Bank of America Malaysia Berhad
Pillar 3 Disclosures
As at 31 December 2022

Bank of America Malaysia Berhad
Pillar 3 Disclosures

Attestation by Chief Executive Officer

This is to certify that Bank of America Malaysia Berhad's Basel II Pillar 3 Disclosures as at 31 December 2022, prepared in accordance with the requirements of Bank Negara Malaysia's Guideline on Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) are accurate, complete and not misleading.

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RAYMOND YEOH CHENG SEONG

Chief Executive Officer

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1. Scope of Application

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

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

2. Capital Adequacy

2.1 Capital Management

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

The BAMB Board, through its various Committees, is overall accountable for the management of risk in BAMB.

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

In order to meet this responsibility, the Board, LMT and Asset and Liability Committee (ALCO) will utilize the annual ICAAP to assess the adequacy of capital, internal governance and risk management.

The ICAAP process seeks to ensure that the Bank maintains sufficient capital at all times, plans for all future capital requirements and at the same time, maintains adequate governance and monitoring over its material risks. It establishes a framework for the Bank to perform a comprehensive assessment of the risks they face and to relate capital to those risks. The capital assessment performed by the Bank is expected to encompass all risks, not just the risks captured by the Basel II Pillar 1 minimum regulatory capital calculations. BAMB has undertaken a Comprehensive Risk Assessment to identify all material risks and ensure adequate capital is held to commensurate with such material risks. BAMB has established quantitative and qualitative methodologies to assess each risk to determine its materiality.

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

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

The total capital and capital adequacy ratios of the Bank are computed in accordance with BNM's Policy Documents on Capital Adequacy Framework Capital Components issued on 9th December 2020 and Basel II Risk-Weighted Assets issued on 3rd May 2019.

Table 1.1: Capital Ratios

	31.12.2022	31.12.2021
CET I Capital Ratio	**24.863 %**	47.019 %
Tier I Capital Ratio	**24.863 %**	47.019 %
Total Capital Ratio	**25.050 %**	47.272 %

Table 1.2: Capital Adequacy Requirements

	CET I Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
31.12.2022	**7.000%**	**8.500%**	**10.500%**
31.12.2021	7.000%	8.500%	10.500%

The minimum regulatory capital adequacy requirements as stated above include capital conservation buffer (2.5%) and counter-cyclical buffer (currently 0%).

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

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

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Table 2.1: Exposures as at 31 December 2022

Exposure Class	Gross Exposures /^EAD before #CRM	Net Exposures /^EAD after #CRM	RWA	RWA absorbed by *PSIA	Total RWA after effects of PSIA	Minimum Capital Requirement at 8%
31.12.2022	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	9,837,270	9,837,270	1,534,034	—	1,534,034	122,723
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	178,187	178,187	35,637	—	35,637	2,851
Insurance Cos, Securities Firms & Fund Managers	—	—	—	—	—	—
Corporates	538,229	538,229	538,229	—	538,229	43,058
Residential Mortgages	—	—	—	—	—	—
Other Assets	58,855	58,855	57,564	—	57,564	4,605
Defaulted Exposures	129	129	65	—	65	5
Total On-Balance Sheet Exposures	**10,612,670**	**10,612,670**	**2,165,529**	**—**	**2,165,529**	**173,242**
Off-Balance Sheet Exposures:						
OTC Derivatives	795,626	655,917	307,376	—	307,376	24,590
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	183,635	183,125	179,505	—	179,505	14,360
Total Off-Balance Sheet Exposures	**979,261**	**839,042**	**486,881**	**—**	**486,881**	**38,950**
Total On and Off-Balance Sheet Exposures	**11,591,931**	**11,451,712**	**2,652,410**	**—**	**2,652,410**	**212,192**
Market Risk	Long Position	Short Position				
Foreign currency	181,763	54,938	181,763	—	181,763	14,541
Interest rate			648,265	—	648,265	51,861
Total Market Risk Exposure			**830,028**	**—**	**830,028**	**66,402**
Total Operational Risk Exposure			**376,309**	**—**	**376,309**	**30,105**
Total RWA and Capital Requirements			**3,858,747**	**—**	**3,858,747**	**308,699**

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

Table 2.2: Exposures as at 31 December 2021

Exposure Class	Gross Exposures/ ^EAD before #CRM	Net Exposures/ ^EAD after #CRM	RWA	RWA absorbed by *PSIA	Total RWA after effects of PSIA	Minimum Capital Requirement at 8 %
31.12.2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	5,372,852	5,372,852	—	—	—	—
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	80,297	80,297	16,060	—	16,060	1,284
Insurance Cos, Securities Firms & Fund Managers	1,007	1,007	1,007	—	1,007	81
Corporates	279,101	279,101	279,101	—	279,101	22,328
Residential Mortgages	28	28	10	—	10	1
Other Assets	40,408	40,408	39,370	—	39,370	3,150
Defaulted Exposures	6,745	6,745	4,356	—	4,356	348
Total On-Balance Sheet Exposures	**5,780,438**	**5,780,438**	**339,904**	**—**	**339,904**	**27,192**
Off-Balance Sheet Exposures:						
OTC Derivatives	378,654	378,654	195,096	—	195,096	15,608
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	173,607	169,647	168,432	—	168,432	13,475
Total Off-Balance Sheet Exposures	**552,261**	**548,301**	**363,528**	**—**	**363,528**	**29,083**
Total On and Off-Balance Sheet Exposures	**6,332,699**	**6,328,739**	**703,432**	**—**	**703,432**	**56,275**
Market Risk	Long Position	Short Position				
Foreign currency	274,665	45	274,665	—	274,665	21,973
Interest rate			511,921	—	511,921	40,954
Total Market Risk Exposure			**786,586**	—	**786,586**	**62,927**
Total Operational Risk Exposure			**306,833**	—	**306,833**	**24,547**
Total RWA and Capital Requirements			**1,796,851**	—	**1,796,851**	**143,749**

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

3. Capital Structure

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

Tier I Capital consists of ordinary paid-up share capital, approved retained profits and unrealised gains and losses of financial instruments measured at fair value through other comprehensive income (FVOCI) less net deferred tax asset and applicable regulatory adjustments.

