



***Mizuho Securities UK Holdings Ltd***

***Pillar 3 disclosures***

**31 March 2016**

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# 1. Introduction

## 1.1. Objective

This document sets out disclosures in respect of the Mizuho Securities UK Holdings Ltd (MSUKH) group of companies (the 'Group') required under European Union (EU) CRD IV legislation, consisting of the Capital Requirements Regulation<sup>1</sup> (CRR) and the Capital Requirements Directive<sup>2</sup> (CRD).

Pillar 3 disclosures, as required under Part Eight of the CRR provide market participants with information on a firm's risk governance, risk management processes, risk exposures, and capital resources.

Directive imposed disclosure requirements are implemented within the UK through Prudential Regulation Authority (PRA) rules<sup>3</sup>. These disclosures provide market participants and other stakeholders with information in relation to a firm's governance and remuneration practices.

## 1.2. Regulatory information

Mizuho International plc (MHI), the principal trading entity of the Group, is authorised by the PRA and regulated by the Financial Conduct Authority (FCA) and the PRA. MHI is entered into the Financial Services Register and its register reference number is 119256.

## 1.3. Forward looking statements

Certain statements in this disclosure document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of MSUKH. Although MSUKH believes that the expectations reflected in these forward-looking statements are reasonable, MSUKH can give no assurance that these expectations will prove to be an accurate reflection of actual results. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

## 1.4. Overview of Basel framework and Pillar 3

The CRD IV legislation, designed to implement the Basel III reforms of the Basel Committee on Banking Supervision, came into force in the EU on 1 January 2014. However, certain aspects of CRD IV are subject to phased implementation and may also be dependent on final technical standards to be issued by the European Banking Authority (EBA) and adopted by the European Commission, and ultimately implemented in the UK.

Prudential requirements under the Basel framework are categorised under three pillars as described below.

### **Pillar 1: Industry minimum capital requirements**

#### *Risk based requirements*

The first pillar of the Basel framework focuses on the determination of minimum capital requirements applicable to all firms to support exposures to credit, counterparty credit, market and operational risks. Capital requirements may also be expressed as risk weighted assets (RWAs), being a notional amount 12.5 times the size of the capital requirement. Risk based minimum capital requirements may be determined using a number of approaches. These are summarised below, together with the approach which has been adopted by MSUKH:

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<sup>1</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

<sup>2</sup> Directive 2013/36/EU of the European Parliament and of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

<sup>3</sup> Section 4.3A.11 of the PRA's Senior Management Arrangements, Systems and Controls (SYSC) sourcebook.

Table 1: Basel Pillar 1 risk based approaches

Approach	MSUKH	Summary
<b>Credit risk and counterparty credit risk</b>		
Standardised approach	✓	Standardised risk weightings are applied to credit risk exposures. Credit exposures in respect of counterparty risk must be calculated in accordance with prescribed methods, being either: mark-to-market, standardised, or the internal model method (IMM). Credit ratings supplied by external credit assessment institutions (ECAIs) are used to determine the appropriate risk weight to be applied to exposure amounts. Credit risk mitigation techniques are recognised.
Internal ratings based (IRB) approach	✗	There are two main IRB approaches for wholesale exposures: <ol style="list-style-type: none"> <li>1. The foundation IRB approach allows banks to make their own internal assessment of a counterparty's probability of default (PD), but subjects their quantified estimates of exposure at default (EAD) and loss given default (LGD) to standard supervisory parameters.</li> <li>2. The IRB advanced approach allows banks to use their own internal assessment in determining PD, quantifying EAD and LGD.</li> </ol>
<b>Market risk</b>		
Standardised approach	✓	Requires the calculation of position risk requirements for each type of market risk within the trading book in accordance with standard rules.
Internal models approach	✗	Capital requirements are calculated using internal Value at Risk (VaR) models.
<b>Operational risk</b>		
Basic indicator approach	✓	Capital requirements are calculated as 15% of three year average gross income.
Standardised approach	✗	Capital requirements are calculated from the three year average of aggregate risk weighted indicators. A firm's business must be split into defined business lines with specific risk weights applied to each business line.
Advanced measurement approach	✗	Capital requirements are calculated through the use of internal operational risk measurement systems.

### *Non-risk based requirements*

Under CRD IV risk based requirements are supplemented by a leverage ratio, under which firms are required to maintain Tier 1 capital in excess of a minimum ratio to a gross measure of exposures. Exposures comprise on and off balance sheet items, calculated from the accounting balance sheet subject to a defined set of adjustments. Whereas risk weighted capital ratios differentiate capital requirements according to estimates of the relative riskiness of different asset classes, a leverage ratio weights all assets equally. The leverage ratio is intended to limit the risk of excessive leverage across the banking sector and to reinforce risk based requirements with a simple backstop measure.

In accordance with CRD IV banks are required to publish their leverage ratios, with a binding requirement across the EU expected to come into force from 2018. Institutions will from this point be required to maintain capital in excess of the greater of the risk based and non-risk based requirements. MSUKH's current leverage ratio is provided in section 4.3 of this document.

## **Pillar 2: Supervisory review process**

The second pillar of the Basel framework is designed to assess the adequacy of a firm's capital resources by considering all material risks to the firm's business, including those not covered or adequately addressed by the first pillar, together with the impact upon the capital position that is forecast to occur using stressed macroeconomic scenarios.

Firms are required to conduct an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to review their capital resources in light of material risks identified and the outcome of stress testing procedures performed. This internal assessment is subject to the Supervisory Review and Evaluation Process (SREP) and forms part of the PRA's own assessment of the risks to which firms are exposed, their risk management and capital adequacy.

The PRA sets minimum capital requirements by issuing firms with specific Individual Capital Guidance (ICG). Where the PRA issues ICG to a firm it will require firms to hold additional capital (Pillar 2A) in respect of risks not adequately covered within Pillar 1. ICG is set as a percentage of RWAs.

The PRA may also notify firms of an amount and quality of capital that should be held for the PRA Buffer. This buffer is an amount of capital that firms should hold, in addition to their ICG, to cover losses that may arise under a severe stress scenario, but avoiding duplication with the CRD IV buffer, being the Capital Conservation Buffer and the Capital Countercyclical Buffer. When setting the PRA Buffer, the PRA considers the extent to which the CRD IV buffers already capture the risks identified in the PRA Buffer assessment. The PRA Buffer is then set as a percentage of RWAs.

### Pillar 3: Market discipline

The third pillar of the Basel framework requires public disclosure surrounding a firm's risk governance, risk management practices, its approach to capital management, capital resources and Pillar 1 capital requirements. These disclosures are intended to foster market discipline in relation to a firm's risk management practices.

## 1.5. Notes on basis of preparation

### Scope of consolidation

These disclosures are comprehensive and prepared in respect of the consolidated Group. The scope of consolidation is consistent with the Group's UK accounting consolidation. The authorised institution within the Group is MHI.

### Basis of preparation

These disclosures have been prepared in accordance with regulatory capital adequacy concepts and rules rather than in accordance with accounting standards. Certain information provided within these disclosures is therefore not directly comparable with financial information contained within the annual financial statements.

The table below shows the relationship between the Group's accounting balance sheet categories and the calculation of RWAs by risk driver. The table does not include all inputs included in the calculation of RWAs, but is intended to provide an overview of the link between accounting and Pillar 1 regulatory measures:

Table 2: RWA calculation drivers split by balance sheet category

Accounting balance sheet category	RWA risk type		
	Credit risk	Counterparty credit risk	Market risk
<b>Assets</b>			
Reverse repurchase agreements	-	✓	✓
Trading financial assets	-	-	✓
Trading derivative assets	-	✓	✓
Derivative assets held for risk management	-	✓	-
Loans and advances to banks	✓	-	-
Financial investments	✓	-	-
Tangible fixed assets	✓	-	-
Other assets	✓	-	-
Prepayments and accrued income	✓	-	-
<b>Liabilities and equity</b>			
Deposits by banks	-	-	-
Customer accounts	-	-	-
Repurchase agreements	-	✓	✓
Trading financial liabilities	-	-	✓
Trading derivative liabilities	-	✓	✓
Derivative liabilities held for risk management	-	✓	-
Debt securities in issue	-	-	-
Other liabilities, accruals and provisions	-	-	✓

Not all Pillar 3 disclosure requirements under CRD IV are applicable to the Group. In such instances no disclosure is presented within this document.

## **Location and verification**

A standalone copy of these disclosures is located on the Group's website ([www.onemizuho.eu](http://www.onemizuho.eu)). These disclosures should be read in conjunction with the MHI financial statements for the year ended 31 March 2016, which are also published on this website.

Whilst the disclosures presented within this document do not require validation through external audit, they have been subject to internal governance procedures, including review and approval by the Group's Chief Financial Officer (CFO) and Chief Risk Officer (CRO) and the Board of Directors of MSUKH (the 'Board').

## **Frequency of disclosure and comparative balances**

Disclosures are provided in accordance with EBA guidelines, currently on an annual basis, and published as soon as practicable after the publication of the financial statements and, unless otherwise indicated, all current year figures are stated as at the Group's financial year end, 31 March 2016.

More frequent disclosures are provided in the event that a material change occurs to the Group's business.

Comparative balances as at 31 March 2015 have generally been presented within this document. Where required, comparative prior year values have been restated to align with the 2016 presentation of disclosures.

## **Immaterial disclosures**

In line with Article 432 of the CRR, where the information required under a particular disclosure is considered by the Group to be immaterial, such disclosures have been omitted. The determination of immateriality is based upon the guidance issued by the EBA.

## **Events after the disclosure date**

### *Liquidation of MSUKH and Structured Credit America Ltd (SCA)*

As part of the completion of the winding down of MSUKH's legacy business, the Board has elected to place into voluntary liquidation SCA and MSUKH; the continuing entity in the UK will be MHI.

The voluntary liquidation and dissolution of SCA completed in June 2016.

On 21 July 2016 MSUKH was placed into voluntary liquidation with MHI, the sole remaining subsidiary of MSUKH, transferring to become a direct subsidiary of Mizuho Securities Co., Ltd.

## 2. Corporate governance

### 2.1. Role of the Board

The Board has overall responsibility for the management of the Group. The role of the Board is to provide leadership of the Group within a framework of prudent and effective internal controls, in order to maintain effective operations, control of financial affairs and compliance with law and regulation. The Board is responsible for the long term success of the Group and, to this end, sets its strategy and risk appetite, whilst ensuring that an effective risk management framework is maintained.

