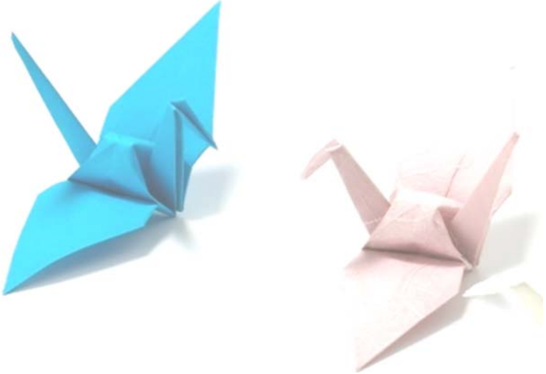
# Mizuho Securities UK Holdings Ltd

## Financial Statements 2014



# Financial Statements 2014

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# General Information

## Directors

| | |
|---|---|
| Mr K. Ohashi | Chairman and Non-Executive Director |
| Mr M. de Jong | President and Chief Executive Officer |
| Mr M. Mochizuki | Deputy President |
| Mr Y. Shibata | Deputy President |
| Mr A. Narikawa | Non-Executive Director |
| Mr C. Newell | Non-Executive Director |
| Mr T. Sciard | Non-Executive Director |
| Mr M. Usuha | Non-Executive Director |

## Company Secretary

Mr B. Lanaghan

## Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

## Registered Office

Bracken House
One Friday Street
London EC4M 9JA
Tel: 020 7236 1090

Registered in England and Wales Number 7103718

## Strategic Report

The directors present their strategic report for the year ended 31st March 2014.

### Review of the businesses

The business mission statement of the group of companies headed by Mizuho Securities UK Holdings Ltd (comprising also Mizuho International plc and Structured Credit America Ltd) (the "Group") is to be a client orientated securities house offering non-Japanese products to the clients of the wider Mizuho Financial Group and pan-Asian products to European clients. The aim of the Group is to offer a limited suite of products to a targeted client set. Risk is taken to facilitate this client trading. The Group is focused on providing investment banking services to the wholesale market and as a consequence does not accept retail deposits. These services encompass Mergers and Acquisitions advice, Equity and Debt new issuance, and Equity and Fixed Income secondary trading.

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Client business | **93.7** | 81.3 |
| Legacy business | **(6.0)** | 15.2 |
| Other | **0.3** | (2.5) |
| Net income from operations | **88.0** | 94.0 |
| | | |
| Administrative expenses & depreciation | **(117.0)** | (110.4) |
| Provision for liabilities | **0.6** | (16.2) |
| Sale of Custody business | **-** | 28.2 |
| Loss on ordinary activities before taxation | **(28.4)** | (4.4) |
| Tax on loss on ordinary activities | **-** | - |
| Loss for the year | **(28.4)** | (4.4) |
| | | |
| Tier I Capital | **456.9** | 443.6 |

The Group has continued to build out its client business during the year. Several key hires have been made in the secondary trading businesses in order to strengthen the Group's trading capability and explore additional revenue opportunities. In addition, the Group has continued to focus on building stronger corporate governance to cope with ever-changing regulatory requirements. Significant progress has been made on the Transformation Project, primarily focused on implementing a more flexible operating platform for the Middle and Back Office function, which will look to enhance the operational efficiency within the Group and provide for future business growth. The costs associated with these initiatives have led in part to the worsening of the Group's performance during this year.

The Client business has yielded revenue of £93.7m this year compared to £81.3m in the prior year. The Equity Sales & Trading business saw a significant increase in revenues as a result of the increase in activity arising from Abenomics, with Mizuho's improved client rankings ensuring that the business has taken a greater portion of any increase. The Primary businesses have also enjoyed increased revenues this year, with the low interest rate environment driving high issuance volumes, and continued collaboration with Mizuho Bank leading to greater penetration of European issuers across the globe. The Fixed Income business has particularly been hit by adverse market conditions, whereby spread widening and increased volatility were compounded by an environment where multiple dealers were competing for a share of a shrinking market. The increasing impact of regulatory developments also added further pressure to Fixed Income revenues.

## Strategic Report (continued)

The Group has continued to take steps to dispose of its legacy businesses and related risk exposures. During the year, the Group disposed of its Limited Partnership interest in the Apposite Healthcare private equity fund to another Mizuho Financial Group subsidiary. The decrease in Legacy revenues compared to the prior year is primarily due to the one-off gain of £9.1m arising from the disposal of the Group's legacy life settlements portfolio in the prior year.

Since the beginning of January 2014 the Capital Requirements Directive and the Capital Requirements Regulation, jointly CRD IV, have been the relevant supervisory statements on the prudential requirements for credit institutions and investment firms within the EU. Accordingly the Group's capital adequacy is monitored under the requirements of CRD IV as implemented by the Prudential Regulation Authority.

### Future developments

The Group will look to progress with the development of its client businesses, in accordance with its 3 year business plan. The Group will seek diversified streams of revenue that will complement the existing product suite, and supplement both Mizuho Securities' and Mizuho Bank's businesses. The growth will be done in a co-ordinated way with both these entities, to ensure the most lucrative utilisation of capital and credit lines for the Group. The Group will continue to progress with the Transformation Project - the impact on costs for the forthcoming year is £2.4m (£1m in the current year). Significant core investment has already been made this year in the governance framework of the Group to ensure that the infrastructure is in place to support this plan. The Group will continue to review the regulatory landscape for impacts upon its future business profile.

### Principal Risk and uncertainties

As an international investment banking and securities markets business within the Mizuho Securities group, the Group is affected by a range of risk factors including market, credit, liquidity, operational and legal risks. The Group views the effective management and control of these risks as central to its operating capabilities. The Directors are responsible for setting an overall risk appetite based on the Group's business plans, tolerance for risk and available capital and liquidity resources. The Group operates a comprehensive governance structure to ensure that business activities remain within the overall risk appetite as set by the Board, and this is overseen by the Board Risk Committee. Detailed risk monitoring, reporting and control activities are undertaken by independent risk and finance functions, whose activities are reviewed on a weekly basis, or more frequently if required, by the Group's Risk Management Committee.

The Group uses a variety of techniques to manage the principal risks arising from its business activities. These include use of stress testing, VaR, sensitivity and exposure limits in respect of market and credit risk factors and stress testing with regard to liquidity risk. The Group also uses risk mitigation techniques to manage risk exposures including: use of hedging transactions including derivative contracts to manage market risk exposures; execution of netting arrangements and acceptance of collateral to manage credit risk, and the maintenance of a stock of high quality liquid assets to manage liquidity risk. Details of the Group's risk management framework are set out more fully in note 29 to the financial statements.

By Order of the Board
B. Lanaghan
Company Secretary
25th June 2014

# Directors' Report

The Directors present their annual report on the affairs of Mizuho Securities UK Holdings Ltd ('the Company') and its two principal subsidiary entities being Mizuho International plc and Structured Credit America Ltd together ('the Group'), with the financial statements for the year ended 31st March 2014.

## Principal Activities

Mizuho Securities UK Holdings Ltd is the wholly owned subsidiary of Mizuho Securities Co., Ltd ('Mizuho Securities'), which heads the securities arm of the Mizuho Financial Group, one of the largest banking groups within Japan. The Group provides investment banking and securities markets services to clients of the Mizuho group.

The Group operates through its two principal subsidiary companies within the UK and has an agent office in Frankfurt, Germany. The Group has deposit taking and other permissions relating to its investment businesses pursuant to the provisions of the Financial Services and Markets Act 2000, and operates under the rules of the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA').

## Results and Dividends

The Group suffered a loss of £28.4 million for the year ended 31st March 2014 (2013: £4.4 million). The Directors do not recommend the payment of a dividend in respect of the current financial year (2013: £Nil).

## Going Concern

The Company's Directors believe that there are no material uncertainties that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern.

The Directors' assessment of the Group's and Company's ability to continue as a going concern is based upon an assessment of the Group's business plans, together with related forecasts in respect of the Group's capital adequacy and liquidity positions, and stresses to those forecast positions. During the current financial period the Company has further strengthened its capital position through the issue of new equity capital, and has increased levels of issuance of medium term notes to lengthen its funding profile.

## Directors

The following served as Directors of the Company during the year ended 31st March 2014:

Executive Directors

Mr M. de Jong
Mr M. Mochizuki

Non-Executive Directors

Mr K. Ohashi
Mr A. Narikawa
Mr C. Newell
Mr T. Sciard
Mr M. Usuha

On 10th May 2014, Mr Y. Shibata was appointed as Director.

There are no Directors' interests requiring disclosure under the Companies Act 2006.

The Company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

## Directors' Report (continued)

### Corporate Governance

As the Company is not listed there is no requirement to comply with the Combined Code of Corporate Governance. However, the Directors consider that Corporate Governance is an important matter and have adopted a number of procedures across the Group set out in the Combined Code.

The principal procedures are detailed below:

- The Company's board of Directors ("the Board") meets at least four times each year and more frequently where business needs require.
- As at 31st March 2014 the Board consisted of two Executive Directors, and five Non-Executive Directors.
- In order to facilitate the effective conduct of business across the Group, the Board operates five committees which comprise an Audit and Compliance Committee, a Board Risk Committee, a Crisis Management Committee, a Nomination Committee, and a Remuneration Committee. Whilst the Board of the Company ultimately remains responsible for all delegated matters, the affairs of those committees are organised to encompass the conduct of business across the Group. The responsibilities and constitution of those committees, referred to in the singular below, are as follows:

**The Audit and Compliance Committee** is responsible for the review and monitoring of internal control functions, financial reporting, audit effectiveness and regulatory compliance. The committee meets on a quarterly basis and more frequently if required. It is chaired by Mr C. Newell who reports directly to the Board. Its members are Non-Executive Directors. The Chairman of the committee is entitled to invite the external auditors, Chief Executive, Chief Financial Officer, the Head of Internal Audit, the Head of Compliance and the Chief Risk Officer and also any other staff members, including those of Mizuho Securities, to attend the committee's meetings.

**The Board Risk Committee** (formerly known as the Risk Overview Committee) is responsible for reviewing the Group's risk appetite, risk profile and performance against risk appetite, risk management framework and risk culture. The Board Risk Committee meets not less than 6 times a year but may meet more often as necessary. It is chaired by Mr T. Sciard and the other members are the Chairman of the Board, an Independent Non-Executive Director and another Non-Executive Director; meetings are also attended by the Chief Executive, Chief Risk Officer, the Chief Finance Officer, the Head of Compliance and other employees of the Group as required.

**The Crisis Management Committee** is responsible for dealing with a crisis impacting the Company, including the breach of a Recovery and Resolution Plan trigger. The committee should therefore meet only as and when necessary in the event of such a crisis. The Chairman of the committee is Mr M. de Jong and the members are the Treasurer, Head of Facilities & Administration, Head of ECM and Advisory, Chief Information Officer of Information Service Department, Head of Fixed Income Trading, Head of Corporate Communications, Head of Equities, Head of Compliance, Head of Legal, the Deputy President(s), the Head of Human Resources, the Head of Fixed Income Sales, the Head of Securities Services, the Chief Risk Officer, the Chief Financial Officer, the Head of EMEA Debt Syndicate Desk and SSA Syndicate Manager.

**The Nomination Committee** is responsible for the selection and recommendation of new members to the Board (and also to the board of Mizuho International plc) and the evaluation of performance of the Board (and also of the board of Mizuho International plc). The committee meets as often as necessary to fulfil its responsibilities but not less than twice a year. The Chairman of the Nomination Committee is Mr.K.Ohashi and the other members of the committee are the two independent Non-Executive Directors; meetings are also attended by the Head of Human Resources; other individuals who are not members of the Committee, including for example the Company Secretary, the Head of Compliance and external advisors, may be invited to attend the Committee.

**The Remuneration Committee** is responsible for approving the Group's remuneration policy generally and specific remuneration at or above certain senior levels. The Remuneration Committee meets at least four times a year with additional meetings as necessary. It is chaired by Mr T. Sciard and its members are Non-Executive Directors, including a member of the Audit and Compliance Committee and a member of the Board Risk Committee; meetings are also attended by the Head of Human Resources and the Chief Financial Officer; meetings may also be attended by invitation by the Chief Executive, the Head of Compliance and the Chief Risk Officer The Chairman of the committee is also entitled to invite any other staff members or external advisers to attend the committee's meetings.

The Group's organisational structure is designed to ensure that responsibilities are defined, authority delegated only where appropriate, and that the Board receives regular management accounts containing a sufficient level of analysis of the financial performance of the Group. In respect of internal financial controls the Directors are responsible for ensuring that the Board meets regularly to review this information and takes appropriate decisions on all material matters.

The Group, through its Board, delegates responsibility for the day to day running of the business to the Chief Executive. The Chief Executive in turn delegates powers for certain matters to executive management, including the Chief Financial Officer and the Chief Risk Officer of Mizuho International plc. The Chief Executive is assisted by the Executive Committee of Mizuho International plc, the membership of which comprises the heads of the Front office business areas and the heads of significant support functions. The Executive Committee's role is to act as a consultative body to the Chief Executive, who therefore has the decision making responsibilities in relation to all matters, save in relation to charity and new product matters where the Executive Committee's members are entitled to vote.

The Chief Executive has empowered the Executive Committee to delegate responsibility to nine sub-committees of Mizuho International plc as follows;

- Assets and Liability Committee
- Change and Implementation Committee
- Charity Committee
- Health and Safety Committee
- M&A Engagement and Reputational Risk Committee
- New Product Committee
- Risk Management Committee
- Underwriting Committee and
- Valuation Control Committee

Those sub-committees, apart from the Charity Committee and the New Product Committee, act as consultative bodies to their Chairmen, who have the sole decision-making powers in relation to matters covered by those sub-committees. The members of the Charity Committee and the New Product Committee, on the other hand, have the right to vote on the matters covered by those sub-committees respectively.

The Risk Management Committee in turn has four sub-committees;

- Credit Risk Committee

## Directors' Report  (continued)

- Market Risk and Model Validation Committee
- Operational Risk Committee and
- Stress Testing Committee

Each of those sub-committees act as consultative bodies to their Chairmen, who have the sole decision-making powers in relation to the matters covered by those sub-committees.

### Performance Measurement and Management

The Group and its business streams are managed in accordance with a variety of measures, which are reported on a regular basis to the Executive Committee.  The primary measures that are used to monitor and manage performance within the Group include: profit before taxation, capital utilisation, VaR utilisation, and stress test exposures (these are disclosed within the financial statements and accompanying notes).

With regard to the remuneration of identified Code Staff and other employees, the Group has adopted a Remuneration Policy that is compliant with PRA rules and includes a deferral plan which applies to awards of variable compensation in excess of thresholds as set out in the Remuneration Policy.  Awards comprise cash and, for Code Staff only, equity components that are subject to deferral over a three year period.  Deferred remuneration is subject to the forfeiture conditions as set out in the Remuneration Policy and in the case of equity components, subject to a six month retention period.

### Employment Policies

The Group is committed to equal opportunities for all, irrespective of race, colour, religion or belief, ethnic or national origins, gender, age, family status, sexual orientation, disability, or political opinion.  The Group is committed to taking positive action to promote such equality of opportunity and its recruitment, training, benefits and promotion procedures are based on an individual's qualifications, merit and ability.  All staff are made aware of the provisions of the Group's Equality and Diversity Policy through training, and full details of the policy are made available on the Group's intranet site.  Staff have a positive responsibility to comply with this policy and ensure that its terms are put into effect.

The Group places considerable value on the involvement of its employees and has a practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through regular circulars distributed throughout the Group, through the intranet site and through the Directors' Report and financial statements which are made available to all employees.

### Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent Auditors

Ernst & Young LLP were reappointed as auditors of the Company during this financial year. Ernst & Young LLP have expressed their willingness to continue in office and a resolution re-appointing them as Auditors of the Group and Company and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board
B. Lanaghan
Company Secretary
25th June 2014

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors has ensured that so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware, and consider that they have each taken all of the steps they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

# Independent Auditor's Report to the Members of Mizuho Securities UK Holdings Ltd

We have audited the financial statements of Mizuho Securities UK Holdings Limited for the year ended 31st March 2014 which comprise Consolidated Profit and Loss account, the Consolidated and Parent Company Balance Sheets, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31st March 2014 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

# Independent Auditor's Report to the Members of Mizuho Securities UK Holdings Ltd (continued)

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Nicholas Dawes (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
26th June 2014

# Consolidated Profit and Loss Account

for the year ended 31st March 2014

| | Note | **2014** **£ millions** | 2013 £ millions |
|---|---|---|---|
| Interest receivable | | 0.5 | 0.4 |
| Interest payable | | (9.2) | (9.8) |
| Net interest payable | | **(8.7)** | (9.4) |
| Fees and commissions receivable | 4 | 71.3 | 42.1 |
| Fees and commissions payable | 4 | (28.5) | (28.8) |
| Net fees and commissions | | **42.8** | 13.3 |
| Dealing profit | 5 | **53.8** | 90.0 |
| Other operating income | 6 | **0.1** | 0.1 |
| **Net income from operations** | | **88.0** | 94.0 |
| Administrative expenses | 7 | **(112.6)** | (106.2) |
| Depreciation and amortisation | 16 | **(4.4)** | (4.2) |
| Provision for liabilities | 21 | **0.6** | (16.2) |
| Operating expenses | | **(116.4)** | (126.6) |
| **Operating loss** | | **(28.4)** | (32.6) |
| Disposal of Custody business | 8 | **-** | 28.2 |
| Loss on ordinary activities before taxation | | **(28.4)** | (4.4) |
| Tax on loss on ordinary activities | 9 | **-** | - |
| **Loss for the year** | | **(28.4)** | (4.4) |

All of the activities of the Group are classified as continuing.

# Consolidated Balance Sheet
as at 31st March 2014

Registered number: 7103718

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | **£ millions** | £ millions |
| **Assets** | | | |
| Reverse repurchase agreements | | **24,398.2** | 27,598.4 |
| Trading financial assets | 11 | **3,907.6** | 2,857.8 |
| Trading derivative assets | 12 | **137.9** | 157.9 |
| Derivative assets held for risk management | 13 | **66.8** | 123.4 |
| Loans and advances to banks | 14 | **98.7** | 46.4 |
| Financial investments | 15 | **-** | 59.4 |
| Tangible fixed assets | 16 | **12.7** | 9.0 |
| Other assets | 17 | **217.8** | 160.3 |
| Prepayments and accrued income | | **46.2** | 52.0 |
| **Total Assets** | | **28,885.9** | 31,064.6 |
| | | | |
| **Liabilities and Equity** | | | |
| Deposits by banks | 18 | **744.1** | 724.0 |
| Customer accounts | 18 | **275.8** | 292.8 |
| Repurchase agreements | | **23,465.2** | 27,233.0 |
| Trading financial liabilities | 11 | **2,600.9** | 1,061.9 |
| Trading derivative liabilities | 12 | **152.5** | 214.5 |
| Derivative liabilities held for risk management | 13 | **29.1** | 71.0 |
| Debt securities in issue | 19 | **976.6** | 866.8 |
| Other liabilities | 20 | **95.5** | 86.8 |
| Accruals and deferred income | | **69.6** | 50.4 |
| Defined benefit pension liability | 22 | **2.3** | 2.3 |
| Provisions for liabilities | 21 | **16.3** | 17.2 |
| **Total Liabilities** | | **28,427.9** | 30,620.7 |
| | | | |
| **Equity** | | | |
| Share capital | 23 | **847.3** | 802.3 |
| Other reserve | 24 | **2,018.0** | 2,018.0 |
| Profit and loss account | 24 | **(2,407.3)** | (2,376.4) |
| **Total Equity** | | **458.0** | 443.9 |
| | | | |
| **Total Liabilities and Equity** | | **28,885.9** | 31,064.6 |

Approved and authorised for issue by the Board of Directors on 25th June 2014 and signed on its behalf by

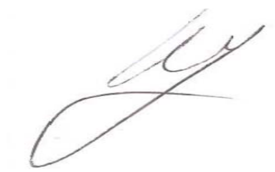
Michiel de Jong
Chief Executive Officer

# Company Balance Sheet
as at 31st March 2014

Registered number: 7103718

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | **£ millions** | £ millions |
| **Assets** | | | |
| Loans and advances to banks | 14 | **0.2** | 0.3 |
| Loans and advances to customers | | **0.5** | 0.2 |
| Financial investments | 15 | **497.2** | 452.2 |
| **Total Assets** | | **497.9** | 452.7 |
| | | | |
| **Liabilities and Equity** | | | |
| | | | |
| **Equity** | | | |
| Share capital | 23 | **847.3** | 802.3 |
| Profit and loss account | 24 | **(349.4)** | (349.6) |
| **Total Equity** | | **497.9** | 452.7 |
| | | | |
| **Total Liabilities and Equity** | | **497.9** | 452.7 |

Approved and authorised for issue by the Board of Directors on 25th June 2014 and signed on its behalf by



Michiel de Jong
Chief Executive Officer

# Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31st March 2014

| | Note | **2014 £ millions** | 2013 £ millions |
|---|---|---|---|
| Actuarial loss on defined benefit scheme | 22 | **(2.5)** | (2.5) |
| Net losses taken directly to equity | | **(2.5)** | (2.5) |
| Loss for the year | | **(28.4)** | (4.4) |
| Total recognised losses | | **(30.9)** | (6.9) |

# Notes to the Consolidated and Company Financial Statements

## 1. BASIS OF PREPARATION

The Consolidated and Company financial statements have been prepared under UK Generally Accepted Accounting Principles, and in accordance with the provisions relating to Banking Companies and Schedule 2 of the Companies Act 2006. The Consolidated and Company financial statements have been prepared in accordance with applicable Accounting Standards. The Company is taking advantage of the exemption under section 408 of the Companies Act 2006 not to present its individual profit and loss account.

The Company's profit after taxation for the year ended 31st March 2014 was £0.2 million (2013: gain £12.3 million).

### Accounting policies

The accounting policies that are significant in the context of the Company's consolidated financial statements are described in note 2. The accounting policies adopted by the Group in the preparation of the financial statements are consistent with those in the previous year.

### Basis of measurement

The Consolidated and Company financial statements have been prepared under the historical cost convention, as modified for derivative financial instruments and financial assets and liabilities at fair value through profit and loss, which are measured at fair value.

### Presentation currency

The Consolidated and Company financial statements are presented in Sterling which is the functional currency of the Consolidated group and the Company, and the financial information is presented in £ millions and has been rounded to the nearest £100,000 unless otherwise indicated.

### Basis of consolidation

The Consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31st March. The financial statements of the subsidiaries that the Company controls are prepared for the same reporting financial period end as the Company using consistent accounting policies. Intra-group entity balances, transactions, income and expenses and profits and losses arising from intra group entity transactions are eliminated in full.

### Group restructuring under merger accounting

A restructuring of Group entities was implemented during 2010, and this was accounted for using merger accounting in accordance with the Companies Act 2006 and FRS 6 – Acquisitions and mergers. The difference between the notional value of shares issued by the Company and the notional value of the shares received in exchange has been shown as a movement in other reserves, whilst the financial performance of the combining entities from prior financial periods has been included in the consolidated financial statements.

### Acquisition accounting for non group reconstruction consolidation

Acquisition accounting applies to the consolidation of subsidiary entities into the Group accounts that is not covered by merger accounting. Subsidiaries, including special purpose entities, are consolidated from the date that control is transferred to the Company until the date that control ceases. The Company controls a subsidiary when it has the ability to direct the financial and operating policies of the subsidiary with a view to gaining economic benefits from its activities and the power to exercise dominant influence over the subsidiary.

Under acquisition accounting, the identifiable assets and liabilities of the entities acquired are included in the consolidated balance sheet at their fair value at the date of acquisition. The excess of the cost of acquisition, less the aggregate fair value of the subsidiary's net identifiable assets, is recorded as goodwill.

# Notes to the Consolidated and Company Financial Statements (continued)

## Related Party disclosures

In accordance with the scope exclusions contained in FRS 8, the Company has not disclosed details of transactions or balances with entities which form part of Mizuho Financial Group, Inc. as the Company is a wholly owned member of the Mizuho Financial Group.

## Cash flow statement

In accordance with the scope exclusions contained in FRS 1, the Company has not prepared a cash flow statement as the Company is a wholly owned member of the Mizuho Financial Group and is included within publicly available consolidated financial statements of the Mizuho group as described in note 33.

## Segmental analysis

Consolidated segmental analysis of income and net assets has not been prepared as, in the opinion of the Directors, the Group has only one class of business, being investment banking, and operates in a global market which is not defined by geographical bounds.

## 2. ACCOUNTING POLICIES

## A – Financial instruments

***Regular way purchase or sale of financial assets***

Settlement date accounting is applied for the purposes of recognising and de-recognising financial assets.

***Recognition***

Financial instruments are recognised when the Group becomes party to the contractual provisions of the relevant financial asset or financial liability. Financial instruments are initially recorded at fair value plus, in the case of financial instruments not measured at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

***De-recognition of financial assets***

A financial asset is de-recognised when:

- The contractual rights to receive the cash flows from the asset expire; or
- Either the Group has transferred substantially all the risks and rewards of the financial asset or the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset but has transferred control of the financial asset.

Where the Group neither transfers nor retains substantially all of the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the Group will account for its continuing involvement in the asset. Under this approach, the Group will continue to recognise the transferred asset to the extent of the continuing involvement in that asset and recognise an associated liability such that the net carrying value of the transferred asset and associated liability is equal to the fair value of the retained rights and obligations.

***De-recognition of financial liabilities***

Financial liabilities are de-recognised when they have been extinguished as a result of the cancellation, discharge or expiry of the obligations specified in the contract.

***Offsetting***

Financial assets and liabilities are set off and the net amount presented on the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or where gains and losses arise from a group of similar transactions, such as the Group's trading activities.

### B – Trading financial instruments

Non derivative financial instruments are classified as held for trading if they are acquired for the purpose of selling in the near term, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Non derivative trading financial instruments include reverse repurchase and repurchase agreements, trading debt and trading equity securities.

Subsequent to initial recognition, trading financial instruments are measured at fair value. Changes in fair value, and gains or losses realised on de-recognition, are recognised in the profit and loss account and reported under dealing profit.

#### *Reclassifications from trading non derivative financial assets*

The Group will reclassify trading non derivative financial assets, other than those designated as at fair value through profit and loss account upon initial recognition (see accounting policy E), if they are no longer held for the purpose of being sold or repurchased in the near term. Non derivative financial assets, other than loans and receivables, may only be reclassified in rare circumstances.

### C – Derivative financial instruments

#### *Trading derivative instruments*

Subsequent to initial recognition, trading derivative instruments are measured at fair value and disclosed as financial assets when the fair value is positive and financial liabilities when the fair value is negative. Changes in fair value, and realised gains or losses, are recognised in the profit and loss account and reported under net dealing profit.

#### *Derivative financial instrument held for risk management purposes*

Derivative financial instruments held for risk management purposes comprise swaps and other derivative financial instruments used to hedge the Group's debt securities in issue (see accounting policy D – Hedge accounting). These instruments are measured and presented in the same manner as trading derivative instruments.

#### *Embedded derivatives*

Derivatives embedded within financial instruments that are not accounted for as fair value financial instruments are separated from their host contracts and accounted for as derivatives if: the economic characteristics of the embedded derivative are not closely related to those of the host contract; and if a separate instrument with the terms of the embedded derivative meets the definition of a derivative. Embedded derivatives are separated from their host contracts and are measured and presented in the same manner as trading derivative instruments.

### D – Hedge accounting

The Group uses derivative financial instruments to manage exposure to interest rate risk, credit risk, currency risk and price risk. The Group applies fair value hedge accounting when a transaction meets the criteria necessary to obtain hedge accounting treatment.

Hedge accounting is applied where a designated fair value hedging relationship exists between a derivative hedging instrument (see accounting policy C – derivative financial instruments held for risk management purposes) and a hedged financial liability. A fair value hedge of a financial liability represents a hedge against changes to the fair value of a liability that is attributable to a particular risk that could impact the profit and loss account. A hedging relationship qualifies for hedge accounting if the following conditions are met:

- At inception, formal documentation is prepared to include:
  - Designation of the hedging relationship;
  - Identification of the hedging instrument and hedged item;
  - Nature of the risk being hedged; and
  - Description of how hedge effectiveness will be assessed.
- The hedge is expected to be highly effective (80 to 125%), and its effectiveness can be reliably measured; and
- The hedge is assessed for effectiveness on an ongoing basis.

The gain or loss from re-measuring the hedging instrument at fair value is recognised in the profit and loss account. The gain or loss on the hedged financial liability attributable to the hedged risk adjusts the carrying value of the hedged item and is recognised in the profit and loss account.

The Group prospectively discontinues hedge accounting for a hedged relationship if:

- The hedging instrument expires or is sold, terminated or exercised;
- The hedge no longer meets the criteria for hedge accounting; or
- The Company revokes the designation.

If hedge accounting is discontinued, for hedged financial liabilities recorded at amortised cost the difference between the carrying value of the hedged financial liability on termination of the hedge and the face value is amortised over the remaining term of the original hedge. If the hedged financial liability is de-recognised, the unamortised fair value adjustment is recognised immediately in the profit and loss account.

### E – Financial instruments designated as at fair value through profit and loss account

The Group may designate financial assets and financial liabilities at fair value through profit and loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Fair value gains or losses, together with net interest income / expense, arising from financial instruments designated as at fair value through profit and loss account are recognised in the profit and loss account and reported within net dealing profit / loss. The amount of each class of financial asset or liability that has been designated at fair value through profit and loss is set out in note 28.

### F – Financial investments

The Group designates financial investments in equity securities as at fair value through profit and loss account. These financial investments are measured as described in accounting policy E.

The Company's investments in subsidiary undertakings are measured at cost less impairment.

# Notes to the Consolidated and Company Financial Statements (continued)

## G – Loans and advances

Subsequent to initial recognition, loans and advances are measured at amortised cost using the effective interest method less impairment, with any resulting interest income taken to profit and loss account.

## H – Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repurchase agreements) are not de-recognised from the balance sheet. The corresponding cash received, including accrued interest is recognised on the balance sheet as Repurchase Agreements reflecting its economic substance as a loan to the Group.

Securities purchased under agreements to resell at a specified future date (reverse repurchase agreements) are not recognised on the balance sheet. The corresponding cash paid including accrued interest is recognised on the balance sheet as Reverse Repurchase Agreements reflecting its economic substance as a loan receivable by the Group.

Repurchase and reverse repurchase agreements are classified as held for trading.

## I – Deposits and debt securities in issue

Deposits and debt securities in issue are measured at amortised cost using the effective interest rate method except where the Group has designated financial liabilities as at fair value through profit and loss. The Group has designated certain issued debt securities and deposits as at fair value, and these are measured as described in accounting policy E.

## J – Fair value measurement

Fair value represents the amount at which an asset or liability would be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments measured at fair value comprise:

- Trading financial instruments;
- Trading derivatives and derivatives held for risk management purposes;
- Embedded derivatives; and
- Financial assets and financial liabilities designated as at fair value through profit and loss account.

Fair values are derived from quoted market prices or valuation techniques as described below.

***Active market***

Financial instruments that trade within an active market are valued using quoted market prices or rates available within that market. An active market exists where regular prices are provided by exchanges, dealers, brokers, industry groups or pricing services, and these prices represent actual market transactions.

Financial instruments may be priced from the most advantageous active market to which the Group has access, and this may result in the recognition of revenue on trade date ('day one profit'), to the extent that a fair value instrument has been traded at a favourable price in comparison to prices available within an active market.

Long positions are marked to the bid side, and short positions to the offered side of an active market. Where the Group holds positions which create offsetting risk positions, then those offsetting positions are valued at mid-market rates, with any resulting net risk positions being marked to the bid or offered side as appropriate.

***No active market***

Financial instruments that do not trade within an active market are valued using a valuation technique, which may consist of:

- Analysis of current or recent third party transactions in the same instrument; or
- Reference to the value of other instruments, that are substantially the same as the instrument to be valued; or
- Use of a valuation model.

Valuation techniques, including valuation models, meet the following conditions:

- Consistency with accepted methodologies for pricing financial instruments;
- Inclusion of all relevant factors that market participants would consider in setting a price;
- Use of market observable data where possible; and
- Periodic calibration to actual market transactions where possible.

If, on trade date, a valuation technique results in a different estimate of fair value to the actual transaction price, then the valuation technique will be calibrated to the transaction price, so that no gain or loss is recognised except as described below.

Gains or losses will only be recognised subsequently, to the extent that they arise from changes in a factor (including time) that market participants would consider in setting a price.

Fair value estimates from valuation techniques may be used on trade date without calibration to the transaction price, resulting in the recognition of day one gains and losses, under the following conditions:

- Fair value is supported by current market transactions in the same instrument; or
- Fair value is based upon a valuation technique whose variables include only data from observable markets.

