Bank of America Malaysia Berhad

Pillar 3 Disclosures

As at 31 December 2016

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 2016, prepared in accordance with the requirements of Bank Negara Malaysia's Guideline on Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) are accurate, complete and not misleading.

RAYMOND YEOH CHENG SEONG

Chief Executive Officer

Contents

1. Scope of Application

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

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

2. Capital Adequacy

2.1 Capital Management

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

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

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

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

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

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

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

The total capital and capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel-II Risk-Weighted Assets) guidelines issued on 13 October 2015.

Table 1.1: Capital Ratios

	31.12.2016	31.12.2015
CET I Capital Ratio	**44.721%**	31.276 %
Tier I Capital Ratio	**44.721%**	31.276 %
Total Capital Ratio	**45.210%**	31.467 %

Table 1.2: Capital Adequacy Requirements

	CET I Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
31.12.2016	**5.125%**	**6.625%**	**8.625%**
31.12.2015	4.500 %	6.000 %	8.000 %

The minimum regulatory capital adequacy requirements as of 31 December 2016 stated above include capital conservation and counter-cyclical buffers, phased-in from calendar year 2016 onwards. Under the transition arrangements, capital conservation buffer will be phased-in as follows:

Table 1.3: Capital Conservation Buffer

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

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

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

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

Table 2.1: Exposures as at 31 December 2016

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%
31.12.2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	1,537,212	1,537,212	-	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral	165,647	165,647	33,129	-	33,129	2,650

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%
31.12.2016	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Development Banks ("MDBs")						
Insurance Cos, Securities Firms & Fund Managers	3,120	3,120	1,798	-	1,798	144
Corporates	335,920	335,920	335,920	-	335,920	26,874
Residential Mortgages	396	396	199	-	199	16
Other Assets	17,418	17,418	15,221	-	15,221	1,218
Defaulted Exposures	18	18	18	-	18	1
Total On-Balance Sheet Exposures	2,059,731	2,059,731	386,285	-	386,285	30,903
Off-Balance Sheet Exposures:						
OTC Derivatives	287,722	287,722	155,504	-	155,504	12,440
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	199,157	198,157	188,915	-	188,915	15,113
Total Off-Balance Sheet Exposures	486,879	485,879	344,419	-	344,419	27,553
Total On and Off-Balance Sheet Exposures	2,546,610	2,545,610	730,704	-	730,704	58,456
Market Risk	Long Position	Short Position				
Foreign currency	7,774	39,140	39,140	-	39,140	3,131
Interest rate			336,670	-	336,670	26,934
Total Market Risk Exposure			375,810	-	375,810	30,065
Total Operational Risk Exposure			185,024	-	185,024	14,802
Total RWA and Capital Requirements			1,291,538	-	1,291,538	103,323

Table 2.2: Exposures as at 31 December 2015

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 %
31.12.2015	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	1,168,065	1,168,065	-	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	315,372	315,372	63,075	-	63,075	5,046
Insurance Cos, Securities Firms & Fund Managers	919	919	919	-	919	74

Exposure Class	Gross Exposures/^EAD before #CRM	Net Exposures/^EAD after #CRM	RWA	RWA absorbed by *PSIA	Total RWA after effects of PSIA	Minimum Capital Requirement at 8 %
Corporates	368,784	368,784	368,784	-	368,784	29,503
Residential Mortgages	455	455	253	-	253	20
Other Assets	12,700	12,700	11,596	-	11,596	928
Defaulted Exposures	58	58	54	-	54	4
Total On-Balance Sheet Exposures	1,866,353	1,866,353	444,681		444,681	35,575
Off-Balance Sheet Exposures:						
OTC Derivatives	469,558	469,558	234,966	-	234,966	18,797
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	230,802	230,802	217,445	-	217,445	17,396
Total Off-Balance Sheet Exposures	700,360	700,360	452,411	-	452,411	36,193
Total On and Off-Balance Sheet Exposures	2,566,713	2,566,713	897,092	-	897,092	71,768
Market Risk	Long Position	Short Position				
Foreign currency	253,556	-	253,556	-	253,556	20,284
Interest rate			431,818	-	431,818	34,545
Total Market Risk Exposure			685,374	-	685,374	54,829
Total Operational Risk Exposure			165,725	-	165,725	13,258
Total RWA and Capital Requirements			1,748,191	-	1,748,191	139,855

3. Capital Structure

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

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

There is no obligation to pay dividend to ordinary shareholders. No dividend has been paid or proposed for the financial period ending 31 December 2016.

