Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II) –
Disclosure Requirements (Pillar 3)
30 June 2015

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 is 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 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 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 4.5% and 6.0% respectively for year 2015. The minimum regulatory capital adequacy requirement remain at 8.0% (2014 - 8.0%) for total capital ratio.

Total CET 1 and Total capital ratio are as follows:

	Jun 2015 RM'000	Dec 2014^ RM'000
Before/After deducting proposed dividends		
CET 1 capital ratio	18.797%	21.517%
Tier 1 capital ratio	18.797%	21.517%
Total capital ratio	19.686%	22.043%

Notes:-

^ The adjustment made post Dec 2014 resulting in total credit risk RWA slightly increased by RM12.1 million. The impact on the bank's capital position is insignificant with CET 1 Capital Ratio & Tier 1 Capital Ratio and Total Capital Ratio slightly reduced from 21.570% to 21.517% and from 22.097% to 22.043% respectively.

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

30 June 2015	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	2,056,841	2,056,841	-	-
Banks, development financial institutions & MDBs*	2,260,334	2,260,334	854,571	68,366
Corporate	4,639,404	4,206,743	3,512,202	280,976
Regulatory Retail	106,850	103,992	78,431	6,275
Residential mortgages	247,760	240,673	89,243	7,139
Other assets	80,604	80,604	52,330	4,186
Total on-balance sheet exposure	9,391,793	8,949,187	4,586,777	366,942
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,158,454	1,158,454	662,143	52,971
Total credit risk	10,550,246	10,107,641	5,248,921	419,913
Net long position				
(ii) Market Risk				
Foreign currency risk	9,720		9,720	778
(iii) Operational Risk			297,959	23,837
Total risk weighted assets and capital requirement			5,556,600	444,528

* Multilateral Development Banks ("MDBs")

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

31 December 2014	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	2,228,295	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
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
Total credit risk	10,913,193	10,482,636	4,670,271^	373,621
Net long position				
(ii) Market Risk				
Foreign currency risk	9,599		9,599	768
(iii) Operational Risk			260,424	20,834
Total risk weighted assets and capital requirement			4,940,294	395,223

* Multilateral Development Banks ("MDBs")

^ The adjustment made post Dec 2014. Credit Risk RWA increase from RM4.65b to RM4.67b due to some reclassified previously from "Banks, development financial institutions & MDBs" to "Corporate" exposure class. The increase of credit risk RWA of RM12.1m is insignificant impact on the bank capital position.

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 2015 RM'000	Dec 2014 RM'000
CET 1 capital		
Paid-up ordinary share capital	760,518	760,518
Retained profits	116,469	134,518
Other reserves	171,605	171,605
Regulatory reserves	18,049	-
	1,066,641	1,066,641
Less: Regulatory adjustments applied in the calculation of CET 1 capital		
-Deferred tax assets	(4,133)	(3,627)
-Regulatory reserve attributable to loans and advances	(18,049)	-
Total CET 1 capital	1,044,459	1,063,014
Total Tier 1 capital	1,044,459	1,063,014
Tier-2 capital		
Collective impairment allowance	32,362	26,962
Regulatory reserves	18,049	-
Total tier-2 capital	50,411	26,962
Less: Regulatory adjustments applied in the calculation of Tier 2 capital		
-Investment in subsidiary	(1,000)	(1,000)
Total capital base	1,093,870	1,088,976
Capital ratios		
CET 1 capital ratio	18.797%	21.517%
Tier 1 capital ratio	18.797%	21.517%
Total capital ratio	19.686%	22.043%

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 Credit Approval Department 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 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 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.

- The loan is restructured or rescheduled with increase of credit risk.

