Bank of America Malaysia Berhad

Pillar 3 Disclosures

As at 30 June 2018

Attestation by Chief Executive Officer

This is to certify that Bank of America Malaysia Berhad's Basel II Pillar 3 Disclosures as at 30 June 2018, 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

Contents

1. SCOPE OF APPLICATION 1

2. CAPITAL ADEQUACY 1

2.1 CAPITAL MANAGEMENT 1
2.2 CORE EQUITY TIER I ("CET I") CAPITAL RATIO, TIER I CAPITAL RATIO AND TOTAL CAPITAL RATIO 2
2.3 RISK WEIGHTED ASSETS ("RWA") AND CAPITAL REQUIREMENTS 2

3. CAPITAL STRUCTURE 4

4. RISK MANAGEMENT 5

4.1 BAMB'S RISK MANAGEMENT FRAMEWORK 5
4.1.1 BAMB Risk Taking Capacity 6
4.1.2 Risk Management Structure 7
4.1.3 Risk Management Process 7
4.2 CREDIT RISK 8
4.2.1 Breakdown of Gross Credit Exposures 11
4.2.2 Breakdown of Gross Impaired Loans, Past Due Loans and Impairment Provisions 13
4.2.3 Standardised Approach to Credit Risk 15
4.2.4 Credit Risk Mitigation 19
4.2.5 Off-Balance Sheet Exposures and Counterparty Credit Risk ("CCR") 21
4.3 MARKET RISK 23
4.3.1 Market Risk Management Architecture, Measurements and Controls 23
4.3.2 Oversight of Senior Management 23
4.4 OPERATIONAL RISK 24
4.4.1 Local Operational Risk Management Framework 24
4.5 EQUITY EXPOSURES IN THE BANKING BOOK 25
4.6 INTEREST RATE RISK / RATE OF RETURN IN THE BANKING BOOK ("IRRBB") 26

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 is BankAmerica International Financial Corporation ("BIFC") and Bank of America Corporation ("BAC"), 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 such 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 BAMB Board of Directors (Board), through its various Committees, is overall accountable for the management of risk in BAMB.

The Local Management Team (LMT) is responsible for understanding the nature and level of risk being taken by BAMB and ensuring that the risk management processes are being carried out appropriately in light of the risk profile and the business plan. The LMT is also responsible for issue escalations to the Board.

In order to meet this responsibility, the Board, LMT and Asset and Liability Committee (ALCO) will utilize the annual ICAAP to assess the adequacy of capital, internal governance and 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 assessment performed by the Bank is expected to encompass all risks, not just the risks captured by the Basel II Pillar 1 minimum regulatory capital calculations. BAMB has undertaken a Comprehensive Risk Assessment to identify all material risks and ensure adequate capital is held to commensurate with such material risks. BAMB has established quantitative and qualitative methodologies to assess each risk to determine its materiality.

The Bank has established an Internal Capital Guideline (IGL) and maintains capital levels in excess of this guideline. The internal buffer over the minimum requirement serves as an early warning signal for management and prompts remediation actions to avoid any capital breach.

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

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 4th August 2017.

Table 1.1: Capital Ratios

	30.06.2018	31.12.2017
CET I Capital Ratio	**52.562%**	49.735%
Tier I Capital Ratio	**52.562%**	49.735%
Total Capital Ratio	**52.935%**	50.348%

Table 1.2: Capital Adequacy Requirements

	CET I Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
30.06.2018	**6.375%**	**7.875%**	**9.875%**
31.12.2017	5.750%	7.250%	9.250%

The minimum regulatory capital adequacy requirements as of 30 June 2018 stated above include capital conservation and counter-cyclical buffers, phased-in from calendar year 2016 onwards. Under the transition arrangements, capital conservation buffer will be phased-in as follows:

Table 1.3: Capital Conservation Buffer

	2016	2017	2018	2019 onwards
Capital Conservation Buffer	0.625%	1.250%	1.875%	2.500%

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 30 June 2018

Exposure Class	Gross Exposures/^EAD before #CRM	Net Exposures/^EAD after #CRM	RWA	RWA absorbed by *PSIA	Total RWA after effects of PSIA	Minimum Capital Requirement at 8%
30.06.2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	**2,131,189**	**2,131,189**	**-**	**-**	**-**	**-**
Banks, Development Financial Institutions ("DFIs") & Multilateral	**171,588**	**171,588**	**34,316**	**-**	**34,316**	**2,745**

Exposure Class 30.06.2018	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	Minimum Capital Requirement at 8% RM'000
Development Banks ("MDBs")							
Insurance Cos, Securities Firms & Fund Managers	280		280	280	-	280	22
Corporates	201,722		201,722	201,722	-	201,722	16,138
Residential Mortgages	259		259	95	-	95	8
Other Assets	25,919		25,919	24,112	-	24,112	1,929
Defaulted Exposures	-		-	-	-	-	-
Total On-Balance Sheet Exposures	**2,530,957**		**2,530,957**	**260,525**	**-**	**260,525**	**20,842**
Off-Balance Sheet Exposures:							
OTC Derivatives	129,188		129,188	60,340	-	60,340	4,827
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	241,831		240,431	234,522	-	234,522	18,762
Total Off-Balance Sheet Exposures	**371,019**		**369,619**	**294,862**	**-**	**294,862**	**23,589**
Total On and Off-Balance Sheet Exposures	**2,901,976**		**2,900,576**	**555,387**	**-**	**555,387**	**44,431**
Market Risk	Long Position		Short Position				
Foreign currency	161,723		34,852	161,723	-	161,723	12,938
Interest rate				244,670	-	244,670	19,574
Total Market Risk Exposure				**406,393**	**-**	**406,393**	**32,512**
Total Operational Risk Exposure				**232,199**	**-**	**232,199**	**18,576**
Total RWA and Capital Requirements				**1,193,979**	**-**	**1,193,979**	**95,519**

