Bank of America Malaysia Berhad

Pillar 3 Disclosures

As at 31 December 2013

Bank of America Merrill Lynch

Attestation by Chief Executive Officer

This is to certify that Bank of America Malaysia Berhad's Basel II Pillar 3 Disclosure as at 31 December 2013, prepared in accordance with the requirements of Bank Negara Malaysia's Guideline on Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) are accurate, complete and not misleading.

RAYMOND YEOH CHENG SEONG

Chief Executive Officer

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1. Scope of Application

Bank of America Malaysia Berhad – BAMB ("Bank" or "BAMB") is a limited company, incorporated and domiciled in Malaysia. The holding company and ultimate holding company of the Bank are Bank America International Financial Corporation ("BIFC") and Bank of America Corporation ("BAC") respectively, both incorporated in the United States of America. The Bank is principally engaged in all aspects of the banking business and in the provision of related services.

The provisions of Malaysian Financial Reporting Standard ("MFRS") 127 "Consolidated and Separate Financial Statements" and MFRS 128 "Investments in Associates", issued by the Malaysian Accounting Standards Board ("MASB") do not apply to the Bank. Hence the disclosures in this report are made for the Bank as a standalone entity.

2. Capital Adequacy

2.1. Capital Management

The Bank is required to comply with all applicable laws and regulations in Malaysia including guidelines issued by Bank Negara Malaysia ("BNM") and other relevant regulatory bodies.

The Board of Directors and Local Management Team ("LMT") of the Bank is responsible for ensuring that the Bank complies with global policies, procedures and corporate governance practices. These include policies relating to Basel II and in particular, the Internal Capital Adequacy Assessment Process ("ICAAP") framework which is also a BNM requirement.

The LMT comprises of members from various functional areas of the Bank. The LMT is headed by the Country Executive. Other members of the LMT include Senior Sales officers (from Fixed Income, Currencies and Commodities ("FICC"), Corporate Banking ("CBK"), Corporate Banking Subsidiaries ("CBK-S"), Global Treasury Solutions ("GTS") and Investment Banking ("IBK"), Country Operations Officer, Country Human Resources Manager, Country Finance Officer, Country Compliance Manager, Senior Officer - Treasury Management and Senior Officer – Risk Management.

The ICAAP process seeks to ensure that the Bank maintains sufficient capital at all times, plans for all future capital requirements and at the same time, maintains adequate governance and monitoring over its material risks. It establishes a framework for the Bank to perform a comprehensive assessment of the risks they face and relate capital to those risks. The capital analysis performed by the Bank is expected to encompass all risks, not just the risks captured by the Basel II Pillar 1 minimum regulatory capital calculation. Successful risk identification and measurement requires having a comprehensive process to quantify, measure and aggregate these various risks in order to ensure that the Bank's capital resources are sufficient to cushion volatility in earnings due to unexpected losses.

2.2. Core Equity Tier I ("CET I") Capital Ratio, Tier I Capital Ratio and Total Capital Ratio

Effective from 1 January 2013, the total capital and capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel-II Risk-Weighted Assets) guidelines issued on 28 November 2012. The comparative capital adequacy ratios and total capital are computed in accordance with BNM's revised Risk Weighted Capital Adequacy Framework ("RWCAF") (Basel II) guidelines.

Table 1.1: Capital Ratios

	31.12.2013	31.12.2012
CET I Capital Ratio	53.417 %	N/A
Tier I Capital Ratio	53.417 %	59.027 %
Total Capital Ratio	53.444 %	59.091 %

Table 1.2: Minimum Capital Ratios

	CET I Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
31.12.2013	3.500%	4.500%	8.000%
31.12.2012	N/A	N/A	8.000%

2.3. Risk Weighted Assets ("RWA") and Capital Requirements

The Bank has adopted the Standardised Approach ("SA") for Credit Risk and Market Risk and Basic Indicator Approach ("BIA") for Operational Risk for computing its capital requirement. The Bank does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in BNM's Capital Adequacy Framework (Basel II – Risk-Weighted Assets) guidelines.

Key:
^ Exposure at Default ("EAD")
# Credit Risk Mitigation ("CRM")
* Profit Sharing Investment Account ("PSIA")

Table 2.1: Exposures as at 31 December 2013

Exposure Class 31.12.2013	Gross Exposures/^EAD before #CRM RM'000	Net Exposures/^EAD after #CRM RM'000	RWA RM'000	RWA absorbed by *PSIA RM'000	Total RWA after effects of PSIA RM'000	Capital Requirements RM'000
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	2,210,815	2,210,815	-	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	396,294	396,294	79,259	-	79,259	6,341
Corporates	111,749	111,749	111,749	-	111,749	8,940
Residential Mortgages	871	871	446	-	446	36
Other Assets	14,902	14,902	14,171	-	14,171	1,134
Defaulted Exposures	171	171	168	-	168	13
Total On-Balance Sheet Exposures	2,734,802	2,734,802	205,793	-	205,793	16,464
Off-Balance Sheet Exposures:						
OTC Derivatives	124,077	124,077	57,375	-	57,375	4,590
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	138,730	137,393	130,917	-	130,917	10,473
Total Off-Balance Sheet Exposures	262,807	261,470	188,292	-	188,292	15,063
Total On and Off-Balance Sheet Exposures	2,997,609	2,996,272	394,085	-	394,085	31,527

Market Risk	Long Position	Short Position				
Foreign currency	3,881	87,352	87,352	-	87,352	6,988
Interest rate			352,295	-	352,295	28,184
Total Market Risk Exposure			439,647	-	439,647	35,172
Total Operational Risk Exposure			115,036	-	115,036	9,203
Total RWA and Capital Requirements			948,768	-	948,768	75,902

