Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II)
– Disclosure Requirements (Pillar 3)
30 June 2013

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 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 and verified 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.

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, 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 risk- weighted capital ratio.

The Bank's capital management framework mainly focuses on capital planning and capital funding management. Annual business targets and three-year projected business plans with financial projections and capital requirements is approved by the BOD yearly.

Capital adequacy and regulatory capital are 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 3.5% and 4.5% respectively for year 2013. The minimum regulatory capital adequacy requirement remain at 8.0% (2012 - 8.0%) for total capital ratio.

Total CET 1 and Total capital ratio are as follows:

	June 2013	Dec 2012
	RM'000	RM'000
Before/After deducting proposed dividends		
CET 1 capital ratio	15%	17%
Tier 1 capital ratio	15%	17%
Total capital ratio	16%	18%

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

30 June 2013	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	914,659	914,659	-	-
Banks, development financial institutions & MDBs*	2,666,471	2,666,471	533,294	42,664
Corporates	1,840,796	1,840,796	1,733,846	138,708
Residential mortgages	34,919	34,919	13,253	1,060
Other assets	38,669	38,669	16,268	1,301
Total on-balance sheet exposure	5,495,514	5,495,514	2,296,661	183,733
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	782,718	782,718	530,571	42,446
Total credit risk	6,278,232	6,278,232	2,827,232	226,179
Net long position				
(ii) Market Risk				
Foreign currency risk	10,555		10,555	844
(iii) Operational Risk			141,936	11,355
Total risk weighted assets and capital requirement			2,979,723	238,378

* Multilateral Development Banks ("MDBs")

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

31 December 2012	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	1,166,358	1,166,358	-	-
Banks, development financial institutions & MDBs*	1,414,153	1,414,153	282,831	22,626
Corporates	1,941,303	1,941,303	1,724,359	137,949
Residential mortgages	24,657	24,657	10,002	800
Other assets	45,017	45,017	16,343	1,307
Total on-balance sheet exposure	4,591,488	4,591,488	2,033,535	162,682
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	623,256	623,256	423,501	33,880
Total credit risk	5,214,744	5,214,744	2,457,036	196,562
Net long position				
(ii) Market Risk				
Foreign currency risk	9,936		9,936	795
(iii) Operational Risk			123,294	9,864
Total risk weighted assets and capital requirement			2,590,266	207,221

* 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:

	2013 RM'000	2012 RM'000
CET 1 capital		
Paid-up ordinary share capital	304,000	304,000
Retained profits	56,602	56,602
Other reserves	93,688	93,688
	454,290	454,290
Less: Regulatory adjustments applied in the calculation of CET 1 capital		
-Deferred tax assets	(3,452)	(2,907)
Total CET 1 capital	450,838	451,383
Total Tier 1 capital	450,838	451,383
Tier-2 capital		
Collective impairment allowance	20,809	20,809
Total tier-2 capital	20,809	20,809
Less: Regulatory adjustments applied in the calculation of Tier 2 capital		
-Investment in subisdiary	(1,000)	(1,000)
Total capital base	470,647	471,192
Capital ratios		
CET 1 capital ratio	15%	17%
Total capital ratio	16%	18%

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 lower risk weight category and most loans are of Category "B" and above. Exceptions to this general principle are lower risk, short-term transactions and facilities supporting specific trade finance business requests as well as low risk businesses where the margin allows for adequate loss coverage;

- 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”;

- Subject to the approval by the management of the Bank, the loan is classified as impaired if it exhibits weaknesses or triggers a combination of events that render the loan as impaired, for example cross defaults, default with other bank or significant deterioration of financial performance, and etc.

The Bank shall set aside the 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.