There is no obligation to pay dividend to ordinary shareholders. No dividend has been paid or proposed for the financial period ended 31 December 2022.

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

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

Table 3.1: Components of Capital

	31.12.2022 RM'000	31.12.2021 RM'000
CET I Capital		
Share Capital	**135,800**	135,800
Retained Profits	**827,452**	712,449
Other Disclosed Reserves:		
Unrealised gains and losses of financial instruments measured at FVOCI	**987**	1,032
	964,239	849,281
Less: Regulatory Adjustments		
Deferred Tax Assets	**(3,844)**	(2,143)
55% of Cumulative Gains of financial instruments measured at FVOCI	**(543)**	(568)
Regulatory reserve	**(466)**	(1,704)
Total CET I and Tier I Capital	**959,386**	844,866
Tier II Capital		
Loss Allowance for non-credit impaired exposures*	**6,751**	2,834
Regulatory Reserve	**466**	1,704
Total Tier II Capital	**7,217**	4,538
Total Capital	**966,603**	849,404

* Excludes Lifetime ECL Credit Impaired (Stage 3) loans on impaired loans restricted from Tier II Capital of BAMB of RM10,747k (31.12.2021 : RM18,000k).

4. Risk Management

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

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

4.1 BAMB's Risk Management Framework

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

- **Culture of Managing Risk Well:** A culture that instills the importance of managing risk well, ensures appropriate focus on risk in all activities and emphasizes that risk is everyone's responsibility. It encourages the necessary mind-set and behavior to enable effective risk management and promote sound risk-taking within our risk appetite. Individual accountability is the cornerstone of our culture. Our culture requires that all risks are promptly identified, escalated and debated, thereby benefiting the overall performance of the Bank.
- **Risk appetite and risk limits:** The Bank's Risk Appetite Statement defines the types and levels of risk the Bank is willing to take to achieve its objectives. It includes qualitative statements and quantitative measures, as appropriate.
- **Risk Management Processes:** Sound risk management includes processes to effectively identify, measure, monitor and control risk. Risk management is both an essential component of our daily business activities and an integral part of our strategic, capital and financial planning processes.
- **Risk data management, aggregation and reporting:** Effective risk reporting provides a clear understanding of our risk profile. We leverage our data and management information systems to achieve transparency and generate actionable insights.
- **Risk Governance:** Our risk governance framework serves as the foundation for the comprehensive management of risks facing the Bank. It outlines, among other things, clear ownership and accountability for managing risk across three lines of defense: front line units, independent risk management and Corporate Audit.

4.1.1 BAMB Risk Taking Capacity

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

The document on Risk Appetite Statement (also known as BAMB Risk Taking Capacity) defines the main principles, governance and methodologies that ensure that BAMB activities and culture and aligned to the above stated risk management philosophy.

Governance Processes and Controls

Approval

BAMB's Risk Taking Capacity (RTC) metrics are updated in the Risk Appetite Statement (RAS) (where approved as part of other BAMB policy/limit approvals), or proposed and approved annually as part of the RAS. A thorough review and assessment of the Risk Taking Capacity metrics following the principles in the RAS document will be initiated by the Chief Risk Officer (CRO). The stakeholders for each Risk Category will be engaged in this review process. Upon completion of the review and assessment, the CRO will put forth a recommendation to the LMT for appropriate Risk Taking Capacity metrics that will be applicable for the following 12 months. The recommended Risk Taking Capacity metrics will first be reviewed and approved by the LMT, followed by the BAMB Risk Management Committee (RMC), and finally by the BAMB Board of Directors (Board).

Monitoring

The monitoring of risk appetite metrics and performance against limits is carried out on a monthly basis and BAMB CRO provides independent reporting at least on a monthly basis via a RTC performance report to the LMT. The performance report will also be tabled to the BAMB RMC and Board for their noting.

Exceptions

Breaches of any Risk Taking Capacity triggers or limits serve as an early warning signal and will be highlighted to LMT. LMT will determine if any mitigating actions should be taken.

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

- Escalation to the BAMB Chief Executive Officer (CEO) and BAMB Country Risk Officer (CRO) shall occur as soon as practically possible.
- The BAMB CRO will notify the LMT of the breach. Depending on the materiality of the breach, an ad-hoc LMT meeting will be convened as soon as practically possible to discuss remediation steps. Based on the materiality of the breach, LMT will determine if it should be escalated to the Board.
- A temporary limit increase may be approved by the CEO and CRO if considered appropriate. This will be presented and approved at the next BAMB RMC and Board meeting, with permanent increases subject to approval by the Board.
- All limit breaches and progress on remediation are reported to the BAMB RMC and Board at each Board meeting until they are successfully remediated.