Certain matters are reserved for approval by the Board due to their significance. These matters include decisions concerning Board membership and corporate governance, strategy, approval of risk appetite and risk management oversight, capital and liquidity matters, corporate structure, financial performance, remuneration policy, and significant legal and regulatory matters. Matters not specifically reserved to the Board are delegated to the Group's executive officers.

### 2.2. Directors' responsibilities

Under UK company law, directors must promote corporate success by exercising independent judgement with reasonable care, skill and diligence, while having regard to the long-term consequences of their decisions.

Directors of UK regulated banks are also required by the PRA and Financial Conduct Authority (FCA) to act in accordance with their principles, including requirements in relation to observing proper standards of market conduct, dealing with regulators in an open and co-operative manner, taking reasonable steps to ensure that business is organised to facilitate effective control, and ensuring compliance with the regulatory system.

The principal roles on the Board and the responsibilities attaching to those roles are summarised below:

Table 3: Roles on the Board

Role	Responsibilities
Chair	<ul style="list-style-type: none"><li>Leads the Board and sets the Board's agenda</li><li>Facilitates engagement and participation from all Board members</li><li>Ensures effective communication with the Group's shareholder</li><li>Acts as Chair of the Nomination Committee</li></ul>
Chief Executive Officer (CEO)	<ul style="list-style-type: none"><li>Recommends the Group strategy to the Board</li><li>Responsible for implementation of strategy and day-to-day management of the Group's affairs</li></ul>
Non-executive directors	<ul style="list-style-type: none"><li>Offers constructive challenge to management and oversees achievement of agreed objectives</li><li>Monitors operation of effective internal control and risk management</li></ul>
Independent non-executive directors	<ul style="list-style-type: none"><li>Acts as a sounding board for the Chair</li><li>Available to act as an intermediary for other Board members and stakeholders</li></ul>

### 2.3. Board composition

The Board is made up of a majority of non-executive directors and the importance of maintaining an appropriate balance of skills, experience, diversity and independence is recognised. The Nomination Committee will assess on an annual basis the structure, size and composition of the Board, together with the balance of knowledge, skills and experience of its members.

The Board composition at 31 March 2016 with regard to the balance of executive and non-executive membership is shown below:

Table 4: Board composition

Independence	
Independent non-executive directors	● ● ●
Chair and other non-executive directors	● ● ●
Executive directors	● ● ●



The Group is committed to diversity and respects the diversity and individuality of all persons, irrespective of nationality, gender, age, career-level, or lifestyle. Board appointments will be made on merit - the Nomination Committee will identify and recommend candidates for Board appointments based on knowledge, skills and experience measured against identified objective criteria, having due regard to the benefits of diversity. The Nomination Committee has set an initial target for gender diversification on the Board at a minimum of ten per cent. This policy will be reviewed annually, including an assessment of its effectiveness, with a view to its improvement as necessary.

On 11 July 2016, MHI became a founding signatory to HM Treasury’s Women in Finance Charter. This is a commitment by the Board to work with HM Treasury and other signatory financial services firms to build a more balanced and fair industry. The Charter requires signatory firms to:

- commit to supporting the progression of women into senior roles by focussing on the executive pipeline and the mid-tier level;
- set internal targets for gender diversity in senior management and report those targets on their website within three months (for MHI this means 30 September 2016);
- have an intention to link senior executive pay to delivery against those targets;
- appoint a senior executive member to be responsible for gender diversity and inclusion across the firm; and
- report annually on progress against internal targets on their website.

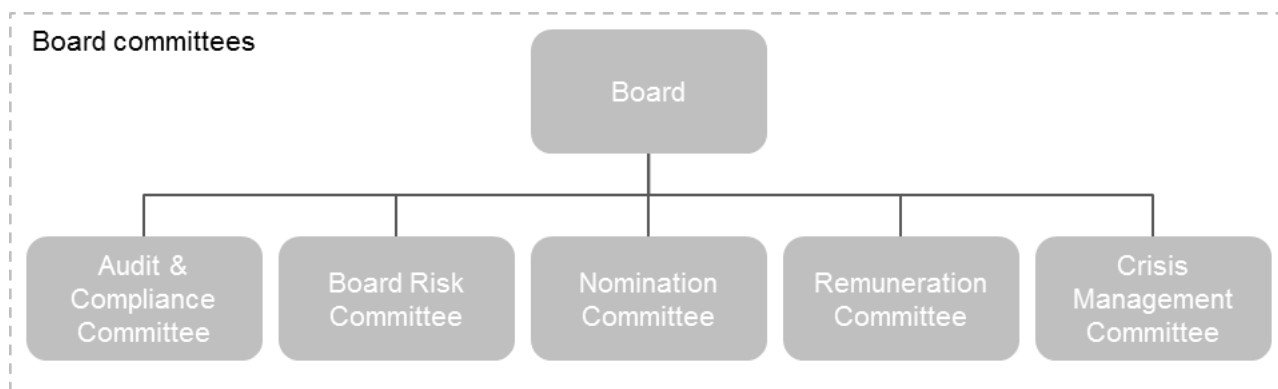
Directorships held by Board members are reviewed to ensure compliance with the PRA's requirements regarding the total number of such positions which may be held. As at 31 March 2016, the Board contained nine members who held a total of fifteen<sup>4</sup> directorships, with no individual member holding more than four directorships in commercial or non-group enterprises, (inclusive of those held on the Board) in compliance with these requirements.

## 2.4. Board performance

Arrangements for induction of new Board members and ongoing training are in place to ensure that directors are fully informed of key business, legal and regulatory matters relevant to the performance of their roles. The review of Board performance and that of individual directors plays an important role in ensuring effective ongoing governance, and the Group has made arrangements for the Nomination Committee to conduct annual performance evaluations and to make recommendations to the Board arising out of these reviews.

## 2.5. Board committees

The Board has established a number of sub-committees to enable detailed oversight of particular areas of Board responsibility and to facilitate oversight of senior management. Board and sub-committee meetings are held on a regular basis and sufficient time is allocated to ensure that relevant business is fully considered. The sub-committees of the Board are described below, together with a summary of their respective responsibilities:



<sup>4</sup> This disclosure is given in accordance with the definition used in Article 91 of CRD IV and implemented by the PRA, whereby directorships in organisations which do not pursue predominantly commercial objectives are not counted and directorships held within the same group are counted as a single directorship.

Table 5: Board committees

Committee	Role
Audit & Compliance Committee	<p>Reviews the appropriateness and completeness of the internal control framework, receives reports from internal and external auditors and monitors the progress of remedial action with regard to control weaknesses.</p> <p>Reviews arrangements established by management for compliance with regulatory requirements and reviews any matters of significance regarding the Group's relationship with its regulators.</p>
Board Risk Committee	<p>Makes recommendations to the Board concerning the Group's risk appetite, and reviews the supporting Board level limit framework and key metrics.</p> <p>Evaluates and reports to the Board on matters concerning the Group's overall risk profile and performance against risk appetite, giving consideration to key trends and concentrations, compliance with limits and significant risk issues.</p> <p>The Committee evaluates the Group's governance, risk and control framework.</p> <p>Provides input to the Remuneration Committee with regard to appropriate risk adjustments to be made to remuneration packages.</p>
Nomination Committee	<p>Reviews and makes recommendations with regard to Board composition, performance, and Board and senior management succession planning.</p> <p>Selects and recommends to the Board candidates for membership in accordance with its assessment of the balance of skills, experience, diversity and independence to be maintained on the Board.</p>
Remuneration Committee (RemCo)	<p>Sets and recommends to the Board the objectives, principles and parameters of the Group's Remuneration Policy.</p> <p>Reviews the individual remuneration arrangements of senior staff having regard to the impact on behaviour, risk appetite and risk profile of these arrangements, and the degree to which performance assessment takes account of current and potential future risks.</p>
Crisis Management Committee	<p>Convened at the request of (i) any two of the CEO, CFO, CRO and 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 Director to resolve a crisis or threat situation. This includes management of the Group to the extent the Recovery Plan is initiated.</p>

## 3. Risk management framework

The Group maintains a prudent approach to risk to ensure that it can operate safely and to support sustainable business development in keeping with the Board's strategy. A culture which is supportive of strong risk management, in line with clear principles and tolerance for risk is led by the Board. The Group has a strong and independent Risk Management function responsible for the identification of the Group's principal risks, maintenance of risk control frameworks, and for keeping the Board informed of the Group's risk profile.

### 3.1. Risk culture

The Group believes that a strong risk management culture is essential to achieve its business objectives. With ultimate responsibility for risk governance throughout the Group, the Board embeds a strong risk management culture through the establishment of an independent Risk Management function which works closely with the business and treats risk management as a shared responsibility between the business and Risk Management functions.

### 3.2. Risk principles

The Board has established clearly defined risk principles which describe the Group's key risk management objectives in support of its business strategy, which are summarised below:

- Maintain a predictable cautious to moderate risk profile;
- Ensure that effective control of balance sheet usage and concentration risk is exercised, without tolerating breaches of the Group's limit framework;
- Preserve strong capital and liquidity ratios and comply with all regulatory requirements;
- Maintain a diversified funding strategy with regard to both the sources and tenor of funding; and
- Ensure that remuneration arrangements are aligned to the Group's risk appetite.

### 3.3. Risk appetite

The Board's risk appetite describes the levels and types of risk that the Group is prepared to accept in pursuit of its business strategy. The risk appetite is quantified with reference to scenario and stress testing, and is set so as to ensure that the Group is able to maintain a sound financial position throughout economic cycles.

The risk appetite is implemented through a supporting limit framework that ensures all material sources of risk are controlled in a manner consistent with the Board's overall risk tolerance. The Group has adopted a structured approach to limit management which ensures that limit reporting and oversight take place at the appropriate level within the organisation. The status of the Group's overall risk profile in relation to the risk appetite is overseen by the Board.

### 3.4. Risk governance and assigning responsibility

#### Three lines of defence

In keeping with the Group's risk culture, responsibilities for risk management are assigned to multiple functions within the organisation under the three lines of defence model, to ensure that the Group's risk management framework is robust and effective.

**First line:** Business and support functions which originate or accept risk are held responsible for the management and control of that risk in line with the Group's risk appetite, supporting limit framework and other related risk policies.

**Second line:** The second line of defence is provided by risk control functions which exercise independent oversight of the management of risk by those originating functions. The principal risk control functions comprise the Group's Risk Management and Compliance functions, supported by the Finance and Legal functions.