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

30 June 2015

Credit exposure	**Geography**			
Asset Class	**Malaysia**	**China**	**Other**	**Total**
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	2,056,841	-	-	2,056,841
Banks, development financial institutions & MDBs	685,428	1,632,858	93,563	2,411,849
Corporates	3,503,466	1,276,794	368,110	5,148,369
Regulatory retails	108,895	3,352	2,117	114,364
Residential mortgages	82,281	178,170	35,162	295,614
Other assets	80,604	-	-	80,604
Total	6,517,515	3,091,173	498,952	10,107,641

31 December 2014

Credit exposure	**Geography**			
Asset Class	**Malaysia**	**China**	**Other**	**Total**
	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

5.3 Industry Analysis

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

30 June 2015

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	-	-	286,469	2,870	-	-	289,339
Mining & Quarrying	-	-	134,148	-	-	-	134,148
Manufacturing	-	-	1,305,286	2,407	-	-	1,307,693
Electricity, gas & water supply	-	-	33,404	-	-	-	33,404
Construction	-	-	723,599	509	-	-	724,108
Real Estate	-	-	911,321	6,687	-	-	918,009
Wholesale & retail trade & restaurants & hotels	-	-	501,411	4,333	-	-	505,744
Transport, storage & communication	-	-	272,660	1,300	-	-	273,960
Finance, insurance & business services	-	2,411,849	571,608	40	-	80,604	3,064,101
Household	-	-	296,095	95,657	295,614	-	687,365
Government & government agencies	2,056,841	-	-	-	-	-	2,056,841
Education, health & others	-	-	5,739	561	-	-	6,300
Others	-	-	106,630	-	-	-	-
Total	2,056,841	2,411,849	5,148,369	114,364	295,614	80,604	10,107,641

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

31 December 2014

Credit exposure	**Category**						**Total**
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	-	-	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

5.4 Maturity Analysis

Residual contractual maturity breakdown by major types of gross credit exposures

30 June 2015

Credit exposure	Maturity			
Category	Up to one year	1-5 year	>5years	**Total**
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	2,056,841	-	-	2,056,841
Banks, development financial institutions & MDBs	1,981,867	429,982	-	2,411,849
Corporates	3,129,728	640,012	1,378,630	5,148,369
Regulatory retails	21,898	507	91,959	114,364
Residential mortgages	-	881	294,732	295,614
Other assets	40,055	40,549	-	80,604
Total	7,230,389	1,111,930	1,765,321	10,107,641

31 December 2014

Credit exposure	Maturity			
Category	Up to one year	1-5 year	>5years	**Total**
	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

5.5 Impaired loans and impairment provision by economic sector

(a) Impaired loans by sector:

	Jun 2015	Dec 2014
	RM'000	RM'000
Household	4,160	3,016
Manufacturing	9,658	10,536
Real Estate	2,884	3,413
Transport, Storage & Communication	3,020	-
Finance, Insurance & Business Services	468	-
	20,190	16,965

(b) Past due loans by sector:

	Bank	
	Jun 2015	Dec 2014
	RM'000	RM'000
Primary agriculture	3,084	69,572
Manufacturing	3,542	18,502
Construction	-	-
Real estate	19,751	6,596
Wholesale and retail trade and restaurants and hotels	2,158	4,238
Transport, storage and communication		3,064
Finance, insurance and business services		2,564
Household	61,254	50,973
Others		-
	89,789	155,509

(c) Individual impairment provisions by sector:

	Jun 2015	Dec 2014
	RM'000	RM'000
Household	11	11
Manufacturing	651	888
Transport, Storage & Communication	59	-
Finance, Insurance & Business Services	453	-
	1,174	899

(d) Collective impairment provisions by sector:

	Jun 2015	Dec 2014
	RM'000	RM'000
Primary agriculture	1,986	1,182
Mining & Quarrying	851	286
Manufacturing	8,306	8,101
Electricity, Gas & Water Supply	237	178
Construction	3,044	1,884
Real estate	6,954	5,452
Wholesale and retail trade and restaurants and hotels	3,390	4,992
Transport, storage and communication	825	554
Finance, insurance and business services	4,369	1,330
Household	1,944	1,960
Education, health & others	44	28
Others	412	1,015
	32,362	26,962

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

	Jun 2015 RM'000	Dec 2014 RM'000
Impaired loans and advances		
At beginning of the financial year	16,965	12,341
Classified as impaired during the year	4,634	8,058
Amount recovered	(1,409)	(1,743)
Amount written-off	-	-
Amount reclassified as Performing	-	(1,691)
At end of the financial year	20,190	16,965
Individual impairment allowance	(1,174)	(899)
Net impaired loans and advances	19,016	16,066