4.1.2 Risk Management Structure

All BAMB employees are responsible for the below risk management:

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

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

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

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

4.1.3 Risk Management Process

On a day-to-day basis, BAMB's employees are responsible for managing risks which are threatening the interests of the Bank. Employees are provided ongoing training opportunities on risk management and are given clear, detailed guidance through supporting processes such as governance bodies (e.g. committees) and supporting management documents (e.g. policies, procedures, standard operating requirements, guidelines, playbooks, etc).
BAMB employs a simple but effective overarching risk management process, referred to as IMMC. This process builds on employees' regular tasks and ensures a solid knowledge base for mitigating risk:

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

4.2 Credit Risk

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its repayment obligations. Credit risk is managed based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral, and expected impacts of the current and forward-looking economic environment on the borrowers or counterparties.

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

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

Given the description of its business above, BAMB is primarily exposed to credit risk of corporates and financial institutions including banks.

Credit Underwriting & Approval

Credit processes are designed to execute the defined credit strategy (e.g. product-specific underwriting and client selection criteria) and adhere to credit policies) (e.g. BAMB Credit Compliance Manual (CCM), BAC Core Credit Policy and other BAMB local policies), while remaining compliant with local laws, rules and regulations. In assessing borrowers' credit risk, analysis include an assessment of the borrower's character, debt capacity, capital structure, collateral and business prospects. For borrowers identified as higher risk, or where certain transaction have negative environmental and/or social risk as defined in BAC Core Credit Policy or BAC's Environmental and Social Risk Policy Framework ("ESRPF") it will be subject to enhanced due diligence. This analysis drives a forward-looking internal risk rating, which when taken in conjunction with the amount and type of exposure determines the required level of approval. Risk ratings are also used to ensure portfolio asset quality remains within approved credit risk standards and limits. Risk ratings follow BAC's internal scale of 1-11 and are monitored on an ongoing basis.

Besides following the Enterprise Credit Approval Grid, BAMB also has a local onshore approving authority based on the local approving threshold. While approvals may be obtained from regional or global credit/risk officers, all credit actions require sign-off and approval from the onshore BAMB CRO and subject to Local Onshore Approval Authority, without which these credit actions are not considered approved. BAMB CRO shall escalate any concerns on specific credit decisions to the Bank of America Malaysia Berhad Board of Director and Local Management Team "LMT" as necessary.

Credit Risk Approval

Enterprise Credit Officers perform due diligence comprising analysis of credit risk and preparation of approval memorandum including Risk Rating, identification of Sources of Repayment and Key Credit Risks, recommendation of facilities (including traded products with potential credit exposures) with required terms and conditions.

All credit exposure will be approved based on the Enterprise Credit Approval Grid, and local BAMB onshore approving authority. Minimum approvals required are from the onshore Enterprise Credit Officer and BAMB CRO (i.e. as part of independent credit risk function). Escalation to higher approving authority levels may be required based on the defined levels in the approval grid, and also for higher-risk industries and facility structures.

Credit Portfolio Management

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

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

Enterprise Credit, as well as supporting units (such as credit operations), and with oversight by Risk, is responsible for the ongoing management and administration of credit risk at the borrower level by:

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

Credit Risk Taking Capacity

Credit Quality Metrics: established to monitor and limit potential adverse impact of BAMB's risk taking activities to BAMB's capital and profitability levels. The internal and tripwire/trigger limits established to monitor credit quality are as follow:

- Stage 3 (Credit-Impaired) loans: defined as total Stage 3 Credit-Impaired loans as a % of total loan exposure in BAMB (excluding housing loan portfolio) to be no greater than 2%. Stage 3 loans impact profitability as such loans are usually placed on non-accrual status and requires specific assessment on expected credit losses ("ECL"). In BAMB, Stage 3 exposures usually will have a risk rating of 9- (substandard) or lower. Tripwire/trigger is set at 1%.
- Net Credit Loss Rate: defined as the Year-to-date charge off of loan exposures as % of total loan exposures in BAMB (excluding housing loan portfolio) to be less than 0.50%. Loans are charged off if they are determined to be uncollectible. Tripwire/trigger is set at 0.25%.
- FRR8 or worse % of Total Binding Exposure "TBE" (excluding Due From BNM): defined as TBE rated Facility Risk Rating 8 (Special Mention) or worse as a % of TBE in BAMB (excluding Due From BNM) to be no greater than 6%. This metrics enables an early warning indicator "EWI" of deterioration in credit quality as it includes loans which are still performing in the RR8 or 9+ rating categories. For the purposes of this metrics, Tripwire/trigger is set as 4%.

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

- Single Customer Exposure Limit: Definition as determined by Bank Negara Malaysia, Internal and escalation thresholds for Corporate and FI and Intragroup is as detailed in BAMB's SCEL Policy. Banking institution's Single Customer Exposure Limit shall be 25% of the banking institution's Total Capital and limit as may be approved by the Bank which shall not exceed 50% of the banking institution's Total Capital, in the case of exposures to a counterparty which is a related banking entity (whether operating in or outside Malaysia) according to Single Counterparty Exposure Limit guideline paragraph 8.2.
- Large Exposure Limit: Definition as determined by Bank Negara Malaysia. Internal and escalation thresholds for large loan is as detailed in BAMB's SCEL Policy.
- Connected Party Exposure Limit: Definition as determined by BNM. Internal and escalation thresholds for connected party exposures is as detailed in BAMB's Connected Party Policy.
- Industry Limits: defined as maximum TBE to the following higher risk industries. Industry TBE as a % of TBE in BAMB (excluding Due From BNM) to the higher risk industries below should not exceed 10%, with Tripwire/trigger of 8%:

  i. Commercial Real Estate
  ii. Construction
  iii. Shipping
  iv. Aviation (added in view of travel restrictions imposed globally due to COVID-19)

Note : As at 31 December 2022, BAMB does not have exposures in commercial real estate, shipping and aviation industries.

