



PUBLIC BANK

(6463-H)

2013 Annual Report



Safeguarding

Our Brand Value

Financial Statements

Safeguarding **Our Brand Value**

As the global economy moves amidst challenges, we continue to enhance value whilst safeguarding the integrity of what we represent. At Public Bank, we have remained committed to a superior standard of excellence. We have focused on strategies that set the benchmark. We have delivered results towards our most vital component – you. We have ensured that our stakeholders are always in good hands.

Safeguarding our brand value encompasses all areas of our business, ensuring that in the pursuit of banking excellence, we remain steadfast in protecting and guarding our stakeholders for a sustainably stable future. This year's theme is depicted by a pair of hands protectively holding the Public Bank logo, symbolising the brand as a valuable asset, worth its weight in gold.



CORPORATE PHILOSOPHY

PUBLIC BANK CARES ...

For Its Customers

- ☉ By providing the most courteous and efficient service in every aspect of its business
- ☉ By being innovative in the development of new banking products and services

For Its Employees

- ☉ By promoting the well-being of its staff through attractive remuneration and fringe benefits
- ☉ By promoting good staff morale through proper staff training and development and provision of opportunities for career advancement

For Its Shareholders

- ☉ By forging ahead and consolidating its position as a stable and progressive financial institution
- ☉ By generating profits and a fair return on their investment

For the Community It Serves

- ☉ By assuming its role as a socially responsible corporate citizen in a tangible manner
- ☉ By adhering closely to national policies and objectives thereby contributing towards the progress of the nation

... WITH INTEGRITY

CORPORATE MISSION

To sustain the position of being the most efficient, profitable and respected premier financial institution in Malaysia.



WHAT'S INSIDE

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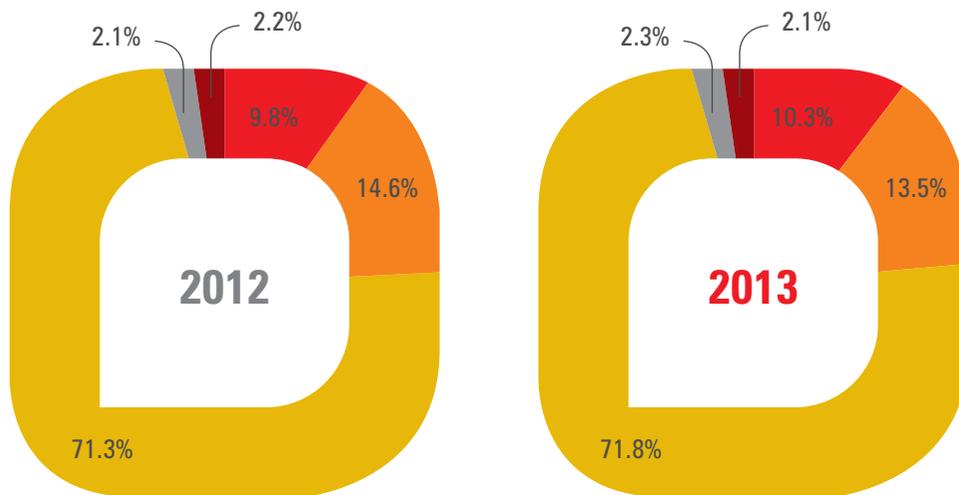
FINANCIAL HIGHLIGHTS

	Group		Bank	
	2013	2012	2013	2012
PROFITABILITY (RM'Million)				
Operating revenue	15,264	14,058	11,504	10,630
Operating profit	5,655	5,329	4,747	4,711
Profit before tax expense and zakat	5,310	5,047	4,647	4,627
Net profit attributable to equity holders of the Bank	4,065	3,827	3,705	3,707
KEY BALANCE SHEET DATA (RM'Million)				
Total assets	305,725	274,824	252,839	228,576
Loans, advances and financing	219,416	196,052	182,405	162,969
Deposits from customers	250,873	225,042	201,872	181,688
Shareholders' equity	20,424	18,018	18,822	16,895
FINANCIAL RATIOS (%)				
Profitability Ratios				
Net interest margin on average interest bearing assets ¹	2.9	3.1	2.7	2.9
Net return on equity ²	22.4	24.1	22.0	25.0
Return on average assets	1.8	1.9	1.9	2.1
Return on average risk-weighted assets	2.8	2.9	2.9	3.2
Capital Adequacy Ratios				
Common Equity Tier I capital ratio	9.3	N/A	10.9	N/A
Tier I capital ratio	11.1	11.4	13.0	13.6
Total capital ratio	14.3	14.7	14.1	14.5
Asset Quality Ratio				
Gross impaired loans ratio	0.7	0.7	0.6	0.6

¹ Excluding negotiable instruments of deposit and money market deposits which are on-lent to interbank.

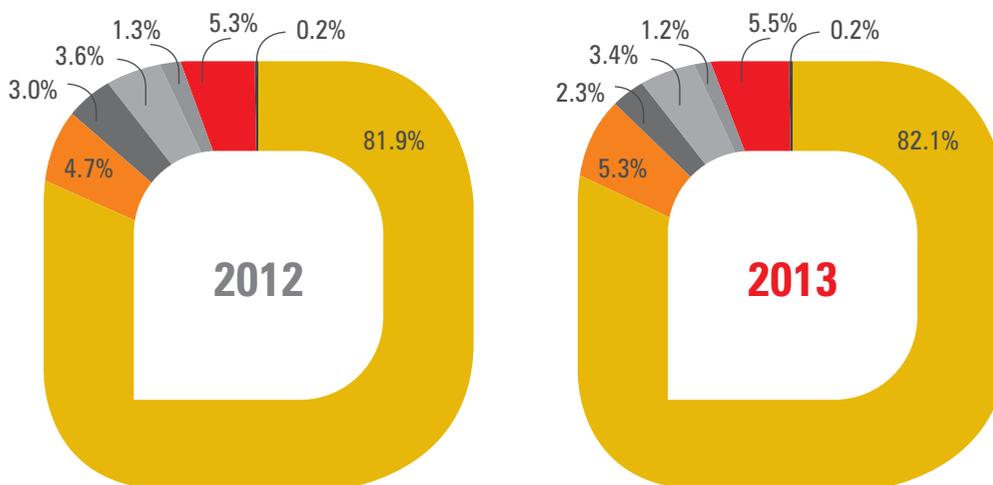
² Based on equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.

SIMPLIFIED GROUP BALANCE SHEET



ASSETS

- Cash and balances with banks and reverse repurchase agreements
- Portfolio of financial investments
- Loans, advances and financing
- Statutory deposits with Central Banks
- Other assets (including intangible assets)



LIABILITIES & EQUITY

- Deposits from customers
- Deposits from banks
- Bills and acceptances payable and other liabilities
- Debt securities issued and other borrowed funds
- Share capital
- Reserves
- Non-controlling interests

FIVE-YEAR GROUP FINANCIAL SUMMARY

RM5.31 bil
PROFIT BEFORE TAX

0.7%
GROSS IMPAIRED LOANS RATIO

4

ANNUAL REPORT 2013

Year Ended 31 December	2013	2012 [#]	2011 [#]	2010	2009
OPERATING RESULTS (RM'Million)					
Operating profit	5,655	5,329	5,200	4,738	4,015
Profit before tax expense and zakat	5,310	5,047	4,878	4,086	3,321
Net profit attributable to equity holders of the Bank	4,065	3,827	3,684	3,048	2,517
KEY BALANCE SHEET DATA (RM'Million)					
Total assets	305,725	274,824	250,773	226,988	217,136
Loans, advances and financing	219,416	196,052	175,953	154,864	135,336
Total liabilities	284,528	256,106	234,262	212,644	205,421
Deposits from customers	250,873	225,042	200,371	176,872	170,892
Core customer deposits	201,258	177,035	157,297	143,639	127,623
Paid-up capital	3,532	3,532	3,532	3,532	3,532
Shareholders' equity	20,424	18,018	15,813	13,692	11,023
Commitments and contingencies	87,986	79,458	70,847	69,206	61,435
SHARE INFORMATION AND VALUATION					
Share Information					
Per share (sen)					
Basic/Diluted earnings	116.1	109.3	105.2	87.2	73.3
Net dividend					
– Cash dividend	52.0	50.0	48.0	45.5	41.3
– Share dividend	–	–	–	–	1 for 68
Net assets	583.2	514.5	451.5	391.0	319.4
Share price as at 31 December (RM)					
– Local	19.40	16.28	13.38	13.02	11.30
– Foreign	19.54	16.30	13.20	13.00	11.26
Market capitalisation (RM'Million)	68,668	57,521	47,066	45,964	39,868
Valuations (Local Share)					
Net dividend yield (%)	2.7	3.1	3.6	3.5	3.7
Net dividend yield (including share dividend) (%)	2.7	3.1	3.6	3.5	5.1
Dividend payout ratio (%)	44.8	45.3	48.3	52.3	56.6
Dividend payout ratio (including share dividend) (%)	44.8	45.3	48.3	52.3	79.3
Price to earnings multiple (times)	16.7	14.9	12.7	14.9	15.4
Price to book multiple (times)	3.3	3.2	3.0	3.3	3.5

 **11.5%**
CUSTOMER DEPOSITS

 **11.8%**
GROSS LOANS

Year Ended 31 December	2013	2012 [#]	2011 [#]	2010	2009
FINANCIAL RATIOS (%)					
Profitability Ratios					
Net interest margin on average interest bearing assets ¹	2.9	3.1	3.3	3.4	3.2
Net return on equity ²	22.4	24.1	26.8	27.1	26.1
Return on average assets	1.8	1.9	2.0	1.8	1.6
Return on average risk-weighted assets	2.8	2.9	3.2	3.1	2.8
Cost/income ratio	30.7	31.2	29.8	30.7	32.6
Asset Quality Ratios					
Net loan to deposit ratio	87.5	87.1	87.8	87.6	79.2
Gross impaired loans ratio	0.7	0.7	0.9	1.1	1.4
Loan loss coverage	118.5	126.0	113.8	94.2	120.3 [^]
Capital Adequacy Ratios					
Common Equity Tier I ("CET I") capital ratio	9.3	N/A	N/A	N/A	N/A
Tier I capital ratio	11.1	11.4	11.2	11.3	10.5
Total capital ratio	14.3	14.7	15.6	14.2	14.6
CET I capital (RM'Million)	18,527	N/A	N/A	N/A	N/A
Tier I capital (RM'Million)	22,079	20,512	18,341	15,936	13,125
Tier II capital (RM'Million)	6,458	5,861	7,166	4,056	5,096
Total capital (RM'Million)	28,537	26,373	25,507	19,992	18,221
PRODUCTIVITY RATIOS					
No. of employees	17,924	17,625	17,511	17,369	17,169
Gross loan per employee (RM'000)	12,340	11,222	10,148	9,013	8,015
Deposits per employee (RM'000)	13,996	12,768	11,443	10,183	9,953
Profit before tax per employee (RM'000)	296	286	279	235	193
MARKET SHARE (%)					
Domestic market share					
Loans, advances & financing	16.9	16.7	16.4	16.3	15.9
Deposits from customers	15.6	15.2	14.9	14.8	16.3
Core customer deposits	17.4	16.6	16.1	16.3	15.4

¹ Excluding negotiable instruments of deposit and money market deposits which are on-lent to interbank.

² Based on equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.

[^] Restated due to the adoption of FRS 139.

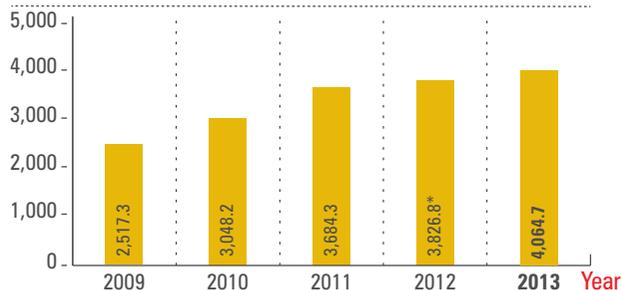
[#] Restated due to retrospective application of MFRS 119. For FYE2011, only relevant balance sheet items have been restated to position as at 1 January 2012.

