Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II) –
Disclosure Requirements (Pillar 3)
30 June 2019

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 immediate holding company of the Bank is Bank of China (Hong Kong) Limited, which was incorporated in Hong Kong whereas the penultimate holding company is Bank of China Limited and the ultimate holding company is Central Huijin Investment Ltd, both were incorporated in China. The principal activities of the Bank are commercial banking and related financial services.

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 key capital management principles, process and responsibilities that the Bank needs to put in place 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 meet the expectations of key stakeholders, including shareholders, investors and rating agencies. 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 (ICT) ratio. Both warning trigger ratio and ICT are set for Common Equity Tier 1 (CET1) Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio.

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

The Board of Director (BOD) undertake the ultimate responsibility in ensuring capital is adequate to cover material risks inherent in the Bank by meeting all relevant regulatory standards and guidelines. Meanwhile, the Senior Management shall be responsible for organizing the implementation of capital management in consistency with the Bank's business strategies and risk appetite, ensuring that capital is commensurate with the trend of business development and risk profile, and that various controls are in place.

The Bank's capital management framework covers capital planning, capital replenishment mechanism, capital contingency plan, capital management measures, capital reporting and monitoring. The annual budget and three-year business plan together with the capital requirement assessment will be reported to the Senior Management and approved by the Board of Directors accordingly.

Capital adequacy and regulatory capital are closely monitored by Management, employing techniques based on the guidelines of Basel II and the BNM's guideline on Capital Adequacy Framework 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

The total capital and capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components) Policy dated 2 February 2018. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk.

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

The capital buffers shall comprise 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 onwards : +2.5%]
b) Countercyclical Capital Buffer (CCyB), determined as the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the bank has credit exposures. (intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.) (Maximum is 2.50%)

The minimum capital adequacy requirement for year 2019:

CET 1 Ratio (including CCB and CCyB)	7.000%	(6.375% in year 2018)
Tier 1 Capital Ratio (including CCB and CCyB)	8.500%	(7.875% in year 2018)
Total Capital Ratio (including CCB and CCyB)	10.500%	(9.875% in year 2018)

Total CET 1 and Total capital ratio are as follows:

	Jun 2019 RM'000	Dec 2018 RM'000
CET 1 capital ratio	16.878%	17.648%
Tier 1 capital ratio	16.878%	17.648%
Total capital ratio	32.641%	34.084%

There is no dividend declared and payout in financial year 2018.

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

30 Jun 2019	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	2,073,731	2,073,731	-	-
Banks, development financial institutions & MDBs*	4,215,328	4,215,328	849,322	67,946
Corporate	6,977,207	6,661,948	5,783,618	462,689
Regulatory Retail	201,142	200,088	172,177	13,774
Residential mortgages	182,643	181,708	65,699	5,256
Other assets	127,854	127,854	111,788	8,943
Total on-balance sheet exposure	13,777,905	13,460,657	6,982,604	558,608
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,960,164	1,889,438	1,258,828	100,707
Total credit risk	15,738,069	15,350,095	8,241,432	659,315
(ii) Market Risk				
Foreign currency risk	380		4,747	380
(iii) Operational Risk			525,527	42,042
Total risk weighted assets and capital requirement			8,771,706	701,737

* Multilateral Development Banks ("MDBs")

31 Dec 2018	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	2,934,298	2,934,298	-	-
Banks, development financial institutions & MDBs*	3,621,396	3,621,396	740,248	59,220
Corporate	6,265,728	5,917,061	5,547,924	443,834
Regulatory Retail	201,745	200,509	172,403	13,792
Residential mortgages	190,495	189,827	69,068	5,526
Other assets	95,691	95,691	70,897	5,672
Total on-balance sheet exposure	13,309,353	12,958,782	6,600,540	528,044
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,858,783	1,799,321	1,221,940	97,755
Total credit risk	15,168,136	14,758,103	7,822,480	625,799
(ii) Market Risk				
Foreign currency risk	16,273		16,273	1,302
(iii) Operational Risk			509,932	41,276
Total risk weighted assets and capital requirement			8,348,685	668,377

* 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 loan loss provisions, 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.

