Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3)
30 June 2016

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 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 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. In line with the transitional arrangements under Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components), the Bank require to hold and maintain capital buffers specified by Bank Negara Malaysia in the form of Common Equity Tier 1 Capital (CET 1), Tier 1 Capital and Total Capital ratios.

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 CET 1, Tier 1 Capital and Total Capital ratio including CCB and CCyB are 4.5% to 5.125%, 6.0% to 6.625% and 8.0% to 8.625% respectively for year 2016.

Total CET 1 and Total capital ratio are as follows:

	Jun 2016 RM'000	Dec 2015 RM'000
Before/After deducting proposed dividends		
CET 1 capital ratio	18.958%	21.310%
Tier 1 capital ratio	18.958%	21.310%
Total capital ratio	19.916%	22.354%

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

30 June 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	2,554,092	2,554,092	-	-
Banks, development financial institutions & MDBs*	1,573,744	1,573,744	314,749	25,180
Corporate	4,468,337	3,836,881	3,829,331	306,346
Regulatory Retail	118,028	114,671	87,979	7,038
Residential mortgages	282,166	281,276	103,072	8,246
Other assets	67,188	67,188	48,668	3,894
Total on-balance sheet exposure	9,063,555	8,427,852	4,383,799	350,704
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,483,731	1,331,564	1,247,890	99,831
Total credit risk	10,547,286	9,759,416	5,631,689	450,535
Net long position				
(ii) Market Risk				
Foreign currency risk	5,713		5,713	457
(iii) Operational Risk			383,945	30,716
Total risk weighted assets and capital requirement			6,021,347	481,708

* Multilateral Development Banks ("MDBs")

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

31 Dec 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	1,644,950	1,644,950	-	-
Banks, development financial institutions & MDBs*	2,209,574	2,209,574	559,599	44,768
Corporate	4,174,983	3,597,107	3,512,566	281,006
Regulatory Retail	118,104	115,883	88,905	7,112
Residential mortgages	271,725	270,835	102,254	8,180
Other assets	66,476	66,476	49,614	3,969
Total on-balance sheet exposure	8,485,812	7,904,825	4,312,938	345,035
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,168,726	1,148,014	708,690	56,695
Total credit risk	9,654,538	9,052,839	5,021,628	401,730
Net long position				
(ii) Market Risk				
Foreign currency risk	9,179		9,179	734
(iii) Operational Risk			339,583	27,167
Total risk weighted assets and capital requirement			5,370,390	429,631

* 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 2016 RM'000	Dec 2015 RM'000
CET 1 capital		
Paid-up ordinary share capital	760,518	760,518
Retained profits	163,473	163,473
Other reserves	223,231	223,231
Regulatory reserves	22,671	22,671
	1,169,893	1,169,893
Less: Regulatory adjustments applied in the calculation of CET 1 capital		
-Deferred tax assets	(2,741)	(2,783)
-Regulatory reserve attributable to loans and advances	(25,647)	(22,671)
Total CET 1 capital	1,141,505	1,144,439
Total Tier 1 capital	1,141,505	1,144,439
Tier-2 capital		
Collective impairment allowance	33,054	34,407
Regulatory reserves	25,647	22,671
Less: Investment in subsidiary	(1,000)	(1,000)
Total tier-2 capital	57,701	56,078
Total capital base	1,199,206	1,200,517
Capital ratios		
CET 1 capital ratio	18.958%	21.310%
Tier 1 capital ratio	18.958%	21.310%
Total capital ratio	19.916%	22.354%

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 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:

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 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 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	2,554,092	-	-	-	2,554,092
Banks, development financial institutions & MDBs	79,938	579,879	328,770	661,869	1,650,456
Corporates	4,789,113	628,654	184,450	216,971	5,819,188
Regulatory retails	120,080	3,752	1,259	1,892	126,983
Residential mortgages	81,689	195,121	7,716	44,853	329,379
Other assets	67,188	-	-	-	67,188
Total	7,692,100	1,407,406	522,195	925,585	10,547,286

