

Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II) –
Disclosure Requirements (Pillar 3)

31 Dec 2014

CONTENTS

1. Introduction
2. Scope of Application
3. Capital
 - 3.1 Capital Management
 - 3.2 Capital Adequacy
 - 3.3 Capital Structure
4. Risk Management
 - 4.1 Risk Management Framework
5. Credit Risk
 - 5.1 Past Due and Impaired Loan
 - 5.2 Geographical Analysis
 - 5.3 Industry Analysis
 - 5.4 Maturity Analysis
 - 5.5 Impaired loans and impairment provision by economic sector
 - 5.6 Impaired loans and impairment provision by geographical area
 - 5.7 Reconciliation of changes on loan impairment provisions
6. Credit Rating
 - 6.1 Disclosures on credit risk : Disclosure on Risk Weights under Standardized Approach
 - 6.2 Rated Exposures according to Ratings by ECAs
7. Credit Risk Mitigation
 - 7.1 Disclosure on Credit Risk Mitigation
8. Off-Balance Sheet exposure and Counterparty Credit Risk (“CCR”)
9. Market Risk
10. Operational Risk

1. Introduction

Pursuant to Bank Negara Malaysia's ("BNM") Risk-Weighted Capital Adequacy Framework ("RWCAF"), banking institutions are to make available Pillar 3 disclosure for financial reporting beginning 1 January 2010.

RWCAF is based around three Pillars:

- Pillar 1 requires banking institutions to define rules for the computation of minimum capital requirement for credit risk, market risk and operational risk.
- Pillar 2 requires banking institutions to implement an Internal Capital Adequacy Assessment Process ("ICAAP") for other risks not covered by Pillar 1.
- Pillar 3 requires expanded disclosures to allow market participants to understand the risk profiles of the bank.

The Bank adopts The Standardised Approach ("SA") in computing the capital requirements for credit risk and market risk and adopts The Basic Indicator Approach ("BIA") for operational risk of the Pillar 1 under BNM's RWCAF.

Under SA, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk. The capital requirement for operational risk under BIA is computed based on average of a fixed percentage of positive annual income over the previous 3 years (equivalent to 12 quarters).

The Pillar 3 disclosure will be published in the Bank's website, www.boc.cn/malaysia.

2. Scope of Application

Bank of China (Malaysia) Berhad ("Bank") is a limited liability company, incorporated and domiciled in Malaysia. The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is Central Huijin Investment Ltd. (owned by Ministry of Finance, PRC), both incorporated in China. The principal activities of the Bank are commercial banking and related financial services. The Bank does not offer Islamic financial services nor involved in Islamic banking operations.

The Bank has a wholly owned subsidiary company which engaged in non-financial activities and the investment in subsidiary has been deducted from regulatory capital. As the subsidiary company's assets size is not significant in relation to the Bank's assets, there is no separate group consolidation for capital adequacy for regulatory capital reporting. For the purposes of this report, the disclosures presented within will be representative of the Bank entity disclosures only.

The disclosures have been reviewed by internal auditors and certified by Bank of China (Malaysia) Berhad's Chief Executive Officer.

3 Capital
3.1 Capital Management

The Bank’s capital management is guided by the Bank’s Capital Management Policy which sets out the minimum policies and procedures that the Bank needs to put in place and apply within its capital management programme, and the minimum criteria it should use to ensure that the Bank has adequate capital and effective plans to prudently manage the Bank’s capital requirement to support the development of business, to meet regulatory capital requirements at all times and to maintain good risk rating. Capital Contingency Plan has been put in place where actions to be taken have been specified to address the capital adequacy issue in case the capital ratio falls below warning trigger ratio and Internal Capital Target ratio.

The objective of the Bank’s capital management is to ensure that the Bank maintains sufficient capital at an appropriate level, meeting the requirement of all applicable regulatory standards and guidelines, risk compensation in line within the Bank’s risk appetite, business development and return on capital is sufficient to satisfy the expectations of shareholders. In addition, through effective allocation of capital, and capital investment instruments, the Bank strives to continuously enhance its financial effectiveness, improve capital value, and ultimately maximize shareholders’ value while controlling risk.

The Board of Director (BOD) shall assume the primary responsibility in ensuring capital is adequate to cover material risks inherent in the Bank by meeting all relevant regulatory standards and guidelines. Internal capital trigger point and minimum capital level is set for Total Capital ratio.

The Bank’s capital management framework mainly focuses on capital planning, capital contingent plan and capital funding management. Annual business targets, Risk Appetite Statement and three-year projected business plans with financial projections and capital requirements are approved by the BOD yearly.

Capital adequacy and regulatory capital are closely monitored by Management, employing techniques based on the guidelines of Basel II for supervisory purposes. The information is reported to Management on a monthly basis and to the Board via the interim financial statement on a quarterly basis.

