

Mizuho Bank (Malaysia) Berhad

Company No. 201001039768 (923693-H)

(Incorporated in Malaysia)

**Pillar 3 disclosure
for the financial period ended 30 September 2022**

MIZUHO BANK (MALAYSIA) BERHAD

Company No. 201001039768 (923693-H)

(Incorporated in Malaysia)

PILLAR 3 DISCLOSURE FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2022

1.0 Overview

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

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

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

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

2.0 Capital management and capital adequacy

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

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2.0 Capital management and capital adequacy (continued)

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

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

Capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework. For the financial year ended 31 March 2022, the minimum regulatory CET1 capital ratio, Tier 1 capital ratio and total capital ratio requirement including the capital conservation buffer are 7.0%, 8.5% and 10.5% respectively. The following information presents the capital adequacy ratios of the Bank and the breakdown of RWA:

(a) Capital adequacy ratio

	30 Sep 2022	31 Mar 2022
CET1 Capital Ratio	26.815%	31.532%
Tier 1 Capital Ratio	26.815%	31.532%
Total Capital Ratio	27.888%	32.677%

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3.0 Capital structure

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

	30 Sep 2022 RM'000	31 Mar 2022 RM'000
CET 1 Capital		
Paid-up share capital	1,200,000	1,200,000
Retained profits	336,347	360,537
Other reserves	<u>(17,986)</u>	<u>(8,692)</u>
Total Tier 1 Capital	1,518,361	1,551,845
Tier 2 Capital		
General provisions and regulatory reserve	<u>60,769</u>	<u>56,344</u>
Total Capital	<u>1,579,130</u>	<u>1,608,189</u>

4.0 Stress test

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

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

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

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

5.0 Risk management framework

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

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5.0 Risk management framework (continued)

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

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

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

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

6.0 Credit risk

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

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

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

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6.0 Credit risk (continued)

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

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

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

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

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6.1 Distribution of credit exposures

(i) Industry analysis

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

	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business Activities	Education, Health and Others	Others	Total
As at 30 September 2022	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures										
Cash and short-term funds	-	-	-	-	-	-	2,912,654	-	-	2,912,654
Deposits and placements with financial institutions ("FIs")	-	-	-	-	-	-	1,810,168	-	-	1,810,168
Financial assets at fair value through other comprehensive income ("FVOCI")	-	-	-	-	-	-	1,520,581	-	-	1,520,581
Loans, advances and financing	-	985,607	29,411	580,456	195,608	96,476	5,794,068	268,832	-	7,950,458
Derivative financial assets	-	3,348	-	9	447	-	473,311	-	-	477,115
Other financial assets	-	-	13	-	1	404	25,695	19	1,076	27,208
	-	988,955	29,424	580,465	196,056	96,880	12,536,477	268,851	1,076	14,698,184
Commitment and Contingencies	-	2,284,482	56,440	944,800	788,418	2,062,915	11,744,724	24,040	-	17,905,819
Total Credit Exposures	-	3,273,437	85,864	1,525,265	984,474	2,159,795	24,281,201	292,891	1,076	32,604,003

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6.1 Distribution of credit exposures (continued)

(i) Industry analysis (continued)

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

			Electricity, Gas &		Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business Activities	Education, Health and Others	Others	Total
As at 31 March 2022	Mining & Quarrying	Manufacturing	Water Supply	Construction	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures										
Cash and short-term funds	-	-	-	-	-	-	1,930,307	-	-	1,930,307
Deposits and placements with FIs	-	-	-	-	-	-	1,397,000	-	-	1,397,000
Financial assets at FVOCI	-	-	-	-	-	-	1,990,351	-	-	1,990,351
Loans, advances and financing	-	1,397,913	31,758	573,829	175,565	274,792	4,408,735	251,796	-	7,114,388
Derivative financial assets	-	7,441	-	180	275	-	83,504	-	-	91,400
Other financial assets	-	35	-	-	1	322	28,322	-	1,125	29,805
	-	1,405,389	31,758	574,009	175,841	275,114	9,838,219	251,796	1,125	12,553,251
Commitment and Contingencies	84,086	2,094,797	32,693	940,662	683,929	1,274,987	8,745,125	30,372	-	13,886,651
Total Credit Exposures	84,086	3,500,186	64,451	1,514,671	859,770	1,550,101	18,583,344	282,168	1,125	26,439,902

