PILLAR 3 DISCLOSURE

As at 31 December 2016

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 Group's Disclosure Policy on Basel II RWCAF/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.publicbankgroup.com

PILLAR 3 DISCLOSURE

OVERVIEW (CONTINUED)

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.

	2016		2015	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
Credit Risk	**231,005,869**	**18,480,469**	220,881,570	17,670,526
Market Risk	**3,291,584**	**263,327**	2,500,503	200,040
Operational Risk	**17,364,426**	**1,389,154**	16,321,153	1,305,692
Total	**251,661,879**	**20,132,950**	239,703,226	19,176,258
Bank				
Credit Risk	**186,904,199**	**14,952,336**	179,788,298	14,383,064
Market Risk	**4,899,220**	**391,938**	3,714,333	297,147
Operational Risk	**11,525,983**	**922,079**	10,911,444	872,915
Total	**203,329,402**	**16,266,353**	194,414,075	15,553,126

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

PILLAR 3 DISCLOSURE

1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on 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 15 and 16 to the financial statements respectively.

The basis of consolidation for financial accounting purposes is described in Note 2(iv)(b) to the financial statements, and differs from that used for regulatory capital purposes. The investment in its insurance associated company, which is equity-accounted in the financial accounting consolidation and 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 required under the RWCAF.

2. CAPITAL MANAGEMENT

The objective of the Group's capital management is to protect the interests of its depositors, creditors and shareholders. To achieve this, the capital management is subject to ongoing review and the Board's approval on the level and composition of the Group's total capital, assessed against the following key objectives:

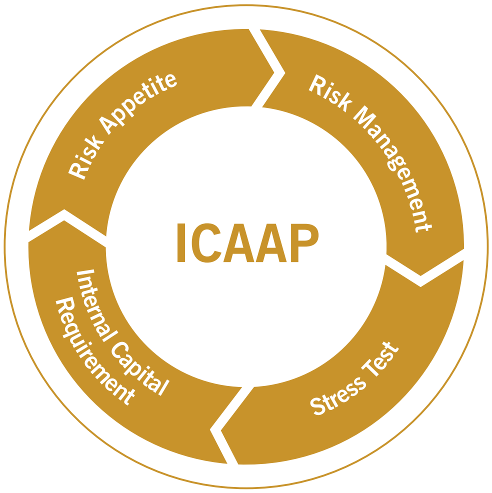
- Regulatory requirements on minimal capital required
- Capital levels maintained are adequate to support all material risks and to meet the strategic and business plans
- Capital levels maintained are adequate to support the strong external rating for domestic and international rating agencies
- An appropriate balance between maximising shareholders returns and prudent capital management

The Group achieves this through its Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP requires the Group to identify and assess all material risks, maintain sufficient capital to support these risks and apply the appropriate risk management techniques to manage and mitigate these risks within the given level of capital, on an ongoing and forward looking basis. The ICAAP is supported by a strong risk governance structure with clear roles and responsibilities to ensure the effectiveness of the ICAAP with the Board being ultimately responsible for the overall oversight of the ICAAP. In discharging its duty, the Board is assisted by the Risk Management Committee ("RMC") and ICAAP Working Group. Senior management together with the management committees are responsible to ensure the effective implementation of the capital management directions of the Board. The Internal Audit Division ("IAD") is responsible to conduct reviews of processes relating to the ICAAP to ensure their integrity, objectivity and consistency in application.

PILLAR 3 DISCLOSURE

2. CAPITAL MANAGEMENT (CONTINUED)

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



(a) Risk Appetite

The Group's Risk Appetite expresses the level of risk which the Group is willing to assume within the Group's capacity in order to achieve the Group's objectives, as defined by a set of minimum quantitative metrics and qualitative standards. The key elements applied in setting the Group's Risk Appetite are the strategic business directions, the risk taking capacity and the level of risk currently assumed by the Group. The Board reviews and approves the Risk Appetite on an annual basis, or more frequently in the event of unexpected changes in the risk environment, with the aim of ensuring the Risk Appetite is consistent with the Group's strategic directions, business and regulatory environment and stakeholders' requirements. The setting, cascading, monitoring and the review of the Risk Appetite is set out in the Group Risk Appetite Framework and is as follows:

Set Risk Appetite	Cascade Risk Appetite	Monitor Risk Appetite	Review/Revise Risk Appetite
• Set the desired risk appetite considering: – Strategic business directions – Risk taking capacity – Current risk profile • Articulate risk appetite using: – Risk Appetite Statement – Risk Appetite Metrics	• Cascade the applicable risk appetite via: – Financial budgeting process to: (i) Entity level (ii) Business units/ control units level • Assimilation of the risk appetite into policies, frameworks and procedures • Implementation of Key Risk Indicators on Operational Risk	• Regular monitoring of the risk profile against the risk appetite • Identify the underlying reason for the non-achievements of the risk appetite and develop action plans to address the non-achievements	• Review risk appetite in the light of: – Changing business and economic condition – Evolving strategic business directions

2. CAPITAL MANAGEMENT (CONTINUED)

(b) Risk Management

The Group Risk Management Framework sets out the principles applied in managing the material risks that the Group is exposed to. The Framework serves to drive the development of a consistent risk management practices which enable the continuous identification, measurement, control, monitoring and reporting of all applicable and material risks and this include the continuous identification of emerging risks followed by the assessment of the risks on the Group's business and capital positions. The Group's risk limits established to manage the size of the risk exposures are aligned to the overall Risk Appetite.

The Group operates on seven fundamental principles and this is further discussed on item 3 of the Pillar 3 Disclosure.

In addition, an annual comprehensive risk assessment is undertaken across all the banking entities within the Group as part of ICAAP to identify and assess the following risks:

(i) Risks captured under Pillar 1 (credit risk, operational risk and market risk);

(ii) Risks not fully captured under Pillar 1 (e.g. model risk and residual credit risk); and

(iii) Risks not specifically addressed under Pillar 1 (e.g. credit concentration risk, interest rate risk on banking book, reputation risk, amongst others).

Compile a Comprehensive List of Risks Relevant to Banking Business

To obtain a comprehensive list of risks inherent to banking business guided by the guidelines issued by:
- BNM or respective Regulators
- Basel Committee and other banking committees

Identify Risks that are Applicable to the Group

From the comprehensive list of risks, identify the risks that are applicable to the Group/respective entities taking into consideration the current risk taking activities of the Group/respective entities.

Assess the Applicable Risks

For risks that are identified to be applicable to the Group/the respective entities, ensure the risk assessments are supported by the following:
- Consistent and robust risk assessment approaches
- Quality data used for risk measurement
- Sound techniques and methodologies that commensurate with the entities' size, nature of business and complexity of activities

All assessments of risks incorporate both quantitative and/or qualitative assessment.

Qualitative Approach	Quantitative Approach
Risks which may not be easily quantified due to lack of commonly accepted risk measurement techniques. The focus for such non-quantifiable risks would then be the risk processes put in place to manage these risks including the following: • An effective risk governance process • Effective procedures and internal controls • Effective risk mitigation strategies • Regular monitoring and reporting	Risks which can be quantified based on best practices methodologies which are prescribed by regulators or internal methodologies, capital will be set aside for the amount of quantified risks.

PILLAR 3 DISCLOSURE

2. CAPITAL MANAGEMENT (CONTINUED)

(c) Stress Test

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

(i) To ensure the establishment of a comprehensive and consistent stress test process in conducting the stress test by all entities within the Group;

(ii) To drive the development of 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 it operates;

(iii) To ensure all material risks are captured in the stress test including emerging risks;

(iv) To ensure all stress test parameters, assumptions and scenarios are duly deliberated by senior management and relevant committees prior to the execution of the stress test exercise; and

(v) To ensure loss outcomes are identified and that capital buffers are set aside to absorb losses that may be experienced during an economic downturn.

The key focus of the stress test is to identify the potential adverse impact on the Group's capital, profitability, asset quality and liquidity positions followed by the identification of the appropriate actions to mitigate the risk of such possibilities. The results of the stress test are deliberated by the ICAAP Working Group and the RMC and are applied to recalibrate the Group's Internal Capital Targets.

(d) Internal Capital Requirement

The Group's internal capital requirement is articulated through its capital plans which are drawn up annually, covering a three-year horizon, and are approved by the Board. The capital plan ensures that adequate levels of capital and an efficient mix of different components of capital are maintained to support the Group's strategic directions and business plans. In formulating the Group's capital plans, the Group considers the current regulatory requirements, the demands for capital arising from the business outlooks and potential market stresses and the available supply of capital including the sources of the capital. The Group's capital plans are reviewed regularly by the Board against the Group's Internal Capital Targets.

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

(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:

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

Board of Directors

The Board has overall responsibility for the Group's risk management and internal control system and for reviewing its adequacy and effectiveness. The Board, through the RMC, maintains overall responsibility for risk oversight within the Group.

Risk Management Committee

The RMC is to assist the Board to oversee the management of all identified material risks including inter-alia reviewing risk management policies and frameworks, reviewing and approving risk management 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 reviewing the risk policies and frameworks relating to ICAAP.

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance (continued)

In discharging its responsibilities, the RMC will ensure the corporate objectives are supported by sound risk management strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of the Group's activities and to provide effective oversight to ensure business activities are aligned to the risk strategy, risk appetite and policies approved by the Board. In addition, the RMC exercises oversight over the PBB subsidiaries' risk management and ensure that appropriate processes are established to monitor the subsidiaries' compliance with the Group's risk management policies.

