

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

UNAUDITED PILLAR 3 DISCLOSURE
30 SEPTEMBER 2018

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1.0 Overview

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

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

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

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, 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, BRMC and ALMC, the Bank shall identify the key strategies to mitigate the effects of stress events and conserve the capital.

Capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework. For the year 2018, the minimum regulatory CET1 capital ratio, Tier 1 capital ratio and total capital ratio requirement are 6.375%, 7.875% and 9.875% on the risk-weighted assets ("RWA") respectively. The following information presents the capital adequacy ratios of the Bank and the breakdown of RWA:

(a) Capital Adequacy Ratio

	30 Sep 2018	31 Mar 2018
CET1 Capital Ratio	28.885%	27.651%
Tier 1 Capital Ratio	28.885%	27.651%
Total Capital Ratio	29.979%	28.768%

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

30 September 2018				
Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
Credit Risk				
On-balance sheet exposures:				
Sovereigns/central banks	1,396,143	1,396,143	-	-
Banks, development financial Institutions and Multilateral Development Banks ("MDBs")	1,256,567	1,010,325	128,192	10,255
Corporates	6,172,400	1,364,466	1,364,466	109,157
Other assets	65,332	65,332	65,307	5,225
Total on-balance sheet exposures	<u>8,890,442</u>	<u>3,836,266</u>	<u>1,557,965</u>	<u>124,637</u>
Off-balance sheet exposures:				
Over-the-counter ("OTC") derivatives	744,020	744,020	500,338	40,027
Credit-related off-balance sheet exposures	266,201	266,201	258,353	20,668
Total off-balance sheet exposures	<u>1,010,221</u>	<u>1,010,221</u>	<u>758,691</u>	<u>60,695</u>
Total on and off-balance sheet exposures	<u>9,900,663</u>	<u>4,846,487</u>	<u>2,316,656</u>	<u>185,332</u>
Market risk				
	Long Position	Short Position		
Interest rate risk	6,218,389	6,201,401	71,625	5,730
Foreign currency risk	1,679	-	20,984	1,679
Operational risk			238,270	19,062
Total RWA and capital requirements			<u>2,647,535</u>	<u>211,803</u>

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Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
Credit Risk				
On-balance sheet exposures:				
Sovereigns/central banks	1,260,936	1,260,936	-	-
Banks, development financial Institutions and Multilateral Development Banks ("MDBs")	800,782	694,422	106,977	8,558
Corporates	5,876,001	1,391,872	1,391,872	111,350
Other assets	63,485	63,485	63,424	5,074
Total on-balance sheet exposures	8,001,204	3,410,715	1,562,273	124,982
Off-balance sheet exposures:				
Over-the-counter ("OTC") derivatives	856,281	856,281	640,739	51,259
Credit-related off-balance sheet exposures	290,032	290,032	281,049	22,484
Total off-balance sheet exposures	1,146,313	1,146,313	921,788	73,743
Total on and off-balance sheet exposures	9,147,517	4,557,028	2,484,061	198,725
Market risk				
	Long Position	Short Position		
Interest rate risk	6,158,264	6,136,985	77,293	6,183
Foreign currency risk	472	-	5,899	472
Operational risk			211,931	16,954
Total RWA and capital requirements			2,779,184	222,334

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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 2018 RM'000	31 Mar 2018 RM'000
CET 1 Capital		
Paid-up share capital	700,000	700,000
Retained profits	63,937	66,994
Other reserves	810	1,469
Total CET1 Capital, representing total Tier 1 Capital	<u>764,747</u>	<u>768,463</u>
Tier 2 Capital		
Allowance for credit loss / collective allowance for impairment and regulatory reserve	28,958	31,051
Total Capital	<u>793,705</u>	<u>799,514</u>

4.0 Risk Management Framework

The Board of Directors establishes the Bank's risk appetite and risk principles. The Board Risk Management Committee ("BRMC"), Credit Risk Management Committee ("CRMC") and Asset and Liability Management Committee ("ALMC") have been established by the Board to assume responsibility for the risk oversight and any approved policies and frameworks formulated on Credit, Market, Liquidity and Operational Risk.

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

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5.0 Credit Risk

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

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

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

The CRMC 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 history and demographics or company profile. These credit rating models are developed and implemented to standardise and enhance the credit decision-making process for the Mizuho Bank Group's corporate exposures. Credit reviews and rating are conducted on the credit exposures regularly and more frequently when material information on the obligor or other external factors come to light.