Day one gains or losses that do not meet these criteria are deferred and amortised over the life of the financial instrument to which they relate.

## K – Foreign currencies

Foreign currency carrying values at initial recognition are translated into the functional currency at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency of the Group at the mid-market rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded using an average rate of exchange for the year. Foreign currency translation differences are included in operating income.

Non monetary items that are measured at historical cost in a foreign currency are translated into functional currency at the original transaction rate.

## L – Identification and measurement of impairment

At each balance sheet date, the Group assesses whether there is objective evidence that financial and other assets not carried at fair value through profit and loss are impaired.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the financial asset, and that the loss event has an impact on the future cash flows on the financial asset that can be estimated reliably. Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the profit and loss account and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit and loss.

Other assets are recorded at no more than their recoverable amount. Impairment losses are measured as the difference between the carrying value and the recoverable amount and recognised through profit and loss.

## M – Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and that revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

### *Interest income and expense*

Interest income and expense, in respect of instruments that are not recognised at fair value through profit and loss, are recognised in profit and loss using the effective interest rate method and are reported under interest receivable and payable. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of a financial asset or financial liability, or a shorter period where appropriate, to the carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset or financial liability and is not subsequently revised. The calculation of the effective interest rate includes all the fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

### *Fees and commissions*

Fee and commission income is recognised as the related service is performed. Fee and commission expense relates to transaction and service fees which are expensed as the service is received.

### *Dealing profit / loss*

Dealing profit / loss comprises gains less losses related to trading financial assets, trading financial liabilities, derivative instruments held for risk management purposes and financial instruments designated as at fair value through profit and loss account. This includes all associated realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

### *Dividend income*

Dividend income is recognised when the Group's right to receive payment is established.

## N – Tangible fixed assets and depreciation

Assets held for use in the business are stated at cost less accumulated depreciation and impairment allowances. Tangible fixed assets include the directly attributable costs of the development and bringing into use of significant computer software systems.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful economic lives on the following basis:

- Short leasehold properties and improvements thereto are written off on a straight line basis over the remaining life of the lease or twenty five years, whichever is shorter; and

- Fixtures, equipment, software and vehicles are depreciated on a straight line basis over periods between two and five years.

Software development costs, which include associated labour costs, are recognised in Other Assets until such time as the relevant system is in use, when they are capitalised as a Tangible Fixed asset.

## O – Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are the differences between Group taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

## P – Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

## Q – Share based payments

The Group engages in cash settled share based payment transactions in respect of services received from certain employees of the Group. The fair value of the services received is measured by reference to the fair value of the shares granted. The cost of the employee services received in respect of the shares granted is recognised in the profit and loss account over the period that the services are received. With regard to continuing employees, the service period corresponds to the vesting period of the share awards, whilst the service periods of former employees who retain rights as good leavers, are deemed to end once employment with the Group has ceased.

## R – Pension costs

The Group operates defined contribution schemes and a defined benefit scheme.

### *Defined contribution schemes*

Contributions to defined contribution schemes are recognised within profit and loss in the period in which they become payable.

### *Defined benefit scheme*

The defined benefit pension scheme requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based upon actuarial advice.

Past service costs are recognised in profit and loss on a straight line basis over the vesting period or immediately if the benefits have vested. The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year.

The expected return on scheme assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of scheme assets of contributions received and benefits paid during the year. The difference between the expected return on scheme assets and the interest cost is recognised in the profit and loss account as other finance income or expense. Actuarial gains and losses are recognised in full in the statement of recognised gains and losses in the period in which they occur.

The total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of scheme assets gives rise to a defined benefit pension liability or surplus. The fair value of scheme assets is based on market price information.

Defined benefit pension liabilities are recognised on the balance sheet, whilst defined benefit pension surpluses are only recognised to the extent of their recoverability. Defined benefit pension surpluses are determined to be recoverable only where refunds have been agreed by scheme trustees at the balance sheet date.

### S – Provisions

Provision is made where an obligation arises as a result of a past event and it is probable that the Group will make a transfer of economic benefits to satisfy such obligation. Such provision is made based on the Directors' best estimate of the economic benefits to be transferred, discounted where relevant at an appropriate discount rate.

## 3. ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The results of the Group are sensitive to accounting policies, assumptions and estimates that underlie the preparation of the financial statements.

When preparing the financial statements, it is the Directors' responsibility under applicable UK law to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The accounting policies that are deemed critical to the Group's financial performance and position, in terms of the materiality of the items to which the policy is applied, or which involve a high degree of judgement and estimation are summarised below:

***Valuation of financial instruments***

The Group accounting policy for valuation of financial instruments is set out in note 2J. The valuation techniques used in measuring fair value of financial instruments are discussed further in note 28C. Where valuation techniques are used, the inputs to these models are taken from observable markets where possible. Where observable market data is not available, a degree of judgement is required in establishing fair value. Further disclosure on valuation techniques using non observable market data including sensitivity analysis is provided in note 28C and E.

***Pension liability***

The principal assumptions and estimates in determining the pension liability for the financial year are set out in note 22.

### *Provisions*

The Group recognises provisions for future expenditure in situations where: there is a present legal or constructive obligation resulting from a past event; it is probable that a transfer of economic benefits will be required and a reliable estimate can be made as to the amount of the obligation. Provisions are distinguished from other liabilities, as there is uncertainty about the timing or amount of future expenditure required to settle the obligation, and the Group recognises provisions based upon its best estimate of such expenditure.

### *Consolidation*

Determination of control over a special purpose company may require a degree of judgement. Consolidation of special purpose entities is described further in note 29H.

## 4. FEES AND COMMISSIONS

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| - Trading activities | **69.5** | 31.4 |
| - Fiduciary services | **1.8** | 10.7 |
| **Fees and commissions receivable** | **71.3** | 42.1 |
| - Trading activities | **(28.5)** | (22.5) |
| - Fiduciary services | **-** | (6.3) |
| **Fees and commissions payable** | **(28.5)** | (28.8) |

## 5. DEALING PROFIT

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Net interest income from financial instruments held for trading | **33.0** | 41.4 |
| Net interest expense from financial instruments designated at fair value | **(0.2)** | (0.1) |
| Net gains from financial instruments held for trading | **27.2** | 55.2 |
| Net losses from financial instruments designated at fair value | **(6.2)** | (6.5) |
| | **53.8** | 90.0 |

Dealing profit includes foreign currency gains arising on the translation of foreign currency monetary assets and liabilities amounting to £1.2m (2013: £1.2m).

## 6. OTHER OPERATING INCOME

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Net return on defined benefit scheme (note 22) | **0.1** | 0.1 |
| | **0.1** | 0.1 |

## 7. ADMINISTRATIVE EXPENSES

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| **Staff costs** | | |
| Wages and salaries | **65.8** | 60.2 |
| Social security costs | **6.8** | 6.4 |
| Pension costs – defined contribution schemes | **3.0** | 2.7 |
| | **75.6** | 69.3 |
| **Auditors' remuneration** | | |
| Audit fees | **0.6** | 0.6 |
| Other services | **-** | - |
| | **0.6** | 0.6 |
| Rental charges payable under operating leases | **3.9** | 3.9 |
| Other administrative expenses | **32.5** | 32.4 |
| | **112.6** | 106.2 |

### Average number of employees

| | **2014** | 2013 |
|---|---|---|
| | **Number** | Number |
| Executive and senior managerial | **60** | 34 |
| Other managerial, supervisory and clerical | **296** | 317 |
| | **356** | 351 |

### Directors' emoluments

The Directors of the Company are also Directors of Mizuho International plc. The Directors received total remuneration for the year of £2.3 million (2013: £4.0 million) which was paid by Mizuho International plc. The Directors do not believe that it is practicable to apportion this amount between their services as Directors of the Company and Mizuho International plc.

The number of directors to whom retirement benefits are accruing by virtue of their directorship of the Company is nil (2013: 1).

The aggregate emoluments of the highest paid Director are £1.2 million (2013: £1.8 million).

## 8. DISPOSAL OF CUSTODY BUSINESS

The Custody business of the Group was sold to Mizuho Trust & Banking (Luxembourg) S.A. ("Mizuho Trust & Banking") with effect from 1st May 2012. The Group received a fair market value of £28.2 million in consideration for this sale.

# Notes to the Consolidated and Company Financial Statements (continued)

## 9. TAX ON LOSS ON ORDINARY ACTIVITIES

### Charge for taxation

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| **Current taxation** | | |
| UK Corporation tax for the current year | **-** | - |
| Group relief | **-** | - |
| Current tax credit | **-** | - |
| **Deferred taxation** | | |
| Deferred tax charge | **-** | - |
| Tax on loss on ordinary activities | **-** | - |

### Current taxation reconciliation

A reconciliation between the tax credit / (expense) and the accounting profit multiplied by UK standard rate of corporation tax is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Loss on ordinary activities before taxation | **(28.4)** | (4.4) |
| Current taxation at 23% (2013: 24%) | **6.5** | 1.1 |
| Effects of: | | |
| - Utilised / (unrecognised) tax losses | **(13.1)** | 0.5 |
| - Capital allowances in excess of depreciation | **0.1** | (0.1) |
| - Expenses not deductible for tax purposes | **(0.2)** | (3.7) |
| - Other short term timing differences | **6.7** | 2.2 |
| Current tax credit | **-** | - |

### Deferred taxation

There are no deferred tax balances as at the balance sheet date in respect of both the current and prior year. Based on the likely timing and level of future profits, the Directors have concluded that no deferred tax asset should be recognised in respect of the current tax losses. The total potential deferred tax asset available but not recognised amounted to £486.2 million (2013: £544.4 million).

# Notes to the Consolidated and Company Financial Statements (continued)

## 10. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

### Transferred financial assets that are not derecognised in their entirety

The following tables provide a summary of those financial assets that have been transferred in such a way as to not be fully derecognised, together with the associated liabilities:

**Group**
**2014**

| | **Financial assets at fair value through profit or loss [(1)]** | | |
|---|---|---|---|
| | **Government debt securities £ millions** | **Other debt securities £ millions** | **Total £ millions** |
| Carrying amount assets | 1,605.4 | 625.9 | 2,231.3 |
| Carrying amount associated liabilities | 1,609.5 | 422.1 | 2,031.6 |

Group
2013

| | Financial assets at fair value through profit or loss [(1)] | | |
|---|---|---|---|
| | Government debt securities £ millions | Other debt securities £ millions | Total £ millions |
| Carrying amount assets | 1,059.9 | 415.9 | 1,475.8 |
| Carrying amount associated liabilities | 1,065.4 | 306.0 | 1,371.4 |

**Explanatory note on Transferred financial assets that are not derecognised in their entirety**

*1. Financial assets at fair value through profit or loss;*
These financial assets have been transferred through repurchase agreements, and there are no liabilities that have recourse only to the transferred assets.

The Group has a programme to borrow and lend securities and to sell securities under agreements to repurchase (repos) and to purchase securities under agreements to resell (reverse repos).

The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. These transactions are conducted under terms based on the applicable ISDA Collateral Guidelines. If the securities increase or decrease in value the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition it recognises a financial liability in respect of cash received as collateral.

## Notes to the Consolidated and Company Financial Statements (continued)

These liabilities are recorded within the balance sheet line item Repurchase agreements, together with liabilities which have financed reverse repo transactions:

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Liabilities financing transferred assets | **2,031.6** | 1,371.4 |
| Liabilities financing reverse repo transactions | **21,433.6** | 25,861.6 |
| Repurchase agreements | **23,465.2** | 27,233.0 |

### Transferred financial assets that are derecognised in their entirety

The following tables provide a summary of transferred financial assets which have been derecognised in their entirety, but for which there is continuing involvement at the reporting date:

| **Group 2014** | Cash outflows to repurchase transferred assets | Carrying amount of continuing involvement in statement of financial position | Fair value of continuing involvement | | Maximum exposure to loss |
|---|---|---|---|---|---|
| | | Held for trading | Assets | Liabilities | |
| | **£ millions** | **£ millions** | **£ millions** | **£ millions** | **£ millions** |
| Type of continuing involvement: | | | | | |
| **Purchased call option** | 331.3 | 40.0 | 40.0 | - | 40.0 |

| Group 2013 | Cash outflows to repurchase transferred assets | Carrying amount of continuing involvement in statement of financial position | Fair value of continuing involvement | | Maximum exposure to loss |
|---|---|---|---|---|---|
| | | Held for trading | Assets | Liabilities | |
| | £ millions | £ millions | £ millions | £ millions | £ millions |
| Type of continuing involvement: | | | | | |
| Purchased call option | 128.0 | 19.8 | 19.8 | - | 19.8 |

The Group transferred convertible bonds that are subject to call options that were neither deeply in the money nor deeply out of the money at the date of transfer. The carrying amounts of the transferred assets and the gain or loss recognised at the date of transfer are summarised as follows:

| **Year** [(1)] | **Carrying amount** | **Gain / (loss) on transfer** |
|---|---|---|
| | **£ millions** | **£ millions** |
| 2012 | 41.1 | 0.1 |
| 2013 | 45.5 | (1.7) |
| 2014 | 243.3 | (8.9) |

**Explanatory note on transferred asset analysis**

1. Assets were transferred only in the years shown above and not in any of the preceding years.

The market for these convertible bonds was and is still regarded as liquid. The Group therefore determined that, although it had not transferred substantially all of the risks and rewards to the transferee, it had not retained control of the assets and, as such, it derecognised the convertible bonds. The Group's continuing involvement with the transferred bonds is recorded in the balance sheet as Trading derivative assets at the options' fair value of £40.0 million (2013: £19.8 million), which is also the Group's maximum exposure to loss. The fair value gain recognised on the options in the period was £11.8 million (2013: £15.5 million) and the cumulative gain is £26.8 million.

If the Group exercises these options, the undiscounted amount that it would pay is the exercise value of £331.3 million (2013: £128.0 million). These options may be exercised on demand.

**Assets pledged as collateral**

The Group pledges assets in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. The Group pledged securities as collateral in repurchase agreements with a fair value of £24,030.6 million (2013: £27,977.2 million). Of these, securities with a fair value of £2,231.3 million (2013: £1,475.8 million) are recognised on the Group's balance sheet (refer to section Transferred financial assets that are not derecognised in their entirety).

**Assets held as collateral**

The Group holds certain assets as collateral which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with a fair value of £24,700.1 million (2013: £28,108.8 million). Of these, securities with a fair value of £21,791.8 million (2013: £26,471.1 million) have been sold or repledged. The Group is obliged to return the same collateral to the owner on completion of the arrangement.

## 11. TRADING FINANCIAL ASSETS AND LIABILITIES

### Trading financial assets

| **Group** | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| **Debt securities** | | |
| Government securities | **2,486.8** | 1,964.8 |
| Other public sector securities | **111.0** | 107.9 |
| Other securities | **1,306.1** | 782.7 |
| | **3,903.9** | 2,855.4 |
| **Equity securities** | | |
| Listed other than on a recognised UK exchange | **3.7** | 2.4 |
| Unlisted | **-** | - |
| | **3.7** | 2.4 |
| **Trading financial assets** | **3,907.6** | 2,857.8 |

## Trading financial liabilities

| Group | **2014** **£ millions** | 2013 £ millions |
|---|---|---|
| Short positions in debt securities: | | |
| - Government securities | **2,182.5** | 738.4 |
| - Other public sector securities | **42.9** | 6.3 |
| - Other securities | **375.2** | 314.8 |
| Short positions in equity securities | **0.3** | 2.4 |
| **Trading financial liabilities** | **2,600.9** | 1,061.9 |

As at 31st March 2014, there were no unobservable day one profits in respect of trading financial assets and liabilities (2013: £nil).

Further details of the classification and fair value measurement of trading financial assets and liabilities are disclosed in note 28.

## 12. TRADING DERIVATIVE ASSETS AND LIABILITIES

| Group | **2014** **£ millions** | 2013 £ millions |
|---|---|---|
| Interest rate | **110.7** | 110.2 |
| Foreign currency | **27.2** | 47.7 |
| **Trading derivative assets** | **137.9** | 157.9 |
| Interest rate | **113.5** | 115.5 |
| Foreign currency | **35.8** | 97.1 |
| Credit | **3.2** | 1.9 |
| **Trading derivative liabilities** | **152.5** | 214.5 |

As at 31st March 2014, there were no unobservable day one profits in respect of trading derivative assets and liabilities (2013: £nil).

Further details of the classification and fair value measurement of trading derivative assets and liabilities are disclosed in note 28.

