

Company No.

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| 923693 | H |
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MIZUHO BANK (MALAYSIA) BERHAD
Incorporated in Malaysia

**STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015**

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

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MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

The directors have pleasure in presenting their report together with the audited financial statements of Mizuho Bank (Malaysia) Berhad (the "Bank") for the financial year ended 31 March 2015.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the provision of banking and related financial services. There have been no significant changes in these principal activities during the financial year.

FINANCIAL RESULTS

| | RM'000 |
|-----------------------------------|----------------|
| Profit before taxation | 16,751 |
| Taxation | <u>(3,868)</u> |
| Net profit for the financial year | <u>12,883</u> |

There were no material transfers to or from reserves and provisions during the financial year other than as disclosed in the financial statements.

DIVIDENDS

Since the end of the previous financial year, no dividend was paid and the directors do not recommend any dividend to be paid for the current financial year.

DIRECTORS

The names of the directors of the Bank in office since the date of last report and at the date of this report are:

Dato' Seri Talaat Bin Husain
Mr. Katsuyuki Mizuma
Mr. Mohd Mokhtar Bin Ghazali
Mr. Takuya Ito (appointed on 28 November 2014)
Mr. Hiroshi Suehiro (resigned on 28 November 2014)
Mr. Eiji Sasaki (appointed on 2 June 2014, resigned on 2 July 2015)

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' shareholdings, the directors in office at the end of the financial year did not have any interest in shares and share options of the Bank and its related corporations during the financial year.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

DIRECTORS' BENEFITS

Since the end of the previous financial period, no director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangements to which the Bank was a party whereby directors might acquire benefits by means of the acquisition of shares in or debenture of the Bank or any other body corporate.

ISSUE OF SHARES

There were no changes in the authorised, issued and paid up share capital of the Bank during the financial year.

There were no issues of debentures during the financial year.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Bank were made out, the directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there is no known bad debts and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render it necessary to write off any amount as bad debts or render the amount of the allowance for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Bank were made out, the directors took reasonable steps to ascertain that any current assets, which were unlikely to be realised in the ordinary course of business, their value as shown in the accounting records of the Bank, had been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements of the Bank misleading.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities in the Bank's financial statements misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability in respect of the Bank which has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent liability or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the financial statements misleading.

ITEMS OF UNUSUAL NATURE

The results of the operations of the Bank during the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect substantially the results of the Bank's operations for the current financial year in which this report is made.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

HOLDING COMPANIES

The directors regard Mizuho Bank, Ltd. and Mizuho Financial Group, Inc. as its immediate holding company and ultimate holding company respectively. Both companies are incorporated in Japan.

BUSINESS RESULTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

The Bank recorded a profit before taxation of RM16.8 million for the financial year ended 31 March 2015. Net interest income for the year was RM39.9 million, generated mainly from interest income from interbank lending of RM40.6 million, and interest income from loans, advances and financing of RM16.5 million, net of interest expense incurred on deposits from customers of RM22.2 million.

Other operating income of RM20.5 million is attributed mainly from foreign exchange gains and mark to market gain on revaluation of derivatives. Personnel costs, information systems and equipment cost together with operations and systems outsourcing expense make up the bulk of other operating expenses of RM40.4 million.

The Bank's total assets stood at RM3,114.0 million as at 31 March 2015, comprised mainly of interbank lending and loans disbursed to customers, derived from its increased paid-up capital in February 2014 and increase in deposits from customers and interbank borrowing.

As at 31 March 2015, the Bank's common equity tier 1 capital ratio and total capital ratio stood high at 38.494% and 38.964% respectively.

BUSINESS OUTLOOK FOR THE FINANCIAL YEAR ENDING 31 MARCH 2016

GDP growth for Malaysia is expected to grow at 4.5% in 2015 reflecting the impact of lower commodity prices globally, coupled with domestic fiscal reforms (Goods and Services Tax and removal of fuel subsidies) on consumer and government spending. The Bank foresees the growth of Malaysian banking industry to remain stable. For the financial year ending 31 March 2016, the Bank will continue to strengthen its customer relationships and respond accurately to any changes in business environment. The Bank will aim to achieve sustainable and stable growth together with its customers and position itself as a reliable financial institution that contributes to the sound economic development of both Malaysia and Japan.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

STATEMENT OF CORPORATE GOVERNANCE

BOARD'S DUTIES AND RESPONSIBILITIES

The Board of Directors (the "Board") is led by the Chairman, Dato' Seri Talaat Bin Husain, who is an Independent Non-Executive Director.

The roles of the Chairman and CEO are separated to ensure a balance of power and authority, such that no one individual has unfettered powers of decisions.

There are matters specifically reserved for the Board's decision to ensure that the direction and control of the Bank are firmly in hand. The day-to-day conduct of the Bank's business is delegated to the Managing Director/CEO and the full-time employees of the Bank subject to the authority limit given.

The Terms of Reference of the Board include the following:

- (1) The review and approval of management's proposal on strategies, business plan and significant policies and monitoring of management's performance in the implementation process;
- (2) Establishment of comprehensive risk management policies, processes and infrastructure to manage the various types of risks; and
- (3) Ensuring the operations of the Bank are carried out prudently and within the framework of relevant laws, rulings and regulations.

The Board also assumes various functions and responsibilities that are required of them by Bank Negara Malaysia ("BNM"), as specified in guidelines and directives issued by BNM from time to time.

BOARD COMPOSITION

The Board of the Bank consists of five (5) members, of whom one (1) is the Managing Director/Chief Executive Officer ("CEO"), two (2) are Independent Non-Executive Directors and two (2) are Non-Independent Non-Executive Directors.

The Board consists of individuals of calibre, with credibility, integrity and the necessary skills, experiences as well as qualifications to supervise the management of the business and affairs of the Bank. The Board, as a whole, provides a mixture of core competencies including banking, finance, accounting, economics and business management for effective functioning and discharging of the responsibilities of the Board.

The presence of the two (2) Independent Non-Executive Directors provides the necessary checks and balances in the functioning of the Board and facilitates the Board in exercising objective judgement in decision making.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

PROFILE OF DIRECTORS

Dato' Seri Talaat Bin Husain
Chairman, Independent Non-Executive Director

Dato' Seri Talaat Bin Husain, aged 64, was appointed as a Director of the Bank on 1 March 2011 and as the Chairman of the Bank on 28 November 2014. He is also the Chairman of the Nominating Committee and Remuneration Committee. He holds a Bachelor of Social and Political Science from University Sains Malaysia and a Masters Degree in Professional Studies (International Planning) from Cornell University New York, USA.

Mr. Katsuyuki Mizuma
Non-Independent Non-Executive Director

Mr. Katsuyuki Mizuma, aged 55, was appointed the Director of the Bank on 29 May 2012. He holds a Bachelor of Law Degree from The Kyoto University, Japan.

Mr. Takuya Ito
Non-Independent Non-Executive Director

Mr. Takuya Ito, aged 48, was appointed the Director of the Bank on 28 November 2014. He holds a Bachelor of Arts in Economics from Keio University, Japan and a Masters of Business Administration ("MBA") from the Columbia Business School, New York, USA.

Mr. Mohd Mokhtar Bin Ghazali
Independent Non-Executive Director

Mr. Mohd Mokhtar Bin Ghazali, aged 71, was appointed as a Director of the Bank on 1 March 2011. He is the Chairman of the Board Risk Management Committee and Audit Committee. He holds a Bachelor of Economics from University Malaya, Malaysia.

Mr. Eiji Sasaki
Managing Director/Chief Executive Officer

Mr. Eiji Sasaki, aged 53, was appointed as Managing Director/CEO of the Bank on 2 June 2014. He holds a Bachelor of Arts in Economics from the State University of New York, USA. He has resigned as Managing Director of the Bank on 2 July 2015.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

FREQUENCY AND CONDUCT OF BOARD MEETINGS

The Board meets on a scheduled basis to review the management reports and to deliberate on various matters which require its guidance and approval.

During the financial year, the Board held six (6) meetings and the attendance at the Board meetings are as follows:

| Board | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| Dato' Seri Talaat Bin Husain <i>Independent Non-Executive Director</i> | 6 | 6 |
| Mr. Katsuyuki Mizuma <i>Non-Independent Non-Executive Director</i> | 6 | 5 |
| Mr. Mohd Mokhtar Bin Ghazali <i>Independent Non-Executive Director</i> | 6 | 6 |
| Mr. Takuya Ito (appointed on 28 November 2014) <i>Non-Independent Non-Executive Director</i> | 2 | 2 |
| Mr. Hiroshi Suehiro (resigned on 28 November 2014) <i>Non-Independent Non-Executive Director</i> | 4 | 3 |
| Mr. Eiji Sasaki (appointed on 2 June 2014, resigned on 2 July 2015) <i>Managing Director/Chief Executive Officer</i> | 4 | 4 |

DIRECTORS' TRAINING

All the directors received continuous trainings to keep abreast with latest developments in the banking and related sectors.

During the financial year, the seminars and courses attended by the directors are, inter-alia, on areas relating to banking and related topics, amongst others, including Financial Institutions Directors' Education Programme, Risk Management, Economic and Corporate Governance.

BOARD COMMITTEES

NOMINATION AND REMUNERATION COMMITTEE

The Bank's Nomination Committee consists of all the Directors of the Bank. The Remuneration Committee comprises two (2) Independent Non-Executive Directors (of whom one (1) is the Chairman) and one (1) Non-Independent Non-Executive Director.

The Nomination Committee is responsible to provide a formal and transparent procedure for the appointment of directors and CEO as well as the assessment of the effectiveness of individual directors, Board as a whole, Board committees and the performance of the CEO and key senior management officers. The Remuneration Committee is responsible to provide a formal and transparent procedure for developing remuneration policy for directors, CEO, key senior management officers and Shariah Committee members as recommended by the Bank's regional management.

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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee shall meet at least once annually. During the financial year ended 31 March 2015, the Nomination Committee and Remuneration Committee met twice, respectively. Details of attendance of each member at the Nomination Committee and Remuneration Committee meetings held during the financial year ended 31 March 2015 are as follows:

| Nomination Committee Members | Number of Meetings | |
|--|---------------------------|-----------------|
| | Held | Attended |
| Dato' Seri Talaat Bin Husain <i>Chairman</i> | 2 | 2 |
| Mr. Mohd Mokhtar Bin Ghazali <i>Member</i> | 2 | 2 |
| Mr. Katsuyuki Mizuma <i>Member</i> | 2 | 1 |
| Mr. Takuya Ito (appointed on 28 November 2014) <i>Member</i> | 1 | 1 |
| Mr. Hiroshi Suehiro (resigned on 28 November 2014) <i>Member</i> | 1 | 1 |
| Mr. Eiji Sasaki (appointed on 2 June 2014, resigned on 2 July 2015) <i>Member</i> | 2 | 2 |

| Remuneration Committee Members | Number of Meetings | |
|---|---------------------------|-----------------|
| | Held | Attended |
| Dato' Seri Talaat Bin Husain <i>Chairman</i> | 2 | 2 |
| Mr. Katsuyuki Mizuma <i>Member</i> | 2 | 1 |
| Mr. Mohd Mokhtar Bin Ghazali (appointed on 28 November 2014) <i>Member</i> | 1 | 1 |
| Mr. Hiroshi Suehiro (resigned on 28 November 2014) <i>Member</i> | 1 | 1 |

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
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DIRECTORS' REPORT
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STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

AUDIT COMMITTEE

The Bank's Audit Committee comprises two (2) Independent Non-Executive Directors (of whom one (1) is the Chairman) and one (1) Non-Independent Non-Executive Director.

The Audit Committee shall meet at least once every quarter. During the financial year ended 31 March 2015, the Audit Committee met four (4) times.

Details of attendance of each Member at the Audit Committee meetings held during the financial year ended 31 March 2015 are as follows:

| Audit Committee Members | Number of Meetings | |
|--|---------------------------|-----------------|
| | Held | Attended |
| Mr. Mohd Mokhtar Bin Ghazali <i>Chairman</i> | 4 | 4 |
| Dato' Seri Talaat Bin Husain <i>Member</i> | 4 | 4 |
| Mr. Takuya Ito (appointed on 28 November 2014) <i>Member</i> | 1 | 1 |
| Mr. Katsuyuki Mizuma (ceased as Member on 28 November 2014) <i>Member</i> | 3 | 3 |

Accountability and Audit

In addition to the duties and responsibilities set out under its Terms of Reference, the Audit Committee assists the Board by providing an objective non-executive review of the effectiveness and efficiency of the internal controls, risk management and governance processes of the Bank.

The Head of Internal Auditor attends every Audit Committee meeting.

The minutes of the Audit Committee meetings are tabled to the Board for noting and for action by the Board where appropriate.

The activities carried out by the Audit Committee during the year are set out on pages 10 to 12 of this Directors' Report.

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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

AUDIT COMMITTEE (CONTINUED)

Relationship with External Auditors

It is the policy of the Audit Committee to meet with the external auditors at least twice a year to discuss their audit plan, audit findings and the Bank's financial statements. These meetings are held without the presence of the Executive Directors and the Management. The Audit Committee also meets with the external auditors whenever it deems necessary. In addition, the external auditors are invited to attend the annual general meeting of the Bank and are available to answer shareholders' questions on the conduct of the statutory audit and the preparation and content of their audit report.

The Audit Committee is responsible for approving audit, recurring audit-related and non-audit services provided by the external auditors. These recurring audit related and non-audit related services comprise regulatory reviews and reporting, interim reviews, tax advisory and compliance services. The terms of engagement for these services are reviewed by the Audit Committee and approved by the Board. The Audit Committee approves all ad-hoc non-audit services on a case to case basis. In approving such cases, the Audit Committee ensures that the independence and objectivity of the external auditors are not compromised.

The Audit Committee has considered the provision of non-audit services by the external auditors during the year and concluded that the provision of these services did not compromise the external auditors' independence and objectivity as the amount of the fees paid for these services was not significant when compared to the total fees paid to the external auditors.

Risk Governance

The Audit Committee, supported by the Internal Audit Department, provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

Summary of Activities

During the financial year ended 31 March 2015, the Audit Committee carried out the following activities:

Financial Reporting

- Reviewed the quarterly unaudited financial results of the Bank before recommending the same for approval by the Board of Directors.
- Reviewed the final audited financial results of the Bank before recommending the same for approval by the Board of Directors.

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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

AUDIT COMMITTEE (CONTINUED)

Internal Audit

- Reviewed the Internal Audit Charter in relation to the Guidelines on Internal Audit Function of Licensed Institutions issued by BNM to ensure its adequacy of scope and compliance with the guidelines.
- Reviewed the Annual Audit Plan to ensure adequate scope and comprehensive coverage over the activities of the Bank and ensured that all high risk areas are audited annually.
- Reviewed the effectiveness of the audit processes, resource requirements for the year and assessed the performance of Internal Audit Department.
- Reviewed, commented and approved the audit reports presented to the Audit Committee.
- Appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Bank's Head of Internal Audit.

External Audit

Reviewed with the external auditors:

- their audit plan, audit strategy and scope of work for the year.
- the results of their annual audit, audit report and management letter together with management's response to their findings.
- Assessed the independence and objectivity of the external auditors during the year and prior to the appointment of the external auditors for ad-hoc non-audit services. The Audit Committee also received reports from the external auditors on their own policies regarding independence and the measures used to control the quality of their work.
- Evaluated the performance and effectiveness of the external auditors and made recommendations to the Board on their appointment and remuneration.

Related Party Transactions

- Reviewed the related party transactions entered into by the Bank.

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DIRECTORS' REPORT
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STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

AUDIT COMMITTEE (CONTINUED)

Internal Audit Function

The Audit Committee is supported by the Internal Audit Department in the discharge of its duties and responsibilities. Internal Audit Department provides independent and objective assessment on the adequacy and effectiveness of the risk management, internal controls and governance processes.

The internal audit function reviews the effectiveness of the internal control structures over the Bank's activities focusing on high risk areas as determined using a risk-based approach. All high risk activities in each auditable area are audited annually.

The internal audits cover the review of the adequacy of risk management, operational controls, compliance with established procedures, guidelines and statutory requirements, quality of assets, management efficiency and level of customer services, amongst others. These audits are to ensure that the established controls are appropriate, effectively applied and achieve acceptable risk exposures consistent with the Bank's risk management policies. In performing such reviews, recommendations for improvement and enhancements to the existing system of internal controls and work processes are made.