SUMMARY OF FIVE-YEAR GROUP GROWTH

Net Profit Attributable To Equity Holders

RM4,064.7 Million

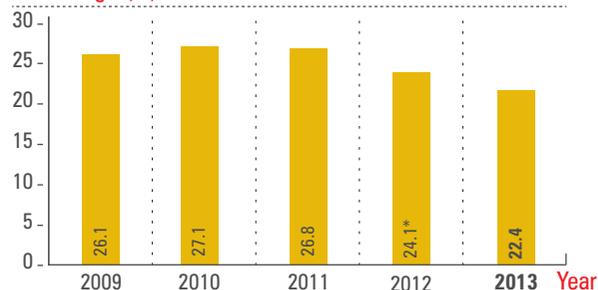
RM'Million



Net Return On Equity

22.4%

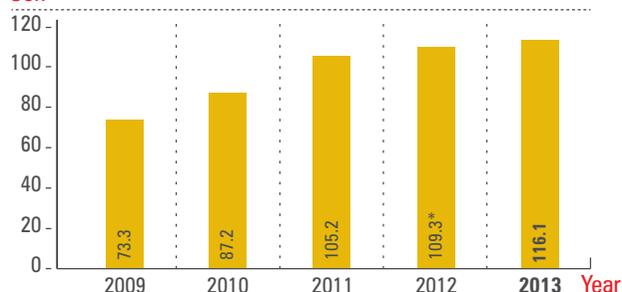
Percentage (%)



Earnings Per Share

116.1 Sen

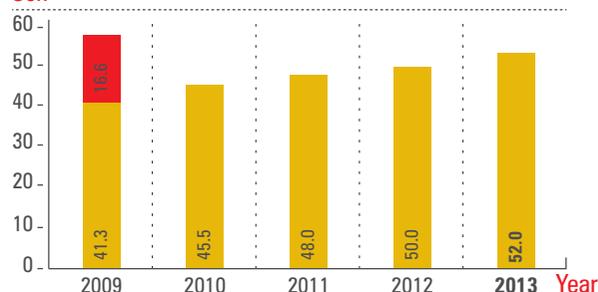
Sen



Dividend Per Share

52.0 Sen

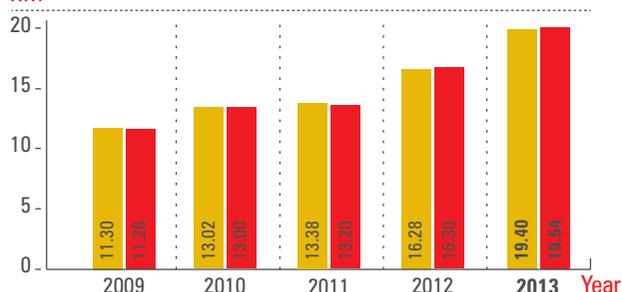
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Share Price

RM19.40

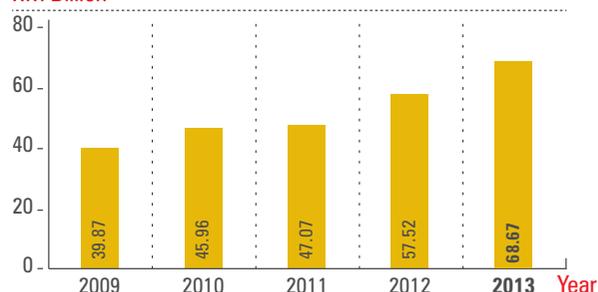
RM



Market Capitalisation

RM68.67 Billion

RM'Billion

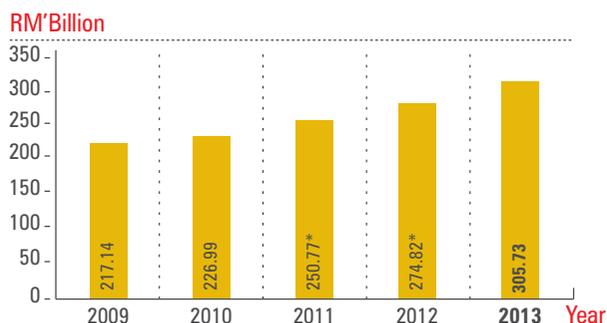


Public Bank's Ranking by Market Capitalisation on Bursa Malaysia Securities Berhad

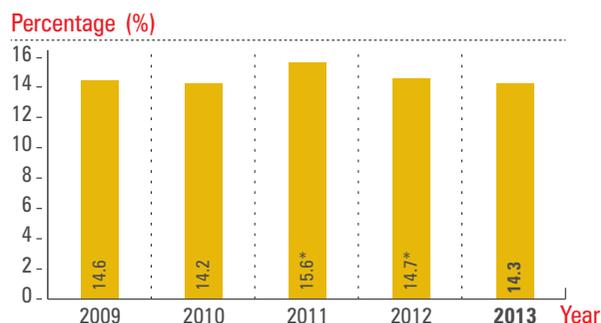
Year	2013	2012	2011	2010	2009
Ranking	2nd	2nd	5th	4th	5th

* Restated due to retrospective application of MFRS 119

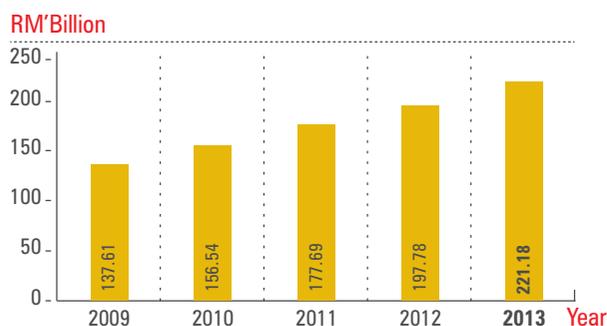
Total Assets
RM305.73 Billion



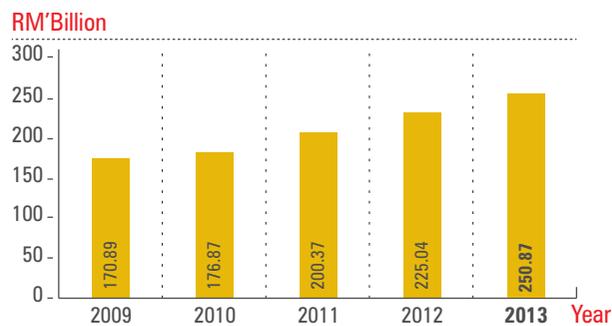
Total Capital Ratio
14.3%



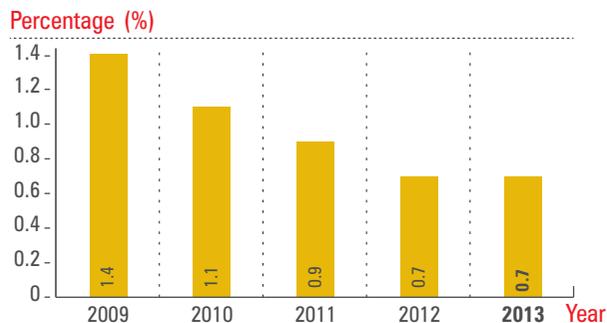
Gross Loans, Advances and Financing
RM221.18 Billion



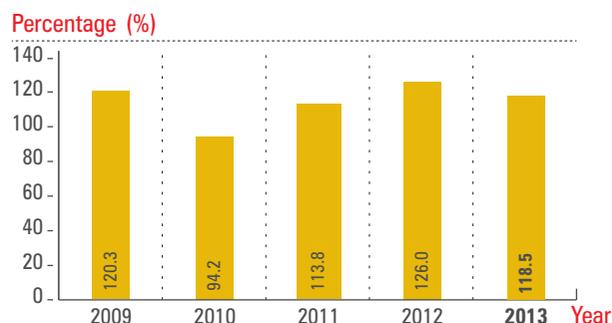
Customer Deposits
RM250.87 Billion



Gross Impaired Loans Ratio
0.7%



Loan Loss Coverage
118.5%



* Restated due to retrospective application of MFRS 119

SEGMENTAL ANALYSIS



Operating Revenue

Domestic

- 16.0% Hire purchase
- 48.0% Retail operations
- 6.9% Corporate lending
- 11.9% Treasury and capital market operations
- 1.3% Investment banking
- 6.2% Fund management
- 2.5% Others

Overseas

- 5.3% Hong Kong SAR
- 1.6% Cambodia
- 0.3% Other countries

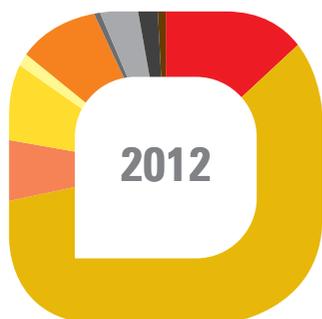
Operating Revenue

Domestic

- 15.3% Hire purchase
- 48.2% Retail operations
- 7.0% Corporate lending
- 11.9% Treasury and capital market operations
- 1.3% Investment banking
- 6.7% Fund management
- 2.5% Others

Overseas

- 5.0% Hong Kong SAR
- 1.6% Cambodia
- 0.5% Other countries



Profit Before Tax

Domestic

- 13.2% Hire purchase
- 59.2% Retail operations
- 6.4% Corporate lending
- 7.0% Treasury and capital market operations
- 0.9% Investment banking
- 7.4% Fund management
- (0.5%) Others

Overseas

- 3.6% Hong Kong SAR
- 2.2% Cambodia
- 0.6% Other countries

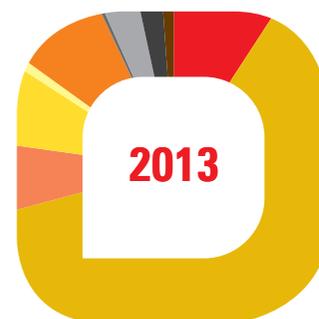
Profit Before Tax

Domestic

- 9.3% Hire purchase
- 61.9% Retail operations
- 6.4% Corporate lending
- 7.1% Treasury and capital market operations
- 0.9% Investment banking
- 8.0% Fund management
- (0.2%) Others

Overseas

- 3.5% Hong Kong SAR
- 2.2% Cambodia
- 0.9% Other countries



Total Assets

Domestic

- 12.7% Hire purchase
- 51.0% Retail operations
- 7.3% Corporate lending
- 21.5% Treasury and capital market operations
- 1.3% Investment banking
- 0.1% Fund management
- 0.1% Others

Overseas

- 4.7% Hong Kong SAR
- 1.1% Cambodia
- 0.2% Other countries

Total Assets

Domestic

- 12.2% Hire purchase
- 52.3% Retail operations
- 7.2% Corporate lending
- 20.9% Treasury and capital market operations
- 1.2% Investment banking
- 0.1% Fund management
- 0.1% Others

Overseas

- 4.6% Hong Kong SAR
- 1.1% Cambodia
- 0.3% Other countries



ANALYSIS OF THE FINANCIAL STATEMENTS

ANALYSIS OF THE INCOME STATEMENT

Net income

The Public Bank Group's net income registered a growth of 5.3% to RM8.16 billion in 2013 from RM7.75 billion in 2012. The growth was mainly contributed by increase in net interest income by 6.0% and other operating income by 6.2%.

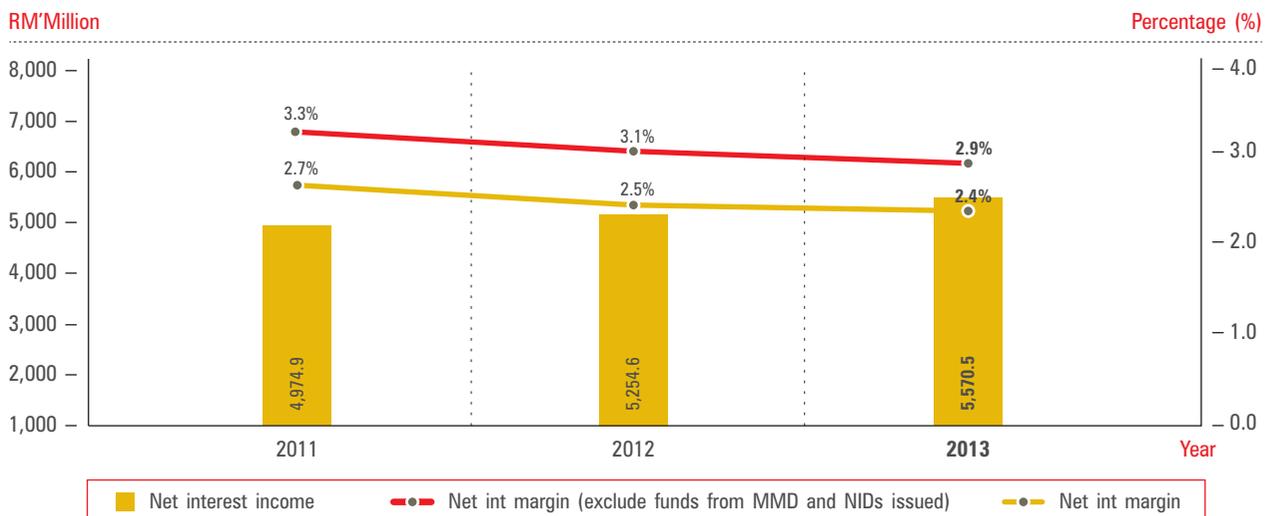
	2013 RM'000	2012 RM'000	Variance		Contribution
			RM'000	%	%
Net interest income	5,570,538	5,254,645	315,893	6.0	68.3
Net income from Islamic Banking Business	837,136	843,766	(6,630)	(0.8)	10.3
Other operating income	1,750,643	1,648,298	102,345	6.2	21.4
Net income	8,158,317	7,746,709	411,608	5.3	100.0

Net interest income

Net interest income remained as the Public Bank Group's primary source of income as it contributed 68.3% of the Group's total net income in 2013. Net interest income increased by 6.0% or RM315.9 million to RM5.57 billion in 2013 due to strong loans and customer deposits growth but was offset by lower net interest margin.