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

	31.12.2016 RM'000	31.12.2015 RM'000
CET I Capital		
Share Capital	**135,800**	135,800
Retained Profits	**300,607**	270,034
Other Disclosed Reserves:		
Statutory Reserves	**141,446**	141,446
Unrealised gains and losses on available-for-sale financial instruments	**1,047**	1,047
	578,900	548,327
Less: Regulatory Adjustments		
Deferred Tax Assets	**(742)**	(993)
55% of Cumulative Gains of Available-For-Sale Financial Instruments	**(576)**	(576)
Total CET I and Tier I Capital	**577,582**	546,758
Tier II Capital		
Collective Assessment Allowance*	**6,326**	2,000
Regulatory reserve	**-**	1,337
Total Tier II Capital	**6,326**	3,337
Total Capital	**583,908**	550,095

* Excludes collective assessment allowance on impaired loans restricted from Tier II Capital of BAMB of RM5,964 (31.12.2015: RM24,468).

4. Risk Management

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

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

4.1 BAMB's Risk Management Framework

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

- **Risk Culture**: A strong risk culture promotes the consideration of risk in all activities. It encourages the necessary mindset and behavior to enable effective risk management and promote sound risk taking within our risk appetite. Individual accountability is the cornerstone of our risk culture. BAMB risk culture requires that risk are promptly identified, escalated and debated thereby benefiting the overall performance of the Company;

- **Risk Capacity**: The Risk Taking Capacity collectively defines the aggregate level and types of risk BAMB is willing to accept in order to achieve its business objectives. It includes qualitative statements and quantitative measures, as appropriate.
- **Risk Governance**: Risk governance framework serves as the foundation for the comprehensive management of risks facing the Company. It outlines, among other things, clear ownership and accountability for managing risk across three lines of defense: front line units, independent risk management and Corporate Audit.;
- **Risk Data Management, Aggregation and Reporting**: Effective risk reporting provides a clear understanding of BAMB's risk profile. We leverage data and management information systems to achieve transparency and generate actionable insights; and
- **Risk Management Processes**: Sound risk management includes processes to effectively identify, measure, monitor and control risk. Risk management is both an essential component of BAMB daily business activities and an integral part of BAMB's strategic, capital and financial planning processes.

4.1.1 BAMB Risk Taking Capacity

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

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

Governance Processes and Controls

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

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

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

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

- Escalation to the BAMB Chief Executive Officer (CEO) and BAMB Country Risk Officer (CRO) shall occur as soon as practically possible.

- The BAMB CRO will notify the LMT of the breach. Depending on the materiality of the breach, an ad-hoc LMT meeting will be convened as soon as practically possible to discuss remediation steps. Based on the materiality of the breach, LMT will determine if it should be escalated to the Board.
- A temporary limit increase may be approved by the CEO and CRO if considered appropriate. This will be presented and approved at the next BAMB Board of Directors 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 of Directors at each Board meeting until they are successfully remediated.

4.1.2 Risk Management Structure

All BAMB employees are responsible for the below risk management:

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

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

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

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

4.1.3 Risk Management Process

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

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

4.2 Credit Risk

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

Wholesale Credit Officer perform due diligence comprising analysis of credit risk and preparation of approval memorandum including Risk Rating, identification of Sources of Repayment and Credit Risks, recommendation of facilities (including traded products with potential credit exposures) with required terms and conditions. The onshore Wholesale Credit Officer and Risk Officers have delegated authorities as BAMB credit risk approvers. The Wholesale Credit Officer and Risk Officer approvals are provided in line with the Bank's Global Corporate / Financial Institution Credit Approval Grid. While escalation of approvals may occur to regional or global officers, all credit actions require sign-off from the onshore BAMB CCR or FICR officer as well, without which these credit actions are not considered approved.

