Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II) –
Disclosure Requirements (Pillar 3)
30 June 2020

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 Standardised Approach (SA) in computing the capital requirements for credit risk and market risk and adopts 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 the Bank's Chief Executive Officer (CEO).

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 Management Actions 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 Directors (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 policy covers capital planning, capital injection or reduction mechanism, capital management actions, 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 BOD 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 BOD via the interim financial statement on a quarterly basis.

3.2 Capital Adequacy Ratio

The capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) Policy dated 5 February 2020. The Bank has adopted SA for Credit Risk and Market Risk, and BIA for Operational Risk.

Pursuant to BNM's Capital Adequacy Framework (Capital Components), the Bank is required to comply with the capital buffers and minimum capital adequacy ratios.

The capital buffers shall comprise sum of the following:
a) Capital Conservation Buffer (CCB) of 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 and capital buffer requirement for year 2020:

CET 1 Ratio (including CCB and CCyB)	7.000%
Tier 1 Capital Ratio (including CCB and CCyB)	8.500%
Total Capital Ratio (including CCB and CCyB)	10.500%

Notes: The Bank is allowed to draw down on the capital conservation buffer of 2.50% until 31 Dec 2020 and thereafter to restore the buffer to the minimum regulatory requirements by 30 Sept 2021 as per BNM’s letter dated 24 March 2020.

Total CET 1, Tier 1 and Total capital ratio are as follows:

	Jun 2020 RM’000	Dec 2019 RM’000
CET 1 capital ratio	15.208%	16.872%
Tier 1 capital ratio	15.208%	16.872%
Total capital ratio	29.616%	32.174%

There is no dividend declared and payout in financial year 2020.

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

30 Jun 2020	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	2,748,878	2,748,878	-	-
Banks, DFIs# & MDBs*	2,277,931	2,277,931	497,529	39,802
Corporate	8,328,369	8,074,264	7,390,601	591,248
Regulatory Retail	207,357	206,214	177,624	14,210
Residential mortgages	205,631	204,655	75,123	6,010
Other assets	162,509	162,509	141,086	11,287
Total on-balance sheet exposure	13,930,675	13,674,451	8,281,963	662,557
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,882,598	1,840,275	1,196,866	95,750
Total credit risk	15,813,273	15,514,726	9,478,829	758,307
(ii) Market Risk				
Foreign exchange risk	5,027		5,027	402
(iii) Operational Risk			544,770	43,582
Total risk weighted assets and capital requirement			10,028,626	802,291

* Multilateral Development Banks (MDBs)
# Development Financial Institutions (DFIs)

31 Dec 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	2,791,256	2,791,256	-	-
Banks, DFIs# & MDBs*	2,376,492	2,376,492	484,284	38,743
Corporate	7,236,871	6,952,050	6,337,687	507,015
Regulatory Retail	197,748	196,579	168,738	13,499
Residential mortgages	196,031	195,081	70, 973	5,678
Other assets	132,806	132,806	107,331	8,586
Total on-balance sheet exposure	12,931,204	12,644,264	7,169,013	573,521
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,932,124	1,881,266	1,251,209	100,097
Total credit risk	14,863,328	14,525,530	8,420,222	673,618
(ii) Market Risk				
Foreign exchange risk	5,047		5,047	404
(iii) Operational Risk			545,542	43,643
Total risk weighted assets and capital requirement			8,970,811	717,665

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, subordinated loan, 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 CET1 and Tier 2 capital to arrive at the regulatory capital.