	Jun 2019 RM'000	Dec 2018 RM'000
CET 1 capital		
Paid-up ordinary share capital	760,518	760,518
Retained profits	726,128	726,128
Regulatory reserves	33,607	16,191
Fair value through other comprehensive reserve	11,411	8,193
Revaluation Reserves	-	-
	1,531,664	1,511,030
Regulatory adjustments applied in the calculation of CET 1 capital		
-Deferred tax assets	(11,333)	(16,959)
-55% of cumulative unrealised gains of FVOCI financial instrument	(6,276)	(4,506)
-55% of cumulative gains of AFS	-	-
-Regulatory reserve attributable to loans and advances	(33,607)	(16,191)
Total CET 1 capital/ Total Tier 1 capital	1,480,448	1,473,374
Tier-2 capital		
General Provision*	102,347	92,553
Subordinated loan	1,281,385	1,280,610
Less: Investment in subsidiary	(1,000)	(1,000)
Total tier-2 capital	1,382,732	1,372,163
Total capital base	2,863,180	2,845,537
Capital ratios		
CET 1 capital ratio	16.878%	17.648%
Tier 1 capital ratio	16.878%	17.648%
Total capital ratio	32.641%	34.084%

* General provision is subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach for credit risk.

4. Risk Management
4.1 Risk Management Framework

Risk Governance

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

Establish and Approve Risk Appetite, Risk Tolerance Limit and Policy, Framework & Governance	Board of Directors (“BOD”)
	Board Risk Management Committee (“BRMC”)
Implementation of Risk Policy, Oversee the effective management of Regulations and Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) compliance risk, monitoring of risk tolerance	Risk Management and Internal Control Committee (“RMICC”)
	Compliance Risk Management Committee (“CRMC”)
	Senior Management
	Risk Management Department (“RMD”), Anti-Money Laundering Unit (“AML”), Legal & Compliance and Operational Risk Management Unit (“LCO”), collectively known as Risk Management (“RM”)
	Internal Audit Department
Implement and Comply with Risk Policy, assessing and ensuring risk data is correctly retrieved, input, kept current and aligned with the data definitions, monitoring of Risk Tolerance Limit	All the Departments and Branches

The BOD, representing the interest of shareholders, is the highest decision making authority of the Bank and has the ultimate responsibility for oversight and management of risks of the Group and the Bank. The BOD has the primary responsibilities for the determination of risk management strategies, risk appetite and bank culture, and for ensuring that the Bank has an effective risk management system to implement these risk management strategies.

The BRMC is a risk committee of the BOD which is responsible for overseeing the Bank’s various types of risks, including review and advising the BOD on high level risk management policies, overseeing their implementation, reviewing and concurring the Bank’s risk data aggregation and risk reporting framework. The BRMC shall refer any specific transaction to the BOD if it is deemed so significant that BOD approval is desirable.

RMICC assists the BRMC and BOD in risk management oversight, responsible for review, endorse, approve and, where relevant recommend to the BRMC and BOD, all key decision and recommendations of RMICC including policies, risk appetite and associated limits setting, aligning risk management framework with business strategies and planning, oversee effective implementation of risk management measures, portfolio exposure monitoring, ensuring that infrastructure, resources and systems are put in place for effective risk management activities

Compliance Risk Management Committee (CRMC) is a sub-committee of RMICC with the objective to oversee the effective management and implementation of relevant requirements of the Regulators, Board of Directors and the Management on Regulatory and Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) compliance risk. The committee also responsible in strengthening the regulatory and AML/CFT compliance risk management and ensuring Bank’s business operations conforming to all relevant laws and regulations and to create a sound compliance culture for the Bank.

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 including structure, process and policies of the Bank.

