Mizuho Bank (Malaysia) Berhad

Company No. 201001039768 (923693-H)

(Incorporated in Malaysia)

Pillar 3 disclosure
for the financial year ended 31 March 2020

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

PILLAR 3 DISCLOSURE
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

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.

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, Board Risk Management Committee ("BRMC") and Assets and Liability Management Committee ("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 2020, the minimum regulatory CETI capital ratio, Tier 1 capital ratio and total capital ratio requirement including the capital conservation buffer are 7.0%, 8.5% and 10.5% 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

	2020	**2019**
CET1 Capital Ratio	27.076%	29.641%
Tier 1 Capital Ratio	27.076%	29.641%
Total Capital Ratio	28.162%	30.727%

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

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

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
2019				
Credit Risk				
On-balance sheet exposures:				
Sovereigns/central banks	1,139,339	1,139,339	-	-
Banks, development financial Institutions and Multilateral Development Banks ("MDBs")	3,414,139	1,526,698	371,686	29,735
Corporates	4,891,266	1,700,445	1,404,307	112,344
Other assets	19,094	19,094	18,653	1,492
Total on-balance sheet exposures	9,463,838	4,385,576	1,794,646	143,571
Off-balance sheet exposures:				
Over-the-counter ("OTC") derivatives	706,504	706,504	473,291	37,863
Off-balance sheet exposures other than OTC derivatives or credit derivatives	202,329	202,329	196,373	15,710
Total off-balance sheet exposures	908,833	908,833	669,664	53,573
Total on and off-balance sheet exposures	10,372,671	5,294,409	2,464,310	197,144

	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	6,438,554	6,415,611	83,541	6,683
Foreign currency risk	1,476	-	18,445	1,476
Operational risk			269,663	21,573
Total RWA and capital requirements			2,835,959	226,876

3.0 Capital structure

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

	2020 RM'000	2019 RM'000
CET 1 Capital		
Paid-up share capital	700,000	700,000
Retained profits	210,550	151,498
Other reserves	(7,415)	(10,897)
Total Tier 1 Capital	903,135	840,601
Tier 2 Capital		
General provisions and regulatory reserve	36,210	30,804
Total Capital	939,345	871,405

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, impact of Goods and Services Tax/Sales and Service Tax, amongst others.

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 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 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.

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 Head Office 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.

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.

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

PILLAR 3 DISCLOSURE
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

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.

2020	Primary Agriculture RM'000	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
On-Balance Sheet Exposures											
Cash and short-term funds	-	-	-	-	-	-	-	1,556,301	-	-	1,556,301
Deposits and placements with financial institutions ("FIs")	-	-	-	-	-	-	-	1,420,480	-	-	1,420,480
Financial assets at fair value through other comprehensive income ("FVOCI")	-	-	-	-	-	-	-	1,134,913	-	-	1,134,913
Loans, advances and financing	-	46,686	2,223,183	111,873	572,808	166,980	18,452	5,801,779	25,135	-	8,966,896
Derivative financial assets	-	-	8,099	-	89	74	-	191,310	-	-	199,572
Other financial assets	-	-	22	-	-	1	-	30,534	-	1,077	31,634
	-	46,686	2,231,304	111,873	572,897	167,055	18,452	10,135,317	25,135	1,077	13,309,796
Commitment and Contingencies	-	118,244	1,908,265	700	678,922	503,835	239,222	10,289,055	61,242	-	13,799,485
Total Credit Exposures	**-**	**164,930**	**4,139,569**	**112,573**	**1,251,819**	**670,890**	**257,674**	**20,424,372**	**86,377**	**1,077**	**27,109,281**

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).

