Bank of America Malaysia Berhad

Pillar 3 Disclosures

As at 30 Jun 2020

Attestation by Chief Executive Officer

This is to certify that Bank of America Malaysia Berhad's Basel II Pillar 3 Disclosures as at 30 June 2020, prepared in accordance with the requirements of Bank Negara Malaysia's Guideline on Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) are accurate, complete and not misleading.

RAYMOND YEOH CHENG SEONG

Chief Executive Officer

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1. Scope of Application

Bank of America Malaysia Berhad – BAMB ("Bank" or "BAMB") is a limited company, incorporated and domiciled in Malaysia. 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 of Directors (Board), through its various Committees, is overall accountable for the management of risk in BAMB.

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

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

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

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

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

The total capital and capital adequacy ratios of the Bank are computed in accordance with BNM's Policy Documents on Capital Adequacy Framework Capital Components issued on 5th February 2020 and Basel-II Risk-Weighted Assets issued on 3rd May 2019.

Table 1.1: Capital Ratios

	30.06.2020	31.12.2019
CET I Capital Ratio	**51.320%**	53.424%
Tier I Capital Ratio	**51.320%**	53.424%
Total Capital Ratio	**51.564%**	53.679%

Table 1.2: Capital Adequacy Requirements

	CET I Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
30.06.2020	**7.000%**	**8.500%**	**10.500%**
31.12.2019	7.000%	8.500%	10.500%

The minimum regulatory capital adequacy requirements as stated above include capital conservation and counter-cyclical buffers.

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).

Table 2.1: Exposures as at 30 June 2020

Exposure Class	Gross Exposures/^EAD before #CRM	Net Exposures/^EAD after #CRM	RWA	RWA absorbed by *PSIA	Total RWA after effects of PSIA	Minimum Capital Requirement at 8%
30.06.2020	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	2,518,223	2,518,223	-	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	81,632	81,632	16,326	-	16,326	1,306
Insurance Cos, Securities Firms & Fund Managers	49,201	49,201	26,362	-	26,362	2,109
Corporates	221,143	221,143	221,143	-	221,143	17,691
Residential Mortgages	97	97	34	-	34	3
Other Assets	41,142	41,142	40,005	-	40,005	3,200
Defaulted Exposures	18,685	18,685	10,344	-	10,344	828
Total On-Balance Sheet Exposures	2,930,123	2,930,123	314,214	-	314,214	25,137
Off-Balance Sheet Exposures:						
OTC Derivatives	338,693	338,693	181,501	-	181,501	14,520
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	124,886	120,462	116,597	-	116,597	9,328
Total Off-Balance Sheet Exposures	463,579	459,155	298,098	-	298,098	23,848
Total On and Off-Balance Sheet Exposures	3,393,702	3,389,278	612,312	-	612,312	48,985
	Long Position	Short Position				
Market Risk						
Foreign currency	11,165	112,154	112,154	-	112,154	8,972
Interest rate			376,821	-	376,821	30,146
Total Market Risk Exposure			488,975	-	488,975	39,118
Total Operational Risk Exposure			320,596	-	320,596	25,648
Total RWA and Capital Requirements			1,421,883	-	1,421,883	113,751

