



Mizuho Securities UK Holdings Ltd - Basel II Pillar 3 Disclosures

31st March 2011

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1 Overview

1.1 Background

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

Implementation of the 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 Securities UK Holdings Ltd ('MSUKH' or '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 1st 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

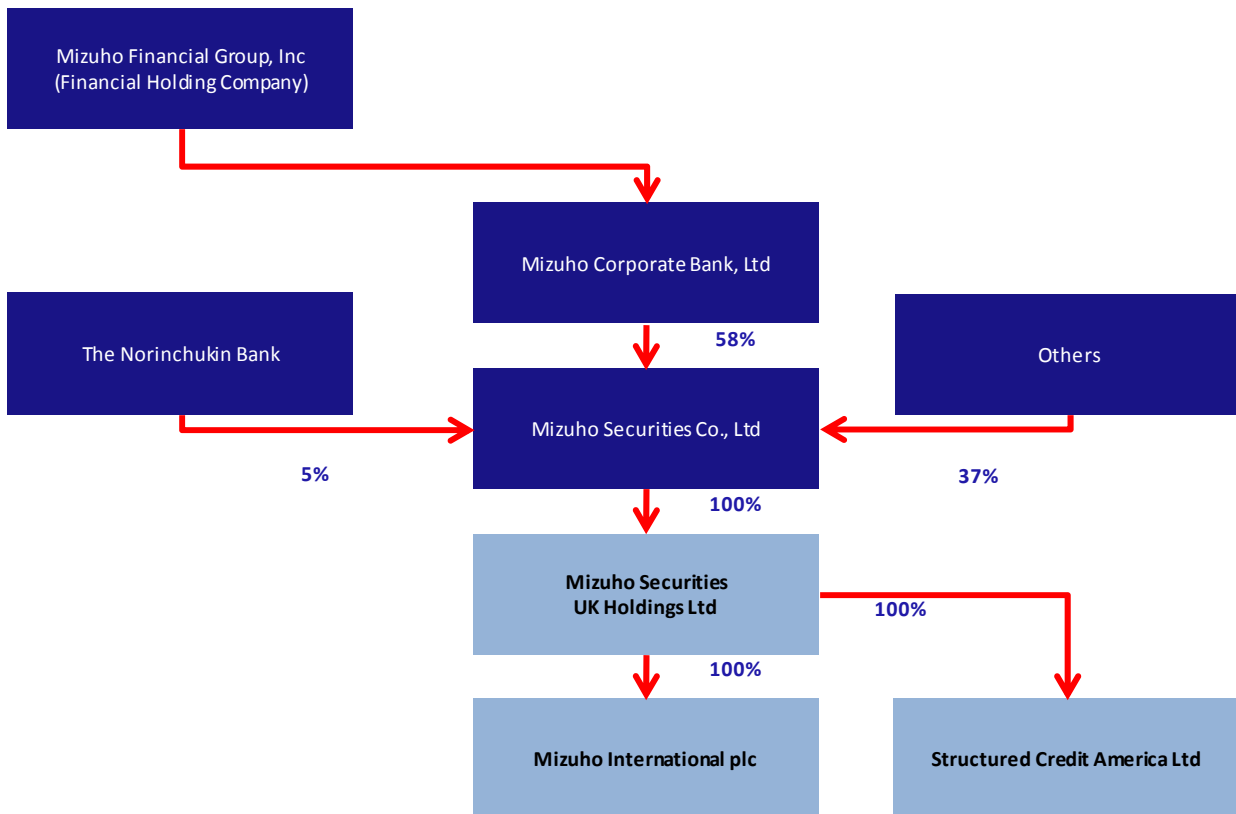
This disclosure document has been prepared by MSUKH in accordance with the requirements of Pillar 3 under BIPRU 11.

Unless otherwise stated, all figures are as at the 31st March 2011 financial year-end.

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

1.3 Structure as of 31st March 2011

MSUKH is the wholly owned European subsidiary of Mizuho Securities Co., Ltd ('MHSC' or 'Mizuho Securities'), which is owned by Mizuho Corporate Bank, Ltd (58%) and The Norinchukin Bank (5%) and others (37%). Mizuho Corporate Bank, Ltd is a wholly owned subsidiary of the Mizuho Financial Group, Inc. MSUKH has two active subsidiaries, Mizuho International plc ('MHI') and Structured Credit America Ltd.