Dedicated Risk Committees

The dedicated risk committees established to assist the RMC in the management of all identified material risks 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. The key responsibilities of the dedicated risk committees are as follows:

(i) Ensuring all relevant and material risks associated with the Group have been identified and assessed and are operating within the Group's risk appetite;

(ii) Designing, implementing and monitoring the risk management and internal control system in accordance with the Group's risk management strategies and overall risk appetite; and

(iii) Identifying changes in the operating environment which may give rise to risks or emerging risks and taking the appropriate actions followed by the prompt escalation of the identified risks and actions to the Board.

Shariah Committee

The key responsibilities of the Shariah Committee are to advise the Board on Shariah related matters on 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. These units have the right to obtain information necessary to carry out their responsibilities and to ensure the approved risk policies are effectively 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 defence 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.

Compliance Committee

The Compliance Committee is responsible for the overall oversight on compliance related matters and is supported by the Compliance Division. It provides an independent assessment on the management of compliance risk, and ensures the controls to manage compliance risk are adequate and operating as intended.

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance (continued)

Audit Committee

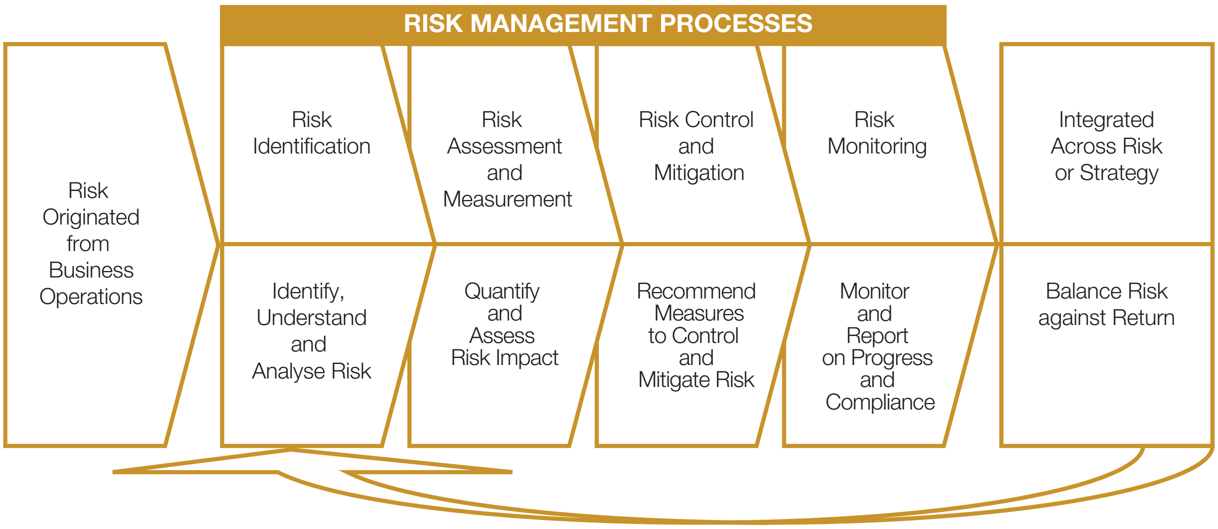
The Audit Committee reviews the internal control issues identified by the Internal Audit Division, the external auditors, the regulatory authorities and the Management, including the remedial actions taken to address issues identified, and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions with particular emphasis on the audit scope, the frequency of audits and the adequacy and knowledge of the resources.

(b) Risk Appetite

Risk Appetite is a key component in our management of risk. It describes the amount and types of risks the Group is able and willing to accept in pursuit of the Group's business objectives. The Risk Appetite Statement including the measurable risk thresholds (collectively referred to as RAS) is approved by the Board on the advice of the Group Risk Committee. The RAS is subject to annual review or more frequently in line with the changes in the risk environment.

(c) Risk Management Processes

A structured approach to risk management which balances risks against returns is established for the key areas of risk. The four broad processes for risk management which lead to a balanced risk-return framework are as follows:



(d) Risk Culture

The inculcation of a risk awareness culture is a key aspect of an effective enterprise-wide risk management framework. The key elements of the Group's risk culture are as follows:

(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. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE

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

(a) Capital Adequacy Ratios of the Group and of the Bank

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Before deducting interim dividends*:				
Common equity tier I ("CET I") capital ratio	**11.864%**	11.401%	**11.725%**	12.184%
Tier I capital ratio	**12.718%**	12.565%	**12.751%**	13.588%
Total capital ratio	**15.976%**	15.941%	**15.248%**	15.919%
After deducting interim dividends*:				
CET I capital ratio	**11.373%**	10.886%	**11.117%**	11.549%
Tier I capital ratio	**12.227%**	12.049%	**12.143%**	12.953%
Total capital ratio	**15.485%**	15.425%	**14.640%**	15.284%

* *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(d) to the financial statements.

The capital adequacy ratios of the Group and of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II - Risk-weighted Assets) reissued on 13 October 2015 which became effective from 1 January 2016. The minimum regulatory capital adequacy ratios before including capital conservation buffer and countercyclical capital buffer ("CCyB") for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively.

Banking institutions are also required to maintain a capital conservation buffer of up to 2.5% and a CCyB above the minimum regulatory capital adequacy ratios above. Under the transition arrangements, capital conservation buffer will be phased-in as follows:

Calendar Year	Capital Conservation Buffer
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

A CCyB is required to be maintained if this buffer is applied by regulators in countries which the Group and the Bank have exposures to, determined based on the weighted average of prevailing CCyB rates applied in those jurisdictions. With effect from 1 January 2016, the Group and the Bank have applied CCyB on its exposures in Hong Kong in line with Hong Kong Monetary Authority's requirement to maintain CCyB of 0.625% in Hong Kong. The Group and the Bank's CCyB determined based on the weighted average of prevailing CCyB rates of its Hong Kong exposures are insignificant due to its immaterial Hong Kong exposures. The CCyB which is in a range of between 0% and 2.5% is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
CET I/Tier I capital				
Paid-up share capital	**3,882,138**	3,882,138	**3,882,138**	3,882,138
Share premium	**5,535,515**	5,535,515	**5,535,515**	5,535,515
Other reserves	**5,873,014**	5,808,689	**5,158,625**	5,121,669
Retained profits	**16,898,317**	14,262,317	**13,533,372**	11,984,176
Treasury shares	**(149,337)**	(149,337)	**(149,337)**	(149,337)
Qualifying non-controlling interests	**752,070**	706,192	**–**	–
Less: Goodwill and other intangible assets	**(2,603,621)**	(2,375,915)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(65,189)**	(65,666)	**–**	–
Less: Defined benefit pension fund assets	**(230,359)**	(217,995)	**(227,351)**	(215,151)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	**(36,576)**	(56,902)	**(3,197,665)**	(1,775,915)
Total CET I capital	**29,855,972**	27,329,036	**23,839,904**	23,687,702
Innovative Tier I capital securities	**–**	1,268,120	**–**	1,268,120
Non-innovative Tier I stapled securities	**2,086,169**	1,461,600	**2,086,169**	1,461,600
Qualifying CET I and additional Tier I capital instruments held by third parties	**64,824**	59,175	**–**	–
Total Tier I capital	**32,006,965**	30,117,931	**25,926,073**	26,417,422
Tier II capital				
Collective assessment allowance and regulatory reserves#	**2,887,573**	2,761,020	**2,336,302**	2,247,354
Subordinated notes				
– meeting all relevant criteria	**1,949,677**	1,949,489	**1,949,677**	1,949,489
– subject to gradual phase-out treatment	**2,923,800**	2,999,206	**2,923,800**	2,999,206
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**461,568**	467,894	**–**	–
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from Tier II capital	**(24,384)**	(85,353)	**(2,131,776)**	(2,663,872)
Total Tier II capital	**8,198,234**	8,092,256	**5,078,003**	4,532,177
Total capital	**40,205,199**	38,210,187	**31,004,076**	30,949,599

Excludes collective assessment allowance on impaired loans/financing restricted from Tier II capital of the Group and of the Bank of RM472.4 million (2015: RM560.4 million) and RM333.9 million (2015: RM399.9 million) respectively.

Includes the qualifying regulatory reserves for non-impaired loans/financing of the Group and of the Bank of RM1,951.9 million (2015: RM1,810.8 million) and RM1,746.9 million (2015: RM1,645.0 million) respectively.

