Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II) –
Disclosure Requirements (Pillar 3)
30 June 2017

CONTENTS

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 (Hong Kong) Limited, incorporated in Hong Kong whereas the ultimate holding company is Central Huijin Investment Ltd. (owned by Ministry of Finance, PRC), 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.

*Notes: * Pursuant to a Share Sale and Purchase Agreement date 30 June 2016 entered into between Bank of China Limited ("BOCL") and Bank of China (Hong Kong) Limited ("BOCHK"), BOCL agreed to sell, and BOCHK agreed to Purchase, 760,518,480 fully paid ordinary share of RM1.00 each in the Bank comprising of the entire issued and paid up share capital of the Bank at the total consideration of RM2,025,000,000.00. The Sale and Purchase exercise was completed on 17 October 2016.*

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 effectives, 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 2016, the total capital and capital adequacy ratios of the Bank is computed in accordance with Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components) Policy dated 13 October 2015. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk.

Pursuant to Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components), the Bank is required to hold and maintain the minimum capital adequacy ratios and capital buffers above the minimum Common Equity Tier 1 (CET1) Capital, Tier 1 Capital and Total Capital Ratio.

The capital buffers shall comprises sum of the following:

a) Capital Conservation Buffer (CCB) of 2.5% phased-in from 2016 to 2019
   [2016: +0.625%, 2017: +1.25%; 2018: +1.875%; 2019: +2.5%]
b) Countercyclical Capital Buffer (CCyB), determined as the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the bank has credit exposures. (intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.) (Maximum is 2.50%)

The minimum capital adequacy requirement for year 2017:

CET 1 Ratio (including CCB and CCyB)	5.75% (5.125% in year 2016)
Tier 1 Capital Ratio (including CCB and CCyB)	7.25% (6.625% in year 2016)
Total Capital Ratio (including CCB and CCyB)	9.25% (8.625% in year 2016)

Total CET 1 and Total capital ratio are as follows:

	Jun 2017 RM'000	Dec 2016 RM'000
Before/After deducting proposed dividends		
CET 1 capital ratio	19.922%	20.111%
Tier 1 capital ratio	19.922%	20.111%
Total capital ratio	20.874%	21.100%

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

30 Jun 2017	Gross exposure RM'000	Net exposure RM'000	Risk-Weighted assets RM'000	Capital requirements RM'000
Exposure class				
(i) Credit Risk				
On-balance sheet exposure:				
Sovereigns & central banks	4,110,553	4,110,553	-	-
Banks, development financial institutions & MDBs*	2,191,008	2,191,008	438,202	35,056
Corporate	4,626,222	3,989,747	3,897,613	311,809
Regulatory Retail	106,979	105,656	81,394	6,512
Residential mortgages	290,612	289,639	110,107	8,809
Other assets	81,346	81,346	59,754	4,780
Total on-balance sheet exposure	11,406,720	10,767,949	4,587,070	366,966
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,505,798	1,460,198	1,253,938	100,315
Total credit risk	12,912,518	12,228,147	5,841,008	467,281
Net long position				
(ii) Market Risk				
Foreign currency risk	10,367		10,367	829
(iii) Operational Risk			428,171	34,254
Total risk weighted assets and capital requirement			6,279,546	502,364

* Multilateral Development Banks ("MDBs")

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

31 Dec 2016	Gross exposure RM'000	Net exposure RM'000	Risk-Weighted assets RM'000	Capital requirements RM'000
Exposure class				
(i) Credit Risk				
On-balance sheet exposure:				
Sovereigns & central banks	2,847,459	2,847,459	-	-
Banks, development financial institutions & MDBs*	1,164,182	1,164,182	240,781	19,262
Corporate	4,769,624	4,152,871	4,152,554	332,204
Regulatory Retail	110,702	108,546	83,320	6,666
Residential mortgages	283,833	282,886	103,672	8,293
Other assets	90,079	90,079	67,639	5,411
Total on-balance sheet exposure	9,265,879	8,646,023	4,647,966	371,836
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,336,612	1,269,362	1,156,082	92,487
Total credit risk	10,602,491	9,915,385	5,804,048	464,323
Net long position				
(ii) Market Risk				
Foreign currency risk	12,611		12,611	1,009
(iii) Operational Risk			406,461	32,517
Total risk weighted assets and capital requirement			6,223,120	497,849