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

1.4 Location and Verification

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

The disclosures are not subject to external audit, except when it refers to the Financial Statements. The Pillar 3 disclosure should be read in conjunction with the document ‘Mizuho Securities UK Holdings Ltd Financial Statements 2011’, which is published on the corporate website.

2 Risk Management Objectives and Policies

2.1 Group Risk Appetite

Over the last 2-3 years there has been a significant reduction in the Company's risk appetite. This reduction was reflected in the three year business plan, which commenced from April 2009 and was revised again during the second half of 2011. MSUKH's business model focuses on a low risk, client-flow business. Limited risk is undertaken to the extent that it is required to support client activity. Under the plan, the Company has ceased to operate its higher risk businesses or those businesses that typically involve complex derivative products. This has resulted in a significant reduction in the Company's risk profile. The Company has sought to retain the appropriate staff to manage its Legacy positions and minimise risks until they can be liquidated.

Further information can be found in the 'Directors' Report' in the 2011 Financial Statements.

2.2 Risk Management

MSUKH has an exposure to the following principal risk types. The full analysis of all risks that MSUKH 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 conditions or results.

MSUKH 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, MSUKH has total VaR limits set by Mizuho Securities.

Further information on the sensitivity analysis of the portfolio and the VaR model can be found in Note 31B in the 2011 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, customers and issuers, and for monitoring compliance with customer, counterparty, issuer, geographic, and product limits. Policy and limits are approved by the Risk Committee. The day to day management of credit risk is the responsibility of 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. Where an external rating is not available, a rating based upon the Bank'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 MSUKH's exposure to credit risk can be found in Note 31C in the 2011 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.

The process for managing and controlling MSUKH's funding requirements is covered in the Liquidity Policy. This is supported by further policy documents including the Statement of Liquidity Tolerance, Liquidity Stress

Testing Policy and the Contingency Funding Plan. These policies have been approved by the Executive Committee and Board.

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

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

As part of the liquidity management processes, stress testing analysis is undertaken on a routine basis, including the severe stress tests specified by the FSA in Chapter 12 of BIPRU. These stress tests look at potential currency mismatches, the lack of access to certain markets and the impacts upon collateral that could result from a multi-notch downgrade. The analysis of MSUKH suggests that it has sufficient resources to withstand these severe stress scenarios.

Further information on liquidity risk management can be found in Note 31D in the 2011 Financial Statements.

Other Risks

Information on Operational Risk, Legal Risk and risks involving special purpose companies can be found in Notes 31E-G in the 2011 Financial Statements.

2.3 Structure of Governance Functions

The MSUKH 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, which receives regular updates as to the material risks taken. To effectively fulfil its responsibility the Executive Committee is supported by a number of other committees. Each committee is subject to terms of reference which defines their respective scope of delegated authority.

Board			
Committee	Audit & Compliance Committee	Executive Committee	Remuneration Committee
Members	All Non-Executive Board members.	CEO (Chairman) various MDs and any other person appointed by the Board.	Certain Non-Executive Board Members
Objectives	a) To deal with audit and compliance matters as well as agree accounting policies with external auditors. b) To consider matters on behalf of Structured Credit America Ltd.	a) To conduct day to day running of the Company within the parameters agreed with the Board. b) To respond to any issues relating to the liquidity position of the Company following reports from the Risk Committee. c) To review the capital and risk appetite of the Company, Mizuho International plc and Structured Credit America Ltd. d) To allocate capital across the business activities of the Company, Mizuho International plc and Structured Credit America Ltd. e) To respond to any issues relating to the capital position of the Company following reports from the Risk Committee and liaise with the shareholder to the extent further capital management is needed. f) To approve any policies with respect to credit, market and operational risk and liquidity management. g) To review and approve on a semi-annual basis risk limits required by Mizuho Securities. h) To review and approve from time to time as necessary any changes to such risk limits if required between annual reviews. i) To approve policies which need Board authorisation under the regulatory regime. j) To authorise the list of authorised signatures. k) To act as the Disclosure Committee in relation to SOX related issues.	To approve the Company's remuneration policy as well as specific remuneration at certain levels.
Procedures	Report to the Board on audit and compliance issues as well as issues arising from financial statements.	Must seek the Board's approval for decisions outside agreed parameters (including incurring of unbudgeted costs of greater than £5 million).	Report to the Board.

