Basel II

Pillar 3 Disclosure

as at 31 December 2010

Overview

The Pillar 3 Disclosure for financial reporting beginning 1 January 2010 is introduced under the Bank Negara Malaysia ("BNM")'s Risk-Weighted Capital Adequacy Framework ("RWCAF"), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. Basel II consists of 3 Pillars as follows:

(a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume.

(b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions to develop and employ more rigorous risk management framework and techniques, including specific oversight by the board of directors and senior management on internal controls and corporate governance practices, to ensure that banking institutions have an appropriate level and quality of capital commensurate with their risk profile and business plan at all times.

(c) Pillar 3 aims to harness the power of market discipline through enhanced disclosure to supplement regulatory supervision of banking institutions through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

The Public Bank Group ("the Group") adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and applied the Basic Indicator Approach for operational risk of the Pillar 1 under BNM's RWCAF. Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk whilst the capital required for operational risk under the Basic Indicator Approach is computed based on a fixed percentage over the Group's average gross income for a fixed number of quarterly periods.

The Group's Pillar 3 Disclosure is governed by the Group Disclosure Policy on Basel II Risk-Weighted Capital Adequacy Framework – Pillar 3 which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been reviewed and verified by internal auditors and certified by Public Bank Berhad ("the Bank")'s Managing Director/Chief Executive Officer. The information is not audited as there is no requirement for external auditing of these disclosures under the BNM's RWCAF. The Pillar 3 Disclosure will be published in the Bank's website, www.publicbank.com.my

The Group's main business activity is commercial banking which focuses on retail banking and financing operations. The following tables present the minimum regulatory capital requirement to support the Group's and the Bank's risk-weighted assets.

	2010		2009	
	Risk-Weighted Assets RM'000	**Minimum Capital Requirement at 8% RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirement at 8% RM'000**
Group				
Credit Risk	**128,486,892**	**10,278,951**	113,598,587	9,087,887
Market Risk	**1,063,445**	**85,076**	1,161,618	92,929
Operational Risk	**11,546,113**	**923,689**	10,436,307	834,905
Total	**141,096,450**	**11,287,716**	125,196,512	10,015,721
Bank				
Credit Risk	**106,083,803**	**8,486,704**	93,354,990	7,468,399
Market Risk	**1,788,639**	**143,091**	2,080,980	166,478
Operational Risk	**8,446,853**	**675,748**	7,815,769	625,262
Total	**116,319,295**	**9,305,543**	103,251,739	8,260,139

The Group does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.

1.0 Scope of Application

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on Public Bank Berhad and its subsidiary and associated companies. The Public Bank Group offers Islamic banking financial services via the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("Public Islamic"). Information on subsidiary and associated companies of the Group is available in Notes 13 and 14 to the financial statements respectively.

The basis of consolidation for financial accounting purposes is described in Note 2(b) to the financial statements, and differs from that used for regulatory capital purposes. The investment in its banking associated company, which is equity-accounted in the financial accounting consolidation, is proportionately consolidated for regulatory capital purposes. The investment in the subsidiary company engaged in insurance activities is excluded from the regulatory consolidation and is deducted from the regulatory capital.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group.

There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

All information in the ensuing paragraphs is based on the Group's positions. Certain information on capital adequacy relating to the Bank is presented on a voluntary basis to provide additional information to users. The capital adequacy-related information of the Bank, which is presented on a global basis, includes its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd, as determined under the RWCAF.

2.0 Capital Management

The Group's capital management is guided by the Group Capital Management Framework which sets out the capital risk appetite and outlines the Group's objective to diversify its sources of capital and to allocate capital efficiently, directed by the need to maintain a prudent relationship between available capital and risks in the underlying businesses to meet the expectations of key constituencies, including investors, regulators and rating agencies. Internal capital targets are set for Tier I capital ratio and risk-weighted capital ratio. The capital target for risk-weighted capital ratio is above the minimum regulatory capital requirements and has factored in the expected capital required under the current and future operating environment to support the credit, market and operational risks as well as the Group's business growth.

Annually, the Board of Directors of the Bank ("the Board") approves the Group's capital plan which defines the Group's required level of optimal capital and the optimal mix between the different components of capital for the next 3 years. The Group's policy is to hold capital in a range of different forms and from diverse sources. The Bank oversees the capital raising exercise of its subsidiary companies to ensure that actions to manage and to raise capital are aligned to the overall objectives of the Group's capital plan. Similarly, at the subsidiary level, the management of its capital is all within the context of the Group's capital plan differentiated only by the local regulatory requirements. As part of the Group Capital Management Framework, capital generated in excess of planned requirements at the subsidiary level is returned to the Bank, normally by way of dividends.

The performance against internal capital levels is reviewed regularly by senior management. One of the key drivers in the Group's budgeting and planning process is the regulatory ratio and the Group's internal capital ratios. The Board reviews the Group's capital plan semi-annually. Proposals to address any deviation from capital targets or the need for capital raising exercise must be approved by the Board prior to implementation.

The group-wide stress testing process forecasts the Group's capital requirements under extreme, but plausible, stress events to assess the ability of the Group's capital to withstand market shocks. The results of the stress test are also to facilitate the formulation of action plans in advance if the stress test reveals that the Group's capital will be adversely affected under such events. The results of the stress test together with remedial actions, if any, are tabled to the Risk Management Committee ("RMC") and the Board for deliberations.

2.1 Capital Adequacy Ratios

The tables below present the capital adequacy ratios of the Group and the Bank.

	Group		Bank	
	2010	**2009**	**2010**	**2009**
Before deducting second interim dividends:				
Tier I capital ratio	**10.7%**	10.5%	**13.2%**	13.0%
Risk-weighted capital ratio	**14.4%**	14.6%	**14.1%**	14.1%
After deducting second interim dividends:				
Tier I capital ratio	**10.0%**	9.9%	**12.4%**	12.4%
Risk-weighted capital ratio	**13.7%**	14.0%	**13.3%**	13.5%

The capital adequacy ratios of the banking subsidiary companies of the Group are set out in Note 49 to the financial statements.

2.0 Capital Management (Cont'd.)

2.2 Capital Structure

The following tables present the components of Tier I and Tier II capital and deductions from capital.

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Tier I capital				
Paid-up share capital	**3,531,926**	3,531,926	**3,531,926**	3,531,926
Share premium	**1,073,310**	1,439,885	**1,073,310**	1,439,885
Other reserves	**3,787,881**	3,740,586	**3,508,238**	3,548,569
Retained profits	**4,754,405**	2,870,249	**4,641,801**	2,624,153
Innovative Tier I capital securities	**1,814,538**	1,883,186	**1,814,538**	1,883,186
Non-innovative Tier I stapled securities	**2,081,633**	2,080,878	**2,081,633**	2,080,878
Treasury shares	**(215,303)**	(581,638)	**(215,303)**	(581,638)
Minority interests	**652,188**	692,118	**—**	—
Less: Goodwill	**(1,903,898)**	(2,031,105)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(521,359)**	(500,684)	**(418,699)**	(384,741)
	15,055,321	13,125,401	**15,322,051**	13,446,825

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Tier II capital				
Collective assessment allowance #	**2,164,761**	—	**1,819,307**	—
General allowance	**—**	2,051,659	**—**	1,653,936
Subordinated notes	**3,102,012**	3,217,828	**3,102,012**	3,238,045
	5,266,773	5,269,487	**4,921,319**	4,891,981
Total capital	**20,322,094**	18,394,888	**20,243,370**	18,338,806
Less: Investment in subsidiary companies and associated companies	**(960)**	(960)	**(3,787,284)**	(3,593,384)
Less: Holdings of other financial institutions' capital instruments	**(47,439)**	(173,381)	**(47,439)**	(173,381)
Capital base	**20,273,695**	18,220,547	**16,408,647**	14,572,041

Excludes collective assessment allowance on impaired loans restricted from Tier II capital by BNM of the Group and the Bank of RM131.4 million and RM104.0 million respectively.

2.0 Capital Management (Cont'd.)

2.2 Capital Structure (Cont'd.)

The Bank has issued various capital instruments and debt instruments which qualify as components of regulatory capital, as summarised in the following table:

Capital Instruments	Capital Component	Main Features
(a) Non-Innovative Tier I stapled securities ("NIT-1")	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with IT-1 • Unsecured • Perpetual, with optional redemption after 10 years. No step-up • Able to defer interest but will trigger an assignment event, resulting in unstapling of the NIT-1. Investors will end up holding the perpetual securities • Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders
(b) Innovative Tier I capital securities ("IT-1")	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with NIT-1 • Unsecured • Optional redemption with step-up after 10 years • Option to defer interest up to 50% of aggregate principal • Principal and interest stock settlement provision
(c) Subordinated notes ("Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1 • Unsecured • Optional redemption with step-up after 5 or 7 years • No provisions for deferral of interest. Non-payment will result in default

The details of the capital and debt instruments are found in Note 22 to the financial statements.

3.0 Group Risk Management Framework

The management of risk within the Group is governed by the Group Risk Management Framework ("GRMF") which sets out the risk management governance and infrastructure, risk management processes and control responsibilities. In the Group, the most important aspect of an effective risk management is the inculcation of a risk awareness culture across all levels of staff in the Group through effective communication, training, clear policies, procedures and organisational structure, clearly defined roles and responsibilities as well as the commitment of all employees to the GRMF. The risk governance of the Group is as set out below:

ESTABLISH RISK APPETITE & POLICY	**Board of Directors**	**AUDIT COMMITTEE**
	Risk Management Committee	
ENSURE IMPLEMENTATION OF RISK POLICY AND COMPLIANCE	**Dedicated Committees**	
	Assets & Liabilities Management Committee Credit Risk Management Committee Operational Risk Management Committee Shariah Committee	
	Independent Risk Management and Control Units	
	Banking Operations and Compliance Credit Control, Administration & Supervision Risk Management	
IMPLEMENT AND COMPLY WITH RISK POLICY	**Business Units**	
	Corporate Lending Investment Banking Islamic Banking Retail Banking and Financing Operations Share Broking and Fund Management Treasury and Capital Market Operations	

The Board is ultimately responsible for the management of risk. The Board, through the RMC, maintains overall responsibility for risk oversight within the Group. The risk appetite statement embodies the Group's stance towards the levels of risk and serves as a guide in the formulation of the Group's strategic direction and business objectives which are set out in the annual Business Plans approved by the Board.

The Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee ("ORMC") assist the RMC in managing market and liquidity risk, credit risk and operational risk respectively. These committees are responsible for overseeing the development and assessing the effectiveness of risk management policies and for reviewing risk exposure and portfolio composition, and ensuring that infrastructure, resources and systems are put in place for effective risk management activities. The Shariah Committee advises the Board of Directors of Public Islamic on Shariah matters to ensure compliance with Shariah principles in the Islamic operations.

The independent risk management and control units provide crucial support to the dedicated risk management committees and are responsible for ensuring the risk policies are implemented and complied with. They are also responsible for the identification, measurement and monitoring of risk.

3.0 Group Risk Management Framework (Cont'd.)

The business units, being the first line of defense against risk, are responsible for identifying, mitigating and managing risk within their lines of business. These units ensure that their day-to-day business activities are carried out within the established risk policies, procedures and limits.

The Audit Committee, supported by the Internal Audit Division, provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

The Group has established, within its enterprise-wide risk management framework, a structured approach to risk management which balances risks against returns, as well as integrated risk management processes across key risk areas. The risk management activities encompass four broad processes namely risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring which lead to a balanced risk-return.

It is the Group's policy that all risk management policies are subject to frequent reviews to ensure that they remain relevant and effective in managing the associated risks brought about by the changing market place and regulatory environments.

4.0 Credit Risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Group's primary business is in commercial banking, the Group's exposure to credit risk is primarily from its lending and financing to retail consumers, small- and medium-sized enterprises ("SMEs") and corporate customers. Trading and investing the surplus funds of the Group, such as trading or holding of debt securities, settlement of transactions, also expose the Group to credit risk and counterparty credit risk.

Regulatory Capital Requirements

The following tables present the minimum regulatory capital requirement on credit risk of the Group.

Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2010				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	44,104,464	44,104,464	90,747	7,260
Public Sector Entities	447,508	447,508	29,364	2,349
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	8,322,852	8,322,852	2,071,255	165,700
Insurance Companies, Securities Firms and Fund Managers	239,194	234,305	203,733	16,299
Corporates	42,392,177	40,587,301	36,398,140	2,911,851
Regulatory Retail	78,591,298	77,940,697	58,453,942	4,676,315
Residential Mortgages	34,676,113	34,623,953	14,172,646	1,133,812
Higher Risk Assets	121,392	121,297	181,945	14,556
Other Assets	3,952,394	3,952,394	2,874,080	229,926
Equity Exposures	4,795,823	4,795,823	4,771,065	381,685
Defaulted Exposures	1,818,833	1,811,878	2,542,324	203,386
	219,462,048	216,942,472	121,789,241	9,743,139
Off-Balance Sheet Exposures				
Credit-related Exposures	9,241,639	8,849,321	6,455,981	516,478
Derivative Financial Instruments	930,694	930,694	216,914	17,353
Other Treasury-related Exposures	7,305	7,305	1,461	117
Defaulted Exposures	15,545	15,545	23,295	1,864
	10,195,183	9,802,865	6,697,651	535,812
Total Credit Exposures	229,657,231	226,745,337	128,486,892	10,278,951

4.0 Credit Risk (Cont'd.)

Regulatory Capital Requirements (Cont'd.)

The following tables present the minimum regulatory capital requirement on credit risk of the Group. (Cont'd.)

Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2009				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	52,147,725	50,947,482	—	—
Public Sector Entities	522,950	522,950	104,590	8,367
Banks, DFIs and MDBs	7,916,638	7,916,638	2,023,282	161,863
Insurance Companies, Securities Firms and Fund Managers	169,785	163,740	132,239	10,579
Corporates	38,173,771	36,175,906	32,103,005	2,568,240
Regulatory Retail	69,011,161	68,337,446	51,250,645	4,100,052
Residential Mortgages	30,048,157	30,004,938	12,271,591	981,727
Higher Risk Assets	149,174	149,031	223,547	17,884
Other Assets	3,884,280	3,884,280	2,872,284	229,783
Equity Exposures	4,545,222	4,545,222	4,520,464	361,637
Defaulted Exposures	1,634,084	1,630,096	2,282,068	182,565
	208,202,947	204,277,729	107,783,715	8,622,697
Off-Balance Sheet Exposures				
Credit-related Exposures	8,137,334	7,750,358	5,552,429	444,194
Derivative Financial Instruments	997,257	997,257	227,612	18,209
Other Treasury-related Exposures	91,201	91,201	15,171	1,214
Defaulted Exposures	13,401	13,401	19,660	1,573
	9,239,193	8,852,217	5,814,872	465,190
Total Credit Exposures	217,442,140	213,129,946	113,598,587	9,087,887

4.0 Credit Risk (Cont'd.)

Regulatory Capital Requirements (Cont'd.)

The following tables present the minimum regulatory capital requirement on credit risk of the Bank.

Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2010				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	34,362,141	34,362,141	90,748	7,260
Public Sector Entities	371	371	74	6
Banks, DFIs and MDBs	6,840,815	6,840,815	1,848,666	147,893
Insurance Companies, Securities Firms and Fund Managers	36,516	36,516	36,516	2,921
Corporates	37,987,835	36,469,072	32,269,553	2,581,564
Regulatory Retail	60,615,667	60,000,880	44,999,079	3,599,926
Residential Mortgages	29,162,832	29,121,775	12,130,651	970,452
Higher Risk Assets	108,795	108,724	163,085	13,047
Other Assets	2,826,458	2,826,458	1,958,045	156,644
Equity Exposures	4,271,683	4,271,683	4,246,925	339,754
Defaulted Exposures	1,496,847	1,490,043	2,069,180	165,534
	177,709,960	175,528,478	99,812,522	7,985,001
Off-Balance Sheet Exposures				
Credit-related Exposures	8,576,289	8,298,203	6,037,732	483,019
Derivative Financial Instruments	924,236	924,236	215,618	17,249
Other Treasury-related Exposures	3,600	3,600	720	58
Defaulted Exposures	11,489	11,489	17,211	1,377
	9,515,614	9,237,528	6,271,281	501,703
Total Credit Exposures	187,225,574	184,766,006	106,083,803	8,486,704

4.0 Credit Risk (Cont'd.)

Regulatory Capital Requirements (Cont'd.)

The following tables present the minimum regulatory capital requirement on credit risk of the Bank. (Cont'd.)

Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2009				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	39,398,350	39,398,350	—	—
Public Sector Entities	533	533	107	9
Banks, DFIs and MDBs	7,503,293	7,503,293	2,956,129	236,490
Insurance Companies, Securities Firms and Fund Managers	350	350	350	28
Corporates	33,907,508	32,158,035	28,085,442	2,246,835
Regulatory Retail	52,224,821	51,656,571	38,739,991	3,099,199
Residential Mortgages	24,884,974	24,856,909	10,376,495	830,120
Higher Risk Assets	135,662	135,552	203,327	16,266
Other Assets	2,675,230	2,675,230	1,912,073	152,966
Equity Exposures	4,033,204	4,033,204	4,008,445	320,676
Defaulted Exposures	1,215,599	1,211,663	1,678,663	134,293
	165,979,524	163,629,690	87,961,022	7,036,882
Off-Balance Sheet Exposures				
Credit-related Exposures	7,489,315	7,222,882	5,150,557	412,044
Derivative Financial Instruments	982,574	982,574	224,676	17,974
Other Treasury-related Exposures	15,344	15,344	—	—
Defaulted Exposures	12,664	12,664	18,735	1,499
	8,499,897	8,233,464	5,393,968	431,517
Total Credit Exposures	174,479,421	171,863,154	93,354,990	7,468,399

4.0 Credit Risk (Cont'd.)

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving officers are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing group-wide risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

Risk Management Approach

The management of credit risk starts with experienced key personnel appointed to the Credit Committee which is chaired by the respective entities' chief executive officers. The Credit Committee approves major credit decisions, guidelines and procedures to control and monitor credit risk. All applications of significant loans are approved at Head Office or by the Credit Committee while experienced senior officers at branches are given authority to approve loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned Discretionary Powers based on their seniority and track record.

(a) Lending to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer through the use of an internal credit risk rating scoresheet. The credit approving authorities and credit approving officers have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the loan application.

(b) Lending to Corporate and Institutional Customers

The credit granting to corporate and institutional customers is individually underwritten and risk-rated. Credit officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as standby letters of credit or bank guarantees.

4.0 Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the Credit Committee. In addition, the Group's investment policy also stipulates the minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. The investment policy is also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Board. As at reporting date, the Group does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

(d) Counterparty Credit Risk on Derivative Financial Instruments

The management of the counterparty credit risk on derivative financial instruments is set out in item 4.2 (b) of the Pillar 3 Disclosure.

Independent credit reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and competency of credit personnel. Internal risk management reports are presented to both the CRMC and the RMC, containing information on economic trends across major portfolios, quality of credit portfolios, results of independent credit review, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management to identify adverse credit trends, take corrective actions and formulate business strategies.