* 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:

	Jun 2017 RM'000	Dec 2016 RM'000
CET 1 capital		
Paid-up ordinary share capital	760,518	760,518
Retained profits	215,751	215,751
Other reserves	279,786	279,786
Regulatory reserves	26,948	26,948
	1,283,003	1,283,003
Less: Regulatory adjustments applied in the calculation of CET 1 capital		
-Deferred tax assets	(5,062)	(4,553)
-Regulatory reserve attributable to loans and advances	(26,948)	(26,948)
Total CET 1 capital	1,250,993	1,251,502
Total Tier 1 capital	1,250,993	1,251,502
Tier-2 capital		
Collective impairment allowance	47,280	35,657
Regulatory reserves	13,491	26,948
Less: Investment in subsidiary	(1,000)	(1,000)
Total tier-2 capital	59,771	61,605
Total capital base	1,310,764	1,313,107
Capital ratios		
CET 1 capital ratio	19.922%	20.111%
Tier 1 capital ratio	19.922%	20.111%
Total capital ratio	20.874%	21.100%

4. Risk Management

4.1 Risk Management Framework

Risk Governance

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

Establish and Approve Risk Appetite, Risk Tolerance and Policy, Framework & Governance	Board of Directors (“BOD”)
	Board Risk Management Committee (“BRMC”)
Ensure Implementation of Risk Policy and Compliance with The Risk Tolerance	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 BRMC and BOD in risk management oversight, responsible for the development and reviewing of risk policies and portfolio 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 BRMC 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 appetite, policies, tolerance, guidelines 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 and methodologies for identifying and measuring risks, stress testing, reporting and review process, capital planning for 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 stress-tested based on specific stress scenarios, mainly using quantitative analysis, covering main risks across the business lines and taking full consideration of the impact of macroeconomics changes to assess the impact on Bank's capital adequacy. The stress test result is to 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 borrower or counterparty failing to perform its contractual 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 single borrower, group of borrower, industry sectors and other requirement set by the authorities and Parent Bank are 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 unit who stand as the first line of defense. The Bank has adequate management of credit risk with refining of risk appetite, monitoring of key risk indicators, enhancing underwriting standards for various type of lending, strengthening loan monitoring, increase loan portfolio of better risk rating category of “BBB”. Weaker rating (below BBB) are adequately mitigated with credit risk mitigants, such as tangible collaterals and guarantees;

- The Bank applies the 3-in-One concept of approval process where credit applications are independently assessed by Credit Approval Department and deliberated by the Credit Evaluation Panel (“CEP”), and subsequently submit to 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 CEO for final decision. CEO has the discretion to reject or modify terms and conditions of the loans passed by CEP. For cases which needs Bank of China (Hong Kong) Limited's (incorporated in Hong Kong) consultation, the Board Risk Management Committee 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 and monitor its credit exposure portfolio and report to Management on a monthly basis through RMICC and to the Board Risk Management Committee and Board of Directors 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 principal or interest repayment when contractually due. Loan with more than 90 days past due or any other events occurred is to be classified as impaired as per the Bank 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:

i. where the principal or interest or both of the loan is past due for more than 90 days or 3 months. In the case of revolving facilities, (e.g. overdraft facilities), the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months; or

ii. where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, the loan exhibits objective evidence of weaknesses that would render the account as impaired; or

iii. Where repayments are scheduled on intervals of 3 months or longer, the loan/financing is classified as impaired as soon as a default occurs, unless it does not exhibit any objective evidence of weaknesses that would render the account as impaired.

iv. when the loan is classified as rescheduled and restructured (with increase of credit risk) in CCRIS.

