

Company No.

310983	V
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**BANK OF AMERICA MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**Company No.**  
**310983 V**

**BANK OF AMERICA MALAYSIA BERHAD**  
**(Incorporated in Malaysia)**

**REPORTS AND STATUTORY FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

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**BANK OF AMERICA MALAYSIA BERHAD**  
**(Incorporated in Malaysia)**

**DIRECTORS' REPORT**

The Directors hereby submit their report together with the audited financial statements of Bank of America Malaysia Berhad ("the Bank") for the financial year ended 31 December 2017.

**PRINCIPAL ACTIVITIES**

The Bank is principally engaged in all aspects of the banking business and in the provision of such related services.

There were no significant changes in the nature of these activities during the financial year.

**FINANCIAL RESULTS**

	RM'000
Profit before taxation	64,033
Taxation	(15,498)
Net profit for the financial year	<u>48,535</u>

**DIVIDENDS**

No dividends have been paid or declared by the Bank since the end of the last financial year. The Directors do not recommend the payment of any dividends for the financial year ended 31 December 2017.

**RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements and notes to the financial statements.

**BAD AND DOUBTFUL DEBTS**

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for bad and doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

**CURRENT ASSETS**

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Bank have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

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**DIRECTORS' REPORT (CONTINUED)**

**VALUATION METHODS**

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

**CONTINGENT AND OTHER LIABILITIES**

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Bank which has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve (12) months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations when they fall due.

**CHANGE OF CIRCUMSTANCES**

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank, which would render any amount stated in the financial statements misleading or inappropriate.

**ITEMS OF AN UNUSUAL NATURE**

In the opinion of the Directors:

- (a) the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

**AUDITORS' REMUNERATION**

The auditors, PricewaterhouseCoopers PLT, have been remunerated for services rendered as auditors of the Bank as disclosed in Note 20 to the financial statements. The auditors were not granted indemnity or insurance by the Company.

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS**

The Directors of the Bank in office since the date of the last report and at the date of this report are as follows:

David Allan Cairns (Chairman)  
Raymond Yeoh Cheng Seong  
Ayesha Natchiar Binti Dato' Ally Maricar  
Dato' Mohammed Bin Haji Che Hussein  
Kellee Kam Chee Khiong

In accordance with Article 100 of the Bank's Articles of Association, all the Directors shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

**DIRECTORS' INTERESTS**

According to the Register of Directors' Shareholdings maintained by the Bank in accordance with Section 59 of the Companies Act, 2016, none of the Directors in office at the end of the financial year held any interests in shares in or debentures of the Bank or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year except as follows:

	<u>Number of ordinary shares of USD0.01 each</u>			
	<u>Shares held by Directors in their own name</u>			
	<u>As at</u> <u>1 January</u>	<u>Acquired/</u> <u>Granted</u>	<u>Disposed</u>	<u>As at</u> <u>31 December</u>
Raymond Yeoh Cheng Seong	57,221	13,768	(28,455)	42,534
David Allan Cairns	8,301	-	(5,515)	2,786

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than the benefits shown under Directors' Remuneration) by reason of a contract made by the Bank or a related company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

Details of Directors' Remuneration are set out in Note 21 in the financial statements.

**BANK OF AMERICA MALAYSIA BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**RISK MANAGEMENT FRAMEWORK**

The Bank adopts a risk management framework which is consistent with Bank of America's global risk management policies and procedures. This framework focuses on all aspects of risk namely credit, market, liquidity and operational risks. In addition, it ensures that the appropriate levels of due diligence, controls, risk tolerance and shareholder perspective are taken into consideration when making each and every business decision.

**BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 2017**

For the financial year ended 31 December 2017, the Bank continued its strategy to focus on providing working capital solutions and services to its clients which are mainly multinationals, large local corporations, financial institutions and international multilateral agencies requiring Credit Facilities, Trade Finance, Foreign Exchange and Cash Management services. The Bank's Fixed Income, Currency and Commodity ("FICC") business, which includes the trading of foreign exchange, interest rate swaps, and government securities looked to satisfying demand for investment and hedging solutions from clients. The Bank also actively pursued opportunities to establish its Vendor Financing business.

**OUTLOOK FOR THE FINANCIAL YEAR 2018**

The Bank will continue to leverage the competitive advantage gained from the combination of Bank of America Merrill Lynch's global network, extensive product platform and full Commercial and Investment Banking presence in Malaysia. The business strategy will revolve around using these competitive factors to deliver the products our clients want and need, and to improve the quality of our services and our local product platform. We intend to deepen relationships with our existing multinational and local client base aiming for a greater share of the clients' business in Malaysia. We will also selectively on board new clients who are able to meet our strict client selection criteria. The Bank will focus on treasury management, foreign exchange, payments and receipts, trade finance and other financing and advisory functions. The Bank's FICC and vendor financing businesses are expected to continue on a steady trajectory.

**CORPORATE GOVERNANCE STATEMENT**

**Introduction**

The Board of Directors of the Bank ("the Board") is pleased to report on the application by the Bank of the principles contained in the Malaysian Code on Corporate Governance ("the Code") and the extent of compliance with the best practices of the Code. Although the Bank is not a listed company, the Board has endeavoured to apply the principles and comply with the relevant best practices of corporate governance as set out in the Code.

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## **DIRECTORS' REPORT (CONTINUED)**

### **BOARD OF DIRECTORS**

#### **The Board**

The Board subscribes to the principles of good corporate governance and as such, will always ensure that the Bank achieve best practice in the conduct of the Bank's business and operational activities. An indication of the Board's commitment is reflected in the conduct of regular Board meetings by the Bank and the incorporation of various processes and systems to achieve a risk awareness culture as well as the establishment of relevant Board Committees and Management Committees at the Bank.

#### **Composition of the Board**

As of 31 December 2017, the Board has five (5) members, comprising the Chairman/Non-Executive Director (1), Chief Executive Officer/Executive Director (1), and Independent Directors (3), as follows:

	<u>Designation</u>
David Allan Cairns	Chairman/Non-Executive Director
Raymond Yeoh Cheng Seong	Chief Executive Officer/Executive Director
Ayesha Natchiar Binti Dato' Ally Maricar	Independent Director
Dato' Mohammed Bin Haji Che Hussein	Independent Director
Kellee Kam Chee Khiong	Independent Director

The Directors bring together to the Board a wide range of business management skills, as well as banking and financial experience required for the management of the Bank in the country. All Board members participate fully in the deliberation and decision-making process on the key issues involving the Bank.

There are clear division of responsibilities between the Board and the Chief Executive Officer ('CEO')/Executive Director ('ED') to ensure the balance of power and authority. The CEO/MD's primary responsibilities are to manage the Bank's day-to-day operations and together with the Non-Executive Directors ensure that the strategies are fully discussed and examined, and taking into account the long-term interests of the various stakeholders including shareholders, employees, customers, suppliers and the various communities in which the Bank conducts its business. In addition to the role and guidance of the Independent Directors, each Director nevertheless brings an independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

All decisions of the Board are based on the decision of the majority and no single Board member can make any decisions on behalf of the Board, unless duly authorised by the Board of Directors. As such, no individual or a group of individuals dominates the decision making process. This enables the Board to effectively discharge its principal responsibilities as set out in the Code.

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**DIRECTORS' REPORT (CONTINUED)**

**Board Meetings**

The Board meets on a scheduled basis on average, at least once every two months with additional meetings held when urgent issues and important decisions are required to be taken between the scheduled meetings.

The Board met 6 times during the financial year ended 31 December 2017. The attendance of each Director in office at the end of the financial year on the aforesaid Board meetings are set out below:

<b><u>Directors</u></b>	<b><u>Attendance</u></b>	<b><u>Attendance %</u></b>
David Allan Cairns Chairman/Non-Executive Director	6/6	100%
Raymond Yeoh Cheng Seong Chief Executive Officer/Executive Director	6/6	100%
Ayesha Natchiar Binti Dato' Ally Maricar Independent Director	6/6	100%
Dato' Mohammed Bin Haji Che Hussein Independent Director	6/6	100%
Kellee Kam Chee Khiong Independent Director	6/6	100%

Scheduled Board meetings are structured with a pre-set agenda. The Board's principal focus amongst others is the overall strategic direction, financial and corporate developments of the Bank. Key matters such as the Bank's business and marketing strategy, quarterly financials, material contracts, major capital expenditure and credit policies and guidelines are reserved for the Board's decision. The Directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board meetings and Board committee meetings. The reports include the financial reports, major capital expenditure reports, credit reports, risk reports and audit reports. Minutes of meetings of the various committees of the Bank are tabled to the Board for notation. Agenda and Board papers are circulated prior to the Board meetings to give Directors appropriate time to consider and deliberate on the issues to be raised at the Board meetings. The Directors have full access to the senior management of the Bank and the advice and services of the Company Secretary.

In addition, the Directors may also seek independent professional advice, at the Bank's expense, if required. Directors may also consult with the Chairman and other Board members prior to seeking any independent professional advice.



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**DIRECTORS' REPORT (CONTINUED)**

**DISCLOSURE OF BOARD COMMITTEES**

**Audit Committee**

The Board has established the Audit Committee since 1994. The Committee presently comprises three (3) Directors of which one (1) is the Chairman, one (1) Non-Executive Director and one (1) Independent Director.

<u>Composition of the Audit Committee</u>	<u>Attendance</u>
Dato' Mohammed Bin Haji Che Hussein (Chairman)	7/7
David Allan Cairns	7/7
Ayesha Natchiar Binti Dato' Ally Maricar	7/7

**Risk Management Committee**

The Board has established the Risk Management Committee in April 2013. The Committee comprises three (3) Directors of which one (1) is the Chairman, one (1) Non-Executive Director and one (1) Independent Director.

<u>Composition of Risk Management Committee</u>	<u>Attendance</u>
Ayesha Natchiar Binti Dato' Ally Maricar (Chairman)	5/5
David Allan Cairns	5/5
Kellee Kam Chee Khiong	5/5

**Nominating Committee**

The Board has established the Nominating Committee in April 2013. The Committee presently comprises three (3) Directors of which one (1) is the Chairman, one (1) Non-Executive Director and one (1) Independent Director.

<u>Composition of Nominating Committee</u>	<u>Attendance</u>
Kellee Kam Chee Khiong (Chairman)	2/2
David Allan Cairns	2/2
Ayesha Natchiar Binti Dato' Ally Maricar	2/2

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**DIRECTORS' REPORT (CONTINUED)**

**DISCLOSURE OF BOARD COMMITTEES (CONTINUED)**

**Remuneration Committee**

The Board has established the Remuneration Committee in April 2013. The Committee presently comprises three (3) Directors of which one (1) is the Chairman, one (1) Non-Executive Director and one (1) Independent Director.

**Composition of Remuneration Committee**

**Attendance**

Kellee Kam Chee Khiong (Chairman)	2/2
David Allan Cairns	2/2
Ayesha Natchiar Binti Dato' Ally Maricar	2/2

**RATING BY AGENCIES**

The Bank was not rated by any rating agencies during the financial year.

**HOLDING AND ULTIMATE HOLDING COMPANY**

The Directors regard BankAmerica International Financial Corporation, a corporation incorporated in the United States of America, as the holding company and Bank of America Corporation, a corporation incorporated in the United States of America, as the ultimate holding company.


**AUDITORS**

The auditors, PricewaterhouseCoopers PLT, have been remunerated for services rendered as auditors of the Bank as disclosed in Note 20 to the financial statements. The auditors were not granted indemnity or insurance by the Company.

