Pillar 3 Disclosure

As at 31 December 2015

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.publicbank.com.my

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.

	2015		2014	
	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	**220,881,570**	**17,670,526**	200,875,562	16,070,045
Market Risk	**2,500,503**	**200,040**	2,554,845	204,387
Operational Risk	**16,321,153**	**1,305,692**	15,281,141	1,222,491
Total	**239,703,226**	**19,176,258**	218,711,548	17,496,923
Bank				
Credit Risk	**179,788,298**	**14,383,064**	168,570,558	13,485,645
Market Risk	**3,714,333**	**297,147**	3,027,889	242,231
Operational Risk	**10,911,444**	**872,915**	10,753,781	860,302
Total	**194,414,075**	**15,553,126**	182,352,228	14,588,178

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

1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank and its subsidiary and associated companies. The Group offers Islamic banking financial services via the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("Public Islamic"). Information on subsidiary and associated companies of the Group is available in Notes 14 and 15 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 banking and 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

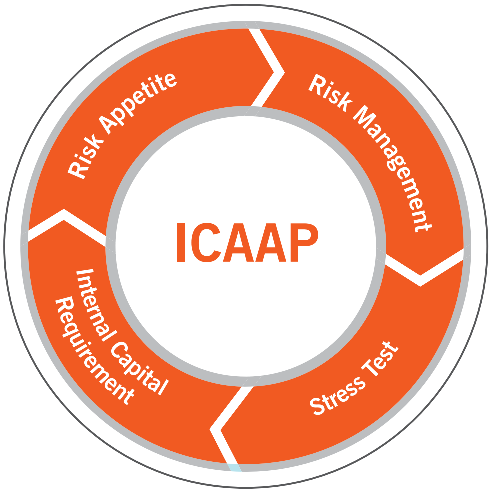
The objective of the Group's capital management is to protect the interests of its depositors, creditors and shareholders. To achieve this, the capital management is subject to ongoing review and the Board's approval on the level and composition of the Group's capital base, assessed against the following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

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 and monitoring 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.

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**	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	

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance (Continued)

Board of Directors

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

Risk Management Committee

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

Dedicated Risk Committees

The dedicated risk committees established to assist the RMC in the management of market and liquidity risk, credit risk and operational risk are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee ("ORMC") respectively. These committees are responsible for overseeing the development and assessing the effectiveness of risk management policies, reviewing risk exposures and portfolio composition, and ensuring that infrastructure, resources and systems are put in place to manage and control the Group's risk taking activities.

Shariah Committee

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

Independent Risk Management and Control Units

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

Business Units

The business units, being the first line of 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.

Audit Committee

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

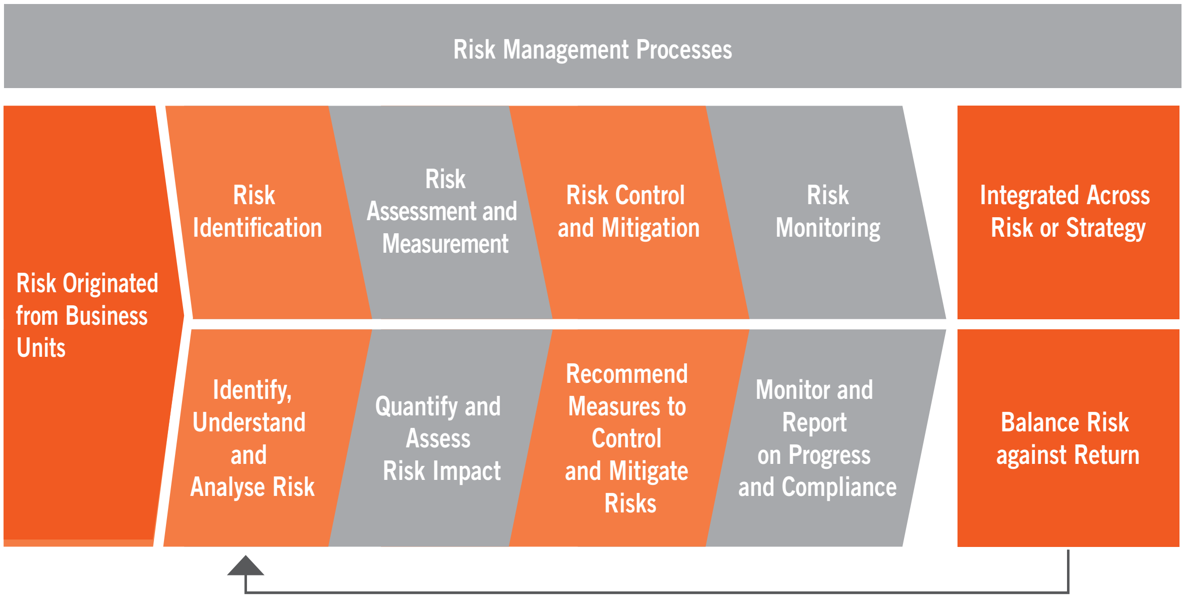
3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(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 advised 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 the Bank.

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

	Group		Bank	
	2015	2014	2015	2014
Before deducting interim dividends*:				
Common equity tier I ("CET I") capital ratio	**11.401%**	11.328%	**12.184%**	12.686%
Tier I capital ratio	**12.565%**	12.776%	**13.588%**	14.397%
Total capital ratio	**15.987%**	16.384%	**15.919%**	16.324%
After deducting interim dividends*:				
CET I capital ratio	**10.886%**	10.781%	**11.549%**	12.029%
Tier I capital ratio	**12.049%**	12.228%	**12.953%**	13.740%
Total capital ratio	**15.471%**	15.836%	**15.284%**	15.668%

* *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 49(a) to the financial statements.

The minimum regulatory capital adequacy ratios, as required under the BNM's Capital Adequacy Framework (Capital Components) which includes transitional arrangements for year 2015, are set out as follows:

Calendar Year	CET I Capital Ratio %	Tier I Capital Ratio %	Total Capital Ratio %
2015 onwards*	4.5	6.0	8.0

* *Before including capital conservation buffer of 2.5% and countercyclical capital buffer.*

Banking institutions are also required to maintain a capital conservation buffer of up to 2.5% and a countercyclical capital buffer 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%

On 13 October 2015, BNM issued the revised Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) ("Revised Framework") which is effective from 1 January 2016. Under the Revised Framework, a countercyclical capital buffer is required to be maintained if this buffer is applied by regulators in countries which the Group has exposures to, determined based on the weighted average of prevailing countercyclical capital buffer rates applied in that jurisdictions. The countercyclical capital buffer which is in a range of between 0% and 2.5% is not a requirement for exposures in Malaysia but may be applied by regulators in the future.