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

- Lending exposure to clients and takes the form of uncommitted and/or committed exposures.
- Funded and unfunded exposures to clients under Trade Financing facilities.
- Counterparty credit risk exposures arising from FX and interest rate hedging activities.
- Holding of debt securities issued by governments, corporates or financial institutions.
- Due from placements or Repo transactions with financial institutions.
- Global Vendor Financing

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

Credit Risk Taking Capacity

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

BAMB's credit portfolio as of 31 December 2016 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. Client selection is considered sound and credit exposure benefits from offshore parent support.

Credit Concentration Risk

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

Credit Portfolio Management

Once credit has been extended, the credit risk exposures are monitored at both the individual and portfolio levels, as well as to actively manage the portfolio to ensure that it fits the desired risk and return goals.

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

Wholesale Credit, as well as supporting units, are responsible for the ongoing management and administration of credit risk at the borrower level by:

- Monitoring borrower risk ratings on an ongoing basis, and if necessary, adjusting to reflect changes in the financial condition, cash flow, risk profile or outlook of a borrower or counterparty;
- Monitoring performance by updating the customer analysis and reviewing periodically;
- Monitoring collateral;
- Undertaking periodic portfolio reviews to ensure management is aware of borrower specific trends for a given portfolio;
- Recognizing developing problems and promptly bringing them to the attention of management;
- Recommending exposure management measures;

- Taking prompt corrective action on past due and non-accrual loans; and
- Maintaining proper credit file documentation and determining compliance with all loan covenants periodically.

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

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

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

Past Due Loans, Advances and Financing

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

Impaired Loans, Advances and Financing

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

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

- the principal or interest or both is past due for 3 months or more;
- the amount outstanding has been in excess of the approved limit for 3 months or more;
- where the amount is past due, or amount outstanding has been in excess of the approved limit for less than 3 months, the loan/financing exhibits weaknesses that render a classification appropriate according to the Bank's credit risk grading framework; or
- where repayments are scheduled on intervals of 3 months or longer, as soon as a default occurs, unless it does not exhibit any weakness that would render it classified according to the Bank's credit risk grading framework.

Individual and Collective Impairment Provisions

- The Bank first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant.
- If the Bank determines that no objective evidence of impairment exists for an individually assessed loans and advances, whether significant or not, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assesses them for impairment.
- If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans and advances' carrying amount and the present value of estimated future

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

- For the purposes of a collective evaluation of impairment, loans and advances are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.
- Future cash flows in a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.
- The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.
- If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.
- When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss.

4.2.1 Breakdown of Gross Credit Exposures

(a) By Geographical Distribution

Table 4.1: Exposures by Geographical Distribution

Category	Malaysia	United States	Singapore	United Kingdom	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2016						
Sovereign/Central Banks	1,537,212	-	-	-	-	1,537,212
Banks, DFIs, and MDBs	249,605	33,542	3,774	20,544	110,132	417,597
Insurance Cos, Securities Firms & Fund Managers	35,520	-	46	2,700	-	38,266
Corporates	535,648	40	17	-	-	535,705
Residential Mortgages	396	-	-	-	-	396
Other Assets	17,416	-	-	-	-	17,416
Defaulted Exposures	18	-	-	-	-	18
Total as at 31 December 2016	**2,375,815**	**33,582**	**3,837**	**23,244**	**110,132**	**2,546,610**

Category	Malaysia RM'000	United States RM'000	Singapore RM'000	United Kingdom RM'000	Others RM'000	Total RM'000
31.12.2015						
Sovereign/Central Banks	1,168,065	-	-	-	-	1,168,065
Banks, DFIs, and MDBs	675,552	51,724	3,182	19,253	3,710	753,421
Insurance Cos, Securities Firms & Fund Managers	35,103	15	-	24	-	35,142
Corporates	596,656	36	4	-	172	596,868
Residential Mortgages	459	-	-	-	-	459
Other Assets	12,700	-	-	-	-	12,700
Defaulted Exposures	58	-	-	-	-	58
Total as at 31 December 2015	2,488,593	51,775	3,186	19,277	3,882	2,566,713

