BASEL II
PILLAR 3 DISCLOSURE
as at 31 December 2011

Overview

The Pillar 3 Disclosure for financial reporting beginning 1 January 2011 is required 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 maintain adequate capital levels consistent 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, the Group applied the standard risk weights prescribed by BNM to assess the capital requirements for exposures in credit risk and market risk. The assessment of the capital required for operational risk under the Basic Indicator Approach however, is based on a percentage fixed by BNM 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 the internal auditors and certified by Public Bank Berhad ("the Bank")'s Managing Director/Chief Executive Officer. Under the BNM's RWCAF, the information disclosed herein is not required to be audited by external auditors. The Pillar 3 Disclosure will be published in the Bank's website, www.publicbank.com.my

Overview (Cont'd.)

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

	2011		2010	
	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	**148,664,399**	**11,893,152**	128,486,892	10,278,951
Market Risk	**1,670,798**	**133,664**	1,063,445	85,076
Operational Risk	**12,692,078**	**1,015,366**	11,546,113	923,689
Total	**163,027,275**	**13,042,182**	141,096,450	11,287,716
Bank				
Credit Risk	**123,065,342**	**9,845,227**	106,083,803	8,486,704
Market Risk	**2,774,099**	**221,928**	1,788,639	143,091
Operational Risk	**9,048,375**	**723,870**	8,446,853	675,748
Total	**134,887,816**	**10,791,025**	116,319,295	9,305,543

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.

Pillar 3 Disclosure

1. 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. Capital Management

The Group's capital management is guided by the Group Capital Management Framework which sets out the capital targets and outlines the Group's objective to diversify its sources of capital and to allocate capital efficiently. This objective is 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 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 capital ratio and the Group's levels of internal capital ratio. 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 its implementation.

2. Capital Management (Cont'd.)

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.

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

Capital Adequacy Ratios

	Group		Bank	
	2011	**2010**	**2011**	**2010**
Before deducting second interim dividends:				
Tier I capital ratio	**10.7%**	10.7%	**12.9%**	13.2%
Risk-weighted capital ratio	**15.9%**	14.4%	**15.9%**	14.1%
After deducting second interim dividends:				
Tier I capital ratio	**10.1%**	10.0%	**12.1%**	12.4%
Risk-weighted capital ratio	**15.3%**	13.7%	**15.2%**	13.3%

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

Capital Structure

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 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**	1,073,310	**1,073,310**	1,073,310
Other reserves	**3,955,307**	3,787,881	**3,522,609**	3,508,238
Retained profits	**6,417,544**	4,754,405	**6,236,502**	4,641,801
Innovative Tier I capital securities	**1,833,303**	1,814,538	**1,833,303**	1,814,538
Non-innovative Tier I stapled securities	**2,082,388**	2,081,633	**2,082,388**	2,081,633
Treasury shares	**(215,572)**	(215,303)	**(215,572)**	(215,303)
Non-controlling interests	**697,484**	652,188	**–**	–
Less: Goodwill	**(1,938,994)**	(1,903,898)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(46,093)**	(521,359)	**–**	(418,699)
	17,390,603	15,055,321	**17,369,073**	15,322,051

2. Capital Management (Cont'd.)

Capital Structure (Cont'd.)

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Tier II capital				
Collective assessment allowance #	**2,456,351**	2,164,761	**2,021,614**	1,819,307
Subordinated notes	**6,138,306**	3,102,012	**6,138,306**	3,102,012
	8,594,657	5,266,773	**8,159,920**	4,921,319
Total capital	**25,985,260**	20,322,094	**25,528,993**	20,243,370
Less: Investment in subsidiary companies and associated companies	**(960)**	(960)	**(3,987,284)**	(3,787,284)
Less: Holdings of other financial institutions' capital instruments	**(44,468)**	(47,439)	**(44,468)**	(47,439)
Capital base	**25,939,832**	20,273,695	**21,497,241**	16,408,647

Excludes collective assessment allowance on impaired loans restricted from Tier II capital by BNM of the Group and the Bank of RM188.2 million (2010: RM131.4 million) and RM155.5 million (2010: RM104.0 million) respectively.

2. Capital Management (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 • Sub Notes issued prior to January 2011 are subject to optional redemption with step-up • Sub Notes issued subsequent to January 2011 do not contain step-up upon optional redemption date • 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. 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 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:

<table>
<tr><td rowspan="2">ESTABLISH RISK APPETITE & POLICY</td><td>Board of Directors</td><td rowspan="8">AUDIT COMMITTEE</td></tr>
<tr><td>Risk Management Committee</td></tr>
<tr><td rowspan="4">ENSURE IMPLEMENTATION OF RISK POLICY AND COMPLIANCE</td><td>Dedicated Committees</td></tr>
<tr><td>Assets & Liabilities Management Committee
Credit Risk Management Committee
Operational Risk Management Committee
Shariah Committee</td></tr>
<tr><td>Independent Risk Management and Control Units</td></tr>
<tr><td>Banking Operations and Compliance
Credit Control, Administration & Supervision
Risk Management
Shariah Compliance</td></tr>
<tr><td rowspan="2">IMPLEMENT AND COMPLY WITH RISK POLICY</td><td>Business Units</td></tr>
<tr><td>Corporate Lending
Investment Banking
Islamic Banking
Retail Banking and Financing Operations
Share Broking and Fund Management
Treasury and Capital Market Operations</td></tr>
</table>

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 which embodies the Group's stance towards the levels and types of risk in relation to the Group's strategic direction and business objectives forms an integral part of the annual business plans approved by the Board.