	Jun 2020	Dec 2019
	RM'000	RM'000
CET 1 capital		
Paid-up ordinary share capital	760,518	760,518
Retained profits	755,391	755,391
Regulatory reserves	33,607	33,607
Fair value through other comprehensive reserve	28,867	12,539
Foreign Exchange Reserves	3	-
	1,578,386	1,562,055
Regulatory adjustments applied in the calculation of CET 1 capital		
-Deferred tax assets	(3,753)	(8,016)
-55% of cumulative unrealised gains of Fair value through Other Comprehensive Income financial instrument	(15,877)	(6,896)
-55% of cumulative gains of available-for-sale	-	-
-Regulatory reserve attributable to loans and advances	(33,607)	(33,607)
Total CET 1 capital/ Total Tier 1 capital	1,525,149	1,513,536
Tier-2 capital		
General Provision*	118,485	105,253
Subordinated loan	1,327,420	1,268,520
Less: Investment in subsidiary	(1,000)	(1,000)
Total tier-2 capital	1,444,905	1,372,773
Total capital base	2,970,054	2,886,309
Capital ratios		
CET 1 capital ratio	15.208%	16.872%
Tier 1 capital ratio	15.208%	16.872%
Total capital ratio	29.616%	32.174%

* General provision is subject to a maximum of 1.25% of total credit risk-weighted assets determined under SA 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) and Compliance Department
	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

CRMC is responsible to oversee the effective management and implementation of relevant requirements of the Regulators, BOD and the Management on Regulatory and 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 RMD and Compliance Department provide 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 defense 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.

<u>Risk Management Approach</u>

Pillar 2 requires the banking institutions to assess their internal capital requirements in relation to their risk profile of their business through the 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 not fully captured under Pillar 1 or risk types not covered by Pillar 1, such as liquidity risk, Interest Rate Risk in the Banking Book (IRRBB) 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 defense. The Bank has adequate management of credit risk with well-defined risk appetite, monitoring of key risk threshold limit, enhancing/developing/tightening underwriting standards for various type of lending, strengthening loan monitoring and steering loan portfolio to better credit rating. Weaker ratings 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 (CAD) 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 CAD 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 BRMC 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 BRMC and BOD 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 loan or financing (loan) 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 Jun 2020

Credit exposure	**Geography**				
Asset Class	**Malaysia**	**China**	**Hong Kong**	**Other**	**Total**
	RM’000	RM’000	RM’000	RM’000	RM’000
Sovereigns & central banks	2,748,878	-	-	-	2,748,878
Banks, DFIs & MDBs	1,266,509	297,923	700,785	326,107	2,591,324
Corporates	6,139,226	694,692	836,561	2,209,553	9,880,032
Regulatory retails	105,192	99,328	2,866	8,770	216,156
Residential mortgages	59,561	120,631	7,447	26,735	214,374
Other assets	162,509	-	-	-	162,509
Total	10,481,875	1,212,574	1,547,659	2,571,165	15,813,273

31 Dec 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	2,791,256	-	-	-	2,791,256
Banks, DFIs & MDBs	1,534,987	504,737	390,607	254,699	2,685,030
Corporates	5,422,853	757,472	927,041	1,742,670	8,850,036
Regulatory retails	102,223	89,714	2,420	7,222	201,579
Residential mortgages	49,302	118,246	7,144	27,929	202,621
Other assets	132,806	-	-	-	132,806
Total	10,033,427	1,470,169	1,327,212	2,032,520	14,863,328

5.3 Industry Analysis

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

30 Jun 2020

Credit exposure	**Category**						**Total**
Sector	**Sovereigns & central banks**	**Banks, DFIs & MDBs**	**Corporates**	**Regulatory Retails**	**Residential mortgages**	**Other assets**	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	439,030	1,552	-	-	440,582
Mining & Quarrying	-	-	785,408	-	-	-	785,408
Manufacturing	-	-	2,104,730	1,299	-	-	2,106,029
Electricity, gas & water supply	-	-	663,011	-	-	-	663,011
Construction	-	-	1,070,048	873	-	-	1,070,921
Real Estate	-	-	2,460,846	5,217	-	-	2,466,063
Wholesale & retail trade & restaurant & hotels	-	-	209,805	1,304	-	-	211,109
Transport, storage & communication	-	-	163,687	383	-	-	164,070
Finance, insurance & business services	-	2,591,324	1,232,271	10	-	-	3,823,605
Household	-	-	343,087	205,518	214,374	-	762,979
Government & government agencies	2,748,878	-	-	-	-	-	2,748,878
Education, health & others	-	-	408,109	-	-	-	408,109
Others*	-	-	-	-	-	162,509	162,509
Total	2,748,878	2,591,324	9,880,032	216,156	214,374	162,509	15,813,273