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5.1 Distribution of Credit Exposures

(i) Industry Analysis

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

As at 30 Sep 2018											
	Primary Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Business Activities	Education, Health and Others	Others	Total
On-Balance Sheet Exposures	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	-	-	-	-	-	-	1,664,154	-	-	1,664,154
Deposits and placements with FIs	-	-	-	-	-	-	-	463,679	-	-	463,679
Financial assets at FVOCI	-	-	-	-	-	-	-	500,881	-	-	500,881
Loans, advances and financing	11,545	156,578	1,350,410	103,553	204,438	388,567	30,724	3,800,433	16,096	99,035	6,161,379
Derivative financial assets	-	-	657	-	13	228	31	14,960	281,611	-	297,500
Other financial assets	-	-	-	-	-	1	-	24,102	-	8,171	32,274
	11,545	156,578	1,351,067	103,553	204,451	388,796	30,755	6,468,209	297,707	107,206	9,119,867
Commitment and Contingencies	112,415	12,500	1,427,749	120,388	376,186	639,525	434,179	7,754,795	19,942	66,201	10,963,880
Total Credit Exposures	123,960	169,078	2,778,816	223,941	580,637	1,028,321	464,934	14,223,004	317,649	173,407	20,083,747

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(i) Industry Analysis

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

As at 31 Mar 2018											
	Primary Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Business Activities	Education, Health and Others	Others	Total
On-Balance Sheet Exposures	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	-	-	-	-	-	-	1,388,718	-	-	1,388,718
Deposits and placements with FIs	-	-	-	-	-	-	-	127,813	-	-	127,813
Financial assets AFS	-	-	-	-	-	-	-	454,653	-	-	454,653
Loans, advances and financing	-	68,285	1,322,717	93,014	142,655	457,036	139,973	3,496,459	15,197	103,265	5,838,601
Derivative financial assets	-	-	33,986	-	13,313	29,459	-	289,764	2,359	-	368,881
Other financial assets	-	-	-	-	-	1	-	91,432	-	6,606	98,039
	-	68,285	1,356,703	93,014	155,968	486,496	139,973	5,848,839	17,556	109,871	8,276,705
Commitment and Contingencies	115,830	8,500	1,442,230	122,592	489,810	693,393	308,545	7,069,666	21,305	51,480	10,323,351
Total Credit Exposures	115,830	76,785	2,798,933	215,606	645,778	1,179,889	448,518	12,918,505	38,861	161,351	18,600,056

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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.

	As at 30 Sep 2018		
	Within	Outside	Total
	Malaysia	Malaysia	
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Cash and short-term funds	1,533,731	130,423	1,664,154
Deposits and placements with FIs	463,679	-	463,679
Financial assets at FVOCI	500,881	-	500,881
Loans, advances and financing	4,195,997	1,965,382	6,161,379
Derivative financial assets	297,271	229	297,500
Other financial assets	32,159	115	32,274
	7,023,718	2,096,149	9,119,867
Commitment and Contingencies	10,659,332	304,548	10,963,880
Total Credit Exposures	17,683,050	2,400,697	20,083,747

	As at 31 Mar 2018		
	Within	Outside	Total
	Malaysia	Malaysia	
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Cash and short-term funds	1,243,702	145,016	1,388,718
Deposits and placements with FIs	127,220	593	127,813
Financial assets AFS	454,653	-	454,653
Loans, advances and financing	3,996,748	1,841,853	5,838,601
Derivative financial assets	364,524	4,357	368,881
Other financial assets	97,929	110	98,039
	6,284,776	1,991,929	8,276,705
Commitment and Contingencies	9,950,981	372,370	10,323,351
Total Credit Exposures	16,235,757	2,364,299	18,600,056

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5.1 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.

	As at 30 Sep 2018					Total RM'000
	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	
On-Balance Sheet Exposures						
Cash and short-term funds	1,664,154	-	-	-	-	1,664,154
Deposits and placements with FIs	-	200,000	263,679	-	-	463,679
Financial assets at FVOCI	-	-	130,274	370,607	-	500,881
Loans, advances and financing	2,309,265	1,261,648	254,048	1,970,451	365,967	6,161,379
Derivative financial assets	254,797	10,788	4,964	26,951	-	297,500
Other financial assets	24,398	879	2,130	4,867	-	32,274
	<u>4,252,614</u>	<u>1,473,315</u>	<u>655,095</u>	<u>2,372,876</u>	<u>365,967</u>	<u>9,119,867</u>
Commitment and Contingencies	<u>2,871,210</u>	<u>1,409,354</u>	<u>2,299,749</u>	<u>4,022,039</u>	<u>361,528</u>	<u>10,963,880</u>
Total Credit Exposures	<u>7,123,824</u>	<u>2,882,669</u>	<u>2,954,844</u>	<u>6,394,915</u>	<u>727,495</u>	<u>20,083,747</u>