2019	Primary Agriculture RM'000	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
On-Balance Sheet Exposures											
Cash and short-term funds	-	-	-	-	-	-	-	1,801,692	-	-	1,801,692
Deposits and placements with FIs	-	-	-	-	-	-	-	544,393	-	-	544,393
Financial assets at FVOCI	-	-	-	-	-	-	-	602,896	-	-	602,896
Loans, advances and financing	-	116,749	1,223,635	105,717	207,023	338,122	4,894	4,332,114	116,422	-	6,444,676
Derivative financial assets	-	-	1,475	-	388	71	-	164,848	-	-	166,782
Other financial assets	-	-	3	-	-	1	-	59,005	-	1,089	60,098
	-	116,749	1,225,113	105,717	207,411	338,194	4,894	7,504,948	116,422	1,089	9,620,537
Commitment and Contingencies	122,433	32,896	1,684,557	-	319,620	511,157	332,746	8,566,200	23,254	65,297	11,658,160
Total Credit Exposures	**122,433**	**149,645**	**2,909,670**	**105,717**	**527,031**	**849,351**	**337,640**	**16,071,148**	**139,676**	**66,386**	**21,278,697**

6.1 Distribution of credit exposures (continued)

(ii) Geographical analysis

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
2020			
On-Balance Sheet Exposures			
Cash and short-term funds	1,418,660	137,641	1,556,301
Deposits and placements with FIs	1,420,480	-	1,420,480
Financial assets at FVOCI	1,134,913	-	1,134,913
Loans, advances and financing	7,024,889	1,942,007	8,966,896
Derivative financial assets	198,817	755	199,572
Other financial assets	30,794	840	31,634
	11,228,553	2,081,243	13,309,796
Commitment and Contingencies	13,552,252	247,233	13,799,485
Total Credit Exposures	24,780,805	2,328,476	27,109,281
2019			
On-Balance Sheet Exposures			
Cash and short-term funds	1,653,660	148,032	1,801,692
Deposits and placements with FIs	542,353	2,040	544,393
Financial assets at FVOCI	602,896	-	602,896
Loans, advances and financing	4,503,942	1,940,734	6,444,676
Derivative financial assets	165,973	809	166,782
Other financial assets	59,355	743	60,098
	7,528,179	2,092,358	9,620,537
Commitment and Contingencies	11,199,288	458,872	11,658,160
Total Credit Exposures	18,727,467	2,551,230	21,278,697

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
2020							
On-Balance Sheet Exposures							
Cash and short-term funds	1,556,301	-	-	-	-	-	1,556,301
Deposits and placements with FIs	-	955,259	465,221	-	-	-	1,420,480
Financial assets at FVOCI	150,043	95,179	217,348	672,343	-	-	1,134,913
Loans, advances and financing	2,489,462	1,050,775	1,650,758	3,561,176	214,725	-	8,966,896
Derivative financial assets	25,122	13,842	53,078	107,418	112	-	199,572
Other financial assets	10,265	11,455	3,403	-	-	6,511	31,634
	4,231,193	2,126,510	2,389,808	4,340,937	214,837	6,511	13,309,796
Commitment and Contingencies	4,614,405	589,741	3,438,163	5,111,076	46,100	-	13,799,485
Total Credit Exposures	8,845,598	2,716,251	5,827,971	9,452,013	260,937	11,801	27,109,281

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
2019							
On-Balance Sheet Exposures							
Cash and short-term funds	1,801,692	-	-	-	-	-	1,801,692
Deposits and placements with FIs	-	217,661	326,732	-	-	-	544,393
Financial assets at FVOCI	30,007	40,044	20,082	512,763	-	-	602,896
Loans, advances and financing	2,461,820	758,299	344,132	2,527,314	353,111	-	6,444,676
Derivative financial assets	1,852	1,797	53,350	109,615	168	-	166,782
Other financial assets	6,325	5,899	1,688	-	-	46,186	60,098
	4,301,696	1,023,700	745,984	3,149,692	353,279	46,186	9,620,537
Commitment and Contingencies	3,834,110	687,528	1,520,691	5,296,800	319,031	-	11,658,160
Total Credit Exposures	8,135,806	1,711,228	2,266,675	8,446,492	672,310	51,528	21,278,697

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.

