

# PILLAR 3 DISCLOSURE

As at 31 December 2013

## OVERVIEW

The Pillar 3 Disclosure 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; and
- (c) Pillar 3 aims to harness 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 Disclosure Policy on Basel II Risk-Weighted Capital Adequacy Framework/Capital Adequacy Framework for Islamic Banks - 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](http://www.publicbank.com.my)

**OVERVIEW (CONT'D.)**

**Minimum Regulatory Capital Requirements**

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.

|                  | 2013                           |   | 2012   |   |
|------------------|--------------------------------|---|--|---|
|                  | Risk-Weighted Assets<br>RM'000 | Minimum Capital Requirement at 8%<br>RM'000 | Risk-Weighted Assets<br>RM'000<br>(Restated) | Minimum Capital Requirement at 8%<br>RM'000<br>(Restated) |
| <b>Group</b>     |                                |   |  |   |
| Credit Risk      | 183,113,937                    | 14,649,115                                  | 164,279,544                                  | 13,142,363  |
| Market Risk      | 2,111,436                      | 168,915                                     | 1,713,076                                    | 137,047   |
| Operational Risk | 14,497,356                     | 1,159,788                                   | 13,733,324                                   | 1,098,666   |
| <b>Total</b>     | <b>199,722,729</b>             | <b>15,977,818</b>                           | <b>179,725,944</b>                           | <b>14,378,076</b>   |
| <b>Bank</b>      |                                |   |  |   |
| Credit Risk      | 154,360,722                    | 12,348,858                                  | 137,471,265                                  | 10,997,701  |
| Market Risk      | 2,850,579                      | 228,046                                     | 2,579,721                                    | 206,378   |
| Operational Risk | 10,228,677                     | 818,294                                     | 9,915,430                                    | 793,234   |
| <b>Total</b>     | <b>167,439,978</b>             | <b>13,395,198</b>                           | <b>149,966,416</b>                           | <b>11,997,313</b>   |

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

## 1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank and its subsidiary and associated companies. The 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(v)(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 were 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 during the financial year.

All information in the ensuing sections 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 Internal Capital Adequacy Assessment Process ("ICAAP") is central to the Group's capital management whereby:

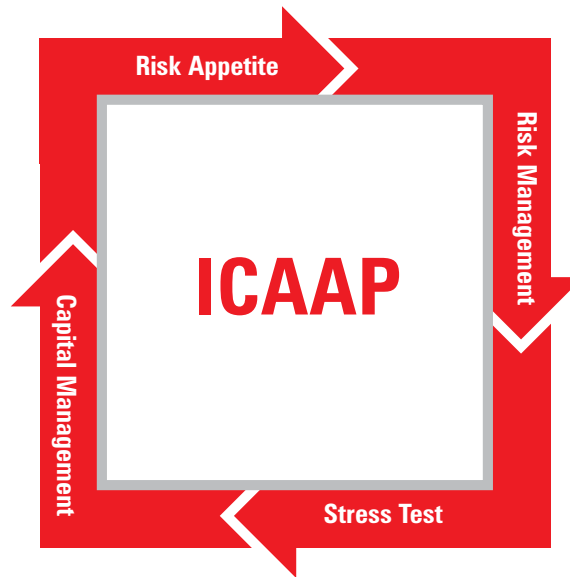
- (i) The risk management processes are continuously reviewed and enhanced to facilitate a comprehensive risk assessment of the various types of risk that the Group may be exposed to apart from the traditional Pillar 1 credit, market and operational risks; and
- (ii) The setting aside of capital that commensurates with the Group's risk profile, complexity of the business activities undertaken, risk appetite, the environment in which it operates as well as its 3-year business plans.

The Board of Directors ("Board") maintains overall responsibility for effective oversight on ICAAP and is supported by the Risk Management Committee ("RMC") and ICAAP Working Group as well as four ICAAP Working Support Groups, that identify, assess, quantify the Pillar 2 risks on an ongoing basis and consider the results for capital management. Internal Audit Division ("IAD") is responsible to review the processes relating to the ICAAP to ensure their integrity, objectivity and consistency in application.

## 2. CAPITAL MANAGEMENT (CONT'D.)

### 2.1 Internal Capital Adequacy Assessment Process

The key elements of the Group's ICAAP are as follows:



#### (a) Risk Appetite

The Group's risk appetite defines the amount and types of risk that the Group is able and willing to accept in pursuit of its business objectives. It also sets out the level of risk tolerance and limits to govern, manage and control the Group's risk taking activities.

The key processes in setting the risk appetite are as follows:



The preparation of the 3-Year Mission/Key Targets is guided by the risk appetite to ensure that the risk appetite is incorporated into actionable plans and measures by the business and support units through the budget, business plans, capital management and risk management processes.

## 2. CAPITAL MANAGEMENT (CONT'D.)

### 2.1 Internal Capital Adequacy Assessment Process (Cont'd.)

#### (b) Capital Management

The Group's capital management is guided by the Group's Capital Management Framework and the Internal Capital Management Process.

As part of the internal capital management process, the Group has put in place the following:

- (i) 3-year capital plan, whereby the Group's capital requirements are determined by taking into account its business and strategic plans and financial budget.
- (ii) Internal Capital Targets ("ICT") that factors the following:
  - Minimum capital as required under Basel III to meet the Group's business plans;
  - Material and quantifiable Pillar 2 risks where capital has not been set aside under Pillar 1;
  - Largest decline recorded under the Scenario 1 stress test in any of the three years stress horizon; and
  - Capital buffers
- (iii) Identified sources of internal capital available to meet the Group's capital requirements.

The Group's capital levels are monitored against the trigger limits for ICT and are reported to the Board, RMC and ICAAP Working Group. In addition, the Group's capital deficiency plan is also put in place to set out the actions required should a capital deficiency situation arise.

#### (c) Stress Testing

The Group's stress testing processes are guided by the Group's Stress Test Policy ("Stress Test Policy"). The objectives of the Stress Test Policy are as follows:

- (i) To establish a comprehensive and consistent stress test process in conducting the stress test by all entities within the Group.
- (ii) To develop stress test parameters, assumptions and scenarios that are relevant and take into account the nature, risk profile and complexity of the Group's business as well as the environment in which the Group operates.
- (iii) To ensure the stress test capture all material risks including emerging risks.
- (vi) To ensure all stress test parameters, assumptions and scenarios are duly deliberated by senior management and approved by the RMC prior to the execution of the stress test exercise.
- (v) To ensure loss outcomes are identified and that senior management are able to make informed decisions based on the stress test results.

In view of the environment in which the Group operates, the stress scenarios are modeled along the events that occurred during the Asian Financial Crisis. This is supplemented by the incorporation of the risk factors experienced during 2008 Financial Crisis and the potential emerging risks which may have an impact to the Group. Some of the emerging risks considered are the hypothetical increase in the level of household debts, slowdown in the growth of China's economy, currency risk of emerging countries and amongst others.

The results of the stress test are deliberated by the ICAAP Working Group and the RMC. The key focus is on the impact on profitability, asset quality, capital adequacy and liquidity positions of the Group as well as the identification of the appropriate actions to address the adverse effects of the stress events. Under ICAAP, the stress results are factored in to determine the internal capital targets of the banking entities and the Group.

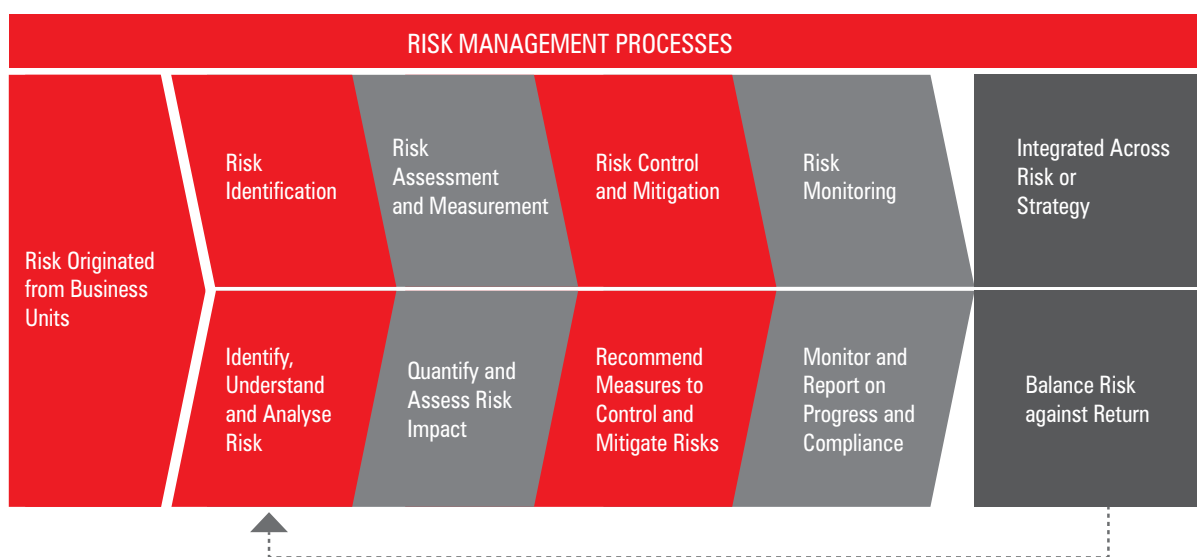
## 2. CAPITAL MANAGEMENT (CONT'D.)

### 2.1 Internal Capital Adequacy Assessment Process (Cont'd.)

#### (d) Risk Management

The Group's risk management processes are guided by the Group's Risk Management Framework which sets out the key principles on risk governance for effective risk management and outlines the Group's objective to instil a risk awareness culture among all levels of staff to ensure that the risk management functions are carried out effectively.

The risk management processes are as follows:



### 2.2 Capital Adequacy Ratios and Capital Structure

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

#### (a) Capital Adequacy Ratios for the Group and the Bank

|  | Group   |                    | Bank    |                    |
|--|---------|--------------------|---------|--------------------|
|  | 2013    | 2012<br>(Restated) | 2013    | 2012<br>(Restated) |
| <b>Before deducting interim dividends:*</b>  |         |                    |         |                    |
| Common equity tier I ("CET I") capital ratio | 9.276%  | N/A                | 10.927% | N/A                |
| Tier I capital ratio                         | 11.055% | 11.413%            | 13.023% | 13.632%            |
| Total capital ratio                          | 14.288% | 14.674%            | 14.086% | 14.534%            |
| <b>After deducting interim dividends:*</b>   |         |                    |         |                    |
| CET I capital ratio                          | 8.750%  | N/A                | 10.300% | N/A                |
| Tier I capital ratio                         | 10.529% | 10.828%            | 12.396% | 12.931%            |
| Total capital ratio                          | 13.762% | 14.089%            | 13.459% | 13.833%            |

\* Refers to interim dividends declared subsequent to the financial year end.

The capital adequacy ratios of the banking subsidiary companies of the Group are set out in Note 50(a) to the financial statements.

## 2. CAPITAL MANAGEMENT (CONT'D.)

### 2.2 Capital Adequacy Ratios and Capital Structure (Cont'd.)

#### (b) Capital Structure

|  | Group             |                               | Bank              |                               |
|--|-------------------|-------------------------------|-------------------|-------------------------------|
|  | 2013<br>RM'000    | 2012<br>RM'000<br>(Restated)* | 2013<br>RM'000    | 2012<br>RM'000<br>(Restated)* |
| <b>CET I capital/Tier I capital</b>  |                   |                               |                   |                               |
| 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   | 4,402,843         | 4,218,576                     | 3,924,896         | 3,750,880                     |
| Retained profits   | 11,507,565        | 9,274,909                     | 10,892,504        | 9,104,376                     |
| Treasury shares  | (215,572)         | (215,572)                     | (215,572)         | (215,572)                     |
| Qualifying non-controlling interests   | 522,093           | 699,864                       | –                 | –                             |
| Less: Goodwill   | (2,003,912)       | (1,899,875)                   | (695,393)         | (695,393)                     |
| Less: Deferred tax assets, net   | (70,121)          | (64,900)                      | –                 | –                             |
| Less: Defined benefit pension fund assets  | (220,922)         | –                             | (215,372)         | –                             |
| <b>Total CET I capital</b>   | <b>18,527,210</b> | 16,618,238                    | <b>18,296,299</b> | 16,549,527                    |
| Innovative Tier I capital securities   | 1,630,440         | 1,810,317                     | 1,630,440         | 1,810,317                     |
| Non-innovative Tier I stapled securities   | 1,879,200         | 2,083,146                     | 1,879,200         | 2,083,146                     |
| Qualifying CET I and additional Tier I capital instruments held by third parties             | 42,031            | –                             | –                 | –                             |
| <b>Total Tier I capital</b>  | <b>22,078,881</b> | 20,511,701                    | <b>21,805,939</b> | 20,442,990                    |
| <b>Tier II capital</b>   |                   |                               |                   |                               |
| Collective assessment allowance and regulatory reserves <sup>#</sup>                         | 1,123,706         | 1,038,369                     | 625,010           | 691,258                       |
| Subordinated notes   |                   |                               |                   |                               |
| – meeting all relevant criteria  | 1,949,116         | –                             | 1,949,116         | –                             |
| – subject to gradual phase-out treatment   | 3,471,121         | 4,870,351                     | 3,471,121         | 4,870,351                     |
| Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties | 56,042            | –                             | –                 | –                             |
| Less: Investment in banking/insurance subsidiary companies and associated companies          | (142,255)         | (960)                         | (4,264,787)       | (4,162,284)                   |
| Less: Holdings of other financial institutions' capital instruments                          | –                 | (46,834)                      | –                 | (46,834)                      |
| <b>Total Tier II capital</b>   | <b>6,457,730</b>  | 5,860,926                     | <b>1,780,460</b>  | 1,352,491                     |
| <b>Total capital</b>   | <b>28,536,611</b> | 26,372,627                    | <b>23,586,399</b> | 21,795,481                    |

<sup>#</sup> Excludes collective assessment allowance on impaired loans restricted from Tier II capital of the Group and the Bank of RM600.8 million (2012: RM491.2 million) and RM446.9 million (2012: RM369.2 million) respectively.

Includes the Group's qualifying regulatory reserves for non-impaired loans which pertain to Public Bank (Hong Kong) Limited and Public Finance Limited amounting to RM132.4 million (2012: N/A).

\* The comparative capital adequacy ratios and total capital have been restated for effects of the adoption of MFRS 119 Employee Benefits and are computed in accordance with BNM's revised Risk-Weighted Capital Adequacy Framework (Basel II). Please refer to Note 53 Changes in Accounting Policies as disclosed in the financial statements for a summary of the changes.

## 2. CAPITAL MANAGEMENT (CONT'D.)

### 2.2 Capital Adequacy Ratios and Capital Structure (Cont'd.)

#### (b) Capital Structure (Cont'd.)

The Bank has issued various capital instruments and debt instruments which qualify as components of regulatory capital under the BNM's Capital Adequacy Framework (Capital Components), as summarised in the following table:

| Capital Instruments  | Capital Component | Main Features  |
|--|-------------------|--|
| (a) Non-Innovative Tier I stapled securities ("NIT-1")                       | Tier I Capital    | <ul style="list-style-type: none"> <li>Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with IT-1</li> <li>Unsecured</li> <li>Perpetual, with optional redemption after 10 years. No step-up</li> <li>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</li> <li>Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders</li> </ul>                    |
| (b) Innovative Tier I capital securities ("IT-1")                            | Tier I Capital    | <ul style="list-style-type: none"> <li>Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with NIT-1</li> <li>Unsecured</li> <li>Optional redemption with step-up after 10 years</li> <li>Option to defer interest up to 50% of aggregate principal</li> <li>Principal and interest stock settlement provision</li> </ul>  |
| (c) Subordinated notes ("Sub Notes")   | Tier II Capital   | <ul style="list-style-type: none"> <li>Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1</li> <li>Unsecured</li> <li>Sub Notes issued prior to January 2011 are subject to optional redemption with step-up</li> <li>Sub Notes issued subsequent to January 2011 do not contain step-up upon optional redemption date</li> <li>No provisions for deferral of interest. Non-payment will result in default</li> </ul>   |
| (d) Basel III-Compliant Subordinated notes ("Basel III-Compliant Sub Notes") | Tier II Capital   | <ul style="list-style-type: none"> <li>Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1</li> <li>Unsecured</li> <li>Optional redemption after 5 years. No step-up</li> <li>Upon occurrence of a Non-Viability Event as determined by BNM and Malaysia Deposit Insurance Corporation, the Basel III-Compliant Sub Notes may be subject to write-off</li> <li>The write-off shall not constitute an event of default or an enforcement event, nor would it trigger any cross-default under the Basel III-Compliant Sub Notes</li> </ul> |

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

In line with the transitional arrangements under the BNM's Capital Adequacy Framework (Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank, capital and debt instruments which were issued prior to 31 December 2012 are subject to a gradual phased-out treatment. The Basel III-Compliant Sub Notes which were issued after 31 December 2012 are fully qualified as Tier II Capital.