The independent Risk Management (RM) provides crucial support to the RMICC, CRMC and BRMC for implementing the risk policies and overseeing the compliance of the various material risks. They are also responsible for monitoring and reporting of risk.

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

Risk Management Approach

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

The Bank's ICAAP is guided by the ICAAP Policy detailing the responsibilities, approaches and methodologies for identifying and measuring risks, stress testing, reporting and review process, capital planning for a 3 year-plans, independent review, and etc. The Bank has undertaken a self-assessment to evaluate the existing capital and risk management practices against the expectations set forth by various stakeholders (e.g BNM, shareholders and etc) as well as business strategies and risk appetite in a forward looking approach.

The internal capital adequacy assessment is stress-tested based on specific stress scenarios, mainly using quantitative analysis, covering main risks across the business lines and taking full consideration of the impact of macroeconomics changes to assess the impact on Bank’s capital adequacy.

The 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 and stress 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 a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions. It arises principally from lending, trade finance and treasury businesses.

The Bank structures the levels of credit risk it undertakes by placing threshold limits on the amount of risk acceptable in relation to single borrower, group of borrowers, industry segments, country, product in addition to limits set for regulatory compliance purpose. Such risks and compliance are monitored on a regular basis and are subject to annual or more frequent review. Limits set by regulator and Parent Bank are adopted by the Bank for managing credit risks.

Monitor and Mitigation of Material Risks

- Prudent customer selection is conducted by business unit who stand as the first line of defence. The Bank has adequate management of credit risk with refining risk appetite, monitoring of key risk threshold limit, enhancing/developing/tighten underwriting standards for various type of lending, strengthening loan monitoring and increase loan portfolio of better risk rating category of "BBB and better". Weaker rating (below BBB) are adequately mitigated with credit risk mitigants, such as tangible collaterals and guarantees;

- For both Corporate and Retail loans, the Bank applies independent credit due diligence process on credit requests. Credit proposals are validated, analysed, assessed and proposed by Business Unit. The credit proposals shall then be independently assessed and/or approved by Credit Approval Department based on the delegated credit authorities of the approvers. Should any credit proposal be exceeding the highest delegated credit authority of the approvers, upon complete due diligence, the Credit Approval Department will recommend the credit proposal to Credit Evaluation Panel ("CEP"). Upon deliberation by CEP, the credit proposal shall be submitted to CEO for final decision. Experienced and competent key personnel are appointed to the CEP to assist the CEO in assessing the credit application and major credit decisions, to provide recommendation to CEO for final decision. CEO has the discretion to reject or modify terms and conditions of the loans passed by CEP. For cases which needs Bank of China (Hong Kong) Limited's (incorporated in Hong Kong) consultation, the Board Risk Management Committee has the veto power to reject credit or modify the terms and conditions which have been approved by the approving authorities.

- The Bank continued to review, analyse and monitor its credit exposure portfolio and report to Management through RMICC and to the Board Risk Management Committee and Board of Directors on a quarterly basis.

5.1 Past Due and Impaired Loan

The loans or financing of the Bank is considered past due when the repayment amount due and unsettled on the due date. A loan is considered to be past due when the counterparty has failed to make principal or interest repayment when contractually due. Loan with more than 90 days past due or any other events occurred is to be classified as impaired according to the Bank's policies.

The classification of impaired loans or financing and provision of the Bank for loans or financing impairment is consistent with the standard under Malaysian Financial Reporting Standards 9 ("MFRS9") and BNM Guidelines on Financial Reporting.

The loans or 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 and the loan exhibits weaknesses in accordance with Bank's Credit Risk Measurement Framework that would render the account as impaired; or

iii. Where repayments are scheduled on intervals of 3 months or longer, the loan or financing is classified as impaired as soon as a default occurs; or

iv. When the loan is classified as rescheduled and restructured in the Central Credit Reference Information System (CCRIS) in accordance with regulatory requirements.

