# Mizuho Bank (Malaysia) Berhad

Company No. 201001039768 (923693-H)

(Incorporated in Malaysia)

# Financial statements for the financial year ended 31 March 2021

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

**DIRECTORS' REPORT**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

The Directors have pleasure in presenting their report and the audited financial statements of Mizuho Bank (Malaysia) Berhad (the "Bank") for the financial year ended 31 March 2021.

**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.

**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.

**Results**

| | **RM'000** |
|---|---|
| Profit before taxation | 110,393 |
| Tax expense | (30,627) |
| Profit for the financial year | 79,766 |

**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.

**Reserves and provisions**

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

**Bad and doubtful debts and financing**

Before the statement of comprehensive income and statement of financial position 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 provision for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

**DIRECTORS' REPORT**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

**Current assets**

Before the statement of comprehensive income and statement of financial position of the Bank were made out, the Directors took reasonable steps to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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

**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 of the Bank 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 liabilities of any other person; or
(b) any contingent liability of the Bank which has arisen since the end of the financial year.

In the opinion of the Directors, no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Bank to meet its obligations 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 financial statements of the Bank which would render any amount stated in the financial statements misleading.

**Items of an 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**
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(Incorporated in Malaysia)

# DIRECTORS' REPORT
# FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

## Business plan and strategy
## Business results for the financial year ended 31 March 2021

The Bank recorded a profit before tax ("PBT") of RM110.4 million for the financial year ended 31 March 2021 as compared to RM63.3 million in the previous financial year, an increase of RM47.1 million or 74.3%. The increase was mainly due to the writeback of allowance for expected credit losses ("ECL") of RM8.4 million, compared to an allowance for ECL of RM27.5 million provided in the preceding year. Operating income increased by 6.9% to RM181.9 million mainly from higher net interest income of RM106.3 million. This was offset by lower non-interest income of RM75.6 million in the same year. The Bank's top line resilience was supported by continued cost discipline where operating expenses only increased by RM0.5 million or 0.6% year-on-year to RM79.8 million.

Total assets for the Bank stood at RM11.6 billion as at 31 March 2021, a decrease of RM1.7 billion or 13.4% as compared to the previous financial year. The decrease was mainly due to lower deposits and placements with financial institutions at RM1.2 billion. This was however mitigated by higher holdings of securities of RM1.9 billion. The Bank remains well-capitalised with an additional capital injection of RM500 million from its parent bank, Mizuho Bank Ltd. in the current year. For the financial year ended 31 March 2021, the Bank’s Common Equity Tier 1 capital ratio and Total Capital Ratio remained strong at 30.18% and 31.15% respectively.

## Business outlook for the financial year ending 31 March 2022

Looking forward, the Bank anticipates an uneven but gradual recovery of the Malaysian economy underpinned by vaccination roll-out under the National Covid-19 Immunisation Programme. However, given the ongoing resurgence of Covid-19 cases and imposition of movement restrictions in Malaysia and regionally, the Bank shall continue to be prudent in managing key business risks and cost optimisation efforts. The Bank expects to remain resilient and as part of Mizuho Financial Group, remains committed to fulfill its role as a financial institution, fully exercising its financial functions to support its customers.

**MIZUHO BANK (MALAYSIA) BERHAD**
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**DIRECTORS' REPORT**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

**Statement of Corporate Governance**

**Board of Directors**

The Board of Directors (“Board”) of the Bank acknowledges the importance of cultivating and sustaining good corporate governance practices that are robust in order to assist the Bank in promoting a culture of integrity and transparency.

With the diversity and wide range of expertise, the Board is committed to cultivate a culture of excellence in corporate governance standards at all times. Being responsible for the stewardship of the Bank, the Board aims to maintain the highest standards of transparency, integrity and honesty by adopting good corporate governance practices. A structured corporate governance framework was introduced through the establishment of the Board Charter, the Board Oversight Committees and its respective Terms of Reference (“TOR”). The efforts were further supplemented through the formulation of policies and standard practices that have into consideration the relevant legal and regulatory requirements governing the Bank.

During the financial year, the corporate governance practices of the Bank were consistent and had complied with the guidelines and best practices under the Bank Negara Malaysia's Corporate Governance policy document (“BNM Corporate Governance”). The Board and its Board Oversight Committees had regularly reviewed the governance policies and practices to ensure that the Bank remains abreast of the relevant corporate governance and regulatory requirements.

**Composition and Membership of the Board of Directors**

The Board is currently governed by four (4) members consisting of three (3) Independent Non-Executive Directors and one (1) Executive Director. The size and composition of the Board duly commensurate with the complexity, scope and operation of the Bank. During the financial year, the Board consists of the following members:

(i) Datuk Ahmad Hizzad bin Baharuddin
(ii) Mr. Abdul Khalil bin Abdul Hamid
(iii) Mr. Lim Kim Seng
(iv) Mr. Guan Yeow Kwang
(v) Mr. Shojiro Mizoguchi (tenure expired on 31 August 2020)

The roles of the Chairman and the Executive Director/Chief Executive Officer ("CEO") of the Bank are clearly separated and this distinction allows an appropriate balance of responsibilities, authority and accountability between the Board and Management. The Independent Non-Executive Directors of the Bank are independent of Management and free from associations or circumstances that may impair the exercise of their independent judgement. In addition, they had further declared and maintained the criteria of independence throughout their directorship tenure.

**Statement of Corporate Governance (continued)**

**Qualification, Fit and Proper Criteria**

As a licensed financial institution in Malaysia, all Directors of the Bank are bound by the strict laws governing the qualification, fit and proper criteria that must be complied before and throughout the directorship tenure. For this purpose, an annual assessment is conducted every year to ensure that the Directors duly complied with the requirements particularly on probity, personal integrity, reputation, competency, capability and financial integrity. Overall, the Directors were assessed and had declared their full compliance to the qualification, fit and proper criteria requirements.

**Roles and Responsibilities of the Board**

The business and affairs of the Bank are managed under the direction and oversight of the Board subject to the Financial Services Act 2013 and other written law governing the Bank. The Board has the overall responsibility in promoting the sustainable growth and financial soundness of the Bank and in ensuring reasonable standards of fair dealing, without undue influence from any party. This includes making decisions with due consideration towards the long-term implications on the Bank and its customers, officers and the general public.

In general the Board is responsible for the Bank's long-term objectives, overall strategies, business, organisation and significant policies. It oversees the management of the business affairs of the Bank and regularly monitors the Bank's performance against the budget and plans. The Reserved Matters requiring the Board’s decision were established and these include major investments, strategic plans, business plans, key financial and operating policies, financial results and corporate governance matters.

The Board Oversight Committees were established to assist the Board in discharging its oversight functions. With the support of the Board Audit Committee, the Board Risk Management Committee, the Board Nomination Committee and the Board Remuneration Committee, the Board provides effective oversight of the Bank’s performance, risk assessment of its business and operations, internal control and compliance with regulatory requirements.

The Board in carrying out its various functions and responsibilities as laid down under the guidelines and directives issued by BNM, operates within the parameters of its TOR. The Board discharges some of its responsibilities directly and delegates certain responsibilities to the Board Oversight Committees through their respective TOR. These TOR are reviewed periodically against the industry best practices and corporate governance provision and guidance.

The details of the Board Charter and the TOR for the Board and the Board Oversight Committees can be found on the Bank’s website https://www.mizuhobank.com/malaysia/index.html.

**Statement of Corporate Governance (continued)**

**Roles and Responsibilities of the Board (continued)**

During the financial year, the Board and the Board Oversight Committees had conducted their respective meetings as follows:

| **Number of meetings convened by the Board and the Board Oversight Committees for Financial Year Ended 2021** | | |
|---|---|---|
| 1. | Board | 10 meetings |
| 2. | Board Audit Committee | 8 meetings |
| 3. | Board Risk Management Committee | 5 meetings |
| 4. | Board Nomination Committee | 7 meetings |
| 5. | Board Remuneration Committee | 4 meetings |

**Statement of Corporate Governance (continued)**

**Key information and background of Directors**

**Datuk Ahmad Hizzad bin Baharuddin**
**Chairman, Independent Non-Executive Director**
**58 years of age**
**Malaysian**

Datuk Ahmad Hizzad bin Baharuddin was appointed as Director of the Bank on 8 March 2019 and as the Chairman of the Bank on 1 March 2020. Datuk Ahmad Hizzad holds a Bachelor Degree in Business Studies from Eastern Illinois University and a Master of Business Administration from St. Louis University. Prior to joining the Bank, Datuk Ahmad Hizzad was the Assistant Governor of BNM until his retirement on 18 September 2018. During his tenure with BNM, Datuk Ahmad Hizzad had served as the Director of several BNM departments namely, the Payment System, Financial Sector Development and Islamic Banking and Takaful. Datuk Ahmad Hizzad was seconded to Labuan Financial Services Authority ("Labuan FSA") as its Director-General for 6 years before returning to BNM in October 2017. Apart from being the Director of the Bank, Datuk Ahmad Hizzad further serves as an Independent Non-Executive Director of Small Medium Enterprise Development Bank Malaysia Berhad ("SME Bank") and a Non-Executive Non-Independent Director and Chairman of Payments Network Malaysia Sdn Bhd ("PayNet"). As at to date, Datuk Ahmad Hizzad does not have any interest in the shares of the Bank.

As required under BNM Corporate Governance, Datuk Ahmad Hizzad had duly complied with the time commitment and had properly discharged his directorship duties. He had attended and participated in the Board and the Board Oversight Committees meetings held throughout the financial year, details as stated below:

| Board Member | Attendance/Number of Meetings | | | | |
|---|---|---|---|---|---|
| | Board | Board Audit Committee | Board Risk Management Committee | Board Nomination Committee | Board Remuneration Committee |
| Datuk Ahmad Hizzad bin Baharuddin | 10/10 | 8/8 | 5/5 | 7/7 | 4/4 |

**Statement of Corporate Governance (continued)**

**Key information and background of Directors (continued)**

**Mr. Abdul Khalil bin Abdul Hamid**
**Independent Non-Executive Director**
**65 years of age**
**Malaysian**

Mr. Abdul Khalil bin Abdul Hamid was appointed as Director of the Bank on 11 November 2019. He holds a Bachelor of Economics (B. Admin) degree from University of Malaya, Kuala Lumpur Malaysia. He began his career with Hong Kong & Shanghai Banking Corporation in 1979, managing the customer service department at Kuala Lumpur Main Office before leaving the bank in October 1985 to join Bank of Nova Scotia as an Account Manager. During his tenure with Bank of Nova Scotia from 1985 until 1995, Mr. Abdul Khalil was responsible for managing multiple portfolios ranging from corporate, commercial and public sector business segments. Mr. Abdul Khalil had joined Affin Bank Berhad in September 1995 where he had last served as its Head of Credit Management Department. In April 2002, he had joined Bank of Tokyo-Mitsubishi UFJ (M) Berhad as its Executive Vice President-Operations and was subsequently appointed as the Operations Advisor in 2012 prior to his retirement in October 2013. Mr. Abdul Khalil currently holds other directorship as a Non-Independent Non-Executive Chairman of Prudential Assurance Malaysia Berhad and an Independent Director of Kuwait Finance House (Malaysia) Berhad. Mr. Abdul Khalil has no interest in the shares of the Bank.

Since joining the Bank, Mr. Abdul Khalil had duly complied with the time commitment and had properly discharged his directorship duties as required under BNM Corporate Governance. He had attended and participated in the Board and the Board Oversight Committees meetings held throughout the financial year, details as stated below:

| **Board Member** | **Attendance/Number of Meetings** | | | | |
|---|---|---|---|---|---|
| | **Board** | **Board Audit Committee** | **Board Risk Management Committee** | **Board Nomination Committee** | **Board Remuneration Committee** |
| Mr. Abdul Khalil bin Abdul Hamid | 10/10 | 8/8 | 5/5 | 7/7 | 4/4 |

**Statement of Corporate Governance (continued)**

**Key information and background of Directors (continued)**

**Mr. Lim Kim Seng**
**Independent Non-Executive Director**
**66 years of age**
**Malaysian**

Mr. Lim Kim Seng, a Chartered Accountant, was appointed to the Board of the Bank on 14 February 2020. He holds a Higher National Diploma in Accounting from the Scottish Business Education Council in 1976 and was later admitted as a Member of the Institute of Chartered Accountants of Scotland in 1980. He received his early training as an external auditor with international accounting firm, Messrs Touche Ross & Co. in Scotland for 7 years before returning to Malaysia in 1983. He started his career in the local banking industry with Bank of Commerce Berhad in 1985 where he held various positions in both, the front line and back office operations. He had served Bumiputera Merchant Bankers Berhad as its Head of Internal Audit Department from 1992 to 2000 before leaving Malaysia to become the Financial Controller of a start-up company in the United Kingdom (UK) for 5 years. Upon returning to Malaysia, he had joined Courts Mammoth (M) Berhad as their Group Chief Internal Auditor for 4 years. He had later rejoined the banking industry in 2009 upon his appointment as the Group Chief Internal Auditor of Hong Leong Bank Berhad. He had retired from his final post with the bank in 2014. Mr. Lim does not hold other directorship or other external engagement in any other company or entity apart from his directorship with the Bank and he does not have any interest in the shares of the Bank.

During the financial year, Mr. Lim had duly complied with the required time commitment and had properly discharged his duties as Director of the Bank under BNM Corporate Governance. He had attended and participated in the Board and the Board Oversight Committees meetings held throughout the financial year, details as stated below:

| **Board Member** | **Attendance/Number of Meetings** | | | | |
|---|---|---|---|---|---|
| | **Board** | **Board Audit Committee** | **Board Risk Management Committee** | **Board Nomination Committee** | **Board Remuneration Committee** |
| Mr. Lim Kim Seng | 10/10 | 8/8 | 5/5 | 7/7 | 4/4 |

**Statement of Corporate Governance (continued)**

**Key information and background of Directors (continued)**

**Mr. Guan Yeow Kwang**
**Executive Director**
**64 years of age**
**Singaporean**

Mr. Guan Yeow Kwang was appointed as Director of the Bank on 26 June 2018. He holds a Bachelor of Arts (Economics and Political Science) from National University of Singapore and a Master of Business Administration from University of Manchester. Mr. Guan commenced his career in the financial sector in Singapore since 1981 where he mainly attached to Mizuho Bank Ltd and its predecessor entities in Singapore. He had started his career with Astley & Pearce Pte Ltd in 1981 and subsequently with First National Bank of Boston where he had spent fifteen years in the financial markets honing his skills as an arbitrager and later, progressed into the areas of risk management, human resource, operations legal, compliance, technology and finance. Mr. Guan is currently the CEO of Mizuho Singapore Branch and Managing Director of Mizuho's Asia and Oceania Administration Department. He serves as the Chairman of Audit Committee and is a Council Member of the Singapore Institute of Banking & Finance, the Chairman of Manpower Sub-committee and a Member of the Singapore FX Market Committee. Mr. Guan has no interest in the shareholding of the Bank.

Despite residing in Singapore, Mr. Guan had duly complied with the required time commitment and had properly discharged his directorship duties as required under BNM Corporate Governance. He had attended and participated in the Board and the Board Nomination Committee meetings held throughout the financial year, details as stated below:

| **Board Member** | **Attendance/Number of Meetings** | |
|---|---|---|
| | **Board** | **Board Nomination Committee** |
| Mr. Guan Yeow Kwang | 10/10 | 7/7 |

**Statement of Corporate Governance (continued)**

**Key information and background of Directors (continued)**

**Mr. Shojiro Mizoguchi**
**Executive Director/Chief Executive Officer** *(Tenure as Executive Director expired on 31 August 2020)*
**56 years of age**
**Japanese**

Mr. Shojiro Mizoguchi was the Chief Executive Officer/Executive Director of the Bank from 1 September 2015 until his tenure as Executive Director expired on 31 August 2020. He then left the role of Chief Executive Officer of the Bank on 12 January 2021 for a new assignment within Mizuho Financial Group. He graduated from University of Hitotsubashi, majoring in Commerce. Mr. Mizoguchi began his career with Mizuho Financial Group upon joining the then, Industrial Bank of Japan Ltd. (Akasaka Branch) in April 1990. He has 29 years of banking experience, holding various positions within Mizuho Financial Group in Japan and its overseas branches in New York, Vietnam and Singapore. Prior to his appointment with the Bank, he was the Joint General Manager of Mizuho Financial Group's Asia and Oceania Division in Singapore handling the business strategy planning and managing Mizuho Bank Ltd’s branches and subsidiaries in the region. Mr. Shojiro Mizoguchi had no interest in the shares of the Bank during his term in office.

As required under BNM Corporate Governance, Mr. Shojiro Mizoguchi had duly complied with the time commitment and he had properly discharged his directorship duties as required. For the period between 1 April 2020 until 31 August 2020, he had attended and participated in the Board and the Board Nomination Committee meetings, details as stated below:

| **Board Member** | **Attendance/Number of Meetings** | |
|---|---|---|
| | **Board** | **Board Nomination Committee** |
| Mr. Shojiro Mizoguchi<br>*(Tenure as Executive Director expired on 31 August 2020)* | 4/4 | 3/3 |

**Statement of Corporate Governance (continued)**

**Board of Directors Meetings**

The Directors of the Bank meet regularly in order to discharge its Board duties effectively. A formal schedule of matters specifically reserved for the decision of the Board was duly established for its proper governance according to the requirements under the laws. The details of the roles and responsibilities of the Board are duly enumerated in its TOR and the same can be found on the Bank’s corporate website.