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure (continued)

The Group has issued various capital 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
Issued by the Bank:		
(a) Non-Innovative Tier I stapled securities ("NIT-I")	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with IT-I • Unsecured • Perpetual, with optional redemption after 10 years. No step-up • Able to defer interest but will trigger an assignment event, resulting in unstapling of the NIT-I. Investors will end up holding the perpetual securities • Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders
(b) Innovative Tier I capital securities ("IT-I") (fully redeemed during the year)	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with NIT-I • Unsecured • Optional redemption with step-up after 10 years • Option to defer interest up to 50% of aggregate principal • Principal and interest stock settlement provision
(c) Subordinated notes ("Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to IT-I and NIT-I • Unsecured • Sub Notes issued prior to January 2011 are subject to optional redemption with step-up • Sub Notes issued subsequent to January 2011 do not contain step-up upon optional redemption date • No provisions for deferral of interest. Non-payment will result in default
(d) Basel III-Compliant Subordinated notes ("Basel III-Compliant Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to IT-I and NIT-I • Unsecured • Optional redemption after 5 years. No step-up • 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 • 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
Issued by Public Islamic:		
(a) Basel III-Compliant Subordinated Sukuk Murabahah ("Basel III-Compliant Sub Sukuk Murabahah")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to IT-I and NIT-I • Unsecured • Optional redemption after 5 years. No step-up • Upon occurrence of a Trigger Event at the Bank/Public Islamic as determined by BNM and Malaysia Deposit Insurance Corporation, the Basel III-Compliant Sub Sukuk Murabahah may be subject to write-off • The write-off shall not constitute an event of default or trigger any cross-default under the Basel III-Compliant Sub Sukuk Murabahah

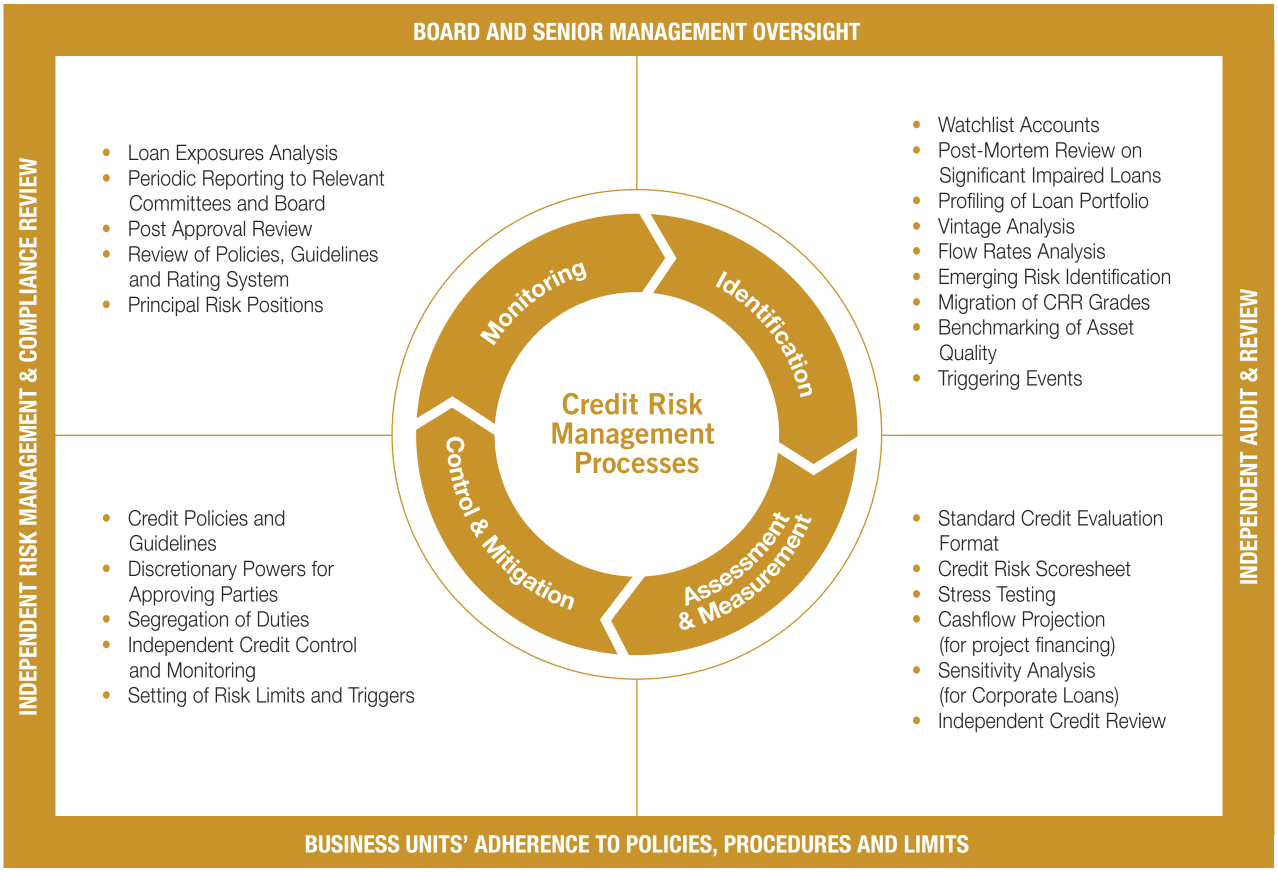
The details of the capital instruments are found in Note 24 to the financial statements.

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 of the Bank, capital instruments which were issued prior to 31 December 2012 are subject to a gradual phased-out treatment. The Basel III-Compliant Sub Notes/Sukuk Murabahah which were issued after 31 December 2012 are fully qualified as Tier II Capital.

5. 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 activities and investing the surplus funds of the Group, such as trading or holding of debt securities, deposit placements, settlement of transactions, also expose the Group to credit risk and counterparty credit risk ("CCR").

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



The risk governance and risk management approach for credit risk are set out in the credit risk section of Note 44 to the financial statements.

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5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk

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

Group **Exposure Class**	**Total Exposures before Credit Risk Mitigation RM'000**	**Total Exposures after Credit Risk Mitigation RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirement at 8% RM'000**
2016				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	47,013,343	46,107,103	504,180	40,334
Public Sector Entities	1,919,531	1,919,531	23,840	1,907
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	23,608,586	21,715,936	6,119,806	489,585
Insurance Companies, Securities Firms and Fund Managers	373,161	373,161	263,345	21,068
Corporates	80,875,754	78,774,930	68,845,340	5,507,627
Regulatory Retail	123,250,858	122,348,886	93,248,689	7,459,895
Residential Mortgages	92,501,940	92,376,327	38,287,267	3,062,981
Higher Risk Assets	66,367	66,364	99,546	7,964
Other Assets	5,568,747	5,568,747	3,270,043	261,603
Equity Exposures	103,653	103,653	103,653	8,292
Defaulted Exposures	1,345,638	1,344,702	1,862,693	149,016
	376,627,578	370,699,340	212,628,402	17,010,272
Off-Balance Sheet Exposures				
Credit-related Exposures	22,167,259	21,532,473	17,838,962	1,427,117
Derivative Financial Instruments	1,340,694	1,340,694	526,666	42,133
Other Treasury-related Exposures	10,472	10,472	2,094	167
Defaulted Exposures	6,680	6,680	9,745	780
	23,525,105	22,890,319	18,377,467	1,470,197
Total Credit Exposures	400,152,683	393,589,659	231,005,869	18,480,469

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2015				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	47,300,341	44,807,163	72,489	5,799
Public Sector Entities	1,890,166	1,890,166	21,168	1,693
Banks, DFIs and MDBs	24,080,461	22,224,982	6,204,520	496,362
Insurance Companies, Securities Firms and Fund Managers	374,786	344,545	175,940	14,075
Corporates	72,084,138	70,290,716	62,126,838	4,970,147
Regulatory Retail	120,374,231	119,549,009	90,924,375	7,273,950
Residential Mortgages	82,589,578	82,487,092	33,735,452	2,698,836
Higher Risk Assets	72,945	72,940	109,410	8,753
Other Assets	5,317,196	5,317,196	3,145,261	251,621
Equity Exposures	3,162,811	3,162,811	3,162,811	253,025
Defaulted Exposures	1,300,585	1,299,555	1,844,325	147,546
	358,547,238	351,446,175	201,522,589	16,121,807
Off-Balance Sheet Exposures				
Credit-related Exposures	22,844,037	22,301,165	18,605,064	1,488,405
Derivative Financial Instruments	1,496,158	1,496,158	568,943	45,516
Other Treasury-related Exposures	875,923	875,923	175,185	14,015
Defaulted Exposures	7,054	7,054	9,789	783
	25,223,172	24,680,300	19,358,981	1,548,719
Total Credit Exposures	383,770,410	376,126,475	220,881,570	17,670,526

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

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**
2016				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	31,806,316	31,425,075	48,766	3,901
Public Sector Entities	435,937	435,937	704	56
Banks, DFIs and MDBs	17,145,199	15,252,549	3,465,347	277,228
Insurance Companies, Securities Firms and Fund Managers	6,658	6,658	6,658	533
Corporates	66,116,315	64,381,247	55,466,639	4,437,331
Regulatory Retail	96,036,677	95,275,120	72,038,053	5,763,044
Residential Mortgages	75,337,947	75,227,546	30,936,503	2,474,920
Higher Risk Assets	58,812	58,812	88,217	7,057
Other Assets	3,821,538	3,821,538	3,003,742	240,300
Equity Exposures	5,231,407	5,231,407	5,231,407	418,513
Defaulted Exposures	1,036,240	1,035,414	1,426,151	114,092
	297,033,046	292,151,303	171,712,187	13,736,975
Off-Balance Sheet Exposures				
Credit-related Exposures	18,015,903	17,433,105	14,614,022	1,169,122
Derivative Financial Instruments	1,567,736	1,567,736	569,194	45,536
Other Treasury-related Exposures	10,472	10,472	2,094	167
Defaulted Exposures	4,610	4,610	6,702	536
	19,598,721	19,015,923	15,192,012	1,215,361
Total Credit Exposures	316,631,767	311,167,226	186,904,199	14,952,336

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

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
2015				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	33,226,148	31,371,440	72,489	5,799
Public Sector Entities	441,737	441,737	3,019	242
Banks, DFIs and MDBs	19,769,812	17,914,332	4,185,698	334,856
Insurance Companies, Securities Firms and Fund Managers	37,576	7,335	7,335	587
Corporates	60,430,613	59,248,605	51,549,374	4,123,950
Regulatory Retail	95,370,573	94,641,902	71,505,607	5,720,448
Residential Mortgages	68,486,371	68,394,145	27,972,763	2,237,821
Higher Risk Assets	66,318	66,318	99,477	7,958
Other Assets	4,102,437	4,102,437	3,182,376	254,590
Equity Exposures	3,036,923	3,036,923	3,036,923	242,954
Defaulted Exposures	1,051,317	1,050,728	1,483,641	118,691
	286,019,825	280,275,902	163,098,702	13,047,896
Off-Balance Sheet Exposures				
Credit-related Exposures	19,529,301	19,017,096	15,893,015	1,271,441
Derivative Financial Instruments	1,723,226	1,723,226	614,355	49,149
Other Treasury-related Exposures	875,084	875,084	175,017	14,001
Defaulted Exposures	5,323	5,323	7,209	577
	22,132,934	21,620,729	16,689,596	1,335,168
Total Credit Exposures	308,152,759	301,896,631	179,788,298	14,383,064

5.1 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:

(a) Industrial analysis
(b) Geographical analysis based on geographical location where the credit risk resides
(c) Maturity analysis based on the residual contractual maturity

For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the full 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.