**Third line:** Independent and post-dated assurance with regard to the effectiveness of risk management strategies, policies and processes is provided by the Group's Internal Audit function and its external auditors.

#### ***Risk governance***

The Board retains responsibility for approval of the Group's risk appetite, risk management oversight and capital and liquidity matters, including compliance with applicable regulation. The heads of the principal risk control functions, being the CRO and the Head of Compliance, are mandated through dual reporting lines to update and inform the relevant Board committees of matters relating to their functions and Group-wide risk management.

Responsibility for the day to day running of the business is delegated by the Board to the Group's CEO, who in turn mandates the heads of the principal control functions to assume responsibility for risk challenge and oversight.

### **3.5. Risk Management function and approach**

The Group maintains a strong and independent Risk Management function which is headed by the CRO. The function is mandated to oversee all material classes of risk to which the Group is exposed, other than conduct risks which are overseen by the Group's Compliance function.

The Risk Management function is structured to facilitate oversight of these principal risk classes and incorporates separate teams with responsibility for market, credit, liquidity, regulatory governance, and operational risk oversight. A common approach to risk oversight is adopted for each principal risk class, in accordance with risk policies established for those classes.

#### **Risk identification and assessment**

All material risk exposures are identified and recorded within the Group's risk register, whilst responsibility for the assessment of those risks resides with both the business and the risk control functions. Risks and sub-components of risk are assessed through the implementation of a variety of measures or metrics relevant to each risk class. Risk assessment measures are developed in accordance with accepted measurement methodologies for each class of risk, and the resulting assessments are classified according to severity, to provide clear identification of the Group's material exposures. Risk assessments are conducted in relation to both normal and stressed market conditions.

#### **Control and mitigation**

Risk exposures are managed by business and support functions using a range of techniques relevant to the individual risk class. Such techniques encompass market based hedging activities, credit risk mitigation techniques, diversification of funding sources and tenor, business continuity planning and the purchase of insurance.

Risk control limits and key risk indicators are established to ensure that risk exposures remain within specified levels, and that the Group is able to operate in accordance with its overall risk appetite. A comprehensive limit framework is maintained by risk class, with defined levels of authorisation to ensure that risk exposure levels are authorised and monitored at the appropriate level within the Group's governance hierarchy.

#### **Monitoring and reporting**

Reporting of risk exposures in relation to risk limits, and more broadly with regards to trends in the Group's risk profile and emerging risks, is performed by the Risk Management function (and by the Compliance function with regards to conduct related matters). Reporting is conducted in relation to all principal risk factors, and is designed to enable effective governance of the Group's risk profile. In particular the Board and the Board Risk Committee are regularly informed of the Group's risk exposures and compliance with risk limits.

In addition to monitoring current risk exposures, the Group also monitors potential future adverse developments by establishing early warning indicators whose breach may indicate deterioration in the Group's capital and liquidity strength. Monitoring and reporting the status of these early warning indicators forms part of the Group's contingency planning arrangements.

### **3.6. Strategy and planning**

The Group conducts formal business planning on an annual basis, through which the Board's strategic objectives are developed into detailed business plans. Commercial objectives and plans are established for all significant business lines, and from these financial projections are developed, which take account of expected macroeconomic and market conditions.

The Group's risk appetite is also formally reviewed on an annual basis as part of the business planning cycle, to ensure that business strategy and risk management activities are aligned. Business plans are also reviewed by the Group's Risk Management function to ensure that planned developments are achievable given the Group's risk management capabilities, and to form a view with regard to the balance of risk and reward attributable to planned activities.

As part of its business planning activities the Group also conducts capital planning to ensure that an appropriate balance between capital resources and capital requirements is maintained through the planning cycle. As part of its capital planning framework, the Group utilises stress tests to ensure that it is able to maintain a sound financial position in the event of severe economic stress. Stress tests are developed based upon potential future scenarios, selected in the light of the Group's risk profile and plausible future market and economic developments. Stress tests

are conducted so as to apply selected scenarios in a consistent manner to the market, credit and liquidity risks to which the Group is exposed and to take account of any concentrations of exposure.

### **3.7. Adequacy of risk management arrangements**

The Group assesses the adequacy of its risk management framework and of the amount of capital and liquidity that it needs to hold in respect of its risk profile on an annual basis, or more frequently if required. This assessment is formally documented within the Group's ICAAP and Internal Liquidity Adequacy Assessment Process (ILAAP), and is approved by the Board.

The Group's 2016 ICAAP and ILAAP concluded that the risk management arrangements adopted by the Group were adequate in relation to its risk profile and strategy. Further, through its risk management framework, risk appetite and limit framework, independent reviews and ongoing programme of enhancements, the Group confirms that its risk management is effective.

## 4. Risk profile, capital requirements and resources

### 4.1. Risk profile

#### Capital ratios

The Group has continued to maintain capital resources significantly above the minimum requirements established by the Pillar 1 framework. The Group's ratio of tier 1 common equity to Pillar 1 RWAs is given below, together with the ratio for MHI, the Group's principal operating subsidiary:

Table 6: Tier 1 capital ratios

	2016 Group	2016 MHI	2015 Group	2015 MHI
Tier 1 capital ratio	36.4%	34.8%	49.5%	47.7%

#### Risk profile

The Group's business strategy is based on the provision of intermediation services within the capital markets for the Group's international client base. In keeping with this overall strategy, the Group operates Investment Banking, and Markets and Products business lines. Investment Banking services chiefly comprise the underwriting and distribution of new debt and equity issuance on behalf of the Group's clients together with the provision of merger and acquisition services. Within its Markets and Products division the Group acts as Mizuho Securities Co. Ltd.'s primary dealer and provider of secured financing in European debt securities, and offers broking services in Japanese and Asian equities.

The Board requires that a cautious to moderate risk profile is maintained in pursuit of this strategy. The Group's Investment Banking and equity broking activities result in low levels of risk exposure as underwriting activity is predominantly conducted without accepting significant underwriting risk and equity broking activity does not expose the Group directly to equity market risk. Fixed income trading activities result in low to moderate levels of risk as the Group maintains sovereign, financial and corporate inventory and provides securities financing services to clients.

The Board's risk appetite is quantified with reference to stress testing by placing an aggregate limit on losses sustained over a one year period in a severe but plausible stressed scenario, and is also quantified with reference to the Group's internal capital measurement framework. The exposures related to the Group's risk appetite as quantified by these measures as at 31 March 2016 is shown below:

Table 7: Key risk profile metrics

	2016 £m
Capital surplus ratio	145%

In addition to aggregated internal measures of risk, the Board also requires that the Group maintains surplus capital in excess of regulatory ICG to ensure that it can meet the PRA's capital requirements on an ongoing basis. As at 31 March 2016, the Group maintained an ICG capital surplus in excess of the minimum level set by the Board.

These aggregate risk appetite measures are supported by a range of subsidiary limits and metrics which facilitate the control of individual risk factors at a detailed operational level.

### 4.2. RWAs and Pillar 1 capital requirements

The Group's Pillar 1 capital requirements and RWAs as at 31 March 2016 are set out below by risk class. These requirements are further analysed in the following sections as referenced below:

Table 8: RWAs and Pillar 1 capital requirements

	Section	2016 RWAs	2016 Pillar 1 capital requirements	2015 RWAs	2015 Pillar 1 capital requirements
		£m	£m	£m	£m
Interest rate position risk	5	649.6	52.0	548.1	43.8
Equity position risk	5	3.6	0.2	-	-
Foreign currency position risk	5	6.5	0.5	4.0	0.3
<b>Market risk total</b>		659.7	52.7	552.0	44.2
Counterparty credit risk	7	134.0	10.7	91.6	7.3
Concentration risk	6	-	-	34.4	2.8
Credit risk	6	101.1	8.1	118.5	9.5
<b>Credit risk total</b>		235.1	18.8	244.5	19.6
Operational risk <sup>(1)</sup>	8	235.1	18.2	117.1	9.4
<b>Total Pillar 1 capital requirement</b>		1,122.3	89.7	913.7	73.1

<sup>(1)</sup> Operational risk RWAs and Pillar 1 capital requirements for 2016 have been calculated under the basic indicator approach using financial data from fiscal years ending 2014, 2015 and 2016; the 2015 number, aligned to the prior year Pillar 3 disclosure, has been calculated using the same methodology but using financial data from fiscal years ending 2012, 2013 and 2014.

### 4.3. Leverage ratio

The PRA has proposed, subject to consultation, that leverage ratio requirements will apply to all UK banks and building societies from 1 January 2018.

The proposed leverage ratio requirement, relevant to institutions which are not major UK banks and building societies, will vary between 3% and 3.9%. This proposed requirement comprises a minimum ratio of 3% together with a countercyclical leverage ratio buffer of between 0% and 0.9%, which is designed to restrict leverage during periods of excess credit growth and systemic risk.

The management of exposure to leverage forms part of the Group's business planning process and risk appetite framework. The Group's leverage ratio as at 31 March 2016 meets the expected future requirements set out above. The Group is committed to ensuring full compliance with all relevant regulatory requirements is maintained.

The Group's leverage ratio calculation as at 31 March 2016, which details the reconciliation of the leverage ratio exposure measure to total assets recorded within the Group's financial statements, is given below:

Table 9: Leverage ratio calculation

Leverage ratio calculation	2016 £m	2015 £m
<b>Accounting assets</b>		
Derivatives	424.0	301.9
Securities financing transactions (SFTs)	6,445.4	16,618.9
Loans and advances and other assets	5,735.7	4,563.8
<b>Total assets</b>	<b>12,605.1</b>	<b>21,484.6</b>
<b>Derivative adjustments</b>		
Adjustment for regulatory netting	(172.0)	(116.6)
Net written credit protection	29.1	20.8
Regulatory potential future exposure	124.9	57.8
<b>Total derivative adjustments</b>	<b>(18.0)</b>	<b>(38.0)</b>
<b>SFT adjustments</b>		
Regulatory adjustments for SFTs	(258.9)	2,222.2
Counterparty credit risk add-on for SFTs	180.7	435.8
<b>Total SFT adjustments</b>	<b>(78.2)</b>	<b>2,658.0</b>
Off-balance sheet items	4.6	11.0
Other regulatory adjustments	(68.6)	(7.8)
<b>Total leverage ratio exposure measure</b>	<b>12,444.9</b>	<b>24,107.8</b>
<b>Tier 1 capital</b>	<b>408.3</b>	<b>451.9</b>
<b>Leverage ratio</b>	<b>3.28%</b>	<b>1.87%</b>

#### 4.4. Pillar 2 capital requirements

As outlined in section 1.2, the PRA prescribes ICG to firms as part of its supervision of the banking sector. The Group has been issued with an ICG by the PRA and maintains capital that exceeds this requirement.