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

	Within Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
As at 30 September 2022			
On-Balance Sheet Exposures			
Cash and short-term funds	2,704,068	208,586	2,912,654
Deposits and placements with FIs	1,810,168	-	1,810,168
Financial assets at FVOCI	1,520,581	-	1,520,581
Loans, advances and financing	6,554,919	1,395,539	7,950,458
Derivative financial assets	477,106	9	477,115
Other financial assets	27,079	129	27,208
	<u>13,093,921</u>	<u>1,604,263</u>	<u>14,698,184</u>
Commitment and Contingencies	<u>17,468,028</u>	<u>437,791</u>	<u>17,905,819</u>
Total Credit Exposures	<u>30,561,949</u>	<u>2,042,054</u>	<u>32,604,003</u>
As at 31 March 2022			
On-Balance Sheet Exposures			
Cash and short-term funds	1,733,263	197,044	1,930,307
Deposits and placements with FIs	1,397,000	-	1,397,000
Financial assets at FVOCI	1,990,351	-	1,990,351
Loans, advances and financing	5,852,585	1,261,803	7,114,388
Derivative financial assets	87,907	3,493	91,400
Other financial assets	29,069	736	29,805
	<u>11,090,175</u>	<u>1,463,076</u>	<u>12,553,251</u>
Commitment and Contingencies	<u>13,274,590</u>	<u>612,061</u>	<u>13,886,651</u>
Total Credit Exposures	<u>24,364,765</u>	<u>2,075,137</u>	<u>26,439,902</u>

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6.1 Distribution of credit exposures (continued)

(iii) Maturity analysis

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

	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
As at 30 September 2022							
On-Balance Sheet Exposures							
Cash and short-term funds	2,912,654	-	-	-	-	-	2,912,654
Deposits and placements with FIs	-	1,610,168	200,000	-	-	-	1,810,168
Financial assets at FVOCI	54,975	5,014	738,179	722,413	-	-	1,520,581
Loans, advances and financing	2,252,329	723,053	1,348,961	3,626,115	-	-	7,950,458
Derivative financial assets	12,833	42,470	136,257	285,555	-	-	477,115
Other financial assets	15,475	8,700	1,877	-	-	1,156	27,208
	<u>5,248,266</u>	<u>2,389,405</u>	<u>2,425,274</u>	<u>4,634,083</u>	<u>-</u>	<u>1,156</u>	<u>14,698,184</u>
Commitment and Contingencies	<u>7,599,058</u>	<u>979,838</u>	<u>4,048,230</u>	<u>5,278,693</u>	<u>-</u>	<u>-</u>	<u>17,905,819</u>
Total Credit Exposures	<u>12,847,324</u>	<u>3,369,243</u>	<u>6,473,504</u>	<u>9,912,776</u>	<u>-</u>	<u>1,156</u>	<u>32,604,003</u>

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6.1 Distribution of credit exposures (continued)

(iii) Maturity analysis (continued)

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

	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
As at 31 March 2022							
On-Balance Sheet Exposures							
Cash and short-term funds	1,930,307	-	-	-	-	-	1,930,307
Deposits and placements with FIs	-	1,397,000	-	-	-	-	1,397,000
Financial assets at FVOCI	160,096	250,915	445,272	1,134,068	-	-	1,990,351
Loans, advances and financing	2,882,156	518,888	1,128,804	2,584,540	-	-	7,114,388
Derivative financial assets	7,790	5,118	12,758	65,734	-	-	91,400
Other financial assets	9,802	14,154	1,709	-	-	4,140	29,805
	<u>4,990,151</u>	<u>2,186,075</u>	<u>1,588,543</u>	<u>3,784,342</u>	<u>-</u>	<u>4,140</u>	<u>12,553,251</u>
Commitment and Contingencies	<u>5,831,302</u>	<u>313,803</u>	<u>2,295,507</u>	<u>5,446,039</u>	<u>-</u>	<u>-</u>	<u>13,886,651</u>
Total Credit Exposures	<u>10,821,453</u>	<u>2,499,878</u>	<u>3,884,050</u>	<u>9,230,381</u>	<u>-</u>	<u>4,140</u>	<u>26,439,902</u>