Net interest margin on interest-bearing assets declined by 15 basis points to 2.4% in 2013 as a result of intense market competition.

Net Interest Income and Margins



Net income from Islamic banking business

The Public Bank Group's net income from Islamic banking business remained stable at RM837.1 million in 2013. The decrease in net income by 0.8% was mainly due to net interest margin compression in 2013.

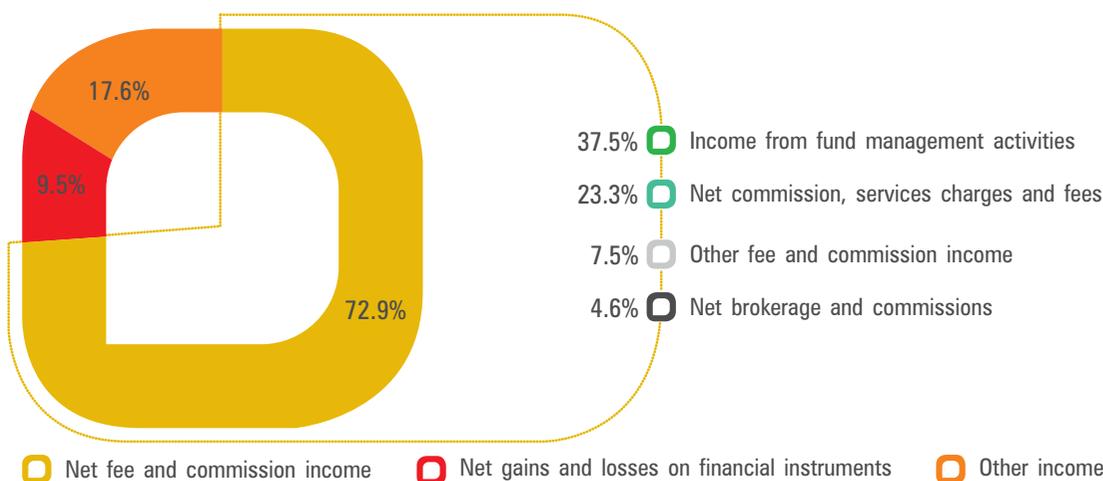
ANALYSIS OF THE FINANCIAL STATEMENTS

Other operating income

Other operating income continued to expand by RM102.3 million or 6.2% to RM1,750.6 million as compared to the previous corresponding financial year. This was mainly due to growth in net fee and commission income by 9.4%.

	2013	2012	Variance	
	RM'000	RM'000	RM'000	%
Net fee and commission income	1,275,345	1,165,313	110,032	▲ 9.4
<i>of which:</i>				
<i>Net commission, service charges and fees</i>	407,428	394,684	12,744	▲ 3.2
<i>Net brokerage and commissions</i>	80,053	75,509	4,544	▲ 6.0
<i>Income from fund management activities</i>	656,022	557,126	98,896	▲ 17.8
Net gains and losses on financial instruments	166,983	170,244	(3,261)	▼ (1.9)
Other income	308,315	312,741	(4,426)	▼ (1.4)
<i>of which:</i>				
<i>Profits from foreign exchange business</i>	232,844	225,445	7,399	▲ 3.3
Total other operating income	1,750,643	1,648,298	102,345	▲ 6.2

Other Operating Income Contribution 2013



The increase of net fee and commission income by RM110.0 million or 9.4% to RM1,275.3 million was mainly attributed to higher income from the Public Bank Group's fund management activities. The higher income was a result of growth in net asset value of unit trust funds under management by 14.5% to RM62.50 billion in 2013. Net commission, service charges and fees rose by RM12.7 million or 3.2% to RM407.4 million in 2013. Net brokerage and commissions from stock broking activities contributed RM80.1 million to the Group's total other operating income in 2013.

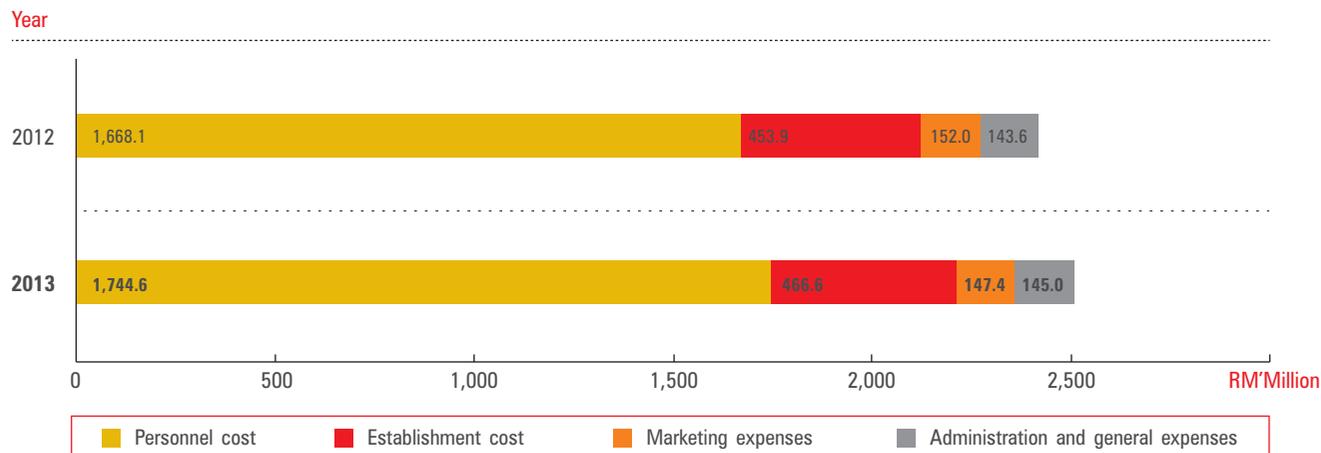
Net gains and losses on financial instruments decreased by RM3.3 million or 1.9% to RM167.0 million in 2013.

Other income accounted for 17.6% of the Group's total other operating income in 2013 as compared to 19.0% in 2012.

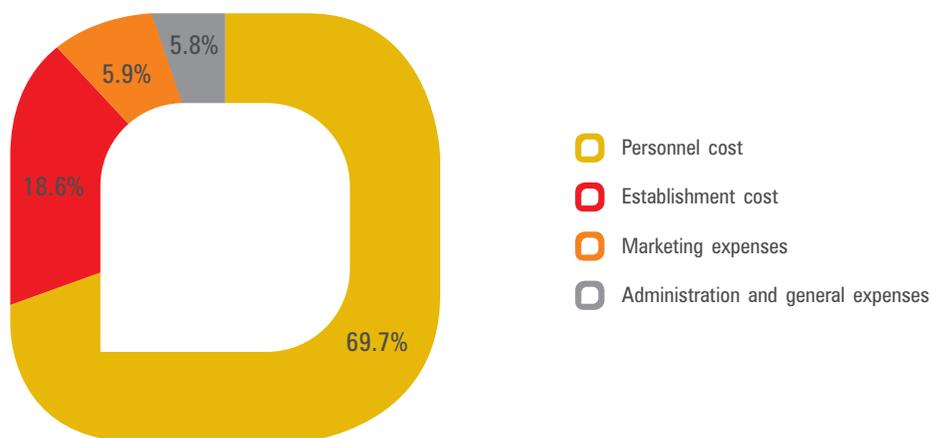
Other operating expenses

The other operating expenses of the Public Bank Group reported an increase of 3.6% or RM86.0 million to RM2,503.6 million in 2013, mainly due to higher personnel cost.

Total Other Operating Expenses



Other Operating Expenses Contribution 2013



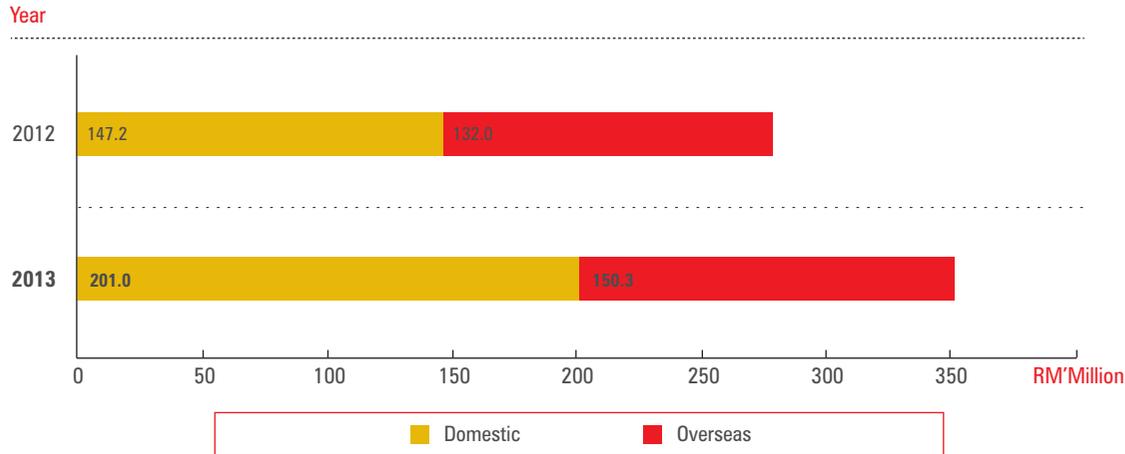
Personnel cost accounted for 69.7% of the total other operating expenses of the Group. In 2013, personnel cost grew by 4.6% to RM1,744.6 million as a result of annual salary increments and increased staff strength to support business expansion. This is reflected by the increase in employees of the Group from 17,625 as at the end of 2012 to 17,924 as at the end of 2013.

Establishment cost rose by 2.8% or RM12.7 million to RM466.6 million in 2013. The increase was primarily due to opening of new branches and expansion of existing branches. Establishment cost accounted for 18.6% of total other operating expenses of the Group.

Marketing expenses decreased by 3.0% or RM4.6 million whilst administration and general expenses increased by 1.0% or RM1.4 million in 2013, accounting for 5.9% and 5.8% respectively of the Group's total operating expenses.

ANALYSIS OF THE FINANCIAL STATEMENTS

Allowance for Impairment on Loans, Advances and Financing



Allowance for impairment on loans, advances and financing

Domestic allowance for impairment on loans, advances and financing increased by 36.5% or RM53.8 million to RM201.0 million in 2013, mainly due to higher collective assessment allowance particularly in respect of the hire purchase lending portfolio.

Overseas allowance for impairment on loans, advances and financing grew from RM132.0 million in 2012 to RM150.3 million in 2013 mainly due to loans growth in the Group's Cambodian operations.

Writeback of impairment loss

A writeback of impairment loss was reported in 2013 at RM0.1 million as compared to impairment loss of RM6.6 million in 2012 due to lower impairment loss on foreclosed properties and equity securities in 2013.

Tax expenses and zakat

The Public Bank Group's tax expense was RM1,204.3 million in 2013, an increase of 2.2% or RM26.3 million from RM1,178.0 million in 2012.

The Group's effective tax rate was 22.7% in 2013, lower than Malaysia's statutory tax rate of 25% mainly due to certain income not subject to tax and the effects of lower tax rates in jurisdictions outside Malaysia.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

	2013 RM'Million	2012# RM'Million	Variance RM'Million	%
Assets				
Cash and balances with banks	22,080	18,636	3,444	18.5
Reverse repurchase agreements	9,542	8,159	1,383	17.0
Financial assets held-for-trading	15,812	16,617	(805)	(4.8)
Financial investments available-for-sale	17,619	17,201	418	2.4
Financial investments held-to-maturity	7,794	6,258	1,576	24.5
Loans, advances and financing	219,416	196,052	23,364	11.9
Statutory deposits with Central Banks	6,925	5,787	1,138	19.7
Other assets	6,537	6,114	423	6.9
Total Assets	305,725	274,824	30,901	11.2
Liabilities				
Deposits from customers	250,873	225,042	25,831	11.5
Deposits from banks	16,176	12,849	3,327	25.9
Debt securities issued and other borrowed funds	10,370	9,947	423	4.3
Other liabilities	7,109	8,268	(1,159)	(14.0)
Total Liabilities	284,528	256,106	28,422	11.1
Total Equity	21,197	18,718	2,479	13.2
Total Liabilities and Equity	305,725	274,824	30,901	11.2

Restated due to retrospective application of MFRS 119

Total assets

The Public Bank Group's total assets increased by RM30.90 billion or 11.2% higher at RM305.73 billion as at 31 December 2013. The increase was mainly contributed by strong loan growth of 11.9% and higher cash and bank balances.