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

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

31 Dec 2019

Credit exposure	**Category**						**Total**
Sector	**Sovereigns & central banks**	**Banks, DFIs & MDBs**	**Corporates**	**Regulatory Retails**	**Residential mortgages**	**Other assets**	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	403,568	1,735	-	-	405,303
Mining & Quarrying	-	-	779,869	-	-	-	779,869
Manufacturing	-	-	1,930,864	1,524	-	-	1,932,388
Electricity, gas & water supply	-	-	141,367	-	-	-	141,367
Construction	-	-	1,017,200	870	-	-	1,018,070
Real Estate	-	-	2,259,396	5,324	-	-	2,264,720
Wholesale & retail trade & restaurant & hotels	-	-	260,648	1,321	-	-	261,969
Transport, storage & communication	-	-	208,373	747	-	-	209,120
Finance, insurance & business services	-	2,685,030	1,089,974	-	-	-	3,775,004
Household	-	-	356,024	190,058	202,621	-	748,703
Government & government agencies	2,791,256	-	-	-	-	-	2,791,256
Education, health & others	-	-	402,753	-	-	-	402,753
Others*	-	-	-	-	-	132,806	132,806
Total	2,791,256	2,685,030	8,850,036	201,579	202,621	132,806	14,863,328

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

5.4 Maturity Analysis

Original contractual maturity breakdown by major types of gross credit exposures

30 Jun 2020

Credit exposure	Maturity			
Category	**Up to one year**	**1-5 year**	**>5years**	**Total**
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,524,019	156,242	1,068,617	2,748,878
Banks, DFIs & MDBs	2,234,272	256,583	100,469	2,591,324
Corporates	3,106,638	3,150,738	3,622,656	9,880,032
Regulatory retails	9,590	286	206,280	216,156
Residential mortgages	39	725	213,610	214,374
Other assets	31,333	-	131,176	162,509
Total	6,905,891	3,564,574	5,342,808	15,813,273

31 Dec 2019

Credit exposure	Maturity			
Category	**Up to one year**	**1-5 year**	**>5years**	**Total**
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	2,028,699	30,314	732,243	2,791,256
Banks, DFIs & MDBs	2,324,906	266,254	93,870	2,685,030
Corporates	2,763,250	2,496,462	3,590,324	8,850,036
Regulatory retails	11,482	272	189,825	201,579
Residential mortgages	39	752	201,830	202,621
Other assets	2,115	-	130,691	132,806
Total	7,130,491	2,794,054	4,938,783	14,863,328

5.5 Loan and Advances and ECL by sector

(a) Loan and Advances -Impaired:

	Jun 2020	Dec 2019
	RM'000	RM'000
Manufacturing	56,228	77,370
Construction	2,842	3,465
Primary Agriculture	9,994	21,678
Real estate	12,116	13,149
Household	21,685	20,503
Wholesale, Retail Trade, Restaurant & Hotel	6,470	6,633
Electricity, Gas & Water Supply	24,587	23,476
Education, Health & Others	76,813	75,704
Total	210,735	241,978

(b) Loan and Advances-Past due loans:

	Jun 2020	Dec 2019
	RM'000	RM'000
Primary agriculture	-	28,183
Manufacturing	17,539	13,237
Construction	-	7,018
Real estate	26,654	16,792
Household	20,100	72,538
Electricity, Gas and Water Supply	-	-
Wholesale & Retail Trade and Restaurant & Hotels	-	1,240
Total	64,293	139,008