Internal Audit Department also audits the information systems of the Bank.

Internal Audit Department provides consulting or advisory functions in the evaluation of risk exposures of new systems, business products and services to assess the controls that should be in place to mitigate the risks identified prior to implementation. When providing such consulting or advisory functions, Internal Audit Department is not involved in the system selection or implementation process in order to maintain its objectivity and independence.

Internal Audit Department works collaboratively with Risk Management Department to review and assess the risk governance framework and the risk management processes of the Bank in respect of their adequacy and effectiveness.

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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

BOARD RISK MANAGEMENT COMMITTEE

The Board, through the Board Risk Management Committee ("BRMC"), maintains overall responsibility for risk oversight within the Bank.

The responsibilities of the Board in providing oversight for the risk management processes include ensuring that:

- all risk policies set by the Board are effectively implemented by the Three Lines of Defence;
- procedures exist for the approval of any activity that introduces new risks or significantly increases the existing risk profile of the Bank;
- information on the Bank's risk exposures are regularly and promptly reported to the Board and other appropriate parties;
- significant risk management policies and risk exposures are regularly discussed/reviewed, with special emphasis placed on those that define the Bank's risk tolerance; and
- effective internal control procedures are implemented and competent audit personnel are available to review the effectiveness of risk management procedures/controls and the reliability of information submitted.

The establishment of BRMC is approved by the Board.

The objectives are to oversee senior management's activities in managing credit, market, liquidity, operational and other risks and to ensure that the risk management processes are in place and function effectively.

The Chairman of the BRMC is Mr. Mohd Mokhtar Bin Ghazali and its members are Dato' Seri Talaat Bin Husain and Mr. Takuya Ito.

The Committee meets at least once every quarter, or more often as the Chairman of the Committee considers necessary or appropriate and the Committee held five (5) meetings during the year.

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DIRECTORS' REPORT
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STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

BOARD RISK MANAGEMENT COMMITTEE (CONTINUED)

The details of attendance of each member at BRMC Meetings held during the financial year ended 31 March 2015 are as follows:

| Board Risk Management Committee Members | Number of Meetings | |
|---|---------------------------|-----------------|
| | Held | Attended |
| Mr. Mohd Mokhtar Bin Ghazali <i>Chairman</i> | 5 | 5 |
| Dato' Seri Talaat Bin Husain (appointed on 28 November 2014) <i>Member</i> | 2 | 2 |
| Mr. Takuya Ito (appointed on 28 November 2014) <i>Member</i> | 2 | 2 |
| Mr. Hiroshi Suehiro (resigned on 28 November 2014) <i>Member</i> | 3 | 2 |
| Mr. Katsuyuki Mizuma (ceased as Member on 28 November 2014) <i>Member</i> | 2 | 2 |

The Board Risk Management Committee is responsible for:

- reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval;
- reviewing and assessing the adequacy of the Bank's risk management policies and framework in identifying, measuring, monitoring and controlling risks, and the extent to which these policies and frameworks are effective;
- deciding whether any new credit activity or product is suitable from the business perspective, whether it complies with the Bank's business plan and regulations, and whether it will be adequately incorporated within the credit risk management process of the Bank and conducted according to standards set by the Board;
- ensuring infrastructure, resources and systems are in place for risk management, i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk taking activities; and
- reviewing and commenting on management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

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DIRECTORS' REPORT
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STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

BOARD RISK MANAGEMENT COMMITTEE (CONTINUED)

Committees supporting the Board Risk Management Committee

The BRMC, Credit Risk Management Committee (“CRMC”) and Asset and Liability Management Committee (“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.

ALMC

The ALMC supports the BRMC in the oversight of market and liquidity risk management.

The ALMC, chaired by the Bank’s CEO, has primary responsibility for the following:

- reviewing, assessing and reporting to the Board matters in relation to market risk, liquidity risk and market-oriented profits; and
- reviewing and assessing Asset and Liability Management (“ALM”) operations in relation to funding management, market risk management and any other policies.

CRMC

The CRMC supports the BRMC in the oversight of Credit Risk Management.

The CRMC is chaired by Independent non-executive director.

The Role of the CRMC is as follows:

- evaluating and assessing strategies to manage overall credit risks of the Bank;
- overseeing development of credit policies, monitoring and assessing the credit risk portfolio composition of the Bank;
- evaluating risks of the Bank under stress scenarios;
- assessing the risk-return trade-off of the Bank;
- reviewing and commenting on the reports of the credit review process, asset quality and ensure corrective action is taken; and
- reviewing and evaluating the various credit products to ensure compliance with standards set by the Board.

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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

MANAGEMENT INFORMATION

All the Directors have reviewed the Board reports prior to the Board Meetings. Information and materials, duly endorsed by the CEO and the relevant functional heads that are important to the directors' understanding of the agenda items and related topics are distributed in advance prior to the date of the meeting. The Board reports, amongst others, include the monthly performance of the Bank, minutes of the various Board and Management Committees, risk portfolio reports, any other prevailing regulatory developments as well as economic and business environment updates.

RELATED PARTY TRANSACTIONS

During the financial year ended 31 March 2015, the Bank entered into transactions with its immediate holding company, Mizuho Bank, Ltd. in the normal course of business. The details and nature of the transactions are disclosed in Note 27 to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with their resolution dated 20 August 2015.



DATO' SERI TALAAT BIN HUSAIN
DIRECTOR



MR. MOHD MOKHTAR BIN GHAZALI
DIRECTOR

Kuala Lumpur

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

| | Note | 2015 RM'000 | 2014 RM'000 |
|---|------|------------------|------------------|
| ASSETS | | | |
| Cash and short-term funds | 5 | 1,536,067 | 1,203,637 |
| Deposits and placements with financial institutions | 6 | 232,000 | 222,000 |
| Financial investments available-for-sale | 7 | 148,057 | 143,471 |
| Loans, advances and financing | 8 | 918,438 | 424,168 |
| Derivative financial assets | 9 | 260,942 | 74,982 |
| Other assets | 10 | 5,523 | 6,751 |
| Property and equipment | 11 | 9,287 | 9,183 |
| Intangible assets | 12 | 3,666 | 2,777 |
| TOTAL ASSETS | | <u>3,113,980</u> | <u>2,086,969</u> |
| LIABILITIES AND EQUITY | | | |
| Deposits from customers | 13 | 1,139,744 | 971,160 |
| Deposits and placements from financial institutions | 14 | 764,630 | 293,754 |
| Derivative financial liabilities | 9 | 242,599 | 58,933 |
| Other liabilities | 15 | 245,036 | 53,784 |
| Deferred tax liabilities | 16 | 1,541 | 1,854 |
| TOTAL LIABILITIES | | <u>2,393,550</u> | <u>1,379,485</u> |
| Share capital | 17 | 700,000 | 700,000 |
| Retained profits | 18 | 8,915 | 4,738 |
| Other reserves | 19 | 11,515 | 2,746 |
| TOTAL EQUITY | | <u>720,430</u> | <u>707,484</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>3,113,980</u> | <u>2,086,969</u> |
| COMMITMENTS AND CONTINGENCIES | 29 | <u>5,838,357</u> | <u>4,348,033</u> |

The accompanying notes form an integral part of the financial statements.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

| | Note | 2015 RM'000 | 2014 RM'000 |
|---|------|-----------------|-----------------|
| Interest income | 20 | 64,631 | 39,514 |
| Interest expense | 21 | <u>(24,772)</u> | <u>(15,593)</u> |
| Net interest income | | 39,859 | 23,921 |
| Other operating income | 22 | <u>20,495</u> | <u>21,909</u> |
| Net operating income | | 60,354 | 45,830 |
| Other operating expenses | 23 | <u>(40,418)</u> | <u>(34,808)</u> |
| Operating profit | | 19,936 | 11,022 |
| Impairment allowance on loans, advances and financing | 25 | <u>(3,185)</u> | <u>(3,768)</u> |
| Profit before taxation | | 16,751 | 7,254 |
| Taxation | 26 | <u>(3,868)</u> | <u>(2,724)</u> |
| Profit for the financial year | | 12,883 | 4,530 |
| Other comprehensive income: | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Unrealised gain/(loss) on financial investments | | 83 | (77) |
| Income tax effect | | <u>(20)</u> | <u>19</u> |
| Other comprehensive income/(loss) for the year | | 63 | (58) |
| Total comprehensive income for the financial year | | <u>12,946</u> | <u>4,472</u> |
| Profit attributable to: | | | |
| Owner of the Bank | | <u>12,883</u> | <u>4,530</u> |
| Total comprehensive income attributable to: | | | |
| Owner of the Bank | | <u>12,946</u> | <u>4,472</u> |
| Basic earnings per share (sen) | | <u>1.84</u> | <u>1.14</u> |

The accompanying notes form an integral part of the financial statements.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

| | ← Non-distributable → | | | Distributable | Total RM'000 |
|-------------------------------|----------------------------|--------------------------------|--|-------------------------------|-----------------|
| | Share capital RM'000 | Statutory reserve RM'000 | Available for-sale reserve RM'000 | Retained profits RM'000 | |
| 2015 | | | | | |
| At 1 April 2014 | 700,000 | 2,778 | (32) | 4,738 | 707,484 |
| Profit for the financial year | - | - | - | 12,883 | 12,883 |
| Other comprehensive income | - | - | 63 | - | 63 |
| Transfer to statutory reserve | - | 8,706 | - | (8,706) | - |
| At 31 March 2015 | 700,000 | 11,484 | 31 | 8,915 | 720,430 |
| 2014 | | | | | |
| At 1 April 2013 | 350,000 | - | 26 | 2,986 | 353,012 |
| Issuance of shares | 350,000 | - | - | - | 350,000 |
| Profit for the financial year | - | - | - | 4,530 | 4,530 |
| Other comprehensive loss | - | - | (58) | - | (58) |
| Transfer to statutory reserve | - | 2,778 | - | (2,778) | - |
| At 31 March 2014 | 700,000 | 2,778 | (32) | 4,738 | 707,484 |

The accompanying notes form an integral part of the financial statements.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

| | 2015 | 2014 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Cash flows from operating activities | | |
| Profit before taxation | 16,751 | 7,254 |
| <i>Adjustment for:</i> | | |
| Depreciation of property and equipment | 2,416 | 2,309 |
| Amortisation of intangible asset | 656 | 450 |
| Impairment allowances on loans, advances and financing | 3,185 | 3,768 |
| Accretion of discount net of amortisation of premium | (4,599) | (2,172) |
| Net unrealised gain on revaluation of derivatives | (2,294) | (3,734) |
| Unrealised foreign exchange gain | (4,366) | (2,501) |
| Operating profit before changes in working capital | 11,749 | 5,374 |
| <i>Decrease/(increase) in operating assets</i> | | |
| Deposits and placements with financial institutions | 25,000 | (25,000) |
| Loans, advances and financing | (497,455) | (150,464) |
| Other assets | 5,670 | (1,457) |
| Amount owing by holding company | (150) | (130) |
| Purchase of financial investments available-for-sale | 95 | (47,036) |
| <i>Increase in operating liabilities</i> | | |
| Deposits from customers | 168,584 | 393,538 |
| Deposits and placements from financial institutions | 470,876 | 141,759 |
| Other liabilities | 191,252 | 51,488 |
| Cash generated from operating activities | 375,621 | 368,072 |
| Taxation paid | (4,126) | (3,770) |
| Net cash generated from operating activities | 371,495 | 364,302 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (2,520) | (489) |
| Purchase of intangible asset | (1,545) | (699) |
| Net cash used in investing activities | (4,065) | (1,188) |

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

| | 2015 | 2014 |
|--|------------------|------------------|
| | RM'000 | RM'000 |
| Cash flows from financing activity | | |
| Proceeds from issuance of ordinary shares, representing net cash generated from financing activity | - | 350,000 |
| Net increase in cash and cash equivalents | 367,430 | 713,114 |
| Cash and cash equivalents at 1 April | 1,400,637 | 687,523 |
| Cash and cash equivalents as at 31 March | <u>1,768,067</u> | <u>1,400,637</u> |
| Analysis of cash and cash equivalents | | |
| Cash and short-term funds (Note 5) | 1,536,067 | 1,203,637 |
| Deposits and placements with financial institutions (Note 6) | 232,000 | 222,000 |
| Less: Deposits and placements with financial institutions with contractual maturity more than 3 months | - | (25,000) |
| | <u>1,768,067</u> | <u>1,400,637</u> |

The accompanying notes form an integral part of the financial statements.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

1. GENERAL INFORMATION

Mizuho Bank (Malaysia) Berhad is a limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Bank is located at Level 27, Menara Maxis, Kuala Lumpur City Centre, 50088, Kuala Lumpur, Malaysia.

The principal activities of the Bank are banking and related financial services. There have been no significant changes in the nature of the principal activities during the financial year.

The immediate holding company and ultimate holding company of the Bank are Mizuho Bank, Ltd. and Mizuho Financial Group, Inc. respectively, both are incorporated in Japan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of directors on 20 August 2015.

2. ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements, unless otherwise stated.

2.1 BASIS OF PREPARATION AND PRESENTATION

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under the historical cost basis unless otherwise indicated in the summary of significant accounting policies as disclosed in Note 2.2.

The Bank presents the statement of financial position in order of liquidity.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard or interpretation, and specifically disclosed in the accounting policies of the Bank.

The financial statements are presented in Ringgit Malaysia ("RM") and rounded to the nearest thousand (RM'000), unless otherwise stated.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Financial assets

(a) Date of recognition

All financial assets are initially recognised on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(b) Initial recognition and subsequent measurement

Financial assets within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* ("MFRS139") are classified as financial assets at fair value through profit or loss, loans and receivables, financial investments held-to-maturity and financial investments available-for-sale. The Bank determines the classification of financial assets at initial recognition, in which the details are disclosed below.

The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial investments recorded at fair value through profit or loss.

Included in financial assets of the Bank are the following:

(1) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks, reverse repurchase agreements, loans, advances and financing and other receivables. These financial assets are initially recognised at fair value, including direct and incremental transaction costs and subsequently measured at amortised cost using the effective interest method.

(2) Financial investments available-for-sale ("AFS")

Financial investments AFS are financial assets that are designated as available-for-sale.

Financial investments AFS include equity and debt securities. Debt securities in this category are intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in market conditions.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (continued)

(b) Initial recognition and subsequent measurement (continued)

(2) Financial investments available-for-sale ("AFS") (continued)

After initial recognition, financial investments AFS are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income in the 'available-for-sale reserve', except for impairment losses, foreign exchange gains or losses on monetary financial assets and interest income calculated using the effective interest method are recognised in the income statements. Dividends on financial investments AFS are recognised in the income statements when the Bank's right to receive payment is established. When the Bank derecognise financial investments AFS, the cumulative gain or loss previously recognised in equity is recognised in the income statements in 'other operating income'.

(c) Derecognition

A financial asset is derecognised when:

- (1) The rights to receive cash flows from the financial asset have expired;
- (2) The Bank have transferred its rights to receive cash flows from the financial asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either:
 - (i) the Bank have transferred substantially all the risks and rewards of the financial asset, or
 - (ii) the Bank have neither transferred nor retained substantially all the risks and rewards of the financial asset, but have transferred control of the financial asset.

When the Bank has transferred its rights to receive cash flows from a financial asset or have entered into a pass through arrangement and have neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognised to the extent of the Bank's continuing involvement in the financial asset. In that case, the Bank also recognises an associated financial liability. The transferred financial asset and associated financial liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (continued)

(d) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset, including financial investment or group of financial investments (other than financial assets at FVTPL) is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers experiencing significant financial difficulty, the probability that they will enter bankruptcy or other reorganisation, default or delinquency in interest or principal payments or where observable data indicates that there is a measureable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

(1) Loans and receivables

(i) Loans, advances and financing

Classification of loans, advances and financing as impaired

Loans, advances and financing are classified as impaired when:

- principal or interest/profit or both are past due for three (3) months or more; or
- where loans, advances and financing in arrears for less than three (3) months exhibit indications of credit weaknesses, whether or not impairment loss has been provided for; or
- where an impaired loans, advances and financing has been rescheduled or restructured, the loans, advances and financing will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

Impairment process – individual assessment

The Bank assesses if objective evidence of impairment exists for loans, advances and financing which are deemed to be individually significant.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (continued)

(d) Impairment of financial assets (continued)

(1) Loans and receivables (continued)

(i) Loans, advances and financing (continued)

Impairment process – individual assessment (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loans, advances and financing carrying amount and the present value of the estimated future cash flows discounted at the loans, advances and financing original effective interest rate. The carrying amount of the loans, advances and financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statements.

