

Company No.

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

**REPORTS AND STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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Company No.

310983

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BANK OF AMERICA MALAYSIA BERHAD

(Incorporated in Malaysia)

**REPORTS AND STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of Bank of America Malaysia Berhad ("the Bank") for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	RM'000
Profit before taxation	38,981
Taxation	(9,745)
Net profit for the financial year	<u>29,236</u>

DIVIDENDS

No dividends have been paid or declared by the Bank since the end of the last financial year. The Directors do not recommend the payment of any dividends for the financial year ended 31 December 2016.

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL DEBTS

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

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

BANK OF AMERICA MALAYSIA BERHAD

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DIRECTORS' REPORT (CONTINUED)

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

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

BANK OF AMERICA MALAYSIA BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS

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

David Allan Cairns (Chairman)
Raymond Yeoh Cheng Seong
Ayesha Natchiar binti Dato' Ally Maricar
Dato' Mohammed bin Haji Che Hussein
Kellee Kam Chee Khiong (appointed on 24 October 2016)
Dato' Teo Tong Kooi (resigned on 24 October 2016)

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

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, none of the Directors in office at the end of the financial year held any interests in shares in or debentures of the Bank.

According to the Register of Directors' Shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, the interests of Directors in the shares of Bank of America Corporation during the financial year are as follows:

	<u>Number of ordinary shares of USD0.01 each</u>			
	<u>Shares held by Directors in their own name</u>			
	<u>As at</u> <u>1 January</u>	<u>Acquired/</u> <u>Granted</u>	<u>Disposed</u>	<u>As at</u> <u>31 December</u>
Raymond Yeoh Cheng Seong	45,772	29,928	(18,479)	57,221
David Allan Cairns	17,513	-	(9,212)	8,301

BANK OF AMERICA MALAYSIA BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

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

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

RISK MANAGEMENT FRAMEWORK

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

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

BAMB continued its strategy to operate as a Working Capital Management ("WCM") unit for the financial year ended 31 December 2016. The bank focused on providing working capital solutions and services to its clients which are mainly multinationals, large local corporations, financial institutions and international multilateral agencies requiring Credit Facilities, Trade Finance, Foreign Exchange and Cash Management services. The bank's Fixed Income, Currency and Commodity ("FICC") business, which includes the trading of foreign exchange, interest rate swaps, and government securities looked to satisfying demand for investment and hedging solutions from clients. The bank also actively pursued opportunities to establish its Vendor Financing business.

OUTLOOK FOR THE FINANCIAL YEAR 2017

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

BANK OF AMERICA MALAYSIA BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT

Introduction

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

BOARD OF DIRECTORS

The Board

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

Composition of the Board

As of 31 December 2016, the Board has five (5) members, comprising the Chairman/Non-Executive Director (1), Chief Executive Officer/Executive Director (1), and Independent Directors (3), as follows:

Designation

David Allan Cairns	Chairman/Non-Executive Director
Raymond Yeoh Cheng Seong	Chief Executive Officer/Executive Director
Ayesha Natchiar binti Dato' Ally Maricar	Independent Director
Dato' Mohammed bin Haji Che Hussein	Independent Director
Kellee Kam Chee Khiong	Independent Director

BANK OF AMERICA MALAYSIA BERHAD
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DIRECTORS' REPORT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

Composition of the Board (continued)

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

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

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

Board Meetings

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

The Board met 6 times during the financial year ended 31 December 2016. The attendance of each Director in office at the end of the financial year on the aforesaid Board meetings are set out below:

<u>Directors</u>	<u>Meetings Attended of Total</u>	<u>Attendance %</u>
David Allan Cairns Chairman/Non-Executive Director	6/6	100%
Raymond Yeoh Cheng Seong Chief Executive Officer/Executive Director	6/6	100%
Ayesha Natchiar binti Dato' Ally Maricar Independent Director	6/6	100%
Dato' Mohammed bin Haji Che Hussein Independent Director	6/6	100%
Kellee Kam Chee Khiong Independent Director	2/2	100%
Dato' Teo Tong Kooi (resigned) Independent Director	3/4	75%

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DIRECTORS' REPORT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

Board Meetings (continued)

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

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

DISCLOSURE OF BOARD COMMITTEES

Audit Committee

The Board has established the Audit Committee since 1994. The Committee presently comprises three (3) Directors of which one (1) is the Chairman, one (1) Non-Executive Director and one (1) Independent Director. During the financial year ended 31 December 2016, a total of 7 meetings were held and details of attendance of each member at the Audit Committee meetings held during the year as at 31 December 2016 are as follows:

<u>Composition of the Audit Committee</u>	<u>Attendance at the committee meetings</u>
Dato' Mohammed bin Haji Che Hussein (Chairman)	7/7
David Allan Cairns	7/7
Ayesha Natchiar binti Dato' Ally Maricar	7/7

BANK OF AMERICA MALAYSIA BERHAD

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DIRECTORS' REPORT (CONTINUED)**DISCLOSURE OF BOARD COMMITTEES (CONTINUED)****Risk Management Committee**

The Board has established the Risk Management Committee in April 2013. The Committee presently comprises three (3) Directors of which one (1) is the Chairman, one (1) Non-Executive Director and one (1) Independent Director. During the financial year ended 31 December 2016, a total of 4 meetings were held and details of attendance of each member at the Risk Management Committee meetings held during the year as at 31 December 2016 are as follows:

<u>Composition of Risk Management Committee</u>	<u>Attendance at the committee meetings</u>
Ayesha Natchiar binti Dato' Ally Maricar (Chairman)	4/4
David Allan Cairns	4/4
Kellee Kam Chee Khiong	2/2
Dato' Teo Tong Kooi (resigned)	2/2

Nominating Committee

The Board has established the Nominating Committee in April 2013. The Committee presently comprises three (3) Directors of which one (1) is the Chairman, one (1) Non-Executive Director and one (1) Independent Director. During the financial year ended 31 December 2016, 3 meetings were held and details of attendance of each member at the Nominating Committee meetings held during the year as at 31 December 2016 are as follows:

<u>Composition of Nominating Committee</u>	<u>Attendance at the committee meetings</u>
Kellee Kam Chee Khiong (Chairman)	1/1
David Allan Cairns	3/3
Ayesha Natchiar binti Dato' Ally Maricar	3/3
Dato' Teo Tong Kooi (resigned)	2/2

Remuneration Committee

The Board has established the Remuneration Committee in April 2013. The Committee presently comprises three (3) Directors of which one (1) is the Chairman, one (1) Non-Executive Director and one (1) Independent Director. During the financial year ended 31 December 2016, 2 meetings were held and details of attendance of each member at the Remuneration Committee meetings held during the year as at 31 December 2016 are as follows:

<u>Composition of Remuneration Committee</u>	<u>Attendance at the committee meetings</u>
Kellee Kam Chee Khiong (Chairman)	1/1
David Allan Cairns	2/2
Ayesha Natchiar binti Dato' Ally Maricar	2/2
Dato' Teo Tong Kooi (resigned)	1/1

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DIRECTORS' REPORT (CONTINUED)

RATING BY AGENCIES

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

HOLDING AND ULTIMATE HOLDING COMPANY

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

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

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



RAYMOND YEOH CHENG SEONG
DIRECTOR



DAVID ALLAN CAIRNS
DIRECTOR

Kuala Lumpur
22 June 2017

BANK OF AMERICA MALAYSIA BERHAD
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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
ASSETS			
Cash and short-term funds	2	1,646,436	1,411,562
Deposits and placements with banks		-	1,008
Securities held-for-trading ('HFT')	3	700,330	297,049
Securities available-for-sale ('AFS')	4	2,995	2,995
Loans, advances and financing	5	330,051	278,152
Other assets	6	58,475	156,279
Derivative assets	7	197,164	381,661
Tax recoverable		4,971	2,287
Deferred taxation	8	742	993
Statutory deposit with Bank Negara Malaysia	9	7,591	7,591
Property and equipment	10	2,880	4,454
TOTAL ASSETS		<u>2,951,635</u>	<u>2,544,031</u>
LIABILITIES AND SHAREHOLDERS' FUNDS			
Deposits from customers	11	2,063,593	1,393,370
Deposits and placements of banks and other financial institutions	12	27,628	38,393
Bills and acceptances payable		31,270	27,156
Other liabilities	13	87,501	135,251
Derivative liabilities	14	162,743	400,197
TOTAL LIABILITIES		<u>2,372,735</u>	<u>1,994,367</u>
Share capital	15	135,800	135,800
Reserves	16	443,100	413,864
Shareholders' funds		<u>578,900</u>	<u>549,664</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>2,951,635</u>	<u>2,544,031</u>
COMMITMENTS AND CONTINGENCIES	26	<u>15,629,274</u>	<u>27,904,290</u>

BANK OF AMERICA MALAYSIA BERHAD

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
Interest income	17	68,875	61,238
Interest expense	18	(8,464)	(11,587)
Net interest income		60,411	49,651
Other operating income	19	48,785	60,432
Net income		109,196	110,083
Other operating expenses	20	(66,024)	(61,011)
Profit before allowance		43,172	49,072
Allowances for impairment losses	23	(4,191)	(657)
Profit before taxation		38,981	48,415
Taxation	25	(9,745)	(14,224)
Profit for the financial year		29,236	34,191
Other comprehensive income:			
<u>Items that may be subsequently reclassified to profit or loss</u>			
Change in value of available-for-sale financial assets:			
- Income tax effects		-	14
Other comprehensive income, net of tax		-	14
Total comprehensive income for the financial year		29,236	34,205
Earnings per share (sen)			
- Basic/diluted	27	21.53	25.18

BANK OF AMERICA MALAYSIA BERHAD

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**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

