

**MIZUHO BANK (MALAYSIA) BERHAD**  
(Company No. 923693-H)  
(Incorporated in Malaysia)

**PILLAR 3 DISCLOSURE**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019**

**MIZUHO BANK (MALAYSIA) BERHAD**

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(Incorporated in Malaysia)

**PILLAR 3 DISCLOSURE  
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**1.0 Overview**

The Pillar 3 Disclosure for financial reporting beginning 1 January 2010 is introduced under the Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework ("RWCAF"), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision ("BCBS"). Basel II consists of 3 Pillars as follows:

- (a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks assumed.
- (b) Pillar 2 focuses on strengthening the supervisory review process in developing more rigorous risk management framework and techniques. The purpose is for banking institutions to implement an effective and rigorous internal capital adequacy assessment process that commensurate with the risk profile and business plans of the bank.
- (c) Pillar 3 sets out the minimum disclosure requirements of information on the risk management practices and capital adequacy of banking institution, aimed to enhance comparability amongst banking institutions.

The approaches adopted by Mizuho Bank (Malaysia) Berhad ("the Bank") are shown in the table below:

<b>Risk Type</b>	<b>Approach Adopted</b>	<b>Capital Requirement Assessment</b>
Credit	Standardised Approach	Standard risk-weights
Market	Standardised Approach	Standard risk-weights
Operational	Basic Indicator Approach	Fixed percentage over average gross income for a fixed number of years

**2.0 Capital management and capital adequacy**

The objective of the Bank's capital management policy is to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet its regulatory minimum capital requirements. On top of the minimum regulatory capital requirements, a buffer is added on to arrive at the Bank's internal capital target to ensure adequacy of capital to support the current and anticipated business growth. Internal Capital Adequacy Assessment Process ("ICAAP") is formulated to identify the material risks in the business. The material risk areas that are taken into consideration are credit risk, market risk, operational risk, credit concentration risk, liquidity risk, interest rate risk in banking book, compliance risk, legal risk, strategic risk as well as reputation risk.

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**2.0 Capital management and capital adequacy (continued)**

Internal capital assessment is carried out to determine the level of internal capital required by the Bank based on the Pillar 1 and 2 requirements as well as actual results of the preceding financial year (as the base case). Capital plan, business plan and budget are approved by the Board of Directors on an annual basis. The business plan in particular would set out the Bank's risk appetite to be in line with the lending direction and business strategies for the coming year. Senior Management is responsible for ensuring a smooth development and implementation of the ICAAP policy as well as effective systems and processes are in place. The Bank's performance against the internal capital levels is reviewed on a regular basis by the Senior Management.

The Bank undertakes stress test exercise on a half yearly basis to assess the Bank's capability to withstand any adverse environment that may arise. The stress test will at least cover the exceptional but plausible event and the worst case scenario. For the Bank, the stress test is conducted either based on the parameters applied to the current position or using the 3 year business plan projection. The three key segments namely loan growth, deposit growth and profit growth are focused in the 3 year business plan. Impacts on the Bank's potential losses, impairments, liquidity position, earnings and capital ratio is projected based on the selected parameters. With the stress test results that will be communicated to the Board, Board Risk Management Committee ("BRMC") and Assets and Liability Management Committee ("ALMC"), the Bank shall identify the key strategies to mitigate the effects of stress events and conserve the capital.

Capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework. For the year 2019, the minimum regulatory CET1 capital ratio, Tier 1 capital ratio and total capital ratio requirement are 4.5%, 6.0% and 8.0% on the risk-weighted assets ("RWA") respectively. The following information presents the capital adequacy ratios of the Bank and the breakdown of RWA:

(a) Capital adequacy ratio

	<b>30 Sep 2019</b>	<b>31 Mar 2019</b>
CET1 Capital Ratio	23.827%	29.641%
Tier 1 Capital Ratio	23.827%	29.641%
Total Capital Ratio	24.913%	30.727%

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**2.0 Capital management and capital adequacy (continued)**

(b) The breakdown of RWA by exposures in each major risk category under standardised approach is as follows:

<b>Exposure Class</b>	<b>Gross Exposures RM'000</b>	<b>Net Exposures RM'000</b>	<b>Risk-Weighted Assets RM'000</b>	<b>Minimum Capital Requirement at 8% RM'000</b>
<b>As at 30 September 2019</b>				
<b>Credit Risk</b>				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	1,263,117	1,263,117	-	-
Banks, development financial Institutions and Multilateral Development Banks ("MDBs")	5,612,368	3,647,831	805,272	64,422
Corporates	6,760,305	2,046,029	1,561,233	124,898
Other assets	32,099	32,099	31,927	2,554
<b>Total on-balance sheet exposures</b>	<b>13,667,889</b>	<b>6,989,076</b>	<b>2,398,432</b>	<b>191,874</b>
<u>Off-balance sheet exposures:</u>				
Over-the-counter ("OTC") derivatives	801,058	801,058	520,819	41,665
Off-balance sheet exposures other than OTC derivatives or credit derivatives	143,968	143,968	117,670	9,414
<b>Total off-balance sheet exposures</b>	<b>945,026</b>	<b>945,026</b>	<b>638,489</b>	<b>51,079</b>
<b>Total on and off-balance sheet exposures</b>	<b>14,612,915</b>	<b>7,934,102</b>	<b>3,036,921</b>	<b>242,953</b>
				<b>Minimum Capital Requirement at 8% RM'000</b>
	<b>Long Position RM'000</b>	<b>Short Position RM'000</b>	<b>Risk-Weighted Assets RM'000</b>	<b>Minimum Capital Requirement at 8% RM'000</b>
<b>Market risk</b>				
Interest rate risk	8,709,249	8,682,607	134,431	10,754
Foreign currency risk	2,205	-	27,562	2,205
<b>Operational risk</b>			296,176	23,694
<b>Total RWA and capital requirements</b>			<b>3,495,090</b>	<b>279,606</b>