### 3. RISK MANAGEMENT FRAMEWORK

The key elements of the Group's Risk Management Framework are as follows:

- (a) Risk Governance
- (b) Risk Appetite
- (c) Risk Management Processes
- (d) Risk Culture



### 3. RISK MANAGEMENT FRAMEWORK (CONT'D.)

#### (a) Risk Governance

The Group's risk governance sets out the respective parties' roles and responsibilities for the Group's risk management and system of internal control based on the following seven fundamental principles which outline the principal risk management and control responsibilities:

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

#### Board of Directors

The Board is ultimately responsible for the adequacy and effectiveness of risk management and system of internal control. The Board, through the RMC, maintains overall responsibility for risk oversight within the Group.

#### Risk Management Committee

The RMC is responsible for overall risk oversight which includes inter-alia reviewing and approving risk management policies and limits, reviewing risk exposures and portfolio composition, and ensuring that infrastructure, resources and systems are put in place for effective risk management oversight. The RMC assists the Board in overseeing the effectiveness of the Group's ICAAP and approving risk policies and framework relating to ICAAP.

#### Dedicated Risk Committees

The dedicated risk committees established to assist the RMC in the 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, reviewing risk exposures and portfolio composition, and ensuring that infrastructure, resources and systems are put in place to manage and control the Group's risk taking activities.

### 3. RISK MANAGEMENT FRAMEWORK (CONT'D.)

#### (a) Risk Governance (Cont'd.)

##### Shariah Committee

The key responsibilities of the Shariah Committee are to advise the Board on Shariah matters pertaining to the Islamic operations and to deliberate and endorse Shariah related matters. The Shariah Committee is supported by the Shariah compliance and research functions.

##### Independent Risk Management and Control Units

The independent risk management and control units provide crucial support to the dedicated risk committees. They have the right to obtain information necessary to carry out their responsibilities and work closely among themselves to ensure the approved risk policies are implemented and complied with. They are also responsible for the identification, measurement, monitoring and reporting of risk exposures.

##### Business Units

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.

##### Audit Committee

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

#### (b) Risk Appetite

The key processes in setting the Group's risk appetite are presented earlier in item 2.1(a) of the Pillar 3 Disclosure, and the Risk Appetite Statement and further details of the risk appetite statement are presented in the Risk Management section of the Annual Report 2013.

#### (c) Risk Management Processes

The risk management processes for the key risk areas of the Group and the various analysis of risk exposures are set out in the ensuing sections of the Pillar 3 Disclosure.

#### (d) Risk Culture

The inculcation of a risk awareness culture is a key aspect of an effective enterprise-wide risk management framework and the following are key factors of risk culture:

- (i) Strong corporate governance
- (ii) Organisational structure with clearly defined roles and responsibilities
- (iii) Effective communication and training
- (iv) Commitment to compliance with laws, regulations and internal controls
- (v) Integrity in fiduciary responsibilities
- (vi) Clear policies, procedures and guidelines

#### 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 enterprises ("SMEs") and corporate customers. Trading and investing the surplus funds of the Group, such as trading or holding of debt securities, deposits placement, settlement of transactions, also expose the Group to credit risk and counterparty credit risk ("CCR").

##### Minimum Regulatory Capital Requirements for Credit Risk

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

| Group<br>Exposure Class   | Total<br>Exposures<br>before<br>Credit Risk<br>Mitigation<br>RM'000 | Total<br>Exposures<br>after<br>Credit Risk<br>Mitigation<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 | Minimum<br>Capital<br>Requirement<br>at 8%<br>RM'000 |
|---|---|--|---------------------------------------|--|
| <b>2013</b>   |   |  |                                       |  |
| <b>On-Balance Sheet Exposures</b>   |   |  |                                       |  |
| Sovereigns/Central Banks  | 43,868,445  | 34,487,789   | 111,726                               | 8,938  |
| Public Sector Entities  | 710,882   | 710,882  | 19,550                                | 1,564  |
| Banks, Development Financial Institutions ("DFIs")<br>and Multilateral Development Banks ("MDBs") | 10,933,454  | 10,788,495   | 2,719,377                             | 217,550  |
| Insurance Companies, Securities Firms and Fund Managers   | 190,518   | 186,529  | 154,394                               | 12,352   |
| Corporates  | 53,871,845  | 50,802,520   | 45,906,131                            | 3,672,490  |
| Regulatory Retail   | 107,217,507   | 106,469,911  | 80,744,040                            | 6,459,523  |
| Residential Mortgages   | 59,871,984  | 59,809,665   | 24,927,740                            | 1,994,219  |
| Higher Risk Assets  | 100,871   | 100,795  | 151,193                               | 12,095   |
| Other Assets  | 5,250,041   | 5,250,041  | 2,690,719                             | 215,258  |
| Equity Exposures  | 5,206,890   | 5,206,890  | 5,206,890                             | 416,551  |
| Defaulted Exposures   | 1,696,051   | 1,682,995  | 2,428,396                             | 194,272  |
|   | <b>288,918,488</b>  | <b>275,496,512</b>   | <b>165,060,156</b>                    | <b>13,204,812</b>                                    |
| <b>Off-Balance Sheet Exposures</b>  |   |  |                                       |  |
| Credit-related Exposures  | 21,945,654  | 21,476,703   | 17,682,827                            | 1,414,626  |
| Derivative Financial Instruments  | 1,067,569   | 1,067,569  | 350,308                               | 28,025   |
| Other Treasury-related Exposures  | 4,176   | 4,176  | 835                                   | 67   |
| Defaulted Exposures   | 13,227  | 13,227   | 19,811                                | 1,585  |
|   | <b>23,030,626</b>   | <b>22,561,675</b>  | <b>18,053,781</b>                     | <b>1,444,303</b>                                     |
| <b>Total Credit Exposures</b>   | <b>311,949,114</b>  | <b>298,058,187</b>   | <b>183,113,937</b>                    | <b>14,649,115</b>                                    |

## 4. CREDIT RISK (CONT'D.)

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

| Group<br>Exposure Class                                 | Total<br>Exposures<br>before<br>Credit Risk<br>Mitigation<br>RM'000 | Total<br>Exposures<br>after<br>Credit Risk<br>Mitigation<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 | Minimum<br>Capital<br>Requirement<br>at 8%<br>RM'000 |
|---|---|--|---------------------------------------|--|
| <b>2012 (Restated)</b>                                  |   |  |                                       |  |
| <b>On-Balance Sheet Exposures</b>                       |   |  |                                       |  |
| Sovereigns/Central Banks                                | 38,425,804  | 30,282,326   | 58,286                                | 4,663  |
| Public Sector Entities                                  | 740,737   | 740,737  | 25,525                                | 2,042  |
| Banks, DFIs and MDBs                                    | 9,781,795   | 9,781,795  | 2,325,113                             | 186,009  |
| Insurance Companies, Securities Firms and Fund Managers | 134,790   | 130,117  | 120,287                               | 9,623  |
| Corporates  | 47,424,805  | 44,430,110   | 40,465,715                            | 3,237,258  |
| Regulatory Retail                                       | 97,047,517  | 96,313,977   | 73,069,073                            | 5,845,526  |
| Residential Mortgages                                   | 52,341,275  | 52,282,314   | 22,493,564                            | 1,799,485  |
| Higher Risk Assets                                      | 152,057   | 151,979  | 227,968                               | 18,237   |
| Other Assets  | 4,795,255   | 4,795,255  | 2,697,942                             | 215,835  |
| Equity Exposures  | 5,089,445   | 5,089,445  | 5,064,687                             | 405,175  |
| Defaulted Exposures                                     | 1,454,976   | 1,442,142  | 2,063,939                             | 165,115  |
|   | 257,388,456   | 245,440,197  | 148,612,099                           | 11,888,968   |
| <b>Off-Balance Sheet Exposures</b>                      |   |  |                                       |  |
| Credit-related Exposures                                | 19,166,094  | 18,720,701   | 15,291,364                            | 1,223,309  |
| Derivative Financial Instruments                        | 1,140,543   | 1,140,543  | 350,402                               | 28,032   |
| Other Treasury-related Exposures                        | 30,386  | 30,386   | 6,077                                 | 486  |
| Defaulted Exposures                                     | 13,172  | 13,172   | 19,602                                | 1,568  |
|   | 20,350,195  | 19,904,802   | 15,667,445                            | 1,253,395  |
| <b>Total Credit Exposures</b>                           | <b>277,738,651</b>  | <b>265,344,999</b>   | <b>164,279,544</b>                    | <b>13,142,363</b>                                    |

#### 4. CREDIT RISK (CONT'D.)

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

| Bank<br>Exposure Class                                  | Total<br>Exposures<br>before<br>Credit Risk<br>Mitigation<br>RM'000 | Total<br>Exposures<br>after<br>Credit Risk<br>Mitigation<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 | Minimum<br>Capital<br>Requirement<br>at 8%<br>RM'000 |
|---|---|--|---------------------------------------|--|
| <b>2013</b>   |   |  |                                       |  |
| <b>On-Balance Sheet Exposures</b>                       |   |  |                                       |  |
| Sovereigns/Central Banks                                | 31,534,426  | 23,057,151   | 111,726                               | 8,938  |
| Public Sector Entities                                  | 321,692   | 321,692  | 1,841                                 | 147  |
| Banks, DFIs and MDBs                                    | 8,193,605   | 8,048,646  | 1,959,203                             | 156,736  |
| Insurance Companies, Securities Firms and Fund Managers | 10,726  | 10,726   | 10,726                                | 858  |
| Corporates  | 48,247,454  | 45,673,316   | 40,872,907                            | 3,269,833  |
| Regulatory Retail                                       | 85,013,584  | 84,308,224   | 63,730,519                            | 5,098,442  |
| Residential Mortgages                                   | 51,340,755  | 51,286,131   | 21,392,061                            | 1,711,365  |
| Higher Risk Assets                                      | 91,556  | 91,495   | 137,242                               | 10,979   |
| Other Assets  | 4,256,278   | 4,256,278  | 3,091,159                             | 247,293  |
| Equity Exposures  | 4,637,365   | 4,637,365  | 4,637,365                             | 370,989  |
| Defaulted Exposures                                     | 1,400,776   | 1,387,813  | 1,992,386                             | 159,391  |
|   | <b>235,048,217</b>  | <b>223,078,837</b>   | <b>137,937,135</b>                    | <b>11,034,971</b>                                    |
| <b>Off-Balance Sheet Exposures</b>                      |   |  |                                       |  |
| Credit-related Exposures                                | 19,921,465  | 19,519,472   | 16,028,808                            | 1,282,305  |
| Derivative Financial Instruments                        | 1,215,608   | 1,215,608  | 379,913                               | 30,393   |
| Defaulted Exposures                                     | 9,931   | 9,931  | 14,866                                | 1,189  |
|   | <b>21,147,004</b>   | <b>20,745,011</b>  | <b>16,423,587</b>                     | <b>1,313,887</b>                                     |
| <b>Total Credit Exposures</b>                           | <b>256,195,221</b>  | <b>243,823,848</b>   | <b>154,360,722</b>                    | <b>12,348,858</b>                                    |

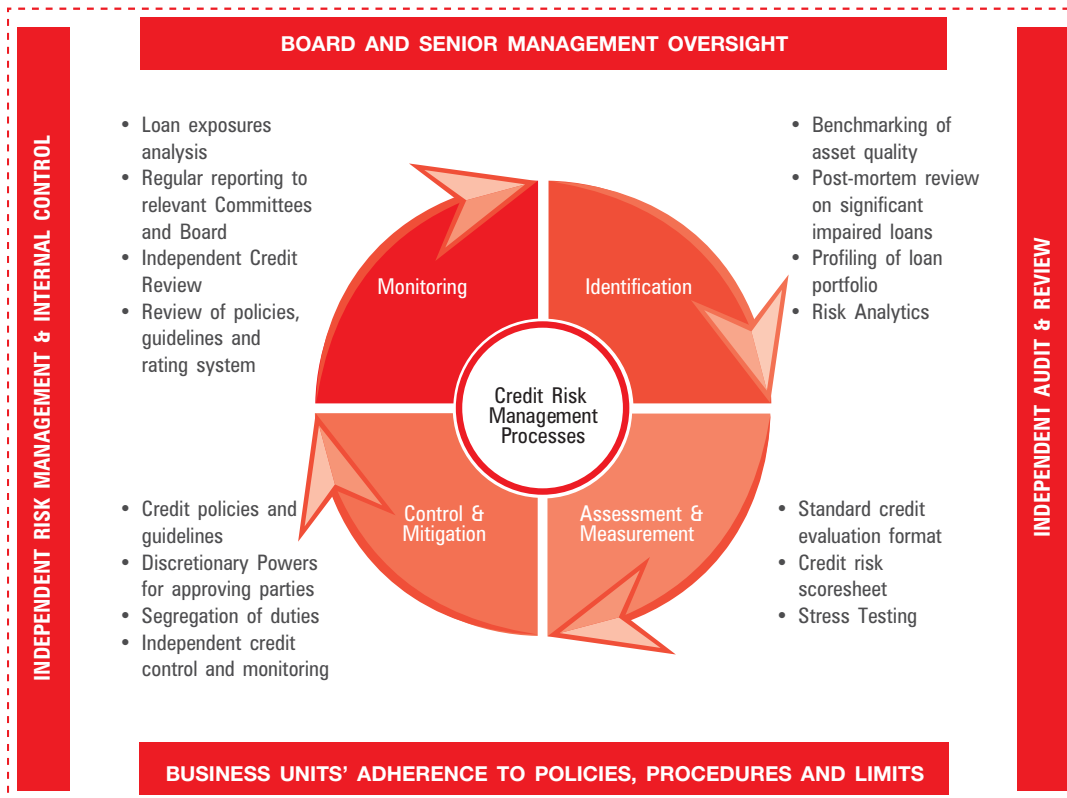
#### 4. CREDIT RISK (CONT'D.)