			Non-distributable		Distributable	
	Share capital	Statutory reserve	Available-for-sale reserve	Regulatory reserve	Retained profits	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	135,800	141,446	1,047	1,337	270,034	549,664
Total comprehensive income for the financial year	-	-	-	-	29,236	29,236
Transfer from regulatory reserve	-	-	-	(1,337)	1,337	-
At 31 December 2016	<u>135,800</u>	<u>141,446</u>	<u>1,047</u>	<u>-</u>	<u>300,607</u>	<u>578,900</u>
=						
At 1 January 2015	135,800	132,898	1,033	-	245,728	515,459
Total comprehensive income for the financial year	-	-	14	-	34,191	34,205
Transfer to regulatory reserve	-	-	-	1,337	(1,337)	-
Transfer to statutory reserve	-	8,548	-	-	(8,548)	-
At 31 December 2015	<u>135,800</u>	<u>141,446</u>	<u>1,047</u>	<u>1,337</u>	<u>270,034</u>	<u>549,664</u>
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BANK OF AMERICA MALAYSIA BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	<u>2016</u> RM'000	<u>2015</u> RM'000
CASH FLOWS (USED IN)/GENERATED FROM OPERATING ACTIVITIES		
Profit before taxation	38,981	48,415
Adjustments for:		
Depreciation of property and equipment	2,479	3,121
Loss/(gain) on disposal of property and equipment	116	(49)
Allowances for impairment losses	4,266	727
Net unrealised (gain)/loss on fair value changes in derivatives	(52,144)	48,680
Net unrealised loss/(gain) on revaluation of securities held-for-trading	1,014	(3,200)
OPERATING (LOSS)/PROFIT BEFORE WORKING CAPITAL CHANGES	<u>(5,288)</u>	<u>97,694</u>
(Increase)/decrease in operating assets:		
Deposits and placements with banks	1,008	2,926
Securities held-for-trading ('HFT')	(404,295)	329,021
Loans, advances and financing	(56,165)	(43,588)
Other assets	97,804	(134,964)
Derivative assets	236,642	(338,918)
Statutory deposit with Bank Negara Malaysia	-	(4,591)
Increase/(decrease) in operating liabilities:		
Deposits from customers	670,223	(495,365)
Deposits and placements of banks and other financial institutions	(10,765)	(37,347)
Bills and acceptances payable	4,114	(4,590)
Other liabilities	(47,750)	74,581
Derivative liabilities	(237,454)	338,922
CASH FLOWS GENERATED FROM/(USED IN) OPERATING ACTIVITIES	<u>248,074</u>	<u>(216,219)</u>
Taxation paid	(12,179)	(14,137)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	<u>235,895</u>	<u>(230,356)</u>

BANK OF AMERICA MALAYSIA BERHAD
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STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(1,021)	(449)
Proceeds from disposal of property and equipment		-	63
NET CASH USED IN FROM INVESTING ACTIVITIES		<u>(1,021)</u>	<u>(386)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		234,874	(230,742)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		<u>1,411,562</u>	<u>1,642,304</u>
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	2	<u><u>1,646,436</u></u>	<u><u>1,411,562</u></u>

BANK OF AMERICA MALAYSIA BERHAD
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL
ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

A BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments available-for-sale, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

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

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

The Bank has applied the following amendments for the first time for the financial year beginning on 1 January 2016:

- Amendments to MFRS 101 'Presentation of Financial Statements – Disclosure Initiative'.
- Annual Improvements to MFRSs 2012-2014 Cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2017. None of these is expected to have a significant effect on the financial statement of the Bank except the following set out below:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities from financing activities.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL
ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2017. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below: (continued)

- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

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

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held-for-trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

BANK OF AMERICA MALAYSIA BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****A BASIS OF PREPARATION (CONTINUED)**

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2017. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below: (continued)

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

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

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

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

Key provisions of the new standard are as follows:

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2017. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below: (continued)

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

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Bank will apply these standards when effective. The adoption of the above standards, amendments to published standards and interpretations to existing standards are not expected to have any significant impact on the financial statements of the Bank except for MFRS 9. The financial effect of the adoption of MFRS 9 is still being assessed by the Bank.

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B REVENUE RECOGNITION

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

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

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C PROVISIONS

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

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

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

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

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

D REPURCHASE AGREEMENTS

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

E FINANCIAL ASSETS

(a) Classification

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E FINANCIAL ASSETS (CONTINUED)

(a) Classification (continued)

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

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

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

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

(ii) Loans and receivables

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

(iii) Financial investments available-for-sale

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

(b) Recognition and initial measurement

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

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E FINANCIAL ASSETS (CONTINUED)

(c) Subsequent measurement – gains and losses

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

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

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

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

(d) De-recognition

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

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

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

F FINANCIAL LIABILITIES

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

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F FINANCIAL LIABILITIES (CONTINUED)

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

(a) Financial liabilities at FVTPL

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

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

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

(b) Other liabilities measured at amortised cost

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

(c) De-recognition

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

G OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

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

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

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

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

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

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

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

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

(i) Individual assessment allowance

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

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

(ii) Collective assessment allowance

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

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost (continued)

(ii) Collective assessment allowance (continued)

Estimates of changes in future cash flows for groups of loans should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

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

(b) Assets classified as available-for-sale

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

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

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

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

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

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

J PROPERTY AND EQUIPMENT

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

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

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

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

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J PROPERTY AND EQUIPMENT (CONTINUED)

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

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

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

K BILLS AND ACCEPTANCES PAYABLE

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

L DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L DERIVATIVE FINANCIAL INSTRUMENT AND HEDGE ACCOUNTING (CONTINUED)

(a) Fair value hedge

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

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

(b) Cash flow hedge

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

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

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

(c) Derivatives that do not qualify for hedge accounting

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

As at 31 December 2016, the Bank has not designated any derivatives as hedging instruments.

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M FOREIGN CURRENCY TRANSLATIONS

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

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

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

N CURRENT AND DEFERRED INCOME TAXES

(a) Current tax

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

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

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I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N CURRENT AND DEFERRED INCOME TAXES (CONTINUED)

(a) Current tax (continued)

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

(b) Deferred tax

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

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

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

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

O CASH AND CASH EQUIVALENTS

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

BANK OF AMERICA MALAYSIA BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****P EMPLOYEE BENEFITS****(a) Short-term employee benefits**

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

(b) Defined contribution plan

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

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

Q SHARE-BASED PAYMENTS

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

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

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

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

BANK OF AMERICA MALAYSIA BERHAD
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL
ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

S SHARE CAPITAL

(a) Classification

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

(b) Share issue costs

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

(c) Dividend distribution

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

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

(d) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL
ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S SHARE CAPITAL (CONTINUED)

(d) Earnings per share (continued)

Diluted earnings per share

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

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

II CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Fair value of financial instruments

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

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

BANK OF AMERICA MALAYSIA BERHAD

(Incorporated in Malaysia)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****II CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)****(a) Fair value of financial instruments (continued)**

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

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

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

BANK OF AMERICA MALAYSIA BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016****1 GENERAL INFORMATION**

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

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

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

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

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

2 CASH AND SHORT-TERM FUNDS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Cash and balances with banks and other financial institutions	97,698	76,717
Money at call and deposit placements maturing within one month	1,548,738	1,334,845
	<u>1,646,436</u>	<u>1,411,562</u>

3 SECURITIES HELD-FOR-TRADING ('HFT')

	<u>2016</u> RM'000	<u>2015</u> RM'000
Malaysian Government Securities	665,423	288,137
Malaysian Government Investment Issues	34,907	8,912
	<u>700,330</u>	<u>297,049</u>

4 SECURITIES AVAILABLE-FOR-SALE ('AFS')

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Unquoted securities in Malaysia:</u>		
Shares	2,980	2,980
Bonds	15	15
	<u>2,995</u>	<u>2,995</u>

BANK OF AMERICA MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****5 LOANS, ADVANCES AND FINANCING**

	<u>2016</u> RM'000	<u>2015</u> RM'000
(a) Loans, advances and financing analysed by type:		
At amortised cost:		
Overdrafts	13,810	18,933
Factoring receivables	22,437	7,504
Claims on customers under acceptance credits	16,700	67,190
Staff loans	980	1,246
Revolving advances	209,999	115,891
Term loans	72,045	68,900
Mortgage loans	447	596
	<hr/>	<hr/>
Gross loans, advances and financing	336,418	280,260
Allowance for losses on loans, advances and financing:		
Individual assessment	(35)	(83)
Collective assessment	(6,332)	(2,025)
	<hr/>	<hr/>
Total net loans, advances and financing	<u>330,051</u>	<u>278,152</u>
(b) Gross loans, advances and financing analysed by geographical distribution:		
Malaysia	<u>336,418</u>	<u>280,260</u>
(c) Gross loans, advances and financing analysed by type of customer:		
Domestic business enterprises	334,140	275,854
Domestic non-banking financial institutions	665	2,190
Government and statutory bodies	186	374
Individuals	1,427	1,842
	<hr/>	<hr/>
	<u>336,418</u>	<u>280,260</u>

BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

5 LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>2016</u> RM'000	<u>2015</u> RM'000
(d) Gross loans, advances and financing analysed by interest rate sensitivity:		
Fixed rate:		
Housing loans	950	1,049
Other fixed rate loans	250,172	195,169
Variable rate:		
Base rate	2,660	1,300
Cost plus	10,591	13,842
Other floating rate loans	72,045	68,900
	<u>336,418</u>	<u>280,260</u>
(e) Gross loans, advances and financing analysed by economic purpose:		
Purchase of transport vehicles	4	96
Purchase of landed property (residential)	1,398	1,645
Personal use	25	89
Purchase of consumer durables	-	12
Working capital	334,991	278,418
	<u>336,418</u>	<u>280,260</u>
(f) Gross loans, advances and financing analysed by residual contractual maturity:		
Within one year	315,906	273,687
One year to three years	19,707	4,999
Three years to five years	353	255
Over five years	452	1,319
	<u>336,418</u>	<u>280,260</u>

BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

5 LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>2016</u> RM'000	<u>2015</u> RM'000
(g) Movements in impaired loans, advances and financing are as follows:		
At 1 January	141	278
Classified as impaired during the financial period/year	18	-
Interest income recognised during the financial year	7	10
Amount recovered during the financial year	(17)	(51)
Written off	(9)	-
Reclassified as performing during the financial year	(87)	(96)
	<u>53</u>	<u>141</u>
At 31 December	53	141
Individual assessment allowance	(35)	(83)
	<u>18</u>	<u>58</u>
Net impaired loans, advances and financing	18	58
	<u>0.02%</u>	<u>0.05%</u>
Gross impaired loans as a % of gross loans, advances and financing	0.02%	0.05%
(h) Movements in allowance for losses on impaired loans, advances and financing are as follows:		
<u>Individual assessment allowance</u>		
At 1 January	83	205
Allowance made during the financial year	26	-
Write-off made during the year	(7)	-
Write-back made during the financial year	(67)	(122)
	<u>35</u>	<u>83</u>
At 31 December	35	83