For impaired loans, the Bank conducts 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 loans which are individually assessed impaired loans but found 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 has 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

30 June 2017

Credit exposure	**Geography**				
Asset Class	**Malaysia**	**China**	**Hong Kong**	**Other**	**Total**
	RM’000	RM’000	RM’000	RM’000	RM’000
Sovereigns & central banks	4,110,553	-	-	-	4,110,553
Banks, development financial institutions & MDBs	1,359,154	277,305	377,889	441,771	2,456,119
Corporates	4,863,685	507,319	67,895	388,971	5,827,870
Regulatory retails	100,876	5,765	1,207	3,745	111,593
Residential mortgages	70,251	203,400	7,450	43,936	325,037
Other assets	81,346	-	-	-	81,346
Total	10,585,865	993,789	454,441	878,423	12,912,518

31 December 2016

Credit exposure	**Geography**				
Asset Class	**Malaysia**	**China**	**Hong Kong**	**Other**	**Total**
	RM’000	RM’000	RM’000	RM’000	RM’000
Sovereigns & central banks	2,847,459	-	-	-	2,847,459
Banks, development financial institutions & MDBs	291,090	171,900	378,217	456,872	1,298,079
Corporates	4,831,613	575,894	218,761	297,044	5,923,312
Regulatory retails	108,575	5,066	1,234	1,862	116,737
Residential mortgages	73,043	201,341	7,722	44,719	326,825
Other assets	90,079	-	-	-	90,079
Total	8,241,852	954,201	605,934	800,497	10,602,491

5.3 Industry Analysis

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

30 June 2017

Credit exposure	**Category**						
Sector	**Sovereigns & central banks**	**Banks, development financial institutions & MDBs**	**Corporates**	**Regulatory Retails**	**Residential mortgages**	**Other assets**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	571,655	2,365	-	-	574,020
Mining & Quarrying	-	-	75,694	82	-	-	75,776
Manufacturing	-	-	1,479,033	326	-	-	1,479,359
Electricity, gas & water supply	-	-	293,481	-	-	-	293,481
Construction	-	-	919,772	1	-	-	919,773
Real Estate	-	-	1,007,983	9,353	-	-	1,017,336
Research & Development	-	-	-	-	-	-	-
Wholesale & retail trade & restaurant & hotels	-	-	379,973	2,033	-	-	382,006
Transport, storage & communication	-	-	335,372	130	-	-	335,502
Finance, insurance & business services	-	2,456,119	91,513	169	-	81,346	2,629,147
Household	-	-	503,689	97,134	325,037	-	925,860
Government & government agencies	4,110,553	-	-	-	-	-	4,110,553
Education, health & others	-	-	144,949	-	-	-	144,949
Others	-	-	24,756	-	-	-	24,756
Total	4,110,553	2,456,119	5,827,870	111,593	325,037	81,346	12,912,518

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

31 December 2016

Credit exposure	**Category**						**Total**
Sector	**Sovereigns & central banks**	**Banks, development financial institutions & MDBs**	**Corporates**	**Regulatory Retails**	**Residential mortgages**	**Other assets**	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	482,001	2,639	-	-	484,640
Mining & Quarrying	-	-	175,937	-	-	-	175,937
Manufacturing	-	-	1,605,493	352	-	-	1,605,845
Electricity, gas & water supply	-	-	366,221	-	-	-	366,221
Construction	-	-	898,644	-	-	-	898,644
Real Estate	-	-	1,082,707	9,599	-	-	1,092,306
Research & Development	-	-	-	-	-	-	-
Wholesale & retail trade & restaurant & hotels	-	-	290,826	2,156	-	-	292,982
Transport, storage & communication	-	-	339,938	194	-	-	340,132
Finance, insurance & business services	-	1,298,079	135,415	164	-	90,079	1,523,737
Household	-	-	514,951	101,460	326,825	-	943,236
Government & government agencies	2,847,459	-	-	-	-	-	2,847,459
Education, health & others	-	-	5,332	173	-	-	5,505
Others	-	-	25,847	-	-	-	25,847
Total	2,847,459	1,298,079	5,923,312	116,737	326,825	90,079	10,602,491