Table 2.2: Exposures as at 31 December 2017

Exposure Class 31.12.2017	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	Minimum Capital Requirement at 8 % RM'000
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	2,239,297	2,239,297	-	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	545,405	545,405	109,652	-	109,652	8,772
Insurance Cos, Securities Firms & Fund Managers	381	381	381	-	381	30

Exposure Class	Gross Exposures/^EAD before #CRM	Net Exposures/^EAD after #CRM	RWA	RWA absorbed by *PSIA	Total RWA after effects of PSIA	Minimum Capital Requirement at 8 %
Corporates	255,536	255,536	255,536	-	255,536	20,443
Residential Mortgages	278	278	115	-	115	9
Other Assets	25,900	25,900	24,264	-	24,264	1,941
Defaulted Exposures	-	-	-	-	-	-
Total On-Balance Sheet Exposures	3,066,797	3,066,797	389,948	-	389,948	31,195
Off-Balance Sheet Exposures:						
OTC Derivatives	125,318	125,318	60,239	-	60,239	4,819
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	229,436	228,436	220,248	-	220,248	17,620
Total Off-Balance Sheet Exposures	354,754	353,754	280,487	-	280,487	22,439
Total On and Off-Balance Sheet Exposures	3,421,551	3,420,551	670,434	-	670,434	53,634
Market Risk	Long Position	Short Position				
Foreign currency	28,310	163,533	163,533	-	163,533	13,083
Interest rate			209,565	-	209,565	16,765
Total Market Risk Exposure			373,098	-	373,098	29,848
Total Operational Risk Exposure			215,153	-	215,153	17,212
Total RWA and Capital Requirements			1,258,685	-	1,258,685	100,694

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 period ending 30 June 2018.

Tier II Capital consists of regulatory reserve and 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

	30.06.2018 RM'000	31.12.2017 RM'000
CET I Capital		
Share Capital	**135,800**	135,800
Retained Profits	**350,514**	349,142
Other Disclosed Reserves:		
Statutory Reserves	**141,446**	141,446
Unrealised gains and losses on available-for-sale financial instruments	**1,047**	1,047
	628,807	627,435
Less: Regulatory Adjustments		
Deferred Tax Assets	**(652)**	(847)
55% of Cumulative Gains of Available-For-Sale Financial Instruments	**(576)**	(576)
Total CET I and Tier I Capital	**627,579**	626,012
Tier II Capital		
Collective Assessment Allowance*	**4,450**	7,708
Total Tier II Capital	**4,450**	7,708
Total Capital	**632,029**	633,720

* Excludes Lifetime ECL Credit Impaired (Stage 3) loans / collective assessment allowance on impaired loans restricted from Tier II Capital of BAMB of RM31k. (31.12.2017: RM36k).

4. Risk Management

Bank of America Corporation (BAC), as our parent, has established risk governance framework which serves as the foundation for consistent and effective management of risks facing the Bank. The Risk Framework applies to all the Bank employees. It provides an understanding of the Bank's approach to risk management and each employee's responsibilities for managing risk. BAMB is also guided by the Bank Negara Malaysia ("BNM") guidelines and procedures.

The following lays out BAMB's risk management framework, risk taking capacity and risk management processes:

4.1 BAMB's Risk Management Framework

BAMB is committed to maintaining strong, consistent risk management practices. The five (5) components of BAMB's risk management approach are as follows:

- **Risk Culture:** A culture that instills the importance of managing risk well, ensures appropriate focus on risk in all activities and that risk is everyone's responsibility. It encourages the necessary mindset and behavior to enable effective risk management and promote sound risk-taking within our risk appetite. Individual accountability is the cornerstone of our culture. Our culture requires that risks are promptly identified, escalated and debated, thereby benefiting the overall performance of the Company.
- **Risk appetite:** The Bank's Risk Appetite Statement defines the types and levels of risk the Company is willing to take to achieve its objectives. It includes qualitative statements and quantitative measures.

- **<u>Risk Management Processes:</u>** Sound risk management includes processes to effectively identify, measure, monitor and control risk. Risk management is both an essential component of our daily business activities and integral part of our strategic, capital and financial planning processes.
- **<u>Risk data management, aggregation and reporting:</u>** Effective risk reporting provides a clear understanding of our risk profile. We leverage our data and management information systems to achieve transparency and generate actionable insights.
- **<u>Risk Governance:</u>** Our risk governance framework serves as the foundation for the comprehensive management of risks facing the Company. It outlines, among other things, clear ownership and accountability for managing risk across three lines of defense: front line units, independent risk management and Corporate Audit.