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**2.0 Capital management and capital adequacy (continued)**

(b) The breakdown of RWA by exposures in each major risk category under standardised approach is as follows: (continued)

<b>Exposure Class</b>	<b>Gross Exposures RM'000</b>	<b>Net Exposures RM'000</b>	<b>Risk-Weighted Assets RM'000</b>	<b>Minimum Capital Requirement at 8% RM'000</b>
<b>As at 31 March 2019</b>				
<b>Credit Risk</b>				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	1,139,339	1,139,339	-	-
Banks, development financial Institutions and Multilateral Development Banks ("MDBs")	3,414,139	1,526,698	371,686	29,735
Corporates	4,891,266	1,700,445	1,404,307	112,344
Other assets	19,094	19,094	18,653	1,492
<b>Total on-balance sheet exposures</b>	<b>9,463,838</b>	<b>4,385,576</b>	<b>1,794,646</b>	<b>143,571</b>
<u>Off-balance sheet exposures:</u>				
Over-the-counter ("OTC") derivatives	706,504	706,504	473,291	37,863
Off-balance sheet exposures other than OTC derivatives or credit derivatives	202,329	202,329	196,373	15,710
<b>Total off-balance sheet exposures</b>	<b>908,833</b>	<b>908,833</b>	<b>669,664</b>	<b>53,573</b>
<b>Total on and off-balance sheet exposures</b>	<b>10,372,671</b>	<b>5,294,409</b>	<b>2,464,310</b>	<b>197,144</b>
	<b>Long Position RM'000</b>	<b>Short Position RM'000</b>	<b>Risk-Weighted Assets RM'000</b>	<b>Minimum Capital Requirement at 8% RM'000</b>
<b>Market risk</b>				
Interest rate risk	6,438,554	6,415,611	83,541	6,683
Foreign currency risk	1,476	-	18,445	1,476
<b>Operational risk</b>			269,663	21,573
<b>Total RWA and capital requirements</b>			<b>2,835,959</b>	<b>226,876</b>

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#### 3.0 Capital structure

The components of Tier I and Tier II capital of the Bank are as follows:

	<b>30 Sep 2019 RM'000</b>	<b>31 Mar 2019 RM'000</b>
<b>CET 1 Capital</b>		
Paid-up share capital	700,000	700,000
Retained profits	142,419	151,498
Other reserves	(9,645)	(10,897)
Total Tier 1 Capital	<u>832,774</u>	<u>840,601</u>
<b>Tier 2 Capital</b>		
General provisions and regulatory reserve	<u>37,962</u>	<u>30,804</u>
Total Capital	<u><u>870,736</u></u>	<u><u>871,405</u></u>

#### 4.0 Stress test

The Bank conducts a robust and dynamic exercise on semi-annually basis. The stress test exercise is part of risk and management process in capital and business planning.

The stress test including reverse stress test involve in identifying possible events or future changes in the financial and economic conditions that could have unfavourable effects on the Bank's exposure. It provides the assessment of the Bank's ability to withstand such changes, usually in relation to the capacity of its capital and earning to absorb potentially significant losses. Steps are then identified to manage the risks and conserve capital to prepare for such eventualities.

The assumptions used for stress test are regularly reviewed by the Stress Test Working Group. The assumptions used in the past include global economic turmoil, cyber attack, weakening of Malaysian Ringgit, crude oil price hike, higher bond yield, rising of inflation rate, impact of Goods and Services Tax/Sales and Service Tax, amongst others,

With the stress test results that will be communicated to the Board, BRMC and ALMC, the Bank shall identify the key strategies to mitigate the effects of stress test events and conserve the capital.

#### 5.0 Risk management framework

The Board of Directors establishes the Bank's risk appetite and risk principles. The BRMC, Management Credit Committee ("MCC") (previously known as Credit Risk Management Committee ("CRMC")) and ALMC have been established by the Board to assume responsibility for the risk oversight and any approved policies and frameworks formulated on credit, market, liquidity and operational risk.

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#### **5.0 Risk management framework (continued)**

Strong risk governance supports Integrated Risk Management ("IRM") approach. The Board of Directors through BRMC is ultimately responsible for the implementation of IRM. Risk Management Department ("RMD") has been principally tasked to assist the various risk committees and undertakes the performance of the day-to-day risk management functions of the IRM.

RMD is responsible for identifying, monitoring, analysing and reporting the principal risks to which the Bank is exposed. In facilitating the Bank's achievement of its objectives whilst operating in a sound business environment, teams from RMD are engaged from an early stage in the risk process for independent inputs and risk assessments. Complementing this is internal audit, which provides independent assurance of the effectiveness of the risk management approach.

The Bank has exposure to the following risks, amongst others, from financial instruments:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk

#### **6.0 Credit risk**

Credit risk is defined as risk of loss arising from the failure of a counterparty to perform their contractual obligations in accordance with the agreed terms and conditions. Corporate and institutional credits are assessed by business units and ratings were assigned based on quantitative and qualitative factors. These credits are subsequently evaluated and approved by independent parties.

Apart from credit risk, credit concentration risks and large exposure risks are managed by setting limits for single counterparty, connected parties, market sectors, etc. These limits are monitored to control and prevent excessive concentration of risk exposure. In addition, reviews of the limits are conducted on a periodic basis.