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure

	Group 2015 RM'000	Group 2014 RM'000	Bank 2015 RM'000	Bank 2014 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	**5,808,689**	5,453,501	**5,121,669**	4,945,825
Retained profits	**14,262,317**	11,872,792	**11,984,176**	10,668,300
Treasury shares	**(149,337)**	(149,337)	**(149,337)**	(149,337)
Qualifying non-controlling interests	**706,192**	566,877	**–**	–
Less: Goodwill and other intangible assets	**(2,375,915)**	(2,083,142)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(65,666)**	(69,325)	**–**	–
Less: Defined benefit pension fund assets	**(217,995)**	(205,195)	**(215,151)**	(200,986)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	**(56,902)**	(28,451)	**(1,775,915)**	(852,957)
Total CET I capital	**27,329,036**	24,775,373	**23,687,702**	23,133,105
Innovative Tier I capital securities	**1,268,120**	1,449,280	**1,268,120**	1,449,280
Non-innovative Tier I stapled securities	**1,461,600**	1,670,400	**1,461,600**	1,670,400
Qualifying CET I and additional Tier I capital instruments held by third parties	**59,175**	46,764	**–**	–
Total Tier I capital	**30,117,931**	27,941,817	**26,417,422**	26,252,785
Tier II capital				
Collective assessment allowance and regulatory reserves#	**2,761,020**	2,495,677	**2,247,354**	1,978,560
Subordinated notes/sukuk murabahah				
– meeting all relevant criteria	**2,448,606**	2,448,162	**1,949,489**	1,949,302
– subject to gradual phase-out treatment	**2,999,206**	2,998,707	**2,999,206**	2,998,707
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**78,900**	62,352	**–**	–
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from Tier II capital	**(85,353)**	(113,804)	**(2,663,872)**	(3,411,830)
Total Tier II capital	**8,202,379**	7,891,094	**4,532,177**	3,514,739
Total capital	**38,320,310**	35,832,911	**30,949,599**	29,767,524

Excludes collective assessment allowance on impaired loans/financing restricted from Tier II capital of the Group and the Bank of RM560.4 million (2014: RM632.2 million) and RM399.9 million (2014: RM458.7 million) respectively.

Includes the qualifying regulatory reserves for non-impaired loans/financing of the Group and the Bank of RM1,810.8 million (2014: RM1,445.8 million) and RM1,645.0 million (2014: RM1,293.3 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")	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 23 to the financial statements.

In line with the transitional arrangements under the BNM's Capital Adequacy Framework (Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank, capital 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, deposits placements, settlement of transactions, also expose the Group to credit risk and counterparty credit risk ("CCR").

Minimum Regulatory Capital Requirements for Credit Risk

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

Group 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, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("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

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
2014				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	50,809,170	45,543,822	98,637	7,891
Public Sector Entities	883,812	883,812	19,981	1,599
Banks, DFIs and MDBs	14,379,452	13,598,420	4,073,196	325,856
Insurance Companies, Securities Firms and Fund Managers	540,605	286,911	201,854	16,148
Corporates	62,587,458	60,683,663	53,246,505	4,259,720
Regulatory Retail	113,110,547	112,289,249	85,002,943	6,800,235
Residential Mortgages	71,387,116	71,292,533	29,363,000	2,349,040
Higher Risk Assets	74,348	74,321	111,482	8,919
Other Assets	4,997,773	4,997,773	2,606,124	208,490
Equity Exposures	5,369,203	5,369,203	5,369,203	429,536
Defaulted Exposures	1,614,033	1,612,049	2,331,315	186,505
	325,753,517	316,631,756	182,424,240	14,593,939
Off-Balance Sheet Exposures				
Credit-related Exposures	22,226,918	21,774,750	17,829,081	1,426,327
Derivative Financial Instruments	1,459,897	1,459,897	472,546	37,804
Other Treasury-related Exposures	1,059,113	1,059,113	122,278	9,782
Defaulted Exposures	18,517	18,517	27,417	2,193
	24,764,445	24,312,277	18,451,322	1,476,106
Total Credit Exposures	350,517,962	340,944,033	200,875,562	16,070,045

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

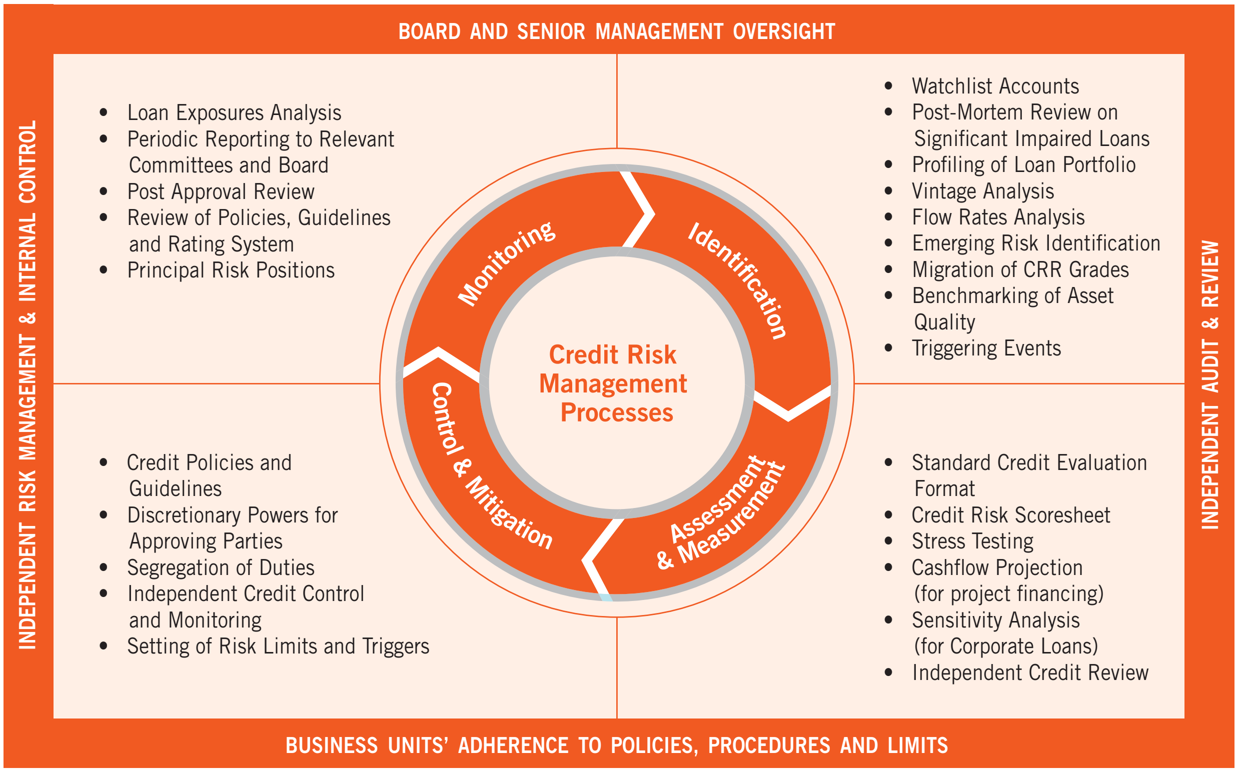
5. CREDIT RISK (CONTINUED)

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
2014				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	38,355,592	33,839,876	98,636	7,891
Public Sector Entities	441,088	441,088	2,734	219
Banks, DFIs and MDBs	12,358,269	11,577,237	2,832,716	226,617
Insurance Companies, Securities Firms and Fund Managers	259,127	9,067	9,067	725
Corporates	54,941,299	53,640,761	46,651,717	3,732,137
Regulatory Retail	90,241,385	89,493,475	67,572,195	5,405,776
Residential Mortgages	60,717,280	60,631,717	24,993,398	1,999,472
Higher Risk Assets	63,393	63,375	95,062	7,605
Other Assets	4,038,780	4,038,780	2,913,140	233,051
Equity Exposures	4,900,545	4,900,545	4,900,545	392,044
Defaulted Exposures	1,318,820	1,317,487	1,896,453	151,716
	267,635,578	259,953,408	151,965,663	12,157,253
Off-Balance Sheet Exposures				
Credit-related Exposures	19,921,040	19,496,802	15,977,915	1,278,233
Derivative Financial Instruments	1,618,286	1,618,286	504,222	40,338
Other Treasury-related Exposures	875,083	875,083	99,404	7,952
Defaulted Exposures	15,804	15,804	23,354	1,869
	22,430,213	22,005,975	16,604,895	1,328,392
Total Credit Exposures	290,065,791	281,959,383	168,570,558	13,485,645

5. CREDIT RISK (CONTINUED)

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



Risk Governance

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

Risk Management Approach

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

5. CREDIT RISK (CONTINUED)

Risk Management Approach (Continued)

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

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

(a) Lending to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer as well as the business condition and prospect. The credit assessment is assisted by the internal credit risk rating scoresheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the customer's loan application.

