MIZUHO

Mizuho International plc

Pillar 3 disclosures for year ended 31 March 2023

Group Pillar 3 disclosures for year ended 31 March 2023

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1. Introduction

1.1 Objective

This document sets out disclosures in respect of the consolidated group comprising Mizuho International plc (MHI) and Mizuho Securities Europe GmbH (MHEU), together "the Group", required under the Prudential Regulation Authority (PRA) Rulebook[1], onshored following the United Kingdom's (UK) withdrawal from the European Union (EU), and which remains substantially in line with EU CRD legislation, consisting of the Capital Requirements Regulation[2] (CRR) and the Capital Requirements Directive[3] (CRD).

Pillar 3 disclosures, as required under the PRA Rulebook, provide market participants with information on a firm's governance arrangements, risk management objectives and processes, risk exposures, capital resources, key metrics and remuneration practices.

1.2 Regulatory information

The PRA supervises the Group on a consolidated basis. The Group consists of MHI and MHEU. MHI 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. MHEU is authorised and regulated by the Federal Financial Supervisory Authority (BaFin). MHEU is entered on the BaFin's authorised database of companies with ID number 149548. MHI is currently subject to the PRA Rulebook and MHEU is subject to the EU Prudential Regime for Investment Firms[4], consisting of the Investment Firms Regulation (IFR) and the Investment Firms Directive (IFD)[5].

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 the Group. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, the Group can give no assurance that these expectations will prove to be an accurate reflection of actual results. As these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

1.4 Overview of Basel framework and Pillar 3

The package of 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. Amendments to the existing package (collectively referred to as CRR2) were finalised in 2019. These amendments applied in the EU from 28 June 2021, and in the UK from 1 January 2022. After the UK's withdrawal from the EU, the Basel standards were onshored to UK regulation, including limited UK-specific revisions (e.g. Leverage Ratio framework). The Financial Services Act 2021 (FS Act) empowers HM Treasury to revoke provisions in the onshored CRR, in order to allow the PRA to introduce updated prudential rules for credit institutions and PRA-designated investment firms.

Prudential requirements under the Basel framework are categorised under three pillars.

Pillar 1 – Industry minimum capital requirements

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[1] Disclosure requirements included in the Disclosure (CRR) Part of the PRA Rulebook, onshored after UK's withdrawal from the EU.

[2] Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 (CRR2).

[3] Directive 2013/36/EU as amended by Directive (EU) 2019/878 (CRD5).

[4] The harmonised prudential regime applied to all investment firms authorised in the EU from June 2021.

[5] Investment Firms Regulation ((EU) 2019/2033) (IFR) and the Investment Firms Directive ((EU) 2019/2034) (IFD).

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. The table below shows the approach which has been adopted by MHI at the consolidated level[6]:

Table 1: Pillar 1 risk based approaches adopted by MHI at the consolidated level

Approach	Summary
Credit risk	
Standardised approach	Standardised risk weightings are applied to credit risk exposures. 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.
Counterparty credit risk	
Derivatives - Standardised Approach to Counterparty Credit Risk (SA-CCR)	From 1 January 2022, derivative counterparty credit risk exposure is calculated under the CRR2 SA-CCR methodology. SA-CCR provides increased netting for interest rate products, increased equity add-ons and less favourable use of excess collateral. CRR2 also uses the SA-CCR inputs for the CVA calculations and leverage ratio and has a new Default Fund calculation.
Securities Financing Transactions – Financial Collateral Comprehensive Method (FCCM)	Under the FCCM, collateral is subject to a volatility adjustment to take account of the risk of changes in its value. The adjusted amount is deducted from the risk exposure before assigning risk weights. Supervisory volatility adjustments are applied.
Market risk	
Standardised approach	Requires the calculation of position risk requirements for each type of market risk within the trading book in accordance with standard rules.
Operational risk	
Basic indicator approach	Capital requirements are calculated as 15% of three-year average income.

Non-risk based requirements

The Financial Policy Committee (FPC) and the PRA consider leverage requirements to be an essential part of the capital requirements framework with the UK leverage ratio framework outlined under Policy Statement 21/21[7]. The leverage ratio requires firms 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. The Group's current leverage ratio is provided in section 6.4 of this document.

[6] MHEU solo capital requirements are analysed under the IFR/IFD rules as MHEU is currently classified as an IFR investment firm.

[7] PS 21/21 introduced the following: extension of the scope of application of the leverage framework, exclusion of qualifying central bank claims from the exposure measure, among others.

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 Pillar 1, 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.

Following the SREP, the PRA sets firms a Pillar 2A capital requirement on an individual and consolidated basis, for the amount and quality of capital the PRA considers the firm must hold, in addition to Pillar 1 capital requirements, to meet the overall financial adequacy rule. The sum of Pillar 1 and Pillar 2A capital requirements is the firm's Total Capital Requirement (TCR).

The PRA may also notify firms of an amount and quality of capital, over and above the level of capital required to meet its TCR and over and above the capital buffers (Capital Conservation and Countercyclical Capital Buffers), that should be held for the PRA Buffer. The PRA Buffer is 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 Group in accordance with Chapter 2 of the Disclosure (CRR) Part of the PRA Rulebook. See section 2.7 for more details on the establishment of MHEU.

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 regulatory capital calculation 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 balance sheet items and Pillar 1 calculations:

Table 2: RWA calculation drivers split by balance sheet category

Accounting balance sheet category		**RWA risk type**	
Assets	Credit risk	Counterparty credit risk	Market risk
Reverse repurchase agreements	-	✓	✓
Debt and equity securities	-	-	✓
Derivative assets	-	✓	✓
Loans and advances to banks	✓	-	-
Shares in group undertakings	✓	-	-
Intangible fixed assets	-	-	-
Tangible fixed assets	✓	-	-
Other assets, prepayments and accrued income	✓	-	-
Liabilities and equity			
Deposits by banks	-	-	-
Customer accounts	-	-	-
Repurchase agreements	-	✓	✓
Short trading positions	-	-	✓
Derivative liabilities	-	✓	✓
Debt securities in issue	-	-	-
Subordinated debt	-	-	-
Other liabilities, provisions and accruals	-	-	-

Where balances are not applicable to the Group, these are reflected by a dash (-) in all tables; balances which are applicable but insignificant are reflected as numerals to one decimal place (0.0).

Location and verification

A standalone copy of these disclosures is located on the Mizuho EMEA (European, Middle East and African) website (www.mizuho-emea.com). These disclosures should be read in conjunction with the Group financial statements for the year ended 31 March 2023, 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 MHI's Chief Financial Officer (CFO) and Chief Risk Officer (CRO) and the Board of Directors of MHI (the Board).

Frequency of disclosure and comparative balances

Disclosures are provided in accordance with the PRA Rulebook, on an annual basis and published in conjunction with the date of 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 2023.

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

Comparative balances as at 31 March 2022 have generally been presented within this document. Where required, comparative prior year values have been restated to align with the 2023 presentation of disclosures.

Immaterial disclosures

In line with the PRA Rulebook[8], 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[9].

[8] Article 432 of the CRR was onshored to the PRA Rulebook (Disclosure (CRR) Part) after UK's withdrawal from the EU.

[9] Onshored to UK regulation, in line with Bank of England and PRA Statement of Policy Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU.

2. Corporate governance

2.1 Role of the Board

The Board has overall responsibility for the management of MHI and its subsidiaries, although certain matters are reserved to the shareholder whether under English law or by decision of the shareholder as set out in a Statement of Delegated Authority by the shareholder reviewed and approved by the shareholder on 16 February 2017 and by the Board on 23 February 2017. The role of the Board is to provide leadership of MHI 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 the strategy and risk appetite for MHI and the Group, 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 (subject to approval by the shareholder at an annual general shareholder meeting of the appointment / continuation in office of any Board member appointed during the previous year) 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 MHI'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 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 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

Chair of the Board	• Leads the Board and sets/reviews the Board's agenda • Facilitates engagement and participation from all Board members • Ensures effective communication with MHI's shareholder • Acts as Chair of the Nomination Committee
Chief Executive Officer (CEO)	• Recommends MHI strategy to the Board • Responsible for implementation of strategy and day-to-day management of MHI's affairs
Non-executive directors	• Offers effective challenge to management and oversees achievement of agreed objectives • Monitors the operation of internal control and risk management
Senior independent non-executive directors	• Acts as a sounding board for the Chair • Available to act as an intermediary for other Board members and stakeholders
Executive Directors	• Support the CEO in delivery of MHI's strategy and day-to-day management of MHI's affairs.

2.3 Board composition

The Board is made up of a majority of non-executive directors. The importance of maintaining an appropriate balance of skills, experience, diversity and independence is recognised. The Nomination Committee assesses 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 2023 with regard to the balance of executive and non-executive membership is shown below:

Table 4: Board composition as at 31 March 2023

Board members	Number of individuals
Chair and independent non-executive directors	4
Other non-executive directors	3
Executive directors	3
Total	**10**

MHI is committed to diversity and respects the diversity and individuality of all persons, irrespective of ethnicity, gender, age, career-level, background or sexual orientation. The Nomination Committee will recommend Board appointments on the basis of the benefits individual appointees can bring to the firm. This will take account of their knowledge, skills and experience measured against identified objective criteria, as well as the broader contribution they can make to the Board by widening the collective expertise and increasing the scope for effective challenge and diversity of thought. A target for gender diversification on the Board was set at a minimum of 10%, which has been met.

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 2022, the Board contained 10 members who held a total of 18[10] directorships (inclusive of those held on the Board). The total of such directorships held by each individual director was in compliance with those 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. Review of Board performance and that of individual directors plays an important role in ensuring effective ongoing governance, and MHI 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 committees under the Board (Board Committees) to enable detailed oversight of particular areas of Board responsibility and to facilitate oversight of senior management. Board and Board Committee meetings are held on a regular basis and sufficient time is allocated to ensure that relevant business is fully considered. The Board Committees are described below, together with a summary of their respective responsibilities:

[10] 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

Board	
Audit & Compliance Committee	• Reviews the appropriateness and completeness of the internal control framework, receives reports from internal and external auditors and monitors progress of remedial action with regard to control weaknesses. • Reviews arrangements established by management for compliance with regulatory requirements and reviews any matters of significance regarding MHI's relationship with its regulators.
Board Risk Committee	• Makes recommendations to the Board concerning MHI's risk appetite and reviews the supporting Board level limit framework and key metrics. • Evaluates and reports to the Board on matters concerning MHI's overall risk profile and performance against risk appetite, giving consideration to key trends and concentrations, compliance with limits and significant risk issues. • Evaluates MHI's governance, risk and control framework. • Provides input to the Remuneration Committee with regard to appropriate risk adjustments to be made to remuneration packages. • Provides advice and support to the Board on sustainability and climate risk.
Nomination Committee	• Reviews and makes recommendations with regard to Board composition, performance, and Board and senior management succession planning. • 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.
Remuneration Committee (RemCo)	• Sets and recommends to the Board the objectives, principles and parameters of MHI's Remuneration Policy. • 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.
Crisis Management Committee	• Responsible for managing a crisis or other situation impacting MHI, including the breach of an operating stage trigger as set out in the Recovery Plan. • Does not meet under normal operating conditions but may be convened at the request of: – any two of the CEO, CFO, CRO and Treasurer; – the Risk Management Committee, – the Chair of the Board, – the Chair of the Board Risk Committee, or – the Senior Independent Non-Executive Director of the Board to resolve a crisis or threat situation.