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

Table 2.2: Exposures as at 31 December 2019

Exposure Class 31.12.2019	Gross Exposures/^EAD before #CRM RM'000	Net Exposures/^EAD after #CRM RM'000	RWA RM'000	RWA absorbed by *PSIA RM'000	Total RWA after effects of PSIA RM'000	Minimum Capital Requirement at 8 % RM'000
Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns/Central Banks	2,220,841	2,220,841	-	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	642,613	642,613	128,523	-	128,523	**10,282**
Insurance Cos, Securities Firms & Fund Managers	2,346	2,346	1,210	-	1,210	**97**
Corporates	224,259	224,259	224,259	-	224,259	**17,941**
Residential Mortgages	121	121	42	-	42	**3**
Other Assets	19,476	19,476	17,623	-	17,623	**1,410**
Defaulted Exposures	24,924	24,924	24,924	-	24,924	**1,994**
Total On-Balance Sheet Exposures	3,134,580	3,134,580	396,581	-	396,581	**31,727**
Off-Balance Sheet Exposures:						
OTC Derivatives	141,458	141,458	86,065	-	86,065	**6,885**
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	125,720	121,811	116,490	-	116,490	**9,319**
Total Off-Balance Sheet Exposures	267,178	263,269	202,555	-	202,555	**16,204**
Total On and Off-Balance Sheet Exposures	3,401,758	3,397,849	599,136	-	599,136	**47,931**
Market Risk	Long Position	Short Position				
Foreign currency	55,646	96,356	96,356	-	96,356	**7,708**
Interest rate			396,016	-	396,016	**31,681**
Total Market Risk Exposure			492,372	-	492,372	**39,389**
Total Operational Risk Exposure			273,018	-	273,018	**21,841**
Total RWA and Capital Requirements			1,364,526	-	1,364,526	**109,161**

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 30 June 2020.

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

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

Table 3.1: Components of Capital

	30.06.2020 RM'000	31.12.2019 RM'000
CET I Capital		
Share Capital	**135,800**	135,800
Retained Profits	**596,030**	596,032
Other Disclosed Reserves:		
Unrealised gains and losses of financial instruments measured at FVOCI	**1,017**	1,052
	732,847	732,884
Less: Regulatory Adjustments		
Deferred Tax Assets	**(1,247)**	(2,035)
55% of Cumulative Gains of financial instruments measured at FVOCI	**(560)**	(579)
Regulatory reserve	**(1,324)**	(1,287)
Total CET I and Tier I Capital	**729,716**	728,983
Tier II Capital		
Loss Allowance for non-credit impaired exposures*	**2,139**	2,189
Regulatory Reserve	**1,324**	1,287
Total Tier II Capital	**3,463**	3,476
Total Capital	**733,179**	732,459

* Excludes Lifetime ECL Credit Impaired (Stage 3) loans on impaired loans restricted from Tier II Capital of BAMB of RM21,972k (31.12.2019 : RM19,905k).

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 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 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 will be engaged in this review process. Upon completion of the review and assessment, the CRO will put forth a recommendation to the LMT for appropriate Risk Taking Capacity metrics that will be applicable for the following 12 months. The recommended Risk Taking Capacity metrics will first be approved by the LMT, followed by the BAMB Risk Management Committee (RMC), and finally by the BAMB Board of Directors (Board).

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 subject to the respective Risk's functions escalation process and also highlighted to LMT. CRO (in consultation with other Risk counterparts) and 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 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.

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 Corporate and 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. credit approval limit policies), while remaining compliant with laws and regulations. In assessing borrowers' credit risk, BAMB follows BAC's internal risk policies and local regulatory requirements. Analyses include an assessment of the borrower's character, debt capacity, capital structure, collateral and business prospects. 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 Internal Approval Grid, BAMB also has implemented a local onshore approving authority based on the local approving threshold. While approvals may be obtained from regional or global officers, all credit actions require sign-off and approval from the onshore BAMB CRO as well, without which these credit actions are not considered approved.

Credit Risk Approval

GCIB Credit Officers 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 with required terms and conditions. Credit approvals are provided in line with the following:

All credit exposure will be approved based on the Global Wholesale Credit and Risk Approval Authority Grid and local onshore approving authority. Minimum approvals required are from the onshore GCIB Credit Officer and the BAMB Credit Risk Officer (i.e. independent credit risk function). Escalation to higher approving authority levels may be required based on the defined levels in the approval grid.

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 on regular basis. At the portfolio level, the aggregate losses, credit concentrations and potential stress scenarios are assessed. Regular portfolio reporting and business-specific credit reviews enable GCIB Credit and Risk officers to detect deteriorating credit trends, develop mitigation strategies and measure the effectiveness of actions taken.

GCIB Credit, as well as supporting units, 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.