3.2 Capital Adequacy Ratio

With effect from 1 January 2013, the total capital and capital adequacy ratios of the Bank is computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components and Basel II - Risk-weighted Assets) dated 28 November 2012. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under Bank Negara Malaysia's Capital Adequacy Framework (Capital Components), the minimum capital adequacy requirement for common equity Tier I capital ratio (CET 1) and Tier 1 capital ratio are 4% and 5.5% respectively for year 2014. The minimum regulatory capital adequacy requirement remain at 8.0% (2013 - 8.0%) for total capital ratio.

Total CET 1 and Total capital ratio are as follows:

	<u>Dec 2014</u>	<u>Dec 2013</u>
	RM'000	RM'000
<u>Before/After deducting proposed dividends</u>		
CET 1 capital ratio	21.517%	13.415%
Tier 1 capital ratio	21.517%	13.415%
Total capital ratio	22.043%	14.058%

Bank of China (Malaysia) Berhad

The breakdown of risk-weighted assets (“RWA”) by exposures in each major risk category are as follow:

<u>31 December 2014</u>	<u>Gross exposure</u> RM'000	<u>Net exposure</u> RM'000	<u>Risk-Weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
<u>Exposure class</u>				
(i) <u>Credit Risk</u>				
On-balance sheet exposure:				
Sovereigns & central banks	2,228,295	2,228,295	-	-
Banks, development financial institutions & MDBs*	2,424,462	2,424,462	484,892	38,791
Corporate	4,757,088	4,336,022	3,309,314	264,745
Regulatory Retail	105,090	103,437	77,578	6,206
Residential mortgages	219,609	211,771	78,833	6,307
Other assets	58,651	58,651	34,639	2,771
	<hr/>	<hr/>	<hr/>	<hr/>
Total on-balance sheet exposure	9,793,195	9,362,638	3,985,256	318,820
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,119,998	1,119,998	685,015	54,801
	<hr/>	<hr/>	<hr/>	<hr/>
Total credit risk	10,913,193	10,482,636	4,670,271	373,621
	<hr/> <hr/>	<hr/> <hr/>		
<u>Net long position</u>				
(ii) <u>Market Risk</u>				
Foreign currency risk	9,599		9,599	768
	<hr/>			
(iii) <u>Operational Risk</u>				
			260,424	20,834
			<hr/>	<hr/>
Total risk weighted assets and capital requirement			4,940,294	395,223
			<hr/> <hr/>	<hr/> <hr/>

* Multilateral Development Banks (“MDBs”)

Bank of China (Malaysia) Berhad

The breakdown of risk-weighted assets (“RWA”) by exposures in each major risk category are as follow:

Risk-	Gross exposure	Net exposure	Weighted _assets	Capital requirements
<u>31 December 2013</u>	RM'000	RM'000	RM'000	RM'000
<u>Exposure class</u>				
(i) <u>Credit Risk</u>				
On-balance sheet exposure:				
Sovereigns & central banks	1,273,769	1,273,769	-	-
Banks, development financial institutions & MDBs*	4,850,210	4,850,209	970,042	77,603
Corporate	2,634,961	2,259,780	1,945,803	155,664
Regulatory Retail	97,332	96,672	72,504	5,800
Residential mortgages	91,616	90,152	33,720	2,698
Other assets	41,275	41,275	26,813	2,145
	<hr/>	<hr/>	<hr/>	<hr/>
Total on-balance sheet exposure	8,989,163	8,611,857	3,048,882	243,910
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	886,886	886,886	507,066	40,565
	<hr/>	<hr/>	<hr/>	<hr/>
Total credit risk	9,876,049	9,498,743	3,555,948	284,475
	<hr/> <hr/>	<hr/> <hr/>		
<u>Net long position</u>				
(ii) <u>Market Risk</u>				
Foreign currency risk	17,576		17,576	1,406
	<hr/>			
(iii) <u>Operational Risk</u>				
			172,464	13,797
			<hr/>	<hr/>
Total risk weighted assets and capital requirement			3,745,988	299,678
			<hr/> <hr/>	<hr/> <hr/>

* Multilateral Development Banks (“MDBs”)

3.3 Capital Structure

The Bank's regulatory capital is divided into CET 1 and Tier 2 capital.

CET 1 capital consists of share capital, capital reserves, reserves created by appropriations of retained earnings and retained earnings.

Tier 2 capital consists of general allowances, revaluation reserves and others.

Goodwill, investment in subsidiaries, investments in entities engaged in banking and financial services which are not consolidated in the financial statement, investment properties and investments in commercial corporations are deducted from core and Tier 2 capital to arrive at the regulatory capital.