2.6 Diversity and inclusion

Valuing diversity is an integral part of our strategy for competing in the current and future marketplace, and driving business performance and success. Creating an inclusive workplace is paramount, underpinned by our values of Customer First, Innovative Spirit, Speed, Team Spirit and Passion.

The senior management team remain fully committed to the Group's inclusion and diversity agenda and receive regular updates on our inclusion and diversity initiatives as well as progress towards achieving gender balance. Senior managers also have diversity metrics in their performance plans. Our head office in Tokyo has its own targets in relation to gender balance and their commitment is demonstrated by their inclusion in the 2022 Bloomberg Financial Services Gender–Equality Index for the sixth year running.

MHI was one of the founding signatories of the Women in Finance Charter, which was formed in 2016. As at 31 August 2022, 21% of our senior roles were held by women. We have set new aspirational targets of 33% of senior management roles being held by women (Executive Director and above, permanent, local hires). To support this, our senior leaders all have individual aspirational targets for both senior women and women at mid-level rank, which form our talent pipeline.

We joined the Race at Work Charter in 2020 and have launched a data capture exercise so we can better understand our employee make up and can measure our future progress. This will help us to target resources to improve and increase diversity in all areas of business. As at end March 2023, 62% of our population had participated in this exercise.

Last year MHI's CEO Suneel Bakhshi was appointed to an independent taskforce commissioned by HM Treasury and BEIS and run by the City of London Corporation to boost socio-economic diversity at senior levels in the UK financial and professional services. The Taskforce published *Building the Baseline: Breaking the Class Barrier*, a report measuring socio-economic diversity at senior levels in UK financial and professional services.

Our Inclusion Network is comprised of five EMEA wide networks of Cultural Diversity, Family, Future Leaders, Gender and Pride. Collaboration across the networks allows us to take an intersectional approach to inclusion to drive real culture change. Our Inclusion Network supports our employees to create connections across the business, highlighting role models and establishing a culture where all of our employees feel able to bring their authentic selves to work. These employee resource groups play a central role in informing our policy and ensuring the needs of our people are better understood, and they have continued to play a key role in creating connections across the organisation during the pandemic.

A culture of equity and inclusiveness plays a key role in achieving better gender diversity. Our senior management aspire for a culture that encourages diversity of thought and a winning spirit. Some of the initiatives which form part of our winning culture include: a focus on allyship with specialist sessions available for all employees, enhanced family friendly policies, embedded flexible working (core hours and hybrid working), key focus on employee wellbeing including mental health awareness, an embedded culture of mentoring, menopause campaign including the introduction of Peppy[11] to support employees and their families through the key life stages of fertility, baby and menopause. We continue to partner with My Family Care to offer a range of benefits to help better balance work and family life and remove some of the pressures associated with modern life.

2.7 MHEU

MHI established a subsidiary in Frankfurt-am-Main, Germany under German law, MHEU in the financial year ending 31 March 2019. This entity commenced business operations from 1 April 2019. MHEU was originally established as a CRR firm, but in June 2021 it became an IFR investment firm subject to IFR/IFD rules.

The management board of MHEU has responsibility for the control and oversight of its activities, while MHI supervises MHEU's activities through its existing Board and committees as the firm's shareholder by establishing appropriate reporting arrangements.

[11] Peppy is an award winning digital health solution app available to all colleagues and their partners, providing 24/7 assistance, advice and support around fertility, pregnancy and menopause, with no appointment necessary. Peppy offers 1-1 messaging, video calls, guidance via a library of expert articles, peer support and group chats, virtual events, mental wellbeing support, and educational lifestyle programmes.

The management board of MHEU comprises three local directors: the CEO, CRO and CFO. Sub-committees of the management board are formed to allow for consideration of specific matters.

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 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 in 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.

The Risk Management function monitors and works closely with the Front Office. This is central to the Group's risk culture. There are regular forums for day-to-day business discussion, catalysed by co-location, fostering further alignment between the business strategy and risk taking. The Group's hedging policy further supports risk management, defining the approach to mitigate potential losses and remain within the prevailing risk appetite.

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, moderate risk profile;
- Ensure that effective control of balance sheet usage and concentration risk is exercised, without tolerating breaches of the limit framework;
- Preserve strong capital, leverage 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 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 prudently 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 adopts 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.

The Group also sets qualitative risk appetite statements to define what levels of risk are acceptable for risks which are less easily quantified.

The Group has an expanding suite of sustainability policies that set out the approach and responsibilities of employees and governance committees in relation to climate risk as well as broader sustainability-related risks. The majority of these policies are cascaded from Mizuho Financial Group, Inc. (MHFG), and these are reviewed and updated regularly to ensure that they reflect the rapidly evolving stakeholder expectations. Among others, the policies help clarify the Group's stance on climate change and environmental matters, referring to specific actions and responsibilities in relation to these.

3.4 Risk governance and assigning responsibility

Three lines of defence

The Group has established a comprehensive framework using a three Lines of Defence (LoD) model for managing financial and other operational risks, which evolves with business activities in response to developments in markets and products.

First line: The first line is any business or support unit that originates risk, owns it and is responsible for that risk. The first line function is obliged to understand the implication of any risks run by it and to conduct its own supervision to control/manage the risk.

Second line: The second line is provided by a number of functions who are responsible for conducting independent challenge, oversight and reporting of risk and validating the management of risks by the first line of defence.

Third line: The third line of defence is provided by the Internal Audit Function that is independent of both the first and second lines of defence. The role of the third line is to independently check and verify the effectiveness of the first and second lines of defence and to escalate to Senior Management and the relevant Board sub-committees any deficiencies that it identifies.

Risk governance

The Board, as the governing body is required to establish the risk appetite statement, ensuring that it is appropriately documented, is appropriate for MHI's business strategy, it reflects MHI's financial condition and funding capacity, and is communicated to all relevant business lines. This also includes approval of the corresponding metrics which will enable the effective high level monitoring of risk profile and performance against the appetite.

The Board has overall responsibility for the approval of MHI's Risk Appetite Statement. It is also responsible for approving the systems, processes and controls used to identify, measure, manage and monitor risk in the business and for monitoring MHI's overall risk profile. The Board delegates responsibility for detailed risk oversight and challenge to the Board Risk Committee and the day-to-day risk management to the Executive Committee. The Board Risk Committee held six meetings in the year.

The Board is ultimately responsible for setting the limits inherent in the risk appetite statement taking into account recommendations from the Board Risk Committee and the CRO. The detailed risk appetite framework is developed initially by the Risk Management department after the Board dictates the appetite parameters. The CRO then takes the framework through challenge, review and approval from the Prudential Regulation Committee, Asset & Liability Committee, Risk Management Committee and Board Risk Committee.

The Board also retains responsibility for capital and liquidity matters, including compliance with applicable regulation. The heads of the principal risk control functions, being the CRO and the Head of Legal & 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 CEOs of MHI and MHEU, who in turn mandate the heads of the principal control functions to assume responsibility for risk challenge and oversight.

3.5 Risk Management function and approach

MHI and MHEU maintain strong and independent Risk Management functions which are headed by the CROs of MHI and MHEU. Risk Management is mandated to oversee all material classes of risk to which MHI and MHEU are exposed, other than conduct risks which are overseen by each entity's Compliance function.

Risk Management 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. The Risk Management Committee, chaired by the CRO, advises the Executive Committee and Board Risk Committee on risk methodologies, limits and policies, for market, credit, liquidity and operational risks, and monitors compliance with these limits. The Risk Management Committee meets biweekly.

Risk identification and assessment

All material risk exposures are identified and recorded within the MHI and MHEU risk registers, 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 entity-specific early warning indicators whose breach may indicate deterioration in the capital and liquidity strength. Monitoring and reporting the status of these early warning indicators forms part of Group's contingency planning arrangements.

Climate-related risk management

Since the publication of the PRA’s Supervisory Statement 3/19 on enhancing banks’ and insurers’ approaches to managing the financial risks from climate change, the Group has adopted a proportionate approach to embedding the identification and management of climate-related risks, in line with our business model and the scale and complexity of our activities. Building on the progress to date, the Group’s approach to managing climate risk will continue to mature over time, supported by deepening collaboration across the Mizuho global platform. For more information on the progress made in the past year, please refer to the Group’s Annual Report for the year ended 31 March 2023.

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 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 Risk Management 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.

Within 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 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 most recent ICAAP and ILAAP exercises concluded that the risk management arrangements and resources adopted by both entities were adequate in relation to their risk profile and strategy. Further, through its risk management framework, risk appetite and limit framework, independent reviews and ongoing programme of enhancements, MHI and MHEU confirm that their risk management is effective.

4. Risk profile

The Group's business strategy is based on the provision of intermediation services within the capital markets for an international client base. In keeping with this overall strategy, the Group operates Global Investment Banking (GIB) and Global Markets EMEA (GMK) business lines. GIB arranges and underwrites new debt issuances for major EMEA corporate clients and Financial Institution Groups clients of Mizuho Bank. GIB also provides underwriting of international equity offerings and convertible bonds for Japanese and EMEA corporations, and mergers & acquisition services for Japanese firms targeting EMEA assets. GMK provides sales and trading of debt securities and cleared derivatives for global and EMEA institutional investor clients, and the sourcing of European-originated products for the Mizuho's Japanese retail client base. GMK also provides Japanese equity sales, facilitation and investor relations services for European clients.

The Board requires that a predictable, 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, provides securities financing services, and offers predominantly vanilla and cleared derivative risk management solutions to clients.