	As at 31 Mar 2018					Total RM'000
	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	
On-Balance Sheet Exposures						
Cash and short-term funds	1,388,718	-	-	-	-	1,388,718
Deposits and placements with FIs	-	50,593	77,220	-	-	127,813
Financial assets AFS	-	110,105	50,160	294,388	-	454,653
Loans, advances and financing	2,399,865	902,809	400,876	1,771,703	363,348	5,838,601
Derivative financial assets	4,467	4,326	123,919	204,139	32,030	368,881
Other financial assets	92,256	1,794	144	3,845	-	98,039
	<u>3,885,306</u>	<u>1,069,627</u>	<u>652,319</u>	<u>2,274,075</u>	<u>395,378</u>	<u>8,276,705</u>
Commitment and Contingencies	<u>2,487,622</u>	<u>347,884</u>	<u>2,740,061</u>	<u>4,345,218</u>	<u>402,567</u>	<u>10,323,352</u>
Total Credit Exposures	<u>6,372,928</u>	<u>1,417,511</u>	<u>3,392,380</u>	<u>6,619,293</u>	<u>797,945</u>	<u>18,600,057</u>

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

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

	30 Sep 2018 RM'000	31 Mar 2018 RM'000
At amortised cost:		
Term loans	3,617,945	4,125,123
Revolving credits	1,565,879	1,697,065
Banker acceptances	8,820	47,800
Bills receivable	13,973	-
	<u>5,206,617</u>	<u>5,869,988</u>
Less: Unearned interest	(79)	(231)
Gross loans, advances and financing at amortised cost	<u>5,206,538</u>	<u>5,869,757</u>
At FVTPL:		
Term loans	986,734	-
Gross loans, advances and financing at FVTPL	<u>986,734</u>	<u>-</u>
Total gross loans, advances and financing	6,193,272	5,869,757
Allowance for impaired loans and financing		
- Collective impairment allowance	-	(31,156)
- Expected credit loss	(31,893)	-
Net loans, advances and financing	<u>6,161,379</u>	<u>5,838,601</u>

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5.2 Credit Quality of Loans, Advances and Financing (Continued)

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

As at 30 Sep 2018											
	Primary Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Business Activities	Education, Health and Others	Others	Total
Expected Credit Loss	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Loans, advances and financing	185	529	28,233	34	442	445	147	1,508	-	370	31,893
	185	529	28,233	34	442	445	147	1,508	-	370	31,893

As at 31 Mar 2018											
	Primary Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale & Retail Trade & Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Business Activities	Education, Health and Others	Others	Total
Collective Allowance	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Loans, advances and financing	-	775	28,397	29	1	546	181	700	6	521	31,156
	-	775	28,397	29	1	546	181	700	6	521	31,156

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5.2 Credit Quality of Loans, Advances and Financing (Continued)

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

	As at 30 Sep 2018		
	Within	Outside	Total
	Malaysia	Malaysia	
Expected Credit Loss	RM'000	RM'000	RM'000
Loans, advances and financing	31,523	370	31,893
	<u>31,523</u>	<u>370</u>	<u>31,893</u>

	As at 31 Mar 2018		
	Within	Outside	Total
	Malaysia	Malaysia	
Collective Allowance	RM'000	RM'000	RM'000
Loans, advances and financing	30,635	521	31,156
	<u>30,635</u>	<u>521</u>	<u>31,156</u>

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

	30 Sep	31 Mar
	2018	2018
	RM'000	RM'000
At 1 April 2018/2017	31,156	39,326
Effect of adopting MFRS 9	2,589	-
At 1 April 2018, as restated	<u>33,745</u>	<u>39,326</u>
Allowance/(Writeback) made during the period	(1,852)	(8,170)
At end of the reporting period / year	<u>31,893</u>	<u>31,156</u>
As percentage of total loan	<u>0.61%</u>	<u>0.53%</u>

The Bank has no impaired loans, advances and financing and no individual impairment allowance was deemed required as at 30 September 2018.