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board of Directors in accordance with their resolution.

  
RAYMOND YEOH CHENG SEONG  
DIRECTOR

Kuala Lumpur  
26 June 2018

  
DAVID ALLAN CAIRNS  
DIRECTOR

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BANK OF AMERICA MALAYSIA BERHAD  
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**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017**

	<u>Note</u>	2017 RM'000	2016 RM'000
<b>ASSETS</b>			
Cash and short term funds	2	2,765,001	1,646,436
Securities held for trading	3	336,731	700,330
Securities available for sale	4	2,995	2,995
Loans, advances and financing	5	249,771	330,051
Other assets	6	31,943	58,475
Derivative assets	7	48,171	197,164
Tax recoverable		2,989	4,971
Deferred tax assets	8	847	742
Statutory deposits with Bank Negara Malaysia	9	7,591	7,591
Property, plant and equipment	10	1,789	2,880
<b>TOTAL ASSETS</b>		<u>3,447,828</u>	<u>2,951,635</u>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
Deposits from customers	11	2,507,549	2,063,593
Deposits and placements of banks and other financial institutions	12	178,510	27,628
Bills and acceptances payable		42,586	31,270
Other liabilities	13	52,588	87,501
Derivative liabilities	14	39,160	162,743
<b>TOTAL LIABILITIES</b>		<u>2,820,393</u>	<u>2,372,735</u>
Share capital	15	135,800	135,800
Reserves	16	491,635	443,100
Shareholders' funds		<u>627,435</u>	<u>578,900</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<u>3,447,828</u>	<u>2,951,635</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	27	<u>10,618,542</u>	<u>15,629,274</u>

**BANK OF AMERICA MALAYSIA BERHAD**  
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**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Note</u>	2017 RM'000	2016 RM'000
Interest income	17	100,884	68,875
Interest expense	18	(16,948)	(8,464)
Net interest income		83,936	60,411
Other operating income	19	46,518	48,785
Net income		130,454	109,196
Other operating expenses	20	(65,084)	(66,024)
Profit before allowance		65,370	43,172
Allowances for impairment losses	23	(1,337)	(4,191)
Profit before taxation		64,033	38,981
Taxation	25	(15,498)	(9,745)
Profit for the financial year		48,535	29,236
Other comprehensive income:			
<u>Items that may be subsequently reclassified to profit or loss</u>			
Change in value of available for sale financial assets:			
- Income tax effects		-	-
Other comprehensive income, net of tax		-	-
Total comprehensive income for the financial year		48,535	29,236
Earnings per share (sen)			
- Basic/diluted	26	35.74	21.53

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**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Non distributable			Distributable	
	Available-				
	Share capital	Statutory reserves	for-sale reserve	Regulatory reserve	Retained profits
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	135,800	141,446	1,047	-	300,607
Total comprehensive income for the financial year	-	-	-	-	48,535
Transfer to regulatory reserve	-	-	-	-	-
At 31 December 2017	135,800	141,446	1,047	-	349,142
At 1 January 2016	135,800	141,446	1,047	1,337	270,034
Total comprehensive income for the financial year	-	-	-	-	29,236
Transfer from regulatory reserve	-	-	-	(1,337)	1,337
At 31 December 2016	135,800	141,446	1,047	-	300,607
					578,900

**BANK OF AMERICA MALAYSIA BERHAD**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Note</u>	2017 RM'000	2016 RM'000
<b>CASH FLOWS (USED IN)/GENERATED FROM OPERATING ACTIVITIES</b>			
Profit before taxation		64,033	38,981
Adjustments for:			
Depreciation of property and equipment		1,261	2,479
Loss on disposal of property and equipment		-	116
Allowances for impairment losses		1,337	4,266
Net unrealised loss/(gain) on fair value changes in derivatives		25,407	(52,144)
Net unrealised loss on revaluation of securities held for trading		11	1,014
<b>OPERATING PROFIT/(LOSS) BEFORE WORKING CAPITAL CHANGES</b>		<u>92,049</u>	<u>(5,288)</u>
<i>(Increase)/decrease in operating assets:</i>			
Deposits and placements with banks		-	1,008
Securities held for trading		363,588	(404,295)
Loans, advances and financing		78,944	(56,165)
Other assets		26,532	97,804
Derivative assets		123,586	236,642
Statutory deposit with Bank Negara Malaysia		-	-
<i>Increase/(decrease) in operating liabilities:</i>			
Deposits from customers		443,956	670,223
Deposits and placements of banks and other financial institutions		150,882	(10,765)
Bills and acceptances payable		11,316	4,114
Other liabilities		(34,913)	(47,750)
Derivative liabilities		<u>(123,584)</u>	<u>(237,454)</u>
<b>CASH FLOWS GENERATED FROM OPERATING ACTIVITIES</b>		<u>1,132,356</u>	<u>248,074</u>
Taxation paid		<u>(13,621)</u>	<u>(12,179)</u>
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<u>1,118,735</u>	<u>235,895</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<u>(170)</u>	<u>(1,021)</u>
<b>NET CASH USED IN FROM INVESTING ACTIVITIES</b>		<u>(170)</u>	<u>(1,021)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		1,118,565	234,874
<b>CASH AND CASH EQUIVALENTS AS AT 1 JANUARY</b>		1,646,436	1,411,562
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	2	<u>2,765,001</u>	<u>1,646,436</u>

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING  
ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A BASIS OF PREPARATION**

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements have been prepared under the historical cost convention, unless otherwise indicated in this summary of the significant accounting policies.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported year. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgements are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note II to the summary of significant accounting policies and critical accounting estimates and assumptions.

(a) Standards, amendments to published standards and interpretations that are effective and applicable to the Bank.

The Bank has applied the following amendments for the first time for the financial year beginning on 1 January 2017:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative'
- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses'
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 12 'Disclosures of Interests in Other Entities'

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current year or any prior year and is not likely to affect future years.

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective.

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2018. None of these is expected to have a significant effect on the financial statement of the Bank except the following set out below:

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING  
ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 'Financial Instruments: Recognition and Measurement'.

- MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss ('FVTPL') and fair value through other comprehensive income ('FVOCI'). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.
- For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.
- MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.
- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 'Financial Instruments: Recognition and Measurement'.
- The Bank has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:
- The majority of the Bank's debt instruments currently classified as loans and receivables and held-to-maturity will meet the conditions for classification at amortised cost under MFRS 9 and continued to be recognised at amortised cost.
- Under MFRS 9, fair value through profit and loss is the residual category and financial instruments which do not qualify to be recognised as FVOCI or amortised cost will be recognised as FVTPL. The instruments currently held at FVTPL will continue to be measured on the same basis under MFRS 9.
- There will be no impact on the Bank's accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities. The de-recognition rules have been transferred from MFRS 139 'Financial Instruments: Recognition and Measurement' and have not been changed.
- The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, loan commitments and certain financial guarantee contracts.



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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.
- The Bank will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.
- The Bank is now progressing to the implementation of the identified changes and has not finalised the financial impact of the adoption of MFRS 9. The financial effect of the adoption of MFRS 9 is still being assessed by the Bank.

MFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction Contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements;
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal;
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa;
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few; and
- As with any new standard, there are also increased disclosures.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

- Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a year of time in exchange for consideration.
- MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a 'right-of-use' of the underlying asset and a lease liability reflecting future lease payments for most leases.
- The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in profit or loss.
- For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

**B REVENUE RECOGNITION**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Bank's activities.

The Bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Bank's activities as described below:

- Interest income is recognised on an accrual basis using the effective interest method.
- Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.
- Commitment fees for loans, advances and financing that are likely to be drawn down are deferred (together with related direct costs) and income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate on the financial instrument.
- Guarantee fees are recognised as income based on a time apportionment method.
- Dividends from securities are recognised in profit or loss when the right to receive payment is established.

**C PROVISIONS**

Provisions are recognised by the Bank when all of the following conditions have been met:

- (i) the Bank has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources to settle the obligation will be required; and
- (iii) a reliable estimate of the amount of obligation can be made.

Where the Bank expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C PROVISIONS (continued)**

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

**D REPURCHASE AGREEMENTS**

Securities purchased under resale agreements are securities which the Bank has purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the statement of financial position.

**E FINANCIAL ASSETS**

**(a) Classification**

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

**(i) Financial assets at fair value through profit or loss ('FVTPL')**

Financial assets held for trading are categorised as financial assets at FVTPL. Financial assets at fair value through profit or loss are acquired principally for the purpose of selling in the short term.

Financial assets may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- a group of financial assets is managed and its performance evaluated on a fair value
- the assets include embedded derivatives and such derivatives are required to be recognised separately.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank's loans and receivables comprise, 'Cash and Short Term Funds', 'Deposits and Placements with Banks and Other Financial Institutions', 'Loans, Advances and Financing' and 'Other Assets'.

**(iii) Financial investments available for sale**

Financial investments available for sale are non-derivatives that are either designated in this category or not classified in any of the other categories.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E FINANCIAL ASSETS (CONTINUED)**

**(b) Recognition and initial measurement**

Regular purchases and sales of financial assets are recognised on the settlement date, the date that an asset is delivered to or by the Bank.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

**(c) Subsequent measurement – gains and losses**

Financial investments available for sale and financial assets at FVTPL are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at FVTPL, including the effects of currency translation, interest and dividend income are recognised in the profit or loss in the year in which the changes arise.

Changes in the fair value financial investments available for sale are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets (Note H(b)).

Interest and dividend income on financial investments available for sale are recognised separately in the profit or loss. Interest on financial investments available for sale debt securities are calculated using the effective interest method is recognised in profit or loss. Dividend income on available for sale equity instruments are recognised in profit or loss when the Bank's right to receive payments is established.

**(d) De-recognition**

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Loans and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not de-recognised until the recourse year has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

When financial investments available for sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F FINANCIAL LIABILITIES**

All financial liabilities including derivative financial instruments have to be recognised in the statement of financial position and measured in accordance with their assigned category.

The Bank's holding in financial liabilities are in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value) and financial liabilities at amortised cost.

Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss ('FVTPL').

**(a) Financial liabilities at FVTPL**

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Derivatives are recognised in the statement of financial position as 'Derivative financial liabilities' when their fair values are negative.

Financial liabilities classified as held for trading are initially recognised at fair value, and transaction costs are expensed in the profit or loss.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the profit or loss.

**(b) Other liabilities measured at amortised cost**

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. All the financial liabilities except for derivative financial liabilities of the Bank are measured at amortised cost.

**(c) De-recognition**

Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished.

**G OFFSETTING FINANCIAL INSTRUMENTS**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position 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 assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H IMPAIRMENT OF FINANCIAL ASSETS**

**(a) Assets carried at amortised cost**

The Bank assesses at the end of each reporting year 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 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include among others:

- past due contractual payments;
- significant financial difficulties of the borrower;
- probability of bankruptcy or other financial re-organisation;
- default of related borrower;
- measurable decrease in estimated future cash flow than was originally envisage;
- significant deterioration in issuer's credit rating; and
- breach of trading accounts terms and conditions.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If 'loans and receivables' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)**

**(a) Assets carried at amortised cost (continued)**

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

**(i) Individual assessment allowance**

Loans, advances and financing that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Loans that are individually assessed for impairment and for which no impairment loss is required (over-collateralised loans) are collectively assessed as a separate segment.

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

**(ii) Collective assessment allowance**

For the purposes of a collective evaluation of impairment, loans, advances and financing are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such loans, advances and financing by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the loans being evaluated.