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

| Bank Exposure Class                                     | Total Exposures before Credit Risk Mitigation RM'000 | Total Exposures after Credit Risk Mitigation RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirement at 8% RM'000 |
|---|--|---|-----------------------------|--|
| <b>2012 (Restated)</b>                                  |  |   |                             |  |
| <b>On-Balance Sheet Exposures</b>                       |  |   |                             |  |
| Sovereigns/Central Banks                                | 29,696,065   | 22,401,940  | 58,286                      | 4,663                                    |
| Public Sector Entities                                  | 331,806  | 331,806   | 3,860                       | 309                                      |
| Banks, DFIs and MDBs                                    | 7,063,482  | 7,063,482   | 1,798,361                   | 143,869                                  |
| Insurance Companies, Securities Firms and Fund Managers | 12,565   | 12,565  | 12,565                      | 1,005                                    |
| Corporates  | 42,690,862   | 40,040,722  | 36,095,288                  | 2,887,623                                |
| Regulatory Retail                                       | 76,788,135   | 76,102,231  | 57,479,225                  | 4,598,338                                |
| Residential Mortgages                                   | 45,091,539   | 45,042,255  | 19,479,479                  | 1,558,358                                |
| Higher Risk Assets                                      | 122,269  | 122,205   | 183,308                     | 14,665                                   |
| Other Assets  | 3,697,470  | 3,697,470   | 1,904,610                   | 152,369                                  |
| Equity Exposures  | 4,535,979  | 4,535,979   | 4,511,221                   | 360,898                                  |
| Defaulted Exposures                                     | 1,158,604  | 1,145,850   | 1,626,668                   | 130,133                                  |
|   | 211,188,776  | 200,496,505   | 123,152,871                 | 9,852,230                                |
| <b>Off-Balance Sheet Exposures</b>                      |  |   |                             |  |
| Credit-related Exposures                                | 17,419,326   | 17,066,825  | 13,925,105                  | 1,114,008                                |
| Derivative Financial Instruments                        | 1,288,145  | 1,288,145   | 379,925                     | 30,394                                   |
| Defaulted Exposures                                     | 9,013  | 9,013   | 13,364                      | 1,069                                    |
|   | 18,716,484   | 18,363,983  | 14,318,394                  | 1,145,471                                |
| <b>Total Credit Exposures</b>                           | <b>229,905,260</b>                                   | <b>218,860,488</b>                                  | <b>137,471,265</b>          | <b>10,997,701</b>                        |

#### 4. CREDIT RISK (CONT'D.)

The following diagram presents the risk management processes over credit risk.



#### Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk framework and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk is well managed and within the Group's risk appetite.

#### Risk Management Approach

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



#### 4. CREDIT RISK (CONT'D.)

##### **Risk Management Approach (Cont'd.)**

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 customer's loan application.

##### **(b) Lending to Corporate and Institutional Customers**

The credit granting to corporate and institutional customers is individually underwritten and risk-rated through the use of an internal credit risk rating scoresheet. Credit officers identify and assess the credit risk 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.

##### **(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 investment in debt securities are subject to the minimum investment grade, minimum acceptable return and the maximum tenure. The investment parameters are 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 CCR 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 the Credit Committee, CRMC and RMC, containing information on asset quality trends across major 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, Credit Committee, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

## 4. CREDIT RISK (CONT'D.)

### 4.1 Distribution of Credit Exposures

Tables (a)-(c) present the analysis of credit exposures of financial assets before the effect of credit risk mitigation of the Group as follows:

- Industrial analysis based on its industrial distribution
- Geographical analysis based on the geographical location where the credit risk resides
- 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.

#### (a) Industry Analysis

| Group                                     | Government           | Financial         | Transport              | Agriculture,                | Manufacturing,    | Construction      | Residential          | Motor             | Other    | Total              |
|---|----------------------|-------------------|------------------------|-----------------------------|-------------------|-------------------|----------------------|-------------------|----------|--------------------|
|   | and Central<br>Banks | Services          | & Business<br>Services | Wholesale &<br>Retail Trade | & Real Estate     | Mortgages         | Vehicle<br>Financing | Consumer<br>Loans | RM'000   |                    |
|   | RM'000               | RM'000            | RM'000                 | RM'000                      | RM'000            | RM'000            | RM'000               | RM'000            | RM'000   | RM'000             |
| <b>2013</b>                               |                      |                   |                        |                             |                   |                   |                      |                   |          |                    |
| <b>On-Balance Sheet Exposures</b>         |                      |                   |                        |                             |                   |                   |                      |                   |          |                    |
| Cash and balances with banks              | 13,060,851           | 9,019,566         | -                      | -                           | -                 | -                 | -                    | -                 | -        | 22,080,417         |
| Reverse repurchase agreements             | 9,541,969            | -                 | -                      | -                           | -                 | -                 | -                    | -                 | -        | 9,541,969          |
| Financial assets held-for-trading         | 1,583,640            | 14,215,330        | -                      | -                           | 12,993            | -                 | -                    | -                 | -        | 15,811,963         |
| Derivative financial assets               | -                    | 365,354           | -                      | -                           | -                 | -                 | -                    | -                 | -        | 365,354            |
| Financial investments available-for-sale* | 10,415,279           | 5,356,840         | 869,046                | 850,416                     | -                 | -                 | -                    | -                 | -        | 17,491,581         |
| Financial investments held-to-maturity    | 4,400,682            | 2,834,914         | 333,885                | 224,070                     | -                 | -                 | -                    | -                 | -        | 7,793,551          |
| Gross loans, advances and financing       | 28,337               | 6,261,522         | 13,574,401             | 32,361,272                  | 28,149,390        | 72,260,069        | 36,513,718           | 32,027,094        | -        | 221,175,803        |
| Statutory deposits with Central Banks     | 6,924,832            | -                 | -                      | -                           | -                 | -                 | -                    | -                 | -        | 6,924,832          |
|   | 45,955,590           | 38,053,526        | 14,777,332             | 33,435,758                  | 28,162,383        | 72,260,069        | 36,513,718           | 32,027,094        | -        | 301,185,470        |
| <b>Commitments and Contingencies</b>      |                      |                   |                        |                             |                   |                   |                      |                   |          |                    |
| Contingent liabilities                    | 1,109                | 79,342            | 854,860                | 1,229,922                   | 993,321           | -                 | -                    | 4,371             | -        | 3,162,925          |
| Commitments                               | 517,229              | 1,295,837         | 5,063,998              | 11,155,680                  | 11,987,781        | 11,533,644        | 14,162               | 13,375,722        | -        | 54,944,053         |
|   | 518,338              | 1,375,179         | 5,918,858              | 12,385,602                  | 12,981,102        | 11,533,644        | 14,162               | 13,380,093        | -        | 58,106,978         |
| <b>Total Credit Exposures</b>             | <b>46,473,928</b>    | <b>39,428,705</b> | <b>20,696,190</b>      | <b>45,821,360</b>           | <b>41,143,485</b> | <b>83,793,713</b> | <b>36,527,880</b>    | <b>45,407,187</b> | <b>-</b> | <b>359,292,448</b> |

## 4. CREDIT RISK (CONT'D.)

### 4.1 Distribution of Credit Exposures (Cont'd.)

#### (a) Industry Analysis (Cont'd.)

| Group                                     | Government<br>and Central<br>Banks<br>RM'000 | Financial<br>Services<br>RM'000 | Transport<br>& Business<br>Services<br>RM'000 | Agriculture,<br>Manufacturing,<br>Wholesale &<br>Retail Trade<br>RM'000 | Construction<br>& Real Estate<br>RM'000 | Residential<br>Mortgages<br>RM'000 | Motor<br>Vehicle<br>Financing<br>RM'000 | Other<br>Consumer<br>Loans<br>RM'000 | Total<br>RM'000    |
|---|--|---------------------------------|---|---|---|------------------------------------|---|--------------------------------------|--------------------|
| <b>2012</b>                               |  |                                 |   |   |   |                                    |   |                                      |                    |
| <b>On-Balance Sheet Exposures</b>         |  |                                 |   |   |   |                                    |   |                                      |                    |
| Cash and balances with banks              | 10,797,964                                   | 7,837,987                       | -   | -   | -                                       | -                                  | -                                       | -                                    | 18,635,951         |
| Reverse repurchase agreements             | 8,158,506                                    | -                               | -   | -   | -                                       | -                                  | -                                       | -                                    | 8,158,506          |
| Financial assets held-for-trading*        | 3,977,079                                    | 12,000,854                      | 118,877                                       | -   | 519,446                                 | -                                  | -                                       | -                                    | 16,616,256         |
| Derivative financial assets               | -  | 370,465                         | -   | -   | -                                       | -                                  | -                                       | -                                    | 370,465            |
| Financial investments available-for-sale* | 10,378,302                                   | 5,009,709                       | 835,166                                       | 822,366   | -                                       | -                                  | -                                       | -                                    | 17,045,543         |
| Financial investments held-to-maturity    | 3,607,404                                    | 2,494,493                       | 120,832                                       | -   | 35,042                                  | -                                  | -                                       | -                                    | 6,257,771          |
| Gross loans, advances and financing       | 40,324                                       | 6,328,281                       | 12,077,265                                    | 29,085,311  | 24,301,938                              | 62,601,525                         | 34,373,665                              | 28,974,855                           | 197,783,164        |
| Statutory deposits with Central Banks     | 5,787,206                                    | -                               | -   | -   | -                                       | -                                  | -                                       | -                                    | 5,787,206          |
|   | 42,746,785                                   | 34,041,789                      | 13,152,140                                    | 29,907,677  | 24,856,426                              | 62,601,525                         | 34,373,665                              | 28,974,855                           | 270,654,862        |
| <b>Commitments and Contingencies</b>      |  |                                 |   |   |   |                                    |   |                                      |                    |
| Contingent liabilities                    | 1,058  | 56,940                          | 933,474                                       | 1,219,444   | 874,247                                 | -                                  | -                                       | 20,913                               | 3,106,076          |
| Commitments                               | 507,277                                      | 1,658,776                       | 3,403,666                                     | 10,603,259  | 8,669,993                               | 11,328,311                         | 27,826                                  | 12,639,110                           | 48,838,218         |
|   | 508,335                                      | 1,715,716                       | 4,337,140                                     | 11,822,703  | 9,544,240                               | 11,328,311                         | 27,826                                  | 12,660,023                           | 51,944,294         |
| <b>Total Credit Exposures</b>             | <b>43,255,120</b>                            | <b>35,757,505</b>               | <b>17,489,280</b>                             | <b>41,730,380</b>   | <b>34,400,666</b>                       | <b>73,929,836</b>                  | <b>34,401,491</b>                       | <b>41,634,878</b>                    | <b>322,599,156</b> |

\* Excluding equity securities of RM126.9 million (2012: RM156.5 million) which do not have any credit risk.

## 4. CREDIT RISK (CONT'D.)

### 4.1 Distribution of Credit Exposures (Cont'd.)

#### (b) Geographical Analysis

| Group                                     | Malaysia<br>RM'000 | Hong Kong<br>& China<br>RM'000 | Cambodia<br>RM'000 | Other<br>Countries<br>RM'000 | Total<br>RM'000    |
|---|--------------------|--------------------------------|--------------------|------------------------------|--------------------|
| <b>2013</b>                               |                    |                                |                    |                              |                    |
| <b>On-Balance Sheet Exposures</b>         |                    |                                |                    |                              |                    |
| Cash and balances with banks              | 17,998,169         | 2,408,098                      | 937,413            | 736,737                      | 22,080,417         |
| Reverse repurchase agreements             | 9,537,953          | –                              | –                  | 4,016                        | 9,541,969          |
| Financial assets held-for-trading         | 15,811,963         | –                              | –                  | –                            | 15,811,963         |
| Derivative financial assets               | 256,977            | 4,120                          | –                  | 104,257                      | 365,354            |
| Financial investments available-for-sale* | 17,491,581         | –                              | –                  | –                            | 17,491,581         |
| Financial investments held-to-maturity    | 5,662,134          | 1,506,228                      | –                  | 625,189                      | 7,793,551          |
| Gross loans, advances and financing       | 205,644,168        | 12,018,076                     | 2,430,458          | 1,083,101                    | 221,175,803        |
| Statutory deposits with Central Banks     | 6,476,300          | –                              | 419,036            | 29,496                       | 6,924,832          |
|   | <b>278,879,245</b> | <b>15,936,522</b>              | <b>3,786,907</b>   | <b>2,582,796</b>             | <b>301,185,470</b> |
| <b>Commitments and Contingencies</b>      |                    |                                |                    |                              |                    |
| Contingent liabilities                    | 2,655,706          | 99,974                         | 374,107            | 33,138                       | 3,162,925          |
| Commitments                               | 52,828,722         | 1,677,176                      | 399,241            | 38,914                       | 54,944,053         |
|   | <b>55,484,428</b>  | <b>1,777,150</b>               | <b>773,348</b>     | <b>72,052</b>                | <b>58,106,978</b>  |
| <b>Total Credit Exposures</b>             | <b>334,363,673</b> | <b>17,713,672</b>              | <b>4,560,255</b>   | <b>2,654,848</b>             | <b>359,292,448</b> |
| <b>2012</b>                               |                    |                                |                    |                              |                    |
| <b>On-Balance Sheet Exposures</b>         |                    |                                |                    |                              |                    |
| Cash and balances with banks              | 14,520,266         | 2,172,043                      | 680,870            | 1,262,772                    | 18,635,951         |
| Reverse repurchase agreements             | 8,158,410          | –                              | –                  | 96                           | 8,158,506          |
| Financial assets held-for-trading*        | 16,616,256         | –                              | –                  | –                            | 16,616,256         |
| Derivative financial assets               | 241,176            | 316                            | –                  | 128,973                      | 370,465            |
| Financial investments available-for-sale* | 17,045,495         | –                              | –                  | 48                           | 17,045,543         |
| Financial investments held-to-maturity    | 4,402,060          | 1,146,849                      | –                  | 708,862                      | 6,257,771          |
| Gross loans, advances and financing       | 183,253,371        | 11,311,093                     | 2,077,097          | 1,141,603                    | 197,783,164        |
| Statutory deposits with Central Banks     | 5,381,471          | –                              | 376,902            | 28,833                       | 5,787,206          |
|   | <b>249,618,505</b> | <b>14,630,301</b>              | <b>3,134,869</b>   | <b>3,271,187</b>             | <b>270,654,862</b> |
| <b>Commitments and Contingencies</b>      |                    |                                |                    |                              |                    |
| Contingent liabilities                    | 2,569,308          | 122,950                        | 382,767            | 31,051                       | 3,106,076          |
| Commitments                               | 47,188,288         | 1,319,093                      | 296,281            | 34,556                       | 48,838,218         |
|   | <b>49,757,596</b>  | <b>1,442,043</b>               | <b>679,048</b>     | <b>65,607</b>                | <b>51,944,294</b>  |
| <b>Total Credit Exposures</b>             | <b>299,376,101</b> | <b>16,072,344</b>              | <b>3,813,917</b>   | <b>3,336,794</b>             | <b>322,599,156</b> |

\* Excluding equity securities of RM126.9 million (2012: RM156.5 million) which do not have any credit risk.

**4. CREDIT RISK (CONT'D.)****4.1 Distribution of Credit Exposures (Cont'd.)****(c) Maturity Analysis**

| Group                                     | Up to<br>1 Year<br>RM'000 | > 1 to 3<br>Years<br>RM'000 | > 3 to 5<br>Years<br>RM'000 | > 5<br>Years<br>RM'000 | Total<br>RM'000    |
|---|---------------------------|-----------------------------|-----------------------------|------------------------|--------------------|
| <b>2013</b>                               |                           |                             |                             |                        |                    |
| <b>On-Balance Sheet Exposures</b>         |                           |                             |                             |                        |                    |
| Cash and balances with banks              | 22,080,417                | –                           | –                           | –                      | 22,080,417         |
| Reverse repurchase agreements             | 9,541,969                 | –                           | –                           | –                      | 9,541,969          |
| Financial assets held-for-trading         | 15,761,071                | 50,892                      | –                           | –                      | 15,811,963         |
| Derivative financial assets               | 185,117                   | 92,086                      | 31,095                      | 57,056                 | 365,354            |
| Financial investments available-for-sale* | 10,180,549                | 1,786,438                   | –                           | 5,524,594              | 17,491,581         |
| Financial investments held-to-maturity    | 4,392,628                 | 1,206,847                   | 740,517                     | 1,453,559              | 7,793,551          |
| Gross loans, advances and financing       | 29,512,905                | 21,787,337                  | 21,614,004                  | 148,261,557            | 221,175,803        |
| Statutory deposits with Central Banks     | –                         | –                           | –                           | 6,924,832              | 6,924,832          |
| <b>Total On-Balance Sheet Exposures</b>   | <b>91,654,656</b>         | <b>24,923,600</b>           | <b>22,385,616</b>           | <b>162,221,598</b>     | <b>301,185,470</b> |
| <b>2012</b>                               |                           |                             |                             |                        |                    |
| <b>On-Balance Sheet Exposures</b>         |                           |                             |                             |                        |                    |
| Cash and balances with banks              | 18,635,951                | –                           | –                           | –                      | 18,635,951         |
| Reverse repurchase agreements             | 8,158,506                 | –                           | –                           | –                      | 8,158,506          |
| Financial assets held-for-trading*        | 16,480,389                | 135,867                     | –                           | –                      | 16,616,256         |
| Derivative financial assets               | 21,592                    | 17,528                      | 218,410                     | 112,935                | 370,465            |
| Financial investments available-for-sale* | 8,719,771                 | 2,933,750                   | 7,985                       | 5,384,037              | 17,045,543         |
| Financial investments held-to-maturity    | 3,996,773                 | 1,389,642                   | 601,297                     | 270,059                | 6,257,771          |
| Gross loans, advances and financing       | 26,478,852                | 22,671,399                  | 18,899,528                  | 129,733,385            | 197,783,164        |
| Statutory deposits with Central Banks     | –                         | –                           | –                           | 5,787,206              | 5,787,206          |
| <b>Total On-Balance Sheet Exposures</b>   | <b>82,491,834</b>         | <b>27,148,186</b>           | <b>19,727,220</b>           | <b>141,287,622</b>     | <b>270,654,862</b> |

\* Excluding equity securities of RM126.9 million (2012: RM156.5 million) which do not have any credit risk.