- Non-Performing Loans (NPL): defined as maximum % of total loan exposure in BAMB which are classified as non-performing (BAMB will classify the loans as past due when the principal or interest payment is past due for longer than 90 days) to be no greater than 1% set as the trigger (limit: 2%). NPLs impact profitability as such loans are usually placed on non-accrual status and may eventually require specific provisioning. In BAMB, NPL exposures usually will have a risk rating of 9 (substandard) or lower.
- Net Credit Loss Rate: defined as the Year-to-date charge off rate of loan exposures as % of total loan exposures in BAMB to be less than 0.25% set as the trigger (limit: 0.5%). Loans are charged off if they are determined to be uncollectible.
- RR8 or worse % Legally Binding: defined as maximum % of total credit legally binding exposures which are rated RR8 (Special Mention) or worse to be no greater than 4% of total loan book set as the trigger (limit: 6%). This metrics enables an early warning indicator of deterioration in credit quality as it includes loans which are still performing in the RR8 or 9+ rating categories.

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.

- Single Customer Exposure Limit: Definition as determined by Bank Negara Malaysia, as further detailed in BAMB's Single Customer Exposure Limit Guidelines.
- Large Exposure: Definition as determined by Bank Negara Malaysia as 10% of BAMB Capital.

- Industry Limits: defined as maximum legally binding exposure to the following higher risk industries. Percentage of legally binding exposure in BAMB towards each of the listed industries should not exceed 10% of total legally binding exposures.

BAMB's credit portfolio as of 30 June 2020 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 FVTPL;
  - Financial assets that are debt instruments
  - Financial guarantee contracts issued
  - Loan commitments issued

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

- **Measurement of ECL:**

  ECL are 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 reorganisation;
    - The disappearance of an active market for a security because of financial difficulties.

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

4.2.1 Breakdown of Gross Credit Exposures

(a) By Geographical Distribution

Table 4.1: Exposures by Geographical Distribution

Category	Malaysia RM'000	United States RM'000	Singapore RM'000	United Kingdom RM'000	Others RM'000	Total RM'000
30.06.2020						
Sovereign/Central Banks	**2,518,223**	**-**	**-**	**-**	**-**	**2,518,223**
Banks, DFIs, and MDBs	**246,587**	**23,533**	**19,366**	**38,121**	**6,725**	**334,332**
Insurance Cos, Securities Firms & Fund Managers	**13,387**	**56**	**-**	**47,529**	**34,910**	**95,882**
Corporates	**403,986**	**-**	**20**	**-**	**20**	**404,026**
Residential Mortgages	**97**	**-**	**-**	**-**	**-**	**97**
Other Assets	**41,142**	**-**	**-**	**-**	**-**	**41,142**
Total as at 30 June 2020	**3,223,422**	**23,589**	**19,386**	**85,650**	**41,655**	**3,393,702**
31.12.2019						
Sovereign/Central Banks	2,220,841	-	-	-	-	2,220,841
Banks, DFIs, and MDBs	576,521	46,104	47,179	38,014	27,270	735,088
Insurance Cos, Securities Firms & Fund Managers	6,973	301	-	11	21,803	29,088
Corporates	397,045	5	79	-	15	397,144
Residential Mortgages	121	-	-	-	-	121
Other Assets	19,476	-	-	-	-	19,476
Total as at 31 December 2019	3,220,977	46,410	47,258	38,025	49,088	3,401,758

(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
30.06.2020											
Sovereign/Central Banks	-	2,518,223	-	-	-	-	-	-	-	-	2,518,223
Banks, DFIs, and MDBs	334,332	-	-	-	-	-	-	-	-	-	334,332
Insurance Cos, Securities Firms & Fund Managers	95,882	-	-	-	-	-	-	-	-	-	95,882
Corporates	162,152	-	188,979	29,375	17,684	3,335	-	2,501	-	-	404,026
Residential Mortgages	-	-	-	-	-	-	-	-	97	-	97
Other Assets	40,591	-	-	-	-	-	-	-	551	-	41,142
Total as at 30 June 2020	632,957	2,518,223	188,979	29,375	17,684	3,335	-	2,501	648	-	3,393,702
31.12.2019											
Sovereign/Central Banks	-	2,220,841	-	-	-	-	-	-	-	-	2,220,841
Banks, DFIs, and MDBs	735,088	-	-	-	-	-	-	-	-	-	735,088
Insurance Cos, Securities Firms & Fund Managers	29,088	-	-	-	-	-	-	-	-	-	29,088
Corporates	151,789	-	193,641	21,368	24,924	2,910	-	2,512	-	-	397,144
Residential Mortgages	-	-	-	-	-	-	-	-	121	-	121
Other Assets	18,912	-	-	-	-	-	-	-	564	-	19,476
Total as at 31 December 2019	934,877	2,220,841	193,641	21,368	24,924	2,910	-	2,512	685	-	3,401,758

