

Mizuho Bank (Malaysia) Berhad

Company No. 201001039768 (923693-H)

(Incorporated in Malaysia)

**Pillar 3 disclosure
for the financial year ended 31 March 2023**

MIZUHO BANK (MALAYSIA) BERHAD

Company No. 201001039768 (923693-H)

(Incorporated in Malaysia)

**PILLAR 3 DISCLOSURE
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023**

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

The Bank's main business activity is commercial banking, focusing on corporate banking and treasury business. The Bank is also involved in Islamic banking business, providing non-Malaysian Ringgit Islamic financing via International Currency Business Unit ("ICBU").

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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, business and strategic risk, information technology ("IT") risk, compliance risk (including legal risk, regulatory risk, shariah risk, anti-money laundering ("AML") and counter-financing of terrorism ("CFT") risk), climate risk as well as reputation risk.

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.

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2.0 Capital management and capital adequacy (continued)

Capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework. For the financial year ended 31 March 2023, 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

	2023	2022
CET1 Capital Ratio	24.880%	31.532%
Tier 1 Capital Ratio	24.880%	31.532%
Total Capital Ratio	26.019%	32.677%

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2.0 Capital management and capital adequacy (continued)

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

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2023				
Credit Risk				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	3,023,209	3,023,209	-	-
Banks, development financial Institutions and Multilateral Development Banks ("MDBs")	7,233,521	5,223,825	1,128,490	90,279
Corporates	7,585,441	4,486,645	3,753,954	300,317
Other assets	27,340	27,340	27,340	2,187
Total on-balance sheet exposures	<u>17,869,511</u>	<u>12,761,019</u>	<u>4,909,784</u>	<u>392,783</u>
<u>Off-balance sheet exposures:</u>				
Over-the-counter ("OTC") derivatives	824,370	824,370	509,773	40,782
Off-balance sheet exposures other than OTC derivatives or credit derivatives	431,430	431,430	413,267	33,061
Total off-balance sheet exposures	<u>1,255,800</u>	<u>1,255,800</u>	<u>923,040</u>	<u>73,843</u>
Total on and off-balance sheet exposures	<u>19,125,311</u>	<u>14,016,819</u>	<u>5,832,824</u>	<u>466,626</u>
	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Market risk				
Interest rate risk	9,078,399	9,057,616	82,103	6,568
Foreign currency risk	11,363	-	142,037	11,363
Operational risk			343,045	27,444
Total RWA and capital requirements			<u>6,400,009</u>	<u>512,001</u>

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2.0 Capital management and capital adequacy (continued)

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

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2022				
Credit Risk				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	2,508,011	2,508,011	-	-
Banks, development financial Institutions and Multilateral Development Banks ("MDBs")	2,899,912	1,853,709	396,762	31,741
Corporates	7,060,756	4,715,439	3,516,311	281,305
Other assets	33,247	33,247	33,247	2,660
Total on-balance sheet exposures	<u>12,501,926</u>	<u>9,110,406</u>	<u>3,946,320</u>	<u>315,706</u>
<u>Off-balance sheet exposures:</u>				
Over-the-counter ("OTC") derivatives	611,146	611,146	403,633	32,291
Off-balance sheet exposures other than OTC derivatives or credit derivatives	170,492	170,492	157,559	12,605
Total off-balance sheet exposures	<u>781,638</u>	<u>781,638</u>	<u>561,192</u>	<u>44,896</u>
Total on and off-balance sheet exposures	<u>13,283,564</u>	<u>9,892,044</u>	<u>4,507,512</u>	<u>360,602</u>
				Minimum Capital Requirement at 8% RM'000
	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	
Market risk				
Interest rate risk	7,615,123	7,597,472	77,681	6,214
Foreign currency risk	2,041	-	25,508	2,041
Operational risk			310,805	24,864
Total RWA and capital requirements			<u>4,921,506</u>	<u>393,721</u>

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3.0 Capital structure

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

	2023 RM'000	2022 RM'000
CET 1 Capital		
Paid-up share capital	1,200,000	1,200,000
Retained profits	403,556	360,537
Other reserves	(11,230)	(8,692)
Total Tier 1 Capital	<u>1,592,326</u>	<u>1,551,845</u>
Tier 2 Capital		
General provisions and regulatory reserve	<u>72,910</u>	<u>56,344</u>
Total Capital	<u>1,665,236</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 is delegated by the Board to oversee Risk Management within the Bank. While Management Credit Committee ("MCC") and Asset-Liability Management Committee ("ALMC") are established to support BRMC in the risk oversight and formulating risk management policies and frameworks.

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5.0 Risk management framework (continued)

The Board of Directors through BRMC is ultimately responsible to oversee and ensure that the Bank's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities. Risk Management Department ("RMD") is principally tasked to assist the various risk committees and undertakes the performance of the day-to-day risk management functions.

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.

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6.0 Credit risk (continued)

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.