4.1.1 BAMB Risk Taking Capacity

BAMB adopts a disciplined approach to understanding and managing risk to minimize the volatility of its financial results, create sustainable earnings and protect its brand and reputation. BAMB is committed to maintaining strong, consistent risk management practices and aims to balance its capacity for risk commensurate with its capital and liquidity, while seeking to adhere to all applicable rules and regulations in Malaysia.

The document on Risk Taking Capacity defines the main principles, governance and methodologies that ensure that BAMB activities and culture and aligned to the above stated risk management philosophy.

Governance Processes and Controls

<u>Approval</u>
BAMB's Risk Taking Capacity metrics are approved annually. A thorough review and assessment of the Risk Taking Capacity metrics following the design principles in the Risk Taking Capacity document will be initiated by the Chief Risk Officer (CRO). The stakeholders for each Risk Category will be engaged in this review process. Upon completion of the review and assessment, the CRO will put forth a recommendation to the LMT for appropriate Risk Taking Capacity metrics that will be applicable for the following 12 months. The recommended Risk Taking Capacity metrics will first be approved by the LMT, followed by the BAMB Risk Management Committee (RMC), and finally by the BAMB Board of Directors.

<u>Monitoring</u>
The monitoring of performance against the BAMB Risk Taking Capacity metrics is carried out on a monthly basis via a performance report to the LMT. The performance report will also be tabled to the BAMB RMC and Board for their noting.

<u>Exceptions</u>
Breaches of any Risk Taking Capacity triggers serve as an early warning signal and will be highlighted to LMT. LMT will determine if any mitigating actions should be taken.

Breaches of any Risk Taking Capacity triggers or limits are escalated and managed as outlined below:-

- Escalation to the BAMB Chief Executive Officer (CEO) and BAMB Country Risk Officer (CRO) shall occur as soon as practically possible.
- The BAMB CRO will notify the LMT of the breach. Depending on the materiality of the breach, an ad-hoc LMT meeting will be convened as soon as practically possible to discuss remediation steps. Based on the materiality of the breach, LMT will determine if it should be escalated to the Board.

- A temporary limit increase may be approved by the CEO and CRO if considered appropriate. This will be presented and approved at the next BAMB RMC and Board meeting, with permanent increases subject to approval by the Board.
- All limit breaches and progress on remediation are reported to the BAMB RMC and Board at each Board meeting until they are successfully remediated.

4.1.2 Risk Management Structure

All BAMB employees are responsible for the below risk management:

- **Businesses:** Business (Front Line Unit) managers, Wholesale Credit and associates are accountable for identifying and managing all risks in their business units, including existing and emerging risks. Business managers must ensure that their business activities are conducted within BAMB's Risk Taking Capacity Document. BAMB risk teams are responsible for establishing policies, limits, standards, controls, metrics and thresholds within the defined corporate standards.

- **Governance & Control:** The BAMB Risk teams, including the CRO and Market Risk, are independent from the Businesses, and maintain sufficient autonomy to develop and implement meaningful risk management measures. Corporate Operational Risk, Enterprise Credit Risk Vendor Risk Management, Enterprise Stress Testing and Global Recovery and Resolution Planning are responsible for setting and establishing enterprise policies, programs and standards, assessing program adherence, providing enterprise-level risk oversight, reporting and monitoring for systemic and emerging risk issues. In addition, the BAMB risk teams are responsible for monitoring and ensuring risk limits within their function are reasonable and consistent with the BAMB's Risk Taking Capacity.

- **Corporate Audit:** The BAMB Corporate Audit function maintains independence from the Businesses and Governance & Control Functions by reporting directly to the Audit Committee of BAMB. The Corporate Audit provides independent assessment and validation through testing of key processes and controls.

Oversight of BAMB's Board and Senior Management: BAMB's Board and Senior Management have responsibility for overseeing and managing all risks faced by BAMB. Management of risks relevant to BAMB is accomplished through the Risk Framework, Risk Taking Capacity, ongoing reporting and monitoring, and approved policies, procedures and guidelines. Senior management is well qualified and has significant experience in the industry.

4.1.3 Risk Management Process

On a day-to-day basis, BAMB's employees are responsible for managing risks which are threatening the interests of the Bank. Employees are provided 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).
BAMB employs a simple but effective overarching risk management process, referred to as IMMC. This process builds on employees' regular tasks and ensures a solid knowledge base for mitigating risk:

- **Identify:** To be effectively managed, risks must be clearly defined and proactively identified. Proper risk identification focuses on recognizing and understanding all key risks inherent in our business activities or key risks that may arise from external factors. Risk identification is an ongoing process incorporating input form front line units and control functions, designed to be forward looking and capture relevant risk factors across all BAMB lines of business.