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

Estimates of changes in future cash flows for groups of loans should reflect and be directionally consistent with changes in related observable data from year to year (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). 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.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)**

(a) Assets carried at amortised cost (continued)

(ii) Collective assessment allowance (continued)

Based on the Guideline on Classification and Impairment Provisions for Loans/Financing, banking institutions are required to maintain, in aggregate collective impairment provisions and regulatory reserves of no less than 1.2% of total outstanding loans/financing (excluding loans, advances and financing with an explicit guarantee from the Federal Government of Malaysia), net of individual impairment provisions.

As at reporting date, the Bank have maintained the collective impairment provisions and regulatory reserves of no less than 1.2% in the books.

(b) Assets classified as available for sale

The Bank assesses at the end of each reporting year whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Bank uses the criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent year, the fair value of a debt instrument classified as 'available for sale' increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

In the case of equity investments classified as available for sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the profit or loss. The amount of cumulative loss reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments classified as available for sale are not reversed through profit or loss in subsequent years.

**I IMPAIRMENT OF NON-FINANCIAL ASSETS**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent of the cash inflows from other assets or group of assets ('cash-generating units'). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the profit or loss unless it reverses a previous revaluation surplus in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.



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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J PROPERTY AND EQUIPMENT**

Property and equipment are initially stated at cost, net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property and equipment.

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The principal annual rates of depreciation are:

Office equipment and furniture	10 - 33%
Computer equipment and software	25 - 50%
Motor vehicles	25%
Bank premises alterations:	
Movable	10%
Non-movable	written off over lease terms

Depreciation of capital work in progress commences when the assets are ready for their intended use.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting year.

At the end of the reporting year, the Bank assess whether there is any indication of impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Refer to accounting policy Note I on impairment of non-financial assets.

**K BILLS AND ACCEPTANCES PAYABLE**

Bills and acceptances payable represents the Bank's own bills and acceptances re-discounted and outstanding in the market.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING**

Derivatives are initially recognised at fair values on the date a derivative contract is entered into and are subsequently re-measured at their fair values at the end of each reporting year. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit or loss.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day one.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

**(a) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the year to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

**(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled to profit or loss in the years in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)**

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

As at 31 December 2017, the Bank has not designated any derivatives as hedging instruments.

**M FOREIGN CURRENCY TRANSLATIONS**

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ('RM'), which is the Bank's functional and presentation currency.

(b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the financial asset and other changes in the carrying amount of the financial asset. Translation differences related to changes in the amortised cost are recognised in income, and other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

**N CURRENT AND DEFERRED INCOME TAXES**

(a) Current tax

Tax expense for the year comprises current and deferred tax. The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N CURRENT AND DEFERRED INCOME TAXES (continued)**

(a) Current tax (continued)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in Malaysia where the Bank operates and generates taxable income.

Management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

(b) Deferred tax

Deferred tax is provided in full using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the reporting year and are expected to apply when the related deferred tax assets is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unutilised tax credits can be utilised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**O CASH AND CASH EQUIVALENTS**

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of 1 month or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**P EMPLOYEE BENEFITS**

(a) Short term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Bank.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING  
ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**P EMPLOYEE BENEFITS (continued)**

**(b) Defined contribution plan**

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the National Pension Scheme, the Employees' Provident Fund ('EPF') and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior years.

The Bank's contributions to EPF are charged to profit or loss in the year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**Q SHARE-BASED PAYMENTS**

The Bank participates in several employee compensation plans managed by Bank of America Corporation ('BAC'), the ultimate holding company.

As this is a group share-based payment arrangement, all awards are treated by the Bank as equity settled share-based payment plans and are measured based on the fair value of those awards at grant date and recognised as staff costs.

For most awards, expense is generally recognised over the vesting year net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For awards to employees that meet retirement eligibility criteria, the Bank accrues the expense in the year prior to grant. For employees that become retirement eligible during the vesting year, the Bank recognises expense from grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures.

There is no net equity impact on the Bank's financial position as the Bank has contracted under a global Recharge Agreement to reimburse BAC or through an intermediate holding company, for the issuance of shares under these awards.

**R CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The Bank does not recognise contingent assets and liabilities but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrences of one or more uncertain future events beyond the control of the Bank. The Bank does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

**BANK OF AMERICA MALAYSIA BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING  
ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**S SHARE CAPITAL**

(a) Classification

Ordinary shares and non-redeemable preference shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

(b) Share issue costs

Incremental costs directly attributable to the issue of new shares or options are deducted against the share premium account.

(c) Dividend distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting year but not distributed at the end of the reporting year.

Distributions to holders of an equity instrument is recognised directly in equity.

(d) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**BANK OF AMERICA MALAYSIA BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING  
ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

**II CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The Bank's accounting policies and use of estimates are integral to understanding its reported results. The Bank's most complex accounting estimates require management's judgement to ascertain the valuation of assets and liabilities. The Bank has established detailed policies and control procedures intended to ensure that valuation methods, including any judgements made as part of such methods, are well-controlled, independently reviewed and applied consistently from year to year. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Bank believes its estimates for determining the valuation of its assets and liabilities are appropriate. The following is a brief description of the Bank's critical accounting estimates involving significant valuation judgement.

**(a) Fair value of financial instruments**

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The majority of the Bank's assets reported at fair value are based upon quoted market prices or upon internally developed models that utilise independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

The degree of management judgement involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that are traded actively and have quoted market prices or parameters readily available, there is little-to-no subjectivity in determining fair value. When observable market prices and parameters do not exist, management judgement is necessary to estimate fair value. The valuation process takes into consideration factors such as liquidity and concentration concerns and, for the derivatives portfolio, counterparty credit risk.

The Bank's held for trading financial assets are valued based upon quoted market prices. The majority of the Bank's derivative positions are valued using internally developed models that use as their basis readily observable market parameters - that is, parameters that are actively quoted and can be validated to external sources, including industry-pricing services. Certain derivatives, however, are valued based upon models with significant unobservable market parameters - that is, parameters that must be estimated and are, therefore, subject to management judgement to substantiate the model valuation. These instruments are normally either traded less actively or trade activity is one way. Management's judgement includes recording fair value adjustments (i.e., reductions) to model valuations to account for parameter uncertainty when valuing complex or less actively traded derivative transactions.

**(b) Allowance for losses on loans, advances and financing**

The Bank makes allowance for losses on loans, advances and financing based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines, management makes judgement on the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flows to service debt obligations and the aggregate amount and ranking of all other creditor claims.

Company No.  
310983 V

**BANK OF AMERICA MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017**

**1 GENERAL INFORMATION**

The Bank is principally engaged in all aspects of the banking business and in the provision of related services.

The holding company of the Bank is BankAmerica International Financial Corporation, a corporation incorporated in the United States of America.

The ultimate holding company of the Bank is Bank of America Corporation, a corporation incorporated in the United States of America.

The Bank is a limited company, incorporated and domiciled in Malaysia.

The address of the registered office of the Bank is Level 8, Symphony House, 1, Jalan PJU 1A/41B, Pusat Perdagangan Dana 1, 47301 Petaling Jaya, Selangor, Malaysia. The principal place of operation of the Bank is at 18th Floor, Wisma Goldhill, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia.

**2 CASH AND SHORT TERM FUNDS**

	2017 RM'000	2016 RM'000
Cash and balances with banks and other financial institutions	130,480	97,698
Money at call and deposit placements maturing within one month	2,634,521	1,548,738
	<u>2,765,001</u>	<u>1,646,436</u>

**3 SECURITIES HELD FOR TRADING**

	2017 RM'000	2016 RM'000
Malaysian Government Securities	322,660	665,423
Malaysian Government Investment Issues	14,071	34,907
	<u>336,731</u>	<u>700,330</u>

**4 SECURITIES AVAILABLE FOR SALE**

	2017 RM'000	2016 RM'000
<u>Unquoted securities in Malaysia:</u>		
Shares	2,980	2,980
Bonds	15	15
	<u>2,995</u>	<u>2,995</u>



**BANK OF AMERICA MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**5 LOANS, ADVANCES AND FINANCING**

	2017 RM'000	2016 RM'000
(a) Loans, advances and financing analysed by type:		
At amortised cost:		
Overdrafts	37,459	13,810
Factoring receivables	27,000	22,437
Claims on customers under acceptance credits	-	16,700
Staff loans	946	980
Revolving advances	126,458	209,999
Term loans	65,310	72,045
Mortgage loans	342	447
Gross loans, advances and financing	<u>257,515</u>	<u>336,418</u>
Allowance for losses on loans, advances and financing:		
Individual assessment	(36)	(35)
Collective assessment	(7,708)	(6,332)
Total net loans, advances and financing	<u>249,771</u>	<u>330,051</u>
(b) Gross loans, advances and financing analysed by geographical distribution:		
Malaysia	<u>257,515</u>	<u>336,418</u>
(c) Gross loans, advances and financing analysed by type of customer:		
Domestic business enterprises	253,946	334,140
Domestic banking institutions	1,900	-
Domestic non-banking financial institutions	381	665
Government and statutory bodies	-	186
Individuals	1,288	1,427
	<u>257,515</u>	<u>336,418</u>
(d) Gross loans, advances and financing analysed by interest rate sensitivity:		
Fixed rate:		
Housing loans	852	950
Other fixed rate loans	173,780	250,172
Variable rate:		
Base rate	342	2,660
Cost plus	17,231	10,591
Other floating rate loans	65,310	72,045
	<u>257,515</u>	<u>336,418</u>

**BANK OF AMERICA MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**5 LOANS, ADVANCES AND FINANCING (CONTINUED)**

	2017 RM'000	2016 RM'000
(e) Gross loans, advances and financing analysed by economic purpose:		
Purchase of transport vehicles	77	4
Purchase of landed property (residential)	1,194	1,398
Personal use	17	25
Working capital	256,227	334,991
	<u>257,515</u>	<u>336,418</u>
(f) Gross loans, advances and financing analysed by residual contractual maturity:		
Within one year	235,858	315,906
One year to three years	20,917	19,707
Three years to five years	261	353
Over five years	479	452
	<u>257,515</u>	<u>336,418</u>
(g) Movements in impaired loans, advances and financing are as follows:		
At 1 January	53	141
Classified as impaired during the financial year	1	18
Interest income recognised during the financial year	-	7
Amount recovered during the financial year	(18)	(17)
Written off	-	(9)
Reclassified as performing during the financial year	-	(87)
At 31 December	<u>36</u>	<u>53</u>
Individual assessment allowance	<u>(36)</u>	<u>(35)</u>
Net impaired loans, advances and financing	<u>-</u>	<u>18</u>
Gross impaired loans as a % of gross loans, advances and financing	<u>0.01%</u>	<u>0.02%</u>
(h) Movements in allowance for losses on impaired loans, advances and financing are as follows:		
Individual assessment allowance		
At 1 January	35	83
Allowance made during the financial year	2	26
Write-off made during the year	-	(7)
Write-back made during the financial year	(1)	(67)
At 31 December	<u>36</u>	<u>35</u>
Collective assessment allowance		
At 1 January	6,332	2,025
Allowance made during the financial year	1,376	4,307
At 31 December	<u>7,708</u>	<u>6,332</u>
Portfolio impairment allowance (inclusive of regulatory reserve) as % of gross loan, advances and financing less individual assessment allowance	<u>2.99%</u>	<u>1.88%</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**5 LOANS, ADVANCES AND FINANCING (CONTINUED)**