Assisting the RMC in management of market and liquidity risk, credit risk and operational risk are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee ("ORMC") 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 pertaining to the Islamic operations.

3. Group Risk Management Framework (Cont'd.)

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.

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 and limits are subject to frequent reviews to ensure that they remain relevant and effective in managing the associated risks brought about by the changing operating and regulatory environments.

4. 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.

4. Credit Risk (Cont'd.)

The following tables present the minimum regulatory capital requirements on credit risk of the Group and the Bank.

Minimum Regulatory Capital Requirements for Credit Risk

Group 2011 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
On-Balance Sheet Exposures				
Sovereigns/Central Banks	**37,523,662**	**28,233,329**	**112,930**	**9,034**
Public Sector Entities	**424,498**	**424,498**	**24,762**	**1,981**
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	**12,721,460**	**12,721,460**	**3,015,440**	**241,235**
Insurance Companies, Securities Firms and Fund Managers	**109,724**	**104,784**	**102,813**	**8,225**
Corporates	**43,974,265**	**42,348,014**	**37,923,462**	**3,033,877**
Regulatory Retail	**87,201,260**	**86,521,527**	**65,392,177**	**5,231,374**
Residential Mortgages	**45,825,233**	**45,768,814**	**19,859,501**	**1,588,760**
Higher Risk Assets	**144,825**	**144,740**	**217,110**	**17,369**
Other Assets	**4,480,250**	**4,480,250**	**2,660,468**	**212,838**
Equity Exposures	**4,940,117**	**4,940,117**	**4,915,359**	**393,229**
Defaulted Exposures	**1,516,051**	**1,502,443**	**2,114,628**	**169,170**
	238,861,345	**227,189,976**	**136,338,650**	**10,907,092**
Off-Balance Sheet Exposures				
Credit-related Exposures	**15,262,103**	**14,891,963**	**11,976,216**	**958,097**
Derivative Financial Instruments	**1,101,907**	**1,101,907**	**320,105**	**25,609**
Other Treasury-related Exposures	**39,362**	**39,362**	**5,837**	**467**
Defaulted Exposures	**15,800**	**15,800**	**23,591**	**1,887**
	16,419,172	**16,049,032**	**12,325,749**	**986,060**
Total Credit Exposures	**255,280,517**	**243,239,008**	**148,664,399**	**11,893,152**

4. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Group 2010 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
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, DFIs and 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. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Bank 2011 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
On-Balance Sheet Exposures				
Sovereigns/Central Banks	25,546,701	17,108,012	112,930	9,034
Public Sector Entities	368	368	74	6
Banks, DFIs and MDBs	12,419,174	12,419,174	2,891,695	231,336
Insurance Companies, Securities Firms and Fund Managers	522	522	522	42
Corporates	39,320,750	38,088,511	33,694,867	2,695,589
Regulatory Retail	66,927,938	66,279,997	49,888,839	3,991,107
Residential Mortgages	38,993,648	38,948,143	17,081,506	1,366,521
Higher Risk Assets	113,395	113,341	170,011	13,601
Other Assets	3,398,840	3,398,840	1,884,823	150,786
Equity Exposures	4,401,888	4,401,888	4,377,130	350,170
Defaulted Exposures	1,226,746	1,213,230	1,689,691	135,175
	192,349,970	181,972,026	111,792,088	8,943,367
Off-Balance Sheet Exposures				
Credit-related Exposures	13,880,612	13,589,298	10,937,859	875,029
Derivative Financial Instruments	1,099,473	1,099,473	319,619	25,569
Other Treasury-related Exposures	10,175	10,175	–	–
Defaulted Exposures	10,590	10,590	15,776	1,262
	15,000,850	14,709,536	11,273,254	901,860
Total Credit Exposures	207,350,820	196,681,562	123,065,342	9,845,227

4. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Bank 2010 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
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. 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 authorities 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 being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit 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 the 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 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. 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 relevant approving authorities. 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 the 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, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

4.1 Distribution of Credit Exposures

Tables (a)-(c) present the credit exposures of financial assets before the effect of credit risk mitigation of the Group, analysed by the following:

(a) Industrial analysis based on its industrial distribution

(b) Geographical analysis based on the geographical location where the credit risk resides

(c) Maturity analysis based on the residual contractual 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. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis

Group 2011	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
On-Balance Sheet Exposures									
Cash and balances with banks	10,153,521	8,480,262	-	-	-	-	-	-	18,633,783
Reverse repurchase agreements	9,287,255	-	-	-	-	-	-	-	9,287,255
Financial assets held-for-trading	973,724	9,531,842	50,621	59,896	40,742	-	-	-	10,656,825
Derivative financial assets	-	493,852	-	-	-	-	-	-	493,852
Financial investments available-for-sale	9,676,889	4,975,481	902,664	1,162,469	1,930	-	-	-	16,719,433
Financial investments held-to-maturity	2,775,545	4,675,898	103,268	34,579	39,943	-	-	-	7,629,233
Gross loans, advances and financing	23,386	8,366,389	9,614,971	27,012,019	20,564,038	53,919,242	32,057,664	26,136,308	177,694,017
Statutory deposits with Central Banks	5,597,801	-	-	-	-	-	-	-	5,597,801
	38,488,121	36,523,724	10,671,524	28,268,963	20,646,653	53,919,242	32,057,664	26,136,308	246,712,199
Commitments and Contingencies									
Contingent liabilities	851	58,424	896,507	1,151,018	801,768	-	-	14,847	2,923,415
Commitments	511,204	1,496,307	3,413,467	10,207,718	6,636,285	8,868,399	25,234	11,776,661	42,935,275
	512,055	1,554,731	4,309,974	11,358,736	7,438,053	8,868,399	25,234	11,791,508	45,858,690
Total Credit Exposures	39,000,176	38,078,455	14,981,498	39,627,699	28,084,706	62,787,641	32,082,898	37,927,816	292,570,889