As at the end of December 2013, net loans, advances and financing remained as the largest component of the Group's total assets at 71.8% as compared to 71.3% in the previous year. The proportion of interest-bearing assets remained high at 93.3%.

Cash and balances with banks

Cash and balances with banks stood at RM22.08 billion as at 31 December 2013, an increase of RM3.44 billion or 18.5% during the year. The excess liquidity in the Group was mainly held in short-term money market placements.

Reverse repurchase agreements

The reverse repurchase agreements, as an alternative avenue for the placement of liquid funds, increased by RM1.38 billion mainly due to higher Malaysian Government Securities purchased under resale agreements with Bank Negara Malaysia.

Financial investments

The Group's financial investments portfolio are mainly held for yield and liquidity purposes. Holdings of trading book positions are classified under financial assets held-for-trading. The Group's trading book position which accounted for 38.4% of the Group's total financial investments decreased by RM0.8 billion during the year, mainly due to the decrease in holdings of government-related securities partially offset by increase in holdings of money market instruments.

The Group's banking book positions are classified under its financial investments available-for-sale and financial investments held-to-maturity portfolios. As at 31 December 2013, 42.7% and 18.9% of the Group's total financial investments were held in financial investments available-for-sale and financial investments held-to-maturity respectively.

Financial investments available-for-sale increased marginally by RM0.4 billion, whereas financial investments held-to-maturity increased by RM1.54 billion or 24.5% which was mainly attributable to the increased holdings of government-related securities and non-money market instruments.

Loans, advances and financing

The Group was able to maintain its strong growth momentum by expanding its loan base by RM23.36 billion or 11.9% to RM219.42 billion as at end of 2013. This was supported by its domestic loan which recorded a stronger growth at 12.0%, outpacing the domestic banking industry's loan growth of 10.6%. As a result, the market share had grown to 16.9% as at December 2013. The Group's focus has remained on the retail sector with extension of credit mainly to residential properties, purchase of passenger vehicles and small and medium enterprises, which grew by 16.0%, 6.9% and 19.2% respectively. Despite the consistent double digit growth in its loan portfolio year after year, the asset quality has not been compromised, with the impaired loan ratio remaining at 0.7% as at end of 2013.

Total liabilities and equity

The Public Bank Group's total liabilities grew by RM28.42 billion in 2013, mainly from an increase in customer deposits and deposits from banks by RM25.83 billion and RM3.33 billion respectively. The Group's equity had remained strong at RM21.20 billion, despite the payment of dividends amounting to RM1.82 billion in 2013, which was mainly due to strong net profits of RM4.06 billion registered during the year.

Deposits from customers

In tandem with the loan growth, the Group's deposits from customers grew by RM25.83 billion or 11.5% to RM250.87 billion, which was mainly due to the strong growth in core customer deposits. Domestic core customer deposits registered a stronger growth rate, translating into a higher market share of 17.4% as at December 2013. The Group's loan to deposit ratio remained healthy at 87.5%.

Deposits from banks

As part of the Group's funding and gapping activities, deposits from banks increased by RM3.33 billion to RM16.18 billion, due to higher interbank borrowings.

Debt securities issued and other borrowed funds

The Group's debt instruments consist of Subordinated Notes, Innovative Tier I Capital Securities, Non-innovative Tier I Stapled Securities, Senior Medium Term Notes and other borrowings. Besides funding the expansion of its balance sheet and diversifying its funding base, these funds have also strengthened the Group's capital base and improving its return on equity.

During the year, the Group issued RM0.4 billion Senior Medium Term Notes and RM1.95 billion in nominal value of subordinated notes under its RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme, in replacement for the redemption of RM1.4 billion subordinated notes issued in prior years.

Other liabilities

Other liabilities decreased by RM1.16 billion, mainly due to the decrease in bills and acceptances payable by RM1.48 billion.

STATEMENT OF RESPONSIBILITY BY DIRECTORS

In respect of the preparation of the annual audited financial statements

The Directors are responsible for ensuring that the annual audited financial statements of the Group and the Bank are drawn up in accordance with the requirements of the Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards, the provisions of the Companies Act, 1965 in Malaysia and the Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are also responsible for ensuring that the annual audited financial statements of the Group and the Bank are prepared with reasonable accuracy from the accounting records of the Group and the Bank so as to give a true and fair view of the financial position of the Group and the Bank as of 31 December 2013 and of their financial performance and cash flows for the year then ended.

In preparing the annual audited financial statements, the Directors have:

- a. applied the appropriate and relevant accounting policies on a consistent basis;
- b. made judgments and estimates that are reasonable and prudent; and
- c. prepared the audited financial statements on a going concern basis.

The Directors also have a general responsibility to take reasonable steps to safeguard the assets of the Group and the Bank to prevent and detect fraud and other irregularities.

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DIRECTORS' REPORT

for the financial year ended 31 December 2013

The Directors have pleasure in presenting to the members their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in all aspects of commercial banking and the provision of related financial services.

The principal activities of the subsidiary and associated companies are as disclosed in Notes 13 and 14 to the financial statements respectively.

There have been no significant changes to these principal activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Profit before tax expense and zakat	5,309,984	4,646,632
Tax expense and zakat	(1,204,342)	(941,517)
Profit for the year	4,105,642	3,705,115
Attributable to:		
Equity holders of the Bank	4,064,683	3,705,115
Non-controlling interests	40,959	–
Profit for the year	4,105,642	3,705,115

DIVIDENDS

The amount of dividends paid by the Bank since 31 December 2012 were as follows:

	RM'000
In respect of financial year ended 31 December 2012:	
Second interim single tier dividend of 30.0% on 3,502,125,130 ordinary shares of RM1.00 each, paid on 5 March 2013	1,050,638
In respect of financial year ended 31 December 2013:	
First interim single tier dividend of 22.0% on 3,502,125,130 ordinary shares of RM1.00 each, paid on 20 August 2013	770,467
	1,821,105

DIRECTORS' REPORT

DIVIDENDS (CONT'D.)

Subsequent to the financial year end, on 5 February 2014, the Directors declared a second interim single tier dividend of 30.0%, with the total amounting to approximately RM1,050,637,539 in respect of the current financial year. This is computed based on the issued and paid-up capital as at 31 December 2013, excluding treasury shares held by the Bank, of 3,502,125,130 ordinary shares of RM1.00 each, to be paid and distributed to shareholders whose names appear in the Record of Depositors at the close of business on 20 February 2014. The financial statements for the current financial year do not reflect these dividends. Upon declaration, this dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2014.

18 The Directors do not propose any final dividend for the financial year ended 31 December 2013.

ISSUE OF SHARES

There were no changes to the authorised, issued and paid-up capital of the Bank during the financial year.

SHARE BUY-BACK

The Bank did not make any purchase of its own shares and none of the treasury shares held were resold or cancelled during the financial year.

As at 31 December 2013, the Bank held 29,800,704 Public Bank Berhad ("PBB") Shares as treasury shares out of its total issued and paid-up share capital of 3,531,925,834 PBB Shares. Such treasury shares are held at a carrying amount of RM215,571,989. Further information is disclosed in Note 27 to the financial statements.

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than those disclosed in Note 9, Note 10 and Note 28 to the financial statements.

BAD AND DOUBTFUL DEBTS AND FINANCING

Before the statements of profit or loss and statements of financial position of the Group and the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for doubtful debts and financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts and financing, or the amount of the allowance for doubtful debts and financing in the financial statements of the Group and the Bank, inadequate to any substantial extent.

CURRENT ASSETS

Before the statements of profit or loss and statements of financial position of the Group and the Bank were made out, the Directors took reasonable steps to ensure that current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Group and the Bank have been written down to an amount which they might be expected to realise.

CURRENT ASSETS (CONT'D.)

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets and liabilities in the financial statements of the Group and the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group or the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group or the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business.

No contingent liability or other liability of the Group and the Bank has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group or the Bank to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and the Bank, which would render any amount stated in the financial statements misleading.

ITEMS OF UNUSUAL NATURE

The results of the operations of the Group and the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and the Bank for the current financial year in which this report is made.

SIGNIFICANT EVENTS DURING THE YEAR

The significant events during the financial year are as disclosed in Note 55 to the financial statements.

SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

DIRECTORS' REPORT

DIRECTORS OF THE BANK

The Directors who served since the date of the last report are:

Tan Sri Dato' Sri Dr. Teh Hong Piow
Tan Sri Datuk Seri Utama Thong Yaw Hong
Tan Sri Dato' Sri Tay Ah Lek
Dato' Sri Lee Kong Lam
Dato' Yeoh Chin Kee
Dato' Haji Abdul Aziz bin Dato' Dr. Omar
Tang Wing Chew
Lai Wan
Lai Wai Keen
Quah Poh Keat (*resigned on 1 October 2013*)

In accordance with Article 111 of the Bank's Articles of Association, Tang Wing Chew retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Datuk Seri Utama Thong Yaw Hong, Tan Sri Dato' Sri Tay Ah Lek, Dato' Sri Lee Kong Lam and Lai Wan retire pursuant to Section 129 of the Companies Act, 1965 at the forthcoming Annual General Meeting and offer themselves for re-appointment in accordance with Section 129 of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting of the Bank.

Dato' Yeoh Chin Kee who retires pursuant to Section 129 of the Companies Act, 1965, will not be seeking re-appointment at the forthcoming Annual General Meeting and therefore shall retire at the conclusion of the said Annual General Meeting.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of the Directors in office at the end of the financial year in shares of the Bank, and in shares and in options of its subsidiary company during the financial year were as follows:

Shares Held in the Bank

	Number of Ordinary Shares of RM1.00 Each			Balance at 31.12.2013
	Balance at 1.1.2013	Acquired	Disposed	
Direct interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	22,464,802	—	—	22,464,802
Tan Sri Datuk Seri Utama Thong Yaw Hong	7,633,342	—	—	7,633,342
Tan Sri Dato' Sri Tay Ah Lek	5,898,951	—	—	5,898,951
Dato' Sri Lee Kong Lam	380,866	—	—	380,866
Dato' Yeoh Chin Kee	100,000	—	—	100,000
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	482,037	—	(400,000)	82,037

DIRECTORS' INTERESTS (CONT'D.)

Shares Held in the Bank (Cont'd.)

	Number of Ordinary Shares of RM1.00 Each			
	Balance at 1.1.2013	Acquired	Disposed	Balance at 31.12.2013
Indirect interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	820,835,261	–	–	820,835,261
Tan Sri Datuk Seri Utama Thong Yaw Hong	857,785	–	–	857,785
Tan Sri Dato' Sri Tay Ah Lek	354,315	–	–	354,315
Dato' Sri Lee Kong Lam	434,957	–	–	434,957
Lai Wan	16,959	–	–	16,959
Lai Wai Keen	3,007	–	(3,007)	–

Shares Held in a Subsidiary Company

– Shares Held in Public Financial Holdings Limited ("PFHL")

	Number of Ordinary Shares of HKD0.10 Each			
	Balance at 1.1.2013	Acquired	Disposed	Balance at 31.12.2013
Direct interests:				
Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	350,000

Share Options Held in a Subsidiary Company

– Share Options Held under the PFHL Employees' Share Option Scheme ("PFHL Share Options")

	Option Price HKD	Number of PFHL Share Options				Balance at 31.12.2013
		Balance at 1.1.2013	Granted	Exercised	Lapsed	
Tan Sri Dato' Sri Tay Ah Lek	6.35	1,230,000	–	–	–	1,230,000

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in the Bank or its related corporations during the financial year.

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his total direct and indirect interests of 843,300,063 shares in the Bank, and pursuant to Section 6A(4)(c) of the Companies Act, 1965, is deemed interested in the shares in all of the Bank's subsidiary and associated companies to the extent that the Bank has interests.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Bank or its subsidiary companies is a party with the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate, other than the PFHL Share Options.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full time employee of the Bank as disclosed in Note 36 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has substantial financial interest except for those transactions arising in the ordinary course of business as disclosed in Note 42(a) to the financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee carries out the annual review of the overall remuneration policy for Directors, Chief Executive Officer, Deputy Chief Executive Officer and key Senior Management Officers whereupon recommendations are made to the Board of Directors for approval.

The members of the Remuneration Committee comprising of Non-Executive Directors of the Bank are:

Tan Sri Datuk Seri Utama Thong Yaw Hong (Independent)
Dato' Sri Lee Kong Lam (Non-Independent) (appointed on 9 December 2013)
Dato' Yeoh Chin Kee (Non-Independent)
Dato' Haji Abdul Aziz bin Dato' Dr. Omar (Non-Independent)
Tang Wing Chew (Independent)
Lai Wan (Independent) (appointed on 5 January 2014)
Lai Wai Keen (Independent) (appointed on 5 January 2014)
Quah Poh Keat (Independent) (resigned on 1 October 2013)

BUSINESS REVIEW 2013

Despite the challenging global economic conditions, the Malaysian economy remained resilient in 2013, driven mainly by domestic demand. The operating environment remained supportive of the banking business. During the year, the Malaysian banking sector continued to be sound and stable, underpinned by strong capitalisation, high asset quality and ample liquidity.