Impairment process – collective assessment

Loans, advances and financing which are not individually significant and that have been individually assessed with no evidence of impairment loss are grouped together for collective impairment assessment. These loans, advances and financing are grouped within similar credit risk characteristics for collective assessment, whereby data from the loans, advances and financing portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks (such as the performance of different individual groups) are taken into consideration.

Future cash flows in a group of loans, advances and financing that are collectively evaluated for impairment are estimated based on the historical loss experience of the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (continued)

(d) Impairment of financial assets (continued)

(1) Loans and receivables (continued)

(i) Loans, advances and financing (continued)

Impairment process – written off accounts

Where a loan, advance and financing is uncollectible, it is written off against the related allowance for loan impairment. Such loans, advances and financing are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the income statements.

(ii) Other receivables

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Bank considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (continued)

(d) Impairment of financial assets (continued)

(2) Financial investments available-for-sale ("AFS")

For financial investments AFS, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as financial investments AFS, the Bank assesses individually whether there is objective evidence that an investment is impaired. If there are objective evidence of impairment on financial investments AFS, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statements. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income is recorded as part of interest and similar income. If in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statements, the impairment loss is reversed through the income statements.

In the case of equity investments classified as financial investments AFS, the objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The the Bank treats "significant" generally as 25% and "prolonged" generally as four consecutive quarters.

Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statements - is removed from equity and recognised in the income statements. Impairment losses on equity investments are not reversed through the income statements; increases in the fair value after impairment are recognised in other comprehensive income.

Subsequent reversals in the impairment loss are recognised when the decrease can be objectively related to an event occurring after the impairment loss was recognised, to the extent that the financial assets carrying amount does not exceed its amortised cost had the impairment not been recognised at the reversal date. The reversal is recognised in the income statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (continued)

(d) Impairment of financial assets (continued)

(2) Financial investments available-for-sale ("AFS") (continued)

For unquoted equity securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The amount of impairment loss is recognised in the income statements and such impairment losses are not reversed subsequent to its recognition.

(ii) Financial liabilities

(a) Date of recognition

All financial liabilities are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(b) Initial recognition and subsequent measurement

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. All financial liabilities are measured initially at fair value plus directly attributable transaction costs, except in the case of financial liabilities at fair value through profit or loss ("FVTPL").

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(1) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities HFT and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities HFT include derivatives entered into by the Bank that does not meet the hedge accounting criteria.

The Bank has not designated any financial liabilities as at FVTPL.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Financial liabilities (continued)

(b) Initial recognition and subsequent measurement (continued)

(2) Other financial liabilities

The Bank's other financial liabilities mainly include deposits from customers, deposits and placements from financial institutions, payables and other liabilities.

(i) Deposits from customers and deposits and placements from financial institutions

Deposits from customers and deposits and placements from financial institutions are stated at placement values.

(ii) Payables

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

(iii) Other liabilities

Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in the future for goods and services received.

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset against each other and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Derivative instruments and hedge accounting

(a) Derivative instruments

The Bank trades derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivative instruments are initially recognised at fair value, which is normally zero or negligible at inception for non-option derivatives and equivalent to the market premium paid or received for purchased or written options. The derivatives are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statements.

(b) Hedge accounting

The Bank uses derivative instruments to manage exposures to interest rate, foreign currency and credit risks. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

At the inception of the hedge relationship, the Bank documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on ongoing basis. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.

Hedge ineffectiveness is recognised in the income statements. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statements.

(1) Fair value hedge

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the income statements. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statements of financial position and is also recognised in the income statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Derivative instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

(1) Fair value hedge (continued)

If the hedging instrument expires or is sold, terminated or exercised or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statements.

(2) Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in non-interest income in the income statements.

When the hedged cash flow affects the income statements, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statements.

When a hedging instrument expires, or is sold, terminated, exercised or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the income statements.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to income statements.

The Bank did not apply cash flow hedge as at the financial year end.

(3) Hedge of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Derivative instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

(3) Hedge of net investments in foreign operations (continued)

On disposal of the foreign operations, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to the income statements.

The Bank did not apply hedge of net investments in foreign operations as at the financial year end.

(v) Property and equipment and depreciation

All items of property and equipment are initially recorded at cost. The cost of an item of property and equipment is recognised as an asset, if and only if, it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Subsequent to recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

Depreciation of other property and equipment is computed on a straight-line basis over its estimated useful life as follows:

| | |
|--|----------|
| Leasehold improvements | 10 years |
| Office equipment, furniture and fittings | 5 years |
| Computer hardware | 5 years |
| Computer peripherals | 3 years |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

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2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets as at the year end include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets with finite lives are amortised over the useful economic life. Intangibles with finite lives or not yet available for use and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statements in the expense category consistent with the function of the intangible asset.

Intangible assets are amortised over their estimated finite useful lives as follows:

| | |
|-------------------|---------|
| Computer software | 5 years |
|-------------------|---------|

(vii) Other assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An allowance for impairment is based on a review of all outstanding amounts as at the reporting date.

(viii) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents include of cash and short-term funds and deposits and placements with financial institutions, with a maturity of three month or less, which are subject to an insignificant rise of changes in value.

(ix) Provisions for liabilities

Provisions for liabilities are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

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2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ix) Provisions for liabilities (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

(x) Foreign currencies

(a) Functional and presentation currency

The financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Bank's functional currency.

(b) Foreign currency transactions and balances

Transactions in foreign currencies are measured in the functional currencies of the Bank are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the spot exchange rates as at the date of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on the translation of monetary items at the reporting date are recognised in the income statements.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the income statements for the year except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity.

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2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(xi) Income tax

Income tax in the profit or loss for the year comprises current and deferred taxes. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

Deferred tax is provided for using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity via other comprehensive income on fair value re-measurement of financial investments AFS.

(xii) Recognition of interest income and expense

Interest income and expense for all financial instruments measured at amortised cost and interest/profit-bearing financial assets classified as financial investments available-for-sale are recognised within 'interest income' and 'interest expense' in the income statements using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank takes into account all contractual terms of the financial instrument and include any fees or incremental costs that are directly attributable to the instrument, which are an integral part of the effective interest rate, but does not consider future credit losses.

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2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(xii) Recognition of interest income and expense (continued)

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Income and expense from Islamic banking business is recognised on an accrual basis in accordance with the principles of Shariah.

(xiii) Recognition of fee and other income

(a) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(1) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and outsourcing fee on shared-service services to Mizuho Bank, Ltd., Labuan Branch and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(2) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the loan arrangement fee, commissions and placement fees, are recognised as income when all conditions precedent are fulfilled.

(b) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held-for-trading. This includes any ineffectiveness recorded in hedging transactions.

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2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(xiv) Employee benefits

(a) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(b) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement when incurred.

(xv) Share capital

Ordinary shares are classified as equity when there is no contracted obligation to transfer cash on other financial assets. Transaction cost directly attributable to the issuance of new equity shares are taken for equity as a deduction for the proceeds.

(xvi) Contingent liabilities and contingent assets

The Bank does not recognise a contingent liability but disclose its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of and the Bank. The Bank does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

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2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(xvi) Contingent liabilities and contingent assets (continued)

Subsequent to the initial recognition, the Bank measure the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provision of MFRS 137 *Provision, Contingent Liabilities and Contingent Assets* and the amount initially recognised as profit or loss, when appropriate, cumulative amortisation recognised in accordance with MFRS 118 *Revenue*.

(xvii) Fair value measurement

The Bank measures financial instruments such as financial investments AFS and derivatives at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability: or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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NOTES TO THE FINANCIAL STATEMENTS
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2. ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(xvii) Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value of financial instruments and further details are disclosed in Note 33.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 April 2014, the Bank adopted the following new and amended MFRSs and IC Interpretation:

| Description | Effective for annual periods beginning on or after |
|--|---|
| Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |
| Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets | 1 January 2014 |
| Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting | 1 January 2014 |
| IC Interpretation 21 <i>Levies</i> | 1 January 2014 |

The nature and impact of the new and amended MFRSs and IC Interpretation are described below:

(i) Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and “simultaneous realisation and settlement”. These amendments are to be applied retrospectively. These amendments have no impact on the Bank.

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2. ACCOUNTING POLICIES (CONTINUED)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(ii) Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets

The amendments to MFRS 136 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives has been allocated when there has been no impairment or reversal of impairment of the related CGU. In addition, the amendments introduce additional disclosure requirements when the recoverable amount is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by MFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Bank's financial statements.

(iii) Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measure of hedge effectiveness. Retrospective application is required.

These amendments have no impact on the Bank as the Bank does not have any derivatives that are subject to novation.

(iv) IC Interpretation 21 Levies

IC 21 defines a levy and clarifies that the obligating event which gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. For a levy which is triggered upon reaching a minimum threshold, IC 21 clarifies that no liability should be recognised before the specified minimum threshold is reached. Retrospective application is required. The application of IC 21 has had no material impact on the disclosures or on the amounts recognised in the Bank's financial statements.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the management to make judgments, estimates and assumptions that affect the reported amounts of income and expense in the profit and loss and of assets and liabilities in the statement of financial position, and the accompanying disclosures and the disclosure of contingent liabilities at the reporting date. This requires the management to exercise their judgments and to make use of information available at the reporting date when making their estimates. The actual future results from operations where management has made use of estimates may in reality differ significantly from those estimates, mainly due to market conditions and changes in credit risk. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in the future.

3.1 FAIR VALUE ESTIMATION OF FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE AND DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of financial investments and derivatives that are not traded in an active market are determined using appropriate valuation techniques based on assumptions of market conditions existed at the reporting date, including reference to quoted market prices and independent dealer quotes for similar financial instruments and discounted cash flows method.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible but where this is not feasible, a degree of judgement is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

3.2 IMPAIRMENT OF FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

The Bank reviews the financial investments AFS and assess at each reporting date whether there is any objective evidence that the investment is impaired. If there are indicators or objective evidence, the investments are subject to impairment review.

In carrying out the impairment review, the following management's judgments are required:

- (i) Determination whether the investment is impaired based on certain indicators such as, amongst others, prolonged decline in fair value, significant financial difficulties of the issuer or obligors, the disappearance of an active trading market and deterioration of the credit quality of the issuers or obligors; and
- (ii) Determination of "significant" or "prolonged" requires judgment and management evaluation on various factors, such as historical fair value movement, the duration and extent of reduction in fair value.

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**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS
(CONTINUED)**

3.3 IMPAIRMENT ALLOWANCE ON LOANS, ADVANCES AND FINANCING

The Bank reviews its individually significant loans, advances and financing at each reporting date to assess whether an impairment loss should be recorded in the profit or loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowances.

Loans, advances and financing that have been assessed individually but for which no impairment loss is required and all individually insignificant loans, advances and financing are then assessed collectively in groups of assets with similar credit risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loans, advances and financing portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratio etc.) and judgments on the effect of concentrations of risks (such as the performance of different individual group).

3.4 DEFERRED TAX AND INCOME TAXES

Significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking advice on the tax treatments where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the period in which the estimate is revised or the final liability is established.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

3.5 GOING CONCERN

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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4 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

| Description | Effective for annual periods beginning on or after |
|---|---|
| Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions | 1 July 2014 |
| Annual Improvements to MFRSs 2010 – 2012 Cycle | 1 July 2014 |
| Annual Improvements to MFRSs 2011 – 2013 Cycle | 1 July 2014 |
| Annual Improvements to MFRSs 2012 – 2014 Cycle | 1 July 2014 |
| Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants | 1 January 2016 |
| Amendments to MFRS 101: Disclosure Initiatives | 1 January 2016 |
| MFRS 14 <i>Regulatory Deferral Accounts</i> | 1 January 2016 |
| MFRS 15 <i>Revenue from Contracts with Customers</i> | 1 January 2017 |
| MFRS 9 <i>Financial Instruments</i> | 1 January 2018 |

Amendments to MFRS 119 Defined Benefit Plans: Employee Contributions

The amendments to MFRS 119 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. For contributions that are independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. For contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Directors of the Bank do not anticipate that the application of these amendments will have a significant impact on the Bank's financial statements.

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4 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank as the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of MFRS 141. Instead, MFRS 116 will apply. After initial recognition, bearer plants will be measured under MFRS 116 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of MFRS 141 and are measured at fair value less costs to sell.

The amendments are effective for annual periods beginning on or after 1 January 2016 and are to be applied retrospectively, with early adoption permitted. The Directors anticipate that the application of these amendments will have a material impact on the amounts reported and disclosures made in the Bank's financial statements. The Bank is currently assessing the impact of these amendments and plans to adopt the new standard on the required effective date.

Amendments to MFRS 101: Disclosure Initiatives

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income arising from equity accounted investments

The Directors of the Bank do not anticipate that the application of these amendments will have a material impact on the Bank's financial statements.

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4 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

MFRS 14 *Regulatory Deferral Accounts*

MFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulations, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of MFRS. Entities that adopt MFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in the account balances as separate line items in profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Bank is an existing MFRS preparer, this standard would not apply.

MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 establishes a new five-step models that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFR 118 *Revenue*, MFRS 111 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

MFRS 9 *Financial Instruments*

In November 2014, Malaysian Accounting Standard Board ("MASB") issued the final version of MFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces MFRS 139 *Financial Instruments: Recognition and Measurement* and all previous versions of MFRS 9.

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4 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

MFRS 9 *Financial Instruments* (continued)

The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank is in the process of assessing the financial implications for adopting the new standard.

Annual Improvements to MFRSs 2010–2012 Cycle

The Annual Improvements to MFRSs 2010-2012 Cycle include a number of amendments to various MFRSs, which are summarised below. The Directors of the Bank do not anticipate that the application of these amendments will have a significant impact on the Bank's financial statements.

MFRS 2 *Share-based Payment*

This improvement clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or those of another entity in the same group;
- A performance condition may be a market or non-market condition; and
If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

This improvement is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

MFRS 8 *Operating Segments*

The amendments are to be applied retrospectively and clarify that:

- an entity must disclose the judgements made by management in applying the aggregation criteria in MFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar; and
- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

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NOTES TO THE FINANCIAL STATEMENTS
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4 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

Annual Improvements to MFRSs 2010–2012 Cycle (cont'd.)

MFRS 116 Property, Plant and Equipment and MFRS 138 Intangible Assets

The amendments remove inconsistencies in the accounting for accumulated depreciation or amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amendments clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

MFRS 124 Related Party Disclosures

The amendments clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. The reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services.

Annual Improvements to MFRSs 2011–2013 Cycle

The Annual Improvements to MFRSs 2011-2013 Cycle include a number of amendments to various MFRSs, which are summarised below. The Directors of the Bank do not anticipate that the application of these amendments will have a significant impact on the Bank's financial statements.

MFRS 13 Fair Value Measurement

The amendments to MFRS 13 clarify that the portfolio exception in MFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of MFRS 9 (or MFRS 139 as applicable).

MFRS 140 Investment Property

The amendments to MFRS 140 clarify that an entity acquiring investment property must determine whether:

- the property meets the definition of investment property in terms of MFRS 140; and
- the transaction meets the definition of a business combination under MFRS 3,

to determine if the transaction is a purchase of an asset or is a business combination.

Annual Improvements to MFRSs 2012–2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below. The Directors of the Bank do not anticipate that the application of these amendments will have a significant impact on the Bank's financial statements.

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4 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

Annual Improvements to MFRSs 2012–2014 Cycle (continued)

MFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment to MFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in MFRS 5.

The amendment also clarifies that changing the disposal method does not change the date of classification. This amendment is to be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

MFRS 7 *Financial Instruments: Disclosures*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required.

In addition, the amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

MFRS 119 *Employee Benefits*

The amendment to MFRS 119 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

MFRS 134 *Interim Financial Reporting*

MFRS 134 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'.