	2017 RM'000	2016 RM'000
(i) Impaired loans, advances and financing analysed by geographic distribution:		
Malaysia	<u>36</u>	<u>53</u>
(j) Impaired loans, advances and financing analysed by economic purpose:		
Purchase of landed property (residential)	<u>36</u>	<u>53</u>

**6 OTHER ASSETS**

	2017 RM'000	2016 RM'000
Collateral receivables	11,830	48,501
Intercompany receivables	5,425	2,071
Other receivables	13,974	7,777
Deposits	36	36
Prepayments	678	90
	<u>31,943</u>	<u>58,475</u>

**7 DERIVATIVE ASSETS**

	2017		2016	
	Contract/ notional amount RM'000	Assets RM'000	Contract/ notional amount RM'000	Assets RM'000
Foreign exchange forwards and swaps	635,013	25,453	3,251,614	169,442
Interest rate and cross currency swaps	4,054,400	22,718	4,114,500	27,722
	<u>4,689,413</u>	<u>48,171</u>	<u>7,366,114</u>	<u>197,164</u>

**8 DEFERRED TAXATION**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	2017 RM'000	2016 RM'000
Deferred tax assets	1,496	1,545
Deferred tax liabilities	<u>(649)</u>	<u>(803)</u>
	<u>847</u>	<u>742</u>

**BANK OF AMERICA MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**8 DEFERRED TAXATION (CONTINUED)**

The movement in deferred tax assets and liabilities during the year comprises the following:

	General allowance RM'000	Accelerated tax depreciation RM'000	Available- for-sale reserve RM'000	Total RM'000
At 1 January 2017	1,545	(472)	(331)	742
Charged to profit or loss (Note 25)	(49)	154	-	105
At 31 December 2017	<u>1,496</u>	<u>(318)</u>	<u>(331)</u>	<u>847</u>
At 1 January 2016	1,509	(185)	(331)	993
Credited to profit or loss (Note 25)	36	(287)	-	(251)
At 31 December 2016	<u>1,545</u>	<u>(472)</u>	<u>(331)</u>	<u>742</u>

**9 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA**

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which is determined as a set percentage of total eligible liabilities.

**10 PROPERTY, PLANT AND EQUIPMENT**

	Office equipment and furniture RM'000	Computer equipment and software RM'000	Bank premises alterations RM'000	Total RM'000
<u>2017</u>				
Cost				
At 1 January 2017	8,728	12,628	5,124	26,480
Additions	92	78	-	170
At 31 December 2017	<u>8,820</u>	<u>12,706</u>	<u>5,124</u>	<u>26,650</u>
Accumulated depreciation				
At 1 January 2017	7,305	11,171	5,124	23,600
Charge for the financial year	635	626	-	1,261
At 31 December 2017	<u>7,940</u>	<u>11,797</u>	<u>5,124</u>	<u>24,861</u>
Net book value				
At 31 December 2017	<u>880</u>	<u>909</u>	<u>-</u>	<u>1,789</u>

**BANK OF AMERICA MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Office equipment and furniture RM'000	Computer equipment and software RM'000	Bank premises alterations RM'000	Total RM'000
<u>2016</u>				
Cost				
At 1 January 2016	8,838	11,613	5,124	25,575
Additions	6	1,015	-	1,021
Disposal	(116)	-	-	(116)
At 31 December 2016	<u>8,728</u>	<u>12,628</u>	<u>5,124</u>	<u>26,480</u>
Accumulated depreciation				
At 1 January 2016	6,502	10,387	4,232	21,121
Charge for the financial year	803	784	892	2,479
At 31 December 2016	<u>7,305</u>	<u>11,171</u>	<u>5,124</u>	<u>23,600</u>
Net book value				
At 31 December 2016	<u>1,423</u>	<u>1,457</u>	<u>-</u>	<u>2,880</u>

**11 DEPOSITS FROM CUSTOMERS**

	2017 RM'000	2016 RM'000
Demand deposits	2,375,191	1,992,939
Savings deposits	6	6
Fixed deposits	132,352	70,648
	<u>2,507,549</u>	<u>2,063,593</u>

(a) Maturity structure of fixed deposits is as follows:

Due within six months	106,431	47,262
Six months to one year	21,336	22,313
One year to five years	3,530	21
More than five years	1,055	1,052
	<u>132,352</u>	<u>70,648</u>

(b) The deposits are sourced from the following types of customers:

Business enterprise	2,505,179	2,062,166
Individuals	46	53
Others	2,324	1,374
	<u>2,507,549</u>	<u>2,063,593</u>

**BANK OF AMERICA MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**12 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	2017 RM'000	2016 RM'000
Licensed banks	158,652	27,574
Other financial institutions	19,858	54
	<u>178,510</u>	<u>27,628</u>

**13 OTHER LIABILITIES**

	2017 RM'000	2016 RM'000
Collateral payables	28,320	60,110
Intercompany payables	3,265	1,378
Deferred income on loans, advances and financing	182	474
Accruals	5,122	6,775
Share-based recharge payables	1,445	1,024
Other payables	14,254	17,740
	<u>52,588</u>	<u>87,501</u>

**14 DERIVATIVE LIABILITIES**

	2017		2016	
	Contract/ notional amount RM'000	Liabilities RM'000	Contract/ notional amount RM'000	Liabilities RM'000
Foreign exchange forwards and swaps	1,268,259	15,272	2,654,220	127,057
Interest rate and cross currency swaps	4,036,289	23,888	4,989,467	35,686
	<u>5,304,548</u>	<u>39,160</u>	<u>7,643,687</u>	<u>162,743</u>

**15 SHARE CAPITAL**

	2017 RM'000	2016 RM'000
Issued and fully paid: 135,800,000 ordinary shares of RM1 each	<u>135,800</u>	<u>135,800</u>

**16 RESERVES**

(i) The statutory reserve is maintained in compliance with Section 12 and Section 47(2)(f) of the Financial Services Act, 2013 and is not distributable as cash dividends.

(ii) Movement of the fair value reserve of available for sale securities is as follows:

	2017 RM'000	2016 RM'000
At 1 January	1,047	1,047
Deferred taxation	-	-
At 31 December	<u>1,047</u>	<u>1,047</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**16 RESERVES (continued)**

- (iii) The regulatory reserve is maintained in compliance with Paragraph 15.2 of Bank Negara Malaysia Guidelines on Classification and Impairment Provisions for Loans/Financing issued on 6 April 2015. The guideline requires banking institutions to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total loans, advances and financing, net of individual impairment allowances.

**17 INTEREST INCOME**

	2017 RM'000	2016 RM'000
Loans, advances and financing	10,140	10,569
Money at call and deposit placements with banks and other financial institutions	51,831	32,926
Securities held for trading	38,913	25,359
Others	-	21
	<u>100,884</u>	<u>68,875</u>

**18 INTEREST EXPENSE**

	2017 RM'000	2016 RM'000
Deposits and placements of banks and other financial institutions	1,829	1,168
Deposits from customers	14,958	7,296
Others	161	-
	<u>16,948</u>	<u>8,464</u>

**19 OTHER OPERATING INCOME**

	2017 RM'000	2016 RM'000
<u>Fee income</u>		
Commission	371	435
Service charges and fees	5,326	5,258
Guarantee fees	1,198	1,286
Management fee income	2,790	1,958
Other fee income	6,767	6,007
Total fee income	<u>16,452</u>	<u>14,944</u>
<u>Net gain/(loss) arising from securities held for trading</u>		
Net gain from sale of securities held for trading	1,105	4,615
Unrealised revaluation loss on securities held for trading	(11)	(1,014)
<u>Unrealised (loss)/gains on revaluation of derivative instruments</u>		
Foreign exchange forwards and swaps	(32,203)	87,243
Interest rate and cross currency swaps	6,796	(35,099)
Realised (loss)/gain on derivatives	(6,978)	32,159
Realised foreign exchange gain/(loss)	61,107	(54,153)
Loss on disposal of property and equipment	-	(116)
Others	250	206
	<u>46,518</u>	<u>48,785</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**20 OTHER OPERATING EXPENSES**

	2017 RM'000	2016 RM'000
<u>Personnel costs</u>		
Salaries, allowances and bonuses	19,533	21,013
Share-based payment	4,309	2,467
Defined contribution plans	4,287	4,117
Other personnel costs	3,595	2,428
	<u>31,724</u>	<u>30,025</u>
<u>Establishment costs</u>		
Depreciation of property and equipment	1,261	2,479
Rental of premises	1,171	1,180
Rental of equipment	317	406
Repair and maintenance	1,761	1,038
Others	1,101	2,132
	<u>5,611</u>	<u>7,235</u>
<u>Marketing expenses</u>		
Business promotion and advertisement	29	26
Others	271	294
	<u>300</u>	<u>320</u>
<u>Administration and general expenses</u>		
Auditors' remuneration		
Current financial year		
- Statutory audit fees	112	112
- Non-audit fees	171	66
Under-accrual from prior financial year		
- Non-audit fees	65	-
	<u>348</u>	<u>178</u>
Communication expenses	1,534	1,594
Legal and professional fees	683	491
Stationery and postages	599	752
Shared administrative support expenses	21,976	21,969
Others	2,309	3,460
	<u>27,449</u>	<u>28,444</u>
	<u>65,084</u>	<u>66,024</u>



**BANK OF AMERICA MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**21 REMUNERATION OF CHIEF EXECUTIVE OFFICER ("CEO") AND DIRECTORS**

The aggregate remuneration paid to the Directors of the Bank during the financial year is as follows:

	2017 RM'000	2016 RM'000
<u>Executive Director and CEO:</u>		
Raymond Yeoh Cheng Seong		
Salaries	1,496	1,496
Bonus	1,916	1,994
Defined contribution plan	1,106	1,045
Others	3,004	2,685
<u>Non-Executive Directors:</u>		
Fees		
David Allan Cairns	155	130
Ayesha Natchiar Binti Dato' Ally Maricar	125	100
Dato' Mohammed Bin Haji Che Hussein	125	100
Kellee Kam Chee Khiong	125	19
Dato' Teo Tong Kooi	-	81
	<u>8,052</u>	<u>7,650</u>

**22 SHARE-BASED PAYMENT**

The Bank participates in several employee compensation plans managed by BAC, with awards being granted predominantly from the Bank of America Corporation Key Employee Equity Plan ('KEEP').

During the year, 13,768 (2016: 38,305) restricted stock units ('RSUs') were granted to certain employees under the KEEP at weighted-average fair value of USD24.58 per share (2016: USD11.95 per share).

Generally, one-third of the RSUs vest on each of the first three anniversaries of the grant date provided that the employee remains continuously employed with the Bank during that time.

The compensation cost for share-based plans is presented in Note 20 to the financial statements.