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(a) Industry Analysis

Group	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manu-facturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
2016									
On-Balance Sheet Exposures									
Cash and balances with banks	1,468,511	9,215,581	–	–	–	–	–	–	10,684,092
Reverse repurchase agreements	2,793,563	–	–	–	–	–	–	–	2,793,563
Financial assets held-for-trading	501,621	622,319	–	–	54,944	–	–	–	1,178,884
Derivative financial assets	–	618,141	–	–	–	–	–	–	618,141
Financial investments available-for-sale*	20,654,515	11,471,875	448,433	460,455	186,226	–	–	–	33,221,504
Financial investments held-to-maturity	15,624,959	5,104,147	592,042	847,777	5,001	–	–	–	22,173,926
Gross loans, advances and financing	1,317,470	8,413,559	14,495,455	41,814,829	43,900,505	100,626,190	42,405,758	40,985,416	293,959,182
Statutory deposits with Central Banks	8,900,566	–	–	–	–	–	–	–	8,900,566
	51,261,205	35,445,622	15,535,930	43,123,061	44,146,676	100,626,190	42,405,758	40,985,416	373,529,858
Commitments and Contingencies									
Contingent liabilities	2,724	119,603	1,229,264	1,466,370	1,141,810	–	–	6,029	3,965,800
Commitments	522,767	1,544,689	4,758,381	11,649,021	12,802,947	11,852,832	1,485	13,722,509	56,854,631
	525,491	1,664,292	5,987,645	13,115,391	13,944,757	11,852,832	1,485	13,728,538	60,820,431
Total Credit Exposures	51,786,696	37,109,914	21,523,575	56,238,452	58,091,433	112,479,022	42,407,243	54,713,954	434,350,289

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(a) Industry Analysis (continued)

Group	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manu-facturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
2015									
On-Balance Sheet Exposures									
Cash and balances with banks	4,346,660	10,484,399	–	–	–	–	–	–	14,831,059
Reverse repurchase agreements	4,379,161	–	–	–	–	–	–	–	4,379,161
Financial assets held-for-trading	20,302	2,048,087	–	–	1,034,372	–	–	–	3,102,761
Derivative financial assets	–	688,086	–	–	–	–	–	–	688,086
Financial investments available-for-sale*	15,809,246	13,622,055	7,768	345,973	–	–	–	–	29,785,042
Financial investments held-to-maturity	15,614,539	4,800,102	666,761	862,647	–	–	–	–	21,944,049
Gross loans, advances and financing	1,331,532	6,734,014	14,332,838	39,496,345	38,741,190	90,915,144	42,668,616	39,227,376	273,447,055
Statutory deposits with Central Banks	9,514,419	–	–	–	–	–	–	–	9,514,419
	51,015,859	38,376,743	15,007,367	40,704,965	39,775,562	90,915,144	42,668,616	39,227,376	357,691,632
Commitments and Contingencies									
Contingent liabilities	1,901	85,122	849,889	1,361,297	1,066,768	–	–	5,865	3,370,842
Commitments	510,796	2,708,620	5,278,110	11,701,948	14,497,027	12,036,055	9,221	12,871,830	59,613,607
	512,697	2,793,742	6,127,999	13,063,245	15,563,795	12,036,055	9,221	12,877,695	62,984,449
Total Credit Exposures	51,528,556	41,170,485	21,135,366	53,768,210	55,339,357	102,951,199	42,677,837	52,105,071	420,676,081

* *Excluding equity securities of RM123.7 million (2015: RM122.7 million) which do not have any credit risk.*

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(b) Geographical Analysis

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2016					
On-Balance Sheet Exposures					
Cash and balances with banks	4,376,316	3,841,506	993,575	1,472,695	10,684,092
Reverse repurchase agreements	2,790,628	–	–	2,935	2,793,563
Financial assets held-for-trading	1,178,884	–	–	–	1,178,884
Derivative financial assets	592,879	1,772	47	23,443	618,141
Financial investments available-for-sale*	33,053,281	–	–	168,223	33,221,504
Financial investments held-to-maturity	18,514,031	2,093,402	53,835	1,512,658	22,173,926
Gross loans, advances and financing	268,852,738	16,857,964	4,500,886	3,747,594	293,959,182
Statutory deposits with Central Banks	8,054,702	–	747,772	98,092	8,900,566
	337,413,459	22,794,644	6,296,115	7,025,640	373,529,858
Commitments and Contingencies					
Contingent liabilities	2,912,483	522,726	165,148	365,443	3,965,800
Commitments	53,594,780	2,126,958	675,656	457,237	56,854,631
	56,507,263	2,649,684	840,804	822,680	60,820,431
Total Credit Exposures	393,920,722	25,444,328	7,136,919	7,848,320	434,350,289
2015					
On-Balance Sheet Exposures					
Cash and balances with banks	9,151,220	2,729,277	1,422,972	1,527,590	14,831,059
Reverse repurchase agreements	4,373,866	–	–	5,295	4,379,161
Financial assets held-for-trading	3,102,761	–	–	–	3,102,761
Derivative financial assets	615,363	13,894	–	58,829	688,086
Financial investments available-for-sale*	29,785,042	–	–	–	29,785,042
Financial investments held-to-maturity	18,917,734	2,147,614	–	878,701	21,944,049
Gross loans, advances and financing	251,508,332	16,466,468	4,113,061	1,359,194	273,447,055
Statutory deposits with Central Banks	8,831,954	–	634,560	47,905	9,514,419
	326,286,272	21,357,253	6,170,593	3,877,514	357,691,632
Commitments and Contingencies					
Contingent liabilities	2,807,642	128,312	389,075	45,813	3,370,842
Commitments	56,841,823	2,099,208	588,828	83,748	59,613,607
	59,649,465	2,227,520	977,903	129,561	62,984,449
Total Credit Exposures	385,935,737	23,584,773	7,148,496	4,007,075	420,676,081

* *Excluding equity securities of RM123.7 million (2015: RM122.7 million) which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(c) Maturity Analysis

Group	Up to 1 Year RM'000	>1 to 3 Years RM'000	>3 to 5 Years RM'000	>5 Years RM'000	Total RM'000
2016					
On-Balance Sheet Exposures					
Cash and balances with banks	**10,684,092**	**–**	**–**	**–**	**10,684,092**
Reverse repurchase agreements	**2,793,563**	**–**	**–**	**–**	**2,793,563**
Financial assets held-for-trading	**1,168,571**	**–**	**–**	**10,313**	**1,178,884**
Derivative financial assets	**528,783**	**62,237**	**18,045**	**9,076**	**618,141**
Financial investments available-for-sale*	**12,006,355**	**9,769,331**	**8,008,402**	**3,437,416**	**33,221,504**
Financial investments held-to-maturity	**5,940,229**	**7,929,080**	**5,872,412**	**2,432,205**	**22,173,926**
Gross loans, advances and financing	**32,140,003**	**26,761,672**	**27,763,714**	**207,293,793**	**293,959,182**
Statutory deposits with Central Banks	**–**	**–**	**–**	**8,900,566**	**8,900,566**
Total On-Balance Sheet Exposures	**65,261,596**	**44,522,320**	**41,662,573**	**222,083,369**	**373,529,858**
2015					
On-Balance Sheet Exposures					
Cash and balances with banks	14,831,059	–	–	–	14,831,059
Reverse repurchase agreements	4,379,161	–	–	–	4,379,161
Financial assets held-for-trading	3,102,761	–	–	–	3,102,761
Derivative financial assets	614,465	17,944	47,275	8,402	688,086
Financial investments available-for-sale*	11,903,363	7,078,852	4,688,775	6,114,052	29,785,042
Financial investments held-to-maturity	3,200,923	6,104,728	6,430,276	6,208,122	21,944,049
Gross loans, advances and financing	30,141,088	23,815,757	26,592,749	192,897,461	273,447,055
Statutory deposits with Central Banks	–	–	–	9,514,419	9,514,419
Total On-Balance Sheet Exposures	68,172,820	37,017,281	37,759,075	214,742,456	357,691,632

* *Excluding equity securities of RM123.7 million (2015: RM122.7 million) which do not have any credit risk.*

Approximately 17% (2015: 19%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 71% (2015: 71%) 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 50% (2015: 51%) of the portfolio and are traditionally longer term in nature and well secured.

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

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.2 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; and

(v) Principal/notional amount of derivative financial instruments.

The management of off-balance sheet exposures is in accordance with the credit risk management approach as set out in item 5 of the Pillar 3 Disclosure.

(b) Counterparty Credit Risk on Derivative Financial Instruments

The risk management approach on counterparty credit risk on derivative financial instruments are set out in the credit risk section of Note 44 to the financial statements.