- **Measure:** Once a risk is identified, it must be accurately measured, through a systematic risk quantification process including quantitative and qualitative components. Risk is measured at various levels including, but not limited to, risk type, front line unit, legal entity and on an aggregate basis. This risk quantification process helps to capture changes in BAMB risk profile due to changes in strategic direction, concentrations, portfolio quality and the overall economic environment. Senior Management considers how risk exposures might evolve under a variety of stress scenarios.
- **Monitor:** We monitor risk levels regularly to track adherence to risk appetites, policies, standards, procedures and processes. BAMB also regularly update risk assessments and review risk exposures. Through our monitoring, we know our level of risk relative to limits and can take action in a timely manner. We also know when risk limits are breached and have processes to appropriately report and escalate exceptions. This includes immediate requests for approval to managers and alerts to executive management, management level committee or the Board of Directors (directly or through an appropriate board committee);
- **Control:** We establish and communicate risk limits and controls through policies, standards, procedures and processes that define responsibility and authority for risk-taking. The limits and controls can be adjusted by the boards or management when conditions or risk tolerances warrant. These limits may be absolute (e.g. loan amount, trading volume) or relative (e.g. percentage of loan booked in higher risk categories). Our lines of business are held accountable to perform within the established limits.

4.2 Credit Risk

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its repayment or delivery obligations under previously agreed upon terms and conditions. Credit risk is managed based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral, and other support given current events, conditions and expectations.

Wholesale Credit Officer perform due diligence comprising analysis of credit risk and preparation of approval memorandum including 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. The onshore Wholesale Credit (WC) and Credit Risk Officer (CRO) have delegated authorities as BAMB credit risk approvers. The Wholesale Credit Officer and Risk Officer approvals are provided in line with the Bank's Global Corporate / Financial Institution Credit Risk Approval Grid. While escalation of approvals may occur to regional or global officers, all credit actions require sign-off from the onshore BAMB Credit Risk as well, without which these credit actions are not considered approved.

Credit risk in BAMB primarily arises from its banking and trading activities.

- Loans;
- FX/Derivative transactions (plain vanilla)
- Global Vendor financing;
- Due from placements with banks;
- Standby letters of credit/bank guarantees; and
- Trade finance products.

In addition, BAMB routinely trades with other affiliated counterparties, often with the purpose to hedge market risk exposures or to place excess funds.

Risk Taking Capacity
The Risk Taking Capacity metrics addresses both credit quality and concentration risks and are considered in light of BAMB's target client set and business activities.

BAMB's credit portfolio as of 30 June 2018 primarily comprises exposure to the Government of Malaysia, large local and foreign commercial banks operating in Malaysia, and the Malaysian subsidiaries of MNCs.

- Exposure to the Government of Malaysia consists of due from placements with Bank Negara Malaysia.
- Exposure to large local and foreign commercial banks primarily comprises due from placements, FX swaps, FX forwards, cross currency swaps, and interest rate swaps. Client selection is considered sound and most derivative and FX exposure is traded under Credit Support Annexes ("CSAs"), mitigating the exposure through the posting of collateral based on pre-agreed terms.
- Credit exposure to Malaysian subsidiaries of MNCs consists primarily of working capital and trade facilities extended on an uncommitted/on-demand basis and FX forwards. BAMB MNC's clients are mostly secured against Corporate Guarantee of the Parent company.

Credit Concentration Risk

Credit Concentration Risk Metrics: established to monitor concentration risks which could expose BAMB to higher risk of credit losses if there is undue concentration in any specific industry or client relationship. Concentration risk is monitored via expressed limits on certain higher risk industries as well as guidelines on single relationship concentration.

Credit Portfolio Management

Once credit has been extended, processes are in place to monitor credit risk exposures at both the individual and portfolio levels, as well as to actively manage the portfolio to achieve risk and return goals. Key credit risk exposures are assessed both in normal and stressed scenarios.

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

Corporate Credit Risk (CCR) / Financial Institution Credit Risk (FICR), as well as supporting units, are 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;
- Recommending exposure management measures;
- 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.

Post Disbursement Supervision: BAMB's Loan Servicing (Credit Administration) department houses and supervises documentation. Documentation requirements are tracked manually and through the Global Banking System which is updated on an ongoing basis whenever there are changes to the facilities, document types, etc. Physical documents are reviewed on an ongoing basis by the account officers. Any shortfall in documentation is highlighted pre-disbursal and appropriate approvals taken. There is an independent exception reporting system wherein any documentation shortfall is approved and tracked until resolved.

Management Information System (MIS): BAMB has an advanced IT infrastructure. All credit filing and credit approvals are done electronically. Ongoing tracking or monitoring is also done electronically through internal systems like the Global Banking System (GBS) and Credit Studio (for FX and derivatives related risk information).

Credit risk is calculated using the standardized approach with risk weightings attached to assets as per regulatory guidelines.

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 on its due date.

Impairment

- The Bank recognises loss allowances for Expected Credit Losses ("ECL") on the following financial instruments that are not measured at FVTPL;
  - Financial assets that are debt instruments
  - Financial guarantee contracts issued
  - Loan commitments issued

  No impairment loss is recognised on equity investments.
- The Bank measures loss allowances at an amount equal to 12-month ECL for financial instruments on which credit risk has not increased significantly since their initial recognition. Loss allowances for financial instruments where there has been a significant increase in credit risk are measured at lifetime ECL.
- 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- **Measurement of ECL:**
  - ECL are a probability-weighted estimate of credit losses, measured as follows:

    For financial assets that are not credit-impaired at the reporting date, the present value of all cash shortfalls (i.e.. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

    For financial assets that are credit-impaired at the reporting date, the difference between the gross carrying amount and the present value of estimated future cash flows;