4.1 Distribution of Credit Exposures

The following tables present the credit exposures of financial assets before the effect of credit risk mitigation, broken down by the relevant category and class of financial assets against the relevant industry, geography and maturity. For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

4.0 Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis

The following tables present the credit exposures of financial assets of the Group analysed by industrial distribution.

	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
2010									
On-Balance Sheet Exposures									
Cash and balances with banks	28,397,686	6,292,753	–	–	–	–	–	–	34,690,439
Reverse repurchase agreements	365,877	–	–	–	–	–	–	–	365,877
Financial assets held-for-trading									
– Government securities and treasury bills	588,045	–	–	–	–	–	–	–	588,045
– Money market instruments	–	5,622,472	–	–	–	–	–	–	5,622,472
– Non-money market instruments	63,454	20,242	868	–	65,539	–	–	–	150,103
Derivative financial assets	–	326,622	–	–	–	–	–	–	326,622
Financial investments available-for-sale									
– Government securities and treasury bills	10,667,433	–	–	–	–	–	–	–	10,667,433
– Non-money market instruments	15	4,832,608	1,150,690	1,199,811	1,727	–	–	–	7,184,851
Financial investments held-to-maturity									
– Government securities and treasury bills	3,002,148	–	–	–	–	–	–	–	3,002,148
– Money market instruments	–	1,502,893	–	–	–	–	–	–	1,502,893
– Non-money market instruments	1,086	584,068	69,109	5,068	65,245	–	–	–	724,576
Gross loans, advances and financing									
– Retail loans/financing									
– housing loans/financing	–	–	–	–	–	43,891,024	–	–	43,891,024
– hire purchase	158	4,007	1,746,743	3,013,575	1,146,431	–	29,416,721	787	35,328,422
– credit cards	–	–	–	–	–	–	–	1,348,902	1,348,902
– other loans/financing	25,120	37,093	3,455,163	16,866,005	8,420,862	2,502,355	201,093	21,396,910	52,904,601
– Corporate loans/financing	–	6,378,583	1,463,390	5,400,730	9,822,778	–	–	5,642	23,071,123
Statutory deposits with Central Banks	1,612,575	–	–	–	–	–	–	–	1,612,575
	44,723,597	25,601,341	7,885,963	26,485,189	19,522,582	46,393,379	29,617,814	22,752,241	222,982,106
Commitments and Contingencies									
Contingent liabilities	625	246,745	655,102	1,106,575	884,005	–	–	18,867	2,911,919
Commitments	501,134	4,584,592	3,123,421	10,281,416	4,462,845	7,717,766	364	10,503,441	41,174,979
	501,759	4,831,337	3,778,523	11,387,991	5,346,850	7,717,766	364	10,522,308	44,086,898
Total Credit Exposures	45,225,356	30,432,678	11,664,486	37,873,180	24,869,432	54,111,145	29,618,178	33,274,549	267,069,004

4.0 Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis (Cont'd.)

The following tables present the credit exposures of financial assets of the Group analysed by industrial distribution. (Cont'd.)

	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
2009									
On-Balance Sheet Exposures									
Cash and balances with banks	41,497,566	5,165,590	–	–	–	–	–	–	46,663,156
Reverse repurchase agreements	1,200,243	–	–	–	–	–	–	–	1,200,243
Financial assets held-for-trading									
– Government securities and treasury bills	1,501,020	–	–	–	–	–	–	–	1,501,020
– Money market instruments	–	6,243,362	–	–	–	–	–	–	6,243,362
– Non-money market instruments	35,952	145,614	31,257	–	70	–	–	–	212,893
Derivative financial assets	–	310,311	–	–	–	–	–	–	310,311
Financial investments available-for-sale									
– Government securities and treasury bills	4,838,654	–	–	–	–	–	–	–	4,838,654
– Money market instruments	–	50,637	–	–	–	–	–	–	50,637
– Non-money market instruments	–	4,616,921	1,531,616	1,126,142	1,807	–	–	–	7,276,486
Financial investments held-to-maturity									
– Government securities and treasury bills	3,553,333	–	–	–	–	–	–	–	3,553,333
– Money market instruments	–	1,534,076	–	–	–	–	–	–	1,534,076
– Non-money market instruments	1,086	1,385,891	75,587	5,073	65,161	–	–	–	1,532,798
Gross loans, advances and financing									
– Retail loans/financing									
– housing loans/financing	–	–	–	–	–	37,518,424	–	–	37,518,424
– hire purchase	522	4,290	1,538,870	2,773,927	1,050,934	–	26,140,342	1,153	31,510,038
– credit cards	–	–	–	–	–	–	–	1,178,526	1,178,526
– other loans/financing	15,441	58,097	3,084,521	15,523,066	7,781,694	2,430,156	174,779	18,106,091	47,173,845
– Corporate loans/financing	–	4,322,757	1,518,982	5,296,340	9,081,379	–	–	10,136	20,229,594
Statutory deposits with Central Banks	1,022,181	–	–	–	–	–	–	–	1,022,181
	53,665,998	23,837,546	7,780,833	24,724,548	17,981,045	39,948,580	26,315,121	19,295,906	213,549,577
Commitments and Contingencies									
Contingent liabilities	316	238,915	504,113	918,978	1,039,275	–	–	8,125	2,709,722
Commitments	526,016	1,638,874	2,743,069	10,492,425	4,607,273	6,260,522	12,687	9,675,690	35,956,556
	526,332	1,877,789	3,247,182	11,411,403	5,646,548	6,260,522	12,687	9,683,815	38,666,278
Total Credit Exposures	54,192,330	25,715,335	11,028,015	36,135,951	23,627,593	46,209,102	26,327,808	28,979,721	252,215,855

4.0 Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(b) Geographical Analysis

The following tables present the credit exposures of financial assets analysed by geographical distribution based on the geographical location where the credit risk resides.

	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2010					
On-Balance Sheet Exposures	**203,528,659**	**13,669,059**	**2,593,194**	**3,191,194**	**222,982,106**
Commitments and Contingencies	**40,900,341**	**2,459,451**	**606,457**	**120,649**	**44,086,898**
Total Credit Exposures	**244,429,000**	**16,128,510**	**3,199,651**	**3,311,843**	**267,069,004**
2009					
On-Balance Sheet Exposures	193,581,194	13,724,858	2,699,543	3,543,982	213,549,577
Commitments and Contingencies	35,858,622	2,113,652	521,378	172,626	38,666,278
Total Credit Exposures	229,439,816	15,838,510	3,220,921	3,716,608	252,215,855

4.0 Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(c) Maturity Analysis

The following tables present the residual contractual maturity for major types of gross credit exposures for on-balance sheet exposures of financial assets. Approximately 38% of the Group's exposures to customers is short term, having contractual maturity of one year or less. About 62% of the Group's gross loans, advances and financing has residual maturity of more than 5 years. The longer maturity is driven by the housing loans and hire purchase financing which made up 51% of the portfolio and are traditionally longer term in nature and well secured.

	Up to 1 Year RM'000	>1 to 3 Years RM'000	>3 to 5 Years RM'000	>5 Years RM'000	Total RM'000
2010					
On-Balance Sheet Exposures					
Cash and balances with banks	**34,690,439**	**—**	**—**	**—**	**34,690,439**
Reverse repurchase agreements	**365,877**	**—**	**—**	**—**	**365,877**
Financial assets held-for-trading	**6,236,285**	**93,149**	**31,186**	**—**	**6,360,620**
Derivative financial assets	**93,786**	**95,776**	**24,897**	**112,163**	**326,622**
Financial investments available-for-sale	**15,316,987**	**343,581**	**2,075,772**	**115,944**	**17,852,284**
Financial investments held-to-maturity	**3,438,032**	**1,011,630**	**734,584**	**45,371**	**5,229,617**
Gross loans, advances and financing	**25,130,683**	**16,618,501**	**18,258,072**	**96,536,816**	**156,544,072**
Statutory deposits with Central Banks	**—**	**—**	**—**	**1,612,575**	**1,612,575**
Total On-Balance Sheet Exposures	**85,272,089**	**18,162,637**	**21,124,511**	**98,422,869**	**222,982,106**
2009					
On-Balance Sheet Exposures					
Cash and balances with banks	46,663,156	—	—	—	46,663,156
Reverse repurchase agreements	1,200,243	—	—	—	1,200,243
Financial assets held-for-trading	7,543,890	383,359	30,026	—	7,957,275
Derivative financial assets	43,943	101,221	72,289	92,858	310,311
Financial investments available-for-sale	4,708,271	4,769,423	1,458,027	1,230,056	12,165,777
Financial investments held-to-maturity	4,063,135	1,364,548	919,611	272,913	6,620,207
Gross loans, advances and financing	23,963,064	14,871,529	16,104,439	82,671,395	137,610,427
Statutory deposits with Central Banks	—	—	—	1,022,181	1,022,181
Total On-Balance Sheet Exposures	88,185,702	21,490,080	18,584,392	85,289,403	213,549,577

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future receivables since the Group expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire or unconditionally cancelled by the Group without them being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

4.0 Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

(a) Off-Balance Sheet Exposures

Off-balance sheet exposures of the Group are mainly from the following:

- Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These exposures carry the same credit risk as loans even though they are contingent in nature
- Documentary and commercial letters of credit, which are undertakings by the Group on behalf of the customer. These exposures are usually collateralised by the underlying shipment of goods to which they relate
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities
- Unutilised credit card lines
- Principal/notional amount of derivative financial instruments

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out in item 4.0 of the Pillar 3 Disclosure.

(b) Counterparty Credit Risk on Derivative Financial Instruments

Counterparty Credit Risk ("CCR") on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, options or credit derivative contract defaults prior to maturity date of the contract and that the Group at the relevant time has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes. The Group may also take conservative trading derivative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Unlike on-balance sheet financial instruments, the Group's financial loss is not the entire contracted principal value of the derivatives, but rather a fraction equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. The Group will only suffer a replacement cost if the contract carries a fair value gain at time of default.