With effect from 1 January 2018, the Bank has adopted MFRS9 which introduces a forward-looking expected credit loss (ECL) model on impairment provisioning. The Bank applies a 3 stages approach to measuring ECL as follows:

Stage 1 - 12 months ECL

- For non-impaired credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

Stage 2 – Lifetime ECL

- For non-impaired credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Stage 3 – Lifetime ECL

- Financial assets are assessed as credit impaired when one or more objective evidences of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred.

The MFRS9 ECL Methodology has been independently validated by both external validator and internal validator.

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 2019

Credit exposure	**Geography**				
Asset Class	**Malaysia**	**China**	**Hong Kong**	**Other**	**Total**
	RM’000	RM’000	RM’000	RM’000	RM’000
Sovereigns & central banks	2,073,731	-	-	-	2,073,731
Banks, development financial institutions & MDBs	3,250,559	454,425	291,752	529,323	4,526,059
Corporates	5,624,991	797,699	950,434	1,246,690	8,619,814
Regulatory retails	105,127	89,143	2,358	7,057	203,685
Residential mortgages	39,134	112,187	6,020	29,585	186,926
Other assets	127,854	-	-	-	127,854
Total	11,221,396	1,453,454	1,250,564	1,812,655	15,738,069

31 December 2018

Credit exposure	**Geography**				
Asset Class	**Malaysia**	**China**	**Hong Kong**	**Other**	**Total**
	RM’000	RM’000	RM’000	RM’000	RM’000
Sovereigns & central banks	2,934,298	-	-	-	2,934,298
Banks, development financial institutions & MDBs	2,777,719	387,113	414,583	387,083	3,966,498
Corporates	5,248,128	737,463	592,718	1,197,302	7,775,611
Regulatory retails	109,282	86,637	2,261	6,283	204,463
Residential mortgages	43,720	113,425	4,199	30,231	191,575
Other assets	95,691	-	-	-	95,691
Total	11,208,838	1,324,638	1,013,761	1,620,899	15,168,136

5.3 Industry Analysis

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

30 June 2019

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	-	-	522,056	1,016	-	-	523,072
Mining & Quarrying	-	-	710,194	-	-	-	710,194
Manufacturing	-	-	1,767,568	902	-	-	1,768,470
Electricity, gas & water supply	-	-	256,372	-	-	-	256,372
Construction	-	-	958,834	1,174	-	-	960,008
Real Estate	-	-	1,909,540	5,759	-	-	1,915,299
Wholesale & retail trade & restaurant & hotels	-	-	244,906	1,303	-	-	246,209
Transport, storage & communication	-	-	221,287	-	-	-	221,287
Finance, insurance & business services	-	4,526,059	1,315,170	4	-	-	5,841,233
Household	-	-	380,275	193,527	186,926	-	760,728
Government & government agencies	2,073,731	-	-	-	-	-	2,073,731
Education, health & others	-	-	333,612	-	-	-	333,612
Others*	-	-	-	-	-	127,854	127,854
Total	2,073,731	4,526,059	8,619,814	203,685	186,926	127,854	15,738,069

**Others are exposures which are not elsewhere classified.*

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

31 December 2018

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	-	-	570,544	1,606	-	-	572,150
Mining & Quarrying	-	-	663,114	-	-	-	663,114
Manufacturing	-	-	1,494,121	1,940	-	-	1,496,061
Electricity, gas & water supply	-	-	220,112	-	-	-	220,112
Construction	-	-	931,363	903	-	-	932,266
Real Estate	-	-	1,649,613	6,355	-	-	1,655,968
Wholesale & retail trade & restaurant & hotels	-	-	245,530	1,806	-	-	247,336
Transport, storage & communication	-	-	218,234	-	-	-	218,234
Finance, insurance & business services	-	3,966,498	1,056,011	-	-		5,022,509
Household	-	-	415,336	191,853	191,575	-	798,764
Government & government agencies	2,934,298	-	-	-	-	-	2,934,298
Education, health & others	-	-	311,633	-	-	-	311,633
Others*	-	-	-	-	-	95,691	95,691
Total	2,934,298	3,966,498	7,775,611	204,463	191,575	95,691	15,168,136