The credit approving authority is established and documented in the Bank's credit risk policy. The Board of Directors have the approving authority to approve credit facilities above Chief Executive Officer's ("CEO's") approval limit. Secondly, the Board of Directors also have the veto power. CEO's approval of credit facilities limit is capped at Single Counterparty Exposure Limit ("SCEL"). There are certain customers and credit facilities will be subjected to Head Office consultation first before obtaining CEO's approval.

The MCC is set up to enhance the efficiency and effectiveness of the credit oversight. The Committee ensures the overall loan/financing portfolio meets the guidelines of the regulatory authorities and adherence to the approved credit policies and procedures.

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**6.0 Credit risk (continued)**

Adherence to established credit limits is monitored daily by RMD, which combines all exposures for each counterparty or group, including off balance sheet items and potential exposures. Credit limits are also monitored based on rating classification of the obligor.

The credit rating models for corporate customers are designed to assess the credit worthiness in paying their obligations, derived from risk factors such as financial position, conduct of account and market conditions.

These credit rating models are developed and implemented to standardise and enhance the credit decision-making process for the Mizuho Bank Group's corporate exposures.

Credit reviews and rating are conducted on the credit exposures on an annual basis and more frequently when material information on the obligor or other external factors come to light.



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**6.1 Distribution of credit exposures**

**(i) Industry analysis**

The following tables present the credit exposures of financial assets of the Bank analysed by industrial distribution.

	Primary Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business Activities	Education, Health and Others	Others	Total
As at 30 September 2019	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>On-Balance Sheet Exposures</b>											
Cash and short-term funds	-	-	-	-	-	-	-	3,590,605	-	-	3,590,605
Deposits and placements with financial institutions ("FIs")	-	-	-	-	-	-	-	986,635	-	-	986,635
Financial assets at fair value through other comprehensive income ("FVOCI")	-	-	-	-	-	-	-	875,602	-	-	875,602
Loans, advances and financing	-	45,740	2,425,903	109,311	517,456	313,166	4,895	4,695,049	21,098	-	8,132,618
Derivative financial assets	-	-	877	-	106	84	-	132,981	-	-	134,048
Other financial assets	-	-	-	-	-	1	-	40,018	-	6,377	46,396
	<b>-</b>	<b>45,740</b>	<b>2,426,780</b>	<b>109,311</b>	<b>517,562</b>	<b>313,251</b>	<b>4,895</b>	<b>10,320,890</b>	<b>21,098</b>	<b>6,377</b>	<b>13,765,904</b>
<b>Commitment and Contingencies</b>	<b>125,616</b>	<b>116,244</b>	<b>1,433,107</b>	<b>52,812</b>	<b>631,610</b>	<b>500,392</b>	<b>253,632</b>	<b>10,674,573</b>	<b>20,583</b>	<b>-</b>	<b>13,808,569</b>
<b>Total Credit Exposures</b>	<b>125,616</b>	<b>161,984</b>	<b>3,859,887</b>	<b>162,123</b>	<b>1,149,172</b>	<b>813,643</b>	<b>258,527</b>	<b>20,995,463</b>	<b>41,681</b>	<b>6,377</b>	<b>27,574,473</b>

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**6.1 Distribution of credit exposures (continued)**

**(i) Industry analysis (continued)**

The following tables present the credit exposures of financial assets of the Bank analysed by industrial distribution. (continued)

	Primary Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business Activities	Education, Health and Others	Others	Total
As at 31 March 2019	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>On-Balance Sheet Exposures</b>											
Cash and short-term funds	-	-	-	-	-	-	-	1,801,692	-	-	1,801,692
Deposits and placements with FIs	-	-	-	-	-	-	-	544,393	-	-	544,393
Financial assets at FVOCI	-	-	-	-	-	-	-	602,896	-	-	602,896
Loans, advances and financing	-	116,749	1,223,635	105,717	207,023	338,122	4,894	4,332,114	116,422	-	6,444,676
Derivative financial assets	-	-	1,475	-	388	71	-	164,848	-	-	166,782
Other financial assets	-	-	3	-	-	1	-	59,005	-	6,431	65,440
	<u>-</u>	<u>116,749</u>	<u>1,225,113</u>	<u>105,717</u>	<u>207,411</u>	<u>338,194</u>	<u>4,894</u>	<u>7,504,948</u>	<u>116,422</u>	<u>6,431</u>	<u>9,625,879</u>
<b>Commitment and Contingencies</b>	<u>122,433</u>	<u>32,896</u>	<u>1,684,557</u>	<u>-</u>	<u>319,620</u>	<u>511,157</u>	<u>332,746</u>	<u>8,566,200</u>	<u>23,254</u>	<u>65,297</u>	<u>11,658,160</u>
<b>Total Credit Exposures</b>	<b><u>122,433</u></b>	<b><u>149,645</u></b>	<b><u>2,909,670</u></b>	<b><u>105,717</u></b>	<b><u>527,031</u></b>	<b><u>849,351</u></b>	<b><u>337,640</u></b>	<b><u>16,071,148</u></b>	<b><u>139,676</u></b>	<b><u>71,728</u></b>	<b><u>21,284,039</u></b>

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**6.1 Distribution of credit exposures (continued)**

**(ii) Geographical analysis**

The following tables present the credit exposures of financial assets analysed by geographical distribution based on the geographical location where the credit risk resides.