Components of CET 1 and Tier 2 capital:

	<u>2014</u> RM'000	<u>2013</u> RM'000
<u>CET 1 capital</u>		
Paid-up ordinary share capital	760,519	304,000
Retained profits	134,517	82,475
Other reserves	171,605	119,561
	<u>1,066,641</u>	<u>506,036</u>
Less: Regulatory adjustments applied in the calculation of CET 1 capital		
-Deferred tax assets	(3,627)	(3,503)
	<u>1,063,014</u>	<u>502,533</u>
Total CET 1 capital	<u>1,063,014</u>	<u>502,533</u>
Total Tier 1 capital	<u>1,063,014</u>	<u>502,533</u>
<u>Tier-2 capital</u>		
Collective impairment allowance	26,962	25,066
	<u>26,962</u>	<u>25,066</u>
Total tier-2 capital	26,962	25,066
Less: Regulatory adjustments applied in the calculation of Tier 2 capital		
-Investment in subsidiary	(1,000)	(1,000)
	<u>1,088,976</u>	<u>526,599</u>
Total capital base	<u>1,088,976</u>	<u>526,599</u>
<u>Capital ratios</u>		
CET 1 capital ratio	21.517%	13.415%
Tier 1 capital ratio	21.517%	13.415%
Total capital ratio	22.043%	14.058%

4. Risk Management
4.1 Risk Management Framework

Risk Governance

The risk governance of the Group and the Bank are as follows:

Establish Risk Appetite, risk Tolerance and Policy & Framework	Board of Directors (“BOD”)
	Board Risk Committee (“BRC”)
Ensure Implementation of Risk Policy and Compliance with The Risk Tolerance and Others	Risk Management and Internal Control Committee (“RMICC”)
	Senior Management
	Risk Management Department (“RMD”)
	Internal Audit Department
Implement and Comply with Risk Policy and Monitoring of Risk Tolerance	All the Departments and Branches

The BOD is ultimately responsible for the oversight and management of risks of the Group and the Bank.

RMICC assists the BRC and BOD in risk management oversight, responsible for assessing the development of risk policies, reviewing risk policies and exposure, aligning risk management with business strategies and planning, ensuring that infrastructure, resources and systems are put in place for effective risk management activities.

The Internal Audit Department is responsible in providing an independent review on Risk Management Framework and to assess the soundness and adequacy of internal controls of the Bank.

The independent Risk Management Department provides crucial support to the RMICC and BRC for implementing the risk policies and overseeing the compliance. They are also responsible for the identification, measurement, monitoring and reporting of risk.

The Business Units are the first line of defense against risk that responsible for identifying, mitigating and managing risk within their line of business to ensure the day-to-day business activities are carried out within the established risk policies, tolerance and procedures.

Risk Management Approach

Pillar 2 requires the banking institutions to assess their internal capital requirements in relation to their risk profile of their business through the Internal Capital Adequacy Assessment Process (“ICAAP”) beyond the capital requirements for credit, operational and market risks under Pillar 1 in a more forward-looking approach.

The Bank's ICAAP is guided by the ICAAP Policy detailing the responsibilities, approaches, methodologies for identifying and measuring risks, stress testing, reporting and review process, capital planning including a 3 year-plans, independent review, and etc. The Bank has undertaken a self-assessment to evaluate the existing capital and risk

management practices against the expectations set forth by BNM, as well as actions to close the gaps.

The internal adequacy assessment is stressed-tested based on specific stress scenarios, mainly using quantitative analysis, covering main risks across the business lines and taking full consideration to the impact of macroeconomics changes to assess the impact on Bank's capital adequacy. The stress test results will be submitted semi-annually to BNM.

The Bank has identified the key risks and put in place measurements and control to mitigate those risks; and throughout the Bank's risk assessment process, stress testing and scenario testing are employed to ensure that the capital is adequate to cover the risk which are not fully captured under Pillar 1, such as liquidity risk, interest rate risk in banking book and concentration risks. Such information allows senior management to identify adverse trend, take preventive and corrective measures and formulate business strategies.

5 Credit Risk

Credit risk is the risk of financial loss that results from borrowers or counterparty failing to meet their obligations. Credit risk arises primarily from lending activities and represents the major risk of the Bank.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or group of borrowers and industry segments. Such risks are monitored on a regular basis and are subject to annual or more frequent review. Limits on the single customer, by group of customers, by industry sectors and other procedures set by the relevant authorities and holding company were adopted by the Bank for monitoring of the credit risks.