Table 2.2: Exposures as at 31 December 2012

Exposure Class	Gross Exposures/^EAD before #CRM	Net Exposures/^EAD after #CRM	RWA	RWA absorbed by *PSIA	Total RWA after effects of PSIA	Capital Requirements
31.12.2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	1,140,662	1,140,662	-	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	347,189	347,189	69,815	-	69,815	5,585
Corporates	135,563	135,563	129,081	-	129,081	10,326
Residential Mortgages	1,292	1,292	705	-	705	56
Other Assets	15,058	15,058	12,885	-	12,885	1,031
Defaulted Exposures	182	182	178	-	178	14
Total On-Balance Sheet Exposures	1,639,946	1,639,946	212,664	-	212,664	17,012
Off-Balance Sheet Exposures:						
OTC Derivatives	18,039	18,039	14,523	-	14,523	1,162
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	128,861	127,796	121,699	-	121,699	9,736
Total Off-Balance Sheet Exposures	146,900	145,835	136,222	-	136,222	10,898
Total On and Off-Balance Sheet Exposures	1,786,846	1,785,781	348,886	-	348,886	27,910
Market Risk	Long Position	Short Position				
Foreign currency	3,499	167,815	167,815	-	167,815	13,425
Interest rate			229,130	-	229,130	18,330
Total Market Risk Exposure			396,945	-	396,945	31,755
Total Operational Risk Exposure			94,904	-	94,904	7,592
Total RWA and Capital Requirements			840,735	-	840,735	67,257

3. Capital Structure

The Bank's total regulatory capital is made up of Tier I and Tier II capital as follows:

Tier I Capital consists of ordinary paid-up share capital, statutory reserve fund, approved retained profits and unrealised gains and losses on available-for-sale financial instruments, less net deferred tax asset and applicable regulatory adjustments.

There is no obligation to pay dividend to ordinary shareholders. No dividend has been paid or proposed for the financial year ending 31 December 2013.

Tier II Capital consists of collective impairment allowance for non-impaired loans, advances and financing.

The components of CET I, Tier I and Tier II capital are as follows:

Table 3.1: Components of Capital

	31.12.2013 RM'000	31.12.2012 RM'000
CET I Capital		
Share Capital	135,800	135,800
Retained Profits	239,879	232,105
Other Disclosed Reserves:		
Statutory Reserves	130,949	128,357
Unrealised gains and losses on available-for-sale financial instruments	1,017	-
	507,645	496,262
Less: Regulatory Adjustments		
Deferred Tax Assets	(285)	-
55% of Cumulative Gains of Available-For-Sale Financial Instruments	(560)	-
Total CET I and Tier I Capital	**506,800**	**496,262**
Tier II Capital		
Collective Assessment Allowance*	255	539
Total Capital	**507,055**	**496,801**

* Excludes collective assessment allowance on impaired loans restricted from Tier II Capital of the Bank of RM73,511 (2012: RM70,350)

4. Risk Management

The Risk officers in BAMB adopt the Global Risk Framework under Bank of America Corporation ("BAC") and are guided by the Bank Negara Malaysia ("BNM") guidelines and procedures.

The following lays out BAC's risk management approach, risk appetite and philosophy and risk management processes:

4.1. BAC Risk Management Approach

BAC takes a comprehensive approach to risk management by fully integrating risk management with strategic, financial and customer/client planning so that goals and responsibilities align across the Company. BAC's risk appetite and risk exposures are aligned. BAC manages risk systematically, with a focus as a whole and by business, governance and control function ("GCF"), geography, legal entity (where appropriate), product, service and transaction. This holistic approach promotes the risk versus reward analysis needed to make informed strategic and business decisions. The risk management approach has five components:

- Risk culture;
- Risk appetite and philosophy;
- Risk governance and organization;
- Risk transparency and reporting; and
- Risk management processes, including the Identify, Mitigate, Monitor, and Report ("IMMR") risk management process.

Focusing on these five components allows the Company to effectively manage risks across the seven key risk types identified (strategic, credit, market, liquidity, operational, compliance and reputational risks) and across all lines of business ("LOBs") and, where applicable, GCFs.

4.1.1. Defining BAC's Risk Appetite

BAC has a structured approach to choose when and how to take risks. BAC balances its capacity for risk to commensurate with its capital and liquidity, while seeking to adhere to rules and regulations and protect its brand and reputation, its financial flexibility, the value of BAC's assets and the strategic potential of the franchise.

BAC's risk appetite statement (Risk Appetite Statement) collectively defines the risk appetite in both quantitative and qualitative terms for BAC. The Risk Appetite Statement is reviewed and approved by the BAC Board at least annually. The Risk Appetite Statement is rooted in several principles:

- **Limited overall risk capacity:** BAC's current overall target is for the bank holding company to achieve and maintain a risk profile consistent with appropriate, absolute and "relative to peers" credit indicators and capitalisation objectives. BAC's risk capacity is limited so BAC evaluates and prioritises risk-taking within its operating principles.

- **Financial strength to absorb risk:** BAC must maintain a strong and flexible financial position so it can weather challenging economic times and take advantage of growth opportunities. Therefore, BAC sets targets for earnings, capital and liquidity so it can consistently access financial markets at all times including under stressed market conditions.

- **Risk-reward equation:** Risks taken must align with BAC's risk appetite and offer attractive risk-adjusted returns for shareholders, while preserving asset values.

- **Acceptable risks:** Given the breadth of BAC's business and the importance of its reputation, BAC must be sensitive to all types of risk. An action in one business can harm BAC's reputation. Therefore, risks that unduly threaten BAC's reputation are escalated and restricted accordingly.

- **Skills and capabilities:** BAC seeks to only assume risks that the Company can identify and measure, mitigate and control, monitor and test and report and review.

4.1.2. Aligning BAC's Risk Appetite and Risk Profile

BAC provides diverse financial services and products globally and therefore inevitably faces a wide range of risks. BAC has implemented strong processes and controls to monitor its risk profile and keep risk taking aligned with risk appetite.

Risk limits ensure BAC's risk profile remains within the boundaries of the risk appetite, including consideration of potential stressed outcomes. Key risk governance committees set and monitor limits, with BAC Board oversight. Businesses and control functions then define additional or supporting risk limits through established governance processes (which include appropriate representatives from Global Risk Management ("GRM") and other GCFs as members) or at the direction of their respective executive officers.