(b) Lending to Corporate and Institutional Customers

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

(c) Credit Risk from Trading and Investment Activities

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

(d) Counterparty Credit Risk on Derivative Financial Instruments

The management of the CCR on derivative financial instruments is set out in item 5.2(b) of the Pillar 3 Disclosure.

5. CREDIT RISK (CONTINUED)

Risk Management Approach (Continued)

Proposition of counterparty limits to financial institutions by the business units are independently assessed and evaluated by RMD before approval is granted by the relevant approving party. The Independent Credit Review ("ICR") Team within RMD was set up with objectives of providing independent evaluation and views on retails business loans and corporate loans of selected loan size and/or type. Periodical review/assessment of business sectors and industries in which the Bank's borrowers are significantly exposed to are also carried out by the ICR Team besides providing assistance in the formulation of credit policies and guidelines undertaken by the business units.

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

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.

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, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
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

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, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
2014									
On-Balance Sheet Exposures									
Cash and balances with banks	4,951,253	11,865,585	–	–	–	–	–	–	16,816,838
Reverse repurchase agreements	6,314,493	–	–	–	–	–	–	–	6,314,493
Financial assets held-for-trading	2,194,271	16,127,977	–	–	41,770	–	–	–	18,364,018
Derivative financial assets	–	703,072	–	–	–	–	–	–	703,072
Financial investments available-for-sale*	17,853,342	6,573,461	150,773	762,072	–	–	–	–	25,339,648
Financial investments held-to-maturity	15,115,058	3,910,464	651,341	737,524	–	–	–	–	20,414,387
Gross loans, advances and financing	30,558	6,870,851	13,923,206	35,805,473	33,047,391	80,711,425	39,199,835	35,455,314	245,044,053
Statutory deposits with Central Banks	8,063,746	–	–	–	–	–	–	–	8,063,746
	54,522,721	46,051,410	14,725,320	37,305,069	33,089,161	80,711,425	39,199,835	35,455,314	341,060,255
Commitments and Contingencies									
Contingent liabilities	1,916	81,295	912,409	1,218,350	1,043,118	–	–	32,944	3,290,032
Commitments	960,005	1,896,421	5,276,859	11,238,050	13,315,813	11,381,257	20,675	13,142,317	57,231,397
	961,921	1,977,716	6,189,268	12,456,400	14,358,931	11,381,257	20,675	13,175,261	60,521,429
Total Credit Exposures	55,484,642	48,029,126	20,914,588	49,761,469	47,448,092	92,092,682	39,220,510	48,630,575	401,581,684

* *Excluding equity securities of RM122.7 million (2014: RM119.2 million) which do not have any credit risk.*

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
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

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (Continued)

(b) Geographical Analysis (Continued)

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2014					
On-Balance Sheet Exposures					
Cash and balances with banks	10,939,472	2,205,873	1,227,091	2,444,402	16,816,838
Reverse repurchase agreements	6,278,649	–	–	35,844	6,314,493
Financial assets held-for-trading	18,364,018	–	–	–	18,364,018
Derivative financial assets	643,428	1,672	–	57,972	703,072
Financial investments available-for-sale*	25,339,648	–	–	–	25,339,648
Financial investments held-to-maturity	18,161,017	1,710,621	–	542,749	20,414,387
Gross loans, advances and financing	227,888,060	12,991,337	2,990,387	1,174,269	245,044,053
Statutory deposits with Central Banks	7,480,240	–	547,968	35,538	8,063,746
	315,094,532	16,909,503	4,765,446	4,290,774	341,060,255
Commitments and Contingencies					
Contingent liabilities	2,789,877	127,022	337,395	35,738	3,290,032
Commitments	54,760,075	2,039,383	394,057	37,882	57,231,397
	57,549,952	2,166,405	731,452	73,620	60,521,429
Total Credit Exposures	372,644,484	19,075,908	5,496,898	4,364,394	401,581,684

* *Excluding equity securities of RM122.7 million (2014: RM119.2 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
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**
2014					
On-Balance Sheet Exposures					
Cash and balances with banks	16,816,838	–	–	–	16,816,838
Reverse repurchase agreements	6,314,493	–	–	–	6,314,493
Financial assets held-for-trading	18,364,018	–	–	–	18,364,018
Derivative financial assets	560,733	33,055	55,391	53,893	703,072
Financial investments available-for-sale*	10,708,633	6,113,903	2,788,186	5,728,926	25,339,648
Financial investments held-to-maturity	3,722,655	4,292,186	5,028,207	7,371,339	20,414,387
Gross loans, advances and financing	33,519,550	19,854,855	22,993,262	168,676,386	245,044,053
Statutory deposits with Central Banks	–	–	–	8,063,746	8,063,746
Total On-Balance Sheet Exposures	90,006,920	30,293,999	30,865,046	189,894,290	341,060,255

* *Excluding equity securities of RM122.7 million (2014: RM119.2 million) which do not have any credit risk.*

Approximately 19% (2014: 26%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 71% (2014: 69%) 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 51% (2014: 51%) of the portfolio and are traditionally longer term in nature and well secured.

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

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

CCR on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, option or credit derivative contract defaults prior to maturity date of the contract and that the Group, at the relevant time, has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes.

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

5. CREDIT RISK (CONTINUED)

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

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

Risk Management Approach

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

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

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

Credit Ratings Downgrade

Some netting and collateral arrangements may contain rating triggers, although the threshold levels in the majority of the Group's ISDA/CSA agreements remain unchanged in the event of a one notch rating downgrade. As at 31 December 2015, the estimated additional collateral required to be posted for one notch downgrade was RM14.4 million (2014: RM41.5 million).

5. CREDIT RISK (CONTINUED)

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

Composition of Off-Balance Sheet Exposures

The following tables present the composition of off-balance sheet exposures of the Group and 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
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)

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
2014				
Contingent Liabilities				
Direct credit substitutes	1,598,096		1,598,096	1,084,355
Transaction-related contingent items	1,285,971		642,986	392,068
Short-term self-liquidating trade-related contingencies	405,965		81,193	57,341
	3,290,032		2,322,275	1,533,764
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	28,962,346		14,481,173	11,869,596
– not exceeding one year	23,074,157		4,614,831	3,832,771
Unutilised credit card lines	4,135,781		827,156	620,367
Forward asset purchases	1,059,113		1,059,113	122,278
	57,231,397		20,982,273	16,445,012
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	21,082,468	560,733	771,143	239,032
– one year to less than five years	2,449,762	4	241,416	120,743
Interest/profit rate related contracts:				
– less than one year	821,971	–	901	450
– one year to less than five years	10,716,883	134,790	423,491	107,731
– five years and above	220,000	7,545	22,945	4,589
Commodity related contracts:				
– less than one year	148	–	1	1
	35,291,232	703,072	1,459,897	472,546
Total Off-Balance Sheet Exposures	95,812,661	703,072	24,764,445	18,451,322

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (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