Credit Ratings Downgrade

As at reporting date, there were no requirements to post additional collateral in the event of a one-notch downgrade in rating (2015: RM14.4 million) as the ISDA/CSA agreements entered with the majority of the counterparties had removed the threshold limit for posting of additional collateral whereby any shortfalls in value, cash collateral were posted immediately. For ISDA/CSA with threshold limits, no collateral was required to be posted as the shortfalls were well within the threshold limits for one-notch downgrade.

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (continued)

Composition of Off-Balance Sheet Exposures

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

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2016				
Contingent Liabilities				
Direct credit substitutes	1,703,043		1,703,043	1,022,832
Transaction-related contingent items	1,725,868		862,934	488,814
Short-term self-liquidating trade-related contingencies	536,889		107,378	93,143
	3,965,800		2,673,355	1,604,789
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	27,105,843		13,552,921	11,352,235
– not exceeding one year	23,590,356		4,718,071	3,979,677
Unutilised credit card lines	6,147,960		1,229,592	912,006
Forward asset purchases	10,472		10,472	2,094
	56,854,631		19,511,056	16,246,012
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	29,108,843	522,200	874,080	361,061
– one year to less than five years	1,577,428	118	132,825	66,653
Interest/profit rate related contracts:				
– less than one year	4,874,400	6,583	17,337	3,678
– one year to less than five years	8,663,188	80,164	269,495	75,902
– five years and above	547,496	9,076	46,950	19,365
Commodity related contracts:				
– less than one year	673	–	7	7
	44,772,028	618,141	1,340,694	526,666
Total Off-Balance Sheet Exposures	105,592,459	618,141	23,525,105	18,377,467

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (continued)

Composition of Off-Balance Sheet Exposures (continued)

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2015				
Contingent Liabilities				
Direct credit substitutes	1,421,426		1,421,426	992,109
Transaction-related contingent items	1,550,912		775,456	471,690
Short-term self-liquidating trade-related contingencies	398,504		79,701	55,559
	3,370,842		2,276,583	1,519,358
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	29,423,236		14,711,618	12,307,414
– not exceeding one year	24,131,630		4,826,326	4,010,658
Unutilised credit card lines	5,182,818		1,036,564	777,423
Forward asset purchases	875,923		875,923	175,185
	59,613,607		21,450,431	17,270,680
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	27,931,563	587,095	893,726	363,215
– one year to less than five years	3,017,152	68	217,530	109,030
Interest/profit rate related contracts:				
– less than one year	1,559,400	27,369	31,267	14,433
– one year to less than five years	11,571,310	65,151	309,602	65,988
– five years and above	469,226	8,402	44,031	16,275
Commodity related contracts:				
– less than one year	169	1	2	2
	44,548,820	688,086	1,496,158	568,943
Total Off-Balance Sheet Exposures	107,533,269	688,086	25,223,172	19,358,981

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (continued)

Composition of Off-Balance Sheet Exposures (continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2016				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,282,300		1,282,300	909,230
Transaction-related contingent items	1,484,252		742,126	405,197
Short-term self-liquidating trade-related contingencies	136,490		27,298	23,750
	2,903,042		2,051,724	1,338,177
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	21,587,512		10,793,756	9,124,455
– not exceeding one year	19,877,268		3,975,453	3,255,340
Unutilised credit card lines	5,932,134		1,186,427	889,820
Forward asset purchases	10,472		10,472	2,094
	47,407,386		15,966,108	13,271,709
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	28,280,704	519,833	864,733	356,315
– one year to less than five years	1,577,428	118	132,825	66,653
Interest rate related contracts:				
– less than one year	4,674,400	6,395	16,950	3,600
– one year to less than five years	9,468,875	83,680	282,630	76,062
– five years and above	2,720,000	18,119	229,119	45,824
Commodity related contracts:				
– less than one year	673	-	7	7
	46,722,080	628,145	1,526,264	548,461
Total	97,032,508	628,145	19,544,096	15,158,347

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (continued)

Composition of Off-Balance Sheet Exposures (continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2016				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	6,730		6,730	6,730
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	32,113		6,423	6,202
Derivative Financial Instruments				
Interest rate related contracts:				
– one year to less than five years	224,313	1,952	8,233	4,114
– five years and above	327,496	6,366	33,239	16,619
	551,809	8,318	41,472	20,733
Total	590,652	8,318	54,625	33,665
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	97,623,160	636,463	19,598,721	15,192,012

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (continued)

Composition of Off-Balance Sheet Exposures (continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2015				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,215,305		1,215,305	893,325
Transaction-related contingent items	1,350,813		675,407	391,785
Short-term self-liquidating trade-related contingencies	153,589		30,718	27,854
	2,719,707		1,921,430	1,312,964
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	24,777,773		12,388,887	10,427,188
– not exceeding one year	20,985,806		4,197,160	3,385,882
Unutilised credit card lines	5,054,881		1,010,976	758,232
Forward asset purchases	875,084		875,084	175,017
	51,693,544		18,472,107	14,746,319
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	26,632,334	584,954	877,442	359,958
– one year to less than five years	3,017,152	68	217,530	109,030
Interest rate related contracts:				
– less than one year	1,559,400	27,369	31,267	14,433
– one year to less than five years	12,272,400	58,750	323,535	67,614
– five years and above	2,720,000	6,488	244,688	48,938
Commodity related contracts:				
– less than one year	169	1	2	2
	46,201,455	677,630	1,694,464	599,975
Total	100,614,706	677,630	22,088,001	16,659,258

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (continued)

Composition of Off-Balance Sheet Exposures (continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2015				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	6,445		6,445	6,445
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	48,630		9,726	9,513
Derivative Financial Instruments				
Interest rate related contracts:				
– one year to less than five years	128,910	–	3,867	1,934
– five years and above	249,226	2,466	24,895	12,446
	378,136	2,466	28,762	14,380
Total	433,211	2,466	44,933	30,338
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	101,047,917	680,096	22,132,934	16,689,596

5. CREDIT RISK (CONTINUED)

5.3 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/financing – 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/financing – 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 during 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. 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, all amounts with the counterparty are settled on a net basis.

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation (continued)

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
2016				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	47,013,343	–	906,240	–
Public Sector Entities	1,919,531	1,800,332	–	–
Banks, DFIs and MDBs	23,608,586	435,548	1,892,650	–
Insurance Companies, Securities Firms and Fund Managers	373,161	–	–	–
Corporates	80,875,754	2,866,940	2,100,824	–
Regulatory Retail	123,250,858	685	901,972	–
Residential Mortgages	92,501,940	–	125,613	–
Higher Risk Assets	66,367	–	3	–
Other Assets	5,568,747	–	–	–
Equity Exposures	103,653	–	–	–
Defaulted Exposures	1,345,638	–	936	–
	376,627,578	5,103,505	5,928,238	–
Off-Balance Sheet Exposures				
Credit-related Exposures	22,167,259	93,340	634,786	–
Derivative Financial Instruments	1,340,694	–	–	–
Other Treasury-related Exposures	10,472	–	–	–
Defaulted Exposures	6,680	–	–	–
	23,525,105	93,340	634,786	–
Total Credit Exposures	400,152,683	5,196,845	6,563,024	–

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation (continued)

Credit Risk Mitigation Analysis (continued)

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
2015				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	47,300,341	–	2,493,178	–
Public Sector Entities	1,890,166	1,784,327	–	–
Banks, DFIs and MDBs	24,080,461	435,520	1,855,479	–
Insurance Companies, Securities Firms and Fund Managers	374,786	–	30,241	–
Corporates	72,084,138	2,483,164	1,793,422	–
Regulatory Retail	120,374,231	3,799	825,222	–
Residential Mortgages	82,589,578	–	102,486	–
Higher Risk Assets	72,945	–	5	–
Other Assets	5,317,196	–	–	–
Equity Exposures	3,162,811	–	–	–
Defaulted Exposures	1,300,585	–	1,030	–
	358,547,238	4,706,810	7,101,063	–
Off-Balance Sheet Exposures				
Credit-related Exposures	22,844,037	129,079	542,872	–
Derivative Financial Instruments	1,496,158	–	–	–
Other Treasury-related Exposures	875,923	–	–	–
Defaulted Exposures	7,054	–	–	–
	25,223,172	129,079	542,872	–
Total Credit Exposures	383,770,410	4,835,889	7,643,935	–

5. CREDIT RISK (CONTINUED)

5.4 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 Service ("Moody's")

(c) Fitch Ratings ("Fitch")

(d) RAM Rating Services 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 rated 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

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

Unrated and Rated Counterparties (continued)

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 three months or less which are denominated and funded in Ringgit Malaysia, are all risk-weighted at 20% regardless of credit rating.