(c) By Residual Maturity

Table 4.3: Exposures by Residual Maturity

Category	Up to 1 Year RM'000	More than 1 Year to 5 Years RM'000	More than 5 Years RM'000	Total RM'000
30.06.2020				
Sovereign/Central Banks	**2,518,223**	**-**	**-**	**2,518,223**
Banks, DFIs, and MDBs	**167,725**	**162,757**	**3,850**	**334,332**
Insurance Cos, Securities Firms & Fund Managers	**54,230**	**41,652**	**-**	**95,882**
Corporates	**319,872**	**84,154**	**-**	**404,026**
Residential Mortgages	**-**	**97**	**-**	**97**
Other Assets	**40,969**	**43**	**130**	**41,142**
Total as at 30 June 2020	**3,101,019**	**288,703**	**3,980**	**3,393,702**
31.12.2019				
Sovereign/Central Banks	2,220,841	-	-	2,220,841
Banks, DFIs, and MDBs	684,572	43,730	6,786	735,088
Insurance Cos, Securities Firms & Fund Managers	5,240	23,848	-	29,088
Corporates	357,085	40,059	-	397,144
Residential Mortgages	-	121	-	121
Other Assets	19,289	49	138	19,476
Total as at 31 December 2019	3,287,027	107,807	6,924	3,401,758

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

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

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

	30.06.2020 RM'000	31.12.2019 RM'000
<u>**Malaysia**</u>		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**27**	27
Mining	**39,630**	44,802
Transport, storage, communication	**1,001**	-
Total Gross Impaired Loans, Advances and Financing	**40,658**	44,829
Gross Impaired Loans as a % of Gross Loans, Advances and Financing	**15.29%**	16.61%

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

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

	30.06.2020 RM'000	31.12.2019 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	-	31
Total Gross Loans, Advances and Financing Past Due but Not Impaired	-	31

(c) Impairment Analysed by Sector and Geographical Area

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

	30.06.2020 RM'000	31.12.2019 RM'000
Malaysia		
Purchase of Residential Landed Property, Securities and Transport Vehicles	**27**	27
Mining	**21,945**	19,878
Total Lifetime ECL Credit Impaired (Stage 3)	**21,972**	19,905

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
30.06.2020		
Finance, Insurance and Business Services	**449**	**449**
General Commerce	**83**	**83**
Manufacturing	**886**	**886**
Total 12 Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2) as at 30 June 2020	**1,418**	**1,418**
31.12.2019		
Finance, Insurance and Business Services	515	515
General Commerce	86	86
Manufacturing	821	821
Transport, storage, and communication	8	8
Total 12 Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2) as at 31 December 2019	1,430	1.430

(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	Purchase of Residential Landed Property, Securities and Transport Vehicles	Total
	RM'000	RM'000	RM'000
<u>In Malaysia</u>			
At 1 January 2020	**19,878**	**27**	**19,905**
Additional allowance made	**4,407**	**-**	**4,407**
Written bank	**(2,340)**	**-**	**(2,340)**
At 30 June 2020	**21,945**	**27**	**21,972**
<u>In Malaysia</u>			
At 1 January 2019	20,193	30	20,223
Additional allowance made	-	-	-
Written back	(315)	(3)	(318)
At 31 December 2019	19,878	27	19,905