# Notes to the Consolidated and Company Financial Statements (continued)

## 13. DERIVATIVES HELD FOR RISK MANAGEMENT

### Assets

| Group | 2014<br>£ millions | 2013<br>£ millions |
|---|---|---|
| **Primary instruments** | | |
| Interest rate | **4.5** | 5.6 |
| Equity | **0.4** | 1.5 |
| Foreign currency | **1.7** | 2.5 |
| Credit | **-** | 0.1 |
| | **6.6** | 9.7 |
| **Embedded derivatives** | | |
| Interest rate | **0.4** | 0.6 |
| Equity | **3.0** | 9.9 |
| Foreign currency | **56.6** | 99.7 |
| Credit | **0.2** | 3.5 |
| | **60.2** | 113.7 |
| **Derivative assets held for risk management** | **66.8** | 123.4 |

### Liabilities

| Group | 2014<br>£ millions | 2013<br>£ millions |
|---|---|---|
| **Primary instruments** | | |
| Interest rate | **0.7** | 0.3 |
| Equity | **0.4** | 3.2 |
| Foreign currency | **24.2** | 58.8 |
| Credit | **0.2** | 3.5 |
| | **25.5** | 65.8 |
| **Embedded derivatives** | | |
| Interest rate | **3.4** | 4.9 |
| Equity | **-** | 0.1 |
| Foreign currency | **0.1** | 0.1 |
| Credit | **0.1** | 0.1 |
| | **3.6** | 5.2 |
| **Derivative liabilities held for risk management** | **29.1** | 71.0 |

The Group uses primary derivative instruments to manage exposure to interest rate risk, equity price risk, foreign currency risk and credit risk arising from its structured note issuance programmes (see note 19). These derivative instruments include interest rate swaps, foreign currency swaps, credit default swaps, and equity derivatives. Further details of the classification and fair value measurement of derivatives held for risk management are disclosed in note 28.

### Derivatives held for risk management designated as fair value hedges of interest rate risk

The Group uses primary interest rate and other swap instruments to hedge its exposure to changes in fair value of fixed rate structured notes and structured note host contracts that are carried at amortised cost. The changes in fair values of the hedging derivative instruments and the hedged items attributable to the hedged risks are analysed below:

| **Group** | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Gains on hedging derivative instruments | **19.3** | 20.7 |
| Losses on hedged items attributable to hedged risk: | | |
| - Debt securities in issue (see note 19) | **(19.3)** | (20.7) |
| Losses on hedged items attributable to hedged risk: | **(19.3)** | (20.7) |
| Ineffective portion of fair value hedges | **-** | - |

## 14. LOANS AND ADVANCES TO BANKS

| **Group** | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Placements with banks | **98.7** | 46.4 |
| Amounts include: | | |
| Due from related parties. | **39.4** | 14.2 |

| **Company** | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Placements with banks | **0.2** | 0.3 |
| Amounts include: | | |
| Due from related parties | **0.2** | 0.3 |

Gains arising from Loans and advances to banks amounted to £0.5m (2013: £0.4m).

Further details of the classification and fair value measurement of loans and advances to banks are disclosed in note 28.

## 15. FINANCIAL INVESTMENTS

| Group | 2014 £ millions | 2013 £ millions |
|---|---|---|
| Equity securities designated at fair value – Unlisted | - | 59.4 |

| Company | 2014 £ millions | 2013 £ millions |
|---|---|---|
| Equity securities – Unlisted | 497.2 | 452.2 |

On 25th March 2014, the Group sold its Limited Partnership interest in the Apposite Healthcare Fund L.P. to another company within the Mizuho Financial Group. A loss of £3.1m was recognised on this disposal.

Further details of the classification and fair value measurement of financial investments are disclosed in note 28.

## 16. TANGIBLE FIXED ASSETS

| Group | Short leasehold property £ millions | Fixtures, equipment, software and vehicles £ millions | Total £ millions |
|---|---|---|---|
| **Cost** | | | |
| At 1st April 2013 | 18.6 | 35.3 | 53.9 |
| Additions | 0.1 | 8.0 | 8.1 |
| At 31st March 2014 | 18.7 | 43.3 | 62.0 |
| **Accumulated depreciation and amortisation** | | | |
| At 1st April 2013 | 13.6 | 31.3 | 44.9 |
| Charge for the year | 1.4 | 3.0 | 4.4 |
| At 31st March 2014 | 15.0 | 34.3 | 49.3 |
| **Net book value** | | | |
| **At 31st March 2014** | **3.7** | **9.0** | **12.7** |
| At 31st March 2013 | 5.0 | 4.0 | 9.0 |

# Notes to the Consolidated and Company Financial Statements (continued)

## 17. OTHER ASSETS

| Group | 2014<br>£ millions | 2013<br>£ millions |
|---|---|---|
| Trade receivables | **188.4** | 143.2 |
| Reimbursement of property exit costs | **8.1** | 8.1 |
| Other assets | **6.8** | 3.7 |
| Work in progress | **14.5** | 5.3 |
| | **217.8** | 160.3 |

## 18. DEPOSITS BY BANKS

| Group | 2014<br>£ millions | 2013<br>£ millions |
|---|---|---|
| Deposits by banks | **744.1** | 724.0 |
| Amounts include: | | |
| - Due to related parties | **681.8** | 631.1 |

## CUSTOMER ACCOUNTS

| Group | 2014<br>£ millions | 2013<br>£ millions |
|---|---|---|
| Customer accounts | **275.8** | 292.8 |

Losses arising from Deposits by banks and Customer accounts amounted to £4.9m (2013: £3.9m).

Further details of the classification and fair value measurement of customer accounts are disclosed in note 28.

## 19. DEBT SECURITIES IN ISSUE

| Group | 2014<br>£ millions | 2013<br>£ millions |
|---|---|---|
| Debt securities – amortised cost | **224.4** | 299.4 |
| Debt securities – adjusted for fair value hedge accounting | **706.9** | 513.5 |
| Debt securities – designated at fair value through profit and loss | **45.3** | 53.9 |
| | **976.6** | 866.8 |

## Notes to the Consolidated and Company Financial Statements (continued)

Losses arising from Debt securities accounted at amortised cost amounted to £4.3m (2013: £5.9m).

Further details of the classification and fair value measurement of debt securities in issue are disclosed in note 28.

### Debt securities adjusted for fair value hedge accounting

| **Group** | **2014**<br>**£ millions** | 2013<br>£ millions |
|---|---|---|
| Net loss recognised in profit and loss account | **(19.3)** | (20.7) |
| Contractual amount to maturity | **665.3** | 452.6 |

The net loss recognised in the profit and loss account arising on debt securities that have been adjusted for fair value hedge accounting represents fair value movements relating to interest rate risk effectively hedged by the risk management derivatives designated as fair value hedges of interest rate risk (see note 13).

### Debt securities designated at fair value through profit and loss

| **Group** | **2014**<br>**£ millions** | 2013<br>£ millions |
|---|---|---|
| Net gain / (loss) recognised in profit and loss account | **10.8** | (6.2) |
| Contractual amount to maturity | **50.0** | 63.6 |

Certain debt securities in issue were designated at fair value since these are managed on a fair value basis. The net loss recognised in the profit and loss account arising on debt securities that is attributable to changes in the Group's credit risk amounted to £0.1 million (2013: net loss £2.7 million).

## 20. OTHER LIABILITIES

| **Group** | **2014**<br>**£ millions** | 2013<br>£ millions |
|---|---|---|
| Trade payables | **88.2** | 69.2 |
| Other liabilities | **4.1** | 2.3 |
| Tax and social security payable | **3.2** | 15.3 |
| | **95.5** | 86.8 |

## 21. PROVISIONS FOR LIABILITIES

**Group**

| | Property provisions £ millions | Other provisions £ millions | Total £ millions |
|---|---|---|---|
| At 1st April 2013 | 12.9 | 4.3 | 17.2 |
| Net release | (0.1) | (0.5) | (0.6) |
| Other decrease | - | (0.3) | (0.3) |
| At 31st March 2014 | **12.8** | **3.5** | **16.3** |

### Property provisions

The Group holds a provision of £12.8 million in respect of the estimated costs associated with the Group's future exit from its property lease arrangements and the future shortfall between the rental income due from tenants of the Group's leasehold property and the amount payable by the Group on the head lease, which has been partially utilised during the current year. Of this amount, £8.1 million will be fully reimbursed by tenants of the Group's leasehold property. This corresponding receivable has been recognised within other assets (see note 17).

### Other provisions

The Group has made several other provisions in respect of future legal and settlement costs in relation to the disposal of legacy businesses, including restructuring costs. Following the expiry period (31st May 2014) of the Life Policy warranty provision, £3.4m was released into the profit and loss account in May 2014.

## 22. PENSION LIABILITIES

### Defined benefits scheme

The Group operates a defined benefits scheme, the Mizuho International plc Retirement Benefits Scheme ('Scheme'), which is a final salary scheme, established in 1978, and currently governed by the trust deed and rules dated 18th September 1998. The Scheme is a "registered pension scheme" for tax purposes. All members were contracted-out of the State Second Pension during active membership of the Scheme.

In accordance with the trust deed the Group, as Principal Employer, has the power to appoint and remove the Trustees of the Scheme. The three Trustees include a Group representative, an independent corporate Trustee and a member nominated Trustee.

There are no active members remaining in the Scheme, which is closed to new entrants and future benefit accrual. There were 227 deferred members and 23 pensioner members who have pensions paid directly from the Scheme as at 31st March 2014.

## Notes to the Consolidated and Company Financial Statements (continued)

A full valuation was undertaken as at 31st March 2012 and updated to 31st March 2014 by a qualified independent Actuary.

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

| | **2014** **% p.a.** | 2013 % p.a. |
|---|---|---|
| Discount rate | **4.3** | 4.5 |
| Expected long-term rate of return on Scheme assets | **5.4** | 5.1 |
| Increase in salaries | **n/a** | n/a |
| Inflation assumption | **3.3** | 3.2 |
| RPI Pension increases (capped at 5% p.a.) | **3.3** | 3.2 |
| CPI linked increases | **2.3** | 2.2 |

The underlying mortality assumption is based upon the standard table known as PCA00 on a year of birth usage with medium cohort future improvement factors subject to a minimum annual rate of future improvement of 1% per annum (2013: same).

The amounts recognised in the balance sheet are as follows:

| | **2014** **£ millions** | 2013 £ millions |
|---|---|---|
| Present value of Scheme liabilities | **(39.9)** | (36.5) |
| Market value of Scheme assets | **42.9** | 39.6 |
| Restriction of Recognisable Surplus | **(3.0)** | (3.1) |
| Deficit in the Scheme | **-** | - |
| Related deferred tax asset | **-** | - |
| **Net pension liability** | **-** | - |

The amounts to be recognised in profit and loss for the year are as follows:

| | **2014** **£ millions** | 2013 £ millions |
|---|---|---|
| Current service cost | **-** | - |
| Expected return on Scheme assets | **1.6** | 1.5 |
| Interest on Scheme liabilities | **(1.6)** | (1.5) |
| Past service cost | **-** | - |
| Contribution paid by a related party | **0.1** | 0.1 |
| | **0.1** | 0.1 |
| Actual return on Scheme assets | **1.6** | 4.9 |

## Notes to the Consolidated and Company Financial Statements (continued)

Changes in the present value of the Scheme liabilities are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Present value of Scheme liabilities at 1st April | **36.5** | 30.9 |
| Current service cost | **-** | - |
| Interest cost | **1.6** | 1.5 |
| Past service cost | **-** | - |
| Actuarial losses / (gains) | **2.6** | 5.1 |
| Benefits paid | **(0.8)** | (1.0) |
| Present value of Scheme liabilities at 31st March | **39.9** | 36.5 |

Changes in the fair value of the Scheme assets for the year are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Market value of Scheme assets at 1st April | **39.6** | 33.2 |
| Expected return | **1.6** | 1.5 |
| Actuarial gains | **-** | 3.5 |
| Benefits paid | **(0.8)** | (1.0) |
| Contributions paid/payable by the Group | **2.4** | 2.3 |
| Contributions paid/payable by a related party | **0.1** | 0.1 |
| Market value of Scheme assets at 31st March | **42.9** | 39.6 |

The agreed contributions to be paid by the Group for the forthcoming year ending 31st March 2015 are £2,327,000 payable by the Group and £128,000 by DLIBJ Asset Management International, a third party company (2014: £2,327,000 payable by the Group and £128,000 by DLIBJ Asset Management International).

The major categories of Scheme assets as a percentage of total Scheme assets for the year are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **%** | % |
| Equities | **54** | 54 |
| Bonds | **41** | 44 |
| Cash | **5** | 2 |
| | **100** | 100 |

The expected long-term rate of return on the Scheme assets has been calculated based upon the major asset categories shown in the above table and an expected rate of return on equities of 6.9% (2013: 6.3%), an expected rate of return on bonds of 4.0% (2013: 3.7%) and an expected rate of return on cash of 0.5% (2013: 0.5%).

## Notes to the Consolidated and Company Financial Statements (continued)

Analysis of amounts recognisable in the statement of total recognised gains and losses for the year are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Actual return less expected return on Scheme assets | **-** | 3.5 |
| Experience gains and losses arising on Scheme liabilities | **(0.4)** | (0.7) |
| Changes in assumptions underlying the present value of Scheme liabilities | **(2.2)** | (4.5) |
| Restriction of Recognisable Surplus | **0.1** | (0.8) |
| Actuarial loss recognised in STRGL | **(2.5)** | (2.5) |

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses for the year are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Cumulative actuarial loss at 1st April | **(15.4)** | (12.9) |
| Recognised during the year | **(2.5)** | (2.5) |
| Cumulative actuarial loss at 31st March | **(17.9)** | (15.4) |

Movements in the deficit during the year are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Deficit in Scheme at 1st April | **-** | - |
| Amounts recognised in profit and loss | **0.1** | 0.1 |
| Contributions paid | **2.4** | 2.4 |
| Actuarial loss | **(2.5)** | (2.5) |
| Deficit in Scheme at 31st March | **-** | - |

Amounts for the current and previous four accounting years are as follows:

| | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| | **£ millions** | £ millions | £ millions | £ millions | £ millions |
| Present value of Scheme liabilities | **(39.9)** | (36.5) | (30.9) | (30.4) | (29.6) |
| Market value of Scheme assets | **42.9** | 39.6 | 33.2 | 29.5 | 25.8 |
| Restriction of Recognisable Surplus | **(3.0)** | (3.1) | (2.3) | - | - |
| Deficit in the Scheme | **-** | - | - | (0.9) | (3.8) |
| Actual return less expected return on Scheme assets | **-** | 3.5 | - | 0.2 | 4.3 |
| Experience (loss) / gain arising on Scheme liabilities | **(0.4)** | (0.7) | (0.5) | 0.1 | 0.6 |
| Change in assumptions underlying present value of Scheme liabilities | **(2.2)** | (4.5) | 1.2 | 0.2 | (8.3) |

## Notes to the Consolidated and Company Financial Statements (continued)

### Employment benefit plans

The Group operates a Group Personal Pension ('GPP') arrangement. Subject to meeting certain qualifying conditions, all staff joining the Group are eligible to become members of the GPP.

The GPP provides employees with a tax-efficient way of saving for retirement. It is a low-cost, flexible and portable arrangement which the Group also contributes towards.

Contributions are currently subject to the maximum limits as laid down by H M Revenue & Customs for the tax year in question. Group contributions are made as a percentage of salary and/or bonus waiver through a salary sacrifice arrangement.

The assets of the GPP are held separately from those of the Group in independently administered funds. During the year ended 31st March 2014 the Group made contributions of £5.0 million (2013: £4.7 million) to the GPP of which £1.7 million related to the employees' salary sacrifice arrangements (2013: £1.6 million).

### Other pension arrangements

The Group has operated a separate trust based defined contribution scheme which is closed to new employees and any existing members as at 31st March 2006. This scheme is currently being wound up.