    For undrawn loan commitments, the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn upon and the cash flows that the Bank expects to receive; and

    For financial guarantee contracts, the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

- **Credit-impaired financial assets:**
  - At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
  - Evidence that a financial asset is credit-impaired includes the following observable data:

    Significant financial difficulty of the borrower or issuer;

    A breach of contract such as a default or past due event;

    The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;

    It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

    The disappearance of an active market for a security because of financial difficulties.
  - A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

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	United Kingdom RM'000	Others RM'000	Total RM'000
30.06.2018						
Sovereign/Central Banks	**2,131,189**	**-**	**-**	**-**	**-**	**2,131,189**
Banks, DFIs, and MDBs	**201,286**	**19,556**	**5,592**	**41,793**	**25,093**	**293,320**
Insurance Cos, Securities Firms & Fund Managers	**4,780**	**10**	**-**	**10**	**-**	**4,800**
Corporates	**410,595**	**35,760**	**130**		**-**	**446,485**
Residential Mortgages	**263**	**-**	**-**	**-**	**-**	**263**
Other Assets	**25,919**	**-**	**-**	**-**	**-**	**25,919**
Total as at 30 June 2018	**2,774,032**	**55,326**	**5,722**	**41,803**	**25,093**	**2,901,976**
31.12.2017						
Sovereign/Central Banks	2,239,297	-	-	-	-	2,239,297
Banks, DFIs, and MDBs	566,821	31,286	4,310	41,394	27,510	671,321
Insurance Cos, Securities Firms & Fund Managers	3,744	-	-	-	-	3,744
Corporates	452,876	20,093	8,042	-	-	481,011
Residential Mortgages	278	-	-	-	-	278
Other Assets	25,900	-	-	-	-	25,900
Total as at 31 December 2017	3,288,916	51,379	12,352	41,394	27,510	3,421,551

(b) By Sector Distribution

Table 4.2: Exposures by Sector Distribution

Category	Finance, Insurance and Business Services RM'000	Government & Government Agencies RM'000	Manufacturing RM'000	General Commerce RM'000	Mining & Quarrying RM'000	Construction RM'000	Education, Health and Others RM'000	Transport, Storage and Communication	Purchase of Residential Landed Property, Securities, and Transport Vehicles RM'000	Others RM'000	Total RM'000
30.06.2018											
Sovereign/Central Banks	-	2,131,189	-	-	-	-	-	-	-	-	2,131,189
Banks, DFIs, and MDBs	293,320	-	-	-	-	-	-	-	-	-	293,320
Insurance Cos, Securities Firms & Fund Managers	4,800	-	-	-	-	-	-	-	-	-	4,800
Corporates	119,077	-	230,549	6,987	64,831	13,921	7,155	3,965	-	-	446,485
Residential Mortgages	-	-	-	-	-	-	-	-	263	-	263
Other Assets	23,422	1,590	-	-	-	-	-	-	894	13	25,919
Total as at 30 June 2018	**440,619**	**2,132,779**	**230,549**	**6,987**	**64,831**	**13,921**	**7,155**	**3,965**	**1,157**	**13**	**2,901,976**
31.12.2017											
Sovereign/Central Banks	-	2,239,297	-	-	-	-	-	-	-	-	2,239,297
Banks, DFIs, and MDBs	671,321	-	-	-	-	-	-	-	-	-	671,321
Insurance Cos, Securities Firms & Fund Managers	3,744	-	-	-	-	-	-	-	-	-	3,744
Corporates	84,941	1,590	241,695	27,784	102,502	15,752	377	6,370	-	-	481,011
Residential Mortgages	-	-	-	-	-	-	-	-	278	-	278
Other Assets	24,926	-	-	-	-	-	-	-	957	17	25,900
Total as at 31 December 2017	784,932	2,240,887	241,695	27,784	102,502	15,752	377	6,370	1,235	17	3,421,551

(c) By Residual Maturity

Table 4.3: Exposures by Residual Maturity

Category	Up to 1 Year RM'000	More than 1 Year to 5 Years RM'000	More than 5 Years RM'000	Total RM'000
30.06.2018				
Sovereign/Central Banks	**2,131,174**	**15**	**-**	**2,131,189**
Banks, DFIs, and MDBs	**207,851**	**75,902**	**9,567**	**293,320**
Insurance Cos, Securities Firms & Fund Managers	**4,520**	**280**	**-**	**4,800**
Corporates	**400,667**	**45,797**	**21**	**446,485**
Residential Mortgages	**-**	**263**	**-**	**263**
Other Assets	**25,028**	**25**	**866**	**25,919**
Total as at 30 June 2018	**2,769,240**	**122,282**	**10,454**	**2,901,976**
31.12.2017				
Sovereign/Central Banks	2,239,282	-	15	2,239,297
Banks, DFIs, and MDBs	589,661	71,327	10,333	671,321
Insurance Cos, Securities Firms & Fund Managers	3,363	381	-	3,744
Corporates	436,446	44,544	21	481,011
Residential Mortgages	-	278	-	278
Other Assets	24,960	33	907	25,900
Total as at 31 December 2017	3,293,712	116,563	11,276	3,421,551