Executive Committee	
Committee	Risk Committee
Members	Chief Risk Officer (Chairman) and various senior managers
Objectives	<ul style="list-style-type: none"> a) To advise the Executive Committee on risk methodologies and limits across the business of the Company, Mizuho International plc and Structured Credit America Ltd and to monitor compliance with these limits. b) To discuss with shareholder the appropriate levels of risk limits needed to conduct the business in an effective and properly controlled manner. c) To work with MHSC Risk Department to agree a set of overall limits. d) To set risk limits. e) To establish strategies and policies for credit, market and liquidity risk and monitor compliance with these levels. f) To review overall exposure and ensure this reflects risk appetite as set out in the Statement of Risk Appetite. g) To determine the metrics for measuring risk. h) To ensure risk limits are in place for new business areas prior to commencing trading. i) To set liquidity policy, monitor liquidity levels. j) To review regularly the capital positions and any capital allocations decided by the Executive Committee. k) To establish overall strategies and policies in the area of valuation, IPV, P&L reporting and reserving. l) To review counterparties and approve credit limits assigned to them.
Procedures	<ul style="list-style-type: none"> a) Present to the Executive Committee monthly a report on risk exposures of the Company, Mizuho International plc and Structured Credit America Ltd and decisions taken. b) Escalate to the Executive Committee all issues which potentially are critical. c) Present to the Executive Committee on a semi-annual basis risk limits. d) Propose to the Executive Committee any changes to limits if required between semi-annual reviews. e) To liaise with shareholders on limit changes. f) Report to Executive Committee on liquidity levels monthly or, in the event of any likely or actual shortfall, as soon as possible.

MSUKH 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.

MHI's governance framework comprises a Board which has an Audit and Compliance Committee, Executive Committee, Remuneration Committee and Underwriting Committee. The MHI Executive Committee itself has a number of committees, being Change and IT Steering Committee, Health and Safety Committee, a New Product Committee, an Operational Risk Committee and a Risk Committee.

3 Capital Resources

3.1 Total Available Capital

The following tables show the breakdown of the total available capital for MSUKH as at 31st March 2011. The capital resources are calculated in accordance with GENPRU 2.

	As at 31.3.2011	As at 31.3.2010
	£'000	£'000
Total tier 1 capital	315,824	421,065
Deductions	-	(1,274)
Total tier 1 capital	315,824	419,791
Total tier 2 capital	-	-
Total tier 3 capital	-	43,127
Total Financial Resources	315,824	462,918

3.2 Financial Resources

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

MSUKH does not have any innovative Tier 1 instruments. Further details on the share capital are provided in Note 25 in the 2011 Financial Statements.

The deduction as at March 2010 was related to the investment in a limited liability partnership ('LLP'). This investment was classified as a material holding.

4 Capital Adequacy

4.1 Capital Management

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

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

MSUKH 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. MSUKH aims to maintain a sound capital position at all times and therefore considers not only its current position but also its projected capital base and capital requirements. Capital projections and capital stress testing is updated and reviewed by senior management on a monthly basis.

4.2 Internal Capital Adequacy Assessment Process – Pillar 2

MSUKH 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, structural 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 MSUKH's overall minimum capital requirement for credit risk calculated under the standardised approach and expressed as 8% of the risk weighted exposure.

	As at 31.3.2011	As at 31.3.2010
Minimum Capital Requirement 8%	£'000	£'000
Exposure Classes	30,189	40,658
Financial Institutions	17,130	15,768
Corporate	0	132
Insurance	13,059	24,758
Other	1,926	1,858
Fixed and other assets	1,926	1,858
Credit risk minimum capital requirement	32,115	42,516

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.