**Others are exposures which are not elsewhere classified.*

5.4 Maturity Analysis

Original contractual maturity breakdown by major types of gross credit exposures

30 June 2019

Credit exposure	**Maturity**			**Total**
Category	Up to one year	1-5 year	>5years	
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,687,956	-	385,775	2,073,731
Banks, development financial institutions & MDBs	4,198,073	239,950	88,036	4,526,059
Corporates	3,228,918	2,303,979	3,086,917	8,619,814
Regulatory retails	11,339	578	191,768	203,685
Residential mortgages	59	-	186,867	186,926
Other assets	4,994	-	122,860	127,854
Total	9,131,339	2,544,507	4,062,223	15,738,069

31 December 2018

Credit exposure	**Maturity**			**Total**
Category	Up to one year	1-5 year	>5years	
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	2,476,956	70,852	386,490	2,934,298
Banks, development financial institutions & MDBs	3,642,708	239,711	84,079	3,966,498
Corporates	3,209,884	1,563,007	3,002,720	7,775,611
Regulatory retails	13,157	303	191,003	204,463
Residential mortgages	83	-	191,492	191,575
Other assets	32,450	3,315	59,926	95,691
Total	9,375,238	1,877,188	3,915,710	15,168,136

5.5 Loan and Advances and Expected Credit Loss (ECL) by sector

(a) Loan and Advances -Impaired:

	Jun 2019	Dec 2018
	RM'000	RM'000
Manufacturing	80,599	40,887
Construction	887	3,255
Primary Agriculture	23,545	-
Real estate	1,743	2,286
Household	20,362	14,961
Wholesale, Retail Trade, Restaurant & Hotel	6,645	6,667
Total	133,781	68,056

(b) Loan and Advances-Past due loans:

	Jun 2019	Dec 2018
	RM'000	RM'000
Primary agriculture	-	24,205
Manufacturing	-	6,093
Construction	2,617	7,803
Real estate	52,601	67,395
Household	20,743	20,930
Electricity, Gas and Water Supply	24,435	28,722
Wholesale & Retail Trade and Restaurant & Hotels	8,565	-
Total	108,961	155,148

(c) Loan and Advances –Neither Past Due nor Impaired:

	Jun 2019	Dec 2018
	RM'000	RM'000
Primary agriculture	478,689	510,689
Manufacturing	1,171,501	982,847
Construction	420,341	394,279
Real Estate	1,633,042	1,469,372
Household	714,291	758,731
Electricity, Gas and Water Supply	174,973	104,012
Education, health & Others	312,068	279,685
Finance, Insurance & Business Activities	1,321,793	1,137,859
Mining and Quarrying	677,980	604,244
Transport, Storage & Communication	116,298	116,993
Wholesale & Retail Trade and Restaurant & Hotels	199,280	213,400
Total	7,220,256	6,572,111

(d) Lifetime ECL (Credit Impaired) Stage 3/ Individual Impairment Provision by sector:

	Jun 2019	Dec 2018
	RM'000	RM'000
Manufacturing	61,126	20,505
Real Estate	128	159
Household	6,925	4,713
Primary Agriculture	9,521	-
Wholesale & Retail Trade and Restaurant & Hotels	6,633	6,667
Total	84,333	32,044

(e) 12 month ECL (Stage 1) & Lifetime ECL (Non Credit Impaired) Stage 2/ Collective impairment provisions by sector:

	Jun 2019	Dec 2018
	RM'000	RM'000
Primary agriculture	1,903	2,530
Manufacturing	23,465	23,665
Construction	2,046	2,920
Real Estate	17,725	23,173
Household	4,994	6,312
Electricity, Gas and Water Supply	2,400	2,953
Education, health & Others	1,356	1,032
Finance, Insurance & Business Activities	1,563	1,660
Mining and Quarrying	1,849	1,338
Transport, Storage & Communication	725	997
Wholesale & Retail Trade and Restaurant & Hotels	4,401	3,561
Total	62,427	70,141