The MSUKH ICAAP provides an assessment of risks not covered or not fully captured through Pillar 1 capital requirements together with Group's own quantification of those risks. The Group ensures that it maintains capital which also exceeds this internal assessment of risk exposures (to the extent that this assessment exceeds ICG requirements). Some of the key risks assessed within the ICAAP under Pillar 2A include:

##### *Risks not fully captured under Pillar 1*

- Operational risk - operational risk losses measured using the Group's stress testing approach to potential operational risk scenarios.
- Concentration risk - the risk of additional losses arising due to a higher level of default correlation than is assumed in Pillar 1 approaches; for example, due to sectoral concentrations.
- Counterparty risk - additional counterparty risk exposure measured using the Group's credit portfolio model (CVaR).
- Market risk - additional market risk exposure calculated using market stress and issuer default scenarios measured at the 99<sup>th</sup> percentile.

##### *Risks not included under Pillar 1*

- Concentration risk: the risk arising from exposures to single counterparties or groups of interconnected counterparties.
- Pension risk: the risk of additional defined benefit pension contributions arising due to adverse movements in market rates or increases in longevity.
- Structural foreign exchange risk: the risk of deterioration of the Group's capital surplus due to the revaluation of non-sterling risk assets with regard to foreign exchange rates.
- Banking book interest rate risk: the risk of losses due to adverse interest rate movements which impact non-trading assets and liabilities.

The Group has also been set PRA Buffer requirements by the PRA. The ICAAP forecasts capital requirements and capital resources under stressed scenarios, which enables the Group to make an internal assessment of the capital buffer required to ensure that it will continue to meet the PRA's ICG throughout the economic cycle. The Group



maintains capital which exceeds the higher of the PRA's ICG and Buffer requirements and its internal assessment of potential future capital needs.

#### 4.5. Capital resources

The Group's capital resources consist, as at 31 March 2016, of £408.3m common equity tier 1 which comprised equity share capital, audited profit and loss and other reserves, and £45m of tier 2 capital.

The difference between total equity on an accounting basis and regulatory capital arises from the different treatment of own credit adjustments in respect of fair value financial liabilities and from regulatory prudent valuation adjustments, as shown below:

Table 10: Capital resources reconciliation

Capital resources composition	2016 Capital resources	2015 Capital resources
	£m	£m
Share capital	882.3	847.3
Reserves	(405.4)	(387.6)
Total equity	476.9	459.7
Own credit adjustments in respect of fair value financial liabilities	(0.9)	(0.1)
Prudent valuation adjustment	(6.3)	(7.7)
<b>Total common equity tier 1 capital</b>	<b>408.3</b>	<b>451.9</b>
Total tier 2 capital	45.0	-
<b>Total capital resources</b>	<b>453.3</b>	<b>451.9</b>

## 5. Market risk

### 5.1. Risk management

Market risk is the risk of financial loss or reduced valuation arising from adverse market movements (including changes in interest rates, foreign exchange rates, credit spreads and bond prices, equity prices and their associated volatilities). Credit valuation adjustments are considered within section 7 of this disclosure.

Market risk appetite is a component of the Group's overall risk appetite and is approved by the Board. The Group provides liquidity to customers of the wider Mizuho Financial Group, Inc. group of companies in debt and equity products, and holds inventory in its core product classes. The Group's market risk appetite is to maintain a cautious to moderate risk profile, whilst focusing upon client transaction flows in actively traded vanilla products.

The Group's market risk exposures arise principally from its trading operations in government, supranational, sub-sovereign and agency instruments, and corporate debt products. Exposures are partially mitigated through the execution of offsetting transactions in other debt instruments or through the use of derivative contracts.

Market risk is managed in accordance with a variety of risk measures including sensitivity based measures (e.g. sensitivity to a basis point move in interest rates or credit spreads), VaR, stress testing. Market risk limits are set and monitored using these measures as appropriate on a business line basis. Key risk exposures, which incorporate the effect of hedging activity, are monitored by the Group's Risk Management function on a daily basis.

Market risk exposure is routinely monitored by the Risk Management Committee, and is overseen by the Board Risk Committee and the Board. Significant exposures are escalated in accordance with market risk policy.

### 5.2. Balance sheet split of trading and banking books

Trading books comprise those positions that are held with trading intent or to hedge elements of the trading book. Trading intent must be evidenced through strategies, policies and procedures established by firms to manage positions or portfolios. In addition to these positions, the trading books also contain assets held as part of the high quality liquid asset portfolio; these positions are held principally to mitigate liquidity risk in stressed conditions and not with trading intent.

Trading book assets and liabilities are subject to regulatory Pillar 1 market risk capital requirements. Whilst non-trading assets and liabilities are not subject to Pillar 1 market risk capital requirements, any significant market risk exposures arising from such positions are considered under Pillar 2.

The Group's balance sheet is split between trading and non-trading or 'banking' books as shown below:

Table 11: Balance sheet split by trading and banking books

Balance sheet category	2016	2016	2016
	Trading book	Banking book	Total
	£m	£m	£m
Reverse repurchase agreements	6,445.4	-	6,445.4
Debt and Equity securities	5,268.8	0.6	5,269.4
Derivative assets	405.1	18.9	424.0
Loans and advances to banks	-	134.2	134.2
Shares in group undertakings	-	3.8	3.8
Intangible fixed assets	-	61.6	61.6
Tangible fixed assets	-	28.4	28.4
Other assets, prepayments and accruals	736.8	89.2	826.0
<b>Total assets</b>	<b>12,856.1</b>	<b>336.7</b>	<b>13,192.8</b>
Deposits by banks	-	613.1	613.1
Customer accounts	-	292.0	292.0
Repurchase agreements	5,454.5	-	5,454.5
Short trading positions	4,570.4	-	4,570.4
Derivative liabilities	416.3	5.1	421.4
Debt securities in issue	-	879.3	879.3
Subordinated debt	-	45.2	45.2
Other liabilities, provisions and accruals	287.4	150.5	437.9
<b>Total liabilities</b>	<b>10,728.6</b>	<b>1,985.2</b>	<b>12,713.8</b>

### 5.3. Internal risk measures

The Group has continued to manage its market risk at low levels over the past year, with average VaR of £1.3m (2015: £2m). The table below shows the Group's internal VaR measurement by risk factor:

Table 12: VaR by risk factor

VaR by risk factor	2016				2015			
	Close £m	Average £m	High £m	Low £m	Close £m	Average £m	High £m	Low £m
Interest rate risk	1.0	0.9	1.5	0.4	1.4	0.8	1.9	0.3
Credit spread risk	0.7	0.6	1.7	0.4	0.8	0.9	1.4	0.5
Equity risk	0.1	-	0.6	-	-	-	1.1	-
Foreign exchange risk	0.1	0.1	0.2	-	0.1	0.1	0.2	-
<b>Total VaR<sup>(1)</sup></b>	<b>1.2</b>	<b>1.3</b>	<b>2.2</b>	<b>0.7</b>	<b>1.7</b>	<b>2.0</b>	<b>3.1</b>	<b>1.2</b>

<sup>(1)</sup> Total VaR assumes some diversification across risk types and therefore does not represent the simple sum of component risk factors.

### 5.4. Pillar 1 requirements by risk category

The Group's principal source of market risk derives from specific interest rate risk within the Group's trading inventory of fixed income securities. Specific interest rate risk represents exposure to rates relevant to the pricing of individual debt securities (the risk that trading securities may default is not specifically addressed within the Pillar 1 framework, and forms part of the Pillar 2 assessment of market risk).

The table below shows the Group's Pillar 1 market risk capital requirements, calculated using the standardised approach by risk factor:

Table 13: Pillar 1 market risk capital requirements by risk factor

Pillar 1 by risk factor	2016	2015
	£m	£m
General interest rate risk	11.5	8.5
Specific interest rate risk	40.4	35.3
General equity risk	0.1	-
Specific equity risk	0.1	-
Foreign exchange risk	0.5	0.3
Total market risk	52.7	44.2

## 5.5. Trading book securitisation risk

Securitisation is a structured finance process which typically involves the repackaging of a pool of financial assets into tranches of securities of ascending seniority which bear the risk of the underlying asset pool.

The Group ceased conducting securitisation business in 2007 and has fully divested itself of legacy asset backed securities (ABS) acquired at that time. Secondary market trading of ABS may be conducted on behalf of clients within the Fixed Income trading business.

Residual ABS positions held by ECAI rating band are shown below together with their associated Pillar 1 capital requirements, which form a part of the overall specific risk exposure. These exposures are shown gross and net of credit risk mitigation (CRM):

Table 14: Securitisation exposures and capital requirements by rating band

Rating band	Risk weight	2016			2015		
		Gross exposure £m	Exposure post CRM £m	Capital requirement £m	Gross exposure £m	Exposure post CRM £m	Capital requirement £m
AAA to AA-	20%	-	-	-	-	-	-
A+ to A-	50%	-	-	-	-	-	-
BBB+ to BBB-	100%	-	-	-	-	-	-
BB+ to BB-	100%	-	-	-	-	-	-
B+ and below	1250%	-	-	-	0.3	0.3	0.3
Total		-	-	-	0.3	0.3	0.3

## 5.6. Non-traded market risk

Market risk exposures which arise from non-trading activities are not captured or fully captured through Pillar 1 capital requirements, and thus attract Pillar 2 charges. The market risk exposures which arise in respect of non-trading activities are summarised below:

Table 15: Summary of non-traded market risk

	Principal risk factors			
	Interest rate	Inflation	Credit spread	Equity
Banking book	●	○	○	●
Pension scheme	●	●	●	●

### Equity risk in the banking book

Banking book equity investments, being those which are not held for trading intent, attract credit risk capital requirements under the standardised approach.

The Group's most significant non-trading equity asset constitutes a carried interest entitlement in a private equity healthcare fund, representing a contractual interest in the fund's performance in excess of predefined thresholds. This interest had a fair value of £0.6m as at 31 March 2016.

The Group maintains holdings of Mizuho Financial Group, Inc. shares in connection with share based remuneration arrangements as discussed in section 10.