The Board Meetings for the year were scheduled early with due notice given to the Directors. Throughout the financial year, the Board had held 10 Board Meetings to review, deliberate and consider a variety of significant matters that required its guidance and approval. The Board Meetings and the record of the attendance were as follows:

| **Board Members** | **Attendance and Number of Meetings** |
|---|---|
| Datuk Ahmad Hizzad bin Baharuddin | 10/10 |
| Mr. Abdul Khalil bin Abdul Hamid | 10/10 |
| Mr. Lim Kim Seng | 10/10 |
| Mr. Guan Yeow Kwang | 10/10 |
| Mr. Shojiro Mizoguchi (tenure expired on 31 August 2020) | 4/4 |

Where appropriate, decisions are taken by way of circular resolutions in between scheduled meetings. During the financial year ended 31 March 2021, the Board had appraised and deliberated, amongst others, on the following:

- Re-appointment of Executive Director
- New and Revocation of Power of Attorney Granted to Chief Executive Officer
- Outsourcing Plan for the Financial Year 2020 and 2021
- IT and Cybersecurity 3-Year Strategic Plan
- Revised e-Banking Policy
- Revised Charter and Terms of Reference for Shariah Committee
- Revised Islamic Finance Policy
- Succession Plan of Shariah Committee Members
- FY2019 Financial Results and FY2020 Business Plan of Mizuho Financial Group
- Environmental and Sustainability Initiatives of Parent Bank
- Compliance Report
- Revised Terms of Reference of Compliance Committee
- Revision of the Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions (AML/CFT and TFS for FIs) Policy
- Compliance Attestation of Contributions to Staff Training Fund Arising from Staff Pinching
- Attestation Letter to Bank Negara Malaysia on Confirmation of New Products
- MBM Business Plan FY2020-2022

**Statement of Corporate Governance (continued)**

**Board of Directors Meetings (continued)**

Where appropriate, decisions are taken by way of circular resolutions in between scheduled meetings. During the financial year ended 31 March 2021, the Board had appraised and deliberated, amongst others, on the following (continued):

- Value Proposition : FY2019 Performance Result and FY2020-2022 Action Plan
- Board Succession Policy and Plan
- Policy Statement on Anti-Bribery and Anti-Corruption (AB&C), and AB&C Policy (Principle I, III and V)
- Audited Financial Statements and Statement of Corporate Governance for the Financial Year ended (FYE) 31 March 2020
- Updates from LIBOR Discontinuation Task Force
- Extension Of Time To Convene The Annual General Meeting And Lodgement Of Audited Financial Statements For The Financial Year Ended 31 March 2020
- Convening of 9th Annual General Meeting
- Business Assessment Working Group (BAWG)
- Proposed Annual Schedule of Board and Board Committees Meetings FY2021/2022
- Appointment of Authorised Signatory for the Bank Account
- Non-Bank Financial Institution (NBFI) Report
- Credit related Proposals in accordance to the Bank's Credit Policy
- Adoption of New Common Seal
- Appointment of Corporate Representatives

**Board Oversight Committees**

The Board has established the Board Oversight Committees stated below to assist the Board in carrying out its roles and responsibilities. Each Board Oversight Committee has assumed the specific responsibilities enumerated by BNM under Appendix 1 of BNM Corporate Governance and any other relevant BNM's guidelines/policies.

Each Board Oversight Committee of the Bank has at least (3) three Directors and majority of whom are Independent Non-Executive Directors. These Board Oversight Committees are chaired by an Independent Non-Executive Director who is not the Chairman of the Board. It comprises Directors with the skills, knowledge and experience relevant to the responsibilities of the Board Oversight Committees. With the exception of the Board Nomination Committee, other Board Oversight Committees do not have an Executive Director in its composition.

The mandate and operating procedures for each Board Oversight Committees are duly governed by its respective TOR as approved by the Board from time to time. The Board remains fully accountable for any authority delegated to the Board Oversight Committees. The details of the respective TOR can be found on the Bank's corporate website.

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Audit Committee**

The Board Audit Committee ("BAC") provides support to the Board in ensuring that there is a reliable and transparent financial reporting process within the Bank and in overseeing the effectiveness of the Bank's Internal Audit function.

In general, the BAC assists the Board in the following matters, inter alia:

(i) Internal Audit Charter, significant audit reports, Senior Management's corrective actions and other audit matters identified by the Internal Audit Department ("IAD");
(ii) Internal audit report on the Bank's risk management framework and its implementation and compliance functions;
(iii) Appointment, confirmation, remuneration, promotion, cessation, the evaluation on qualification and fit and proper criteria, succession plan, annual key performance indicators and annual performance assessment of the Chief Internal Auditor;
(iv) Review on the effectiveness of the Internal Audit function and the independence of IAD and the adequacy and appropriateness of resources for the Internal Audit function including Shariah Audit and Information Technology Audit, the compensation scheme of the Internal Auditors to be consistent with the objectives and the demands of the internal audit function, the qualification, capability and professional competency and the continuing professional development programs of IAD personnel;
(v) Review, assess, and/or approve Shariah Audit Report, Shariah Audit Methodology, Shariah Audit programs, Shariah Audit plan and deliverables of Shariah Audit function upon consultation with the Shariah Committee, recommend appointment of external party to conduct independent Shariah Audit;
(vi) Information Technology Audit report and the corrective actions identified by IAD, Information Technology Audit Plan, audit scope, procedures and frequency of information technology audits;
(vii) Review on independent internal audit report on the effectiveness and compliance of the Bank's internal Anti-Money Laundering and Anti-Terrorism Financing ("AML/CFT") measures;
(viii) Whistleblowing policy, release of the quarterly and the annual financial statements, change in the financial year end, dividend policy and payment of the Bank, change or adoption of the accounting policy, capitalization of the profits and reserve of the Bank and any report issued by a third-party on the Bank's Internal Control Framework;
(ix) Review on independent internal audit report on risk management and capital management processes relating to the Internal Capital Adequacy Assessment Process ("ICAAP"); and
(x) Review on the Directors' Report, Corporate Governance Disclosures, Interim Financial Reports and preliminary announcements in relation to the preparation of the Bank's Financial Statements.

The details of BAC's duties and responsibilities are set out in its TOR which is available on the Bank's corporate website.

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Audit Committee (continued)**

The BAC comprises three (3) Independent Non-Executive Directors. The BAC is required to meet at least once in every quarter and for this financial year, the meetings were held as follows:

| **BAC Members** | **Attendance and Number of Meetings** |
|---|---|
| Mr. Lim Kim Seng | 8/8 |
| Datuk Ahmad Hizzad bin Baharuddin | 8/8 |
| Mr. Abdul Khalil bin Abdul Hamid | 8/8 |

During the financial year ended 31 March 2021, the BAC had reviewed and deliberated on the following matters, inter alia:

- Revised Terms of Reference of Board Audit Committee
- Audit and Investigation Reports
- Quarterly Unaudited Financial Statements and Business Performance Reports of the Bank
- Remedial Action Plan – BNM Supervisory Assessment Composite Risk Rating (CRR) 2018 and 2019
- External Auditors’ Report for the FYE 31 March 2020 and Updates on the Remedial Plan
- Performance Review and Reappointment of Messrs. KPMG as External Auditor of the Bank
- Messrs. KPMG’s Audit Plan, Scope and Fee for the FYE 31 March 2021
- Private meetings with Messrs. KPMG
- Non-Audit Services Policy
- Assessment on Enhancing Cyber Resilience for Large Value Payment Systems – Reducing the Risk of Wholesale Payments Fraud Related to Endpoint Security
- Risk-Based Audit Plan FYE2022
- Internal Audit Department - Quality Assurance Improvement Programme (QAIP)
- Review on Internal Capital Adequacy Assessment Process (ICAAP) Report
- Appointment of Ernst & Young Tax Co. (Japan) for Preparation of Transfer Pricing Documentation
- Business Continuity Plan / Disaster Recovery Plan (BCP/DRP) Drill Report / Test Results
- Outstanding Audit Plan and Extension on Remaining Planned Audits
- Report on Annual Review of Compliance to PIDM Guidelines on Provision of Information on Deposit Insurance
- Status of Audit Follow-up
- System Risk Assessment (SRA) for Outsourced Systems
- Quarterly Self-Assessment Final Results
- Credit Exposure with Connected Parties

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Risk Management Committee**

The Board Risk Management Committee ("BRMC") was established with the objective of assisting the Board in overseeing and ensuring sound risk strategy and effective risk management framework of the Bank that is appropriate to the nature, scale and complexity of its activities. The BRMC further supports the Board in meeting the expectations on risk management as set out in the policy documents issued by BNM.

In general, the BRMC assists the Board in the following matters, inter alia:

(i) Promote consistent culture of risk awareness and risk management within the Bank, setting healthy risk culture, establishing the tone-at-the-top and upholding standards of conduct, organisational practices and corporate values that are consistent with the Bank's overall risk appetite;
(ii) Review and recommend risk management strategies, policies and risk appetite for Board's approval. This include credit risk, market risk, liquidity risk, operational risk, compliance risk, technology risk and cyber security risk;
(iii) Review and assess the adequacy of the Bank's risk management policies and frameworks in identifying, measuring, monitoring and controlling risk, and the extent to which these policies are effective;
(iv) Review the Bank's business plan, information technology and cyber security strategic plans over a three-year period and periodically review these plans at least once a year;
(v) Ensure infrastructure, resources and systems are in place for risk management, and to ensure that the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk-taking activities;
(vi) Oversee the implementation of sound and robust risk management frameworks, including technology risk management and cyber resilience;
(vii) Review the overall framework on the Internal Capital Adequacy Assessment Process ("ICAAP"), the development and effective implementation of the ICAAP;
(viii) Review the stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions and results;
(ix) Evaluate the risks under stress scenarios and the Bank's business and operations capacity to sustain such risks;
(x) Review the adequacy and effectiveness of management's internal controls and risk management process;
(xi) Review management's activities in managing principal risks such as credit, market, liquidity, interest rate risk in the banking book, operational, compliance, IT risk, cyber risk and the risk management process;
(xii) Receive and review management's periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing, key technology projects and risk management activities to ensure that the results are aligned to the risk posture of the Bank;

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Risk Management Committee (continued)**

In general, the BRMC assists the Board in the following matters, inter alia (continued):

(xiii) Review the assessment report on the data center infrastructure resiliency and network services reliability;
(xiv) Receive and review reports from pertinent management committees;
(xv) Overall management of compliance risk and compliance matters with laws, regulations and standards;
(xvi) Compliance related risk appetite, framework, policies and internal control systems, including management information system, and oversee its implementation as well as the periodic review;
(xvii) Sound corporate governance and compliance culture which reinforces high ethical standards and professional behaviours in the Bank;
(xviii) Discussions on compliance issues and reports escalated by the Chief Compliance Officer, including Shariah non-compliance issues and findings; and
(xix) Appointment, confirmation, remuneration, promotion, cessation, the evaluation on qualification and fit and proper criteria, succession plan, annual key performance indicators and annual performance assessment of the Chief Risk Officer and the Chief Compliance Officer.

The details of the duties and responsibilities of the BRMC are set out in its TOR which is available on the Bank’s corporate website.

The BRMC comprises three (3) Independent Non-Executive Directors. The BRMC meets at least once in every quarter. The details of the BRMC Meetings held during the financial year in review are as follows:

| **BRMC Members** | **Attendance and Number of Meetings** |
|---|---|
| Mr. Abdul Khalil bin Abdul Hamid | 5/5 |
| Datuk Ahmad Hizzad bin Baharuddin | 5/5 |
| Mr. Lim Kim Seng | 5/5 |

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Risk Management Committee (continued)**

During the financial year ended 31 March 2021, the BRMC meetings were held to appraise and deliberate, amongst others, on the following:

- Risk Monitoring Reports from Risk Management Department
- Compliance Report from Compliance Department
- Revised Terms of Reference of Board Risk Management Committee
- Enhancements of Credit Risk Policy
- Review of Exceptional Credit Criteria
- Enhancement of Single Counterparty Exposure Limit (SCEL) Internal Rules Document
- Annual Review of Operational Risk Policy
- Review of SCEL Internal Limits, Internal Capital Target (ICT) and Market Risk Limits
- Review of Internal Capital Adequacy Assessment Process (ICAAP) Framework
- ICAAP Report FYE 2020
- Update on BNM Industry-Wide Stress Test Exercise
- Review of Technology Risk Management and Cyber Resilience Framework
- Revision of Compliance Committee Terms of Reference
- Foreign Exchange Notices (FEN) Policy (Notice 3, 4 and 7)
- Update on MBM's Standard Procedure for Handling Rescheduling and Restructuring (R&R) Customers Impacted by Covid-19
- Update on KPMG Audit Observations
- Update on Parent Bank Credit Rating Model Validation
- Assurance on Compliance with Anti-Money Laundering (AML) Requirements to Identify and Prevent Illegal Financial Scheme (IFS) and Mule Accounts
- Annex to Company-Wide Risk Assessment for Money Laundering and Terrorist Financing 2019
- BNM MyHorizon Reports
- Deliberations of Management Credit Committee (MCC) and Asset Liability Management Committee (ALMC)

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Nomination Committee**

The Board Nomination Committee (“BNC”) was established to assist the Board in developing, maintaining and reviewing the Board’s overall strategic oversight responsibilities with regard to human resource, talent management, succession planning, corporate value and ethical behaviour of the Directors and employees of the Bank. In general, the BNC assists the Board on the following matters, inter alia:

(i) Appointment/reappointment, cessation, terms and conditions/contract of service and the evaluation on the qualification, fit and proper criteria, independent status and performance of Directors;
(ii) Appointment, reappointment, cessation, terms and conditions/contract of service and the evaluation on the qualification, fit and proper criteria, independent status and performance of the Shariah Committee Members;
(iii) Appointment, reappointment, cessation, evaluation on qualification and fit and proper criteria, succession plan, annual key performance indicators and annual performance assessment of the CEO;
(iv) Appointment, confirmation, promotion, cessation, the evaluation on qualification and fit and proper criteria, succession plan, annual key performance indicators and annual performance assessment of other Senior Management, Material Risk Takers and Company Secretary;
(v) Appointment and reappointment of the Expatriate Staff;
(vi) Performance Management Framework/Model including the setting of the annual performance target parameters and benchmark for the Bank’s Balanced Scorecard, manpower strategies and budget and learning and development budget including the Directors Training Program;
(vii) Review on the Bank’s key policy, framework and any other regulatory reporting as may be required by Regulators with regard to human resource, talent management, succession planning, corporate value and ethical behavior of the Directors and employees of the Bank; and
(viii) Any material review and change of the Bank’s organization and reporting structure, job grade and classification particularly on the control function departments i.e. Internal Audit Department, Risk Management Department and Compliance Department.

The details of BNC’s duties and responsibilities are set out in its TOR which is available on the Bank’s corporate website.

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Nomination Committee (continued)**

The membership of the BNC consists of all Directors of the Bank. For this financial year, there were seven (7) BNC Meetings held. The details of the BNC meetings held during the financial year in review are as follows:

| **BNC Members** | **Attendance and Number of Meetings** |
|---|---|
| Mr. Abdul Khalil bin Abdul Hamid | 7/7 |
| Datuk Ahmad Hizzad bin Baharuddin | 7/7 |
| Mr. Lim Kim Seng | 7/7 |
| Mr. Guan Yeow Kwang | 7/7 |
| Mr. Shojiro Mizoguchi (tenure expired on 31 August 2020) | 3/3 |

During the financial year ended 31 March 2021, the BNC had appraised and deliberated on the following, amongst others:

- Annual Board, Board Oversight Committees and Directors’ Performance Evaluation
- Annual Directors’ Qualification, Fit and Proper Assessments
- Re-election of Directors under Article 89 and Article 94 of MBM's Constitution
- Potential Directorship Offer of Board Member
- Appointment of New Chairman of Board Remuneration Committee
- Re-appointment of Executive Director
- Appointment and Re-appointment of Shariah Committee Members
- Appointment of New Chairman of Shariah Committee
- Annual Assessment Report of Shariah Committee Members
- Acceptance on Resignation of Shariah Committee Member
- Non-Renewal of Contract of Chairman/Member of Shariah Committee
- Application to Bank Negara Malaysia for Sanction on Insufficient Composition of Shariah Committee
- Appointment of New Chief Executive Officer
- Revised Succession Plan for Chief Executive Officer
- Appointment and Reappointment of Expatriates
- Extension of Employment Pass of Expatriate
- MBM’s Expatriate Management Framework
- Performance Evaluation of Expatriates FY2019-2020
- Organisation Structure Review (CEO-1 Role)
- Annual Fit and Proper Assessment of Key Responsible Persons – Senior Officers, Material Risk Takers and Company Secretaries

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Nomination Committee (continued)**

During the financial year ended 31 March 2021, the BNC had appraised and deliberated on the following, amongst others (continued):

- Annual Performance Evaluation of Senior Officers, Material Risk Takers and Company Secretaries
- FY2020 Goal Setting for Chief Executive Officer, Senior Officers, Material Risk Takers and Company Secretaries
- Appointment of new Chief Risk Officer (Senior Officer) and Head of Treasury Department (Material Risk Taker)
- Employment Confirmation of Chief Internal Auditor, Chief Compliance Officer and Chief Risk Officer
- Annual Human Resource Update

**Board Remuneration Committee**

The Board Remuneration Committee ("BRC") was formed with the objective to assist the Board in overseeing the establishment of sound remuneration systems being the key component of the governance and incentive structure through which the Board and Senior Management drive performance, convey acceptable risk taking behaviour and reinforce the Bank's corporate and risk culture.

In general, the duties and responsibilities of the BRC include supporting the Board in actively overseeing the design and operation of the Bank's remuneration system in ensuring that:

(i) The overall remuneration system of the Bank be subjected to active oversight to ensure that the system operates as intended, be in line with the business and risk strategies, corporate values and long-term interests of the Bank, promote prudent risk-taking behaviour and encourage individuals to act in the interests of the Bank as a whole, taking into account the interests of the Bank's customers and be designed and implemented with input from the Control Functions and the Board Risk Management Committee to ensure that risk exposures and risk outcomes are adequately considered;
(ii) There is sufficient risk-measurement expertise to understand the interaction between remuneration practices and risk taking including the historical risk realization trends to mediate disputes on how remuneration should change during periods of high losses;
(iii) The remuneration for individuals within the Bank is aligned with prudent risk-taking, symmetric with risk outcomes;
(iv) The remuneration payout schedules must reflect the time horizon of risks and take account of the potential for financial risks to crystallize over a longer period of time including the compulsory adoption by the Bank of a multi-year framework to measure the performance of Senior Management and Material Risk Takers; and
(v) The Bank promotes the behaviors that are aligned to the intended effects of incentive structures.

**Statement of Corporate Governance (continued)**

**Board Oversight Committees (continued)**

**Board Remuneration Committee (continued)**

The details of BRC's duties and responsibilities are set out in its TOR which is available on the Bank's corporate website.

The BRC comprises of three (3) Independent Non-Executive Directors. The BRC had duly complied with the minimum number of meeting whereby there were four (4) BRC meetings held during the financial year. The details of the BRC meetings are as follows:

| **BRC Members** | **Attendance and Number of Meetings** |
|---|---|
| Mr. Lim Kim Seng (appointed as Chairman on 1 February 2021) | 4/4 |
| Mr. Abdul Khalil bin Abdul Hamid (relinquished chairmanship on 1 February 2021) | 4/4 |
| Datuk Ahmad Hizzad bin Baharuddin | 4/4 |

During the financial year ended 31 March 2021, the BRC had reviewed and deliberated on the following matters, inter alia:

- Annual Compensation Review for Senior Officers, Material Risk Takers and Company Secretaries
- Annual Compensation Review for All Eligible National Staff
- Directors Remuneration for Financial Year 2020 / 2021
- Total Compensation for Expatriates (April 2019 - March 2020)
- Revised Remuneration Package for Shariah Committee
- Revision of MBM's Remuneration Policy

**Board Training and Development**

The Directors of the Bank are required to maintain sound knowledge and understanding of the business of the Bank as well as the relevant market and regulatory developments. For this purpose, the Bank had committed in dedicating sufficient resources toward the on-going development of Directors including setting an adequate budget, having in place development plans for Directors and regularly updating such plans to ensure that each Director possesses the knowledge and skills necessary to fulfil his responsibilities.

