,156)
<b>Total Tier 1 Capital</b>	<b>352,041</b>
<b>Total Tier 2 Capital</b>	<b>-</b>
<b>Total Financial Resources</b>	<b>352,041</b>

#### 3.2 Financial Resources

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

MHI currently has no innovative Tier 1 instruments. Share capital consists of both yen and sterling denominated ordinary shares. Further details on the share capital are provided in Note 27 in the 2009 Financial Statements.

The deduction is related to the investment in a limited liability partnership ('LLP'). This investment is classified as a material holding.

MHI does not have any Tier 2 or Tier 3 capital for the year ending March 2009.

## 4 Capital Adequacy

### 4.1 Capital Management

MHI has adopted the standardised approach to market and credit risk and the basic indicator approach to operational risk since 1<sup>st</sup> January 2008 in order to calculate the Basel II Pillar 1 minimum capital requirement.

It is MHI's policy to maintain capital resources consistent with its risk appetite.

MHI produces daily capital reports, summarising the capital requirement against available capital resources. This is distributed to senior management, business heads as well as senior management at Mizuho Securities. Capital projections are updated and reviewed by senior management on a weekly basis.

### 4.2 Internal Capital Adequacy Assessment Process – Pillar 2

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

Risk types considered under the ICAAP include market risk, credit risk, concentration risk, operational risk, liquidity risk, securitisation risk, insurance risk, pension obligation risk, legal risk, reputation risk, underwriting risk, settlement risk, structured FX risk, business risk and risks in the non-trading book.

The ICAAP is reviewed and approved by the Board.

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

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

<b>As at 31.3.2009</b>	
<b>Minimum Capital Requirement 8%</b>	<b>£'000</b>
<b>Exposure Classes</b>	<b>42,050</b>
Financial Institutions	14,542
Corporate	140
Insurance	27,368
<b>Other</b>	<b>7,589</b>
Fixed and other assets	7,589
<b>Credit Risk Minimum Capital Requirement</b>	<b>49,639</b>



#### 4.4 Minimum Capital Requirement – Pillar 1

The minimum capital requirement is calculated as the sum of the credit risk requirement in the non-trading book described in 4.3 and the trading book capital component (see overleaf). The operational risk capital requirement is calculated under the basic indicator approach. The foreign currency Position Risk Requirement ('PRR') is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions from fluctuations in FX rates.

MHI does not have any investments in collective investment undertakings or commodities.

<b>As at 31.3.2009</b>	
<b>Minimum Capital Requirement 8%</b>	<b>£'000</b>
Interest Rate PRR	99,762
Equity PRR	154
Option PRR	0
Foreign Currency PRR	398
<b>Market Risk Total</b>	<b>100,314</b>
Counterparty Risk Capital Component	44,505
Concentration Risk Capital Component	18,195
Credit Risk Capital Component	49,639
<b>Credit Risk Total</b>	<b>112,339</b>
Operational Risk Capital Requirement	21,120
<b>Total Pillar 1 Capital Requirement</b>	<b>233,773</b>

## 5 Counterparty Credit Risk, Mitigation, Dilution and Reporting

### 5.1 Overview of Counterparty Risk in the Trading Book

Counterparty credit risk is defined as a risk of financial loss to the Company if a counterparty to a financial instrument or a customer fails to meet its contractual obligations. The evaluation of a counterparty rating is based on the external rating ratings provided by designated External Credit Assessment Institutions (ECAIs).

The following tables show the exposure values associated with each credit quality step for total credit risk exposures:

#### Government, Central Banks and International Organisations

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure Value After Credit Risk Mitigation £'000
1	0%	AAA to AA-	16,918	16,918
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
<b>Total</b>			<b>16,918</b>	<b>16,918</b>

#### Central Counterparties

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure Value After Credit Risk Mitigation £'000
1	0%	AAA to AA-	134,601	134,601
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
<b>Total</b>			<b>134,601</b>	<b>134,601</b>

**Financial Institutions**

<b>Credit Quality Step</b>	<b>Risk Weight</b>	<b>S &amp; P Rating</b>	<b>Gross Exposure Value £'000</b>	<b>Exposure Value After Credit Risk Mitigation £'000</b>
1	20%	AAA to AA-	898,996	603,778
2	50%	A+ to A-	287,328	202,064
3	50%	BBB+ to BBB-	4,972	4,972
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
	50%	Unrated	1,034,539	383,602
<b>Total</b>			<b>2,225,835</b>	<b>1,194,416</b>

**Corporates**

<b>Credit Quality Step</b>	<b>Risk Weight</b>	<b>S &amp; P Rating</b>	<b>Gross Exposure Value £'000</b>	<b>Exposure Value After Credit Risk Mitigation £'000</b>
1	20%	AAA to AA-	0	0
2	50%	A+ to A-	0	0
3	100%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	150%	B+ to B-	0	0
6	150%	Below B-	0	0
	100%	Unrated	175,122	140,240
<b>Total</b>			<b>175,122</b>	<b>140,240</b>

**GRAND TOTAL****2,552,476****1,486,175**

## 5.2 Counterparty Credit Risk on Derivatives in the Trading Book

MHI uses derivative instruments to hedge its market risk. Positive and negative exposures are offset within the same counterparty provided MHI has a Netting Agreement in place.