The balance sheet value of non-trading equity investments is shown below by investment category. These holdings are recorded on the balance sheet at fair value, with revaluation gains taken through profit and loss:

Table 16: Banking book equity by category

<b>Banking book equity</b>	<b>2016 Balance sheet value £m</b>	<b>2015 Balance sheet value £m</b>
Private equity	0.6	3.7
Exchange traded	3.8	4.1
Other	-	-
<b>Total banking book equity</b>	<b>4.4</b>	<b>7.8</b>

### **Interest rate risk in the banking book**

The non-trading book principally comprises net balances of unsecured funding raised and managed by the Group's Treasury function in support of trading activities. Funding is raised across a range of maturities to ensure diversification of repayment risk and is issued on both a fixed and floating rate basis. The Group's policy is to minimise interest rate risk in the banking book through the use of derivative interest rate hedges, which leaves the Group exposed to falling short term interest rates.

### **Pension scheme market risk**

The Group sponsors one defined benefit pension plan, the Mizuho International plc Retirement Benefits Scheme (the 'Scheme'). The Scheme closed to new members in 1996. Accrual of further liabilities ceased on the retirement of the last active member, prior to the 31 March 2009 actuarial valuation of the Scheme. The requirement to fund the Scheme is borne jointly by the Group and DIAM International Ltd. in proportion to the historical association of Scheme members to those employers.

The Scheme's investment strategy is set by the Trustees, in consultation with the Group and recorded in the Scheme's Statement of Investment Principles. The strategy involves retaining longevity risk within the Scheme and holding a proportion of return seeking assets.

With regard to market risks, the Scheme's assets give rise to long-term interest rate, credit spread and equity risk and the Scheme's liabilities give rise to interest rate, credit spread and inflation risk.

## 6. Credit risk

### 6.1. Risk management

Credit risk is the risk of financial loss arising from the failure of a customer, client, issuer, or counterparty to meet its contractual obligations. The Group's activities that give rise to counterparty credit risk, such as securities financing, derivatives and cash trading which supports MHI's market-making, are discussed in section 7 and the credit risk arising from exposure to issuers of traded debt is discussed within section 5.

Credit risk appetite forms a key component of the Group's overall risk appetite statement and is approved by the Board. The Group employs a number of metrics in support this, which are used to limit and monitor the credit risk exposures in accordance with credit risk management policies.

Aside from the credit risks discussed in sections 5 and 7, the principal sources of non-trading credit risk exposures arise from funding operations through the placement of cash resources and deposits with third parties. Credit exposures also arise in the ordinary course of business through short term receivables and investment in fixed assets. The Group does not undertake commercial or retail lending activity and does not extend credit through the provision of guarantees.

Non-trading credit risk exposures are measured in accordance with balance sheet carrying amounts, after taking account of any applicable credit risk mitigation arrangements and adjustments for credit impairment.

### 6.2. Pillar 1 requirements

RWAs and Pillar 1 credit risk capital requirements calculated under the standardised approach are set out below:

Table 17: Credit risk RWAs and pillar 1 capital requirements by exposure class

	2016		2015	
	RWAs £m	Pillar 1 capital requirements £m	RWAs £m	Pillar 1 capital requirements £m
Financial institutions	10.9	0.9	13.3	1.1
Corporates	0.1	-	-	-
Fixed assets and other assets	90.2	7.2	105.2	8.4
Total	101.1	8.1	118.5	9.5

### 6.3. Analysis of credit risk exposures

#### *Credit risk exposures by credit quality*

Credit risk exposures before and after credit risk mitigation and RWAs by credit quality, in accordance with the credit quality steps used within the standardised approach, are given below:

Table 18: Credit risk exposures and RWAs by credit quality step

	2016			
	Gross credit exposure £m	CRM £m	Net credit exposure £m	RWAs £m
Credit quality step 1	31.7	-	31.7	-
Credit quality step 2	107.0	52.7	54.3	10.9
Credit quality step 3	0.1	-	0.1	0.1
Credit quality step 5	-	-	-	-
Credit quality step 6	0.6	-	0.6	0.9
Uniform regulatory treatment	89.3	-	89.3	89.3
Total	228.7	52.7	175.9	101.1

	2015			
	Gross credit exposure £m	CRM £m	Net credit exposure £m	RWAs £m
Credit quality step 1	5.3	-	5.3	-
Credit quality step 2	69.7	-	69.7	16.9
Credit quality step 3	-	-	-	-
Credit quality step 5	3.7	-	3.7	5.5
Credit quality step 6	-	-	-	-
Uniform regulatory treatment	96.1	-	96.1	96.1
Total	174.8	-	174.8	118.5

### **Gross credit exposures by exposure class**

Gross credit risk exposures, before the impact of credit risk mitigation, as at year end and averaged over the financial year are summarised below:

Table 19: Gross credit risk exposures by exposure class

	2016		2015	
	Average gross exposure £m	Year End gross exposure £m	Average gross exposure £m	Year End gross exposure £m
Government, central banks & international organisations	50.3	31.7	6.2	5.3
Financial institutions	100.7	107.0	110.6	66.1
Corporates	-	0.1	-	-
Fixed assets and other assets	79.9	89.9	69.2	103.5
Total	230.9	228.7	186.0	174.9

### **Geographic distribution of gross credit exposures**

The geographic distribution of gross credit exposures as at 31 March 2016 is given below:

Table 20: Geographic distribution of gross credit risk exposures

	2016					Total £m
	UK £m	Japan £m	US £m	Europe £m	Other £m	
Government, central banks & international organisations	31.7	-	-	-	-	31.7
Financial institutions	4.1	52.7	42.7	7.5	-	107.0
Corporates	-	0.1	-	-	-	0.1
Fixed assets and other assets	86.1	3.8	-	-	-	89.9
Total credit risk exposure	121.9	56.6	42.7	7.5	-	228.7

	2015					Total £m
	UK £m	Japan £m	US £m	Europe £m	Other £m	
Government, central banks & international organisations	5.3	-	-	-	-	5.3
Financial institutions	16.4	-	42.0	7.2	0.5	66.1
Corporates	-	-	-	-	-	-
Fixed assets and other assets	99.8	3.6	-	-	-	103.5
Total credit risk exposure	121.5	3.6	42.0	7.2	0.5	174.8

### **Residual maturity of gross credit exposures**

The residual maturity of gross credit exposures as at 31 March 2016 is given below:

Table 21: Residual maturity of gross credit risk exposures

	2016					Total £m
	Less than 1 year	1 to 5 years	5 to 10 years	Over 10 years		
	£m	£m	£m	£m		
Government, central banks & international organisations	31.7	-	-	-	31.7	
Financial institutions	107.0	-	-	-	107.0	
Corporates	-	-	-	-	-	
Fixed assets and other assets	85.5	-	-	4.4	89.9	
Total credit risk exposure	224.2	-	-	4.4	228.7	

	2015					Total £m
	Less than 1 year	1 to 5 years	5 to 10 years	Over 10 years		
	£m	£m	£m	£m		
Government, central banks & international organisations	5.3	-	-	-	5.3	
Financial institutions	66.1	-	-	-	66.1	
Corporates	-	-	-	-	-	
Fixed assets and other assets	96.1	-	-	7.3	103.4	
Total credit risk exposure	167.5	-	-	7.3	174.8	

### **Single issuer exposures**

Single issuer concentration risk is the risk associated with significant issuer, credit and counterparty risk exposures to a single entity or group of connected entities. If firms hold exposures to single entities or groups in excess of 25% of their own capital resources<sup>5</sup>, they are required to hold additional Pillar 1 capital in respect of concentration risk.

As at 31 March 2016, the Group had no Pillar 1 concentration risk capital requirement.

<sup>5</sup> Or in excess of €150m where exposures are incurred towards financial institutions.



## 6.4. Impairment adjustments

At each balance sheet date, the Group assesses whether those financial and other assets which are not accounted for at fair value through profit and loss, are impaired. As at 31 March 2016, no adjustments in respect of asset impairment were made (31 March 2015: no impairment adjustments were made).

Financial assets are treated as impaired when objective evidence demonstrates that a loss event has occurred following the initial recognition of an asset, and that the loss event has an impact on the asset's future cash flows which can be reliably estimated.

Impairment losses in respect of financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the profit and loss account, whilst interest on impaired assets continues to be recognised through the unwinding of the discount. If subsequent events result in a reduction in the estimate of impairment losses, this reduction is accounted for through profit and loss.

Impairment losses in respect of other assets are measured as the difference between their carrying values and recoverable amounts, and this is recognised through profit and loss.

## 7. Counterparty credit risk

### 7.1. Risk management

Counterparty credit risk forms part of the Group's overall credit risk but is differentiated from that discussed in section 6 in that it arises where the failure of a counterparty to meet its contractual obligations may lead to losses of an uncertain nature, driven by fluctuations in market valuations.

Counterparty credit risk forms a key component of the Group's overall risk appetite, and is approved by the Board. The Group employs a number of metrics in support of this which are used to limit and monitor the credit risk exposures in accordance with credit risk management policies.

The Group is exposed to counterparty credit risk principally through derivative and repurchase agreement contracts arising from its trading activities, and to a lesser extent from cash trading which supports MHI's market-making activities.

#### ***Counterparty credit risk methodology***

Counterparty credit risk is assessed and limits are set in accordance with the Group's methodology. Exposure is evaluated by determining the potential size of counterparty exposures which may arise from transactions together with an assessment of the creditworthiness of the obligor.

The potential size of counterparty credit risk is a function of both current and potential future exposures. Potential future exposures to a counterparty default, which may arise through cash trading and derivative and repurchase agreement contracts, are estimated using historical volatilities of key pricing variables to those contracts over their remaining life.

Counterparty credit quality is assessed using external credit ratings where available, or alternatively an internal rating is assigned in accordance with internal credit rating methodology.

Counterparty credit limits are established in accordance with the Group's methodology for measuring counterparty credit risk, taking into account executed documentation with permissible netting and collateral management arrangements, and consistent with the overall credit risk appetite.

#### ***Counterparty credit risk mitigation***

Risk mitigation techniques are used to reduce counterparty credit risks arising from trading activities. These techniques include the use of netting agreements, acceptance of collateral, application of haircuts, and execution of transactions with central counterparties, whereby credit risk to individual counterparties is replaced by exposure to a central counterparty. The Group does not make use of third party guarantees or credit derivatives to mitigate counterparty risk exposures.