**23 ALLOWANCES OF IMPAIRMENT LOSSES**

	2017 RM'000	2016 RM'000
<u>Allowance for loans, advances and financing</u>		
Individual assessment allowance:		
- Made during the financial year	(2)	(26)
- Written back during the financial year	1	67
Collective assessment allowance:		
- Made during the financial year	(1,376)	(4,307)
Bad debts on loans, advances and financing:		
- Recovered	40	75
	<u>(1,337)</u>	<u>(4,191)</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**24 SIGNIFICANT RELATED PARTY DISCLOSURES**

(a) Related parties and relationships

The related parties of, and their relationship with the Bank are as follows:

Related parties	Relationship
Bank of America Corporation	Ultimate holding company
BankAmerica International Financial Corporation	Immediate holding company
Bank of America National Association - New York Branch	Branch of the ultimate holding company
Bank of America National Association - Charlotte Branch	Branch of the ultimate holding company
Bank of America National Association - San Francisco Branch	Branch of the ultimate holding company
Bank of America National Association - Labuan Branch	Branch of the ultimate holding company
Bank of America National Association - Singapore Branch	Branch of the ultimate holding company
Bank of America National Association - London Branch	Branch of the ultimate holding company
Bank of America National Association - Canada Branch	Branch of the ultimate holding company
Bank of America National Association - Bangkok Branch	Branch of the ultimate holding company
Branch of the ultimate holding company - Jakarta Branch	Bank of America National Association
Bank of America National Association - Mumbai Branch	Branch of the ultimate holding company
Bank of America National Association - Sydney Branch	Branch of the ultimate holding company
Bank of America National Association - Tokyo Branch	Branch of the ultimate holding company
Bank of America National Association - Hong Kong Branch	Branch of the ultimate holding company
Smith Zain (Penang) Sdn. Bhd.	Subsidiary of the ultimate holding company
Merrill Lynch Malaysian Advisory Sdn. Bhd.	Subsidiary of the ultimate holding company
Merrill Lynch International	Subsidiary of the ultimate holding company
Merrill Lynch International Bank Limited	Subsidiary of the ultimate holding company
Merrill Lynch (Asia Pacific) Limited	Subsidiary of the ultimate holding company

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**24 SIGNIFICANT RELATED PARTY DISCLOSURES (continued)**

(a) Related parties and relationships (continued)

Key management personnel	The key management personnel of the Bank consists of: (i) All Directors of the Bank (ii) Senior management of the Bank
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members.

(b) Significant related party balances and transactions

A number of banking transactions are entered into with related parties

	2017		2016	
	Key Management Personnel RM'000	Other Related Companies RM'000	Key Management Personnel RM'000	Other Related Companies RM'000
<u>Income</u>				
Interest on deposits and placements with other financial institutions	-	1,116	-	319
Interest on loans, advances and financing	-	-	9	-
Management fee income	-	3,164	-	1,958
Other fee income	-	5,330	-	4,999
	<u>-</u>	<u>9,610</u>	<u>9</u>	<u>7,276</u>
<u>Expenses</u>				
Interest on deposits and placements of banks and other financial institutions	-	1,027	-	909
Interest on deposits from customers	-	256	-	589
Shared administrative support expenses	-	21,976	-	21,969
	<u>-</u>	<u>23,259</u>	<u>-</u>	<u>23,467</u>
<u>Amount due from</u>				
Deposits and placements	-	83,699	-	67,199
Loans, advances and financing	244	-	274	-
Interest receivable	-	-	-	1
Other receivables	-	5,425	-	2,071
	<u>244</u>	<u>89,124</u>	<u>274</u>	<u>69,271</u>
<u>Amount due to</u>				
Deposits and placements	-	156,221	-	13,668
Interest payable	-	30	-	15
Other payables	-	3,265	-	1,378
	<u>-</u>	<u>159,516</u>	<u>-</u>	<u>15,061</u>
<u>Approved limit</u>			2017 RM'000	2016 RM'000
The approved limit on loans, advances and financing for key management personnel			<u>500</u>	<u>500</u>

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**24 SIGNIFICANT RELATED PARTY DISCLOSURES (continued)**

(c) Key management personnel

The aggregate remuneration paid to key management personnel are as follows:

	2017 RM'000	2016 RM'000
Short-term employee benefits:		
Salaries and other remuneration	10,153	10,111
Fees	530	430
	<u>10,683</u>	<u>10,541</u>

The above remuneration includes Directors' remuneration as disclosed in Note 21 to the financial statements.

**25 TAXATION**

	2017 RM'000	2016 RM'000
Malaysian income tax:		
Current financial year	15,996	10,455
(Over)/under provision of prior financial years taxation	(393)	(459)
Deferred taxation (Note 8)	(105)	(251)
Tax charge for the financial year	<u>15,498</u>	<u>9,745</u>

Reconciliation between tax charge and the Malaysian tax rate is as follows:

	2017 RM'000	2016 RM'000
Profit before taxation	<u>64,033</u>	<u>38,981</u>
Tax calculated at rate of 24%	15,368	9,355
Expenses not deductible for tax purposes	517	801
Under/(Over) provision of deferred taxation in prior financial years	6	48
Under provision of prior financial years' taxation	(393)	(459)
Tax expense for the financial year	<u>15,498</u>	<u>9,745</u>

**26 EARNINGS PER SHARE**

The earnings per share has been calculated based on net profit for the financial year of RM48,534,586 (2016: RM29,235,388) and the weighted average number of ordinary shares in issue during the financial year of RM135,800,000 (2016: RM135,800,000).

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**27 COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Nature of commitments and contingencies

Direct credit substitutes comprise guarantees undertaken by the Bank to support the financial obligations of their customers to third parties.

Certain transactions related contingent items represent financial products whose crystallisations are dependent on specific events other than default payment by the customers. They include performance related contingencies and standby letter of credit.

Short-term self liquidating trade-related contingencies relate to bills of exchange which have been endorsed by the Bank and represent liabilities in the event of default by the acceptors and the drawers of the bills.

Foreign exchange related contracts are agreements or options to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Interest/profit related contracts are agreements between two counterparties to exchange periodic interest payments, calculated at agreed interest/profit rates, in the same or different currencies, for a specified period of time.

The commitments and contingencies constitute the followings:

	2017	2016
	Principal	Principal
	amount	amount
<u>Description</u>	RM'000	RM'000
Direct credit substitutes	111,010	75,500
Transaction related contingent items	53,179	50,387
Short-term self liquidating trade related contingencies	5,251	3,318
Foreign exchange related contracts:		
- One year or less	1,903,279	5,905,834
- Over one year to five years	-	-
Interest/profit rate related contracts:		
- One year or less	2,068,389	1,841,467
- Over one year to five years	5,834,800	7,075,000
- Over five years	187,500	187,500
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	453,926	488,994
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	2	3
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	1,271
<b>Total</b>	<b>10,618,542</b>	<b>15,629,274</b>

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**28 CAPITAL ADEQUACY**

The table below summaries the composition of regulatory capital and ratio of the Bank:

	2017 RM'000	2016 RM'000
<u>Common Equity I ("CET I") Capital and Tier I Capital</u>		
Share capital	135,800	135,800
Retained profits	349,142	300,607
Other disclosed reserves		
- Statutory reserve	141,446	141,446
Unrealised gains and losses on available for sale financial instruments	1,047	1,047
	<u>627,435</u>	<u>578,900</u>
Less: regulatory adjustments		
- Deferred tax assets	(847)	(742)
- 55% of cumulative gains of available for sale financial instruments	(576)	(576)
Total CET I and Tier I capital	<u>626,012</u>	<u>577,582</u>
<u>Tier-II Capital</u>		
Collective assessment allowance *	7,708	6,326
Total Tier II capital	<u>7,708</u>	<u>6,326</u>
Total capital	<u>633,720</u>	<u>583,908</u>

- \* Excludes collective assessment allowance on impaired loans restricted from Tier-II Capital of the Bank of RM Nil (2016: RM5,964).

<u>Capital ratios</u>	2017	2016
CET I capital ratio	49.735%	44.721%
Tier I capital ratio	49.735%	44.721%
Total capital ratio	<u>50.348%</u>	<u>45.210%</u>

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 4 August 2017. The Bank has adopted the Standardised Approach ("SA") for Credit Risk and Market Risk and Basic Indicator Approach ("BIA") for Operational Risk.

Detailed disclosures pursuant to the requirements of BNM Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), in addition to those set out in Notes 28 to the financial statements, have been made in a separate Pillar 3 Disclosures Report.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**28 CAPITAL ADEQUACY (CONTINUED)**

The breakdown of risk-weighted assets in the various categories of risk-weights:

	2017		2016	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
(i) Credit risk				
0%	2,240,933	-	1,539,407	-
20%	577,869	115,574	217,293	43,459
35%	192	67	193	68
50%	93,521	46,760	203,020	101,510
75%	18	14	120	90
100%	508,019	508,019	585,577	585,577
	<u>3,420,552</u>	<u>670,434</u>	<u>2,545,610</u>	<u>730,704</u>
(ii) Market risk	-	373,098	-	375,810
(iii) Operational risk	-	215,153	-	185,024
	<u>3,420,552</u>	<u>1,258,685</u>	<u>2,545,610</u>	<u>1,291,538</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS**

**A Financial risk management objectives and policies**

The financial risk management objectives and policies of the Bank are managed by the various risk committees within the Bank, and are guided by the Risk Framework of its ultimate holding company, Bank of America Corporation (BAC).

**Market risk management**

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 the Bank'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 the Bank to various risks, such as interest rate and foreign exchange. the Bank 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.

The Bank uses Value-At-Risk (VaR) as one key risk measure to evaluate the risks in its trading activities. VaR represents the potential market value loss resulting from changes in market variables, during a given holding period, measured at a specified confidence level. It reflects the volatility of the positions in the portfolio and how strongly the risks are correlated. VaR is subject to trading limits within an individual business and all limit excesses are communicated to senior management for review.

The Bank's VaR is based on its own internal VaR model. It is a Historical Simulation based model and uses 3 years of historical market data at the 99% confidence level. The VaR model is designed to take into account various market risk factors such as interest rate, spreads, equity price, foreign exchange rate, commodity price and volatility.

In order to supplement the VaR measure, the Bank also uses stress testing to estimate the value change in the trading portfolio that may result from extreme, though plausible, market movements. Within the Bank, stress tests are run for both historical and hypothetical scenarios and the results are presented to senior management as part of the regular reporting process.

**Credit risk management**

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



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**A Financial risk management objectives and policies (continued)**

Credit risk management (continued)

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. The credit underwriting and monitoring of the Bank is in line with BAC's global Core Credit Policy.

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;
- Maintaining proper credit file documentation and determining compliance with all loan covenants periodically.

Liquidity risk management

Liquidity risk is the potential inability to meet contractual and contingent financial obligations, on- or off-balance sheet, as they come due. The primary liquidity risk management objective is to develop a strategy and execution plan to ensure the Bank can meet contractual and contingent financial obligations through market cycles and periods of liquidity stress. With the the Bank Liquidity Risk Policy and Contingency Funding Plan, the Bank will ensure that adequate internal governance, controls, systems and risk management practices are employed to manage this liquidity risk.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**A Financial risk management objectives and policies (continued)**

Liquidity risk management (continued)

The Bank has in place the following liquidity risk mitigation:

- The liquidity policy and the contingency funding plan are in place and reviewed at least annually;
- Set limit or guideline structures are in place and monitored daily;
- Local governance is provided through the Asset and Liability Committee ("ALCO"), which meets on a bi-monthly basis and is provided with regular updates on market conditions and liquidity-related reporting;
- Liquidity stress tests are conducted regularly, both for regulatory purposes and internal stress-testing;
- Established internal control and reporting processes with support partners are in place.

Operational risk management

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.