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis (Cont'd.)

Group 2010	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
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	651,499	5,642,714	868	–	65,539	–	–	–	6,360,620
Derivative financial assets	–	326,622	–	–	–	–	–	–	326,622
Financial investments available-for-sale	10,667,448	4,832,608	1,150,690	1,199,811	1,727	–	–	–	17,852,284
Financial investments held-to-maturity	3,003,234	2,086,961	69,109	5,068	65,245	–	–	–	5,229,617
Gross loans, advances and financing	25,278	6,419,683	6,665,296	25,280,310	19,390,071	46,393,379	29,617,814	22,752,241	156,544,072
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. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(b) Geographical Analysis

Group 2011	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	14,390,682	2,389,180	507,687	1,346,234	18,633,783
Reverse repurchase agreements	9,272,886	–	–	14,369	9,287,255
Financial assets held-for-trading	10,656,825	–	–	–	10,656,825
Derivative financial assets	353,826	2,563	–	137,463	493,852
Financial investments available-for-sale	16,708,799	2,780	79	7,775	16,719,433
Financial investments held-to-maturity	6,132,644	773,919	–	722,670	7,629,233
Gross loans, advances and financing	163,132,849	11,899,217	1,940,890	721,061	177,694,017
Statutory deposits with Central Banks	5,275,421	–	322,380	–	5,597,801
	225,923,932	15,067,659	2,771,036	2,949,572	246,712,199
Commitments and Contingencies					
Contingent liabilities	2,402,832	145,702	344,384	30,497	2,923,415
Commitments	41,153,641	1,430,707	315,983	34,944	42,935,275
	43,556,473	1,576,409	660,367	65,441	45,858,690
Total Credit Exposures	269,480,405	16,644,068	3,431,403	3,015,013	292,570,889

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(b) Geographical Analysis (Cont'd.)

Group 2010	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	30,487,145	2,162,429	505,966	1,534,899	34,690,439
Reverse repurchase agreements	355,140	–	–	10,737	365,877
Financial assets held-for-trading	6,360,620	–	–	–	6,360,620
Derivative financial assets	62,311	11,366	–	252,945	326,622
Financial investments available-for-sale	17,846,737	2,694	15	2,838	17,852,284
Financial investments held-to-maturity	4,076,672	436,352	–	716,593	5,229,617
Gross loans, advances and financing	143,034,436	11,056,218	1,769,499	683,919	156,544,072
Statutory deposits with Central Banks	1,294,861	–	317,714	–	1,612,575
	203,517,922	13,669,059	2,593,194	3,201,931	222,982,106
Commitments and Contingencies					
Contingent liabilities	2,427,806	156,531	303,192	24,390	2,911,919
Commitments	38,472,535	2,302,920	303,265	96,259	41,174,979
	40,900,341	2,459,451	606,457	120,649	44,086,898
Total Credit Exposures	244,418,263	16,128,510	3,199,651	3,322,580	267,069,004

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(c) Maturity Analysis

Group	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
2011					
On-Balance Sheet Exposures					
Cash and balances with banks	**18,633,783**	**–**	**–**	**–**	**18,633,783**
Reverse repurchase agreements	**9,287,255**	**–**	**–**	**–**	**9,287,255**
Financial assets held-for-trading	**10,063,477**	**436,320**	**63,221**	**93,807**	**10,656,825**
Derivative financial assets	**130,168**	**44,675**	**135,693**	**183,316**	**493,852**
Financial investments available-for-sale	**14,041,708**	**1,787,515**	**781,827**	**108,383**	**16,719,433**
Financial investments held-to-maturity	**6,082,785**	**1,132,418**	**403,746**	**10,284**	**7,629,233**
Gross loans, advances and financing	**28,165,244**	**16,730,279**	**19,594,355**	**113,204,139**	**177,694,017**
Statutory deposits with Central Banks	**–**	**–**	**–**	**5,597,801**	**5,597,801**
Total On-Balance Sheet Exposures	**86,404,420**	**20,131,207**	**20,978,842**	**119,197,730**	**246,712,199**
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

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(c) Maturity Analysis (Cont'd.)

Approximately 35% (2010: 38%) of the Group's exposures to customers is short-term, having contractual maturity of one year or less. About 64% (2010: 62%) of the Group's gross loans, advances and financing have residual maturity of more than 5 years. The longer maturity is from the housing loans and hire purchase financing which made up 51% (2010: 51%) of the portfolio and are traditionally longer term in nature and well secured.

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

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 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, option 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.