As required by BNM, all Directors are required to attend the compulsory program imposed from time to time, i.e. "Financial Institutions Directors' Education" (FIDE) and Islamic Finance for Board" (IF4BoD). A comprehensive in-house induction program was established to ease the new Directors into their new role and to assist them in their understanding the management and operations of the Bank.

**Statement of Corporate Governance (continued)**

**Board Training and Development (continued)**

Apart from the compulsory programs and the in-house induction program, further effort was made in ensuring the Directors' continuous development. For this purpose, the Directors had participated in seminar/training/workshop to keep abreast with latest developments in the banking and related sectors. During the financial year, the Directors of the Bank had attended the following programs:

Datuk Ahmad Hizzad bin Baharuddin

- Financial Institutions Directors' Education (FIDE) Programme - FIDE Core Module B (Bank) by ICLIF
- Basel II by Ms. Yeoh Xin Yi of Messrs. KPMG
- Anti-Money Laundering and Countering Financing of Terrorism (AMLA/CFT) by Mr. Vijayaraj R Kanniah, Group Compliance of SME Bank
- Section 17A of the Malaysian Anti-Corruption Commission (MACC) Act by Group Compliance of SME Bank
- BNM-FIDE FORUM Annual Dialogue with Governor of Bank Negara Malaysia
- Technology Development by Representatives from National Security Council and Casaba Security Malaysia Sdn Bhd
- Budget and Tax Implication by Deloitte - SME Bank
- In-house Board Training: Cyber Security Leadership Talk 2021 by the Bank

Mr. Abdul Khalil bin Abdul Hamid

- FIDE FORUM Webinar: Managing Virtual Banking and Insurance Businesses
- Cyber Awareness Briefing by Deloitte Risk Advisory - KFHMB
- Special Online Presentation of "Banking On Governance, Insuring Sustainability" by FIDE FORUM
- FIDE FORUM Webinar: Digital Financial Institutions (FIs) Series: A European Perspective - Fidor Bank's Digital Banking Experience
- BNM-FIDE FORUM Annual Dialogue with Governor of Bank Negara Malaysia
- EY Webcast - Does Cybersecurity Only Become A Priority Once You've Been Attacked?
- FIDE FORUM's Board Effectiveness Focus Group Discussion
- EY Webinar: Turnaround and Restructuring: The Banker's Perspective
- Enlightenment On The Shariah Governance Policy Document & Shariah Resolutions Issued By Shariah Advisory Council of BNM 2020 by Amanie Academy Sdn Bhd - KFHMB
- KPMG Captains' Forum: Transformation Towards Recovery | Session 1: Financial Resilience
- Asia School of Business (ASB) Webinar: Emerging Markets & International Capital Flows
- KPMG Captains' Forum: Transformation Towards Recovery | Session 2: Operational Resilience
- FIDE FORUM Webinar: Climate Action - The Board's Leadership in Greening the Financial Sector
- FIDE FORUM Webinar: Green Fintech: Ping An's Use of Technology to Support Green Finance Objectives
- Anti-Money Laundering by Asian Business School - KFHMB
- In-house Board Training: Cyber Security Leadership Talk 2021 by the Bank
- FIDE FORUM Webinar: Rethinking Our Approach to Cyber Defence in FIs

**Statement of Corporate Governance (continued)**

**Board Training and Development (continued)**

Mr. Lim Kim Seng

- Financial Institutions Directors' Education (FIDE) Programme - FIDE Core Module A (Bank) by ICLIF
- FIDE Programme – FIDE Core Module B (Bank)
- Corporate Directors' Training Programme (CDTP) Fundamental 3.0 by Companies Commission of Malaysia (CCM)
- CDTP Fundamental 3.0 + Cyber Security Awareness by CCM
- Islamic Finance for Board of Directors Programme by International Shari'ah Research Academy for Islamic Finance (ISRA) Consultancy
- FIDE FORUM Webinar: Climate Action - The Board's Leadership in Greening the Financial Sector
- In-house Board Training: Cyber Security Leadership Talk 2021 by the Bank
- FIDE Elective Program: Nominating and Remuneration Committees - Beyond Box-Ticking and Enhancing Effectiveness

Mr. Guan Yeow Kwang

- Leadership Lecture on “The Art of Swimming Upstream” at NUS Business School as Speaker
- Virtual Conference: Benchmark Strategies Forum Asia Pacific by International Swaps and Derivatives Association (ISDA)
- In-house Training: LIBOR Fallback Language
- Leadership Lecture on “The Art of Swimming Upstream” at Faculty of Arts & Social Sciences as Speaker
- In-house training: Annual Anti-Money Laundering (AML) Refresher
- In-house training: Code of Conduct for IBOR
- Islamic Finance for Board of Directors Programme by International Shari'ah Research Academy for Islamic Finance (ISRA) Consultancy
- In-house Board Training: Cyber Security Leadership Talk 2021 by the Bank
- Asian Institute of Digital Finance Seminar
- Center on AI Technology for Humankind Seminar

**Statement of Corporate Governance (continued)**

**Shariah Committee**

The Bank's Shariah Committee was established to ensure that the aims and operations of the Bank's business in Islamic finance are in compliance with Shariah principles at all times. The roles and responsibilities of the Bank's Shariah Committee are as prescribed in the policy document of Shariah Governance issued by BNM and in compliance with the respective members' letter of appointment.

During the financial year, the Bank had some changes in the composition of its Shariah Committee members. The Bank appointed Dr. Abdullaah Jalil as a new Shariah Committee member from 2 October 2020, replacing Mr. Mohd Fazli bin Masri who resigned on 30 June 2020.

During the financial year ended 31 March 2021, the Bank further changed the landscape of the Shariah Committee by reappointing Dr. Mohd Edil Abd Sukor for another term of tenure. He has also been appointed as Chairman of the Shariah Committee, after the previous Chairman, Dr. Mohd Zakhiri bin Md Nor completed his tenure with the Bank on 30 April 2021.

Pursuant to the expiry of the contract with Dr. Mohd Zakhiri bin Md Nor, the Bank has appointed En. Megat Hizaini bin Hassan as a new Shariah Committee member effective from 1 May 2021 to comply with BNM requirements on the minimum number of Shariah Committee members.

The details of attendance of each member at Shariah Committee meetings held during the financial year ended 31 March 2021 are as follows:

| **Shariah Committee Members** | **Attendance and Number of Meetings** |
|---|---|
| Dr. Mohd Edil bin Abd Sukor (appointed as Chairman on 30 April 2021) | 4/4 |
| Dr Abdullaah bin Jalil (appointed on 2 October 2020) | 2/2 |
| En. Megat Hizaini bin Hassan (appointed on 1 May 2021) | * |
| Dr. Mohd Zakhiri bin Md Nor (tenure expired on 30 April 2021) | 4/4 |
| Mr. Mohd Fazli bin Masri (resigned on 30 June 2020) | 1/1 |

* There was no meeting held subsequent to the Shariah Committee member's appointment

**Statement of Corporate Governance (continued)**

**Shariah Committee (continued)**

The Shariah Committee has the responsibility to provide objective and sound advice to the Bank to ensure that its aims and operations, business, affairs and activities are in compliance with Shariah. This includes:

(i) Providing a decision or advice to the Bank on the application of any rulings of the Shariah Advisory Council (SAC) or standards on Shariah matters that are applicable to the operations, business, affairs and activities of the Bank;
(ii) Providing a decision or advice on matters which require a reference to be made to the SAC;
(iii) Providing a decision or advice on the operations, business, affairs and activities of the Bank which may trigger a Shariah non-compliance event;
(iv) Deliberating and affirming a Shariah non-compliance finding by any relevant functions; and
(v) Endorsing a rectification measure to address a Shariah non-compliance event.

**Statement of Corporate Governance (continued)**

**Remuneration strategy**

The remuneration system in the Bank forms a key component of the governance and incentive structure through which all employees including the senior management and other material risk takers drive performance, convey acceptable risk taking behaviour and reinforce the Bank's corporate and risk culture. The goal is to ensure the remuneration system in the Bank is aligned with other management tools in the pursuit of prudent risk taking.

The fundamental objective of the Bank’s Remuneration Policy is to ensure that the Bank has its remuneration framework that is robust and effective in:
(i) attracting and retaining employees including senior management and other material risk takers of requisite quality that increases productivity and profitability in the long run;
(ii) motivating and creating incentives for the employees including senior management or other material risk taker to perform at their best; and
(iii) focusing attention on the achievement of desired goals and objectives.

***Design and structure of the remuneration system of the Bank***

The remuneration structure of the Bank comprises of Fixed Pay (“FP”) and Variable Compensation (“VC”). The policy is a balanced formula to attract and retain talent whilst ensuring that the Bank’s funds are not misused or used in a manner that compromises the on-going viability, solvency and reputation of the Bank. The policy is applicable to all employees including senior management and other material risk takers of the Bank only and does not extend to any other entity within the Mizuho group of entities.

The meaning of “senior management”, “other material risk takers” and “senior officers” respectively, have the same meaning as prescribed under the Guidelines on Corporate Governance and the Fit and Proper Criteria issued by Bank Negara Malaysia.

The Human Resources (“HR”) department reviews the remuneration system to ensure it supports the achievement of the Bank’s strategic objectives. The review will consider a range of factors including market practice, changes in market conditions, regulatory developments and our overarching remuneration principles.

The control functions of Audit and Risk operate independently from the business units in the Bank, and have appropriate authority to carry out their individual functions without intervention from the business units. To prevent conflict of interest, remuneration of employees in these control functions are not dictated by business units that they support and are ultimately subject to the approval of the Board. Remuneration of the Chief Risk Officer and the Chief Internal Auditor are approved by the Board Risk Management Committee and Board Audit Committee.

**Statement of Corporate Governance (continued)**

**Remuneration strategy (continued)**

***Considerations of risk and performance in the remuneration system of the Bank***

In the Bank, the overall remuneration framework takes into consideration risk in the industry and the performance of the individuals within the organisation. As the remuneration structure mainly consists of FP and VC, we set out below the main considerations for each type of remuneration.

FP is the primary compensation component for all employees of the Bank. Management will decide on the amount of FP for each employee where management will take into account factors such as the individual employee's performance, prevailing market or industry level of remuneration and the position held by the individual employee.

VC is based on the industry objective of retaining cost flexibility while attracting and retaining the right talent. The VC in the Bank comprises of contractual, performance-based and special bonuses. The VC is cash-based and does not involve a mix of different forms of variable remuneration (i.e. mix of cash, shares or share-linked instruments).

The budget for the total amount of VC, i.e. the size of the bonus pool, is calculated according to the risk adjusted performance results approved by the Board and is subject to the Board's discretion. This method ensures the Bank to fix the variable remuneration pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

In the Bank, performance indicators are an important element for remuneration. Annual salary increments and promotions are also judged based on the overall evaluation of the employee's performance and the applicable salary levels within the Bank. The portion of VC provided to each employee is also based on the employee's "Final Evaluation Grade" which is determined based on the evaluation of the employee's performance.

Employees' performance in the Bank is judged based on a combination of financial achievements and non-financial elements such as compliance with risk management policies, adherence to legal, regulatory and ethical standard, customer service and effectiveness and efficiency of supporting operations. The Bank sets annual key performance indicators and the parameters are specifically tailored to the area each individual involved is in and has a level of control over. The level set for each KPI is based on budgeted figures for the Bank and respective industry standards. The individual KPI reflects the Bank's 5 core values of Customer First, Innovative Spirit, Passion, Speed and Team Spirit.

Given the relatively smaller size of the Bank's business operations, the Bank does not maintain a policy on deferral of the VC awarded to its employees. However, the Bank will keep in mind to update its remuneration policy and framework should the business requirements indicate such a need in the future.

**Statement of Corporate Governance (continued)**

**Remuneration strategy (continued)**

**Directors' remuneration**

The Directors' remuneration is disclosed in Note 23 to the financial statements.

**Remuneration disclosure for senior management and other material risk takers**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| **Total value of remuneration awards for the financial year** | **Unrestricted RM'000** | **Deferred RM'000** | **Number of Officers** | **Unrestricted RM'000** | **Deferred RM'000** | **Number of Officers** |
| **<u>Senior Management</u>** | | | | | | |
| **Fixed remuneration** | | | | | | |
| Cash based | 2,568 | - | 6 | 2,255 | - | 8 |
| Others | 680 | - | 6 | 574 | - | 8 |
| **Variable remuneration** | | | | | | |
| Cash based | 380 | - | 5 | 521 | - | 6 |
| Others | 92 | - | 6 | 97 | - | 8 |
| | 3,720 | - | 6 | 3,447 | - | 8 |
| **<u>Other material risk takers</u>** | | | | | | |
| **Fixed remuneration** | | | | | | |
| Cash based | 1,019 | - | 3 | 680 | - | 2 |
| Others | 368 | - | 3 | 310 | - | 2 |
| **Variable remuneration** | | | | | | |
| Cash based | 306 | - | 3 | 164 | - | 2 |
| Others | 131 | - | 3 | 166 | - | 2 |
| | 1,824 | - | 3 | 1,320 | - | 2 |
| Total | 5,544 | - | 9 | 4,767 | - | 10 |

**Statement of Corporate Governance (continued)**

**Related Party Transactions**

There were no other significant related party transactions other than as reported in Note 26.

**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 quarterly 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.

**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 options over shares in the Bank and its related corporations during the financial year.

**Issue of shares**

The issued and paid-up share capital of the Bank was increased from RM700,000,000 as at 31 March 2020 to RM1,200,000,000 as at 31 March 2021 by the issuance of additional 500,000,000 new ordinary shares at RM1 per share in the share capital of the Bank to its holding bank, Mizuho Bank, Ltd. for cash. There were no debentures issued during the financial year.

**Directors' benefits**

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by Directors or the fixed salary of full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with any 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 financial 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.

**Indemnity and insurance costs**

During the financial year, the total amount of indemnity given to Directors of the Bank and the premium paid is RM10,000,000 and RM32,000 respectively.

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

**DIRECTORS' REPORT**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

**Auditors**

The auditors, KPMG PLT, have expressed their willingness to continue in office. The auditors' remuneration is disclosed in Note 22 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

| | |
|---|---|
| Datuk Ahmad Hizzad bin Baharuddin<br>Director | Mr. Lim Kim Seng<br>Director |

Kuala Lumpur
Date: 30 July 2021

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

**Statement by Directors pursuant to**
**Section 251(2) of the Companies Act 2016**

In the opinion of the Directors, the financial statements set out on pages 40 to 134 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2021 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Datuk Ahmad Hizzad bin Baharuddin
Director

Mr. Lim Kim Seng
Director

Kuala Lumpur
Date: 30 July 2021

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

**Statutory Declaration pursuant to**
**Section 251(1)(b) of the Companies Act 2016**

I, Katsutoshi Toba, 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 40 to 134 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named Katsutoshi Toba, in Kuala Lumpur on 30 July 2021.

Mr. Katsutoshi Toba
Chief Executive Officer

Before me:

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)

## SHARIAH COMMITTEE'S REPORT

In the name of Allah, the Beneficent, the Merciful

In compliance with the letter of appointment, we, the Shariah Committee of Mizuho Bank (Malaysia) Berhad, are required to submit the following report:

We have reviewed the principles and the contracts disclosed to us relating to the transactions and applications introduced by Mizuho Bank (Malaysia) Berhad during the financial year end 31 March 2021. We have also conducted our review to form an opinion as to whether Mizuho Bank (Malaysia) Berhad has complied with the Shariah principles and with the Shariah rulings by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The Management of Mizuho Bank (Malaysia) Berhad is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. Whereas, it is our responsibility to form an independent opinion, based on our review of the operations of Mizuho Bank (Malaysia) Berhad, and to report to you.

We planned and performed our review so as to obtain all the information and explanations which are considered necessary in order to provide you with sufficient evidence to give reasonable assurance that Mizuho Bank (Malaysia) Berhad has not violated the Shariah principles.

We have assessed the work carried out by the relevant control functions which include examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by Mizuho Bank (Malaysia) Berhad.

In our opinion:

1. Nothing has come to our attention that causes the Shariah committee to believe that the operations, business, affairs and activities of Mizuho Bank (Malaysia) Berhad involve any material Shariah non-compliances;
2. No earning has been realised from sources or by means prohibited by the Shariah principles within the financial year; and
3. Mizuho Bank (Malaysia) Berhad is not obliged to pay zakat during the financial year ended 31 March 2021.

We, the Shariah Committee of Mizuho Bank (Malaysia) Berhad, do hereby confirm that, at our best level on the basis of the review as discussed above, the Islamic banking operations and business activities of Mizuho Bank (Malaysia) Berhad for the financial year ended 31 March 2021 have, in general, been conducted in conformity with the Shariah rules and principles.

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)

**SHARIAH COMMITTEE'S REPORT**

We pray to Allah the Almighty to grant us success and the right path of straight-forwardness.