Approximately 30% (2012: 30%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 67% (2012: 66%) of the Group's gross loans, advances and financing has residual maturity of more than 5 years. The longer maturity is from the housing loans/financing and hire purchase which made up 52% (2012: 52%) 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. CREDIT RISK (CONT'D.)

### 4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

#### (a) Off-Balance Sheet Exposures

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

- (i) 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.
- (ii) 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.
- (iii) Commitments to extend credit including the unutilised or undrawn portions of credit facilities.
- (iv) Unutilised credit card lines.
- (v) 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

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.

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. Where possible, 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 2013, the estimated additional collateral required to be posted for one notch downgrade was RM4.4 million (2012: RM17.2 million).

**4. CREDIT RISK (CONT'D.)****4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)****Composition of Off-Balance Sheet Exposures**

The following tables present the composition of off-balance sheet exposure of the Group and the Bank. All derivative financial instruments are at their notional amounts.

| Group  | Principal<br>Amount<br>RM'000 | Positive<br>Fair Value of<br>Derivative<br>Contracts<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 |
|--|-------------------------------|--|--|---------------------------------------|
| <b>2013</b>  |                               |  |  |                                       |
| <b>Contingent Liabilities</b>  |                               |  |  |                                       |
| Direct credit substitutes  | 1,521,770                     |  | 1,521,770                                | 1,033,044                             |
| Transaction-related contingent items   | 1,173,514                     |  | 586,757                                  | 359,649                               |
| Short-term self-liquidating trade-related contingencies  | 467,641                       |  | 93,528                                   | 70,227                                |
|  | 3,162,925                     |  | 2,202,055                                | 1,462,920                             |
| <b>Commitments</b>   |                               |  |  |                                       |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: |                               |  |  |                                       |
| – exceeding one year   | 29,229,501                    |  | 14,614,751                               | 12,000,819                            |
| – not exceeding one year   | 21,886,823                    |  | 4,377,364                                | 3,665,366                             |
| Unutilised credit card lines   | 3,823,553                     |  | 764,711                                  | 573,533                               |
| Forward asset purchases  | 4,176                         |  | 4,176                                    | 835                                   |
|  | 54,944,053                    |  | 19,761,002                               | 16,240,553                            |
| <b>Derivative Financial Instruments</b>  |                               |  |  |                                       |
| Foreign exchange related contracts:  |                               |  |  |                                       |
| – less than one year   | 16,836,631                    | 166,918  | 312,662                                  | 86,666                                |
| – one year to less than five years   | 2,151,746                     | –  | 248,632                                  | 124,808                               |
| Interest rate related contracts:   |                               |  |  |                                       |
| – less than one year   | 1,953,625                     | 1,582  | 5,527                                    | 1,708                                 |
| – one year to less than five years   | 6,176,844                     | 123,181  | 282,009                                  | 89,759                                |
| – five years and above   | 2,706,403                     | 57,056   | 198,977                                  | 41,273                                |
| Commodity related contracts:   |                               |  |  |                                       |
| – less than one year   | 1,890                         | 1  | 20                                       | 20                                    |
| Equity related contracts:  |                               |  |  |                                       |
| – less than one year   | 52,089                        | 16,616   | 19,742                                   | 6,074                                 |
|  | 29,879,228                    | 365,354  | 1,067,569                                | 350,308                               |
| <b>Total Off-Balance Sheet Exposures</b>   | 87,986,206                    | 365,354  | 23,030,626                               | 18,053,781                            |

#### 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  | Principal<br>Amount<br>RM'000 | Positive<br>Fair Value of<br>Derivative<br>Contracts<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 |
|--|-------------------------------|--|--|---------------------------------------|
| <b>2012</b>  |                               |  |  |                                       |
| <b>Contingent Liabilities</b>  |                               |  |  |                                       |
| Direct credit substitutes  | 1,549,134                     |  | 1,549,134                                | 1,044,295                             |
| Transaction-related contingent items   | 1,031,792                     |  | 515,896                                  | 327,800                               |
| Short-term self-liquidating trade-related contingencies  | 525,150                       |  | 105,030                                  | 78,152                                |
|  | 3,106,076                     |  | 2,170,060                                | 1,450,247                             |
| <b>Commitments</b>   |                               |  |  |                                       |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: |                               |  |  |                                       |
| – exceeding one year   | 24,158,799                    |  | 12,079,400                               | 9,850,369                             |
| – not exceeding one year   | 20,955,923                    |  | 4,191,184                                | 3,456,383                             |
| Unutilised credit card lines   | 3,693,110                     |  | 738,622                                  | 553,967                               |
| Forward asset purchases  | 30,386                        |  | 30,386                                   | 6,077                                 |
|  | 48,838,218                    |  | 17,039,592                               | 13,866,796                            |
| <b>Derivative Financial Instruments</b>  |                               |  |  |                                       |
| Foreign exchange related contracts:  |                               |  |  |                                       |
| – less than one year   | 11,879,221                    | 15,535   | 129,015                                  | 42,387                                |
| – one year to less than five years   | 1,376,100                     | –  | 178,893                                  | 89,447                                |
| Interest rate related contracts:   |                               |  |  |                                       |
| – less than one year   | 1,552,000                     | 6,056  | 7,807                                    | 1,561                                 |
| – one year to less than five years   | 9,929,440                     | 223,784  | 526,997                                  | 151,197                               |
| – five years and above   | 2,649,740                     | 112,935  | 277,019                                  | 55,402                                |
| Commodity related contracts:   |                               |  |  |                                       |
| – less than one year   | 206                           | 1  | 3  | 3                                     |
| Equity related contracts:  |                               |  |  |                                       |
| – less than one year   | 73,589                        | –  | 4,415                                    | 2,208                                 |
| – one year to less than five years   | 53,005                        | 12,154   | 16,394                                   | 8,197                                 |
|  | 27,513,301                    | 370,465  | 1,140,543                                | 350,402                               |
| <b>Total Off-Balance Sheet Exposures</b>   | <b>79,457,595</b>             | <b>370,465</b>   | <b>20,350,195</b>                        | <b>15,667,445</b>                     |



**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   | Principal<br>Amount<br>RM'000 | Positive<br>Fair Value of<br>Derivative<br>Contracts<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 |
|--|-------------------------------|--|--|---------------------------------------|
| <b>2013</b>  |                               |  |  |                                       |
| <b>Bank (excluding Public Bank (L) Ltd.)</b>   |                               |  |  |                                       |
| <b>Contingent Liabilities</b>  |                               |  |  |                                       |
| Direct credit substitutes  | 1,196,990                     |  | 1,196,990                                | 871,028                               |
| Transaction-related contingent items   | 1,041,919                     |  | 520,959                                  | 303,860                               |
| Short-term self-liquidating trade-related contingencies  | 295,684                       |  | 59,136                                   | 40,908                                |
|  | 2,534,593                     |  | 1,777,085                                | 1,215,796                             |
| <b>Commitments</b>   |                               |  |  |                                       |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: |                               |  |  |                                       |
| – exceeding one year   | 26,897,981                    |  | 13,448,992                               | 11,042,240                            |
| – not exceeding one year   | 19,688,146                    |  | 3,937,629                                | 3,203,666                             |
| Unutilised credit card lines   | 3,713,960                     |  | 742,792                                  | 557,094                               |
|  | 50,300,087                    |  | 18,129,413                               | 14,803,000                            |
| <b>Derivative Financial Instruments</b>  |                               |  |  |                                       |
| Foreign exchange related contracts:  |                               |  |  |                                       |
| – less than one year   | 16,652,983                    | 166,593  | 311,001                                  | 86,335                                |
| – one year to less than five years   | 2,151,746                     | –  | 248,632                                  | 124,808                               |
| Interest rate related contracts:   |                               |  |  |                                       |
| – less than one year   | 1,838,821                     | 1,582  | 5,238                                    | 1,564                                 |
| – one year to less than five years   | 6,247,237                     | 119,711  | 290,243                                  | 90,717                                |
| – five years and above   | 3,808,000                     | 46,226   | 333,227                                  | 66,646                                |
| Commodity related contracts:   |                               |  |  |                                       |
| – less than one year   | 1,890                         | 1  | 20                                       | 20                                    |
| Equity related contracts:  |                               |  |  |                                       |
| – less than one year   | 52,089                        | 16,616   | 19,742                                   | 6,074                                 |
|  | 30,752,766                    | 350,729  | 1,208,103                                | 376,164                               |
| <b>Total</b>   | 83,587,446                    | 350,729  | 21,114,601                               | 16,394,960                            |

#### 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.)

|   | Principal<br>Amount<br>RM'000 | Positive<br>Fair Value of<br>Derivative<br>Contracts<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 |
|---|-------------------------------|--|--|---------------------------------------|
| <b>Bank</b>   |                               |  |  |                                       |
| <b>2013</b>   |                               |  |  |                                       |
| <b>Public Bank (L) Ltd.</b>   |                               |  |  |                                       |
| <b>Contingent Liabilities</b>   |                               |  |  |                                       |
| Direct credit substitutes   | 4,919                         |  | 4,919                                    | 4,919                                 |
| <b>Commitments</b>  |                               |  |  |                                       |
| Other commitments, such as formal standby facilities<br>and credit lines, with an original maturity of: |                               |  |  |                                       |
| – not exceeding one year  | 99,894                        |  | 19,979                                   | 19,959                                |
| <b>Derivative Financial Instruments</b>   |                               |  |  |                                       |
| Interest rate related contracts:  |                               |  |  |                                       |
| – less than one year  | 114,804                       | –  | 289                                      | 144                                   |
| – one year to less than five years  | 229,607                       | –  | 2,296                                    | 1,146                                 |
| – five years and above  | 98,403                        | –  | 4,920                                    | 2,459                                 |
|   | 442,814                       | –  | 7,505                                    | 3,749                                 |
| <b>Total</b>  | <b>547,627</b>                | <b>–</b>   | <b>32,403</b>                            | <b>28,627</b>                         |
| <b>Total Off-Balance Sheet Exposures of the<br/>Bank and Public Bank (L) Ltd.</b>                       | <b>84,135,073</b>             | <b>350,729</b>   | <b>21,147,004</b>                        | <b>16,423,587</b>                     |

**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  | Principal<br>Amount<br>RM'000 | Positive<br>Fair Value of<br>Derivative<br>Contracts<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 |
|---|-------------------------------|--|--|---------------------------------------|
| <b>2012</b>   |                               |  |  |                                       |
| <b>Bank (excluding Public Bank (L) Ltd.)</b>  |                               |  |  |                                       |
| <b>Contingent Liabilities</b>   |                               |  |  |                                       |
| Direct credit substitutes   | 1,175,058                     |  | 1,175,058                                | 875,742                               |
| Transaction-related contingent items  | 908,204                       |  | 454,102                                  | 274,626                               |
| Short-term self-liquidating trade-related contingencies   | 341,952                       |  | 68,390                                   | 49,750                                |
|   | 2,425,214                     |  | 1,697,550                                | 1,200,118                             |
| <b>Commitments</b>  |                               |  |  |                                       |
| Other commitments, such as formal standby facilities<br>and credit lines, with an original maturity of: |                               |  |  |                                       |
| – exceeding one year  | 22,211,606                    |  | 11,105,803                               | 9,052,148                             |
| – not exceeding one year  | 19,422,068                    |  | 3,884,413                                | 3,125,061                             |
| Unutilised credit card lines  | 3,587,921                     |  | 717,584                                  | 538,188                               |
|   | 45,221,595                    |  | 15,707,800                               | 12,715,397                            |
| <b>Derivative Financial Instruments</b>   |                               |  |  |                                       |
| Foreign exchange related contracts:   |                               |  |  |                                       |
| – less than one year  | 11,822,972                    | 15,409   | 128,612                                  | 42,306                                |
| – one year to less than five years  | 1,376,100                     | –  | 178,893                                  | 89,447                                |
| Interest rate related contracts:  |                               |  |  |                                       |
| – less than one year  | 1,552,000                     | 6,056  | 7,807                                    | 1,561                                 |
| – one year to less than five years  | 9,408,350                     | 222,566  | 512,427                                  | 147,777                               |
| – five years and above  | 3,758,000                     | 108,158  | 428,738                                  | 85,748                                |
| Commodity related contracts:  |                               |  |  |                                       |
| – less than one year  | 206                           | 1  | 3  | 3                                     |
| Equity related contracts:   |                               |  |  |                                       |
| – less than one year  | 73,589                        | –  | 4,415                                    | 2,208                                 |
| – one year to less than five years  | 53,005                        | 12,154   | 16,394                                   | 8,197                                 |
|   | 28,044,222                    | 364,344  | 1,277,289                                | 377,247                               |
| <b>Total</b>  | 75,691,031                    | 364,344  | 18,682,639                               | 14,292,762                            |

#### 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.)

|  | Principal<br>Amount<br>RM'000 | Positive<br>Fair Value of<br>Derivative<br>Contracts<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 |
|--|-------------------------------|--|--|---------------------------------------|
| <b>Bank</b>  |                               |  |  |                                       |
| <b>2012</b>  |                               |  |  |                                       |
| <b>Public Bank (L) Ltd.</b>  |                               |  |  |                                       |
| <b>Contingent Liabilities</b>  |                               |  |  |                                       |
| Direct credit substitutes  | 4,586                         |  | 4,586                                    | 4,586                                 |
| <b>Commitments</b>   |                               |  |  |                                       |
| Other commitments such as formal standby facilities<br>and credit lines, with an original maturity of: |                               |  |  |                                       |
| – not exceeding one year   | 92,008                        |  | 18,403                                   | 18,370                                |
| <b>Derivative Financial Instruments</b>  |                               |  |  |                                       |
| Interest rate related contracts:   |                               |  |  |                                       |
| – one year to less than five years   | 321,090                       | –  | 5,352                                    | 1,575                                 |
| – five years and above   | 91,740                        | –  | 5,504                                    | 1,101                                 |
|  | 412,830                       | –  | 10,856                                   | 2,676                                 |
| <b>Total</b>   | 509,424                       | –  | 33,845                                   | 25,632                                |
| <b>Total Off-Balance Sheet Exposures of the<br/>Bank and Public Bank (L) Ltd.</b>                      | 76,200,455                    | 364,344  | 18,716,484                               | 14,318,394                            |

## 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 credit 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 the ease of realising the CRM. 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, against 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.)