In 2013, the Public Bank Group continued to achieve strong performance in its lending and deposit-taking business. Lending to the retail sector remained the main focus of the Group with extension of credit mainly to residential mortgages, purchase of passenger vehicle and lending to small and mid-market commercial enterprises. During the year, the Group's total loans outstanding increased by 11.8%, with home mortgages increasing by 16.0%, passenger vehicle hire purchase financing increasing by 6.9% and loans to small and medium enterprises ("SMEs") increasing by 19.2%.

The Public Bank Group continued to sustain its strong asset quality, backed by its prudent credit policy, strong credit culture and strong risk management practices. As at the end of 2013, the gross impaired loans ratio remained low at 0.7%, which was significantly lower than the banking industry's ratio of 1.9%.

BUSINESS REVIEW 2013 (CONT'D.)

To grow its deposit-taking business, the Public Bank Group accelerated its efforts to attract deposits through its strong deposit franchise coupled with attractive deposit rates and deposit campaigns, namely PB Golden Fortune, PB FD Fortune, PB Super FD Rates and PB Golden Fortune 2. During the year, the Group achieved strong deposit growth of 11.5%, mainly attributed to steady inflow of fixed deposits, low-cost savings and current accounts, which grew by 13.7%, 8.8% and 17.1% respectively. As at the end of 2013, the Group's loan-to-deposit ratio remained healthy at 87.5%. The Group continued to lead the Malaysian banking industry in terms of cost efficiency with its lower cost-to-income ratio of 30.7%.

During the year, the Public Bank Group continued to intensify its effort to grow fee-based income from unit trust, bancassurance products, card business, trade finance and remittance business. In its fund management business, Public Mutual, Public Bank's wholly-owned subsidiary, retained its market leadership in the private unit trust industry, with overall market share of 41.2% as at the end of 2013, underpinned by its superior fund performance, strong distribution capabilities and strong branding. Public Mutual successfully launched four unit trust funds in 2013 with total of funds under its management reaching 104 as at the end of 2013. Net asset value of funds under its management increased by 14.5% during the year to RM62.5 billion.

The Public Bank Group's bancassurance business continued to expand during the year. Under the strategic partnership with AIA Group, Public Bank unveiled two regular premium investment-linked bancassurance products known as empower Plan and empower Edu Plan. These two products offer a combination of protection and investment elements to suit the different lifestyle needs of its customers. In addition, a new insurance product, the PB Care PA Plan was introduced through the telemarketing channel.

As at the end of 2013, the Public Bank Group further expanded its domestic branch network to 258 branches, to better serve its large customer base of individuals and business enterprises. The Group also continued to invest in multiple delivery channels and its strong sales and marketing force to drive business growth. In line with Bank Negara Malaysia's objective to migrate from paper-based payments to electronic payments, the Group has implemented various initiatives to improve its e-banking platform to enhance customers' banking experience.

The Public Bank Group remains committed to expand its overseas business. Today, the Group's overseas operations comprise 124 branches, with 83 branches in Hong Kong, 3 branches in China, 25 branches in Cambodia, 7 branches in Vietnam, 4 branches in Laos, 2 branches in Sri Lanka and 3 representative offices in Shanghai, Shenyang and Taipei.

In 2013, the Group continued to undertake Corporate Social Responsibility programmes in nation building, enhancement of the market place, promotion of the work place, education, community and health care support and environmental conservation.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2014

The global economy is expected to strengthen moderately in 2014. Growth in major advanced economies is likely to gain traction, while growth in most Asian economies will remain at a healthy pace. However, there remains downside risks to global growth, including fiscal uncertainty in the US and unresolved balance sheet problem in the euro area. Furthermore, persistent high unemployment and public debt remain a concern to the economic outlook.

The Malaysian economic growth is expected to sustain in 2014, underpinned by sustained domestic demand led by private sector activities and a recovery in the external sector. Favourable labour market and wage increases will continue to support consumption. Private investments are expected to remain resilient as the implementation of Economic Transformation Programme continues. Capital spending in export oriented-industries is also expected to increase as the global economy improves. On the supply side, growth is likely to be broad-based, with strong performance in the services, manufacturing and construction sectors. The expected reduction of subsidies by the Government is likely to contribute to a rise in inflation, but it is expected to remain manageable.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2014 (CONT'D.)

On monetary policy, Bank Negara Malaysia is expected to keep interest rates accommodative to support growth, while ensuring price stability. On fiscal policy, the Government has taken important steps to strengthen fiscal management, including the introduction of Goods and Services Tax in April 2015 and subsidy rationalisation. The Government targets to reduce the fiscal deficit to 3.5% of GDP in 2014 from 4.0% in 2013. While the eventual tapering of asset purchase programme by the US is likely to raise the risk of capital outflows, Malaysia's strong external position and sound financial system will help the country to navigate the volatility.

24 BUSINESS OUTLOOK FOR 2014

Outlook for the Malaysian economy is expected to remain stable in 2014, with private sector-led domestic demand being the anchor of growth. Amidst the positive economic outlook, the Malaysian banking industry is expected to remain resilient due to its strong capitalisation and asset quality, sustained profitability, and healthy liquidity profile. Net interest margin is likely to remain compressed due to intense competition in the banking sector.

In 2013, the Government introduced a set of measures to further promote healthy and sustainable household and property sectors. These measures include setting the maximum tenure for personal financing and loan for purchase of properties, prohibiting features of Developer Interest Bearing Scheme and raising the Real Property Gains Tax. These prudential measures address the risk from excessive household indebtedness among the lower-income segments, and will help to ensure a healthy and sustainable credit market, hence preserve stability in the financial system.

The Public Bank Group will continue to focus on organic growth strategies to grow its retail loans and customer deposits. The lending business will continue to be supported by growth in home mortgages, vehicle financing and lending to SMEs. Based on the healthy pace of economic growth, accommodative monetary environment and higher income growth, the Group continues to see growth opportunities in the lending business. The Group will further drive new product innovation, enhance service delivery and loan turnaround time, as well as promote cross-selling activities to further expand its market share.

The Public Bank Group will continue to implement its prudent credit appraisal and approval process as well as stringent underwriting standards. For its funding side, the Group will continue to promote core customer deposits to maintain efficient funding cost as well as to retain a stable and healthy liquidity position.

The Public Bank Group will continue to expand the scale and scope of its fee-based activities, targeting fee income from unit trust, bancassurance, foreign-exchange related transactions and transactional banking services. The Group will further tap on the continuing expansion of the economy and increasing affluence of customers to grow its fee-based income. To meet customer's various investment appetites, the Group will offer a wider range of financial product offerings. The Group will also continue to make further progress to grow its overseas business and tap on growth opportunities in the region.

The Public Bank Group will continue to enhance its multi-channel banking, including its extensive branch network, large sales and marketing staff force, as well as multiple electronic and self-service channels, such as internet banking and self-service machines to further expand its business. In addition, the Group will place more emphasis on delivering high standard of customer service. Human capital and talent development will continue to be a major focus of the Group.

To sustain long-term business growth, the Public Bank Group will continue to adhere to strong corporate governance practices, sound risk management and prudent credit policies. The Group will also continue to assess and enhance its capability to manage new regulatory changes while maintaining the viability of its business.

AUDITORS

The retiring auditors, Messrs. KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW

Director

TAN SRI DATUK SERI UTAMA THONG YAW HONG

Director

Kuala Lumpur

Date: 5 February 2014

STATEMENT BY DIRECTORS

We, TAN SRI DATO' SRI DR. TEH HONG PIOW and TAN SRI DATUK SERI UTAMA THONG YAW HONG, being two of the Directors of PUBLIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 29 to 256 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2013 and of their financial performance and cash flows for the year then ended.

The information set out in Note 58 to the financial statements on pages 257 to 258 have been compiled in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW
Director

TAN SRI DATUK SERI UTAMA THONG YAW HONG
Director

Kuala Lumpur
Date: 5 February 2014

STATUTORY DECLARATION

I, YIK SOOK LING, being the officer primarily responsible for the financial management of PUBLIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 29 to 258, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed **YIK SOOK LING** at KUALA LUMPUR
in WILAYAH PERSEKUTUAN this 5 February 2014

BEFORE ME:

Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

to the members of Public Bank Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Public Bank Berhad, which comprise the statements of financial position as at 31 December 2013 of the Group and of the Bank, and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 29 to 256.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of these financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the accounts and the auditors' reports of all the subsidiary companies of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.

INDEPENDENT AUDITORS' REPORT

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (CONT'D.)

- (c) We are satisfied that the accounts of the subsidiary companies that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 58 to the financial statements on pages 257 to 258 has been compiled by the Group and the Bank as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

Firm Number: AF 0758
Chartered Accountants

Petaling Jaya
Date: 5 February 2014

KHAW HOCK HOE

Approval Number: 2229/04/14(J)
Chartered Accountant

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2013

	Note	Group			Bank		
		31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
ASSETS							
Cash and balances with banks	3	22,080,417	18,635,951	18,633,783	12,750,086	11,679,843	10,508,349
Reverse repurchase agreements	4	9,541,969	8,158,506	9,287,255	8,638,588	7,309,153	8,435,611
Financial assets held-for-trading	5	15,811,963	16,617,135	10,656,825	13,986,426	13,599,044	10,406,551
Derivative financial assets	6	365,354	370,465	493,852	350,729	364,344	492,536
Financial investments available-for-sale	7	17,618,512	17,201,120	16,719,433	15,124,867	15,620,244	14,287,941
Financial investments held-to-maturity	8	7,793,551	6,257,771	7,629,233	5,787,800	4,509,314	7,073,857
Loans, advances and financing	9	219,415,793	196,051,603	175,952,777	182,404,573	162,968,608	143,385,498
Other assets	10	2,539,699	2,205,998	2,221,635	2,409,310	2,098,972	2,119,787
Statutory deposits with Central Banks	11	6,924,832	5,787,206	5,597,801	5,565,946	4,738,213	4,496,365
Deferred tax assets	12	70,121	63,227	46,093	–	–	–
Investment in subsidiary companies	13	–	–	–	4,436,050	4,263,581	4,088,581
Investment in associated companies	14	158,885	151,210	155,997	121,325	121,325	121,325
Investment properties	15	97,391	87,886	70,754	–	–	–
Property and equipment	16	1,302,997	1,309,533	1,341,940	568,346	607,934	657,124
Intangible assets	17	2,003,912	1,926,347	1,965,476	695,393	695,393	695,393
TOTAL ASSETS		305,725,396	274,823,958	250,772,854	252,839,439	228,575,968	206,768,918
LIABILITIES							
Deposits from customers	18	250,873,189	225,042,325	200,370,525	201,871,592	181,688,444	159,384,439
Deposits from banks	19	16,175,836	12,849,313	15,806,732	16,923,048	14,408,778	16,717,349
Bills and acceptances payable	20	1,573,443	3,048,821	2,095,335	1,627,515	3,132,692	2,095,076
Recourse obligations on loans and financing sold to Cagamas	21	500,011	501,496	11,789	–	1,493	11,789
Derivative financial liabilities	6	334,590	233,564	236,724	429,495	210,760	190,325
Debt securities issued and other borrowed funds	22	10,369,825	9,946,853	11,317,833	9,906,434	9,081,942	10,422,749
Other liabilities	23	4,020,416	3,670,249	3,560,244	2,845,591	2,578,888	2,457,855
Provision for tax expense and zakat	25	585,229	740,283	777,405	362,971	522,088	563,807
Deferred tax liabilities	12	95,661	72,750	85,793	50,738	55,990	80,841
TOTAL LIABILITIES		284,528,200	256,105,654	234,262,380	234,017,384	211,681,075	191,924,230

STATEMENTS OF
FINANCIAL POSITION

	Note	Group			Bank		
		31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
EQUITY							
Share capital	26	3,531,926	3,531,926	3,531,926	3,531,926	3,531,926	3,531,926
Reserves		17,107,240	14,702,086	12,496,636	15,505,701	13,578,539	11,528,334
Treasury shares	27	(215,572)	(215,572)	(215,572)	(215,572)	(215,572)	(215,572)
Equity attributable to equity holders of the Bank		20,423,594	18,018,440	15,812,990	18,822,055	16,894,893	14,844,688
Non-controlling interests		773,602	699,864	697,484	–	–	–
TOTAL EQUITY		21,197,196	18,718,304	16,510,474	18,822,055	16,894,893	14,844,688
TOTAL LIABILITIES AND EQUITY		305,725,396	274,823,958	250,772,854	252,839,439	228,575,968	206,768,918
COMMITMENTS AND CONTINGENCIES	49	87,986,206	79,457,595	70,847,182	83,587,446	75,691,031	66,266,801
Net assets per share attributable to ordinary equity holders of the Bank (RM)		5.83	5.15	4.52	5.37	4.82	4.24