31 December 2015

	Geography				
Asset Class	**Malaysia**	**China**	**Hong Kong**	**Other**	**Total**
	RM’000	RM’000	RM’000	RM’000	RM’000
Sovereigns & central banks	1,644,950	-	-	-	1,644,950
Banks, development financial institutions & MDBs	456,906	237,576	433,935	1,235,429	2,363,846
Corporates	3,761,263	508,627	151,635	111,437	4,532,962
Regulatory retails	117,900	3,278	1,253	1,722	124,153
Residential mortgages	80,816	187,648	7,479	44,509	320,452
Other assets	66,476	-	-	-	66,476
Total	6,128,311	937,129	594,302	1,393,097	9,052,839

5.3 Industry Analysis

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

30 June 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	-	-	449,549	2,921	-	-	452,470
Mining & Quarrying	-	-	172,379	-	-	-	172,379
Manufacturing	-	-	1,430,270	3,621	-	-	1,433,891
Electricity, gas & water supply	-	-	346,207	-	-	-	346,207
Construction	-	-	967,256	486	-	-	967,742
Real Estate	-	-	1,112,119	9,337	-	-	1,121,456
Research & Development	-	-	-	-	-	-	-
Wholesale & retail trade & restaurant & hotels	-	-	261,287	4,813	-	-	266,100
Transport, storage & communication	-	-	362,875	256	-	-	363,131
Finance, insurance & business services	-	1,650,456	152,861	188	-	67,188	1,870,693
Household	-	-	533,155	105,055	329,379	-	967,589
Government & government agencies	2,554,092	-	-	-	-	-	2,554,092
Education, health & others	-	-	5,491	306	-	-	5,797
Others	-	-	25,739	-	-	-	25,739
Total	2,554,092	1,650,456	5,819,188	126,983	329,379	67,188	10,547,286

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

31 December 2015

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	-	-	404,798	3,065	-	-	407,863
Mining & Quarrying	-	-	67,948	-	-	-	67,948
Manufacturing	-	-	1,172,762	1,251	-	-	1,174,013
Electricity, gas & water supply	-	-	78,660	-	-	-	78,660
Construction	-	-	768,486	498	-	-	768,984
Real Estate	-	-	1,115,403	8,724	-	-	1,124,127
Research & Development	-	-	1	-	-	-	1
Wholesale & retail trade & restaurant & hotels	-	-	262,816	2,984	-	-	265,800
Transport, storage & communication	-	-	275,155	316	-	-	275,471
Finance, insurance & business services	-	2,363,846	50,043	958	-	66,476	2,481,323
Household	-	-	296,053	105,922	320,452	-	722,427
Government & government agencies	1,644,950	-	-	-	-	-	1,644,950
Education, health & others	-	-	5,624	435	-	-	6,059
Others	-	-	35,213	-	-	-	35,213
Total	1,644,950	2,363,846	4,532,962	124,153	320,452	66,476	9,052,839

5.4 Maturity Analysis

Original contractual maturity breakdown by major types of gross credit exposures

30 June 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	2,554,092	-	-	2,554,092
Banks, development financial institutions & MDBs	1,588,967	61,489	-	1,650,456
Corporates	3,084,345	1,154,363	1,580,480	5,819,188
Regulatory retails	23,404	1,357	102,222	126,983
Residential mortgages	-	5	329,374	329,379
Other assets	26,250	40,938	-	67,188
Total	7,277,058	1,258,152	2,012,076	10,547,286

31 December 2015

Credit exposure	**Maturity**			**Total**
Category	Up to one year	1-5 year	>5years	
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,644,950	-	-	1,644,950
Banks, development financial institutions & MDBs	1,823,519	482,036	58,291	2,363,846
Corporates	1,942,509	981,184	1,609,269	4,532,962
Regulatory retails	20,367	892	102,894	124,153
Residential mortgages	-	38	320,414	320,452
Other assets	24,487	41,989	-	66,476
Total	5,455,832	1,506,139	2,090,868	9,052,839