#### Credit Risk Mitigation Analysis

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.

| Group 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 |
|---|--|--|---|---|
| <b>2013</b>   |  |  |   |   |
| <b>On-Balance Sheet Exposures</b>                       |  |  |   |   |
| Sovereigns/Central Banks                                | 43,868,445   | –  | 9,380,656   | –   |
| Public Sector Entities                                  | 710,882  | 613,134                                      | –   | –   |
| Banks, DFIs and MDBs                                    | 10,933,454   | –  | 144,959   | –   |
| Insurance Companies, Securities Firms and Fund Managers | 190,518  | –  | 3,989   | –   |
| Corporates  | 53,871,845   | 1,530,664                                    | 3,069,325   | –   |
| Regulatory Retail                                       | 107,217,507  | 1,256  | 747,596   | –   |
| Residential Mortgages                                   | 59,871,984   | –  | 62,319  | –   |
| Higher Risk Assets                                      | 100,871  | –  | 76  | –   |
| Other Assets  | 5,250,041  | –  | –   | –   |
| Equity Exposures  | 5,206,890  | –  | –   | –   |
| Defaulted Exposures                                     | 1,696,051  | –  | 13,056  | –   |
|   | <b>288,918,488</b>                                   | <b>2,145,054</b>                             | <b>13,421,976</b>   | <b>–</b>  |
| <b>Off-Balance Sheet Exposures</b>                      |  |  |   |   |
| Credit-related Exposures                                | 21,945,654   | 258,522                                      | 468,951   | –   |
| Derivative Financial Instruments                        | 1,067,569  | –  | –   | –   |
| Other Treasury-related Exposures                        | 4,176  | –  | –   | –   |
| Defaulted Exposures                                     | 13,227   | –  | –   | –   |
|   | <b>23,030,626</b>                                    | <b>258,522</b>                               | <b>468,951</b>  | <b>–</b>  |
| <b>Total Credit Exposures</b>                           | <b>311,949,114</b>                                   | <b>2,403,576</b>                             | <b>13,890,927</b>   | <b>–</b>  |

#### 4. CREDIT RISK (CONT'D.)

##### 4.3 Credit Risk Mitigation (Cont'd.)

###### Credit Risk Mitigation Analysis (Cont'd.)

| Group<br>Exposure Class                                 | Total<br>Exposures<br>before<br>Credit Risk<br>Mitigation<br>RM'000 | Total<br>Exposures<br>Covered by<br>Guarantees<br>RM'000 | Total<br>Exposures<br>Covered by<br>Eligible<br>Financial<br>Collateral<br>RM'000 | Total<br>Exposures<br>Covered by<br>Other<br>Eligible<br>Collateral<br>RM'000 |
|---|---|--|---|---|
| <b>2012 (Restated)</b>                                  |   |  |   |   |
| <b>On-Balance Sheet Exposures</b>                       |   |  |   |   |
| Sovereigns/Central Banks                                | 38,425,804  | –  | 8,143,478   | –   |
| Public Sector Entities                                  | 740,737   | 613,113  | –   | –   |
| Banks, DFIs and MDBs                                    | 9,781,795   | –  | –   | –   |
| Insurance Companies, Securities Firms and Fund Managers | 134,790   | –  | 4,673   | –   |
| Corporates  | 47,424,805  | 901,307  | 2,994,695   | –   |
| Regulatory Retail                                       | 97,047,517  | 4,681  | 733,540   | –   |
| Residential Mortgages                                   | 52,341,275  | –  | 58,961  | –   |
| Higher Risk Assets                                      | 152,057   | –  | 78  | –   |
| Other Assets  | 4,795,255   | –  | –   | –   |
| Equity Exposures  | 5,089,445   | –  | –   | –   |
| Defaulted Exposures                                     | 1,454,976   | –  | 12,834  | –   |
|   | 257,388,456   | 1,519,101  | 11,948,259  | –   |
| <b>Off-Balance Sheet Exposures</b>                      |   |  |   |   |
| Credit-related Exposures                                | 19,166,094  | 207,768  | 445,393   | –   |
| Derivative Financial Instruments                        | 1,140,543   | –  | –   | –   |
| Other Treasury-related Exposures                        | 30,386  | –  | –   | –   |
| Defaulted Exposures                                     | 13,172  | –  | –   | –   |
|   | 20,350,195  | 207,768  | 445,393   | –   |
| <b>Total Credit Exposures</b>                           | <b>277,738,651</b>  | <b>1,726,869</b>   | <b>12,393,652</b>   | <b>–</b>  |

#### 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.)

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

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

| Group<br>Exposure Class   | Rating Categories |             |             |             |             |             | Unrated<br>RM'000 | Total<br>RM'000 |
|---|-------------------|-------------|-------------|-------------|-------------|-------------|-------------------|-----------------|
|   | 1<br>RM'000       | 2<br>RM'000 | 3<br>RM'000 | 4<br>RM'000 | 5<br>RM'000 | 6<br>RM'000 |                   |                 |
| <b>2013</b>   |                   |             |             |             |             |             |                   |                 |
| <b>On-Balance Sheet Exposures</b>   |                   |             |             |             |             |             |                   |                 |
| (a) Rated Exposures   |                   |             |             |             |             |             |                   |                 |
| (i) Exposures risk-weighted using ratings of Corporates                                 |                   |             |             |             |             |             |                   |                 |
| – Corporates  | 3,799,878         | 1,035,363   | 1,411,967   | –           | –           | –           |                   | 6,247,208       |
| (ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks <sup>#</sup> |                   |             |             |             |             |             |                   |                 |
| – Sovereigns and Central Banks  | 1,189,381         | 41,644,508  | –           | –           | 894,048     | –           |                   | 43,727,937      |
| – Public Sector Entities  | –                 | 613,134     | –           | –           | –           | –           |                   | 613,134         |
| – Corporates  | –                 | 572,759     | –           | –           | –           | –           |                   | 572,759         |
|   | 1,189,381         | 42,830,401  | –           | –           | 894,048     | –           |                   | 44,913,830      |
| (iii) Exposures risk-weighted using ratings of Banking Institutions                     |                   |             |             |             |             |             |                   |                 |
| – Banks, DFIs and MDBs  | 3,158,958         | 4,104,961   | 1,186,735   | 306,408     | –           | –           |                   | 8,757,062       |
| – Corporates  | 1,016,964         | 27,803      | 5,409       | –           | –           | –           |                   | 1,050,176       |
| – Regulatory Retail   | –                 | 1,256       | –           | –           | –           | –           |                   | 1,256           |
|   | 4,175,922         | 4,134,020   | 1,192,144   | 306,408     | –           | –           |                   | 9,808,494       |
| Total Rated Exposures   | 9,165,181         | 47,999,784  | 2,604,111   | 306,408     | 894,048     | –           |                   | 60,969,532      |
| (b) Total Unrated Exposures   |                   |             |             |             |             |             | 227,948,956       | 227,948,956     |
|   | 9,165,181         | 47,999,784  | 2,604,111   | 306,408     | 894,048     | –           | 227,948,956       | 288,918,488     |

## 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<br>Exposure Class  | Rating Categories |                   |                  |                |                |             | Unrated<br>RM'000  | Total<br>RM'000    |
|--|-------------------|-------------------|------------------|----------------|----------------|-------------|--------------------|--------------------|
|  | 1<br>RM'000       | 2<br>RM'000       | 3<br>RM'000      | 4<br>RM'000    | 5<br>RM'000    | 6<br>RM'000 |                    |                    |
| <b>2013</b>  |                   |                   |                  |                |                |             |                    |                    |
| <b>Off-Balance Sheet Exposures</b>                                 |                   |                   |                  |                |                |             |                    |                    |
| (a) Rated Exposures  |                   |                   |                  |                |                |             |                    |                    |
| (i) Exposures risk-weighted using ratings of Corporates            |                   |                   |                  |                |                |             |                    |                    |
| – Corporates   | 134,982           | 306,641           | –                | –              | –              | –           |                    | 441,623            |
| (ii) Exposures risk-weighted using ratings of Banking Institutions |                   |                   |                  |                |                |             |                    |                    |
| – Banks, DFIs and MDBs   | 441,175           | 590,382           | 41,060           | –              | –              | –           |                    | 1,072,617          |
| – Corporates   | 224,117           | 22,076            | 625              | –              | –              | –           |                    | 246,818            |
| – Regulatory Retail  | –                 | 925               | –                | –              | –              | –           |                    | 925                |
|  | 665,292           | 613,383           | 41,685           | –              | –              | –           |                    | 1,320,360          |
| Total Rated Exposures  | 800,274           | 920,024           | 41,685           | –              | –              | –           |                    | 1,761,983          |
| (b) Total Unrated Exposures  |                   |                   |                  |                |                |             | 21,268,643         | 21,268,643         |
|  | 800,274           | 920,024           | 41,685           | –              | –              | –           | 21,268,643         | 23,030,626         |
| <b>Total Credit Exposures before Credit Risk Mitigation</b>        | <b>9,965,455</b>  | <b>48,919,808</b> | <b>2,645,796</b> | <b>306,408</b> | <b>894,048</b> | <b>–</b>    | <b>249,217,599</b> | <b>311,949,114</b> |

#### 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<br>Exposure Class   | Rating Categories |                   |                  |               |                |             | Unrated<br>RM'000  | Total<br>RM'000    |
|---|-------------------|-------------------|------------------|---------------|----------------|-------------|--------------------|--------------------|
|   | 1<br>RM'000       | 2<br>RM'000       | 3<br>RM'000      | 4<br>RM'000   | 5<br>RM'000    | 6<br>RM'000 |                    |                    |
| <b>2012 (Restated)</b>  |                   |                   |                  |               |                |             |                    |                    |
| <b>On-Balance Sheet Exposures</b>   |                   |                   |                  |               |                |             |                    |                    |
| <b>(a) Rated Exposures</b>  |                   |                   |                  |               |                |             |                    |                    |
| <b>(i) Exposures risk-weighted using ratings of Corporates</b>                                |                   |                   |                  |               |                |             |                    |                    |
| – Corporates  | 3,472,719         | 1,003,765         | 1,324,944        | –             | –              | –           |                    | 5,801,428          |
| <b>(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks<sup>#</sup></b> |                   |                   |                  |               |                |             |                    |                    |
| – Sovereigns and Central Banks  | 818,663           | 36,723,458        | –                | –             | 793,525        | –           |                    | 38,335,646         |
| – Public Sector Entities  | –                 | 614,621           | –                | –             | –              | –           |                    | 614,621            |
| – Corporates  | –                 | 15,172            | –                | –             | –              | –           |                    | 15,172             |
|   | 818,663           | 37,353,251        | –                | –             | 793,525        | –           |                    | 38,965,439         |
| <b>(iii) Exposures risk-weighted using ratings of Banking Institutions</b>                    |                   |                   |                  |               |                |             |                    |                    |
| – Banks, DFIs and MDBs  | 2,322,886         | 4,069,260         | 1,499,829        | 24,461        | –              | –           |                    | 7,916,436          |
| – Corporates  | 739,169           | 151,846           | 4,367            | –             | –              | –           |                    | 895,382            |
| – Regulatory Retail   | 3,000             | 1,681             | –                | –             | –              | –           |                    | 4,681              |
|   | 3,065,055         | 4,222,787         | 1,504,196        | 24,461        | –              | –           |                    | 8,816,499          |
| <b>Total Rated Exposures</b>  | <b>7,356,437</b>  | <b>42,579,803</b> | <b>2,829,140</b> | <b>24,461</b> | <b>793,525</b> | <b>–</b>    |                    | <b>53,583,366</b>  |
| <b>(b) Total Unrated Exposures</b>  |                   |                   |                  |               |                |             | <b>203,805,090</b> | <b>203,805,090</b> |
|   | <b>7,356,437</b>  | <b>42,579,803</b> | <b>2,829,140</b> | <b>24,461</b> | <b>793,525</b> | <b>–</b>    | <b>203,805,090</b> | <b>257,388,456</b> |

## 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<br>Exposure Class   | Rating Categories |                   |                  |               |                |             |                    | Unrated<br>RM'000 | Total<br>RM'000    |
|---|-------------------|-------------------|------------------|---------------|----------------|-------------|--------------------|-------------------|--------------------|
|   | 1<br>RM'000       | 2<br>RM'000       | 3<br>RM'000      | 4<br>RM'000   | 5<br>RM'000    | 6<br>RM'000 |                    |                   |                    |
| <b>2012 (Restated)</b>  |                   |                   |                  |               |                |             |                    |                   |                    |
| <b>Off-Balance Sheet Exposures</b>  |                   |                   |                  |               |                |             |                    |                   |                    |
| (a) Rated Exposures   |                   |                   |                  |               |                |             |                    |                   |                    |
| (i) Exposures risk-weighted using ratings of Corporates                                 |                   |                   |                  |               |                |             |                    |                   |                    |
| – Corporates  | 174,959           | 152,108           | –                | –             | –              | –           |                    |                   | 327,067            |
| (ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks <sup>#</sup> |                   |                   |                  |               |                |             |                    |                   |                    |
| – Sovereigns and Central Banks  | –                 | 917               | –                | –             | –              | –           |                    |                   | 917                |
| (iii) Exposures risk-weighted using ratings of Banking Institutions                     |                   |                   |                  |               |                |             |                    |                   |                    |
| – Banks, DFIs and MDBs  | 911,461           | 430,254           | 40,743           | –             | 1,316          | –           |                    |                   | 1,383,774          |
| – Corporates  | 221,142           | 11,926            | 990              | –             | –              | –           |                    |                   | 234,058            |
| – Regulatory Retail   | –                 | 1,625             | –                | –             | –              | –           |                    |                   | 1,625              |
|   | 1,132,603         | 443,805           | 41,733           | –             | 1,316          | –           |                    |                   | 1,619,457          |
| Total Rated Exposures   | 1,307,562         | 596,830           | 41,733           | –             | 1,316          | –           |                    |                   | 1,947,441          |
| (b) Total Unrated Exposures   |                   |                   |                  |               |                |             | 18,402,754         |                   | 18,402,754         |
|   | 1,307,562         | 596,830           | 41,733           | –             | 1,316          | –           | 18,402,754         |                   | 20,350,195         |
| <b>Total Credit Exposures before Credit Risk Mitigation</b>                             | <b>8,663,999</b>  | <b>43,176,633</b> | <b>2,870,873</b> | <b>24,461</b> | <b>794,841</b> | <b>–</b>    | <b>222,207,844</b> |                   | <b>277,738,651</b> |

<sup>#</sup> Under the RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia, BNM, 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.)