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6.2 Credit quality of loans, advances and financing

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

- Stage 1: Ordinary / Performing Credit Exposure. (12-Month ECL)
- Stage 2: Exposure with Significant Increase in Credit Risk. (Lifetime ECL)
- Stage 3: Impaired Credit Exposure. (Lifetime ECL)

The three main components to measure ECL are as follows:

Probability of Default ("PD")

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

Loss Given Default ("LGD")

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

Exposure at Default ("EAD")

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

Forecast of key macroeconomic variables

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

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

Forecast of key macroeconomic variables (continued)

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

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

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

All gross loans, advances and financing at amortised cost are neither past due nor impaired as at the following reporting dates. A loan is defined as past due if the loan principal or interest (or both) is due and not repaid. A loan is defined as impaired if the loan principal or interest (or both) is past due for a period of more than 90 days.

	30 Sep 2022 RM'000	31 Mar 2022 RM'000
At amortised cost:		
Term loans	5,018,626	4,044,757
Revolving credits	1,866,731	1,951,497
Overdraft	-	545
Bills receivable	7,986	9,428
	<hr/> 6,893,343	<hr/> 6,006,227
Less: Unearned interest	(31)	(18)
Gross loans, advances and financing at amortised cost	<hr/> 6,893,312	<hr/> 6,006,209
Less: Allowance for expected credit losses	(8,977)	(14,034)
Net loans, advances and financing at amortised cost	<hr/> 6,884,335	<hr/> 5,992,175

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

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

	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale & Retail Trade & Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Insurance, Real Estate & Business Activities RM'000	Education, Health and Others RM'000	Others RM'000	Total RM'000
As at 30 September 2022										
Expected Credit Loss										
Loans, advances and financing	-	4,578	883	153	318	263	2,313	469	-	8,977
As at 31 March 2022										
Expected Credit Loss										
Loans, advances and financing	-	6,808	1,681	143	1,463	309	1,678	1,952	-	14,034

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

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

	Within Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
As at 30 September 2022			
Expected Credit Loss			
Loans, advances and financing	<u>8,725</u>	<u>252</u>	<u>8,977</u>
As at 31 March 2022			
Expected Credit Loss			
Loans, advances and financing	<u>13,833</u>	<u>201</u>	<u>14,034</u>

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

	30 Sep 2022 RM'000	31 Mar 2022 RM'000
At beginning of the financial period	14,034	41,551
Writeback during the financial period	<u>(5,057)</u>	<u>(27,517)</u>
At end of the financial period	<u>8,977</u>	<u>14,034</u>
As percentage of total loans, advances and financing	<u>0.11%</u>	<u>0.20%</u>

The Bank has no impaired loans, advances and financing and no individual impairment allowance was deemed required as at 30 September 2022.

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

	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
	RM'000	RM'000	RM'000	RM'000
At 1 April 2022	13,418	616	-	14,034
New financial assets originated	6,520	219	-	6,739
Financial assets derecognised	(11,532)	(616)	-	(12,148)
Net remeasurement during the financial period	352	-	-	352
At 30 September 2022	8,758	219	-	8,977
At 1 April 2021	34,399	7,152	-	41,551
New financial assets originated	11,967	616	-	12,583
Financial assets derecognised	(22,015)	(7,152)	-	(29,167)
Net remeasurement during the financial year	(10,933)	-	-	(10,933)
At 31 March 2022	13,418	616	-	14,034