The Board's risk appetite with respect to capital is quantified with reference to minimum capital requirements and stress testing, and ensures an appropriate surplus is maintained over the Group's assessed capital requirements; this includes regulatory TCR and capital buffers, ensuring that the Group meets regulatory capital requirements on an ongoing basis. The aggregate risk appetite measure is supported by a range of supporting limits and metrics which facilitate the control of individual risk factors at a detailed operational level. Key regulatory metrics are shown on the following page:

Table 6: Key regulatory metrics

		2023	2022
		£m	£m
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	**627.7**	640.8
2	Tier 1 capital	**627.7**	640.8
3	Total capital	**627.7**	640.8
Risk-weighted assets amounts (RWAs)			
4	Total risk-weighted assets (RWAs)	**2,241.7**	2,057.9
Capital ratios (as a percentage of RWAs)			
5	Common Equity Tier 1 ratio (%)	**28.00%**	31.14%
6	Tier 1 ratio (%)	**28.00%**	31.14%
7	Total capital ratio (%)	**28.00%**	31.14%
Additional own funds requirements based on SREP (as a percentage of RWAs)			
7a	Additional CET1 SREP requirements (%)	**1.98%**	2.04%
7d	Total SREP own funds requirements (%)	**9.98%**	10.04%
Combined buffer requirement (as a percentage of RWAs)			
8	Capital conservation buffer (%)	**2.50%**	2.50%
9	Institution-specific countercyclical capital buffer (%)	**0.28%**	0.04%
11	Combined buffer requirement (%)	**2.78%**	2.54%
11a	Overall capital requirements (%)	**12.76%**	12.57%
12	CET1 available after meeting the total SREP own funds requirements (%)	**18.02%**	21.10%
Leverage ratio			
13	Total exposure measure excluding claims on central banks	**14,812.8**	15,727.1
14	Leverage ratio excluding claims on central banks (%)	**4.24%**	4.07%
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**4.24%**	4.07%
14b	Leverage ratio including claims on central banks (%)	**4.13%**	3.95%
14c	Average leverage ratio excluding claims on central banks (%)	**4.04%**	n/a
14d	Average leverage ratio including claims on central banks (%)	**3.91%**	n/a
14e	Countercyclical leverage ratio buffer (%)	**0.10%**	n/a
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	**2,090.2**	2,035.9
16a	Cash outflows - Total weighted value	**2,664.6**	2,279.3
16b	Cash inflows - Total weighted value	**2,173.1**	2,007.4
16	Total net cash outflows (adjusted value)	**716.3**	574.9
17	Liquidity coverage ratio (%)	**302.67%**	364.04%
Net Stable Funding Ratio			
18	Total available stable funding	**2,253.8**	2,509.6
19	Total required stable funding	**1,602.3**	1,412.2
20	NSFR ratio (%)	**140.66%**	177.71%

Note: In line with PRA disclosure template ‘UK KM1 - Key metrics template’. Only rows relevant to the Group are shown in Table 6, remaining rows from the PRA disclosure template have been left out as these are nil rows. In line with the Pillar 3 instructions, the disclosure of data for previous periods is not required when data is disclosed for the first time.

5. Capital resources

5.1 Capital ratios

The Group has continued to maintain capital resources significantly above the minimum requirements established by the Basel Pillar 1 framework. During 2021, and with PRA approval, the Group repaid all existing Tier 2 qualifying subordinated debt to Mizuho Securities Co. Ltd.

The Group's ratio of Tier 1 capital[12] to Pillar 1 RWAs is given below:

Table 7: Tier 1 capital ratio

	2023	2022
Tier 1 capital ratio	**28.00%**	31.14%

5.2 Capital resources reconciliation

As at 31 March 2023, the Group's total capital resources consisted of £627.7m CET1 capital.

The difference between total equity on an accounting basis and regulatory capital arises from regulatory adjustments, as shown below:

Table 8: Capital resources reconciliation

	2023 £m	2022 £m
Share capital	**725.5**	725.5
Reserves	**-18.0**	-13.1
Total equity (accounting)	**707.6**	712.4
Regulatory adjustments to accounting total equity		
Prudent valuation adjustment	**-6.2**	-5.3
Intangible assets	**-73.7**	-66.2
Total CET1 capital	**627.7**	640.8
Total Tier 2 capital	**-**	-
Total capital resources (regulatory)	**627.7**	640.8

[12] Post the Tier 2 capital repayment in 2021, the Group's capital structure consists only of Common Equity Tier 1 capital. In this sense, the Tier 1 capital ratio is equivalent to the Total capital ratio.

Table 9: Own Funds

	Common Equity Tier 1 (CET1): instruments and reserves	**2023 £m**	2022 £m
1	Capital instruments and the related share premium accounts	**725.5**	725.5
2	Retained earnings	**-10.9**	-6.4
3	Accumulated other comprehensive income (and other reserves)	**-7.0**	-6.7
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**707.6**	712.4
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	**-6.2**	-5.3
8	Intangible assets (net of related tax liability) (negative amount)	**-73.7**	-66.2
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-79.9**	-71.5
29	**Common Equity Tier 1 (CET1) capital**	**627.7**	640.8
45	**Tier 1 capital (T1 = CET1 + AT1)**	**627.7**	640.8
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	**-**	-
51	Tier 2 (T2) capital before regulatory adjustments	**-**	-
	Tier 2 (T2) capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 (T2) capital	**-**	-
58	**Tier 2 (T2) capital**	**-**	-
59	**Total capital (TC = T1 + T2)**	**627.7**	640.8
60	**Total RWAs**	**2,241.7**	2,057.9
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of RWAs)	**28.00%**	31.14%
62	Tier 1 (as a percentage of RWAs)	**28.00%**	31.14%
63	Total capital (as a percentage of RWAs)	**28.00%**	31.14%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of RWAs)	**12.76%** (1)	12.57% (1)
65	of which: capital conservation buffer requirement	**2.50%**	2.50%
66	of which: countercyclical buffer requirement	**0.28%**	0.04%
68	**Common Equity Tier 1 available to meet buffers (as a percentage of RWAs)**	**18.02%**	21.10%
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**34.5**	28.9

Note: In line with PRA disclosure template 'UK CC1 - Composition of regulatory own funds'. Only rows relevant to the Group are shown in Table 9, remaining rows from the PRA disclosure template have been left out as these are nil rows.
(1) CET1 capital requirement considering MHI's capital stack consists only of Common Equity Tier 1 capital.

6. Capital requirements

6.1 RWAs and Pillar 1 capital requirements

The Group's Pillar 1 capital requirements and RWAs as at 31 March 2023 are set out below by risk class.

Table 10: RWAs and Pillar 1 capital requirements

		Risk weighted exposure amounts (RWEAs)		**Total own funds requirements**	
Risk type		**2023 £m**	2022 £m	**2023 £m**	2022 £m
1	Credit risk (excluding CCR)	**140.1**	108.2	**11.2**	8.7
2	Of which the standardised approach	**140.1**	108.2	**11.2**	8.7
6	Counterparty credit risk - CCR	**530.6**	357.3	**42.4**	28.6
7	Of which the standardised approach	**460.1**	304.5	**36.8**	24.4
8a	Of which exposures to a CCP	**4.4**	8.5	**0.4**	0.7
8b	Of which credit valuation adjustment - CVA	**60.2**	42.3	**4.8**	3.4
9	Of which other CCR	**10.1**	10.4	**0.8**	0.8
15	Settlement risk	**0.1**	0.2	**0.0**	0.0
20	Position, foreign exchange and commodities risks (Market risk)	**1,166.8**	1,224.3	**93.3**	97.9
21	Of which the standardised approach	**1,166.8**	1,224.3	**93.3**	97.9
22a	Large exposures	**14.6**	n/a	**1.2**	n/a
23	Operational risk	**389.6**	368.1	**31.2**	29.4
23a	Of which basic indicator approach	**389.6**	368.1	**31.2**	29.4
29	**Total**	**2,241.7**	**2,057.9**	**179.3**	**164.6**

Note: In line with PRA disclosure template 'UK OV1 – Overview of risk weighted exposure amounts'. Only rows relevant to the Group are shown in Table 10, remaining rows from the PRA disclosure template have been left out as these are nil rows.

MHI currently has permission to use sensitivity models to calculate positions in derivative instruments for the purposes of its calculation of own funds requirements for market risk.

6.2 Pillar 2 capital requirements

The PRA prescribes a TCR to firms as part of its supervision of the banking sector. MHI has been issued with a TCR by the PRA (updated November 2021) and maintains capital that exceeds this requirement. MHI's TCR was £223.7m as at 31 March 2023 and this was met entirely by CET1 capital.

The Group's ICAAP provides an assessment of risks not covered or not fully captured through Pillar 1 capital requirements. Each entity on an individual basis and the Group ensures that it maintains capital which also exceeds this internal assessment of risk exposures. The assessment of risks not covered or not fully captured through Pillar 1 includes but is not limited to Operational Risk, Concentration Risk, Counterparty Risk, Market Risk, Interest rate risk in the banking book, Pension risk and Underwriting risk.

The ICAAP also forecasts capital requirements and capital resources under stressed scenarios, which enable the Group to make an internal assessment of the capital buffer required to ensure that it will continue to meet minimum capital requirements throughout the economic cycle. The Group maintains capital exceeding the higher of TCR and additional PRA requirements, and its internal assessment of potential future capital needs.

6.3 Capital buffers

Alongside the minimum capital requirements, the PRA Rulebook requires institutions to hold capital buffers that can be drawn down in times of economic stress to absorb losses. Specific capital buffers that the Group is required to hold include:

Capital conservation buffer (CCoB)

The CCoB is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required; the requirement is 2.5% of RWAs.

Countercyclical capital buffer (CCyB)

The CCyB is designed to require financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.

The following table shows all positive CCyB rates recognised or set by the Financial Policy Committee (FPC) on foreign exposures for UK firms in specific countries that are relevant to MHI at 31 March 2023.

Table 11: CCyB rates on foreign exposures set by the FPC

Country	Current CCyB rate	Implementation date
Australia	1.00%	01-Jan-23
Bulgaria	1.50%	01-Jan-23
Croatia	0.50%	31-Mar-23
Czech Republic	2.00%	01-Jan-23
Denmark	2.50%	31-Mar-23
Estonia	1.00%	07-Dec-22
Germany	0.75%	01-Feb-23
Hong Kong	1.00%	12-Oct-22
Iceland	2.00%	29-Sep-22
Luxembourg	0.50%	01-Jan-21
Norway	2.50%	31-Mar-23
Romania	0.50%	17-Oct-22
Slovakia	1.00%	01-Aug-20
Sweden	1.00%	29-Sep-22

Each institution's specific CCyB rate is a weighted average of the CCyBs that apply in the jurisdictions where the institution's relevant credit exposures are located. The FPC is responsible for setting the UK CCyB rate (for credit exposures located in the UK). The UK CCyB rate was 1.00% as at 31 March 2023. MHI continues to adhere to these buffer requirements.

Table 12 shows the Group's specific CCyB rate and requirement. The table is split down into:

- The total risk exposure amount, for exposures in all countries;
- The institution specific CCyB rate, which is the weighted-average CCyB rate, calculated by multiplying the total exposure to each geographical area by the CCyB rate set for that region (including those countries with a CCyB rate set to zero); and
- The institution specific CCyB requirement, which is calculated by multiplying the above two figures together.

Table 12: Institution-specific CCyB

CCyB metric	**2023 £m**	2022 £m
Total risk exposure amount	**2,241.7**	2,057.9
Institution-specific CCyB rate (%)	**0.28%**	0.04%

Institution-specific CCyB requirement	**6.3**	0.8

Note: In line with PRA disclosure template 'UK CCyB2 - Amount of institution-specific countercyclical capital buffer'.