4. Credit Risk (Cont'd.)

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

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

Unlike on-balance sheet financial instruments, the Group's financial loss is not the entire contracted notional principal value of the derivatives, but equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract. The Group will only suffer losses if the contract carries a positive economic value at time of default.

(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 excess 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 excess in 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 2011, the estimated additional collateral required to be posted for one notch downgrade was RM35.2 million (2010: RM34.1 million).

4. Credit Risk (Cont'd.)

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

The following tables present the composition of off-balance sheet exposure of the Group and the Bank.

Composition of Off-Balance Sheet Exposures

Group 2011	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Contingent Liabilities				
Direct credit substitutes	1,482,009		1,482,009	1,050,606
Transaction-related contingent items	900,696		450,347	296,295
Short-term self-liquidating trade-related contingencies	515,710		103,142	90,580
Obligations under an on-going underwriting agreement	25,000		12,500	12,500
	2,923,415		2,047,998	1,449,981
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	19,490,137		8,548,749	6,734,106
– not exceeding one year	19,919,554		3,983,912	3,292,787
Unutilised credit card lines	3,486,222		697,244	522,933
Forward asset purchases	39,362		39,362	5,837
	42,935,275		13,269,267	10,555,663
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	11,013,882	106,472	226,354	93,611
– one year to less than five years	6,514	109	435	435
Interest rate related contracts:				
– less than one year	2,058,803	23,619	26,247	5,249
– one year to less than five years	6,560,830	169,014	339,371	111,780
– five years and above	5,183,242	183,317	486,144	97,228
Commodity related contracts:				
– less than one year	16,896	77	247	247
Equity related contracts:				
– one year to less than five years	148,325	11,244	23,109	11,555
	24,988,492	493,852	1,101,907	320,105
Total Off-Balance Sheet Exposures	70,847,182	493,852	16,419,172	12,325,749

4. Credit Risk (Cont'd.)

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

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

Group 2010	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
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. Credit Risk (Cont'd.)

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

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

Bank 2011	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,120,615		1,120,615	914,111
Transaction-related contingent items	779,091		389,546	248,187
Short-term self-liquidating trade-related contingencies	221,038		44,207	37,543
Obligations under an on-going underwriting agreement	25,000		12,500	12,500
	2,145,744		1,566,868	1,212,341
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	18,177,027		7,937,651	6,243,252
– not exceeding one year	18,413,664		3,682,733	2,960,674
Unutilised credit card lines	3,330,591		666,118	499,589
Forward asset purchases	10,175		10,175	-
	39,931,457		12,296,677	9,703,515
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	10,643,581	105,156	223,920	93,124
– one year to less than five years	6,514	109	435	435
Interest rate related contracts:				
– less than one year	2,058,803	23,619	26,247	5,249
– one year to less than five years	6,227,481	169,014	330,482	109,193
– five years and above	5,088,000	183,317	479,477	95,896
Commodity related contracts:				
– less than one year	16,896	77	247	247
Equity related contracts:				
– one year to less than five years	148,325	11,244	23,109	11,555
	24,189,600	492,536	1,083,917	315,699
Total	66,266,801	492,536	14,947,462	11,231,555

4. Credit Risk (Cont'd.)

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

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

Bank 2011	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	4,762		4,762	4,762
Commitments				
Other commitments such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	165,348		33,070	33,017
Derivative Financial Instruments				
Interest rate related contracts:				
– one year to less than five years	333,349	–	8,889	2,587
– five years and above	95,242	–	6,667	1,333
	428,591	–	15,556	3,920
Total	598,701	–	53,388	41,699
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	66,865,502	492,536	15,000,850	11,273,254

4. Credit Risk (Cont'd.)

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

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

Bank 2010	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
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. Credit Risk (Cont'd.)

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

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

Bank 2010	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:				
– not exceeding one year	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. 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 – pledges over securities from listed exchange
(e) for other loans – charges over business assets such as premises, inventories, trade receivables or deposits

The reliance that can be placed on CRM is carefully assessed in light of issues such as legal enforceability, market value and CCR 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 CRM.

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. Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation (Cont'd.)

The following tables present the credit risk mitigation analysis of the Group i.e. 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.

Credit Risk Mitigation Analysis

Group 2011 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
On-Balance Sheet Exposures				
Sovereigns/Central Banks	37,523,662	–	9,290,333	–
Public Sector Entities	424,498	300,687	–	–
Banks, DFIs and MDBs	12,721,460	–	–	–
Insurance Companies, Securities Firms and Fund Managers	109,724	–	4,940	–
Corporates	43,974,265	1,387,064	1,626,251	–
Regulatory Retail	87,201,260	3,089	679,733	–
Residential Mortgages	45,825,233	–	56,419	–
Higher Risk Assets	144,825	–	85	–
Other Assets	4,480,250	–	–	–
Equity Exposures	4,940,117	–	–	–
Defaulted Exposures	1,516,051	–	13,608	–
	238,861,345	1,690,840	11,671,369	–
Off-Balance Sheet Exposures				
Credit-related Exposures	15,262,103	271,046	370,140	–
Derivative Financial Instruments	1,101,907	–	–	–
Other Treasury-related Exposures	39,362	–	–	–
Defaulted Exposures	15,800	–	–	–
	16,419,172	271,046	370,140	–
Total Credit Exposures	255,280,517	1,961,886	12,041,509	–

4. Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation (Cont'd.)