Monitor and Mitigation of Material Risks

- Prudent customer selection is achieved in collaboration with our business line counterparts who stand as a first line of defense. It is noticeable that the Bank has adequate management of its credit risk by increasing its portfolio more in better risk rating category and most loans are rated "B" or better. Any exceptions are adequately mitigated through credit risk mitigants such as collaterals or guarantees;
- The Bank applies the 3-in-One concept of approval process where credit exposures are independently assessed by Due Diligent Officer and deliberated by the Credit Evaluation Panel ("CEP"), and then only submitted to the CEO for final decision. Experienced and competent key personnel are appointed to the CEP to assist the CEO in assessing the credit application and major credit decisions, to provide recommendation to the CEO for final decision. The CEO has the discretion to reject or modify terms and conditions of the loans passed by CEP. The Board Risk Committee or the Board of Director has the veto power to reject credit or modify the

terms and conditions which have been approved by the delegated approving authorities.

- The Bank continued to analyze its credit exposure portfolio and report to Management on a monthly basis through RMICC and to the Board Risk Committee on a quarterly basis.

5.1 Past Due and Impaired Loan

The loans/financing of the Bank is considered past due when the repayment amount due and unsettled on the due date. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due does not necessarily mean that a loan is impaired. Individual loan of more than 90 days past due is classified as impaired and any other events occurred as per the policies.

The classification of impaired loans/financing and provision of the Bank for loans/financing impairment is consistent with the standard under Malaysian Financial Reporting Standards (“MFRS”) 139 –Financial Instruments Recognition and Measurement issued by Malaysian Accounting Standards Board (“MASB”) and guidelines by BNM on “Classification and Impairment Provisions for Loans/Financing”.

The loans/financing (“loan(s)”) of the Bank are classified as impaired when they meet the following criteria:

- Principal or interest or both are past-due for more than 90 days or three (3) months or more;
- In the case of revolving facility, the outstanding amount has been in excess of the approved limit for more than 90 days;
- The customer is made a bankrupt / wound-up;
- The credit grading of the customer is downgraded to “D”;
- Any sign of weaknesses that would render the account as impaired. For example: Default of a related obligor/borrower, borrower is classified under “Watchlist”, significant deterioration of financial performance of both borrower and guarantor that may adversely affect their cashflow and repayment capabilities, default with other banks, loss of key sponsor, legal suits pending against the obligor/borrower that has adverse impact to the obligor/ borrower, adverse auditor’s qualification, improper use of credit facilities, negative published information against the obligor/borrower.

For impaired loans, the Bank shall conduct individual impairment assessment and to set aside the individual impairment provisions if the estimated recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the net book value of the loan.

For all non-impaired loans and individually assessed impaired loans but there is no impairment provision exists, the loans are grouped according to their credit risk characteristics for the purpose of calculating an estimated collective loss. The Bank have applied the Collective Impairment Provision in line with the Standard under MFRS139 and has been independently verified by external auditor.

5.2 Geographical Analysis

Geographic distribution of credit exposures, broken down in geographical location where the credit risk resides by major types of gross credit exposures

31 December 2014

Credit exposure	Geography			
	Malaysia	China	Other	Total
Asset Class	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	2,228,294	-	-	2,228,294
Banks, development financial institutions & MDBs	296,795	1,864,412	391,112	2,552,319
Corporates	3,257,527	1,860,752	137,852	5,256,131
Regulatory retails	110,341	1,747	2,110	114,198
Residential mortgages	78,965	158,769	35,309	273,043
Other assets	58,651	-	-	58,651
Total	6,030,573	3,885,680	566,383	10,482,636

31 December 2013

Credit exposure	Geography			
	Malaysia	China	Other	Total
Asset Class	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,273,769	-	-	1,273,769
Banks, development financial institutions & MDBs	45,754	4,875,433	497,355	5,418,542
Corporates	2,081,066	381,270	85,593	2,547,929
Regulatory retails	108,340	82	634	109,056
Residential mortgages	58,746	30,273	19,153	108,172
Other assets	41,275	-	-	41,275
Total	3,608,950	5,287,058	602,735	9,498,743

5.3 Industry Analysis

Distribution of exposures by sector, broken down by major types of gross credit exposures

31 December 2014

Credit exposure	Category						Total
	Sovereigns & central banks	Banks, development financial institutions & MDBs	Corporates	Regulatory Retails	Residential mortgages	Other assets	
Sector	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	228,979	2,847	-	-	231,826
Mining & Quarrying	-	-	66,672	-	-	-	66,672
Manufacturing	-	-	1,654,334	3,028	-	-	1,657,363
Electricity, gas & water supply	-	-	32,644	-	-	-	32,644
Construction	-	-	601,752	520	-	-	602,272
Real Estate	-	-	997,109	6,608	-	-	1,003,717
Wholesale & retail trade & restaurants & hotels	-	-	931,653	5,104	-	-	936,757
Transport, storage & communication	-	-	231,448	1,634	-	-	233,082
Finance, insurance & business services	-	2,552,319	225,891	1,288	-	58,651	2,838,148
Household	-	-	230,543	93,168	273,043	-	596,753
Government & government agencies	2,228,294	-	-	-	-	-	2,228,294
Education, health & others	-	-	5,906	-	-	-	5,906
Others	-	-	49,200	-	-	-	49,201
Total	2,228,294	2,552,319	5,256,131	114,198	273,043	58,651	10,482,636