	<b>Within Malaysia RM'000</b>	<b>Outside Malaysia RM'000</b>	<b>Total RM'000</b>
<b>As at 30 September 2019</b>			
<b>On-Balance Sheet Exposures</b>			
Cash and short-term funds	3,443,249	147,356	3,590,605
Deposits and placements with FIs	986,635	-	986,635
Financial assets at FVOCI	875,602	-	875,602
Loans, advances and financing	6,239,522	1,893,096	8,132,618
Derivative financial assets	133,513	535	134,048
Other financial assets	43,260	3,136	46,396
	<u>11,721,781</u>	<u>2,044,123</u>	<u>13,765,904</u>
<b>Commitment and Contingencies</b>	<u>13,500,923</u>	<u>307,646</u>	<u>13,808,569</u>
Total Credit Exposures	<u>25,222,704</u>	<u>2,351,769</u>	<u>27,574,473</u>
<b>As at 31 March 2019</b>			
<b>On-Balance Sheet Exposures</b>			
Cash and short-term funds	1,653,660	148,032	1,801,692
Deposits and placements with FIs	542,353	2,040	544,393
Financial assets at FVOCI	602,896	-	602,896
Loans, advances and financing	4,503,942	1,940,734	6,444,676
Derivative financial assets	165,973	809	166,782
Other financial assets	64,697	743	65,440
	<u>7,533,521</u>	<u>2,092,358</u>	<u>9,625,879</u>
<b>Commitment and Contingencies</b>	<u>11,199,288</u>	<u>458,872</u>	<u>11,658,160</u>
Total Credit Exposures	<u>18,732,809</u>	<u>2,551,230</u>	<u>21,284,039</u>

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**6.1 Distribution of credit exposures (continued)**

**(iii) Maturity analysis**

The following tables present the residual contractual maturity for major types of gross credit exposures for on and off-balance sheet exposures of financial assets.

	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>As at 30 September 2019</b>							
<b>On-Balance Sheet Exposures</b>							
Cash and short-term funds	3,590,605	-	-	-	-	-	3,590,605
Deposits and placements with FIs	-	778,336	208,299	-	-	-	986,635
Financial assets at FVOCI	-	-	225,340	650,262	-	-	875,602
Loans, advances and financing	2,355,047	854,902	771,826	3,800,903	349,940	-	8,132,618
Derivative financial assets	2,587	27,816	21,387	78,254	4,004	-	134,048
Other financial assets	16,422	7,724	3,666	-	-	18,584	46,396
	<u>5,964,661</u>	<u>1,668,778</u>	<u>1,230,518</u>	<u>4,529,419</u>	<u>353,944</u>	<u>18,584</u>	<u>13,765,904</u>
<b>Commitment and Contingencies</b>	<u>4,644,925</u>	<u>1,055,272</u>	<u>1,924,568</u>	<u>5,087,100</u>	<u>1,096,704</u>	<u>-</u>	<u>13,808,569</u>
<b>Total Credit Exposures</b>	<u>10,609,586</u>	<u>2,724,050</u>	<u>3,155,086</u>	<u>9,616,519</u>	<u>1,450,648</u>	<u>18,584</u>	<u>27,574,473</u>

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**6.1 Distribution of credit exposures (continued)**

**(iii) Maturity analysis (continued)**

The following tables present the residual contractual maturity for major types of gross credit exposures for on and off-balance sheet exposures of financial assets. (continued)

	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>As at 31 March 2019</b>							
<b>On-Balance Sheet Exposures</b>							
Cash and short-term funds	1,801,692	-	-	-	-	-	1,801,692
Deposits and placements with FIs	-	217,661	326,732	-	-	-	544,393
Financial assets at FVOCI	30,007	40,044	20,082	512,763	-	-	602,896
Loans, advances and financing	2,461,820	758,299	344,132	2,527,314	353,111	-	6,444,676
Derivative financial assets	1,852	1,797	53,350	109,615	168	-	166,782
Other financial assets	6,325	5,899	1,688	-	-	51,528	65,440
	<u>4,301,696</u>	<u>1,023,700</u>	<u>745,984</u>	<u>3,149,692</u>	<u>353,279</u>	<u>51,528</u>	<u>9,625,879</u>
<b>Commitment and Contingencies</b>	<u>3,834,110</u>	<u>687,528</u>	<u>1,520,691</u>	<u>5,296,800</u>	<u>319,031</u>	<u>-</u>	<u>11,658,160</u>
<b>Total Credit Exposures</b>	<u>8,135,806</u>	<u>1,711,228</u>	<u>2,266,675</u>	<u>8,446,492</u>	<u>672,310</u>	<u>51,528</u>	<u>21,284,039</u>

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#### **6.2 Credit quality of loans, advances and financing**

MFRS 9 accounting standard requires banks to determine an expected credit loss ("ECL") amount on a probability-weighted basis as the difference between cash flows that are due to the Bank in accordance with the contractual terms of financial assets and the cash flows that the Bank expects to receive. The ECL model adopted by the Bank covers the on and off balance sheet credit exposures to sovereign, financial institutions and corporate loans. The credit exposures are to be segregated to its three stages, as described below:

Stage 1: Ordinary / Performing Credit Exposure. (12-Month ECL)

Stage 2: Exposure with Significant Increase in Credit Risk. (Lifetime ECL)

Stage 3: Impaired Credit Exposure. (Lifetime ECL)

The three main components to measure ECL are as follows:

#### Probability of Default ("PD")

The PD of the Bank is derived based on modelling approach of which statistical analysis and expert judgement was performed to derive the PD estimates given the historical zero-default observation in the Bank. The model relies on the credit quality in the Bank's asset portfolio to predict the 12-month PD. The Lifetime PD is developed using the Bank's year-on-year relative change approach with the application of forecasted macroeconomic variable ("MEV").