Credit Risk Mitigation Analysis (Cont'd.)

Group 2010 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
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. 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. 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 summarised risk weight mapping matrix for each credit quality rating category:

Rating Category	Risk Weights Based on Credit Rating of the Counterparty Exposure Class			
	Sovereigns and Central Banks	Corporates	Banking Institutions	
			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. 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 of the Group before the effect of credit risk mitigation by credit quality rating categories.

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories

Group 2011 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
	Rating Categories							
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit Exposures risk-weighted using ratings of Corporates								
- Corporates	3,331,167	1,345,601	1,377,128	20,381	-	-		6,074,277
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
- Sovereigns and Central Banks	859,079	35,832,717	-	-	685,013	-		37,376,809
- Public Sector Entities	-	300,687	-	-	-	-		300,687
- Corporates	-	10,115	-	-	-	-		10,115
	859,079	36,143,519	-	-	685,013	-		37,687,611
(iii) Exposures risk-weighted using ratings of Banking Institutions								
- Banks, DFIs and MDBs	6,185,686	3,514,109	1,182,392	1,066	-	-		10,883,253
- Corporates	1,268,932	107,466	5,172	-	-	-		1,381,570
- Regulatory Retail	-	2,797	-	-	-	-		2,797
	7,454,618	3,624,372	1,187,564	1,066	-	-		12,267,620
Total Rated Exposures	11,644,864	41,113,492	2,564,692	21,447	685,013	-		56,029,508
(b) Total Unrated Exposures							182,831,837	182,831,837
	11,644,864	41,113,492	2,564,692	21,447	685,013	-	182,831,837	238,861,345

4. Credit Risk (Cont'd.)

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

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

Group 2011 Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit Exposures risk-weighted using ratings of Corporates								
– Corporates	60,797	4,097	-	-	-	-		64,894
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
– Sovereigns and Central Banks	-	10,175	-	-	-	-		10,175
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	778,334	324,025	35,745	-	-	-		1,138,104
– Corporates	211,330	55,573	449	-	-	-		267,352
– Regulatory Retail	-	1,251	-	-	-	-		1,251
	989,664	380,849	36,194	-	-	-		1,406,707
Total Rated Exposures	1,050,461	395,121	36,194	-	-	-		1,481,776
(b) Total Unrated Exposures							14,937,396	14,937,396
	1,050,461	395,121	36,194	-	-	-	14,937,396	16,419,172
Total Credit Exposures before Credit Risk Mitigation	12,695,325	41,508,613	2,600,886	21,447	685,013	-	197,769,233	255,280,517

4. Credit Risk (Cont'd.)

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

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

Group 2010 Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
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. Credit Risk (Cont'd.)

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

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

Group 2010 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
	← Rating Categories →							
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 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

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. 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 of the Group and the Bank after the effect of credit risk mitigation by risk weights.

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights

	Credit Exposures after the Effect of Credit Risk Mitigation											
Group 2011 Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund 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
0%	28,230,585	300,688	-	-	25,214	-	-	-	1,727,933	-	30,284,420	-
20%	-	123,867	12,245,869	-	4,872,224	-	-	-	114,811	30,948	17,387,719	3,477,544
35%	-	-	-	-	-	-	30,342,394	-	-	-	30,342,394	10,619,838
50%	-	-	1,487,899	3,942	1,525,145	14,428	11,638,971	-	-	-	14,670,385	7,335,193
75%	-	-	-	-	-	92,894,073	3,248,853	-	-	-	96,142,926	72,107,195
100%	112,930	-	130,377	120,165	40,498,929	2,740,309	1,834,849	-	2,637,506	4,909,169	52,984,234	52,984,234
150%	-	-	-	2,011	196,889	1,052,413	15,109	160,508	-	-	1,426,930	2,140,395
Total	28,343,515	424,555	13,864,145	126,118	47,118,401	96,701,223	47,080,176	160,508	4,480,250	4,940,117	243,239,008	148,664,399
Risk-Weighted Assets by Exposures	112,930	24,773	3,323,500	125,153	42,531,280	73,996,698	20,733,476	240,762	2,660,468	4,915,359	148,664,399	
Average Risk Weights	0.4%	5.8%	24.0%	99.2%	90.3%	76.5%	44.0%	150.0%	59.4%	99.5%	61.1%	
Deduction from Capital Base			44,468							-	44,468	

4. Credit Risk (Cont'd.)

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

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

Group 2010 Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation											
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund 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
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. Credit Risk (Cont'd.)

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

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

Bank 2011 Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation											
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund 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
0%	17,105,269	-	-	-	10,113	-	-	-	1,514,017	-	18,629,399	-
20%	-	423	12,121,649	-	4,623,031	-	-	-	-	30,948	16,776,051	3,355,210
35%	-	-	-	-	-	-	24,948,894	-	-	-	24,948,894	8,732,113
50%	-	-	1,374,339	-	1,573,158	14,427	10,729,406	-	-	-	13,691,330	6,845,665
75%	-	-	-	-	-	73,419,415	2,830,678	-	-	-	76,250,093	57,187,570
100%	112,930	-	129,615	19,845	35,708,009	1,395,383	1,646,273	-	1,884,823	4,370,940	45,267,818	45,267,818
150%	-	-	-	2,011	139,111	837,286	12,364	127,205	-	-	1,117,977	1,676,966
Total	17,218,199	423	13,625,603	21,856	42,053,422	75,666,511	40,167,615	127,205	3,398,840	4,401,888	196,681,562	123,065,342
Risk-Weighted Assets by Exposures	112,930	85	3,241,114	22,862	37,627,861	57,723,087	17,884,642	190,808	1,884,823	4,377,130	123,065,342	
Average Risk Weights	0.7%	20.0%	23.8%	104.6%	89.5%	76.3%	44.5%	150.0%	55.5%	99.4%	62.6%	
Deduction from Capital Base			44,468							-	44,468	