BAMB's credit portfolio as of 31 December 2022 primarily comprises exposure to the Government of Malaysia, large local and foreign commercial banks operating in Malaysia, and the Malaysian subsidiaries of MNCs.

- Exposure to the Government of Malaysia consists of due from placements with Bank Negara Malaysia.
- Exposure to large local and foreign commercial banks primarily comprises due from placements, FX swaps, FX forwards, cross currency swaps, and interest rate swaps. Client selection is considered sound and most derivative and FX exposure is traded under Credit Support Annexes ("CSAs"), mitigating the exposure through the posting of collateral based on pre-agreed terms.

Credit exposure to Malaysian subsidiaries of MNCs consists primarily of working capital and trade facilities extended on an uncommitted/on-demand basis and FX forwards. BAMB MNC's clients are mostly secured against Corporate Guarantee of the Parent company.

Past Due and Impaired Loans, Advances and Financing

- The Bank considers a loan/financing to be past due once a contractual payment on principal and/or interest remained unpaid by the borrower on its due date.
- The Bank also follows Bank Negara Malaysia Policies on Credit Risk (BNM/RH/PD/029-22) and Financial Reporting (BNM/RH/PD/032-13).

Impairment

- The Bank recognises loss allowances for Expected Credit Losses ("ECL") on the following financial instruments that are not measured at Fair Value Through Profit/Loss;
  - Financial assets that are debt instruments
  - Financial guarantee contracts issued
  - Loan commitments issued
  - Loans and advances

  No impairment loss is recognised on equity investments.
- The Bank measures loss allowances at an amount equal to 12-months ECL for financial instruments on which credit risk has not increased significantly since their initial recognition. Loss allowances for financial instruments where there has been a significant increase in credit risk are measured at lifetime ECL.
- 12 months ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of financial assets since initial recognition:

Stage 1: 12 months ECL – not credit impaired
For credit exposures where there has not been a significant increase in credit risk since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised. Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

- **Measurement of ECL:**

  ECL are unbiased and probability-weighted estimate of credit losses, measured as follows:

  - For financial assets that are not credit-impaired at the reporting date, the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
  - For financial assets that are credit-impaired at the reporting date, the difference between the gross carrying amount and the present value of estimated future cash flows;
  - For undrawn loan commitments, the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn upon and the cash flows that the Bank expects to receive and for financial guarantee contracts, the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

- **Credit-impaired financial assets**:

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

  – Evidence that a financial asset is credit-impaired includes the following observable data:
    - Significant financial difficulty of the borrower or issuer;
    - A breach of contract such as a default or past due event;
    - The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
    - It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
    - The disappearance of an active market for a security because of financial difficulties.

  – A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

4.2.1 Breakdown of Gross Credit Exposures

(a) By Geographical Distribution

Table 4.1: Exposures by Geographical Distribution

Category	Malaysia RM'000	United States RM'000	Singapore RM'000	United Kingdom RM'000	Others RM'000	Total RM'000
31.12.2022						
Sovereign/Central Banks	**9,837,270**	**—**	**—**	**—**	**—**	**9,837,270**
Banks, DFIs, and MDBs	**580,255**	**122,122**	**76,541**	**2,036**	**13,065**	**794,019**
Insurance Cos, Securities Firms & Fund Managers	**31,207**	**243**	**—**	**90,413**	**—**	**121,863**
Corporates	**775,923**	**58**	**3,943**	**—**	**—**	**779,924**
Residential Mortgages	**—**	**—**	**—**	**—**	**—**	**—**
Other Assets	**58,855**	**—**	**—**	**—**	**—**	**58,855**
Total as at 31 December 2022	**11,283,510**	**122,423**	**80,484**	**92,449**	**13,065**	**11,591,931**
31.12.2021						
Sovereign/Central Banks	5,372,852	—	—	—	—	5,372,852
Banks, DFIs, and MDBs	204,752	47,679	42,692	12,355	14,913	322,391
Insurance Cos, Securities Firms & Fund Managers	4,886	159	—	67,013	—	72,058
Corporates	524,927	6	9	—	20	524,962
Residential Mortgages	28	—	—	—	—	28
Other Assets	40,408	—	—	—	—	40,408
Total as at 31 December 2021	6,147,853	47,844	42,701	79,368	14,933	6,332,699