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:

	2020 RM'000	2019 RM'000
At amortised cost:		
Term loans	6,240,295	4,113,862
Revolving credits	1,404,350	1,367,847
Bills receivable	33,946	15,211
	7,678,591	5,496,920
Less: Unearned interest	(107)	(77)
Gross loans, advances and financing at amortised cost	7,678,484	5,496,843
Less: Impairment allowance		
- Expected credit losses	(54,608)	(28,632)
Net loans, advances and financing at amortised cost	7,623,876	5,468,211

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:

	Primary Agriculture RM'000	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
2020											
Expected Credit Loss											
Loans, advances and financing	-	-	42,868	1,209	2,520	1,910	505	5,496	100	-	54,608
2019											
Expected Credit Loss											
Loans, advances and financing	-	227	26,681	171	311	412	53	573	204	-	28,632

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
2020			
Expected Credit Loss			
Loans, advances and financing	54,572	36	54,608
2019			
Expected Credit Loss			
Loans, advances and financing	28,428	204	28,632

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

	2020 RM'000	2019 RM'000
At 1 April	28,632	31,156
Impact of adopting MFRS 9	-	2,589
At 1 April, as restated	28,632	33,745
Allowance made/(writeback) during the financial year	25,976	(5,113)
At 31 March	54,608	28,632
As percentage of total loans, advances and financing	0.61%	0.44%

The Bank has no impaired loans, advances and financing and no individual impairment allowance was deemed required as at 31 March 2020.

6.2 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		
		Not credit-Impaired	Credit-Impaired	
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 April 2019	3,039	25,593	-	28,632
New financial assets originated	17,491	35,393	-	52,884
Financial assets derecognised	(2,735)	(25,593)	-	(28,328)
Net remeasurement during the financial year	1,420	-	-	1,420
At 31 March 2020	**19,215**	**35,393**	**-**	**54,608**
At 1 April 2018				
As previously stated - MFRS 139				31,156
Impact of adopting MFRS 9				2,589
At 1 April 2018, as restated	7,521	26,224	-	33,745
Changes due to loans, advances and financing recognised as at 1 April 2018:				
Transfer to 12-Month ECL (Stage 1)	22	(22)	-	-
New financial assets originated	2,438	25,593	-	28,031
Financial assets derecognised	(6,835)	(24,758)	-	(31,593)
Changes in model/risk parameters	(107)	(1,444)	-	(1,551)
At 31 March 2019	**3,039**	**25,593**	**-**	**28,632**

6.3 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:

2020	**Principal amount RM'000**	**Credit equivalent amount* RM'000**	**Risk-weighted amount* RM'000**
Direct credit substitutions	36,157	36,157	29,766
Transaction related contingent items	80,667	40,333	35,497
Short-term self-liquidating trade related contingencies	9,574	1,915	1,915
Foreign exchange related contracts			
- One year or less	2,004,631	48,357	20,557
- Over one year to five years	144,555	11,902	9,876
Interest related contracts			
- One year or less	3,630,854	165,621	92,151
- Over one year to five years	4,894,057	586,088	407,071
- Over five years	46,100	8,899	6,260
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	35,000	17,500	17,500
Any commitments that are unconditionally cancelled at any time without prior notice	2,917,890	-	-
Total	13,799,485	916,772	620,593
2019			
Direct credit substitutions	21,251	21,186	21,036
Transaction related contingent items	82,412	41,045	35,239
Short-term self-liquidating trade related contingencies	3,484	677	677
Foreign exchange related contracts			
- One year or less	2,174,333	24,776	11,652
- Over one year to five years	26,672	2,086	1,346
Interest related contracts			
- One year or less	1,298,903	94,826	43,283
- Over one year to five years	5,005,541	519,029	369,558
- Over five years	319,031	65,787	47,452
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	279,524	139,421	139,421
Any commitments that are unconditionally cancelled at any time without prior notice	2,447,009	-	-
Total	11,658,160	908,833	669,664

* 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.

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 enforcebility. 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**
2020				
Credit risk				
<u>On-balance sheet exposures:</u>				
Sovereigns/central banks	1,338,653	-	-	-
Banks, development financial Institutions and MDBs	4,083,445	-	1,937,590	-
Corporates	7,755,711	-	5,426,397	-
Other assets	24,511	-	-	-
Total on-balance sheet exposures	13,202,320	-	7,363,987	-
<u>Off-Balance Sheet Exposures:</u>				
Over-the-counter ("OTC") derivatives	820,867	-	139,016	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	95,905	-	-	-
Total off-balance sheet exposures	916,772	-	139,016	-
Total on and off balance sheet exposures	14,119,092	-	7,503,003	-