BANK OF AMERICA MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

5 LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>2016</u> RM'000	<u>2015</u> RM'000
(h) Movements in allowance for losses on impaired loans, advances and financing are as follows: (continued)		
<u>Collective assessment allowance</u>		
At 1 January	2,025	1,176
Allowance made during the financial year	4,307	849
At 31 December	<u>6,332</u>	<u>2,025</u>
 Portfolio impairment allowance (inclusive of regulatory reserve) as % of gross loan, advances and financing less individual assessment allowance	 <u>1.88%</u>	 <u>1.20%</u>
	<u>2016</u> RM'000	<u>2015</u> RM'000
(i) Impaired loans, advances and financing analysed by geographical distribution:		
Malaysia	<u>53</u>	<u>141</u>
(j) Impaired loans, advances and financing analysed by economic purpose:		
Purchase of landed property (residential)	<u>53</u>	<u>141</u>

6 OTHER ASSETS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Other receivables	58,349	155,627
Deposits	36	36
Prepayments	90	616
	<u>58,475</u>	<u>156,279</u>

BANK OF AMERICA MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

7 DERIVATIVE ASSETS

	Contract/ notional amount RM'000	<u>Assets</u> RM'000
<u>2016</u>		
Foreign exchange forwards and swaps	3,251,614	169,442
Interest rate and cross currency swaps	4,114,500	27,722
	<u>7,366,114</u>	<u>197,164</u>
<u>2015</u>		
Foreign exchange forwards and swaps	5,162,087	330,073
Interest rate and cross currency swaps	8,941,730	51,588
	<u>14,103,817</u>	<u>381,661</u>

8 DEFERRED TAXATION

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

	<u>2016</u> RM'000	<u>2015</u> RM'000
Deferred tax assets	1,545	1,509
Deferred tax liabilities	(803)	(516)
	<u>742</u>	<u>993</u>

BANK OF AMERICA MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****8 DEFERRED TAXATION (CONTINUED)**

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

	<u>General allowance</u> RM'000	<u>Accelerated tax depreciation</u> RM'000	<u>Available- for-sale reserve</u> RM'000	<u>Total</u> RM'000
At 1 January 2016	1,509	(185)	(331)	993
Charged to profit or loss (Note 25)	36	(37)	-	(1)
Credited to available-for-sale-reserve	-	(250)	-	(250)
As at 31 December 2016	<u>1,545</u>	<u>(472)</u>	<u>(331)</u>	<u>742</u>
At 1 January 2015	1,455	(484)	(345)	626
Credited to profit or loss (Note 25)	54	299	-	353
Charged to available-for-sale-reserve	-	-	14	14
As at 31 December 2015	<u>1,509</u>	<u>(185)</u>	<u>(331)</u>	<u>993</u>

9 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

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

BANK OF AMERICA MALAYSIA BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

10 PROPERTY AND EQUIPMENT

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

BANK OF AMERICA MALAYSIA BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

10 PROPERTY AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Computer equipment and software RM'000	Bank premises alterations RM'000	Total RM'000
<u>2015</u>				
<u>Cost</u>				
At 1 January 2015	10,860	11,351	5,124	27,335
Additions	124	325	-	449
Disposal	(2,146)	(63)	-	(2,209)
At 31 December 2015	8,838	11,613	5,124	25,575
<u>Accumulated depreciation</u>				
At 1 January 2015	7,752	9,549	2,894	20,195
Charge for the financial year	896	887	1,338	3,121
Disposal	(2,146)	(49)	-	(2,195)
At 31 December 2015	6,502	10,387	4,232	21,121
<u>Net book value</u>				
At 31 December 2015	2,336	1,226	892	4,454

BANK OF AMERICA MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

11 DEPOSITS FROM CUSTOMERS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Demand deposits	1,992,939	1,272,139
Saving deposits	6	23
Fixed deposits	70,648	121,208
	<u>2,063,593</u>	<u>1,393,370</u>
 (a) Maturity structure of fixed deposits is as follows:		
Due within six months	47,262	94,373
Six months to one year	22,313	26,583
One year to five years	21	252
More than five years	1,052	-
	<u>70,648</u>	<u>121,208</u>
 (b) The deposits are sourced from the following types of customers:		
Business enterprises	2,062,166	1,389,436
Individuals	53	98
Others	1,374	3,836
	<u>2,063,593</u>	<u>1,393,370</u>

BANK OF AMERICA MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

12 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Licensed banks	27,574	22,206
Other financial institutions	54	16,187
	<u>27,628</u>	<u>38,393</u>

13 OTHER LIABILITIES

	<u>2016</u> RM'000	<u>2015</u> RM'000
Deferred income on loans, advances and financing	474	1,305
Other payables	79,228	126,291
Accruals	7,799	7,655
	<u>87,501</u>	<u>135,251</u>

14 DERIVATIVE LIABILITIES

	Contract/ notional amount RM'000	<u>Liabilities</u> RM'000
<u>2016</u>		
Foreign exchange forwards and swaps	2,654,220	127,057
Interest rate and cross currency swaps	4,989,467	35,686
	<u>7,643,687</u>	<u>162,743</u>
<u>2015</u>		
Foreign exchange forwards and swaps	6,073,108	374,932
Interest rate and cross currency swaps	7,021,632	25,265
	<u>13,094,740</u>	<u>400,197</u>

BANK OF AMERICA MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

15 SHARE CAPITAL

	<u>2016</u> RM'000	<u>2015</u> RM'000
Authorised:		
250,000,000 ordinary shares of RM1 each	<u>250,000</u>	<u>250,000</u>
Issued and fully paid:		
135,800,000 ordinary shares of RM1 each	<u>135,800</u>	<u>135,800</u>

16 RESERVES

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

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

	<u>2016</u> RM'000	<u>2015</u> RM'000
At 1 January	1,047	1,033
Deferred taxation	-	14
At 31 December	<u>1,047</u>	<u>1,047</u>

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

BANK OF AMERICA MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

17 INTEREST INCOME

	<u>2016</u> RM'000	<u>2015</u> RM'000
Loans, advances and financing	10,569	9,027
Money at call and deposit placements with banks and other financial institutions	32,926	31,807
Securities held-for-trading	25,359	20,404
Others	21	-
	<u>68,875</u>	<u>61,238</u>

18 INTEREST EXPENSE

	<u>2016</u> RM'000	<u>2015</u> RM'000
Deposits and placements of banks and other financial institutions	1,168	365
Deposits from customers	7,296	11,098
Others	-	124
	<u>8,464</u>	<u>11,587</u>

19 OTHER OPERATING INCOME

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Fee income</u>		
Commission	435	569
Service charges and fees	5,258	4,853
Guarantee fees	1,286	1,290
Management fee income	1,958	2,666
Other fee income	6,007	3,427
Total fee income	<u>14,944</u>	<u>12,805</u>
<u>Net gain/(loss) arising from securities held-for-trading</u>		
Net gain from sale of securities held-for-trading	4,615	8,970
Unrealised revaluation (loss)/gain on securities held-for-trading	(1,014)	3,200
<u>Unrealised (loss)/gains on revaluation of derivative instruments</u>		
Foreign exchange forwards and swaps	87,243	(69,337)
Interest rate and cross currency swaps	(35,099)	20,657
Realised gain/(loss) on derivatives	32,159	(24,738)
Realised foreign exchange (loss)/gain	(54,153)	108,353
(Loss)/gain on disposal of property and equipment	(116)	49
Others	206	473
	<u>48,785</u>	<u>60,432</u>

Company No.	
310983	V

BANK OF AMERICA MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

20 OTHER OPERATING EXPENSES

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Personnel costs</u>		
Salaries, allowances and bonuses	21,013	22,138
Share-based payment	2,467	2,779
Defined contribution plans	4,117	4,103
Other personnel costs	2,428	1,806
	<u>30,025</u>	<u>30,826</u>
<u>Establishment costs</u>		
Depreciation of property and equipment	2,479	3,121
Rental of premises	1,180	1,112
Rental of equipment	406	405
Repair and maintenance	1,038	1,261
Information technology expenses	-	4
Others	2,132	1,862
	<u>7,235</u>	<u>7,765</u>
<u>Marketing expenses</u>		
Business promotion and advertisement	26	28
Others	294	236
	<u>320</u>	<u>264</u>

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BANK OF AMERICA MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

20 OTHER OPERATING EXPENSES (CONTINUED)

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Administration and general expenses</u>		
Auditors' remuneration		
<u>Current financial year</u>		
- Statutory audit fees	112	119
- Non-audit fees	66	70
<u>Under/(over)-accrual from prior financial year</u>		
- Statutory audit fees	-	(4)
- Non-audit fees	-	5
	<u>178</u>	<u>190</u>
Communication expenses	1,594	1,679
Legal and professional fees	491	680
Stationery and postages	752	818
Shared administrative support expenses	21,969	14,983
Others	3,460	3,806
	<u>28,444</u>	<u>22,156</u>
	<u>66,024</u>	<u>61,011</u>

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

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

	<u>2016</u> RM'000	<u>2015</u> RM'000
Executive Directors and CEO:		
Salaries	1,496	1,496
Bonus	1,994	1,755
Defined contribution plan	1,045	950
Others	2,656	2,391
Non-Executive Directors:		
Fees	430	387
	<u>7,621</u>	<u>6,979</u>

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

The remuneration of the Directors of the Bank is within the following bands:

	<u>2016</u> No. of <u>Directors</u>	<u>2015</u> No. of <u>Directors</u>
<u>Executive</u>		
RM:		
6,550,001 – 6,600,000	-	1
7,150,001 – 7,200,000	1	-
<u>Executive/Non-Executive/Independent</u>		
RM:		
50,001 – 100,000	3	3
100,000 – 150,000	1	1
	<u> </u>	<u> </u>

22 SHARE-BASED PAYMENT

BAC administers a number of equity compensation plans, with awards being granted predominantly from the 2003 Key Associate Stock Plan. Grants in 2015 included restricted stock units ("RSUs"), which generally vest in three equal annual instalments, beginning one year from the grant date, and awards which will vest subject to the attainment of specified performance goals.

During the year, 38,305 RSUs were granted to certain employees under the Key Associate Stock Plan (2015: 37,754) at weighted-average fair value of USD11.95 per share (2015: USD16.61 per share).

The fair value of RSU was determined based on the price of BAC common stock at the date of grant. RSUs may be settled in cash or in shares of common stock depending on the terms of the applicable award. Certain awards contain cancellation and clawback provisions which permit BAC to cancel or recoup all or a portion of the award under specified circumstances.