Bank of China (Malaysia) Berhad

Distribution of exposures by sector, broken down by major types of gross credit exposures (continued)

31 December 2013

Credit exposure	Category						Total
	Sovereigns & central banks	Banks, development financial institutions & MDBs	Corporates	Regulatory Retails	Residential mortgages	Other assets	
Sector	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	150,863	2,131	-	-	152,994
Mining & Quarrying	-	-	35,913	60	-	-	35,973
Manufacturing	-	53,418	914,726	3,423	-	-	971,567
Electricity, gas & water supply	-	1,000	30,886	-	-	-	31,886
Construction	-	137,583	248,710	1,132	-	-	387,425
Real Estate	-	-	432,165	8,327	-	-	440,492
Wholesale & retail trade & restaurants & hotels	-	-	173,099	4,428	-	-	177,527
Transport, storage & communication	-	294,046	143,840	2,154	-	-	440,040
Finance, insurance & business services	-	4,854,473	116,136	733	-	41,275	5,012,617
Household	-	-	183,463	86,655	108,172	-	378,290
Government & government agencies	1,273,769	-	-	-	-	-	1,273,769
Education, health & others	-	-	5,065	9	-	-	5,074
Others	-	78,022	113,063	4	-	-	191,089
Total	1,273,769	5,418,542	2,547,929	109,056	108,172	41,275	9,498,743

5.4 Maturity Analysis

Residual contractual maturity breakdown by major types of gross credit exposures

31 December 2014

Credit exposure	Maturity			Total
	Up to one year	1-5 year	>5years	
Category	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	2,228,294	-	-	2,228,294
Banks, development financial institutions & MDBs	2,499,054	49,974	3,291	2,552,319
Corporates	3,434,248	515,128	1,306,755	5,256,131
Regulatory retails	23,047	123	91,029	114,198
Residential mortgages	-	835	272,207	273,043
Other assets	37,283	21,368	-	58,651
Total	8,221,926	587,429	1,673,281	10,482,636

31 December 2013

Credit exposure	Maturity			Total
	Up to one year	1-5 year	>5years	
Category	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,273,768	-	-	1,273,768
Banks, development financial institutions & MDBs	4,963,800	405,158	49,585	5,418,543
Corporates	1,356,391	313,646	877,892	2,547,929
Regulatory retails	22,785	248	86,023	109,056
Residential mortgages	8,681	276	99,215	108,172
Other assets	27,524	13,751	-	41,275
Total	7,652,949	733,079	1,112,715	9,498,743

5.5 Impaired loans and impairment provision by economic sector

(a) Impaired loans by sector:

	2014 RM'000	2013 RM'000
Household	3,016	133
Manufacturing	10,536	12,208
Real Estate	3,413	-
	16,965	12,341
	16,965	12,341

(b) Past due loans by sector:

	<u>Bank</u>	
	2014	2013
	RM'000	RM'000
Primary agriculture	69,572	4,614
Manufacturing	18,502	-
Construction	-	1,778
Real estate	6,596	3,950
Wholesale and retail trade and restaurants and hotels	4,238	-
Transport, storage and communication	3,064	3,030
Finance, insurance and business services	2,564	1,718
Household	50,973	13,847
Others	-	-
	155,509	28,937

(c) Individual impairment provisions by sector:

	2014 RM'000	2013 RM'000
Household	11	11
Manufacturing	888	888
	<u>899</u>	<u>899</u>

(d) Collective impairment provisions by sector:

	2014 RM'000	2013 RM'000
Primary agriculture	1,182	1,403
Mining & Quarrying	286	281
Manufacturing	8,101	9,587
Electricity, Gas & Water Supply	178	0
Construction	1,884	2,780
Real estate	5,452	5,717
Wholesale and retail trade and restaurants and hotels	4,992	1,638
Transport, storage and communication	554	980
Finance, insurance and business services	1,330	1,195
Household	1,960	359
Education, health & others	28	43
Others	1,015	1,083
	<u>26,962</u>	<u>25,066</u>

5.6 Impaired loans and impairment provision by geographical area

All impaired loans, past due loans and impairment provision were from customers residing in Malaysia.