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

	30.06.2018 RM'000	31.12.2017 RM'000
<u>**Malaysia**</u>		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**31**	36
Total Gross Impaired Loans, Advances and Financing	**31**	36
Gross Impaired Loans as a % of Gross Loans, Advances and Financing	**0.02%**	0.01%

(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

	30.06.2018 RM'000	31.12.2017 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**259**	306
Total Gross Loans, Advances and Financing Past Due but Not Impaired	**259**	306

(c) Impairment Analysed by Sector and Geographical Area

Table 5.3: Lifetime ECL Credit Impaired (Stage 3)/ Individual Assessment Allowance by Sector and Geographical Area

	30.06.2018 RM'000	31.12.2017 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**31**	36
Total Lifetime ECL Credit Impaired (Stage 3)/ Individual Assessment Allowance	**31**	36

Table 5.4: 12 Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2)/Collective Assessment Allowance by Sector and Geographical Area

Category	Malaysia RM'000	Total RM'000
30.06.2018		
Finance, Insurance and Business Services	**171**	**171**
General Commerce	**-**	**-**
Manufacturing	**641**	**641**
Mining and Quarrying	**1,399**	**1,399**
Education, Health and Others	**1**	**1**
Construction	**93**	**93**
Purchase of Residential Landed Property, Securities and Transport Vehicles	**-**	**-**
Transport, storage, and communication	**29**	**29**
Government & Government Agencies	**-**	**-**
Total Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2) as at 30 June 2018	**2,334**	**2,334**
31.12.2017		
Finance, Insurance and Business Services	886	886
General Commerce	6	6
Manufacturing	65	65
Mining and Quarrying	6,662	6,662
Education, Health and Others	-	-
Construction	12	12
Purchase of Residential Landed Property, Securities and Transport Vehicles	8	8
Transport, storage, and communication	69	69
Government & Government Agencies	-	-
Total Collective Assessment Allowance as at 31 December 2017	7,708	7,708

(d) Movement in Lifetime ECL Credit Impaired (Stage 3)/Individual Assessment Allowance by Sector

Table 5.5: Movement in Lifetime ECL Credit Impaired (Stage 3)/ Individual Assessment Allowance by Sector

	Purchase of Residential Landed Property, Securities and Transport Vehicles	Total
	RM'000	RM'000
In Malaysia		
At 1 January 2018	**36**	**36**
Additional allowance made	**1**	**1**
Write-back made	**(6)**	**(6)**
At 30 June 2018	**31**	**31**
In Malaysia		
At 1 January 2017	35	35
Additional allowance made	2	2
Write-bank made	(1)	(1)
At 31 December 2017	36	36

(e) Reconciliation of Changes in ECL and Impairment Provisions

Table 5.6: Reconciliation of Changes in ECL and Impairment Provisions

	30.06.2018	31.12.2017
	RM'000	RM'000
Lifetime ECL Credit Impaired (Stage 3)/Individual Assessment Allowance		
Opening Balance	**36**	35
Allowance Written back/Made During the period	**(5)**	1
Closing Balance	**31**	36
12 Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2)/Collective Assessment Allowance		
Opening Balance	**7,708**	6,332
Effects if adopting MFRS9	**(3,629)**	-
Restated	**4,079**	**6,332**
Allowance Written back/Made During the period	**(1,745)**	1,376
Closing Balance	**2,334**	7,708

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

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

Table 6.3: Rating Categories of Corporates / Insurance Cos, Securities Firms & Fund Managers

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	Insurance Cos, Securities Firm & Fund Managers	Banks, DFIs & MDBs	Corporates	Residential Mortgages	Other Assets	Total Exposures After Netting and Credit Risk Mitigation	Total RWA
30.06.2018								
0%	**2,131,189**	**-**	**-**	**-**	**-**	**1,807**	**2,132,996**	**-**
20%	**-**	**-**	**217,866**	**-**	**-**	**-**	**217,866**	**43,573**
35%	**-**	**-**	**-**	**-**	**245**	**-**	**245**	**86**
50%	**-**	**10**	**75,454**	**-**	**18**	**-**	**75,482**	**37,741**
75%	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100%	**-**	**4,790**	**-**	**445,085**	**-**	**24,112**	**473,987**	**473,987**
Total as at 30 June 2018	**2,131,189**	**4,800**	**293,320**	**445,085**	**263**	**25,919**	**2,900,576**	**555,387**
RWA by Exposure	**-**	**4,795**	**81,300**	**445,085**	**95**	**24,112**		**555,387**
Average Risk Weight	**0.000%**	**99.896%**	**27.717%**	**100.000%**	**36.122%**	**93.028%**		**19.147%**
Deduction from Capital Base	**-**	**-**	**-**	**-**	**-**	**-**		
31.12.2017								
0%	2,239,297	-	-	-	-	1,636	2,240,933	-
20%	-	-	577,869	-	-	-	577,869	115,574
35%	-	-	-	-	191	-	191	67
50%	-	-	93,452	-	69	-	93,521	46,760
75%	-	-	-	-	18	-	18	14
100%	-	3,744	-	480,011	-	24,264	508,019	508,019
Total as at 31 December 2017	2,239,297	3,744	671,321	480,011	278	25,900	3,420,551	670,434
RWA by Exposure	-	3,744	162,301	480,011	115	24,264		670,434
Average Risk Weight	0.000%	100.000%	24.176%	100.000%	41.313%	93.683%		19.600%
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
30.06.2018	**2,131,189**	**2,131,189**	**-**	**-**	**-**	**-**	**-**
31.12.2017	2,239,297	2,239,297	-	-	-	-	-