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

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23 (ALLOWANCES)/WRITE-BACK OF IMPAIRMENT LOSSES

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Allowance for loans, advances and financing</u>		
Individual assessment allowance:		
- Made during the financial year	(26)	-
- Written back during the financial year	67	122
Collective assessment allowance:		
- Made during the financial year	(4,307)	(849)
Bad debts on loans, advances and financing:		
- Recovered	75	70
	<u>(4,191)</u>	<u>(657)</u>

24 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationships

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

<u>Related parties</u>	<u>Relationship</u>
Bank of America Corporation	Ultimate holding company
BankAmerica International Financial Corporation	Immediate holding company
Bank of America National Association - New York Branch	Branch of the ultimate holding company
Bank of America National Association - Charlotte Branch	Branch of the ultimate holding company
Bank of America National Association - San Francisco Branch	Branch of the ultimate holding company
Bank of America National Association - Labuan Branch	Branch of the ultimate holding company
Bank of America National Association - Singapore Branch	Branch of the ultimate holding company
Bank of America National Association - London Branch	Branch of the ultimate holding company
Bank of America National Association - Canada Branch	Branch of the ultimate holding company

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24 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) Related parties and relationships (continued)

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

<u>Related parties</u>	<u>Relationship</u>
Bank of America National Association - Bangkok Branch	Branch of the ultimate holding company
Bank of America National Association - Jakarta Branch	Branch of the ultimate holding company
Bank of America National Association - Mumbai Branch	Branch of the ultimate holding company
Bank of America National Association - Sydney Branch	Branch of the ultimate holding company
Bank of America National Association - Tokyo Branch	Branch of the ultimate holding company
Bank of America National Association - Hong Kong Branch	Branch of the ultimate holding company
Smith Zain (Penang) Sdn. Bhd.	Subsidiary of the ultimate holding company
Merrill Lynch Malaysian Advisory Sdn. Bhd.	Subsidiary of the ultimate holding company
Merrill Lynch International	Subsidiary of the ultimate holding company
Merrill Lynch International Bank Limited	Subsidiary of the ultimate holding company
Merrill Lynch (Asia Pacific) Limited	Subsidiary of the ultimate holding company
Key management personnel	The key management personnel of the Bank consists of: (i) All Directors of the Bank (ii) Senior management of the Bank
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****24 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)****(b) Significant related party balances and transactions**

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related party transactions, outstanding balances at the financial year end, and the corresponding expense and income for the financial year are as follows:

	Key Management <u>Personnel</u> RM'000	Other Related <u>Companies</u> RM'000
<u>2016</u>		
<u>Income</u>		
Interest on deposits and placements with other financial institutions	-	319
Interest on loans, advances and financing	9	-
Management fee income	-	1,958
Other fee income	-	4,999
	<u>9</u>	<u>7,276</u>
<u>Expenses</u>		
Interest on deposits and placements of banks and other financial institutions	-	909
Interest on deposits from customers	-	589
Shared administrative support expenses	-	21,969
	<u>-</u>	<u>23,467</u>
<u>Amount due from</u>		
Deposits and placements	-	67,199
Loans, advances and financing	274	-
Interest receivable	-	1
Other receivables	-	2,071
	<u>274</u>	<u>69,271</u>
<u>Amount due to</u>		
Deposits and placements	-	13,668
Interest payable	-	15
Other payables	-	1,378
	<u>-</u>	<u>15,061</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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

(b) Significant related party balances and transactions (continued)

	Key Management Personnel RM'000	Other Related Companies RM'000
<u>2015</u>		
<u>Income</u>		
Interest on deposits and placements with other financial institutions	-	215
Interest on loans, advances and financing	9	-
Management fee income	-	2,666
Other fee income	-	2,620
	<u>9</u>	<u>5,501</u>
<u>Expenses</u>		
Interest on deposits and placements of banks and other financial institutions	-	35
Interest on deposits from customers	-	725
Shared administrative support expenses	-	14,983
	<u>-</u>	<u>15,743</u>
<u>Amount due from</u>		
Deposits and placements	-	103,060
Loans, advances and financing	304	-
Interest receivable	-	2
Other receivables	-	3,589
	<u>304</u>	<u>106,651</u>
<u>Amount due to</u>		
Deposits and placements	-	40,525
Interest payable	-	42
Other payables	-	1,026
	<u>-</u>	<u>41,593</u>
<u>Approved limit</u>		
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
The approved limit on loans, advances and financing for key management personnel	<u>500</u>	<u>500</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

24 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

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

	<u>2016</u> RM'000	<u>2015</u> RM'000
Short-term employee benefits:		
Salaries and other remuneration	10,111	9,044
Fees	430	387
	<u>10,541</u>	<u>9,431</u>

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

25 TAXATION

	<u>2016</u> RM'000	<u>2015</u> RM'000
Malaysian income tax:		
Current financial year	10,455	13,850
(Over)/under provision of prior financial years taxation	(215)	727
Deferred taxation (Note 8)	(495)	(353)
Tax charge for the financial year	<u>9,745</u>	<u>14,224</u>

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

	<u>2016</u> RM'000	<u>2015</u> RM'000
Profit before taxation	<u>38,981</u>	<u>48,415</u>
Tax calculated at rate of 24% (2015: 25%)	9,355	12,104
Expenses not deductible for tax purposes	801	1,162
(Over)/under provision of deferred taxation in prior financial years	(196)	176
(Over)/under provision of prior financial years' taxation	(215)	727
Effect of changes in tax rate	-	55
Tax expense for the financial year	<u>9,745</u>	<u>14,224</u>

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26 COMMITMENTS AND CONTINGENCIES

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

Nature of commitments and contingencies

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

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

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

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

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

Company No.	
310983	V

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

26 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The commitments and contingencies constitute the followings:

<u>Description</u>	<u>2016</u>	<u>2015</u>
	Principal amount RM'000	Principal amount RM'000
Direct credit substitutes	75,500	69,374
Transaction related contingent items	50,387	114,602
Short-term self liquidating trade related contingencies	3,318	401
Foreign exchange related contracts:		
- One year or less	5,905,834	11,098,999
- Over one year to five years	-	136,196
Interest/profit rate related contracts:		
- One year or less	1,841,467	6,378,230
- Over one year to five years	7,075,000	9,397,632
- Over five years	187,500	187,500
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	488,994	520,217
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	8
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	1,274	1,131
Total	15,629,274	27,904,290

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

27 EARNINGS PER SHARE

The earnings per share has been calculated based on net profit for the financial year of RM29,235,388 (2015: RM34,190,616) and the weighted average number of ordinary shares in issue during the financial year of RM135,800,000 (2015: RM135,800,000).

28 CAPITAL ADEQUACY

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

Basel III

	2016 RM'000	2015 RM'000
<u>Common Equity I ("CET I") Capital and Tier I Capital</u>		
Share capital	135,800	135,800
Retained profits	300,607	270,034
Other disclosed reserves		
- Statutory reserve	141,446	141,446
Unrealised gains and losses on available-for-sale financial instruments	1,047	1,047
	<u>578,900</u>	<u>548,327</u>
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	<u>577,582</u>	<u>546,758</u>
<u>Tier-II Capital</u>		
Collective assessment allowance *	6,326	2,000
Regulatory reserve	-	1,337
Total Tier II capital	<u>6,326</u>	<u>3,337</u>
Total capital	<u>583,908</u>	<u>550,095</u>

* Excludes collective assessment allowance on impaired loans restricted from Tier-II Capital of the Bank of RM5,964 (2015: RM24,468).

Capital ratios

	2016	2015
CET I capital ratio	44.721%	31.276%
Tier I capital ratio	44.721%	31.276%
Total capital ratio	<u>45.210%</u>	<u>31.467%</u>

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28 CAPITAL ADEQUACY (CONTINUED)

Effective from 1 January 2013, the total capital and capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel-II Risk-Weighted Assets) guidelines issued on 13 October 2015 and 27 June 2013, respectively. The Bank has adopted the Standardised Approach ("SA") for Credit Risk and Market Risk and Basic Indicator Approach ("BIA") for Operational Risk.

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

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

	<u>31.12.2016</u>		<u>31.12.2015</u>	
	<u>Principal</u>	<u>Risk-weighted</u>	<u>Principal</u>	<u>Risk-weighted</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
(i) Credit risk				
0%	1,539,407	-	1,169,169	-
20%	217,293	43,459	411,814	82,363
35%	193	68	205	72
50%	203,020	101,510	341,627	170,814
75%	120	90	219	164
100%	585,577	585,577	643,679	643,679
	<u>2,545,610</u>	<u>730,704</u>	<u>2,566,713</u>	<u>897,092</u>
(ii) Market risk	-	375,810	-	685,374
(iii) Operational risk	-	185,024	-	165,725
	<u>2,545,610</u>	<u>1,291,538</u>	<u>2,566,713</u>	<u>1,748,191</u>

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NOTES TO THE FINANCIAL STATEMENTS
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28 CAPITAL ADEQUACY (CONTINUED)

(a) The breakdown of the Bank's risk-weighted assets ("RWA") by exposures is as follows:

<u>2016</u> <u>Exposure class</u>	<u>Gross</u> <u>Exposures</u> RM'000	<u>Net</u> <u>exposures</u> RM'000	<u>Risk</u> <u>weighted</u> <u>assets</u> RM'000	<u>Capital</u> <u>requirements</u> RM'000
<u>Credit risk</u>				
On-balance sheet exposures:				
Sovereigns/central banks	1,537,212	1,537,212	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	165,647	165,647	33,129	2,650
Insurance cos, securities firms & fund managers	3,120	3,120	1,798	144
Corporates	335,920	335,920	335,920	26,874
Residential mortgages	396	396	199	16
Other assets	17,418	17,418	15,221	1,218
Defaulted exposures	18	18	18	1
Total on-balance sheet exposures	2,059,731	2,059,731	386,285	30,903
Off-balance sheet exposures:				
OTC derivatives	287,722	287,722	155,504	12,440
Off-balance sheet exposures other than OTC derivatives or credit derivatives	199,159	198,157	188,915	15,113
Total off-balance sheet exposures	486,881	485,879	344,419	27,553
Total on and off-balance sheet exposures	2,546,612	2,545,610	730,704	58,456
<u>Market risk</u>				
	<u>Long</u> <u>position</u> RM'000	<u>Short</u> <u>position</u> RM'000		
Foreign currency risk	7,774	39,140	39,140	3,131
Interest rate risk			336,670	26,934
Total market risk exposure			375,810	30,065
<u>Operational risk</u>			185,024	14,802
Total RWA and capital Requirements			1,291,538	103,323

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 CAPITAL ADEQUACY (CONTINUED)

- (a) The breakdown of the Bank's risk-weighted assets ("RWA") by exposures is as follows:
(continued)