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

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000
As at 30 September 2022			
Direct credit substitutes	133,668	133,668	133,518
Transaction related contingent items	135,516	67,758	53,784
Short-term self-liquidating trade related contingencies	2,513	503	503
Foreign exchange related contracts			
- One year or less	3,723,649	106,052	47,988
- Over one year to five years	140,867	16,907	9,735
Interest related contracts			
- One year or less	2,882,570	209,301	76,425
- Over one year to five years	5,084,230	672,599	375,605
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	693,855	64,760	64,760
Any commitments that are unconditionally cancelled at any time without prior notice	5,108,951	-	-
Total	17,905,819	1,271,548	762,318
As at 31 March 2022			
Direct credit substitutes	107,626	107,626	107,476
Transaction related contingent items	120,426	60,213	47,430
Short-term self-liquidating trade related contingencies	2,013	403	403
Foreign exchange related contracts			
- One year or less	976,967	25,897	18,939
- Over one year to five years	132,349	14,710	9,173
Interest related contracts			
- One year or less	2,224,680	71,590	42,797
- Over one year to five years	5,262,099	498,949	332,724
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	378,387	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	4,500	2,250	2,250
Any commitments that are unconditionally cancelled at any time without prior notice	4,677,604	-	-
Total	13,886,651	781,638	561,192

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

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

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

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

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

	Total exposures before CRM RM'000	Total exposures covered by guarantees RM'000	Total exposures covered by financial collaterals RM'000	Total exposures covered by other eligible collaterals RM'000
As at 30 September 2022				
Credit risk				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	3,083,567	-	-	-
Banks, development financial Institutions and MDBs	4,619,180	-	2,147,874	-
Corporates	6,627,968	-	2,223,826	-
Other assets	27,950	-	-	-
Total on-balance sheet exposures	<u>14,358,665</u>	<u>-</u>	<u>4,371,700</u>	<u>-</u>
<u>Off-Balance Sheet Exposures:</u>				
Over-the-counter ("OTC") derivatives	1,004,859	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	266,689	-	74,011	-
Total off-balance sheet exposures	<u>1,271,548</u>	<u>-</u>	<u>74,011</u>	<u>-</u>
Total on and off balance sheet exposures	<u>15,630,213</u>	<u>-</u>	<u>4,445,711</u>	<u>-</u>

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	Total exposures before CRM RM'000	Total exposures covered by guarantees RM'000	Total exposures covered by financial collaterals RM'000	Total exposures covered by other eligible collaterals RM'000
As at 31 March 2022				
Credit risk				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	2,508,011	-	-	-
Banks, development financial Institutions and MDBs	2,899,912	-	1,046,203	-
Corporates	7,060,756	-	2,345,317	-
Other assets	33,247	-	-	-
Total on-balance sheet exposures	12,501,926	-	3,391,520	-
<u>Off-Balance Sheet Exposures:</u>				
Over-the-counter ("OTC") derivatives	611,146	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	170,492	-	75,677	-
Total off-balance sheet exposures	781,638	-	75,677	-
Total on and off balance sheet exposures	13,283,564	-	3,467,197	-

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6.5 Assignment of risk weights for portfolios under the standardised approach

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

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

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

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

Rated and Unrated Counterparties

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

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

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

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(i) Credit risk disclosures on risk weights

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

← Exposures after Netting and Credit Risk Mitigation →

Risk weights	Sovereigns/ central banks RM'000	Banks, Development Financial Institutions & MDBs RM'000	Corporates RM'000	Other Assets RM'000	Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
As at 30 September 2022						
0%	3,083,567	308,752	884,928	-	4,277,247	-
20%	-	2,171,598	-	-	2,171,598	434,320
50%	-	764,936	-	-	764,936	382,468
100%	-	-	4,016,782	27,950	4,044,732	4,044,732
	<u>3,083,567</u>	<u>3,245,286</u>	<u>4,901,710</u>	<u>27,950</u>	<u>11,258,513</u>	<u>4,861,520</u>
As at 31 March 2022						
0%	2,508,011	273,993	1,199,128	-	3,981,132	-
20%	-	1,465,389	-	-	1,465,389	293,078
50%	-	462,178	-	-	462,178	231,089
100%	-	-	3,950,098	33,247	3,983,345	3,983,345
	<u>2,508,011</u>	<u>2,201,560</u>	<u>5,149,226</u>	<u>33,247</u>	<u>9,892,044</u>	<u>4,507,512</u>