As at 31 March 2023, geographical breakdown of credit exposures relevant for the calculation of the CCyB is shown in Table 13.

Table 13: Geographical distribution of credit exposures relevant for the calculation of the CCyB

Breakdown by country	General credit exposures	Relevant credit exposures – Market risk	Total exposure value	Own fund requirements			Risk-weighted exposure amounts	Own fund requirements weights	CCyB rate
	Exposure value under SA	Sum of long and short positions of trading book exposures for SA		Credit risk	Market risk	Total			
	£m	£m	£m	£m	£m	£m	£m	%	%
United Arab Emirates	18.8	37.6	56.4	0.3	1.0	1.3	15.7	1.4%	
Austria	-	5.8	5.8	-	0.1	0.1	1.8	0.2%	
Australia	12.4	20.2	32.6	1.0	0.3	1.3	16.4	1.5%	1.0%
Belgium	41.0	12.5	53.5	1.6	0.9	2.5	31.1	2.8%	
Bahrain	-	0.1	0.1	-	0.0	0.0	0.1	0.0%	
Bermuda	-	3.5	3.5	-	0.0	0.0	0.2	0.0%	
Canada	-	9.9	9.9	-	0.6	0.6	7.2	0.7%	
Switzerland	5.5	3.9	9.4	0.2	0.2	0.4	4.7	0.4%	
Czech Republic	-	0.1	0.1	-	0.0	0.0	0.1	0.0%	2.0%
Germany	61.3	82.2	143.5	9.1	5.3	14.5	180.8	16.5%	0.75%
Denmark	-	11.7	11.7	-	0.9	0.9	11.7	1.1%	2.5%
Spain	-	14.1	14.1	-	0.9	0.9	11.6	1.1%	
Finland	-	5.8	5.8	-	0.3	0.3	4.1	0.4%	
France	-	101.4	101.4	-	5.8	5.8	72.1	6.6%	0.0%
United Kingdom	76.8	94.9	171.7	6.0	5.6	11.5	143.9	13.1%	1.0%
Guernsey	0.4	-	0.4	0.0	-	0.0	0.4	0.0%	
Hong Kong	-	0.0	0.0	-	-	-	-	0.0%	1.0%
Hungary	-	1.2	1.2	-	0.1	0.1	1.2	0.1%	
Indonesia	-	1.1	1.1	-	0.1	0.1	1.1	0.1%	
Ireland	-	5.5	5.5	-	0.5	0.5	5.6	0.5%	0.0%
Israel	0.0	-	0.0	0.0	-	0.0	0.0	0.0%	
Italy	-	17.3	17.3	-	1.4	1.4	17.4	1.6%	
Jersey	-	5.5	5.5	-	0.4	0.4	5.3	0.5%	
Japan	9.2	38.7	47.9	0.7	1.3	2.0	25.2	2.3%	
Korea, Republic of	-	0.8	0.8	-	0.1	0.1	0.8	0.1%	
Kuwait	0.0	1.3	1.3	0.0	0.1	0.1	1.3	0.1%	
Cayman Islands	181.2	26.6	207.9	14.7	0.6	15.3	190.9	17.4%	
Kazakhstan	-	0.0	0.0	-	0.0	0.0	0.0	0.0%	
Liechtenstein	-	6.7	6.7	-	0.1	0.1	1.3	0.1%	

Luxembourg	-	57.8	57.8	-	1.9	1.9	24.4	2.2%	0.5%
Mexico	-	9.4	9.4	-	0.6	0.6	7.9	0.7%	
Malaysia	0.0	-	0.0	0.0	-	0.0	0.0	0.0%	
Netherlands	3.5	134.5	138.0	0.3	7.2	7.5	94.2	8.6%	
Norway	-	1.6	1.6	-	0.1	0.1	0.9	0.1%	2.5%
Panama	-	0.0	0.0	-	0.0	0.0	0.0	0.0%	
Qatar	1.8	1.6	3.5	0.1	0.0	0.2	2.2	0.2%	
Russian Federation	0.0	-	0.0	0.0	-	0.0	0.0	0.0%	
Saudi Arabia	-	5.5	5.5	-	0.1	0.1	1.1	0.1%	
Sweden	-	12.4	12.4	-	0.6	0.6	7.4	0.7%	1.0%
Singapore	-	2.0	2.0	-	0.2	0.2	2.0	0.2%	
Taiwan, Province of China	0.0	-	0.0	0.0	-	0.0	0.0	0.0%	
United States	0.1	307.5	307.6	0.0	16.2	16.2	202.4	18.5%	
Virgin Islands, British	-	3.7	3.7	-	0.1	0.1	1.0	0.1%	
Total	**412.0**	**1,044.4**	**1,456.4**	**34.0**	**53.6**	**87.6**	**1,095.5**	**-**	**-**

Note: In line with PRA disclosure template ‘UK CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer’. Only columns relevant to the Group are shown in Table 13, remaining columns from the PRA disclosure template have been left out as these are nil columns.

6.4 Leverage ratio

Management of leverage forms part of the Group's business planning process and risk appetite framework. The Group's leverage ratio as at 31 March 2023 meets the expected future requirements set out above. The Group is committed to ensuring that full compliance with all relevant regulatory requirements is maintained.

Solo and consolidated leverage ratios are monitored on a daily basis, and Recovery Plan early warning indicators have been established to ensure the Group's leverage balance sheet is sustainable and in line with risk appetite.

The Group’s leverage ratio as at 31 March 2023 was 4.24% (31 March 2022: 4.07%). The main factors that had an impact on the leverage ratio during the period were regulation driven:

- MHI on both a solo and consolidated basis became LREQ Firm, binding 1 Jan 2023;
- Regulatory leverage ratio minimum limit changed from 3.25% to 3.25% plus the countercyclical leverage ratio buffer (%).

Table 14: Summary reconciliation of accounting assets and leverage ratio exposures (LRSum)

		Leverage ratio exposures 2023 £m	Leverage ratio exposures 2022 £m
1	Total assets as per published financial statements	**27,378.8**	22,058.9
4	(Adjustment for exemption of exposures to central banks)	**-371.9**	-483.4
8	Adjustment for derivative financial instruments	**-12,614.1**	-5,978.4
9	Adjustment for securities financing transactions (SFTs)	**469.4**	247.6
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**57.0**	22.0
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	**-6.2**	-5.3
12	Other adjustments	**-100.1**	-134.4
13	**Total exposure measure**	**14,812.8**	15,727.1

Note: In line with PRA disclosure template ‘UK LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures’. Only rows relevant to the Group are shown in Table 14, remaining rows from the PRA disclosure template have been left out as these are nil rows.

Table 15: Leverage ratio common disclosure (LRCom)

		Leverage ratio exposures 2023 £m	Leverage ratio exposures 2022 £m
On-balance sheet exposures (excluding derivatives and Securities Financing Transactions (SFTs))			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**6,134.3**	6,276.2
6	(Asset amounts deducted in determining Tier 1 capital)	**-79.9**	-71.5
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 6)	**6,054.5**	6,204.8
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**136.6**	60.6
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**321.8**	381.4
11	Adjusted effective notional amount of written credit derivatives	**28,877.7**	7,579.2
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-28,877.7**	-7,556.4
13	Total derivatives exposures (sum of lines 8 to 12)	**458.4**	464.7
SFT exposures			
14	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**12,555.9**	14,424.1
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-4,291.6**	-5,239.6
16	Counterparty credit risk exposure for SFT assets	**350.5**	334.4
18	Total securities financing transaction exposures (sum of lines 14 to 16)	**8,614.8**	9,518.9
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	**113.2**	42.5
20	(Adjustments for conversion to credit equivalent amounts)	**-56.3**	-20.5
22	Off-balance sheet exposures (sum of lines 19 and 20)	**57.0**	22.0
Capital and total exposure measure			
23	Tier 1 capital (leverage)	**627.7**	640.8
24	Total exposure measure including claims on central banks (sum of lines 7, 13, 18, and 22)	**15,184.7**	16,210.5
24a	(-) Claims on central banks excluded	**-371.9**	-483.4
24b	Total exposure measure excluding claims on central banks (sum of lines 24 and 24a)	**14,812.8**	15,727.1
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	**4.24%**	4.07%
25c	Leverage ratio including claims on central banks (%)	**4.13%**	3.95%
26	Regulatory minimum leverage ratio requirement (%)	**3.35%**	3.25%
Additional leverage ratio disclosure requirements – leverage ratio buffers			
27	Leverage ratio buffer (%)	**0.10%**	n/a
27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)	**0.00%**	n/a
27b	Of which: countercyclical leverage ratio buffer (%)	**0.10%**	n/a
Additional leverage ratio disclosure requirements - disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	**8,986.4**	n/a
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**8,264.3**	n/a
31	Average total exposure measure including claims on central banks	**15,757.1**	n/a
32	Average total exposure measure excluding claims on central banks	**15,259.2**	n/a
33	Average leverage ratio including claims on central banks	**3.91%**	n/a

34	Average leverage ratio excluding claims on central banks	**4.04%**	n/a

Note: In line with PRA disclosure template 'UK LR2 - LRCom: Leverage ratio common disclosure'. Only rows relevant to the Group are shown in Table 15, remaining rows from the PRA disclosure template have been left out as these are nil rows.

Table 16: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (LRSpl)

		Leverage ratio exposures 2023 £m	**Leverage ratio exposures** 2022 £m
1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**6,134.3**	6,276.2
2	Trading book exposures	**5,581.1**	5,634.0
3	Banking book exposures, of which:	**553.2**	642.2
5	Exposures treated as sovereigns	**372.2**	483.4
7	Institutions	**88.8**	77.6
10	Corporates	**0.8**	0.6
12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**91.4**	80.6

Note: In line with PRA disclosure template 'UK LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)'. Only rows relevant to the Group are shown in Table 16, remaining rows from the PRA disclosure template have been left out as these are nil rows.

7. Market risk

7.1 Risk management

Market risk is the risk of financial loss or reduced valuation arising from changes in interest rates, foreign exchange rates, credit spreads, equity prices and other rates, prices, volatilities, correlations or other market conditions, such as liquidity. The principal market risks to which the Group is exposed are FX risk, interest rate risk, and credit spread risk. Credit valuation adjustments are considered within section 9 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 MHFG group of companies in European debt products, and holds inventory in its core product classes. The Group's market risk appetite is to maintain a moderate risk profile, whilst focusing upon client transaction flows in actively traded vanilla products.

The Group's market risk exposures arise principally from trading operations in government, supranational, sub-sovereign, agency, and corporate debt instruments, and provision of derivatives for client risk management solutions. Exposures are partially mitigated through the execution of offsetting transactions in other debt instruments or through the use of hedging 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, and stress testing. Market risk limits are set and monitored using these measures as appropriate on a business line basis. Key risk exposures on solo and consolidated bases, which incorporate the effect of hedging activity, are monitored by the 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 an established market risk policy.