The BAC Board reviews the strategic plan and the financial operating plan annually. With the BAC Board's input, executive management also make interim updates to the plans, when an imbalance exists between the targeted risk appetite and shareholder returns. BAC employs several key analytical processes to support appropriate business planning decisions. ICAAP is a rigorous, forward-looking capital management process for assessing overall capital adequacy. Stress testing helps BAC to better understand its risk profile, including balance sheet, earnings, capital and liquidity sensitivities in severe economic and business scenarios. Recovery and Resolution planning helps BAC manage its risks and structure, to prepare for a rapid and effective response to potential future financial crises. Subsidiary governance promotes the consistent application of controls and processes across BAC's subsidiaries to balance business results with risk profiles

4.1.3. BAC Risk Management Process

On a day-to-day basis, BAC's employees are foremost responsible for managing risks threatening the interests of BAC and its shareholders. Employees are given ongoing training opportunities on risk management and are given clear, detailed guidance through supporting processes such as governance bodies (e.g. committees) and supporting management documents (e.g. policies, procedures, standard operating requirements, guidelines, playbooks, etc). The LOBs are the most familiar with the risks they regularly face and they provide critical insights to help BAC better prepare for emerging risks and mitigate existing risks.

BAC employs a simple but effective overarching risk management process, referred to as IMMR. This process builds on employees' regular tasks and ensures a solid knowledge base for mitigating risk:

- **Identify and measure:** To be effectively managed, risks must be clearly defined, proactively identified and accurately measured. Proper risk identification focuses on recognizing and understanding existing risks, or risks that may arise from business initiatives, strategic actions or emerging external factors.

- **Mitigate and control:** BAC's risk mitigation processes and controls help manage exposure to risk. BAC mitigates and controls risk by establishing and communicating risk limits and controls through policies, standards and procedures that define responsibility and authority for risk taking. BAC provides limits for certain risk types and activities (e.g., loan underwriting, trading) that BAC clearly and consistently communicates to frontline employees. These limits are absolute (e.g., loan amount, trading volume) or relative (e.g., VaR, percentage of loan book in higher risk categories) and BAC's LOBs are expected to perform within these limits.

- **Monitor and test:** BAC monitors and tests risk levels regularly to ensure adherence to risk appetites, thresholds, policies and standards. BAC has multiple forms of monitoring and testing. An example of risk monitoring is the use of Key Risk Indicators (KRIs). Performance is measured at the business level against critical KRIs aligned to the businesses' breadth of risks. These measurements help measure the risk profile against the risk appetite. Through monitoring risks, BAC identifies whether risk limits are breached and has carefully designed processes to trigger appropriate steps to report and escalate issues. These steps may include immediate requests for approval to managers and alerts to executive management and the BAC Board (directly or through an appropriate Board-level committee).

- **Report and review:** Risk and compliance reporting provides an assessment of BAC's performance and the effectiveness of internal governance and control systems. Reports are regularly produced and distributed to the BAC Board, executive management and individual LOBs to prompt action when needed.

4.2. Credit Risk

Credit Risk is the risk of economic loss arising from the inability or failure of a borrower or counterparty to meet its repayment or delivery obligations.

BAC manages credit risk based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral, and other supports given current events, conditions and expectations. Credit risk management starts with an assessment of the credit risk profile of the borrower or counterparty based on an analysis of their financial position. As part of the overall credit risk assessment of a borrower or counterparty, credit exposures are assigned a risk rating and are subject to approval based on defined credit approval standards. Subsequent to approving credit limits, risk ratings are monitored on an ongoing basis. If necessary, risk ratings are adjusted to reflect changes in the financial condition, cash flow or financial situation of a borrower or counterparty.

For Risk Management purposes, BAMB's focus is on quality of assets, return on those assets or the risk capital required on account of these assets, and selecting a target segment of corporates with strong credit profiles. BAMB examines its portfolio and monitors these factors on an ongoing basis. As a result, BAMB may exit relationships on account of credit concerns or inadequate returns for the risk capital required to continue the lending relationship. BAMB believes that this exercise improves the overall quality of its credit portfolio, and makes the credit portfolio more resilient to industry and economic downturns

Ongoing monitoring has helped BAMB control credit quality and responds quickly to deterioration in credit profile of any particular borrower in a timely fashion.

Once credit has been extended, BAC has processes in place to monitor credit risk exposures at both the individual and portfolio levels, as well as to actively manage the portfolio to ensure that it fits BAC's desired risk and return goals.

At the borrower level, BAC reviews the risk inherent in the ongoing business of the borrower. At the portfolio level, BAC assesses aggregate losses, credit concentrations and potential stress scenarios. Regular portfolio reporting and business-specific credit reviews enable BAC to detect deteriorating credit trends, develop mitigation strategies and measure the effectiveness of actions taken.

Risk Management, as well as supporting units, is responsible for the ongoing management and administration of credit risk at the borrower level by:

- Monitoring borrower risk ratings on an ongoing basis, and if necessary, adjusting to reflect changes in the financial condition, cash flow, risk profile or outlook of a borrower or counterparty;
- Monitoring performance by updating the customer analysis and reviewing periodically;
- Monitoring collateral;
- Undertaking periodic portfolio reviews to ensure management is aware of borrower specific trends for a given portfolio;
- Recognizing developing problems and promptly bringing them to the attention of management;
- Taking prompt corrective action on past due and non-accrual loans; and
- Maintaining proper credit file documentation and determining compliance with all loan covenants periodically.