Chairman of the Shariah Committee: ……………………………….
(Dr Mohd Edil bin Abd Sukor)

Shariah Committee Member: ……………………………….
(Dr Abdullaah bin Jalil)

Kuala Lumpur, Malaysia
Date: 30 July 2021

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

## Report on the audit of financial statements

### *Opinion*

We have audited the financial statements of Mizuho Bank (Malaysia) Berhad, which comprise the statement of financial position as at 31 March 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 40 to 134.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 March 2021, and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### *Basis for opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence and other ethical responsibilities*

We are independent of the Bank in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### *Information other than the financial statements and auditors' report thereon*

The Directors of the Bank are responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

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

***Information other than the financial statements and auditors' report thereon (continued)***

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the Directors for the financial statements***

The Directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, the Directors are responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

***Auditors' responsibilities for the audit of the financial statements (continued)***

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

**Other matters**

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

| | |
|---|---|
| KPMG PLT | Chin Shoon Chong |
| (LLP0010081-LCA & AF 0758) | Approval No: 02823/04/2023 J |
| Chartered Accountants | Chartered Accountant |

Petaling Jaya, Selangor

Date: 30 July 2021

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

| | Note | 2021 RM'000 | 2020 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and short-term funds | 4 | 1,068,070 | 1,556,301 |
| Deposits and placements with financial institutions | 5 | 282,343 | 1,420,480 |
| Financial assets at fair value through other comprehensive income ("FVOCI") | 6 | 1,903,042 | 1,134,913 |
| Loans, advances and financing | 7 | 8,011,411 | 8,966,896 |
| Derivative financial assets | 8 | 156,525 | 199,572 |
| Other assets | 9 | 102,404 | 33,195 |
| Right of use assets | 10 | 9,185 | 12,146 |
| Property and equipment | 11 | 5,235 | 6,841 |
| Intangible assets | 12 | 7,159 | 10,338 |
| Current tax assets | | 8,699 | 205 |
| Deferred tax assets | 13 | 3,104 | 1,758 |
| **Total assets** | | 11,557,177 | 13,342,645 |
| | | | |
| **Liabilities** | | | |
| Deposits from customers | 14 | 2,742,540 | 2,826,487 |
| Deposits and placements from financial institutions | 15 | 7,077,317 | 9,221,487 |
| Derivative financial liabilities | 8 | 153,581 | 142,154 |
| Lease liabilities | | 9,276 | 12,240 |
| Other liabilities | 16 | 61,642 | 203,326 |
| **Total liabilities** | | 10,044,356 | 12,405,694 |
| | | | |
| **Equity** | | | |
| Share capital | 17 | 1,200,000 | 700,000 |
| Reserves | 18 | 312,821 | 236,951 |
| **Total equity attributable to owner of the Bank** | | 1,512,821 | 936,951 |
| | | | |
| **Total liabilities and equity** | | 11,557,177 | 13,342,645 |
| | | | |
| **Commitments and contingencies** | 28 | 15,327,877 | 13,799,485 |

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

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

| | Note | 2021<br>RM'000 | 2020<br>RM'000<br>Restated |
|---|---|---|---|
| Interest income | 19 | 194,320 | 330,347 |
| Interest expense | 20 | (88,015) | (241,751) |
| **Net interest income** | | 106,305 | 88,596 |
| Other operating income | 21 | 75,549 | 81,579 |
| Total net income | | 181,854 | 170,175 |
| Other operating expenses | 22 | (79,831) | (79,373) |
| **Operating profit** | | 102,023 | 90,802 |
| Writeback/(addition) of allowance for expected credit losses ("ECL") | 24 | 8,370 | (27,463) |
| **Profit before taxation** | | 110,393 | 63,339 |
| Tax expense | 25 | (30,627) | (11,393) |
| **Profit for the financial year** | | 79,766 | 51,946 |
| **Other comprehensive (loss)/income that will be reclassified to profit or loss in future periods:** | | | |
| Fair value changes of financial assets at FVOCI | | (5,126) | 4,148 |
| Income tax effect | | 1,230 | (995) |
| **Other comprehensive (loss)/income for the financial year** | | (3,896) | 3,153 |
| **Total comprehensive income for the financial year** | | 75,870 | 55,099 |
| Profit attributable to: | | | |
| Owner of the Bank | | 79,766 | 51,946 |
| Total comprehensive income attributable to: | | | |
| Owner of the Bank | | 75,870 | 55,099 |
| Basic and diluted earnings per share (sen) | 27 | 6.65 | 7.42 |

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

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

## STATEMENT OF CHANGES IN EQUITY
## FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

| | ← Non-distributable reserves → | | | Distributable reserves | |
|---|---|---|---|---|---|
| | Share capital RM'000 | Regulatory reserve RM'000 | FVOCI reserve RM'000 | Retained profits RM'000 | Total RM'000 |
| **At 1 April 2020** | 700,000 | 21,489 | 4,912 | 210,550 | 936,951 |
| Issuance of shares | 500,000 | - | - | - | 500,000 |
| Profit for the financial year | - | - | - | 79,766 | 79,766 |
| Other comprehensive loss | - | - | (3,896) | - | (3,896) |
| Transfer from regulatory reserve | - | (21,489) | - | 21,489 | - |
| **At 31 March 2021** | 1,200,000 | - | 1,016 | 311,805 | 1,512,821 |
| | | | | | |
| **At 1 April 2019** | 700,000 | 28,595 | 1,759 | 151,498 | 881,852 |
| Profit for the financial year | - | - | - | 51,946 | 51,946 |
| Other comprehensive income | - | - | 3,153 | - | 3,153 |
| Transfer from regulatory reserve | - | (7,106) | - | 7,106 | - |
| **At 31 March 2020** | 700,000 | 21,489 | 4,912 | 210,550 | 936,951 |

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

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | 110,393 | 63,339 |
| *Adjustments for:* | | |
| Depreciation of right of use assets | 4,920 | 4,943 |
| Depreciation of property and equipment | 2,627 | 2,901 |
| Amortisation of intangible assets | 4,448 | 4,873 |
| (Writeback)/addition of allowance for ECL | (8,370) | 27,463 |
| Amortisation of premium net of accretion of discount | 15,427 | 2,842 |
| Net unrealised loss/(gain) on revaluation of derivatives | 4,197 | (20,835) |
| Net unrealised gain on revaluation of financial assets at fair value through profit or loss ("FVTPL") | (1,032) | (796) |
| Unrealised foreign exchange gain | (29,290) | (8,857) |
| Operating profit before changes in working capital | 103,320 | 75,873 |
| *(Increase)/decrease in operating assets* | | |
| Deposits and placements with financial institutions | 983,909 | (623,911) |
| Loans, advances and financing | 1,019,851 | (2,597,696) |
| Other assets | (40,014) | 37,734 |
| Amount owing by holding company | 56 | (128) |
| Financial assets at FVOCI | (788,682) | (530,711) |
| *Increase/(decrease) in operating liabilities* | | |
| Deposits from customers | (83,947) | 428,809 |
| Deposits and placements from financial institutions | (2,144,170) | 3,138,800 |
| Lease liabilities | (4,923) | (4,849) |
| Other liabilities | (146,270) | 104,084 |
| Cash (used in)/generated from operating activities | (1,100,870) | 28,005 |
| Taxation paid | (39,200) | (18,221) |
| **Net cash (used in)/generated from operating activities** | (1,140,070) | 9,784 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (1,021) | (211) |
| Purchase of intangible assets | (1,269) | (2,789) |
| **Net cash used in investing activities** | (2,290) | (3,000) |

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **Cash flows from financing activity** | | |
| Issuance of new shares | 500,000 | - |
| **Net cash generating from financing activity** | 500,000 | - |
| Net (decrease)/increase in cash and cash equivalents | (642,360) | 6,784 |
| Cash and cash equivalents as at 1 April 2020/2019 | 1,710,529 | 1,703,745 |
| **Cash and cash equivalents as at 31 March** | 1,068,169 | 1,710,529 |

**Analysis of cash and cash equivalents:**

| | | |
|---|---|---|
| Cash and short-term funds (Note 4) | 1,068,169 | 1,556,301 |
| Deposits and placements with financial institutions (Note 5) | 282,343 | 1,420,480 |
| Less: deposits and placements with financial institutions with original contractual maturity of more than 3 months | (282,343) | (1,266,252) |
| | 1,068,169 | 1,710,529 |

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

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

## 1. Corporate 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 approved by the Board of Directors on 30 July 2021.

## 2. Basis of preparation of the financial statements

### (a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act 2016 in Malaysia. The accounting policies adopted by the Bank are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 March 2020, except for the adoption of the following MFRS, Amendments to MFRSs and Interpretation during the current financial year end which are relevant to the Bank:

| | | |
|---|---|---|
| i) | Revised Conceptual Framework for Financial Reporting | |
| ii) | Amendments to MFRS 101 and Amendments to MFRS 108 | *Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* |
| iii) | Amendments to MFRS 7, Amendments to MFRS 9, and Amendments to MFRS 139 | *Financial Instruments: Disclosures, Financial Instruments, Financial Instruments: Recognition and Measurement - Interest Rate Benchmark Reform* |

The adoption of the above pronouncements do not have any material impact on the financial statements of the Bank.

## 2. Basis of preparation of the financial statements (continued)

### (a) Statement of compliance (continued)

**Accounting standards not yet effective**

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

<u>MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 June 2020</u>

| | | |
|---|---|---|
| i) | Amendments to MFRS 16 | *Leases - Covid 19 - Related Rent Concessions* |

<u>MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021</u>

| | | |
|---|---|---|
| i) | Amendments to MFRS 7, Amendments to MFRS 9, Amendments to MFRS 16, and Amendments to MFRS 139 | *Financial Instruments: Disclosures, Financial Instruments, Leases, Financial Instruments: Recognition and Measurement - Interest Rate Benchmark Reform - Phase 2* |

<u>MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 April 2021</u>

| | | |
|---|---|---|
| i) | Amendments to MFRS 16 | *Leases - Covid 19 - Related Rent Concessions beyond 30 June 2021* |

<u>MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2022</u>

| | | |
|---|---|---|
| i) | Amendments to MFRS 9 | *Financial Instruments (Annual Improvements to MFRS Standards 2018 - 2020 cycle)* |
| ii) | Amendments to Illustrative Examples accompanying MFRS 16 | *Leases (Annual Improvements to MFRS Standards 2018 - 2020 cycle)* |
| iii) | Amendments to MFRS 116 | *Property, Plant and Equipment - Proceeds before Intended Use* |
| iv) | Amendments to MFRS 137 | *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract* |

## 2. Basis of preparation of the financial statements (continued)

### (a) Statement of compliance (continued)

**Accounting standards not yet effective (continued)**

<u>MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2023</u>

| | | |
|---|---|---|
| i) | Amendments to MFRS 101 | *Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current and Disclosures of Accounting Policies* |
| ii) | Amendments to MFRS 108 | *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* |

The initial application of the abovementioned pronouncements are not expected to have any material impact to the financial statements of the Bank except for Amendments to MFRS 7, MFRS 9, MFRS 16 and MFRS 139: *Interest Rate Benchmark Reform - Phase 2* .

**Amendments to MFRS 7, MFRS 9, MFRS 16, MFRS 139: Interest Rate Benchmark Reform - Phase 2**

The amendments address issues that arise from the implementation of interest rate benchmark reforms, focusing on issues that affect financial reporting when an existing interest rate benchmark is replaced with an alternative nearly risk-free rate.

The amendments, among others, include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. In applying the practical expedient, an entity is required to first identify and account for modifications to the instrument by updating the effective interest rate without adjusting the carrying amount. As a result, no immediate gain or loss is recognised.

The Bank is still in the midst of assessing the impact of the above amendments to published standards.

## 2. Basis of preparation of the financial statements (continued)

### (b) Basis of measurement

The financial statements have been prepared under the historical cost basis except as mentioned in the respective accounting policy notes.

### (c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of financial statements in conformity with the MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgements are based on the Directors' best knowledge of current events and actions, actual results may differ from these estimates.

In determining the carrying amounts of some assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the reporting date. The estimates and assumptions used are based on historical experience and expectation of future events and are reviewed periodically. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are described in the following notes:

i) Estimation of the Bank's expected credit loss ("ECL")

The Bank reviews its individually significant loans, advances and financing at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management's judgement 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 judgements about the borrower's or the customer'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.

## 2. Basis of preparation of the financial statements (continued)

### (d) Use of estimates and judgements (continued)

i) Estimation of the Bank's expected credit loss ("ECL") (continued)

The Bank's ECL calculations under MFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Internal credit grading model, which assigns probability of default ("PD") to the individual grades;
- Criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessments thereon;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as gross domestic product and collateral values, and the effect on PD, exposure at default ("EAD"), and loss given default ("LGD"); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

ii) Fair value estimation of financial assets and financial liabilities

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 existing 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.

## 2. Basis of preparation of the financial statements (continued)

### (d) Use of estimates and judgements (continued)

iii) Estimation of tax provisions and deferred tax assets

Significant judgement 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. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements by the Bank, unless otherwise stated.

### (a) Financial instruments

*i) Classification and measurement of financial assets and liabilities*

The Bank classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instruments or, where applicable, at the time of reclassification.

A) Financial assets held at amortised cost and FVOCI

Debt instruments held at amortised cost or held at FVOCI, have contractual terms that give rise to cash flows that are solely payments of principal and interest ("SPPI" characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Bank manages financial assets to generate cash flows.

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*i) Classification and measurement of financial assets and liabilities (continued)*

A) Financial assets held at amortised cost and FVOCI (continued)

The Bank makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell") are classified as held at FVOCI.

B) Financial assets and liabilities held at FVTPL

Financial assets which are not held at amortised cost or that are not held at FVOCI are held at FVTPL. Financial assets and liabilities held at FVTPL are either mandatorily classified at FVTPL or irrevocably designated at FVTPL at initial recognition.

Mandatorily classified at FVTPL

Financial assets and liabilities which are mandatorily held at FVTPL include:
- financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term;
- hybrid financial assets that contain one or more embedded derivatives;
- financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics;
- equity instruments that have not been designated as held at FVOCI; and
- financial liabilities that constitute contingent consideration in a business combination.

Designated at FVTPL

Financial assets and liabilities may be designated at FVTPL when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis ("accounting mismatch").

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*i) Classification and measurement of financial assets and liabilities (continued)*

B) Financial assets and liabilities held at FVTPL (continued)

<u>Designated at FVTPL (continued)</u>

Interest rate swaps have been acquired with the intention of significantly reducing interest rate risk on certain loans and advances and debt securities with fixed rates of interest. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss.

Financial liabilities may also be designated at FVTPL where they are managed on a fair value basis or have an embedded derivative where the Bank is not able to separately value the embedded derivative component.

Fair value changes due to the Bank's own credit risk are recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

C) Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at FVTPL are classified as financial liabilities held at amortised cost.

<u>Fair value of financial assets and liabilities</u>

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 in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Bank has access at that date. The fair value of a liability includes the risk that the Bank will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

**3. Significant accounting policies (continued)**

**(a) Financial instruments (continued)**

*i) Classification and measurement of financial assets and liabilities (continued)*

Fair value of financial assets and liabilities (continued)

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Bank establishes fair value by using valuation techniques.

Initial recognition

Purchases and sales of financial assets and liabilities held at FVTPL, and debt securities classified as financial assets held at FVOCI are initially recognised on the trade-date (the date on which the Bank commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at FVTPL.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in profit or loss but is amortised or released to profit or loss as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

A) Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest rate method. Foreign exchange gains and losses are recognised in profit or loss.

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*i) Classification and measurement of financial assets and liabilities (continued)*

Subsequent measurement (continued)

B) Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in profit or loss. Changes in expected credit losses are recognised in profit or loss and are accumulated in a separate component of equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative ECL reserve, are transferred to profit or loss.

C) Financial assets and liabilities held at FVTPL

Financial assets and liabilities mandatorily held at FVTPL and financial assets designated at FVTPL are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in profit or loss unless the instrument is part of a cash flow hedging relationship. Contractual interest income on financial assets held at FVTPL is recognised as interest income in a separate line in profit or loss.

D) Financial liabilities designated at FVTPL

Financial liabilities designated at FVTPL are held at fair value, with changes in fair value recognised in the net trading income line in profit or loss, other than changes attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated FVTPL is recognised in profit or loss.

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*ii) Reclassifications*

Financial liabilities are not reclassified subsequent to initial recognition.

Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model. Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or ECL computations.

A) Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at FVTPL, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

For financial assets held at amortised cost that are reclassified to FVOCI, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative ECL amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

B) Reclassified from FVOCI

Where financial assets held at FVOCI are reclassified to financial assets held at FVTPL, the cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss.

For financial assets held at FVOCI that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative ECL held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*ii) Reclassifications (continued)*

C) Reclassified from FVTPL

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at FVOCI or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of ECL. Where financial assets held at FVTPL are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

*iii) Derecognition of financial instruments*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognised to the extent of the Bank's continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for equity instruments designated at FVOCI and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively.

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

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*iv) Regular way purchase or sale of financial assets (continued)*

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- the recognition of an asset to be received and the liability to pay for it on the trade date, and
- derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

*v) 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 statement.

*vi) Offsetting*

Financial assets and liabilities are offset and the net amount presented on the statements of financial position when there is a legally enforceable right to offset the amounts and the intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted by the accounting standards.

*vii) Impairment of financial assets*

ECL are determined for all financial assets measured at amortised cost or FVOCI, undrawn commitments and financial guarantee contract, which include loans, advances and financing and debt instruments held by the Bank. The ECL model also applies to contract assets under MFRS 15, *Revenue from Contracts with Customers* and lease receivables under MFRS 16, *Leases* .

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*vii) Impairment of financial assets (continued)*

An ECL represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive over the contractual life of the instrument.

<u>Measurement</u>

ECL are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward-looking. The estimate of expected cash shortfalls is determined by multiplying the PD with the LGD with the EAD.

Forward looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates and commodity prices amongst others. These assumptions are incorporated using the Bank's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall ECL amounts.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Bank is exposed to credit risk.

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*vii) Impairment of financial assets (continued)*

Recognition

A) 12-months ECL (Stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the reporting date. ECL continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

B) Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk since initial recognition, an ECL provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor it is assessed in the context of changes in ECL. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk.

Quantitative factors include an assessment of whether there has been rating notch downgrade since origination. Qualitative factors assessed include those linked to current credit risk management processes, such as accounts under watch list monitoring. Watch list monitoring account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management.

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*vii) Impairment of financial assets (continued)*

<u>Recognition (continued)</u>

C) Credit impaired (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired. Evidence that a financial asset is credit impaired includes observable data about the following events:

- The principal or interest or both of the financial instrument is past due for more than 90 days or 3 months. In the case of revolving facilities (e.g. overdraft), the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months;
- Any financial instrument that exhibits weaknesses in accordance with the Bank's internal credit risk policy; or
- Restructuring and rescheduling of a loan facility involves any modification made to the original repayment terms and conditions of the loan facility following an increase in the credit risk of obligor/counterparty.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawndown are also included within the Stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

## 3. Significant accounting policies (continued)

### (a) Financial instruments (continued)

*vii) Impairment of financial assets (continued)*

Write-offs of credit impaired instruments & reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in profit or loss.

Improvement in credit risk/Curing

A period may elapse from the point at which instruments enter lifetime ECL (Stage 2 or Stage 3) and are reclassified back to 12-month ECL (Stage 1).

For financial assets that are credit-impaired (Stage 3), a transfer to Stage 2 or Stage 1 is only permitted where the instrument is no longer considered to be credit-impaired.

For financial assets within Stage 2, these can only be transferred to Stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to Stage 1 when there was upgrading of rating notches. Where instruments were transferred to Stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to Stage 1. This includes instances where management actions led to instruments being classified as Stage 2, requiring that action to be resolved before loans are reclassified to Stage 1.

## 3. Significant accounting policies (continued)

### (b) Leases - The Bank as lessee

Leases are recognised as right of use ("ROU") assets and a corresponding liability at the day on which the leased asset is available for use by the Bank (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

<u>Lease term</u>

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Bank reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Bank and affects whether the Bank is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities.

<u>ROU assets</u>

ROU assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- decommissioning or restoration costs.

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liabilities.