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

	Jun 2020	Dec 2019
	RM'000	RM'000
Primary agriculture	415,455	338,768
Manufacturing	1,593,348	1,290,437
Construction	525,504	510,577
Real Estate	2,287,084	2,069,577
Household	703,076	648,281
Electricity, Gas and Water Supply	503,159	67,724
Education, health & Others	302,495	290,042
Finance, Insurance & Business Activities	1,325,978	1,014,484
Mining and Quarrying	757,789	752,604
Transport, Storage & Communication	113,152	113,583
Wholesale & Retail Trade and Restaurant & Hotels	165,111	219,647
Total	8,692,151	7,315,724

(d) Lifetime ECL (Credit Impaired) Stage 3 by sector:

	Jun 2020	Dec 2019
	RM'000	RM'000
Manufacturing	55,366	60,002
Real Estate	145	119
Household	7,495	7,310
Primary Agriculture	9,689	21,678
Wholesale & Retail Trade and Restaurant & Hotels	6,461	6,633
Construction	2,610	2,605
Electricity, Gas & Water Supply	24,521	23,476
Total	106,287	121,823

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

	Jun 2020	Dec 2019
	RM’000	RM’000
Primary agriculture	5,789	3,312
Manufacturing	30,994	19,352
Construction	3,927	3,341
Real Estate	22,948	20,354
Household	7,492	5,649
Electricity, Gas and Water Supply	1,308	254
Education, health & Others	6,018	25,003
Finance, Insurance & Business Activities	1,492	871
Mining and Quarrying	4,477	3,053
Transport, Storage & Communication	5,996	844
Wholesale & Retail Trade and Restaurant & Hotels	2,251	5,446
Total	92,692	87,479

5.6 Loan and Advances and ECL by geographical

(a) Loan and Advances -Impaired:

	Jun 2020	Dec 2019
	RM’000	RM’000
Malaysia	173,099	206,450
China	7,440	7,262
Hong Kong	-	-
Other	30,196	28,266
Total	210,735	241,978

(b) Loan and Advances-Past due loans:

	Jun 2020	Dec 2019
	RM’000	RM’000
Malaysia	52,749	126,584
China	7,900	9,643
Hong Kong	-	-
Other	3,644	2,781
Total	64,293	139,008

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

	Jun 2020	Dec 2019
	RM'000	RM'000
Malaysia	5,231,347	4,473,673
China	251,808	246,473
Hong Kong	838,257	883,255
Other	2,370,739	1,712,323
Total	8,692,151	7,315,724

(d) Lifetime ECL (Credit Impaired) Stage 3 by geographical:

	Jun 2020	Dec 2019
	RM'000	RM'000
Malaysia	79,025	95,673
China	1,993	1,955
Hong Kong	-	-
Other	25,269	24,195
Total	106,287	121,823

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

	Jun 2020	Dec 2019
	RM'000	RM'000
Malaysia	77,907	76,318
China	2,490	1,772
Hong Kong	2,956	1,965
Other	9,339	7,424
Total	92,692	87,479

5.7 Movement in credit impaired loans and advances

	Jun 2020 RM'000	Dec 2019 RM'000
Impaired loans and advances		
At 1 January	241,978	68,056
Classified as credit impaired during the year	6,801	183,336
Reclassified as non-credit impaired/performing during the year	(1,927)	(518)
Amount recovered	(36,117)	(7,305)
Amount written-off/ write-down	-	(1,591)
	210,735	241,978
Lifetime ECL (credit impaired) (stage 3)	(106,287)	(121,823)
Net impaired loans and advances	104,448	120,155

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 2020	20,427	67,052	121,823	209,302
Transferred to 12 months ECL	26,201	(26,153)	(48)	-
Transferred to lifetime ECL not credit impaired	(644)	819	(175)	-
Transferred to lifetime ECL credit impaired	-	(195)	195	-
New loans ECL	8,293	1,976	-	10,269
Provision/reversal during the year	(10,057)	14,336	(3,779)	500
Full settlement	(1,042)	(8,321)	(11,729)	(21,092)
Amounts written off	-	-	-	-
Total ECL amount as at 30 June 2020	43,178	49,514	106,287	198,979