7.2 Balance sheet split of trading and banking books

Trading books comprise those positions that are held with trading intent or to hedge such positions. In addition to these positions, the trading books also contain assets held as part of the HQLA portfolio for the purpose of managing liquidity risks and ensuring ongoing conformance with the Liquidity Coverage Ratio (LCR).

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

Table 17: Balance sheet split by trading and banking books

	2023		
Balance sheet category	**Trading Book**	**Banking book**	**Total**
	£m	**£m**	**£m**
Loans and advances to banks	**-**	**417.2**	**417.2**
Reverse repurchase agreements	**8,032.9**	**112.5**	**8,145.4**
Debt and equity securities	**5,089.4**	**3.9**	**5,093.3**
Derivative assets	**13,071.7**	**0.9**	**13,072.6**
Shares in group undertakings	**-**	**9.9**	**9.9**
Intangible fixed assets	**-**	**73.7**	**73.7**
Tangible fixed assets	**-**	**27.3**	**27.3**
Other assets, prepayments and accruals	**53.6**	**485.9**	**539.5**
Total assets	**26,092.6**	**1,131.3**	**27,378.9**
Deposits by banks	**-**	**292.1**	**292.1**
Customer accounts	**-**	**897.9**	**897.9**
Repurchase agreements	**6,799.1**	**107.5**	**6,906.6**
Short trading positions	**3,418.7**	**-**	**3,418.7**
Derivative liabilities	**12,827.8**	**5.7**	**12,833.5**
Debt securities in issue	**-**	**1,616.5**	**1,616.5**
Subordinated debt	**-**	**-**	**-**
Other liabilities, provisions and accruals	**47.0**	**658.9**	**705.9**
Total liabilities	**23,092.6**	**3,578.6**	**26,671.2**

	2022		
Balance sheet category	Trading Book	Banking book	Total
	£m	£m	£m
Loans and advances to banks	-	558.8	558.8
Reverse repurchase agreements	9,230.4	40.9	9,271.3
Debt and equity securities	4,772.0	3.5	4,775.5
Derivative assets	6,439.0	4.1	6,443.1
Shares in group undertakings	-	8.1	8.1
Intangible fixed assets	-	66.2	66.2
Tangible fixed assets	-	29.0	29.0
Other assets, prepayments and accruals	30.2	876.7	906.9
Total assets	20,471.6	1,587.3	22,058.9
Deposits by banks	-	1,153.3	1,153.3
Customer accounts	-	295.7	295.7
Repurchase agreements	7,534.4	-	7,575.3
Short trading positions	3,560.9	-	3,560.9
Derivative liabilities	6,419.0	3.7	6,422.7
Debt securities in issue	-	1,760.1	1,760.1
Subordinated debt	-	-	-
Other liabilities, provisions and accruals	35.1	543.4	578.5
Total liabilities	17,549.4	3,797.1	21,346.5

7.3 Internal risk measures

MHI has continued to manage its market risk at moderate levels over the past year, with average VaR of £2.7m (2022: £2.6m). The table below shows the internal VaR measurement, determined using a 99th percentile confidence level over a one-day time horizon, by risk factor:

Table 18: VaR by risk factor

	2023				2022			
VaR by risk factor	**Close £m**	**Average £m**	**High £m**	**Low £m**	Close £m	Average £m	High £m	Low £m
Interest rate risk	**1.5**	**1.3**	**4.0**	**0.7**	1.0	0.9	2.0	0.4
Credit spread risk	**2.9**	**2.3**	**3.7**	**0.6**	2.9	2.7	5.0	1.1
Equity risk	**0.4**	**0.2**	**0.8**	**-**	0.1	0.2	1.5	-
Foreign exchange risk	**0.1**	**0.1**	**0.2**	**-**	0.1	0.1	0.3	-
Total VaR [(1)]	**3.3**	**2.7**	**5.2**	**1.2**	2.7	2.6	4.4	1.3

[(1)] Total VaR assumes some diversification across risk types and therefore does not represent the simple sum of component risk factors.

7.4 Pillar 1 requirements by risk category

The Group's largest sources of market risk derive from general debt instrument risk within its trading inventory of flow derivative instruments, and specific debt instrument risk from the trading inventory of fixed income securities. Specific debt instrument risk arising from the trading of fixed income securities represents exposure to risk factors related to the issuer relevant to the pricing of individual debt securities.

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

Table 19: Pillar 1 market risk under standardised approach

Market risk under standardised approach	**2023 £m**	2022 £m
General interest rate risk – debt instrument	**10.6**	19.7
Specific risk – debt instrument	**79.3**	76.5
General interest rate risk – equity instrument	**1.1**	0.1
Specific risk – equity instrument	**1.3**	0.2
Foreign exchange risk	**1.1**	1.3
Total market risk	**93.3**	97.9

7.5 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 as follows:

Table 20: Summary of non-traded market risk

	Principal risk factors			
	Interest rate	**Inflation**	**Credit spread**	**Equity**
Non-trading book	✓	×	×	✓
Pension scheme	✓	✓	✓	✓

Equity risk in the banking book

Banking book equity investments, being those which are not held for trading purposes, 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 £3.8m as at 31 March 2023.

The Group maintains holdings of Mizuho Financial Group, Inc. shares in connection with share based remuneration arrangements as discussed in section 12.

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

Table 21: Banking book equity by category

Banking book equity	**2023** **Balance sheet value** **£m**	2022 Balance sheet value £m
Private equity	**3.8**	3.4
Exchange traded	**10.0**	8.2
Other	**-**	-
Total banking book equity	**13.8**	11.6

Interest rate risk in the banking book

The Group’s banking books comprise assets and liabilities which are not held or issued for trading purposes. These include the raising and provision of funding to support the Group’s trading activities, acceptance of customer deposits and investment activities. Funding and deposit taking activity, including related derivative hedging, is conducted in such a manner as to minimise, where possible, interest rate risk. A summary of the Group's non-trading notional interest rate risk exposure by maturity band is included in part 5 of the Market Risk of the Risk Review section of the 31 March 2023 financial statements.

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 MHI and Asset Management One International Ltd (a Mizuho Financial Group company) 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 MHI 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 interest rate, credit spread and equity risk and the Scheme's liabilities give rise to interest rate and inflation risk.

8. Credit risk

8.1 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 securities trading which supports the Group's market-making are discussed in section 9 and the credit risk arising from exposure to issuers of traded debt is discussed within section 7.

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

Aside from those credit risks discussed in sections 7 and 9, 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, in addition, Pillar 1 credit risk charges also apply to investments 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 values, after taking account of any applicable credit risk mitigation (CRM) arrangements and adjustments for credit impairment.

8.2 Pillar 1 requirements

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

Table 22: Credit risk RWAs and Pillar 1 capital requirements by exposure class

	2023		2022	
	RWAs £m	**Pillar 1 capital requirements £m**	RWAs £m	Pillar 1 capital requirements £m
Central government or central banks	**-**	**-**	-	-
Public sector entities	**-**	**-**	-	-
Multilateral development banks	**-**	**-**	-	-
Regional governments or local authorities	**-**	**-**	-	-
Institutions	**45.9**	**3.7**	25.7	2.1
Corporates	**0.8**	**0.1**	0.6	0.0
Equity	**15.7**	**1.3**	11.9	0.9
Other	**77.7**	**6.2**	70.1	5.6
Total	**140.1**	**11.2**	108.2	8.7

8.3 Analysis of credit risk exposures

Credit risk exposures by credit quality

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

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 on 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.

Table 23: Credit risk exposures and RWAs by credit quality step

	2023			
	Gross credit exposure £m	**CRM £m**	**Net credit exposure £m**	**RWAs £m**
Credit quality step 1	**403.5**	**-**	**403.5**	**6.3**
Credit quality step 2	**61.9**	**4.3**	**57.5**	**11.5**
Credit quality step 3	**122.8**	**10.3**	**56.2**	**28.1**
Credit quality step 4	**0.6**	**0.6**	**-**	**-**
Credit quality step 5	**9.9**	**-**	**9.9**	**9.9**
Credit quality step 6	**3.9**	**-**	**3.9**	**5.8**
Unrated	**78.4**	**-**	**78.4**	**78.4**
Total	**681.1**	**15.3**	**609.5**	**140.1**

	2022			
	Gross credit exposure £m	CRM £m	Net credit exposure £m	RWAs £m
Credit quality step 1	531.4	-	531.4	9.6
Credit quality step 2	59.0	29.2	29.7	6.0
Credit quality step 3	52.1	11.3	20.4	10.2
Credit quality step 4	1.3	1.3	-	-
Credit quality step 5	8.1	-	8.1	8.1
Credit quality step 6	2.5	-	2.5	3.7
Unrated	70.5	-	70.5	70.5
Total	725.0	41.8	662.7	108.2

Gross credit exposures by exposure class

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

Table 24: Gross credit risk exposures by exposure class

	2023		2022	
	Average gross exposure £m	**Year-end gross exposure £m**	Average gross exposure £m	Year-end gross exposure £m
Central government or central banks	**543.5**	**372.2**	470.7	483.4
Public sector entities	**-**	**-**	-	-
Multilateral development banks	**-**	**-**	-	-
Regional governments or local authorities	**-**	**-**	-	-
Institutions	**154.8**	**205.7**	142.7	147.7
Corporates	**12.4**	**11.7**	3.4	13.2
Equity	**13.3**	**13.8**	10.5	10.7
Other	**75.8**	**77.7**	70.4	70.1
Total	**799.8**	**681.1**	697.7	725.0

Geographic distribution of gross credit exposures

The geographic distribution of gross credit exposures as at 31 March 2023 is given below:

Table 25: Geographic distribution of gross credit risk exposures

	2023					
	UK £m	**Japan £m**	**US £m**	**Europe £m**	**Other £m**	**Total £m**
Central government or central banks	**372.2**	**-**	**-**	**-**	**-**	**372.2**
Public sector entities	**-**	**-**	**-**	**-**	**-**	**-**
Multilateral development banks	**-**	**-**	**-**	**-**	**-**	**-**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**
Institutions	**114.3**	**47.0**	**21.9**	**20.7**	**1.8**	**205.7**
Corporates	**-**	**11.2**	**-**	**0.4**	**0.1**	**11.7**
Equity	**-**	**9.8**	**0.1**	**-**	**3.9**	**13.8**
Other	**68.4**	**-**	**-**	**9.3**	**-**	**77.7**
Total credit risk exposure	**554.9**	**68.1**	**22.0**	**30.4**	**5.8**	**681.1**

	2022					
	UK £m	Japan £m	US £m	Europe £m	Other £m	Total £m
Central government or central banks	483.4	-	-	-	-	483.4
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-
Institutions	43.3	43.6	33.6	26.1	1.1	147.7
Corporates	-	12.6	-	0.4	0.2	13.2
Equity	-	8.1	0.1	-	2.5	10.7
Other	64.6	-	-	5.5	-	70.1
Total credit risk exposure	591.3	64.3	33.7	31.9	3.8	725.0

Residual maturity of gross credit exposures

The residual maturity of gross credit exposures as at 31 March 2023 is given below:

Table 26: Residual maturity of gross credit risk exposures

2023

	Less than 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
	£m	**£m**	**£m**	**£m**	**£m**
Central government or central banks	**372.2**	**-**	**-**	**-**	**372.2**
Public sector entities	**-**	**-**	**-**	**-**	**-**
Multilateral development banks	**-**	**-**	**-**	**-**	**-**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**
Institutions	**205.7**	**-**	**-**	**-**	**205.7**
Corporates	**6.9**	**4.9**	**-**	**-**	**11.7**
Equity	**-**	**-**	**-**	**13.8**	**13.8**
Other	**77.7**	**-**	**-**	**-**	**77.7**
Total credit risk exposure	**662.4**	**4.9**	**-**	**13.8**	**681.1**

			2022		
	Less than 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m
Central government or central banks	483.4	-	-	-	483.4
Public sector entities	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-
Institutions	147.7	-	-	-	147.7
Corporates	0.6	4.4	4.4	3.8	13.2
Equity	-	-	-	10.7	10.7
Other	70.1	-	-	-	70.1
Total credit risk exposure	701.8	4.4	4.4	14.4	725.0

8.4 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 2022, no adjustments in respect of asset impairment were made (31 March 2022: £0.4m).