4.0 Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

(b) Counterparty Credit Risk on Derivative Financial Instruments (Cont'd.)

(i) Risk Management Approach

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Over-the-Counter ("OTC") derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any shortfall in threshold levels.

All outstanding financial derivative positions are marked-to-market on a daily basis. Treasury Control & Processing Department monitors counterparties' positions and promptly follows up with the requirements to post collateral upon any shortfall in the threshold levels.

Where possible, the Group settles its OTC derivatives via the Payment-versus-Payment ("PVP") settlement method to further reduce settlement risk. For derivative financial instruments where the PVP settlement method is not possible, the Group establishes settlement limits through the Group's credit approval process.

(ii) Credit Ratings Downgrade

Some netting and collateral arrangements may contain rating triggers, although the threshold levels in the majority of the Group's agreements are identical in the event of a one-notch rating downgrade. As at 31 December 2010, the estimated additional collateral required to be posted for one notch downgrade was RM34.1 million (2009: RM26.4 million).

4.0 Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

(c) Composition of Off-Balance Sheet Exposures

The following tables present a breakdown of the off-balance sheet exposures of the Group.

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2010				
Contingent Liabilities				
Direct credit substitutes	1,580,171		1,580,171	1,043,487
Transaction-related contingent items	772,945		386,473	237,180
Short term self-liquidating trade-related contingencies	483,803		96,761	75,686
Obligations under an on-going underwriting agreement	75,000		37,500	37,500
	2,911,919		2,100,905	1,393,853
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	15,412,139		6,548,625	4,629,682
– not exceeding one year	22,717,264		—	—
Unutilised credit card lines	3,038,271		607,654	455,741
Forward asset purchases	7,305		7,305	1,461
	41,174,979		7,163,584	5,086,884
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	14,180,707	86,216	261,714	80,736
– one year to less than five years	6,271	—	416	416
Interest rate related contracts:				
– less than one year	710,853	7,672	8,441	1,694
– one year to less than five years	5,815,108	99,523	233,529	48,741
– five years and above	3,996,975	112,163	377,426	75,486
Commodity related contracts:				
– less than one year	929	—	9	9
Equity related contracts:				
– less than one year	227,140	—	13,628	2,726
– one year to less than five years	181,027	21,048	35,531	7,106
	25,119,010	326,622	930,694	216,914
Total Off-Balance Sheet Exposures	69,205,908	326,622	10,195,183	6,697,651

4.0 Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

(c) Composition of Off-Balance Sheet Exposures (Cont'd.)

The following tables present a breakdown of the off-balance sheet exposures of the Group. (Cont'd.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2009				
Contingent Liabilities				
Direct credit substitutes	1,439,868		1,439,868	864,160
Transaction-related contingent items	627,016		313,508	181,889
Short term self-liquidating trade-related contingencies	567,838		113,568	81,594
Obligations under an on-going underwriting agreement	75,000		37,500	37,500
	2,709,722		1,904,444	1,165,143
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	13,477,346		5,598,305	3,920,956
– not exceeding one year	19,148,076		—	—
Unutilised credit card lines	3,239,933		647,986	485,990
Forward asset purchases	91,201		91,201	15,171
	35,956,556		6,337,492	4,422,117
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	11,203,156	41,303	165,755	47,586
– one year to less than five years	5,062	40	293	293
Interest rate related contracts:				
– less than one year	166,552	2,623	2,964	593
– one year to less than five years	5,962,948	151,373	318,358	64,546
– five years and above	4,947,020	92,859	449,300	91,916
Commodity related contracts:				
– less than one year	3,767	17	55	55
Equity related contracts:				
– one year to less than five years	480,456	22,096	60,532	22,623
	22,768,961	310,311	997,257	227,612
Total Off-Balance Sheet Exposures	61,435,239	310,311	9,239,193	5,814,872

4.0 Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

(c) Composition of Off-Balance Sheet Exposures (Cont'd.)

The following tables present the breakdown of the off-balance sheet exposures of the Bank.

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2010				
Bank (excluding Public Bank (L) Ltd)				
Contingent Liabilities				
Direct credit substitutes	1,476,910		1,476,910	1,027,132
Transaction-related contingent items	676,528		338,264	206,138
Short term self-liquidating trade-related contingencies	231,016		46,203	39,067
Obligations under an on-going underwriting agreement	75,000		37,500	37,500
	2,459,454		1,898,877	1,309,837
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	14,338,422		6,109,173	4,309,154
– not exceeding one year	20,522,993		—	—
Unutilised credit card lines	2,875,523		575,105	431,329
Forward asset purchases	3,600		3,600	720
	37,740,538		6,687,878	4,741,203
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	13,951,365	82,199	255,349	79,463
– one year to less than five years	6,271	—	416	416
Interest rate related contracts:				
– less than one year	570,013	7,663	8,286	1,657
– one year to less than five years	5,491,445	99,523	221,662	46,366
– five years and above	3,904,500	112,163	370,028	74,005
Commodity related contracts:				
– less than one year	929	—	9	9
Equity related contracts:				
– less than one year	227,140	—	13,628	2,726
– one year to less than five years	181,027	21,048	35,531	7,106
	24,332,690	322,596	904,909	211,748
Total	64,532,682	322,596	9,491,664	6,262,788

4.0 Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

(c) Composition of Off-Balance Sheet Exposures (Cont'd.)

The following tables present the breakdown of the off-balance sheet exposures of the Bank. (Cont'd.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Public Bank (L) Ltd				
Contingent Liabilities				
Direct credit substitutes	4,623		4,623	4,623
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	–		–	–
– not exceeding one year	130,941		–	–
	130,941		–	–
Derivative Financial Instruments				
Interest rate related contracts:				
– less than one year	61,650	–	62	17
– one year to less than five years	323,663	–	11,867	2,373
– five years and above	92,475	–	7,398	1,480
	477,788	–	19,327	3,870
Total	613,352	–	23,950	8,493
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd	65,146,034	322,596	9,515,614	6,271,281

4.0 Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

(c) Composition of Off-Balance Sheet Exposures (Cont'd.)

The following tables present the breakdown of the off-balance sheet exposures of the Bank. (Cont'd.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2009				
Bank (excluding Public Bank (L) Ltd)				
Contingent Liabilities				
Direct credit substitutes	1,321,526		1,321,526	836,660
Transaction-related contingent items	577,945		288,973	166,195
Short term self-liquidating trade-related contingencies	422,644		84,529	77,505
Obligations under an on-going underwriting agreement	75,000		37,500	37,500
	2,397,115		1,732,528	1,117,860
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	12,381,050		5,137,648	3,572,009
– not exceeding one year	17,481,585		—	—
Unutilised credit card lines	3,047,607		609,521	457,141
Forward asset purchases	15,344		15,344	—
	32,925,586		5,762,513	4,029,150
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	10,521,767	36,153	151,072	44,650
– one year to less than five years	5,062	40	293	293
Interest rate related contracts:				
– less than one year	166,552	2,623	2,964	593
– one year to less than five years	5,774,408	151,373	312,873	63,398
– five years and above	4,604,220	90,559	425,746	87,206
Commodity related contracts:				
– less than one year	3,767	17	55	55
Equity related contracts:				
– one year to less than five years	480,456	22,096	60,532	22,623
	21,556,232	302,861	953,535	218,818
Total	56,878,933	302,861	8,448,576	5,365,828

4.0 Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

(c) Composition of Off-Balance Sheet Exposures (Cont'd.)

The following tables present the breakdown of the off-balance sheet exposures of the Bank. (Cont'd.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Public Bank (L) Ltd				
Contingent Liabilities				
Direct credit substitutes	5,142		5,142	5,142
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	34,280		17,140	17,140
– not exceeding one year	16,538		—	—
	50,818		17,140	17,140
Derivative Financial Instruments				
Interest rate related contracts:				
– less than one year	—	—	—	—
– one year to less than five years	188,540	—	5,485	1,147
– five years and above	342,800	2,300	23,554	4,711
	531,340	2,300	29,039	5,858
Total	587,300	2,300	51,321	28,140
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd	57,466,233	305,161	8,499,897	5,393,968

4.0 Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation

The Group's approach in granting credit facilities is based on the credit standing of the customer, source of repayment and debt servicing ability rather than placing primary reliance on Credit Risk Mitigants ("CRM"). Depending on a customer's standing and the type of product, facilities may be provided unsecured. Nevertheless, mitigation of credit risk is a key aspect of effective risk management and takes many forms.

The main types of collateral obtained by the Group to mitigate credit risk are as follows:

(a) for residential mortgages – charges over residential properties
(b) for commercial property loans – charges over the properties being financed
(c) for motor vehicle financing – ownership claims over the vehicles financed
(d) for share margin financing – pledge over securities from listed exchange
(e) for other loans – charges over business assets such as premises, inventories, trade receivables or deposits

There is no material concentration of CRM held. Presently, CRM including bank guarantees, shares and marketable securities are governed by various monitoring limits to ensure such concentration risk is properly managed.

The reliance that can be placed on CRM is carefully assessed in light of issues such as legal enforceability, market value and counterparty credit risk of the guarantor. Policies and procedures are in place to govern the protection of the Group's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the credit risk mitigants.

The valuation of CRM seeks to monitor and ensure that they will continue to provide the credit protection. Policy on the periodic valuation updates of CRM is in place to ensure this. The value of properties taken as collateral is generally updated from time to time during the review of the customers' facilities to reflect the current market value. The quality, liquidity and collateral type will determine the appropriate haircuts or discounts applied on the market value of the collateral.