#### Loss Given Default ("LGD")

The Bank applies LGD based on rating classification of counterparty, seniority of claim, availability of collateral and other credit support. With zero defaults to-date, the Bank refers on the regulatory standards on the assigned LGD for unsecured senior claims and subordinated claims.

#### Exposure at Default ("EAD")

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. In the EAD model, the Bank applies the regulator's Credit Conservation Factor ("CCF") on the on-and off-balance sheet exposures. The CCF ratios varies depending on the product type.

#### Forecast of key macroeconomic variables

Based on MFRS 9, the Bank shall hold provision against potential future credit risk losses which depend not only on the present economy but also on the potential changes to the economic environment in the future.

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**6.2 Credit quality of loans, advances and financing (continued)**

Forecast of key macroeconomic variables (continued)

The Bank captures the effect of changes to the economic environment in the future in the computation of PD. Hence, ECL incorporates forward looking information, assumptions on economic variables that are likely to have an effect on the repayment capabilities of the Bank's customers and counterparties.

The Bank incorporates the forward looking adjustments in the credit risk parameter used in ECL calculation, where Gross Domestic Product ("GDP") growth is the main economic input used in the computation of forward looking scalar. The Bank applies three scenarios which include "Baseline", "Favourable" and "Downturn" scenarios, taking into account the probability weighted range of possible future outcomes in estimating ECL.

The general provision / impairment for the credit exposures of the Bank will be equivalent to 12-Month ECL or Lifetime ECL, depending on the stage of credit exposures befitting each financial asset.

All gross loans, advances and financing are neither past due nor impaired as at the following reporting dates:

	<b>30 Sep 2019 RM'000</b>	<b>31 Mar 2019 RM'000</b>
<b>At amortised cost:</b>		
Term loans	5,472,312	4,113,862
Revolving credits	1,330,349	1,367,847
Bills receivable	21,818	15,211
	<u>6,824,479</u>	<u>5,496,920</u>
Less: Unearned interest	(86)	(77)
Gross loans, advances and financing at amortised cost	<u>6,824,393</u>	<u>5,496,843</u>
Less: Impairment allowance		
- Expected credit losses	(28,918)	(28,632)
Net loans, advances and financing at amortised cost	<u><u>6,795,475</u></u>	<u><u>5,468,211</u></u>

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**6.2 Credit quality of loans, advances and financing (continued)**

(i) The following table presents the expected credit loss on loans, advances and financing of the Bank analysed by economic sector:

	Primary Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale & Retail Trade & Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Insurance, Real Estate & Business Activities RM'000	Education, Health and Others RM'000	Others RM'000	Total RM'000
<b>As at 30 September 2019</b>											
<b>Expected Credit Loss</b>											
Loans, advances and financing	-	-	27,370	187	186	791	53	331	-	-	28,918
<b>As at 31 March 2019</b>											
<b>Expected Credit Loss</b>											
Loans, advances and financing	-	227	26,681	171	311	412	53	573	204	-	28,632



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(ii) The following table presents the expected credit loss on loans, advances and financing of the Bank analysed by geographical location based on where the credit risk resides:

	<b>Within Malaysia RM'000</b>	<b>Outside Malaysia RM'000</b>	<b>Total RM'000</b>
<b>As at 30 September 2019</b>			
<b>Expected Credit Loss</b>			
Loans, advances and financing	<u>28,902</u>	<u>16</u>	<u>28,918</u>
<b>As at 31 March 2019</b>			
<b>Expected Credit Loss</b>			
Loans, advances and financing	<u>28,428</u>	<u>204</u>	<u>28,632</u>

(iii) Movements in allowance for impairment on loans, advances and financing:

	<b>30 Sep 2019 RM'000</b>	<b>31 Mar 2019 RM'000</b>
At 1 April	28,632	31,156
Impact of adopting MFRS 9	-	2,589
At 1 April, as restated	<u>28,632</u>	<u>33,745</u>
Allowance/(Writeback) during the financial period	<u>286</u>	<u>(5,113)</u>
At end of the financial period	<u>28,918</u>	<u>28,632</u>
As percentage of total loans, advances and financing	<u>0.35%</u>	<u>0.44%</u>

The Bank has no impaired loans, advances and financing and no individual impairment allowance was deemed required as at 30 September 2019.

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(iv) Movement in impairment allowances on loans, advances and financing which reflects the ECL model on impairment are as follows:

	<b>12-Month ECL</b>	<b>Lifetime ECL</b>		
	<b>Stage 1</b>	<b>Not credit- Impaired Stage 2</b>	<b>Credit- Impaired Stage 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At 1 April 2019</b>	3,039	25,593	-	28,632
Changes due to loans, advances and financing recognised as at 1 April 2019:				
Transfer to Lifetime ECL not credit- impaired (Stage 2)	(41)	41	-	-
New financial assets originated	2,159	26,257	-	28,416
Financial assets derecognised	(2,567)	(25,593)	-	(28,160)
Net remeasurement during the period	30	-	-	30
<b>At 30 September 2019</b>	<u>2,620</u>	<u>26,298</u>	<u>-</u>	<u>28,918</u>
<b>At 1 April 2018</b>				
As previously stated - MFRS 139				31,156
Impact of adopting MFRS 9				<u>2,589</u>
<b>At 1 April 2018, as restated</b>	7,521	26,224	-	33,745
Changes due to loans, advances and financing recognised as at 1 April 2018:				
Transfer to 12-Month ECL (Stage 1)	22	(22)	-	-
New financial assets originated	2,438	25,593	-	28,031
Financial assets derecognised	(6,835)	(24,758)	-	(31,593)
Changes in model/risk parameters	(107)	(1,444)	-	(1,551)
<b>At 31 March 2019</b>	<u>3,039</u>	<u>25,593</u>	<u>-</u>	<u>28,632</u>