The credit underwriting and monitoring of BAMB is in line with BAC's global Core Credit Policy. Credit Officers perform due diligence which comprises of analysis of credit risk and preparation of approval memorandum including assignment of Risk Rating, identification of sources of repayment and credit risks, recommendation of facilities (including traded products with potential credit exposures) with required terms and conditions along with ensuring relevant Group Head Approvals are obtained in case concentration limits are breached. Credit approvals are provided in line with the following:

- **Corporate Accounts:** All credit exposures to corporations will be approved based on CCRO approval authority grid. Corporate Credit Risk Officer ("CCRO") Malaysia has delegated authority as the on-shore risk approver. All credit approvals require on-shore sign off in order to proceed. Escalation to higher levels (Singapore, Hong Kong and United States) is required based on the defined levels in the approval grid.

- **Financial Institutions Accounts:** All credit exposures to financial institutions will be approved based on Financial Institution Credit Risk Officer ("FICR") approval authority grid. Financial Institution Credit Risk Officer ("FICRO") Malaysia has delegated authority as the on-shore risk approver. All credit approvals require on-shore sign off in order to proceed. Escalation to higher levels (Singapore, India and United States) is required based on the defined levels in the approval grid.

The CCRO or FICR is responsible for ongoing monitoring and to initiate any Risk Rating changes or other exposure management measures as appropriate based on the performance of the Credit taker.

Credit Concentration Risk Management

BAC Risk Management has instituted a series of controls to encourage granularity and discourage concentrations of exposures in its credit portfolio. These controls consists of limits on overall exposure to specific types of risk or obligors, standards for credit quality metrics, as well various products and portfolio limits. These risk limits, which are outlined in the Bank's Risk Appetite, will guide individual decision making with regards to the types of risk exposures.

Furthermore, BAMB is required to adhere to BNM regulations in regards to Single Borrower Limit, whereby exposure to a single borrower shall not exceed 25% of BAMB's Capital Base.

Credit concentration risk per the Bank's Risk Appetite is as follows:

- **House Guidelines:** The establishment of relationship limits is intended to reduce credit loss volatility through the achievement of a more granular portfolio. The House Guidelines define recommended maximum exposure levels to single obligors or a family of obligors based upon their risk profile, and is set well below Legal Lending Limits. The House Guidelines must consider all credit exposures including counterparty credit risk limits for derivatives, foreign exchange contracts, repurchase agreements and similar instruments. The House Guidelines are reviewed and approved annually by the Credit Risk Committee ("CRC").

- **Industry Limits:** Represents the potential for changes in a given industry to impact credit quality at the Borrower and Portfolio level. The Bank actively monitors and manages Industry Risk on an individual transaction level and on an Enterprise-wide basis via the use of Industry Limits. Industry Limits help ensure appropriate portfolio diversification along industry lines, control concentration risk as appropriate and align individual decision-making with the Bank's overall risk appetite. Industry Limits are assigned to each of the Bank's industry groups. If warranted by the nature of the risk within an industry group, a sublimit may be established for a segment within an Industry Limit.

- **Country Risk:** includes all systemic risks of doing credit and investment business in and with a foreign country. Such systemic risks include sovereign default, suspension of hard currency payments, radical devaluation of currency, nationalisation of assets and other economic, political and social events in a foreign country that could interrupt the orderly repayment of obligations by the Bank's customers or adversely impact the Bank's financial interests in other ways.

Oversight of BAMB's Board and Senior Management

Credit approval, monitoring and control functions receive their authority and guidance from the Board and this is cascaded down to the functional level through the Risk Framework, Risk Appetite statement and approved Policies and Procedures. Senior management is well qualified and has significant experience in the industry. Senior management and line functionaries have adequate understanding demonstrated by low NPAs and reinforced by ongoing trainings.

The BAMB Board is responsible for monitoring the Malaysia business operations. The LOBs, which are represented within the BAMB Board, are responsible for all the risks within the business, including credit risks. Such risks are managed through corporate-wide or LOB-specific policies and procedures, controls, and monitoring tools.

Impaired Loans, Advances and Financing

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset ('a loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank may classify a loan/financing as impaired when any of the following criteria is met:

- the principal or interest or both is past due for 3 months or more;
- the amount outstanding has been in excess of the approved limit for 3 months or more;
- where the amount is past due, or amount outstanding has been in excess of the approved limit for less than 3 months, the loan/financing exhibits weaknesses that render a classification appropriate according to the Bank's credit risk grading framework; or

- where repayments are scheduled on intervals of 3 months or longer, as soon as a default occurs, unless it does not exhibit any weakness that would render it classified according to the Bank's credit risk grading framework.

Past Due Loans, Advances and Financing

The Bank considers a loan/financing to be past due once a contractual payment on principal and/or interest remained unpaid by the borrower.

Individual and Collective Impairment Provisions

The Bank first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed loans and advances, whether significant or not, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans and advances' carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the original effective interest rate. The carrying amount of the loans and advances is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. If the loans and advances have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, loans and advances are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss.

4.2.1. Breakdown of Gross Credit Exposures

(a) By Geographical Distribution

Table 4.1: Exposures by Geographical Distribution

Category	Malaysia RM'000	United States RM'000	Singapore RM'000	India RM'000	Others RM'000	Total RM'000
31.12.2013						
Sovereign/Central Banks	2,210,872	-	-	-	-	2,210,872
Banks, DFIs, and MDBs	485,494	16,628	5,473	50	7,831	515,476
Corporates	251,901	-	303	-	3,102	255,306
Residential Mortgages	878	-	-	-	-	878
Other Assets	14,902	-	-	-	-	14,902
Defaulted Exposures	175	-	-	-	-	175
Total as at 31 December 2013	2,964,222	16,628	5,776	50	10,933	2,997,609
31.12.2012						
Sovereign/Central Banks	1,140,662	-	-	-	-	1,140,662
Banks, DFIs, and MDBs	295,287	11,861	6,005	39,565	12,793	365,511
Corporates	260,590	-	54	-	3,497	264,141
Residential Mortgages	1,292	-	-	-	-	1,292
Other Assets	15,058	-	-	-	-	15,058
Defaulted Exposures	182	-	-	-	-	182
Total as at 31 December 2012	1,713,071	11,861	6,059	39,565	16,290	1,786,846