The accompanying notes form an integral part of the financial statements

STATEMENTS OF PROFIT OR LOSS

for the year ended 31 December 2013

	Note	Group		Bank	
		2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
Operating revenue	2(v)(x)	15,264,300	14,058,097	11,503,573	10,630,272
Interest income	30	11,366,092	10,404,241	10,368,420	9,465,598
Interest expense	31	(5,795,554)	(5,149,596)	(5,568,826)	(4,917,078)
Net interest income		5,570,538	5,254,645	4,799,594	4,548,520
Net income from Islamic banking business	57	837,136	843,766	–	–
		6,407,674	6,098,411	4,799,594	4,548,520
Net fee and commission income	32	1,275,345	1,165,313	520,243	490,025
Net gains and losses on financial instruments	33	166,983	170,244	162,861	168,210
Other operating income	34	308,315	312,741	975,058	1,155,109
Net income		8,158,317	7,746,709	6,457,756	6,361,864
Other operating expenses	35	(2,503,636)	(2,417,590)	(1,710,684)	(1,651,270)
Operating profit		5,654,681	5,329,119	4,747,072	4,710,594
Allowance for impairment on loans, advances and financing	37	(351,252)	(279,244)	(100,605)	(77,007)
Writeback of impairment/(Impairment) on other assets	38	149	(6,626)	165	(6,601)
		5,303,578	5,043,249	4,646,632	4,626,986
Share of profit after tax of equity accounted associated companies		6,406	3,985	–	–
Profit before tax expense and zakat		5,309,984	5,047,234	4,646,632	4,626,986
Tax expense and zakat	39	(1,204,342)	(1,177,992)	(941,517)	(919,487)
Profit for the year		4,105,642	3,869,242	3,705,115	3,707,499
Attributable to:					
Equity holders of the Bank		4,064,683	3,826,754	3,705,115	3,707,499
Non-controlling interests		40,959	42,488	–	–
Profit for the year		4,105,642	3,869,242	3,705,115	3,707,499
Earnings per RM1.00 share:					
– basic/diluted (sen)	40	116.1	109.3		

The accompanying notes form an integral part of the financial statements

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Note	Group		Bank	
		2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
Profit for the year		4,105,642	3,869,242	3,705,115	3,707,499
Other comprehensive income/(loss):					
<u>Items that will not be reclassified to profit or loss:</u>					
Defined benefit reserves:					
– Gain on remeasurements of defined benefit plans	28	172,234	35,376	167,547	34,163
<u>Items that may be reclassified to profit or loss:</u>					
Foreign currency translation reserves:					
– Currency translation differences in respect of					
– Foreign operations		296,193	(134,122)	–	–
– Net investment hedge	28	(209,365)	109,601	–	–
Revaluation reserves:					
– Net change in revaluation of financial investments available-for-sale	28	10,936	50,899	11,226	31,000
– Share of (loss)/gain of equity accounted associated companies	28	(449)	159	–	–
Hedging reserves:					
– Net change in cash flow hedges	28	(12,256)	(11,764)	(121,237)	(33,528)
		85,059	14,773	(110,011)	(2,528)
Income tax relating to components of other comprehensive income/(loss):					
– Defined benefit reserves	28	(43,058)	(8,844)	(41,887)	(8,541)
– Revaluation reserves	28	(3,078)	(8,406)	(2,806)	(7,750)
– Hedging reserves	28	3,063	2,941	30,309	8,382
		(43,073)	(14,309)	(14,384)	(7,909)
Other comprehensive income for the year, net of tax		214,220	35,840	43,152	23,726
Total comprehensive income for the year		4,319,862	3,905,082	3,748,267	3,731,225
Total comprehensive income for the year attributable to:					
– Equity holders of the Bank		4,226,259	3,886,470	3,748,267	3,731,225
– Non-controlling interests		93,603	18,612	–	–
		4,319,862	3,905,082	3,748,267	3,731,225

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

2013 Group	Note	Attributable to Equity Holders of the Bank							
		Non-distributable Reserves			Distributable Reserves			Total	Non-
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	Shareholders' Equity RM'000	controlling Interests RM'000	Equity RM'000
At 1 January 2013									
– as previously stated		3,531,926	1,073,310	4,100,612	9,453,647	(215,572)	17,943,923	699,864	18,643,787
– effects of adoption of MFRS 119	53	–	–	253,255	(178,738)	–	74,517	–	74,517
At 1 January 2013, as restated		3,531,926	1,073,310	4,353,867	9,274,909	(215,572)	18,018,440	699,864	18,718,304
Profit for the year		–	–	–	4,064,683	–	4,064,683	40,959	4,105,642
Other comprehensive income for the year		–	–	161,576	–	–	161,576	52,644*	214,220
Total comprehensive income for the year		–	–	161,576	4,064,683	–	4,226,259	93,603	4,319,862
Transactions with owners/other equity movements:									
Transfer to statutory reserves		–	–	10,081	(10,081)	–	–	–	–
Transfer to regulatory reserves		–	–	241	(241)	–	–	–	–
Transfer to general reserves		–	–	1,103	(1,103)	–	–	–	–
Transfer from Profit Equalisation Reserve of Islamic banking institution		–	–	(503)	503	–	–	–	–
Dividends paid		–	–	–	(1,821,105)	–	(1,821,105)	(19,865)	(1,840,970)
		–	–	10,922	(1,832,027)	–	(1,821,105)	(19,865)	(1,840,970)
At 31 December 2013		3,531,926	1,073,310	4,526,365	11,507,565	(215,572)	20,423,594	773,602	21,197,196
		Note 26		Note 28	Note 29	Note 27			

* Represent non-controlling interests' share of currency translation differences in respect of foreign operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		←----- Attributable to Equity Holders of the Bank ----->							
		Non-distributable Reserves			Distributable Reserves				
2012 Group	Note	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	Total Shareholders' Equity RM'000	Non- controlling Interests RM'000	Total Equity RM'000
At 1 January 2012									
– as previously stated		3,531,926	1,073,310	4,056,014	7,276,808	(215,572)	15,722,486	697,484	16,419,970
– effects of adoption of MFRS 119	53	–	–	226,723	(136,219)	–	90,504	–	90,504
At 1 January 2012, as restated									
		3,531,926	1,073,310	4,282,737	7,140,589	(215,572)	15,812,990	697,484	16,510,474
Profit for the year (restated)									
		–	–	–	3,826,754	–	3,826,754	42,488	3,869,242
Other comprehensive income/(loss) for the year									
		–	–	59,716	–	–	59,716	(23,876)*	35,840
Total comprehensive income for the year									
		–	–	59,716	3,826,754	–	3,886,470	18,612	3,905,082
Transactions with owners/other equity movements:									
Transfer to statutory reserves									
		–	–	9,741	(9,741)	–	–	–	–
Transfer to regulatory reserves									
		–	–	252	(252)	–	–	–	–
Transfer to general reserves									
		–	–	918	(918)	–	–	–	–
Transfer to Profit Equalisation Reserve of Islamic banking institution									
		–	–	503	(503)	–	–	–	–
Dividends paid									
		–	–	–	(1,681,020)	–	(1,681,020)	(16,232)	(1,697,252)
		–	–	11,414	(1,692,434)	–	(1,681,020)	(16,232)	(1,697,252)
At 31 December 2012									
		3,531,926	1,073,310	4,353,867	9,274,909	(215,572)	18,018,440	699,864	18,718,304
		Note 26		Note 28	Note 29	Note 27			

* Represent non-controlling interests' share of currency translation differences in respect of foreign operations.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

2013 Bank	Note	Attributable to Equity Holders of the Bank					Total Equity RM'000
		Share Capital RM'000	Non-distributable Reserves		Distributable Reserves		
			Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	
At 1 January 2013							
– as previously stated		3,531,926	1,073,310	3,514,328	8,918,940	(215,572)	16,822,932
– effects of adoption of MFRS 119	53	–	–	244,569	(172,608)	–	71,961
At 1 January 2013, as restated		3,531,926	1,073,310	3,758,897	8,746,332	(215,572)	16,894,893
Profit for the year		–	–	–	3,705,115	–	3,705,115
Other comprehensive income for the year		–	–	43,152	–	–	43,152
Total comprehensive income for the year		–	–	43,152	3,705,115	–	3,748,267
Transactions with owners/other equity movements:							
Transfer to general reserves		–	–	1,103	(1,103)	–	–
Dividends paid	41	–	–	–	(1,821,105)	–	(1,821,105)
		–	–	1,103	(1,822,208)	–	(1,821,105)
At 31 December 2013		3,531,926	1,073,310	3,803,152	10,629,239	(215,572)	18,822,055
		Note 26		Note 28	Note 29	Note 27	

STATEMENT OF
CHANGES IN EQUITY

<----- Attributable to Equity Holders of the Bank ----->							
2012 Bank	Note	Non-distributable Reserves			Distributable Reserves		Total Equity RM'000
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	
At 1 January 2012							
– as previously stated		3,531,926	1,073,310	3,515,306	6,852,318	(215,572)	14,757,288
– effects of adoption of MFRS 119	53	–	–	218,947	(131,547)	–	87,400
<hr/>							
At 1 January 2012, as restated		3,531,926	1,073,310	3,734,253	6,720,771	(215,572)	14,844,688
<hr/>							
Profit for the year (restated)		–	–	–	3,707,499	–	3,707,499
Other comprehensive income for the year		–	–	23,726	–	–	23,726
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Total comprehensive income for the year		–	–	23,726	3,707,499	–	3,731,225
<hr/>							
Transactions with owners/other equity movements:							
Transfer to general reserves							
		–	–	918	(918)	–	–
Dividends paid		–	–	–	(1,681,020)	–	(1,681,020)
	41	–	–	–	(1,681,020)	–	(1,681,020)
<hr/>							
At 31 December 2012		3,531,926	1,073,310	3,758,897	8,746,332	(215,572)	16,894,893
		Note 26		Note 28	Note 29	Note 27	

The accompanying notes form an integral part of the financial statements

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2013

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax expense and zakat	5,309,984	5,047,234	4,646,632	4,626,986
Adjustments for:				
Share of profit after tax of equity accounted associated companies	(6,406)	(3,985)	–	–
Depreciation of property and equipment	161,188	167,253	127,694	135,515
Net (gain)/loss on disposal of property and equipment	(500)	446	(579)	425
Net gain on disposal of foreclosed properties	(2,657)	(7,938)	(2,657)	(7,938)
Gain on liquidation of a subsidiary company	–	–	(114)	–
Allowance for impaired loans and financing	566,036	474,064	228,830	184,249
Net gain arising from disposal of financial investments available-for-sale	(12,002)	(7,629)	(12,002)	(7,629)
Net loss/(gain) arising from disposal of trading derivatives	5,864	(772)	5,864	(772)
Amortisation of cost and accretion of discount relating to debt securities issued	2,074	3,020	2,074	3,020
Unrealised loss on revaluation of financial assets held-for-trading	9,238	3,330	9,243	3,312
Unrealised gain on revaluation of trading derivatives	(11,569)	(3,222)	(12,239)	(5,733)
(Gain)/loss representing ineffective portions of hedging derivatives	(2,703)	1,682	(2,678)	1,085
Pension costs – defined benefit plan	76,974	49,678	73,492	47,973
Transfer to Profit Equalisation Reserve	497	265	–	–
Dividends from financial investments available-for-sale	(145,960)	(151,033)	(140,802)	(146,287)
Dividends from subsidiary companies	–	–	(753,586)	(853,080)
Dividends from associated companies	–	–	(6,460)	(4,783)
Property and equipment written off	527	1,082	490	1,064
Gain on revaluation of investment properties	(2,547)	(23,877)	–	–
Impairment loss on financial investments available-for-sale	–	3,533	–	3,533
Impairment (writeback)/loss on foreclosed properties	(149)	3,093	(165)	3,068
Operating profit before working capital changes	5,947,889	5,556,224	4,163,037	3,984,008