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 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 SA

30 Jun 2020

Risk Weights	Sovereigns & Central Banks	Banks, DFIs & MDBs	Corporate	Regulatory Retails	Residential Mortgages	Other Assets	Total exposures after Netting & CRM	Total Risk Weighted Assets
	Exposures after Netting and CRM							
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,748,878	-	-	-	-	21,423	2,770,301	-
20%	-	2,152,124	645,711	-	-	-	2,797,835	559,567
35%	-	-	-	-	201,984	-	201,984	70,693
50%	-	439,200	1,370,958	638	7,852	-	1,818,648	909,325
75%	-	-	-	134,238	-	-	134,238	100,679
100%	-	-	7,480,129	73,252	3,562	141,086	7,698,029	7,698,029
150%	-	-	87,172	6,519	-	-	93,691	140,536
Grand Total							15,514,726	9,478,829

31 Dec 2019

Risk Weights	Exposures after Netting and CRM						Total exposures after Netting & CRM	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, DFIs & MDBs	Corporate	Regulatory Retails	Residential Mortgages	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,791,256	-	-	-	-	25,474	2,816,730	-
20%	-	2,354,316	553,949	-	-	-	2,908,265	581,653
35%	-	-	-	-	194,044	-	194,044	67,916
50%	-	330,714	1,366,297	627	4,525	-	1,702,163	851,081
75%	-	-	-	124,217	-	-	124,217	93,163
100%	-	-	6,507,267	69,814	3,102	107,331	6,687,514	6,687,514
150%	-	-	87,164	5,433	-	-	92,597	138,895
Grand Total							14,525,530	8,420,222

6.2 Rated Exposures according to Ratings by ECAIs

30 Jun 2020

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
On and Off Balance Sheet Exposures							
Sovereigns/Central Banks		-	2,748,878	-	-	-	-
Total		-	2,748,878	-	-	-	-

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
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs		9,881	2,540,201	40,083	-	-	1,159
Total		9,881	2,540,201	40,083	-	-	1,159

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
<u>On and Off Balance Sheet Exposures</u>						
Corporate		597,601	784,582	741,398	-	7,756,451
Total		597,601	784,582	741,398	-	7,756,451

31 Dec 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
<u>On and Off Balance Sheet Exposures</u>							
Sovereigns/Central Banks		-	2,791,256	-	-	-	-
Total		-	2,791,256	-	-	-	-

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
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs		355,499	1,799,339	528,953	-	-	1,239
Total		355,499	1,799,339	528,953	-	-	1,239

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
On and Off Balance Sheet Exposures						
Corporate		506,637	669,694	769,449	-	6,904,256
Total		506,637	669,694	769,449	-	6,904,256

7. Credit Risk Mitigation (CRM)

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 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 Deposit, Cash Margin
2	Property / Land
3	Quoted Share
4	Bond
5	Standby Letter of Credit by Financial Institution
6	Others (e.g. Machinery, Vessels, Assignment of proceeds, etc.)

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 CRM

30 Jun 2020

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	2,748,878	-	-	-
Banks, DFIs & MDBs	2,277,931	-	-	-
Corporates	8,235,532	666,464	293,811	-
Regulatory Retail	196,467	-	1,508	-
Residential Mortgages	202,069	-	976	-
Other Assets	162,509	-	-	-
Defaulted Exposures	107,290	-	2,251	-
Total for On-Balance Sheet exposures	13,930,675	666,464	298,546	-
Off-Balance sheet exposures				
Off-balance sheet exposures included OTC derivatives or credit derivatives	1,882,598	-	-	-
Total for Off-Balance sheet exposures	1,882,598	-	-	-
Total On and Off Balance sheet exposure	15,813,273	666,464	298,546	-