4. Credit Risk (Cont'd.)

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

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

	Credit Exposures after the Effect of Credit Risk Mitigation											
Bank 2010 Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund 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
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. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing

The following tables present the gross loans, advances and financing of the Group analysed by credit quality.

Gross Loans, Advances and Financing by Credit Quality

Group	2011 RM'000	2010 RM'000
Neither past due nor impaired	**155,451,804**	134,883,902
Past due but not impaired	**20,712,556**	19,875,893
Impaired	**1,529,657**	1,784,277
	177,694,017	156,544,072
Gross impaired loans as a percentage of gross loans, advances and financing	**0.86%**	1.14%

(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. 59% of the past due loans of the Group are past due for less than 1 month.

Table (i)-(iii) present analysis of the past due but not impaired loans, advances and financing of the Group by:

(i) Economic purpose
(ii) Geographical analysis
(iii) Aging analysis

4. Credit Risk (Cont'd.)

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

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

(i) Past Due But Not Impaired Loans, Advances and Financing by Economic Purpose

Group	2011 RM'000	2010 RM'000
Purchase of securities	**1,371**	3,597
Purchase of transport vehicles	**9,466,747**	8,567,503
Purchase of landed properties	**9,073,125**	9,135,149
(Of which: – residential	**6,836,082**	6,667,962
– non-residential)	**2,237,043**	2,467,187
Purchase of fixed assets (excluding landed properties)	**15,590**	19,560
Personal use	**679,036**	731,672
Credit card	**236,932**	235,889
Purchase of consumer durables	**1,122**	1,328
Construction	**66,556**	28,930
Working capital	**1,099,923**	1,058,833
Other purpose	**72,154**	93,432
	20,712,556	19,875,893

(ii) Past Due But Not Impaired Loans, Advances and Financing by Geographical Analysis

Group	2011 RM'000	2010 RM'000
Malaysia	**20,205,091**	19,345,314
Hong Kong & China PRC	**167,775**	214,114
Cambodia	**251,862**	260,333
Other countries	**87,828**	56,132
	20,712,556	19,875,893

(iii) Past Due But Not Impaired Loans, Advances and Financing by Aging Analysis

Group	2011 RM'000	2010 RM'000
1 day to <1 month	**12,266,533**	11,901,504
1 month to <2 months	**6,484,299**	6,099,305
2 months to <3 months	**1,961,724**	1,875,084
	20,712,556	19,875,893

4. Credit Risk (Cont'd.)

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

(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.

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.

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.

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

In conjunction with the convergence of the Financial Reporting Standards in Malaysia with the International Financial Reporting Standards, the Guidelines were revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of the Malaysian Financial Reporting Standards 139: Financial Instruments: Recognition and Measurement ("MFRS 139"). Based on the revised Guidelines, the transitional arrangement is removed with effect from 1 January 2012.

Under MFRS 139, the future cash flows of each of the group of loans with similar credit risk characteristics are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

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 six (6) consecutive months of observation period.

Table (i)-(ii) present analysis of the impaired loans, advances and financing of the Group and the related impairment allowances of the Group by:

(i) Economic purpose
(ii) Geographical analysis

4. Credit Risk (Cont'd.)

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

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

(i) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Economic Purpose

Group 2011	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
Purchase of securities	5,892	1,529	276	(1,038)	767	27,417	28,184
Purchase of transport vehicles	267,817	40,399	5,311	(29,796)	15,914	559,042	574,956
Purchase of landed properties	660,005	31,919	(2,456)	(1,989)	27,474	1,417,009	1,444,483
(Of which: – residential	466,238	1,356	1,076	(520)	1,912	783,247	785,159
– non-residential)	193,767	30,563	(3,532)	(1,469)	25,562	633,762	659,324
Purchase of fixed assets (excluding landed properties)	6,187	515	(64)	-	451	3,884	4,335
Personal use	176,834	43,878	177,193	(178,461)	42,610	122,996	165,606
Credit card	22,284	-	-	-	-	22,717	22,717
Purchase of consumer durables	13	-	-	-	-	251	251
Construction	33,652	6,772	2,047	(925)	7,894	22,764	30,658
Mergers and acquisitions	-	-	-	-	-	3,124	3,124
Working capital	329,539	130,767	37,693	(27,084)	141,376	399,630	541,006
Other purpose	27,434	9,155	510	(955)	8,710	65,701	74,411
	1,529,657	264,934	220,510	(240,248)	245,196	2,644,535	2,889,731

4. Credit Risk (Cont'd.)

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

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

(i) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Economic Purpose (Cont'd.)