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

	As at 31.3.2011	As at 31.3.2010
Minimum Capital Requirement 8%	£'000	£'000
Interest Rate PRR	22,430	75,894
Equity PRR	337	445
Foreign Currency PRR	89	1,939
Market Risk Total	22,856	78,278
Counterparty Risk Capital Component	28,324	30,687
Concentration Risk Capital Component	838	529
Credit Risk Capital Component	32,115	42,516
Credit Risk Total	61,277	73,732
Operational Risk capital requirement	25,654	19,680
Total Pillar 1 Capital Requirement	109,787	171,690

5 Counterparty Credit Risk, Mitigation, Dilution and Reporting

5.1 Overview of Counterparty Risk in the Trading Book

Counterparty credit risk is defined as a risk of financial loss to the Company if a counterparty to a financial instrument or a customer fails to meet its contractual obligations. The evaluation of a counterparty rating is based on the external ratings provided by designated External Credit Assessment Institutions (ECAIs). Unrated institutions are assigned a Credit Quality Step of 3 and other entity types a Credit Quality Step of 4.

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

As at 31.3.2011

Government, Central Banks and International Organisations

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	0%	AAA to AA-	43,289	43,289
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	11,790	11,790
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
Total			55,079	55,079

As at 31.3.2011

Central Counterparties

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

As at 31.3.2011
Financial Institutions

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

As at 31.3.2011
Corporates

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

As at 31.3.2010**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-	15,999	15,999
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
Total			15,999	15,999

As at 31.3.2010**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-	118,128	118,128
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
Total			118,128	118,128

As at 31.3.2010**Financial Institutions**

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	20%	AAA to AA-	537,453	462,983
2	50%	A+ to A-	269,280	193,156
3	50%	BBB+ to BBB-	20,310	20,310
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
	50%	Unrated	268,351	238,901
Total			1,095,394	915,350

As at 31.3.2010				
Corporates				
Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	20%	AAA to AA-	0	0
2	50%	A+ to A-	0	0
3	100%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	150%	B+ to B-	0	0
6	150%	Below B-	0	0
	100%	Unrated	64,784	64,784
Total			64,784	64,784
GRAND TOTAL			1,294,305	1,114,261

5.2 Counterparty Credit Risk on Derivatives in the Trading Book

MSUKH uses derivative instruments to hedge its consolidated market risk. Collateralisation of the derivatives is one of the main tools used by the market to manage counterparty credit exposure. The value of the collateral received can be offset against the market value of derivatives where legally enforceable netting arrangements are in place. Positive and negative exposures are offset with the same counterparty provided that a legally enforceable netting agreement is in place.

The table below shows the exposure to counterparty credit risk for derivative contracts at 31st March 2011 for MSUKH:

Counterparty Credit Risk As at 31.3.2011

	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	170,971	(102,630)	219,755	0	219,755
Total	170,971	(102,630)	219,755	0	219,755

Counterparty Credit Risk As at 31.3.2010

	Gross Positive Fair Value of Contracts	Total Netting Benefits	Netted Current Credit Exposure	Collateral Held	Net Derivates Credit Exposure
	£'000	£'000	£'000	£'000	£'000
Trading Book	334,421	(174,722)	393,839	0	393,839
Total	334,421	(174,722)	393,839	0	393,839

Net derivative credit exposure represents the credit exposure to derivatives transactions after taking into account legally enforceable netting agreements and collateral arrangements with counterparties. Note that the 'Netted Current Credit Exposure' is inclusive of the FSA prescribed Potential Future Exposure ('PFE') add-ons which are not included as part of the Gross Positive Fair Value calculation.

5.3 Credit Risk Limits and Policies

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

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. As at 31st March 2011, single name and index credit derivatives are still used to hedge exposures within 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 MSUKH's notional CDS credit derivative exposure.

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

As at 31.3.2010	Protection Sold	Protection Purchased	Total
	£'000	£'000	£'000
Credit Default Swaps - Trading book	699,896	933,740	1,633,637
Total	699,896	933,740	1,633,637

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 31st March 2011 MSUKH 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, and averaged out for the year ended, 31st March 2011 is summarised as follows:

As at 31.3.2011

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

**Other items: life policies, other investments, fixed assets and other sundry General Ledger accounts.*

Geographical distribution of these exposures as at 31st March 2011 is as follows:

Geographical distribution

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

The residual maturity breakdown of exposures by exposure class as at 31st March 2011 is as follows:

By maturities

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

As at 31.3.2010		
	Average Gross Credit exposure	Total Gross Credit exposure 31st March 2010
	£'000	£'000
Financial Institutions	206,331	223,902
Corporates	1,568	1,648
Other items*	323,133	332,709
Total	531,032	558,259

* Other items: life policies, farm credits, other investments, fixed assets and other sundry General Ledger accounts.