5. CREDIT RISK (CONTINUED)

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

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (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
2014				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,237,889		1,237,889	903,951
Transaction-related contingent items	1,121,989		560,995	324,428
Short-term self-liquidating trade-related contingencies	296,586		59,317	42,465
	2,656,464		1,858,201	1,270,844
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	26,380,852		13,190,426	10,844,167
– not exceeding one year	20,356,377		4,071,275	3,271,423
Unutilised credit card lines	4,038,701		807,740	605,805
Forward asset purchases	875,083		875,083	99,404
	51,651,013		18,944,524	14,820,799
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	20,782,159	559,754	767,611	238,326
– one year to less than five years	2,449,762	4	241,416	120,743
Interest rate related contracts:				
– less than one year	577,129	–	656	328
– one year to less than five years	11,211,950	123,711	431,215	108,016
– five years and above	1,720,000	7,545	172,945	34,589
Commodity related contracts:				
– less than one year	148	–	1	1
	36,741,148	691,014	1,613,844	502,003
Total	91,048,625	691,014	22,416,569	16,593,646

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (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
2014				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	5,247		5,247	5,247
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	19,774		3,955	3,783
Derivative Financial Instruments				
Interest rate related contracts:				
– less than one year	244,842	–	245	122
– one year to less than five years	104,933	–	4,197	2,097
	349,775	–	4,442	2,219
Total	374,796	–	13,644	11,249
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	91,423,421	691,014	22,430,213	16,604,895

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 – charges over the properties being financed

(c) for motor vehicle financing – ownership claims over the vehicles financed

(d) for share margin financing – pledges over securities from listed exchange

(e) for other loans – charges over business assets such as premises, inventories, trade receivables or deposits

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

5.3 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
2014				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	50,809,170	–	5,265,348	–
Public Sector Entities	883,812	783,909	–	–
Banks, DFIs and MDBs	14,379,452	435,548	781,032	–
Insurance Companies, Securities Firms and Fund Managers	540,605	–	253,694	–
Corporates	62,587,458	2,296,005	1,903,795	–
Regulatory Retail	113,110,547	700	821,298	–
Residential Mortgages	71,387,116	–	94,583	–
Higher Risk Assets	74,348	–	27	–
Other Assets	4,997,773	–	–	–
Equity Exposures	5,369,203	–	–	–
Defaulted Exposures	1,614,033	–	1,984	–
	325,753,517	3,516,162	9,121,761	–
Off-Balance Sheet Exposures				
Credit-related Exposures	22,226,918	204,433	452,168	–
Derivative Financial Instruments	1,459,897	–	–	–
Other Treasury-related Exposures	1,059,113	–	–	–
Defaulted Exposures	18,517	–	–	–
	24,764,445	204,433	452,168	–
Total Credit Exposures	350,517,962	3,720,595	9,573,929	–

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 Services ("Moody's")
(c) Fitch Ratings ("Fitch")
(d) Rating Agency Malaysia Berhad ("RAM")
(e) Malaysian Rating Corporation Berhad ("MARC")

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

(a) Sovereigns and Central Banks
(b) Banking Institutions
(c) Corporates

Unrated and Rated Counterparties

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

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach. Each 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)

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
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

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							
2014								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	5,610,760	1,554,449	795,108	–	–	–		7,960,317
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	972,371	48,839,423	–	–	938,145	–		50,749,939
– Public Sector Entities	–	783,909	–	–	–	–		783,909
– Banks, DFIs and MDBs	–	435,586	–	–	–	–		435,586
– Corporates	–	1,651,349	–	–	–	–		1,651,349
	972,371	51,710,267	–	–	938,145	–		53,620,783
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	3,386,693	5,507,152	2,954,442	683,458	471	–		12,532,216
– Corporates	597,062	97,948	–	–	–	–		695,010
– Regulatory Retail	–	700	–	–	–	–		700
	3,983,755	5,605,800	2,954,442	683,458	471	–		13,227,926
Total Rated Exposures	10,566,886	58,870,516	3,749,550	683,458	938,616	–		74,809,026
(b) Total Unrated Exposures							250,944,491	250,944,491
	10,566,886	58,870,516	3,749,550	683,458	938,616	–	250,944,491	325,753,517

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
2014								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	177,688	399,130	–	–	–	–		576,818
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	–	447,723	–	–	–	–		447,723
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	971,335	857,545	133,474	–	–	–		1,962,354
– Corporates	169,328	22,299	346	–	–	–		191,973
– Regulatory Retail	44	1,186	–	–	–	–		1,230
	1,140,707	881,030	133,820	–	–	–		2,155,557
Total Rated Exposures	1,318,395	1,727,883	133,820	–	–	–		3,180,098
(b) Total Unrated Exposures							21,584,347	21,584,347
	1,318,395	1,727,883	133,820	–	–	–	21,584,347	24,764,445
Total Credit Exposures before Credit Risk Mitigation	11,885,281	60,598,399	3,883,370	683,458	938,616	–	272,528,838	350,517,962

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%.

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 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
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			-							-	-	

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
2014												
0%	45,678,968	783,909	440,382	–	1,671,719	–	–	–	2,324,537	–	50,899,515	–
20%	392,438	102,731	11,473,617	–	6,534,183	44	–	–	83,890	–	18,586,903	3,717,381
35%	–	–	–	–	–	–	51,039,489	–	–	–	51,039,489	17,863,821
50%	–	–	2,962,122	170,114	2,053,182	7,089	18,545,122	–	–	–	23,737,629	11,868,815
75%	–	–	–	–	–	119,490,308	612,269	–	–	–	120,102,577	90,076,933
100%	20,149	–	890,787	139,701	59,610,981	3,777,077	2,639,291	–	2,589,346	5,369,203	75,036,535	75,036,535
150%	–	–	–	–	134,324	1,310,233	14,112	82,716	–	–	1,541,385	2,312,077
Total	46,091,555	886,640	15,766,908	309,815	70,004,389	124,584,751	72,850,283	82,716	4,997,773	5,369,203	340,944,033	200,875,562
Risk-Weighted Assets by Exposures	98,637	20,546	4,666,571	224,758	62,145,895	95,363,711	30,256,043	124,074	2,606,124	5,369,203	200,875,562	
Average Risk Weights	0.2%	2.3%	29.6%	72.5%	88.8%	76.5%	41.5%	150.0%	52.1%	100.0%	58.9%	
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)

5.4 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
2014												
0%	33,905,365	427,420	329,225	–	1,378,929	–	–	–	2,160,247	–	38,201,186	–
20%	392,438	16,496	11,440,529	–	6,196,779	44	–	–	–	–	18,046,286	3,609,257
35%	–	–	–	–	–	–	43,136,023	–	–	–	43,136,023	15,097,608
50%	–	–	1,751,682	–	2,053,182	7,089	16,093,353	–	–	–	19,905,306	9,952,653
75%	–	–	–	–	–	97,126,610	543,450	–	–	–	97,670,060	73,252,545
100%	20,149	–	319,916	31,971	52,032,199	2,380,575	2,189,907	–	1,788,567	4,900,545	63,663,829	63,663,829
150%	–	–	–	–	128,637	1,036,434	10,791	70,865	–	–	1,246,727	1,870,091
1250%	–	–	–	–	–	–	–	–	89,966	–	89,966	1,124,575
Total	34,317,952	443,916	13,841,352	31,971	61,789,726	100,550,752	61,973,524	70,865	4,038,780	4,900,545	281,959,383	168,570,558
Risk-Weighted Assets by Exposures	98,637	3,299	3,483,863	31,971	54,491,101	76,783,737	25,757,966	106,297	2,913,142	4,900,545	168,570,558	
Average Risk Weights	0.3%	0.7%	25.2%	100.0%	88.2%	76.4%	41.6%	150.0%	72.1%	100.0%	59.8%	
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 following tables present the gross loans, advances and financing of the Group analysed by credit quality.

Group	2015 RM'000	2014 RM'000
Neither past due nor impaired	**246,484,560**	219,560,698
Past due but not impaired	**25,610,679**	23,994,656
Impaired	**1,351,816**	1,488,699
	273,447,055	245,044,053
Gross impaired loans as a percentage of gross loans, advances and financing	**0.49%**	0.61%

(a) Neither Past Due Nor Impaired

The credit quality of gross loans, advances and financing which are neither past due nor impaired is set out in Note 43(ii)(a) to the financial statements.