(b) By Sector Distribution

Table 4.2: Exposures by Sector Distribution

Category	Finance, Insurance and Business Services	Government & Government Agencies	Manufacturing	General Commerce	Mining & Quarrying	Construction	Education, Health and Others	Purchase of Residential Landed Property, Securities, and Transport Vehicles	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12 2013										
Sovereign/Central Banks	-	2,210,872	-	-	-	-	-	-	-	2,210,872
Banks, DFIs, and MDBs	515,476	-	-	-	-	-	-	-	-	515,476
Corporates	23,366	1,590	179,310	43,326	4,129	3,585	-	-	-	255,306
Residential Mortgages	-	-	-	-	-	-	-	878	-	878
Other Assets	13,835	-	-	-	-	-	-	975	92	14,902
Defaulted Exposures	-	-	-	-	-	-	-	175	-	175
Total as at 31 December 2013	552,677	2,212,462	179,310	43,326	4,129	3,585	-	2,028	92	2,997,609
31.12 2012										
Sovereign/Central Banks	-	1,140,662	-	-	-	-	-	-	-	1,140,662
Banks, DFIs, and MDBs	365,511	-	-	-	-	-	-	-	-	365,511
Corporates	25,101	1,590	152,615	74,535	10,189	-	111	-	-	264,141
Residential Mortgages	-	-	-	-	-	-	-	1,292	-	1,292
Other Assets	13,835	-	-	-	-	-	-	1,093	130	15,058
Defaulted Exposures	-	-	-	-	-	-	-	182	-	182
Total as at 31 December 2012	404,447	1,142,252	152,615	74,535	10,189	-	111	2,567	130	1,786,846

(c) By Residual Maturity

Table 4.3: Exposures by Residual Maturity

Category	Up to 1 Year RM'000	than 1 Year to 5 Years RM'000	More than 5 Years RM'000	Total RM'000
31.12.2013				
Sovereign/Central Banks	2,210,144	713	15	2,210,872
Banks, DFIs, and MDBs	470,484	42,282	2,710	515,476
Corporates	222,836	32,470	-	255,306
Residential Mortgages	7	434	437	878
Other Assets	14,016	279	607	14,902
Defaulted Exposures	33	100	42	175
Total as at 31 December 2013	2,917,520	76,278	3,811	2,997,609
31.12.2012				
Sovereign/Central Banks	1,140,647	-	15	1,140,662
Banks, DFIs, and MDBs	359,302	6,209	-	365,511
Corporates	227,946	36,195	-	264,141
Residential Mortgages	71	470	751	1,292
Other Assets	14,008	339	711	15,058
Defaulted Exposures	-	109	73	182
Total as at 31 December 2012	1,741,974	43,322	1,550	1,786,846

4.2.2. Breakdown of Gross Impaired Loans, Past Due Loans and Impairment Provisions

(a) Gross Impaired Loans, Advances and Financing Analysed by Sector and Geographical Area

Table 5.1: Impaired Loans, Advances and Financing by Sector and Geographical Area

	31.12.2013 RM'000	31.12.2012 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	1,003	943
Others	-	9
Total Gross Impaired Loans, Advances and Financing	1,003	952
Gross Impaired Loans as a % of Gross Loans, Advances and Financing	0.88%	0.53%

(b) Gross Loan, Advances and Financing Past Due but Not Impaired, Analysed by Sector and Geographical Area

Table 5.2: Loans, Advances and Financing Past Due but Not Impaired by Sector and Geographical Area

	31.12.2013 RM'000	31.12.2012 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	270	385
Total Gross Loans, Advances and Financing Past Due by Not Impaired	270	385

(c) Impairment Provisions, Analysed by Sector and Geographical Area

Table 5.3: Individual Assessment Allowance by Sector and Geographical Area

	31.12.2013 RM'000	31.12.2012 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	831	761
Others	-	9
Total Individual Assessment Allowance	**831**	**770**

Table 5.4: Collective Assessment Allowance by Sector and Geographical Area

Category	Malaysia RM'000	India RM'000	Total RM'000
31.12.2013			
Finance, Insurance and Business Services	26	-	26
General Commerce	114	-	114
Manufacturing	99	-	99
Mining & Quarrying	13	-	13
Government & Government Agencies	1	-	1
Purchase of Residential Landed Property, Securities and Transport Vehicles	76	-	76
Total Collective Assessment Allowance as at 31 December 2013	**329**	**-**	**329**
31.12.2012			
Finance, Insurance and Business Services	75	24	99
General Commerce	313	-	313
Manufacturing	94	-	94
Mining & Quarrying	29	-	29
Purchase of Residential Landed Property, Securities and Transport Vehicles	74	-	74
Total Collective Assessment Allowance as at 31 December 2012	585	24	609

(d) Movement in Individual Assessment Allowance by Sector

Table 5.5: Movement in Individual Assessment Allowance by Sector

	Purchase of Residential Landed Property, Securities and Transport Vehicles RM'000	Others RM'000	Total RM'000
In Malaysia			
At 1 January 2013	761	9	770
Allowance Made	192	-	192
Amount No Longer Required, Written Back	(122)	(9)	(131)
At 31 December 2013	**831**	**-**	**831**
In Malaysia			
At 1 January 2012	751	9	760
Allowance Made	68	-	68
Amount No Longer Required, Written Back	(58)	-	(58)
At 31 December 2012	761	9	770

(e) Reconciliation of Changes in Loan Impairment Provisions

Table 5.6: Reconciliation of Changes in Loan Impairment Provisions

	31.12.2013 RM'000	31.12.2012 RM'000
Individual Assessment Allowance		
At Beginning of Financial Year	770	760
Allowance Made During the Financial Year	192	68
Write Back Made During the Financial Year	(131)	(58)
At End of Financial Year	831	770
Collective Assessment Allowance		
At Beginning of Financial Year	609	1,129
Write Back Made During the Financial Year	(280)	(520)
At End of Financial Year	329	609

4.2.3. Standardised Approach to Credit Risk

Under the standardised approach for credit risk, the determination of the capital requirements is based on an approach that links predefined risk weights to predefined classes of assets to which credit exposures are assigned.