5.6 Loan and Advances and Expected Credit Loss by geographical

(a) Loan and Advances -Impaired:

	Jun 2019	Dec 2018
	RM'000	RM'000
Malaysia	121,814	58,927
China	7,083	1,792
Hong Kong	-	-
Other	4,884	7,337
Total	133,781	68,056

(b) Loan and Advances-Past due loans:

	Jun 2019	Dec 2018
	RM'000	RM'000
Malaysia	74,297	116,706
China	4,561	9,272
Hong Kong	-	448
Other	30,103	28,722
Total	108,961	155,148

(c) Loan and Advances –Neither Past Due nor Impaired:

	Jun 2019	Dec 2018
	RM'000	RM'000
Malaysia	4,723,324	4,578,579
China	423,474	328,006
Hong Kong	863,496	560,481
Other	1,209,962	1,105,045
Total	7,220,256	6,572,111

(d) Lifetime ECL (Credit Impaired) Stage 3/ Individual Impairment Provision by geographical:

	Jun 2019	Dec 2018
	RM'000	RM'000
Malaysia	81,620	30,934
China	1,891	215
Hong Kong	-	-
Other	822	895
Total	84,333	32,044

(e) 12 month ECL (Stage 1) & Lifetime ECL (Non Credit Impaired) Stage 2/ Collective impairment provisions by geographical:

	Jun 2019	Dec 2018
	RM'000	RM'000
Malaysia	52,282	58,842
China	1,619	2,843
Hong Kong	3,075	3,163
Other	5,451	5,293
Total	62,427	70,141

5.7 Movement in credit impaired/impaired loans and advances

	Jun 2019	Dec 2018
	RM'000	RM'000
Impaired loans and advances		
At 1 January	68,056	97,765
Classified as credit impaired/impaired during the year	71,288	12,085
Reclassified as non-credit impaired/performing during the year	(518)	(15,127)
Amount recovered	(3,575)	-
Amount written-off/ write-down	(1,470)	(26,667)
	133,781	68,056
Individual impairment allowance	(84,333)	(32,044)
Net impaired loans and advances	49,448	36,012

5.8 Movement in allowance for impairment on loan and advances

	12 months ECL (Stage 1) RM'000	Lifetime ECL (not credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Total RM'000
Beginning 1 January 2019	18,052	52,089	32,044	102,185
Transferred to 12 months ECL	7,072	(7,072)	-	-
Transferred to lifetime ECL not credit impaired	(427)	427	-	-
Transferred to lifetime ECL credit impaired	(28)	(1,435)	1,463	-
New loans ECL	3,767	1,467	-	5,234
Provision/reversal during the year	(6,178)	927	52,296	47,045
Full settlement	(3,558)	(2,677)	-	(6,235)
Amounts written off	-	-	(1,470)	(1,470)
Total ECL amount as at 30 June 2019	18,700	43,726	84,333	146,759

6. Credit Rating

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.

The following are the rating agencies or eligible External Credit Assessment Institutions ("ECAIs') rating used by the Bank:

a) Standard & Poor's ("S&P")
b) Moody's Investor Service (Moody's)
c) Fitch Rating ("Fitch")
d) RAM Rating Services Berhad
e) Malaysian Rating Corporation Berhad ("MARC")

Disclosures on Rated Exposures according to Ratings by ECAIs.