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

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

| Group<br>Risk Weights                   | Credit Exposures after the Effect of Credit Risk Mitigation |  |                                      |  |                      |                                |                                    |                                    |                           |                               |                    | Total<br>Exposures<br>after<br>Credit Risk<br>Mitigation<br>RM'000 | Total<br>Risk-<br>Weighted<br>Assets<br>RM'000 |
|---|---|--|--------------------------------------|--|----------------------|--------------------------------|------------------------------------|------------------------------------|---------------------------|-------------------------------|--------------------|--|--|
|   | Sovereigns/<br>Central<br>Banks<br>RM'000                   | Public<br>Sector<br>Entities<br>RM'000 | Banks,<br>DFIs and<br>MDBs<br>RM'000 | Insurance<br>Companies,<br>Securities<br>Firms and<br>Fund<br>Managers<br>RM'000 | Corporates<br>RM'000 | Regulatory<br>Retail<br>RM'000 | Residential<br>Mortgages<br>RM'000 | Higher<br>Risk<br>Assets<br>RM'000 | Other<br>Assets<br>RM'000 | Equity<br>Exposures<br>RM'000 |                    |  |  |
| <b>2013</b>                             |   |  |                                      |  |                      |                                |                                    |                                    |                           |                               |                    |  |  |
| 0%                                      | 34,476,072  | 613,134                                | -                                    | -  | 510,878              | -                              | -                                  | -                                  | 2,440,286                 | -                             | -                  | 38,040,370   | -  |
| 20%                                     | -   | 101,479                                | 10,319,139                           | -  | 5,175,931            | -                              | -                                  | -                                  | 148,795                   | -                             | -                  | 15,745,344   | 3,149,069                                      |
| 35%                                     | -   | -                                      | -                                    | -  | -                    | -                              | 42,601,388                         | -                                  | -                         | -                             | -                  | 42,601,388   | 14,910,486                                     |
| 50%                                     | -   | -                                      | 1,123,100                            | 64,268   | 1,394,542            | 12,169                         | 15,119,025                         | -                                  | -                         | -                             | -                  | 17,713,104   | 8,856,552                                      |
| 75%                                     | -   | -                                      | -                                    | -  | -                    | 113,687,785                    | 594,006                            | -                                  | -                         | -                             | -                  | 114,281,791  | 85,711,343                                     |
| 100%                                    | 111,726   | -                                      | 429,182                              | 142,769  | 52,463,486           | 4,304,292                      | 2,736,290                          | -                                  | 2,660,960                 | 5,206,890                     | 68,055,595         | 68,055,595   |  |
| 150%                                    | -   | -                                      | -                                    | 1  | 161,885              | 1,329,246                      | 14,674                             | 114,789                            | -                         | -                             | -                  | 1,620,595  | 2,430,892                                      |
| <b>Total</b>                            | <b>34,587,798</b>   | <b>714,613</b>                         | <b>11,871,421</b>                    | <b>207,038</b>   | <b>59,706,722</b>    | <b>119,333,492</b>             | <b>61,065,383</b>                  | <b>114,789</b>                     | <b>5,250,041</b>          | <b>5,206,890</b>              | <b>298,058,187</b> | <b>183,113,937</b>   |  |
| Risk-Weighted<br>Assets by<br>Exposures | 111,726   | 20,296                                 | 3,054,560                            | 174,904  | 54,438,770           | 91,570,084                     | 25,673,804                         | 172,184                            | 2,690,719                 | 5,206,890                     | 183,113,937        |  |  |
| Average Risk<br>Weights                 | 0.3%  | 2.8%                                   | 25.7%                                | 84.5%  | 91.2%                | 76.7%                          | 42.0%                              | 150.0%                             | 51.3%                     | 100.0%                        | 61.4%              |  |  |
| Deduction from<br>Total Capital         |   |  | -                                    |  |                      |                                |                                    |                                    |                           | -                             | -                  |  |  |

#### 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<br>Risk Weights                   | Credit Exposures after the Effect of Credit Risk Mitigation |  |                                      |  |                      |                                |                                    |                                    |                           |                               | Total<br>Exposures<br>after<br>Credit Risk<br>Mitigation<br>RM'000 | Total<br>Risk-<br>Weighted<br>Assets<br>RM'000 |
|---|---|--|--------------------------------------|--|----------------------|--------------------------------|------------------------------------|------------------------------------|---------------------------|-------------------------------|--|--|
|   | Sovereigns/<br>Central<br>Banks<br>RM'000                   | Public<br>Sector<br>Entities<br>RM'000 | Banks,<br>DFIs and<br>MDBs<br>RM'000 | Insurance<br>Companies,<br>Securities<br>Firms and<br>Fund<br>Managers<br>RM'000 | Corporates<br>RM'000 | Regulatory<br>Retail<br>RM'000 | Residential<br>Mortgages<br>RM'000 | Higher<br>Risk<br>Assets<br>RM'000 | Other<br>Assets<br>RM'000 | Equity<br>Exposures<br>RM'000 |  |  |
| 2012 (Restated)                         |   |  |                                      |  |                      |                                |                                    |                                    |                           |                               |  |  |
| 0%                                      | 30,324,968  | 613,113                                | -                                    | -  | 15,171               | -                              | -                                  | -                                  | 1,970,579                 | -                             | 32,923,831   | -  |
| 20%                                     | -   | 128,973                                | 9,642,591                            | -  | 4,577,957            | 3,000                          | -                                  | -                                  | 158,418                   | 30,948                        | 14,541,887   | 2,908,377                                      |
| 35%                                     | -   | -                                      | -                                    | -  | -                    | -                              | 35,362,585                         | -                                  | -                         | -                             | 35,362,585   | 12,376,905                                     |
| 50%                                     | -   | -                                      | 1,194,367                            | 19,661   | 1,328,266            | 13,476                         | 13,810,657                         | -                                  | -                         | -                             | 16,366,427   | 8,183,214                                      |
| 75%                                     | -   | -                                      | -                                    | -  | -                    | 102,739,311                    | 1,470,159                          | -                                  | -                         | -                             | 104,209,470  | 78,157,102                                     |
| 100%                                    | 58,286  | -                                      | 155,673                              | 130,787  | 45,004,188           | 4,459,934                      | 2,980,883                          | -                                  | 2,666,258                 | 5,058,497                     | 60,514,506   | 60,514,506                                     |
| 150%                                    | -   | -                                      | -                                    | 2,010  | 187,595              | 1,057,345                      | 10,364                             | 168,979                            | -                         | -                             | 1,426,293  | 2,139,440                                      |
| <b>Total</b>                            | <b>30,383,254</b>   | <b>742,086</b>                         | <b>10,992,631</b>                    | <b>152,458</b>   | <b>51,113,177</b>    | <b>108,273,066</b>             | <b>53,634,648</b>                  | <b>168,979</b>                     | <b>4,795,255</b>          | <b>5,089,445</b>              | <b>265,344,999</b>   | <b>164,279,544</b>                             |
| Risk-Weighted<br>Assets by<br>Exposures | 58,286  | 25,795                                 | 2,681,374                            | 143,633  | 46,865,304           | 83,107,772                     | 23,381,282                         | 253,469                            | 2,697,942                 | 5,064,687                     | 164,279,544  |  |
| Average Risk<br>Weights                 | 0.2%  | 3.5%                                   | 24.4%                                | 94.2%  | 91.7%                | 76.8%                          | 43.6%                              | 150.0%                             | 56.3%                     | 99.5%                         | 61.9%  |  |
| Deduction from<br>Total Capital         |   |  | 46,834                               |  |                      |                                |                                    |                                    |                           | -                             | 46,834   |  |

#### 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<br>Risk Weights                    | Credit Exposures after the Effect of Credit Risk Mitigation |  |                                      |  |                      |                                |                                    |                                    |                           |                               |                    | Total<br>Exposures<br>after<br>Credit Risk<br>Mitigation<br>RM'000 | Total<br>Risk-<br>Weighted<br>Assets<br>RM'000 |
|---|---|--|--------------------------------------|--|----------------------|--------------------------------|------------------------------------|------------------------------------|---------------------------|-------------------------------|--------------------|--|--|
|   | Sovereigns/<br>Central<br>Banks<br>RM'000                   | Public<br>Sector<br>Entities<br>RM'000 | Banks,<br>DFIs and<br>MDBs<br>RM'000 | Insurance<br>Companies,<br>Securities<br>Firms and<br>Fund<br>Managers<br>RM'000 | Corporates<br>RM'000 | Regulatory<br>Retail<br>RM'000 | Residential<br>Mortgages<br>RM'000 | Higher<br>Risk<br>Assets<br>RM'000 | Other<br>Assets<br>RM'000 | Equity<br>Exposures<br>RM'000 |                    |  |  |
| <b>2013</b>                             |   |  |                                      |  |                      |                                |                                    |                                    |                           |                               |                    |  |  |
| 0%                                      | 23,045,435  | 312,487                                | -                                    | -  | 484,973              | -                              | -                                  | -                                  | 2,199,726                 | -                             | 26,042,621         | -  |  |
| 20%                                     | -   | 12,935                                 | 8,044,469                            | -  | 4,945,088            | -                              | -                                  | -                                  | -                         | -                             | 13,002,492         | 2,600,498  |  |
| 35%                                     | -   | -                                      | -                                    | -  | -                    | -                              | 36,127,910                         | -                                  | -                         | -                             | 36,127,910         | 12,644,768   |  |
| 50%                                     | -   | -                                      | 1,152,587                            | -  | 1,394,542            | 12,170                         | 13,482,786                         | -                                  | -                         | -                             | 16,042,085         | 8,021,043  |  |
| 75%                                     | -   | -                                      | -                                    | -  | -                    | 92,306,928                     | 539,921                            | -                                  | -                         | -                             | 92,846,849         | 69,635,137   |  |
| 100%                                    | 111,726   | -                                      | 197,561                              | 31,233   | 46,511,418           | 2,649,719                      | 2,240,766                          | -                                  | 1,966,586                 | 4,637,365                     | 58,346,374         | 58,346,374   |  |
| 150%                                    | -   | -                                      | -                                    | 1  | 156,320              | 1,054,462                      | 11,129                             | 103,639                            | -                         | -                             | 1,325,551          | 1,988,327  |  |
| 1250%                                   | -   | -                                      | -                                    | -  | -                    | -                              | -                                  | -                                  | 89,966                    | -                             | 89,966             | 1,124,575  |  |
| <b>Total</b>                            | <b>23,157,161</b>   | <b>325,422</b>                         | <b>9,394,617</b>                     | <b>31,234</b>  | <b>53,492,341</b>    | <b>96,023,279</b>              | <b>52,402,512</b>                  | <b>103,639</b>                     | <b>4,256,278</b>          | <b>4,637,365</b>              | <b>243,823,848</b> | <b>154,360,722</b>   |  |
| Risk-Weighted<br>Assets by<br>Exposures | 111,726   | 2,587                                  | 2,382,748                            | 31,234   | 48,432,188           | 73,467,692                     | 22,048,562                         | 155,459                            | 3,091,161                 | 4,637,365                     | 154,360,722        |  |  |
| Average Risk<br>Weights                 | 0.5%  | 0.8%                                   | 25.4%                                | 100.0%   | 90.5%                | 76.5%                          | 42.1%                              | 150.0%                             | 72.6%                     | 100.0%                        | 63.3%              |  |  |
| Deduction from<br>Total Capital         |   |  | -                                    |  |                      |                                |                                    |                                    |                           | -                             | -                  |  |  |



#### 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<br>Risk Weights                    | Credit Exposures after the Effect of Credit Risk Mitigation |  |                                      |  |                      |                                |                                    |                                    |                           |                               |                    | Total<br>Exposures<br>after<br>Credit Risk<br>Mitigation<br>RM'000 | Total<br>Risk-<br>Weighted<br>Assets<br>RM'000 |
|---|---|--|--------------------------------------|--|----------------------|--------------------------------|------------------------------------|------------------------------------|---------------------------|-------------------------------|--------------------|--|--|
|   | Sovereigns/<br>Central<br>Banks<br>RM'000                   | Public<br>Sector<br>Entities<br>RM'000 | Banks,<br>DFIs and<br>MDBs<br>RM'000 | Insurance<br>Companies,<br>Securities<br>Firms and<br>Fund<br>Managers<br>RM'000 | Corporates<br>RM'000 | Regulatory<br>Retail<br>RM'000 | Residential<br>Mortgages<br>RM'000 | Higher<br>Risk<br>Assets<br>RM'000 | Other<br>Assets<br>RM'000 | Equity<br>Exposures<br>RM'000 |                    |  |  |
| 2012 (Restated)                         |   |  |                                      |  |                      |                                |                                    |                                    |                           |                               |                    |  |  |
| 0%                                      | 22,444,583  | 312,506                                | -                                    | -  | 10,114               | -                              | -                                  | -                                  | 1,792,859                 | -                             | 24,560,062         | -  |  |
| 20%                                     | -   | 20,648                                 | 6,944,387                            | -  | 4,391,175            | 3,000                          | -                                  | -                                  | -                         | 30,948                        | 11,390,158         | 2,278,032  |  |
| 35%                                     | -   | -                                      | -                                    | -  | -                    | -                              | 29,772,681                         | -                                  | -                         | -                             | 29,772,681         | 10,420,438   |  |
| 50%                                     | -   | -                                      | 1,432,568                            | -  | 1,328,279            | 13,476                         | 12,595,910                         | -                                  | -                         | -                             | 15,370,233         | 7,685,117  |  |
| 75%                                     | -   | -                                      | -                                    | -  | -                    | 83,623,043                     | 1,314,853                          | -                                  | -                         | -                             | 84,937,896         | 63,703,422   |  |
| 100%                                    | 58,286  | -                                      | 131,230                              | 32,896   | 40,001,541           | 2,585,410                      | 2,500,860                          | -                                  | 1,904,610                 | 4,505,031                     | 51,719,864         | 51,719,864   |  |
| 150%                                    | -   | -                                      | -                                    | 2,010  | 129,752              | 831,477                        | 9,332                              | 137,023                            | -                         | -                             | 1,109,594          | 1,664,392  |  |
| <b>Total</b>                            | <b>22,502,869</b>   | <b>333,154</b>                         | <b>8,508,185</b>                     | <b>34,906</b>  | <b>45,860,861</b>    | <b>87,056,406</b>              | <b>46,193,636</b>                  | <b>137,023</b>                     | <b>3,697,469</b>          | <b>4,535,979</b>              | <b>218,860,488</b> | <b>137,471,265</b>   |  |
| Risk-Weighted<br>Assets by<br>Exposures | 58,286  | 4,130                                  | 2,236,391                            | 35,911   | 41,738,544           | 66,557,246                     | 20,219,391                         | 205,535                            | 1,904,610                 | 4,511,221                     | 137,471,265        |  |  |
| Average Risk<br>Weights                 | 0.3%  | 1.2%                                   | 26.3%                                | 102.9%   | 91.0%                | 76.5%                          | 43.8%                              | 150.0%                             | 51.5%                     | 99.5%                         | 62.8%              |  |  |
| Deduction from<br>Total Capital         |   |  | 46,834                               |  |                      |                                |                                    |                                    |                           | -                             | 46,834             |  |  |

#### 4. CREDIT RISK (CONT'D.)

##### 4.5 Credit Quality of Gross Loans, Advances and Financing

###### Gross Loans, Advances and Financing by Credit Quality

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

| Group   | 2013<br>RM'000     | 2012<br>RM'000 |
|---|--------------------|----------------|
| Neither past due nor impaired   | 196,579,102        | 174,605,825    |
| Past due but not impaired   | 23,111,922         | 21,803,253     |
| Impaired  | 1,484,779          | 1,374,086      |
|   | <b>221,175,803</b> | 197,783,164    |
| Gross impaired loans as a percentage of gross loans, advances and financing | <b>0.67%</b>       | 0.69%          |

**(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(ii)(a) 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 include loans which are due one or more days after the contractual due date but less than 3 months. 60% (2012: 59%) of the past due loans of the Group are past due for less than 1 month.

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

- (i) Economic purpose analysis
- (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) Economic Purpose Analysis**

| <b>Group</b>   | <b>2013<br/>RM'000</b> | <b>2012<br/>RM'000</b> |
|--|------------------------|------------------------|
| Purchase of securities                                 | 11,781                 | 44,109                 |
| Purchase of transport vehicles                         | 10,471,570             | 10,060,835             |
| Purchase of landed properties                          | 10,337,015             | 9,927,276              |
| (Of which: – residential<br>– non-residential)         | 7,929,483<br>2,407,532 | 7,539,305<br>2,387,971 |
| Purchase of fixed assets (excluding landed properties) | 9,679                  | 14,518                 |
| Personal use   | 615,380                | 641,216                |
| Credit card  | 280,990                | 229,623                |
| Purchase of consumer durables                          | 1,617                  | 2,731                  |
| Construction   | 23,073                 | 79,083                 |
| Working capital  | 1,111,686              | 659,349                |
| Other purpose  | 249,131                | 144,513                |
|  | <b>23,111,922</b>      | <b>21,803,253</b>      |

**(ii) Geographical Analysis**

| <b>Group</b>      | <b>2013<br/>RM'000</b> | <b>2012<br/>RM'000</b> |
|-------------------|------------------------|------------------------|
| Malaysia          | 22,619,163             | 21,329,633             |
| Hong Kong & China | 151,521                | 176,689                |
| Cambodia          | 167,538                | 199,177                |
| Other countries   | 173,700                | 97,754                 |
|                   | <b>23,111,922</b>      | <b>21,803,253</b>      |

**(iii) Aging Analysis**

| <b>Group</b>          | <b>2013<br/>RM'000</b> | <b>2012<br/>RM'000</b> |
|-----------------------|------------------------|------------------------|
| 1 day to <1 month     | 13,754,613             | 12,899,172             |
| 1 month to <2 months  | 6,865,292              | 6,965,783              |
| 2 months to <3 months | 2,492,017              | 1,938,298              |
|                       | <b>23,111,922</b>      | <b>21,803,253</b>      |

#### 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 statement of profit or loss.

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 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 significant 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.