## 23. SHARE CAPITAL

| | **2014 Number** | **2014 £ millions** | 2013 Number | 2013 £ millions |
|---|---|---|---|---|
| **Issued called up and fully paid** | | | | |
| Ordinary shares of GBP 1 each | **847,276,696** | **847.3** | 802,276,696 | 802.3 |
| | | **847.3** | | 802.3 |

## 24. EQUITY

| **Group 2014** | **Share capital** | **Share premium account** | **Other reserve [1]** | Pension reserve | Profit and loss account | **Profit and loss account** | **Total** |
|---|---|---|---|---|---|---|---|
| | **£ millions** | **£ millions** | **£ millions** | £ millions | £ millions | **£ millions** | **£ millions** |
| At 1st April 2013 | **802.3** | **-** | **2,018.0** | (11.5) | (2,364.9) | **(2,376.4)** | **443.9** |
| Increase in paid up share capital [2] | 45.0 | - | - | - | - | - | **45.0** |
| Loss for the year | **-** | **-** | **-** | - | (28.4) | **(28.4)** | **(28.4)** |
| Actuarial loss on defined benefit plan | **-** | **-** | **-** | (2.5) | - | **(2.5)** | **(2.5)** |
| At 31st March 2014 | **847.3** | **-** | **2,018.0** | (14.0) | (2,393.3) | **(2,407.3)** | **458.0** |

## Notes to the Consolidated and Company Financial Statements (continued)

| Group 2013 | Share capital | Share premium account | Other reserve [1] | Pension reserve | Profit and loss account | Profit and loss account | Total |
|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| At 1st April 2012 | 744.3 | - | 2,018.0 | (9.0) | (2,360.5) | (2,369.5) | 392.8 |
| Increase in paid up share capital [2] | 58.0 | - | - | - | - | - | 58.0 |
| Loss for the year | - | - | - | - | (4.4) | (4.4) | (4.4) |
| Actuarial loss on defined benefit plan | - | - | - | (2.5) | - | (2.5) | (2.5) |
| At 31st March 2013 | 802.3 | - | 2,018.0 | (11.5) | (2,364.9) | (2,376.4) | 443.9 |

**Explanatory notes on equity**

1. *Other reserve:*
The other reserve is calculated as described in note 1 – group restructuring under merger accounting.

2. *Increase in share capital:*
The Company's share capital was increased by 58,000,000 shares at a total value of £58 million on 1st August 2012 and by 45,000,000 shares at a total value of £45 million on 24th March 2014.

| **Company 2014** | **Share capital** | **Profit and loss account** | **Total** |
|---|---|---|---|
| | **£ millions** | **£ millions** | **£ millions** |
| At 1st April 2013 | **802.3** | **(349.6)** | **452.7** |
| Increase in paid up share capital | **45.0** | **-** | **45.0** |
| Gain for the year | **-** | **0.2** | **0.2** |
| At 31st March 2014 | **847.3** | **(349.4)** | **497.9** |

| Company 2013 | Share capital | Profit and loss account | Total |
|---|---|---|---|
| | £ millions | £ millions | £ millions |
| At 1st April 2012 | 744.3 | (361.9) | 382.4 |
| Increase in paid up share capital | 58.0 | - | 58.0 |
| Gain for the year | - | 12.3 | 12.3 |
| At 31st March 2013 | 802.3 | (349.6) | 452.7 |

## 25. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are analysed below:

| Group | 2014 | 2013 |
|---|---|---|
| | £ millions | £ millions |
| | Buildings | Buildings |
| Expiring: | | |
| Between one year and five years | 11.5 | 11.5 |

## 26. CONTINGENT LIABILITIES

In the normal course of business the Group is involved in various lawsuits. The likelihood of a material adverse impact on the financial position of the Group arising from these proceedings is considered to be remote (except as discussed within note 21, in respect of which provisions have been recognised).

## 27. EVENTS AFTER BALANCE SHEET DATE

There have been no events after the balance sheet date that require disclosure.

## 28. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### A Classification of financial assets and financial liabilities

| Group 2014 | Classification | | | | Fair value | |
|---|---|---|---|---|---|---|
| | Held for trading | Designated as at fair value | Loans and receivables | Financial liabilities | Fair value instruments | Non Fair value instruments |
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| **Financial assets:** | | | | | | |
| Reverse repurchase agreements | 24,398.2 | - | - | - | 24,398.2 | - |
| Trading assets | 3,907.6 | | - | - | 3,907.6 | - |
| Trading derivative assets | 137.9 | - | - | - | 137.9 | - |
| Derivative assets held for risk management | 66.8 | - | - | - | 66.8 | - |
| Loans and advances to banks | - | - | 98.7 | - | - | 98.7 |
| Financial Investments | - | - | - | - | - | - |
| Trade receivables | - | - | 188.4 | - | - | 188.4 |
| | 28,510.5 | - | 287.1 | - | 28,510.5 | 287.1 |

| | Classification | | | | Fair value | |
|---|---|---|---|---|---|---|
| | **Held for trading** | **Designated as at fair value** | **Loans and receivables** | **Financial liabilities** | **Fair value instruments** | **Non Fair value instruments** |
| | **£ millions** | **£ millions** | **£ millions** | **£ millions** | **£ millions** | **£ millions** |
| **Financial liabilities:** | | | | | | |
| Deposits by banks | **-** | **-** | **-** | **744.1** | **-** | **744.1** |
| Customer accounts | **-** | **-** | **-** | **275.8** | **-** | **275.8** |
| Repurchase agreements | **23,465.2** | **-** | **-** | **-** | **23,465.2** | **-** |
| Trading liabilities | **2,600.9** | **-** | **-** | **-** | **2,600.9** | **-** |
| Trading derivatives liabilities | **152.5** | **-** | **-** | **-** | **152.5** | **-** |
| Derivative liabilities held for risk management | **29.1** | **-** | **-** | **-** | **29.1** | **-** |
| Debt securities in issue | **-** | **45.3** | **-** | **931.3** | **45.3** | **872.7** |
| Trade payables | **-** | **-** | **-** | **88.2** | **-** | **88.2** |
| | **26,247.7** | **45.3** | **-** | **2,039.4** | **26,293.0** | **1,980.8** |

**Company**
**2014**

| | Classification | | | | Fair value | |
|---|---|---|---|---|---|---|
| | **Investment in subsidiary at cost** | **Designated as at fair value** | **Loans and receivables** | **Financial liabilities** | Fair value instruments | Non Fair value instruments |
| | **£ millions** | **£ millions** | **£ millions** | **£ millions** | £ millions | £ millions |
| **Financial assets:** | | | | | | |
| Loans and advances to banks | **-** | **-** | **0.2** | **-** | **-** | **0.2** |
| Loans and advances to customers | **-** | **-** | **0.5** | **-** | **-** | **0.5** |
| Financial investments | **497.2** | **-** | **-** | **-** | **-** | **497.2** |

Group
2013

| | Classification | | | | Fair value | |
|---|---|---|---|---|---|---|
| | Held for trading | Designated as at fair value | Loans and receivables | Financial liabilities | Fair value instruments | Non Fair value instruments |
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Financial assets: | | | | | | |
| Reverse repurchase agreements | 27,598.4 | - | - | - | 27,598.4 | - |
| Trading assets | 2,857.8 | | - | - | 2,857.8 | - |
| Trading derivative assets | 157.9 | - | - | - | 157.9 | - |
| Derivative assets held for risk management | 123.4 | - | - | - | 123.4 | - |
| Loans and advances to banks | - | - | 46.4 | - | - | 46.4 |
| Financial investments | 0.9 | 58.5 | - | - | 59.4 | - |
| Trade receivables | - | - | 143.2 | - | - | 143.2 |
| | 30,738.4 | 58.5 | 189.6 | - | 30,796.9 | 189.6 |

Group
2013

| | Held for trading | Designated as at fair value | Loans and receivables | Financial liabilities | Fair value instruments | Non Fair value instruments |
|---|---|---|---|---|---|---|
| | Classification | | | | Fair value | |
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Deposits by banks | - | - | - | 724.0 | - | 724.0 |
| Customer accounts | - | - | - | 292.8 | - | 292.8 |
| Repurchase agreements | 27,233.0 | - | - | - | 27,233.0 | - |
| Trading liabilities | 1,061.9 | - | - | - | 1,061.9 | - |
| Trading derivatives liabilities | 214.5 | - | - | - | 214.5 | - |
| Derivative liabilities held for risk management | 71.0 | - | - | - | 71.0 | - |
| Debt securities in issue | - | 53.9 | - | 812.9 | 53.9 | 694.9 |
| Trade payables | - | - | - | 69.2 | - | 69.2 |
| | 28,580.4 | 53.9 | - | 1,898.9 | 28,634.3 | 1,780.9 |

Company
2013

| | Investment in subsidiary at cost | Designated as at fair value | Loans and receivables | Financial liabilities | Fair value instruments | Non Fair value instruments |
|---|---|---|---|---|---|---|
| | Classification | | | | Fair value | |
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Financial assets: | | | | | | |
| Loans and advances to banks | - | - | 0.5 | - | - | 0.5 |
| Financial investments | 452.2 | - | - | - | - | 452.2 |

**Explanatory notes on disclosure of fair values for financial assets and financial liabilities**

1. *Fair value:*
The fair values of fair value financial instruments as shown in the table above are further analysed into the fair value measurement hierarchy in note 28B below. Non fair value financial instruments are not included in the fair value hierarchy disclosures.

2. *Financial instruments for which fair value approximates carrying value:*
For financial assets and financial liabilities that are not subsequently measured at fair value and that are payable on demand or having a short term maturity, carrying amounts approximate fair values. This applies to loans and advances to banks and customers, deposits by banks, customer accounts and trade receivables and payables.

3. *Financial liabilities:*
Debt securities in issue classified as financial liabilities include certain issues that have been adjusted for fair value hedge accounting (see note 19). The fair value of debt securities in issue that are classified as financial liabilities are calculated for disclosure purposes only using valuation techniques used by the direct parent for its disclosures including an assessment of the Mizuho Securities Group own credit risk.

## B Fair value hierarchy

The Group has allocated its financial instruments into a three-level fair value hierarchy based on the priority of the inputs to the valuation methodology. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorisation is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and financial liabilities recorded on the Balance Sheet are categorised based on the inputs to the valuation techniques as follows:

*Level 1* - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Group has the ability to access.

*Level 2* - Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3* - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

# Notes to the Consolidated and Company Financial Statements (continued)

The following tables show the analysis of the fair values for fair value instruments disclosed in note 28A above categorised in accordance with the hierarchy described above.

| Group<br>2014 | Level 1<br>£ millions | Level 2<br>£ millions | Level 3<br>£ millions | Fair value Total<br>£ millions |
|---|---|---|---|---|
| Reverse repurchase agreements | **-** | **24,398.2** | **-** | **24,398.2** |
| *Debt securities* | 2,223.8 | 1,673.1 | 7.0 | 3,903.9 |
| *Equity securities* | 3.7 | - | - | 3.7 |
| Trading assets | **2,227.5** | **1,673.1** | **7.0** | **3,907.6** |
| *Interest rate* | 0.9 | 68.6 | 41.2 | 110.7 |
| *Foreign currency* | - | 24.1 | 3.1 | 27.2 |
| Trading derivative assets | **0.9** | **92.7** | **44.3** | **137.9** |
| *Interest rate* | - | 0.9 | 4.0 | 4.9 |
| *Equity* | - | - | 3.4 | 3.4 |
| *Foreign currency* | - | - | 58.3 | 58.3 |
| *Credit* | - | - | 0.2 | 0.2 |
| Derivative assets held for risk management | **-** | **0.9** | **65.9** | **66.8** |
| Financial investments | **-** | **-** | **-** | **-** |
| **Financial assets** | **2,228.4** | **26,164.9** | **117.2** | **28,510.5** |
| Repurchase agreements | **-** | **23,465.2** | **-** | **23,465.2** |
| Trading liabilities | **2,147.4** | **453.5** | **-** | **2,600.9** |
| *Interest rate* | 0.6 | 66.6 | 46.3 | 113.5 |
| *Foreign currency* | - | 32.7 | 3.1 | 35.8 |
| *Credit* | - | - | 3.2 | 3.2 |
| Trading derivative liabilities | **0.6** | **99.3** | **52.6** | **152.5** |
| *Interest rate* | - | 0.5 | 3.6 | 4.1 |
| *Equity* | - | - | 0.4 | 0.4 |
| *Foreign currency* | - | - | 24.3 | 24.3 |
| *Credit* | - | 0.2 | 0.1 | 0.3 |
| Derivative liabilities held for risk management | **-** | **0.7** | **28.4** | **29.1** |
| Debt securities in issue | **-** | **-** | **45.3** | **45.3** |
| **Financial liabilities** | **2,148.0** | **24,018.7** | **126.3** | **26,293.0** |

# Notes to the Consolidated and Company Financial Statements (continued)

| Group 2013 | Level 1 £ millions | Level 2 £ millions | Level 3 £ millions | Fair value Total £ millions |
|---|---|---|---|---|
| Reverse repurchase agreements | - | 27,598.4 | - | 27,598.4 |
| *Debt securities* | 2,087.7 | 759.5 | 8.2 | 2,855.4 |
| *Equity securities* | 2.4 | - | - | 2.4 |
| Trading assets | 2,090.1 | 759.5 | 8.2 | 2,857.8 |
| *Interest rate* | 0.6 | 86.2 | 23.4 | 110.2 |
| *Foreign currency* | - | 33.9 | 13.8 | 47.7 |
| Trading derivative assets | 0.6 | 120.1 | 37.2 | 157.9 |
| *Interest rate* | - | 0.6 | 5.6 | 6.2 |
| *Equity* | - | - | 11.4 | 11.4 |
| *Foreign currency* | - | 0.4 | 101.8 | 102.2 |
| *Credit* | - | - | 3.6 | 3.6 |
| Derivative assets held for risk management | - | 1.0 | 122.4 | 123.4 |
| Financial investments | - | 0.9 | 58.5 | 59.4 |
| Financial assets | 2,090.7 | 28,479.9 | 226.3 | 30,796.9 |
| Repurchase agreements | - | 27,233.0 | - | 27,233.0 |
| Trading liabilities | 765.5 | 296.4 | - | 1,061.9 |
| *Interest rate* | 1.0 | 90.0 | 24.5 | 115.5 |
| *Foreign currency* | - | 83.2 | 13.9 | 97.1 |
| *Credit* | - | 0.1 | 1.8 | 1.9 |
| Trading derivative liabilities | 1.0 | 173.3 | 40.2 | 214.5 |
| *Interest rate* | - | 0.3 | 4.9 | 5.2 |
| *Equity* | - | - | 3.3 | 3.3 |
| *Foreign currency* | - | - | 58.9 | 58.9 |
| *Credit* | - | - | 3.6 | 3.6 |
| Derivative liabilities held for risk management | - | 0.3 | 70.7 | 71.0 |
| Debt securities in issue | - | - | 53.9 | 53.9 |
| Financial liabilities | 766.5 | 27,703.0 | 164.8 | 28,634.3 |

## C Methods and valuation techniques used to determine fair values

The methods and valuation techniques used to determine fair values used for financial instruments shown at fair value on the balance sheet are described in more detail below by class of financial instrument.

**Reverse repurchase and repurchase agreements**

The fair value of reverse repurchase and repurchase agreements is determined in accordance with relevant market derived interest rates, which principally vary by currency, maturity and the degree of market demand for collateral which underlies individual contracts.

**Debt securities**

Highly liquid government securities are priced from readily available quoted prices. Less liquid government and other securities are priced using market derived rates for those securities.

Illiquid securities are priced using relevant proxy market data as far as possible, and this data chiefly comprises market rates derived from more liquid securities of that issuer, rates implied from recent transactions in that or proxy securities and rates derived from credit derivative markets.

**Equity securities**

Listed equity securities traded in active markets are valued using exchange prices or dealer price quotations, and positions held in funds are priced based upon fund manager quotations.

**Derivative assets and liabilities**

*Credit derivatives*

Credit derivatives that reference liquid reference assets or issuers are valued using observable interest rates, credit spreads and recovery rates. To the extent that credit spreads are unobservable, these are determined with reference to recent transactions or proxy spreads from relevant debt securities.

*Other derivatives*

Vanilla interest rate and currency derivatives are priced using industry standard models that incorporate observable market interest and currency rates.

Interest rate, currency and equity derivatives that incorporate option related or other more complex features are priced using industry standard and proprietary valuation techniques. These utilise input parameters which include FX rates, interest rates, and equity prices, together with relevant volatility and correlation rates, and other model parameters. Certain derivative transactions executed with other Mizuho Financial Group counterparties have been priced using valuations provided by those counterparties, and those valuations have been based on the techniques described above.

OIS discounting has been applied to the Group's derivative transactions conducted under agreements which provide for collateralisation of credit exposures, taking account of factors such as margin thresholds and the currency of collateral provided.