The Bank has a robust operational risk management framework. Within the Bank, the Local Management Team (LMT) is responsible for monitoring the Malaysia business operations. Each Line of Business (LOB), which are represented within the LMT, are responsible for all the risks within the business including operational risks. Operational risk 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**B Interest rate risk**

The tables below summarise the Bank's exposure to interest rate risks. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. As interest rates and yield curves change over time the Bank may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- interest bearing	Trading book	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>								
Cash and short term funds	2,634,521	-	-	-	-	130,480	-	2,765,001
Securities held for trading	-	-	-	-	-	-	336,731	336,731
Securities available for sale	-	-	-	-	-	2,995	-	2,995
Loans, advances and financing	120,339	112,250	3,269	21,178	479	(7,744) ^	-	249,771
Other assets	-	-	-	-	-	31,943	-	31,943
Derivative assets	-	-	-	-	-	-	48,171	48,171
Tax recoverable	-	-	2,989	-	-	-	-	2,989
Deferred tax assets	-	-	847	-	-	-	-	847
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	7,591	-	7,591
Property, plant and equipment	-	-	-	-	-	1,789	-	1,789
<b>Total assets</b>	<b>2,754,860</b>	<b>112,250</b>	<b>7,105</b>	<b>21,178</b>	<b>479</b>	<b>167,054</b>	<b>384,902</b>	<b>3,447,828</b>
<b>Liabilities</b>								
Deposits from customers	629,014	46,244	17,089	1,054	-	1,814,148	-	2,507,549
Deposits and placements of banks and other financial institutions	155,863	2,017	-	-	-	20,630	-	178,510
Bills and acceptances payable	-	-	-	-	-	42,586	-	42,586
Other liabilities	-	-	-	-	-	52,588	-	52,588
Derivative liabilities	-	-	-	-	-	-	39,160	39,160
<b>Total liabilities</b>	<b>784,877</b>	<b>48,261</b>	<b>17,089</b>	<b>1,054</b>	<b>-</b>	<b>1,929,952</b>	<b>39,160</b>	<b>2,820,393</b>
<b>On-balance sheet - interest rate gap</b>	<b>1,969,983</b>	<b>63,989</b>	<b>(9,984)</b>	<b>20,124</b>	<b>479</b>			

^ The negative balance represents individual assessment allowance and collective assessment allowance for loans, advances and financing in accordance with the Bank's accounting policy on allowance for losses on loans, advances and financing.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

2016	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- interest bearing	Trading book	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>								
Cash and short term funds	1,548,738	-	-	-	-	97,698	-	1,646,436
Securities held for trading	-	-	-	-	-	-	700,330	700,330
Securities available for sale	-	-	-	-	-	2,995	-	2,995
Loans, advances and financing	137,733	175,280	2,894	20,060	451	(6,367) <sup>^</sup>	-	330,051
Other assets	-	-	-	-	-	12,618	45,857	58,475
Derivative assets	-	-	-	-	-	-	197,164	197,164
Tax recoverable	-	-	-	-	-	4,971	-	4,971
Deferred tax assets	-	-	-	-	-	742	-	742
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	7,591	-	7,591
Property, plant and equipment	-	-	-	-	-	2,880	-	2,880
Total assets	1,686,471	175,280	2,894	20,060	451	123,128	943,351	2,951,635
<b>Liabilities</b>								
Deposits from customers	291,278	4,130	18,188	1,052	-	1,748,945	-	2,063,593
Deposits and placements of banks and other financial institutions	54	9,005	-	-	-	18,569	-	27,628
Bills and acceptances payable	-	-	-	-	-	31,270	-	31,270
Other liabilities	-	-	-	-	-	27,391	60,110	87,501
Derivative liabilities	-	-	-	-	-	-	162,743	162,743
Total liabilities	291,332	13,135	18,188	1,052	-	1,826,175	222,853	2,372,735
On-balance sheet - interest rate gap	1,395,139	162,145	(15,294)	19,008	451	-	-	-

<sup>^</sup> The negative balance represents individual assessment allowance and collective assessment allowance for loans, advances and financing in accordance with the Bank's accounting policy on allowance for losses on loans, advances and financing.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**B Interest rate risk (continued)**

The tables below summarises the effective average interest rates by major currency for each class of financial assets and financial liabilities:

	2017		2016	
	MYR %	USD %	MYR %	USD %
<b><u>Financial assets</u></b>				
Cash and short term funds	2.92	1.66	3.00	0.59
Securities held for trading	3.90	-	3.81	-
Loans, advances and financing	4.77	3.40	4.04	2.30
<b><u>Financial liabilities</u></b>				
Deposits from customers	2.74	-	1.96	0.05
Deposits and placements of bank and other financial institutions	1.50	1.42	1.50	0.77

**C Liquidity risk**

Liquidity risk is the risk that the Bank is unable to meet its cash flow obligations as they fall due, such as upon the maturity of deposits and loan draw downs.

It is unusual for any bank to completely match the maturity profile of its assets and liabilities as business transacted is often of uncertain terms and of different types. Therefore, controlled mismatching of the maturities of assets and liabilities is fundamental to prudent liquidity risk management of the Bank.

The Bank closely monitors its liquidity risk profile with a variety of tools which includes cash flow forecasts and maturity mismatch reports. For Malaysian Ringgit in particular, the Bank has established funding guidelines on the amount of external funding it obtains and conducts regular stress-testing to ensure that it will be able to meet its obligations when they come due.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**C Liquidity risk (continued)**

Contractual maturity of assets and liabilities

The table below analyses assets and liabilities (including non-financial instruments) of the Bank based on the remaining contractual maturity in accordance with the requirements of BNM Guidelines on Financial Reporting for Banking Institutions:

2017	Up to 1 week	>1 week to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	Over 1 year	No specific maturity	Total
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	2,765,001	-	-	-	-	-	-	2,765,001
Securities held for trading	38	139	5,451	601	8,007	322,495	-	336,731
Securities available for sale	-	-	-	-	-	15	2,980	2,995
Loans, advances and financing	43,848	76,393	105,536	-	2,861	21,133	-	249,771
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	7,591	7,591
Other assets*	-	-	-	-	-	-	37,568	37,568
Derivative assets	88	22,750	1,529	1,521	2,040	20,243	-	48,171
	2,808,975	99,282	112,516	2,122	12,908	363,886	48,139	3,447,828
<b>Liabilities</b>								
Deposits from customers	2,382,241	60,921	46,244	3,041	14,048	1,054	-	2,507,549
Deposits and placements of banks and other financial institutions	176,438	55	2,017	-	-	-	-	178,510
Bills and acceptances payable	42,586	-	-	-	-	-	-	42,586
Other liabilities	-	-	-	-	-	-	52,588	52,588
Derivative liabilities	729	3,217	4,122	5,845	4,432	20,815	-	39,160
	2,601,994	64,193	52,383	8,886	18,480	21,869	52,588	2,820,393
<b>Net liquidity gap</b>	206,981	35,089	60,133	(6,764)	(5,572)	342,017	(4,449)	627,435

\* Includes tax recoverable, deferred taxation, property, plant and equipment, and other assets.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**C Liquidity risk (continued)**

	Up to 1 week	>1 week to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	Over 1 year	No specific maturity	Total
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>								
Cash and short term funds	1,646,436	-	-	-	-	-	-	1,646,436
Securities held for trading	219	222	143,823	1,832	154,831	399,403	-	700,330
Securities available for sale	-	-	-	-	-	15	2,980	2,995
Loans, advances and financing	24,561	111,223	171,081	557	2,264	20,365	-	330,051
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	7,591	7,591
Other assets*	-	-	-	-	-	-	67,068	67,068
Derivative assets	9,145	8,140	9,845	73,268	69,818	26,948	-	197,164
	<u>1,680,361</u>	<u>119,585</u>	<u>324,749</u>	<u>75,657</u>	<u>226,913</u>	<u>446,731</u>	<u>77,639</u>	<u>2,951,635</u>
<b>Liabilities</b>								
Deposits from customers	2,021,817	18,405	4,655	8,168	9,496	1,052	-	2,063,593
Deposits and placements of banks and other financial institutions	18,569	94	8,965	-	-	-	-	27,628
Bills and acceptances payable	31,270	-	-	-	-	-	-	31,270
Other liabilities	-	-	-	-	-	-	87,501	87,501
Derivative liabilities	1,138	1,395	28,977	55,578	45,989	29,666	-	162,743
	<u>2,072,794</u>	<u>19,894</u>	<u>42,597</u>	<u>63,746</u>	<u>55,485</u>	<u>30,718</u>	<u>87,501</u>	<u>2,372,735</u>
Net liquidity gap	(392,433)	99,691	282,152	11,911	171,428	416,013	(9,862)	

\* Includes tax recoverable, deferred taxation, property, plant and equipment, and other assets.

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**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**C Liquidity risk (continued)**

Non-derivative financial liabilities

The tables below analyses the Bank's non-derivative financial liabilities into relevant maturity groupings based on the remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Up to 1 week	>1 week to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2017</b>								
<b>Liabilities</b>								
Deposits from customers	2,382,242	60,988	46,376	3,074	14,365	1,062	-	2,508,107
Deposits and placements of banks and other financial institutions	176,446	55	2,020	-	-	-	-	178,521
Bills and acceptances payable	42,586	-	-	-	-	-	-	42,586
Other liabilities <sup>^</sup>	-	-	-	-	-	-	52,406	52,406
	<u>2,601,274</u>	<u>61,043</u>	<u>48,396</u>	<u>3,074</u>	<u>14,365</u>	<u>1,062</u>	<u>52,406</u>	<u>2,781,620</u>
<b>2016</b>								
<b>Liabilities</b>								
Deposits from customers	2,021,828	18,430	4,678	8,247	9,670	1,062	-	2,063,915
Deposits and placements of banks and other financial institutions	18,569	94	8,965	-	-	-	-	27,628
Bills and acceptances payable	31,270	-	-	-	-	-	-	31,270
Other liabilities <sup>^</sup>	-	-	-	-	-	-	87,027	87,027
	<u>2,071,667</u>	<u>18,524</u>	<u>13,643</u>	<u>8,247</u>	<u>9,670</u>	<u>1,062</u>	<u>87,027</u>	<u>2,209,840</u>

<sup>^</sup> Excludes unearned discount on loans, advances and financing.



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**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**C Liquidity risk (continued)**

The following table presents the contractual expiry by maturity of the Bank's commitment and contingencies:

	2017			2016		
	One year or less	Over one year	Total	One year or less	Over one year	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	10,276	100,734	111,010	48,289	27,211	75,500
Transaction related contingent items	2,196	50,983	53,179	31,261	19,126	50,387
Short-term self liquidating trade related contingencies	-	5,251	5,251	3,318	-	3,318
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	453,926	-	453,926	488,994	-	488,994
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	2	1,208	1,271	3	1,274
	467,604	156,970	624,574	573,133	46,340	619,473

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**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**C Liquidity risk (continued)**

Derivative financial liabilities

The table below analyses the Bank's derivative financial liabilities based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 week	>1 week to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	Over 1 year	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2017</b>							
<u>Gross-settled derivatives:</u>							
Forwards and swaps							
Receipts	1,266,182	536,877	424,658	187,668	96,485	398,840	2,910,710
Payments	(1,266,665)	(517,281)	(425,224)	(190,731)	(82,145)	(14,685)	(2,496,731)
	(483)	19,596	(566)	(3,063)	14,340	384,155	413,979
<u>Interest rate and cross currency swaps</u>							
Receipts	-	3,193	3,576	19,507	39,656	545,997	611,929
Payments	-	(2,962)	(3,635)	(20,789)	(39,060)	(546,256)	(612,702)
	-	231	(59)	(1,282)	596	(259)	(773)
	(483)	19,827	(625)	(4,345)	14,936	383,896	413,206
<b>2016</b>							
<u>Gross-settled derivatives:</u>							
Forwards and swaps							
Receipts	2,499,889	546,560	942,963	1,528,080	1,639,898	525,440	7,682,830
Payments	(2,491,720)	(540,294)	(818,997)	(1,505,572)	(1,461,708)	(3,263)	(6,821,554)
	8,169	6,266	123,966	22,508	178,190	522,177	861,276
<u>Interest rate and cross currency swaps</u>							
Receipts	-	-	7,075	27,499	15,695	815,610	865,879
Payments	-	-	(7,472)	(32,647)	(15,317)	(817,925)	(873,361)
	-	-	(397)	(5,148)	378	(2,315)	(7,482)
	8,169	6,266	123,569	17,360	178,568	519,862	853,794

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**D Currency risk**

Currency risk is the risk to earnings and value of financial instruments caused by the fluctuations in foreign exchange rates. It is managed in conjunction with market risk.