(b) By Sector Distribution

Table 4.2: Exposures by Sector Distribution

Category	Finance, Insurance and Business Services RM'000	Government & Government Agencies RM'000	Manufacturing RM'000	General Commerce RM'000	Mining & Quarrying RM'000	Construction RM'000	Education, Health and Others RM'000	Transport, Storage and Communication RM'000	Purchase of Residential Landed Property, Securities, and Transport Vehicles RM'000	Others RM'000	Total RM'000
31.12.2022											
Sovereign/Central Banks	—	9,837,270	—	—	—	—	—	—	—	—	9,837,270
Banks, DFIs, and MDBs	794,019	—	—	—	—	—	—	—	—	—	794,019
Insurance Cos, Securities Firms & Fund Managers	121,863	—	—	—	—	—	—	—	—	—	121,863
Corporates	149,332	—	415,139	47,444	6,732	21,828	—	139,449	—	—	779,924
Residential Mortgages	—	—	—	—	—	—	—	—	—	—	—
Other Assets	58,466	—	—	—	—	—	—	—	389	—	58,855
Total as at 31 December 2022	**1,123,680**	**9,837,270**	**415,139**	**47,444**	**6,732**	**21,828**	**—**	**139,449**	**389**	**—**	**11,591,931**
31.12.2021											
Sovereign/Central Banks	—	5,372,852	—	—	—	—		—	—	—	5,372,852
Banks, DFIs, and MDBs	314,076	—	—	—	—	—	8,315	—	—	—	322,391
Insurance Cos, Securities Firms & Fund Managers	72,058	—	—	—	—	—	—	—	—	—	72,058
Corporates	247,643	—	227,952	32,763	5,762	2,106	130	8,606	—	—	524,962
Residential Mortgages	—	—	—	—	—	—		—	28	—	28
Other Assets	39,961	—	—	—	—	—		—	447	—	40,408
Total as at 31 December 2021	673,738	5,372,852	227,952	32,763	5,762	2,106	8,445	8,606	475	—	6,332,699

(c) By Residual Maturity

Table 4.3: Exposures by Residual Maturity

Category	Up to 1 Year RM'000	More than 1 Year to 5 Years RM'000	More than 5 Years RM'000	Total RM'000
31.12.2022				
Sovereign/Central Banks	**9,837,270**	—	—	**9,837,270**
Banks, DFIs, and MDBs	**501,389**	**288,253**	**4,377**	**794,019**
Insurance Cos, Securities Firms & Fund Managers	**44,215**	**70,245**	**7,403**	**121,863**
Corporates	**649,159**	**130,765**	—	**779,924**
Residential Mortgages	—	—	—	—
Other Assets	**58,479**	—	**376**	**58,855**
Total as at 31 December 2022	**11,090,512**	**489,263**	**12,156**	**11,591,931**
31.12.2021				
Sovereign/Central Banks	5,372,852	—	—	5,372,852
Banks, DFIs, and MDBs	176,386	146,005	—	322,391
Insurance Cos, Securities Firms & Fund Managers	9,660	57,537	4,861	72,058
Corporates	443,104	75,039	6,819	524,962
Residential Mortgages	28	—	—	28
Other Assets	39,961	25	422	40,408
Total as at 31 December 2021	6,041,991	278,606	12,102	6,332,699

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

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

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

	31.12.2022 RM'000	31.12.2021 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**10**	12
Mining	**10,867**	23,732
Transport, storage, communication	—	1,001
Total Gross Impaired Loans, Advances and Financing	**10,877**	24,745
Gross Impaired Loans as a % of Gross Loans, Advances and Financing	**1.98%**	8.04%

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

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

	31.12.2022 RM'000	31.12.2021 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**—**	—
Total Gross Loans, Advances and Financing Past Due but Not Impaired	**—**	—

(c) Impairment Analysed by Sector and Geographical Area

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

	31.12.2022 RM'000	31.12.2021 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**10**	12
Mining	**10,737**	17,970
Transport, storage, communication	**0**	18
Total Lifetime ECL Credit Impaired (Stage 3)	**10,747**	**18,000**

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

Category	Malaysia RM'000	Total RM'000
31.12.2022		
Finance, Insurance and Business Services	**954**	**954**
General Commerce	**285**	**285**
Manufacturing	**2,236**	**2,236**
Transport, storage, communication	**2,049**	**2,049**
Total 12 Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2) as at 31 December 2022	**5,524**	**5,524**
31.12.2021		
Finance, Insurance and Business Services	889	889
General Commerce	87	87
Manufacturing	727	727
Total 12 Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2) as at 31 December 2021	1,703	1,703

(d) Movement in Lifetime ECL Credit Impaired (Stage 3) by Sector

Table 5.5: Movement in Lifetime ECL Credit Impaired (Stage 3) by Sector

	Mining	Transport, storage, communication	Purchase of Residential Landed Property, Securities and Transport Vehicles	Total
	RM'000	RM'000	RM'000	RM'000
In Malaysia				
At 1 January 2022	**17,970**	**18**	**12**	**18,000**
Additional allowance made	—	—	—	—
Written back	**(7,233)**	**(18)**	**(2)**	**(7,253)**
At 31 December 2022	**10,737**	—	**10**	**10,747**
In Malaysia				
At 1 January 2021	20,940	86	26	21,052
Additional allowance made	—	—	—	—
Written back	(2,970)	(68)	(14)	(3,052)
At 31 December 2021	17,970	18	12	18,000

(e) Reconciliation of Changes in ECL and Impairment Provisions

Table 5.6: Reconciliation of Changes in ECL and Impairment Provisions

	31.12.2022	31.12.2021
	RM'000	RM'000
Lifetime ECL Credit Impaired (Stage 3)		
Opening Balance	**18,000**	21,052
Allowance Made During the period	—	—
Written back	**(7,253)**	(3,052)
Closing Balance	**10,747**	18,000
12 Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2)		
Opening Balance	**1,703**	2,291
Allowance Made During the period	**3,884**	101
Written Back	**(63)**	(689)
Closing Balance	**5,524**	1,703