The Group's accounting policies concerning the treatment of impaired financial and non-financial assets are set out in its Annual Report for the year ended 31 March 2023.

9. Counterparty credit risk

9.1 Risk management

Counterparty credit risk forms part of the Group's overall credit risk but is differentiated from that discussed in section 8 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 contracts and repurchase agreement contracts arising from its trading activities, and to a lesser extent from securities trading which supports the Group'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 securities trading, derivatives, and repurchase agreement contracts, are estimated using historical volatilities of key pricing variables to those contracts over their remaining life.

From internal capital and risk management perspectives, 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 the Group’s 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.

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 policies, which seek 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 conducted using government securities as well as corporate securities as collateral. Collateral is revalued on a daily basis in accordance with collateral management procedures.

In order to recognise the effects of CRM, a number of conditions must be met, and in particular agreements must be legally enforceable and legal title to collateral must be passed to MHI or MHEU. 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, limiting 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.

9.2 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 SA-CCR for derivatives and FCCM for securities financing transactions:

Table 27: Counterparty credit RWAs and Pillar 1 capital requirements

	2023		2022	
	RWAs	**Pillar 1 capital requirements**	RWAs	Pillar 1 capital requirements
	£m	**£m**	£m	£m
Counterparty credit risk	**530.6**	**42.4**	357.3	28.6

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

9.3 Analysis of counterparty risk exposures

RWAs and exposures by product type

An analysis of counterparty credit risk RWAs and exposures as at 31 March 2023 by product type is given below:

Table 28: Counterparty credit RWAs and exposures by product type

	2023		2022	
	RWAs	**Credit risk exposure** (1)	RWAs	Credit risk exposure (1)
	£m	**£m**	£m	£m
Derivative contracts and Long dated exposures	**82.0**	**310.1**	82.9	322.7
Securities financing contracts	**378.1**	**946.1**	221.6	864.3
Other	**70.5**(2)	**27.0**(3)	52.8(2)	51.2(3)
Total	**530.6**	**1,283.2**	357.3	1,238.2

(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 CRM.

(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, settlement and delivery risk charges and default fund.

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 29: Derivative counterparty credit risk exposures

	2023 Credit risk exposure £m	2022 Credit risk exposure £m
Gross positive fair value of derivative contracts	**17,443.7**	7,944.1
Potential future credit exposure	**184.6**	2,605.5
Netting benefits	**-17,327.6**	-7,713.1
Netted credit exposure on derivative contracts	**300.7**	2,836.5
Collateral (held) / placed	**4.2**	-195.0
Long settlement	**5.2**	4.3
Total net derivatives credit risk exposure	**310.1**	2,645.8

Counterparty credit risk exposures by exposure class

An analysis of counterparty credit risk exposures as at 31 March 2023 by principal exposure class is given below:

Table 30: Counterparty credit risk exposures by exposure class

	2023 Credit risk exposure £m	2022 Credit risk exposure £m
Central government or central banks	**95.5**	106.8
Public sector entities	**8.1**	9.6
Multilateral development banks	**21.8**	28.7
Regional governments or local authorities	**-**	-
Institutions	**863.0**	895.1
of which: CCPs	***170.2***	*422.5*
Corporates	**294.8**	197.9
Equity	**-**	-
Other	**-**	-
Total	**1,283.2**	1,238.2

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 2023 by credit quality, in accordance with the credit quality steps used within the Pillar 1 Standardised Approach, is given below:

Table 31: Counterparty credit risk exposures by credit quality step

	2023					
	Credit quality steps					
	1 £m	**2 £m**	**3 £m**	**4 £m**	**N/A [(1)] £m**	**Total £m**
Central government or central banks	**54.2**	**27.1**	**-**	**-**	**14.1**	**95.5**
Public sector entities	**8.1**	**-**	**-**	**-**	**-**	**8.1**
Multilateral development banks	**21.8**	**-**	**-**	**-**	**-**	**21.8**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**
Institutions	**176.2**	**466.7**	**39.8**	**10.1**	**170.2**	**863.0**
of which: CCPs	**-**	**-**	**-**	**-**	***170.2***	***170.2***
Corporates	**21.0**	**7.9**	**-**	**0.0**	**265.9**	**294.8**
Equity	**-**	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Total credit risk exposure	**281.3**	**501.7**	**39.8**	**10.1**	**450.3**	**1,283.2**

	2022					
	Credit quality steps					
	1 £m	2 £m	3 £m	4 £m	N/A [(1)] £m	Total £m
Central government or central banks	80.7	-	26.2	-	-	106.8
Public sector entities	9.6	-	-	-	-	9.6
Multilateral development banks	28.7	-	-	-	-	28.7
Regional governments or local authorities	-	-	-	-	-	-
Institutions	99.7	309.3	57.6	6.0	422.5	895.1
of which: CCPs	-	-	-	-	*422.5*	*422.5*
Corporates	21.4	19.6	*2.8*	-	154.1	197.9
Equity	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total credit risk exposure	240.1	328.9	86.6	6.0	576.6	1,238.2

[(1)] Uniform regulatory treatment applied. Qualifying central counterparties attract a uniform 2% risk weighting from irrespective of credit quality.

External ratings are mapped according to the PRA's guidance[13] on the credit quality step assessment scale and applied to exposures.

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.

[13] After UK's withdrawal from the EU, the responsibilities of mapping External Credit Assessment Institutions (ECAIs) credit assessments under the CRR were transferred to the PRA.

9.4 Notional value of credit derivative transactions

The following table shows the notional value of the credit derivative transactions outstanding as at 31 March 2023, 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 32: Notional value of credit derivative transactions

	2023		2022	
	Own credit portfolio		Own credit portfolio	
Notional value of outstanding transactions	**Protection purchased £m**	**Protection sold £m**	Protection purchased £m	Protection sold £m
Credit default swaps	**29,484.9**	**28,877.7**	7,757.0	7,579.2

10. Operational risk

10.1 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 principal operational risks to which the Group is exposed include technology failures (including cyber-attack), fraud, human error, the creation of unauthorised credit or market risks, regulatory breaches, and litigation.

Operational risk exposures are assessed and measured using a variety of approaches including: risk and control self-assessments, the setting and reporting of key operational risk indicators, internal loss event reporting, external loss event capture and scenario stress testing.

Operational risk is reviewed, assessed and monitored against defined tolerance statements via the Group's corporate governance structure. In addition, the Group maintains and tests contingency facilities to support operations in the event of business disruption and has purchased insurance where required by law or regulation and to address selected business risks.

The Group 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.

10.2 Pillar 1 requirements

As at 31 March 2023, the Pillar 1 capital requirement in respect of operational risk was £31.2m (2022: £29.4m) as calculated under the basic indicator approach.

11. Liquidity risk

11.1 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 ongoing funding requirements.

Strategies and processes in the management of liquidity risk

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

The Group's business model is simple, largely cash-based, with derivatives predominantly being of a vanilla and cleared nature, has access to diverse funding sources, allocates funding costs to businesses in a transparent and effective way, and has a comprehensive limit and control framework to protect against liquidity risks in excess of appetite.

The Group further mitigates liquidity risks through maintenance of HQLAs in a segregated portfolio under the control of its Treasury & Funding function, as well as holding additional HQLA-eligible unencumbered assets elsewhere across the firm but under the operational control of Treasury & Funding.

MHI and MHEU perform stress testing of their liquidity risk positions; a dynamic and forward-looking approach is taken for 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.

The Group considers the effects of a range of stress scenarios to include market, idiosyncratic and combined iterations and this modelling concludes that MHI has sufficient available liquidity resources to manage the outflow obligations which may arise in such stressed conditions.

Structure and organisation of the liquidity risk management function

Liquidity risk appetite is a component of the Group's overall risk appetite and is set and approved by the Board. The Board delegates responsibility over the day-to-day management of liquidity risk to the Executive Committee who in turn empower the Asset & Liability Committee with responsibility for the day-to-day management of liquidity risk. Responsibility for liquidity risk oversight is delegated to the Board Risk Committee, to which the CRO is primarily accountable. The CRO is supported by Risk Management Department, and chairs the Risk Management Committee and is a member of the Stress Testing Committee.

The Group adopts a three lines of defence model in the management of liquidity risk:

- The first line of defence is primarily accountable for liquidity risk on an operational level. This is considered to be led by Treasury & Funding and Operations with collaboration from all other Front Office personnel;
- The second line of defence is primarily accountable for liquidity risk oversight. This comprises Liquidity Risk Management and Regulatory Reporting;
- The third line of defence of Internal Audit provides assurance over the risk management framework and is totally independent of both first and second lines of defence.

Scope and nature of liquidity risk reporting and measurement systems
Robust systems, procedures and a comprehensive set of policies ensure that liquidity regulatory reporting and risk oversight metrics are produced in compliance with the internal and regulatory requirements.

Adequacy of liquidity risk management arrangements
MHI and MHEU produce and maintain ILAAP documents detailing how principal liquidity risks are assessed, quantified, and managed. Further, these documents highlight the Group's approach to determining the minimum level of 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 the Group. 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 & Funding, Compliance, and impacted business areas. The document is discussed and challenged by senior management, including the CEO, the CFO, the Head of Legal & 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 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. The annual Board approval of the ILAAP, including statement of liquidity risk appetite, is taken as management's declaration and attestation of the overall liquidity adequacy requirement of liquidity risk management systems and conformance with overall liquidity risk profile.