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**6.3 Off-balance sheet exposures and counterparty credit risk**

The off-balance sheet exposures and their related counterparty credit risk of the Bank as at the respective reporting dates are as follows:

	<b>Principal amount RM'000</b>	<b>Credit equivalent amount* RM'000</b>	<b>Risk- weighted amount* RM'000</b>
<b>As at 30 September 2019</b>			
Direct credit substitutions	88,006	87,825	81,460
Transaction related contingent items	84,342	39,764	34,347
Short-term self-liquidating trade related contingencies	12,941	1,863	1,863
Foreign exchange related contracts			
- One year or less	2,306,668	32,638	15,673
- Over one year to five years	51,840	3,094	2,347
Interest related contracts			
- One year or less	2,006,091	98,563	53,132
- Over one year to five years	4,960,988	483,557	331,717
- Over five years	1,096,704	183,206	117,950
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	29,033	14,516	-
Any commitments that are unconditionally cancelled at any time without prior notice	3,171,956	-	-
<b>Total</b>	<b>13,808,569</b>	<b>945,026</b>	<b>638,489</b>
<b>As at 31 March 2019</b>			
Direct credit substitutions	21,251	21,186	21,036
Transaction related contingent items	82,412	41,045	35,239
Short-term self-liquidating trade related contingencies	3,484	677	677
Foreign exchange related contracts			
- One year or less	2,174,333	24,776	11,652
- Over one year to five years	26,672	2,086	1,346
Interest related contracts			
- One year or less	1,298,903	94,826	43,283
- Over one year to five years	5,005,541	519,029	369,558
- Over five years	319,031	65,787	47,452
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	279,524	139,421	139,421
Any commitments that are unconditionally cancelled at any time without prior notice	2,447,009	-	-
<b>Total</b>	<b>11,658,160</b>	<b>908,833</b>	<b>669,664</b>

\* The credit equivalent amount and risk-weighted amount are arrived at using the credit conversion factors and risk-weights respectively as specified by Bank Negara Malaysia for regulatory capital adequacy purposes.

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**PILLAR 3 DISCLOSURE  
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The Bank undertakes a holistic approach when granting any credit facilities to the customer, such as the credit worthiness of the customer, source of repayment and debt servicing ability, rather than placing primary dependency on the credit risk mitigation.

Depending on a customer's credit standing and the type of product, the facilities may be granted on an unsecured basis. Nevertheless, collateral serves as an effective tool in mitigating the credit risk.

The collaterals taken by the Bank consist of cash and corporate guarantee. Before any of the collaterals are accepted by the Bank, it has to be assessed in terms of legal enforceability. In all relevant jurisdiction, recognition of eligible collateral and to have the rights to liquidate or take legal possession of the collateral in a timely manner in the event of default.

The application of haircut takes place whenever there is a currency mismatch between customer exposure and collaterals, as it serves as a protection for the Bank against the foreign currency fluctuations.

	<b>Total exposures before CRM RM'000</b>	<b>Total exposures covered by guarantees RM'000</b>	<b>Total exposures covered by financial collaterals RM'000</b>	<b>Total exposures covered by other eligible collaterals RM'000</b>
<b>As at 30 September 2019</b>				
<b>Credit risk</b>				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	1,263,117	-	-	-
Banks, development financial Institutions and MDBs	5,612,368	-	1,964,536	-
Corporates	6,760,305	-	4,699,760	-
Other assets	32,099	-	-	-
Total on-balance sheet exposures	<u>13,667,889</u>	<u>-</u>	<u>6,664,296</u>	<u>-</u>
<u>Off-Balance Sheet Exposures:</u>				
Over-the-counter ("OTC") derivatives	801,058	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	143,968	-	14,516	-
Total off-balance sheet exposures	<u>945,026</u>	<u>-</u>	<u>14,516</u>	<u>-</u>
Total on and off balance sheet exposures	<u>14,612,915</u>	<u>-</u>	<u>6,678,812</u>	<u>-</u>

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	<b>Total exposures before CRM RM'000</b>	<b>Total exposures covered by guarantees RM'000</b>	<b>Total exposures covered by financial collaterals RM'000</b>	<b>Total exposures covered by other eligible collaterals RM'000</b>
<b>As at 31 March 2019</b>				
<b>Credit risk</b>				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	1,139,339	-	-	-
Banks, development financial Institutions and MDBs	3,414,139	-	1,836,495	-
Corporates	4,891,266	-	3,190,821	-
Other assets	19,094	-	-	-
Total on-balance sheet exposures	<u>9,463,838</u>	<u>-</u>	<u>5,027,316</u>	<u>-</u>
<u>Off-Balance Sheet Exposures:</u>				
Over-the-counter ("OTC") derivatives	706,504	-	50,946	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	202,329	-	-	-
Total off-balance sheet exposures	<u>908,833</u>	<u>-</u>	<u>50,946</u>	<u>-</u>
Total on and off balance sheet exposures	<u>10,372,671</u>	<u>-</u>	<u>5,078,262</u>	<u>-</u>

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**6.5 Assignment of risk weights for portfolios under the standardised approach**

The Bank refers to the credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the External Credit Assessment Institutions ("ECAI") ratings used by the Bank and are recognised by BNM in the RWCAF:

- (a) Standard & Poor's Rating Services ("S&P")
- (b) Moody's Investors Service ("Moody's")
- (c) Fitch Ratings ("Fitch")
- (d) RAM Rating Services Berhad ("RAM")
- (e) Malaysian Rating Corporation Berhad ("MARC")
- (f) Rating and Investment Information, Inc. ("R&I")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

- (a) Sovereigns and Central Bank
- (b) Banking Institutions
- (c) Corporates

Rated and Unrated Counterparties

In general, the issue rating i.e. the rating specific to the credit exposure is used. When there is no specific rating available, the credit rating assigned to the issuer or counterparty of the particular credit exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated.