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5.2 Credit Quality of Loans, Advances and Financing (Continued)

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

	12-Month ECL	Lifetime ECL		Total RM'000
	Stage 1 RM'000	Non-credit Impaired Stage 2 RM'000	Credit Impaired Stage 3 RM'000	
At 1 April 2018				31,156
Effect of adopting MFRS 9				2,589
At 1 April 2018, as restated	7,521	26,224	-	<u>33,745</u>
Changes due to loans, advances and financing recognised as at 1 April 2018:				
Transfer to 12-Month ECL (Stage 1)	5	(5)	-	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	-	-	-	-
Transfer to Lifetime ECL credit impaired (Stage 3)	-	-	-	-
New financial assets originated	5,179	26,205	-	31,384
Financial assets derecognised	(6,812)	(24,758)	-	(31,570)
Writeback during the period	(200)	(1,466)	-	(1,666)
At 30 September 2018	<u>5,693</u>	<u>26,200</u>	<u>-</u>	<u>31,893</u>

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5.3 Off-Balance Sheet Exposures and Counterparty Credit Risk

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

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted amount* RM'000
As at 30 September 2018			
Direct credit substitutions	120,355	120,355	119,337
Transaction related contingent items	89,556	44,778	37,948
Short-term self-liquidating trade related contingencies	24,627	4,925	4,925
Foreign exchange related contracts			
- One year or less	1,962,766	33,868	21,375
- Over one year to five years	36,379	2,949	1,941
Interest related contracts			
- One year or less	2,294,617	215,164	121,181
- Over one year to five years	3,812,847	412,213	291,942
- Over five years	361,528	79,826	63,899
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	192,286	96,143	96,143
Any commitments that are unconditionally cancelled at any time without prior notice	2,068,919	-	-
Total	10,963,880	1,010,221	758,691
As at 31 March 2018			
Direct credit substitutions	123,658	123,658	121,848
Transaction related contingent items	98,349	49,175	42,002
Short-term self-liquidating trade related contingencies	4,217	843	843
Foreign exchange related contracts			
- One year or less	1,679,341	33,661	18,825
- Over one year to five years	38,646	3,157	1,515
Interest related contracts			
- One year or less	1,922,671	184,041	123,210
- Over one year to five years	4,064,373	535,770	414,117
- Over five years	402,567	99,652	83,072
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	232,713	116,356	116,356
Any commitments that are unconditionally cancelled at any time without prior notice	1,756,816	-	-
Total	10,323,351	1,146,313	921,788

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5.4 Credit Risk Mitigation

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.

30 September 2018

<i>Credit risk</i>	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
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	1,396,143	1,396,143	-	-
Banks, development financial Institutions and MDBs	1,256,567	1,010,324	128,192	10,255
Corporates	6,172,400	1,364,467	1,364,466	109,157
Other assets	65,332	65,332	65,307	5,225
Total on-balance sheet exposures	8,890,442	3,836,266	1,557,965	124,637
<u>Off-Balance Sheet Exposures:</u>				
Over-the-counter ("OTC") derivatives	744,020	744,020	500,338	40,027
Off balance sheet exposures other than OTC derivatives or credit derivatives	266,201	266,201	258,353	20,668
Total off-balance sheet exposures	1,010,221	1,010,221	758,691	60,695
Total on and off balance sheet exposures	9,900,663	4,846,487	2,316,656	185,332

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5.4 Credit Risk Mitigation (Continued)

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<i>Credit risk</i>	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
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	1,260,936	1,260,936	-	-
Banks, development financial Institutions and MDBs	800,782	694,422	106,977	8,558
Corporates	5,876,001	1,391,872	1,391,872	111,350
Other assets	63,485	63,485	63,424	5,074
Total on-balance sheet exposures	8,001,204	3,410,715	1,562,273	124,982
<u>Off-Balance Sheet Exposures:</u>				
Over-the-counter ("OTC") derivatives	856,281	856,281	640,739	51,259
Off balance sheet exposures other than OTC derivatives or credit derivatives	290,032	290,032	281,049	22,484
Total off-balance sheet exposures	1,146,313	1,146,313	921,788	73,743
Total on and off balance sheet exposures	9,147,517	4,557,028	2,484,061	198,725

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5.5 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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5.5 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
30 September 2018						
0%	1,396,143	-	-	25	1,396,168	-
20%	-	1,256,567	-	-	1,256,567	251,313
50%	-	256,819	-	-	256,819	128,409
100%	-	-	1,871,626	65,307	1,936,933	1,936,933
	<u>1,396,143</u>	<u>1,513,386</u>	<u>1,871,626</u>	<u>65,332</u>	<u>4,846,487</u>	<u>2,316,655</u>
31 March 2018						
0%	1,260,936	-	-	60	1,260,996	-
20%	-	821,379	-	-	821,379	164,276
50%	-	309,736	-	-	309,736	154,868
100%	-	-	2,101,492	63,425	2,164,917	2,164,917
	<u>1,260,936</u>	<u>1,131,115</u>	<u>2,101,492</u>	<u>63,485</u>	<u>4,557,028</u>	<u>2,484,061</u>