# Notes to the Consolidated and Company Financial Statements (continued)

*Credit valuation adjustment*

The credit valuation adjustment ("CVA") is the mark to market cost of protection required to hedge credit risk from counterparties in the Group's over the counter ("OTC") derivative and repo portfolio, and depends on expected future exposures, default probability and recovery rate. The calculation takes into account whether collateral or netting arrangements or break clauses are in place.

A CVA approach based on an expected exposure profile is used to adjust the fair value of positive replacement values to reflect counterparty credit risk if necessary. In order to arrive at fair value, credit valuation adjustments are necessary to reflect the credit risk of the counterparty inherent in OTC derivative and repo transactions.

In respect of counterparties, that are regarded as distressed, the adjustment is determined through a more judgemental consideration of the likelihood of recovery with regards to the circumstances of those individual counterparties. Key items taken into consideration include the size of the Group's and third party claims upon the counterparty in comparison to the counterparty's available assets.

**Financial investments**

Financial investments principally comprised an investment in a private equity fund, which was valued based upon regular valuation reports provided by the fund manager.

**Debt securities in issue**

Debt securities in issue are priced using a model that incorporates the valuation of the relevant market rates which drive the calculation of coupon and principal payments, together with an assessment of the Group's own credit spread.

## D Movements in Level 3 financial instruments

Movements in the opening and closing balance of level 3 financial instruments as disclosed in note 28B above are analysed by class of financial instrument in the tables below:

**Group 2014**

| | Opening Balance | Net realised and unrealised gains and losses | Transfers | Purchases | Sales | Settlements | Closing balance | Unrealised gains and losses |
|---|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Debt securities | 8.2 | (1.2) | - | - | - | - | 7.0 | (0.7) |
| **Trading assets** | **8.2** | (1.2) | - | - | - | - | **7.0** | (0.7) |
| Interest rate | 23.4 | 20.2 | - | - | - | (2.4) | 41.2 | 27.0 |
| Foreign currency | 13.8 | (4.2) | - | - | - | (6.5) | 3.1 | (0.5) |
| Credit | | (0.3) | - | - | - | 0.3 | - | - |
| **Trading derivative assets** | **37.2** | 15.7 | - | - | - | (8.6) | **44.3** | 26.5 |
| Interest rate | 5.6 | (0.7) | - | - | - | (0.9) | 4.0 | (1.2) |
| Equity | 11.4 | (9.1) | 0.1 | - | - | 1.0 | 3.4 | (0.4) |
| Foreign currency | 101.8 | (41.3) | (0.1) | - | - | (2.1) | 58.3 | 0.9 |
| Credit | 3.6 | (3.3) | - | - | - | (0.1) | 0.2 | 0.2 |
| **Derivative assets held for risk management** | **122.4** | (54.4) | - | - | - | (2.1) | **65.9** | (0.5) |
| **Financial investments** | **58.5** | (2.5) | - | 1.7 | (55.6) | (2.1) | **-** | - |
| **Financial assets** | **226.3** | (42.4) | - | 1.7 | (55.6) | (12.8) | **117.2** | 25.3 |
| Interest rate | 24.5 | 19.4 | - | - | - | 2.4 | 46.3 | 29.4 |
| Foreign currency | 13.9 | (4.1) | - | - | - | (6.7) | 3.1 | (0.8) |
| Credit | 1.8 | 4.1 | - | - | - | (2.7) | 3.2 | 3.2 |
| **Trading derivative liabilities** | **40.2** | 19.4 | - | - | - | (7.0) | **52.6** | 31.8 |
| Interest rate | 4.9 | (1.8) | 0.4 | - | - | 0.1 | 3.6 | (1.2) |
| Equity | 3.3 | (4.7) | - | - | - | 1.8 | 0.4 | (0.8) |
| Foreign currency | 58.9 | (37.2) | (0.4) | - | - | 3.0 | 24.3 | (27.1) |
| Credit | 3.6 | (3.5) | - | - | - | - | 0.1 | 0.1 |
| **Derivative liabilities held for risk management** | **70.7** | (47.2) | - | - | - | 4.9 | **28.4** | (29.0) |
| **Debt securities in issue** | **53.9** | (8.5) | - | - | - | (0.1) | **45.3** | (5.1) |
| **Financial liabilities** | **164.8** | (36.3) | - | - | - | (2.2) | **126.3** | (2.3) |

Group
2013

| | Opening Balance | Net realised and unrealised gains and losses | Transfers | Purchases | Sales | Settlements | Closing balance | Unrealised gains and losses |
|---|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Debt securities | 60.3 | (1.3) | - | 49.0 | (99.8) | - | 8.2 | (0.2) |
| Purchased life contracts | 78.5 | 22.0 | - | - | (82.6) | (17.9) | - | - |
| Trading assets | 138.8 | 20.7 | - | 49.0 | (182.4) | (17.9) | 8.2 | (0.2) |
| Interest rate | 5.7 | 14.8 | - | - | - | 2.9 | 23.4 | 18.8 |
| Foreign currency | 24.1 | (0.8) | - | - | - | (9.5) | 13.8 | 0.8 |
| Credit | 0.4 | (0.9) | - | - | - | 0.5 | - | - |
| Trading derivative assets | 30.2 | 13.1 | - | - | - | (6.1) | 37.2 | 19.6 |
| Interest rate | 7.0 | (0.7) | 0.2 | - | - | (0.9) | 5.6 | (1.3) |
| Equity | 51.1 | (12.3) | - | - | - | (27.4) | 11.4 | (11.9) |
| Foreign currency | 159.4 | (55.7) | - | - | - | (1.9) | 101.8 | (51.5) |
| Credit | 1.7 | 2.4 | 0.3 | - | - | (0.8) | 3.6 | 3.3 |
| Derivative assets held for risk management | 219.2 | (66.3) | 0.5 | - | - | (31.0) | 122.4 | (61.4) |
| Financial investments | 51.4 | 2.9 | - | 4.2 | - | - | 58.5 | 2.9 |
| Financial assets | 439.6 | (29.6) | 0.5 | 53.2 | (182.4) | (55.0) | 226.3 | (39.1) |
| Deposits by banks | - | - | - | - | - | - | - | - |
| Interest rate | 5.9 | 18.2 | - | - | - | 0.4 | 24.5 | 19.9 |
| Foreign currency | 24.1 | (0.8) | - | - | - | (9.4) | 13.9 | 0.8 |
| Credit | 2.8 | (0.1) | - | - | - | (0.9) | 1.8 | 0.1 |
| Trading derivative liabilities | 32.8 | 17.3 | - | - | - | (9.9) | 40.2 | 20.8 |
| Interest rate | 6.9 | (2.4) | 0.3 | - | - | 0.1 | 4.9 | (2.0) |
| Equity | 43.0 | (13.3) | - | - | - | (26.4) | 3.3 | (12.7) |
| Foreign currency | 131.1 | (70.7) | - | - | - | (1.5) | 58.9 | (69.0) |
| Credit | 0.7 | 2.3 | 0.3 | - | - | 0.3 | 3.6 | 3.3 |
| Derivative liabilities held for risk management | 181.7 | (84.1) | 0.6 | - | - | (27.5) | 70.7 | (80.4) |
| Debt securities in issue | 51.3 | (4.8) | 7.8 | - | - | (0.4) | 53.9 | 5.0 |
| Financial liabilities | 265.8 | (71.6) | 8.4 | - | - | (37.8) | 164.8 | (54.6) |

**Explanatory notes on movements in level 3 financial instruments**

*1. Net realised gains and losses:*
Gains and losses for Level 3 assets and liabilities within the reconciliation table may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3).

*2. Transfers:*
Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in and out of the Level 3 category as of the beginning of the reporting period in which the reclassifications occur. There were transfers into Level 3 from Level 2 in respect of derivative transactions and Debt Securities in Issue due to lack of observable market pricing.

*3. Unrealised gains and losses:*
Unrealised gains and losses represent unrealised profit and loss movements for the financial period for level 3 financial instruments held at the balance sheet date.

## E Level 3 financial instruments – sensitivity analysis

### Group

| | **2014 Level 3 £ millions** | **2014 Sensitivity £ millions** | 2013 Level 3 £ millions | 2013 Sensitivity £ millions |
|---|---|---|---|---|
| Debt securities | 7.0 | - | 8.2 | - |
| **Trading assets** | **7.0** | - | 8.2 | - |
| Trading derivative assets | 44.3 | 2.2 | 37.2 | 0.4 |
| Derivative assets held for risk management | 65.9 | - | 122.4 | - |
| Financial investments | - | - | 58.5 | 2.9 |
| **Financial assets** | **117.2** | 2.2 | 226.3 | 3.3 |
| Trading derivative liabilities | 52.6 | 2.4 | 40.2 | 0.4 |
| Derivative liabilities held for risk management | 28.4 | - | 70.7 | - |
| Debt securities in issue | 45.3 | 0.4 | 53.9 | 0.6 |
| **Financial liabilities** | **126.3** | 2.8 | 164.8 | 1.0 |

**Explanatory notes on level 3 financial instruments sensitivity analysis**

*1. Trading assets - Debt securities:*
The principal valuation sensitivity is near nil as the debt securities are distressed.

*2. Trading derivative assets / liabilities:*
The trading derivatives balance sheet materially comprises convertible bond option positions, which are traded on a back to back basis. These instruments are priced on an intrinsic value basis. The intrinsic value model does not account for the time value of future cash flows or the volatility of the price of the underlying convertible bonds. The effect of using reasonably possible alternative assumptions, which account for these factors, had the impact of adjusting the fair value by zero to 10 percent.

*3. Financial investments:*
The major valuation sensitivity related to the Group's financial investments concerned the size of any required adjustments to reflect potential liquidity premiums required by investors. The sensitivity valuation impact included the provision of additional liquidity premiums of 5% of investment carrying value.

*4. Debt securities in issue:*
The impact of reducing the credit spread used to value the Group's debt securities in issue, which are carried at fair value, by 10 basis points is £0.4 million.

*5. Offsetting items:*
Where derivative assets and liabilities that have been included as level 3 financial instruments bear mutually offsetting market risks, or hedge or offset the market risk arising from the Group's debt securities in issue, the sensitivity of these instruments to valuation assumptions has not been disclosed, as changing these assumptions will not impact the Group's profit and loss.

## F Significant transfers between level 1 and level 2 financial instruments

| | **2014 Transfers £ millions** | 2013 Transfers £ millions |
|---|---|---|
| **From level 1 to level 2:** | | |
| Trading assets – debt securities | - | 1.3 |
| Trading liabilities | - | 4.0 |

**Explanatory notes on significant transfers between level 1 and level 2 financial instruments**

1. The above financial instruments were transferred from level 1 to level 2 as certain corporate bonds have been reclassified from level 1 to level 2. There were no significant transfers from level 2 to level 1 during the financial year. The amounts disclosed above are the carrying values at balance sheet date.

## 29. RISK MANAGEMENT

This note presents information on the Group's exposure to financial and other risks and how it manages those risks. The Group has exposure to various risks from its use of financial instruments, including market risk, credit risk and liquidity risk. Market risk includes foreign exchange, interest rate, credit spread, equity price and equity volatility risk. This note also presents information on how the Group manages operational risk, legal risk and its regulatory capital requirements.

## A Risk management framework

The Group has established a comprehensive framework for managing financial and other operational risks which is evolving with its business activities in response to developments in markets and products.

The Group has a Risk Management Committee chaired by the Chief Risk Officer, who advises the Executive Committee on risk methodologies and limits, for market, credit, operational and liquidity risk and monitors compliance with these limits.

The Risk Management Committee is also attended by the Chief Financial Officer, the Head of Product Control, the Head of Credit Risk Management & Strategic Risk, the Head of Market Risk and Methodology, the Head of Operational Risk, the Head of Stress and Structural Balance Sheet and representatives of the front and back office.

# Notes to the Consolidated and Company Financial Statements (continued)

The Board Risk Committee (which is a sub-committee of the Board) is chaired by an independent Non-Executive Director. This committee reviews all risks at Group level and ensures that risk is looked at in a holistic way across the firm. This committee focuses on top risks and other key items and its mandate is to consider all the risk items arising from the sub-committees of the Executive Committee, including the Risk Management Committee.

## B Market Risk

## Control environment

Market risk is the risk that changes in interest rates, foreign exchange rates, credit spreads, equity prices and other rates, prices, volatilities, correlations or other market conditions, such as liquidity, will have an adverse impact on the Group's financial condition or results. Market risk arises from both the Group's trading and non trading activities.

### Principal market risks

The principal market risks to which the Group is exposed are interest rate risk, credit spread risk and equity price and equity volatility risks. The Group's fixed income sales and trading business is the primary source of interest rate and credit spread risk in the Group's trading portfolios. These include trading in debt securities and related derivative hedges. The Group's equity price and equity volatility risks arise from its equity sales and trading business through trading in equities and convertible bonds.

Risk Management is responsible for monitoring compliance with all market risk limits established by the Risk Management Committee.  Management of all market risks is the responsibility of the individual business units.

### Risk analysis – trading financial instruments

The Group measures and manages the market risk in its trading portfolios through position and sensitivity limits, as well as profit and loss and VaR limits, and stress testing triggers. These limits are approved by the Risk Management Committee and reviewed by the Executive Committee. In addition, the Group has total VaR and Market Risk and Credit Risk Capital limits set by Mizuho Securities Co., Ltd.

### *Stress Testing*

Stress testing is an essential component of the tools used for managing risk within the organisation and provide information regarding risks borne by MSUKH, capturing key risks across Credit, Market, Operational and Liquidity Risk in a Holistic manner . This assists senior management in understanding the potential impact of stressed events on its business strategy and its available capital resources.

Stress scenarios are forward looking and address a wide range of severities and time horizons, taking into account correlation and diversification across both risks and asset classes. Stress scenarios also address concentration and wrong-way risk. A broad set of severe but plausible scenarios and extreme reverse stress scenarios are used from MSUKH specific events to market wide downturns.

The stress tests have been designed to contain detailed scenarios which assess all of the material risks of the Group, including risks not assessed in the current VaR framework.

# Notes to the Consolidated and Company Financial Statements (continued)

The Group's stress testing framework has evolved from examining simple, short-term market related losses, to encompass more complex scenarios that assess combinations of risks and examine impacts over extended holding periods to include the impacts of limited market liquidity on more complex products and various stress events.

Management triggers on the Group's stress testing results are set by the Risk Management Committee, and additional triggers are also set at a departmental level by the Risk Management Committee. The stress testing results are presented to the Risk Management Committee and Executive Committee on a weekly basis.

Stress results are calculated on a daily basis for 8 different scenarios. The scenarios all apply severe, but not unlikely stress, shocks to different risk factors for the MSUKH portfolio. New stress shocks and scenarios have been implemented in June 2013. Largest Market Risk stress exposure on average for the year was to the Global Financial Crisis scenario, with exposure of £33m, ranging between £19m and £48m during the year. The Bond sell-off stress scenario showed a stress-loss of £29m at the year ended 31st March 2014.

***Value at Risk***

VaR is a statistical measure that produces an estimate of the potential decrease in the market value of a portfolio over a specified time horizon at a given confidence level under normal market conditions.

The Group's VaR is calculated on a daily basis and assumes a time horizon of one day and a confidence level of 99 per cent.

The Group uses several VaR models across different segments of its business:

- For most interest rate and spread risk factors, a full revaluation non-linear VaR model which employs Monte-Carlo simulations derived from a Variance-Covariance ('VcV') matrix is used;

- Equity VaR is calculated using a sensitivity based method for non-JPY positions and by a daily Global Equity VaR process run by Mizuho Securities for JPY denominated equity risk positions calculated by Mizuho Securities. The Global Equity VaR process makes use of Barra's JPE3 model, Barra's primary Japanese equity model; and

- For its Foreign Exchange ('FX') VaR and Futures Basis VaR, the Group uses a linear variance / covariance model, and for non-JPY equity specific risk it uses a single factor model for each specific stock.

VaR Monte-Carlo simulation assumes that changes in the risk parameters have either a normal or log-normal distribution and the parameters of this distribution (i.e. standard deviations and correlations) are obtained from the Mizuho Financial Group. The method is limited by the relevance of the historical data used.

The Group's VaR should be interpreted in light of the limitations of VaR, which include:

- Risk factors which are not fully addressed by the VaR methodology. These are addressed either by sensitivity or position limits or by stress testing scenarios;

- Changes in risk factors may not follow the assumed distribution. In particular, the normal distribution assumption may underestimate the probability of large market moves;

- Historical data may not be a good estimate of the potential changes to risk factors observed in the future and any modifications to that data may not be adequate; and

- VaR based on a 99 per cent confidence level does not reflect potential losses beyond that percentile.