(e) Reconciliation of Changes in ECL and Impairment Provisions

Table 5.6: Reconciliation of Changes in ECL and Impairment Provisions

	30.06.2020 RM'000	31.12.2019 RM'000
<u>Lifetime ECL Credit Impaired (Stage 3</u>		
Opening Balance	**19,905**	20,223
Allowance Made During the period	**4,407**	3,590
Written back	**(2,340)**	(3,908)
Closing Balance	**21,972**	19,905
<u>12 Months ECL (Stage 1) and Lifetime ECL Not Credit Impaired (Stage 2)</u>		
Opening Balance	**1,430**	227
Allowance Made During the period	**232**	1,340
Written Back	**(244)**	(137)
Closing Balance	**1,418**	1,430

4.2.3 Standardised Approach to Credit Risk

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

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

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

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

Table 6.1: Rating Categories of Sovereigns / Central Banks

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

Table 6.2: Rating Categories of Banking Institutions

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

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

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

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

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

(a) Breakdown of Credit Risk Exposures by Risk Weights

Table 6.4: Exposures by Risk Weights

	Exposures After Netting and Credit Risk Mitigation (RM'000)							
Risk Weights	**Sovereigns/ Central Banks**	**Insurance Cos, Securities Firm & Fund Managers**	**Banks, DFIs & MDBs**	**Corporates**	**Residential Mortgages**	**Other Assets**	**Total Exposures After Netting and Credit Risk Mitigation**	**Total RWA**
30.06.2020								
0%	**2,518,223**	**-**	**-**	**-**	**-**	**1,137**	**2,519,360**	**-**
20%	**-**	**-**	**197,171**	**-**	**-**	**-**	**197,171**	**39,434**
35%	**-**	**-**	**-**	**-**	**97**	**-**	**97**	**34**
50%	**-**	**45,767**	**137,161**	**17,684**	**-**	**-**	**200,612**	**100,305**
100%	**-**	**50,115**	**-**	**380,917**	**-**	**40,005**	**471,037**	**471,037**
150%	**-**	**-**	**-**	**1,001**	**-**	**-**	**1,001**	**1,502**
Total as at 30 June 2020	**2,518,223**	**95,882**	**334,332**	**399,602**	**97**	**41,142**	**3,389,278**	**612,312**
RWA by Exposure	**-**	**72,999**	**108,014**	**391,260**	**34**	**40,005**		**612,312**
Average Risk Weight	**0.000%**	**76.133%**	**32.308%**	**97.913%**	**35.000%**	**97.237%**		**19.284%**
Deduction from Capital Base	**-**	**-**	**-**	**-**	**-**	**-**		
31.12.2019								
0%	2,220,841	-	-	-	-	1,853	2,222,694	-
20%	-	-	690,850	-	-	-	690,850	138,170
35%	-	-	-	-	121	-	121	42
50%	-	2,283	44,238	-	-	-	46,521	23,261
100%	-	26,805	-	393,235	-	17,623	437,663	437,663
Total as at 31 December 2019	2,220,841	29,088	735,088	393,235	121	19,476	3,397,849	599,136
RWA by Exposure	-	27,946	160,289	393,235	42	17,623		599,136
Average Risk Weight	0.000%	96.076%	21.805%	100.000%	35.000%	90.482%		17.633%
Deduction from Capital Base	-	-	-	-	-	-		

(b) Breakdown of Credit Risk Exposures by ECAI Ratings

Table 6.5: Sovereigns / Central Bank Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
	Total	1	2	3	4	5	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30.06.2020	**2,518,223**	**2,518,223**	**-**	**-**	**-**	**-**	**-**
31.12.2019	2,220,841	2,220,841	-	-	-	-	-

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

	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	
	Total	1	2	3	4	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30.06.2020	**95,882**	**-**	**82,439**	**-**	**-**	**13,443**
31.12.2019	29,088	24,086	-	-	-	5,002

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

	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	
	Total	1	2	3	4	5	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30.06.2020	**334,332**	**116,820**	**166,199**	**50,006**			**1,307**
31.12.2019	735,088	545,977	182,922	3,642	-	-	2,547

Table 6.8: Corporate Exposures by ECAI Ratings

	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moody's	AAA to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	
	Total	1	2	3	4	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30.06.2020	**404,026**	**-**	**-**	**-**	**-**	**404,026**
31.12.2019	397,144	-	-	-	-	397,144

4.2.4 Credit Risk Mitigation

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

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

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

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

The Bank has not employed on or off-balance sheet netting to mitigate its credit exposures as of 30 June 2020.