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5.5 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 Ba3	B1 to C	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated

	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 September 2018						
Sovereigns and central banks	1,396,143	-	-	-	-	-
Total	1,396,143	-	-	-	-	-

31 March 2018						
Sovereigns and central banks	1,260,936	-	-	-	-	-
Total	1,260,936	-	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated

	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 September 2018						
Banks, MDBs and FDI	1,256,567	256,819	-	-	-	-
Total	1,256,567	256,819	-	-	-	-

31 March 2018						
Banks, MDBs and FDI	821,379	309,736	-	-	-	-
Total	821,379	309,736	-	-	-	-

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5.5 Assignment of Risk Weights for Portfolios Under The Standardised Approach (Continued)

(ii) Rated Exposures by External Credit Assessment Institutions ("ECAI") (Continued)

On and off-balance sheet exposures (continued)

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated

	RM'000	RM'000	RM'000	RM'000	RM'000
30 September 2018					
Corporates	-	-	-	-	1,936,933
Total	-	-	-	-	1,936,933
31 March 2018					
Corporates	-	-	-	-	2,164,977
Total	-	-	-	-	2,164,977

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6.0 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, securities prices, futures prices.

Broadly, the Bank is exposed to two major types of market risk namely interest/benchmark rate risk and foreign exchange risk. The Bank manages those market risks by transferring the risk to another party such as entering into a back-to-back deal with external counterparties. This reduces the negative effect or probability of the risk through offsetting positions of a particular risk.

RMD controls the exposure by setting the limits which is in accordance to Head Office. RMD monitors the exposures through Foreign Exchange Position Limit, Interest Rate 10 Basis Point Value ("BPV") and Foreign Exchange Positions 10BPV 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 Rate Risk Management

Interest rate risk is defined as the exposure of a bank's financial condition to the adverse movements in interest rates. Interest 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 rates related to the shift in yield curves and repricing patterns.

Foreign Exchange Risk Management

Foreign exchange risk arises as a result of the movements in exchange rates, which affects the bank's profit and capital from the open position in foreign currencies. Currently the bank executes the transactions on a back-to-back basis to minimize its exposure to the fluctuations in exchange rate.

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6.0 Market Risk (Continued)

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

	Long Position	Short	Risk- Weighted	Minimum Capital Requirements
	RM'000	Position	Assets	at 8%
30 September 2018		RM'000	RM'000	RM'000
Interest rate risk	6,218,389	6,201,401	71,625	5,730
Foreign currency risk	1,679	-	20,984	1,679
	6,220,068	6,201,401	92,609	7,409

	Long Position	Short	Risk- Weighted	Minimum Capital Requirements
	RM'000	Position	Assets	at 8%
31 March 2018		RM'000	RM'000	RM'000
Interest rate risk	6,158,264	6,136,985	77,293	6,183
Foreign currency risk	472	-	5,899	472
	6,158,736	6,136,985	83,192	6,655

7.0 Liquidity Risk

Liquidity Risk forms part of Market Risk and is defined as the risk that the Bank will be unable to secure necessary funding due to deteriorating financial condition or a similar reason, and will therefore be unable to meet cash flow requirements, or that it will suffer a loss because it is compelled to pay interest rates significantly higher than normal rates to secure funding.

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

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

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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 2018		31 Mar 2018	
	- 100 bps RM'000	+ 100 bps RM'000	- 100 bps RM'000	+ 100 bps RM'000
Impact on net interest income				
Ringgit Malaysia	(10,425)	10,425	(9,084)	9,084
United States Dollar	(775)	775	(872)	872
Japanese Yen	246	(246)	100	(100)
Others	33	(33)	2	(2)
Total	(10,921)	10,921	(9,854)	9,854
Impact on economic value				
Ringgit Malaysia	(1,795)	1,795	(1,755)	1,755
United States Dollar	2,995	(2,995)	2,732	(2,732)
Japanese Yen	740	(740)	1,130	(1,130)
Others	359	(359)	509	(509)
Total	2,299	(2,299)	2,616	(2,616)

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9.0 Operational Risk

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

(i) *Execution Risk*

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

(ii) *People Risk*

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

(iii) *Systems Risk*

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

(iv) *Model Risk*

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

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

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CHIEF EXECUTIVE OFFICER ATTESTATION

In accordance with Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Mizuho Bank (Malaysia) Berhad's Unaudited Pillar 3 Disclosure report for the financial period ended 30 September 2018 are consistent with the manner the Bank assesses and manages its risk, accurate, complete and not misleading in any particular way.



Shojiro Mizoguchi
Chief Executive Officer

Date: 31 October 2018