VaR should not be viewed as a guarantee of the maximum daily loss that can be experienced by the Group on its portfolio. Nor can the Group be certain that losses will not exceed the VaR more frequently than once in one hundred trading days. Back-testing is performed between the Group's total daily VaR and clean daily profit and loss.

A summary of the daily VaR and risk statistics for the trading portfolios, based on a 99 per cent confidence level and a one day time horizon, segregated by type of market risk, is presented below:

| **Group** | **2014** | Average 2014 | Maximum 2014 | Minimum 2014 |
|---|---|---|---|---|
| **VaR Risk Factor** | **£ thousands** | £ thousands | £ thousands | £ thousands |
| General interest rate | 645 | 743 | 1,896 | 211 |
| Currency basis | - | - | - | - |
| **Interest Rate** (1) | **645** | **743** | **1,896** | **211** |
| **Futures Basis** | **210** | **198** | **555** | **18** |
| **Credit Spread** | **1,057** | **780** | **1,327** | **228** |
| Equity Index | 28 | 54 | 1,805 | - |
| Equity Specific | 22 | 52 | 362 | - |
| Equity Volatility | 15 | 39 | 109 | - |
| **Equity** (1) | **49** | **95** | **1,842** | **-** |
| **FX Risk** | **59** | **31** | **78** | **4** |
| **Total VaR** (1) | **1,628** | **1,386** | **3,379** | **679** |

| Group<br>VaR Risk Factor | 2013<br>£ thousands | Average 2013<br>£ thousands | Maximum 2013<br>£ thousands | Minimum 2013<br>£ thousands |
|---|---|---|---|---|
| General interest rate | 527 | 373 | 1,542 | 117 |
| Currency basis | - | 43 | 210 | - |
| Interest Rate (1) | 527 | 379 | 1,549 | 128 |
| Futures Basis | 74 | 398 | 1,378 | 21 |
| Credit Spread | 607 | 488 | 917 | 125 |
| Equity Index | 34 | 71 | 199 | 18 |
| Equity Specific | 42 | 60 | 356 | 15 |
| Equity Volatility | 74 | 151 | 386 | 35 |
| Equity (1) | 87 | 167 | 453 | 37 |
| FX Risk | 40 | 28 | 90 | 5 |
| Total VaR (1) | 973 | 947 | 1,854 | 393 |

**Explanatory note on VaR Risk Factor**

**1.** The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.

## Sensitivity analysis – non trading financial instruments

*Currency risk sensitivity*

The Group's foreign currency loans and advances to banks and customers and investments are funded in matched currencies, and in addition funding raised from debt security issuance is also used to support trading activities on a matched currency basis. Foreign currency derivatives are used when required to swap between relevant asset and liability currencies. Consequently no significant currency exposure arises on non trading book activities.

*Interest rate risk sensitivity*

The Group's non trading 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.

The tables below summarise the interest rate sensitivity gaps within the Group's non trading book. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing or the maturity date.

# Notes to the Consolidated and Company Financial Statements (continued)

| Group 2014 | Less than 3 months | 3-6 months | 6-12 months | 1-5 years | Over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Loans and advances to banks | 98.7 | - | - | - | - | - | 98.7 |
| Equity shares | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | 217.8 | 217.8 |
| Prepayments and accrued income | - | - | - | - | - | 46.2 | 46.2 |
| **Assets** | 98.7 | - | - | - | - | 264.0 | 362.7 |
| Deposits by banks | 323.9 | 254.9 | 124.0 | 41.3 | - | - | 744.1 |
| Customer accounts | 275.8 | - | - | - | - | - | 275.8 |
| Debt securities in issue | 396.1 | 237.9 | 218.1 | 114.8 | 9.7 | - | 976.6 |
| Other liabilities | - | - | - | - | - | 95.5 | 95.5 |
| Accruals and deferred income | - | - | - | - | - | 69.6 | 69.6 |
| Defined Benefit Pension Liability | - | - | - | - | - | 2.3 | 2.3 |
| Shareholders' funds | - | - | - | - | - | 458.0 | 458.0 |
| **Liabilities and equity** | 995.8 | 492.8 | 342.1 | 156.1 | 9.7 | 625.4 | 2,621.9 |
| Off balance sheet items [1] | (448.6) | 114.1 | 216.2 | 108.6 | 9.7 | - | - |
| **Interest rate sensitivity gap** | (1,345.7) | (378.7) | (125.9) | (47.5) | - | (361.4) | (2,259.2) |
| **Cumulative gap** | (1,345.7) | (1,724.4) | (1,850.3) | (1,897.8) | (1,897.8) | (2,259.2) | (2,259.2) |

| Company 2014 | Less than 3 months | 3-6 months | 6-12 months | 1-5 years | Over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Loans and advances to banks | 0.2 | - | - | - | - | - | 0.2 |
| Loans and advances to customers | 0.5 | - | - | - | - | - | 0.5 |
| Equity shares | - | - | - | - | - | 497.2 | 497.2 |
| **Assets** | 0.7 | - | - | - | - | 497.2 | 497.9 |
| Shareholders' funds | - | - | - | - | - | 497.9 | 497.9 |
| **Liabilities and equity** | - | - | - | - | - | 497.9 | 497.9 |
| Off balance sheet items | - | - | - | - | - | - | - |
| **Interest rate sensitivity gap** | 0.7 | - | - | - | - | (0.7) | - |
| **Cumulative gap** | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | - | - |

## Notes to the Consolidated and Company Financial Statements (continued)

| Group 2013 | Less than 3 months | 3-6 months | 6-12 months | 1-5 years | Over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Loans and advances to banks | 46.4 | - | - | - | - | - | 46.4 |
| Equity shares | - | - | - | - | - | 59.4 | 59.4 |
| Other assets | - | - | - | - | - | 160.3 | 160.3 |
| Prepayments and accrued income | - | - | - | - | - | 52.0 | 52.0 |
| Assets | 46.4 | - | - | - | - | 271.7 | 318.1 |
| Deposits by banks | 724.0 | - | - | - | - | - | 724.0 |
| Customer accounts | 292.8 | - | - | - | - | - | 292.8 |
| Debt securities in issue | 429.5 | 259.6 | 134.2 | 29.7 | 13.8 | - | 866.8 |
| Other liabilities | - | - | - | - | - | 86.8 | 86.8 |
| Accruals and deferred income | - | - | - | - | - | 52.7 | 52.7 |
| Shareholders’ funds | - | - | - | - | - | 443.9 | 443.9 |
| Liabilities and equity | 1,446.3 | 259.6 | 134.2 | 29.7 | 13.8 | 583.4 | 2,467.0 |
| Off balance sheet items (1) | (421.2) | 251.0 | 134.1 | 22.3 | 13.8 | - | - |
| Interest rate sensitivity gap | (1,821.1) | (8.6) | (0.1) | (7.4) | - | (311.7) | (2,148.9) |
| Cumulative gap | (1,821.1) | (1,829.7) | (1,829.8) | (1,837.2) | (1,837.2) | (2,148.9) | (2,148.9) |

| Company 2013 | Less than 3 months | 3-6 months | 6-12 months | 1-5 years | Over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Loans and advances to banks | 0.5 | - | - | - | - | - | 0.5 |
| Equity shares | - | - | - | - | - | 452.2 | 452.2 |
| Assets | 0.5 | - | - | - | - | 452.2 | 452.7 |
| Shareholders’ funds | - | - | - | - | - | 452.7 | 452.7 |
| Liabilities and equity | - | - | - | - | - | 452.7 | 452.7 |
| Off balance sheet items | - | - | - | - | - | - | - |
| Interest rate sensitivity gap | 0.5 | - | - | - | - | (0.5) | - |
| Cumulative gap | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | - | - |

**Explanatory note on interest rate sensitivity**

1. *Off balance sheet items:*

Where interest rate swaps are hedging debt securities in issue with greater than three months' maturity, the notional of these swaps has been disclosed as an off balance sheet item banded with reference to its next floating rate reset date, to reflect the true sensitivity of the Group to interest rate risk on these structures.

## C Credit Risk

### Control environment

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

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

Risk Management analyses counterparty credit exposures to assess both current and potential credit risk. Current credit exposure represents the replacement cost of those instruments which have a positive carrying value. Potential credit exposures are based on estimates of future replacement costs over the remaining life of the instrument.

Within Risk Management, prescribed levels of authority have been established for approval of standard transactions. Authority levels are governed by the counterparty's credit quality as well as the nature and potential risk of the transactions. Proposed transactions that exceed these prescribed levels must be approved by the Board of Directors.

### Maximum exposure and effects of collateral and other credit enhancements

The maximum exposure to credit risk for financial assets, including derivatives, recognised on the balance sheet is typically the carrying amount and is represented on the table below which analyses maximum exposure to credit risk by asset class, representing credit risk arising from counterparty default.

# Notes to the Consolidated and Company Financial Statements (continued)

The maximum exposure is shown gross of the use of master netting and collateral agreements unless such credit enhancements meet the offsetting requirements as set out in note 2A.

| **Group 2014** | **Maximum exposure £ millions** | **Collateral £ millions** | **Netting and set-off £ millions** | **Other items £ millions** | **Net exposure to credit risk £ millions** |
|---|---|---|---|---|---|
| **On-balance sheet:** | | | | | |
| Reverse repurchase agreements | 24,398.2 | (24,223.4) | (102.9) | - | 71.9 |
| Debt securities | 3,903.9 | - | - | - | 3,903.9 |
| Derivative assets | 204.7 | (57.8) | (66.0) | (60.2) | 20.7 |
| Loans and advances to banks | 98.7 | (9.7) | - | - | 89.0 |
| Trade receivables | 188.4 | (21.4) | (36.9) | - | 130.1 |
| **Total on-balance sheet** | 28,793.9 | (24,312.3) | (205.8) | (60.2) | 4,215.6 |
| **Off-balance sheet:** | | | | | |
| Credit lines and other commitments | - | - | - | - | - |
| **Total off-balance sheet** | - | - | - | - | - |
| **Total** | 28,793.9 | (24,312.3) | (205.8) | (60.2) | 4,215.6 |

| **Company 2014** | **Maximum exposure £ millions** | **Collateral £ millions** | **Netting and set-off £ millions** | **Other items £ millions** | **Net exposure to credit risk £ millions** |
|---|---|---|---|---|---|
| Loans and advances to banks | 0.2 | - | - | - | 0.2 |
| Loans and advances to customers | 0.5 | - | - | - | 0.5 |
| | 0.7 | - | - | - | 0.7 |

| Group 2013 | Maximum exposure £ millions | Collateral £ millions | Netting and set-off £ millions | Other items £ millions | Net exposure to credit risk £ millions |
|---|---|---|---|---|---|
| On-balance sheet: | | | | | |
| Reverse repurchase agreements | 27,598.4 | (27,421.7) | (8.1) | - | 168.6 |
| Debt securities | 2,855.4 | - | - | (11.9) | 2,843.5 |
| Derivative assets | 281.3 | (8.3) | (124.5) | (113.7) | 34.8 |
| Loans and advances to banks | 46.4 | (9.7) | - | - | 36.7 |
| Trade receivables | 143.2 | (41.2) | (73.1) | - | 28.9 |
| Total on-balance sheet | 30,924.7 | (27,480.9) | (205.7) | (125.6) | 3,112.5 |

## Notes to the Consolidated and Company Financial Statements (continued)

| | Maximum exposure | Collateral | Netting and set-off | Other items | Net exposure to credit risk |
|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions |
| Off-balance sheet: | | | | | |
| Credit lines and other commitments | 11.2 | - | - | - | 11.2 |
| Total off-balance sheet | 11.2 | - | - | - | 11.2 |
| Total | 30,935.9 | (27,480.9) | (205.7) | (125.6) | 3,123.7 |

| Company 2013 | Maximum exposure | Collateral | Netting and set-off | Other items | Net exposure to credit risk |
|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions |
| Loans and advances to banks | 0.5 | - | - | - | 0.5 |

**Explanatory notes on collateral and other enhancements obtained**

1. *Collateral received: Collateral received in the form of securities or cash in respect of reverse repurchase transactions, derivative transactions under relevant credit support agreements, and from a related party under a collateralised funding arrangement is shown above within Collateral.*

2. *Netting and set-off: The impact of netting and set-off under legally enforceable master netting agreements is disclosed within Netting and set-off above, and is calculated after taking account of the effect of collateral described above.*

3. *Other items: The impact of purchased credit protection in respect of debt securities (in derivative or cash form) is disclosed within Other items and is capped at the notional value of the protection. Embedded derivative assets, which have been separated from host securities in issue and reflected within the Maximum exposure of Derivative assets, have been offset within Other items, as these assets bear no exposure to the creditworthiness of third parties.*

### *Concentrations of exposure to credit risk*

Concentrations of exposure to credit risk exist when a number of counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly impacted by changes in economic, political or other conditions. Significant concentrations of exposure to credit risk are discussed below.

### *Reverse repurchase agreements*

The Group’s repo trading activities give rise to counterparty risk exposures, which as noted above are mitigated through the execution of netting agreements and the agreement of margin requirements; such that net counterparty exposures are maintained at a low level.

The largest counterparty exposure as at 31st March 2014, excluding central counterparties, totalled £14 million (2013: £25 million), and no remaining exposures exceeded £8 million (2013: £7 million).

### *Debt securities*

The Group's debt trading activities give rise to issuer risk exposures in respect of debt securities held for trading total £3,904 million (2013: £2,855 million). The Group's holdings of debt securities are diversified by issuer, geographic region and industry sector. A summary of the most significant geographic exposures by class of debt is given as follows:

| **2014** | **Government** | **Other public sector** | **Other** | **Total** |
|---|---|---|---|---|
| | **£ millions** | **£ millions** | **£ millions** | **£ millions** |
| France | 665.6 | 6.1 | 164.5 | 836.2 |
| Germany | 484.6 | 21.6 | 147.2 | 653.4 |
| Italy | 593.3 | - | 56.0 | 649.3 |
| US | 164.3 | - | 64.8 | 229.1 |
| Japan | 159.3 | 11.0 | 44.7 | 215.0 |
| UK | 20.9 | - | 126.5 | 147.4 |
| Other | 398.9 | 72.3 | 702.3 | 1,173.5 |
| **Total** | 2,486.9 | 111.0 | 1,306.0 | 3,903.9 |

| 2013 | Government | Other public sector | Other | Total |
|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions |
| France | 340.1 | 0.1 | 107.5 | 447.7 |
| Germany | 1,055.0 | - | 168.0 | 1,223.0 |
| Italy | 43.7 | - | 12.9 | 56.6 |
| US | 244.1 | - | 36.1 | 280.2 |
| Japan | - | 89.4 | 53.9 | 143.3 |
| UK | 151.9 | - | 104.3 | 256.2 |
| Other | 130.0 | 18.4 | 300.0 | 448.4 |
| Total | 1,964.8 | 107.9 | 782.7 | 2,855.4 |

### *Derivatives*

The Group's derivative trading activities give rise to counterparty risk exposures which as noted above are principally mitigated through the execution of netting agreements and the agreement of margin requirements. The largest such counterparty exposure as at 31st March 2014 totalled £4.7 million (2013: £17.7 million). Counterparty exposure totalled £20.7 million as at 31st March 2014 (2013: £34.8 million), and all exposures greater than £1 million were against investment grade-rated financial institutions, clearing houses or other Mizuho Financial Group subsidiaries. There have been no defaults historically against these counterparties.

## Notes to the Consolidated and Company Financial Statements (continued)

### Credit quality

The following table represents an analysis by credit quality rating designation of collateral received in respect of reverse repurchase agreements, debt and similar securities and loans and advances, based on internal credit ratings or their equivalent. The internal credit ratings are derived from S&P, Moody's and Fitch. For Japanese securities, the ratings are derived from Japanese rating agencies. For securities where external ratings are not available, the rating is internally calculated by the Group.