Derivative and repurchase agreement trading activity is undertaken using netting agreements on a collateralised basis, unless exceptions are approved in accordance with credit risk policies. Collateral arrangements are governed by standard agreements (such as Credit Support Annexes to International Swaps and Derivatives Association (ISDA) Master Agreements and Global Master Repurchase Agreements). The forms of collateral which may be accepted are subject to the Group's internal credit risk policy, which seeks to ensure that in the event of counterparty default the value of collateral held is sufficient to compensate for losses arising from such default.

Repurchase agreement trading activity is principally conducted using high-quality government securities as collateral, and minimal use is made of sub-investment grade corporate securities as collateral. This is in line with the Group's requirement to only accept high quality collateral for margining purposes, which must be of at least of equivalent quality to the collateral of the underlying transaction. Collateral is revalued on a daily basis in accordance with collateral management procedures.

In order to recognise the effects of credit risk mitigation, a number of conditions must be met, and in particular agreements must be legally enforceable and legal title to collateral must be passed to the Group. Once these conditions are satisfied the effect of collateral is reflected through the reduction in the measure of credit exposure.

Credit valuation adjustments are established in accordance with valuation policies for derivative and repurchase agreement transactions. Credit valuation adjustments concerning individual counterparties are based upon the potential size of exposures to those counterparties, taking account of legally enforceable netting and collateral agreements, together with market pricing of the creditworthiness of those counterparties.

## Correlated risk

Correlated or *wrong way* risk arises where the probability of counterparty default is positively correlated to the risk of the underlying transaction. The Group adopts an integrated market risk and credit risk stress testing methodology which highlights correlated exposures across a range of scenarios.

Credit risk policies have been implemented to mitigate *wrong way* risk, which for example, prohibit the acceptance of collateral issued by a connected entity to the transaction counterparty, and over-collateralisation. *Wrong way* risk is further controlled through the operation of a credit limit framework in respect of specific counterparties, groups of counterparties and countries.

## 7.2. Pillar 1 requirements

The Group's RWAs and Pillar 1 counterparty risk requirements, in respect of counterparty risk arising within trading and non-trading books, are set out below as calculated under the standardised approach:

Table 22: Counterparty credit RWAs and Pillar 1 capital requirements

	2016		2015	
	RWAs	Pillar 1 capital requirements	RWAs	Pillar 1 capital requirements
	£m	£m	£m	£m
Counterparty credit risk	134.0	10.7	91.6	7.3

The total counterparty credit risk RWA and Pillar 1 capital requirement includes default funds, settlement risk and CVA capital requirement.

## 7.3. Analysis of counterparty risk exposures

### RWAs and exposures by product type

An analysis of counterparty credit risk RWAs and exposures as at 31 March 2016 by product type is given below:

Table 23: Counterparty credit RWAs and exposures by product type

	2016		2015	
	RWAs	Credit risk exposure <sup>1</sup>	RWAs	Credit risk exposure <sup>1</sup>
	£m	£m	£m	£m
Derivative contracts	32.1	133.8	17.8	64.2
Securities financing contracts	57.6	302.9	24.0	365.2
Other	44.3 <sup>2</sup>	11.5 <sup>3</sup>	49.8 <sup>2</sup>	11.0 <sup>3</sup>
Total	134.0	448.2	91.6	440.4

(1) Credit risk exposure is shown as the credit exposure, calculated in accordance with Pillar 1 standard rules using the mark to market approach, less deductions in respect of credit risk mitigation.

(2) Includes a credit valuation adjustment charge, settlement and delivery risk charges, default fund and Treasury Default Loss Allocation Regime contribution.

(3) Includes Treasury Default Loss Allocation Regime contribution.

Further analysis of credit risk exposure in respect of derivative contracts is given below, and shows the impact of netting benefits from legally enforceable netting agreements and collateral arrangements:

Table 24: Derivative counterparty credit risk exposures

	2016	2015
	Credit risk exposure £m	Credit risk exposure £m
Gross positive fair value of derivative contracts	499.8	283.2
Potential future credit exposure	129.8	54.7
Netting benefits	(255.0)	(91.0)
Netted credit exposure on derivative contracts	374.6	246.9
Collateral (held) / placed	(255.6)	(202.0)
Long settlement <sup>(1)</sup>	21.7	19.3
Total net derivatives credit risk exposure	140.7	64.2

<sup>(1)</sup> Credit risk exposure is shown as the credit exposure, calculated in accordance with Pillar 1 standard rules using the mark to market approach, less deductions in respect of credit risk mitigation.

### **Counterparty credit risk exposures by exposure class**

An analysis of counterparty credit risk exposures as at 31 March 2016 by principal exposure class is given below:

Table 25: Counterparty credit risk exposures by exposure class

	2016	2015
	Credit risk exposure £m	Credit risk exposure £m
Governments, central banks and international organisations	41.5	30.3
Central counterparties	271.8	255.7
Financial institutions	130.3	143.4
Corporates	-	-
Total <sup>(1)</sup>	443.6	429.4

1 Excludes Treasury Default Loss Allocation Regime contribution.

### **Counterparty credit risk exposures by credit quality**

The Group has maintained a cautious approach with regard to the credit standing of its counterparties. An analysis of counterparty credit risk exposures as at 31 March 2016 by credit quality, in accordance with the credit quality steps used within the Pillar 1 standardised approach, is given below:

Table 26: Counterparty credit risk exposures by credit quality step

	2016					
	Credit quality steps					Total £m
	1 £m	2 £m	3 £m	4 £m	N/a <sup>(1)</sup> £m	
Government, central banks and international organisations	41.5	-	-	-	-	41.5
Central counterparties <sup>(2)</sup>	-	-	-	-	271.8	271.8
Financial institutions	-	129.3	-	1.0	-	130.3
Corporates	-	-	-	-	-	-
<b>Total credit risk exposure</b>	<b>41.5</b>	<b>129.3</b>	<b>-</b>	<b>1.0</b>	<b>271.8</b>	<b>443.6</b>

	2015					
	Credit quality steps					Total £m
	1 £m	2 £m	3 £m	4 £m	N/a <sup>(1)</sup> £m	
Government, central banks and international organisations	30.1	-	-	0.2	-	30.3
Central counterparties <sup>(2)</sup>	-	-	-	-	255.7	255.7
Financial institutions	32.3	100.6	10.4	-	-	143.4
Corporates	-	-	-	-	-	-
<b>Total credit risk exposure</b>	<b>62.4</b>	<b>100.6</b>	<b>10.4</b>	<b>0.2</b>	<b>255.7</b>	<b>429.4</b>

(1) Uniform regulatory treatment applied.

(2) Qualifying central counterparties attract a uniform 2% risk weighting irrespective of credit quality.

Under the standardised approach, credit ratings assigned by credit rating agencies are used in the calculation of RWAs. The PRA determines which rating agencies may be used in the calculation of risk weights, of which the Group uses ratings assigned by Standard & Poor's Financial Services LLC (S&P), Moody's Investor Service, Inc. (Moody's) and Fitch Ratings, Inc. (Fitch). Credit exposures must be assigned to one of six credit quality steps if a rating is available. Risk weight percentages are assigned based upon the credit quality step, exposure class and maturity of each credit exposure. Where an external credit rating is not available or where exposures exist to central counterparties, a default treatment is applied as specified by regulatory guidance.

Exposures are assigned to credit quality steps based upon external ratings as illustrated below:

Table 27: Assignment of ratings to credit quality steps

	S&P	Moody's	Fitch
Credit quality step 1	AAA to AA-	Aaa to Aa3	AAA to AA-
Credit quality step 2	A+ to A-	A1 to A3	A+ to A-
Credit quality step 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB
Credit quality step 4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
Credit quality step 5	B+ to B-	B1 to B3	B+ to B-
Credit quality step 6	CCC+ and below	Caa1 and below	CCC+ and below

The counterparty credit risk exposures described in the analysis above include credit derivative contracts which give rise to counterparty credit risk exposure to the counterparty to the contract.

## 7.4. Notional value of credit derivative transactions

The following table shows the notional value of the credit derivative transactions outstanding as at 31 March 2016, arising in respect of the Group's own credit portfolio or through intermediation activities. Transactions in respect of the Group's own credit portfolio comprise both hedges of market risk associated with trading inventory and hedges used in connection with the issuance of structured notes:

Table 28: Notional value of credit derivative transactions

	2016		2015	
Notional value of outstanding transactions	Own credit portfolio		Own credit portfolio	
	Protection purchased £m	Protection sold £m	Protection purchased £m	Protection sold £m
Credit default swaps	27.7	46.2	51.6	32.6

## **8. Operational risk**

### **8.1. Risk management**

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

Operational risk tolerance forms a component of the Group's overall risk appetite and is approved by the Board. The Group has no tolerance for inappropriate staff behaviour which may result in damage to its reputation or to the interests of its clients.

The principal operational risks to which the Group is exposed include technology failure, fraud, human error, the creation of unauthorised credit or market risks, regulatory breaches, and litigation.

Operational risk exposures are assessed and measured using a framework which includes: risk and control self-assessments, key risk indicators, internal loss event reporting, external loss event capture, and scenario stress testing.

The Group mitigates such risks through the maintenance of a comprehensive system of internal controls, which incorporates a strict segregation of duties between front and back office functions, the purchase of external insurance, and business continuity planning. Root cause analysis is undertaken to investigate internal instances of operational loss or near miss incidents. In cases where internal controls cannot be implemented to reduce operational risk to an acceptable level, consideration is given to avoiding or transferring the risk altogether.

Operational risk reporting is undertaken routinely to the Risk Management Committee and to the Operational Risk Committee. Significant matters are escalated to the Board Risk Committee and to the Board.

### **8.2. Pillar 1 requirements**

As at 31 March 2016, the Pillar 1 capital requirement in respect of operational risk was £18.2m (2015: £9.4m) as calculated under the basic indicator approach.

## 9. Liquidity risk

### 9.1. Risk management

Liquidity risk is the risk that the Group does not have sufficient capital and funding resources to meet its financial contractual obligations as they fall due. Liquidity risk can result from a lack of availability of external funding and the inability to convert securities into cash to meet near-term funding demands.

The Group's management of liquidity risk aims to ensure that there are sufficient liquid resources, both in amount and quality, to enable the Group to meet its financial contractual obligations as they fall due, even during times of idiosyncratic and / or market stress. The Group maintains liquidity in excess of its regulatory and internal risk appetite requirements.