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

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5. CASH AND SHORT-TERM FUNDS

| | 2015 | 2014 |
|--|------------------|------------------|
| | RM'000 | RM'000 |
| Cash and balances with banks and other financial institutions | 83,469 | 53,784 |
| Money at call and deposit placements maturing within one month | 1,452,598 | 1,149,853 |
| | <u>1,536,067</u> | <u>1,203,637</u> |

6. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

| | 2015 | 2014 |
|--|----------------|----------------|
| | RM'000 | RM'000 |
| Deposits and placements maturing more than one month | <u>232,000</u> | <u>222,000</u> |

7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

| | 2015 | 2014 |
|-------------------------------------|----------------|----------------|
| | RM'000 | RM'000 |
| At fair value: | | |
| Malaysian Government Securities | - | 10,015 |
| Malaysian Government Treasury Bills | 148,057 | 133,456 |
| | <u>148,057</u> | <u>143,471</u> |

8. LOANS, ADVANCES AND FINANCING

| | 2015 | 2014 |
|-------------------------------------|----------------|----------------|
| | RM'000 | RM'000 |
| (a) By type: | | |
| At amortised cost: | | |
| Term loans | 388,968 | 177,894 |
| Revolving credits | 538,256 | 251,875 |
| Gross loans, advances and financing | <u>927,224</u> | <u>429,769</u> |
| Less: Impairment allowance | | |
| - Collective impairment allowance | (8,786) | (5,601) |
| Net loans, advances and financing | <u>918,438</u> | <u>424,168</u> |

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8. LOANS, ADVANCES AND FINANCING (CONTINUED)

| | 2015 | 2014 |
|---|----------------|----------------|
| | RM'000 | RM'000 |
| (b) By geographical distribution: | | |
| In Malaysia | 853,135 | 429,769 |
| Outside Malaysia | 74,089 | - |
| | <u>927,224</u> | <u>429,769</u> |
| | 2015 | 2014 |
| | RM'000 | RM'000 |
| (c) By type of customer: | | |
| Domestic business enterprise | 608,869 | 317,378 |
| Domestic non-bank financial institutions | 244,266 | 92,788 |
| Foreign business entity | 74,089 | 19,603 |
| | <u>927,224</u> | <u>429,769</u> |
| | 2015 | 2014 |
| | RM'000 | RM'000 |
| (d) By interest/profit rate sensitivity: | | |
| Fixed rate | 446,934 | 278,735 |
| Variable rate - Cost plus | 480,290 | 151,034 |
| | <u>927,224</u> | <u>429,769</u> |
| | 2015 | 2014 |
| | RM'000 | RM'000 |
| (e) By economic purpose: | | |
| Construction | 111,564 | - |
| Purchase of fixed assets other than land and building | 122,974 | 120,826 |
| Purchase of non-residential property | 1,575 | 2,777 |
| Working capital | 691,111 | 306,166 |
| | <u>927,224</u> | <u>429,769</u> |
| | 2015 | 2014 |
| | RM'000 | RM'000 |
| (f) By economic sector: | | |
| Manufacturing | 299,135 | 274,911 |
| Construction | - | 7,257 |
| Wholesale and retail trade, and restaurants and hotels | 161,233 | 22,412 |
| Transport, storage and communication | 11,594 | 12,798 |
| Finance, insurance, real estate and business activities | 381,173 | 112,391 |
| Others | 74,089 | - |
| | <u>927,224</u> | <u>429,769</u> |

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8. LOANS, ADVANCES AND FINANCING (CONTINUED)

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| (g) By residual contractual maturity: | | |
| Maturity within | | |
| - one year | 474,179 | 295,072 |
| - one to five years | 387,320 | 85,664 |
| - after five years | 65,725 | 49,033 |
| | 927,224 | 429,769 |
| (h) Movements in collective impairment allowance for loans, advances and financing: | | |
| | 2015 | 2014 |
| | RM'000 | RM'000 |
| At 1 April 2014/2013 | 5,601 | 1,833 |
| Allowance made during the year (Note 25) | 3,185 | 3,768 |
| At 31 March | 8,786 | 5,601 |
| As percentage of total loan | 0.95% | 1.30% |

The Bank has no impaired loans, advances and financing and no individual impairment allowance was deemed required as at 31 March 2015.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates of the underlying instruments. These instruments allow the Bank to transfer, modify or reduce its foreign exchange and interest rate risks via hedge relationships. Most of the Bank's derivative trading activities relate to deals with customers which the Bank normally enters corresponding positions with counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates or indices. The table below shows the Bank's derivative financial instruments as at the date of statement of financial position. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values at the date of statement of financial position are analysed below.

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9. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| | Notional amount RM'000 | Fair value | |
|---------------------------------------|------------------------------|------------------|-----------------------|
| | | Assets RM'000 | Liabilities RM'000 |
| 2015 | | | |
| At fair value: | | | |
| Foreign exchange related contracts | 1,094,934 | 11,069 | (10,360) |
| Interest rate related contracts | 3,828,894 | 249,873 | (232,239) |
| Total derivative assets/(liabilities) | <u>4,923,828</u> | <u>260,942</u> | <u>(242,599)</u> |
| 2014 | | | |
| At fair value: | | | |
| Foreign exchange related contracts | 1,039,305 | 2,719 | (2,500) |
| Interest rate related contracts | 2,897,055 | 72,263 | (56,433) |
| Total derivative assets/(liabilities) | <u>3,936,360</u> | <u>74,982</u> | <u>(58,933)</u> |

10. OTHER ASSETS

| | Note | 2015 RM'000 | 2014 RM'000 |
|---|------|----------------|----------------|
| Accrued interest receivable | | 1,215 | 1,396 |
| Other receivables, deposits and prepayments | | 3,691 | 4,888 |
| Due from holding company | (a) | 617 | 467 |
| | | <u>5,523</u> | <u>6,751</u> |

(a) The amount due from holding company is unsecured, interest-free and repayable on demand.

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11. PROPERTY AND EQUIPMENT

| | Office equipment, furniture and fittings RM'000 | Leasehold improvements RM'000 | Computer equipment RM'000 | Computer hardware RM'000 | Total RM'000 |
|---------------------------------|---|-------------------------------------|---------------------------------|--------------------------------|-----------------|
| 2015 | | | | | |
| Cost | | | | | |
| At 1 April 2014 | 4,791 | 7,013 | 473 | 2,646 | 14,923 |
| Additions | 294 | 1,460 | 463 | 303 | 2,520 |
| At 31 March 2015 | <u>5,085</u> | <u>8,473</u> | <u>936</u> | <u>2,949</u> | <u>17,443</u> |
| Accumulated depreciation | | | | | |
| At 1 April 2014 | 2,442 | 1,732 | 338 | 1,228 | 5,740 |
| Depreciation charged | 980 | 750 | 125 | 561 | 2,416 |
| At 31 March 2015 | <u>3,422</u> | <u>2,482</u> | <u>463</u> | <u>1,789</u> | <u>8,156</u> |
| Net book value | | | | | |
| At 31 March 2015 | <u>1,663</u> | <u>5,991</u> | <u>473</u> | <u>1,160</u> | <u>9,287</u> |
| 2014 | | | | | |
| Cost | | | | | |
| At 1 April 2013 | 4,788 | 6,758 | 382 | 2,506 | 14,434 |
| Additions | 3 | 255 | 91 | 140 | 489 |
| At 31 March 2014 | <u>4,791</u> | <u>7,013</u> | <u>473</u> | <u>2,646</u> | <u>14,923</u> |
| Accumulated depreciation | | | | | |
| At 1 April 2013 | 1,484 | 1,044 | 193 | 710 | 3,431 |
| Depreciation charged | 958 | 688 | 145 | 518 | 2,309 |
| At 31 March 2014 | <u>2,442</u> | <u>1,732</u> | <u>338</u> | <u>1,228</u> | <u>5,740</u> |
| Net book value | | | | | |
| At 31 March 2014 | <u>2,349</u> | <u>5,281</u> | <u>135</u> | <u>1,418</u> | <u>9,183</u> |

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12. INTANGIBLE ASSETS

| | Software RM'000 | Software Development in-Progress RM'000 | Total RM'000 |
|---------------------------------|----------------------------|--|-------------------------|
| 2015 | | | |
| Cost | | | |
| At 1 April 2014 | 2,570 | 1,165 | 3,735 |
| Additions | 576 | 969 | 1,545 |
| Transferred to software | 1,074 | (1,074) | - |
| At 31 March 2015 | <u>4,220</u> | <u>1,060</u> | <u>5,280</u> |
| Accumulated amortisation | | | |
| At 1 April 2014 | 958 | - | 958 |
| Amortisation charged | 656 | - | 656 |
| At 31 March 2015 | <u>1,614</u> | <u>-</u> | <u>1,614</u> |
| Net book value | | | |
| At 31 March 2015 | <u>2,606</u> | <u>1,060</u> | <u>3,666</u> |
| 2014 | | | |
| Cost | | | |
| At 1 April 2013 | 2,088 | 948 | 3,036 |
| Additions | 28 | 671 | 699 |
| Transferred to software | 454 | (454) | - |
| At 31 March 2014 | <u>2,570</u> | <u>1,165</u> | <u>3,735</u> |
| Accumulated amortisation | | | |
| At 1 April 2013 | 508 | - | 508 |
| Amortisation charged | 450 | - | 450 |
| At 31 March 2014 | <u>958</u> | <u>-</u> | <u>958</u> |
| Net book value | | | |
| At 31 March 2014 | <u>1,612</u> | <u>1,165</u> | <u>2,777</u> |

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13. DEPOSITS FROM CUSTOMERS

| | 2015 | 2014 |
|--|------------------|----------------|
| | RM'000 | RM'000 |
| (a) By type of deposit: | | |
| - Demand deposits | 405,582 | 318,188 |
| - Fixed deposits | 197,079 | 215,636 |
| - Short-term deposits | 537,083 | 437,336 |
| | <u>1,139,744</u> | <u>971,160</u> |
| (b) By type of customer: | | |
| - Domestic non-bank financial institutions | 109,368 | 73,835 |
| - Domestic business enterprises | 1,006,769 | 858,875 |
| - Foreign business enterprises | 23,607 | 38,450 |
| | <u>1,139,744</u> | <u>971,160</u> |
| (c) Maturity structure: | | |
| - On demand | 405,582 | 318,188 |
| - Due within six months | 670,034 | 625,659 |
| - Due within six months to one year | 64,128 | 27,313 |
| | <u>1,139,744</u> | <u>971,160</u> |

14. DEPOSITS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

| | 2015 | 2014 |
|----------------|----------------|----------------|
| | RM'000 | RM'000 |
| Licensed banks | <u>764,630</u> | <u>293,754</u> |

15. OTHER LIABILITIES

| | 2015 | 2014 |
|--------------------------|----------------|---------------|
| | RM'000 | RM'000 |
| Accrued interest payable | 2,874 | 1,441 |
| Other accruals | 768 | 823 |
| Other payables | 241,394 | 51,520 |
| | <u>245,036</u> | <u>53,784</u> |

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16. DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position.

| | 2015 | 2014 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| At 1 April 2014/2013 | (1,854) | (1,347) |
| Recognised in profit or loss | 333 | (526) |
| Recognised in other comprehensive income | (20) | 19 |
| At 31 March | (1,541) | (1,854) |

Presented after appropriate offsetting as follows:

| | | |
|--------------------------|---------|---------|
| Deferred tax assets | - | 10 |
| Deferred tax liabilities | (1,541) | (1,864) |
| | (1,541) | (1,854) |

The movements in deferred tax assets/(liabilities) during the financial year comprise the following:

| | Accelerated capital allowances | Financial investments available-for-sale | Provisions | Total |
|--|---------------------------------------|---|-------------------|---------------|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| 2015 | | | | |
| At 1 April 2014 | (1,864) | 10 | - | (1,854) |
| Recognised in profit or loss | 269 | - | - | 269 |
| Recognised in other comprehensive income | - | (20) | - | (20) |
| Effect of reduction in tax rate | 64 | - | - | 64 |
| At 31 March 2015 | (1,531) | (10) | - | (1,541) |
| 2014 | | | | |
| At 1 April 2013 | (1,840) | (9) | 502 | (1,347) |
| Recognised in profit or loss | (24) | - | (502) | (526) |
| Recognised in other comprehensive income | - | 19 | - | 19 |
| At 31 March 2014 | (1,864) | 10 | - | (1,854) |

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17. SHARE CAPITAL

| | Number of ordinary share of RM 1 each | | Amount | |
|------------------------------------|--|--------------|----------------|----------------|
| | 2015 '000 | 2014 '000 | 2015 RM'000 | 2014 RM'000 |
| Authorised: | | | | |
| At beginning/end of financial year | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Issued and fully paid: | | | | |
| At 1 April 2014/2013 | 700,000 | 350,000 | 700,000 | 350,000 |
| Issued during the financial year | - | 350,000 | - | 350,000 |
| At 31 March | 700,000 | 700,000 | 700,000 | 700,000 |

18. RETAINED PROFITS

The retained profits of the Bank as at 31 March 2015 and 31 March 2014 are distributable profits and may be distributed as dividends under the single-tier system.

19. OTHER RESERVES

| | 2015 RM'000 | 2014 RM'000 |
|----------------------------|----------------|----------------|
| Non-distributable: | | |
| Statutory reserve | 11,484 | 2,778 |
| Available-for-sale reserve | 31 | (32) |
| | <u>11,515</u> | <u>2,746</u> |

20. INTEREST INCOME

| | 2015 RM'000 | 2014 RM'000 |
|--|----------------|----------------|
| Loans, advances and financing | 16,452 | 9,693 |
| Money at call and deposits and placements with financial institutions | 40,642 | 23,451 |
| Net gain from interest rate swap and cross-currency interest rate swap | 2,898 | 3,689 |
| Financial investments available-for-sale | 4,639 | 2,681 |
| | <u>64,631</u> | <u>39,514</u> |

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21. INTEREST EXPENSE

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Deposits and placements from financial institutions | 2,544 | 1,225 |
| Deposits from customers | 22,228 | 14,368 |
| | 24,772 | 15,593 |

22. OTHER OPERATING INCOME

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Fee income | 5,122 | 4,843 |
| Net unrealised gain on revaluation of derivatives | 2,294 | 3,734 |
| Realised foreign exchange gain | 8,713 | 10,831 |
| Unrealised foreign exchange gain | 4,366 | 2,501 |
| | 20,495 | 21,909 |

23. OTHER OPERATING EXPENSES

| | 2015 | 2014 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Personnel costs: | | |
| Salaries, allowances and bonuses | 14,179 | 12,031 |
| Contribution to Employees Provident Fund | 1,514 | 1,265 |
| Other staff related costs | 4,901 | 3,747 |
| Establishment costs: | | |
| Repair and maintenance | 1,826 | 1,446 |
| Depreciation of property and equipment | 2,416 | 2,309 |
| Amortisation of intangible asset | 656 | 450 |
| Rental of premises | 2,094 | 1,965 |
| Information technology expenses | 4,762 | 3,688 |
| Others | 1,144 | 1,060 |
| Marketing expenses: | | |
| Advertisement and publicity | 104 | 113 |
| Others | 698 | 565 |
| Administration and general expenses: | | |
| Communication expenses | 860 | 667 |
| Legal and professional fees | 2,546 | 1,629 |
| Others | 2,718 | 3,873 |
| | 40,418 | 34,808 |

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23. OTHER OPERATING EXPENSES (CONTINUED)

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| The above expenses include the following statutory disclosures: | | |
| Directors' remuneration (Note 24) | 1,088 | 1,242 |
| Auditors' remuneration: | | |
| - Statutory audit | 246 | 193 |
| - Regulatory-related services | 110 | 37 |
| | 1,088 | 1,242 |