(b) Past Due But Not Impaired

Past due but not impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due, and include loans which are due one or more days after the contractual due date but less than 3 months. 61% (2014: 60%) of the past due loans of the Group are past due for less than 1 month.

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

(i) Economic purpose analysis

(ii) Geographical analysis

(iii) Aging analysis

5. CREDIT RISK (CONTINUED)

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

(b) Past Due But Not Impaired (Continued)

(i) Economic Purpose Analysis

Group	2015 RM'000	2014 RM'000
Purchase of securities	**6,941**	6,301
Purchase of transport vehicles	**11,285,310**	10,905,530
Purchase of landed properties	**11,968,334**	11,269,657
(Of which: – residential	**8,725,832**	8,385,236
– non-residential)	**3,242,502**	2,884,421
Purchase of fixed assets (excluding landed properties)	**9,018**	3,682
Personal use	**651,208**	617,552
Credit card	**300,956**	303,145
Purchase of consumer durables	**82**	359
Construction	**190,088**	110,827
Working capital	**1,136,430**	670,059
Other purpose	**62,312**	107,544
	25,610,679	23,994,656

(ii) Geographical Analysis

Group	2015 RM'000	2014 RM'000
Malaysia	**24,737,460**	23,426,570
Hong Kong & China	**217,557**	168,870
Cambodia	**317,832**	171,726
Other countries	**337,830**	227,490
	25,610,679	23,994,656

(iii) Aging Analysis

Group	2015 RM'000	2014 RM'000
1 day to <1 month	**15,650,235**	14,434,564
1 month to <2 months	**7,645,474**	7,235,610
2 months to <3 months	**2,314,970**	2,324,482
	25,610,679	23,994,656

5. CREDIT RISK (CONTINUED)

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

(c) Impaired Loans, Advances and Financing

The Group assesses, at each reporting period, whether there is any objective evidence that an individually significant loan is impaired. "Objective evidence of impairment" exists when one or more events that have occurred after the initial recognition of the loan (an incurred "loss event") and that the loss event has an impact on future estimated cash flows of the loan or group of loans that can be reliably estimated. The criteria that the Group uses to determine whether there is any objective evidence of impairment are set out in Note 43(ii)(c) to the financial statements.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

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

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

Loans, advances and financing are classified as impaired when they fulfill any of the following criteria:

(i) principal or interest/profit or both are past due for ninety (90) days or more; or

(ii) where a loan/financing is in arrears for less than ninety (90) days, the loan/financing exhibits indications of significant credit weaknesses; or

(iii) where a loan/financing, irregardless of impaired or non-impaired, has been rescheduled or restructured, the loan/financing will be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

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

(i) Economic purpose

(ii) Geographical location

5. CREDIT RISK (CONTINUED)

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

(c) Impaired Loans, Advances and Financing (Continued)

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

5. CREDIT RISK (CONTINUED)

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

(c) Impaired Loans, Advances and Financing (Continued)

(i) Impaired Loans, Advances and Financing and the Related Impairment Allowances by 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
2014							
Purchase of securities	3,434	2,471	244	–	2,715	4,082	6,797
Purchase of transport vehicles	412,764	8,153	2,590	(522)	10,221	607,809	618,030
Purchase of landed properties	668,989	16,924	(4,422)	(228)	12,274	809,467	821,741
(Of which: – residential	504,808	230	(63)	11	178	543,300	543,478
– non-residential)	164,181	16,694	(4,359)	(239)	12,096	266,167	278,263
Purchase of fixed assets (excluding landed properties)	164	467	(239)	(225)	3	360	363
Personal use	146,527	39,891	167,536	(173,272)	34,155	95,643	129,798
Credit card	25,409	–	–	–	–	25,869	25,869
Purchase of consumer durables	75	–	–	–	–	92	92
Construction	12,841	4,757	706	(18)	5,445	8,369	13,814
Mergers and acquisitions	–	–	–	–	–	372	372
Working capital	202,794	90,645	964	(21,027)	70,582	120,616	191,198
Other purpose	15,702	4,617	322	(248)	4,691	9,449	14,140
	1,488,699	167,925	167,701	(195,540)	140,086	1,682,128	1,822,214

The movements in the collective assessment allowance for 2015 and 2014 are set out in Note 9 to the financial statements.

5. CREDIT RISK (CONTINUED)

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

(c) Impaired Loans, Advances and Financing (Continued)

(ii) Impaired Loans, Advances and Financing and the Related Impairment Allowances by 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
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**
2014							
Malaysia	1,375,695	81,231	(7,252)	(11,512)	62,467	1,537,243	1,599,710
Hong Kong & China	62,326	50,474	166,254	(177,864)	38,864	86,087	124,951
Cambodia	38,549	34,494	10,227	(5,966)	38,755	47,881	86,636
Other countries	12,129	1,726	(1,528)	(198)	–	10,917	10,917
	1,488,699	167,925	167,701	(195,540)	140,086	1,682,128	1,822,214

The movements in the collective assessment allowance for 2015 and 2014 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 rates, foreign exchange rates, credit spreads, commodity prices and equity prices, will reduce the income or portfolio values of the Group.

The market risk exposure of the Group is identified into two types:

Exposure to Market Risk	Description
(a) Traded Market Risk	Primarily the interest rate/rate of return risk and credit spread risk, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are mainly originated by the treasury operations.
(b) Non-Traded Market Risk	Interest rate/rate of return risk, foreign exchange risk and equity prices risk arising mainly from the retail and commercial banking assets and liabilities, as well as financial investments designated as available-for-sale and held-to-maturity.

The Group's core market risks are as follows:

- **Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")** – Risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in the interest rate/rate of return over time arising from activities such as deposits taking, lending or financing and investment.

- **Foreign Exchange Risk –** Risk of adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, overseas branches and associated companies, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

- **Displaced Commercial Risk ("DCR") –** Risk of Public Islamic bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the Investment Account Holders ("IAH") based on the contractual profit sharing ratio. As at reporting date, Public Islamic does not have Profit Sharing Investment Accounts which are eligible for risk absorbent treatment.

- **Equity Risk –** Risk of adverse impact arising from movements in equity prices on equity positions held by the Group for dividend yield purposes.