(b) By Sector Distribution

Table 4.2: Exposures by Sector Distribution

Category	Finance, Insurance and Business Services	Government & Government Agencies	Manufacturing	General Commerce	Mining & Quarrying	Construction	Education, Health and Others	Transport, Storage and Communication	Purchase of Residential Landed Property, Securities, and Transport Vehicles	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		RM'000	RM'000	RM'000
31.12.2016											
Sovereign/Central Banks	**-**	**1,537,212**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,537,212**
Banks, DFIs, and MDBs	**417,597**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**417,597**
Insurance Cos, Securities Firms & Fund Managers	**38,266**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38,266**
Corporates	**76,892**	**1,590**	**341,022**	**12,130**	**76,446**	**16,555**	**2,018**	**9,052**	**-**	**-**	**535,705**
Residential Mortgages	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**396**	**-**	**396**
Other Assets	**16,437**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**954**	**25**	**17,416**
Defaulted Exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18**	**-**	**18**
Total as at 31 December 2016	**549,192**	**1,538,802**	**341,022**	**12,130**	**76,446**	**16,555**	**2,018**	**9,052**	**1,368**	**25**	**2,546,610**
31.12.2015											
Sovereign/Central Banks	-	1,168,065	-	-	-	-	-	-	-	-	1,168,065
Banks, DFIs, and MDBs	753,421	-	-	-	-	-	-	-	-	-	753,421
Insurance Cos, Securities Firms & Fund Managers	35,142	-	-	-	-	-	-	-	-	-	35,142
Corporates	141,767	1,590	222,426	90,842	87,278	14,519	38,446	-	-	-	596,868
Residential Mortgages	-	-	-	-	-	-	-	-	459	-	459
Other Assets	11,454	-	-	-	-	-	-	-	1,145	101	12,700

Defaulted Exposures	-	-	-	-	-	-	-	-	58	-	58
Total as at 31 December 2015	941,784	1,169,655	222,426	90,842	87,278	14,519	38,446	-	1,662	101	2,566,713

(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
31.12.2016				
Sovereign/Central Banks	**1,537,197**	**-**	**15**	**1,537,212**
Banks, DFIs, and MDBs	**303,587**	**100,564**	**13,446**	**417,597**
Insurance Cos, Securities Firms & Fund Managers	**38,266**	**-**	**-**	**38,266**
Corporates	**480,920**	**54,785**	**-**	**535,705**
Residential Mortgages	**-**	**396**	**-**	**396**
Other Assets	**16,456**	**53**	**907**	**17,416**
Defaulted Exposures	**17**	**1**	**-**	**18**
Total as at 31 December 2016	**2,376,443**	**155,799**	**14,368**	**2,546,610**
31.12.2015				
Sovereign/Central Banks	1,167,677	373	15	1,168,065
Banks, DFIs, and MDBs	578,547	159,175	15,699	753,421
Insurance Cos, Securities Firms & Fund Managers	7,193	27,949	-	35,142
Corporates	571,625	25,243	-	596,868
Residential Mortgages	51	117	291	459
Other Assets	11,488	237	975	12,700
Defaulted Exposures	-	58	-	58
Total as at 31 December 2015	2,336,581	213,152	16,980	2,566,713

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

	31.12.2016 RM'000	31.12.2015 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**53**	141
Total Gross Impaired Loans, Advances and Financing	**53**	141
Gross Impaired Loans as a % of Gross Loans, Advances and Financing	**0.02%**	0.05%

(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

	31.12.2016 RM'000	31.12.2015 RM'000
Malaysia		
Finance, insurance, real estate and business activities	**-**	32
Purchase of Residential Landed Property, Securities and Transport Vehicles	**395**	203
Total Gross Loans, Advances and Financing Past Due by Not Impaired	**395**	235

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

Table 5.3: Individual Assessment Allowance by Sector and Geographical Area

	31.12.2016 RM'000	31.12.2015 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**35**	83
Total Individual Assessment Allowance	**35**	83