## 3. Significant accounting policies (continued)

### (b) Leases - The Bank as lessee (continued)

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivables;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used. This is the rate that the individual lessees would have to pay to borrow the funds necessary to obtain an asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Bank presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is included in profit or loss as establishment costs within "other operating expenses".

Short term leases and leases of low value assets

The Bank elects to apply MFRS 16 recognition exemption such as short-term leases and leases for which the underlying asset is of low value. Short-term leases are leases with a lease term of 12 months or less with no purchase option. Payment associated with short-term leases and low value assets are recognised on a straight-line basis as an expense in profit or loss.

## 3. Significant accounting policies (continued)

### (c) Leases - The Bank as lessor

As a lessor, the Bank determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of economic life of the asset.

*i) Operating leases*

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

*ii) Finance leases*

When assets are leased out under a finance lease, the present value of the lease payment is recognised as a receivable. The receivable is subject to MFRS 9 impairment (refer to accounting policy Note 3(a)(vii) on impairment of financial assets). The difference between gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the 'net investment' method so as to reflect a constant periodic rate of return.

## 3. Significant accounting policies (continued)

### (d) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to its location and working condition for its intended use, and the costs of dismantling and removing the assets and restoring the site on which the assets are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs incurred in replacing part of an item of property and equipment is recognised in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when 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. The carrying amount of the replaced part is derecognised to profit or loss. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation of property and equipment is computed on a straight-line basis over their estimated useful lives as follows:

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

Depreciation methods, residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

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 profit or loss.

## 3. Significant accounting policies (continued)

### (e) 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 infinite lives or not yet available for use are 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 statement 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 |

Gains or losses arising from the derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in income statement when the assets are derecognised.

### (f) 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.

### (g) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash and short-term funds and deposits and placements with financial institutions with original contractual maturity of three months or less and subject to insignificant risk of change in value.

## 3. Significant accounting policies (continued)

### (h) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (i) Employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank contributes to the Employees Provident Fund ("EPF") for eligible employees on a monthly basis. Obligations for contributions to EPF are recognised as an expense in the statement of comprehensive income in the year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

### (j) Recognition of interest/profit income

Interest/profit income is recognised in profit or loss using the effective interest/profit method for financial assets measured at amortised cost and financial assets at FVOCI. The effective interest/profit rate is the rate that exactly discounts estimated future receipts through the expected life of the financial assets. The calculation of the effective interest/profit rate includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest/profit rate.

Where an account is classified as impaired, impairment provision is made on principal outstanding and interest/fee accrued prior to an account being impaired. Upon impairment, subsequent contractual interest/fee due will not be recognised as income.

## 3. Significant accounting policies (continued)

### (k) Recognition of fees and other income from contracts with customers

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 main categories:

*i) 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 effective interest rate 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.

*ii) 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 fees, commissions and placement fees, are recognised as income when all conditions precedent are fulfilled over the contract period.

### (l) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous financial years. Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 3. Significant accounting policies (continued)

### (m) Foreign currency transactions and balances

Transaction in foreign currencies are translated to the functional currency of the Bank at the exchange rate at the dates of the transactions.

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 costs 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 translating monetary items at the reporting date are recognised in profit or loss.

### (n) Fair value measurements

The fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as 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 measurement assumes that the transaction to sell the asset of transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial assets, the fair value measurement 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.

When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can assess at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

The Bank recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

## 3. Significant accounting policies (continued)

### (o) Share capital

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

### (p) 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 or the amount cannot be estimated reliably. Contingent liabilities are disclosed, unless the probability of outflow of economic resources is remote. 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 the Bank. The Bank does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

## 4. Cash and short term funds

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Cash and balances with banks and other financial institutions | 177,409 | 163,921 |
| Money at call and deposit placements maturing within one month | 890,760 | 1,392,380 |
| | 1,068,169 | 1,556,301 |
| Less: Allowance for expected credit losses | (99) | - |
| | 1,068,070 | 1,556,301 |

## 5. Deposits and placements with financial institutions

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Deposits and placements maturing more than one month | 282,343 | 1,420,480 |

## 6. Financial assets at FVOCI

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **At fair value** | | |
| Government investment issues | 607,183 | 484,626 |
| Government guaranteed bonds | 1,295,859 | 650,287 |
| | 1,903,042 | 1,134,913 |

## 7. Loans, advances and financing

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| (a) By type: | | |
| **At amortised cost:** | | |
| Term loans | 5,225,246 | 6,240,295 |
| Revolving credits | 1,560,748 | 1,404,350 |
| Bills receivable | 20,310 | 33,946 |
| | 6,806,304 | 7,678,591 |
| Less: Unearned interest | (36) | (107) |
| Gross loans, advances and financing at amortised cost | 6,806,268 | 7,678,484 |
| Less: Allowance for expected credit losses | (41,551) | (54,608) |
| Net loans, advances and financing at amortised cost | 6,764,717 | 7,623,876 |
| **At FVTPL:** | | |
| Term loans . | 1,246,694 | 1,343,020 |
| **Total net loans, advances and financing** | 8,011,411 | 8,966,896 |
| **Total gross loans, advances and financing** | | |
| - At amortised cost | 6,806,268 | 7,678,484 |
| - At FVTPL | 1,246,694 | 1,343,020 |
| | 8,052,962 | 9,021,504 |
| (b) By geographical distribution: | | |
| Within Malaysia | 6,122,916 | 7,079,461 |
| Outside Malaysia | 1,930,046 | 1,942,043 |
| | 8,052,962 | 9,021,504 |
| (c) By type of customer: | | |
| Domestic business enterprises | 3,399,765 | 4,077,681 |
| Domestic non-bank financial institutions | 2,723,151 | 3,001,780 |
| Foreign business entities | 1,930,046 | 1,942,043 |
| | 8,052,962 | 9,021,504 |

**7. Loans, advances and financing (continued)**

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **(d) By interest/profit rate sensitivity:** | | |
| Fixed rate | 1,296,508 | 1,413,597 |
| Variable rate | 6,756,454 | 7,607,907 |
| | 8,052,962 | 9,021,504 |
| **(e) By economic purpose:** | | |
| Purchase of fixed assets other than land and building | 1,313,498 | 1,810,406 |
| Purchase of non-residential property | 16,817 | 23,885 |
| Working capital | 6,722,647 | 7,187,213 |
| | 8,052,962 | 9,021,504 |
| **(f) By economic sector:** | | |
| Mining and quarrying | 15,326 | 46,686 |
| Manufacturing | 1,721,334 | 2,289,936 |
| Electricity, gas and water supply | 810 | 113,082 |
| Construction | 650,536 | 575,328 |
| Wholesale and retail trade, and restaurants and hotels | 51,679 | 168,890 |
| Transport, storage and communication | 16,651 | 18,957 |
| Finance, insurance, real estate and business activities | 5,541,415 | 5,783,390 |
| Education, health and others | 55,211 | 25,235 |
| | 8,052,962 | 9,021,504 |
| **(g) By maturity structure:** | | |
| Maturing within one year | 4,546,017 | 5,243,151 |
| One year to three years | 2,389,674 | 1,899,394 |
| Three years to five years | 1,098,648 | 1,664,204 |
| Over five years | 18,623 | 214,755 |
| | 8,052,962 | 9,021,504 |

## 7. Loans, advances and financing (continued)

(h) Movements in gross loans, advances and financing carrying amount at amortised cost:

| | 12-month ECL | Lifetime ECL | | |
|---|---|---|---|---|
| | | Not credit-impaired | Credit-impaired | |
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| **At 1 April 2020** | 7,543,756 | 134,728 | - | 7,678,484 |
| Changes due to loans, advances and financing recognised as at 1 April 2020: | | | | |
| Transfer to lifetime ECL (Stage 2) | (190,213) | 190,213 | - | - |
| New financial assets originated | 3,960,474 | 91,919 | - | 4,052,393 |
| Financial assets derecognised | (4,778,594) | (146,015) | - | (4,924,609) |
| **At 31 March 2021** | 6,535,423 | 270,845 | - | 6,806,268 |
| **At 1 April 2019** | 5,327,837 | 169,006 | - | 5,496,843 |
| New financial assets originated | 5,513,398 | 134,728 | - | 5,648,126 |
| Financial assets derecognised | (3,297,479) | (169,006) | - | (3,466,485) |
| **At 31 March 2020** | 7,543,756 | 134,728 | - | 7,678,484 |

## 7. Loans, advances and financing (continued)

(i) Movements in impairment allowances on loans, advances and financing which reflect the ECL model on impairment are as follows:

| | 12-month ECL | Lifetime ECL Not credit-impaired | Lifetime ECL Credit-impaired | |
|---|---|---|---|---|
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| **At 1 April 2020** | 19,215 | 35,393 | - | 54,608 |
| New financial assets originated | 22,540 | 5,297 | - | 27,837 |
| Financial assets derecognised | (17,963) | (35,393) | - | (53,356) |
| Net remeasurement during the financial year | 10,607 | 1,855 | - | 12,462 |
| **At 31 March 2021** | 34,399 | 7,152 | - | 41,551 |
| **At 1 April 2019** | 3,039 | 25,593 | - | 28,632 |
| New financial assets originated | 17,491 | 35,393 | - | 52,884 |
| Financial assets derecognised | (2,735) | (25,593) | - | (28,328) |
| Net remeasurement during the financial year | 1,420 | - | - | 1,420 |
| **At 31 March 2020** | 19,215 | 35,393 | - | 54,608 |

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

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| At 1 April | 54,608 | 28,632 |
| (Writeback)/allowance made during the financial year (Note 24) | (13,057) | 25,976 |
| At 31 March | 41,551 | 54,608 |
| As percentage of total loans, advances and financing | 0.52% | 0.61% |

The Bank has no impaired loans, advances and financing and no individual impairment allowance was deemed required as at 31 March 2021.

## 8. 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.

| | Notional amount RM'000 | Fair value Assets RM'000 | Fair value Liabilities RM'000 |
|---|---|---|---|
| **2021** | | | |
| At fair value: | | | |
| Foreign exchange related contracts | 2,188,348 | 29,331 | (12,294) |
| Interest rate related contracts | 6,766,001 | 127,194 | (141,287) |
| Total derivative assets/(liabilities) | 8,954,349 | 156,525 | (153,581) |
| **2020** | | | |
| At fair value: | | | |
| Foreign exchange related contracts | 2,149,186 | 31,910 | (13,050) |
| Interest rate related contracts | 7,267,111 | 167,662 | (129,104) |
| Total derivative assets/(liabilities) | 9,416,297 | 199,572 | (142,154) |

## 9. Other assets

| | Note | 2021 RM'000 | 2020 RM'000 |
|---|---|---|---|
| Accrued interest receivable | | 24,123 | 24,314 |
| Other receivables, deposits and prepayments | | 77,523 | 8,065 |
| Amount due from holding company | (a) | 758 | 816 |
| | | 102,404 | 33,195 |

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

## 10. Right of use assets

The Bank leases various offices, apartments, equipment and vehicles. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date.

Carrying amount of right of use assets by class of underlying assets are as follows:

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| **Right of use assets** | | |
| Buildings | 6,627 | 9,951 |
| Equipment | 363 | 493 |
| Vehicles | 2,195 | 1,702 |
| | 9,185 | 12,146 |

Additions to the right of use assets during the financial year were RM1,473,000 (2020: RM3,316,000).

Derecognitions of right of use assets due to early termination of leases during the financial year was nil (2020: RM152,000).

Amounts recognised in profit or loss:

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Depreciation charge of right of use assets: | | |
| Buildings | 4,014 | 4,019 |
| Equipment | 130 | 46 |
| Vehicles | 776 | 878 |
| | 4,920 | 4,943 |
| | | |
| Cash outflows for leases as a lessee: | | |
| Interest on lease liabilities | 276 | 304 |
| Income from sub-leasing right of use assets presented in 'other operating income' | (64) | (74) |
| Expenses relating to short-term leases | - | 251 |
| Expenses relating to leases of low-value assets, excluding short-term leases | 35 | 36 |
| Payment of lease liabilities | 4,923 | 4,849 |
| Total cash outflows for leases | 5,170 | 5,366 |

## 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 |
|---|---|---|---|---|---|
| **2021** | | | | | |
| **Cost** | | | | | |
| At 1 April 2020 | 5,699 | 10,999 | 1,709 | 9,249 | 27,656 |
| Additions | - | 87 | 607 | 327 | 1,021 |
| At 31 March 2021 | 5,699 | 11,086 | 2,316 | 9,576 | 28,677 |
| **Accumulated depreciation** | | | | | |
| At 1 April 2020 | 5,286 | 7,515 | 1,583 | 6,431 | 20,815 |
| Depreciation charged | 183 | 1,103 | 180 | 1,161 | 2,627 |
| At 31 March 2021 | 5,469 | 8,618 | 1,763 | 7,592 | 23,442 |
| **Net book value** | | | | | |
| At 31 March 2021 | 230 | 2,468 | 553 | 1,984 | 5,235 |
| **2020** | | | | | |
| **Cost** | | | | | |
| At 1 April 2019 | 5,993 | 10,903 | 1,653 | 10,095 | 28,644 |
| Additions | 9 | 96 | 94 | 12 | 211 |
| Written off | (303) | - | (38) | (858) | (1,199) |
| At 31 March 2020 | 5,699 | 10,999 | 1,709 | 9,249 | 27,656 |
| **Accumulated depreciation** | | | | | |
| At 1 April 2019 | 5,369 | 6,418 | 1,497 | 5,829 | 19,113 |
| Depreciation charged | 220 | 1,097 | 124 | 1,460 | 2,901 |
| Written off | (303) | - | (38) | (858) | (1,199) |
| At 31 March 2020 | 5,286 | 7,515 | 1,583 | 6,431 | 20,815 |
| **Net book value** | | | | | |
| At 31 March 2020 | 413 | 3,484 | 126 | 2,818 | 6,841 |

## 12. Intangible assets

| | Software RM'000 | Software development in-progress RM'000 | Total RM'000 |
|---|---|---|---|
| **2021** | | | |
| **Cost** | | | |
| At 1 April 2020 | 28,050 | 651 | 28,701 |
| Additions | 488 | 781 | 1,269 |
| Transferred to software | 1,022 | (1,022) | - |
| At 31 March 2021 | 29,560 | 410 | 29,970 |
| **Accumulated amortisation** | | | |
| At 1 April 2020 | 18,363 | - | 18,363 |
| Amortisation charged | 4,448 | - | 4,448 |
| At 31 March 2021 | 22,811 | - | 22,811 |
| **Net book value** | | | |
| At 31 March 2021 | 6,749 | 410 | 7,159 |
| **2020** | | | |
| **Cost** | | | |
| At 1 April 2019 | 25,404 | 534 | 25,938 |
| Additions | 72 | 2,717 | 2,789 |
| Transferred to software | 2,600 | (2,600) | - |
| Written off | (26) | - | (26) |
| At 31 March 2020 | 28,050 | 651 | 28,701 |
| **Accumulated amortisation** | | | |
| At 1 April 2019 | 13,516 | - | 13,516 |
| Amortisation charged | 4,873 | - | 4,873 |
| Written off | (26) | - | (26) |
| At 31 March 2020 | 18,363 | - | 18,363 |
| **Net book value** | | | |
| At 31 March 2020 | 9,687 | 651 | 10,338 |

## 13. Deferred tax assets/(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.

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| At 1 April | 1,758 | (9,266) |
| Recognised in profit or loss | 116 | 12,019 |
| Recognised in other comprehensive income | 1,230 | (995) |
| At 31 March | 3,104 | 1,758 |
| | | |
| Presented after appropriate offsetting as follows: | | |
| Deferred tax assets | 11,166 | 6,232 |
| Deferred tax liabilities | (8,062) | (4,474) |
| | 3,104 | 1,758 |

## 13. Deferred tax assets/(deferred tax liabilities) (continued)

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

| **2021** | **Allowance for expected credit losses RM'000** | **Accelerated capital allowances RM'000** | **Financial assets at FVOCI RM'000** | **Unrealised foreign exchange (gain)/loss RM'000** | **Others RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|
| At 1 April 2020 | 5,426 | (819) | (1,551) | (2,104) | 806 | 1,758 |
| Recognised in profit or loss | 4,311 | 107 | - | (4,925) | 623 | 116 |
| Recognised in other comprehensive income | - | - | 1,230 | - | - | 1,230 |
| At 31 March 2021 | 9,737 | (712) | (321) | (7,029) | 1,429 | 3,104 |
| **2020** | | | | | | |
| At 1 April 2019 | 107 | (1,207) | (556) | (7,610) | - | (9,266) |
| Recognised in profit or loss | 5,319 | 388 | - | 5,506 | 806 | 12,019 |
| Recognised in other comprehensive income | - | - | (995) | - | - | (995) |
| At 31 March 2020 | 5,426 | (819) | (1,551) | (2,104) | 806 | 1,758 |

## 14. Deposits from customers

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **(a) By type of deposits:** | | |
| Demand deposits | 945,210 | 945,365 |
| Fixed deposits | 964,033 | 1,185,021 |
| Short-term deposits | 833,297 | 696,101 |
| | 2,742,540 | 2,826,487 |
| **(b) By type of customers:** | | |
| Domestic non-bank financial institutions | 179,424 | 173,984 |
| Domestic business enterprises | 2,452,080 | 2,573,056 |
| Foreign business enterprises | 110,929 | 79,341 |
| Domestic other enterprises | 107 | 106 |
| | 2,742,540 | 2,826,487 |
| **(c) Maturity structure:** | | |
| On demand | 945,210 | 945,365 |
| Due within six months | 1,700,790 | 1,795,892 |
| Due over six months to one year | 96,540 | 85,230 |
| | 2,742,540 | 2,826,487 |

## 15. Deposits and placements from financial institutions

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Licensed banks | 7,077,317 | 9,221,487 |

## 16. Other liabilities

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Accrued interest payable | 6,417 | 34,075 |
| Other accruals | 13,974 | 12,163 |
| Other payables | 34,563 | 154,986 |
| Advances from holding company | 25 | 27 |
| Allowance for ECL on credit commitments and contingencies | 6,663 | 2,075 |
| | 61,642 | 203,326 |

## 16. Other liabilities (continued)

Movements in impairment allowance on credit commitments and contingencies which reflect ECL model on impairment are as follows:

| | 12-month ECL | Lifetime ECL | | |
|---|---|---|---|---|
| | | Not credit-impaired | Credit-impaired | |
| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
| **At 1 April 2020** | 1,540 | 535 | - | 2,075 |
| New financial assets originated | 4,187 | 1,909 | - | 6,096 |
| Financial assets derecognised | (986) | (535) | - | (1,521) |
| Net remeasurement during the financial year | 13 | - | - | 13 |
| **At 31 March 2021** | 4,754 | 1,909 | - | 6,663 |
| | | | | |
| **At 1 April 2019** | 450 | 137 | - | 587 |
| New financial assets originated | 973 | 535 | - | 1,508 |
| Financial assets derecognised | (123) | (137) | - | (260) |
| Net remeasurement during the financial year | 240 | - | - | 240 |
| **At 31 March 2020** | 1,540 | 535 | - | 2,075 |

## 17. Share capital

| | Number of ordinary shares | | Amount | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **'000** | **'000** | **RM'000** | **RM'000** |
| **Issued and fully paid:** | | | | |
| **At 1 April** | 700,000 | 700,000 | 700,000 | 700,000 |
| Issued during the financial year | 500,000 | - | 500,000 | - |
| **At 31 March** | 1,200,000 | 700,000 | 1,200,000 | 700,000 |

## 18. Reserves

| | | **2021** | **2020** |
|---|---|---|---|
| | **Note** | **RM'000** | **RM'000** |
| **Non-distributable:** | | | |
| Regulatory reserve | (a) | - | 21,489 |
| FVOCI reserve | (b) | 1,016 | 4,912 |
| | | 1,016 | 26,401 |
| **Distributable:** | | | |
| Retained profits | (c) | 311,805 | 210,550 |
| | | 312,821 | 236,951 |

(a) Regulatory reserve is maintained in compliance with BNM's Revised Policy Documents on Financial Reporting, whereby the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

During the financial year, the regulatory reserve held against expected credit losses is reduced to 0%, a Covid-19 related measure to drawdown prudential buffers as permitted by BNM.