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

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 Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2016								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	8,778,070	591,920	–	–	–	–		9,369,990
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	1,357,285	44,084,876	–	494,537	1,015,014	–		46,951,712
– Public Sector Entities	–	1,800,333	–	–	–	–		1,800,333
– Banks, DFIs and MDBs	–	2,328,198	–	–	–	–		2,328,198
– Corporates	–	2,079,101	–	–	–	–		2,079,101
	1,357,285	50,292,508	–	494,537	1,015,014	–		53,159,344
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	9,730,733	4,304,762	5,053,308	–	614,153	–		19,702,956
– Corporates	614,728	80,579	–	–	–	–		695,307
– Regulatory Retail	–	281	404	–	–	–		685
	10,345,461	4,385,622	5,053,712	–	614,153	–		20,398,948
(iv) Exposures risk-weighted using ratings of Public Sector Entities								
– Public Sector Entities	45,040	–	–	–	–	–		45,040
Total Rated Exposures	20,525,856	55,270,050	5,053,712	494,537	1,629,167	–		82,973,322
(b) Total Unrated Exposures							293,654,256	293,654,256
	20,525,856	55,270,050	5,053,712	494,537	1,629,167	–	293,654,256	376,627,578

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

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

Group Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
	← Rating Categories →							
2016								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	170,378	16,844	–	–	–	–		187,222
– Regulatory Retail	320	–	–	–	–	–		320
	170,698	16,844	–	–	–	–		187,542
(ii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	377,950	764,284	231,103	–	3,692	–		1,377,029
– Corporates	23,055	12,952	444	–	–	–		36,451
– Regulatory Retail	717	114	–	–	–	–		831
	401,722	777,350	231,547	–	3,692	–		1,414,311
Total Rated Exposures	572,420	794,194	231,547	–	3,692	–		1,601,853
(b) Total Unrated Exposures							21,923,252	21,923,252
	572,420	794,194	231,547	–	3,692	–	21,923,252	23,525,105
Total Credit Exposures before Credit Risk Mitigation	21,098,276	56,064,244	5,285,259	494,537	1,632,859	–	315,577,508	400,152,683

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

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

Group Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
	Rating Categories							
2015								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	6,481,332	1,050,610	–	–	–	–		7,531,942
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	1,154,753	44,979,690	–	–	1,050,159	–		47,184,602
– Public Sector Entities	–	1,784,328	–	–	–	–		1,784,328
– Banks, DFIs and MDBs	–	2,291,114	–	–	–	–		2,291,114
– Insurance Companies, Securities Firms and Fund Managers	–	30,241	–	–	–	–		30,241
– Corporates	–	1,917,862	–	–	–	–		1,917,862
	1,154,753	51,003,235	–	–	1,050,159	–		53,208,147
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	8,945,147	5,702,926	4,191,240	379,305	–	–		19,218,618
– Corporates	546,710	64,161	5,156	–	–	–		616,027
– Regulatory Retail	3,316	483	–	–	–	–		3,799
	9,495,173	5,767,570	4,196,396	379,305	–	–		19,838,444
Total Rated Exposures	17,131,258	57,821,415	4,196,396	379,305	1,050,159	–		80,578,533
(b) Total Unrated Exposures							277,968,705	277,968,705
	17,131,258	57,821,415	4,196,396	379,305	1,050,159	–	277,968,705	358,547,238

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

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

Group Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2015								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	334,083	207,711	–	–	–	–		541,794
– Regulatory Retail	–	320	–	–	–	–		320
	334,083	208,031	–	–	–	–		542,114
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	–	12,891	–	–	–	–		12,891
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	509,330	1,678,394	159,620	–	–	–		2,347,344
– Corporates	100,507	12,817	425	–	–	–		113,749
– Regulatory Retail	182	1,611	–	–	–	–		1,793
	610,019	1,692,822	160,045	–	–	–		2,462,886
Total Rated Exposures	944,102	1,913,744	160,045	–	–	–		3,017,891
(b) Total Unrated Exposures							22,205,281	22,205,281
	944,102	1,913,744	160,045	–	–	–	22,205,281	25,223,172
Total Credit Exposures before Credit Risk Mitigation	18,075,360	59,735,159	4,356,441	379,305	1,050,159	–	300,173,986	383,770,410

 # 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%.

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

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

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

	Credit Exposures after the Effect of Credit Risk Mitigation											
Group Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2016												
0%	45,619,493	1,800,332	441,574	-	2,079,101	-	-	-	2,285,182	-	52,225,682	-
20%	104,305	124,670	17,948,837	-	9,586,231	1,037	-	-	16,903	-	27,781,983	5,556,396
35%	-	-	-	-	-	-	69,443,054	-	-	-	69,443,054	24,305,069
50%	-	-	3,995,298	219,632	702,972	5,976	18,946,468	-	-	-	23,870,346	11,935,173
75%	-	-	-	-	-	125,938,830	536,807	-	-	-	126,475,637	94,856,728
100%	483,319	-	1,125,249	176,121	75,156,210	7,159,954	5,202,697	-	3,266,662	103,653	92,673,865	92,673,865
150%	-	-	-	-	132,678	875,806	38,046	72,562	-	-	1,119,092	1,678,638
Total	46,207,117	1,925,002	23,510,958	395,753	87,657,192	133,981,603	94,167,072	72,562	5,568,747	103,653	393,589,659	231,005,869
Risk-Weighted Assets by Exposures	504,180	24,934	6,712,665	285,937	77,623,959	102,930,981	39,440,674	108,843	3,270,043	103,653	231,005,869	
Average Risk Weights	1.1%	1.3%	28.6%	72.3%	88.6%	76.8%	41.9%	150.0%	58.7%	100.0%	58.7%	
Deduction from Total Capital			-							-	-	

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (continued)

	Credit Exposures after the Effect of Credit Risk Mitigation											
Group Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2015												
0%	44,817,732	1,784,327	445,826	–	1,917,335	–	–	–	2,171,040	–	51,136,260	–
20%	37,302	108,756	18,687,710	–	7,462,190	3,498	–	–	1,119	–	26,300,575	5,260,115
35%	–	–	–	–	–	–	62,514,038	–	–	–	62,514,038	21,879,913
50%	–	–	4,666,214	337,210	1,475,523	5,532	16,899,852	–	–	–	23,384,331	11,692,166
75%	–	–	–	–	–	124,888,714	442,723	–	–	–	125,331,437	93,998,578
100%	65,029	–	860,129	28,594	69,312,707	5,900,704	3,802,895	–	3,145,037	3,162,811	86,277,906	86,277,906
150%	–	–	–	–	126,890	956,980	17,850	80,208	–	–	1,181,928	1,772,892
Total	44,920,063	1,893,083	24,659,879	365,804	80,294,645	131,755,428	83,677,358	80,208	5,317,196	3,162,811	376,126,475	220,881,570
Risk-Weighted Assets by Exposures	72,489	21,751	6,930,778	197,199	71,733,242	101,006,175	34,491,552	120,312	3,145,261	3,162,811	220,881,570	
Average Risk Weights	0.2%	1.1%	28.1%	53.9%	89.3%	76.7%	41.2%	150.0%	59.2%	100.0%	58.7%	
Deduction from Total Capital			–							–	–	

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (continued)

	Credit Exposures after the Effect of Credit Risk Mitigation											
Bank Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2016												
0%	31,392,879	432,418	329,225	-	1,716,088	-	-	-	1,852,747	-	35,723,357	-
20%	104,305	8,990	14,821,403	-	8,771,274	1,037	-	-	-	-	23,707,009	4,741,402
35%	-	-	-	-	-	-	56,755,739	-	-	-	56,755,739	19,864,509
50%	-	-	1,461,245	-	702,738	435	15,502,550	-	-	-	17,666,968	8,833,484
75%	-	-	-	-	-	100,831,336	404,446	-	-	-	101,235,782	75,926,836
100%	27,905	-	381,862	29,250	60,591,883	3,221,371	3,776,616	-	1,878,795	5,231,407	75,139,089	75,139,089
150%	-	-	-	-	120,358	650,167	14,190	64,571	-	-	849,286	1,273,929
1250%	-	-	-	-	-	-	-	-	89,996	-	89,996	1,124,950
Total	31,525,089	441,408	16,993,735	29,250	71,902,341	104,704,346	76,453,541	64,571	3,821,538	5,231,407	311,167,226	186,904,199
Risk-Weighted Assets by Exposures	48,766	1,798	4,076,766	29,250	62,878,043	79,820,548	31,717,019	96,857	3,003,745	5,231,407	186,904,199	
Average Risk Weights	0.2%	0.4%	24.0%	100.0%	87.4%	76.2%	41.5%	150.0%	78.6%	100.0%	60.1%	
Deduction from Total Capital			-							-	-	

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (continued)

	Credit Exposures after the Effect of Credit Risk Mitigation											
Bank Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2015												
0%	31,382,011	426,643	329,204	-	1,599,997	-	-	-	1,955,015	-	35,692,870	-
20%	37,301	18,011	17,702,030	-	7,203,989	3,498	-	-	-	-	24,964,829	4,992,966
35%	-	-	-	-	-	-	51,490,661	-	-	-	51,490,661	18,021,731
50%	-	-	2,253,941	-	1,474,947	4,226	14,340,208	-	-	-	18,073,322	9,036,661
75%	-	-	-	-	-	101,406,137	381,018	-	-	-	101,787,155	76,340,366
100%	65,029	-	329,416	28,594	57,543,671	2,786,477	3,002,610	-	2,057,426	3,036,923	68,850,146	68,850,146
150%	-	-	-	-	122,585	741,596	10,674	72,797	-	-	947,652	1,421,478
1250%	-	-	-	-	-	-	-	-	89,996	-	89,996	1,124,950
Total	31,484,341	444,654	20,614,591	28,594	67,945,189	104,941,934	69,225,171	72,797	4,102,437	3,036,923	301,896,631	179,788,298
Risk-Weighted Assets by Exposures	72,489	3,602	4,996,792	28,594	59,905,821	79,956,286	28,496,220	109,195	3,182,376	3,036,923	179,788,298	
Average Risk Weights	0.2%	0.8%	24.2%	100.0%	88.2%	76.2%	41.2%	150.0%	77.6%	100.0%	59.6%	
Deduction from Total Capital			-							-	-	

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing

Gross Loans, Advances and Financing by Credit Quality

The gross loans, advances and financing analysed by credit quality are set out in the credit risk section of Note 44 (ii) to the financial statements.

The definition of the neither past due nor impaired loans, past due but not impaired loans and impaired loans are set out in the credit risk section of Note 44 (ii)(a), (ii)(b) and (ii)(c) to the financial statements.