Table 5.4: Collective Assessment Allowance by Sector and Geographical Area

Category	Malaysia RM'000	Total RM'000
31.12.2016		
Finance, Insurance and Business Services	**89**	**89**
General Commerce	**-**	**-**
Manufacturing	**2,268**	**2,268**
Mining and Quarrying	**3,855**	**3,855**
Education, Health and Others	**60**	**60**
Construction	**14**	**14**
Purchase of Residential Landed Property, Securities and Transport Vehicles	**14**	**14**
Transport, storage, and communication	**31**	**31**
Government & Government Agencies	**1**	**1**
Total Collective Assessment Allowance as at 31 December 2016	**6,332**	**6,332**
31.12.2015		
Finance, Insurance and Business Services	27	27
General Commerce	1,188	1,188
Manufacturing	44	44
Mining and Quarrying	544	544
Education, Health and Others	183	183
Construction	12	12
Purchase of Residential Landed Property, Securities and Transport Vehicles	27	27
Total Collective Assessment Allowance as at 31 December 2015	2,025	2,025

(d) Movement in Individual Assessment Allowance by Sector

Table 5.5: Movement in Individual Assessment Allowance by Sector

	Purchase of Residential Landed Property, Securities and Transport Vehicles	Total
	RM'000	RM'000
In Malaysia		
At 1 January 2016	**83**	**83**
Amount No Longer Required, Written Back	**(49)**	**(49)**
At 31 December 2016	**35**	**35**
In Malaysia		
At 1 January 2015	205	205
Amount No Longer Required, Written Back	(122)	(122)
At 31 December 2015	83	83

(e) Reconciliation of Changes in Loan Impairment Provisions

Table 5.6: Reconciliation of Changes in Loan Impairment Provisions

	31.12.2016 RM'000	31.12.2015 RM'000
Individual Assessment Allowance		
Opening Balance	**83**	205
Write Back Made During the period	**(49)**	(122)
Closing Balance	**35**	83
Collective Assessment Allowance		
Opening Balance	**2,025**	1,176
Allowance Made During the period	**4,307**	849
Closing Balance	**6,332**	2,025

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

(a) Breakdown of Credit Risk Exposures by Risk Weights

Table 6.4: Exposures by Risk Weights

Risk Weights	Exposures After Netting and Credit Risk Mitigation (RM'000)							
	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
31.12.2016								
0%	**1,537,212**	**-**	**-**	**-**	**-**	**2,195**	**1,539,407**	**-**
20%	**-**	**-**	**217,293**	**-**	**-**	**-**	**217,293**	**43,459**
35%	**-**	**-**	**-**	**-**	**193**	**-**	**193**	**68**
50%	**-**	**2,700**	**200,237**	**-**	**83**	**-**	**203,020**	**101,510**
75%	**-**	**-**	**-**	**-**	**120**	**-**	**120**	**90**
100%	**-**	**35,566**	**67**	**534,705**	**18**	**15,221**	**585,577**	**585,577**
Total as at 31 December 2016	**1,537,212**	**38,266**	**417,597**	**534,705**	**414**	**17,416**	**2,545,610**	**730,704**
RWA by Exposure	**-**	**36,916**	**143,644**	**534,705**	**218**	**15,221**		**730,704**
Average Risk Weight	**0.000%**	**96.472%**	**34.398%**	**100.000%**	**52.657%**	**87.397%**		**28.704%**
Deduction from Capital Base	**-**	**-**	**-**	**-**	**-**	**-**		
31.12.2015								
0%	1,168,065	-	-	-	-	1,104	1,169,169	-
20%	-	-	411,814	-	-	-	411,814	82,363
35%	-	-	-	-	205	-	205	72
50%	-	24	341,561	-	42	-	341,627	170,814
75%	-	-	-	-	219	-	219	164
100%	-	35,118	46	596,868	51	11,596	643,679	643,679
Total as at 31 December 2015	1,168,065	35,142	753,421	596,868	517	12,700	2,566,713	897,092
RWA by Exposure	-	35,130	253,190	596,868	308	11,596		897,092
Average Risk Weight	0.000%	99.966%	33.605%	100.000%	59.574%	91.307%		34.951%
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
31.12.2016	**1,537,212**	**1,537,212**	**-**	**-**	**-**	**-**	**-**
31.12.2015	1,168,065	1,168,065	-	-	-	-	-