7.1 Disclosure on CRM (continued)

31 Dec 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	2,791,256	-	-	-
Banks, DFIs & MDBs	2,376,492	-	-	-
Corporates	7,128,209	727,253	333,454	-
Regulatory Retail	187,398	-	1,488	-
Residential Mortgages	192,929	-	950	-
Other Assets	132,806	-	-	-
Defaulted Exposures	122,114	-	1,906	-
Total for On-Balance Sheet exposures	12,931,204	727,253	337,798	-
Off-Balance sheet exposures				
Off-balance sheet exposures included OTC derivatives or credit derivatives	1,932,124	-	-	-
Total for Off-Balance sheet exposures	1,932,124	-	-	-
Total On and Off Balance sheet exposure	14,863,328	727,253	337,798	-

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 Jun 2020

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	2,238	2,238	2,238
Transaction related contingent items	2,210,290	1,105,145	570,521
Short Term Self Liquidating trade related contingencies	81,350	16,270	15,094
Foreign exchange related contracts			
-One year or less	600,732	7,710	3,611
Interest/Profit rate related contracts			
-One year or less	119,428	8,072	1,726
- Over five years	250,613	22,999	19,240
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	2,352,272	470,455	352,247
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	499,410	249,705	232,186
Unutilised credit card lines	20	4	3
Total	6,116,353	1,882,598	1,196,866

Off-Balance Sheet and Counterparty Credit Risk – 31 Dec 2019

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM’000	RM’000	RM’000
Direct Credit Substitutes	2,547	2,547	2,547
Transaction related contingent items	2,383,135	1,191,568	614,304
Short Term Self Liquidating trade related contingencies	55,595	11,119	9,578
Foreign exchange related contracts -One year or less	218,308	2,591	1,274
Interest/Profit rate related contracts - Over five years	250,475	16,913	13,156
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	2,111,915	422,383	345,813
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	569,998	284,999	264,533
Unutilised credit card lines	20	4	3
Total	5,591,993	1,932,124	1,251,208

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 RMICC is responsible for the oversight of market risk management of the Bank and executing the BRMC and BOD mandate on market risk management strategies, risk appetite and tolerance level. The Bank has established the Market Risk Management Policy to govern the Bank’s market risk governance structure, risk identification, measurement, monitoring and reporting processes. The Bank’s market risk is managed by 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 BOD 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 SA. 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 2020 Standardised Approach	31 Dec 2019 Standardised Approach
	RM'000	RM'000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	402	404
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	5,027	5,047

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" model 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 – Provide advisory to the business and functional lines on the established operational risk management policies/ procedures and perform review on the operational risk management process (on risk based approach) undertaken by the business and functional lines to evaluate the effectiveness of the risk mitigation activities at the business and functional lines.
3. Third line of defense – provide regular independent reviews and assessments of the operational risk management framework, processes and systems.

RMICC, CRMC and BRMC are the Bank's risk governance committees accountable for overseeing the enterprise wide operational risk function. These committees are 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 BIA approach. The approach is in line with BNM Guidelines where the calculation is based on average of a fixed percentage of positive annual gross income over the previous three years.

	30 Jun 2020 (RM'000)	31 Dec 2019 (RM'000)
Minimum Capital required for Operational Risk	43,582	43,643
Total Risk Weighted Assets Equivalent for Operational Risk	544,770	545,542

11. Interest Rate Risk in 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 the Bank's IRRBB under a 100 basis point parallel interest rate shock from earning and economic value perspective.

As at 30 Jun 2020:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/-26,663	+/-20,647
USD	+/- 430	+/-1,852
CNY/CNH	+/- 575	+/- 3,600

As at 31 Dec 2019:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 41,172	+/- 83,230
USD	+/- 14,263	+/- 88,306
CNY/CNH	+/- 769	+/- 3,626

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