5.7 Reconciliation of changes to loan impairment provisions

	<u>2014</u> RM'000	<u>2013</u> RM'000
<u>Impaired loans and advances</u>		
At beginning of the financial year	12,341	14,072
Classified as impaired during the year	8,058	59
Amount recovered	(1,743)	(1,790)
Amount written-off	-	-
Amount reclassified as Performing	(1,691)	-
	<hr/>	<hr/>
At end of the financial year	16,965	12,341
Individual impairment allowance	(899)	(899)
	<hr/>	<hr/>
Net impaired loans and advances	<u>16,066</u>	<u>11,442</u>
	 <u>2014</u> RM'000	 <u>2013</u> RM'000
<u>Individual impairment allowance</u>		
At the beginning of the financial year	899	11
Allowance made during the financial year	-	888
	<hr/>	<hr/>
At end of the financial year	<u>899</u>	<u>899</u>
	 <u>2014</u> RM'000	 <u>2013</u> RM'000
<u>Collective impairment allowance</u>		
As beginning of the financial year	25,066	20,809
Allowance made during the financial year	1,896	4,257
Write back during the financial year	-	-
	<hr/>	<hr/>
At the end of the financial year	<u>26,962</u>	<u>25,066</u>

6. Credit Rating

The Bank credit rating on gross loans and advances are identified based on the following internal credit grading system:

- “AAA – A” refers to customers have a good credit status, low probability of default within the next year, strong repayment capability and limited credit risks.
- “BBB – B” refers to customers have a good credit status, relatively low probability of default within the next year, guaranteed repayment capability and uncertainties in their risk.
- “CCC – C” refers to customers have a poor credit status, high probability of defaults within the next year, poor operating condition and financial status and significant credit risks.
- “D” refers to customers have defaulted by the time of rating. Customers that have defaulted are directly rated D.

Under the standardized comprehensive approach, the bank make use of credit rating assigned by External Credit Assessment Institutions (“ECAIs”) that are recognized by BNM in its calculation of credit risk weighted assets for capital adequacy purposes.

Disclosures on Rated Exposures according to Ratings by ECAIs.

Note: Definition of Default

Default is recognized in any of the following circumstances:

- The customers’ credit assets at the Bank are classified as doubtful or loss by the time of rating.
- The customers’ credit principal at the Bank is overdue for over 90 days (inclusive) by the time of rating.
- The customers’ interest at the Bank is overdue for over 90 days (inclusive) by the time of rating.

6.1 Disclosure on Credit Risk: Disclosure on Risk Weights under Standardised Approach

31 December 2014

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDI's RM'000	Corporate RM'000	Regulatory Retails RM'000	Residential Mortgages RM'000	Other Assets RM'000		
0%	2,228,295	-	26,006	-	-	24,012	2,278,313	-
20%	-	2,499,053	1,357,189	-	-	-	3,856,242	771,248
35%	-	-	-	-	251,660	-	251,660	88,081
50%	-	53,265	447,397	-	18,366	-	519,028	259,514
75%	-	-	-	114,198	-	-	114,198	85,649
100%	-	-	3,420,370	-	3,017	34,639	3,458,026	3,458,026
150%	-	-	5,169	-	-	-	5,169	7,754
Average Risk Weights							10,482,636	4,670,271
Deduction from Capital Base	-	-	-	-	-	-	-	

6.1 Disclosure on Credit Risk: Disclosure on Risk Weights under Standardised Approach (continued)

31 December 2013

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Exposures after Netting and Credit Risk Mitigation RM'000	Total exposures after Netting & Credit Risk Mitigation RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Regulatory Retails RM'000	Residential Mortgages RM'000	Other Assets RM'000		
0%	1,273,769	-	14,376	-	-	14,462	1,302,607	-
20%	-	5,075,431	374,933	-	-	-	5,450,364	1,090,073
35%	-	-	-	-	93,957	-	93,957	32,885
50%	-	343,111	29,431	-	14,141	-	386,683	193,342
75%	-	-	-	109,056	-	-	109,056	81,792
100%	-	-	2,125,628	-	74	26,813	2,152,515	2,152,515
150%	-	-	3,561	-	-	-	3,561	5,341
Average Risk Weights							9,498,743	3,555,948
Deduction from Capital Base	-	-	-	-	-	-	-	

6.2 Rated Exposures according to Ratings by ECAIs

31 December 2014

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off Balance Sheet Exposures</u>							
Sovereigns/Central Banks	-	-	2,228,294	-	-	-	-
Total	-	-	2,228,294	-	-	-	-

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	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	A to A3	BBB+ to BBB-	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off Balance Sheet Exposures</u>							
Banks, MDBs and FDIs	-	5,409	2,503,331	-	-	-	43,578
Total	-	5,409	2,503,331	-	-	-	43,578

6.2 Rated Exposures according to Ratings by ECAIs (continued)

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	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	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off Balance Sheet Exposures</u>						
<u>Credit Exposure (using Corporate Risk Weights)</u>						
Corporate	-	-	1,768,411	29,125	-	3,458,595
Total	-	-	1,768,411	29,125	-	3,458,595