Group 2010	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
Purchase of securities	7,596	–	3,698	(2,169)	1,529	35,017	36,546
Purchase of transport vehicles	278,520	2,261	38,554	(416)	40,399	506,218	546,617
Purchase of landed properties	789,082	36,562	6,115	(10,758)	31,919	1,178,753	1,210,672
(Of which: – residential	500,289	905	11,181	(10,730)	1,356	675,217	676,573
– non-residential)	288,793	35,657	(5,066)	(28)	30,563	503,536	534,099
Purchase of fixed assets (excluding landed properties)	9,041	1,451	(936)	–	515	4,232	4,747
Personal use	172,963	29,432	192,938	(178,492)	43,878	116,369	160,247
Credit card	27,296	–	–	–	–	20,119	20,119
Purchase of consumer durables	104	–	–	–	–	246	246
Construction	14,677	6,553	21,229	(21,010)	6,772	16,768	23,540
Mergers and acquisitions	–	–	–	–	–	123	123
Working capital	442,712	172,076	52,297	(93,606)	130,767	326,105	456,872
Other purpose	42,286	9,130	25	–	9,155	92,208	101,363
	1,784,277	257,465	313,920	(306,451)	264,934	2,296,158	2,561,092

The movements in the collective assessment allowance for 2011 and 2010 are set out in Note 9 to the financial statements.

4. Credit Risk (Cont'd.)

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

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

(ii) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Geographical Analysis

Group	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
2011							
Malaysia	**1,320,603**	**168,245**	**2,877**	**(33,777)**	**137,345**	**2,508,105**	**2,645,450**
Hong Kong & China PRC	**118,278**	**68,090**	**189,795**	**(189,991)**	**67,894**	**89,310**	**157,204**
Cambodia	**58,911**	**22,157**	**28,714**	**(16,641)**	**34,230**	**36,428**	**70,658**
Other countries	**31,865**	**6,442**	**(876)**	**161**	**5,727**	**10,692**	**16,419**
	1,529,657	**264,934**	**220,510**	**(240,248)**	**245,196**	**2,644,535**	**2,889,731**
2010							
Malaysia	1,551,478	133,772	38,194	(3,721)	168,245	2,168,940	2,337,185
Hong Kong & China PRC	131,135	69,304	207,001	(208,215)	68,090	86,741	154,831
Cambodia	59,545	45,517	70,373	(93,733)	22,157	34,917	57,074
Other countries	42,119	8,872	(1,648)	(782)	6,442	5,560	12,002
	1,784,277	257,465	313,920	(306,451)	264,934	2,296,158	2,561,092

The movements in the collective assessment allowance for 2011 and 2010 are set out in Note 9 to the financial statements.

5. 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 banking activities of the Group includes rate of return risk and displaced commercial risk.

The following tables present the minimum regulatory capital requirements on market risk of the Group and the Bank.

Minimum Regulatory Capital Requirements for Market Risk

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
2011				
Interest rate/rate of return risk	**22,849,408**	**(11,343,971)**	**802,907**	**64,233**
Foreign exchange risk	**754,363**	**(866,881)**	**866,881**	**69,350**
Equity risk	**808**	**–**	**1,010**	**81**
Total	**23,604,579**	**(12,210,852)**	**1,670,798**	**133,664**
Group				
2010				
Interest rate/rate of return 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
Bank				
2011				
Interest rate risk	**21,796,868**	**(11,413,106)**	**721,598**	**57,728**
Foreign exchange risk	**1,180,297**	**(2,051,491)**	**2,051,491**	**164,119**
Equity risk	**808**	**–**	**1,010**	**81**
Total	**22,977,973**	**(13,464,597)**	**2,774,099**	**221,928**
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

5. 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 risk remains 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/rate of return 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/rate of return sensitive fixed income instruments is measured by the present value of 1 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 financial year, the Group's traded market risk exposures on fixed income securities as measured by PV01, averaged at RM209,000 (2010: RM173,000). The composition of the Group's trading portfolio is 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/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/Rate of Return Risk in the Banking Book

Interest rate/rate of return risk in the banking book ("IRR/RoRBB") is the risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

5. Market Risk (Cont'd.)

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

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

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways such as 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/rate of return 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 IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

(i) The table in Note 44 to the financial statements sets out the Group's sensitivity to interest rate/rate of return 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, advances and financing or early withdrawal of deposits. As at 31 December 2011, the Group had an overall positive interest rate/rate of return gap of RM29,064.3 million (2010: RM27,748.2 million), being the net difference between interest rate/rate of return sensitive assets and liabilities.

(ii) Interest Rate/Rate of Return Risk Sensitivity Analysis

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

5. Market Risk (Cont'd.)

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

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

Interest Rate/Rate of Return Risk Sensitivity Analysis

Group Impact on NII/NPI	2011 -100 bps RM'000	 +100 bps Increase/(Decrease) RM'000	2010 -100 bps RM'000	 +100 bps RM'000
Ringgit Malaysia	**(106,612)**	**35,488**	(87,714)	44,026
United States Dollars	**5,209**	**(21,232)**	19,918	(12,601)
Hong Kong Dollars	**(3,016)**	**3,540**	10,658	(2,955)
Other Currencies	**(5,076)**	**3,760**	(3,577)	3,325
Total	**(109,495)**	**21,556**	(60,715)	31,795

Group Impact on EVE	2011 -100 bps RM'000	 +100 bps Increase/(Decrease) RM'000	2010 -100 bps RM'000	 +100 bps RM'000
Ringgit Malaysia	**1,258,693**	**(1,257,898)**	1,192,978	(1,192,119)
United States Dollars	**5,547**	**(18,488)**	7,346	(7,346)
Hong Kong Dollars	**862**	**(2,874)**	2,108	(7,025)
Other Currencies	**(3,260)**	**3,275**	(4,681)	4,681
Total	**1,261,842**	**(1,275,985)**	1,197,751	(1,201,809)

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/rate of return risk. In reality, treasury operations seek to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes that interest rate/rate of return of all maturities move by the same amount and, therefore, does not reflect the potential impact on the NII/NPI 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/financing that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Loan/financing prepayment is generally estimated based on past statistics and trends, where possible and material. The impact on the NII/NPI 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.