The table below shows the exposure to counterparty credit risk for derivative contracts at 31<sup>st</sup> March 2009:

	Gross Positive Fair Value of Contracts	Total Netting Benefits	Netted Current Credit Exposure	Collateral Held	Net Derivatives Credit Exposure
	£'000	£'000	£'000	£'000	£'000
Trading Book	1,585,396	(940,216)	1,039,985	0	1,039,985
<b>Total</b>	<b>1,585,396</b>	<b>(940,216)</b>	<b>1,039,985</b>	<b>0</b>	<b>1,039,985</b>

Net derivative credit exposure represents the credit exposure to derivatives transactions after taking into account of legally enforceable netting agreements and collateral arrangements with counterparties.

Collateralisation of the derivatives is one of the main tools used by the market to manage counterparty credit exposure. The value of the collateral received can be offset against the market value of the derivative.

## 5.3 Credit Risk Limits and Policies

The counterparty limits used for exposure management are set against Total Exposure. Maximum limits are based on policy and are determined by the counterparty credit assessment and nature of the products being traded. Transactions that would exceed the maximum prescribed level must be approved by the Risk Committee and, for certain products or transactions, by MHSC Risk Management..

## 5.4 Credit Derivatives

The majority of credit derivatives held on the balance sheet are part of the Legacy business and are no longer actively traded. Credit derivatives were originally used for proprietary trading and as a credit risk mitigation tool. Single name credit derivatives can still be used to hedge exposures in the new business model.

Banking book credit derivatives are used as a credit risk mitigant allowing credit exposure to be transferred from an issuer to the counterparty of a credit derivative. The transfer will, in most cases, reduce a specific counterparty credit risk requirement. However it will have no effect on total exposure. The table below summarises MHI's notional Credit Default Swap ('CDS') credit derivative exposure.

	Protection Sold	Protection Purchased	Total
	£'000	£'000	£'000
Credit Default Swaps - Trading Book	4,286,352	4,134,001	8,420,352
<b>Total</b>	<b>4,286,352</b>	<b>4,134,001</b>	<b>8,420,352</b>

## 5.5 Impairment Provisions

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

As of 31<sup>st</sup> March 2009 MHI did not have any impairment provisions.

## 5.6 Non-Trading Book Credit Exposures

The gross counterparty credit risk exposure in the non-trading book before any mitigation as at 31<sup>st</sup> March 2009 and averaged for the year is summarised as follows:

	Average Gross Credit Exposure	Total Gross Credit Exposure
	£'000	£'000
Government	0	0
Financial Institutions	154,322	146,649
Corporates	1,529	1,744
Other Items*	459,389	466,223
<b>Total</b>	<b>615,239</b>	<b>614,616</b>

\*Other Items: life policies, farm credits, other investments, fixed assets & other sundry General Ledger accounts.

Geographical distribution of these exposures as at 31<sup>st</sup> March 2009 is as follows:

	UK	Japan	US	Europe	Rest of the World	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Institutions	69,816	33,734	334		42,765	146,649
Corporates			1,744			1,744
Other Items	61,601	6,976	226,394	92,368	78,884	466,223
<b>Total</b>	<b>131,417</b>	<b>40,710</b>	<b>228,472</b>	<b>92,368</b>	<b>121,649</b>	<b>614,616</b>

The residual maturity breakdown of exposures by exposure class as at 31<sup>st</sup> March 2009 is as follows:

	Up to 12 months	1-5 years	5-10 years	More than 10 years	Total
	£'000	£'000	£'000	£'000	£'000
Financial Institutions	57,320			89,329	146,649
Corporates				1,744	1,744
Other Items	51,337	71,365	1,416	342,105	466,223
<b>Total</b>	<b>108,657</b>	<b>71,365</b>	<b>1,416</b>	<b>433,178</b>	<b>614,616</b>

## 6 Market Risk

### 6.1 Market Risk Overview

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

- Equity Risk – the risk that equity prices will change;
- Interest Rate Risk – the risk that interest rates will change;
- Currency Risk – the risk that foreign exchange rates will change; and
- Commodity risk – the risk that commodity prices will change (MHI does not have exposure to this risk type).

### 6.2 Monitoring of Market Risk

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

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

## 7 Concentration Risk Capital

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

As of 31<sup>st</sup> March 2009 MHI had a concentration risk capital requirement to four counterparties.

## 8 Exposure to Equity Risk in the Non-Trading Book

As at 31<sup>st</sup> March 2009, the Company held a small equity shareholding in a clearing house and had small holdings of equities for investment purposes.

## 9 Exposure to Interest Rate Risk in the Non-Trading Book

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

MHI seeks to minimise interest rate risk where possible through hedging it with derivatives.

A summary of MHI's interest rate risk exposure in the non-trading book allocated by time bands can be found in Note 30B (iii) of the 2009 Financial Statements.

## 10 Securitisation

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

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

MHI's main exposure to securitisations relates to asset backed securities, accounting for £101.2 million of a total exposure of £113.9 million.

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

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure Value After Credit Risk Mitigation £'000
1	20%	AAA to AA-	8,778	8,778
2	50%	A+ to A- BBB+ to	4,198	4,198
3	100%	BBB-	674	674
4	100%	BB+ to BB-	39,888	39,888
	1250%	B+ & below	60,381	60,381
<b>Total</b>			113,918	113,918

MHI's role and involvement in the securitisation process is summarised in Note 30E in the 2009 Financial Statements.

MHI accounting policies relating to securitisation are summarised in Note 2L in the 2009 Financial Statements.