24. DIRECTORS' REMUNERATION

The total remuneration (including benefits-in-kind) of the directors of the Bank are as follows:

| | Salary and bonus RM'000 | Fee RM'000 | Other emoluments RM'000 | Benefit- in-kind RM'000 | Total RM'000 |
|-------------------------------------|----------------------------------|---------------|-------------------------------|-------------------------------|-----------------|
| 2015 | | | | | |
| Executive directors and CEO: | | | | | |
| Mr. Eiji Sasaki | 443 | - | 142 | 129 | 714 |
| Mr. Hiroyuki Yoshinari | 78 | - | 74 | 18 | 170 |
| Non-executive directors: | | | | | |
| Dato' Seri Talaat Bin Husain | - | 88 | 8 | - | 96 |
| Mr. Mohd Mokhtar Bin Ghazali | - | 87 | 21 | - | 108 |
| Mr. Katsuyuki Mizuma | - | - | - | - | - |
| Mr. Hiroshi Suehiro | - | - | - | - | - |
| Mr. Takuya Ito | - | - | - | - | - |
| | 521 | 175 | 245 | 147 | 1,088 |
| 2014 | | | | | |
| Executive director and CEO: | | | | | |
| Mr. Hiroyuki Yoshinari | 736 | - | 263 | 118 | 1,117 |
| Non-executive directors: | | | | | |
| Dato' Seri Talaat Bin Husain | - | 48 | 7 | - | 55 |
| Mr. Mohd Mokhtar Bin Ghazali | - | 48 | 22 | - | 70 |
| Mr. Katsuyuki Mizuma | - | - | - | - | - |
| Mr. Hiroshi Suehiro | - | - | - | - | - |
| | 736 | 96 | 292 | 118 | 1,242 |

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25. ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

| | 2015 | 2014 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Collective impairment allowance made (Note 8(h)) | <u>3,185</u> | <u>3,768</u> |

26. TAXATION

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Tax expense for the year | | |
| Malaysian income tax | 4,161 | 2,424 |
| Under/(Over) provision in prior years | <u>40</u> | <u>(226)</u> |
| | 4,201 | 2,198 |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences | (164) | (367) |
| (Over)/under provision in prior years | (105) | 893 |
| Relating to reduction in income tax rate | <u>(64)</u> | <u>-</u> |
| | (333) | 526 |
| Income tax expense | <u>3,868</u> | <u>2,724</u> |

Income tax is calculated at the Malaysian statutory rate of 25% (2014: 25%) of the estimated chargeable profit for the financial year. In accordance with the 2014 Budget, the Malaysian corporate tax rate will be reduced to 24% effective from year of assessment 2016.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Profit before taxation | <u>16,751</u> | <u>7,254</u> |
| Taxation at Malaysian statutory tax rate of 25% | 4,188 | 1,814 |
| Income not subject to tax | (1,132) | (625) |
| Expenses not deductible for tax purposes | 941 | 868 |
| Under/(over) provision of tax expense in prior years | 40 | (226) |
| (Over)/under provision of deferred tax in prior years | (105) | 893 |
| Effect of reduction in income tax rate | <u>(64)</u> | <u>-</u> |
| Tax expense for the year | <u>3,868</u> | <u>2,724</u> |

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27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

For the purpose of these financial statements, parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those person having authority and responsibility for planning, directing and controlling the activities of the Bank, either directly or indirectly. The key management personnel includes all the directors and executive director of the Bank.

The Bank has related party relationships with its holding companies, related companies/entities of its holding companies and key management personnel.

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions and balances of the Bank are as follows:

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Bank has the following transactions with related parties.

| <u>Transactions with parent bank</u> | 2015 | 2014 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Interest income on money at call and deposits and placements | 8 | 41 |
| Interest expense on deposits and placements | (2,413) | (383) |
| Outsourcing fee income | 4,375 | 4,021 |
| Other fee and commission expenses | (175) | (263) |
| Other expenses | <u>(81)</u> | <u>(54)</u> |

The directors are of the opinion that the transactions have been entered into in the normal course of business and have been established on a negotiated basis that are not materially different from those obtainable in transactions with unrelated parties.

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27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances

- (i) Included in the statement of financial position are the amounts due from/(to) related party, represented by the following:

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| <u>Amount due from/(to) parent bank:</u> | | |
| - Cash and short term funds | 44,324 | 19,410 |
| - Deposits and placements with financial institutions | 18,522 | - |
| - Interest receivable on deposits and other receivables | 80 | 45 |
| - Derivative assets | 2 | 49 |
| - Outsourcing fee | 494 | 422 |
| - Deposits and placements from financial institutions | (744,403) | (289,501) |
| - Interest payable on deposits and other payables | (912) | (385) |
| - Derivative liabilities | (28) | (163) |
| | (28) | (163) |

(c) Key management personnel

The remuneration of key management personnel included in the profit or loss are as follows:

| | 2015 | 2014 |
|---------------------------|--------------|--------------|
| Salary and emoluments | 5,383 | 5,070 |
| Defined contribution plan | 528 | 489 |
| Benefits-in-kind | 739 | 707 |
| | 6,650 | 6,266 |

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28. EARNINGS PER ORDINARY SHARE

The calculation of the basic earnings per ordinary share at 31 March 2015 was based on the profit attributable to owner of the Bank of RM12,883,000 (2014: RM4,530,000) and the weighted average number of ordinary shares outstanding during the financial year of 700,000,000 (2014: 397,945,000).

29. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers. No material losses are anticipated as a result of these transactions. The risk-weighted exposures of the Bank are as follows:

| | Principal amount RM'000 | Credit equivalent amount* RM'000 | Risk- weighted amount* RM'000 |
|---|--|---|--|
| 2015 | | | |
| Direct credit substitutions | 5,179 | 5,179 | 5,179 |
| Transaction related contingent items | 133,047 | 66,524 | 44,520 |
| Short-term self-liquidating trade related contingencies | 255 | 51 | 51 |
| Foreign exchange related contracts | | | |
| - One year or less | 1,094,934 | 33,660 | 18,206 |
| Interest related contracts | | | |
| - One year or less | 243,107 | 15,072 | 8,710 |
| - Over one year to five years | 2,944,284 | 503,708 | 324,855 |
| - Over five years | 641,503 | 143,672 | 94,985 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 91,086 | 45,543 | 45,543 |
| Any commitments that are unconditionally cancelled at any time without prior notice | 684,962 | - | - |
| Total | 5,838,357 | 813,409 | 542,049 |

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29. COMMITMENTS AND CONTINGENCIES (CONTINUED)

| | Principal amount RM'000 | Credit equivalent amount* RM'000 | Risk- weighted amount* RM'000 |
|---|--|---|--|
| 2014 | | | |
| Direct credit substitutions | 4,063 | 4,063 | 4,063 |
| Transaction related contingent items | 95,988 | 47,994 | 33,265 |
| Short-term self-liquidating trade related contingencies | 558 | 112 | 112 |
| Foreign exchange related contracts | | | |
| - One year or less | 1,039,305 | 21,220 | 13,156 |
| Interest related contracts | | | |
| - One year or less | 187,448 | 8,968 | 6,100 |
| - Over one year to five years | 2,388,706 | 316,857 | 234,327 |
| - Over five years | 320,901 | 63,732 | 46,631 |
| Any commitments that are unconditionally cancelled at any time without prior notice | 311,064 | - | - |
| Total | <u>4,348,033</u> | <u>462,946</u> | <u>337,654</u> |

* 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.

30. OPERATING LEASE COMMITMENT

The Bank has entered into commercial property lease for its business offices. The future minimum lease payments for under non-cancellable operating lease as at the reporting date are, as follows:

| | 2015 RM'000 | 2014 RM'000 |
|-----------------------------|------------------------|------------------------|
| One year or less | 2,165 | 2,251 |
| Over one year to five years | 901 | 2,687 |
| | <u>3,066</u> | <u>4,938</u> |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Bank's operations and to provide guarantees to support its operations. The Bank has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Bank also holds available-for-sale investments and enters into derivative transactions.

Risk Management Department ("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.

The approach adopted by RMD in maintaining effective oversight on day-to-day risk taking activities while continuously enhancing its infrastructure to provide a more holistic view of its risk exposures and positions has enabled the Bank to better manage the challenges arising from the uncertainties and market volatility.

The objectives of the Bank's risk management activities are to:

- Identify the various risk exposures and risk capital requirements;
- Ensure risk taking activities are consistent with risk policies and the aggregated risk positions are within the risk appetite; and
- Regular updating of risk management principles, policies, procedures and practices to ensure relevance and compliance with current/applicable laws and regulations.

Strong risk governance supports Integrated Risk Management ("IRM") approach. The Board of Directors through the Board Risk Management Committee ("BRMC") is ultimately responsible for the implementation of IRM. 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.

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Establishment of the three (3) lines of Defence Concept – risk taking units, risk control units and internal audit. The risk taking units manage the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting the risk management framework and developing tools and methodologies. Complementing this is internal audit, which provides independent assurance of the effectiveness of the risk management approach.

The CEO, with the Board's support, has established various management level risk committees to assist and support the Board Risk Management Committees in the operations of the Bank. The Asset Liability Management Committee ("ALMC") is chaired by the CEO on a monthly basis and Credit Risk Management Committee ("CRMC") is chaired by the Independent Non-Executive Director of the Bank.

(a) Credit risk management

Major areas of the Bank's risk management are as follows:

Credit risk is defined as arising from losses when the counterparty which has an lending exposure is unable to meet its obligations as a result of bankruptcy or other circumstances, or when the possibility of such non-performance of obligations increases, resulting in a loss of the value of the assets. The purpose of credit risk management is to keep credit risk exposure to an acceptable level set in accordance with the Internal and BNM requirement under the "Single Counterparty Exposure Limit" (SCEL), "Large Exposure Limit" and "Transaction with Connected Parties".

These limits are monitored on a daily basis to control and prevent the excessive concentration of risk exposure in certain counterparty. In addition, those counterparties for which the judgment is made that these counterparties should be treated with caution from a credit risk perspective are managed on an individual basis.

The credit approving authority is established and documented in Mizuho Bank Group's credit policy. The Mizuho Bank Group adopts a multi-tiered credit approving authority spanning various delegated authorities and consultation with Head Office.

The Credit Risk Management Committee 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.

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. Limits are also monitored based on rating classification of the obligor and/or counterparty.

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31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

It is a policy of the Bank that all exposures must be rated or scored based on the appropriate internal rating models. 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 history and demographics or company profile.

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.

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statements of financial position is the amounts on the statements of financial position as well as commitments and contingencies, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Bank:

| | 2015 | 2014 |
|---|------------------|------------------|
| | RM'000 | RM'000 |
| On-balance sheet exposures: | | |
| Cash and short-term funds | 1,536,067 | 1,203,637 |
| Deposits and placements with financial institutions | 232,000 | 222,000 |
| Loans, advances and financing | 918,438 | 424,168 |
| Financial investments available-for-sale | 148,057 | 143,471 |
| Other financial assets | 4,429 | 6,168 |
| Derivative financial assets | 260,942 | 74,982 |
| | 3,099,933 | 2,074,426 |
| Off-balance sheet exposures: | | |
| Commitments and contingencies | 5,838,357 | 4,348,033 |
| Total maximum credit risk exposure | 8,938,290 | 6,422,459 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

(ii) Credit risk concentration profile

| 2015 | Cash and short-term term funds RM'000 | Deposits and placements with financial institutions RM'000 | Loans, advances and financing RM'000 | Financial investments available-for- sale RM'000 | Other financial assets RM'000 | Derivative financial assets RM'000 | Total RM'000 | Commitments and contingencies RM'000 |
|---|--|---|---|---|--|---|-------------------------|---|
| Manufacturing | - | - | 299,135 | - | - | 3,528 | 302,663 | 1,167,716 |
| Construction | - | - | - | - | - | - | - | 84,643 |
| Wholesale and retail trade, and restaurants and hotels | - | - | 161,233 | - | - | 103 | 161,336 | 400,843 |
| Finance, insurance, real estate and business activities | 1,536,067 | 232,000 | 381,173 | 148,057 | 2,734 | 257,311 | 2,557,342 | 4,099,453 |
| Transport, storage and communication | - | - | 11,594 | - | - | - | 11,594 | 11,574 |
| Others | - | - | 74,089 | - | 1,695 | - | 75,784 | 74,128 |
| | <u>1,536,067</u> | <u>232,000</u> | <u>927,224</u> | <u>148,057</u> | <u>4,429</u> | <u>260,942</u> | <u>3,108,719</u> | <u>5,838,357</u> |
| Less: Collective allowance | - | - | (8,786) | - | - | - | (8,786) | - |
| | <u>1,536,067</u> | <u>232,000</u> | <u>918,438</u> | <u>148,057</u> | <u>4,429</u> | <u>260,942</u> | <u>3,099,933</u> | <u>5,838,357</u> |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

(ii) Credit risk concentration profile (continued)

| 2014 | Cash and short-term term funds RM'000 | Deposits and placements with financial institutions RM'000 | Loans, advances and financing RM'000 | Financial investments available-for- sale RM'000 | Other financial assets RM'000 | Derivative financial assets RM'000 | Total RM'000 | Commitments and contingencies RM'000 |
|---|--|---|---|---|--|---|-------------------------|---|
| Manufacturing | - | - | 274,911 | - | - | 5,163 | 280,074 | 897,158 |
| Construction | - | - | 7,257 | - | - | 48 | 7,305 | 68,622 |
| Wholesale and retail trade, and restaurants and hotels | - | - | 22,412 | - | - | 16 | 22,428 | 186,210 |
| Finance, insurance, real estate and business activities | 1,203,637 | 222,000 | 112,391 | - | 6,168 | 69,755 | 1,613,951 | 3,183,410 |
| Transport, storage and communication | - | - | 12,798 | - | - | - | 12,798 | 12,631 |
| Others | - | - | - | 143,471 | - | - | 143,471 | 2 |
| | <u>1,203,637</u> | <u>222,000</u> | <u>429,769</u> | <u>143,471</u> | <u>6,168</u> | <u>74,982</u> | <u>2,080,027</u> | <u>4,348,033</u> |
| Less: Collective allowance | - | - | (5,601) | - | - | - | (5,601) | - |
| | <u>1,203,637</u> | <u>222,000</u> | <u>424,168</u> | <u>143,471</u> | <u>6,168</u> | <u>74,982</u> | <u>2,074,426</u> | <u>4,348,033</u> |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

(iii) Credit quality

For the purposes of disclosure relating to MFRS 7, all financial assets are categorised into the following:

- Neither past due nor impaired
- Past due but not impaired
- Past due and impaired

Customer categorization is the categorization of customers into Insolvent Customers, Unrecoverable Customers, Customers to be Insolvent, Customers with Special Attention (I or II) and Ordinary Customers after comprehensively determining the viability of the customer's business using the customer's profit/loss for the period and cash flow, shareholders' equity in substance, achievability of business restructuring plans and support from the parent company and financial institutions, and is carried out before asset classification.

| Customer Categorisation | Credit Rating | Customer Profile | Status | Comparable External Rating | |
|-------------------------|---------------|------------------|-------------|---|----------------------|
| Ordinary Customers | A | 1 | Non-default | AAA | |
| | | 2 | | AA | |
| | | 3 | | A | |
| | B | 1 | | Business conditions are favorable and there are no specific problems in the customer's financial position. | BBB+/BBB |
| | | 2 | | | BBB- |
| | | 3 | | | (BB) |
| | C | 1 | | No problem, for the time being, with performance on obligations and stability in terms of credit management. ("For the time being" means that if the business environment should change in the future, there is a possibility that the change would affect the customer.) | Non-Investment grade |
| | | 2 | | | |
| | | 3 | | | |
| | D | 1 | | No problem at present with performance on obligations but has low resistance to future changes in the business environment. | Non-Investment grade |
| | | 2 | | | |
| | | 3 | | | |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

(iii) Credit quality (continued)

| Customer Categorisation | Credit Rating | Customer Profile | Status | Comparable External Rating |
|---------------------------------------|---------------|--|-------------|--|
| Customers with Special Attention (I) | 1 | Customers with Special Attention (I): Customers that require close observation, such as customers whose business conditions are on a deteriorating trend or have unstable business performance; customers that have minor problems in their financial position or have problems in their financial position but recovery according to plan is anticipated. | Non-default | (CCC or lower) Non-Investment grade |
| Customers with Special Attention (II) | 2 | Customers with Special Attention (II): Customers that require particularly close observation, such as customers that have problematic lending conditions, e.g. interest reduced, forgiven, or suspended; customers that have problems with performance of obligations, e.g. those that are effectively in arrears for principal and/or interest payments; as well as customers with deteriorating business conditions, unstable business performance, and problems in their financial position. | | |
| Customers under Strict Management | R | Customers that are assessed to have Claims under Strict Management as stipulated in Provision 4 Item 4 of the Law concerning urgent measures for the reconstruction of the functions of the financial system (1998 Financial Reconstruction Commission Rules and Regulations No.2) in terms of exposure. | Default | |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

(iii) Credit quality (continued)

| Customer Categorisation | Credit Rating | | Customer Profile | Status | Comparable External Rating |
|---------------------------|---------------|---|---|---------|--|
| Customers to be Insolvent | F | 1 | Customers to be Insolvent: Customers that are not insolvent, but are having business difficulties with insufficient progress on their business improvement plans. There is a high probability that the customer will become insolvent (includes customers that are under the continuing support of a financial institution and/or other entities). | Default | (CCC or lower) Non-Investment grade |
| Unrecoverable Customers | G | 1 | Unrecoverable Customers: Customers that are not at present legally or formally bankrupt, but are having serious business difficulties, and it is deemed that there is no prospect for recovery. The customer is essentially bankrupt. | | |
| Insolvent Customers | H | 1 | Insolvent Customers: Customers that are legally and formally bankrupt. | | |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

(iv) Credit quality of financial assets - gross loans, advances and financing

| 2015 | Neither past due nor impaired RM'000 | Total RM'000 |
|---|---|-------------------------|
| Term loans | 388,968 | 388,968 |
| Revolving credits | 538,256 | 538,256 |
| Gross loans, advances and financing | <u>927,224</u> | <u>927,224</u> |
| Less: Impairment allowance | | |
| - Collective impairment allowance | (8,786) | (8,786) |
| Net loans, advances and financing | <u>918,438</u> | <u>918,438</u> |
| Collective impairment allowance as a percentage of total loans, advances and financing | <u>0.95%</u> | <u>0.95%</u> |

All gross loans, advances and financing are neither past due nor impaired as of the reporting date. Summary of risk categories of gross loans, advances and financing of the Bank are assessed based on credit quality classification as described in Note 31(a)(iii).

| 2015 | Ordinary RM'000 | Special attention RM'000 | Total RM'000 |
|---|----------------------------|---|-------------------------|
| Term loans | 381,365 | 7,603 | 388,968 |
| Revolving credits | 533,211 | 5,045 | 538,256 |
| Total - Neither past due nor impaired | <u>914,576</u> | <u>12,648</u> | <u>927,224</u> |
| As a percentage of total loans, advances and financing | <u>98.64%</u> | <u>1.36%</u> | <u>100.00%</u> |

Note: Special attention category includes special attention (I) and special attention (II).