2015 <u>Exposure class</u>	Gross <u>Exposures</u> RM'000	Net <u>exposures</u> RM'000	Risk weighted <u>assets</u> RM'000	Capital <u>requirements</u> RM'000
<u>Credit risk</u>				
On-balance sheet exposures:				
Sovereigns/central banks	1,168,065	1,168,065	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	315,372	315,372	63,075	5,046
Insurance cos, securities firms & fund managers	919	919	919	74
Corporates	368,784	368,784	368,784	29,503
Residential mortgages	455	455	253	20
Other assets	12,700	12,700	11,596	928
Defaulted exposures	58	58	54	4
Total on-balance sheet exposures	1,866,353	1,866,353	444,681	35,575
Off-balance sheet exposures:				
OTC derivatives	469,558	469,558	234,966	18,797
Off-balance sheet exposures other than OTC derivatives or credit derivatives	230,802	230,802	217,445	17,396
Total off-balance sheet exposures	700,360	700,360	452,411	36,193
Total on and off-balance sheet exposures	2,566,713	2,566,713	897,092	71,768
<u>Market risk</u>				
	Long <u>position</u> RM'000	Short <u>position</u> RM'000		
Foreign currency risk	253,556	-	253,556	20,284
Interest rate risk			431,818	34,545
Total market risk exposure			685,374	54,829
<u>Operational risk</u>			165,725	13,258
Total RWA and capital Requirements			1,748,191	139,855

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(b) The breakdown of the Bank's credit risk exposures by risk weights is as follows: (continued)

	<u>Exposures after netting and credit risk mitigation (RM'000)</u>					
	Sovereigns/ Central banks	Insurance cos, securities firms & fund managers	Banks, Development Financial Institutions and MDBs	Corporates	Residential mortgages	Other assets
2015 <u>Risk weights</u>					Total exposures after netting and credit risk mitigation	Total risk weighted assets
0%	1,168,065	-	-	-	1,169,169	-
20%	-	-	411,814	-	411,814	82,363
35%	-	-	-	-	205	72
50%	-	24	341,561	-	341,627	170,814
75%	-	-	-	-	219	164
100%	-	35,118	46	596,868	51	643,679
Total exposures	1,168,065	35,142	753,421	596,868	517	897,092
Risk weighted assets by exposure	-	35,130	253,190	596,868	308	897,092
Average risk weight	-	99.966%	33.605%	100.000%	59.574%	34.951%
Deduction from capital base	-	-	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 **CAPITAL ADEQUACY (CONTINUED)**

- (c) The Off-Balance Sheet exposures and their related counterparty credit risk of the Bank are as follows:

2016 <u>Description</u>	Principal <u>amount</u> RM'000	Positive fair value of derivative <u>contracts</u> RM'000	Credit equivalent <u>amount*</u> RM'000	Risk weighted <u>assets</u> RM'000
Direct credit substitutes	75,500	-	75,498	70,666
Transaction related contingent items	50,387	-	25,194	19,783
Short term self liquidating trade related contingencies	3,318	-	664	664
Foreign exchange related contracts				
One year or less	5,905,834	117,109	178,025	111,503
Over one year to five years	-	-	1,086	1,086
Interest/profit related contracts				
One year or less	1,841,467	(261)	2,754	1,907
Over one year to five years	7,075,000	9,855	92,668	34,666
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
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	1,274	-	2	1
Total	15,629,274	127,616	486,879	344,419

* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia Guidelines.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 CAPITAL ADEQUACY (CONTINUED)

- (c) The Off-Balance Sheet exposures and their related counterparty credit risk of the Bank are as follows: (continued)

2015 Description	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount* RM'000	Risk weighted assets RM'000
Direct credit substitutes	69,374	-	69,374	60,910
Transaction related contingent items	114,602	-	57,301	52,410
Short term self liquidating trade related contingencies	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	-	-	-
Total	27,904,290	191,269	700,360	452,411

- * The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia Guidelines.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS

A Financial risk management objectives and policies

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

Market risk management

Market risk is the risk that value of assets and liabilities or revenues will be adversely affected by changes in market conditions.

Market risk is inherent in BAMB's operations and arises from both trading and non-trading positions. Trading exposures represent positions taken in a wide range of financial instruments and markets which expose BAMB to various risks, such as interest rate and foreign exchange. BAMB manages these risks by using trading strategies and other hedging actions which encompass a variety of financial instruments in both the cash and derivatives markets. Non-trading exposures arise from its Corporate Treasury activities, as part of International Treasury, as a consequence of the mismatch of assets and liabilities in the banking book. Corporate Treasury is also exposed to market risk as a consequence of its use of derivatives to mitigate the risks associated from this mismatch.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Credit risk management

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

BAC manages credit risk based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral, and other supports given current events, conditions and expectations. Credit risk management starts with an assessment of the credit risk profile of the borrower or counterparty based on an analysis of their financial position. As part of the overall credit risk assessment of a borrower or counterparty, credit exposures are assigned a risk rating and are subject to approval based on defined credit approval standards. Subsequent to approving credit limits, risk ratings are monitored on an ongoing basis. If necessary, risk ratings are adjusted to reflect changes in the financial condition, cash flow or financial situation of a borrower or counterparty. The credit underwriting and monitoring of BAMB is in line with BAC's global Core Credit Policy.

Risk Management, as well as supporting units, is responsible for the ongoing management and administration of credit risk at the borrower level by:

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

Liquidity risk management

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

BAMB has in place the following liquidity risk mitigation:

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

Operational risk management

BAC defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. BAC classifies Operational Risk using the Basel II Categories and definitions as follows: Internal Fraud, External Fraud, Employment Practices and Workplace Safety, Clients, Products, and Business Practices, Damage to Physical Assets, Business Disruption and System Failures, Execution, Delivery, and Process Management.

BAMB has a robust operational risk management framework. Within BAMB, the Local Management Team ("LMT") is responsible for monitoring the Malaysia business operations. Each Line of Business ("LOB"), which are represented within the LMT, are responsible for all the risks within the business including operational risks. Operational risk are managed through corporate-wide or LOB specific policies and procedures, controls, and monitoring tools. Examples of these include data reconciliation processes, fraud prevention, transaction processing monitoring and analysis and business recovery planning.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk

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

<u>2016</u>	<u>Assets</u>	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000
	Cash and short-term funds	1,548,738	-	-	-	-	97,698	-	1,646,436
	Securities held-for-trading ('HFT')	-	-	-	-	-	-	700,330	700,330
	Securities available-for-sale ('AFS')	-	-	-	-	-	2,995	-	2,995
	Loans, advances and financing	137,733	175,280	2,894	20,060	451	(6,367) ^	-	330,051
	Other assets	-	-	-	-	-	12,618	45,857	58,475
	Derivative assets	-	-	-	-	-	-	197,164	197,164
	Tax recoverable	-	-	-	-	-	4,971	-	4,971
	Deferred taxation	-	-	-	-	-	742	-	742
	Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	7,591	-	7,591
	Property, plant and equipment	-	-	-	-	-	2,880	-	2,880
	Total assets	1,686,471	175,280	2,894	20,060	451	123,128	943,351	2,951,635

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

<u>2016</u>	<u>Up to 1 month RM'000</u>	<u>>1 - 3 months RM'000</u>	<u>>3 - 12 months RM'000</u>	<u>>1 - 5 years RM'000</u>	<u>Over 5 years RM'000</u>	<u>Non- interest bearing RM'000</u>	<u>Trading book RM'000</u>	<u>Total RM'000</u>
<u>Liabilities</u>								
Deposits from customers	291,278	4,130	18,188	1,052	-	1,748,945	-	2,063,593
Deposits and placements of banks and other financial institutions	54	9,005	-	-	-	18,569	-	27,628
Bills and acceptances payable	-	-	-	-	-	31,270	-	31,270
Other liabilities	-	-	-	-	-	27,391	60,110	87,501
Derivative liabilities	-	-	-	-	-	-	162,743	162,743
Total liabilities	291,332	13,135	18,188	1,052	-	1,826,175	222,853	2,372,735
On-balance sheet - interest rate gap	1,395,139	162,145	(15,294)	19,008	451			

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)****B Interest rate risk (continued)**

<u>2015</u>	<u>Up to</u> <u>1 month</u> <u>RM'000</u>	<u>>1 - 3</u> <u>months</u> <u>RM'000</u>	<u>>3 - 12</u> <u>months</u> <u>RM'000</u>	<u>>1 - 5</u> <u>years</u> <u>RM'000</u>	<u>Over</u> <u>5 years</u> <u>RM'000</u>	<u>Non-</u> <u>interest</u> <u>bearing</u> <u>RM'000</u>	<u>Trading</u> <u>book</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<u>Assets</u>								
Cash and short-term funds	1,334,845	-	-	-	-	76,717	-	1,411,562
Deposits and placements with banks	-	1,008	-	-	-	-	-	1,008
Securities held-for-trading ('HFT')	-	-	-	-	-	-	297,049	297,049
Securities available-for-sale ('AFS')	-	-	-	-	-	2,995	-	2,995
Loans, advances and financing	55,230	179,343	39,114	5,254	1,319	(2,108) ^	-	278,152
Other assets	-	-	-	-	-	4,506	151,773	156,279
Derivative assets	-	-	-	-	-	-	381,661	381,661
Tax recoverable	-	-	-	-	-	2,287	-	2,287
Deferred taxation	-	-	-	-	-	993	-	993
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	7,591	-	7,591
Property, plant and equipment	-	-	-	-	-	4,454	-	4,454
Total assets	1,390,075	180,351	39,114	5,254	1,319	97,435	830,483	2,544,031

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

2015	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000
<u>Liabilities</u>								
Deposits from customers	283,656	6,633	19,691	-	-	1,083,390	-	1,393,370
Deposits and placements of banks and other financial institutions	16,187	-	-	-	-	22,206	-	38,393
Bills and acceptances payable	-	-	-	-	-	27,156	-	27,156
Other liabilities	-	-	-	-	-	11,027	124,224	135,251
Derivative liabilities	-	-	-	-	-	-	400,197	400,197
Total liabilities	299,843	6,633	19,691	-	-	1,143,779	524,421	1,994,367
On-balance sheet - interest rate gap	1,090,232	173,718	19,423	5,254	1,319			