11.2 Liquidity Coverage Ratio

Disclosures on the Group's liquidity buffer, total net cash outflows and LCR averaged over the 12 months to 31 March 2023 are presented below.

Table 33: LCR disclosure template

Quarter ending on:	**30-Jun-22**	**30-Sep-22**	**31-Dec-22**	**31-Mar-23**
	Total adjusted value £m (1)			
Liquidity buffer	**1,975.8**	**1,996.6**	**2,093.1**	**2,090.2**
Total net cash outflow	**559.9**	**579.8**	**648.0**	**716.3**
Liquidity Coverage Ratio (%)	**363.1%**	**359.6%**	**334.9%**	**302.7%**

Quarter ending on:	30-Jun-21	30-Sep-21	31-Dec-21	31-Mar-22
	Total adjusted value £m (1)			
Liquidity buffer	2,022.3	1,974.1	1,931.0	2,035.9
Total net cash outflow	680.5	675.4	604.5	574.9
Liquidity Coverage Ratio (%)	302.5%	299.7%	333.4%	364.0%

(1) Twelve data points used in the calculation of averages.

11.3 Net Stable Funding Ratio

In line with PRA requirements, institutions shall ensure that long-term assets and off-balance sheet items are adequately met with a diverse set of funding sources that are stable under both normal and stressed conditions.

From January 2022, institutions were required to maintain a NSFR of at least 100%, calculated in the reporting currency for all transactions. A 365-day measure, assessing the amount of stable long term funding held, against the amount of long term funding required considering assets and off-balance sheet activities. Balance sheet positions are weighted with pre-defined funding factors.

MHI has adopted its internal limits and risk appetite framework accordingly as the Group is committed to ensuring that full compliance with regulatory requirements is maintained.

The Group's NSFR as at 31 March 2023 was 141%.

11.4 Asset encumbrance

The secured and unsecured wholesale market, together with the debt 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. Treasury & Funding control the funding strategies for assets and monitor asset encumbrance levels daily.

Reporting institutions with a regulatory encumbrance ratio greater than 15% are required to submit asset encumbrance returns, as such MHI reports its asset encumbrance information to the PRA on a quarterly basis using standard templates. MHI submits seven of the nine reporting templates on the basis of its total encumbrance ratio and total assets being above the 30bn EUR threshold.

Encumbrance disclosures for the Group in the following tables are disclosed in accordance with Commission Delegated Regulation (EU) 2017/2295[14], which was onshored after UK's withdrawal from the EU.

[14] Commission Delegated Regulation (EU) 2017/2295 of 4 September 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets.

Table 34: Encumbered and unencumbered assets

As at 31 March 2023		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
£m			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		10	30	40	50	60	80	90	100
10	**Assets of the reporting institution**	**2,307.5**	**1,727.0**			**26,486.4**	**10,191.6**		
30	Equity instruments	**-**	**-**	**-**	**-**	**15.0**	**-**	**15.0**	**-**
40	Debt securities	**2,095.9**	**1,722.8**	**2,103.6**	**1,728.5**	**2,292.5**	**1,696.6**	**2,311.3**	**1,702.0**
50	of which: covered bonds	**10.6**	**10.6**	**10.6**	**10.6**	**47.8**	**47.8**	**48.0**	**48.0**
60	of which: securitisations	**35.4**	**-**	**35.6**	**-**	**10.6**	**3.6**	**10.7**	**3.6**
70	of which: issued by general governments	**1,443.0**	**1,432.8**	**1,447.4**	**1,437.2**	**987.1**	**940.1**	**988.6**	**941.4**
80	of which: issued by financial corporations	**470.2**	**157.3**	**472.4**	**158.0**	**844.1**	**497.8**	**849.6**	**500.9**
90	of which: issued by non-financial corporations	**174.9**	**150.8**	**175.8**	**151.6**	**311.2**	**190.5**	**315.4**	**191.9**
120	Other assets	**212.9**	**4.2**			**24,100.1**	**8,480.0**		

As at 31 March 2022		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
£m			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		10	30	40	50	60	80	90	100
10	**Assets of the reporting institution**	**2,319.7**	**1,675.4**			**17,126.0**	**9,910.7**		
30	Equity instruments	**-**	**-**	-	-	11.1	0.7	11.1	-
40	Debt securities	2,163.6	1,675.4	2,168.9	1,588.9	2,129.0	1,448.8	2,136.2	1,452.5
50	of which: covered bonds	1.0	-	1.0	1.0	26.3	26.3	26.3	26.3
60	of which: securitisations	**-**	**-**	**-**	**-**	69.7	**-**	70.1	**-**
70	of which: issued by general governments	1,577.2	1,447.3	1,579.8	1,281.2	1,043.8	983.5	1,045.4	984.9
80	of which: issued by financial corporations	357.1	117.8	358.5	131.7	584.0	300.5	587.0	302.4
90	of which: issued by non-financial corporations	184.3	97.1	185.6	131.4	356.7	164.4	359.1	165.3

120	Other assets	182.2	-			15,042.2	8,330.7		

EHQLA: assets of extremely high liquidity and credit quality

Note: In line with PRA disclosure template 'UK AE1 - Encumbered and unencumbered assets'.

Table 35: Collateral received

		As at 31 March 2023				As at 31 March 2022			
		Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance		Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
£m			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		10	30	40	60	10	30	40	60
130	**Collateral received by the reporting institution**	**9,632.0**	**8,593.2**	**686.2**	**432.5**	8,656.5	8,049.3	497.1	362.0
140	Loans on demand	**-**	**-**	**-**	**-**	-	-	-	-
150	Equity instruments	**7.1**	**1.9**	**0.8**	**0.3**	3.1	1.8	1.6	0.1
160	Debt securities	**9,615.1**	**8,579.8**	**685.4**	**432.2**	8,653.1	8,047.8	495.5	360.7
170	of which: covered bonds	**46.1**	**46.1**	**0.5**	**0.5**	6.7	6.7	-	-
180	of which: securitisations	**411.3**	**40.9**	**108.6**	**6.6**	81.4	0.0	67.2	-
190	of which: issued by general governments	**8,079.9**	**7,855.8**	**359.3**	**353.8**	7,434.0	7,348.2	354.6	326.2
200	of which: issued by financial corporations	**849.7**	**357.5**	**130.0**	**47.0**	906.4	540.2	52.9	25.4
210	of which: issued by non-financial corporations	**216.4**	**172.7**	**31.8**	**23.5**	298.4	194.6	35.3	14.9
220	Loans and advances other than loans on demand	**-**	**-**	**-**	**-**	-	-	-	-
230	Other collateral received	**-**	**-**	**-**	**-**	-	-	-	-
231	of which: ...	**-**	**-**	**-**	**-**	-	-	-	-
240	Own debt securities issued other than own covered bonds or asset-backed securities	**20.3**	**-**	**-**	**-**	36.0	-	-	-
241	Own covered bonds and asset-backed securities issued and not yet pledged			**-**	**-**			-	-
250	Total assets, collateral received and own debt securities issued	**12,247.0**	**10,498.6**			11,254.2	10,046.9		

Note: In line with PRA disclosure template ‘UK AE2 - Collateral received and own debt securities issued’.

Table 36: Encumbered assets/collateral received and associated liabilities

		2023		2022	
		Matching liabilities, contingent liabilities or securities lent	Asset, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Asset, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		10	30	10	30
10	Carrying amount of selected financial liabilities	**6,954.0**	**9,257.3**	6,615.6	8,635.8

ABSs: asset-backed securities

Note: In line with PRA disclosure template ‘UK AE3 - Sources of encumbrance’

12. Financial risks from climate change

Identifying and managing financial risks associated with climate change continues to be important for the Group. As the world transitions to a low carbon economy, financial institutions including the Group face significant developments in stakeholder expectations and regulation which could have a material impact on their business activities. With appropriate Board oversight and the embedding of climate risk into the Group's risk appetite, risk identification, risk measurement, stress testing and employee training management processes framework, the Group continues to make headway in managing climate risk as part of its sustainability journey.

We continue to develop our approaches to climate and broader sustainability risk management, embedding these further in business-as-usual work streams of our Risk teams including the Risk Analytics, Regulatory Risk, Credit Risk and Risk Reporting teams, in collaboration with the Sustainability function. The overarching basis for the Group's approach to the management of climate risk is proportionate and consistent with its broker-dealer business model, spanning activities across corporate and government bond trading markets, as well as DCM and Equity Capital Markets for select clients.

By way of governance arrangements, the Terms of Reference of the Board, the Board Risk Committee and the Executive Committee reflect their responsibilities for monitoring and managing climate risk. To support with this responsibility, key committees receive ESG management information updates covering climate risk (including stress testing), Business (DCM and Global Markets), Operational, and Social aspects.

The impact of climate risk is considered and summarised in a qualitative statement. With the improvement in available industry data, and the development of a more refined entity-level climate risk assessment methodology, we are in the process of enhancing what was previously a purely qualitative climate risk appetite statement.

As with standard risks, climate-related risks are identified and assessed using internally developed criteria, supported by the use of reputable external ESG data. The Group's climate risk assessment has gone through an iterative development process in recent years. The latest iteration marks a move away from sector- and country-based analysis (of transition and physical risk) to more detailed entity-level assessment, allowing for differentiation between entities located in the same country or operating in the same sector but having different climate risk profiles and transition paths. The impact of climate risk is considered and summarised in a qualitative statement.

The Group's exposure to higher climate risk assets is low given the nature of the business – inventory exposures are not held for long periods of time, they are relatively liquid, and for the most part, they are in lower climate risk sectors. As a result of the evolution of our climate risk assessment methodology, we are now able to more accurately quantify the Group's climate risk profile. Based on entity-level transition risk assessment, at the end of March 2023. Only 4.3% of our exposures are considered to have a High or Severe climate risk profile, with 51.7% rated Medium risk, 41.4% Low or Negligible risk, and a small percentage not yet rated. Similarly to other banks, we continue to develop our climate risk assessment methodology further, tailoring it to our business model.

Among other themes, we note the increased focus across our industry on reputational risk stemming from potential greenwashing concerns, and are monitoring evolving industry approaches towards managing these as well as developing our own reputational risk governance framework.

For more information on the Group's approach to climate and sustainability, and its response to the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations, please refer to the Group's Annual Report for the year ended 31 March 2023.

13. Remuneration (MHI only)

13.1 The Remuneration Committee

As part of MHI'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 Independent Non-Executive Directors; the committee reports to the Board through its Chair. The remuneration of MHI's Executive Directors is approved by the RemCo. The RemCo also approves the remuneration of Managing Directors and of Material Risk Takers (MRTs), a definition of which is set out below. Between 1 April 2022 and 31 March 2023, the RemCo held seven meetings.