6. MARKET RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Market Risk

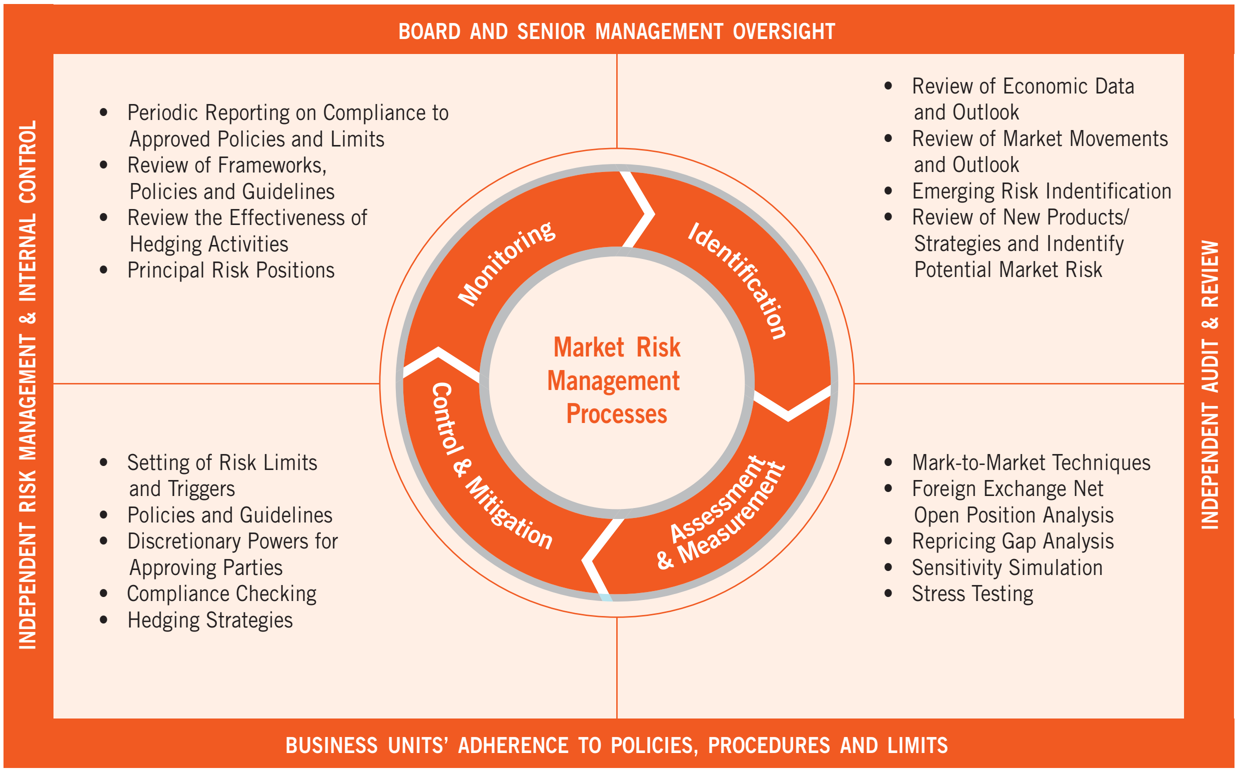
The following tables present the minimum regulatory capital requirements for market risk of the Group and the Bank.

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
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**
2014				
Interest rate/rate of return risk	39,894,395	(20,770,570)	1,229,355	98,348
Foreign exchange risk	1,325,490	(356,242)	1,325,490	106,039
Total	41,219,885	(21,126,812)	2,554,845	204,387
Bank				
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**
2014				
Interest rate risk	35,182,988	(20,704,056)	991,299	79,304
Foreign exchange risk	1,605,032	(2,036,590)	2,036,590	162,927
Total	36,788,020	(22,740,646)	3,027,889	242,231

6. MARKET RISK (CONTINUED)

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group's market risk frameworks and policies, aligns market risk management with risk appetite and implements actions to ensure that the market risk remains within established risk tolerance level. The following diagram presents the risk management processes over market risk.



6.1 Traded Market Risk

Risk Management Approach

The Group's traded market risk frameworks comprise market risk policies and practices, delegation of authorities, market risk limits and valuation methodologies. The Group's traded market risk for fixed income instruments is measured by the present value of 1 basis point change ("PV01") and controlled by daily and cumulative cut-loss limits. The compliance officers are deployed to conduct daily compliance checking on the treasury operations. Any instances of non-compliance with the operational processes, procedures and limits will be documented with remedial action plans and reported to the Audit Committee. In addition, the compliance officers conduct independent verification on the daily mark-to-market valuation of fixed income instruments.

6. MARKET RISK (CONTINUED)

6.1 Traded Market Risk (Continued)

Risk Management Approach (Continued)

The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by RMD. Changes to operational market risk limits are approved by the ALCO. The trading book positions and limits are regularly reported to the ALCO. The Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board.

During the financial year, the Group's traded market risk exposures on fixed income instruments as measured by PV01, averaged at RM266,000 (2014: RM271,000). The composition of the Group's trading portfolio is set out in Note 5 to the financial statements.

6.2 Non-Traded Market Risk

(a) Interest Rate/Rate of Return Risk in the Banking Book

The sources of IRR/RoRBB are as follows:

- **Repricing Risk –** Risk caused by timing differences in the interest rate/rate of return changes and cash flows that occur in the repricing and maturity of the Group's fixed and floating rate assets, liabilities and off-balance sheet instruments.

- **Yield Curve Risk –** Risk when unanticipated changes in the yield curve have adverse effects on the Group's earnings and EVE.

- **Basis Risk –** Risk arising from the imperfect correlation between changes in the interest rate/rate of return earned and paid on different instruments with otherwise similar repricing characteristics. This will affect the Group's net interest/profit margin, i.e. earnings and also future cash flows, which in turn affect economic value of the Group.

- **Optionality Risk –** Risk of early repayments of loans/financing and early withdrawal of deposits due to changes in the interest rate/rate of return which will potentially affect future earnings.

Risk Management Approach

The Group emphasises the importance of IRR/RoRBB as most of the balance sheet items of the Group generate interest/profit income and interest/profit expense that are correlated to interest rate/rate of return. Hence, the primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE due to the changing levels of interest rate/rate of return, whilst balancing the cost of hedging activities on the current revenue streams. This is achieved in various manners such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in the interest rate/rate of return sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge the interest rate/rate of return risk is set out in Note 6 to the financial statements.

6. MARKET RISK (CONTINUED)

6.2 Non-Traded Market Risk (Continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Continued)

Risk Management Approach (Continued)

The Group's IRR/RoRBB is also governed by the Group's Interest/Profit Rate Risk Management Framework to ensure that all IRR/RoRBB is managed within its risk appetite. All limits and policies are approved by the RMC and are regularly reviewed to ensure that the limits and policies remain applicable and is able to surface potential interest rate/rate of return risk.

The Group uses a range of approaches to measure IRR/RoRBB, whereby the impact on NII/NPI and EVE is considered at all times, as follows:

Measures	Description
(i) Repricing Gap Reports	Distribution of interest/profit sensitive assets, liabilities and off-balance sheet positions into time bands according to their remaining maturity or next repricing maturity. One of the challenges of this mismatch repricing analysis is the underlying assumptions of the embedded optionality of loans/financing prepayments, early deposits withdrawal and effective duration of liabilities which are contractually repayable on demand such as current and saving accounts. This is measured on a monthly basis for the Bank and quarterly basis for the Group.
(ii) Sensitivity Analysis	Impact to NII/NPI - This is the projected Group's NII/NPI sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's interest rate/rate of return sensivity gap as at the reporting date after taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return. Impact to EVE – This measure takes a comprehensive view of the potential long-term effects of a 100 basis point parallel movement in interest/profit rates on the economic value of the Group's Balance Sheet. It requires all future cash flows associated with the Group's assets, liabilities and off-balance sheet positions to be discounted at relevant market rates to determine the overall net present value of the Group. These are measured on a monthly basis for the Bank and quarterly basis for the Group.

6. MARKET RISK (CONTINUED)

6.2 Non-Traded Market Risk (Continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Continued)

Risk Management Approach (Continued)

Measures	Description
(iii) Simulation Scenarios	As and when the need arises, analysis is performed on the sensitivity of projected NII/NPI and EVE under varying interest/profit rate and balance sheet scenarios. The analysis also incorporates business assumptions obtained from various lines of business and behavioral assumptions established based on statistical methods for the Group. The impact on earnings is measured against the approved Earning-at-Risk (EaR) and EVE limits where new business and hedging strategies are carried out to mitigate any increasing IRR/RoR.
(iv) Stress Testing	The vulnerability of the Group's earnings and EVE under various levels of stress using a variety of economic parameters. This semi-annual practice is also to determine the adequacy of capital in meeting the adverse impact of extreme interest rate/rate of return movements on the Group's statements of financial position which can provide an early warning of the potential losses and to facilitate proactive management of the interest rate/rate of return risk.