If there is no impairment provision exists for an individually assessed loan, the loans grouped according to their credit risk characteristics for the purpose of calculating an estimated collective loss. These characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the customer's ability to pay all amounts due according to the contractual terms of the loans being assessed. Future cash flows on a group of loan and advances that are collectively assessed for impairment are estimated on the basis of historical loss experience for loan and advances with credit risk characteristics similar to those in the group. 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

30 June 2013

Credit exposure	Geography			
Asset Class	Malaysia	China	Other	Total
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	914,659	-	-	914,659
Banks, development financial institutions & MDBs	120,983	2,427,588	576,237	3,124,808
Corporates	1,855,503	83,896	195,675	2,135,074
Residential mortgages	42,731	-	22,291	65,022
Other assets	38,669	-	-	38,669
Total	2,972,545	2,511,484	794,203	6,278,232

31 December 2012

Credit exposure	Geography			
Asset Class	Malaysia	China	Other	Total
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,166,358	-	-	1,166,358
Banks, development financial institutions & MDBs	131,953	1,603,693	53,304	1,788,950
Corporates	1,614,976	437,715	125,611	2,178,302
Residential mortgages	36,116	-	-	36,116
Other assets	45,018	-	-	45,018
Total	2,994,421	2,041,408	178,915	5,214,744

5.3 Industry Analysis

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

30 June 2013

Credit exposure	Category					
Sector	Sovereigns & central banks	Banks, development financial institutions & MDBs	Corporates	Residential mortgages	Other assets	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	182,786	-	-	182,786
Mining & Quarrying	-	-	14,823	-	-	14,823
Manufacturing	-	51,707	569,162	-	-	620,869
Electricity, gas & water supply	-	500	29,538	-	-	30,038
Construction	-	85,885	248,056	-	-	333,941
Real Estate	-	-	312,806	-	-	312,806
Wholesale & retail trade & restaurants & hotels	-	-	238,442	-	-	238,442
Transport, storage & communication	-	250,837	96,518	-	-	347,355
Finance, insurance & business services	-	2,672,924	165,395	-	38,669	2,876,988
Household	-	-	271,006	65,022	-	336,028
Government & government agencies	914,659	-	-	-	-	914,659
Education, health & others	-	-	3,350	-	-	3,350
Others	-	62,955	3,192	-	-	66,147
Total	914,659	3,124,808	2,135,074	65,022	38,669	6,278,232

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

31 December 2012

Credit exposure	**Category**					
Sector	**Sovereigns & central banks**	**Banks, development financial institutions & MDBs**	**Corporates**	**Residential mortgages**	**Other assets**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	97,322	-	-	97,322
Mining & Quarrying	-	-	104,623	-	-	104,623
Manufacturing	-	50,168	731,003	-	-	781,171
Electricity, gas & water supply	-	598	25,724	-	-	26,322
Construction	-	97,431	176,321	-	-	273,752
Real Estate	-	-	-	-	-	-
Wholesale & retail trade & restaurants & hotels	-	-	158,349	-	-	158,349
Transport, storage & communication	-	156,149	112,206	-	-	268,355
Finance, insurance & business services	-	1,423,500	559,391	-	45,018	2,027,909
Household	-	-	208,417	24,657	-	233,074
Government & government agencies	1,166,358	-	-	-	-	1,166,358
Education, health & others	-	-	4,812	11,459	-	16,271
Others	-	61,104	134	-	-	61,238
Total	1,166,358	1,788,950	2,178,302	36,116	45,018	5,214,744

5.4 Maturity Analysis

Residual contractual maturity breakdown by major types of gross credit exposures

30 June 2013

Credit exposure	Maturity			
Category	Up to one year	1-5 year	>5years	**Total**
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	914,659	-	-	914,659
Banks, development financial institutions & MDBs	2,745,694	346,450	32,664	3,124,808
Corporates	1,014,610	164,317	956,147	2,135,074
Residential mortgages	1,765	542	62,715	65,022
Other assets	30,888	7,781	-	38,669
Total	4,707,616	519,090	1,051,526	6,278,232

31 December 2012

Credit exposure	Maturity			
Category	Up to one year	1-5 year	>5years	**Total**
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,166,358	-	-	1,166,358
Banks, development financial institutions & MDBs	1,457,170	309,612	22,168	1,788,950
Corporates	980,165	1,196,899	1,238	2,178,302
Residential mortgages	136	11,323	24,657	36,116
Other assets	38,043	6,975	-	45,018
Total	3,641,872	1,524,809	48,063	5,214,744

5.5 Impaired loans and impairment provision by economic sector

(a) Impaired loans by economic sector:

	2013	2012
	RM'000	RM'000
Household	76	87
Manufacturing	13,032	13,985
	13,108	14,072

(b) Past due loans by economic sector:

	Bank	
	2013	2012
	RM'000	RM'000
Primary agriculture	5,776	3,410
Manufacturing	-	-
Construction	-	1,879
Real estate	-	4,180
Wholesale and retail trade and restaurants and hotels	-	-
Transport, storage and communication	-	-
Finance, insurance and business services	3,534	-
Household	15,172	17,944
Others	-	-
	24,482	27,413

(c) Individual impairment provisions by economic purpose:

	2013	2012
	RM'000	RM'000
Household	11	11
	11	11

(d) Collective impairment provisions by economic purpose:

	2013	2012
	RM'000	RM'000
Primary agriculture	914	914
Mining & Quarrying	1,202	1,202
Manufacturing	8,286	8,286
Electricity, Gas & Water Supply	243	243
Construction	1,811	1,811
Real estate	3,952	3,952
Wholesale and retail trade and restaurants and hotels	1,376	1,376
Transport, storage and communication	1,264	1,264
Finance, insurance and business services	1,642	1,642
Household	63	63
Education, health & others	55	55
Others	1	1
	20,809	20,809

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

	2013 RM'000	2012 RM'000
Impaired loans and advances		
At beginning of the financial year	14,072	93
Classified as impaired during the year	508	34,262
Amount recovered	(1,472)	(20,283)
Amount written-off	-	-
At end of the financial year	13,108	14,072
Individual impairment allowance	(11)	(11)
Net impaired loans and advances	13,097	14,061

	2013 RM'000	2012 RM'000
Individual impairment allowance		
At the beginning of the financial year	11	11
At end of the financial year	11	11
Collective impairment allowance		
As beginning of the financial year	20,809	16,492
Allowance made during the financial year	-	6,320
Write back during the financial year	-	(2,003)
At the end of the financial year	20,809	20,809

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 standardised 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

30 June 2013

Risk Weights	Exposures after Netting and Credit Risk Mitigation Sovereigns & Central Banks	Banks, MDBs and FDIs	Corporate	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
0%	914,659	-	57,804	773	20,034	993,270	-
20%	-	2,670,280	-	-	2,959	2,673,239	534,648
35%	-	-	-	47,249	-	47,249	16,537
50%	-	454,528	118,448	16,894	-	589,870	294,935
75%	-	-	-	30	-	30	22
100%	-	-	1,945,790	76	15,676	1,961,542	1,961,542
150%	-	-	13,032	-	-	13,032	19,548
Average Risk Weights						6,278,232	2,827,232
Deduction from Capital Base	-	-	-	-	-	-	

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

31 December 2012

Risk Weights	Exposures after Netting and Credit Risk Mitigation					Total exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and FDIs	Corporate	Residential Mortgages	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	1,166,358	-	26,095	152	22,140	1,214,745	-
20%	-	1,421,844	-	-	8,167	1,430,011	286,002
35%	-	-	-	20,273	-	20,273	7,096
50%	-	367,107	402,827	15,605	-	785,539	392,770
100%	-	-	1,735,395	86	14,710	1,750,191	1,750,191
150%	-	-	13,985	-	-	13,985	20,977
Average Risk Weights						5,214,744	2,457,036
Deduction from Capital Base	-	-	-	-	-	-	

6.2 Rated Exposures according to Ratings by ECAIs

30 June 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
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate	-	4,730	83,555	20,062	13,522	2,013,205
Total	-	4,730	83,555	20,062	13,522	2,013,205

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	-	-	914,659	-	-	-	-
Total	-	-	914,659	-	-	-	-

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
	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	-	56,640	3,058,033	586	-	-	9,549
Total	-	56,640	3,058,033	586	-	-	9,549

31 December 2012

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	-	64,995	53,484	96,708	9,712	1,953,403
Total	-	64,995	53,484	96,708	9,712	1,953,403

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	-	-	1,166,358	-	-	-	-
Total	-	-	1,166,358	-	-	-	-

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	-	142,213	1,640,501	-	-	-	6,236
Total	-	142,213	1,640,501	-	-	-	6,236

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) 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	Residential Property
2	Non-Residential Property (e.g. shop, factory, warehouse, land, complex, etc.)
3	Quoted Shares
4	Fixed Deposits, Cash Margin
5	Assignment of proceeds