Liquidity risk appetite is a component of the Group's overall risk appetite and is approved by the Board. The Group's business model is simple, largely cash-based, with low levels of derivatives and margin volatility, has access to diverse funding sources, allocates funding costs to businesses in a transparent and effective way, and has a robust limit and control framework to protect against liquidity risks in excess of appetite.

The Group further mitigates liquidity risks through maintenance of high quality liquid assets (HQLAs) in a segregated portfolio under the control of its Treasury function, as well as holding additional HQLA-eligible unencumbered assets as part of the Group's liquidity risk appetite.

The Group performs stress testing of its liquidity risk position; a dynamic and forward looking approach is taken for the Group's internal liquidity stress scenarios and their underlying assumptions.

Reporting of liquidity risks and associated stress testing is undertaken routinely by the Stress Testing Committee and the Risk Management Committee. Significant matters are escalated to the Board Risk Committee and the Board.

#### ILAAP

MHI; a 100% owned subsidiary of MSUKH, its main trading entity, and the relevant entity for the purposes of the PRA's liquidity regime; has produced and maintains an ILAAP document detailing how MHI assesses, quantifies, and manages the principal liquidity risks to which it is exposed. Further, it highlights MHI's approach to determining the minimum level of internal liquidity resources required to be maintained to mitigate those risks in line with its overall liquidity risk management and liquidity risk appetite approved by the Board.

The approval and overall ownership of the ILAAP is the responsibility of the Board of MHI. The leadership for preparation of the ILAAP document has been delegated to the CRO with support from the Risk Management Department, Finance, Regulatory Reporting, Treasury, Compliance, and impacted business areas. The document has been discussed and challenged by senior management, including the CEO, the CFO, the Head of Compliance and the Treasurer.

The ILAAP document is an integral part of the Group's liquidity management framework and informs the Board of the ongoing assessment and quantification of liquidity risks, how these are mitigated, and required liquidity resources. The CRO; through the Head of Regulatory & Liquidity Risk Management and supporting functions; is responsible for maintaining and updating the ILAAP document, monitoring the Group's liquidity adequacy, and ensuring that the ILAAP document is reflective of the Group's liquidity risk management at all times.

The ILAAP document is dynamic and updated at least annually, but also in line with changes in regulations, risk appetite, business model, and market conditions.

#### Collateral requirements in the event of a rating downgrade

The Group also considers the effects of a downgrade in the rating of Mizuho Bank, Ltd., whose rating is referenced within the CSAs under which the Group may be required to pay collateral to its counterparties. Stress testing is conducted which incorporates the impact of a three notch downgrade in the rating of Mizuho Bank, Ltd., and this modelling indicates that the Group has sufficient available liquidity resources to manage the cash requirements which may arise in such a situation.

### 9.2. Asset encumbrance

Encumbered and unencumbered assets as at 31 March 2016 (calculated as the average of the two quarters ended 31 December 2015 and 31 March 2016) are based on requirement in Part Eight of the CRR and in the related guidelines issued by the EBA in June 2014.



Table 29: Encumbered and unencumbered assets

	2016			
	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	3,212 <sup>1</sup>	<i>'not applicable'</i>	19,001 <sup>1,2</sup>	<i>'not applicable'</i>
Equity instruments	-	-	10	9
Debt securities	3,132	3,155	1,759	1,770
Other assets	-	<i>'not applicable'</i>	548	<i>'not applicable'</i>

	2015			
	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
Assets of the reporting institution	2,607 <sup>1</sup>	<i>'not applicable'</i>	23,724 <sup>1,2</sup>	<i>'not applicable'</i>
Equity instruments	-	-	9	7
Debt securities	2,548	2,571	1,785	1,800
Other assets	-	<i>'not applicable'</i>	450	<i>'not applicable'</i>

(1) 'Assets of the reporting institution' will not reconcile to total assets balances reported in the financial statement for 31 March 2016 as the treatment of financial instrument netting differs. 'Assets of the reporting institution' also includes other asset items (e.g. loans and advances other than loans on demand) which are not required to be separately disclosed.

(2) This amount predominantly relates to the balance sheet value of cash placed under reverse repurchase agreements; it should be read in conjunction with Table 30 as the (majority of the) collateral received through reverse repurchase agreements has been used in matching repurchase agreements.

Table 30: Encumbered assets / collateral received and associated liabilities

	2016	
	Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS £m
Carrying amount	14,715	14,943

	2015	
	Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS £m
Carrying amount	19,036	19,856

The secured and unsecured wholesale market, together with the issuance programme, is the prime funding source for the Group. The Group provides securities financing transactions and collateralised borrowing as part of its repurchase agreement business and these result in off-balance sheet encumbrance. Another form of encumbrance is pledging securities with central counterparties to facilitate trading activities and meet initial margin requirements. Assets on the balance sheet are considered encumbered when they have been pledged or used to secure or collateralise a transaction that impacts their transferability.

## 10. Remuneration

### 10.1. The Remuneration Committee (RemCo)

As part of the Group's corporate governance arrangements the Board has established a RemCo to approve remuneration policy and set specific remuneration at certain levels. RemCo members are appointed by the Board and solely comprise Non-Executive Directors; the committee reports to the Board through its Chair. The remuneration of the Group's Executive Directors is approved by the RemCo. The RemCo also exercises oversight in respect of the remuneration of Material Risk Takers (MRTs), a definition of which is set out below. Between 1 April 2015 and 31 March 2016, the RemCo held ten meetings.

### 10.2. Remuneration policy

The Group maintains a remuneration policy which applies to all employees together with staff seconded from affiliates within the Mizuho Financial Group, Inc. of companies. The policy takes into account the PRA and FCA's Remuneration Codes and related guidance, and is intended to promote effective risk management whilst retaining the flexibility to make changes dependent upon external factors including, but not limited to, future legislative or regulatory changes. The policy also provides a market based remuneration framework, which enables the Group to recruit and retain high calibre staff and promote fairness and consistency throughout the employment relationship whilst not compromising the Group's high standards of control and risk management.

The remuneration policy and its implementation are reviewed and approved by the RemCo from time to time and at least annually. Any changes to the policy will only take effect upon approval by the RemCo and will be subject to ratification by the Board. RemCo approved a revised remuneration policy during the meeting of 27 April 2016.

### 10.3. MRTs

MRTs are defined as staff whose professional activities can have a material impact on the Group's risk profile, taking into account the criteria set out in the European Banking Authority's Regulatory Technical Standard *CDR (EU) No 604/2014*. This includes 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.

A list of MRTs is held by the Group's Human Resources (HR). Employees that appear on this list are notified by HR of their status and of the implications of being defined as an MRT.

As at 31 March 2016 for the fiscal year 2015/16, 59 active members of staff were identified as MRTs.

### 10.4. Control functions

The compensation of employees engaged in control functions is based principally on the achievement of objectives linked to those functions and Group-wide performance. Compensation for the heads of those control functions is approved by the RemCo.

### 10.5. The link between pay and performance

The remuneration policy is designed to align employee rewards with performance and aims to protect and promote shareholder interests by incentivising staff to deliver sustained performance and create long-term value through delivery of the Group's goals. The policy also provides a market-competitive remuneration structure to attract and retain high calibre staff. The policy is reviewed at least annually and approved by the RemCo and the Board. The policy is made available to all employees on the Group's intranet site and when updated it is mandatory that all employees attest that they have read and understood the policy.

The Group's policy states that variable remuneration awards are conditional, discretionary and contingent upon a sustainable and risk-adjusted performance, in excess of that required to fulfil the employee's job description as part of the employee's terms of employment. In particular, for Front Office staff performance is assessed on a range of both quantitative and qualitative measures. Awards of variable remuneration are capable of forfeiture or reduction at the Group's discretion, including down to zero.

Variable remuneration will be paid only if it is sustainable in the context of the Group's financial situation and is justified on the basis of individual, departmental, Group or wider Mizuho Financial Group, Inc. performance.

A remuneration sub-group consisting of the Head of HR, the Head of Compliance, the CFO, the CRO and a representative from Internal Audit, meets regularly (before each RemCo meeting) to discuss a number of remuneration related matters including behaviour and conduct. The sub-group is involved in the process to review and set remuneration. Concerns regarding an individual's activities and / or conduct can be raised at any stage and are taken into account by management through the Balance Scorecard Appraisal process; this is described in further detail below.

An evaluation committee, comprising Executive Committee members, meets on an annual basis to assess individual staff behaviours, the results of which form part of the appraisal and remuneration process. This is in addition to the specific involvement of the remuneration sub-group.

The RemCo will use information in respect of corporate performance and risk management to make informed decisions when reviewing the appropriateness of discretionary reward and specifically the remuneration of MRTs. The level of discretionary remuneration is agreed with the Group's parent company, Mizuho Securities Co., Ltd., with final approval by RemCo.

The staff appraisal system ensures that an individual's behaviour and their adherence to control and compliance requirements is taken into account, and that sole reliance is not placed on an individual's financial performance. The assessment is in the form of a Balanced Scorecard Appraisal. The Balanced Scorecard Appraisal consists of the following:

- (1) Financial, Strategic & Operational: this measures employees' performance against *SMART* objectives set at the beginning of the financial year; and
- (2) Culture, Conduct & Values: this comprises inputs from the remuneration sub-group, Internal Audit, and Front Office Supervisory Reporting, and is strongly linked to the Group's values (Speed, Innovative Spirit, Team Spirit, Passion and Customer First) through a competency framework.

The Balanced Scorecard Appraisal is used to determine the overall performance ratings and as a basis for determining any adjustments to individual discretionary remuneration awards, including malus and clawback. All permanent employees qualify for consideration of discretionary remuneration; no formulaic discretionary remuneration is awarded by the Group.

An employee's individual performance is measured on a rating scale of 1 (Poor) to 5 (Outstanding). An employee will not be assigned a rating higher than a 3 if they have not met their objectives including any financial targets. Where an appraisal rating is a 2 or lower then malus will be applied to any discretionary remuneration awarded to the employee.