STATEMENTS OF CASH FLOWS

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D.)				
(Increase)/Decrease in operating assets:				
Placements with banks maturing after one month	(97,015)	262,925	77,463	955,474
Reverse repurchase agreements	(1,383,463)	1,128,749	(1,329,435)	1,126,458
Financial assets held-for-trading	795,934	(5,963,640)	(396,625)	(3,195,805)
Loans, advances and financing	(23,940,776)	(20,587,445)	(19,675,113)	(19,781,662)
Derivative financial assets	28,792	–	28,792	–
Other assets	(263,994)	(25,893)	(198,360)	13,046
Statutory deposits with Central Banks	(1,137,626)	(189,405)	(827,733)	(241,848)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	25,830,864	24,672,572	20,183,148	22,304,777
Deposits from banks	3,326,523	(2,957,419)	2,514,270	(2,308,571)
Bills and acceptances payable	(1,475,378)	953,486	(1,505,177)	1,037,616
Recourse obligations on loans and financing sold to Cagamas	(1,485)	489,707	(1,493)	(10,296)
Other liabilities	97,140	362,650	289,850	204,522
Cash generated from operations	7,727,405	3,702,511	3,322,624	4,087,719
Income tax expense and zakat paid	(1,386,021)	(1,259,558)	(1,120,157)	(993,966)
Net cash generated from operating activities	6,341,384	2,442,953	2,202,467	3,093,753
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(128,912)	(147,688)	(88,150)	(89,277)
Proceeds from disposal of property and equipment	631	1,108	611	1,074
Proceeds from disposal of foreclosed properties	38,881	46,239	37,680	45,304
Net (purchase)/sale of financial investments	(2,006,250)	896,641	(817,631)	1,223,794
Additional investment in a subsidiary company	–	–	(175,000)	(175,000)
Dividends received from associated companies	6,460	4,783	6,460	4,783
Dividends received from subsidiary companies	–	–	713,770	820,670
Dividends received from financial investments available-for-sale	145,847	151,033	140,689	146,287
Net cash (used in)/generated from investing activities	(1,943,343)	952,116	(181,571)	1,977,635

STATEMENTS OF
CASH FLOWS

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net repayment of borrowings	(401,520)	(30,173)	–	–
Dividends paid to equity holders of the Bank	(1,821,105)	(1,681,020)	(1,821,105)	(1,681,020)
Dividends paid to non-controlling interests	(19,865)	(16,232)	–	–
Net proceeds from issuance of debt securities	2,347,915	–	2,347,915	–
Redemption of debt securities	(1,400,000)	(1,263,400)	(1,400,000)	(1,263,400)
Net cash used in financing activities	(1,294,575)	(2,990,825)	(873,190)	(2,944,420)
Net increase in cash and cash equivalents	3,103,466	404,244	1,147,706	2,126,968
Cash and cash equivalents at beginning of year	16,835,772	16,570,679	10,238,710	8,111,742
Exchange differences on translation of opening balances	243,985	(139,151)	–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	20,183,223	16,835,772	11,386,416	10,238,710
Note:				
Cash and balances with banks (Note 3)	22,080,417	18,635,951	12,750,086	11,679,843
Less: Balances with banks with maturity more than one month	(1,897,194)	(1,800,179)	(1,363,670)	(1,441,133)
Cash and cash equivalents at end of year	20,183,223	16,835,772	11,386,416	10,238,710

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

– 31 DECEMBER 2013

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Group is principally engaged in all aspects of commercial banking, investment banking, financing and Islamic banking business, stock-broking, provision of related financial services, management of unit trust funds and sale of trust units, underwriting of general insurance, and investment holding.

The Bank is principally engaged in all aspects of commercial banking and the provision of related financial services.

There have been no significant changes to these principal activities during the financial year.

The Bank is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Bank is located at 27th Floor, Menara Public Bank, 146, Jalan Ampang, 50450 Kuala Lumpur.

The financial statements were approved and authorised for issue by the Board of Directors on 5 February 2014.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The accounting policies adopted by the Group and the Bank are consistent with those adopted in the previous years except for the adoption of the following Malaysian Financial Reporting Standards (“MFRS”), Amendments to MFRSs and IC Interpretations:

(i) MFRSs, Amendments to MFRSs and IC Interpretation Adopted by the Group and the Bank

The following MFRSs, Amendments to MFRSs and IC Interpretation have been adopted by the Group and the Bank during the current year:

- MFRS 10 Consolidated Financial Statements
- MFRS 11 Joint Arrangements
- MFRS 12 Disclosure of Interests in Other Entities
- MFRS 13 Fair Value Measurement
- MFRS 119 Employee Benefits (as amended by IASB in June 2011)
- MFRS 127 Separate Financial Statements (as amended by IASB in May 2011)
- MFRS 128 Investments in Associates and Joint Ventures (as amended by IASB in May 2011)
- MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
- MFRS 127 Consolidated and Separate Financial Statements (IAS 27 Consolidated and Separate Financial Statements revised by IASB in December 2003)
- IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine
- Government Loans (Amendments to MFRS 1)
- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 7)
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to MFRS 10, MFRS 11 and MFRS 12)

The adoption of IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine does not have any impact on the Group and the Bank as it is not relevant to the business of the Group and the Bank. The adoption of Government Loans (Amendments to MFRS 1) has no impact to the Group and the Bank as the Group and the Bank do not hold any government grants or receive any government assistance.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(i) MFRSs, Amendments to MFRSs and IC Interpretation Adopted by the Group and the Bank (Cont'd.)

The effects of the adoption of other applicable MFRSs and amendments to MFRSs above are summarised below:

- (a) **MFRS 119 Employee Benefits (as amended by IASB in June 2011)** – The adoption of the revised MFRS 119 has affected the accounting treatment of certain items such as the timing of the recognition of actuarial gains and losses arising from defined benefit plans and the presentation of changes in defined benefit liability or asset. The key changes include:
- Actuarial gains and losses (renamed as ‘remeasurements’) are recognised immediately in other comprehensive income, and are not subsequently recycled to statement of profit or loss. The corridor approach for accounting for unrecognised actuarial gains in prior years is discontinued.
 - Past service costs, whether unvested or already vested, are recognised immediately in the statement of profit or loss as incurred and the annual defined benefit costs in the statement of profit or loss will include net interest expense/income on the defined benefit asset/liability.

The adoption of this revised MFRS 119 has resulted in changes to the recognition and measurement of the Group’s and the Bank’s defined benefit pension expense and termination benefits, as well as enhanced disclosures of the risks and characteristics of the Group’s defined benefit plans. The financial effects of the adoption of MFRS 119 is disclosed in Note 53 Changes in Accounting Policies.

- (b) **MFRS 10 Consolidated Financial Statements** – MFRS 10 supersedes MFRS 127 Consolidated and Separate Financial Statements and IC Interpretation 112 Consolidation - Special Purpose Entities, which interprets the requirements of MFRS 10 in relation to special purpose entities. MFRS 10 sets out the requirements on how to apply the control principle in the preparation of consolidated financial statements which requires analysis of all facts and circumstances as well as the application of judgement when making the control assessment. The three elements to the definition of control in MFRS 10 are:
- (i) Power by investor over an investee;
 - (ii) Exposure, or rights, to variable returns from investor’s involvement with the investee; and
 - (iii) Investor’s ability to affect those returns through its power over investee.

The adoption of this standard did not result in any change to the consolidation of its subsidiary companies as at the end of the reporting period, hence did not have any financial impact on the financial statements of the Group and the Bank.

- (c) **MFRS 11 Joint Arrangements** – MFRS 11 supersedes MFRS 131 Interests in Joint Ventures. Under MFRS 11, an entity accounts for its interest in a jointly controlled entity based on two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligation to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The adoption of this standard did not have any financial impact on the financial statements of the Group and the Bank as the Group does not have any interest in joint operations or joint ventures.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(i) MFRSs, Amendments to MFRSs and IC Interpretation Adopted by the Group and the Bank (Cont'd.)

The effects of the adoption of other applicable MFRSs and amendments to MFRSs above are summarised below (Cont'd.):

- (d) **MFRS 12 Disclosure of Interests in Other Entities** – MFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiary companies, joint arrangements, associated companies and unconsolidated structured entities. The adoption of this standard did not have any financial impact on the Group and the Bank as the requirements affect presentation only.
- (e) **MFRS 127 Separate Financial Statements (as amended by IASB in May 2011)** – As a consequence of the issuance of MFRS 10 and MFRS 12, MFRS 127 was reissued to cover only the requirements relating to the accounting for investments in subsidiary companies, associated companies and joint ventures in the separate financial statements of an entity. Under MFRS 127, such investments should be accounted for either at cost, or in accordance with MFRS 9. The Bank prepares separate financial statements but the adoption of this standard did not have any impact on the financial statements of the Bank as it already applies the principles under this MFRS.
- (f) **MFRS 128 Investments in Associates and Joint Ventures (as amended by IASB in May 2011)** – MFRS 128 incorporates the requirements for accounting for joint ventures into the same accounting standard as that for accounting for investments in associated companies. However, MFRS 128 exempts the investor from applying equity accounting in certain circumstances, i.e. where the investment in the associated company or joint venture is held indirectly via venture capital organisations or mutual funds and similar entities. In such cases, the entity shall measure the investment at fair value through profit or loss, in accordance with MFRS 9. The adoption of this standard did not have any impact on the financial statements of the Group and the Bank.
- (g) **MFRS 13 Fair Value Measurement** – This standard establishes a single source of guidance under MFRSs for measuring fair value, and the disclosure requirements about fair value. MFRS 13 does not change when an entity is required to use fair value, but rather provide guidance on how to measure fair value under MFRS. MFRS 13 defines fair value as an exit price and emphasises the principle that fair value is a market-based measurement, not an entity-specific measurement. The adoption of this standard resulted in additional disclosures in the financial statements, in particular, on fair values of financial instruments but did not have any financial impact on the Group and the Bank.
- (h) **MFRS 3 Business Combinations (IFRS Business Combinations issued by IASB in March 2004) and MFRS 127 Consolidated and Separate Financial Statements (IAS 27 Consolidated and Separate Financial Statements revised by IASB in December 2003)** – These are the earlier versions of MFRS 3 and MFRS 127 for which an entity can apply if it concludes that, upon applying MFRS 10, it shall consolidate an investee that was not previously consolidated and that control was obtained before the effective date of MFRS 3 and MFRS 127 issued by MASB in November 2011. The adoption of these amendments did not have any impact to the Group and the Bank as there were no investee that was previously not consolidated upon the application of MFRS 10.
- (i) **Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 7)** – The amendments require more quantitative information to be disclosed about rights to set-off and related arrangements so as to provide users with information to evaluate the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set-off in accordance with MFRS 132. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective whether they are set off in accordance with MFRS 132. Since these amendments only affect disclosures, the adoption of these amendments did not have any financial impact on the Group and the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(i) MFRSs, Amendments to MFRSs and IC Interpretation Adopted by the Group and the Bank (Cont'd.)

The effects of the adoption of other applicable MFRSs and amendments to MFRSs above are summarised below (Cont'd.):

- (j) **Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to MFRS 10, MFRS 11 and MFRS 12)** – These amendments provide further clarification on the date of initial application of MFRS 10. Consequently, an entity is not required to adjust its previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying MFRS 10 or the entity had disposed of its interests in investees during a comparative period.

A similar relief is also provided in MFRS 11 and MFRS 12. Additionally, entities would no longer be required to provide disclosures for unconsolidated structured entities in periods prior to the first annual period that MFRS 12 is applied. The adoption of these amendments did not have any financial impact to the Group and the Bank.

(ii) Amendments to MFRSs and IC Interpretation that were Early Adopted by the Group and the Bank

The Group and the Bank have chosen to early adopt the following in the current financial year:

- Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)
- Investment Entities (Amendments to MFRS 10, MFRS 12 and MFRS 127)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS 136)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to MFRS 139)
- IC Interpretation 21 Levies

The main effects of the early adoption of Amendments to MFRSs and IC Interpretation above are summarised below:

- (a) **Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)** – The amendments clarify the meaning of 'currently has a legally enforceable right of set-off' that a right of set-off must not be contingent on a future event and must be legally enforceable for all counterparties in the normal course of business. The amendments further clarify that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

The adoption of these amendments did not have any impact on the financial results of the Group and the Bank as the current accounting practice for the Group's offsetting arrangements fulfil the principles under the Amendments to MFRS 132.

- (b) **Investment Entities (Amendments to MFRS 10, MFRS 12 and MFRS 127)** – These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under MFRS 10. The exception to consolidation requires all investment entity to measure its investments in subsidiary companies at fair value through profit or loss.

The adoption of these amendments did not have any impact on the financial results of the Group and the Bank as none of the entities in the Group qualify as an investment entity under MFRS 10.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(ii) Amendments to MFRSs and IC Interpretation that were Early Adopted by the Group and the Bank (Cont'd.)

- (c) **Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS 136)** – When MFRS 13 was issued, MFRS 136 was amended which resulted in the unintended requirement to disclose the recoverable amount for each cash-generating unit (“CGU”) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives. These amendments were consequently issued to remove the unintended consequences of MFRS 13 on the disclosures required under MFRS 136. The disclosure requirements were aligned with the original intention to require the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. In addition, these amendments also require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period.

The adoption of these amendments did not affect the Group as the recoverable amounts of the Group’s CGUs are based on value in use under MFRS 136.

- (d) **Novation of Derivatives and Continuation of Hedge Accounting (Amendments to MFRS 139)** – These amendments provide an exception for the discontinuation of hedge accounting when novation of a derivative designated as hedging instrument meets certain criteria.