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 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 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
Credit Risk				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	914,659	-	-	-
Banks, Development Financial Institutions & MDBs	2,666,471	-	-	-
Corporates	1,827,764	118,448	57,804	-
Residential Mortgages	34,843	-	773	-
Other Assets	38,669	-	-	-
Defaulted Exposures	13,108	-	-	-
Total for On-Balance Sheet exposures	5,495,514	118,448	58,577	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	782,718	-	-	-
Total for Off-Balance sheet exposures	782,718	-	-	-
Total On and Off Balance sheet exposure	6,278,232	118,448	58,577	-

7.1 Disclosure on Credit Risk Mitigation (continued)

31 December 2012

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	1,166,358	-	-	-
Banks, Development Financial Institutions & MDBs	1,414,153	-	-	-
Corporates	1,927,318	402,827	26,095	-
Residential Mortgages	24,571	-	152	-
Other Assets	45,017	-	-	-
Defaulted Exposures	14,071	-	-	-
Total for On-Balance Sheet exposures	4,591,488	402,827	26,247	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	623,256	-	-	-
Total for Off-Balance sheet exposures	623,256	-	-	-
Total On and Off Balance sheet exposure	5,214,744	402,827	26,247	-

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 2013

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	-	-	-
Transaction related contingent items	925,704	462,852	232,284
Short Term Self Liquidating trade related contingencies	22,618	4,524	4,524
Foreign exchange related contracts			
- One year or less	574,764	3,810	763
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	392,651	196,325	178,206
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	576,034	115,207	114,794
Total	2,491,771	782,718	530,571

Off-Balance Sheet and Counterparty Credit Risk –2012

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM’000	RM’000	RM’000
Direct Credit Substitutes	-	-	-
Transaction related contingent items	749,679	374,840	187,821
Short Term Self Liquidating trade related contingencies	12,511	2,502	2,502
Foreign exchange related contracts - One year or less	651,493	7,691	1,538
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	297,957	148,979	142,590
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	446,220	89,244	89,050
Total	2,157,860	623,256	423,501

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.

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 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 :	30 June 2013 Standardised Approach	31 Dec 2012 Standardised Approach
	RM’000	RM’000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	844	795
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	10,555	9,936

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 RM2.3 million (2012: RM2.9 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	2013	2012
	RM'000	RM'000
Earnings	+/- 9,337	+/- 11,469
Economic Value	+/- 748	+/- 4,427

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 RM66,000 (2012 : RM46,000) to the Bank.

10 Operational Risk

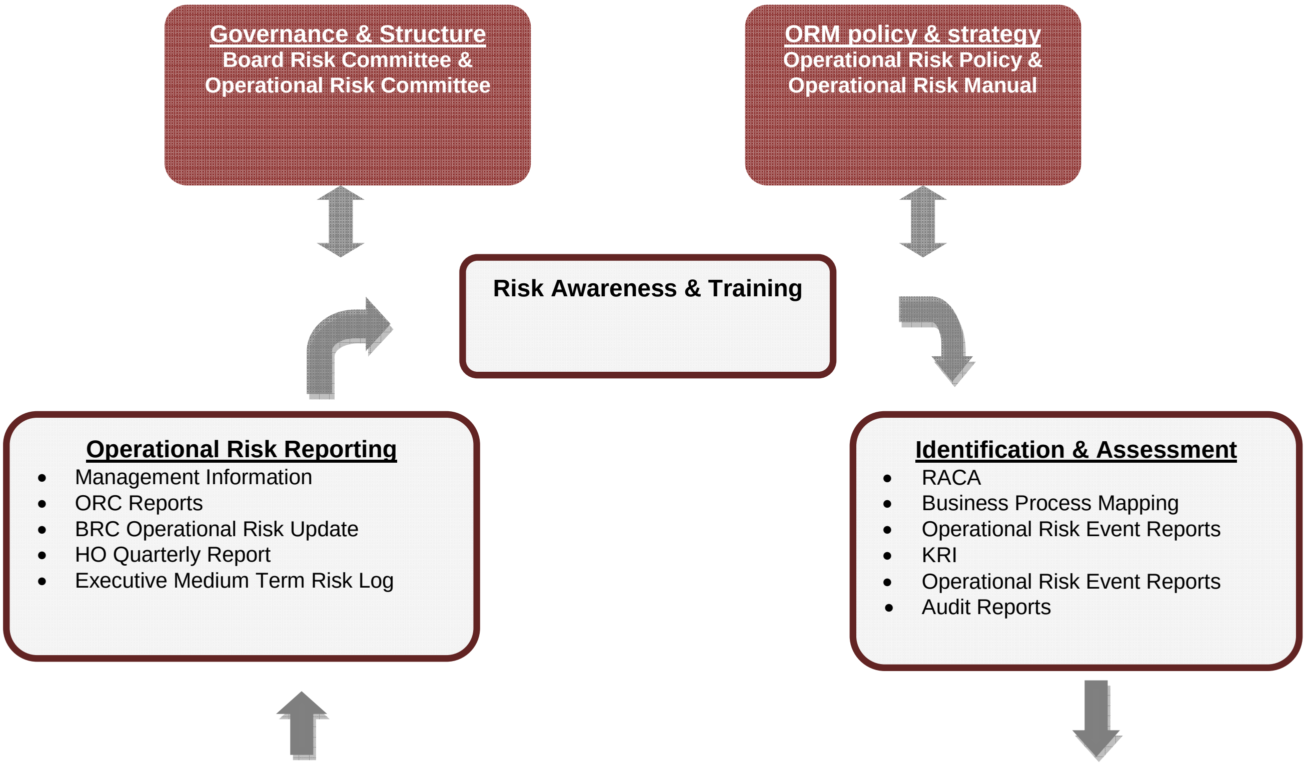
Operational risk can be defined as the risk of monetary loss resulting from inadequate or failed internal processes, people, and system or from external events. RMICC of the Bank is responsible for the development of a control framework, the promotion of a strong risk management culture in the Bank, 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.