## **10.6. The design characteristics of the remuneration scheme**

During the period in question variable remuneration for MRTs (who were not subject to the de minimis concession) was paid in cash and shares, with elements subject to deferral. MRTs that fell under the de minimis concession were paid in cash only. Variable remuneration is subject to the following design characteristics:

### ***Risk adjustment***

The level of discretionary remuneration is determined from performance figures which inherently factor in risk adjusted accounting measures; the level of discretionary remuneration is further adjusted for risk by the RemCo. The CRO attends RemCo and contributes to discussions on the size of overall discretionary remuneration relative to risk by reference to a number of metrics including adherence to the Group's risk appetite. The CRO and CFO (who also attends the RemCo on a frequent basis) can recommend discretionary or formulaic adjustments to accrued discretionary remuneration at any point throughout the year via the RemCo or the Board Risk Committee where relevant performance metrics are discussed.

The Board and RemCo are of the view that a purely formulaic approach to discretionary remuneration adjustment is not suitable in any circumstances. In addition, the Group is in an evolving process of revising its budget and strategy for future years, this means that a more flexible discretionary approach to adjusting discretionary remuneration is required in its current state e.g. for retaining and attracting key staff. Current potential discretionary risk adjustments include, but are not limited to, the cost of capital, cost of funding and potential long tail risks.

### ***Deferral policy***

During the financial year April 2015 to March 2016 variable pay for MRTs and certain other staff was subject to a deferral plan. The deferral plan for MRTs (who were not subject to the de minimis concession) provided for deferral of between 40% and 60% of variable pay for a period of either three or five years (for a small number of individuals) in line with the Remuneration Codes. For all other staff subject to the deferral plan (and MRTs who fell under the de

minimis concession), the deferral plan provided for cash deferrals of between 20% and 40% of variable pay over a prescribed threshold for a period of three years.

### **Malus: performance adjustment**

A deferred award may be subject to adjustment (including forfeiture) as set out below and will only vest to the extent determined by the RemCo at its discretion, giving regard to such matters as it considers appropriate, including, but not limited to:

- 1) In the case of all staff including MRTs, any restatement or recalculation of individual and / or departmental and / or Group and / or Mizuho Financial Group, Inc. company financial performance (including but not limited to following the discovery of incorrect or false accounting); and / or
- 2) In the case of MRTs only:
  - whether vesting is (a) sustainable according to the financial situation of the Group, and / or (b) justified on the basis of individual and / or departmental and / or Group and / or Mizuho Financial Group, Inc. company performance; and / or
  - (a) any assessment or reassessment of individual and / or departmental and / or Group and / or Mizuho Financial Group, Inc. company performance, (b) any evidence of an individual's misbehaviour and / or material error, (c) any material downturn in departmental and / or Group and / or Mizuho Financial Group, Inc. company financial performance, and / or (d) any material failure of risk management suffered by the Group and / or any Mizuho Financial Group, Inc. company and / or the individual's department; and / or
  - (a) any conduct which the individual participated in and / or was responsible for and which resulted in significant losses to the Group and / or any Mizuho Financial Group, Inc. company and / or the individual's department, and / or (b) any failure of the individual to meet appropriate standards of fitness and / or propriety (including, without limitation, any such standards set by a regulator and / or the Group and / or any Mizuho Financial Group, Inc. company) and / or to comply with Group and / or Mizuho Financial Group, Inc. company policies; and / or
  - any misconduct and / or material failure of risk management which the individual could (a) reasonably be expected to be aware of but failed to take adequate steps to promptly identify, assess, report, escalate or address, and / or (b) by virtue of the individual's role or seniority, be deemed indirectly responsible and / or accountable for, including, without limitation, by virtue of being senior staff in charge of setting Group and / or Mizuho Financial Group, Inc. company culture and / or strategy; and/or
- 3) In the case of all staff including MRTs, any other circumstance as required by law and / or any regulator.

### **Clawback**

The Remuneration Codes require the Group to apply clawback to the variable remuneration of MRTs. The following provisions apply in respect of payments of all discretionary remuneration awards for a period of seven years after the date the award is made (which can be extended from seven to ten years for *Senior Managers* in certain circumstances where at the end of the normal seven year clawback period (i) the Group has commenced an internal inquiry into a possible material failure which could lead to clawback or (ii) a regulatory authority has notified the Group that it has commenced an investigation which could lead to clawback):

- An employee who is or becomes an MRT may be required to repay to the Group or any Group company up to 100% of the gross amount of any non-deferred cash award, deferred cash award, non-deferred share award and / or deferred share award paid pursuant to a discretionary remuneration award in the event that the employee is involved in or is responsible for:
  - a. any misconduct and / or material failure of risk management suffered by the Group and / or any Group company and / or the employee's department, including any misconduct and / or material failure of risk management which the employee could (i) reasonably be expected to have been aware of but failed to take adequate steps to promptly identify, assess, report, escalate or address, and / or (ii) by virtue of the employee's role or seniority, be deemed indirectly responsible or accountable for; and / or
  - b. conduct which results in significant losses to the Group and / or any Group company and / or the employee's department; and / or
  - c. any restatement or recalculation of individual and / or departmental and / or Group and / or Group company financial performance (including but not limited to following the discovery of incorrect or false accounting); and / or
  - d. any material error and / or any failure to meet appropriate standards of fitness and / or propriety (including, without limitation, any such standards set by a regulator and / or the Group and / or any Group company) and / or to comply with Group and / or Group company policies which apply to an employee; and / or
  - e. any other circumstance as required by law and / or any regulator.

- The RemCo in its sole discretion shall determine whether and the extent to which some or all of any part of the discretionary remuneration award that has previously been paid must be repaid pursuant to these clawback provisions.
- An employee who accepts an award and is or becomes an MRT agrees that the Group or any Group company shall be entitled to withhold or collect any repayment required pursuant to the clawback provisions (i) by deduction from any salary or other earnings or payments due to the employee at any time, (ii) directly from the employee by immediate payment in cleared funds or (iii) by selling some or all of any shares held on the employee's behalf.

## 10.7. Remuneration leverage

Remuneration leverage is the ratio of fixed to variable components of remuneration. The Group ensures that fixed and variable components of total remuneration are appropriately balanced and sets fixed remuneration at a level which permits a fully flexible discretionary remuneration policy (including the award of no variable remuneration in appropriate circumstances). In respect of 2015 / 16, the maximum leverage ratio for all staff was set at 1:2 (Fixed : Variable). For 2016/17, the maximum leverage ratio for all Front Office staff has been set as 1:2 (Fixed : Variable) and for all support and control functions staff this has been set at 1:1 (Fixed : Variable). In accordance with the Remuneration Codes, approval for the aforementioned ratios has been obtained from the shareholders.

## 10.8. Remuneration awards and expenditure

### *Aggregate MRT total remuneration by business area*

Aggregate remuneration awards to MRTs by business area are shown below:

Table 29: Aggregate MRT remuneration by business area

	2016	2015
<b>MRT aggregate remuneration</b>	<b>Aggregate Remuneration awards £m</b>	<b>Aggregate Remuneration awards £m</b>
Investment Banking	3.9	3.9
Markets and Products	12.0	12.8
Central functions	10.5	9.7
<b>Total</b>	<b>26.4</b>	<b>26.4</b>

### *Aggregate remuneration of MRT by type of award*

Aggregate remuneration awards in respect of MRT by type of award, split between senior management and other staff, are set out below:

Table 30: Aggregate MRT remuneration by type of award

MRT aggregate remuneration	2016		2015	
	Senior management £m	Other MRTs £m	Senior management £m	Other MRTs £m
Fixed remuneration				
- Cash	6.5	9.3	5.5	9.7
Variable remuneration:				
- Non-deferred cash	1.3	2.6	1.3	2.6
- Non-deferred shares	1.2	1.5	1.1	1.5
- Deferred cash	1.0	1.0	1.2	1.1
- Deferred shares	1.0	1.0	1.2	1.1
<b>Total variable remuneration</b>	<b>4.5</b>	<b>6.1</b>	<b>4.9</b>	<b>6.3</b>
<b>Total remuneration</b>	<b>11.0</b>	<b>15.4</b>	<b>10.4</b>	<b>16.0</b>

The number of MRTs in respect of whom remuneration awards were made during the year is as follows:

Table 31: Number of MRTs subject to awards

MRT staff numbers	2016		2015	
	Senior management	Other MRTs	Senior management	Other MRTs
Number of staff	21	38	18	43

**Total outstanding deferred remuneration**

The amounts of deferred remuneration which have been awarded to employees but have not yet been paid, split between vested and unvested awards and shown separately for senior management and other MRTs, are shown below. Total outstanding deferred remuneration as at 31 March 2016 is shown below including unsettled awards made in respect of the current and preceding financial periods:

Table 32: Analysis of total outstanding deferred remuneration

Outstanding deferred remuneration	2016		2015	
	Senior management £m	Other MRTs £m	Senior management £m	Other MRTs £m
Vested deferred remuneration	-	-	-	-
Unvested deferred remuneration	4.5	3.5	5.7	5.6
<b>Total outstanding deferred remuneration</b>	<b>4.5</b>	<b>3.5</b>	<b>5.7</b>	<b>5.6</b>

**Adjustments and payment of deferred remuneration**

Adjustments made in respect of previously awarded deferred remuneration and payments of deferred awards during the year, split between senior management and other MRTs, are shown below:

Table 33: Deferred remuneration adjustments and payments

Deferred remuneration	2016		2015	
	Senior management £m	Other MRTs £m	Senior management £m	Other MRTs £m
Deferred remuneration adjustment	-	-	-	-
Deferred remuneration payments	1.1	1.2	0.3	1.5

**Sign-on and severance payments**

Sign on payments made and severance payments awarded and made during the year, split between senior management and other MRTs, are shown below:

Table 34: Analysis of sign on and severance payments

Sign-on and severance payments	2016		2015	
	Senior management £m	Other MRTs £m	Senior management £m	Other MRTs £m
Sign-on				
- Payments made	-	-	-	-
Severance				
- Payments awarded	-	-	-	-
- Highest single award	-	-	-	-
- Payments made	-	-	-	-

The number of MRTs to whom sign-on payments and severance awards and payments were made during the year is as follows:

Table 35: Number of MRTs subject to sign on and severance payments

MRT numbers	2016		2015	
	Senior management	Other MRTs	Senior management	Other MRTs
Sign on payments made	-	-	-	-
Severance payments awarded	-	-	-	-
Severance payments made	-	-	-	-

### **Remuneration bandings**

The number of individuals who were awarded remuneration of EUR 1 million and above is shown below in remuneration bandings:

Table 36: Remuneration bandings

Remuneration Awarded EUR millions	2016	2015
	Number of individuals	Number of individuals
1 to 1.5	6	6
1.5 to 2	0	0
Over 2	1	1