The following table presents the projected Group's sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's interest rate/rate of return sensivity gap as at the reporting date taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

6. MARKET RISK (CONTINUED)

6.2 Non-Traded Market Risk (Continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Continued)

Interest Rate/Rate of Return Risk Sensitivity Analysis

	2015		2014	
	-100 bps	+100 bps	-100 bps	+100 bps
	Increase/(Decrease)			
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Impact on NII/NPI				
Ringgit Malaysia	**(201,107)**	**189,246**	(71,784)	66,532
United States Dollars	**12,766**	**(33,428)**	6,938	(19,582)
Hong Kong Dollars	**(3,444)**	**10,654**	(2,871)	3,397
Other Currencies	**(14,414)**	**13,604**	(9,843)	9,260
Total	**(206,199)**	**180,076**	(77,560)	59,607
Impact on EVE				
Ringgit Malaysia	**2,007,306**	**(1,647,975)**	1,706,211	(1,351,040)
United States Dollars	**8,194**	**(14,357)**	10,086	(20,727)
Hong Kong Dollars	**2,967**	**4,761**	2,688	(4,151)
Other Currencies	**(1,658)**	**6,034**	4,462	(1,801)
Total	**2,016,809**	**(1,651,537)**	1,723,447	(1,377,719)

The reported amounts do not capture the impact of business growth or of management actions and are based on the balance sheet as at reporting date. In reality, the ALCO seeks to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statements of financial position and that all positions run to maturity.

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

6. MARKET RISK (CONTINUED)

6.2 Non-Traded Market Risk (Continued)

(b) Displaced Commercial Risk

Risk Management Approach

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

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

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

In accordance with the BNM's Transition Policy under Islamic Financial Services Act 2013, Public Islamic has transitioned all of its investment deposit products into Islamic deposits with effect from 1 July 2015. In respect of investment deposits products where the maturity period is beyond 30 June 2015 or held as security against financing facilities, BNM allows continued classification as investment deposits until their respective maturity period or settlement of the financing facilities.

As at reporting date, Public Islamic's investment deposits of RM113.6 million (2014: RM321.7 million) are subject to DCR.

(c) Foreign Exchange Risk

Risk Management Approach

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

The table in Note 43(ii)(c)(ii) to the financial statements sets out the Group's assets, liabilities and NOP by currencies and the Group's structural foreign exchange positions. As at 31 December 2015, there was a net long position of RM938.1 million (2014: RM953.9 million) or 15% (2014: 20%) of the Group's structural position.

(d) Equity Risk

Risk Management Approach

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

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	2015 Gross Credit Exposure RM'000	2015 Risk-Weighted Assets RM'000	2014 Gross Credit Exposure RM'000	2014 Risk-Weighted Assets RM'000
Publicly traded				
Investments in unit trust funds	**3,071,182**	**3,071,182**	5,274,346	5,274,346
Holdings of equity investments	**3,730**	**3,730**	7,086	7,086
	3,074,912	**3,074,912**	5,281,432	5,281,432
Privately held				
For socio-economic purposes	**87,899**	**87,899**	87,771	87,771
Not for socio-economic purposes	**31,036**	**46,554**	23,994	35,991
	118,935	**134,453**	111,765	123,762
Total	**3,193,847**	**3,209,365**	5,393,197	5,405,194

(i) Publicly Traded

The investment in unit trust funds comprises bond fund and money market funds, are held for yield purposes. Holdings of equity investments comprise mainly of shares listed in an exchange, are held for dividend yield purpose and to take advantage of favourable movements in equity prices. Decisions concerning investing in equities are made by 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.

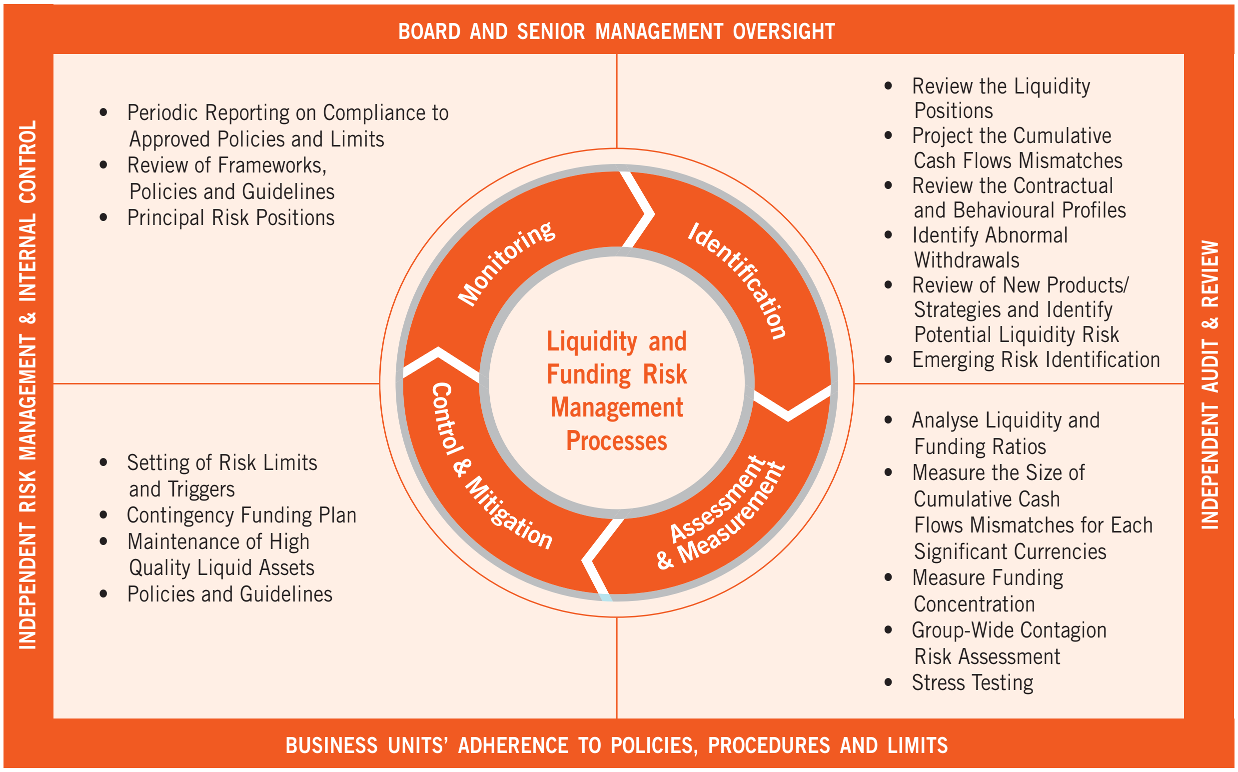
(b) Gains and Losses on Equity Exposures in the Banking Book

Group	2015 RM'000	2014 RM'000
Realised gains recognised in the statement of profit or loss		
– Investments in unit trust fund	**8,755**	–
– Publicly traded equity investments	**–**	250
	8,755	250
Unrealised gains recognised in other comprehensive income		
– Investments in unit trust funds	**1,219**	9,230
– Publicly traded equity investments	**3,731**	7,086
	4,950	16,316

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.



Risk Governance

The ALCO supports the RMC in liquidity and funding risk management oversight. The ALCO reviews the Group's liquidity risk frameworks, policies and guidelines, and implements necessary actions to ensure that the liquidity and funding risk is well managed and within the established liquidity risk appetite and thresholds.