5.4 Maturity Analysis

Original contractual maturity breakdown by major types of gross credit exposures

30 June 2017

Credit exposure	**Maturity**			**Total**
Category	Up to one year	1-5 year	>5years	
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	4,110,553	-	-	4,110,553
Banks, development financial institutions & MDBs	2,250,195	139,662	66,262	2,456,119
Corporates	2,920,208	1,094,263	1,813,399	5,827,870
Regulatory retails	17,529	111	93,953	111,593
Residential mortgages	-	-	325,037	325,037
Other assets	24,810	56,536	-	81,346
Total	9,323,295	1,290,572	2,298,651	12,912,518

31 December 2016

Credit exposure	**Maturity**			**Total**
Category	Up to one year	1-5 year	>5years	
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	2,847,459	-	-	2,847,459
Banks, development financial institutions & MDBs	1,184,072	77,132	36,875	1,298,079
Corporates	3,095,112	1,153,790	1,674,410	5,923,312
Regulatory retails	18,225	116	98,396	116,737
Residential mortgages	-	-	326,825	326,825
Other assets	38,761	51,318	-	90,079
Total	7,183,622	1,282,356	2,136,506	10,602,491

5.5 Impaired loans and impairment provision by economic sector

(a) Impaired loans by sector:

	Jun 2017	Dec 2016
	RM'000	RM'000
Household	7,426	2,847
Manufacturing	58,998	106,098
Real Estate	1,856	-
Transport, Storage & Communication	784	2,009
Finance, Insurance & Business Services	292	280
	69,356	111,234

(b) Past due loans by sector:

	Bank	
	Jun 2017	Dec 2016
	RM'000	RM'000
Primary agriculture	3,136	4,162
Manufacturing	1,789	-
Construction	1,347	-
Real estate	39,960	32,542
Wholesale and retail trade and restaurants and hotels	6,774	-
Transport, storage and communication	-	-
Finance, insurance and business services	-	-
Household	19,886	23,075
Others	-	-
	72,892	59,779

(c) Individual impairment provisions by sector:

	Jun 2017	Dec 2016
	RM'000	RM'000
Household	1,830	37
Manufacturing	20,475	17,476
Real Estate	1,841	-
Finance, Insurance & Business Services	290	235
	24,436	17,748

(d) Collective impairment provisions by sector:

	Jun 2017	Dec 2016
	RM'000	RM'000
Primary agriculture	5,855	3,668
Mining & Quarrying	596	1,333
Manufacturing	10,496	8,841
Electricity, Gas & Water Supply	2,928	2,713
Construction	6,713	4,252
Real estate	10,243	8,193
Wholesale and retail trade and restaurants and hotels	3,667	2,063
Transport, storage and communication	2,263	1,222
Finance, insurance and business services	1,670	1,155
Household	1,898	2,001
Education, health & others	708	43
Others	253	194
	47,290	35,679

5.6 Impaired loans and impairment provision by geographical area

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

5.7 Reconciliation of changes to loan impairment provisions

	Jun 2017 RM'000	Dec 2016 RM'000
Impaired loans and advances		
At beginning of the financial year	111,234	43,412
Classified as impaired during the year	33,365	75,016
Amount recovered	(2,956)	(7,194)
Amount written-off	-	-
Amount reclassified as Performing	(72,287)	-
At end of the financial year	69,356	111,234
Individual impairment allowance	(24,436)	(17,748)
Net impaired loans and advances	44,920	93,486

	Jun 2017 RM'000	Dec 2016 RM'000
Individual impairment allowance		
At the beginning of the financial period/year	17,748	7,753
Allowance made during the financial period/year	17,060	11,774
Allowance written back during the financial period	(10,372)	(1,779)
At end of the financial period/year	24,436	17,748
Collective impairment allowance		
As beginning of the financial period/year	35,679	34,407
Allowance made during the financial period/year	11,904	799
Exchange Rate Differences	(293)	473
At the end of the financial period/year	47,290	35,679

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.