5. Market Risk (Cont'd.)

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

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

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

(b) Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the risk of Public Islamic bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the investment account holders ("IAH") based on the contractual profit sharing ratio. Public Islamic does not have profit sharing investment accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

Public Islamic uses Profit Equalisation Reserve ("PER") to manage its DCR and is governed by the Profit Equalisation Reserve Framework. PER is created by setting aside an amount out of the total gross income before distribution to the IAH and to Public Islamic. The amount of PER set aside is shared by both the IAH and Public Islamic. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, Public Islamic may employ the following techniques to ensure that the IAH receive market rate of return:

(i) to forgo part or all of Public Islamic's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or

(ii) to transfer Public Islamic's current year profits or retained earnings to the IAH on the basis of hibah.

(c) Foreign Exchange Risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, overseas 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") limit is 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 2011, a net short position of RM132.4 million or 4% of the Group's structural position represents hedging of future earnings from overseas operations (2010: net long position of RM353.7 million).

5. Market Risk (Cont'd.)

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

(d) Equity Risk

Equity risk refers to the adverse impact arising from movements 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.

6. Equity Exposures in the Banking Book

The following tables present the minimum regulatory capital requirements for the equity exposures in the banking book of the Group.

Minimum Regulatory Capital Requirements for Equity Exposures in the Banking Book

	2011		2010	
Group	**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	**4,816,786**	**4,816,786**	4,672,166	4,672,166
Holdings of equity investments	**36,091**	**36,091**	36,218	36,218
	4,852,877	**4,852,877**	4,708,384	4,708,384
Privately held				
For socio-economic purposes	**87,240**	**62,482**	87,439	62,681
Not for socio-economic purposes	**38,196**	**57,294**	17,474	26,211
	125,436	**119,776**	104,913	88,892
Total	**4,978,313**	**4,972,653**	4,813,297	4,797,276

(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. 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.

6. Equity Exposures in the Banking Book (Cont'd.)

The following tables present the gains and losses on equity exposures in the banking book of the Group.

Gains and Losses on Equity Exposures in the Banking Book

Group	2011 RM'000	2010 RM'000
Realised gains recognised in the income statement		
– Publicly traded equity investments	**736**	3,477
Unrealised gains/(losses) recognised in revaluation reserve		
- Investments in unit trust funds	**31,814**	33,191
- Publicly traded equity investments	**(8,423)**	(4,479)
	23,391	28,712

7. 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 flows. 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 flows and the replenishment of funds as they matured or are borrowed by customers. As at 31 December 2011, the Group holds a sizeable balance of government securities amounting to RM13,362.3 million (2010: RM14,257.6 million) or 38% (2010: 48%) of its portfolio of securities.

7. Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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 are 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 in Ringgit Malaysia and 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 sources of funding to meet the shortfalls during a liquidity crisis.

Overseas subsidiary companies and overseas branches are required to comply with their respective local regulatory liquidity requirements and internal liquidity limits set by Head Office. Similar risk management processes as practiced 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. Operational Risk

Operational risk is the risk of loss resulting 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.

The following tables present the minimum regulatory capital requirements on operational risk of the Group and the Bank, computed using the Basic Indicator Approach.

Minimum Regulatory Capital Requirements for Operational Risk

	2011		2010	
	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	**12,692,078**	**1,015,366**	11,546,113	923,689
Bank	**9,048,375**	**723,870**	8,446,853	675,748

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. 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 the 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.

(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

8. Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Tools and Methods for Risk Mitigation (Cont'd.)

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
- Periodic review and enhancement of operational risk limits and control strategies
- Disaster recovery and business continuity plans put in place to mitigate risk and manage the impact of loss events
- Insurance coverage 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. 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 Governance Framework ("the Framework") which was endorsed by the Shariah Committee and approved by the Board of Directors of Public Islamic ("the Board of Public Islamic"). The Framework is drawn up in accordance to the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010. 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 the Public Islamic to ensure the operations are conducted in accordance to Shariah rules and principles. The Framework will further strengthen the Shariah governance of Public Islamic and supplements the existing policies and procedures relating to Shariah compliance of Public Islamic.

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 examines and evaluates Public Islamic's level of compliance to the Shariah through the end-to-end product development process and operational review including the review of financing application 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.

Rectification Process of Shariah Non-Compliant Income Detected During the Year

An ongoing review on Public Islamic's operational processes in financing transactions was conducted and a Shariah non-compliant transaction was detected during the financial year under review. As a result, an amount of RM48,263 (2010: Nil) was identified as Shariah non-compliant income, a portion of which has been identified and approved by the Shariah Committee and the Board of Public Islamic for channeling to the approved charitable bodies.