The description of the approaches adopted for the determination of individual and collective impairment provision are set out in Note 2(iv)(h)(i) to the financial statements.

(a) Tables (i)-(iii) present the analyses of past due but not impaired loans, advances and financing of the Group by the following:

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

(i) Economic Purpose

Group	2016 RM'000	2015 RM'000
Purchase of securities	**434**	6,941
Purchase of transport vehicles	**11,278,184**	11,285,310
Purchase of landed properties	**12,677,704**	11,968,334
(Of which: – residential	**9,207,779**	8,725,832
– non-residential)	**3,469,925**	3,242,502
Purchase of fixed assets (excluding landed properties)	**10,902**	9,018
Personal use	**722,457**	651,208
Credit card	**331,439**	300,956
Purchase of consumer durables	**338**	82
Construction	**167,200**	190,088
Working capital	**983,316**	1,136,430
Other purpose	**154,182**	62,312
	26,326,156	25,610,679

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing (continued)

Gross Loans, Advances and Financing by Credit Quality (continued)

(a) Tables (i)-(iii) present the analyses of past due but not impaired loans, advances and financing of the Group by the following: (continued)

(ii) Geographical

Group	2016 RM'000	2015 RM'000
Malaysia	**25,338,934**	24,737,460
Hong Kong & China	**313,998**	217,557
Cambodia	**315,267**	317,832
Other countries	**357,957**	337,830
	26,326,156	25,610,679

(iii) Aging

Group	2016 RM'000	2015 RM'000
1 day to 30 days	**15,568,980**	15,650,235
31 to 59 days	**8,051,907**	7,645,474
60 to 89 days	**2,705,269**	2,314,970
	26,326,156	25,610,679

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing (continued)

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

(i) Economic purpose
(ii) Geographical location

(i) Economic purpose

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2016							
Purchase of securities	3,435	841	154	–	995	3,025	4,020
Purchase of transport vehicles	317,926	11,621	(7,130)	(1,227)	3,264	507,865	511,129
Purchase of landed properties	735,199	17,823	1,798	(3,334)	16,287	652,600	668,887
(Of which: – residential	570,019	2,680	9,963	152	12,795	441,829	454,624
– non-residential)	165,180	15,143	(8,165)	(3,486)	3,492	210,771	214,263
Purchase of fixed assets (excluding landed properties)	7,043	253	1,726	(1,366)	613	3,082	3,695
Personal use	152,479	42,757	206,465	(198,049)	51,173	79,063	130,236
Credit card	22,087	–	–	–	–	22,666	22,666
Purchase of consumer durables	–	–	–	–	–	28	28
Construction	28,611	5,932	2,438	972	9,342	14,263	23,605
Mergers and acquisitions	–	–	–	–	–	195	195
Working capital	211,541	40,167	1,748	(4,029)	37,886	115,525	153,411
Other purpose	11,060	2,553	520	(739)	2,334	9,792	12,126
	1,489,381	121,947	207,719	(207,772)	121,894	1,408,104	1,529,998

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing (continued)

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

(i) Economic Purpose (continued)

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2015							
Purchase of securities	4,029	2,715	(1,874)	–	841	3,638	4,479
Purchase of transport vehicles	358,329	10,221	1,320	80	11,621	594,907	606,528
Purchase of landed properties	599,821	12,274	12,182	(6,633)	17,823	664,760	682,583
(Of which: – residential	445,406	178	4,282	(1,780)	2,680	443,201	445,881
– non-residential)	154,415	12,096	7,900	(4,853)	15,143	221,559	236,702
Purchase of fixed assets (excluding landed properties)	523	3	636	(386)	253	958	1,211
Personal use	138,792	34,155	198,787	(190,185)	42,757	85,240	127,997
Credit card	23,694	–	–	–	–	23,629	23,629
Purchase of consumer durables	57	–	–	–	–	83	83
Construction	13,418	5,445	(91)	578	5,932	11,006	16,938
Mergers and acquisitions	–	–	–	–	–	241	241
Working capital	198,036	70,582	(7,220)	(23,195)	40,167	117,412	157,579
Other purpose	15,117	4,691	(2,138)	–	2,553	8,763	11,316
	1,351,816	140,086	201,602	(219,741)	121,947	1,510,637	1,632,584

The movements in the collective assessment allowance for 2016 and 2015 are set out in Note 9 to the financial statements.

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing (continued)

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

(ii) Geographical Location

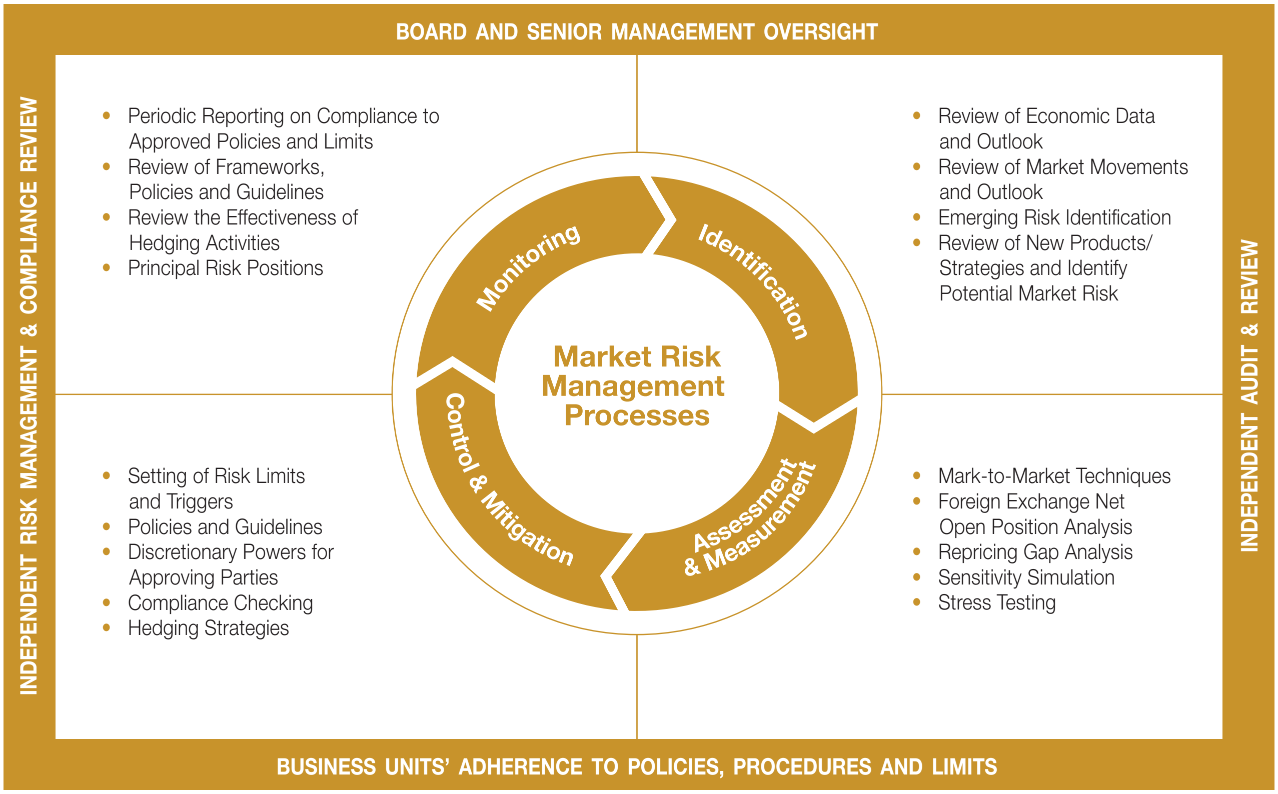
Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2016							
Malaysia	**1,208,752**	**34,837**	**(10,622)**	**(8,595)**	**15,620**	**1,259,436**	**1,275,056**
Hong Kong & China	**150,052**	**59,033**	**213,092**	**(201,969)**	**70,156**	**58,105**	**128,261**
Cambodia	**37,604**	**28,077**	**3,010**	**(1,200)**	**29,887**	**62,577**	**92,464**
Other countries	**92,973**	**–**	**2,239**	**3,992**	**6,231**	**27,986**	**34,217**
	1,489,381	**121,947**	**207,719**	**(207,772)**	**121,894**	**1,408,104**	**1,529,998**
2015							
Malaysia	1,190,592	62,467	(7,030)	(20,600)	34,837	1,349,289	1,384,126
Hong Kong & China	104,900	38,864	209,946	(189,777)	59,033	86,190	145,223
Cambodia	30,461	38,755	(1,314)	(9,364)	28,077	59,145	87,222
Other countries	25,863	–	–	–	–	16,013	16,013
	1,351,816	140,086	201,602	(219,741)	121,947	1,510,637	1,632,584

The movements in the collective assessment allowance for 2016 and 2015 are set out in Note 9 to the financial statements.

6. MARKET RISK

Market risk is the risk that movements in market variables, including interest/profit rates, foreign exchange rates, credit spreads, commodity prices and equity prices, will reduce the earnings or capital of the Group.

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



The risk governance and risk management approach for market risk are set out in the market risk section of Note 44 to the financial statements.