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

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

	31.12.2016		
	MYR %	USD %	AUD %
<u>Financial assets</u>			
Cash and short-term funds	3.00	0.59	-
Securities held-for-trading ('HFT')	3.81	-	-
Loans, advances and financing	4.04	2.30	-
	<u> </u>	<u> </u>	<u> </u>
<u>Financial liabilities</u>			
Deposits from customers	1.96	0.05	-
Deposits and placements of bank and other financial institutions	1.50	0.77	-
	<u> </u>	<u> </u>	<u> </u>
	31.12.2015		
	MYR %	USD %	AUD %
<u>Financial assets</u>			
Cash and short-term funds	3.05	0.23	-
Deposits and placements with banks	-	-	2.25
Securities held-for-trading ('HFT')	4.01	-	-
Loans, advances and financing	4.41	1.66	-
	<u> </u>	<u> </u>	<u> </u>
<u>Financial liabilities</u>			
Deposits from customers	2.50	0.05	1.90
Deposits and placements of bank and other financial institutions	1.50	-	-
	<u> </u>	<u> </u>	<u> </u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)****C Liquidity risk**

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Liquidity risk (continued)

Contractual maturity of assets and liabilities (continued)

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

2016

Liabilities

Deposits from customers	2,021,817	18,405	4,655	8,168	9,496	1,052	-	2,063,593
Deposits and placements of banks and other financial institutions	18,569	94	8,965	-	-	-	-	27,628
Bills and acceptances payable	31,270	-	-	-	-	-	-	31,270
Other liabilities	-	-	-	-	-	-	87,501	87,501
Derivative liabilities	1,138	1,395	28,977	55,578	45,989	29,666	-	162,743
	<u>2,072,794</u>	<u>19,894</u>	<u>42,597</u>	<u>63,746</u>	<u>55,485</u>	<u>30,718</u>	<u>87,501</u>	<u>2,372,735</u>
Net liquidity gap	<u>(392,433)</u>	<u>99,691</u>	<u>282,152</u>	<u>11,911</u>	<u>171,428</u>	<u>416,013</u>	<u>(9,862)</u>	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Liquidity risk (continued)

Contractual maturity of assets and liabilities (continued)

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

2015

Assets

Cash and short-term funds	1,411,562	-	-	-	-	-	-	-	-	1,411,562
Deposits and placements with banks	-	-	-	-	-	-	-	-	-	-
Securities held-for-trading ('HFT')	-	-	1,008	-	-	-	-	-	-	1,008
Securities available-for-sale ('AFS')	-	185	2,017	983	3,757	290,107	-	-	-	297,049
Loans, advances and financing	-	-	-	-	-	15	2,980	-	-	2,995
Statutory deposit with Bank Negara Malaysia	18,907	36,286	178,248	37,573	855	6,283	-	-	-	278,152
Other assets*	-	-	-	-	-	-	-	7,591	-	7,591
Derivative assets	9,561	84,509	95,883	69,248	82,470	39,990	-	164,013	-	381,661
	1,440,030	120,980	277,156	107,804	87,082	336,395	174,584	-	-	2,544,031

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

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29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Liquidity risk (continued)

Contractual maturity of assets and liabilities (continued)

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

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BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Liquidity risk (continued)

Non-derivative financial liabilities

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

2016

Liabilities

Deposits from customers	2,021,828	18,430	4,678	8,247	9,670	1,062	-	2,063,915
Deposits and placements of banks and other financial institutions	18,569	94	8,965	-	-	-	-	27,628
Bills and acceptances payable	31,270	-	-	-	-	-	-	31,270
Other liabilities [^]	-	-	-	-	-	-	87,027	87,027
	<u>2,071,667</u>	<u>18,524</u>	<u>13,643</u>	<u>8,247</u>	<u>9,670</u>	<u>1,062</u>	<u>87,027</u>	<u>2,209,840</u>

[^] Excludes unearned discount on loans, advances and financing.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Liquidity risk (continued)

Non-derivative financial liabilities (continued)

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

2015

Liabilities

	Up to 1 week RM'000	>1 week to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Deposits from customers	1,319,550	47,604	6,661	6,472	13,541	-	-	1,393,828
Deposits and placements of banks and other financial institutions	23,451	14,955	-	-	-	-	-	38,406
Bills and acceptances payable	27,156	-	-	-	-	-	-	27,156
Other liabilities [^]	-	-	-	-	-	-	126,291	126,291
	<u>1,370,157</u>	<u>62,559</u>	<u>6,661</u>	<u>6,472</u>	<u>13,541</u>	<u>-</u>	<u>126,291</u>	<u>1,585,681</u>

[^] Excludes unearned discount on loans, advances and financing.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Liquidity risk (continued)

Non-derivative financial liabilities (continued)

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

	One year or less RM'000	Over one year RM'000	Total RM'000
<u>2016</u>			
Direct credit substitutes	48,289	27,211	75,500
Transaction related contingent items	31,261	19,126	50,387
Short-term self liquidating trade related Contingencies	3,318	-	3,318
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	488,994	-	488,994
Any commitments that are unconditionally cancelled at any time by the bank, without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	1,271	3	1,274
	<u>573,133</u>	<u>46,340</u>	<u>619,473</u>
<u>2015</u>			
Direct credit substitutes	52,614	16,760	69,374
Transaction related contingent items	101,309	13,293	114,602
Short-term self liquidating trade related Contingencies	401	-	401
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	520,217	-	520,217
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	8	8
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	-	1,131
	<u>675,672</u>	<u>30,061</u>	<u>705,733</u>

BANK OF AMERICA MALAYSIA BERHAD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)****C Liquidity risk (continued)****Derivative financial liabilities**

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

2016**Gross-settled derivatives:****Forwards and swaps****Receipts****Payments**

	2,499,889 (2,491,720)	546,560 (540,294)	942,963 (818,997)	1,528,080 (1,505,572)	1,639,898 (1,461,708)	525,440 (3,263)	7,682,830 (6,821,554)
	8,169	6,266	123,966	22,508	178,190	522,177	861,276
	-	-	7,075 (7,472)	27,499 (32,647)	15,695 (15,317)	815,610 (817,925)	865,879 (873,361)
	-	-	(397)	(5,148)	378	(2,315)	(7,482)
	8,169	6,266	123,569	17,360	178,568	519,862	853,794
Interest rate and cross currency swaps							
Receipts	-	-					
Payments	-	-					

Interest rate and cross currency swaps**Receipts****Payments**

BANK OF AMERICA MALAYSIA BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Liquidity risk (continued)

Derivative financial liabilities (continued)

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

2015

Gross-settled derivatives:

Forwards and swaps

Receipts

Payments

	Up to 1 week RM'000	>1 week to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	Over 1 year RM'000	Total RM'000
	7,285,857 (7,279,789)	2,170,995 (2,178,550)	4,662,610 (4,774,603)	1,556,275 (1,538,347)	2,003,215 (1,974,975)	195,322 (178,318)	17,874,274 (17,924,582)
	6,068	(7,555)	(111,993)	17,928	28,240	17,004	(50,308)
	7,228 (7,073)	128,835 (99,103)	5,400 (5,644)	7,242 (7,362)	133,245 (132,198)	1,346,386 (1,349,184)	1,628,336 (1,600,564)
	155	29,732	(244)	(120)	1,047	(2,798)	27,772
	6,223	22,177	(112,237)	17,808	29,287	14,206	(22,536)

Interest rate and cross currency swaps

Receipts

Payments

BANK OF AMERICA MALAYSIA BERHAD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)****D Currency risk**

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

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

2016	MYR	USD	SGD	GBP	AUD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short-term funds	1,212,698	392,246	3,774	322	3,938	33,458	1,646,436
Securities held-for-trading ('HFT')	700,330	-	-	-	-	-	700,330
Securities available-for-sale ('AFS')	2,995	-	-	-	-	-	2,995
Loans, advances and financing [^]	173,347	156,704	-	-	-	-	330,051
Other assets*	1,974	56,374	1	-	-	-	58,349
Derivative assets	197,164	-	-	-	-	-	197,164
Statutory deposit with Bank Negara Malaysia	7,591	-	-	-	-	-	7,591
	<u>2,296,099</u>	<u>605,324</u>	<u>3,775</u>	<u>322</u>	<u>3,938</u>	<u>33,458</u>	<u>2,942,916</u>

[^] This represents outstanding loans, advances and financing after deducting individual assessment allowance and collective assessment allowance.

* This represents other receivables.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

D Currency risk (continued)

<u>2016</u>	<u>MYR</u> RM'000	<u>USD</u> RM'000	<u>SGD</u> RM'000	<u>GBP</u> RM'000	<u>AUD</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>Liabilities</u>							
Deposits from customers	996,648	1,040,310	3,490	4	2,941	20,200	2,063,593
Deposits and placements of banks and other financial institutions	18,623	9,005	-	-	-	-	27,628
Bills and acceptances payable	20,774	10,496	-	-	-	-	31,270
Other liabilities [@]	7,992	64,127	-	21	32	7,056	79,228
Derivative liabilities	162,743	-	-	-	-	-	162,743
	<u>1,206,780</u>	<u>1,123,938</u>	<u>3,490</u>	<u>25</u>	<u>2,973</u>	<u>27,256</u>	<u>2,364,462</u>
Currency gap	<u>1,089,319</u>	<u>(518,614)</u>	<u>285</u>	<u>297</u>	<u>965</u>	<u>6,202</u>	

[@] This represents other payables.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

D Currency risk (continued)

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

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

2015	MYR	USD	SGD	GBP	AUD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Assets</u>							
Cash and short-term funds	1,158,799	227,672	2,174	419	2,883	19,615	1,411,562
Deposits and placements with banks	-	-	-	-	1,008	-	1,008
Securities held-for-trading ('HFT')	297,049	-	-	-	-	-	297,049
Securities available-for-sale ('AFS')	2,995	-	-	-	-	-	2,995
Loans, advances and financing [^]	128,947	149,205	-	-	-	-	278,152
Other assets [*]	2,931	152,696	-	-	-	-	155,627
Derivative assets	381,661	-	-	-	-	-	381,661
Statutory deposit with Bank Negara Malaysia	7,591	-	-	-	-	-	7,591
	<u>1,979,973</u>	<u>529,573</u>	<u>2,174</u>	<u>419</u>	<u>3,891</u>	<u>19,615</u>	<u>2,535,645</u>

[^] This represents outstanding loans, advances and financing after deducting individual assessment allowance and collective assessment allowance.

^{*} This represents other receivables.