31 December 2013

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	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	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off Balance Sheet Exposures</u>						
<u>Credit Exposure (using Corporate Risk Weights)</u>						
Corporate	-	56,157	69,017	61,869	8,076	2,352,810
Total	-	56,157	69,017	61,869	8,076	2,352,810

6.2 Rated Exposures according to Ratings by ECAIs (continued)

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caal 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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off Balance Sheet Exposures</u>							
Sovereigns/Central Banks	-	-	1,273,768	-	-	-	-
Total	-	-	1,273,768	-	-	-	-

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caal 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	A to A3	BBB+ to BBB-	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off Balance Sheet Exposures</u>							
Banks, MDBs and FDIs	-	1,455	5,371,428	607	-	-	45,052
Total	-	1,455	5,371,428	607	-	-	45,052

7. Credit Risk Mitigation

The Bank is granting the credit facilities based on the credit standing of the customer, source of repayment, debt servicing ability and collateral(s)/ guarantees/ etc as the credit risk mitigant(s) (CRM). The credit facilities may be granted unsecured premised on the merit of the customer’s standing.

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

No	Types of Collaterals
1	Fixed Deposits, Cash Margin
2	Residential Property
3	Non-Residential Property (e.g. shop, factory, warehouse, land, complex, etc.)
4	Quoted Shares

The Bank also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk subject to internal guidelines on eligibility.

Valuation report of the property by the panel valuer is required by the Bank to ensure the value is fair unless is exempted by the Bank. Generally, the value of the property charged is updated during the periodic credit review to reflect the current market value.

For the computation of capital adequacy requirements for collateralized transactions, the Bank has since in August 2013 applied **comprehensive approach**, which allows greater offset of CRMI against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. This is guided by the minimum conditions for the eligible collaterals set out in the “Risk-Weighted Capital Adequacy Framework (Basel II – Risk-Weighted Assets Computation) issued by BNM.

7.1 Disclosure on Credit Risk Mitigation

31 December 2014

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
<i>Credit Risk</i>				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	2,228,295	-	-	-
Banks, Development Financial Institutions & MDBs	2,424,462	-	-	-
Corporates	4,757,088	1,309,719	447,072	-
Regulatory Retail	105,090	-	1,653	-
Residential Mortgages	219,609	-	7,839	-
Other Assets	58,651	-	-	-
Defaulted Exposures	-	-	-	-
Total for On-Balance Sheet exposures	9,793,195	1,309,719	456,564	-
<i>Off-Balance sheet exposures</i>				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,119,998	-	-	-
Total for Off-Balance sheet exposures	1,119,998	-	-	-
Total On and Off Balance sheet exposure	10,913,193	1,309,719	456,564	-

7.1 Disclosure on Credit Risk Mitigation (continued)

31 December 2013

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
<i>Credit Risk</i>				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	1,273,769	-	-	-
Banks, Development Financial Institutions & MDBs	4,850,210	-	-	-
Corporates	2,634,961	384,429	374,343	-
Regulatory Retail	97,332	-	661	-
Residential Mortgages	91,616	-	1,464	-
Other Assets	41,275	-	-	-
Defaulted Exposures	-	-	-	-
Total for On-Balance Sheet exposures	8,989,163	384,429	376,468	-
<i>Off-Balance sheet exposures</i>				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	886,886	-	-	-
Total for Off-Balance sheet exposures	886,886	-	-	-
Total On and Off Balance sheet exposure	9,876,049	384,429	376,468	-

8. Off-Balance Sheet Exposure and Counterparty Credit Risk (CCR)

Off-Balance Sheet Exposure

Off-Balance Sheet exposures of the Bank are mainly composed of the following:

- Bank Guarantee and Standby Letter of Credit, which represent undertakings that the Bank will make payment in the event that a customer cannot meet its obligations to third parties.
- Documentary Letter of Credit, which are undertaking that the Bank on behalf of the customer for payment of goods purchased.
- Commitments to extend credit including the unutilized or undrawn portion of credit facilities.

Off-Balance Sheet and Counterparty Credit Risk – 31 December 2014

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	73,805	73,805	57,461
Transaction related contingent items	1,234,096	617,048	275,927
Short Term Self Liquidating trade related contingencies	22,360	4,472	4,461
Foreign exchange related contracts - One year or less	1,269,346	12,059	2,412
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,187,031	237,406	221,526
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	350,416	175,208	123,229
Others	-	-	-
Total	4,137,054	1,119,998	685,015

Off-Balance Sheet and Counterparty Credit Risk – 31 December 2013

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	71,170	71,170	55,410
Transaction related contingent items	1,107,380	553,690	212,149
Short Term Self Liquidating trade related contingencies	4,289	858	858
Foreign exchange related contracts - One year or less	327,624	2,179	436
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	926,666	185,333	172,243
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	147,312	73,656	65,970
Others	17,072	-	-
Total	2,601,513	886,886	507,066

Counterparty Credit Risk (CRR)

The CRR arising from the inter-bank transactions, is managed via the establishment of the counterparty limits for each counterparty and is monitored on a daily basis.