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
31.12.2016	**38,266**	**-**	**2,700**	**-**	**-**	**35,566**
31.12.2015	35,142	-	24	-	-	35,118

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
31.12.2016	**417,597**	**149,250**	**162,465**	**104,181**	**66**	**-**	**1,635**
31.12.2015	753,421	257,576	416,500	78,226	45	-	1,074

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
31.12.2016	**535,705**	**-**	**-**	**1,590**	**-**	**534,115**
31.12.2015	596,868	-	-	1,590	-	595,278

4.2.4 Credit Risk Mitigation

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

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

On and Off-Balance Sheet Netting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.
For derivatives counterparties, the Bank enters into master netting arrangements, which provide the Bank, in the event of a customer default, the right to offset the counterparty's rights and obligations.

The Bank has not employed on or off-balance sheet netting to mitigate its credit exposures as of 31 December 2016.

Collateralised Transactions

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

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

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

Collateral qualifies as CRM for regulatory capital purposes if:-

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

Guarantees and Credit Default Protection

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

As at 31 December 2016, 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 2016.

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 2016

Credit Risk Exposures	Gross Exposures/^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
31.12.2016	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	1,537,212	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	165,647	-	-	-
Insurance Cos, Securities Firms & Fund Managers	3,120	-	-	-
Corporates	335,920	-	-	-
Residential Mortgages	396	-	-	-
Other Assets	17,418	-	-	-
Defaulted Exposures	18	-	-	-
Total On-Balance Sheet Exposures	2,059,731	-	-	-
Off-Balance Sheet Exposures:				
OTC Derivatives	287,722	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	199,157	-	1,000	-
Total Off-Balance Sheet Exposures	486,879	-	1,000	-
Total On and Off-Balance Sheet Exposures	2,546,610	-	1,000	-

Table 7.2: Credit Risk Mitigation as at 31 December 2015

Credit Risk Exposures	Gross Exposures/^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
31.12.2015	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	1,168,065	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	315,372	-	-	-
Insurance Cos, Securities Firms & Fund Managers	919	-	-	-
Corporates	368,784	-	-	-
Residential Mortgages	455	-	-	-
Other Assets	12,700	-	-	-
Defaulted Exposures	58	-	-	-
Total On-Balance Sheet Exposures	1,866,353	-	-	-
Off-Balance Sheet Exposures:				
OTC Derivatives	469,558	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	230,802	-	-	-
Total Off-Balance Sheet Exposures	700,360	-	-	-
Total On and Off-Balance Sheet Exposures	2,566,713	-	-	-

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

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

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

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

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

Collateral for Traded Products
Collateralisation is one of the key credit risk mitigation techniques available in the privately negotiated OTC Derivatives market. When facing derivative counterparties, the Bank, in appropriate circumstances, enters into collateral arrangements which provide the Bank, in the event of a customer default, the right to liquidate collateral.

The Bank also monitors the fair market value of the underlying securities used as collateral, including accrued interest, and, as necessary, requests additional collateral to ensure that the relevant transactions are adequately collateralized.

Collateral Reserves and Credit Ratings Downgrade
As at 31 December 2016, 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
31.12.2016				
Direct Credit Substitutes [1]	**75,498**	**-**	**75,498**	**70,666**
Transaction Related Contingent Items [2]	**50,387**	**-**	**25,194**	**19,783**
Short Term Self Liquidating Trade-Related Contingencies[3]	**3,318**	**-**	**664**	**664**
Foreign Exchange Related Contracts				
One Year or Less	**5,905,834**	**117,109**	**179,111**	**112,589**
Over One Year to Five Years	**-**	**-**	**-**	**-**
Interest/Profit Related Contracts				
One Year or Less	**1,823,368**	**(261)**	**1,668**	**821**
Over One Year to Five Years	**7,093,099**	**9,855**	**93,754**	**35,752**
Over Five Years	**187,500**	**913**	**13,189**	**6,344**
Other commitments such as formal standby facilities and credit lines, with an original maturity of up to one year	**488,994**	**-**	**97,799**	**97,799**
Other commitments such as formal standby facilities and credit lines, with an original maturity of over one year	**3**	**-**	**2**	**1**
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**1,271**	**-**	**-**	**-**
Total as at 31 December 2016	**15,629,272**	**127,616**	**486,879**	**344,419**
31.12.2015				
Direct Credit Substitutes [1]	69,374	-	69,374	60,910
Transaction Related Contingent Items [2]	114,602	-	57,301	52,410
Short Term Self Liquidating Trade-Related Contingencies[3]	401	-	80	80
Foreign Exchange Related Contracts				
One Year or Less	11,098,999	139,561	231,447	117,459
Over One Year to Five Years	136,196	20,222	27,030	27,030
Interest/Profit Related Contracts				
One Year or Less	6,378,230	30,612	38,003	18,556
Over One Year to Five Years	9,397,632	(1,377)	157,379	64,315
Over Five Years	187,500	2,251	15,699	7,606
Other commitments such as formal standby facilities and credit lines, with an original maturity of up to one year	520,217	-	104,043	104,043
Other commitments such as formal standby facilities and credit lines, with an original maturity of over one year	8	-	4	2
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	1,131	-	-	-