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

- (i) Economic purpose
- (ii) Geographical location

#### 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  | Impaired Loans, Advances and Financing<br>RM'000 | Individual Assessment Allowance at 1 January<br>RM'000 | Net Charge for the Year<br>RM'000 | Amounts Written Off/Other Movements<br>RM'000 | Individual Assessment Allowance at 31 December<br>RM'000 | Collective Assessment Allowance at 31 December<br>RM'000 | Total Impairment Allowances for Loans, Advances and Financing<br>RM'000 |
|--|--|--|-----------------------------------|---|--|--|---|
| <b>2013</b>  |  |  |                                   |   |  |  |   |
| Purchase of securities                                 | 3,466  | 2,471  | –                                 | –   | 2,471  | 7,413  | 9,884   |
| Purchase of transport vehicles                         | 357,474  | 7,850  | 303                               | –   | 8,153  | 529,960  | 538,113   |
| Purchase of landed properties                          | 676,066  | 25,881   | (5,184)                           | (3,773)                                       | 16,924   | 817,007  | 833,931   |
| (Of which: – residential                               | 526,930  | 691  | 1,662                             | (2,123)                                       | 230  | 554,232  | 554,462   |
| – non-residential)                                     | 149,136  | 25,190   | (6,846)                           | (1,650)                                       | 16,694   | 262,775  | 279,469   |
| Purchase of fixed assets (excluding landed properties) | 6,003  | 460  | 387                               | (380)   | 467  | 1,711  | 2,178   |
| Personal use   | 169,312  | 38,207   | 199,632                           | (197,948)                                     | 39,891   | 95,197   | 135,088   |
| Credit card  | 23,161   | –  | –                                 | –   | –  | 18,781   | 18,781  |
| Purchase of consumer durables                          | 82   | –  | –                                 | –   | –  | 179  | 179   |
| Construction   | 11,469   | 4,137  | 547                               | 73  | 4,757  | 7,446  | 12,203  |
| Mergers and acquisitions                               | –  | –  | –                                 | –   | –  | 379  | 379   |
| Working capital  | 223,163  | 117,896  | 30,538                            | (57,789)                                      | 90,645   | 104,663  | 195,308   |
| Other purpose  | 14,583   | 5,093  | (476)                             | –   | 4,617  | 9,349  | 13,966  |
|  | <b>1,484,779</b>                                 | <b>201,995</b>   | <b>225,747</b>                    | <b>(259,817)</b>                              | <b>167,925</b>   | <b>1,592,085</b>   | <b>1,760,010</b>  |

#### 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   | Impaired Loans, Advances and Financing<br>RM'000 | Individual Assessment Allowance at 1 January<br>RM'000 | Net Charge for the Year<br>RM'000 | Amounts Written Off/Other Movements<br>RM'000 | Individual Assessment Allowance at 31 December<br>RM'000 | Collective Assessment Allowance at 31 December<br>RM'000 | Total Impairment Allowances for Loans, Advances and Financing<br>RM'000 |
|---|--|--|-----------------------------------|---|--|--|---|
| <b>2012</b>   |  |  |                                   |   |  |  |   |
| Purchase of securities                                    | 5,852  | 767  | 1,704                             | –   | 2,471  | 9,189  | 11,660  |
| Purchase of transport vehicles                            | 263,313  | 15,914   | (5,668)                           | (2,396)                                       | 7,850  | 425,694  | 433,544   |
| Purchase of landed properties                             | 591,758  | 27,474   | 4,897                             | (6,490)                                       | 25,881   | 843,510  | 869,391   |
| (Of which: – residential                                  | 420,286  | 1,912  | 272                               | (1,493)                                       | 691  | 563,275  | 563,966   |
| – non-residential)  | 171,472  | 25,562   | 4,625                             | (4,997)                                       | 25,190   | 280,235  | 305,425   |
| Purchase of fixed assets<br>(excluding landed properties) | 6,168  | 451  | 333                               | (324)   | 460  | 808  | 1,268   |
| Personal use  | 165,205  | 42,610   | 188,109                           | (192,512)                                     | 38,207   | 95,108   | 133,315   |
| Credit card   | 23,421   | –  | –                                 | –   | –  | 16,778   | 16,778  |
| Purchase of consumer durables                             | 377  | –  | –                                 | –   | –  | 136  | 136   |
| Construction  | 14,109   | 7,894  | (3,667)                           | (90)  | 4,137  | 7,857  | 11,994  |
| Mergers and acquisitions                                  | –  | –  | –                                 | –   | –  | 417  | 417   |
| Working capital   | 283,886  | 141,376  | 9,766                             | (33,246)                                      | 117,896  | 115,144  | 233,040   |
| Other purpose   | 19,997   | 8,710  | (609)                             | (3,008)                                       | 5,093  | 14,925   | 20,018  |
|   | 1,374,086  | 245,196  | 194,865                           | (238,066)                                     | 201,995  | 1,529,566  | 1,731,561   |

The movements in the collective assessment allowance for 2013 and 2012 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 Location

| Group             | Impaired Loans, Advances and Financing<br>RM'000 | Individual Assessment Allowance at 1 January<br>RM'000 | Net Charge for the Year<br>RM'000 | Amounts Written Off/Other Movements<br>RM'000 | Individual Assessment Allowance at 31 December<br>RM'000 | Collective Assessment Allowance at 31 December<br>RM'000 | Total Impairment Allowances for Loans, Advances and Financing<br>RM'000 |
|-------------------|--|--|-----------------------------------|---|--|--|---|
| <b>2013</b>       |  |  |                                   |   |  |  |   |
| Malaysia          | 1,343,237  | 111,918  | 8,393                             | (39,080)                                      | 81,231   | 1,455,468  | 1,536,699   |
| Hong Kong & China | 74,329   | 49,063   | 199,620                           | (198,209)                                     | 50,474   | 86,370   | 136,844   |
| Cambodia          | 44,108   | 39,271   | 17,873                            | (22,650)                                      | 34,494   | 42,127   | 76,621  |
| Other countries   | 23,105   | 1,743  | (139)                             | 122   | 1,726  | 8,120  | 9,846   |
|                   | <b>1,484,779</b>                                 | <b>201,995</b>   | <b>225,747</b>                    | <b>(259,817)</b>                              | <b>167,925</b>   | <b>1,592,085</b>   | <b>1,760,010</b>  |

| Group             | Impaired Loans, Advances and Financing<br>RM'000 | Individual Assessment Allowance at 1 January<br>RM'000 | Net Charge for the Year<br>RM'000 | Amounts Written Off/Other Movements<br>RM'000 | Individual Assessment Allowance at 31 December<br>RM'000 | Collective Assessment Allowance at 31 December<br>RM'000 | Total Impairment Allowances for Loans, Advances and Financing<br>RM'000 |
|-------------------|--|--|-----------------------------------|---|--|--|---|
| <b>2012</b>       |  |  |                                   |   |  |  |   |
| Malaysia          | 1,188,727  | 137,345  | (3,321)                           | (22,106)                                      | 111,918  | 1,396,912  | 1,508,830   |
| Hong Kong & China | 96,054   | 67,894   | 194,624                           | (213,455)                                     | 49,063   | 88,502   | 137,565   |
| Cambodia          | 63,105   | 34,230   | 7,372                             | (2,331)                                       | 39,271   | 38,294   | 77,565  |
| Other countries   | 26,200   | 5,727  | (3,810)                           | (174)   | 1,743  | 5,858  | 7,601   |
|                   | <b>1,374,086</b>                                 | <b>245,196</b>   | <b>194,865</b>                    | <b>(238,066)</b>                              | <b>201,995</b>   | <b>1,529,566</b>   | <b>1,731,561</b>  |

The movements in the collective assessment allowance for 2013 and 2012 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 (“DCR”).

### Minimum Regulatory Capital Requirements for Market Risk

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

|                                   | Long<br>Position<br>RM'000 | Short<br>Position<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 | Minimum<br>Capital<br>Requirement<br>at 8%<br>RM'000 |
|-----------------------------------|----------------------------|-----------------------------|---------------------------------------|--|
| <b>Group</b>                      |                            |                             |                                       |  |
| <b>2013</b>                       |                            |                             |                                       |  |
| Interest rate/rate of return risk | 33,918,033                 | (17,198,819)                | 1,003,284                             | 80,263   |
| Foreign exchange risk             | 1,108,152                  | (566,324)                   | 1,108,152                             | 88,652   |
| <b>Total</b>                      | <b>35,026,185</b>          | <b>(17,765,143)</b>         | <b>2,111,436</b>                      | <b>168,915</b>                                       |
| <b>2012</b>                       |                            |                             |                                       |  |
| Interest rate/rate of return risk | 29,334,637                 | (11,849,784)                | 823,535                               | 65,883   |
| Foreign exchange risk             | 888,109                    | (682,774)                   | 888,109                               | 71,049   |
| Equity risk                       | 879                        | –                           | 1,432                                 | 115  |
| <b>Total</b>                      | <b>30,223,625</b>          | <b>(12,532,558)</b>         | <b>1,713,076</b>                      | <b>137,047</b>                                       |
| <b>Bank</b>                       |                            |                             |                                       |  |
| <b>2013</b>                       |                            |                             |                                       |  |
| Interest rate risk                | 31,120,418                 | (17,136,668)                | 855,500                               | 68,440   |
| Foreign exchange risk             | 1,416,690                  | (1,995,079)                 | 1,995,079                             | 159,606  |
| <b>Total</b>                      | <b>32,537,108</b>          | <b>(19,131,747)</b>         | <b>2,850,579</b>                      | <b>228,046</b>                                       |
| <b>2012</b>                       |                            |                             |                                       |  |
| Interest rate risk                | 25,439,745                 | (11,843,023)                | 658,938                               | 52,715   |
| Foreign exchange risk             | 1,230,972                  | (1,919,351)                 | 1,919,351                             | 153,548  |
| Equity risk                       | 879                        | –                           | 1,432                                 | 115  |
| <b>Total</b>                      | <b>26,671,596</b>          | <b>(13,762,374)</b>         | <b>2,579,721</b>                      | <b>206,378</b>                                       |



## 5. MARKET RISK (CONT'D.)

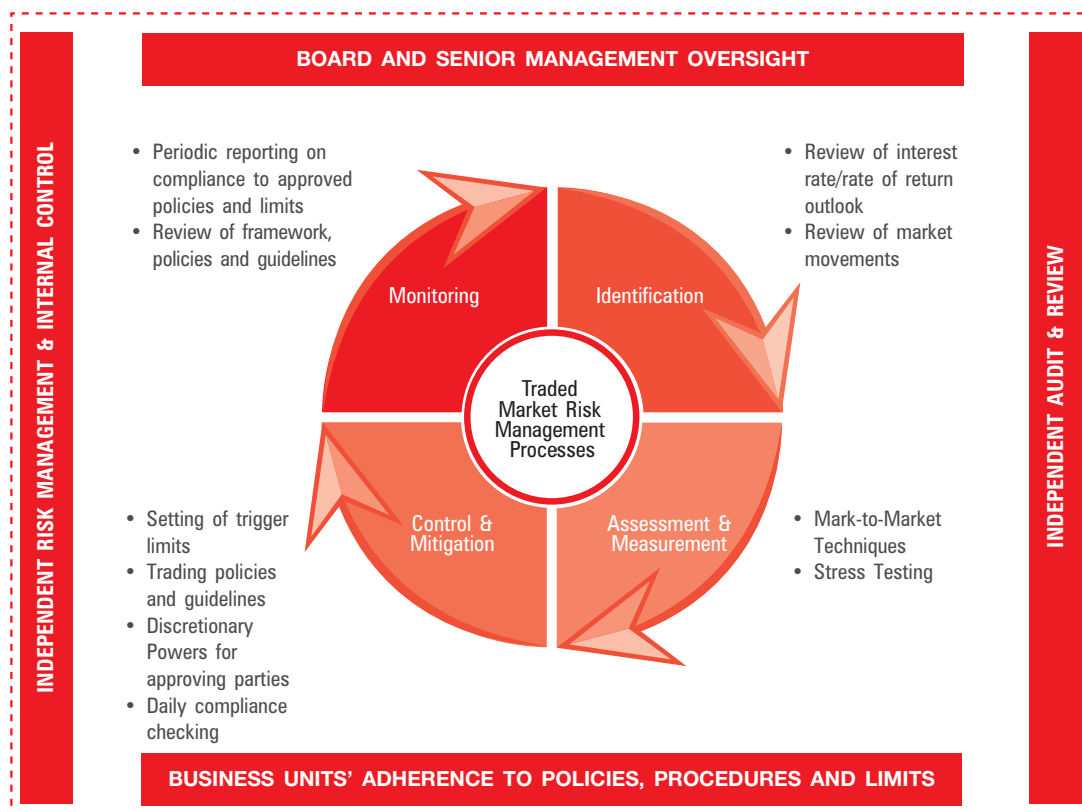
### Risk Governance

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, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are mainly originated by the treasury operations.

The following diagram presents the risk management processes over traded market risk.



## 5. MARKET RISK (CONT'D.)

### 5.1 Traded Market Risk (Cont'd.)

#### 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 fixed income instruments is measured by the present value of 1 basis point change ("PV01") and controlled by daily and cumulative cut-loss limits. The compliance officers are deployed to conduct daily compliance checking on the treasury operations. Any instances of non-compliance with the operational processes, procedures and limits will be documented with remedial action plans and reported to the RMC. In addition, the compliance officers conduct independent verification on the daily mark-to-market of fixed income instruments.

The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by RMD. 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 instruments as measured by PV01, averaged at RM276,000 (2012: RM354,000). The composition of the Group's trading portfolio is set out in Note 5 to the financial statements.

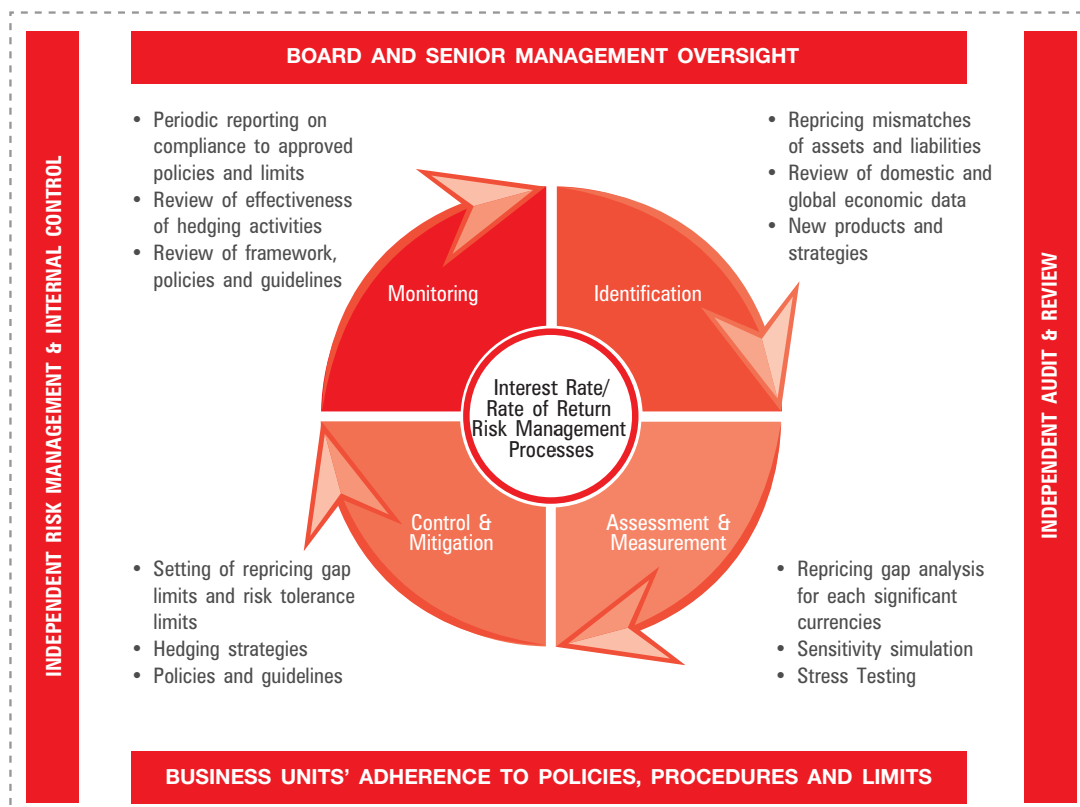
### 5.2 Non-Traded Market Risk

The Group's core non-traded market risks are interest rate/rate of return risk in the banking book, DCR 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 the interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

The following diagram presents the risk management processes over IRR/RoRBB.