***Reverse repurchase agreements***

| **2014** | **Government £ millions** | **Bank £ millions** | **Corporate £ millions** | **Total £ millions** |
|---|---|---|---|---|
| AAA | 5,870.9 | 822.3 | 229.3 | 6,922.5 |
| AA- to AA+ | 13,791.1 | 390.4 | 599.8 | 14,781.3 |
| A- to A+ | 149.4 | 339.5 | 537.2 | 1,026.1 |
| BBB+ to BBB- | 1,298.3 | 33.3 | 294.7 | 1,626.3 |
| BB+ to C | 10.8 | 3.8 | 27.4 | 42.0 |
| **Total** | 21,120.5 | 1,589.3 | 1,688.4 | 24,398.2 |

| **2013** | **Government £ millions** | **Bank £ millions** | **Corporate £ millions** | **Total £ millions** |
|---|---|---|---|---|
| AAA | 7,548.7 | 1,420.7 | 287.3 | 9,256.7 |
| AA- to AA+ | 15,354.3 | 723.8 | 614.4 | 16,692.5 |
| A- to A+ | 321.7 | 330.4 | 718.4 | 1,370.5 |
| BBB+ to BBB- | 123.6 | 10.8 | 120.7 | 255.1 |
| BB+ to C | - | - | 23.6 | 23.6 |
| **Total** | 23,348.3 | 2,485.7 | 1,764.4 | 27,598.4 |

***Debt securities and Loans and advances***

| **Group** | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Debt securities £ millions** | **Loans and advances £ millions** | Debt securities £ millions | Loans and advances £ millions |
| AAA | **981.3** | **-** | 1,272.8 | - |
| AA- to AA+ | **1,552.4** | **42.0** | 943.2 | 13.0 |
| A- to A+ | **286.2** | **56.5** | 246.5 | 25.2 |
| BBB+ to BBB- | **970.1** | **-** | 340.3 | - |
| BB+ to C | **102.4** | **-** | 52.6 | - |
| Unrated | **11.5** | **0.2** | - | 8.2 |
| | **3,903.9** | **98.7** | 2,855.4 | 46.4 |

| **Company** | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Debt securities £ millions** | **Loans and advances £ millions** | Debt securities £ millions | Loans and advances £ millions |
| A- to A+ | **-** | **0.7** | - | 0.5 |
| | **-** | **0.7** | - | 0.5 |

## D Liquidity Risk

Liquidity Risk is the risk of the Group not being able to comply with its payment obligations as they fall due or raising funds to meet commitments without incurring unacceptable losses. MSUKH considers its current liquidity risk profile to be relatively low risk as it maintains a funding profile requirement that is largely short dated and matched. In addition the Group manages liquidity risk against a prudent liquidity risk appetite profile which references a suite of severe but plausible liquidity stress scenarios and includes reverse stresses.

The Group has in place robust processes and systems that enable continuous review of the firm's liquidity position.

**Control environment**

The Group manages liquidity risk in accordance to the requirements laid out by the Prudential Regulation Authority ('PRA') in BIPRU 12. The Group maintains liquidity resources sufficient for it to maintain self sufficiency under the severe funding scenarios laid out in BIPRU 12. The Group documents its approach to liquidity risk management and its assessment of the appropriate level of liquidity resources consistent with its risk appetite within its annual Individual Liquidity Adequacy Assessment, as submitted to the PRA.

Liquidity mismatches and stress results are monitored and reported on a daily basis, and are formally reviewed at the weekly meeting of the Risk Management Committee. Liquidity is actively managed through dealings in the major wholesale money markets and repo markets, thereby enabling ready access to funding. The stress testing results are also periodically reviewed by the Asset and Liabilities Committee, Executive Committee and the Board Risk Committee. Results indicate even under adverse scenarios, the Group would have sufficient resources to meet its funding requirements.

# Notes to the Consolidated and Company Financial Statements (continued)

## Residual contractual maturity of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities:

| **Group 2014** | Carrying Amount | Contractual Amount | Repayable on demand | Less than three months | 3-6 months | 6-12 months | 1-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| **Non derivatives:** | | | | | | | | |
| Deposits by banks | 744.1 | 744.1 | 0.6 | 323.3 | 254.9 | 124.0 | 41.3 | - |
| Customer accounts | 275.8 | 275.8 | - | 275.8 | - | - | - | - |
| Repurchase agreements | 23,465.2 | 23,465.2 | 234.9 | 19,847.9 | 2,563.8 | 818.6 | - | - |
| Trading liabilities | 2,600.9 | 2,419.3 | 608.9 | 1,810.1 | 0.3 | - | - | - |
| Debt securities in issue | 976.6 | 938.7 | - | 125.9 | 37.5 | 204.3 | 259.7 | 311.3 |
| Trade payables | 88.2 | 88.2 | - | 88.2 | - | - | - | - |
| | | 27,931.3 | 844.4 | 22,471.2 | 2,856.5 | 1,146.9 | 301.0 | 311.3 |

| Group 2013 | Carrying Amount | Contractual Amount | Repayable on demand | Less than three months | 3-6 months | 6-12 months | 1-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|---|
| | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions | £ millions |
| Non derivatives: | | | | | | | | |
| Deposits by banks | 724.0 | 724.0 | - | 714.3 | 9.7 | - | - | - |
| Customer accounts | 292.8 | 292.8 | - | 292.8 | - | | - | - |
| Repurchase agreements | 27,233.0 | 27,233.4 | 207.0 | 25,519.1 | 792.7 | 714.6 | - | - |
| Trading liabilities | 1,061.9 | 984.7 | 319.3 | 665.4 | - | - | - | - |
| Debt securities in issue | 866.8 | 806.1 | - | 23.7 | 36.0 | 128.8 | 175.7 | 441.9 |
| Trade payables | 69.2 | 69.2 | - | 69.2 | - | - | - | - |
| | | 30,110.2 | 526.3 | 27,284.5 | 838.4 | 843.4 | 175.7 | 441.9 |

**Explanatory notes on residual contractual maturity of financial liabilities**

1. *Trading liabilities:*
   Trading financial liabilities principally comprise short positions in debt securities. The contractual maturity of trading short positions has been presented based upon the maturity of the related reverse repurchase contracts through which the Group has borrowed securities to facilitate the trading short positions.

2. *Derivative liabilities:*
   The residual contractual maturity of derivative liabilities has not been included, as substantially all of the Group's derivative transactions are either entered into on a back to back basis with offsetting cash flows, or are executed as market risk hedges of the Group's debt issuance, and thus have no material impact on the net maturity profile.

# Notes to the Consolidated and Company Financial Statements (continued)

## E Operational Risk

Operational risk is defined as direct or indirect financial or reputational impacts that result from inadequate or failed internal processes, people and systems or from external events.

**Control environment**

The Group manages exposure to operational risk via the implementation of an Operational Risk Framework overseen and managed by Operational Risk Management, which is in turn part of an Enterprise Risk Management structure. The framework has four main component parts: Risk identification, Assessment & Measurement, Control and Monitoring and Capital Management.

Assessment of identified risks and the key mitigating controls is an important part of the Framework; key controls are assessed regularly for both design and operational effectiveness and weaknesses identified and remediated.

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

## F Legal Risk

Legal risk is the risk that the business activities of the Group have unintended or unexpected legal consequences and includes risk arising from inadequate documentation, legal or regulatory incapacity, insufficient authority of a counterparty and uncertainty as to the validity or enforceability of a contract. The Group identifies and manages legal risk through effective use of its legal services department, which is independent of the front office, and external legal advisors.

## G Regulatory capital management

The primary objectives of the Group’s capital management process is to ensure that the regulated Group entities comply with all externally imposed capital requirements and maintain a strong capital position in order to support the Group’s business.

The Group maintains an effectively managed capital base to cover risks inherent in the business. Since the beginning of January 2014 the Capital Requirements Directive and the Capital Requirements Regulation, jointly CRD IV have been the relevant supervisory statements on the prudential requirements for credit institutions and investment firms within the EU. Accordingly the Group’s capital adequacy is monitored under the requirements of CRD IV as implemented by the Prudential Regulation Authority.

The Group also performs regular capital projections that include scenario analysis, which are reviewed by the senior management of the Group and are consistent with requirements under Basel Pillar II.

The methodology used by the Group for calculating capital is based upon the standardised approach defined within the sourcebooks of the PRA for market risk and counterparty risk and the Basic Indicator Approach for Operational Risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

During this year the Group received a core Tier 1 capital injection from its parent totalling £45 million.

The Group's consolidated regulatory capital is analysed below:

| | **2014** | 2013 |
|---|---|---|
| | **£ millions** | £ millions |
| Tier 1 Capital | **456.9** | 443.6 |
| Tier 2 Capital | **-** | - |
| Deductions | **-** | - |
| **Total capital resources** | **456.9** | 443.6 |

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings and current year profit and losses. Certain adjustments are made to UK GAAP based results and reserves as prescribed by the Prudential Regulation Authority.

Return on assets (Net profit or loss divided by total balance sheet) is (0.10%).

## H Special Purpose Companies

## Control environment

The Group enters into transactions with customers in the ordinary course of business which involve the establishment of special purpose companies. Certain special purpose companies have been consolidated on the Group's balance sheet (see note 31).

Where the transactions involve the use of special purpose companies arranged by the Group, these special purpose companies are authorised upon establishment to ensure appropriate purpose and governance. The activities of the special purpose companies sponsored or administered by the Group are closely monitored by senior management. The Group's involvement with the most significant types of special purpose companies and related transactions is described below.

***Asset Repackaging***

The Group uses special purpose companies to repackage debt instruments, including convertible bonds, to provide investors with tailored interest rate or equity exposures. The Group acts as arranger for such issues, and may also intermediate derivative transactions between special purpose companies and end investors in certain circumstances.

***Securitisation***

The Group has in the past used special purpose companies to securitise primary and derivative financial instruments. Certain of these special purpose companies were consolidated after securitisation following developments in these vehicles resulting in the Group having the majority of the risk and rewards of ownership.

### *Structured credit intermediation transactions*

The Group has in the past used special purpose companies to intermediate structured credit transactions. The Group has in the past also used special purpose companies to provide structured credit transactions to third parties who wish to obtain exposure to reference debt securities.

### Consolidation

The Group would consolidate a special purpose company when the substance of the relationship indicates that the Group controls the entity. As described in note 1 the Group controls a special purpose company if it has the ability to direct the financial and operating policies of the entity with a view to gaining economic benefits from the its activities.

The Group performs qualitative and quantitative analyses of its rights, obligations and economic exposures to special purpose companies. The Group assesses the consolidation accounting tests at inception of the involvement with a special purpose company and reassesses the consolidation tests when there is a change in the substance of the Group's involvement or there is change in the governing rules, contractual arrangements or capital structure of the entity.

## 30. SHARE BASED PAYMENT

The Group has adopted a deferral plan as part of its remuneration policy, that creates a mechanism to reward staff in line with the longer term performance of their respective divisions and the Group as a whole. The plan also aims to encourage the ongoing retention and motivation of employees over the longer term.

The deferral plan applies to Code Staff and other staff whose variable remuneration exceeds defined thresholds. Half of the variable remuneration awarded to Code Staff is required to be in the form of shares in the Mizuho Financial Group (or the cash equivalent value of such shares at distribution). Either 40% or 60% of the total variable remuneration of Code Staff must be awarded in deferred form, which vests equally over three years from the date of the non deferred awards, and is subject to forfeiture conditions. Share based remuneration may also be awarded to non Code Staff in the context of hiring, by way of buyout of existing bonus arrangements (including any deferral and / or retention periods). Such share based remuneration will be subject to appropriate performance adjustment requirements.

In addition to the normal deferral plan the Group has introduced a Special Award Deferral Plan this year for a number of selected staff. 40% of the Special Award ("the Award") is paid upfront and 60% is deferred and vests equally over three years from the date of the non deferred award. The Award is made in cash unless the recipient is a Code Staff, in this instance 50% of the total Award will be delivered in cash and the other 50% will be delivered in Mizuho Financial Group shares (or the cash equivalent of such shares at distribution). The Award has very specific performance adjustment requirements which if not met (during the first year following the Award), could mean it is subject to clawback and/or forfeiture provisions.

Subject to good leaver provisions, deferred bonuses / awards may be forfeited in the following circumstances: voluntary resignation; or termination of employment for misconduct or gross misconduct; or an employee's failure to comply with the Group's professional standards and / or the PRA's Principles of Approved Persons; or restatement or recalculation of individual, departmental, and / or corporate financial performance; or in the case of Code Staff only, assessment or reassessment of individual, departmental, and / or corporate financial performance; material error; or a material failure of risk management.

The cost of share based awards has been recognised in the profit & loss account in a time apportioned manner over the relevant vesting periods. Details of awards made, share based payment liabilities and expense recognition are provided below:

| | **2014 Number** | 2013 Number |
|---|---|---|
| Number of shares granted during the period (1) | 2,318,141 | 1,737,197 |

| | **2014 £ millions** | 2013 £ millions |
|---|---|---|
| Fair value of shares granted during the period (2) | 2.2 | 2.4 |
| Carrying value of share based payment liability | 3.0 | 3.2 |
| Carrying value of vested share based payment liabilities (3) | 0.4 | - |
| Expense arising from share-based payment transactions | 2.5 | 2.5 |

**Explanatory notes on share based payments**

1. *The number of shares granted during 2014 contains share awards made in respect of the 2013 financial year. A time apportioned component of these 2013 awards was accrued during the 2014 financial year.*
2. *Measured as at the balance sheet date.*
3. *The carrying value of vested share based payment liabilities was £382,367 (2013: £30,883).*

## 31. SUBSIDIARY ENTITIES

Entities that are controlled by the Company where the Company has dominant influence through voting control or other considerations are summarised below:

| | Nature | Country of incorporation | **Equity 2014 %** | Equity 2013 % |
|---|---|---|---|---|
| **Voting control companies** | | | | |
| Mizuho International plc | Trading | UK | **100%** | 100% |
| Structured Credit America Ltd | Trading | UK | **100%** | 100% |
| Mizuho International (Nominees) Limited | Dormant | UK | **100%** | 100% |
| **Special purpose entities** | | | | |
| Delphinus CDO 2007-1 Limited | Securitisation | Cayman | **N/A** | N/A |
| Mizuho International plc Share Award Plan Employee Benefit Trust | Trust | N/A | **N/A** | N/A |

***Mizuho International plc***

Mizuho International plc is a voting control entity incorporated in the United Kingdom and registered in England and Wales. The Company has control over this entity through holding all of its issued voting share capital from 25th January 2010.

# Notes to the Consolidated and Company Financial Statements (continued)

***Structured Credit America Ltd***

Structured Credit America Ltd is a voting control entity incorporated in the United Kingdom and registered in England and Wales on 5th February 2009. The Company has control over this entity through holding all of its issued voting share capital from 25th January 2010.

***Delphinus CDO 2007-1 Limited***

Delphinus CDO 2007-1 Limited is a special purpose company arranged by the Group during 2007 to securitise primary and derivative financial instruments. The Group retained synthetic and funded notes issued by this entity. An event of default on 4th January 2008 triggered contractual arrangements that resulted in the Group being assessed to have dominant influence over this entity from this date.

***Mizuho International plc Share Award Plan Employee Benefit Trust***

The Mizuho International plc Share Award Plan Employee Benefit Trust was established in 2012 to facilitate the holding and distribution of shares in relation to the Group's share based payment plan as discussed in note 30.

## 32. COUNTRY BY COUNTRY TAX PAYMENTS

| | Income | Profit/(loss) before tax | Tax paid/(received) | Subsidies received | Average FTE |
|---|---|---|---|---|---|
| Country | £ million | £ million | £ million | £ million | |
| UK | 87.3 | (28.4) | - | - | 354 |
| Germany | 0.7 | - | - | - | 2 |
| **Total** | **88.0** | **(28.4)** | **-** | **-** | **356** |

The Group is committed to responsible management of its tax affairs. Tax is managed in accordance with Local laws and the Group is transparent in its interaction with tax authorities.

# Notes to the Consolidated and Company Financial Statements (continued)

## 33. PARENT UNDERTAKINGS

Mizuho Securities UK Holdings Ltd is directly owned by Mizuho Securities Co., Ltd a company which is incorporated in Japan.

The ultimate parent undertaking is Mizuho Financial Group, Inc., which is incorporated in Japan. The smallest and largest groups into which the financial statements of the Company are consolidated are Mizuho Securities Co., Ltd and Mizuho Financial Group, Inc. respectively.

Copies of the group financial statements of Mizuho Securities Co., Ltd. can be obtained from:

Corporate Communications Department
Mizuho Securities Co., Ltd.
Otemachi First Square 1-5-1,
Otemachi, Chiyoda-ku, Tokyo
100-0004, JAPAN
http://www.mizuho-sc.com/english/company/financial/financial_results/er/index.html

Copies of the group financial statements for Mizuho Financial Group, Inc. can be obtained from:

Corporate Communications
Public Relations Office
Mizuho Financial Group, Inc.
Otemachi Tower
Otemachi, Chiyoda–ku, Tokyo
100–8176, JAPAN
http://www.mizuho-fg.co.jp/english/investors/financial/fin_statements/index.html