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

30 June 2019

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	Regulatory Retails	Residential Mortgages	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,073,731	-	-	-	-	16,066	2,089,797	-
20%	-	4,211,571	770,306	-	-	-	4,981,877	996,375
35%	-	-	-	-	182,312	-	182,312	63,809
50%	-	310,638	1,472,102	985	581	-	1,784,306	892,153
75%	-	-	-	121,540	-	-	121,540	91,155
100%	-	3,850	5,981,830	74,347	3,098	111,788	6,174,913	6,174,914
150%	-	-	10,232	5,118	-	-	15,350	23,026
Grand Total							15,350,095	8,241,432

31 Dec 2018

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	Regulatory Retails	Residential Mortgages	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,934,298	-	-	-	-	24,794	2,959,092	-
20%	-	3,636,384	89,921	-	-	-	3,726,305	745,261
35%	-	-	-	-	183,850	-	183,850	64,348
50%	-	306,304	1,386,906	979	3,916	-	1,698,105	849,052
75%	-	-	-	123,324	-	-	123,324	92,493
100%	-	23,810	5,888,646	73,134	3,141	70,897	6,059,628	6,059,628
150%	-	-	2,362	5,437	-	-	7,799	11,698
Grand Total							14,758,103	7,822,480

6.2 Rated Exposures according to Ratings by ECAIs

30 June 2019

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	-	-	2,073,731	-	-	-	-
Total	-	-	2,073,731	-	-	-	-

Exposure Class	Ratings of Banking Institutions 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	-	1,292,684	2,471,052	736,381	24,683	-	1,259
Total	-	1,292,684	2,471,052	736,381	24,683	-	1,259

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	-	716,300	765,802	909,339	-	6,288,373
Total	-	716,300	765,802	909,339	-	6,288,373

31 December 2018

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	-	-	2,934,298	-	-	-	-
Total	-	-	2,934,298	-	-	-	-

Exposure Class	Ratings of Banking Institutions 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	-	617,836	2,075,410	772,932	23,810	-	476,510
Total	-	617,836	2,075,410	772,932	23,810	-	476,510

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	-	89,921	234,584	580,355	-	6,870,751
Total	-	89,921	234,584	580,355	-	6,870,751

7. Credit Risk Mitigation

The Bank is granting the credit facilities based on the credit standing of the customer, legitimate loan purpose, 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 credibility.

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

No	Types of Collaterals
1	Fixed Deposits, Cash Margin
2	Residential Property
3	Non-Residential Property (e.g. shop, factory, warehouse, land and etc.)
4	Quoted Shares
5	Counter Guarantee by Financial Institution

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

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

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

7.1 Disclosure on Credit Risk Mitigation

30 June 2019

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	2,073,731	-	-	-
Banks, Development Financial Institutions & MDBs	4,215,328	-	-	-
Corporates	6,902,791	737,701	385,343	-
Regulatory Retail	187,619	-	1,694	-
Residential Mortgages	179,545	-	936	-
Other Assets	127,854	-	-	-
Defaulted Exposures	91,037	-	-	-
Total for On-Balance Sheet exposures	13,777,905	737,701	387,973	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,960,164	-	-	-
Total for Off-Balance sheet exposures	1,960,164	-	-	-
Total On and Off Balance sheet exposure	15,738,069	737,701	387,973	-

7.1 Disclosure on Credit Risk Mitigation (continued)

31 December 2018

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	2,934,298	-	-	-
Banks, Development Financial Institutions & MDBs	3,621,396	-	-	-
Corporates	6,244,612	1,136,505	407,776	-
Regulatory Retail	193,243	-	1,589	-
Residential Mortgages	184,025	-	668	-
Other Assets	95,691	-	-	-
Defaulted Exposures	36,088	-	-	-
Total for On-Balance Sheet exposures	13,309,353	1,136,505	410,033	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,858,783	-	-	-
Total for Off-Balance sheet exposures	1,858,783	-	-	-
Total On and Off Balance sheet exposure	15,168,136	1,136,505	410,033	-

8. 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 2019

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	545	545	545
Transaction related contingent items	2,528,372	1,264,181	641,506
Short Term Self Liquidating trade related contingencies	109,739	21,948	18,673
Foreign exchange related contracts			
- One year or less	1,387,828	1,944	1,214
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,746,407	349,281	297,802
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	644,522	322,261	299,085
Unutilised credit card lines	20	4	3
Total	6,417,433	1,960,164	1,258,828