BANK OF AMERICA MALAYSIA BERHAD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)****D Currency risk (continued)**

<u>2015</u>	<u>MYR</u> <u>RM'000</u>	<u>USD</u> <u>RM'000</u>	<u>SGD</u> <u>RM'000</u>	<u>GBP</u> <u>RM'000</u>	<u>AUD</u> <u>RM'000</u>	<u>Others</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<u>Liabilities</u>							
Deposits from customers	847,719	525,735	1,215	49	3,765	14,887	1,393,370
Deposits and placements of banks and other financial institutions	38,393	-	-	-	-	-	38,393
Bills and acceptances payable	18,863	8,293	-	-	-	-	27,156
Other liabilities [Ⓐ]	814	125,420	-	26	31	-	126,291
Derivative liabilities	400,197	-	-	-	-	-	400,197
	<u>1,305,986</u>	<u>659,448</u>	<u>1,215</u>	<u>75</u>	<u>3,796</u>	<u>14,887</u>	<u>1,985,407</u>
Currency gap	<u>673,987</u>	<u>(129,875)</u>	<u>959</u>	<u>344</u>	<u>95</u>	<u>4,728</u>	

[Ⓐ] This represents other payables.

BANK OF AMERICA MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

E Credit risk

Maximum exposure to credit risk

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

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

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
Assets			
Cash and short-term funds	2	1,644,241	1,410,458
Deposits and placements with banks		-	1,008
Securities held-for-trading ('HFT')	3	700,330	297,049
Securities available-for-sale ('AFS')	4	15	15
Loans, advances and financing [^]	5	330,051	278,152
Other assets		58,385	155,627
Derivative assets	7	197,164	381,661
Total assets*		<u>2,930,186</u>	<u>2,523,970</u>
 Commitments and contingencies		 <u>15,629,274</u>	 <u>27,904,290</u>
Total credit exposure		<u><u>18,559,460</u></u>	<u><u>30,428,260</u></u>

[^] Net of collective impairment and individual impairment of RM6,366,896 (2015: RM2,108,561).

* Excludes cash in hand, unquoted shares and prepayments.

Commitments and contingencies are based on the principal amounts in Note 28(c).

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

Collaterals

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)****E Credit risk (continued)**Concentration risk by geographical sectors

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

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

	Cash and short-term funds	Deposits and placements with banks	Securities held-for trading (‘HFT’)	Securities available- for-sale (‘AFS’)	Loans, advances and financing [^]	Other assets	Derivative assets	On balance sheet total [*]	Commitments and contingencies	Total credit exposure
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2016</u>										
Malaysia	1,587,213	-	700,330	15	330,051	2,012	184,292	2,803,913	15,180,467	17,984,380
United States	15,536	-	-	-	-	56,373	12,817	84,726	374,890	459,616
India	55	-	-	-	-	-	-	55	-	55
Singapore	3,774	-	-	-	-	-	-	3,774	3,121	6,895
Others	37,663	-	-	-	-	-	55	37,718	70,796	108,514
	<u>1,644,241</u>	<u>-</u>	<u>700,330</u>	<u>15</u>	<u>330,051</u>	<u>58,385</u>	<u>197,164</u>	<u>2,930,186</u>	<u>15,629,274</u>	<u>18,559,460</u>

[^] Net of collective assessment allowance and individual assessment allowance of RM6,366,896.

^{*} Excludes cash in hand, unquoted shares and prepayments.

Commitments and contingencies are based on the principal amounts in Note 28(c).

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29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

E Credit risk (continued)

Concentration risk by geographical sectors (continued)

	Cash and short-term funds RM'000	Deposits and placements with banks RM'000	Securities held-for- trading (‘HFT’) RM'000	Securities available- for-sale (‘AFS’) RM'000	Loans, advances and financing [^] RM'000	Other assets RM'000	Derivative assets RM'000	On balance sheet total* RM'000	Commitments and contingencies RM'000	Total credit exposure RM'000
<u>2015</u>										
Malaysia	1,372,355	-	297,049	15	278,152	2,931	374,079	2,324,581	27,515,133	29,839,714
United States	13,011	-	-	-	-	152,696	7,558	173,265	336,592	509,857
India	15	-	-	-	-	-	-	15	-	15
Singapore	2,174	1,008	-	-	-	-	-	3,182	12,892	16,074
Others	22,903	-	-	-	-	-	24	22,927	39,673	62,600
	<u>1,410,458</u>	<u>1,008</u>	<u>297,049</u>	<u>15</u>	<u>278,152</u>	<u>155,627</u>	<u>381,661</u>	<u>2,523,970</u>	<u>27,904,290</u>	<u>30,428,260</u>

[^] Net of collective assessment allowance and individual assessment allowance of RM2,108,561.

* Excludes cash in hand, unquoted shares and prepayments.

Commitments and contingencies are based on the principal amounts in Note 28(c).

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

E Credit risk (continued)

Concentration of risk by economic sectors

	Cash and short-term funds RM'000	Deposits and placements with banks RM'000	Securities held-for- trading (‘HFT’) RM'000	Securities for-sale (‘AFS’) RM'000	Loans and advances [^] RM'000	Other assets RM'000	Derivative assets RM'000	On-balance sheet total* RM'000	Commitments and contingencies RM'000	Total credit exposure RM'000
<u>2016</u>										
Mining and quarrying	-	-	-	-	68,191	-	-	68,191	19,000	87,191
Manufacturing	-	-	-	-	199,879	-	9,205	209,084	848,561	1,057,645
General commerce	-	-	-	-	19,678	-	-	19,678	57,190	76,868
Education, health and others	-	-	-	-	1,575	-	-	1,575	1,500	3,075
Finance, insurance and business services	119,792	-	-	-	26,162	58,385	187,959	392,298	14,656,281	15,048,579
Government and government agencies	1,524,449	-	700,330	15	185	-	-	2,224,979	6,726	2,231,705
Construction	-	-	-	-	13,002	-	-	13,002	38,742	51,744
Purchase of residential landed property, securities and transport vehicles	-	-	-	-	1,354	-	-	1,354	1,274	2,628
Others	-	-	-	-	25	-	-	25	-	25
	<u>1,644,241</u>	<u>-</u>	<u>700,330</u>	<u>15</u>	<u>330,051</u>	<u>58,385</u>	<u>197,164</u>	<u>2,930,186</u>	<u>15,629,274</u>	<u>18,559,460</u>

[^] Net of collective assessment allowance and individual assessment allowance of RM6,366,896.

* Excludes cash in hand, unquoted shares and prepayments.

Commitments and contingencies are based on the principal amounts in Note 28(c).

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

E Credit risk (continued)

Concentration of risk by economic sectors (continued)

	Cash and short-term funds RM'000	Deposits and placements with banks RM'000	Securities held-for- trading (‘HFT’) RM'000	Securities for-sale (‘AFS’) RM'000	Loans and advances [^] RM'000	Other assets RM'000	Derivative assets RM'000	On-balance sheet total* RM'000	Commitments and contingencies RM'000	Total credit exposure RM'000
2015										
Mining and quarrying	-	-	-	-	68,355	-	-	68,355	91,000	159,355
Manufacturing	-	-	-	-	114,516	-	3,823	118,339	895,286	1,013,625
General commerce	-	-	-	-	76,220	-	11	76,231	68,907	145,138
Education, health and others	-	-	-	-	2,983	-	-	2,983	71,460	74,443
Finance, insurance and business services	252,659	1,008	-	-	3,971	155,627	377,827	791,092	26,756,143	27,547,235
Government and government agencies	1,157,799	-	297,049	15	373	-	-	1,455,236	-	1,455,236
Construction	-	-	-	-	10,002	-	-	10,002	20,355	30,357
Purchase of residential landed property, securities and transport vehicles	-	-	-	-	1,631	-	-	1,631	1,131	2,762
Others	-	-	-	-	101	-	-	101	8	109
	1,410,458	1,008	297,049	15	278,152	155,627	381,661	2,523,970	27,904,290	30,428,260

[^] Net of collective assessment allowance and individual assessment allowance of RM2,108,561.

* Excludes cash in hand, unquoted shares and prepayments.

Commitments and contingencies are based on the principal amounts in Note 28(c).

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29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

E Credit risk (continued)

Loans, advances and financing

Loans, advances and financing are summarised as follows:

	<u>2016</u> RM'000	<u>2015</u> RM'000
Neither past due nor impaired	335,970	279,884
Past due but not impaired	395	235
Individually impaired	53	141
	<hr/>	<hr/>
Gross loans, advances, and financing	336,418	280,260
Less: Allowance for losses on loans, advances and financing:		
- Individual assessment allowance	(35)	(83)
- Collective assessment allowance	(6,332)	(2,025)
	<hr/>	<hr/>
Net loans, advances, and financing	<u>330,051</u>	<u>278,152</u>

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

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

	<u>Government & corporate Government agencies</u> RM'000	<u>Large customers</u> RM'000	<u>Staff loans</u> RM'000	<u>Mortgages</u> RM'000	<u>Total</u> RM'000
<u>2016</u>					
(RR1) – Exceptional	-	-	-	-	-
(RR2) – Excellent	-	174,167	-	-	174,167
(RR3) – Strong	186	46,680	-	-	46,866
(RR4) – Good	-	16,332	980	-	17,312
(RR5) – Satisfactory	-	1,777	-	-	1,777
(RR6) – Acceptable	-	1,636	-	-	1,636
(RR7) – Watchlist	-	998	-	-	998
(RR8) – Special Mention	-	72,045	-	-	72,045
(RR9) – Sub-standed	-	21,169	-	-	21,169
Unrated	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	186	334,804	980	-	335,970
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

*RR = Risk Rating

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

E Credit risk (continued)Loans, advances and financing (continued)

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

	Government & Government agencies	Large corporate customers	Staff loans	Mortgages	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2015</u>					
(RR1) – Exceptional	-	-	-	-	-
(RR2) – Excellent	-	109,500	-	-	109,500
(RR3) – Strong	374	25,538	-	-	25,912
(RR4) – Good	-	903	1,246	-	2,149
(RR5) – Satisfactory	-	2,144	-	-	2,144
(RR6) – Acceptable	-	72,737	-	252	72,989
(RR7) – Watchlist	-	67,190	-	-	67,190
Unrated	-	-	-	-	-
Total	374	278,012	1,246	252	279,884

*RR = Risk Rating

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

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

	Corporate RM'000	Mortgages RM'000	Total RM'000
<u>2016</u>			
Past due up to 30 days	-	395	395
Past due 30 - 60 days	-	-	-
Past due 60 - 90 days	-	-	-
Past due more than 90 days	-	-	-
Total	-	395	395
<u>2015</u>			
Past due up to 30 days	32	129	161
Past due 30 - 60 days	-	49	49
Past due 60 - 90 days	-	25	25
Past due more than 90 days	-	-	-
Total	32	203	235

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29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

E Credit risk (continued)

Loans, advances and financing (continued)

(c) Loans, advances and financing individually impaired

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

	<u>Mortgages</u> RM'000
<u>2016</u>	
Gross impaired	53
Less: Individual allowance	(35)
Net impaired	<u>18</u>
<u>2015</u>	
Gross impaired	141
Less: Individual allowance	(83)
Net impaired	<u>58</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

E Credit risk (continued)

Credit quality of financial assets

The table below presents an analysis of the credit quality of securities for the Bank by external rating agency as at 31 December are summarised as follows:

	Malaysian Government Securities ("MGS") RM'000	Malaysian Government Investment Issues RM'000	Unquoted securities RM'000	Total RM'000
<u>2016</u>				
<u>Securities available-for-sale ('AFS')</u>				
Sovereign rating (AAA to A-)	-	-	15	15
<u>Securities held-for-trading ('HFT')</u>				
Sovereign rating (AAA to A-)	665,423	34,907	-	700,330
	<u>665,423</u>	<u>34,907</u>	<u>15</u>	<u>700,345</u>
<u>2015</u>				
<u>Securities available-for-sale ('AFS')</u>				
Sovereign rating (AAA to A-)	-	-	15	15
<u>Securities held-for-trading ('HFT')</u>				
Sovereign rating (AAA to A-)	288,137	8,912	-	297,049
	<u>288,137</u>	<u>8,912</u>	<u>15</u>	<u>297,064</u>

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NOTES TO THE FINANCIAL STATEMENTS
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29 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

F Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank as at 31 December 2016.