9. Market Risk

Market risk is the risk of loss arises from adverse movements in the level and volatility of market factors such as interest rates, foreign exchange rates which will have an effect on the balance sheet structure in terms of liquidity and funding.

BOCM does not operate a Trading Book and thus the risk is mitigated. Market risk in the banking book mainly comprises interest rate risk and exchange risk, with the interest risk being dominant. Interest rate risk arises mainly from mismatches in the maturities, re-pricing periods or benchmark interest rates of assets and liabilities. BOCM manages the interest rate risk of the banking book primarily through interest rate re-pricing gap analysis. The data generated by gap analysis is used to perform sensitivity analysis,

scenario analysis and stress testing, assist decision making regarding the re-pricing structure adjustment of the interest-earning assets and interest-bearing liabilities. RMICC is responsible for the review and approval of the market risk policy, as well as market risk limits set-up and review, which are approved by the BRC and the Board. While Asset and Liabilities Management Committee (ALCO) is responsible for management of balance sheet risk particularly liquidity risk, market risk and capital management.

Foreign exchange rates risk refer to the adverse impact arising from movement in exchange rates on foreign currency positions originating from treasury money market activities, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in the Bank businesses are transacted in are United States Dollars and Renminbi. The Bank closely followed domestic and foreign currency interest rate trends and promptly adjusted interest rates of its local and foreign currency deposits and loans in accordance with the change of benchmark interest rates and market interest rates.

Bank has adopted the Standardised Approach. Market risk-weighted assets are marked to market and are risk weighted according to the instrument category, maturity period, credit quality grade, and other factors. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates and foreign exchange rates on its financial position and cash flow.

RMICC and ALCO of the Bank monitor the interest rate risk and currency risk on a regular basis.

Treasury Department manages and controls day-to-day trading of foreign currencies and Bank liquidity portfolio in line with the Bank policy.

Risk weighted assets and capital requirement for market risk

Capital Charge Requirement for :	31 Dec 2014	31 Dec 2013
	Standardised Approach	Standardised Approach
	RM'000	RM'000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	768	1,406
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	9,599	17,576

The Bank's interest rate risk is monitored on a daily basis and behavioral assumptions for indeterminate deposits as well as prepayment assumptions for significant loan portfolios have been implemented. The impact on net interest income of the banking book is simulated under various interest rate assumptions. By using the repricing gap method, an increase or decrease by 25 basis point, the impact of increase/decrease on the Bank's post-tax profit for the year and on profit/loss is estimated at RM4.2 million (2013: RM3.2 million).

By using the repricing gap method, an increase or decrease by 100 basis point, the impact in earnings and economic value as stated below:

Impact	2014	2013
	RM'000	RM'000
Earnings	+/- 16,812	+/- 12,839
Economic Value	+/- 8,646	+/- 4,180

The Bank’s foreign exchange risk is managed by matching the quantum and timing of cash flow of the foreign exchange lending with foreign exchange borrowing. The financial impact of increase/decrease by 100 basis points for each foreign currency exposure would result profit/loss of RM37,000 (2013 : RM260,000) to the Bank.

10. Operational Risk

Operational risk can be defined as the risk of monetary loss resulting from inadequate or failed internal processes, people, and system or from external events. RMICC of the Bank is responsible for the development of a control framework, the promotion of a strong risk management culture in the Bank, and the monitoring and administration of operational risk. The computation of Operational Risk is in line with BNM’s guidelines and formula under the Basic Indicator Approach (“BIA”).

The Bank continue to strengthen the overall coordinating of its internal control and operational risk efforts, enhanced the foundation, optimised the measures, and upgraded technological support. The operational efficiency and results of the three internal control defence lines were thus continuously enhanced.

Branches, business departments and staff at various levels of the Bank are the first line of defence, responsible for internal control when promoting business development. The Risk Management Department (RMD), together with the management team, is the second line of defence. RMD is responsible for the overall planning for planning of policies, examining, monitoring and assessing the performance of the first line of defence. The Internal Audit Department is the third line of defence. The department mainly focused on business lines auditing and carried out inspections of systematic and material risks at all levels if business units and branches.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management and disaster recovery plan. Our internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports results independently to the Audit Committee of the Bank

Risk awareness is a key component for identifying, assessing, monitoring and mitigating operational risks. The Bank is encouraging an “operational risk awareness culture” among all the staffs. Through the regular workshops, most of the departments have created the operational risk management environment in which not only the risk coordinators, but also the head of department and other employees are actively involved.