(b) The FVOCI reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income.

(c) The retained profits of the Bank as at 31 March 2021 and 31 March 2020 are distributable profits and may be distributed as dividends under the single-tier system.

## 19. Interest income

| | 2021<br>RM'000 | 2020<br>RM'000<br>Restated |
|---|---|---|
| Loans, advances and financing | 108,256 | 210,556 |
| Money at call and deposits and placements with financial institutions | 37,008 | 86,901 |
| Financial assets at FVOCI | 47,183 | 32,077 |
| Others | 1,873 | 813 |
| | 194,320 | 330,347 |

## 20. Interest expense

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Deposits and placements from financial institutions | 53,550 | 187,513 |
| Deposits from customers | 33,952 | 52,573 |
| Others | 513 | 1,665 |
| | 88,015 | 241,751 |

## 21. Other operating income

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Fee income | 12,896 | 10,291 |
| Realised gain in fair value of derivative financial instruments | 16,736 | 12,974 |
| Unrealised (loss)/gain in fair value of derivative financial instruments | (4,197) | 20,835 |
| Realised foreign exchange gain | 19,668 | 27,752 |
| Unrealised foreign exchange gain | 29,290 | 8,857 |
| Net unrealised gain on revaluation of financial assets at FVTPL | 1,032 | 796 |
| Others | 124 | 74 |
| | 75,549 | 81,579 |

## 22. Other operating expenses

| | 2021 RM'000 | 2020 RM'000 Restated |
|---|---|---|
| Personnel costs: | | |
| Salaries, allowances and bonuses | 31,929 | 35,010 |
| Contribution to Employees Provident Fund | 4,198 | 4,323 |
| Other staff related costs | 9,522 | 6,511 |
| Establishment costs: | | |
| Repair and maintenance | 5,897 | 6,110 |
| Depreciation of right of use assets | 4,920 | 4,943 |
| Depreciation of property and equipment | 2,627 | 2,901 |
| Amortisation of intangible assets | 4,448 | 4,873 |
| Rental of premises | 20 | 125 |
| Information technology expenses | 5,062 | 4,613 |
| Others | 787 | 758 |
| Marketing expenses: | | |
| Advertisement and publicity | 776 | 108 |
| Others | 557 | 930 |
| Administration and general expenses: | | |
| Communication expenses | 1,098 | 1,077 |
| Legal and professional fees | 803 | 1,054 |
| Others | 7,187 | 6,037 |
| | 79,831 | 79,373 |

The above expenses include the following statutory disclosures:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Directors' remuneration (Note 23) | 2,223 | 1,788 |
| Auditors' remuneration: | | |
| - Statutory audit | 300 | 300 |
| - Regulatory-related services | 62 | 70 |

## 23. 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 |
|---|---|---|---|---|---|
| **2021** | | | | | |
| **Executive Director and CEO:** | | | | | |
| Mr. Shojiro Mizoguchi | 672 | - | 353 | 150 | 1,175 |
| Mr. Katsutoshi Toba | 263 | - | 142 | 53 | 458 |
| **Non-executive Directors:** | | | | | |
| Datuk Ahmad Hizzad bin Baharuddin | - | 155 | 56 | 1 | 212 |
| Mr. Abdul Khalil bin Abdul Hamid | - | 139 | 53 | 1 | 193 |
| Mr. Lim Kim Seng | - | 131 | 53 | 1 | 185 |
| | 935 | 425 | 657 | 206 | 2,223 |
| **2020** | | | | | |
| **Executive Director and CEO:** | | | | | |
| Mr. Shojiro Mizoguchi | 714 | - | 411 | 162 | 1,287 |
| **Non-executive Directors:** | | | | | |
| Datuk Ahmad Hizzad bin Baharuddin | - | 143 | 48 | 1 | 192 |
| Mr. Mohd Mokhtar bin Ghazali | - | 132 | 52 | 1 | 185 |
| Datuk Michael Lor Chee Leng | - | 21 | 21 | 1 | 43 |
| Mr. Abdul Khalil bin Abdul Hamid | - | 51 | 11 | - | 62 |
| Mr. Lim Kim Seng | - | 17 | 2 | - | 19 |
| | 714 | 364 | 545 | 165 | 1,788 |

## 24. (Writeback)/addition of allowances for expected credit losses

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Deposits and placements with financial institutions | 99 | (1) |
| Loans, advances and financing | (13,057) | 25,976 |
| Credit commitments and contingencies | 4,588 | 1,488 |
| | (8,370) | 27,463 |

## 25. Tax expense

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Current tax expense | | |
| Current financial year | 30,868 | 24,045 |
| Over provision in prior financial years | (125) | (633) |
| | 30,743 | 23,412 |
| Deferred tax expense | | |
| Relating to origination and reversal of temporary differences | (2) | (12,012) |
| Over provision in prior financial years | (114) | (7) |
| | (116) | (12,019) |
| Income tax expense | 30,627 | 11,393 |

Income tax is calculated at the Malaysian statutory rate of 24% (2020: 24%) of the estimated chargeable profit for the financial year.

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:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Profit before taxation | 110,393 | 63,339 |
| Taxation at Malaysian statutory tax rate of 24% (2020: 24%) | 26,494 | 15,201 |
| Income not subject to tax | - | (4,949) |
| Expenses not deductible for tax purposes | 4,372 | 1,781 |
| Over provision of current tax expense in prior financial years | (125) | (633) |
| Over provision of deferred tax in prior financial years | (114) | (7) |
| Tax expense for the financial year | 30,627 | 11,393 |

## 26. 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 or jointly 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 persons 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 certain members of senior management of the Bank.

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

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

| | **2021** | **2020** |
|---|---|---|
| | **RM'000** | **RM'000** |
| **Transactions with related parties** | | |
| Interest income on money at call and deposits and placements | 38 | 34 |
| Interest expense on deposits and placements | (52,125) | (185,434) |
| Outsourcing fee income | 8,154 | 8,447 |
| Other income | 209 | 290 |
| Other fee and commission expenses | (27,534) | (30,502) |
| Other expenses | (238) | (249) |

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.

## 26. Significant related party transactions and balances (continued)

(b) In addition to the transactions detailed elsewhere in the financial statements, the Bank had the following intercompany charges with related parties.

| Intercompany charges with related parties | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| (i) By type of service: | | |
| Collateral deposit fees | 25,149 | 27,417 |
| Interest expense | 52,125 | 185,434 |
| Personnel costs | 18 | - |
| Administration and general expenses | 728 | 363 |
| Establishment costs | 1,877 | 2,971 |
| | 79,897 | 216,185 |
| (ii) By country: | | |
| Malaysia | 66,584 | 175,978 |
| Singapore | 10,549 | 36,511 |
| Japan | 2,605 | 3,334 |
| United Kingdom | 159 | 322 |
| Hong Kong SAR | - | 40 |
| | 79,897 | 216,185 |

(c) Related parties balances

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

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Amount due from/(to) related parties: | | |
| - Cash and short term funds | 121,672 | 107,497 |
| - Derivative assets | 21 | 255 |
| - Outsourcing fee | 717 | 712 |
| - Other assets | 41 | 104 |
| - Deposits from customers | (163) | - |
| - Deposits and placements from financial institutions | (6,869,109) | (9,177,810) |
| - Interest payable on deposits and other payables | (7,715) | (34,944) |
| - Derivative liabilities | (851) | (2,635) |
| - Other liabilities | - | (1) |

## 26. Significant related party transactions and balances (continued)

(d) Key management personnel

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

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Salary and emoluments | 3,177 | 2,923 |
| Defined contribution plan | 451 | 427 |
| Benefits-in-kind | 92 | 97 |
| | 3,720 | 3,447 |

(e) Credit transactions and exposures with connected parties

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Outstanding credit exposures with connected parties | 50,908 | 35,620 |
| Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures | 0.12% | 0.10% |

There are currently no exposures to connected parties which are classified as impaired.

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

## 27. Earnings per ordinary share - basic and diluted

The calculation of the basic earnings per ordinary share at 31 March 2021 was based on the profit attributable to owner of the Bank of RM79,766,000 (2020: RM51,946,000) and the weighted average number of ordinary shares outstanding during the financial year of 1,200,000,000 (2020: 700,000,000).

There was no dilutive potential impact on the ordinary shares at the end of the year.

## 28. 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:

| **2021** | **Principal amount RM'000** | **Credit equivalent amount* RM'000** | **Risk-weighted amount* RM'000** |
|---|---|---|---|
| Direct credit substitutes | 35,117 | 35,117 | 34,665 |
| Transaction related contingent items | 105,819 | 52,910 | 40,830 |
| Short-term self-liquidating trade related contingencies | 11,543 | 2,309 | 2,309 |
| Foreign exchange related contracts | | | |
| - One year or less | 1,838,982 | 44,107 | 24,931 |
| - Over one year to five years | 349,366 | 27,719 | 20,481 |
| Interest related contracts | | | |
| - One year or less | 3,231,541 | 134,203 | 90,198 |
| - Over one year to five years | 4,720,190 | 551,365 | 389,242 |
| - Over five years | 36,291 | 6,635 | 4,873 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 100,000 | 50,000 | 50,000 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 1,245,630 | 58,129 | 58,129 |
| Any commitments that are unconditionally cancelled at any time without prior notice | 3,653,398 | - | - |
| Total | 15,327,877 | 962,494 | 715,658 |
| | | | |
| **2020** | | | |
| Direct credit substitutes | 36,157 | 36,157 | 29,766 |
| Transaction related contingent items | 80,667 | 40,333 | 35,497 |
| Short-term self-liquidating trade related contingencies | 9,574 | 1,915 | 1,915 |
| Foreign exchange related contracts | | | |
| - One year or less | 2,004,631 | 48,357 | 20,557 |
| - Over one year to five years | 144,555 | 11,902 | 9,876 |
| Interest related contracts | | | |
| - One year or less | 3,630,854 | 165,621 | 92,151 |
| - Over one year to five years | 4,894,057 | 586,088 | 407,071 |
| - Over five years | 46,100 | 8,899 | 6,260 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 35,000 | 17,500 | 17,500 |
| Any commitments that are unconditionally cancelled at any time without prior notice | 2,917,890 | - | - |
| Total | 13,799,485 | 916,772 | 620,593 |

* 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.

## 29. Financial risk management objectives and policies

The Bank’s principal financial liabilities, other than derivatives, comprise loans and borrowings, 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 financial assets at FVOCI 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:

- To develop, maintain and enhance the Bank's risk management framework, quantitative methodologies and policies for monitoring and managing Credit, Market and Operational Risk;

- To conduct independent monitoring to ensure that Risk Taking Departments are in line with approved policies and limits; and

- To initiate and execute upon approval, specific strategic decisions in relation to Credit, Market and Operational Risk.

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.

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 and ensuring the proper implementation and execution of its policies while the risk control units are responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring and reporting of risks. Complementing this is internal audit, which provides independent assurance of the effectiveness of the risk management approach and provides independent responsibility to ensure adequacy, effectiveness and robustness of the risk management policies.

## 29. Financial risk management objectives and policies (continued)

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 Management Credit Committee ("MCC") is chaired by the CEO which will be held at least six times per year.

### (a) Credit risk management

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

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

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

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

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

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

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

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

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 of the Bank relates to amounts on the statement 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:

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| **On-balance sheet exposures:** | | |
| Cash and short-term funds | 1,068,070 | 1,556,301 |
| Deposits and placements with financial institutions | 282,343 | 1,420,480 |
| Loans, advances and financing | 8,011,411 | 8,966,896 |
| Financial investments at FVOCI | 1,903,042 | 1,134,913 |
| Other financial assets | 100,170 | 31,634 |
| Derivative financial assets | 156,525 | 199,572 |
| | 11,521,561 | 13,309,796 |
| **Off-balance sheet exposures:** | | |
| Commitments and contingencies | 15,327,877 | 13,799,485 |
| Total maximum credit risk exposure | 26,849,438 | 27,109,281 |

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)
### (ii) Credit risk concentration profile

| 2021 | Cash and short-term funds RM'000 | Deposits and placements with financial institutions RM'000 | Loans, advances and financing RM'000 | Financial assets at FVOCI RM'000 | Other financial assets RM'000 | Derivative financial assets RM'000 | Total RM'000 | Commitments and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|
| Mining and Quarrying | - | - | 15,326 | - | - | - | 15,326 | 110,580 |
| Manufacturing | - | - | 1,721,334 | - | 36 | 12,462 | 1,733,832 | 2,064,449 |
| Electricity, gas and water supply | - | - | 810 | - | - | - | 810 | 700 |
| Construction | - | - | 650,536 | - | - | 310 | 650,846 | 784,288 |
| Wholesale and retail trade, and restaurants and hotels | - | - | 51,679 | - | 2 | 157 | 51,838 | 461,849 |
| Transport, storage and communication | - | - | 16,651 | - | 476 | 4 | 17,131 | 1,478,855 |
| Finance, insurance, real estate and business activities | 1,068,169 | 282,343 | 5,541,415 | 1,903,042 | 98,550 | 143,592 | 9,037,111 | 10,386,044 |
| Education, health and others | - | - | 55,211 | - | - | - | 55,211 | 41,112 |
| Others | - | - | - | - | 1,106 | - | 1,106 | - |
| | 1,068,169 | 282,343 | 8,052,962 | 1,903,042 | 100,170 | 156,525 | 11,563,211 | 15,327,877 |
| Less: Allowance for ECL | (99) | - | (41,551) | - | - | - | (41,650) | - |
| | 1,068,070 | 282,343 | 8,011,411 | 1,903,042 | 100,170 | 156,525 | 11,521,561 | 15,327,877 |

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (ii) Credit risk concentration profile (continued)

| 2020 | Cash and short-term funds RM'000 | Deposits and placements with financial institutions RM'000 | Loans, advances and financing RM'000 | Financial assets at FVOCI RM'000 | Other financial assets RM'000 | Derivative financial assets RM'000 | Total RM'000 | Commitments and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|
| Mining and Quarrying | - | - | 46,686 | - | - | - | 46,686 | 118,244 |
| Manufacturing | - | - | 2,289,936 | - | 22 | 8,099 | 2,298,057 | 1,908,265 |
| Electricity, gas and water supply | - | - | 113,082 | - | - | - | 113,082 | 700 |
| Construction | - | - | 575,328 | - | - | 89 | 575,417 | 678,922 |
| Wholesale and retail trade, and restaurants and hotels | - | - | 168,890 | - | 1 | 74 | 168,965 | 503,835 |
| Transport, storage and communication | - | - | 18,957 | - | - | - | 18,957 | 239,222 |
| Finance, insurance, real estate and business activities | 1,556,301 | 1,420,480 | 5,783,390 | 1,134,913 | 30,534 | 191,310 | 10,116,928 | 10,289,055 |
| Education, health and others | - | - | 25,235 | - | - | - | 25,235 | 61,242 |
| Others | - | - | - | - | 1,077 | - | 1,077 | - |
| | 1,556,301 | 1,420,480 | 9,021,504 | 1,134,913 | 31,634 | 199,572 | 13,364,404 | 13,799,485 |
| Less: Allowance for ECL | - | - | (54,608) | - | - | - | (54,608) | - |
| | 1,556,301 | 1,420,480 | 8,966,896 | 1,134,913 | 31,634 | 199,572 | 13,309,796 | 13,799,485 |

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (iii) Credit measurement

Following the implementation of MFRS 9, the Bank's assets are classified and measured using a forward looking model to compute ECL.

Staging approach is applied into ECL computation when assessing significant increases in credit risk of financial instruments. There are 3 stages:

(1) Stage 1 (Performing): Financial instrument with no significant deterioration in credit quality and 12-month ECL is recognised.

(2) Stage 2 (Underperforming): Financial instrument with significant increase in credit risk but no objective evidence of impairment. For these financial instrument, lifetime ECL is recognised.

(3) Stage 3 (Non-performing): Financial instrument with objective evidence of impairment/ default at the reporting date. For these financial instrument, individual allowance is recognised.

The three main components to measure ECL are as follows:

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

<u>Loss Given Default ("LGD")</u>
The Bank applies LGD based on rating classification of counterparty, seniority of claim, availability of collateral and other credit support. With zero defaults to-date, the Bank refers on the regulatory standards on the assigned LGD for unsecured senior claims and subordinated claims.

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (iii) Credit measurement (continued)

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

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

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

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

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (iv) 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; and
- Past due and impaired.

Customer categorisation is the categorisation 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.