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		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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2023										
On-Balance Sheet Exposures										
Cash and short-term funds	-	-	-	-	-	-	5,118,847	-	-	5,118,847
Deposits and placements with financial institutions ("FIs")	-	-	-	-	-	-	1,846,911	-	-	1,846,911
Financial assets at fair value through other comprehensive income ("FVOCI")	-	-	-	-	-	-	1,523,709	-	-	1,523,709
Loans, advances and financing	-	953,665	25,176	620,838	187,907	675,612	6,239,994	540,856	-	9,244,048
Derivative financial assets	-	888	-	-	508	-	258,698	-	-	260,094
Other financial assets	18	-	-	-	1	385	68,236	18	1,132	69,790
	18	954,553	25,176	620,838	188,416	675,997	15,056,395	540,874	1,132	18,063,399
Commitment and Contingencies	-	2,016,517	24,459	975,387	780,379	1,417,487	12,517,575	327,337	-	18,059,141
Total Credit Exposures	18	2,971,070	49,635	1,596,225	968,795	2,093,484	27,573,970	868,211	1,132	36,122,540

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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 & Water Supply	Construction	Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business Activities	Education, Health and Others	Others	Total
2022	Mining & Quarrying	Manufacturing	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	-	-	-	-	-	-	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
2023			
On-Balance Sheet Exposures			
Cash and short-term funds	4,994,363	124,484	5,118,847
Deposits and placements with FIs	1,846,911	-	1,846,911
Financial assets at FVOCI	1,523,709	-	1,523,709
Loans, advances and financing	7,694,216	1,549,832	9,244,048
Derivative financial assets	253,588	6,506	260,094
Other financial assets	69,283	507	69,790
	<u>16,382,070</u>	<u>1,681,329</u>	<u>18,063,399</u>
Commitment and Contingencies	<u>17,151,794</u>	<u>907,347</u>	<u>18,059,141</u>
Total Credit Exposures	<u>33,533,864</u>	<u>2,588,676</u>	<u>36,122,540</u>
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 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
2023							
On-Balance Sheet Exposures							
Cash and short-term funds	5,118,847	-	-	-	-	-	5,118,847
Deposits and placements with FIs	-	1,646,911	200,000	-	-	-	1,846,911
Financial assets at FVOCI	230,148	115,123	726,832	451,606	-	-	1,523,709
Loans, advances and financing	1,426,670	950,504	1,720,723	5,146,151	-	-	9,244,048
Derivative financial assets	17,446	9,445	97,405	135,798	-	-	260,094
Other financial assets	41,057	11,946	3,430	-	-	13,357	69,790
	<u>6,834,168</u>	<u>2,733,929</u>	<u>2,748,390</u>	<u>5,733,555</u>	<u>-</u>	<u>13,357</u>	<u>18,063,399</u>
Commitment and Contingencies	<u>6,230,570</u>	<u>443,489</u>	<u>4,532,659</u>	<u>6,852,423</u>	<u>-</u>	<u>-</u>	<u>18,059,141</u>
Total Credit Exposures	<u>13,064,738</u>	<u>3,177,418</u>	<u>7,281,049</u>	<u>12,585,978</u>	<u>-</u>	<u>13,357</u>	<u>36,122,540</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 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
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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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.

	2023	2022
	RM'000	RM'000
At amortised cost:		
Term loans	5,450,540	4,044,757
Revolving credits	2,410,518	1,951,497
Overdraft	-	545
Bills receivable	14,714	9,428
Banker Acceptances	4,662	-
	<u>7,880,434</u>	<u>6,006,227</u>
Less: Unearned interest	(93)	(18)
Gross loans, advances and financing at amortised cost	<u>7,880,341</u>	<u>6,006,209</u>
Less: Allowance for expected credit losses	(26,262)	(14,034)
Net loans, advances and financing at amortised cost	<u><u>7,854,079</u></u>	<u><u>5,992,175</u></u>

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**PILLAR 3 DISCLOSURE
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023****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
2023										
Expected Credit Loss										
Loans, advances and financing	-	21,161	427	246	306	1,452	2,152	518	-	26,262
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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**PILLAR 3 DISCLOSURE
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023****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
2023			
Expected Credit Loss			
Loans, advances and financing	<u>25,930</u>	<u>332</u>	<u>26,262</u>
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:

	2023 RM'000	2022 RM'000
At 1 April	14,034	41,551
Addition/(writeback) during the financial year	<u>12,228</u>	<u>(27,517)</u>
At 31 March	<u>26,262</u>	<u>14,034</u>
As percentage of total loans, advances and financing	<u>0.28%</u>	<u>0.20%</u>

The Bank has no impaired loans, advances and financing and no individual impairment allowance was deemed required as at 31 March 2023.

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**PILLAR 3 DISCLOSURE
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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	17,943	992	-	18,935
Financial assets derecognised	(12,176)	(616)	-	(12,792)
Net remeasurement during the financial year	6,085	-	-	6,085
At 31 March 2023	25,270	992	-	26,262
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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**PILLAR 3 DISCLOSURE
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Counterparty Credit Risk ("CCR") is the risk that the counterparty to a transaction involving financial instruments such as foreign exchange and derivatives, defaults before the final settlement of the transaction's cash flows. Unlike a loan where the credit risk is unilateral, that is only the lending bank faces the risk of losses, CCR on derivatives creates bilateral risk of loss. This means either party of the transaction can incur losses depending on the market value of the derivatives, which can vary over time with the movement of the underlying market factors.