4.2.3 Standardised Approach to Credit Risk

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

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

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

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

Table 6.1: Rating Categories of Sovereigns / Central Banks

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

Table 6.2: Rating Categories of Banking Institutions

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

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

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

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

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

a. Breakdown of Credit Risk Exposures by Risk Weights

Table 6.4: Exposures by Risk Weights

	Exposures After Netting and Credit Risk Mitigation (RM'000)							
Risk Weights	**Sovereigns /Central Banks**	**Insurance Cos, Securities Firm & Fund Managers**	**Banks, DFIs & MDBs**	**Corporates**	**Residential Mortgages**	**Other Assets**	**Total Exposures After Netting and Credit Risk Mitigation**	**Total RWA**
31.12.2022								
0%	**2,167,100**	**—**	**—**	**—**	**—**	**1,291**	**2,168,391**	**—**
20%	**7,670,170**	**—**	**407,830**	**—**	**—**	**—**	**8,078,000**	**1,615,600**
35%	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
50%	**—**	**60,948**	**275,944**	**129**	**—**	**—**	**337,021**	**168,510**
100%	**—**	**31,451**	**—**	**779,285**	**—**	**57,564**	**868,300**	**868,300**
150%	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total as at 31 December 2022	**9,837,270**	**92,399**	**683,774**	**779,414**	**—**	**58,855**	**11,451,712**	**2,652,410**
RWA by Exposure	**1,534,034**	**61,924**	**219,538**	**779,350**	**—**	**57,564**		**2,652,410**
Average Risk Weight	**15.594%**	**67.019 %**	**32.107 %**	**99.992 %**	**—**	**97.806 %**		**23.162 %**
Deduction from Capital Base	**—**	**—**	**—**	**—**	**—**	**—**		
31.12.2021								
0%	5,372,852	—	—	—	—	1,038	5,373,890	—
20%	—	—	181,022	—	—	—	181,022	36,204
35%	—	—	—	—	28	—	28	10
50%	—	67,013	141,369	5,763	—	—	214,145	107,072
100%	—	5,045	—	514,256	—	39,370	558,671	558,671
150%	—	—	—	983	—	—	983	1,475
Total as at 31 December 2021	5,372,852	72,058	322,391	521,002	28	40,408	6,328,739	703,432
RWA by Exposure	—	38,552	106,889	518,611	10	39,370		703,432
Average Risk Weight	0.000%	53.501 %	33.155 %	99.541 %	35.714 %	97.431 %		11.115 %
Deduction from Capital Base	—	—	—	—	—	—		

b. Breakdown of Credit Risk Exposures by ECAI Ratings

Table 6.5: Sovereigns / Central Bank Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
	Total	1	2	3	4	5	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2022	**9,837,270**	**—**	**9,837,270**	**—**	**—**	**—**	**—**
31.12.2021	5,372,852	5,372,852	—	—	—	—	—

Table 6.6: Insurance Cos, Securities Firms & Fund Managers Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	
	Total	1	2	3	4	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2022	**121,863**	**—**	**90,413**	**—**	**—**	**31,450**
31.12.2021	72,058	—	67,013	—	—	5,045

Table 6.7: Banks, DFIs and MDBs Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	
	Total	1	2	3	4	5	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2022	**794,019**	**229,964**	**489,331**	**53,154**	**—**	**—**	**21,570**
31.12.2021	322,391	121,082	161,602	23,241	—	—	16,466

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Table 6.8: Corporate Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	
	Total	1	2	3	4	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2022	**779,924**	**—**	**—**	**—**	**—**	**779,924**
31.12.2021	524,962	—	—	—	—	524,962

4.2.4 Credit Risk Mitigation

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

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

On and Off-Balance Sheet Netting

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

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

The Bank has not employed on balance sheet netting to mitigate its credit exposures as of 31 December 2022.

Collateralised Transactions

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

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

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

Collateral qualifies as CRM for regulatory capital purposes if:-

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

Guarantees and Credit Default Protection

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

As at 31 December 2022, the Bank had not entered into any credit derivative transactions for credit default protection.

Risk Concentrations

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

There is no material concentration of credit risk mitigation held as at 31 December 2022.

Credit Risk Mitigation under Comprehensive Approach

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

Table 7.1: Credit Risk Mitigation as at 31 December 2022

Credit Risk Exposures	Gross Exposures/ ^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
31.12.2022	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	**9,837,270**	—	—	—
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	**178,187**	—	—	—
Insurance Cos, Securities Firms & Fund Managers	—	—	—	—
Corporates	**538,229**	—	—	—
Residential Mortgages	—	—	—	—
Other Assets	**58,855**	—	—	—
Defaulted Exposures	**129**	—	—	—
Total On-Balance Sheet Exposures	**10,612,670**	—	—	—
Off-Balance Sheet Exposures:				
OTC Derivatives	**795,626**	—	**275,483**	—
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	**183,635**	—	**510**	—
Total Off-Balance Sheet Exposures	**979,261**	—	**275,993**	—
Total On and Off-Balance Sheet Exposures	**11,591,931**	—	**275,993**	—

Table 7.2: Credit Risk Mitigation as at 31 December 2021

Credit Risk Exposures	Gross Exposures/ ^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
31.12.2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	5,372,852	—	—	—
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	80,297	—	—	—
Insurance Cos, Securities Firms & Fund Managers	1,007	—	—	—
Corporates	279,101	—	—	—
Residential Mortgages	28	—	—	—
Other Assets	40,408	—	—	—
Defaulted Exposures	6,745	—	—	—
Total On-Balance Sheet Exposures	**5,780,438**	**—**	**—**	**—**
Off-Balance Sheet Exposures:				
OTC Derivatives	378,654	—	—	—
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	173,607	—	3,960	—
Total Off-Balance Sheet Exposures	**552,261**	**—**	**3,960**	**—**
Total On and Off-Balance Sheet Exposures	**6,332,699**	**—**	**3,960**	**—**

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

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

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

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

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

Collateral for Traded Products

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

Collateral Reserves and Credit Ratings Downgrade

As at 31 December 2022, the Bank only accepts or post cash deposits as collateral to derivatives transactions, and does not hold or post any securities as collateral. There is no implication to the collateral value to be posted in the event of credit ratings downgrade, and as such no credit reserves are created for exposures which are secured in such manner.