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

(iv) Credit quality of financial assets - gross loans, advances and financing (continued)

| 2014 | Neither past due nor impaired RM'000 | Total RM'000 |
|---|---|-------------------------|
| Term loans | 177,894 | 177,894 |
| Revolving credits | 251,875 | 251,875 |
| Gross loans, advances and financing | <u>429,769</u> | <u>429,769</u> |
| Less: Impairment allowance | | |
| - Collective impairment allowance | (5,601) | (5,601) |
| Net loans, advances and financing | <u>424,168</u> | <u>424,168</u> |
| Collective impairment allowance as a percentage of total loans, advances and financing | <u>1.30%</u> | <u>1.30%</u> |

All gross loans, advances and financing are neither past due nor impaired as of the reporting date. Summary of risk categories of gross loans, advances and financing of the Bank are assessed based on credit quality classification as described in Note 31(a)(iii).

| 2014 | Ordinary RM'000 | Special attention RM'000 | Total RM'000 |
|---|----------------------------|---|-------------------------|
| Term loans | 175,594 | 2,300 | 177,894 |
| Revolving credits | 229,969 | 21,906 | 251,875 |
| Total - Neither past due nor impaired | <u>405,563</u> | <u>24,206</u> | <u>429,769</u> |
| As a percentage of total loans, advances and financing | <u>94.37%</u> | <u>5.63%</u> | <u>100.00%</u> |

Note: Special attention category includes special attention (I) and special attention (II).

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk management (continued)

(v) Credit quality of financial assets - financial investments portfolio and other financial assets

All financial investments portfolio and other financial assets are neither past due nor impaired and categorised as ordinary customers as of reporting date. Summary of risk categories of financial investments portfolio and other financial assets of the Bank are assessed based on credit quality classification as described in Note 31(a)(iii).

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Cash and short-term funds | 1,536,067 | 1,203,637 |
| Deposits and placements with financial institutions | 232,000 | 222,000 |
| Financial investments available-for-sale | 148,057 | 143,471 |
| Other financial assets | 4,429 | 6,168 |
| Derivative financial assets | 260,942 | 74,982 |
| Total - neither past due nor impaired | 2,181,495 | 1,650,258 |
| As a percentage of gross balances | 100.00% | 100.00% |

(b) Market risk management

Market risk is defined as the risk of potential losses due to the impact of fluctuations in interest rates and foreign exchange rates on the values of the assets and liabilities held (including off-balance sheet items).

Broadly, the Bank is exposed to two major types of market risk namely interest/benchmark rate risk and foreign exchange risk.

The Bank manages those market risks by transferring the risk to another party such as entering into a back-to-back deal with external counterparties. This reduces the negative effect or probability of the risk through offsetting positions of a particular risk.

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

RMD controls the exposure by setting the limits which is in accordance to Head Office. RMD monitors the exposures through Foreign Exchange Position Limit, Interest Rate 10BPV and Foreign Exchange Positions 10BPV.

These position limits are monitored on a daily basis and changes in market value of the Bank's treasury portfolio due to interest rate and foreign exchange movements are reported to the CEO.

Liquidity Risk forms part of Market Risk and is 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 rates significantly higher than normal rates to secure funding.

RMD monitors its cash-in and cash-out positions on a daily basis. The funding gap is used as a tool to monitor and control liquidity risk exposure. This is to ensure that the Bank maintains sufficient amount of liquidity buffer as a protection against any unforeseen interruption to cash flow.

RMD conducts rehearsal for local currency regularly to ensure the effectiveness and operational feasibility of the Liquidity Contingency Plan. The key aspects of the testing are to focus on the preparedness of the Bank in handling a simulated distress funding situation. It also provides exposure and develops capabilities on how to respond to a liquidity crisis situation and operate effectively with each other under challenging circumstances.

The Bank's liquidity risk position and market risk are discussed and managed at the Asset Liability Management Committee ("ALMC") on a monthly basis and BRMC once every quarter in line with the approved guidelines and policies.

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(i) Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following table represents the Bank's assets and liabilities at carrying amount, categorised by the earlier of contractual or repricing dates as at 31 March 2015.

| | ----- Non-trading book -----> | | | | | Non-Interest Sensitive RM'000 | Trading Book RM'000 | Total RM'000 |
|---|-------------------------------|------------------------------|-------------------------------|-----------------------------|------------------------|----------------------------------|------------------------|------------------|
| | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | > 5 Years RM'000 | | | |
| 2015 | | | | | | | | |
| Assets | | | | | | | | |
| Cash and short-term funds | 1,452,598 | - | - | - | - | 83,469 | - | 1,536,067 |
| Deposits and placements with financial institutions | - | 232,000 | - | - | - | - | - | 232,000 |
| Financial investments available-for-sale | 9,991 | 59,656 | 78,410 | - | - | - | - | 148,057 |
| Loans, advances and financing | 512,192 | 391,019 | 24,013 | - | - | (8,786) | - | 918,438 |
| Derivative financial assets | - | - | - | - | - | - | 260,942 | 260,942 |
| Other non-interest sensitive balances | - | - | - | - | - | 18,476 | - | 18,476 |
| Total assets | 1,974,781 | 682,675 | 102,423 | - | - | 93,159 | 260,942 | 3,113,980 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(i) Interest rate risk (continued)

| | <----- Non-trading book -----> | | | | | Non-Interest Sensitive RM'000 | Trading Book RM'000 | Total RM'000 |
|--|--------------------------------|------------------------------|-------------------------------|-----------------------------|------------------------|----------------------------------|------------------------|------------------|
| | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | > 5 Years RM'000 | | | |
| 2015 | | | | | | | | |
| Liabilities | | | | | | | | |
| Deposits from customers | 437,267 | 200,138 | 96,757 | - | - | 405,582 | - | 1,139,744 |
| Deposits and placements from financial institutions | 305,627 | 353,181 | 12,318 | - | - | 93,504 | - | 764,630 |
| Derivatives financial liabilities | - | - | - | - | - | - | 242,599 | 242,599 |
| Other non-interest sensitive balances | - | - | - | - | - | 246,577 | - | 246,577 |
| Total liabilities | 742,894 | 553,319 | 109,075 | - | - | 745,663 | 242,599 | 2,393,550 |
| Shareholder's equity | - | - | - | - | - | 720,430 | - | 720,430 |
| Total liabilities and and shareholder's equity | 742,894 | 553,319 | 109,075 | - | - | 1,466,093 | 242,599 | 3,113,980 |
| On-balance sheet interest sensitivity gap representing total interest sensitivity gap | 1,231,887 | 129,356 | (6,652) | - | - | (1,372,934) | 18,343 | - |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(i) Interest rate risk (continued)

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following tables represents the Bank's assets and liabilities at carrying amount, categorised by the earlier of contractual or repricing dates as at 31 March 2014.

| | <----- Non-trading book -----> | | | | | Non-Interest Sensitive RM'000 | Trading Book RM'000 | Total RM'000 |
|---|--------------------------------|------------------------------|-------------------------------|-----------------------------|------------------------|----------------------------------|------------------------|------------------|
| | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | > 5 Years RM'000 | | | |
| 2014 | | | | | | | | |
| Assets | | | | | | | | |
| Cash and short-term funds | 1,149,853 | - | - | - | - | 53,784 | - | 1,203,637 |
| Deposits and placements with financial institutions | - | 197,000 | 25,000 | - | - | - | - | 222,000 |
| Financial investments available-for-sale | 23,991 | 55,701 | 63,779 | - | - | - | - | 143,471 |
| Loans, advances and financing | 219,367 | 29,816 | 45,888 | 85,665 | 49,033 | (5,601) | - | 424,168 |
| Derivative financial assets | - | - | - | - | - | - | 74,982 | 74,982 |
| Other non-interest sensitive balances | - | - | - | - | - | 18,711 | - | 18,711 |
| Total assets | 1,393,211 | 282,517 | 134,667 | 85,665 | 49,033 | 66,894 | 74,982 | 2,086,969 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(i) Interest rate risk (continued)

| | <----- Non-trading book -----> | | | | | Non-Interest Sensitive RM'000 | Trading Book RM'000 | Total RM'000 |
|--|--------------------------------|------------------------------|-------------------------------|-----------------------------|------------------------|----------------------------------|------------------------|------------------|
| | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | > 5 Years RM'000 | | | |
| 2014 | | | | | | | | |
| Liabilities | | | | | | | | |
| Deposits from customers | 395,425 | 210,155 | 47,392 | - | - | 318,188 | - | 971,160 |
| Deposits and placements from financial institutions | 47,192 | 140,056 | 28,531 | - | - | 77,975 | - | 293,754 |
| Derivatives financial liabilities | - | - | - | - | - | - | 58,933 | 58,933 |
| Other non-interest sensitive balances | - | - | - | - | - | 55,638 | - | 55,638 |
| Total liabilities | 442,617 | 350,211 | 75,923 | - | - | 451,801 | 58,933 | 1,379,485 |
| Shareholder's equity | - | - | - | - | - | 707,484 | - | 707,484 |
| Total liabilities and shareholder's equity | 442,617 | 350,211 | 75,923 | - | - | 1,159,285 | 58,933 | 2,086,969 |
| On-balance sheet interest sensitivity gap representing total interest sensitivity gap | 950,594 | (67,694) | 58,744 | 85,665 | 49,033 | (1,092,391) | 16,049 | - |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(ii) Currency risk

The table below analyses the net foreign exchange positions of the Bank as at 31 March 2015 and 31 March 2014, by major currencies, which are mainly in Ringgit Malaysia, US Dollar and Japanese Yen. The “others” foreign exchange risk include mainly exposure to Singapore Dollar, the Great Britain Pound, Hong Kong Dollar, Euro and Thailand Baht.

| | Ringgit Malaysia RM'000 | United States Dollar RM'000 | Japanese Yen RM'000 | Others RM'000 | Total RM'000 |
|---|--|--|------------------------------------|--------------------------|-------------------------|
| 2015 | | | | | |
| Assets | | | | | |
| Cash and short-term funds | 1,286,570 | 195,694 | 33,332 | 20,471 | 1,536,067 |
| Deposits and placements with financial institutions | 232,000 | - | - | - | 232,000 |
| Financial investments available-for-sale | 148,057 | - | - | - | 148,057 |
| Loans, advances and financing | 274,359 | 531,600 | 11,053 | 101,426 | 918,438 |
| Derivative financial assets | 65 | 259,467 | 91 | 1,319 | 260,942 |
| Other assets | 5,463 | 60 | - | - | 5,523 |
| Property and equipment | 9,287 | - | - | - | 9,287 |
| Intangible asset | 3,666 | - | - | - | 3,666 |
| Total assets | 1,959,467 | 986,821 | 44,476 | 123,216 | 3,113,980 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(ii) Currency risk (continued)

| | Ringgit Malaysia RM'000 | United States Dollar RM'000 | Japanese Yen RM'000 | Others RM'000 | Total RM'000 |
|---|--|--|------------------------------------|--------------------------|-------------------------|
| 2015 (continued) | | | | | |
| Liabilities | | | | | |
| Deposits from customers | 968,799 | 122,855 | 28,298 | 19,792 | 1,139,744 |
| Deposits and placements from financial institutions | 20,227 | 630,746 | 11,891 | 101,766 | 764,630 |
| Derivative financial liabilities | 10,286 | 230,812 | 30 | 1,471 | 242,599 |
| Other liabilities | 243,501 | 792 | 525 | 218 | 245,036 |
| Deferred tax liabilities | 1,541 | - | - | - | 1,541 |
| Total liabilities | 1,244,354 | 985,205 | 40,744 | 123,247 | 2,393,550 |
| On-balance sheet open position | 715,113 | 1,616 | 3,732 | (31) | 720,430 |
| Less: Derivative assets | (65) | (259,467) | (91) | (1,319) | (260,942) |
| Add: Derivative liabilities | 10,286 | 230,812 | 30 | 1,471 | 242,599 |
| Net open position | 725,334 | (27,039) | 3,671 | 121 | 702,087 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(ii) Currency risk (continued)

| | Ringgit Malaysia RM'000 | United States Dollar RM'000 | Japanese Yen RM'000 | Others RM'000 | Total RM'000 |
|---|--|--|------------------------------------|--------------------------|-------------------------|
| 2014 | | | | | |
| Assets | | | | | |
| Cash and short-term funds | 964,821 | 214,369 | 17,337 | 7,110 | 1,203,637 |
| Deposits and placements with financial institutions | 222,000 | - | - | - | 222,000 |
| Financial investments available-for-sale | 143,471 | - | - | - | 143,471 |
| Loans, advances and financing | 213,745 | 197,121 | 13,302 | - | 424,168 |
| Derivative financial assets | 2,352 | 72,577 | 5 | 48 | 74,982 |
| Other assets | 6,718 | 33 | - | - | 6,751 |
| Property and equipment | 9,183 | - | - | - | 9,183 |
| Intangible asset | 2,777 | - | - | - | 2,777 |
| Total assets | 1,565,067 | 484,100 | 30,644 | 7,158 | 2,086,969 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(ii) Currency risk (continued)

| | Ringgit Malaysia RM'000 | United States Dollar RM'000 | Japanese Yen RM'000 | Others RM'000 | Total RM'000 |
|---|--|--|------------------------------------|--------------------------|-------------------------|
| 2014 (continued) | | | | | |
| Liabilities | | | | | |
| Deposits from customers | 807,094 | 139,074 | 18,523 | 6,469 | 971,160 |
| Deposits and placements from financial institutions | 4,253 | 274,757 | 14,740 | 4 | 293,754 |
| Derivative financial liabilities | 315 | 58,555 | 16 | 47 | 58,933 |
| Other liabilities | 53,365 | 31 | 387 | 1 | 53,784 |
| Deferred tax liabilities | 1,854 | - | - | - | 1,854 |
| Total liabilities | 866,881 | 472,417 | 33,666 | 6,521 | 1,379,485 |
| On-balance sheet open position | 698,186 | 11,683 | (3,022) | 637 | 707,484 |
| Less: Derivative assets | (2,352) | (72,577) | (5) | (48) | (74,982) |
| Add: Derivative liabilities | 315 | 58,555 | 16 | 47 | 58,933 |
| Net open position | 696,149 | (2,339) | (3,011) | 636 | 691,435 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk management (continued)

(ii) Currency risk (continued)

Sensitivity analysis - impact on profit/loss after taxation

| | 2015 | 2014 | |
|--|---------------|---------------|----------|
| | RM'000 | RM'000 | |
| • if USD weakened by 100 basis points (or 1%) | (270) | (23) | (gain) |
| • if JPY weakened by 100 basis points (or 1%) | 37 | - | loss |
| • if SGD weakened by 100 basis points (or 1%) | - | 1 | loss |
| • if other currencies weakened by 100 basis points (or 1%) | 1 | 6 | loss |
| | <u>(232)</u> | <u>(16)</u> | net gain |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its cash flow obligations as they fall due, such as upon the maturity of deposits and loan draw downs.