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

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

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

Collateral qualifies as CRM for regulatory capital purposes if:-

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

Guarantees and Credit Default Protection

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

As at 30 June 2020, the Bank had not entered into any credit derivative transactions for credit default protection.

Risk Concentrations

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

There is no material concentration of credit risk mitigation held as at 30 June 2020.

Credit Risk Mitigation under Comprehensive Approach

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

Table 7.1: Credit Risk Mitigation as at 30 June 2020

Credit Risk Exposures	Gross Exposures/^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
30.06.2020	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	2,518,223	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	81,632	-	-	-
Insurance Cos, Securities Firms & Fund Managers	49,201	-	-	-
Corporates	221,143	-	-	-
Residential Mortgages	97	-	-	-
Other Assets	41,142	-	-	-
Defaulted Exposures	18,685	-	-	-
Total On-Balance Sheet Exposures	2,930,123	-	-	-
Off-Balance Sheet Exposures:				
OTC Derivatives	338,693	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	124,886	-	4,424	-
Total Off-Balance Sheet Exposures	463,579	-	4,424	-
Total On and Off-Balance Sheet Exposures	3,393,702	-	-	-

Table 7.2: Credit Risk Mitigation as at 31 December 2019

Credit Risk Exposures	Gross Exposures/^EAD before #CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
31.12.2019	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	2,220,841	-	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	642,613	-	-	-
Insurance Cos, Securities Firms & Fund Managers	2,346	-	-	-
Corporates	224,259	-	-	-
Residential Mortgages	121	-	-	-
Other Assets	19,476	-	-	-
Defaulted Exposures	24,924	-	-	-
Total On-Balance Sheet Exposures	3,134,580	-	-	-
Off-Balance Sheet Exposures:				
OTC Derivatives	141,458	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	125,720	-	3,909	-
Total Off-Balance Sheet Exposures	267,178	-	3,909	-
Total On and Off-Balance Sheet Exposures	3,401,758	-	-	-

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

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

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

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

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

Collateral for Traded Products

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

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

Collateral Reserves and Credit Ratings Downgrade

As at 30 June 2020, the Bank only accepts or post cash deposits as collateral to derivatives transactions, and does not hold or post any securities as collateral. There is no implication to the collateral value to be posted in the event of credit ratings downgrade, and as such no credit reserves are created for exposures which are secured in such manner.

Table 8.1: Off-Balance Sheet Exposures

Off-Balance Sheet Exposures	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount*	RWA
	RM'000	RM'000	RM'000	RM'000
30.06.2020				
Direct Credit Substitutes [1]	**114,822**	**-**	**114,157**	**106,678**
Transaction Related Contingent Items [2]	**19,615**	**-**	**9,756**	**8,946**
Short Term Self Liquidating Trade-Related Contingencies[3]	**3,923**	**-**	**780**	**780**
Foreign Exchange Related Contracts				
One Year or Less	**8,580,519**	**38,995**	**143,515**	**85,733**
Over One Year to Five Years	**83,335**	**1,383**	**2,958**	**2,884**
Interest/Profit Related Contracts				
One Year or Less	**5,195,000**	**10,069**	**17,363**	**5,602**
Over One Year to Five Years	**11,838,500**	**64,625**	**171,007**	**85,357**
Over Five Years	**25,000**	**2,814**	**3,850**	**1,925**
Other commitments such as formal standby facilities and credit lines, with an original maturity of up to one year	**-**	**-**	**-**	**-**
Other commitments such as formal standby facilities and credit lines, with an original maturity of over one year	**386**	**-**	**193**	**193**
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	**752,107**	**-**	**-**	**-**
Total as at 30 June 2020	**26,613,207**	**117,886**	**463,579**	**298,098**
31.12.2019				
Direct Credit Substitutes [1]	112,378	-	111,700	104,501
Transaction Related Contingent Items [2]	23,736	-	11,800	9,769
Short Term Self Liquidating Trade-Related Contingencies[3]	11,167	-	2,220	2,220
Foreign Exchange Related Contracts				
One Year or Less	3,243,074	25,073	64,185	42,303
Over One Year to Five Years	77,063	-	2,266	2,266
Interest/Profit Related Contracts				
One Year or Less	2,981,000	6,131	9,321	2,763
Over One Year to Five Years	4,990,600	6,889	58,900	35,905
Over Five Years	157,500	2,363	6,786	2,828
Other commitments such as formal standby facilities and credit lines, with an original maturity of up to one year	-	-	-	-
Other commitments such as formal standby facilities and credit lines, with an original maturity of over one year	-	-	-	-
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	833,395	-	-	-
Total as at 31 December 2019	12,429,913	40,456	267,178	202,555