Table 6.6: Insurance Cos, Securities Firms & Fund Managers 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
30.06.2018	**4,800**	**-**	**-**	**-**	**-**	**4,800**
31.12.2017	3,744	-	-	-	-	3,744

Table 6.7: 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
30.06.2018	**293,320**	**70,856**	**202,436**	**19,129**	**-**	**-**	**899**
31.12.2017	671,321	219,034	407,072	39,340	-	-	5,875

Table 6.8: 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
30.06.2018	**446,485**	**-**	**-**	**-**	**-**	**446,485**
31.12.2017	481,011	-	-	-	-	481,011

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 2018.

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 assesses the credit strength of the Guarantor or support provider, including its financial willingness and motivation to support the borrower. Legal counsel for the Bank also reviews and opines on the strength and enforceability of all guarantees.

As at 30 June 2018, the Bank had 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 30 June 2018.

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 30 June 2018

Credit Risk Exposures	Gross Exposures/^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
30.06.2018	RM’000	RM’000	RM’000	RM’000
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	2,131,189	-	-	-
Banks, Development Financial Institutions (“DFIs”) & Multilateral Development Banks (“MDBs”)	171,588	-	-	-
Insurance Cos, Securities Firms & Fund Managers	280	-	-	-
Corporates	201,722	-	-	-
Residential Mortgages	259	-	-	-
Other Assets	25,919	-	-	-
Defaulted Exposures	-	-	-	-
Total On-Balance Sheet Exposures	2,530,957	-	-	-
Off-Balance Sheet Exposures:				
OTC Derivatives	129,188	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	241,831	-	1,400	-
Total Off-Balance Sheet Exposures	371,019	-	1,400	-
Total On and Off-Balance Sheet Exposures	2,901,976	-	-	-

Table 7.2: Credit Risk Mitigation as at 31 December 2017

Credit Risk Exposures	Gross Exposures/^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
31.12.2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	2,239,297	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	545,405	-	-	-
Insurance Cos, Securities Firms & Fund Managers	381	-	-	-
Corporates	255,536	-	-	-
Residential Mortgages	278	-	-	-
Other Assets	25,900	-	-	-
Defaulted Exposures	-	-	-	-
Total On-Balance Sheet Exposures	3,066,797	-	-	-
Off-Balance Sheet Exposures:				
OTC Derivatives	125,318	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	229,436	-	1,000	-
Total Off-Balance Sheet Exposures	354,754	-	1,000	-
Total On and Off-Balance Sheet Exposures	3,421,551	-	-	-

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 30 June 2018, 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

Off-Balance Sheet Exposures	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount*	RWA
	RM'000	RM'000	RM'000	RM'000
30.06.2018				
Direct Credit Substitutes [1]	**113,652**	**-**	**113,652**	**109,455**
Transaction Related Contingent Items [2]	**48,145**	**-**	**24,073**	**20,963**
Short Term Self Liquidating Trade-Related Contingencies[3]	**6,006**	**-**	**1,201**	**1,201**
Foreign Exchange Related Contracts				
One Year or Less	**2,779,388**	**19,499**	**40,129**	**23,738**
Over One Year to Five Years	**-**	**-**	**-**	**-**
Interest/Profit Related Contracts				
One Year or Less	**2,341,000**	**1,328**	**4,768**	**1,902**
Over One Year to Five Years	**4,560,000**	**21,623**	**74,724**	**30,322**
Over Five Years	**187,500**	**1,718**	**9,567**	**4,378**
Other commitments such as formal standby facilities and credit lines, with an original maturity of up to one year	**514,505**	**-**	**102,901**	**102,901**
Other commitments such as formal standby facilities and credit lines, with an original maturity of over one year	**8**	**-**	**4**	**2**
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	**1,215**	**-**	**-**	**-**
Total as at 30 June 2018	**10,551,419**	**44,168**	**371,019**	**294,862**
31.12.2017				
Direct Credit Substitutes [1]	111,010	-	111,010	105,554
Transaction Related Contingent Items [2]	53,179	-	26,590	22,858
Short Term Self Liquidating Trade-Related Contingencies[3]	5,251	-	1,050	1,050
Foreign Exchange Related Contracts				
One Year or Less	1,903,279	24,909	40,702	28,133
Over One Year to Five Years	-	-	-	-
Interest/Profit Related Contracts				
One Year or Less	2,068,389	697	3,511	1,938
Over One Year to Five Years	5,834,800	6,850	70,772	25,473
Over Five Years	187,500	1,572	10,333	4,695
Other commitments such as formal standby facilities and credit lines, with an original maturity of up to one year	453,926	-	90,785	90,785
Other commitments such as formal standby facilities and credit lines, with an original maturity of over one year	2	-	1	1
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	1,206	-	-	-
Total as at 31 December 2017	10,618,542	34,028	354,754	280,487

* 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 values of assets and liabilities or revenues will be adversely affected by changes in market conditions. For example, changes in interest rates, foreign currency exchange rates or security prices. Market risk is inherent in the financial instruments associated with the operations and activities engaged by BAMB and its market risk exposures are primarily in its trading portfolio.