Where there is a currency mismatch, haircuts are applied to protect against currency fluctuations, in addition to ongoing review and controls over maturity mismatch between collateral and exposures. Especially in mortgage financing, the collateral is required to be insured at all times against major risks, for instance, fire, with the respective banking entities as the loss payee under the insurance policy. In addition, customers are generally insured against major risks, such as, death and permanent disability.

The Group also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk, subject to internal guidelines on eligibility. Currently, the Group does not employ the use of derivative credit instruments such as credit default swaps, structured credit notes and securitisation structures to mitigate the Group's credit exposures. In addition, the Group enters into master netting arrangements with its derivative counterparties to reduce the credit risk where in the event of default, all amounts with the counterparty are settled on a net basis.

4.0 Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation (Cont'd.)

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of cash, securities from listed exchange, unit trust or marketable securities. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2010				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	44,104,464	–	–	–
Public Sector Entities	447,508	300,687	–	–
Banks, DFIs and MDBs	8,322,852	369,900	–	–
Insurance Companies, Securities Firms and Fund Managers	239,194	–	4,889	–
Corporates	42,392,177	1,293,160	1,804,876	–
Regulatory Retail	78,591,298	5,032	650,601	–
Residential Mortgages	34,676,113	–	52,160	–
Higher Risk Assets	121,392	–	95	–
Other Assets	3,952,394	–	–	–
Equity Exposures	4,795,823	–	–	–
Defaulted Exposures	1,818,833	–	6,955	–
	219,462,048	1,968,779	2,519,576	–
Off-Balance Sheet Exposures				
Credit-related Exposures	9,241,639	347,573	392,318	–
Derivative Financial Instruments	930,694	–	–	–
Other Treasury-related Exposures	7,305	–	–	–
Defaulted Exposures	15,545	–	–	–
	10,195,183	347,573	392,318	–
Total Credit Exposures	229,657,231	2,316,352	2,911,894	–

4.0 Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation (Cont'd.)

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of cash, securities from listed exchange, unit trust or marketable securities. The Group does not have any credit exposure which is reduced through the application of other eligible collateral. (Cont'd.)

Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2009				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	52,147,725	—	1,200,243	—
Public Sector Entities	522,950	—	—	—
Banks, DFIs and MDBs	7,916,638	411,360	—	—
Insurance Companies, Securities Firms and Fund Managers	169,785	—	6,045	—
Corporates	38,173,771	1,511,804	1,997,865	—
Regulatory Retail	69,011,161	6,898	673,715	—
Residential Mortgages	30,048,157	—	43,219	—
Higher Risk Assets	149,174	—	143	—
Other Assets	3,884,280	—	—	—
Equity Exposures	4,545,222	—	—	—
Defaulted Exposures	1,634,084	—	3,988	—
	208,202,947	1,930,062	3,925,218	—
Off-Balance Sheet Exposures				
Credit-related Exposures	8,137,334	389,525	386,976	—
Derivative Financial Instruments	997,257	—	—	—
Other Treasury-related Exposures	91,201	—	—	—
Defaulted Exposures	13,401	—	—	—
	9,239,193	389,525	386,976	—
Total Credit Exposures	217,442,140	2,319,587	4,312,194	—

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions ("ECAI") ratings used by the Group and are recognised by BNM in the RWCAF:

(a) Standard & Poor's ("S&P")

(b) Moody's Investors Services ("Moody's")

(c) Fitch Ratings ("Fitch")

(d) Rating Agency Malaysia Berhad ("RAM")

(e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

(a) Sovereigns and central banks

(b) Banking institutions

(c) Corporates

Unrated and Rated Counterparties

In general, the rating specific to the credit exposure is used, i.e. the issue rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least pari passu with the obligation that is rated, as stipulated in the RWCAF. Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is then used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach. Each exposure must be assigned to one of the six credit quality rating categories defined in the table below.

Rating Category	S & P	Moody's	Fitch	RAM	MARC
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB1 to BB3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below	C1 and below	C+ and below

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The Group uses a system to automatically execute the selection of ratings and allocation of risk weights. The following table is a simplified version of the risk weight mapping matrix for each credit quality rating category:

Rating Category	Risk Weights Based on Credit Rating of the Counterparty Exposure Class			
			Banking Institutions	
	Sovereigns and Central Banks	Corporates	For Exposure Greater than Six Months Original Maturity	For Exposure Less than Six Months Original Maturity
1	0%	20%	20%	20%
2	20%	50%	50%	20%
3	50%	100%	50%	20%
4	100%	100%	100%	50%
5	100%	150%	100%	50%
6	150%	150%	150%	150%

In addition to the above, credit exposures under the counterparty exposure class of Banking Institutions, with an original maturity of below three months and denominated in RM, are all risk-weighted at 20% regardless of credit rating.

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures before the effect of credit risk mitigation, broken down by credit quality rating categories.

	Rating Categories							
Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2010								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit exposures risk-weighted using ratings of Corporates								
– Corporates	2,896,348	1,873,710	1,483,860	19,761	–	–		6,273,679
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
– Sovereigns and Central Banks	511,127	42,594,029	–	–	698,491	–		43,803,647
– Public Sector Entities	–	300,687	–	–	–	–		300,687
– Corporates	–	10,116	–	–	–	–		10,116
	511,127	42,904,832	–	–	698,491	–		44,114,450
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	3,143,090	2,866,482	896,379	5,177	–	–		6,911,128
– Corporates	920,673	338,531	4,803	–	–	–		1,264,007
– Regulatory Retail	1,076	3,198	474	–	–	–		4,748
	4,064,839	3,208,211	901,656	5,177	–	–		8,179,883
Total Rated Exposures	7,472,314	47,986,753	2,385,516	24,938	698,491	–		58,568,012
(b) Total Unrated Exposures							160,894,036	160,894,036
	7,472,314	47,986,753	2,385,516	24,938	698,491	–	160,894,036	219,462,048

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures before the effect of credit risk mitigation, broken down by credit quality rating categories. (Cont'd.)

Exposure Class	Rating Categories							Total
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	RM'000
2010								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit exposures risk-weighted using ratings of Corporates								
– Corporates	100	–	–	–	–	–		100
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
– Sovereigns and Central Banks	–	–	–	–	–	–		–
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	750,451	27,036	38,258	–	–	–		815,745
– Corporates	324,667	20,000	–	–	–	–		344,667
– Regulatory Retail	–	1,162	–	–	–	–		1,162
	1,075,118	48,198	38,258	–	–	–		1,161,574
Total Rated Exposures	1,075,218	48,198	38,258	–	–	–		1,161,674
(b) Total Unrated Exposures							9,033,509	9,033,509
	1,075,218	48,198	38,258	–	–	–	9,033,509	10,195,183
Total Credit Exposures before Credit Risk Mitigation	8,547,532	48,034,951	2,423,774	24,938	698,491	–	169,927,545	229,657,231

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures before the effect of credit risk mitigation, broken down by credit quality rating categories. (Cont'd.)

	Rating Categories							
Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2009								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit exposures risk-weighted using ratings of Corporates								
– Corporates	2,609,889	1,994,858	1,633,773	–	–	–		6,238,520
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
– Sovereigns and Central Banks	341,767	51,102,513	–	–	543,907	–		51,988,187
– Public Sector Entities	–	–	–	–	–	–		–
– Corporates	–	10,117	–	–	–	–		10,117
	341,767	51,112,630	–	–	543,907	–		51,998,304
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	4,011,365	1,678,477	1,943,323	5,261	–	–		7,638,426
– Corporates	976,229	364,379	4,484	–	–	–		1,345,092
– Regulatory Retail	2,376	4,101	421	–	–	–		6,898
	4,989,970	2,046,957	1,948,228	5,261	–	–		8,990,416
Total Rated Exposures	7,941,626	55,154,445	3,582,001	5,261	543,907	–		67,227,240
(b) Total Unrated Exposures							140,975,707	140,975,707
	7,941,626	55,154,445	3,582,001	5,261	543,907	–	140,975,707	208,202,947

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures before the effect of credit risk mitigation, broken down by credit quality rating categories. (Cont'd.)

	Rating Categories							
Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2009								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit exposures risk-weighted using ratings of Corporates								
– Corporates	100	–	–	–	–	–		100
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
– Sovereigns and Central Banks	28,867	15,344	171	–	–	–		44,382
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	805,047	74,876	40,027	–	7,206	–		927,156
– Corporates	350,614	34,000	–	–	–	–		384,614
– Regulatory Retail	–	911	–	–	–	–		911
	1,155,661	109,787	40,027	–	7,206	–		1,312,681
Total Rated Exposures	1,184,628	125,131	40,198	–	7,206	–		1,357,163
(b) Total Unrated Exposures							7,882,030	7,882,030
	1,184,628	125,131	40,198	–	7,206	–	7,882,030	9,239,193
Total Credit Exposures before Credit Risk Mitigation	9,126,254	55,279,576	3,622,199	5,261	551,113	–	148,857,737	217,442,140

Under the RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia, Bank Negara Malaysia, overseas federal governments and central banks of their respective jurisdictions are accorded a preferential sovereign risk weight of 0%.

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Group.