5.5 Impaired loans and impairment provision by economic sector

(a) Impaired loans by sector:

	Jun 2016	Dec 2015
	RM'000	RM'000
Household	3,389	6,271
Manufacturing	98,573	33,664
Real Estate	-	-
Transport, Storage & Communication	2,935	2,990
Finance, Insurance & Business Services	509	487
	105,406	43,412

(b) Past due loans by sector:

	Bank	
	Jun 2016	Dec 2015
	RM'000	RM'000
Primary agriculture	-	35,983
Manufacturing	2,044	-
Construction	8,031	-
Real estate	20,359	14,803
Wholesale and retail trade and restaurants and hotels	2,012	2,513
Transport, storage and communication	-	-
Finance, insurance and business services	-	-
Household	26,279	25,479
Others	-	-
	58,725	78,783

(c) Individual impairment provisions by sector:

	Jun 2016	Dec 2015
	RM'000	RM'000
Household	27	800
Manufacturing	12,798	6,441
Transport, Storage & Communication	59	59
Finance, Insurance & Business Services	506	453
	13,390	7,753

(d) Collective impairment provisions by sector:

	Jun 2016	Dec 2015
	RM'000	RM'000
Primary agriculture	4,438	3,140
Mining & Quarrying	1,291	425
Manufacturing	8,362	8,275
Electricity, Gas & Water Supply	3,121	649
Construction	5,516	4,196
Real estate	2,374	9,579
Wholesale and retail trade and restaurants and hotels	2,108	2,125
Transport, storage and communication	1,665	859
Finance, insurance and business services	1,607	2,613
Household	2,334	2,299
Education, health & others	65	49
Others	173	198
	33,054	34,407

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 2016 RM'000	Dec 2015 RM'000
Impaired loans and advances		
At beginning of the financial year	43,412	16,965
Classified as impaired during the year	67,509	38,104
Amount recovered	(5,515)	(8,244)
Amount written-off	-	-
Amount reclassified as Performing	-	(3,413)
At end of the financial year	105,406	43,412
Individual impairment allowance	(13,390)	(7,753)
Net impaired loans and advances	92,016	35,659

	Jun 2016 RM'000	Dec 2015 RM'000
Individual impairment allowance		
At the beginning of the financial year	7,753	899
Allowance made during the financial year	7,087	7,090
Allowance written back during the financial year	(1,450)	(236)
At end of the financial year	13,390	7,753
Collective impairment allowance		
As beginning of the financial year	34,407	26,962
Allowance made during the financial year	-	5,925
Allowance written back during the financial year	(1,037)	-
Exchange Rate Differences	(316)	1,520
At the end of the financial year	33,054	34,407

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: <u>Definition of Default</u>

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 2016

	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%	2,544,092	-	-	-	-	18,520	2,572,612	-
20%	-	1,585,412	77,107	-	-	-	1,662,519	332,504
35%	-	-	-	-	303,101	-	303,101	106,085
50%	-	65,044	12,300	-	22,870	-	100,214	50,107
75%	-	-	-	120,487	1,762	-	122,249	91,687
100%	-	-	4,844,128	-	755	48,668	4,893,551	4,893,550
150%	-	-	102,507	2,663	-	-	105,170	157,756
Average Risk Weights							9,759,416	5,631,689
Deduction from Capital Base	-	-	-	-	-	-	-	

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

31 December 2015

	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%	1,644,950	-	39,838	-	-	16,862	1,701,650	-
20%	-	1,819,784	4,947	-	-	-	1,824,731	364,946
35%	-	-	-	-	287,135	-	287,135	100,497
50%	-	544,062	773,438	-	27,075	-	1,344,575	672,288
75%	-	-	-	121,467	2,628	-	124,095	93,071
100%	-	-	3,677,079	-	3,614	49,614	3,730,307	3,730,308
150%	-	-	37,660	2,686	-	-	40,346	60,518
Average Risk Weights							9,052,839	5,021,628
Deduction from Capital Base	-	-	-	-	-	-	-	