## 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 the 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 the interest rate/rate of return 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(ii)(a)(i) to the financial statements sets out the Group's sensitivity to the 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 2013, the Group had an overall positive interest rate/rate of return gap of RM39,865.7 million (2012: RM34,399.2 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.)

*Risk Management Approach (Cont'd.)*

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

| Group                    | 2013                              |                  | 2012             |                  |
|--------------------------|-----------------------------------|------------------|------------------|------------------|
|                          | -100 bps                          | +100 bps         | -100 bps         | +100 bps         |
|                          | <----- Increase/(Decrease) -----> |                  |                  |                  |
|                          | RM'000                            | RM'000           | RM'000           | RM'000           |
| <b>Impact on NII/NPI</b> |                                   |                  |                  |                  |
| Ringgit Malaysia         | (246,230)                         | 164,538          | (161,036)        | 86,044           |
| United States Dollars    | 5,840                             | (25,770)         | 5,973            | (25,345)         |
| Hong Kong Dollars        | (1,973)                           | (1,532)          | (2,209)          | 436              |
| Other Currencies         | (5,659)                           | 3,573            | (6,535)          | 4,711            |
| <b>Total</b>             | <b>(248,022)</b>                  | <b>140,809</b>   | <b>(163,807)</b> | <b>65,846</b>    |
| <b>Impact on EVE</b>     |                                   |                  |                  |                  |
| Ringgit Malaysia         | 929,747                           | (558,481)        | 914,808          | (574,068)        |
| United States Dollars    | 4,660                             | (4,133)          | 4,281            | (4,069)          |
| Hong Kong Dollars        | 1,299                             | 7,781            | 6                | 9,475            |
| Other Currencies         | (2,717)                           | 6,144            | (4,377)          | 6,930            |
| <b>Total</b>             | <b>932,989</b>                    | <b>(548,689)</b> | <b>914,718</b>   | <b>(561,732)</b> |

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 the 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. Where possible and material, loans/financing prepayments are generally estimated based on past statistics and trends. 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.

(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 the interest rate/rate of return risk.

## 5. MARKET RISK (CONT'D.)

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

#### (b) 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(ii)(c) to the financial statements sets out the Group's assets, liabilities and NOP by currencies and the Group's structural foreign exchange positions. As at 31 December 2013, a net long position of RM533.0 million (2012: RM195.9 million) or 13% (2012: 5%) of the Group's structural position.

#### (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 equity exposures in the banking book and the gains and losses on equity exposures in the banking book of the Group.

### (a) Equity Exposures in the Banking Book

| Group                           | 2013                            |                                | 2012                            |                                |
|---------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|                                 | Gross Credit Exposure<br>RM'000 | Risk-Weighted Assets<br>RM'000 | Gross Credit Exposure<br>RM'000 | Risk-Weighted Assets<br>RM'000 |
| <b>Publicly traded</b>          |                                 |                                |                                 |                                |
| Investments in unit trust funds | 5,107,225                       | 5,107,225                      | 4,962,875                       | 4,962,875                      |
| Holdings of equity investments  | 11,897                          | 11,897                         | 38,805                          | 38,805                         |
|                                 | <b>5,119,122</b>                | <b>5,119,122</b>               | 5,001,680                       | 5,001,680                      |
| <b>Privately held</b>           |                                 |                                |                                 |                                |
| For socio-economic purposes     | 87,768                          | 87,768                         | 87,765                          | 63,007                         |
| Not for socio-economic purposes | 18,981                          | 28,472                         | 37,313                          | 55,970                         |
|                                 | <b>106,749</b>                  | <b>116,240</b>                 | 125,078                         | 118,977                        |
| <b>Total</b>                    | <b>5,225,871</b>                | <b>5,235,362</b>               | 5,126,758                       | 5,120,657                      |

#### (i) Publicly Traded

The investment in unit trust funds comprises bond fund and money market funds, are 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 equities 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.

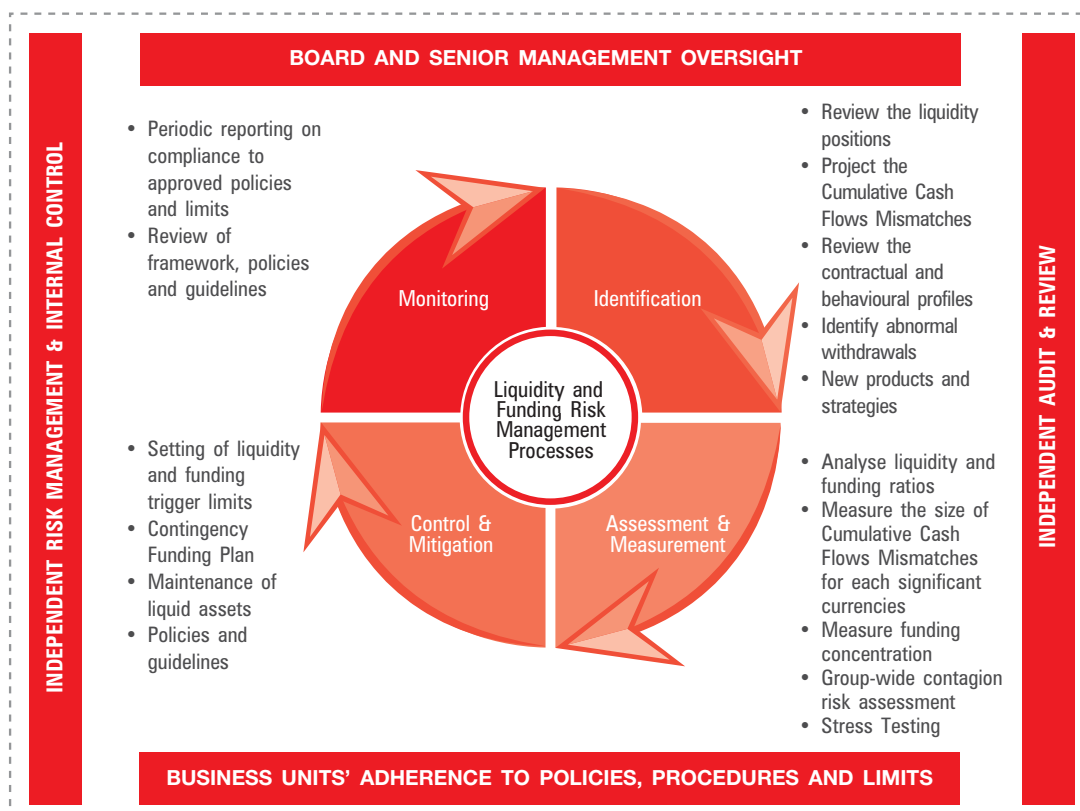
### (b) Gains and Losses on Equity Exposures in the Banking Book

| Group   | 2013<br>RM'000 | 2012<br>RM'000 |
|---|----------------|----------------|
| Realised gains/(losses) recognised in the statement of profit or loss |                |                |
| – Publicly traded equity investments                                  | 2,123          | (64)           |
| Unrealised gains/(losses) recognised in other comprehensive income    |                |                |
| – Investments in unit trust funds                                     | 15,192         | 21,997         |
| – Publicly traded equity investments                                  | 10,755         | 9,627          |
|   | <b>25,947</b>  | 31,624         |

## 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.

The following diagram presents the risk management processes over liquidity and funding risk.



### Risk Governance

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

### Risk Management Approach

The liquidity and funding risk management of the Group is aligned to 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 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/financed to the customers. As at 31 December 2013, the Group holds a sizeable balance of government securities amounting to RM16,089.9 million (2012: RM17,651.4 million) or 39% (2012: 44%) of its portfolio of securities.

## 7. LIQUIDITY AND FUNDING RISK (CONT'D.)

### Risk Management Approach (Cont'd.)

The Group's liquidity and funding positions are 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 debt instruments, 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 and funding positions 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 and funding 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 flows mismatches under the "Specific Institution Liquidity Problem" and "Systemic Wide 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 and funding limits. Similar risk management processes as practiced by Head Office 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 as it is inherent in all banking businesses. The objective of the operational risk management of the Group is to manage its operational risk within an acceptable level.

### Minimum Regulatory Capital Requirements for Operational Risk

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

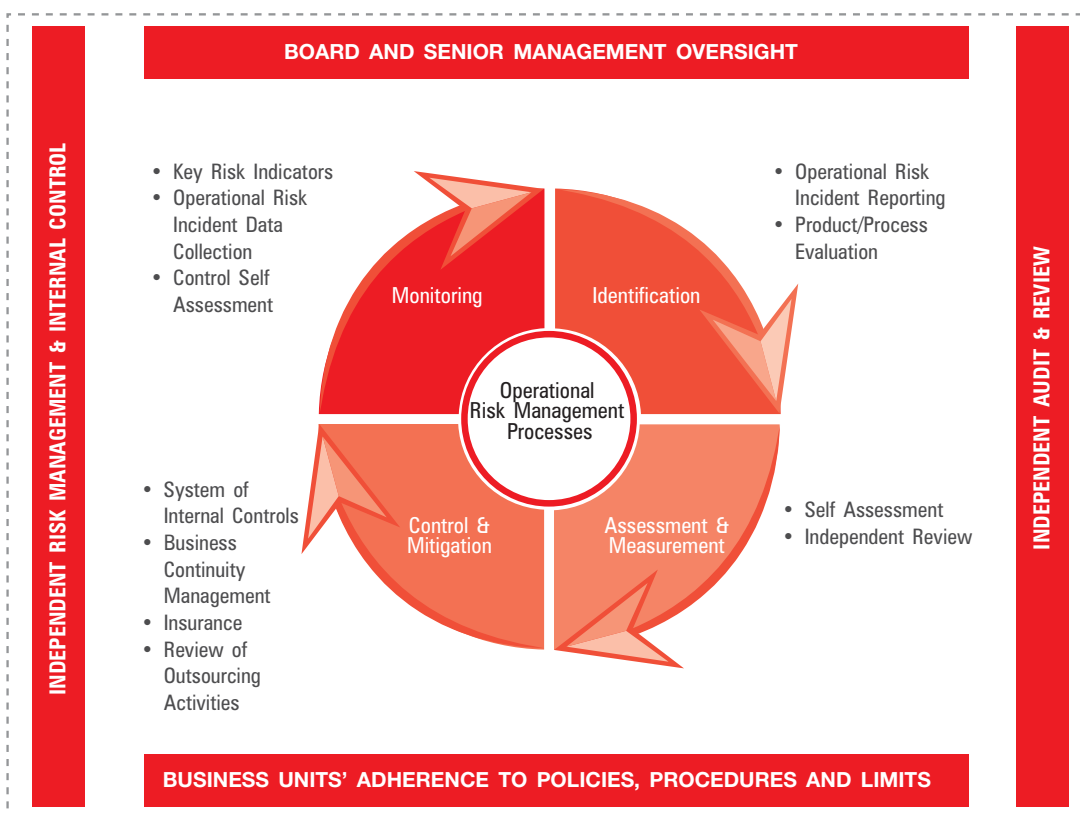
|       | 2013                           |  | 2012                           |  |
|-------|--------------------------------|--|--------------------------------|--|
|       | Risk-Weighted Assets<br>RM'000 | Minimum Capital Requirement<br>at 8%<br>RM'000 | Risk-Weighted Assets<br>RM'000 | Minimum Capital Requirement<br>at 8%<br>RM'000 |
| Group | 14,497,356                     | 1,159,788                                      | 13,733,324                     | 1,098,666                                      |
| Bank  | 10,228,677                     | 818,294  | 9,915,430                      | 793,234  |



## 8. OPERATIONAL RISK (CONT'D.)

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

The following diagram presents the risk management processes over operational risk.



### Risk Governance

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

The Board, through RMC, maintains overall responsibility for risk oversight within the Group. The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for assessing the effectiveness of risk management policies and processes 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 management policies, guidelines, procedures and limits 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 management policies, guidelines, procedures and limits.

## 8. OPERATIONAL RISK (CONT'D.)

### 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.

#### (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 products or services. This is further augmented by the Group's 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 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 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.

The Group protects 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% system 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

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

- (i) System of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes
- (ii) Documented operational risk management policies and procedural manuals to mitigate errors by users
- (iii) Processes to ensure compliance with internal policies, guidelines, controls and procedures and appropriate punitive actions are taken against errant staff
- (iv) Periodic review and enhancement of operational risk limits and control effectiveness
- (v) Disaster recovery and business continuity plans put in place to mitigate risk and manage the impact of loss events
- (vi) Insurance coverage to mitigate risk of high impact loss events, where appropriate

## 8. OPERATIONAL RISK (CONT'D.)

### Risk Management Approach (Cont'd.)

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

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

- (i) Control self-assessment – to enhance management assessment of the state of the control environment
- (ii) Key risk indicators – to collect statistical data on an ongoing basis to facilitate early detection of operational control deficiencies
- (iii) 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

#### (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, compliance review results 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

Shariah non-compliance risk is the risk of failure to comply with the Shariah rules and principles as determined by the respective entities' Shariah Committee/Adviser or the relevant bodies, such as the Shariah Advisory Council ("SAC") of BNM and the SAC of Securities Commission ("SACSC").

Shariah non-compliance risk of the Group may emanate from the Islamic banking operations of Public Islamic and management of Shariah-based funds by Public Mutual Berhad ("Public Mutual").

### Islamic Banking Operations

Shariah non-compliance risk emanating from Islamic banking operations 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, as well as the adoption of 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. In this regard, it performs diligence over the effective functioning of the Framework and ensures that policies relating to Shariah matters are implemented accordingly. The Shariah Committee is presided 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 perform on-site inspections at branches to review the operations of Public Islamic to ensure that the operations are conducted in accordance to Shariah rules and principles.

## 9. SHARIAH NON-COMPLIANCE RISK (CONT'D.)

### Islamic Banking Operations (Cont'd.)

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. The role of Shariah review is to examine and evaluate Public Islamic's level of compliance with the Shariah rules and principles through an end-to-end process from product development to operational review including the review of the uses of the financing extended to detect application of financing in 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 and the treatment of the consequential Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Committee and the approval by the Board of Public Islamic prior to implementation.

Ongoing Shariah review conducted on Public Islamic's operational processes in Islamic banking and financing transactions revealed that there is no Shariah non-compliant income recorded during the financial year under review (2012: Nil).

### Management of Shariah-Based Funds

Shariah non-compliance risk emanating from investments and operations of Shariah-based funds is managed through Shariah non-compliance risk management processes. An independent third party approved by the Securities Commission is appointed as the Shariah Adviser of the Shariah-based funds managed by Public Mutual. The role of the Shariah Adviser is to ensure the investments and operations of the Shariah-based funds are in compliance with Shariah requirements. The Shariah Adviser reviews the funds' investments and meets with the investment management team to advise on the funds' compliance with Shariah requirements.

The Compliance Department of Public Mutual is responsible for assessing, monitoring and reporting on the company's compliance with the applicable Shariah rules and regulations in managing its Shariah-based fund. The Compliance Department conducts regular reviews and works closely with the Shariah Adviser to ensure all transactions under the Shariah-based funds comply with the Shariah requirements at all times.

Any securities held by the Shariah-based funds which subsequently turn Shariah non-compliant based on announcements made by the SACSC will be disposed of in the manner as stipulated by the SACSC. Any excess capital gains derived from such disposal would be channelled to charitable bodies accordingly.

During the financial year, a non-permissible income of RM1,062,973 (2012: RM2,099,143) under the Shariah-based funds arising from the disposal of Shariah non-compliant securities has been channelled to charitable bodies as approved by the Shariah Adviser.