<table>
<tr><th>Customer Categorisation</th><th colspan="2">Credit Rating</th><th colspan="2">Customer Profile</th><th>Status</th><th colspan="2">Comparable External Rating</th></tr>
<tr><td rowspan="11">Ordinary Customers</td><td rowspan="3">A</td><td>1</td><td rowspan="11">Business conditions are favorable and there are no specific problems in the customer's financial position.</td><td rowspan="3">Very high probability of performance on obligations. Extremely stable in terms of credit management.</td><td rowspan="11">Non-default</td><td>AAA</td><td rowspan="5">Investment grade</td></tr>
<tr><td>2</td><td>AA</td></tr>
<tr><td>3</td><td>A</td></tr>
<tr><td rowspan="2">B</td><td>1</td><td rowspan="2">No problem, for the time being, with performance on obligations. Sufficiently stable 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.)</td><td>BBB+/ BBB</td></tr>
<tr><td>2</td><td>BBB-</td></tr>
<tr><td rowspan="3">C</td><td>1</td><td rowspan="3">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.)</td><td rowspan="3">(BB)</td><td rowspan="6">Non-Investment grade</td></tr>
<tr><td>2</td></tr>
<tr><td>3</td></tr>
<tr><td rowspan="3">D</td><td>1</td><td rowspan="3">No problem at present with performance on obligations but has low resistance to future changes in the business environment.</td><td rowspan="3">(B)</td></tr>
<tr><td>2</td></tr>
<tr><td>3</td></tr>
</table>

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (iv) Credit quality (continued)

| Customer Categorisation | Credit Rating | | Customer Profile | Status | Comparable External Rating | |
|---|---|---|---|---|---|---|
| Customers with Special Attention (l) | E | 1 | Customers with Special Attention (l):<br>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 (ll) | | 2 | Customers with Special Attention (ll):<br>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 | | |

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (iv) Credit quality (continued)

| Customer Categorisation | Credit Rating | | Customer Profile | Status | Comparable External Rating | |
|---|---|---|---|---|---|---|
| Customers to be Insolvent | F | 1 | Customers to be Insolvent:<br>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:<br>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:<br>Customers that are legally and formally bankrupt. | | | |

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (v) Credit quality of financial assets - gross loans, advances and financing at amortised cost

| 2021 | Neither past due nor impaired RM'000 | Total RM'000 |
|---|---|---|
| Term loans | 5,225,246 | 5,225,246 |
| Revolving credits | 1,560,748 | 1,560,748 |
| Bills receivable | 20,274 | 20,274 |
| Gross loans, advances and financing at amortised cost | 6,806,268 | 6,806,268 |
| Less: Allowance for expected credit losses | (41,551) | (41,551) |
| Net loans, advances and financing at amortised cost | 6,764,717 | 6,764,717 |
| Impairment allowance as a percentage of total loans, advances and financing at amortised cost | 0.61% | 0.61% |

All gross loans, advances and financing at amortised cost are neither past due nor impaired as of the reporting date. Summary of risk categories of gross loans, advances and financing at amortised cost of the Bank are assessed based on credit quality classification as described in Note 29(a)(iv).

| 2021 | Ordinary RM'000 | Special attention RM'000 | Total RM'000 |
|---|---|---|---|
| Term loans | 5,046,320 | 178,926 | 5,225,246 |
| Revolving credits | 1,488,865 | 71,883 | 1,560,748 |
| Bills receivable | 20,274 | - | 20,274 |
| Total - neither past due nor impaired | 6,555,459 | 250,809 | 6,806,268 |
| As a percentage of total loans, advances and financing at amortised cost | 96.32% | 3.68% | 100.00% |

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

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (v) Credit quality of financial assets - gross loans, advances and financing at amortised cost (continued)

| 2020 | Neither past due nor impaired RM'000 | Total RM'000 |
|---|---|---|
| Term loans | 6,240,295 | 6,240,295 |
| Revolving credits | 1,404,350 | 1,404,350 |
| Bills receivable | 33,839 | 33,839 |
| Gross loans, advances and financing at amortised cost | 7,678,484 | 7,678,484 |
| | | |
| Less: Allowance for expected credit losses | (54,608) | (54,608) |
| Net loans, advances and financing at amortised cost | 7,623,876 | 7,623,876 |
| | | |
| Impairment allowance as a percentage of total loans, advances and financing at amortised cost | 0.71% | 0.71% |

All gross loans, advances and financing at amortised cost are neither past due nor impaired as of the reporting date. Summary of risk categories of gross loans, advances and financing at amortised cost of the Bank are assessed based on credit quality classification as described in Note 29(a)(iv).

| 2020 | Ordinary RM'000 | Special attention RM'000 | Total RM'000 |
|---|---|---|---|
| Term loans | 6,213,694 | 26,601 | 6,240,295 |
| Revolving credits | 1,330,335 | 74,015 | 1,404,350 |
| Bills receivable | 33,839 | - | 33,839 |
| Total - neither past due nor impaired | 7,577,868 | 100,616 | 7,678,484 |
| | | | |
| As a percentage of total loans, advances and financing at amortised cost | 98.69% | 1.31% | 100.00% |

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

## 29. Financial risk management objectives and policies (continued)

### (a) Credit risk management (continued)

#### (vi) 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 29(a)(iv).

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Cash and short-term funds | 1,068,070 | 1,556,301 |
| Deposits and placements with financial institutions | 282,343 | 1,420,480 |
| Financial investments at FVOCI | 1,903,042 | 1,134,913 |
| Other financial assets | 100,170 | 31,634 |
| Derivative financial assets | 156,525 | 199,572 |
| Total - neither past due nor impaired | 3,510,150 | 4,342,900 |

#### (vii) Exposures to Covid-19 impacted sectors

| | Loans, advances and financing On-balance sheet (net of impairment) | |
|---|---|---|
| | 2021<br>RM'000 | 2020<br>RM'000 |
| Wholesale and retail trade, and restaurants and hotels | 49,699 | 166,980 |

### (b) Market risk management

Market risk is defined as the risk of potential losses on the values of assets and liabilities held (including off-balance sheet items) arising from the movements in market variables, such as interest/profit rates, foreign exchange rates, commodity prices and equity prices.

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

The Bank manages those market risks by 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.

## 29. 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 Parent Bank. RMD monitors the exposures through Interest Rate 10 Basis Point Value ("BPV"), Foreign Exchange Position Limit, Foreign Exchange Positions 1BPV and Loss Cut Limit.

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.

The Bank’s market risk and liquidity risk position are discussed and managed at the Asset Liability Management Committee ("ALMC") on a monthly basis and the Board Risk Management Committee ("BRMC") on a quarterly basis, which is in line with the approved guidelines and policies.

Interest/Profit rate risk

Interest/Profit rate risk is defined as the exposure of a bank’s financial condition to the adverse movements in interest/profit rates. Interest/Profit rate risk arises from the mismatch of maturity date and repricing date of the Bank’s assets, liabilities and off-balance sheet items, as a result to the changes in interest/profit rates related to the shift in yield curves and repricing patterns.

Foreign exchange risk

Foreign exchange risk arises as a result of the movements in currencies, which affects the Bank’s profit and capital from the open position in foreign currencies. Currently the Bank is allowed to take position in its foreign exchange ("FX") activity. The Bank employs a robust foreign exchange risk measure as below:

- FX BOE: to monitor the open position for each currency and overall position using Bank of England method.
- FX1BPV: to measure the change in present value with a rise of 1 basis point in FX yield. It is monitored by currency and tenor.
- FX MTM P/L (Loss Cut): to calculate MTM profit/loss within a specified period, i.e. daily, monthly and termly, and confirm not to breach the loss cut limits.

## 29. Financial risk management objectives and policies (continued)

### (b) Market risk management (continued)

#### (i) Interest rate risk/Profit 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 flow. The following table represents the Bank's assets and liabilities at carrying amount, categorised by the earlier of contractual maturity or repricing dates as at 31 March 2021.

| | <—— Non-trading book | | | | | ——> | | |
|---|---|---|---|---|---|---|---|---|
| **2021** | **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** | **Non-Interest Sensitive RM'000** | **Trading Book RM'000** | **Total RM'000** |
| **Assets** | | | | | | | | |
| Cash and short-term funds | 890,760 | - | - | - | - | 177,310 | - | 1,068,070 |
| Deposits and placements with financial institutions | - | - | 282,343 | - | - | - | - | 282,343 |
| Financial assets at FVOCI | 275,425 | 135,551 | 238,952 | 1,253,114 | - | - | - | 1,903,042 |
| Loans, advances and financing | 4,096,776 | 3,838,054 | 118,132 | - | - | (41,551) | - | 8,011,411 |
| Derivative financial assets | - | - | - | - | - | - | 156,525 | 156,525 |
| Other non-interest sensitive balances | - | - | - | - | - | 135,786 | - | 135,786 |
| **Total assets** | 5,262,961 | 3,973,605 | 639,427 | 1,253,114 | - | 271,545 | 156,525 | 11,557,177 |

## 29. Financial risk management objectives and policies (continued)

### (b) Market risk management (continued)

#### (i) Interest rate risk/Profit rate risk (continued)

| | <——— Non-trading book | | | | | ———> | | |
|---|---|---|---|---|---|---|---|---|
| **2021** | **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** | **Non-Interest Sensitive RM'000** | **Trading Book RM'000** | **Total RM'000** |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 1,303,103 | 314,944 | 179,283 | - | - | 945,210 | - | 2,742,540 |
| Deposits and placements from financial institutions | 3,907,862 | 2,979,625 | 186,844 | - | - | 2,986 | - | 7,077,317 |
| Derivative financial liabilities | - | - | - | - | - | - | 153,581 | 153,581 |
| Other non-interest sensitive balances | - | - | - | - | - | 70,918 | - | 70,918 |
| **Total liabilities** | 5,210,965 | 3,294,569 | 366,127 | - | - | 1,019,114 | 153,581 | 10,044,356 |
| **Shareholder's equity** | - | - | - | - | - | 1,512,821 | - | 1,512,821 |
| **Total liabilities and shareholder's equity** | 5,210,965 | 3,294,569 | 366,127 | - | - | 2,531,935 | 153,581 | 11,557,177 |
| **On-balance sheet interest sensitivity gap representing total interest sensitivity gap** | 51,996 | 679,036 | 273,300 | 1,253,114 | - | (2,260,390) | 2,944 | - |

## 29. Financial risk management objectives and policies (continued)

### (b) Market risk management (continued)

#### (i) Interest rate risk/Profit rate risk (continued)

| | <——Non-trading book | | | | | ——> | | |
|---|---|---|---|---|---|---|---|---|
| **2020** | **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** | **Non-Interest Sensitive RM'000** | **Trading Book RM'000** | **Total RM'000** |
| **Assets** | | | | | | | | |
| Cash and short-term funds | 1,392,380 | - | - | - | - | 163,921 | - | 1,556,301 |
| Deposits and placements with financial institutions | - | 955,259 | 465,221 | - | - | - | - | 1,420,480 |
| Financial assets at FVOCI | 150,043 | 95,179 | 217,348 | 672,343 | - | - | - | 1,134,913 |
| Loans, advances and financing | 4,750,318 | 4,161,546 | 109,640 | - | - | (54,608) | - | 8,966,896 |
| Derivative financial assets | - | - | - | - | - | - | 199,572 | 199,572 |
| Other non-interest sensitive balances | - | - | - | - | - | 64,483 | - | 64,483 |
| **Total assets** | 6,292,741 | 5,211,984 | 792,209 | 672,343 | - | 173,796 | 199,572 | 13,342,645 |

## 29. Financial risk management objectives and policies (continued)

### (b) Market risk management (continued)

#### (i) Interest rate risk/Profit rate risk (continued)

| | <—Non-trading book | | | | | —> | | |
|---|---|---|---|---|---|---|---|---|
| **2020** | **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** | **Non-Interest Sensitive RM'000** | **Trading Book RM'000** | **Total RM'000** |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 1,332,521 | 406,476 | 142,125 | - | - | 945,365 | - | 2,826,487 |
| Deposits and placements from financial institutions | 4,816,848 | 4,169,481 | 232,174 | - | - | 2,984 | - | 9,221,487 |
| Derivative financial liabilities | - | - | - | - | - | - | 142,154 | 142,154 |
| Other non-interest sensitive balances | - | - | - | - | - | 215,566 | - | 215,566 |
| **Total liabilities** | 6,149,369 | 4,575,957 | 374,299 | - | - | 1,163,915 | 142,154 | 12,405,694 |
| **Shareholder's equity** | - | - | - | - | - | 936,951 | - | 936,951 |
| **Total liabilities and shareholder's equity** | 6,149,369 | 4,575,957 | 374,299 | - | - | 2,100,866 | 142,154 | 13,342,645 |
| **On-balance sheet interest sensitivity gap representing total interest sensitivity gap** | 143,372 | 636,027 | 417,910 | 672,343 | - | (1,927,070) | 57,418 | - |

## 29. 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 2021 and 31 March 2020, 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 British Pound, Hong Kong Dollar, Euro, and Thailand Baht.

| **2021** | **Ringgit Malaysia RM'000** | **United States Dollar RM'000** | **Japanese Yen RM'000** | **Others RM'000** | **Total RM'000** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and short-term funds | 890,061 | 70,215 | 84,494 | 23,300 | 1,068,070 |
| Deposits and placements with financial institutions | - | 282,343 | - | - | 282,343 |
| Financial assets at FVOCI | 1,903,042 | - | - | - | 1,903,042 |
| Loans, advances and financing | 729,740 | 7,082,991 | 198,680 | - | 8,011,411 |
| Derivative financial assets | 82,605 | 69,076 | 4,766 | 78 | 156,525 |
| Other assets | 100,806 | 1,598 | - | - | 102,404 |
| Right of use assets | 9,185 | - | - | - | 9,185 |
| Property and equipment | 5,235 | - | - | - | 5,235 |
| Intangible assets | 7,159 | - | - | - | 7,159 |
| Current tax assets | 8,699 | - | - | - | 8,699 |
| Deferred tax assets | 3,104 | - | - | - | 3,104 |
| **Total assets** | 3,739,636 | 7,506,223 | 287,940 | 23,378 | 11,557,177 |
| | | | | | |
| **Liabilities** | | | | | |
| Deposits from customers | 2,077,960 | 531,318 | 107,933 | 25,329 | 2,742,540 |
| Deposits and placements from financial institutions | 2,982 | 6,895,110 | 179,221 | 4 | 7,077,317 |
| Derivative financial liabilities | 95,229 | 55,050 | 1,780 | 1,522 | 153,581 |
| Lease liabilities | 9,276 | - | - | - | 9,276 |
| Other liabilities | 50,047 | 7,249 | 2,428 | 1,918 | 61,642 |
| **Total liabilities** | 2,235,494 | 7,488,727 | 291,362 | 28,773 | 10,044,356 |
| | | | | | |
| **On-balance sheet open position** | 1,504,142 | 17,496 | (3,422) | (5,395) | 1,512,821 |
| Less: Derivative assets | (82,605) | (69,076) | (4,766) | (78) | (156,525) |
| Add: Derivative liabilities | 95,229 | 55,050 | 1,780 | 1,522 | 153,581 |
| **Net open position** | 1,516,766 | 3,470 | (6,408) | (3,951) | 1,509,877 |

## 29. Financial risk management objectives and policies (continued)

### (b) Market risk management (continued)

#### (ii) Currency risk (continued)

| **2020** | **Ringgit Malaysia RM'000** | **United States Dollar RM'000** | **Japanese Yen RM'000** | **Others RM'000** | **Total RM'000** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and short-term funds | 1,203,280 | 239,408 | 79,966 | 33,647 | 1,556,301 |
| Deposits and placements with financial institutions | 468,500 | 951,980 | - | - | 1,420,480 |
| Financial assets at FVOCI | 1,134,913 | - | - | - | 1,134,913 |
| Loans, advances and financing | 845,513 | 7,911,582 | 209,801 | - | 8,966,896 |
| Derivative financial assets | 61,803 | 130,250 | 7,396 | 123 | 199,572 |
| Other assets | 27,027 | 6,168 | - | - | 33,195 |
| Right of use assets | 12,146 | - | - | - | 12,146 |
| Property and equipment | 6,841 | - | - | - | 6,841 |
| Intangible assets | 10,338 | - | - | - | 10,338 |
| Current tax assets | 205 | - | - | - | 205 |
| Deferred tax assets | 1,758 | - | - | - | 1,758 |
| **Total assets** | 3,772,324 | 9,239,388 | 297,163 | 33,770 | 13,342,645 |
| | | | | | |
| **Liabilities** | | | | | |
| Deposits from customers | 1,945,201 | 723,353 | 124,438 | 33,495 | 2,826,487 |
| Deposits and placements from financial institutions | 2,984 | 9,015,226 | 203,277 | - | 9,221,487 |
| Derivative financial liabilities | 76,099 | 64,770 | 647 | 638 | 142,154 |
| Lease liabilities | 12,240 | - | - | - | 12,240 |
| Other liabilities | 166,221 | 34,691 | 1,881 | 533 | 203,326 |
| **Total liabilities** | 2,202,745 | 9,838,040 | 330,243 | 34,666 | 12,405,694 |
| | | | | | |
| **On-balance sheet open position** | 1,569,579 | (598,652) | (33,080) | (896) | 936,951 |
| Less: Derivative assets | (61,803) | (130,250) | (7,396) | (123) | (199,572) |
| Add: Derivative liabilities | 76,099 | 64,770 | 647 | 638 | 142,154 |
| **Net open position** | 1,583,875 | (664,132) | (39,829) | (381) | 879,533 |

## 29. Financial risk management objectives and policies (continued)

### (b) Market risk management (continued)

#### (ii) Currency risk (continued)

**Sensitivity analysis - impact on profit/loss before taxation**

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| • if USD weakened by 100 basis points (or 1%) | (35) | 6,641 |
| • if JPY weakened by 100 basis points (or 1%) | 64 | 398 |
| • if SGD weakened by 100 basis points (or 1%) | 23 | 9 |
| • if other currencies weakened by 100 basis points (or 1%) | 17 | (6) |
| | 69 | 7,042 |

## 29. 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 2021 and 31 March 2020.

The disclosure is made in accordance with the requirement of BNM's policy document of BNM/RH/PD 032-13 Financial Reporting:

***Contractual maturity of total assets and liabilities***

| **2021** | **Up to 1 Month** | **> 1 to 3 Months** | **> 3 to 12 Months** | **> 1 to 5 Years** | **Over 5 Years** | **No specific maturity** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Cash and short-term funds | 1,068,070 | - | - | - | - | - | 1,068,070 |
| Deposits and placements with financial institutions | - | - | 282,343 | - | - | - | 282,343 |
| Financial assets at FVOCI | 275,425 | 135,551 | 238,952 | 1,253,114 | - | - | 1,903,042 |
| Loans, advances and financing | 2,462,472 | 1,039,134 | 1,017,099 | 3,474,083 | 18,623 | - | 8,011,411 |
| Derivative financial assets | 11,476 | 8,941 | 40,944 | 95,164 | - | - | 156,525 |
| Other assets | 14,123 | 8,341 | 3,069 | - | - | 76,871 | 102,404 |
| Right of use assets | - | - | - | - | - | 9,185 | 9,185 |
| Property and equipment | - | - | - | - | - | 5,235 | 5,235 |
| Intangible assets | - | - | - | - | - | 7,159 | 7,159 |
| Current tax assets | - | - | - | - | - | 8,699 | 8,699 |
| Deferred tax assets | - | - | - | - | - | 3,104 | 3,104 |
| **Total assets** | 3,831,566 | 1,191,967 | 1,582,407 | 4,822,361 | 18,623 | 110,253 | 11,557,177 |