The table below analyses assets and liabilities (inclusive of non-financial instruments) of the Bank in the relevant maturity tenures based on remaining contractual maturities as at 31 March 2015 and 31 March 2014.

The disclosure is made in accordance with the requirement of BNM's policy document of BNM/RH/STD 032-5 *Financial Reporting* :

Contractual maturity of total assets and liabilities

| | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | Over 5 Years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|-------------------------------------|--|---|---|------------------------------------|--|-------------------------|
| 2015 | | | | | | | |
| Assets | | | | | | | |
| Cash and short-term funds | 1,536,067 | - | - | - | - | - | 1,536,067 |
| Deposits and placements with financial institutions | - | 232,000 | - | - | - | - | 232,000 |
| Financial investments available-for-sale | 9,991 | 59,656 | 78,410 | - | - | - | 148,057 |
| Loans, advances and financing | 359,173 | 50,367 | 61,161 | 382,074 | 65,663 | - | 918,438 |
| Derivative financial assets | 2,292 | 2,189 | 17,102 | 195,834 | 43,525 | - | 260,942 |
| Other assets | 1,685 | 1,163 | 755 | - | - | 1,920 | 5,523 |
| Property and equipment | - | - | - | - | - | 9,287 | 9,287 |
| Intangible asset | - | - | - | - | - | 3,666 | 3,666 |
| Total assets | 1,909,208 | 345,375 | 157,428 | 577,908 | 109,188 | 14,873 | 3,113,980 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (continued)

Contractual maturity of total assets and liabilities (continued)

| | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | Over 5 Years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|-------------------------------------|--|---|---|------------------------------------|--|-------------------------|
| 2015 | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from customers | 842,849 | 200,138 | 96,757 | - | - | - | 1,139,744 |
| Deposits and placements from financial institutions | 399,131 | 353,181 | 12,318 | - | - | - | 764,630 |
| Derivative financial liabilities | 2,107 | 2,053 | 16,514 | 182,261 | 39,664 | - | 242,599 |
| Other liabilities | 4,720 | 1,990 | 512 | 42 | - | 237,772 | 245,036 |
| Deferred tax liabilities | - | - | - | - | - | 1,541 | 1,541 |
| Total liabilities | 1,248,807 | 557,362 | 126,101 | 182,303 | 39,664 | 239,313 | 2,393,550 |
| Net liquidity gap | 660,401 | (211,987) | 31,327 | 395,605 | 69,524 | (224,440) | 720,430 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (continued)

Contractual maturity of total assets and liabilities (continued)

| | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | Over 5 Years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|-------------------------------------|--|---|---|------------------------------------|--|-------------------------|
| 2014 | | | | | | | |
| Assets | | | | | | | |
| Cash and short-term funds | 1,203,637 | - | - | - | - | - | 1,203,637 |
| Deposits and placements with financial institutions | - | 197,000 | 25,000 | - | - | - | 222,000 |
| Loans, advances and financing | 217,080 | 29,771 | 45,120 | 85,199 | 46,998 | - | 424,168 |
| Financial investments available-for-sale | 23,991 | 55,701 | 63,779 | - | - | - | 143,471 |
| Derivative financial assets | 1,404 | 61,423 | 11,637 | 518 | - | - | 74,982 |
| Other assets | 1,179 | 229 | 63 | - | - | 5,280 | 6,751 |
| Property and equipment | - | - | - | - | - | 9,183 | 9,183 |
| Intangible asset | - | - | - | - | - | 2,777 | 2,777 |
| Total assets | 1,447,291 | 344,124 | 145,599 | 85,717 | 46,998 | 17,240 | 2,086,969 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (continued)

Contractual maturity of total assets and liabilities (continued)

| | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | Over 5 Years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|-------------------------------------|--|---|---|------------------------------------|--|-------------------------|
| 2014 | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from customers | 713,614 | 210,154 | 47,392 | - | - | - | 971,160 |
| Deposits and placements from financial institutions | 125,167 | 140,056 | 28,531 | - | - | - | 293,754 |
| Derivative financial liabilities | 1,256 | 48,710 | 8,507 | 460 | - | - | 58,933 |
| Other liabilities | 955 | 1,125 | 248 | 3 | - | 51,453 | 53,784 |
| Deferred tax liabilities | - | - | - | - | - | 1,854 | 1,854 |
| Total liabilities | 840,992 | 400,045 | 84,678 | 463 | - | 53,307 | 1,379,485 |
| Net liquidity gap | 606,299 | (55,921) | 60,921 | 85,254 | 46,998 | (36,067) | 707,484 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities as at 31 March 2015 and 31 March 2014. The amounts disclosed in the table will not agree to the carrying amounts reported in the statements of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and interest/profit analysis. The Bank manages inherent liquidity risk based on discounted expected cash flows.

| 2015 | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | Over 5 Years RM'000 | Total RM'000 |
|---|-------------------------------------|--|---|---|------------------------------------|-------------------------|
| Non-derivative liabilities | | | | | | |
| Deposits from customers | 844,633 | 202,100 | 99,901 | - | - | 1,146,634 |
| Deposits and placements from financial institutions | 399,400 | 354,230 | 12,348 | - | - | 765,978 |
| Other liabilities | 4,720 | 1,990 | 512 | 42 | 237,772 | 245,036 |
| | 1,248,753 | 558,320 | 112,761 | 42 | 237,772 | 2,157,648 |
| Commitment and contingencies | | | | | | |
| Direct credit substitutes | 390 | 1,155 | 3,569 | 65 | - | 5,179 |
| Transaction related contingencies | 67,006 | 25 | 1,113 | 64,903 | - | 133,047 |
| Short-term self liquidating trade related contingencies | 9 | 246 | - | - | - | 255 |
| Foreign exchange related contracts | 318,561 | 177,483 | 598,890 | - | - | 1,094,934 |
| Interest/profit related contracts | 13,839 | 19,985 | 212,160 | 2,941,407 | 641,503 | 3,828,894 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity over one year | - | - | - | 91,086 | - | 91,086 |
| Any commitments that are unconditionally cancelled at any time by the bank without prior notice | 684,962 | - | - | - | - | 684,962 |
| | 1,084,767 | 198,894 | 815,732 | 3,097,461 | 641,503 | 5,838,357 |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis (continued)

| 2014 | Up to 1 Month RM'000 | > 1 to 3 Months RM'000 | > 3 to 12 Months RM'000 | > 1 to 5 Years RM'000 | Over 5 Years RM'000 | Total RM'000 |
|---|-------------------------------------|--|---|---|------------------------------------|-------------------------|
| Non-derivative liabilities | | | | | | |
| Deposits from customers | 715,174 | 211,713 | 48,563 | - | - | 975,450 |
| Deposits and placements from financial institutions | 125,177 | 140,168 | 28,562 | - | - | 293,907 |
| Other liabilities | 52,583 | 1,125 | 1,014 | 3 | - | 54,725 |
| | <u>892,934</u> | <u>353,006</u> | <u>78,139</u> | <u>3</u> | <u>-</u> | <u>1,324,082</u> |
| Commitment and contingencies | | | | | | |
| Direct credit substitutes | 125 | 1,100 | 2,838 | - | - | 4,063 |
| Transaction related contingencies | 10 | 5 | 59,452 | 36,521 | - | 95,988 |
| Short-term self liquidating trade related contingencies | - | 228 | 330 | - | - | 558 |
| Foreign exchange related contracts | 341,210 | 196,895 | 501,200 | - | - | 1,039,305 |
| Interest / profit related contracts | - | - | 187,448 | 2,388,706 | 320,901 | 2,897,055 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity over one year | - | - | - | - | - | - |
| Any commitments that are unconditionally cancelled at any time by the bank without prior notice | 311,064 | - | - | - | - | 311,064 |
| | <u>652,409</u> | <u>198,228</u> | <u>751,268</u> | <u>2,425,227</u> | <u>320,901</u> | <u>4,348,033</u> |

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Operational risk management

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) *Information Technology Risk*
Risk that clients may suffer service disruptions, or that clients or the Bank may incur losses arising from system defects such as failures, faults, or incompleteness in computer operations, or illegal or unauthorized use of computer systems.
- (ii) *Operations Risk*
Risk that clients may suffer service disruptions, as well as the risk that clients or the Bank may incur losses because senior executives or employees fail to fulfil their tasks properly, cause accidents, or otherwise act improperly.
- (iii) *Legal Risk*
Risk that the Bank may incur losses due to violation of laws and regulations, breach of contract, entering into improper contracts, or other legal factors.
- (iv) *Human Resources Risk*
Risk that the Bank may incur losses due to drain or loss of personnel, deterioration of morale, inadequate development of human resources, inappropriate working schedules, an inappropriate working and safety environment, inequality or inequity in human resource management, or discriminatory conduct.
- (v) *Tangible Asset Risk*
Risk that the Bank may incur losses from damage to tangible assets or a decline in the quality of working environment as a result of disasters, criminal actions, or defects in asset maintenance.
- (vi) *Regulatory Change Risk*
Risk that the Bank may incur losses due to changes in various regulations or systems, such as those related to law, taxation, and accounting.
- (vii) *Reputational Risk*
Risk that the Bank may incur losses due to damage to its credibility or the value of the "Mizuho" brand when market participants or others learn about, or the media reports on, various adverse events, including actual materialization of risks or false rumours.

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

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32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

| | Gross amount of recognised financial assets/ liabilities RM'000 | Gross amounts offset in the statement of financial position RM'000 | Amounts presented in the statement of financial position RM'000 | Amount not offset in the statement of financial position | | Net Amount RM'000 |
|----------------------------------|--|---|--|---|---|------------------------------|
| | | | | Financial instruments RM'000 | Cash collateral received/ pledged RM'000 | |
| 2015 | | | | | | |
| Derivative financial assets | 260,942 | - | 260,942 | - | (237,773) | 23,169 |
| Derivative financial liabilities | 242,599 | - | 242,599 | - | (900) | 241,699 |
| 2014 | | | | | | |
| Derivative financial assets | 74,982 | - | 74,982 | - | (48,551) | 26,431 |
| Derivative financial liabilities | 58,933 | - | 58,933 | - | (3,170) | 55,763 |

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33. FAIR VALUE MEASUREMENTS

This note provides fair value measurement information for both financial instruments and non-financial assets and liabilities and is structured as follows:

- (a) Valuation principles;
- (b) Valuation techniques;
- (c) Fair value measurements and classification within the fair value hierarchy;
- (d) Transfers between Level 1 and Level 2 in the fair value hierarchy;
- (e) Movements of Level 3 instruments;
- (f) Sensitivity of fair value measurements to changes in unobservable input assumptions;
and
- (g) Financial instruments not measured at fair value.

(a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Bank determines the fair value by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgment is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value. The Bank has also established a framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

Valuation adjustment is also an integral part of the valuation process. Valuation adjustment is to reflect the uncertainty in valuations generally for products that are less standardised, less frequently traded and more complex in nature. In making a valuation adjustment, the Bank follows methodologies that consider factors such as bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

The Bank continuously enhances its design, validation methodologies and processes to ensure the valuations are reflective. The valuation models are validated both internally and externally, with periodic reviews to ensure the model remains suitable for their intended use.

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33. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Valuation principles (continued)

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities

Refers to instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, and those prices which represent actual and regularly occurring market transactions in an arm's length basis. Such financial instruments include actively traded government securities, listed derivatives and cash products traded on exchange.

- Level 2: Valuation techniques for which all significant inputs are, or are based on, observable market data

Refers to inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices). Examples of Level 2 financial instruments include over-the-counter ("OTC") derivatives, corporate and other government bonds, illiquid equities and consumer loans and financing with homogeneous or similar features in the market.

- Level 3: Valuation techniques for which significant inputs are not based on observable market data

Refers to instruments where fair value is measured using significant unobservable market data. The valuation technique is consistent with the Level 2. The chosen valuation technique incorporates the Bank's own assumptions and data. Examples of Level 3 instruments include corporate bonds in illiquid markets, private equity investments and loans and financing priced primarily based on internal credit assessment.

(b) Valuation techniques

The valuation techniques used for the both financial instruments and non-financial assets and liabilities that are not determined by reference to quoted prices (Level 1) are described below:

Derivatives, loans and financing and financial liabilities

The fair values of the Bank's derivative instruments, loans and financing and financial liabilities are derived using discounted cash flows analysis, option pricing and benchmarking models.

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33. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Valuation techniques (continued)

Financial assets designated at fair value through profit or loss, financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity

The fair values of financial assets and financial investments are determined by reference to prices quoted by independent data providers and independent broker quotations.

(c) Fair value measurements and classification within the fair value hierarchy

The classification in the fair value hierarchy of the Bank's financial assets and liabilities measured at fair value is summarised in the table below:

| | Quoted Market Price (Level 1) RM'000 | Valuation technique using | | Total RM'000 |
|------------------------------------|---|---|---|-----------------|
| | | Observable Inputs (Level 2) RM'000 | Unobservable Inputs (Level 3) RM'000 | |
| 2015 | | | | |
| <i>Financial assets:</i> | | | | |
| Financial investments | | | | |
| available-for-sale | 148,057 | - | - | 148,057 |
| Money market instruments | 148,057 | - | - | 148,057 |
| Non-money market instruments | - | - | - | - |
| Derivative assets | - | 260,942 | - | 260,942 |
| Foreign exchange related contracts | - | 11,069 | - | 11,069 |
| Interest rate related contracts | - | 249,873 | - | 249,873 |
| | 148,057 | 260,942 | - | 408,999 |
| <i>Financial liabilities:</i> | | | | |
| Derivative liabilities | - | 242,599 | - | 242,599 |
| Foreign exchange related contracts | - | 10,360 | - | 10,360 |
| Interest rate related contracts | - | 232,239 | - | 232,239 |

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33. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair value measurements and classification within the fair value hierarchy (continued)

The classification in the fair value hierarchy of the Bank's financial assets and liabilities measured at fair value is summarised in the table below (continued.):

| | Quoted Market Price (Level 1) RM'000 | Valuation technique using | | Total RM'000 |
|------------------------------------|---|---|---|-----------------|
| | | Observable Inputs (Level 2) RM'000 | Unobservable Inputs (Level 3) RM'000 | |
| 2014 | | | | |
| <i>Financial assets:</i> | | | | |
| Financial investments | | | | |
| available-for-sale | 143,471 | - | - | 143,471 |
| Money market instruments | 143,471 | - | - | 143,471 |
| Non-money market instruments | - | - | - | - |
| Derivative assets | - | 74,982 | - | 74,982 |
| Foreign exchange related contracts | - | 2,719 | - | 2,719 |
| Interest rate related contracts | - | 72,263 | - | 72,263 |
| | 143,471 | 74,982 | - | 218,453 |
| <i>Financial liabilities:</i> | | | | |
| Derivative liabilities | - | 58,933 | - | 58,933 |
| Foreign exchange related contracts | - | 2,500 | - | 2,500 |
| Interest rate related contracts | - | 56,433 | - | 56,433 |

(d) Transfers between Level 1 and Level 2 in the fair value hierarchy

The accounting policy for determining when transfers between levels of the fair value hierarchy occurred is disclosed in Note 2.2(xvii). There were no transfers between Level 1 and 2 for the Bank during the financial year ended 31 March 2015.

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33. FAIR VALUE MEASUREMENTS (CONTINUED)

(e) Movements of Level 3 instruments

There is no Level 3 instruments as at 31 March 2015.

(f) Sensitivity of fair value measurements to changes in unobservable input assumptions

Changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets and financial liabilities in Level 3 of the fair value hierarchy.

(g) Financial instruments not measured at fair value

The on-balance sheet financial assets and financial liabilities of the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all their assets and liabilities with the exception of provision for current taxation.