	Exposures after Credit Risk Mitigation											
Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Funds Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2010												
0%	44,013,720	300,687	–	–	25,210	–	–	–	945,789	–	45,285,406	–
20%	–	146,850	7,921,258	–	4,141,587	1,077	–	–	165,656	30,948	12,407,376	2,481,475
35%	–	–	–	–	–	–	21,409,463	–	–	–	21,409,463	7,493,312
50%	–	–	1,272,577	61,144	2,253,817	8,496	14,401,266	–	–	–	17,997,300	8,998,650
75%	–	–	–	–	–	83,771,709	–	–	–	–	83,771,709	62,828,782
100%	90,747	–	51,490	177,411	36,133,031	17,156	177,244	–	2,840,949	4,764,875	44,252,903	44,252,903
150%	–	–	–	2,010	327,569	1,144,563	7,606	139,432	–	–	1,621,180	2,431,770
Total	44,104,467	447,537	9,245,325	240,565	42,881,214	84,943,001	35,995,579	139,432	3,952,394	4,795,823	226,745,337	128,486,892
Risk-Weighted Assets by Exposures	90,747	29,370	2,272,030	210,998	38,579,610	64,567,246	14,882,598	209,148	2,874,080	4,771,065	128,486,892	
Average Risk Weights	0.2%	6.6%	24.6%	87.7%	90.0%	76.0%	41.3%	150.0%	72.7%	99.5%	56.7%	
Deduction from Capital Base			47,439							–	47,439	

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Group. (Cont'd.)

	Exposures after Credit Risk Mitigation											
Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Funds Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2009												
0%	50,962,829	–	–	–	25,203	–	–	–	924,074	–	51,912,106	–
20%	–	522,980	7,531,439	–	3,936,830	2,376	–	–	109,903	30,948	12,134,476	2,426,895
35%	–	–	–	–	–	–	18,715,667	–	–	–	18,715,667	6,550,483
50%	–	–	1,399,014	63,004	2,395,836	28,161	12,551,548	–	–	–	16,437,563	8,218,782
75%	–	–	–	–	–	73,109,604	–	–	–	–	73,109,604	54,832,203
100%	–	–	54,396	102,459	31,530,539	34,186	234,986	–	2,850,303	4,514,274	39,321,143	39,321,143
150%	–	–	–	2,010	227,965	1,102,360	783	166,269	–	–	1,499,387	2,249,081
Total	50,962,829	522,980	8,984,849	167,473	38,116,373	74,276,687	31,502,984	166,269	3,884,280	4,545,222	213,129,946	113,598,587
Risk-Weighted Assets by Exposures	–	104,596	2,260,191	136,976	33,857,770	56,534,485	13,062,418	249,403	2,872,284	4,520,464	113,598,587	
Average Risk Weights	0.0%	20.0%	25.2%	81.8%	88.8%	76.1%	41.5%	150.0%	73.9%	99.5%	53.3%	
Deduction from Capital Base			173,381							–	173,381	

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Bank.

	Exposures after Credit Risk Mitigation											
Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Funds Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2010												
0%	34,271,397	–	–	–	10,114	–	–	–	868,413	–	35,149,924	–
20%	–	401	6,182,969	–	4,136,564	1,076	–	–	–	30,948	10,351,958	2,070,392
35%	–	–	–	–	–	–	16,658,724	–	–	–	16,658,724	5,830,553
50%	–	–	1,518,689	–	2,312,765	8,496	13,585,652	–	–	–	17,425,602	8,712,801
75%	–	–	–	–	–	65,440,965	–	–	–	–	65,440,965	49,080,724
100%	90,747	–	51,472	40,767	31,879,432	17,156	159,478	–	1,958,045	4,240,735	38,437,832	38,437,832
150%	–	–	–	2,010	260,390	913,752	–	124,849	–	–	1,301,001	1,951,501
Total	34,362,144	401	7,753,130	42,777	38,599,265	66,381,445	30,403,854	124,849	2,826,458	4,271,683	184,766,006	106,083,803
Risk-Weighted Assets by Exposures	90,747	80	2,047,410	43,782	34,253,712	50,472,971	12,782,857	187,274	1,958,045	4,246,925	106,083,803	
Average Risk Weights	0.3%	20.0%	26.4%	102.3%	88.7%	76.0%	42.0%	150.0%	69.3%	99.4%	57.4%	
Deduction from Capital Base			47,439							–	47,439	

4.0 Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Bank. (Cont'd.)

	Exposures after Credit Risk Mitigation											
Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Funds Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2009												
0%	39,413,697	–	–	–	10,115	–	–	–	763,157	–	40,186,969	–
20%	–	563	3,641,997	–	3,921,760	2,376	–	–	–	30,948	7,597,644	1,519,529
35%	–	–	–	–	–	–	14,168,172	–	–	–	14,168,172	4,958,860
50%	–	–	4,784,875	–	2,449,509	22,663	11,892,036	–	–	–	19,149,083	9,574,542
75%	–	–	–	–	–	56,050,351	–	–	–	–	56,050,351	42,037,763
100%	–	–	54,093	2,073	27,401,799	19,917	212,003	–	1,912,073	4,002,256	33,604,214	33,604,214
150%	–	–	–	2,010	105,797	847,883	65	150,966	–	–	1,106,721	1,660,082
Total	39,413,697	563	8,480,965	4,083	33,888,980	56,943,190	26,272,276	150,966	2,675,230	4,033,204	171,863,154	93,354,990
Risk-Weighted Assets by Exposures	–	113	3,174,930	5,088	29,569,602	43,341,311	11,116,979	226,449	1,912,073	4,008,445	93,354,990	
Average Risk Weights	0.0%	20.0%	37.4%	124.6%	87.3%	76.1%	42.3%	150.0%	71.5%	99.4%	54.3%	
Deduction from Capital Base			173,381							–	173,381	

4.0 Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing

The tables below present the gross loans, advances and financing analysed by credit quality.

	2010 RM'000	2009 RM'000
Neither past due nor impaired	**134,883,902**	118,870,898
Past due but not impaired	**19,875,893**	17,419,902
Impaired	**1,784,277**	1,319,627
	156,544,072	137,610,427
Gross impaired loans as a percentage of gross loans, advances and financing	**1.14%**	0.96%

(a) Neither Past Due Nor Impaired

The credit quality of gross loans, advances and financing which are neither past due nor impaired is set out in Note 44 to the financial statements.

(b) Past Due But Not Impaired

Past due but not impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due, and includes loans which are due one or more days after the contractual due date but less than 3 months. 60% of the past due loans and advances of the Group are past due for less than 1 month.

The following tables present an analysis of the past due but not impaired loans, advances and financing by economic purpose.

	2010 RM'000	2009 RM'000
Purchase of securities	**3,597**	343
Purchase of transport vehicles	**8,567,503**	7,408,450
Purchase of landed properties	**9,135,149**	8,058,109
(Of which: – residential	**6,667,962**	5,852,448
– non-residential)	**2,467,187**	2,205,661
Purchase of fixed assets (excluding landed properties)	**19,560**	32,572
Personal use	**731,672**	717,643
Credit card	**235,889**	207,179
Purchase of consumer durables	**1,328**	820
Construction	**28,930**	86,214
Mergers and acquisitions	**–**	7,003
Working capital	**1,058,833**	801,498
Other purpose	**93,432**	100,071
	19,875,893	17,419,902

4.0 Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(b) Past Due But Not Impaired (Cont'd.)

The following tables present an analysis of the past due but not impaired loans, advances and financing by geographical distribution.

	2010 RM'000	2009 RM'000
Malaysia	**19,345,314**	16,798,572
Hong Kong & China PRC	**214,114**	205,683
Cambodia	**260,333**	330,534
Other countries	**56,132**	85,113
	19,875,893	17,419,902

The following tables present an analysis of the past due but not impaired loans, advances and financing by aging analysis.

	2010 RM'000	2009 RM'000
1 day to <1 month	**11,901,504**	10,218,490
1 month to <2 months	**6,099,305**	5,424,838
2 months to <3 months	**1,875,084**	1,776,574
	19,875,893	17,419,902

(c) Impaired Loans, Advances and Financing

The Group assesses, at each reporting period, whether there is any objective evidence that an individually significant loan is impaired. "Objective evidence of impairment" exists when one or more events that have occurred after the initial recognition of the loan (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the loan or group of loans that can be reliably estimated. The criteria that the Group uses to determine whether there is any objective evidence of impairment are set out in Note 44 to the financial statements.

Loans, advances and financing which are not individually significant are collectively assessed. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, the loan is included in a group of loans with similar credit risk characteristics for collective impairment assessment.

4.0 Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows 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 the income statement.

The Bank and its domestic banking subsidiaries' collective assessment allowance is made at 1.5% of total outstanding loans, advances and financing, net of individual assessment allowance, being the transitional arrangement as prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/ Financing issued on 8 January 2010.

Impaired loans, advances and financing are loans whereby payments of principal or interest or both are past due for three (3) months or more, or loans which are past due for less than three (3) months which exhibit indications of credit weaknesses, or impaired loans which have been restructured/rescheduled, but where repayments based on the revised terms have yet to fulfill the six (6) consecutive months of observation period.

The above credit policies were adopted in connection with the adoption of the Financial Reporting Standard 139 Financial Instruments: Recognition and Measurement ("FRS 139") issued by the Malaysian Accounting Standards Board, which was adopted with prospective effect from 1 January 2010. The comparative figures were not restated.

4.0 Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

The following tables present an analysis of the impaired loans, advances and financing and the related impairment allowances for loans, advances and financing by economic purpose.

	2010							2009
	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000	Non-Performing Loans RM'000
Purchase of securities	7,596	–	3,698	(2,169)	1,529	35,017	36,546	2,722
Purchase of transport vehicles	278,520	2,261	38,554	(416)	40,399	506,218	546,617	145,096
Purchase of landed properties	789,082	36,562	6,115	(10,758)	31,919	1,178,753	1,210,672	564,424
(Of which: – residential	500,289	905	11,181	(10,730)	1,356	675,217	676,573	451,954
– non-residential)	288,793	35,657	(5,066)	(28)	30,563	503,536	534,099	112,470
Purchase of fixed assets (excluding landed properties)	9,041	1,451	(936)	–	515	4,232	4,747	7,021
Personal use	172,963	29,432	192,938	(178,492)	43,878	116,369	160,247	153,777
Credit card	27,296	–	–	–	–	20,119	20,119	13,998
Purchase of consumer durables	104	–	–	–	–	246	246	242
Construction	14,677	6,553	21,229	(21,010)	6,772	16,768	23,540	4,861
Mergers and acquisitions	–	–	–	–	–	123	123	–
Working capital	442,712	172,076	52,297	(93,606)	130,767	326,105	456,872	410,861
Other purpose	42,286	9,130	25	–	9,155	92,208	101,363	16,625
	1,784,277	257,465	313,920	(306,451)	264,934	2,296,158	2,561,092	1,319,627

The non-performing loans balances for 2009 were determined based on the previous BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. The comparative figures were not restated as FRS 139 is only effective from 1 January 2010. Similarly, the movements for the individual assessment allowance and collective assessment allowance were not provided for the comparative period of 31 December 2009.