8. LIQUIDITY AND FUNDING RISK (CONTINUED)

Risk Management Approach

The Group's liquidity and funding risk management is aligned to the BNM's Basel III Liquidity Coverage Ratio Framework which is effective from 1 June 2015 and is also guided by the Group's Liquidity and Funding Risk Management Framework which set out the processes involved in identifying, assessing, measuring, controlling, mitigating and monitoring of the liquidity and funding risk.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of high quality liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are borrowed by/financed to the customers. As at 31 December 2015, the Group holds a sizeable balance of government securities amounting to RM30,960.7 million (2014: RM34,678.4 million) or 56% (2014: 54%) of its portfolio of securities.

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

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

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

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

9. OPERATIONAL RISK

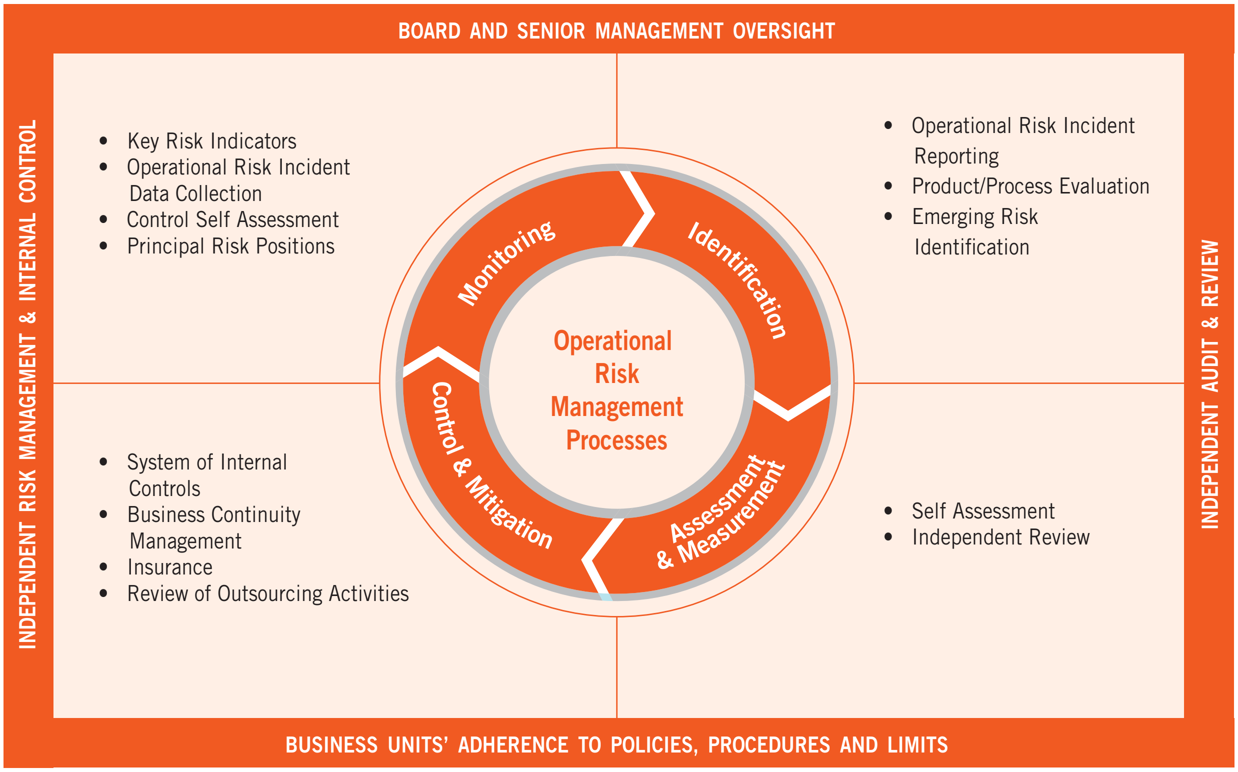
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is unavoidable as it is inherent in all banking businesses. The objective of the operational risk management of the Group is to manage its operational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

Minimum Regulatory Capital Requirements for Operational Risk

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

	2015		2014	
	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	**16,321,153**	**1,305,692**	15,281,141	1,222,491
Bank	**10,911,444**	**872,915**	10,753,781	860,302

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



9. OPERATIONAL RISK (CONTINUED)

Risk Governance

The Group's operational risk management is guided by the Group's Operational Risk Management Framework which is designed to ensure that operational risks are consistently identified, assessed, mitigated/controlled, monitored and reported within the Group.

The Board, through RMC, maintains overall responsibility for risk oversight within the Group. The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for assessing the effectiveness of risk management policies and processes in relation to operational risk. The Operational Risk Management Working Group (ORMWG) is established to support and assist the ORMC in its ongoing review of the operational risk management policies and procedures and ensuring effective implementation of the policies and procedures within the business and support units.

To ensure effective management of operational risk, independent risk management and compliance functions provide support to the business and support units and conduct compliance checks on their implementation of risk management policies and tools to identify, assess, control and monitor operational risk.

The various business and support units are responsible for the day-to-day management of operational risks within their lines of business and functions and ensure that their business activities are carried out within the established operational risk management policies, guidelines, procedures and limits.

The Internal Audit Function provides independent assurance on the adequacy and effectiveness of operational risk management framework, processes and systems.

Risk Management Approach

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

(a) Strategy and Processes

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

The Group continues to direct group-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Group operates. The Group seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to ensure compliance with statutory and regulatory requirements as well as internal policies and guidelines.

9. OPERATIONAL RISK (CONTINUED)

Risk Management Approach (Continued)

(a) Strategy and Processes (Continued)

Comprehensive risk assessments are conducted on major operational risk issues/emerging risk events arising from changes in business and operating environment to facilitate pro-active development of appropriate risk response to emerging operational risk events which would affect the achievement of the Group's business objectives. Periodic reviews and enhancements to operational risk limits and assessment of the control effectiveness are also conducted in response to changes in internal and external factors so that the Group's operational risk exposures are managed within its risk appetite.

The Group has put in place the disaster recovery and business continuity plans which are regularly tested and updated that enable the Group to respond and continue to operate critical business functions across a broad spectrum of interruptions to the business, arising from internal or external events. Where appropriate, the Group mitigates risk of high impact loss events by relevant insurance coverage.

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

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

(b) Tools and Methods for Risk Mitigation

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

(i) Control self-assessment – To assess the state of risk management and internal controls;

(ii) Key risk indicators – To collect statistical data on an ongoing basis to facilitate early detection of operational risk issues and control deficiencies; and

(iii) Operational risk incident reporting and data collection – To analyse the trends of operational risk data which are useful in assessing the Group's operational risk exposures and in strengthening the internal control environment.

9. OPERATIONAL RISK (CONTINUED)

Risk Management Approach (Continued)

(c) Reporting

Reporting is one of the important processes in operational risk management. The Group's operational risk management processes are aimed to ensure that operational risk exposures are properly identified, escalated and managed on a timely manner.

Operational risk exposures for the key business and control units are reported through monthly operational risk management reports which provide analyses and action plans for each significant business operation. The key operational risk areas included in the operational risk management reports are premises controls and safety, losses due to fraud or control lapses, IT risk management, business continuity management, outsourcing activities, compliance review results as well as litigation against the Group. The operational risk management reports are tabled to the ORMWG, the ORMC and the RMC for deliberations.

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 gorvernance 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.

10. SHARIAH NON-COMPLIANCE RISK (CONTINUED)

Islamic Banking Operations (Continued)

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 (2014: Nil).

Management of Shariah-Based Funds

Shariah non-compliance risk emanating from investments and operations of Shariah-based funds is managed through Shariah non-compliance risk management processes. An independent third party approved by the Securities Commission ("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. Any excess capital gains derived from such disposal would be channelled to charitable bodies accordingly.

During the financial year, a non-permissible income of RM1,276,055 (2014: RM1,650,065) 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.

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