As at 31.3.2010
Geographical distribution

	UK	Japan	US	Europe	Rest of the World	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Institutions	85,389	36,008	34,378	12,547	55,580	223,902
Corporates			1,648			1,648
Other items	32,377		173,393	84,451	42,488	332,709
Total	117,766	36,008	209,419	96,998	98,068	558,259

As at 31.3.2010					
By maturities					
	Up to 12 months	1-5 years	5-10 years	More than 10 years	Total
	£'000	£'000	£'000	£'000	£'000
Financial Institutions	92,280	44,419		87,203	223,902
Corporates				1,648	1,648
Other items	23,233			309,476	332,709
Total	115,513	44,419	0	398,327	558,259

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 factors. The main market risk factors are:

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

6.2 Monitoring of Market Risk

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

Although MSUKH 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 31st March 2011 MSUKH had a concentration risk capital requirement resulting from exposures to connected counterparties within the Mizuho Financial Group.

8 Exposure to Equity Risk in the Non-Trading Book

As at 31st March 2011, the Company 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.

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

A summary of MSUKH's interest rate risk exposure in the Company's non-trading book allocated by time bands can be found in Note 31B of the 2011 Financial Statements.

10 Securitisation

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

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

MSUKH's main exposure to securitisations relates to asset backed securities. These assets are held within the Structured Credit America Ltd entity.

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

As at 31.3.2011

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

As at 31.3.2010

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	20%	AAA to AA-	4,092	4,092
2	50%	A+ to A-	17	17
3	100%	BBB+ to BBB-	87	87
4	100%	BB+ to BB-	1,759	1,759
	1250%	B+ & below	43,080	43,080
Total			49,035	49,035

Note that over the 12 months ended 31st March 2011 the exposure has decreased from £49m to £0.7m, in line with the Company's objective of winding down these exposures as part of exiting its credit structuring businesses.

MSUKH's role and involvement in the securitisation process is summarised in Note 31E in the 2011 Financial Statements.

MSUKH accounting policies relating to securitisation are summarised in Note 2L in the 2011 Financial Statements.

11 Disclosure on Remuneration

MSUKH was not fully in scope for the FSA Remuneration Code until July 2011. However, the concept of Code Staff was deemed to be applicable to the Company in relation to remuneration for the year ended 31st March 2011 paid after 31st March 2011.

11.1 The Remuneration Committee

The Remuneration Committee approves the Company's remuneration policy generally and specific remuneration at certain levels. Committee members are appointed by the Board and comprise solely Non-Executive Directors. The Committee reports to the Board through its Chairman. The remuneration of the Company's Executive Board Directors is approved by the Remuneration Committee. The Remuneration Committee also has oversight for the remuneration of all Code Staff (see 11.3 below).

11.2 The Remuneration Policy

The Remuneration Policy applies to all employees of MSUKH (incorporating MHI and Structured Credit America Ltd) together with secondees. The Remuneration Policy has been designed to facilitate the attraction and retention of high calibre staff and promote fairness and consistency throughout the employment relationship whilst not compromising the Company's high standards of control. It is consistent with and promotes effective risk management. For purposes of determination of the Remuneration Policy no external consultants have been formally engaged but advice has been sought and given by competent persons on a regular basis. The Remuneration Policy is communicated to and agreed with relevant stakeholders and is reviewed not less than annually by the Remuneration Committee.

11.3 Code Staff

Code Staff are defined as staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the Company's risk profile.

For the purposes of the 2010/11 financial year, a total of 22 Code Staff have been identified – this comprised 19 significant influence functions and three other members of senior management.

11.4 Control Functions

The compensation of employees engaged in control functions is based principally on the achievement of objectives linked to those functions and the performance of the business units which they oversee are not involved in its determination. Compensation for the heads of those control functions is reviewed by the Remuneration Committee.