The scenarios used for the interest rate risk sensitivity analysis on banking book are as per Bank Negara Malaysia guidelines on Reporting Requirements for Interest Rate/Rate of Return Risk in the Banking Book issued on 30 October 2013.

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

Interest rate risk sensitivity analysis on banking book

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>100 basis points parallel shocks</u>		
Earnings-at-risk	16,679	13,643
Economic Value Loss	(1,761)	(1,258)
	<u> </u>	<u> </u>

Foreign currency sensitivity analysis

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Impact to profit after tax</u>		
- 1%	7,137	2,885
+ 1%	(6,666)	(2,353)
	<u> </u>	<u> </u>

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30 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 December 2016.

	<u>Fair value measurement at end of the financial year</u> <u>using:</u>			
	<u>Total</u> RM'000	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000
<u>Financial assets at fair value through profit or loss</u>				
Securities held-for-trading ('HFT')				
- Malaysian Government Securities	665,423	665,423	-	-
- Government investment issues	34,907	34,907	-	-
Derivative assets				
- Foreign exchange forwards and swaps	169,442	-	169,442	-
- Interest rate and cross currency swaps	27,722	-	27,722	-
<u>Securities available-for-sale ('AFS')</u>				
Unquoted shares	2,980	-	-	2,980
Total assets	900,474	700,330	197,164	2,980

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 December 2016 (continued).

	<u>Fair value measurement at end of the financial year using:</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	RM'000	RM'000	RM'000	RM'000
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative liabilities				
- Foreign exchange forwards and swaps	127,057	-	127,057	-
- Interest rate and cross currency swaps	35,686	-	35,686	-
Total liabilities	<u>162,743</u>	<u>-</u>	<u>162,743</u>	<u>-</u>

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 December 2015.

	<u>Fair value measurement at end of the financial year using:</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at fair value through profit or loss</u>				
Securities held-for-trading ('HFT')				
- Malaysian Government Securities	288,137	288,137	-	-
- Government investment issues	8,912	8,912	-	-
Derivative assets				
- Foreign exchange forwards and swaps	330,073	-	330,073	-
- Interest rate and cross currency swaps	51,588	-	51,588	-
<u>Securities available-for-sale ('AFS')</u>				
Unquoted shares	2,980	-	-	2,980
Total assets	<u>681,690</u>	<u>297,049</u>	<u>381,661</u>	<u>2,980</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 December 2015 (continued).

	Fair value measurement at end of the financial year using:			
	Total	Level 1	Level 2	Level 3
	RM'000	RM'000	RM'000	RM'000
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative liabilities				
- Foreign exchange forwards and swaps	374,932	-	374,932	-
- Interest rate and cross currency swaps	25,265	-	25,265	-
Total liabilities	400,197	-	400,197	-

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

Financial instruments in Level 1

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

Financial instruments in Level 2

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

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

Specific valuation techniques used to value financial instruments include:

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments in Level 3

There were no movement in Level 3 instruments during the financial year ended 31 December 2016 and 31 December 2015.

There were no gains or losses from Level 3 instruments recognised in profit or loss the financial year ended 31 December 2016 and 31 December 2015.

Significant unobservable inputs

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

	Fair value at <u>31.12.2016</u> RM'000	Valuation <u>technique</u> RM'000	Significant unobservable <u>inputs</u> RM'000	Reasonable possible <u>shift</u> RM'000
<u>Securities Available-for-Sale ('AFS')</u>				
Unquoted Shares	RM2,980	Net tangible asset	Net tangible asset	+/- 5%
	Fair value at <u>31.12.2015</u> RM'000	Valuation <u>technique</u> RM'000	Significant unobservable <u>inputs</u> RM'000	Reasonable possible <u>shift</u> RM'000
<u>Securities Available-for-Sale ('AFS')</u>				
Unquoted Shares	RM2,980	Net tangible asset	Net tangible asset	+/- 5%

If the Net Tangible Asset had been 5% higher/lower, with all other variable held constant, the Bank's Other Comprehensive Income would have been RM639,468 (2015: RM498,216) higher and RM362,837 (2015: RM235,038) lower respectively.

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30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments in Level 3 (continued)

Financial instruments not measured at fair value

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value as at 31 December 2016, but for which fair value is disclosed.

	<u>Carrying value</u> RM'000	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Total</u> RM'000
<u>Financial assets</u>				
Cash and short-term funds	1,646,436	1,646,436	-	1,646,436
Deposits and placement with banks	-	-	-	-
Loans, advances and financing*	336,383	-	336,349	336,349
Other receivables	58,349	-	58,349	58,349
Statutory deposits with Bank Negara Malaysia	7,591	7,591	-	7,591
Total	2,048,759	1,654,027	394,698	2,048,725
<u>Financial liabilities</u>				
Deposits from customers	2,063,593	-	2,063,588	2,063,588
Deposits and placement of banks and other financial institutions	27,628	-	27,574	27,574
Bills and acceptances payable	31,270	-	31,270	31,270
Other payables	79,228	-	79,228	79,228
Total	2,201,719	-	2,201,660	2,201,660

* Excludes collective impairment allowances

Company No.	
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30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not measured at fair value (continued)

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value as at 31 December 2015, but for which fair value is disclosed.

	Carrying value RM'000	Level 1 RM'000	Level 2 RM'000	Total RM'000
<u>Financial assets</u>				
Cash and short-term funds	1,411,562	1,411,562	-	1,411,562
Deposits and placement with banks	1,008	1,008	-	1,008
Loans, advances and financing*	280,177	-	280,160	280,160
Other receivables	155,627	-	155,627	155,627
Statutory deposits with Bank Negara Malaysia	7,591	7,591	-	7,591
Total	1,855,965	1,420,161	435,787	1,855,948
<u>Financial liabilities</u>				
Deposits from customers	1,393,370	-	1,393,361	1,393,361
Deposits and placement of banks and other financial institutions	38,393	-	38,392	38,392
Bills and acceptances payable	27,156	-	27,156	27,156
Other payables	126,291	-	126,291	126,291
Total	1,585,210	-	1,585,200	1,585,200

* Excludes collective impairment allowances

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not measured at fair value (continued)

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

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

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

(b) Loans, advances and financing

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

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

(c) Deposits from customers

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

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

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

(e) Other receivables and other payables

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

(f) Bills and acceptances payable

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

BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

31 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

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

	Related amounts not set off in the statement of financial position				
	Gross amounts of recognised financial assets set off in the statement of financial position RM'000	Net amounts of financial assets presented in the statement of financial position RM'000	Financial Instruments RM'000	Cash collateral received RM'000	Net amount RM'000
<u>2016</u>					
Derivative financial assets	<u>197,164</u>	<u>-</u>	<u>(74,210)</u>	<u>(60,041)</u>	<u>62,913</u>
<u>2015</u>					
Derivative financial assets	<u>381,661</u>	<u>-</u>	<u>(195,559)</u>	<u>(119,669)</u>	<u>66,433</u>

BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

31 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial liabilities

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

						Related amounts not set off in the statement of financial position
	Gross amounts of recognised financial liabilities RM'000	Gross amounts of recognised financial liabilities set off in the statement of financial position RM'000	Net amounts of financial liabilities presented in the statement of financial position RM'000	Financial Instruments RM'000	Cash collateral paid RM'000	Net amount RM'000
<u>2016</u>						
Derivative financial liabilities	162,743	-	162,743	(74,210)	(28,892)	59,641
<u>2015</u>						
Derivative financial liabilities	400,197	-	400,197	(195,559)	(151,114)	53,524

Company No.	
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BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

31 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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

32 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 22 June 2017.

Company No.

310983

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BANK OF AMERICA MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Raymond Yeoh Cheng Seong and David Allan Cairns, being two of the Directors of Bank of America Malaysia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 10 to 108 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2016 and of the results and cash flows of the Bank for the financial year ended on that date and in accordance with the provisions of the Companies Act, 1965, MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and Bank Negara Malaysia Guidelines.

Signed on behalf of the Board of Directors in accordance with their resolution dated 22 June 2017.



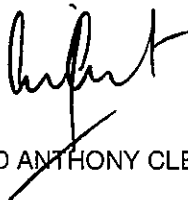
RAYMOND YEOH CHENG SEONG
DIRECTOR



DAVID ALLAN CAIRNS
DIRECTOR

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Clifford Anthony Clement, the Officer primarily responsible for the financial management of Bank of America Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 10 to 108 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



CLIFFORD ANTHONY CLEMENT

Subscribed and solemnly declared by the above named Clifford Anthony Clement at Kuala Lumpur on 22 June 2017, before me.





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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Bank of America Malaysia Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 10 to 108.

Basis for opinion

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

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

Independence and other ethical responsibilities

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of the financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

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



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
BANK OF AMERICA MALAYSIA BERHAD (CONTINUED)

(Incorporated in Malaysia)
(Company No. 310983 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, likely belonging to a representative of PricewaterhouseCoopers.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

A handwritten signature in black ink, likely belonging to Soo Hoo Khooon Yeap.

SOO HOO KHOON YEAP
(No. 2682/10/17 (J))
Chartered Accountant

Kuala Lumpur
22 June 2017