For Sovereigns/Central Banks, Public Sector Entities, Banking Institutions and Corporates, external ratings are used as basis for determination of risk weights. These external ratings are provided by External Credit Assessment Institutions ("ECAI") recognised by BNM, namely:

- Standard & Poor's Rating Services ("S&P");
- Moody's Investors Service ("Moody's");
- Fitch Ratings ("Fitch"); and
- RAM Rating Services Berhad ("RAM").

The following is a summary of risk weights and rating categories used in assigning credit quality to credit exposures under the standardised approach:

Table 6.1: Rating Categories of Sovereigns / Central Banks

Rating Category	S&P	Moody's	Fitch	Risk Weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	0%
2	A+ to A-	A1 to A3	A+ to A-	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	50%
4	BB+ to B-	Ba1 to Ba3	BB+ to B-	100%
5	CCC+ to D	Caa1 to C	CCC+ to D	150%
Unrated				100%

Table 6.2: Rating Categories of Banking Institutions

Rating Category	S&P	Moody's	Fitch	RAM	Risk Weight	Risk Weight (Original Maturity of 6 Months or Less)	Risk Weight (Original Maturity of 3 Months or Less)
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	20%	20%	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	50%	20%	
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	50%	20%	
4	BB+ to B-	Ba1 to Ba3	BB+ to B-	BB1 to B3	100%	50%	
5	CCC+ to D	Caa1 to C	CCC+ to D	C1 to D	150%	150%	
Unrated					50%	20%	

Table 6.3: Rating Categories of Corporates

Rating Category	S&P	Moody's	Fitch	RAM	Risk Weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	50%
3	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	BBB1 to BB3	100%
4	B+ to D	B1 to C	B+ to D	B1 to D	150%
Unrated					100%

In cases where counterparty is rated by more than one ECAI, all available external ratings of the counterparty are captured and the following rules observed

- Where 2 recognised external ratings are available, the lower rating is to be applied; or
- Where 3 or more recognised external ratings are available, the lower of the highest 2 ratings will be used for the capital adequacy calculation purposes.

(a) Breakdown of Credit Risk Exposures by Risk Weights

Table 6.4: Exposures by Risk Weights

	Exposures After Netting and Credit Risk Mitigation (RM'000)						
Risk Weights	Sovereigns/ Central Banks	Banks, DFIs & MDBs	Corporates	Residential Mortgages	Other Assets	Total Exposures After Netting and Credit Risk Mitigation	Total RWA
31.12.2013							
0%	2,210,872	-	-	-	731	2,211,603	-
20%	-	441,376	-	-	-	442,966	88,593
35%	-	-	-	495	-	495	173
50%	-	74,100	-	54	-	74,154	37,077
75%	-	-	-	336	-	336	252
100%	-	-	253,970	167	14,171	266,718	266,718
Total as at 31 December 2013	2,210,872	515,476	253,970	1,052	14,902	2,996,272	
RWA by Exposure	-	125,325	253,970	619	14,171		392,813
Average Risk Weight	0.00%	24.31%	100.00%	58.84%	95.09%		13.11%
Deduction from Capital Base	-	-	-	-	-		

31.12.2012							
0%	1,140,662	-	-	-	2,173	1,142,835	-
20%	-	347,439	1,590	-	-	349,029	69,806
35%	-	-	-	624	-	624	218
50%	-	18,072	10,421	65	-	28,558	14,279
75%	-	-	-	610	-	610	458
100%	-	-	251,065	175	12,885	264,125	264,125
Total as at 31 December 2012	1,140,662	365,511	263,076	1,474	15,058	1,785,781	
RWA by Exposure	-	78,524	256,594	883	12,885		348,886
Average Risk Weight	0.00%	21.48%	97.54%	59.91%	85.57%		19.54%
Deduction from Capital Base	-	-	-	-	-		

(b) Breakdown of Credit Risk Exposures by ECAI Ratings

Table 6.5: Sovereigns / Central Bank Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
	Total	1	2	3	4	5	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2013	2,210,872	2,210,872	-	-	-	-	-
31.12.2012	1,140,662	1,140,662	-	-	-	-	-

Table 6.6: Banks, DFIs and MDBs Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	
	Total	1	2	3	4	5	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2013	515,476	38,952	471,188	5,080	-	-	256
31.12.2012	365,511	122	324,284	40,310	-	-	795

Table 6.7: Corporate Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	
	Total	1	2	3	4	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2013	255,306	-	-	1,590	-	253,716
31.12.2012	264,141	1,590	-	-	-	262,551

4.2.4. Credit Risk Mitigation

Credit Risk Mitigation ("CRM") techniques include, where appropriate:

- Legally enforceable master netting agreements;
- Initial collateral or margin;
- Right to terminate transactions or to obtain collateral should unfavourable events occur;
- Right to call for collateral when certain exposure thresholds are exceeded; and/or
- Third party guarantees and credit default protection

On and Off-Balance Sheet Netting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

For derivatives counterparties, the Bank enters into master netting arrangements, which provide the Bank, in the event of a customer default, the right to offset the counterparty's rights and obligations.

The Bank has not employed on or off-balance sheet netting to mitigate its credit exposures as of 30 June 2013.

Collateralised Transactions

The main types of collateral obtained by the Bank are in the form of cash, fixed deposits and residential properties. The Bank also pledges cash collateral on its own derivative positions.

Cash deposit and cash equivalents held in traditional Bank deposit platform are valued at nominal value stated for the instrument. Valuation is performed on quarterly basis if held in BAC or its subsidiaries' accounts, and on monthly basis if held in other financial institutions.

Cash security taken as collateral should be denominated in the same currency as the underlying loan or in US Dollar, Malaysian Ringgit and EURO. In the event, there is any mis-match in currency exposure against the collateral provided, the Bank will require additional collateral to be pledged to mitigate the risk.