6.4 Credit risk mitigation ("CRM") (continued)

	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
2019				
Credit risk				
On-balance sheet exposures:				
Sovereigns/central banks	1,139,339	-	-	-
Banks, development financial Institutions and MDBs	3,414,139	-	1,836,495	-
Corporates	4,891,266	-	3,190,821	-
Other assets	19,094	-	-	-
Total on-balance sheet exposures	9,463,838	-	5,027,316	-
Off-Balance Sheet Exposures:				
Over-the-counter ("OTC") derivatives	706,504	-	50,946	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	202,329	-	-	-
Total off-balance sheet exposures	908,833	-	50,946	-
Total on and off balance sheet exposures	10,372,671	-	5,078,262	-

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.

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:

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
	← Exposures after Netting and Credit Risk Mitigation →					
2020						
0%	1,338,653	1,589	658,411	29	1,998,682	-
20%	-	1,618,047	-	-	1,618,047	323,609
50%	-	852,413	-	-	852,413	426,207
100%	-	-	2,122,465	24,482	2,146,947	2,146,947
	1,338,653	2,472,049	2,780,876	24,511	6,616,089	2,896,763
2019						
0%	1,139,339	6,366	296,139	441	1,442,285	-
20%	-	1,467,447	-	-	1,467,447	293,489
50%	-	427,713	-	-	427,713	213,857
100%	-	-	1,938,311	18,653	1,956,964	1,956,964
	1,139,339	1,901,526	2,234,450	19,094	5,294,409	2,464,310

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:

<u>On and off-balance sheet exposures</u>

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**
2020							
Sovereigns and central banks		1,338,653	-	-	-	-	-
Total		1,338,653	-	-	-	-	-
2019							
Sovereigns and central banks		1,139,339	-	-	-	-	-
Total		1,139,339	-	-	-	-	-

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**
2020							
Banks, MDBs and FDIs		1,619,636	852,413	-	-	-	-
Total		1,619,636	852,413	-	-	-	-
2019							
Banks, MDBs and FDIs		1,473,813	427,713	-	-	-	-
Total		1,473,813	427,713	-	-	-	-

6.5 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	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**
2020						
Corporates		658,411	-	-	-	2,122,465
Total		658,411	-	-	-	2,122,465
2019						
Corporates		296,139	-	-	-	1,938,311
Total		296,139	-	-	-	1,938,311

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 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.

<u>Interest/Profit Rate Risk</u>

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.

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.

7.0 Market risk (continued)

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

2020	**Long Position RM'000**	**Short Position RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirements at 8% RM'000**
Interest rate risk	8,532,490	8,508,314	103,238	8,259
Foreign currency risk	1,714	-	21,425	1,714
	8,534,204	8,508,314	124,663	9,973

2019	**Long Position RM'000**	**Short Position RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirements at 8% RM'000**
Interest rate risk	6,438,554	6,415,611	83,541	6,683
Foreign currency risk	1,476	-	18,445	1,476
	6,440,030	6,415,611	101,986	8,159

8.0 Interest rate risk in the banking book ("IRRBB")

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.

	2020		**2019**	
	- 100 bps RM'000	**+ 100 bps RM'000**	**- 100 bps RM'000**	**+ 100 bps RM'000**
Impact on net interest income				
Ringgit Malaysia	(6,378)	6,378	(8,657)	8,657
United States Dollar	228	(228)	(996)	996
Japanese Yen	(19)	19	70	(70)
Others	139	(139)	157	(157)
Total	(6,030)	6,030	(9,426)	9,426
Impact on economic value				
Ringgit Malaysia	(6,308)	6,308	(2,679)	2,679
United States Dollar	1,926	(1,926)	2,682	(2,682)
Japanese Yen	1,274	(1,274)	1,008	(1,008)
Others	252	(252)	358	(358)
Total	(2,856)	2,856	1,369	(1,369)

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.

- Domestic Market Liquidity Position: used to measure the liquidity position by Bank Negara Malaysia.

- Deposits Cash Outflow: used to measure the Bank's deposit outflow within 1 week and 1 month period.

- 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.

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.

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

PILLAR 3 DISCLOSURE
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

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 2020 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: 23 September 2020