4.3.1 Market Risk Management Architecture, Measurements and Controls

Market Risk Management function operates independently of the business to maintain objectivity. Its responsibilities include the overall measurement and monitoring of market risk. BAMB's market risk is primarily managed through setting and active monitoring of market risk limits. Market risk limits provide thresholds that may not be exceeded without appropriate approval.

The key market risk exposures are assessed at both specific and aggregate levels. At specific level, market risk sensitivities are assessed by evaluating the impact of individual risk factors such as interest rates and foreign exchange. At the aggregate level, BAMB market risk is assessed using two key measures which are Value-at-Risk ("VaR") and Bi-Weekly Maximum Observed Loss ("MOL").

4.3.2 Oversight of Senior Management

Market Risk Management utilizes a suite of reports which assess risk on a daily basis. Key market risk information is reported to the Senior Management on a periodic basis. Limit excesses, temporary, and permanent limit changes are communicated to the Senior Management, LMT, ALCO and the Board of Directors of BAMB.

Market risk exposures are governed within the Board and Senior Management approved limit structures with relevant approval processes in place to address temporary limit increases or transfers of limit capacity in accordance with delegated authorities.

Table 9.1: RWA and Capital Requirements for Market Risk

	30.06.2018	31.12.2017
	RM'000	RM'000
Total RWA for Market Risk	**406,393**	373,098
Capital Required for Market Risk	**32,512**	29,848
Minimum Capital Requirement at 8% for:		
Foreign Exchange Risk	**12,938**	13,083
Interest Rate Risk	**19,574**	16,765

4.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. BAMB 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.

Management of BAMB's operational risk is accomplished through the BAMB CRO and LMT with formal oversight by the BAMB Board of Directors. Operational loss events are captured and reported to the LMT on a monthly basis.

Operational Risk Capital
For the Pillar 1 capital requirements, BAMB uses the Basic Indicator Approach, whereby the average of three years' positive revenue is multiplied by a factor of 15%.

Governance of Operational Risk
Governance of BAMB's operational risk is accomplished through formal oversight by the Board, the Chief Risk Officer (CRO) and through LMT and risk oversight groups aligned to the BAC's overall risk governance framework and practices.

Roles Accountabilities and Process Owners
Enterprise Operational Risk policies and standards are established by Corporate Operational Risk (COR) and implemented by the Businesses with independent oversight from the Enterprise Control Functions (ECF) Risk Teams. Operational Risk Management Responsibilities and Governance and Control functions are provided by: Businesses, ECFs, COR, and Independent Businesses or ECF Risk Teams.

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 Businesses, which are represented within the LMT, are responsible for all the risks within the business including operational risks. Such risks are managed through corporate-wide or line of business 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.

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 financial assets at fair value through other comprehensive income (FVOCI)/available-for sale. 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

	30.06.2018		31.12.2017	
	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**	2,980	2,980

(b) Cumulative Realised Gains/(Losses)

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

	30.06.2018	31.12.2017
	RM'000	RM'000
Realised gains recognised in profit and loss		
Privately Held Shares for Socio-Economic Purpose	-	-

(c) Unrealised Gains/(Losses)

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

	30.06.2018	31.12.2017
	RM'000	RM'000
Recognised in Other Comprehensive Income		
Privately Held Shares for Socio-Economic Purpose	-	-

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

IRRBB represents exposure to adverse movements in interest rates. When this risk grows to be excessive, a significant threat is posed to both earnings and the value of equity.

Customer accounts are working capital accounts and are on-demand. BAMB does not have any proprietary trading limits or positions. Funding, as well as hedging of interest rate risk, is provided by International Treasury.

Table 11.1: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 30 June 2018

	Impact on Positions as at 30 June 2018	
	100 basis points (Parallel Shift)	
	Earnings-at-risk	Economic Value Loss
	RM'000	RM'000
Type of Currency		
MYR	**12,547**	**(2,309)**
USD	**(471)**	**(907)**
Total	**12,076**	**(3,217)**

Table 11.2: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2017

	Impact on Positions as at 31 December 2017	
	100 basis points (Parallel Shift)	
	Earnings-at-risk	Economic Value Loss
	RM'000	RM'000
Type of Currency		
MYR	15,151	(4,900)
USD	8,408	204
Total	23,559	(4,696)

Roles Accountabilities and Process Owners

BAMB manages its IRRBB on a centralized basis in order to remove this control function from individual Businesses. IRRBB management activities are subject to Corporate Treasury market risks limits that are monitored by Treasury and Control Function (TCF) Risk in Asia and BAMB Market Risk Manager, which follows the same principle as describes in Section 4.3 and governance per Market and Liquidity Risk Committee (MLRC) and endorsed by ALCO.

BAMB assesses the IRRBB exposures through the earnings and the economic value perspectives. The earnings perspective focuses on the impact of interest or benchmark rate changes on near-term earnings while the economic value perspective focuses on the impact of interest or benchmark rate changes on the present value of a banking institution's long-term net cash flow. The two approaches provide different but complementary perspectives on the possible impact of interest or benchmark rates movements on BAMB's financial position.