The table below sets out the Bank's exposure to currency risk. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currency.

2017	MYR RM'000	USD RM'000	SGD RM'000	GBP RM'000	AUD RM'000	Others RM'000	Total RM'000
<b>Assets</b>							
Cash and short term funds	1,786,723	907,628	4,310	2,484	7,905	55,951	2,765,001
Securities held for trading	336,731	-	-	-	-	-	336,731
Securities available for sale	2,995	-	-	-	-	-	2,995
Loans, advances and financing <sup>^</sup>	146,477	103,294	-	-	-	-	249,771
Other assets	19,704	12,235	4	-	-	-	31,943
Derivative assets	48,171	-	-	-	-	-	48,171
Statutory deposits with Bank Negara Malaysia	7,591	-	-	-	-	-	7,591
	<u>2,348,392</u>	<u>1,023,157</u>	<u>4,314</u>	<u>2,484</u>	<u>7,905</u>	<u>55,951</u>	<u>3,442,203</u>
<b>Liabilities</b>							
Deposits from customers	1,607,348	857,250	3,349	5	2,735	36,862	2,507,549
Deposits and placements of banks and other financial institutions	40,410	138,022	-	-	-	78	178,510
Bills and acceptances payable	34,951	7,635	-	-	-	-	42,586
Other liabilities	5,348	47,232	-	8	-	-	52,588
Derivative liabilities	39,160	-	-	-	-	-	39,160
	<u>1,727,217</u>	<u>1,050,139</u>	<u>3,349</u>	<u>13</u>	<u>2,735</u>	<u>36,940</u>	<u>2,820,393</u>
Currency gap	621,175	(26,982)	965	2,471	5,170	19,011	

<sup>^</sup> This represents outstanding loans, advances and financing after deducting individual assessment allowance and collective assessment allowance.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**D Currency risk (continued)**

	2016	MYR	USD	SGD	GBP	AUD	Others	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>								
Cash and short term funds	1,212,698		392,246	3,774	322	3,938	33,458	1,646,436
Securities held for trading	700,330		-	-	-	-	-	700,330
Securities available for sale	2,995		-	-	-	-	-	2,995
Loans, advances and financing <sup>^</sup>	173,347		156,704	-	-	-	-	330,051
Other assets	2,101		56,373	1	-	-	-	58,475
Derivative assets	197,164		-	-	-	-	-	197,164
Statutory deposits with Bank Negara Malaysia	7,591		-	-	-	-	-	7,591
	<u>2,296,226</u>		<u>605,323</u>	<u>3,775</u>	<u>322</u>	<u>3,938</u>	<u>33,458</u>	<u>2,943,042</u>
<b>Liabilities</b>								
Deposits from customers	996,648		1,040,310	3,490	4	2,941	20,200	2,063,593
Deposits and placements of banks and other financial institutions	18,623		9,005	-	-	-	-	27,628
Bills and acceptances payable	20,774		10,496	-	-	-	-	31,270
Other liabilities	13,081		67,308	-	21	32	7,059	87,501
Derivative liabilities	162,743		-	-	-	-	-	162,743
	<u>1,211,869</u>		<u>1,127,119</u>	<u>3,490</u>	<u>25</u>	<u>2,973</u>	<u>27,259</u>	<u>2,372,735</u>
Currency gap	<u>1,084,357</u>		<u>(521,796)</u>	<u>285</u>	<u>297</u>	<u>965</u>	<u>6,199</u>	

<sup>^</sup> This represents outstanding loans, advances and financing after deducting individual assessment allowance and collective assessment allowance.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**E Credit risk**

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivative financial instruments.

The maximum exposure is shown gross, without taking account of any collateral held or other credit enhancements.

	Note	2017 RM'000	2016 RM'000
<b>Assets</b>			
Cash and short term funds	2	2,763,365	1,644,241
Securities held for trading	3	336,731	700,330
Securities available for sale	4	15	15
Loans, advances and financing <sup>^</sup>	5	249,771	330,051
Other assets		31,265	58,385
Derivative assets	7	48,171	197,164
Total assets*		<u>3,429,318</u>	<u>2,930,186</u>
Commitments and contingencies		10,618,542	15,629,274
Total credit exposure		<u>14,047,860</u>	<u>18,559,460</u>

<sup>^</sup> Net of collective impairment and individual impairment of RM7,743,829 (2016: RM6,366,896).

\* Excludes cash in hand, unquoted shares and prepayments.

Where financial instruments are recorded by fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Collaterals

The main types of collaterals obtained by the Bank are as follows:

- (a) Cash
- (b) Fixed deposits
- (c) Residential properties

The Bank also accepts non-tangible securities such as support, guarantees from corporate and institutions which are subject to internal guidelines on eligibility.

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**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**E Credit risk (continued)**

Concentration risk by geographical sectors.

Credit risk exposure analysed by country in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The country exposure analysis is based on the residency of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

	Malaysia	United States	India	Singapore	Others	Total
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	2,678,264	14,452	40	4,310	66,299	2,763,365
Securities held for trading	336,731	-	-	-	-	336,731
Securities available for sale	15	-	-	-	-	15
Loans, advances and financing <sup>^</sup>	249,771	-	-	-	-	249,771
Other assets	31,265	-	-	-	-	31,265
Derivative assets	47,886	272	-	-	13	48,171
On Balance Sheet total*	3,343,932	14,724	40	4,310	66,312	3,429,318
Commitments and contingencies	10,361,774	228,449	-	416	27,903	10,618,542
Total credit exposure	<u>13,705,706</u>	<u>243,173</u>	<u>40</u>	<u>4,726</u>	<u>94,215</u>	<u>14,047,860</u>
2016						
Cash and short term funds	1,587,213	15,536	55	3,774	37,663	1,644,241
Securities held for trading	700,330	-	-	-	-	700,330
Securities available for sale	15	-	-	-	-	15
Loans, advances and financing <sup>^</sup>	330,051	-	-	-	-	330,051
Other assets	58,385	-	-	-	-	58,385
Derivative assets	184,292	12,817	-	-	55	197,164
On Balance Sheet total*	2,860,286	28,353	55	3,774	37,718	2,930,186
Commitments and contingencies	15,180,467	374,890	-	3,121	70,796	15,629,274
Total credit exposure	<u>18,040,753</u>	<u>403,243</u>	<u>55</u>	<u>6,895</u>	<u>108,514</u>	<u>18,559,460</u>

<sup>^</sup> Net of collective impairment and individual impairment of RM7,743,829 (2016: RM6,366,896).

\* Excludes cash in hand, unquoted shares and prepayments.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

E Credit risk (continued)

Concentration risk by economic sectors.

	Mining and quarrying	Manufacturing	General commerce	Education, health and others	Finance, insurance and business services	Government and government agencies	Construction	Purchase of residential landed property, securities and transport vehicles	Others	Total
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	-	-	-	-	531,674	2,231,691	-	-	-	2,763,365
Securities held for trading	-	-	-	-	-	336,731	-	-	-	336,731
Securities available for sale	-	-	-	-	-	15	-	-	-	15
Loans, advances and financing <sup>^</sup>	58,648	115,580	30,838	-	30,549	-	12,913	1,227	16	249,771
Other assets	-	-	-	-	31,265	-	-	-	-	31,265
Derivative assets	-	3,808	-	-	44,363	-	-	-	-	48,171
On Balance Sheet total*	58,648	119,388	30,838	-	637,851	2,568,437	12,913	1,227	16	3,429,318
Commitments and contingencies	54,000	846,590	38,622	1,500	9,669,278	-	7,344	1,206	2	10,618,542
Total credit exposure	112,648	965,978	69,460	1,500	10,307,129	2,568,437	20,257	2,433	18	14,047,860
2016										
Cash and short term funds	-	-	-	-	119,792	1,524,449	-	-	-	1,644,241
Securities held for trading	-	-	-	-	-	700,330	-	-	-	700,330
Securities available for sale	-	-	-	-	-	15	-	-	-	15
Loans, advances and financing <sup>^</sup>	68,191	199,879	19,678	1,575	26,162	185	13,002	1,354	25	330,051
Other assets	-	-	-	-	58,385	-	-	-	-	58,385
Derivative assets	-	9,205	-	-	187,959	-	-	-	-	197,164
On Balance Sheet total*	68,191	209,084	19,678	1,575	392,298	2,224,979	13,002	1,354	25	2,930,186
Commitments and contingencies	19,000	848,561	57,190	1,500	14,656,281	6,726	38,742	1,274	-	15,629,274
Total credit exposure	87,191	1,057,645	76,868	3,075	15,048,579	2,231,705	51,744	2,628	25	18,559,460

<sup>^</sup> Net of collective impairment and individual impairment of RM7,743,829 (2016: RM6,366,896).

\* Excludes cash in hand, unquoted shares and prepayments.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**E Credit risk (continued)**

Loans, advances and financing

	2017 RM'000	2016 RM'000
Neither past due nor impaired	257,173	335,970
Past due but not impaired	306	395
Individually impaired	36	53
Gross loans, advances, and financing	257,515	336,418
Less: Allowance for losses on loans, advances and financing:		
- Individual assessment allowance	(36)	(35)
- Collective assessment allowance	(7,708)	(6,332)
Net loans, advances, and financing	249,771	330,051

(a) Gross loans, advances, and financing neither past due nor impaired

The credit quality of the portfolio of loans, advances and financing that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

	Government & Government agencies RM'000	Large corporate customers RM'000	Staff loans RM'000	Mortgages RM'000	Total RM'000
<u>2017</u>					
(RR1) – Exceptional	-	-	-	-	-
(RR2) – Excellent	-	97,561	-	-	97,561
(RR3) – Strong	-	69,909	-	-	69,909
(RR4) – Good	-	11,330	946	-	12,276
(RR5) – Satisfactory	-	12,117	-	-	12,117
(RR6) – Acceptable	-	-	-	-	-
(RR7) – Watchlist	-	-	-	-	-
(RR8) – Special Mention	-	-	-	-	-
(RR9) – Sub-standed	-	65,310	-	-	65,310
Unrated	-	-	-	-	-
Total	-	256,227	946	-	257,173
<u>2016</u>					
(RR1) – Exceptional	-	-	-	-	-
(RR2) – Excellent	-	174,167	-	-	174,167
(RR3) – Strong	186	46,680	-	-	46,866
(RR4) – Good	-	16,332	980	-	17,312
(RR5) – Satisfactory	-	1,777	-	-	1,777
(RR6) – Acceptable	-	1,636	-	-	1,636
(RR7) – Watchlist	-	998	-	-	998
(RR8) – Special Mention	-	72,045	-	-	72,045
(RR9) – Sub-standed	-	21,169	-	-	21,169
Unrated	-	-	-	-	-
Total	186	334,804	980	-	335,970

\*RR = Risk Rating



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**E Credit risk (continued)**