Off-Balance Sheet and Counterparty Credit Risk – 31 December 2018

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM’000	RM’000	RM’000
Direct Credit Substitutes	2,136	2,136	2,136
Transaction related contingent items	2,480,797	1,240,398	656,134
Short Term Self Liquidating trade related contingencies	132,751	26,550	26,223
Foreign exchange related contracts			
- One year or less	142,455	1,508	973
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,603,671	320,734	295,055
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	534,907	267,453	241,417
Unutilised credit card lines	20	4	3
Total	4,896,737	1,858,783	1,221,941

9. Market Risk

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

At Management level, the Bank’s Risk Management and Internal Control Committee (RMICC) is responsible for the oversight of market risk management of the Bank and executing the Board Risk Management Committee (BRMC) and Board’s mandate on market risk management strategies, risk appetite and tolerance level. The Bank has established the Market Risk Management Policy 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). RMD currently measures and monitors its FX Net Open Position (FX NOP), Value-at-Risk (VaR), Price Value of Basis Point (PVBP) and stop loss limits (Daily, Monthly and

Yearly) on daily basis. RMD also reports to RMICC and Board on monthly and quarterly basis on the Bank's market risk exposures and its compliance to the limits approved for each market risk indicators.

For capital requirement, the Bank adopts the Standardised Approach. The current market risk capital charge is from the Bank's exposures in the foreign exchange risk

Risk weighted assets and capital requirement for market risk

Capital Charge Requirement for :	30 Jun 2019 Standardised Approach	31 Dec 2018 Standardised Approach
	RM'000	RM'000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	380	1,302
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	4,747	16,273

10. Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inherent in all activities, products and services of financial institutions and can transverse multiple activities and business lines within the bank. It includes a wide spectrum of heterogeneous risk such as fraud, physical damage, business disruption, transaction failures, legal and regulatory breaches as well as employee health and safety hazards. Operational risk may result in direct financial losses as well as indirect financial losses (e.g. loss of business and market share) due to reputational damage.

To manage operational risk, the Bank has established "Three lines of defense" to manage operational risk events, where:-

1. First line of defense – Business and functional lines are primarily responsible in managing operational risk of their respective businesses and functions.
2. Second line of defense – perform reviewing and identification and management of major operational risk by business and functional lines as well as integrating operational risks at the enterprise level.
3. Third line of defense – provide regular reviews and assessments of the operational risk management framework, processes and systems.

Risk Management and Internal Control Committee ("RMICC"), Compliance Risk Management Committee ("CRMC"), and Board Risk Committees ("BRC") are the Bank's risk governance committees accountable in overseeing the enterprise wide operational risk function. The committee is responsible to monitor and deliberate on operational risk issues specific to the business or functional lines, and promote risk ownership and management by the business and functional lines.

For capital requirement, the Bank has adopted the Basic Indicator Approach ("BIA"), the approach is in line with Bank Negara Malaysia Guidelines where the calculation is based on average of a fixed percentage of positive annual gross income over the previous three years.

	30 June 2019 (RM'000)	31 December 2018 (RM'000)
Minimum Capital required for Operational Risk	42,042	40,794
Total Risk Weighted Assets Equivalent for Operational Risk	525,527	509,932

11. Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is defined as the current and potential risk to the Bank's earning and economic value arising from movement of interest rates.

The table below illustrates BOCM IRRBB under a 100 basis point parallel interest rate shock from earning and economic value perspective.

As at 30 June 2019:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 57,777	+/- 110,042
USD	+/- 12,658	+/- 87,811
CNY/CNH	+/- 842	+/- 607

As at 31 December 2018:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 50,505	+/- 107,427
USD	+/- 12,262	+/- 87,917
CNY/CNH	+/- 476	+/- 385

------------------------ The end of Report ------------------------