Collateral qualifies as CRM for regulatory capital purposes if:-

- Documentation conforms to the Basel requirements, binding on all parties and legally enforceable in all relevant jurisdictions;
- The credit quality of the counterparty and the value of collateral does not have a material positive correlation for the collateral to provide effective cover;
- There are clear and robust procedures for timely liquidation of collateral; and
- Collateral are appropriately valued and monitored both at origination and on an on-going basis. Collateral which lacks substantiated market value or clear right to accelerate and realize on collateral value will not be considered for CRM.

Guarantees and Credit Default Protection

The Bank routinely accepts contractual credit enhancements such as guarantees, Standby Letters of Credit, or other support issued by third party, such as the parent company, or other financial institution in favour of the Bank as CRM. Prior to acceptance of such credit enhancements for CRM purpose, Credit Officers must assess the credit strength of the Guarantor or support provider, including its financial willingness and motivation to support the borrower. Legal counsel for the Bank must also review and opine on the strength and enforceability of all guarantees.

As at 31 December 2013, the Bank has not entered into any credit derivative transactions for credit default protection.

Risk Concentrations

Credit exposures arising from credit risk mitigation are included in and monitored through the concentration limits as described in "Credit Concentration Risk" under Section 4.2.

There is no material concentration of credit risk mitigation held as at 31 December 2013.

Credit Risk Mitigation under Comprehensive Approach

Subject to standard supervisory haircuts, where applicable, eligible cash collateral is deducted from the gross credit exposure for capital adequacy purpose. The net balance is then used as the basis of calculating the risk weighted asset and the resulting capital requirement.

Table 7.1: Credit Risk Mitigation as at 31 December 2013

Credit Risk Exposures	Gross Exposures/^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
31.12.2013	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	2,210,815	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	396,294	-	-	-
Corporates	111,749	-	-	-
Residential Mortgages	871	-	-	-
Other Assets	14,902	-	-	-
Defaulted Exposures	171	-	-	-
Total On-Balance Sheet Exposures	2,734,802	-	-	-
Off-Balance Sheet Exposures:				
OTC Derivatives	124,077	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	138,730	-	1,337	-
Total Off-Balance Sheet Exposures	262,807	-	1,337	-
Total On and Off-Balance Sheet Exposures	2,997,609	-	1,337	-

Table 7.2: Credit Risk Mitigation as at 31 December 2012

Credit Risk Exposures 31.12.2012	Gross Exposures/^EAD before #CRM RM'000	Exposures Covered by Guarantees RM'000	Exposures Covered by Eligible Financial Collateral RM'000	Exposures Covered by Other Eligible Collateral RM'000
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	1,140,662	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	347,189	-	-	-
Corporates	135,563	-	-	-
Residential Mortgages	1,292	-	-	-
Other Assets	15,058	-	-	-
Defaulted Exposures	182	-	-	-
Total On-Balance Sheet Exposures	1,639,946	-	-	-
Off-Balance Sheet Exposures:				
OTC Derivatives	18,039	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	128,861	-	1,065	-
Total Off-Balance Sheet Exposures	146,900	-	1,065	-
Total On and Off-Balance Sheet Exposures	1,786,846	-	1,065	-

4.2.5. Off-Balance Sheet Exposures and Counterparty Credit Risk ("CCR")

CCR is the risk that the counterparty to a transaction could default or deteriorate in creditworthiness before the final settlement of a transaction's cash flow. Counterparties can include other financial institutions, corporate entities or individuals.

The Bank has off-balance sheet exposure comprising of banking products and Over-The-Counter ("OTC") derivatives exposures which are included under Pillar 1 capital requirement.

For regulatory capital, credit risk for a derivative contract is an estimate of the potential future changes in value (represented by the Notional amount of the contract multiplied by a credit conversion factor) and the replacement cost, which is the positive mark-to-market (MTM) value of the contract. A positive MTM is a credit exposure for the Bank since it is owed money - a counterparty default in this situation exposes it to a loss equivalent to the MTM. A negative MTM, on the other hand, means the Bank owes money to the counterparty and is not considered an exposure. Credit exposure is therefore asymmetric with respect to the underlying rate or price.

The exposure to CCR exposures is managed as part of the overall lending limits as described in "Credit Risk" under Section 4.2.

Collateral for Traded Products

Collateralisation is one of the key credit risk mitigation techniques available in the privately negotiated OTC Derivatives market. When facing derivative counterparties, the Bank, in appropriate circumstances, enters into collateral arrangements which provide the Bank, in the event of a customer default, the right to liquidate collateral. The Bank also monitors the fair market value of the underlying securities used as collateral, including accrued interest, and, as necessary, requests additional collateral to ensure that the relevant transactions are adequately collateralized.

Collateral Reserves and Credit Ratings Downgrade

As at 31 December 2013, the Bank only accepts or post cash deposits as collateral to derivatives transactions, and does not hold or post any securities as collateral. There is no implication to the collateral value to be posted in the event of credit ratings downgrade, and as such no credit reserves are created for exposures which are secured in such manner.

Table 8.1: Off-Balance Sheet Exposures as at 31 December 2013

Off-Balance Sheet Exposures	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount*	RWA
	RM'000	RM'000	RM'000	RM'000
31.12.2013				
Direct Credit Substitutes [1]	45,473	-	45,473	41,216
Transaction Related Contingent Items [2]	23,325	-	11,663	8,167
Short Term Self Liquidating Trade-Related Contingencies[3]	1,022	-	204	204
Foreign Exchange Related Contracts				
One Year or Less	2,970,058	24,513	74,666	36,299
Over One Year to Five Years	146,981	1,446	8,795	6,591
Interest/Profit Related Contracts				
One Year or Less	200,000	149	649	130
Over One Year to Five Years	1,435,790	4,210	37,257	13,813
Over Five Years	30,000	10	2,710	542
Other commitments such as formal standby facilities and credit lines, with an original maturity of up to one year	406,901	-	81,380	81,323
Other commitments such as formal standby facilities and credit lines, with an original maturity of over one year	20	-	10	7
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	1,110	-	-	-
Total as at 31 December 2013	5,260,680	30,328	262,807	188,292
31.12.2012				
Direct Credit Substitutes [1]	52,208	-	52,208	47,021
Transaction Related Contingent Items [2]	22,976	-	11,488	9,629
Short Term Self Liquidating Trade-Related Contingencies[3]	1,438	-	287	171
Foreign Exchange Related Contracts				
One Year or Less	2,175,436	3,966	18,039	14,523
Other commitments such as formal standby facilities and credit lines, with an original maturity of up to one year	324,389	-	64,878	64,878
Total as at 31 December 2012	2,576,447	3,966	146,900	136,222