11.5 The link between pay and performance

Financial and non-financial matters are considered in determining the bonus pool. For all employees, assessment of financial performance of the Company will be based principally on risk adjusted profits (rather than revenues). The fact that the Company makes a loss may, but will not necessarily, result in no bonuses being paid. Bonuses may still be paid in these circumstances if justified on other grounds. Non financial aspects include progress made in developing and servicing a quality client base and maintaining an efficient and appropriate infrastructure and control environment which complies with regulatory requirements.

Discretionary bonuses are awarded in line with business strategy, objectives, values and the long term needs of the Company, and take into account individual, departmental, and corporate performance and retention. Assessment of individual performance is measured both informally through feedback throughout the year, and formally via the annual appraisal review, which includes an assessment of an individual's financial performance as well as their non-financial behaviour, control and risk awareness.

Both the Head of Compliance and the Chief Risk Officer are involved in the process to review and set remuneration and bonuses. Concerns regarding an individual's activities or conduct can be raised at this stage and are taken into account by management.

11.6 The design characteristics of the remuneration scheme

11.6.1 Risk Adjustment

The Company seeks to promote effective risk management and ensure that suitable mechanisms are in place to align risk and reward. When determining variable remuneration, the cost of economic and regulatory capital and liquidity is taken into account, together with the need to maintain and/or strengthen a sound capital base. The Chief Risk Officer adjusts allocated regulatory capital where he believes that this does not adequately reflect the risk being run by a business. MSUKH is developing a relatively simple client based business dealing in vanilla cash products. It does not have a proprietary business and does not deal in complex instruments. Other than the discounting of future cashflows as part of standard marking to market of financial instruments to arrive at their fair value, future earnings streams are not recognised upfront.

11.6.2 Deferral Policy

In relation to the period in question (April 2010 to March 2011) variable pay for Code Staff and certain other staff is subject to a deferral plan. The deferral plan provides for deferral of between 25% and 66.67% of bonus over a prescribed threshold for a period of one or two years, depending on the risk score of the individual's business area. Under the Remuneration Policy, the deferred portion of any bonus payment awarded to Code Staff is subject to performance measures and risk adjustment.

11.6.3 Performance Adjustment

The Remuneration Policy contains forfeiture provisions which enable the Company to withdraw / not pay awards granted to Code Staff in prior periods which have been deferred. The situations in which this may occur include where there is evidence of the individual's misbehaviour or material error; where a material failure of risk management is suffered by the Company or the individual's department; and where it is deemed

appropriate by the Remuneration Committee following any assessment or reassessment of individual, departmental or corporate performance.

11.7 Variable components of remuneration

MSUKH remuneration policy is designed to ensure that fixed and variable components of total remuneration are appropriately balanced. MSUKH has set fixed remuneration at a level which allows it to operate a fully flexible bonus policy (allowing it to award zero bonuses in appropriate circumstances). The main parameters for the variable component bonus scheme are set out in 11.5 above. The rationale for the variable component bonus scheme is to facilitate the attraction and retention of high calibre staff.

In relation to the period in question variable remuneration for Code Staff will be paid in cash and subject to deferral.

11.8 Quantitative information on remuneration for Code Staff

Aggregate remuneration expenditure for Code Staff full year ended 31.03.2011

£'000

Global Investment Banking	2,399
Markets and products	3,830

Remuneration for Code Staff full year ended 31.03.2011

	Senior Management	Non Senior Management
Number of Code staff	19	3
Fixed Pay	£'000	£'000
Cash based Fixed Remuneration	4,738	435
Variable Pay		
Cash*	6,488	185
Shares**	0	0
Deferred cash*	3,135	0
Total variable pay	9,623	185
Overall Total	14,361	620

Analysis of sign-on and severance payments for Code Staff full year ended 31.03.2011

	Senior Management	Non Senior Management
Sign-on Payments	£'000	£'000
Made in the year	6,550	0
Number of beneficiaries	4	0
Severance Payments		
Made in the year	0	0
Number of beneficiaries	0	0

* This includes any discretionary contributions made to an Employee Benefit Trust

** MSUKH was not fully in scope for the full year in question therefore all variable pay was made in cash