Where a counterparty or an exposure is rated by more than one ECAI, all available external ratings of the counterparty will be captured and the following rules will be observed:

- Where 2 recognised external ratings are available, the lower rating is to be applied; or
- Where 3 or more recognised external ratings are available, the lower of the highest 2 ratings will be used for the capital adequacy calculation purposes.

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**6.5 Assignment of risk weights for portfolios under the standardised approach (continued)**

(i) Credit risk disclosures on risk weights

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Bank:

← Exposures after Netting and Credit Risk Mitigation →

<b>Risk weights</b>	<b>Sovereigns/ central banks RM'000</b>	<b>Banks, Development Financial Institutions &amp; MDBs RM'000</b>	<b>Corporates RM'000</b>	<b>Other Assets RM'000</b>	<b>Total Exposures after Netting and Credit Risk Mitigation RM'000</b>	<b>Total Risk- Weighted Assets RM'000</b>
<b>As at 30 September 2019</b>						
0%	1,263,117	2,000	499,313	172	1,764,602	-
20%	-	3,614,152	-	-	3,614,152	722,830
50%	-	482,514	-	-	482,514	241,257
100%	-	-	2,040,907	31,927	2,072,834	2,072,834
	<u>1,263,117</u>	<u>4,098,666</u>	<u>2,540,220</u>	<u>32,099</u>	<u>7,934,102</u>	<u>3,036,921</u>
<b>As at 31 March 2019</b>						
0%	1,139,339	6,366	296,139	441	1,442,285	-
20%	-	1,467,447	-	-	1,467,447	293,489
50%	-	427,713	-	-	427,713	213,857
100%	-	-	1,938,311	18,653	1,956,964	1,956,964
	<u>1,139,339</u>	<u>1,901,526</u>	<u>2,234,450</u>	<u>19,094</u>	<u>5,294,409</u>	<u>2,464,310</u>

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**6.5 Assignment of risk weights for portfolios under the standardised approach (continued)**

(ii) Rated exposures by External Credit Assessment Institutions ("ECAI")

The Bank used external credit assessments from these ECAI for exposures as disclosed below:

On and off-balance sheet exposures

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated

	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>As at 30 September 2019</b>						
Sovereigns and central banks	1,263,117	-	-	-	-	-
<b>Total</b>	<b>1,263,117</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>As at 31 March 2019</b>						
Sovereigns and central banks	1,139,339	-	-	-	-	-
<b>Total</b>	<b>1,139,339</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated

	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>As at 30 September 2019</b>						
Banks, MDBs and FDIs	3,616,152	482,514	-	-	-	-
<b>Total</b>	<b>3,616,152</b>	<b>482,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>As at 31 March 2019</b>						
Banks, MDBs and FDIs	1,473,813	427,713	-	-	-	-
<b>Total</b>	<b>1,473,813</b>	<b>427,713</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



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**6.5 Assignment of risk weights for portfolios under the standardised approach (continued)**

(ii) Rated exposures by External Credit Assessment Institutions ("ECAI") (continued)

On and off-balance sheet exposures (continued)

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated

	RM'000	RM'000	RM'000	RM'000	RM'000
<b>As at 30 September 2019</b>					
Corporates	499,313	-	-	-	2,040,907
Total	<u>499,313</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,040,907</u>
<b>As at 31 March 2019</b>					
Corporates	296,139	-	-	-	1,938,311
Total	<u>296,139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,938,311</u>

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#### 7.0 Market risk

Market risk is defined as the risk of loss or adverse impact on earnings or capital arising from changes in the level of volatility of market rates or prices such as interest rates/profit rates, foreign exchange rates, securities prices and market risk factor.

There are two category of market risk exposure for the Bank which are traded and non-traded activities. The Bank are using a variety of measurement techniques and controls to make sure the financial target and regulatory/internal requirement are coherent.

The Bank's market risk exposure are discussed and managed at the ALMC on a monthly basis and the BRMC on a quarterly basis, which is in line with the approved guidelines and policies.

##### (a) Traded activities

Traded market risk for the Bank arises mainly from equity risk and foreign exchange risk. These activities may create positions held with trading intent to express a market view, to benefit from short-term price movements or to lock in arbitrage profits. The trading book portfolio is governed by trading limits.

##### Equity risk management

Equity risk is the risk to earnings or capital arising from movements in the value of Bank's equity-related holdings. The Bank employs a robust equity risk measurement as follows:

- Money Market ("MM") Realised and Unrealised P/L: used to recalculate the Bank's realised & unrealised MM profit or loss.

##### Foreign exchange risk management

Foreign exchange risk is the risk to earnings or capital arising from adverse movements in foreign exchange rates. The Bank employs a robust foreign exchange risk measurement as follows:

- FX1BPV: Measures the changes in net present value ("NPV") when the yield curve shifted by 1 basis points ("bps") in parallel; Overall and each currency position are to be monitored
- FX BOE: Monitors the overall spot and forward positions using BOE method; and
- FX MTM P/L (Loss Cut): Monitors marked-to-market ("MTM") profit/loss on demand in a day and as an alarm point in order for dealer to stop trading altogether and unwind the outstanding position.