6.2 Rated Exposures according to Ratings by ECAIs

30 June 2016

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	-	-	2,554,092	-	-	-	-
Total	-	-	2,554,092	-	-	-	-

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	-	-	1,162,463	-	484,160	-	3,833
Total	-	-	1,162,463	-	484,160	-	3,833

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	-	86,790	1,130,388	59,244	-	4,542,766
Total	-	86,790	1,130,388	59,244	-	4,542,766

31 December 2015

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	-	-	766,087	86,010	-	3,680,865
Total	-	-	766,087	86,010	-	3,680,865

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	-	-	1,644,950	-	-	-	-
Total	-	-	1,644,950	-	-	-	-

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	-	-	2,331,585	21,302	-	-	10,959
Total	-	-	2,331,585	21,302	-	-	10,959

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, financial institutions, 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 "Capital Adequacy Framework (Basel II – Risk-Weighted Assets) dated on 13 October 2015 issued by BNM.

7.1 Disclosure on Credit Risk Mitigation

30 June 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	2,554,092	-	-	-
Banks, Development Financial Institutions & MDBs	1,573,744	-	-	-
Corporates	4,365,829	85,499	823,452	-
Regulatory Retail	115,365	-	3,833	-
Residential Mortgages	281,411	-	890	-
Other Assets	67,188	-	-	-
Defaulted Exposures	105,926	-	-	-
Total for On-Balance Sheet exposures	9,063,555	85,499	828,175	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,483,731	-	-	-
Total for Off-Balance sheet exposures	1,483,731	-	-	-
Total On and Off Balance sheet exposure	10,547,286	85,499	828,175	-

7.1 Disclosure on Credit Risk Mitigation (continued)

31 December 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	1,644,950	-	-	-
Banks, Development Financial Institutions & MDBs	2,209,574	-	-	-
Corporates	4,137,813	767,684	638,113	-
Regulatory Retail	115,418	-	2,534	-
Residential Mortgages	268,111	-	890	-
Other Assets	66,476	-	-	-
Defaulted Exposures	43,470	-	-	-
Total for On-Balance Sheet exposures	8,485,812	767,684	641,537	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,168,726	-	-	-
Total for Off-Balance sheet exposures	1,168,726	-	-	-
Total On and Off Balance sheet exposure	9,654,538	767,684	641,537	-

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 2016

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	115,474	115,474	74,532
Transaction related contingent items	1,981,492	990,746	865,672
Short Term Self Liquidating trade related contingencies	107,050	21,410	11,981
Foreign exchange related contracts			
- One year or less	893,012	15,667	3,437
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,245,061	249,012	232,461
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	182,843	91,422	59,807
Others			
Total	4,524,932	1,483,731	1,247,890

Off-Balance Sheet and Counterparty Credit Risk – 31 December 2015

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM’000	RM’000	RM’000
Direct Credit Substitutes	80,517	80,517	60,507
Transaction related contingent items	1,461,522	730,761	364,822
Short Term Self Liquidating trade related contingencies	64,553	12,911	11,244
Foreign exchange related contracts			
- One year or less	419,525	2,709	717
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,028,447	205,689	185,002
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	272,277	136,139	86,398
Others			
Total	3,326,841	1,168,726	708,690

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’s Risk Management and Internal Control Committee (RMICC) is responsible for the oversight of market risk management of the Bank and execute Board Risk Committee (BRC) and Board’s mandate on market risk management strategies, risk appetite and tolerance level. 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. RMD currently measures and monitors its 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 mainly 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 2016	31 Dec 2015
	Standardised Approach	Standardised Approach
	RM'000	RM'000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	457	734
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	5,713	9,179

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 for Group are as stated below:

As at 30 June 2016:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 27,315	+/- 19,086
USD	+/- 4,342	+/- 7,239
CNY/CNH	+/- 1,216	+/- 915

As at 31 December 2015:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 23,549	+/- 17,792
USD	+/- 6,632	+/- 11,951
CNY/CNH	+/- 348	+/- 310