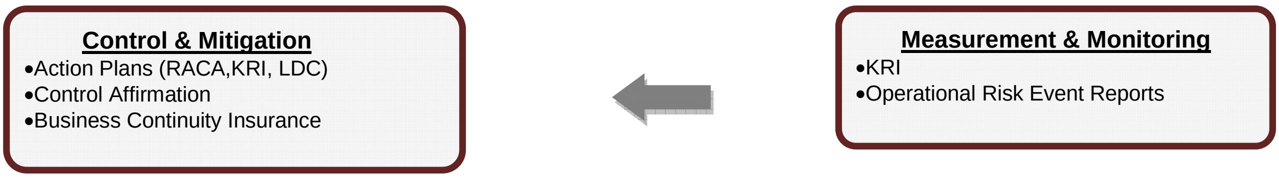
Branches, business departments and staff at various levels of the Bank are the first line of defence, responsible for internal control when promoting business development. The Risk Management Department (RMD), together with the management team, is the second line of defence. RMD is responsible for the 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.



The computation of Credit Risk is in line with BNM's guidelines and formula under the Standardized Approach ("SA").



In 2012, Operational Risk Management (ORM) team was mainly focusing on improving the Risk and Control Assessment (RACA) process and reviewing the Key Risk Indicators (KRI)

The main purpose of the improving the RACA process is to ensure that the RACA captures the risks and controls of the bank at the appropriate level.

In order to improve the efficiency and quality of RACA assessment, the ORM team created work flow charts to visualize the key processes across all departments. The work flow charts allowed each department and ORM team to determine where areas of control weaknesses might lie within specific business process or procedures.

All the business units and branches are involved RACA assessment in the 2012 and the result showed that approximately 98% of the key risks are within the bank's acceptable level. The ORM team also indentified the relevant weak controls and derived the action plans from high residual risk processes. Several remedial actions are derived with cooperation of relevant departments in order to mitigate risk occurrence in future.

The Bank systematically utilizes information on external events occurring in the banking industry to ensure that similar incidents will not happen to us. KRI are adopted to reflect potential sources of operational risk with the Bank. KRI has established thresholds that are used to monitor and classify business key operational risk into the red/amber/green zones. It allows the business units to understand the escalation process of the risk and thus input actions when KRI reaches the amber or red zones.

The operational risk management was enhanced by putting in place a system during the review period. We perform systematic risk analyses, root cause analyses and lessons learned to identify inherent areas of risk and to define appropriate risk mitigating actions which are monitored for resolution.