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**7.0 Market risk (continued)**

(b) Non-traded activities

Non-traded market risk for the Bank arises from liquidity risk and interest rate risk. These activities are defined as the risk that the Bank will be unable to secure necessary funding due to deteriorating financial condition or a similar reason, and will therefore be unable to meet cash flow requirements, or that it will suffer a loss because it is compelled to pay interest/profit rates significantly higher than normal rates to secure funding.

Liquidity risk management

Liquidity risk is the risk that the Bank will be unable to secure necessary funding due to deteriorating financial condition or a similar reason, and will therefore be unable to meet cash flow requirements, or that it will suffer a loss because it is compelled to pay interest/profit rates significantly higher than normal rates to secure funding. The Bank employs a robust liquidity risk measurement as follows:

- Maturity Ladder/Funding Gap: used to measure the maximum amount in funding gap between assets and liabilities for overnight, 1 week and 1 month tenure.
- Domestic Market Liquidity Position: used to measure the liquidity position by Bank Negara Malaysia.
- Deposits Cash Outflow: used to measure the Bank's deposit outflow within 1 week and 1 month period.

Interest rate risk management

Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates as the exposure of a the Bank's financial condition to the adverse movements in interest rates including for off-balance sheet item. The Bank employs a robust interest/profit rate risk measurement as follows:

- Repricing gap: used to measure interest/profit rate exposures arising from the mismatch in repricing balances for each time band.
- Earnings-at-Risk ("EaR"): used to measure the sensitivity of earnings based on an assumed interest/profit rate scenario.
- Economic Value-at-Risk ("EVaR"): used to measure the change in economic value that would occur given an assumed interest/profit rate scenario.

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**7.0 Market risk (continued)**

The following tables present the minimum disclosure on regulatory capital requirements on market risk:

	<b>Long Position RM'000</b>	<b>Short Position RM'000</b>	<b>Risk- Weighted Assets RM'000</b>	<b>Minimum Capital Requirements at 8% RM'000</b>
<b>As at 30 September 2019</b>				
Interest rate risk	8,709,249	8,682,607	134,431	10,754
Foreign currency risk	2,205	-	27,562	2,205
	<u>8,711,454</u>	<u>8,682,607</u>	<u>161,993</u>	<u>12,959</u>

	<b>Long Position RM'000</b>	<b>Short Position RM'000</b>	<b>Risk- Weighted Assets RM'000</b>	<b>Minimum Capital Requirements at 8% RM'000</b>
<b>As at 31 March 2019</b>				
Interest rate risk	6,438,554	6,415,611	83,541	6,683
Foreign currency risk	1,476	-	18,445	1,476
	<u>6,440,030</u>	<u>6,415,611</u>	<u>101,986</u>	<u>8,159</u>

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The projection, by using the repricing gap method, assumes that interest rate moves up and down parallelly by 100 basis points ("bps") across all maturities for all the interest bearing assets and liabilities. It is further assumed that all positions are repriced at the mid-point of each time band and will run to maturity. The repricing profile of any loan that does not have maturity is based on the earliest possible repricing dates. The impact on earnings and economic value is measured on a monthly basis.

The table below illustrates the impact under a 100 bps parallel upward and downward interest rate shock on the Bank's earnings and economic value.

	30 Sep 2019		31 Mar 2019	
	- 100 bps RM'000	+ 100 bps RM'000	- 100 bps RM'000	+ 100 bps RM'000
<b>Impact on net interest income</b>				
Ringgit Malaysia	(5,581)	5,581	(8,657)	8,657
United States Dollar	(493)	493	(996)	996
Japanese Yen	261	(261)	70	(70)
Others	17	(17)	157	(157)
Total	<u>(5,796)</u>	<u>5,796</u>	<u>(9,426)</u>	<u>9,426</u>
<b>Impact on economic value</b>				
Ringgit Malaysia	(6,149)	6,149	(2,679)	2,679
United States Dollar	2,176	(2,176)	2,682	(2,682)
Japanese Yen	964	(964)	1,008	(1,008)
Others	352	(352)	358	(358)
Total	<u>(2,657)</u>	<u>2,657</u>	<u>1,369</u>	<u>(1,369)</u>

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**9.0 Operational Risk**

The Bank defines operational risk as the risk of loss that it may incur resulting from inadequate or failed internal processes, people and systems, or from external events. The following risk categories are included in the Bank's definition of operational risk.

(i) *Execution Risk*

which encompasses situations where trades fail to be executed, due to dealing, processing, settlement, or reconciliation problems, at times leading to costly delays or penalties.

(ii) *People Risk*

which encompasses the risk of human errors/omissions, frauds by staff or external persons and mishaps involving key personnel.

(iii) *Systems Risk*

which is the risk of disruption to operations arising from systems failures, unauthorised intrusion or tampering of systems.

(iv) *Model Risk*

which represents the risk that incorrect raw data, assumptions and hypotheses will result in erroneous output from the model constructed/used.

As part of initiatives to improve operational risk management, "Control Self-Assessments" ("CSAs"), is implemented every six months to all departments to identify operational risk issues in the departments to reduce such risk. "Key Risk Indicator" ("KRI"), also being implemented on a monthly basis to reduce operational risk.

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**CHIEF EXECUTIVE OFFICER ATTESTATION**

In accordance with Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Mizuho Bank (Malaysia) Berhad's Pillar 3 Disclosure report for the financial period ended 30 September 2019 are consistent with the manner the Bank assesses and manages its risk, accurate, complete and not misleading in any particular way.



Shojiro Mizoguchi  
Chief Executive Officer

Date: 25 October 2019