The movements in the collective assessment allowance for 2010 are set out in Note 9 to the financial statements.

4.0 Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

The following tables present the distribution of the impaired loans, advances and financing and the related impairment allowances for loans, advances and financing by geographical distribution.

	2010							2009
	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000	Non-Performing Loans RM'000
Malaysia	1,551,478	133,772	38,194	(3,721)	168,245	2,168,940	2,337,185	945,809
Hong Kong & China PRC	131,135	69,304	207,001	(208,215)	68,090	86,741	154,831	232,902
Cambodia	59,545	45,517	70,373	(93,733)	22,157	34,917	57,074	139,297
Other countries	42,119	8,872	(1,648)	(782)	6,442	5,560	12,002	1,619
	1,784,277	257,465	313,920	(306,451)	264,934	2,296,158	2,561,092	1,319,627

The non-performing loans balances for 2009 were determined based on the previous BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. The comparative figures were not restated as FRS 139 is only effective from 1 January 2010. Similarly, the movements for the individual assessment allowance and collective assessment allowance were not provided for the comparative period of 31 December 2009.

The movements in the collective assessment allowance for 2010 are set out in Note 9 to the financial statements.

5.0 Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic activities of the Group includes rate of return risk and displaced commercial risk.

Regulatory Capital Requirements

The following tables present the minimum regulatory capital requirement on market risk.

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
2010				
Interest rate risk	**21,004,339**	**(14,263,287)**	**462,113**	**36,969**
Foreign exchange risk	**600,244**	**(375,715)**	**600,244**	**48,020**
Equity risk	**869**	**—**	**1,088**	**87**
Total	**21,605,452**	**(14,639,002)**	**1,063,445**	**85,076**
2009				
Interest rate risk	20,281,782	(11,104,063)	539,239	43,139
Foreign exchange risk	520,324	(620,549)	621,165	49,693
Equity risk	925	—	1,214	97
Total	20,803,031	(11,724,612)	1,161,618	92,929
Bank				
2010				
Interest rate risk	**20,254,384**	**(14,456,570)**	**410,690**	**32,855**
Foreign exchange risk	**997,355**	**(1,376,577)**	**1,376,862**	**110,149**
Equity risk	**869**	**—**	**1,087**	**87**
Total	**21,252,608**	**(15,833,147)**	**1,788,639**	**143,091**
2009				
Interest rate risk	18,659,428	(11,036,933)	508,288	40,663
Foreign exchange risk	966,173	(1,571,235)	1,571,478	125,718
Equity risk	925	—	1,214	97
Total	19,626,526	(12,608,168)	2,080,980	166,478

5.0 Market Risk (Cont'd.)

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risks remain within established risk tolerance level. The market risk of the Group is identified into traded market risk and non-traded market risk.

5.1 Traded Market Risk

Traded market risk, primarily the interest rate risk and credit spread risk, exist in the Group's trading book positions held for the purpose of benefiting from short-term price movements, which are conducted primarily by the treasury operations.

Risk Management Approach

The Group's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. The Group's traded market risk for its interest rate sensitive fixed income instruments is measured by the present value of one basis point change ("PV01") and is monitored independently by the Compliance Unit on a daily basis against approved market risk limits. In addition, the Compliance Unit is also responsible to monitor and report on limit excesses and the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board. The trading book positions and limits are regularly reported to the ALCO. The Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board.

During the year, the Group's traded market risk exposures on fixed income securities as measured by PV01, averaged at RM173,000 (2009: RM194,000). The composition of the Group's trading portfolio is as set out in Note 5 to the financial statements.

5.2 Non-Traded Market Risk

The Group's core non-traded market risks are interest rate risk and the rate of return risk in the banking book, displaced commercial risk in the Group's Islamic banking business, foreign exchange risk and equity risk.

(a) Interest Rate Risk in the Banking Book

Interest rate risk in the banking book ("IRRBB") emanates from the repricing mismatches of the Group's banking assets and liabilities and also from the Group's investment of its surplus funds.

Risk Management Approach

The primary objective in managing the IRRBB is to manage the volatility in the Group's net interest income ("NII") and economic value of equity ("EVE"), whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways that involve the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in interest rate sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge interest rate risk is set out in Note 6 to the financial statements.

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRRBB. The impact on earnings and EVE is considered at all times in measuring the IRRBB and is subject to limits approved by the RMC.

5.0 Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(a) Interest Rate Risk in the Banking Book (Cont'd.)

Risk Management Approach (Cont'd.)

(i) The table in Note 44 to the financial statements sets out the Group's sensitivity to interest rates by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans or early withdrawal of deposits. As at 31 December 2010, the Group had an overall positive interest rate gap of RM27,748.2 million (2009: RM23,234.0 million), being the net difference between interest sensitive assets and liabilities.

(ii) Interest Rate Risk Sensitivity Analysis

The following tables present the projected Group's sensitivity to a 100 basis point parallel shock to interest rates across all maturities applied on the Group's interest sensitivity gap as at reporting date. Where the current interest rate is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rates.

	2010		2009	
	(100) bps	100 bps	(100) bps	100 bps
	Increase/(Decrease)			
Impact on NII	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	**(158,661)**	**114,974**	(133,753)	55,941
United States Dollars	**85,358**	**(78,042)**	54,538	(56,081)
Hong Kong Dollars	**(3,689)**	**11,392**	(2,018)	6,727
Others	**16,277**	**(16,529)**	12,457	(12,334)
Total	**(60,715)**	**31,795**	(68,776)	(5,747)

	2010		2009	
	(100) bps	100 bps	(100) bps	100 bps
	Increase/(Decrease)			
Impact on EVE	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	**1,192,978**	**(1,192,119)**	1,101,295	(1,100,361)
United States Dollars	**7,346**	**(7,346)**	10,347	(10,347)
Hong Kong Dollars	**2,108**	**(7,025)**	2,050	(6,835)
Others	**(4,681)**	**4,681**	(1,840)	1,840
Total	**1,197,751**	**(1,201,809)**	1,111,852	(1,115,703)

5.0 Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(a) Interest Rate Risk in the Banking Book (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Interest Rate Risk Sensitivity Analysis (Cont'd.)

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate risk. In reality, treasury operations seek to proactively change the interest rate risk profile to minimise losses and maximise net revenues. The projection assumes that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on the NII and EVE of some rates changing while others remain unchanged. The projection also assumes a constant statements of financial position and that all positions run to maturity.

The repricing profile of loans that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Loan prepayment is generally estimated based on past statistics and trends, where possible and material. The impact on the NII is measured on a monthly basis and the impact on the EVE is on a quarterly basis, both of which are reported to the ALCO and the RMC.

(iii) Stress testing is conducted semi-annually to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the Group's statement of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of interest rate risk.

(b) Rate of Return Risk in the Banking Book

Rate of return risk in the banking book ("RoRBB") is the potential loss of income arising from changes in market rates on the return on assets and on the returns payable on funding. RoRBB is inherent in the Group's Islamic banking activities via Public Islamic due to the maturity gaps between Public Islamic's rate of return sensitive assets and liabilities.

Risk Management Approach

Periodically, Public Islamic performs sensitivity testing to identify the rate of return risk in the banking book, whereby the risk arising is measured in terms of its adverse impact on Net Financing Income and on EVE. Public Islamic strives to reduce the maturity gaps by matching the duration of its rate of return sensitive assets and liabilities. This is achieved via the active sourcing of longer tenure Negotiable Instruments Deposits-i funds.

(c) Displaced Commercial Risk

Displaced commercial risk is the risk that Public Islamic is not able to pay its mudharabah depositors a rate of return which is competitive to the market rates. Public Islamic does not have Profit Sharing Investment Accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

Public Islamic manages this risk by optimising the employment of the mudharabah funds through prudent credit management and effective product pricing. In addition, the maintenance of the Profit Equalisation Reserve ("PER") account and the ability of Public Islamic to adjust the Mudarib's profit sharing rate in order to smoothen the returns payable to the mudharabah depositors serve as an important tool for Public Islamic to mitigate the displaced commercial risk.

5.0 Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(d) Foreign Exchange Risk

Foreign currency exchange risk refers to adverse movements on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, branches and associated companies, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

Risk Management Approach

The Group manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position ("NOP") limits are set for overall NOP as well as NOP limits for individual currencies. The decision to hedge the Group's net investment in its overseas operations is based on its potential economic benefit and is periodically assessed by the ALCO.

The table in Note 44 to the financial statements sets out the Group's assets, liabilities and net open positions by currencies and the Group's structural foreign exchange positions. As at 31 December 2010, only RM353.7 million or 11% of the Group's structural foreign exchange positions remained unhedged.

(e) Equity Risk

Equity risk refers to the adverse impact of change in equity prices on equity positions held by the Group for yield purposes.

Risk Management Approach

The Group manages such risk via pre-approved portfolio size and cut-loss limits. Decisions concerning such positions are made by the Share Investment Committee and the Sub-Committee on Share Investment.

6.0 Equity Exposures in Banking Book

The tables below present the equity exposures in banking book.