13.2 Remuneration policy

MHI 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 as well as the EBA Guidelines on Sound Remuneration Policies, 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. Approval of the fiscal year 2022/23 Remuneration Policy, by the RemCo, was obtained on 12 October 2022 and a revised version was approved on 20 February 2023.

13.3 Material Risk Takers

MRTs are defined as staff whose professional activities can have a material impact on MHI's risk profile, taking into account the criteria set out in the UK regulatory requirements under CRD V, specifically the Remuneration Part of the PRA Rulebook ('PRA Rulebook'), SYSC 19D of the FCA Handbook ('SYSC 19D') and the Draft Regulatory Technical Standards on MRT identification (the "MRT RTS") as published in June 2020, as well as the supplementary guidance provided in the PRA Supervisory Statement SS2/17 (December 2021 updated) and the FCA's frequently asked questions on remuneration FC20/5 (December 2020 updated). MHI has developed additional internal criteria which consider the principal risks of the relevant firm and staff are also considered for identification against these additional internal criteria.

A list of MRTs is held by MHI's Human Resources (HR) department. 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 2023 for the fiscal year 2022/23, 42 active members of staff were identified as MRTs.

13.4 Control functions

Staff in control functions are independent from the business unit or units they oversee, have appropriate authority, and are remunerated primarily in accordance with the achievement of the objectives set for their functions and independent of the performance from the business unit or units they oversee. Compensation for the heads of those control functions is approved by the RemCo.

13.5 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 MHI’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 MHI’s intranet site and when updated it is mandatory that all employees attest that they have read and understood the policy.

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. All staff (including Front Office revenue generating staff) performance is assessed on a range of both quantitative and qualitative measures. Support functions are measured on both operational efficiency and on resilience. Awards of variable remuneration are capable of forfeiture or reduction at the discretion of the Company, including down to zero.

Variable remuneration will be paid only if it is sustainable in the context of MHI’s financial situation and is justified on the basis of individual, departmental, MHI or wider Mizuho Financial Group, Inc. performance. Revenues are risk-adjusted annually by the CRO to ensure that financial performance is accretive and that high performance is achieved in a sustainable manner, remaining within overall risk appetite and limits.

A Remuneration Sub-group comprising of the Head of HR, the Head of Legal & Compliance, the CFO, the CRO and a representative from Internal Audit, meets regularly (generally four times per year) 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 Balanced Scorecard Appraisal process; this is described in further detail below.

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 in consultation with MHI’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, whereby individual performance is equally evaluated on financial and non-financial measures. The Balanced Scorecard Appraisal consists of the following:

1. Financial, Strategic & Operational (70%); this measures employees against the SMART objectives set at the beginning of the financial year. For Front Office staff, financial goals are limited to 50% of the overall appraisal weighting; and
2. Pillars of Success (30%); this comprises of inputs from the Executive Committee on how staff have demonstrated the three Pillars of Success (Inspiring Trust, promoting Diversity of Thought and creating a Winning Spirit).

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 MHI.

An employee’s individual performance is measured on a rating scale of 1 (Below Expectations) to 5 (Greatly Exceeds Expectations). Where major or moderate breaches have been identified through the Remuneration Sub-Group, malus (up to 100%) may be applied to any discretionary remuneration awarded to the employee.

13.6 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 Board and RemCo are of the view that a purely formulaic approach to discretionary remuneration adjustment is not suitable. As a result, the level of discretionary remuneration is determined from financial reference targets of management accounting pre-bonus and pre-tax profit, which is then adjusted to reflect the incremental change in the firm's regulatory prudent valuation adjustment figure and for quantitative and qualitative measures, both financial and non-financial; and is further risk adjusted by the RemCo. Where appropriate or necessary, CRO and CFO will make recommendations for discretionary bonus pool risk adjustments to reflect whether performance has been achieved in line with risk appetite, true risk adjusted returns on capital or individual non-adherence to Risk Appetite or supporting limits by desk or traders. The CRO and CFO may also, at their discretion, make additional recommendations to the RemCo for bonus pool adjustments where other factors such as current or future risks, or an individual's or business returns and strategies are not in line with the Board's or may negatively impact MHI's objectives or reputation, including conduct and regulatory risk issues.

Deferral policy
During the financial year April 2022 to March 2023 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 between four and seven years in line with the Remuneration Codes and subject to a MRTs categorisation (Category 1, 2, 3 or 4 MRT). 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):

In the case of all staff including Material Risk Takers:

- Any restatement or recalculation of individual and/or department, Bank, MHI, or other Mizuho Group Company financial performance (including but not limited to following the discovery of incorrect or false accounting); and/ or
- An assessment that an individual is no longer fit and proper to hold their position (including, without limitation, meeting any standards as set by a regulator, the Bank, MHI, or any other Mizuho Group Company); and/ or
- Where a Reduction Notice is received in respect of a buy-out award and/or any other circumstance(s) as required by law and/or any regulator; and/or
- Any other circumstance(s) as required by law and/or any regulator.

In the case of Material Risk Takers only:

- Whether vesting is sustainable according to the financial situation of the Mizuho Group; and/or
- Justified on the basis of individual, departmental, relevant firm, Mizuho Group Company performance; and/or
- Any assessment or reassessment of individual, departmental, relevant firm, or Mizuho Group Company performance; and/or
- Any evidence of an individual's misbehaviour or material error; and/or

- Any material downturn in departmental, relevant firm, or Mizuho Group Company financial performance; and/or
- Any material failure of risk management suffered by, the relevant firm, or any Mizuho Group Company/or the individual's department; and/or
- Any conduct which the individual participated in and/or was responsible for and which resulted in significant losses to MHI, the Bank, or any other Mizuho Group Company, and/or the individual's department; 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 MHI, the Bank and/or Mizuho Group Company culture and/or strategy.
- Any other reason that the relevant Remuneration Committee in its absolute discretion deems appropriate.

Where the RemCo determines that the deferred bonus (or part thereof) shall not vest, such deferred bonus (or part) shall be immediately forfeited.

For the purposes of any malus adjustment, the RemCo may have regard to matters which occur at any time and may make multiple determinations in respect of the same matter(s) so that its determinations fully reflect the impact of such matter(s) over the course of time.

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

Under MHIs clawback arrangements, an employee who is or becomes a MRT, or any previous employee that has been a MRT, may be required to repay to the relevant firm, or any Mizuho 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 bonus award in the event that the employee is involved in or is responsible for:

- Any misbehaviour and/or material failure of risk management suffered by MHI, the Bank and/or any Mizuho 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
- Conduct which results in significant losses to the Bank, MHI and/or any other Mizuho Group Company and/or the employee's department; and/or
- Any restatement or recalculation of individual and/or departmental and/or Bank and/or MHI and/or Mizuho Group Company financial performance (including but not limited to following the discovery of incorrect or false accounting); and/or
- 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 MHI and/or any

Mizuho Group Company) and/or to comply with MHI and/or the Bank and/or Mizuho Group Company policies which apply to an employee; and/or

- Where a Reduction Notice is received in respect of a buy-out award and/or any other circumstance(s) as required by law and/or any regulator; and/or
- Any other circumstance(s) as required by law and/or any regulator; and/or
- Any other reason that the relevant Remuneration Committee in its absolute discretion deems appropriate.

Except where the relevant firm is required to apply clawback pursuant to a Reduction Notice, the RemCo, in its sole discretion shall determine whether and the extent to which some or all of any part of the bonus award that has previously been paid must be repaid pursuant to these clawback provisions.

An employee who accepts a variable award and is or becomes a MRT agrees that MHI, the Bank or any other Mizuho 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.

In addition, the relevant firm may apply clawback to awards of variable remuneration where an employee or an ex-employee breaches any Continuing Obligations as defined in the Policy.

For the purposes of any clawback adjustment, the RemCo may have regard to matters which occur at any time and may make multiple determinations in respect of the same matter(s) so that its determinations fully reflect the impact of such matter(s) over the course of time.

13.7 Remuneration leverage

Leverage is the ratio between the fixed and variable components of remuneration. MHI will ensure that fixed and variable components of total remuneration are appropriately balanced.

The maximum leverage ratio for staff engaged in control and support functions (including MRTs in such functions) has been set at 1:1. In exceptional cases this leverage ratio may, subject to shareholder and relevant Remuneration Committee approval, be increased to 1:2.

For all other staff, the maximum leverage ratio has been set at 1:2, shareholder approval having been obtained for such ratio in respect of MHI in FY 2022/23.

13.8 Remuneration awards and expenditure (MHI Group)

Aggregate MRT total remuneration by business area

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

Table 37: Aggregate MRT remuneration by business area

MRT aggregate remuneration	**2023 Aggregate Remuneration awards £m**	2022 Aggregate Remuneration awards £m
Investment Banking	**3.0**	3.7
Markets and Products	**7.0**	6.3
Central functions	**12.8**	12.1
Total	**22.8**	22.1

Note: data based on MRT population as at 31 March 2023

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 38: Aggregate MRT remuneration by type of award

	2023		2022	
MRT aggregate remuneration	**Senior management £m**	**Other MRTs £m**	Senior management £m	Other MRTs £m
Fixed remuneration	**5.6**	**8.2**	5.6	9.1
Variable remuneration	**3.6**	**5.3**	3.3	4.1
Total remuneration	**9.2**	**13.5**	8.9	13.2

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

Table 39: Number of MRTs subject to awards

	2023		2022	
MRT staff numbers	**Senior management**	**Other MRTs**	Senior management	Other MRT
Number of staff	**14**	**28**	14	29

Note: data based on MRT population as at 31 March 2023

Appendix 1: Capital instruments main features

#	Features	CET1
1	Issuer	Mizuho International plc
2	Unique identifier (e.g. CUSIP, ISIN, or Bloomberg identifier for private placement)	BBG000N27XG2
2a	Public or private placement	Private
3	Governing law(s) of the instrument	English Law
3a	Contractual recognition of write down and conversion powers of resolution authorities	No
Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	GBP 627.7 million
9	Nominal amount of instrument	GBP 709.9 million
9a	Issue price	n/a
9b	Redemption price	n/a
10	Accounting classification	Shareholders' equity
11	Original date of issuance	n/a
12	Perpetual or dated	Perpetual
13	Original maturity date	n/a
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	n/a
16	Subsequent call dates, if applicable	n/a
Coupons / dividends		
17	Fixed or floating dividend/coupon	n/a
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Write-down feature	No
31	If write-down, write-down trigger(s)	n/a
32	If write-down, full or partial	n/a
33	If write-down, permanent or temporary	n/a
34	If temporary write-down, description of write-down mechanism	n/a
34a	Type of subordination (only for eligible liabilities)	n/a
34b	Ranking of the instrument in normal insolvency proceedings	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The most subordinated claim
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	n/a
37a	Link to the full term and conditions of the instrument (signposting)	n/a

Note: In line with PRA disclosure template 'UK CCA: Main features of regulatory own funds instruments and eligible liabilities instruments'.