Table 8.1: Off-Balance Sheet Exposures

Off-Balance Sheet Exposures	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount*	RWA
	RM'000	RM'000	RM'000	RM'000
31.12.2022				
Direct Credit Substitutes [1]	**102,454**	**—**	**102,454**	**99,246**
Transaction Related Contingent Items [2]	**158,142**	**—**	**79,071**	**78,150**
Short Term Self Liquidating Trade-Related Contingencies[3]	**10,547**	**—**	**2,110**	**2,109**
Foreign Exchange Related Contracts				
One Year or Less	**20,950,854**	**107,268**	**198,645**	**109,131**
Over One Year to Five Years	**—**	**—**	**—**	**—**
Interest/Profit Related Contracts				
One Year or Less	**5,961,000**	**18,489**	**24,778**	**11,909**
Over One Year to Five Years	**13,603,590**	**104,091**	**293,143**	**117,659**
Over Five Years	**107,000**	**337**	**3,577**	**1,789**
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	**24,278,001**	**156,744**	**275,483**	**66,888**
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	**757,591**	**—**	**—**	**—**
Total as at 31 December 2022	**65,929,179**	**386,929**	**979,261**	**486,881**
31.12.2021				
Direct Credit Substitutes [1]	135,846	—	134,991	131,391
Transaction Related Contingent Items [2]	69,048	—	34,274	33,035
Short Term Self Liquidating Trade-Related Contingencies[3]	18,470	—	3,671	3,671
Foreign Exchange Related Contracts				
One Year or Less	13,275,858	43,416	148,340	93,393
Over One Year to Five Years	—	—	—	—
Interest/Profit Related Contracts				
One Year or Less	11,319,000	8,193	16,542	6,503
Over One Year to Five Years	10,932,500	45,245	202,289	86,147
Over Five Years	250,050	371	11,483	9,053
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	699,248	—	—	—
Total as at 31 December 2021	36,701,369	97,225	552,261	363,528

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

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

4.3 Market Risk

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities or otherwise negatively impact earnings of BAMB. Market risk is inherent in the financial instruments associated with the operations and activities engaged by BAMB and its market risk exposures are primarily in its trading portfolio.

The key market risk exposures are assessed at both aggregate and at the specific asset and liability level. At the asset and liability level, we assess market risk by evaluating the impact of individual risk factors on individual exposures such as interest rates and foreign exchange risk. At the aggregate level, BAMB's market risk is assessed using two key measures which are Value-at-Risk ("VaR") and Stressed Value At Risk ("SVaR").

4.3.1 Market Risk Management Architecture

Market Risk Management function operates independently of the business to maintain objectivity. Its responsibilities include the overall measurement and monitoring of market risk.

4.3.2 Market Risk Management Control, Reporting and Oversight of Senior Management

BAMB’s market risk is primarily managed through setting and active monitoring of market risk limits. Market risk limits provide thresholds that may not be exceeded without appropriate approval. Board and Senior Management approved limit structure is in place. Approval process is also in place to address temporary limit increases in accordance with delegated authorities.

Key market risk limits in BAMB are VaR and SVaR. In addition, individual market risk factor controls such as foreign exchange net open position and dollar value of one basis point limits may also be implemented when deemed appropriate.

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

Table 9.1: RWA and Capital Requirements for Market Risk

	31.12.2022	31.12.2021
	RM’000	RM’000
Total RWA for Market Risk	**830,028**	786,586
Capital Required for Market Risk	**66,402**	62,927
Minimum Capital Requirement at 8% for:		
Foreign Exchange Risk	**14,541**	21,973
Interest Rate Risk	**51,861**	40,954

4.4 Operational Risk

BAMB has adopted the Basel Committee definition of operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. An operational loss event can be associated with any of the following seven Basel II operational loss event categories: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and system failures and execution, delivery and process management.

Operational Risk Capital

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

Governance and Organization Structures

Operational risk is managed by all employees as part of our day-to-day activities. Front line units and control functions own operational risk and are responsible for monitoring, assessing and testing the effectiveness of controls, while continuing to identify, escalate, debate and report operational risks. Front line units/control functions may have business oversight or control teams that support business leaders in the implementation of the program.

The Operational Risk management function is independent of front line unit/control function management, and consists of:

- The Program Owners, which is responsible for designing the program and overseeing its implementation and execution in accordance with the Policy and its supporting Standards;
- Group Compliance and Operational Risk Teams which are responsible for objectively assessing, challenging and advising the front line units/control functions on operational risk;
- Governance of BAMB's operational risk is accomplished through formal oversight by the Board, the Chief Risk Officer (CRO), Country Compliance Officer (CCO) and through LMT and risk oversight groups aligned to the BAC's overall risk governance framework and practices.