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

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

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

On and off-balance sheet exposures

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

	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 30 September 2022						
Sovereigns and central banks	3,083,567	-	-	-	-	-
Total	3,083,567	-	-	-	-	-

As at 31 March 2022						
Sovereigns and central banks	2,508,011	-	-	-	-	-
Total	2,508,011	-	-	-	-	-

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

	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 30 September 2022						
Banks, MDBs and FDI	2,480,350	764,936	-	-	-	-
Total	2,480,350	764,936	-	-	-	-

As at 31 March 2022						
Banks, MDBs and FDI	1,739,382	462,178	-	-	-	-
Total	1,739,382	462,178	-	-	-	-

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

On and off-balance sheet exposures (continued)

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
As at 30 September 2022						
Corporates		884,928	-	-	-	4,016,782
Total		884,928	-	-	-	4,016,782
As at 31 March 2022						
Corporates		1,199,128	-	-	-	3,950,098
Total		1,199,128	-	-	-	3,950,098

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7.0 Market risk

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.

RMD controls the exposure by setting the limits which is in accordance to Parent Bank. RMD monitors the exposures through Interest Rate 10 Basic 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 Management.

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.

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7.0 Market risk (continued)

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 points 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.

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

	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
As at 30 September 2022				
Interest rate risk	8,017,714	8,003,163	71,564	5,725
Foreign currency risk	33,820	-	422,753	33,820
	<u>8,051,534</u>	<u>8,003,163</u>	<u>494,317</u>	<u>39,545</u>

	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
As at 31 March 2022				
Interest rate risk	7,615,123	7,597,472	77,681	6,214
Foreign currency risk	2,041	-	25,508	2,041
	<u>7,617,164</u>	<u>7,597,472</u>	<u>103,189</u>	<u>8,255</u>

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

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

	30 Sep 2022		31 Mar 2022	
	- 100 bps RM'000	+ 100 bps RM'000	- 100 bps RM'000	+ 100 bps RM'000
Impact on net interest income				
Ringgit Malaysia	(10,722)	10,722	(4,604)	4,604
United States Dollar	(1,796)	1,796	(2,809)	2,809
Japanese Yen	231	(231)	(194)	194
Others	86	(86)	47	(47)
Total	<u>(12,201)</u>	<u>12,201</u>	<u>(7,560)</u>	<u>7,560</u>
Impact on economic value				
Ringgit Malaysia	(11,275)	11,275	(16,025)	16,025
United States Dollar	4,633	(4,633)	5,247	(5,247)
Japanese Yen	1,373	(1,373)	1,071	(1,071)
Others	162	(162)	184	(184)
Total	<u>(5,107)</u>	<u>5,107</u>	<u>(9,523)</u>	<u>9,523</u>

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9.0 Liquidity Risk

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

- Maturity Ladder/Funding Gap: used to measure the maximum amount in funding gap between assets and liabilities for overnight, 1 week and 1 month tenure.
- Liquidity Coverage Ratio ("LCR"): to ensure that the Bank holds sufficient high-quality liquid assets ("HQLA") to withstand an acute liquidity stress scenario over a 30-day horizon.
- Net Stable Funding Ratio ("NSFR"): the ratio between the amount of stable funding available and the amount of stable funding required, to ensure the bank maintains a stable funding profile to support its assets and off-balance sheet activities.
- Parent Bank Liquidity Stress Test: used to measure and analyse the impact of cashflows on a Group combined basis under liquidity stress conditions.

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10.0 Operational Risk

The Bank defines operational risk as the risk of loss that it may incur resulting from inadequate or failed internal processes, people and systems, or from external events.

(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 provide insight into Bank's risk position and reflects the potential sources of Operational Risk from a forward looking perspective, monitored on monthly basis.

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CHIEF EXECUTIVE OFFICER ATTESTATION

In accordance with Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Mizuho Bank (Malaysia) Berhad's Pillar 3 Disclosure report for the financial year ended 30 September 2022 are consistent with the manner the Bank assesses and manages its risk, accurate, complete and not misleading in any particular way.

Katsutoshi Toba
Chief Executive Officer

Date: 28 October 2022