## 29. Financial risk management objectives and policies (continued)

### (c) Liquidity risk (continued)

***Contractual maturity of total assets and liabilities (continued)***

| 2021 | 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 |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits from customers | 2,248,313 | 314,944 | 179,283 | - | - | - | 2,742,540 |
| Deposits and placements from financial institutions | 3,910,848 | 2,974,850 | 191,619 | - | - | - | 7,077,317 |
| Derivative financial liabilities | 19,303 | 6,688 | 35,016 | 91,597 | 977 | - | 153,581 |
| Lease liabilities | 410 | 807 | 2,992 | 5,067 | - | - | 9,276 |
| Other liabilities | 4,756 | 1,700 | 18,246 | 3,715 | - | 33,225 | 61,642 |
| **Total liabilities** | 6,183,630 | 3,298,989 | 427,156 | 100,379 | 977 | 33,225 | 10,044,356 |
| **Net liquidity gap** | (2,352,064) | (2,107,022) | 1,155,251 | 4,721,982 | 17,646 | 77,028 | 1,512,821 |

## 29. Financial risk management objectives and policies (continued)

### (c) Liquidity risk (continued)

***Contractual maturity of total assets and liabilities (continued)***

| 2020 | 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 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and short-term funds | 1,556,301 | - | - | - | - | - | 1,556,301 |
| Deposits and placements with financial institutions | - | 955,259 | 465,221 | - | - | - | 1,420,480 |
| Financial assets at FVOCI | 150,043 | 95,179 | 217,348 | 672,343 | - | - | 1,134,913 |
| Loans, advances and financing | 2,489,462 | 1,050,775 | 1,650,758 | 3,561,176 | 214,725 | - | 8,966,896 |
| Derivative financial assets | 25,122 | 13,842 | 53,078 | 107,418 | 112 | - | 199,572 |
| Other assets | 10,265 | 11,455 | 3,403 | - | - | 8,072 | 33,195 |
| Right of use assets | - | - | - | - | - | 12,146 | 12,146 |
| Property and equipment | - | - | - | - | - | 6,841 | 6,841 |
| Intangible assets | - | - | - | - | - | 10,338 | 10,338 |
| Current tax assets | - | - | - | - | - | 205 | 205 |
| Deferred tax assets | - | - | - | - | - | 1,758 | 1,758 |
| **Total assets** | 4,231,193 | 2,126,510 | 2,389,808 | 4,340,937 | 214,837 | 39,360 | 13,342,645 |

## 29. Financial risk management objectives and policies (continued)

### (c) Liquidity risk (continued)

***Contractual maturity of total assets and liabilities (continued)***

| 2020 | 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 |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits from customers | 2,277,886 | 406,476 | 142,125 | - | - | - | 2,826,487 |
| Deposits and placements from financial institutions | 4,781,064 | 4,198,385 | 232,174 | 9,864 | - | - | 9,221,487 |
| Derivative financial liabilities | 6,247 | 2,795 | 35,208 | 96,738 | 1,166 | - | 142,154 |
| Lease liabilities | 416 | 821 | 3,378 | 7,625 | - | - | 12,240 |
| Other liabilities | 21,351 | 10,454 | 16,090 | 928 | - | 154,503 | 203,326 |
| **Total liabilities** | 7,086,964 | 4,618,931 | 428,975 | 115,155 | 1,166 | 154,503 | 12,405,694 |
| **Net liquidity gap** | (2,855,771) | (2,492,421) | 1,960,833 | 4,225,782 | 213,671 | (115,143) | 936,951 |

## 29. 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 2021 and 31 March 2020. 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.

| | 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 |
|---|---|---|---|---|---|---|---|
| **2021** | | | | | | | |
| **Non-derivative liabilities** | | | | | | | |
| Deposits from customers | 2,250,129 | 316,485 | 182,755 | - | - | - | 2,749,369 |
| Deposits and placements from financial institutions | 3,914,128 | 2,976,994 | 192,401 | - | - | - | 7,083,523 |
| Lease liabilities | 427 | 840 | 3,105 | 5,195 | - | - | 9,567 |
| Other liabilities | 4,756 | 1,700 | 18,246 | 3,715 | - | 33,225 | 61,642 |
| | 6,169,440 | 3,296,019 | 396,507 | 8,910 | - | 33,225 | 9,904,101 |

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## 29. Financial risk management objectives and policies (continued)

### (c) Liquidity risk (continued)

***Contractual maturity of financial liabilities on an undiscounted basis (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 |
|---|---|---|---|---|---|---|---|
| **Commitment and contingencies** | | | | | | | |
| Direct credit substitutes | 1,030 | 881 | 21,023 | 12,183 | - | - | 35,117 |
| Transaction related contingencies | 1,115 | 5,066 | 76,837 | 22,801 | - | - | 105,819 |
| Short-term self liquidating trade related contingencies | - | 26 | 11,517 | - | - | - | 11,543 |
| Foreign exchange related contracts | 919,794 | 568,041 | 351,147 | 349,366 | - | - | 2,188,348 |
| Interest/profit related contracts | 612,674 | 458,762 | 2,160,105 | 4,720,190 | 36,291 | - | 7,988,022 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity over one year | - | - | - | 100,000 | - | - | 100,000 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | - | 1,245,630 | - | - | - | - | 1,245,630 |
| Any commitments that are unconditionally cancelled at any time by the bank without prior notice | 3,653,398 | - | - | - | - | - | 3,653,398 |
| | 5,188,011 | 2,278,406 | 2,620,629 | 5,204,540 | 36,291 | - | 15,327,877 |

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## 29. Financial risk management objectives and policies (continued)

### (c) Liquidity risk (continued)

***Contractual maturity of financial liabilities on an undiscounted basis (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 |
|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | |
| **Non-derivative liabilities** | | | | | | | |
| Deposits from customers | 2,280,679 | 409,045 | 146,870 | - | - | - | 2,836,594 |
| Deposits and placements from financial institutions | 4,804,811 | 4,218,068 | 235,731 | 9,979 | - | - | 9,268,589 |
| Lease liabilities | 440 | 868 | 3,546 | 7,864 | - | - | 12,718 |
| Other liabilities | 21,351 | 10,454 | 16,090 | 928 | - | 154,503 | 203,326 |
| | 7,107,281 | 4,638,435 | 402,237 | 18,771 | - | 154,503 | 12,321,227 |
| **Commitment and contingencies** | | | | | | | |
| Direct credit substitutes | 730 | 500 | 31,258 | 3,669 | - | - | 36,157 |
| Transaction related contingencies | 18,280 | 14,231 | 14,361 | 33,795 | - | - | 80,667 |
| Short-term self liquidating trade related contingencies | 151 | 673 | 8,750 | - | - | - | 9,574 |
| Foreign exchange related contracts | 1,041,108 | 553,693 | 409,830 | 144,555 | - | - | 2,149,186 |
| Interest/profit related contracts | 636,246 | 20,644 | 2,973,964 | 4,894,057 | 46,100 | - | 8,571,011 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity over one year | - | - | - | 35,000 | - | - | 35,000 |
| Any commitments that are unconditionally cancelled at any time by the bank without prior notice | 2,917,890 | - | - | - | - | - | 2,917,890 |
| | 4,614,405 | 589,741 | 3,438,163 | 5,111,076 | 46,100 | - | 13,799,485 |

## 29. 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.

*(i) Internal Process*
resulting from inadequate/failure of business processes or transactions process flows. Well-controlled and organised processes are essential.

*(ii) People*
resulting from staff defaulting in expected behaviour or the Bank being ineffective/inefficient in the management of its human capital.

*(iii) Systems*
which arising from system downtime or delays in available data, inadequate integrity between old and new software, and incapability of hardware to fulfil business requirements.

*(iv) External Events*
risk of events and actions from outside (beyond organisation's immediate control) which bring negative impact on the Bank.

As part of initiatives to improve operational risk management, "Control Self-Assessments" ("CSAs"), is implemented every six months to all departments to identify inherent risks and control gaps in the operations within the department. Key Risk Indicator ("KRI") is a statistics or metrics that provides insight into the Bank's risk position and reflects the potential sources of Operational Risk from a forward looking perspective, monitored on a monthly basis.

## 30. 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 | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments RM'000 | Cash collateral received/ pledged RM'000 | Net Amount RM'000 |
| **2021** | | | | | | |
| Derivative financial assets | 156,525 | - | 156,525 | - | (15,030) | 141,495 |
| Derivative financial liabilities | 153,581 | - | 153,581 | - | (73,506) | 80,075 |
| **2020** | | | | | | |
| Derivative financial assets | 199,572 | - | 199,572 | - | (139,016) | 60,556 |
| Derivative financial liabilities | 142,154 | - | 142,154 | - | (5,350) | 136,804 |

## 31. 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.

- 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.

## 31. Fair value measurements (continued)

### (a) Valuation principles (continued)

- 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.

*Financial assets designated at fair value through profit or loss and financial assets at fair value through other comprehensive income*

The fair values of financial assets designated at fair value through profit or loss and financial assets at fair value through other comprehensive income are determined by reference to process quoted by independent data providers and independent broker quotations.

## 31. Fair value measurements (continued)

### (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:

| | Valuation technique using | | | |
|---|---|---|---|---|
| | **Quoted Market Price (Level 1) RM'000** | **Observable Inputs (Level 2) RM'000** | **Unobservable Inputs (Level 3) RM'000** | **Total RM'000** |
| **2021** | | | | |
| *Financial assets:* | | | | |
| **Financial assets at FVTPL** | **-** | **1,246,694** | **-** | **1,246,694** |
| Loans, advances and financing | - | 1,246,694 | - | 1,246,694 |
| **Financial assets at FVOCI** | **-** | **1,903,042** | **-** | **1,903,042** |
| Money market instruments | - | 1,903,042 | - | 1,903,042 |
| **Derivative assets** | **-** | **156,525** | **-** | **156,525** |
| Foreign exchange related contracts | - | 29,331 | - | 29,331 |
| Interest rate related contracts | - | 127,194 | - | 127,194 |
| | **-** | **3,306,261** | **-** | **3,306,261** |
| *Financial liabilities:* | | | | |
| **Derivative liabilities** | **-** | **153,581** | **-** | **153,581** |
| Foreign exchange related contracts | - | 12,294 | - | 12,294 |
| Interest rate related contracts | - | 141,287 | - | 141,287 |

## 31. 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):

| | Valuation technique using | | | |
|---|---|---|---|---|
| | **Quoted Market Price (Level 1) RM'000** | **Observable Inputs (Level 2) RM'000** | **Unobservable Inputs (Level 3) RM'000** | **Total RM'000** |
| **2020** | | | | |
| *Financial assets:* | | | | |
| **Financial assets at FVTPL** | **-** | **1,343,020** | **-** | **1,343,020** |
| Loans, advances and financing | - | 1,343,020 | - | 1,343,020 |
| **Financial assets at FVOCI** | **-** | **1,134,913** | **-** | **1,134,913** |
| Money market instruments | - | 1,134,913 | - | 1,134,913 |
| **Derivative assets** | **-** | **199,572** | **-** | **199,572** |
| Foreign exchange related contracts | - | 31,910 | - | 31,910 |
| Interest rate related contracts | - | 167,662 | - | 167,662 |
| | **-** | **2,677,505** | **-** | **2,677,505** |
| *Financial liabilities:* | | | | |
| **Derivative liabilities** | **-** | **142,154** | **-** | **142,154** |
| Foreign exchange related contracts | - | 13,050 | - | 13,050 |
| Interest rate related contracts | - | 129,104 | - | 129,104 |

## 31. Fair value measurements (continued)

### (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 3(n). There were no transfers between Level 1 and 2 for the Bank during the financial year ended 31 March 2021 and 31 March 2020.

### (e) Movements of Level 3 instruments

There are no Level 3 instruments as at 31 March 2021 and 31 March 2020.

### (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 its assets and liabilities with the exception of property and equipment, intangible assets, provision for current and deferred 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.

## 31. 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 statement of financial position:

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total fair value RM'000 | Carrying amount RM'000 |
|---|---|---|---|---|---|
| **2021** | | | | | |
| **Financial assets** | | | | | |
| Loans, advances and financing | - | 6,758,678 | 6,306 | 6,764,984 | 6,764,717 |
| **2020** | | | | | |
| **Financial assets** | | | | | |
| Loans, advances and financing | - | 7,612,571 | 17,945 | 7,630,516 | 7,623,876 |

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 the 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.

## 32. 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.

## 33. 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") of which the latest version was issued on 3 May 2019. 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, Tier 1 capital ratio and total capital ratio including the capital conservation buffer are 7.0%, 8.5% and 10.5% on the risk-weighted assets ("RWA") respectively. 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:

| | 2021 | 2020 |
|---|---|---|
| **Capital ratios:** | | |
| CET1 Capital Ratio / Tier 1 Capital Ratio | 30.176% | 27.076% |
| Total Capital Ratio | 31.145% | 28.162% |

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

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| **CET 1 Capital** | | |
| Paid-up share capital | 1,200,000 | 700,000 |
| Retained profits | 311,805 | 210,550 |
| Other reserves | (8,645) | (7,415) |
| Total Tier 1 Capital | 1,503,160 | 903,135 |
| | | |
| **Tier 2 Capital** | | |
| General provisions and regulatory reserve | 48,313 | 36,210 |
| Total Capital | 1,551,473 | 939,345 |

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

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Total RWA for Credit risk | 4,323,920 | 2,896,763 |
| Total RWA for Market risk | 357,319 | 124,663 |
| Total RWA for Operational risk | 300,152 | 314,087 |
| Total RWA | 4,981,391 | 3,335,513 |

## 33. 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 |
|---|---|---|
| **2021** | | |
| 0% | 2,942,178 | - |
| 20% | 616,834 | 123,366 |
| 50% | 497,907 | 248,954 |
| 100% | 3,951,600 | 3,951,600 |
| Total RWA for Credit risk | 8,008,519 | 4,323,920 |
| Total RWA for Market risk | - | 357,319 |
| Total RWA for Operational risk | - | 300,152 |
| Total RWA | 8,008,519 | 4,981,391 |
| **2020** | | |
| 0% | 1,998,682 | - |
| 20% | 1,618,047 | 323,609 |
| 50% | 852,413 | 426,207 |
| 100% | 2,146,947 | 2,146,947 |
| Total RWA for Credit risk | 6,616,089 | 2,896,763 |
| Total RWA for Market risk | - | 124,663 |
| Total RWA for Operational risk | - | 314,087 |
| Total RWA | 6,616,089 | 3,335,513 |

**MIZUHO BANK (MALAYSIA) BERHAD**
Company No. 201001039768 (923693-H)
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**
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## 33. Capital adequacy (continued)

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

| Exposure Class | Gross Exposures RM'000 | Net Exposures RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirements at 8% RM'000 |
|---|---|---|---|---|
| **2021** | | | | |
| **Credit Risk** | | | | |
| On-balance sheet exposures: | | | | |
| Sovereigns/central banks | 1,298,696 | 1,298,696 | - | - |
| Banks, development financial Institutions and Multilateral Development Banks ("MDBs") | 2,670,849 | 1,057,571 | 230,187 | 18,415 |
| Corporates | 7,399,258 | 4,661,823 | 3,350,181 | 268,014 |
| Other assets | 27,935 | 27,935 | 27,894 | 2,232 |
| Total on-balance sheet exposures | 11,396,738 | 7,046,025 | 3,608,262 | 288,661 |
| Off-balance sheet exposures: | | | | |
| Over-the-counter ("OTC") derivatives | 764,029 | 764,029 | 529,725 | 42,378 |
| Off-balance sheet exposures other than OTC derivatives or credit derivatives | 198,465 | 198,465 | 185,933 | 14,875 |
| Total off-balance sheet exposures | 962,494 | 962,494 | 715,658 | 57,253 |
| Total on and off-balance sheet exposures | 12,359,232 | 8,008,519 | 4,323,920 | 345,914 |

| | Long Position RM'000 | Short Position RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirements at 8% RM'000 |
|---|---|---|---|---|
| **Market risk** | | | | |
| Interest rate risk | 7,871,687 | 7,849,570 | 89,956 | 7,196 |
| Foreign currency risk | 21,389 | - | 267,363 | 21,389 |
| **Operational risk** | | | 300,152 | 24,012 |
| Total RWA and capital requirements | | | 4,981,391 | 398,511 |

## 33. Capital adequacy (continued)

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

| Exposure Class | Gross Exposures RM'000 | Net Exposures RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirements at 8% RM'000 |
|---|---|---|---|---|
| **2020** | | | | |
| **Credit Risk** | | | | |
| On-balance sheet exposures: | | | | |
| Sovereigns/central banks | 1,338,653 | 1,338,653 | - | - |
| Banks, development financial Institutions and Multilateral Development Banks ("MDBs") | 4,083,445 | 2,006,839 | 580,785 | 46,463 |
| Corporates | 7,755,711 | 2,329,314 | 1,670,903 | 133,672 |
| Other assets | 24,511 | 24,511 | 24,482 | 1,959 |
| Total on-balance sheet exposures | 13,202,320 | 5,699,317 | 2,276,170 | 182,094 |
| Off-balance sheet exposures: | | | | |
| Over-the-counter ("OTC") derivatives | 820,867 | 820,867 | 535,915 | 42,873 |
| Off-balance sheet exposures other than OTC derivatives or credit derivatives | 95,905 | 95,905 | 84,678 | 6,774 |
| Total off-balance sheet exposures | 916,772 | 916,772 | 620,593 | 49,647 |
| Total on and off-balance sheet exposures | 14,119,092 | 6,616,089 | 2,896,763 | 231,741 |

| | Long Position RM'000 | Short Position RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirements at 8% RM'000 |
|---|---|---|---|---|
| **Market risk** | | | | |
| Interest rate risk | 8,532,490 | 8,508,314 | 103,238 | 8,259 |
| Foreign currency risk | 1,714 | - | 21,425 | 1,714 |
| **Operational risk** | | | 314,087 | 25,127 |
| Total RWA and capital requirements | | | 3,335,513 | 266,841 |

## 34. Comparative figures

The Bank has reclassified the prior year's comparatives to include the collateral deposit fees as an integral part of effective interest rate. The Bank's prior year profit and retained profits brought forward are not affected by these reclassifications.

| | As restated RM'000 | As previously reported RM'000 |
|---|---|---|
| **Statement of comprehensive income for the financial year ended 31 March 2020** | | |
| Interest income | 330,347 | 357,764 |
| Net interest income | 88,596 | 116,013 |
| Total net income | 170,175 | 197,592 |
| Other operating expenses | (79,373) | (106,790) |
| **Notes to the financial statements for the financial year ended 31 March 2020** | | |
| Interest income (Note 19) | | |
| Loans, advances and financing | 210,556 | 237,973 |
| Other operating expenses (Note 22) | | |
| Administration and general expenses: | | |
| Collateral deposit fees | - | 27,417 |