Table 10.1: RWA and Capital Requirements for Operational Risk

	31.12.2022	31.12.2021
	RM'000	RM'000
Total RWA for Operational Risk	**376,309**	306,833
Capital Required for Operational Risk	**30,105**	24,547

4.4.1 Local Operational Risk Management Framework

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

4.5 Equity Exposures in the Banking Book

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

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

(a) Equity Investments by Type

Table 11.1: Holdings of Equity Investments by Type

	31.12.2022		31.12.2021	
	Gross Credit Exposure	Weighted Assets	Gross Credit Exposure	Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Privately Held Shares for Socio-Economic Purpose	**2,969**	**2,969**	2,969	2,969

(b) Cumulative Realised Gains/(Losses)

Table 11.2: Realised Gains/(Losses) from Sale of Equity Holdings

	31.12.2022	31.12.2021
	RM'000	RM'000
Realised gains recognised in profit and loss		
Privately Held Shares for Socio-Economic Purpose	—	—

(c) Unrealised Gains/(Losses)

Table 11.3: Unrealised Gains/(Losses) from Sale of Equity Holdings

	31.12.2022	31.12.2021
	RM'000	RM'000
Recognised in Other Comprehensive Income		
Privately Held Shares for Socio-Economic Purpose	—	—

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

IRRBB represents the risk to current or anticipated earnings or capital arising from the banking book arising from movements in interest rates.

IRRBB is measured with two complementary frameworks - Earnings at Risk (EaR) and Economic Value of Equity (EVE). Changes in interest rates affect BAMB's earnings and capital by impacting its projection of Earnings at Risk ("EaR") and the underlying economic value of its assets, liabilities and off-balance sheet items (economic value of equity ("EVE")). Changes in economic value occur because the present value of future cash flows and in many cases the cash flows themselves, change when interest rates change.

The Bank measures EaR by evaluating the gain or loss on interest rate sensitive positions as a result of different interest rate environments. The EaR measure takes into account a constant one-year balance sheet horizon and the projected forward path of interest rates.

The EVE framework measures long-term Interest Rate Risk by incorporating both interest and principal cash flows and extends the measurement horizon up to thirty years. The EVE metric computes the change in the balance sheet's present value of the remaining life in a run-off view, measuring how different interest rate environments impact the company due to variations in the economic value of assets, liabilities and derivatives and their associated principal and interest cash flows.

The disclosure of IRRBB below is as at 31 December 2022 is as calculated in accordance with BNM Policy Document (BNM/RH/STD 029-43) issued on 30 June 2020. This policy document comes into effect on 1 January 2021 and reported monthly.

Table 12.1: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2022

	Scenario	MYR	USD	SGD	FCY (Others)	TOTAL
		RM'000	RM'000	RM'000	RM'000	RM'000
Economic Value Impact	Parallel 250 bps up	39,576	153,849	1,238	857	195,521
	Parallel 200 bps up	31,661	123,079	991	685	156,416
	Parallel 150 bps up	23,746	92,310	743	514	117,312
	Steepener	(17,431)	(56,701)	(308)	(292)	(74,732)
	Flattener	17,141	84,394	457	446	102,439
	Short Rate Up	28,318	127,073	686	686	156,762
	Short Rate Down	(28,318)	(127,073)	(686)	(686)	(156,762)
Earnings at Risk	Parallel 250 bps up	21,414	125,682	(274)	1,356	148,178
	Parallel 200 bps up	17,131	100,546	(219)	1,085	118,543
	Parallel 150 bps up	12,848	75,409	(164)	813	88,907

Table 12.2: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2021

	Scenario	MYR	USD	SGD	FCY (Others)	TOTAL
		RM'000	RM'000	RM'000	RM'000	RM'000
Economic Value Impact	Parallel 250 bps up	39,365	85,954	230	463	126,012
	Parallel 200 bps up	31,492	68,763	184	371	100,810
	Parallel 150 bps up	23,619	51,572	138	278	75,607
	Steepener	(18,094)	(31,909)	(57)	(173)	(50,233)
	Flattener	17,688	47,381	85	257	65,410
	Short Rate Up	28,761	71,204	127	385	100,477
	Short Rate Down	(28,761)	(71,204)	(127)	(385)	(100,477)
Earnings at Risk	Parallel 250 bps up	87,442	5,611	(72)	(145)	92,836
	Parallel 200 bps up	69,953	4,489	(57)	(116)	74,269
	Parallel 150 bps up	52,465	3,367	(43)	(87)	55,702

Roles Accountabilities and Process Owners

In line with the Enterprise Interest Rate Risk Policy, the risk management process for IRRBB is adequately separated as follows:

The governance and oversight for IRRBB in BAMB is the responsibility of the ALCO and senior management while the day-to-day management of IRRBB is the responsibility of the Treasurer, who reports functionally into the regional Treasurer. A separate team within Treasury, Balance Sheet Management (BSM), has the regional responsibility to support the Treasurer by measuring IRRBB.

Global Markets and Financial Risk (GMFR) provides a second line of defense for BAMB. GMFR oversees related governance structures, policies and limits, assessing the reasonableness of BSM's and Treasury's key IRRBB assumptions, scenarios and measurements results, while ensuring effective escalation of issues, risks and limit breaches to Governance Committees, as necessary.

BAMB manages its IRRBB on a centralised basis in order to remove this control function from individual Businesses.