For derivatives exposures, collateral is generally managed via standard market documentation which governs the amount of collateral required and the re-margining frequency between counterparties. As at reporting date, there was no requirement to post additional collateral as Credit Support Annex agreements entered with all counterparties are re-margined on either daily or weekly basis to cover the net exposure between counterparties.

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
2023			
Direct credit substitutes	206,224	206,224	206,064
Transaction related contingent items	138,147	69,073	51,070
Short-term self-liquidating trade related contingencies	7,846	1,569	1,569
Foreign exchange related contracts			
- One year or less	3,138,123	56,642	31,239
- Over one year to five years	87,825	11,475	6,732
Interest related contracts			
- One year or less	3,748,054	219,055	116,770
- Over one year to five years	5,340,073	537,198	355,032
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,324,830	154,564	154,564
Any commitments that are unconditionally cancelled at any time without prior notice	4,068,019	-	-
Total	18,059,141	1,255,800	923,040

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FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023****6.3 Off-balance sheet exposures and counterparty credit risk (continued)**

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

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000
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
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023****6.4 Credit risk mitigation ("CRM")**

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
2023				
Credit risk				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	3,023,209	-	-	-
Banks, development financial Institutions and MDBs	7,233,521	-	2,009,697	-
Corporates	7,585,441	-	3,098,796	-
Other assets	27,340	-	-	-
Total on-balance sheet exposures	<u>17,869,511</u>	<u>-</u>	<u>5,108,493</u>	<u>-</u>
<u>Off-Balance Sheet Exposures:</u>				
Over-the-counter ("OTC") derivatives	824,370	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	431,430	-	507,852	-
Total off-balance sheet exposures	<u>1,255,800</u>	<u>-</u>	<u>507,852</u>	<u>-</u>
Total on and off balance sheet exposures	<u>19,125,311</u>	<u>-</u>	<u>5,616,345</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
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	<u>12,501,926</u>	<u>-</u>	<u>3,391,520</u>	<u>-</u>
<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	<u>781,638</u>	<u>-</u>	<u>75,677</u>	<u>-</u>
Total on and off balance sheet exposures	<u>13,283,564</u>	<u>-</u>	<u>3,467,197</u>	<u>-</u>

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**PILLAR 3 DISCLOSURE
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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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**PILLAR 3 DISCLOSURE
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023****6.5 Assignment of risk weights for portfolios under the standardised approach (continued)**

(i) Credit risk disclosures on risk weights

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

← Exposures after Netting and Credit Risk Mitigation →						
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
2023						
0%	3,023,209	313,656	732,690	-	4,069,555	-
20%	-	4,637,862	-	-	4,637,862	927,572
50%	-	808,301	-	-	808,301	404,151
100%	-	-	4,473,761	27,340	4,501,101	4,501,101
	<u>3,023,209</u>	<u>5,759,819</u>	<u>5,206,451</u>	<u>27,340</u>	<u>14,016,819</u>	<u>5,832,824</u>
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
2023						
Sovereigns and central banks	3,023,209	-	-	-	-	-
Total	3,023,209	-	-	-	-	-
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
2023						
Banks, MDBs and FDI	4,951,518	808,301	-	-	-	-
Total	4,951,518	808,301	-	-	-	-
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
2023						
Corporates		732,690	-	-	-	4,473,761
Total		<u>732,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,473,761</u>
2022						
Corporates		1,199,128	-	-	-	3,950,098
Total		<u>1,199,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,950,098</u>

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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 ALMC on a monthly basis and the 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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**PILLAR 3 DISCLOSURE
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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
2023				
Interest rate risk	9,078,399	9,057,616	82,103	6,568
Foreign currency risk	11,363	-	142,037	11,363
	<u>9,089,762</u>	<u>9,057,616</u>	<u>224,140</u>	<u>17,931</u>
	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
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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**PILLAR 3 DISCLOSURE
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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.

	2023		2022	
	- 100 bps RM'000	+ 100 bps RM'000	- 100 bps RM'000	+ 100 bps RM'000
Impact on net interest income				
Ringgit Malaysia	(11,610)	11,610	(4,604)	4,604
United States Dollar	(2,088)	2,088	(2,809)	2,809
Japanese Yen	(90)	90	(194)	194
Others	(25)	25	47	(47)
Total	<u>(13,813)</u>	<u>13,813</u>	<u>(7,560)</u>	<u>7,560</u>
Impact on economic value				
Ringgit Malaysia	(8,218)	8,218	(16,025)	16,025
United States Dollar	4,369	(4,369)	5,247	(5,247)
Japanese Yen	920	(920)	1,071	(1,071)
Others	186	(186)	184	(184)
Total	<u>(2,743)</u>	<u>2,743</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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**PILLAR 3 DISCLOSURE
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023**

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 31 March 2023 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: 30 June 2023