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

30 June 2017

	Exposures after Netting and Credit Risk Mitigation							
Risk Weights	Sovereigns & Central Banks	Banks, MDBs and FDIs	Corporate	Regulatory Retails	Residential Mortgages	Other Assets	Total exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	4,110,553		-	-	-	21,592	4,132,145	-
20%	-	2,264,178	85,563	-	-	-	2,349,741	469,948
35%	-		-	-	297,461	-	297,461	104,111
50%	-	188,091	169,739	-	21,370	-	379,200	189,600
75%	-		-	107,234	-	-	107,234	80,425
100%	-	3,850	4,828,670	-	980	59,754	4,893,254	4,893,254
150%	-		61,990	2,869	4,253	-	69,112	103,670
Grand Total							12,228,147	5,841,008

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

31 December 2016

Risk Weights	Exposures after Netting and Credit Risk Mitigation							
	Sovereigns & Central Banks	Banks, MDBs and FDIs	Corporate	Regulatory Retails	Residential Mortgages	Other Assets	Exposures after Netting and Credit Risk Mitigation	Total exposures after Netting & Credit Risk Mitigation
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
0%	2,847,459	-	-	-	-	22,440	2,869,899	-
20%	-	1,189,876	68,138	-	-	-	1,258,014	251,603
35%	-	-	-	-	301,587	-	301,587	105,555
50%	-	104,353	12,300	-	22,243	-	138,896	69,448
75%	-	-	-	111,753	-	-	111,753	83,815
100%	-	3,850	5,044,925	-	2,039	67,639	5,118,453	5,118,453
150%	-	-	114,206	2,577	-	-	116,783	175,174
Grand Total							9,915,385	5,804,048

6.2 Rated Exposures according to Ratings by ECAIs

30 June 2017

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
On and Off Balance Sheet Exposures							
Sovereigns/Central Banks	-	-	4,110,553	-	-	-	-
Total	-	-	4,110,553	-	-	-	-

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
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	-	413,076	1,343,784	696,252	-	-	3,007
Total	-	413,076	1,343,784	696,252	-	-	3,007

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
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate	-	85,563	977,829	52,592	-	4,711,886
Total	-	85,563	977,829	52,592	-	4,711,886

31 December 2016

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
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate	-	78,901	1,151,146	59,126	-	4,634,139
Total	-	78,901	1,151,146	59,126	-	4,634,139

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	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
On and Off Balance Sheet Exposures							
Sovereigns/Central Banks	-	-	2,847,459	-	-	-	-
Total	-	-	2,847,459	-	-	-	-

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
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	-	214,852	937,660	141,938	-	-	3,629
Total	-	214,852	937,660	141,938	-	-	3,629

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 tangible 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 property by 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 CRM 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

30 June 2017

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
Credit Risk				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	4,110,553	-	-	-
Banks, Development Financial Institutions & MDBs	2,191,008	-	-	-
Corporates	4,564,232	255,302	681,908	-
Regulatory Retail	104,110	-	1,491	-
Residential Mortgages	286,055	-	973	-
Other Assets	81,346	-	-	-
Defaulted Exposures	69,416	-	-	-
Total for On-Balance Sheet exposures	11,406,720	255,302	684,372	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,505,798	-	-	-
Total for Off-Balance sheet exposures	1,505,798	-	-	-
Total On and Off Balance sheet exposure	12,912,518	255,302	684,372	-