	2010		2009	
	Gross Credit Exposure RM'000	Risk-Weighted Assets RM'000	Gross Credit Exposure RM'000	Risk-Weighted Assets RM'000
Publicly traded				
Investments in unit trust funds	**4,672,166**	**4,672,166**	4,412,605	4,412,605
Holdings of equity investments	**36,218**	**36,218**	45,174	45,174
	4,708,384	**4,708,384**	4,457,779	4,457,779
Privately held				
For socio-economic purposes	**87,439**	**62,681**	87,443	62,685
Not for socio-economic purposes	**17,474**	**26,211**	20,070	30,105
	104,913	**88,892**	107,513	92,790
Total	**4,813,297**	**4,797,276**	4,565,292	4,550,569

(i) Publicly Traded

The investment in unit trust funds, comprises of bond fund and money market funds, is held for yield purposes. Holdings of equity investments comprise mainly of shares listed in an exchange, are held for dividend yield purpose and to take advantage of favourable movements in equity prices. Decisions concerning investing in equity shares are made by Share Investment Committee and the Sub-Committee on Share Investment. Equity positions are monitored against pre-determined cut-loss limits. All publicly traded equity exposures are stated at fair value.

(ii) Privately Held

The privately held equity investments are unquoted and stated at cost adjusted for impairment loss, if any.

(iii) Gains and Losses on Equity Exposures in the Banking Book

The tables below present the gains and losses on equity exposures in banking book.

	2010 RM'000	2009 RM'000
Realised gains recognised in the income statement		
– Publicly traded equity investments	**3,477**	1,022
Unrealised gains/(losses) recognised in revaluation reserve		
– Investments in unit trust funds	**33,191**	14,464
– Publicly traded equity investments	**(4,479)**	(4,295)
	28,712	10,169

7.0 Liquidity and Funding Risk

Liquidity risk is the risk that the Group is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approach

The liquidity risk management of the Group is aligned with the New Liquidity Framework issued by BNM, and is measured and managed based on projected cash flow. In addition to ensuring the compliance with the New Liquidity Framework, the Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flow and the replenishment of funds as they matured or are borrowed by customers. As at 31 December 2010, the Group holds a sizeable balance of government securities amounting to RM14,257.6 million or 48% of its portfolio of securities.

The Group's liquidity and funding position is supported by the Group's significant retail deposit base, accompanied by funding from wholesale markets. The Group's retail deposit base comprises current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Group's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity. The Group accesses the wholesale markets through the issuance of certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

The primary tools for monitoring liquidity is the maturity mismatch analysis, assessment on the concentration of fundings, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity positions are reported to the ALCO on a monthly basis and in major currencies i.e. in Ringgit Malaysia and in United States Dollars.

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Group to determine the cash flow mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible source of funding to meet the shortfalls during a liquidity crisis.

Overseas branches and overseas subsidiary companies are required to comply with their respective local regulatory liquidity requirements and internal liquidity limits set by Head Office. Similar risk management processes as practised by the Bank are adopted by its overseas subsidiary companies and overseas branches. It is the Group's policy that the overseas subsidiary companies and overseas branches strive to attain a self-funding position in funding their respective operations.

8.0 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risk is unavoidable for the Group as it is inherent in its business operations. The objective of the operational risk management of the Group is to manage its operational risk within an acceptable level.

Regulatory Capital Requirements

The following tables present the minimum regulatory capital requirement on operational risk, computed using the Basic Indicator Approach.

	2010		2009	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group	**11,546,113**	**923,689**	10,436,307	834,905
Bank	**8,446,853**	**675,748**	7,815,769	625,262

Risk Governance

The Group's operational risk management is guided by the operational risk management framework designed to provide a sound and well-controlled operational environment within the Group. The framework sets out the Group's approach to identifying, assessing, monitoring and mitigating operational risk.

The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for overseeing the development and assessing the effectiveness of risk management policies in relation to operational risk. To ensure effective oversight and management of operational risk, dedicated independent risk management and control units are put in place for ensuring the operational risk policies are implemented and complied with.

The various business units are responsible for identifying, managing and mitigating operational risks within their lines of business and ensure that their business activities are carried out within the established operational risk policies, guidelines, procedures and limits.

Risk Management Approach

The day-to-day management of operational risk exposures is through a comprehensive system of internal controls to ensure that operational policies, guidelines and procedures are being adhered to at all levels throughout the Group. As events and business conditions evolve, the Group continues to strengthen and refine its operational risk management processes to ensure that the current and potential operational risk exposures are properly understood and managed.

8.0 Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Strategy and Processes

The Group has put in place a disciplined product evaluation process. The Group's product evaluation process is governed by the Group's Policy and Procedures on Risk Management Practices for New Products. Each new product or service introduced as well as variations to existing products or services are subject to a rigorous risk review and sign-off process where risks are identified and assessed by divisions independent of the risk taking unit that proposes the product or service. This is further augmented by the Group Framework on Product Transparency and Disclosure which emphasises the importance of safeguarding customers' confidentiality and promoting their awareness and understanding of banking products and services, and informed decision making.

The Group continues to direct group-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Group operates in. The Group seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to support compliance with regulations governing anti money-laundering and counter financing of terrorism.

To further enhance operational risk management in response to threat of external fraud, losses arising from frauds or control lapses are analysed in depth to identify the causes of such losses and to implement remedial actions to prevent recurrence. Analyses of impaired loans attributed to operational lapses are also conducted diligently and the findings are disseminated to all business units as learning points.

The Group manages its outsourcing activities through the Guidelines on Outsourcing Activities which stipulate the requirements and the operating procedures to be observed in managing activities that are outsourced to third party service providers. This is to ensure that the risks associated with outsourcing activities are managed effectively.

Disaster recovery and business continuity plans are put in place as an integral part of the Group's strategy to mitigate risk and manage the impact of loss events. Where appropriate, the Group mitigates risk of high impact loss events by relevant insurance coverage.

The Group protects and ensures information security through continuous assessment of the security features on all computer platforms and network infrastructure, and implementation of appropriate security controls to protect against the misuse or compromise of information assets. In addition, the Group continues to undertake initiatives to maintain 100% systems availability and robust system performance in the Group's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

8.0 Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Tools and Methods for Risk Mitigation

To manage and mitigate operational risk, the Group uses various tools including:

- Control self-assessment – to enhance management assessment of the state of the control environment
- Key risk indicators – to collect statistical data on an ongoing basis to facilitate early detection of operational control deficiencies
- Operational risk incident reporting and data collection – to facilitate an enhanced analysis and timely reporting of operational risk data which are useful in assessing the Group's operational risk exposure and in strengthening the internal control environment

The Group employs the following key methods to mitigate its operational risk:

- System of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes
- Documented operational risk management policies and procedural manuals to mitigate errors by users
- Processes to ensure compliance with internal policies, guidelines, controls and procedures and appropriate punitive actions are taken against errant staff
- Review and enhancement of operational risk limits and control strategies periodically
- Disaster recovery and business continuity plans put in place to mitigate risk and manage the impact of loss events
- Insurance coverage is obtained to mitigate risk of high impact loss events, where appropriate
- Review of outsourcing activities to ensure that service providers adhere to the terms and conditions in the service agreement and that their integrity and service quality are not compromised

(c) Reporting

Reporting forms an essential part of operational risk management. The Group's risk management processes are designed to ensure that operational issues are identified, escalated and managed on a timely manner.

Operational risk areas for the key business and control units are reported through monthly operational risk management reports, which provide analyses and action plans for each significant business operation. The operational risk areas considered include premises controls and safety, losses due to fraud or control lapses, system availability, disaster recovery and business continuity plan simulations, outsourcing activities and legal actions taken against the Group. The operational risk management reports are tabled to the ORMC and the RMC for deliberations.

9.0 Shariah Non-Compliance Risk and Governance

Shariah non-compliance risk arises from Public Islamic's failure to comply with the Shariah rules and principles as determined by the Shariah Committee of Public Islamic or the relevant body, such as the Shariah Advisory Council of Bank Negara Malaysia ("BNM").

This risk is managed through the Shariah Compliance Framework which is endorsed by the Shariah Committee and approved by the Board of Directors of Public Islamic ("the Board of Public Islamic"). The Framework, amongst others, sets out the roles and responsibilities of the Board of Public Islamic and the Shariah Committee, a systematic approach in reviewing Shariah compliance and the reporting process on Shariah matters. The Board of Public Islamic is ultimately responsible for Shariah compliance, performs diligence over the effective functioning of the Framework and ensures that policies relating to Shariah matters are implemented accordingly. The Shariah Committee is preceded by qualified members who deliberate and endorse all Shariah matters which are subsequently noted and/or approved by the Board of Public Islamic. On a periodic basis, the Shariah Committee members perform on-site inspections at branches to review the operations of Public Islamic to ensure the operations are conducted in accordance to Shariah rules and principles.

The Shariah Compliance Unit, which comprises Shariah review and Shariah research functions, is responsible for the continuous assessment on Shariah compliance for all activities and business operations of Public Islamic. Shariah review's role is to examine and evaluate Public Islamic's level of compliance to the Shariah through the end-to-end product development process and operational review including the review of the application for financing for possible use of financing for Shariah non-compliance activities. Shariah research is responsible for conducting research on Shariah issues and providing Shariah advisory support to branches and business units. In addition, internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Audit Committee. Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services to address Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Committee and the approval by the Board of Public Islamic. There is no Shariah non-compliant income nor events during the financial year under review.

Subsequent to the reporting date, Public Islamic has drawn up the Shariah Governance Framework in accordance to the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010. The Shariah Governance Framework will further strengthen the Shariah governance of Public Islamic and supplements the existing policies and procedures relating to Shariah compliance of Public Islamic.