* 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 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.

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

4.3.1 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 or transfers of limit capacity in accordance with delegated authorities.

Key market risk limits in BAMB are VaR and MOL. 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.

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.

Table 9.1: RWA and Capital Requirements for Market Risk

	30.06.2020 RM'000	31.12.2019 RM'000
Total RWA for Market Risk	**488,975**	492,372
Capital Required for Market Risk	**39,118**	39,389
Minimum Capital Requirement at 8% for:		
Foreign Exchange Risk	**8,972**	7,708
Interest Rate Risk	**30,146**	31,681

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), through LMT and risk oversight groups, including the Compliance & Operational Risk Group which are aligned to the BAC's overall risk governance framework and practices.

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 10.1: Holdings of Equity Investments by Type

	30.06.2020		31.12.2019	
	Gross Credit Exposure	Risk Weighted Assets	Gross Credit Exposure	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Privately Held Shares for Socio-Economic Purpose	**2,980**	**2,980**	2,980	2,980

(b) Cumulative Realised Gains/(Losses)

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

	30.06.2020	31.12.2019
	RM'000	RM'000
Realised gains recognised in profit and loss		
Privately Held Shares for Socio-Economic Purpose	-	-

(c) Unrealised Gains/(Losses)

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

	30.06.2020	31.12.2019
	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 adverse movements in interest rates.

BAMB assesses IRRBB through two complementary frameworks to cover both short and long term horizons:

- Economic Value of Equity (EVE) which captures the long term horizon; and
- Earnings at Risk (EaR) which captures the short term horizon

BAMB measures Earnings at Risk (EaR) by evaluating the gain or loss on interest rate sensitive items as a result of different interest rate environments using a static balance sheet approach over a 3 year horizon.

The Economic Value of Equity (EVE) framework measures the long-term Interest Rate Risk by incorporating both interest and principal cash flows and extends the measurement horizon to a maximum of thirty years. The EVE metric computes the change in the present value of the remaining life in a runoff view, based on the principal and interest cash flows under different interest rate shock scenarios.

The disclosure of IRRBB below is as calculated in accordance with BNM Policy Document (BNM/RH/STD 029-3) and reported monthly.

Table 11.1: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 30 June 2020

	Impact on Positions as at 30 June 2020	
	100 basis points (Parallel Shift)	
	Earnings-at-risk	Economic Value Loss
	RM'000	RM'000
Type of Currency		
MYR	**9,627**	**(6,888)**
USD	**1,064**	**(5,581)**
Others	**(2)**	**(5)**
Total	**10,689**	**(12,474)**

Table 11.2: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2019

	Impact on Positions as at 31 December 2019	
	100 basis points (Parallel Shift)	
	Earnings-at-risk	Economic Value Loss
	RM'000	RM'000
Type of Currency		
MYR	12,370	(7,144)
USD	5,493	(4,794)
Total	17,863	(11,938)

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 IRRBB identification, measurement, and monitoring is performed by Balance Sheet Management team ("BSM")
- The risk-taking and management function on IRRBB is performed by the Strategic Asset Liability Management ("SALM") team
- The control functions are performed by Enterprise Financial and Strategic ("EFAS") Risk

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