	Jun 2015 RM'000	Dec 2014 RM'000
Individual impairment allowance		
At the beginning of the financial year	899	899
Allowance made during the financial year	512	-
Allowance written back during the financial year	(237)	
At end of the financial year	1,174	899
Collective impairment allowance		
As beginning of the financial year	26,962	25,066
Allowance made during the financial year	25,601	1,156
Allowance written back during the financial year	(20,788)	-
Exchange Rate Differences	587	740
At the end of the financial year	32,362	26,962

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

30 June 2015

	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%	2,056,841	-	25,571	-	-	28,274	2,110,686	-
20%	-	1,293,930	803,090	-	-	-	2,097,020	419,404
35%	-	-	-	-	274,135	-	274,135	95,947
50%	-	935,488	782,365	-	17,902	-	1,735,755	867,877
75%	-	-	-	113,635	-	-	113,635	85,226
100%	-	182,430	3,529,961	-	3,577	52,330	3,768,298	3,768,298
150%	-	-	7,383	728	-	-	8,111	12,168
Average Risk Weights							10,107,641	5,248,921
Deduction from Capital Base	-	-	-		-	-	-	

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

31 December 2014

	Exposures after Netting and Credit Risk Mitigation							
Risk Weights	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%	2,228,295	-	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	-	-	-		-	-	-	

6.2 Rated Exposures according to Ratings by ECAIs

30 June 2015

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	-	-	2,056,841	-	-	-	-
Total	-	-	2,056,841	-	-	-	-

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	-	14,039	1,681,482	714,441	-	-	1,887
Total	-	14,039	1,681,482	714,441	-	-	1,887

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	-	-	1,505,512	123,281	-	3,519,577
Total	-	-	1,505,512	123,281	-	3,519,577

31 December 2014

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	-	-	1,768,411	29,125	-	3,458,595
Total	-	-	1,768,411	29,125	-	3,458,595

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	-	-	2,228,294	-	-	-	-
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
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	-	5,409	2,503,331	-	-	-	43,578
Total	-	5,409	2,503,331	-	-	-	43,578

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 CRMl 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 2015

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	2,056,841	-	-	-
Banks, Development Financial Institutions & MDBs	2,260,334	-	-	-
Corporates	4,623,374	1,856,411	449,584	-
Regulatory Retail	106,122	-	2,859	-
Residential Mortgages	244,183	-	7,087	-
Other Assets	80,604	-	-	-
Defaulted Exposures	20,336	-	8,647	-
Total for On-Balance Sheet exposures	9,391,793	1,856,411	468,177	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,158,454	-	-	-
Total for Off-Balance sheet exposures	1,158,454	-	-	-
Total On and Off Balance sheet exposure	10,550,246	1,856,411	468,177	-

7.1 Disclosure on Credit Risk Mitigation (continued)

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
Credit Risk				
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	-
Off-Balance sheet exposures				
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	-

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 2015

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	79,845	79,845	62,145
Transaction related contingent items	1,455,088	727,544	325,322
Short Term Self Liquidating trade related contingencies	30,833	6,167	6,166
Foreign exchange related contracts			
- One year or less	1,157,673	16,180	3,236
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,092,299	218,460	200,366
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	220,516	110,258	64,908
Others			
Total	4,036,254	1,158,454	662,143

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

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 losses in on- and off-balance sheet positions arising from movements in market prices.

The Bank has established the Guideline 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. RMICC is responsible for the oversight of market risk management of the Bank and execute BRC and Board's mandate on market risk management strategies, risk appetite and tolerance level. RMD currently measures its market risk with risk parameters such as FX Net Open Position (FX NOP), Value-at-Risk (VaR), and stop loss limits on daily basis.

For capital requirement, the Bank has adopted the Standardised Approach. The current market risk capital charge arises from the Bank's exposures in the foreign exchange risk from the FX spot, swap and forward transactions.

Risk weighted assets and capital requirement for market risk

Capital Charge Requirement for :	30 June 2015	31 Dec 2014
	Standardised Approach	Standardised Approach
	RM'000	RM'000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	778	768
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	9,720	9,599

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.

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 30th June 2015:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 13,417	+/- 3,710
USD	+/- 854	+/- 4,213
CNY/CNH	+/- 13,006	+/- 11,820

As at 31st December 2014:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 16,812	+/- 8,646
USD	+/- 540	+/- 2,182
CNY/CNH	+/- 12,700	+/- 7,627