PILLAR 3 DISCLOSURE

6. MARKET RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Market Risk

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

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
2016				
Interest rate/rate of return risk	**28,272,479**	**(26,871,792)**	**690,329**	**55,226**
Foreign exchange risk	**2,601,255**	**(1,451,482)**	**2,601,255**	**208,101**
Total	**30,873,734**	**(28,323,274)**	**3,291,584**	**263,327**
2015				
Interest rate/rate of return risk	30,924,503	(27,366,985)	597,882	47,830
Foreign exchange risk	1,902,621	(935,466)	1,902,621	152,210
Total	32,827,124	(28,302,451)	2,500,503	200,040
Bank				
2016				
Interest rate risk	**26,486,844**	**(26,222,397)**	**653,356**	**52,269**
Foreign exchange risk	**3,147,648**	**(4,245,864)**	**4,245,864**	**339,669**
Total	**29,634,492**	**(30,468,261)**	**4,899,220**	**391,938**
2015				
Interest rate risk	27,814,812	(26,577,465)	535,038	42,803
Foreign exchange risk	2,128,762	(3,179,295)	3,179,295	254,344
Total	29,943,574	(29,756,760)	3,714,333	297,147

7. 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	2016 Gross Credit Exposure RM'000	2016 Risk-Weighted Assets RM'000	2015 Gross Credit Exposure RM'000	2015 Risk-Weighted Assets RM'000
Publicly traded				
Investments in unit trust funds	**12,577**	**12,577**	3,071,182	3,071,182
Holdings of equity investments	**3,167**	**3,167**	3,730	3,730
	15,744	**15,744**	3,074,912	3,074,912
Privately held				
For socio-economic purposes	**87,909**	**87,909**	87,899	87,899
Not for socio-economic purposes	**32,625**	**48,938**	31,036	46,554
	120,534	**136,847**	118,935	134,453
Total	**136,278**	**152,591**	3,193,847	3,209,365

(i) Publicly Traded

The investment in unit trust funds comprises bond fund and wholesale income 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 the 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

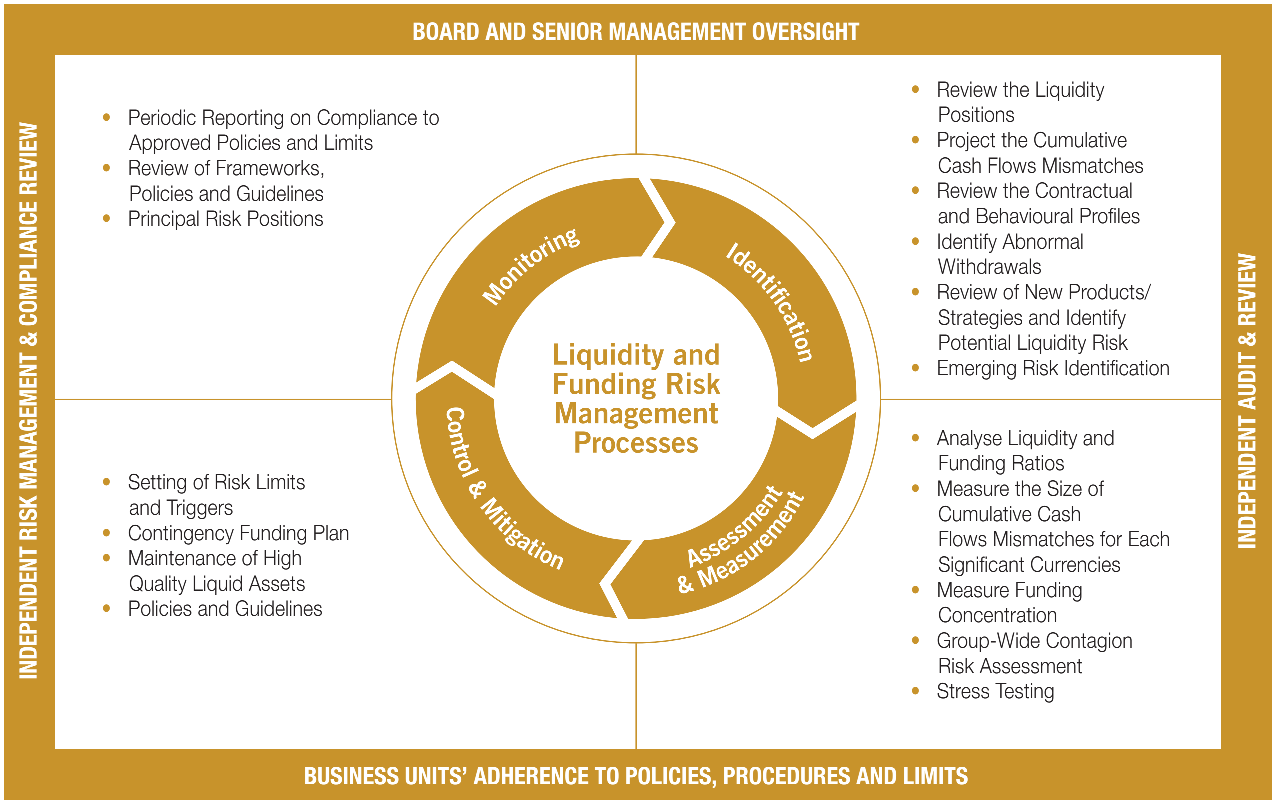
Group	2016 RM'000	2015 RM'000
Realised (losses)/gains recognised in the statement of profit or loss		
– Investments in unit trust funds	**(2,763)**	8,755
Unrealised (losses)/gains recognised in other comprehensive income		
– Investments in unit trust funds	**(1)**	745
– Publicly traded equity investments	**(562)**	(3,357)
	(563)	(2,612)

PILLAR 3 DISCLOSURE

8. 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.

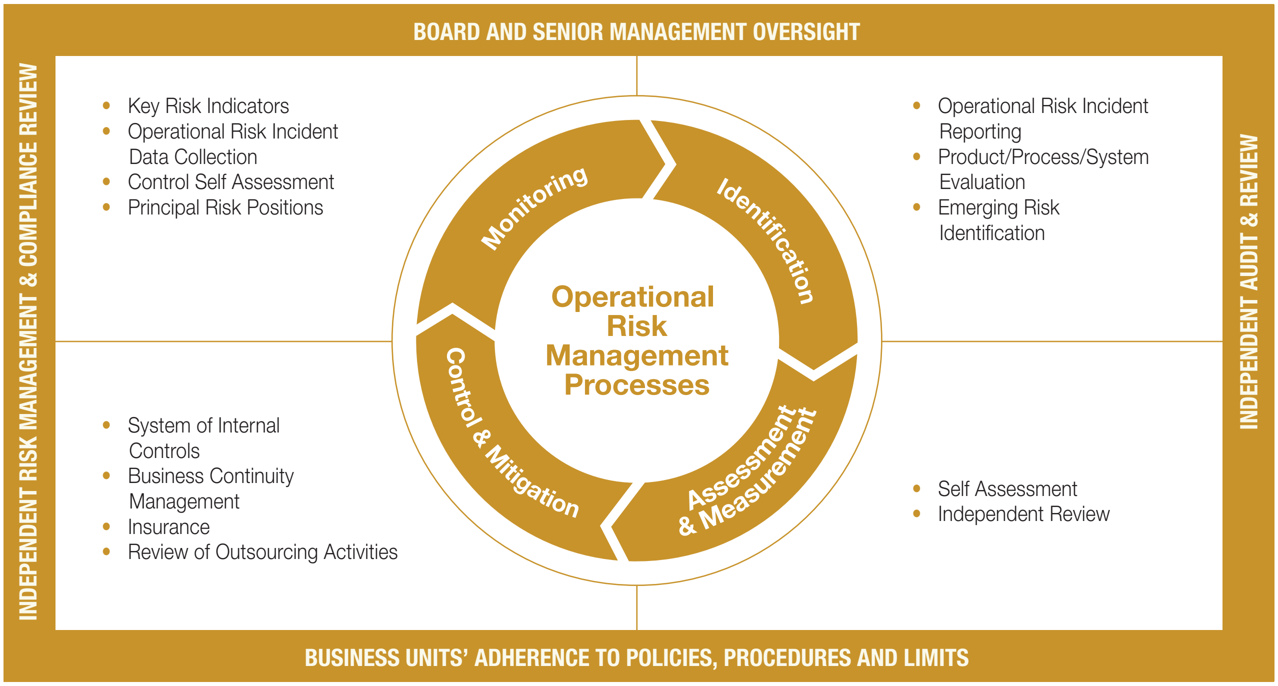


The risk governance and risk management approach for liquidity and funding risk are set out in the liquidity and funding risk section of Note 44 to the financial statements.

9. 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.

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



The risk governance and risk management approach for operational risk are set out in the operational risk section of Note 44 to the financial statements.

Minimum Regulatory Capital Requirements for Operational Risk

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

	2016		2015	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group	**17,364,426**	**1,389,154**	16,321,153	1,305,692
Bank	**11,525,983**	**922,079**	10,911,444	872,915

PILLAR 3 DISCLOSURE

10. 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 the 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 with the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010. The Framework, amongst others, sets out the Shariah governance structure, 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, the Board of Public Islamic, in consultation with the Shariah Committee, approves all policies relating to Shariah matters. 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 members of 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 with Shariah rules and principles.

The Shariah Compliance Division, 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 and Islamic banking contemporary issues and providing Shariah advisory support to branches and business units.

The main role of Shariah risk management function is to facilitate the process of identifying, measuring, controlling and monitoring Shariah non-compliance risks inherent in Islamic banking operations. Shariah risk management function forms part of the Group's Risk Management Framework.

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 reviews and audits 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 (2015: Nil).

10. SHARIAH NON-COMPLIANCE RISK (CONTINUED)

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 ("SC") 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 funds. 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 for listed domestic equities or per cleansing mechanism as prescribed by the Shariah Adviser for unlisted domestic equities and foreign equities. Any excess capital gains derived from such disposal would be channelled to charitable bodies accordingly.

During the financial year, a non-permissible income of RM737,210.21 (2015: RM1,276,055) 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.