For loans and advances to borrowers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Bank's financial instruments, including loans and advances to borrowers/customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Bank could realise in a sale transaction at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Bank as a going concern.

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statement of financial position, except for the financial assets and liabilities as stated below.

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33. FAIR VALUE MEASUREMENTS (CONTINUED)

(g) Financial instruments not measured at fair value (continued)

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amount shown in the statements of financial position:

| | Level 1 | Level 2 | Level 3 | Total | Carrying |
|-------------------------------|----------------|----------------|----------------|-------------------|-----------------|
| | RM'000 | RM'000 | RM'000 | fair value | amount |
| | | | | RM'000 | RM'000 |
| 2015 | | | | | |
| Financial assets | | | | | |
| Loans, advances and financing | - | 917,096 | 10,379 | 927,475 | 918,438 |
| 2014 | | | | | |
| Financial assets | | | | | |
| Loans, advances and financing | - | 422,512 | 7,257 | 429,769 | 424,168 |

The fair values of variable rate loans are estimated to approximate their carrying values. For fixed rate loans and Islamic financing, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date offered for similar facilities to new borrowers with similar credit profiles. In respect of impaired loans, the fair values are deemed to approximate the carrying values which are net of impairment allowances.

34. CAPITAL MANAGEMENT

The Bank is fully funded by its parent Bank, Mizuho Bank, Ltd. and currently operates under Mizuho group's acceptable risk framework to meet its regulatory requirements and market expectations.

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35. CAPITAL ADEQUACY

The capital ratios are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework (Basel II - Risk Weighted Assets) (collectively, the "Framework") issued on 28 November 2012. The Bank has adopted Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. In line with transitional arrangements under BNM's Capital Adequacy Framework (Capital Components), the minimum regulatory capital adequacy requirement for common equity Tier 1 ("CET1") capital ratio and Tier 1 capital ratio are 4.0% and 5.5% respectively for year 2014. The minimum regulatory capital adequacy requirement remains at 8% for total capital ratio.

(i) Based on the above, the capital adequacy ratios of the Bank are as follows:

| | 2015 | 2014 |
|---|-------------|-------------|
| <u>Capital ratios:</u> | | |
| CET1 Capital Ratio/Total Tier 1 Capital Ratio | 38.494% | 65.877% |
| Total Capital Ratio | 38.964% | 66.399% |

(ii) The components of CET1 capital, Tier-1 and Tier-2 capital of the Bank are as follows:

| | 2015 | 2014 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| <u>CET 1 Capital</u> | | |
| Paid-up share capital | 700,000 | 700,000 |
| Retained profits | 8,915 | 4,738 |
| Other reserves (net of regulatory adjustments) | 11,500 | 2,764 |
| Total CET1 Capital, representing total Tier 1 Capital | 720,415 | 707,502 |
| <u>Tier 2 Capital</u> | | |
| Collective impairment allowance | 8,786 | 5,601 |
| Total Capital | 729,201 | 713,103 |

(iii) The breakdown of risk-weighted assets ("RWA") by each major risk categories are as follows:

| | 2015 | 2014 |
|--------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Total RWA for Credit risk | 1,695,779 | 945,263 |
| Total RWA for Market risk | 83,264 | 61,138 |
| Total RWA for Operational risk | 92,443 | 67,569 |
| Total RWA | 1,871,486 | 1,073,970 |

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35. CAPITAL ADEQUACY (CONTINUED)

(iv) The breakdown of risk-weighted assets (excluding deferred tax assets) of the Bank in the various categories of risk-weights are as follows:

| | Principal RM'000 | Risk- Weighted Assets RM'000 |
|--------------------------------|-----------------------------|---|
| 2015 | | |
| 0% | 773,256 | - |
| 20% | 926,528 | 185,306 |
| 50% | 511,812 | 255,906 |
| 100% | 1,254,567 | 1,254,567 |
| Total RWA for Credit risk | <u>3,466,163</u> | <u>1,695,779</u> |
| Total RWA for Market risk | - | 83,264 |
| Total RWA for Operational risk | - | 92,443 |
| Total RWA | <u>3,466,163</u> | <u>1,871,486</u> |
| 2014 | | |
| 0% | 799,396 | - |
| 20% | 735,808 | 147,162 |
| 50% | 234,456 | 117,228 |
| 100% | 680,873 | 680,873 |
| Total RWA for Credit risk | <u>2,450,533</u> | <u>945,263</u> |
| Total RWA for Market risk | - | 61,138 |
| Total RWA for Operational risk | - | 67,569 |
| Total RWA | <u>2,450,533</u> | <u>1,073,970</u> |

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35. CAPITAL ADEQUACY (CONTINUED)

(v) Disclosures relating to credit risk and market risk are as follows:

| Exposure class | Gross Exposures RM'000 | Net Exposures RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirements at 8% RM'000 |
|---|-----------------------------------|----------------------------------|--|--|
| 2015 | | | | |
| Credit risk | | | | |
| <u>On-balance sheet exposures:</u> | | | | |
| Sovereigns/central banks | 773,224 | 773,224 | - | - |
| Banks, development financial Institutions and Multilateral Development Banks ("MDBs") | 1,144,983 | 907,210 | 181,442 | 14,515 |
| Corporates | 927,224 | 927,224 | 927,224 | 74,178 |
| Other assets | 45,096 | 45,096 | 45,064 | 3,605 |
| Total on-balance sheet exposures | <u>2,890,527</u> | <u>2,652,754</u> | <u>1,153,730</u> | <u>92,298</u> |
| <u>Off-balance sheet exposures:</u> | | | | |
| Over-the-counter ("OTC") derivatives | 696,112 | 696,112 | 446,756 | 35,740 |
| Off-balance sheet exposures other than OTC derivatives or credit derivatives | 117,297 | 117,297 | 95,293 | 7,624 |
| Total off-balance sheet exposures | <u>813,409</u> | <u>813,409</u> | <u>542,049</u> | <u>43,364</u> |
| Total on and off-balance sheet exposures | <u>3,703,936</u> | <u>3,466,163</u> | <u>1,695,779</u> | <u>135,662</u> |
| Market risk | | | | |
| | Long Position RM'000 | Short Position RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirements at 8% RM'000 |
| Interest rate risk | 3,873,219 | 3,855,585 | 74,478 | 5,958 |
| Foreign currency risk | 8,902 | 1,126 | 8,786 | 703 |
| Operational risk | | | 92,443 | 7,395 |
| Total RWA and capital requirements | | | <u>1,871,486</u> | <u>149,718</u> |

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35. CAPITAL ADEQUACY (CONTINUED)

(v) Disclosures relating to credit risk and market risk are as follows:

| Exposure class | Gross Exposures RM'000 | Net Exposures RM'000 | Risk- Weighted Assets RM'000 | Minimum Capital Require- ments at 8% RM'000 |
|---|------------------------------|-----------------------------|---------------------------------------|--|
| 2014 | | | | |
| Credit risk | | | | |
| <u>On-balance sheet exposures:</u> | | | | |
| Sovereigns/central banks | 799,385 | 799,385 | - | - |
| Banks, development financial Institutions and Multilateral Development Banks ("MDBs") | 774,279 | 725,728 | 145,146 | 11,612 |
| Corporates | 429,769 | 429,769 | 429,769 | 34,382 |
| Other assets | 32,705 | 32,705 | 32,694 | 2,615 |
| Total on-balance sheet exposures | <u>2,036,138</u> | <u>1,987,587</u> | <u>607,609</u> | <u>48,609</u> |
| <u>Off-balance sheet exposures:</u> | | | | |
| Over-the-counter ("OTC") derivatives | 410,777 | 410,777 | 300,214 | 24,017 |
| Off-balance sheet exposures other than OTC derivatives or credit derivatives | 52,169 | 52,169 | 37,440 | 2,995 |
| Total off-balance sheet exposures | <u>462,946</u> | <u>462,946</u> | <u>337,654</u> | <u>27,012</u> |
| Total on and off-balance sheet exposures | <u>2,499,084</u> | <u>2,450,533</u> | <u>945,263</u> | <u>75,621</u> |
| Market risk | | | | |
| | Long Position RM'000 | Short Position RM'000 | Risk- Weighted Assets RM'000 | Minimum Capital Require- ments at 8% RM'000 |
| Interest rate risk | 2,826,214 | 2,810,384 | 59,548 | 4,764 |
| Foreign currency risk | 1,590 | - | 1,590 | 127 |
| Operational risk | | | 67,569 | 5,406 |
| Total RWA and capital requirements | | | <u>1,073,970</u> | <u>85,918</u> |

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35. CAPITAL ADEQUACY (CONTINUED)

(vi) 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 ----->

| | Sovereigns/ central banks | Banks, Development Financial Institutions and MDBs | Corporates | Other Assets | Total Exposures after Netting and Credit Risk Mitigation | Total Risk- Weighted Assets |
|--------------|---------------------------------|--|------------------|-----------------|--|--------------------------------------|
| Risk weights | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2015 | | | | | | |
| 0% | 773,224 | - | - | 32 | 773,256 | - |
| 20% | - | 926,528 | - | - | 926,528 | 185,306 |
| 50% | - | 511,812 | - | - | 511,812 | 255,906 |
| 100% | - | - | 1,209,503 | 45,064 | 1,254,567 | 1,254,567 |
| | <u>773,224</u> | <u>1,438,340</u> | <u>1,209,503</u> | <u>45,096</u> | <u>3,466,163</u> | <u>1,695,779</u> |
| 2014 | | | | | | |
| 0% | 799,385 | - | - | 11 | 799,396 | - |
| 20% | - | 735,808 | - | - | 735,808 | 147,162 |
| 50% | - | 234,456 | - | - | 234,456 | 117,228 |
| 100% | - | - | 648,179 | 32,694 | 680,873 | 680,873 |
| | <u>799,385</u> | <u>970,264</u> | <u>648,179</u> | <u>32,705</u> | <u>2,450,533</u> | <u>945,263</u> |

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35. CAPITAL ADEQUACY (CONTINUED)

(vii) 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 Ba3 | B1 to C | 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 D | Unrated |

RM'000 RM'000 RM'000 RM'000 RM'000 RM'000

2015

| | | | | | | |
|------------------------------|----------------|----------|----------|----------|----------|----------|
| Sovereigns and central banks | 773,224 | - | - | - | - | - |
| Total | <u>773,224</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

2014

| | | | | | | |
|------------------------------|----------------|----------|----------|----------|----------|----------|
| Sovereigns and central banks | 799,385 | - | - | - | - | - |
| Total | <u>799,385</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

| Exposure Class | Ratings of Banking Institutions by Approved ECAIs | | | | | | |
|----------------|---|------------|----------|--------------|-----------|-----------|---------|
| | Moody's | Aaa to Aa3 | A1 to A3 | Baa1 to Ba3 | 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

2015

| | | | | | | |
|----------------------|----------------|----------------|----------|----------|----------|----------|
| Banks, MDBs and FDIs | 926,528 | 511,812 | - | - | - | - |
| Total | <u>926,528</u> | <u>511,812</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

2014

| | | | | | | |
|----------------------|----------------|----------------|----------|----------|----------|----------|
| Banks, MDBs and FDIs | 735,808 | 234,456 | - | - | - | - |
| Total | <u>735,808</u> | <u>234,456</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

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35. CAPITAL ADEQUACY (CONTINUED)

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

On and off-balance sheet exposures (continued)

(vii) Rated Exposures by External Credit Assessment Institutions ("ECAI") (continued)

| Exposure Class | Ratings of Corporate by Approved ECAs | | | | | |
|----------------|---------------------------------------|------------|----------|--------------|-----------|-----------|
| | Moody's | Aaa to Aa3 | A1 to A3 | Baa1 to Ba3 | Ba1 to B3 | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Unrated |
| | RAM | AAA to AA3 | A1 to A3 | BBB1 to BBB3 | BB1 to B3 | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Unrated |
| | R&I | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Unrated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | |
| 2015 | | | | | | |
| Corporates | - | - | - | - | - | 1,254,599 |
| Total | - | - | - | - | - | 1,254,599 |
| 2014 | | | | | | |
| Corporates | - | - | - | - | - | 680,884 |
| Total | - | - | - | - | - | 680,884 |

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35. CAPITAL ADEQUACY (CONTINUED)

(viii) Disclosure on credit risk mitigation (continued)

| 2015 | Total | Total | Total | Total |
|--|------------------|-------------------|--------------------|--------------------|
| Exposure class | exposures | exposures | exposures | exposures |
| | before | covered by | covered by | covered by |
| | CRM | guarantees | financial | other |
| | RM'000 | RM'000 | collaterals | eligible |
| | | | RM'000 | collaterals |
| | | | | RM'000 |
| Credit risk | | | | |
| <i>On-balance sheet exposures:</i> | | | | |
| Sovereigns/central banks | 773,224 | - | - | - |
| Banks, development financial institutions and MDBs | 1,144,983 | - | - | - |
| Corporates | 927,224 | - | - | - |
| Other assets | 45,096 | - | - | - |
| Total on-balance sheet exposures | 2,890,527 | - | - | - |
| <i>Off-Balance Sheet Exposures:</i> | | | | |
| OTC derivatives | 696,112 | - | - | - |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 117,297 | - | - | - |
| Total off-balance sheet exposures | 813,409 | - | - | - |
| Total on and off balance sheet exposures | 3,703,936 | - | - | - |

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

35. CAPITAL ADEQUACY (CONTINUED)

(viii) Disclosure on credit risk mitigation (continued)

| 2014 | Total | Total | Total | Total |
|--|------------------|-------------------|--------------------|--------------------|
| Exposure class | exposures | exposures | exposures | exposures |
| | before | covered by | covered by | covered by |
| | CRM | guarantees | financial | other |
| | RM'000 | RM'000 | collaterals | eligible |
| | | | RM'000 | collaterals |
| | | | | RM'000 |
| Credit risk | | | | |
| <i>On-balance sheet exposures:</i> | | | | |
| Sovereigns/central banks | 799,385 | - | - | - |
| Banks, development financial institutions and MDBs | 774,279 | - | - | - |
| Corporates | 429,769 | - | - | - |
| Other assets | 32,705 | - | - | - |
| Total on-balance sheet exposures | 2,036,138 | - | - | - |
| <i>Off-balance sheet exposures:</i> | | | | |
| OTC derivatives | 410,777 | - | - | - |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 52,169 | - | - | - |
| Total off-balance sheet exposures | 462,946 | - | - | - |
| Total on and off balance sheet exposures | 2,499,084 | - | - | - |

36. SEGMENT INFORMATION

There is no segmental information as the Bank only has one reportable segment, which is its banking operations in Malaysia.

37 COMPARATIVE INFORMATION

Certain comparative information have been reclassified to conform with the current year's presentation.

MIZUHO BANK (MALAYSIA) BERHAD (923693-H)
Incorporated in Malaysia

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT 1965

We, Dato' Seri Talaat Bin Husain and Mr. Mohd Mokhtar Bin Ghazali, being two of the Directors of Mizuho Bank (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 17 to 109 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2015 and of the results and the cash flows of the Bank for the financial year then ended.

Signed on behalf of the Board in accordance with their resolution dated 20 August 2015.



DATO' SERI TALAAT BIN HUSAIN
DIRECTOR



MR. MOHD MOKHTAR BIN GHAZALI
DIRECTOR

Kuala Lumpur, Malaysia

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT 1965

I, Yuki Chikamoto, being the officer primarily responsible for the financial management of Mizuho Bank (Malaysia) Berhad, do solemnly, and sincerely declare that the financial statements set out on pages 17 to 109 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



MR. YUKI CHIKAMOTO

Subscribed and solemnly declared by the abovenamed
Yuki Chikamoto at Kuala Lumpur in Malaysia
on 20 August 2015, before me.

COMMISSIONER FOR OATHS

923693-H

**Independent auditors' report to the member of
Mizuho Bank (Malaysia) Berhad
(Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of Mizuho Bank (Malaysia) Berhad (the "Bank"), which comprise statement of financial position as at 31 March 2015, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages, as set out on pages 17 to 109.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

923693-H

**Independent auditors' report to the member of
Mizuho Bank (Malaysia) Berhad (continued)
(Incorporated in Malaysia)**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 March 2015 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 ("Act") in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
20 August 2015

Megat Iskandar Shah Bin Mohamad Nor
No. 3083/07/17(J)
Chartered Accountant