* The credit equivalent amount is arrived at using the credit conversion factor as per BNM Guidelines

Key:
[1] Financial Guarantees
[2] Performance Guarantees
[3] Documentary Credits & Letters of Credits

4.3. Market Risk

Market risk is the risk that value of assets and liabilities or revenues will be adversely affected by changes in market conditions.

Market risk is inherent in BAMB's operations and arises from both trading and non-trading positions. Trading exposures represent positions taken in a wide range of financial instruments and markets which expose BAMB to various risks, such as interest rate and foreign exchange. BAMB manages these risks by using trading strategies and other hedging actions which encompass a variety of financial instruments in both the cash and derivatives markets. Non-trading exposures arise from its Corporate Treasury activities, as part of International Treasury, as a consequence of the mismatch of assets and liabilities in the banking book. Corporate Treasury is also exposed to market risk as a consequence of its use of derivatives to mitigate the risks associated from this mismatch.

4.3.1. Standardised Approach to Market Risk Capital

Under the Standardized Approach for market risk defined by BNM, the market risk capital charge is calculated at the BAMB level following the standardized supervisory formula. This leads to applying a charge on BAMB's net long, as well as matched, trading positions. The formula requires allocation of the trading exposures into time bands from which the charge is determined.

Since BAMB is required to maintain capital for market risks on an ongoing basis, the trading positions are marked-to-market on a daily basis. Derivative instruments include interest rate swaps and cross currency interest rate swaps. Derivatives are measured at their fair value and the resultant gain or loss is recognized in the profit and loss account. Valuation of outstanding derivative contracts is done on a Present Value basis at market rates in conformity with BAMB's global accounting norms.

Table 9.1: RWA and Capital Requirements for Market Risk

	31.12.2013	31.12.2012
	RM'000	RM'000
Total RWA for Market Risk	439,647	396,945
Capital Required for Market Risk	35,172	31,755
Minimum Capital Requirement at 8% for:		
Foreign Exchange Risk	6,988	13,425
Interest Rate Risk	28,184	18,330

4.4. Operational Risk

BAC defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. BAC classifies Operational Risk using the Basel II Categories and definitions as follows: Internal Fraud, External Fraud, Employment Practices and Workplace Safety, Clients, Products, and Business Practices, Damage to Physical Assets, Business Disruption and System Failures, Execution, Delivery, and Process Management.

4.4.1. Local Operational Risk Management Framework

BAMB has a robust operational risk management framework. Within BAMB, the LMT is responsible for monitoring the Malaysia business operations. As noted above, the LOBs, which are represented within the LMT, are responsible for all the risks within the business including operational risks. Operational risk has been materially mitigated for BAMB because such risks are managed through corporate-wide or LOB specific policies and procedures, controls, and monitoring tools. Examples of these include data reconciliation processes, fraud prevention, transaction processing monitoring and analysis and business recovery planning.

Locally, the LMT is responsible for monitoring BAMB's business operations. The LOBs which are represented within the LMT are responsible for escalating operational risks. Risks are managed through entity-wide or LOB-specific policies and procedures, controls and monitoring tools.

4.5. Equity Exposures in the Banking Book

The Bank's banking book equity investments consist of unquoted shares held for socio-economic purposes. No equity risk arises from the equity investments.

The equity investments are classified as available-for sale and measured at fair value in the financial statements. Unrealised gains and losses arising from changes in fair value of the equity investments are recognised in equity, net of income tax, until such investments are sold, collected or otherwise disposed of, or until such investments are determined to be impaired. Further details on valuation and accounting for financial assets available-for-sale are set out in the financial statements.

(a) Equity Investments by Type

Table 10.1: Holdings of Equity Investments by Type

	31.12.2013		31.12.2012	
	Gross Credit Exposure	Risk Weighted Assets	Gross Credit Exposure	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Privately Held Shares for Socio-Economic Purpose	2,980	2,980	4,744	3,472

(b) Cumulative Realised Gains/(Losses)

Table 10.2: Realised Gains/(Losses) from Sale of Equity Holdings

	31.12.2013	31.12.2012
	RM'000	RM'000
Realised gains recognised in profit and loss		
Privately Held Shares for Socio-Economic Purpose	1,844	-

(c) Unrealised Gains/(Losses)

Table 10.3: Unrealised Gains/(Losses) from Sale of Equity Holdings

	31.12.2013	31.12.2012
	RM'000	RM'000
Recognised in Other Comprehensive Income		
Privately Held Shares for Socio-Economic Purpose	-	404

4.6. Interest Rate Risk / Rate of Return in the Banking Book ("IRRBB")

IRRBB represents the banking book's exposure to adverse movements in interest rates. IRRBB is measured as the potential volatility in non-trading net interest income caused by changes in market interest rates. Client facing activities, primarily lending and deposit-taking, create interest rate sensitive positions on the balance sheet.

The majority of assets lie with overnight placements and collateral portfolio required for regulatory or clearing purposes, and is maturity-match funded mainly by clients' deposits on the liabilities side. There is only a small amount of interest rate risk in the banking book.

Quantitative information on interest rate risk/rate of return risk in the banking book is presented in Note 29 B of the audited financial statements for the financial year ended 31 December 2013.