Off-Balance Sheet Exposures	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount* RM'000	RWA RM'000
Total as at 31 December 2015	27,904,290	191,269	700,360	452,411

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

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

4.3 Market Risk

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

4.3.1 Market Risk Management Architecture, Measurements and Controls

At the core of BAMB's market risk approach are assessing key exposures, setting and monitoring limits where Market Risk Management function operates independently of the business to maintain objectivity. Its responsibilities include the overall measurement and monitoring of market risk.

The key market risk exposures are assessed at both specific and aggregate levels. At specific level, market risk sensitivities are assessed by evaluating the impact of individual risk factors such as interest rates and foreign exchange.

4.3.2 Oversight of Senior Management

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

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

Table 9.1: RWA and Capital Requirements for Market Risk

	31.12.2016	31.12.2015
	RM'000	RM'000
Total RWA for Market Risk	**375,810**	685,374
Capital Required for Market Risk	**30,065**	54,829
Minimum Capital Requirement at 8% for:		
Foreign Exchange Risk	**3,131**	20,284
Interest Rate Risk	**26,934**	34,545

4.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. BAMB classifies Operational Risk using the Basel II Categories and definitions as follows: Internal Fraud, External Fraud, Employment Practices and Workplace Safety, Clients, Products, and Business Practices, Damage to Physical Assets, Business Disruption and System Failures, Execution, Delivery, and Process Management. Operational risk in BAMB resides in every business activity that it undertakes, from lending to transaction processing to trading.

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

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

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

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

4.4.1 Local Operational Risk Management Framework

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

4.5 Equity Exposures in the Banking Book

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

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

(a) Equity Investments by Type

Table 10.1: Holdings of Equity Investments by Type

	31.12.2016		31.12.2015	
	Gross Credit Exposure	Risk Weighted Assets	Gross Credit Exposure	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Privately Held Shares for Socio-Economic Purpose	**2,980**	**2,980**	2,980	2,980

(b) Cumulative Realised Gains/(Losses)

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

	31.12.2016	31.12.2015
	RM'000	RM'000
Realised gains recognised in profit and loss		
Privately Held Shares for Socio-Economic Purpose	-	-

(c) Unrealised Gains/(Losses)

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

	31.12.2016	31.12.2015
	RM'000	RM'000
Recognised in Other Comprehensive Income		
Privately Held Shares for Socio-Economic Purpose	-	-

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

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

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

Table 11.1: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2016

	Impact on Positions as at 31 December 2016	
	100 basis points (Parallel Shift)	
	Earnings-at-risk	Economic Value Loss
	RM'000	RM'000
Type of Currency		
MYR	**11,667**	**(1,999)**
USD	**5,011**	**237**
Total	**16,678**	**(1,762)**

Table 11.2: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2015

	Impact on Positions as at 31 December 2015	
	100 basis points (Parallel Shift)	
	Earnings-at-risk	Economic Value Loss
	RM'000	RM'000
Type of Currency		
MYR	10,260	(1,486)
USD	3,383	228
Total	13,643	(1,258)

Roles Accountabilities and Process Owners

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

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