7.1 Disclosure on Credit Risk Mitigation (continued)

31 December 2016

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
Credit Risk				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	2,847,459	-	-	-
Banks, Development Financial Institutions & MDBs	1,164,182	-	-	-
Corporates	4,655,417	80,438	683,742	-
Regulatory Retail	108,125	-	2,408	-
Residential Mortgages	283,533	-	956	-
Other Assets	90,079	-	-	-
Defaulted Exposures	117,084	-	-	-
Total for On-Balance Sheet exposures	9,265,879	80,438	687,106	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,336,612	-	-	-
Total for Off-Balance sheet exposures	1,336,612	-	-	-
Total On and Off Balance sheet exposure	10,602,491	80,438	687,106	-

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 – 30 June 2017

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	47,588	47,588	47,588
Transaction related contingent items	1,809,523	904,761	770,681
Short Term Self Liquidating trade related contingencies	234,081	46,816	20,319
Foreign exchange related contracts			
- One year or less	289,111	4,290	3,492
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,594,751	318,950	273,789
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	366,784	183,393	138,069
Others			
Total	4,341,838	1,505,798	1,253,938

Off-Balance Sheet and Counterparty Credit Risk – 31 December 2016

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	47,930	47,930	50,046
Transaction related contingent items	1,828,022	914,011	834,739
Short Term Self Liquidating trade related contingencies	221,700	44,340	17,784
Foreign exchange related contracts - One year or less	89,383	499	282
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,119,236	223,847	200,294
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	211,970	105,985	52,937
Others	-	-	-
Total	3,518,241	1,336,612	1,156,082

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 potential losses resulting from the changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in the risk factors such as foreign exchange rates, interest rates, credit spreads, equity prices, commodities prices and their associated volatility.

At Management level, the Bank's Risk Management and Internal Control Committee (RMICC) is responsible for the oversight of market risk management of the Bank and in executing the Board Risk Management Committee (BRMC) and Board's mandate on market risk management strategies, risk appetite and tolerance level. The Bank has established the Policy on Market Risk Management to govern BOCM's market risk governance structure, risk identification, measurement, monitoring and reporting processes. BOCM's market risk is managed by the Risk Management Department (RMD) on daily basis. RMD reports to RMICC on monthly basis on BOCM's market risk exposures and its compliance to the limits approved. RMD currently measures and monitors its FX Net Open Position (FX NOP), Value-at-Risk (VaR), Price Value of Basis Point (PVBP) and stop loss limits (Daily, Monthly and Yearly) on daily basis.

For capital requirement, the Bank has adopted the Standardised Approach. The current market risk capital charge arises mainly from the Bank's exposures in the foreign exchange risk.

Risk weighted assets and capital requirement for market risk

Capital Charge Requirement for :	30 Jun 2017	31 Dec 2016
	Standardised Approach	Standardised Approach
	RM'000	RM'000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	829	1,009
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	10,367	12,611

10. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and system, or from external events. The risk is inherent in every aspect of business operations and confronted by the Group in its day-to-day operational activities.

Risk Management and Internal Control Committee ("RMICC") of the Bank is responsible for the development of a control framework and to promote a strong risk management culture in the Bank. The computation of operational risk is in line with Bank Negara Malaysia guidelines and formula under the Basic Indicator Approach ("BIA").

The Bank has implemented the "Three Lines of Defense" for its operational risk management, which sets out the roles and responsibilities for managing operational risks on a day-to-day basis. The Bank has put in place an effective internal control process which requires the establishment of policies and control procedures for all the key activities.

The Bank adopts various operational risk management tools or methodologies to identify, assess, monitor and control the risks inherent in business activities and products, as well as purchase of insurance to mitigate unforeseeable operational risks. Business continuity plans are established to support business operations in the event of emergency or disaster. And, adequate backup facilities are maintained and periodic drills are conducted.

11. Interest Rate Risk in the Banking Book

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

As at 30 June 2017:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 41,071	+/- 33,976
USD	+/- 4,012	+/- 5,746
CNY/CNH	+/- 925	+/- 791

As at 31 December 2016:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 28,608	+/- 22,542
USD	+/- 2,672	+/- 6,814
CNY/CNH	+/- 602	+/- 445