Loans, advances and financing (continued)

(b) Gross loans, advances and financing past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans, advances and financing less than 90 days past due not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans, advances and financing by class to customers that were past due but not impaired were as follows:

	Corporate RM'000	Mortgages RM'000	Total RM'000
<u>2017</u>			
Past due up to 30 days	-	264	264
Past due 30 - 60 days	-	28	28
Past due 60 - 90 days	-	14	14
Past due more than 90 days	-	-	-
Total	-	306	306
<u>2016</u>			
Past due up to 30 days	-	395	395
Past due 30 - 60 days	-	-	-
Past due 60 - 90 days	-	-	-
Past due more than 90 days	-	-	-
Total	-	395	395

(c) Loans, advances and financing individually impaired

The breakdowns of the amount of individually impaired loans, advances and financing by class are as follows:

	2017 RM'000	2016 RM'000
Mortgages		
Gross impaired	36	53
Less: Individual allowance	(36)	(35)
Net impaired	-	18

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**E Credit risk (continued)**

Credit quality of financial assets

The table below presents an analysis of the credit quality of securities for the Bank by external rating agency are summarised as follows:

	Malaysian Government Securities ("MGS") RM'000	Malaysian Government Investment Issues RM'000	Unquoted securities RM'000	Total RM'000
<u>2017</u>				
Securities available for sale				
Sovereign rating (AAA to A-)	-	-	15	15
Securities held for trading				
Sovereign rating (AAA to A-)	322,660	14,071	-	336,731
	<u>322,660</u>	<u>14,071</u>	<u>15</u>	<u>336,746</u>
<u>2016</u>				
Securities available for sale				
Sovereign rating (AAA to A-)	-	-	15	15
Securities held for trading				
Sovereign rating (AAA to A-)	665,423	34,907	-	700,330
	<u>665,423</u>	<u>34,907</u>	<u>15</u>	<u>700,345</u>

**F Market risk**

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by risk management to mitigate the effect of this movement in key variables. In reality, the Bank proactively seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

Interest rate risk sensitivity analysis on banking book.

	2017 RM'000	2016 RM'000
<u>100 basis points parallel shocks</u>		
Economic Value Loss	(4,696)	(1,761)
Earnings-at-risk	<u>23,559</u>	<u>16,679</u>

Foreign currency sensitivity analysis

Impact to profit after tax

	2017	2016
-1%	10,061	7,137
1%	<u>(9,643)</u>	<u>(6,666)</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**30 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

A range of methodologies and assumptions had been used in deriving the fair values of the Bank's financial instruments at balance sheet date.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, as derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Bank's financial assets and liabilities that are measured at fair value.

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<b>2017</b>				
<b><u>Financial assets at fair value through profit or loss</u></b>				
Securities held for trading				
- Malaysian Government Securities	322,660	-	-	322,660
- Government investment issues	14,071	-	-	14,071
Derivative assets				
- Foreign exchange forwards and swaps	-	25,453	-	25,453
- Interest rate and cross currency swaps	-	22,718	-	22,718
Securities available for sale				
Unquoted shares	-	-	2,980	2,980
<b>Total assets</b>	<b>336,731</b>	<b>48,171</b>	<b>2,980</b>	<b>387,882</b>
<b><u>Financial liabilities at fair value through profit or loss</u></b>				
Derivative liabilities				
- Foreign exchange forwards and swaps	-	23,888	-	23,888
- Interest rate and cross currency swaps	-	15,272	-	15,272
<b>Total liabilities</b>	<b>-</b>	<b>39,160</b>	<b>-</b>	<b>39,160</b>

**BANK OF AMERICA MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

<u>2016</u>	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<u>Financial assets at fair value through profit or loss</u>				
Securities held for trading				
- Malaysian Government Securities	665,423	-	-	665,423
- Government investment issues	34,907	-	-	34,907
Derivative assets				
- Foreign exchange forwards and swaps	-	169,442	-	169,442
- Interest rate and cross currency swaps	-	27,722	-	27,722
Securities available for sale				
Unquoted shares	-	-	2,980	2,980
Total assets	700,330	197,164	2,980	900,474
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative liabilities				
- Foreign exchange forwards and swaps	-	127,057	-	127,057
- Interest rate and cross currency swaps	-	35,686	-	35,686
Total liabilities	-	162,743	-	162,743

There were no transfers between levels 1 and 2 during the year.

**Financial instruments in Level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Malaysian Government Securities and Bank Negara Bills classified as trading securities.

**Financial instruments in Level 2**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments

**BANK OF AMERICA MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial instruments in Level 3**

There were no movement in Level 3 instruments between financial year ended 31 December 2017 and 31 December 2016.

There were no gains or losses from Level 3 instruments recognised in profit or loss in the financial year ended 31 December 2017 and 31 December 2016.

**Significant unobservable inputs**

The following table discloses the valuation techniques and significant unobservable inputs by the Bank of asset recognised at fair value and classified as Level 3 with the range of values used for those significant unobservable inputs.

	Fair value at	Valuation technique	Significant unobservable inputs	Reasonable possible shift
	RM'000	RM'000	RM'000	RM'000
<u>2017</u>				
<u>Securities available for sale</u>				
Unquoted shares	2,980	Net tangible asset	Net tangible asset	+/- 5%
<u>2016</u>				
<u>Securities available for sale</u>				
Unquoted shares	2,980	Net tangible asset	Net tangible asset	+/- 5%

If the Net Tangible Asset had been 5% higher/lower, with all other variable held constant, the Bank's Other Comprehensive Income would have been RM205,525 (2016: RM639,468) higher and RM29,778 (2016: RM362,837) lower respectively.

**BANK OF AMERICA MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial instruments not measured at fair value**

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value, but for which fair value is disclosed.

	Carrying value	Level 1	Level 2	Total
	RM'000	RM'000	RM'000	RM'000
<b>2017</b>				
<b>Assets</b>				
Cash and short term funds	2,765,001	2,765,001	-	2,765,001
Loans, advances and financing*	257,515	-	257,445	257,445
Other assets	31,943	-	31,943	31,943
Statutory deposits with Bank Negara Malaysia	7,591	7,591	-	7,591
<b>Total</b>	<b>3,062,050</b>	<b>2,772,592</b>	<b>289,388</b>	<b>3,061,980</b>
<b>Liabilities</b>				
Deposits from customers	2,507,549	-	2,507,540	2,507,540
Deposits and placement of banks and other financial institutions	178,510	-	178,510	178,510
Bills and acceptances payable	42,586	-	42,586	42,586
Other liabilities	52,588	-	52,588	52,588
<b>Total</b>	<b>2,781,233</b>	<b>-</b>	<b>2,781,224</b>	<b>2,781,224</b>
<b>2016</b>				
<b>Assets</b>				
Cash and short term funds	1,646,436	1,646,436	-	1,646,436
Loans, advances and financing*	336,383	-	336,349	336,349
Other assets	58,475	-	58,475	58,475
Statutory deposits with Bank Negara Malaysia	7,591	7,591	-	7,591
<b>Total</b>	<b>2,048,885</b>	<b>1,654,027</b>	<b>394,824</b>	<b>2,048,851</b>
<b>Liabilities</b>				
Deposits from customers	2,063,593	-	2,063,588	2,063,588
Deposits and placement of banks and other financial institutions	27,628	-	27,574	27,574
Bills and acceptances payable	31,270	-	31,270	31,270
Other liabilities	87,501	-	87,501	87,501
<b>Total</b>	<b>2,209,992</b>	<b>-</b>	<b>2,209,933</b>	<b>2,209,933</b>

\* Excludes collective impairment allowances

**BANK OF AMERICA MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The fair values are based on the following methodologies and assumptions:

(a) Short term funds and deposits and placements with banks

For short term funds and deposits and placements with financial institutions with maturities of less than one year, the carrying value is a reasonable estimate of fair value. For short-term funds and deposits and placements with financial institutions, the carrying value approximates the fair value as these balances are subject to variable interest rate.

(b) Loans, advances and financing

For loans with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair value. For loans with maturities of one year or more, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

The fair values of impaired loans are represented by their carrying values, net of individual allowance, being the expected recoverable amount.

(c) Deposits from customers

For deposits from customers with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair value. For deposit with maturities of one year or more, the fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(d) Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than one year approximate the carrying values. For deposits and placements with maturities of one year or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for deposits and placements with similar remaining period to maturities.

(e) Other receivables and other payables

The carrying value less any allowances included in other assets and other liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

(f) Bills and acceptances payable

The estimated fair values of bills and acceptances payable with maturities of less than one year approximate the carrying values. For bills and acceptances payable with maturities of one year or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for bills and acceptances payable with similar periods to maturity.

**BANK OF AMERICA MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (CONTINUED)**

**31 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The following are subject to offsetting, enforceable master netting arrangements and similar agreements.

				Related amounts not set off in the statement of financial position		
	Gross amount recognised financial assets	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial Instruments	Financial collateral	Net amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2017</b>						
Derivative financial assets	48,171	-	48,171	(16,909)	(11,830)	19,432
Derivative financial liabilities	39,160	-	39,160	(16,909)	(28,320)	(6,069)
<b>2016</b>						
Derivative financial assets	197,164	-	197,164	(74,210)	(48,501)	74,453
Derivative financial liabilities	162,743	-	162,743	(74,210)	(60,110)	28,423

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Bank and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default which includes failure by the other party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party; or bankruptcy.

**32 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 June 2018.




Company No.  
310983 V

**BANK OF AMERICA MALAYSIA BERHAD**  
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS  
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Raymond Yeoh Cheng Seong and David Allan Cairns, being two of the Directors of Bank of America Malaysia Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 9 to 70 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and financial performance of the Bank for the financial year ended 31 December 2017 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, Bank Negara Malaysia Guidelines and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 26 June 2018.



RAYMOND YEOH CHENG SEONG  
DIRECTOR



DAVID ALLAN CAIRNS  
DIRECTOR

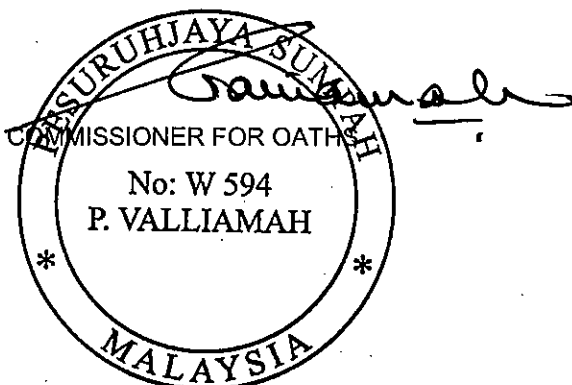
STATUTORY DECLARATION  
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Yvonne Lew Ee-Wern, the Officer primarily responsible for the financial management of Bank of America Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 9 to 70 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



YVONNE LEW EE-WERN

Subscribed and solemnly declared by the above named Yvonne Lew Ee-Wern at Kuala Lumpur on 26 June 2018, before me.





INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
BANK OF AMERICA MALAYSIA BERHAD  
(Incorporated in Malaysia)  
(Company No. 310983 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Bank of America Malaysia Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 9 to 70.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
BANK OF AMERICA MALAYSIA BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 310983 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of the financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
BANK OF AMERICA MALAYSIA BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 310983 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
BANK OF AMERICA MALAYSIA BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 310983 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)


Auditors' responsibilities for the audit of the financial statements (continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

  
PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

  
SOO HOO KHOON YEAP  
02682/10/2019 J  
Chartered Accountant

Kuala Lumpur