The adoption of these amendments did not have any impact on the financial results of the Group and the Bank as the Group and the Bank have not novated its derivatives.

- (e) **IC Interpretation 21 Levies** – IC Interpretation 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The adoption of this interpretation did not have any impact on the financial statements of the Group and the Bank as it is not relevant to the business of the Group and the Bank.

(iii) Bank Negara Malaysia (“BNM”) Guidelines

With effect from 1 January 2013, the Group and the Bank adopted the BNM’s Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) (“the Framework”) issued on 28 November 2012. This Framework outlines the general requirements on regulatory capital adequacy ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Framework has been developed based on internationally agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Framework, the minimum capital adequacy ratios are progressively increased from 1 January 2013 to 1 January 2019, and includes a phased introduction of a new capital conservation buffer of 2.5%. Additional capital requirements, including a new counter-cyclical buffer ranging from 0% to 2.5% will be established at a later stage.

On 28 June 2013, BNM issued policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions (“Policy Documents”) to replace the Guidelines on Financial Reporting for Banking Institutions and Guidelines on Financial Reporting for Islamic Banking Institutions (BNM/GP8-i) respectively. These Policy Documents set minimum expectations for the application of MFRSs and aim to ensure adequate disclosures in the financial statements of banking institutions. The Bank and the domestic banking subsidiary companies of the Group have adopted the Policy Documents with effect from 30 June 2013. Since the adoption of the Policy Documents only affect certain disclosures in the financial statements, there is no impact on the financial results of the Group and the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(iv) MFRSs and Amendments to MFRSs that have been Issued but Not Yet Effective to the Group and the Bank

The following MFRSs and Amendments to MFRSs have been issued by the MASB but are not yet effective to the Group and the Bank:

Effective for annual periods commencing on or after 1 January 2015

- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)
- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)
- Mandatory Effective Date of MFRS 9 and Transition Disclosures (Amendments to MFRS 9 (IFRS 9 issued by IASB in November 2009), MFRS 9 (IFRS 9 issued by IASB in October 2010) and MFRS 7)

A brief description of the significant new MFRSs and Amendments to MFRSs that have been issued is set out below:

- (a) (i) **MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)** – The IASB intends to replace IAS 39 with IFRS 9. MFRS 9 is the IFRS 9 equivalent standard in Malaysia. This issuance of MFRS 9 contains the accounting policy changes under the first phase of the IAS 39 replacement project, and specifies how an entity should classify and measure financial assets. This standard requires all financial assets to be classified based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are to be initially measured at fair value. Subsequent to initial recognition, depending on the business model under which these assets are acquired, these will be measured at either fair value or amortised cost.
- (ii) **MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)** – This issuance of MFRS 9 represents the second part of the first phase of IASB's IAS 39 replacement project. This section of the standard specifies the requirements for the classification and measurement of financial liabilities, which are generally similar to the requirements of the original IAS 39. However, this standard requires that for financial liabilities designated at fair value through profit or loss, changes in fair value attributable to the credit risk of that liability are to be presented in other comprehensive income, whereas the remaining amount of the change in fair value will be presented in the statement of profit or loss.
- (b) **Mandatory Effective Date of MFRS 9 and Transition Disclosures (Amendments to MFRS 9 (IFRS 9 issued by IASB in November 2009), MFRS 9 (IFRS 9 issued by IASB in October 2010) and MFRS 7)** – These amendments require entities to apply MFRS 9 for annual periods beginning on or after 1 January 2015 instead of on or after 1 January 2013. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying MFRS 9 which was originally only available to companies that choose to apply MFRS 9 prior to 2012. The amendments to MFRS 7 require additional disclosures on transition from MFRS 139 Financial Instruments: Recognition and Measurement to MFRS 9.

MFRS 9 introduces significant changes in the way the Group accounts for financial instruments. Due to the complexity of this standard and its proposed changes, the financial effects of its adoption are still being assessed by the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(iv) MFRSs and Amendments to MFRSs that have been Issued but Not Yet Effective to the Group and the Bank (Cont'd.)

Future Developments

The IASB plans to release the second and third phase of IFRS 9 in the near future which will address the impairment of financial assets measured at amortised cost and hedge accounting. The key changes proposed relate to:

- (i) Impairment – a prescribed amount of expected losses will be reflected in impairment allowances for financial assets measured at amortised cost.
- (ii) Hedge accounting – hedge accounting will be more principle-based and more aligned to financial risk management.

The proposed changes are expected to change the way the Group accounts for financial instruments particularly on the Group's accounting policy on allowance for loans, advances and financing.

In addition to the above, the IASB plans to issue new standards on Leases, Insurance Contracts and Revenue Recognition. The Group will assess the effect of the adoption of these standards, when issued, to determine the financial effects upon adoption of these standards.

(v) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Group and the Bank have been prepared on the historical cost basis (except for the following assets and liabilities which are stated at fair value: financial assets held-for-trading, financial investments available-for-sale, derivative financial instruments, recognised financial assets and liabilities designated as hedged items in qualifying fair value hedge relationships which are adjusted for changes in fair value attributable to the risk being hedged and investment properties, as disclosed in the notes to the financial statements) and are in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements incorporate all activities relating to the Islamic banking business which have been undertaken by the Group. Islamic banking business refers generally to the acceptance of deposits and granting of financing under the principles of Shariah.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

In the preparation of the financial statements, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(a) Basis of Accounting (Cont'd.)

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect in determining the amounts recognised in the financial statements include the following:

- (i) *Fair value estimation of financial instruments* – For financial instruments measured at fair value, where the fair values cannot be derived from active markets, these fair values are determined using a variety of valuation techniques, including the use of mathematical models. Whilst the Group and the Bank generally use widely recognised valuation models with market observable inputs, judgement is required where market observable data are not available. Such judgement normally incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and prepayment and default rates.
- (ii) *Impairment losses on loans, advances and financing (Note 9)* – For impaired loans, advances and financing (“loan(s)”) which are individually assessed, judgement by management is required in the estimation of the amount and timing of future cash flows in the determination of impairment losses. In estimating these cash flows, judgements are made about the realisable value of collateral pledged and the borrower’s financial position. These estimations are based on assumptions and the actual results may differ from these, hence resulting in changes to impairment losses recognised.

For loans of the Bank and its banking subsidiary companies which are collectively assessed, judgements are made based on loan portfolio data (eg. credit quality, default rates, recovery rates, etc), credit concentration and economic data (eg. unemployment rates, GDP growth rates, etc) in order to arrive at impairment levels appropriate to the portfolio.
- (iii) *Impairment of goodwill and intangible assets (Note 17)* – The Group and the Bank perform an annual assessment of the carrying value of its goodwill and intangible assets against the recoverable amount of the cash-generating units (“CGUs”) to which the goodwill and intangible assets have been allocated. The measurement of the recoverable amount of CGUs are determined based on the value-in-use method, incorporating the present value of estimated future cash flows expected to arise from the respective CGU’s ongoing operations. Management judgement is used in the determination of the assumptions made, particularly the cash flow projections, discount rates and the growth rates used. The estimation of pre-tax cash flows is sensitive to the periods for which the forecasts are available and to assumptions regarding the long-term sustainable cash flows, and reflect management’s view of future performance.
- (iv) *Impairment of financial investments available-for-sale (Note 7)* – For equity investments classified as available-for-sale, impairment is recognised when there has been a significant or prolonged decline in the fair value below the investment’s cost. Management judgement is required to evaluate the duration and extent by which the fair value of these equity investments is below their cost. In making this judgement, management considers the historical price movements of the individual equity investment, as well as that of the benchmark indicators of the market in which the equity is listed.
- (v) *Impairment of other assets* – The assessment of impairment of properties held under property and equipment (Note 16) requires management judgement in the assessment of whether negative fluctuations in values of similar properties in the same location represent an indication of impairment in the value of the individual properties.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(a) Basis of Accounting (Cont'd.)

- (vi) *Valuation of investment properties (Note 15)* – The measurement of the fair values for investment properties performed by management are determined with reference to quotations of market value provided by independent professional valuers.
- (vii) *Income taxes (Note 39)* – The Group and the Bank are subject to income taxes in many jurisdictions. Significant management judgement is required in estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome will not be established until a later date. Liabilities for taxation are recognised based on estimates of whether taxes will be payable. The estimation process may involve seeking the advice of experts, where appropriate. Where the final liability for taxation assessed by the Inland Revenue Board is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.
- (viii) *Deferred tax assets (Note 12)* – Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.
- (ix) *Defined Benefit Plan (Note 24)* – The defined benefit obligation is determined based on an actuarial valuation. The actuarial valuation involves making assumptions regarding the discount rate, future salary increases and attrition rates. Due to the long term nature of the defined benefit plan, such estimates are subject to significant uncertainty. The amount of defined benefit asset recognised in the statement of financial position is limited to the present value of economic benefits in the form of refunds or reductions in future contributions to the fund. The levels of future contributions to the plan which are used to assess this limit is subject to some uncertainty due to other assumptions made regarding fund membership levels and future salary increases.

(b) Basis of Consolidation

(i) Subsidiary Companies

The consolidated financial statements include the financial statements of the Bank and its subsidiary companies made up to the end of the financial year. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from the involvement with the investee; and
- has the ability to affect those returns through its power over investee.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control listed above.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(b) Basis of Consolidation (Cont'd.)

(i) Subsidiary Companies (Cont'd.)

When the Group has less than a majority of the voting rights but has rights that are sufficient to give it the practical ability to direct the relevant activities unilaterally, the Group considers all facts and circumstances in assessing whether or not the voting rights give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

In the previous financial years, control exists when the Group directly and indirectly holds the majority of the voting rights and has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In addition, previously, potential voting rights are considered in the assessment of control when such rights are presently exercisable whilst such rights are considered now only when they are substantive. The Group also did not consider de facto power in its previous assessment of control.

Subsidiary companies are consolidated from the date on which the Group controls, and ceases from the date that control ceases. The financial results of the subsidiary companies are included in the consolidated financial statements from the date that control is obtained until the date that the Group loses control.

The acquisition method of accounting is used to account for the purchase of subsidiary companies. The consideration transferred for the acquisition of a subsidiary company is measured at the fair value of the assets given, the equity instruments issued and liabilities incurred or assumed at the date of exchange, as well as any contingent consideration given. Acquisition-related costs are expensed off in the statement of profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are initially measured at fair value as at acquisition date.

Goodwill is measured as the excess of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest in the subsidiary company over the fair value of the Group's share of the identifiable net assets acquired. The accounting policy on goodwill is set out in Note 2(v)(l)(i). In the event that the fair value of the Group's share of identifiable net assets acquired exceeds the amount of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest (ie. a bargain purchase), the entire resulting gain is recognised in the statement of profit or loss of the Group. Non-controlling interests represent the portion of profit or loss and net assets of subsidiary companies not attributable, directly or indirectly, to the Group. Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from equity holders of the Bank. For each business combination, the Group will elect to measure the amount of non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary company's identifiable net assets.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(b) Basis of Consolidation (Cont'd.)

(i) Subsidiary Companies (Cont'd.)

In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the statement of profit or loss. Changes in the Group's ownership interest in a subsidiary company which does not result in a loss of control are treated as transactions between equity holders and are reported in equity.

In preparing the consolidated financial statements, intragroup transactions and balances and intragroup gains on transactions between group companies are eliminated in full. Intragroup losses are also eliminated unless the transaction provides evidence of impairment of the relevant asset. Consistent accounting policies are applied by the subsidiary companies for transactions and events in similar circumstances. The non-controlling interest's portion of total comprehensive income is attributed to non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

If the Group loses control of a subsidiary company, the assets and liabilities of the subsidiary company, including any goodwill, and non-controlling interests are derecognised at their carrying value on the date that control is lost. Any remaining investment in the entity is recognised at fair value. The difference between the fair value of consideration received and the amounts derecognised and the remaining fair value of the investment is recognised as a gain or loss on disposal in the consolidated statement of profit or loss.

In the Bank's separate financial statements, investments in subsidiary companies are stated at cost less impairment losses, if any. On disposal of such investments, the difference between the net disposal proceeds and the net carrying value of the investment is recognised as gain or loss on disposal in the Bank's statement of profit or loss.

(ii) Associated Companies

Associated companies are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not control or joint control of those policies.

Investments in associated companies are accounted for in the Group's consolidated financial statements using the equity method. The Group's investment in associated companies is initially recognised in the consolidated statement of financial position at cost. This initial carrying amount is increased or decreased to recognise the Group's share of post-acquisition net results and other changes to comprehensive income of the associated company less impairment loss, if any, determined on an individual basis. The Group's share of results of the associated company is recognised in the statement of profit or loss from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company. Consistent accounting policies are applied for transactions and events in similar circumstances.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(b) Basis of Consolidation (Cont'd.)

(ii) Associated Companies (Cont'd.)

Goodwill, if any, relating to an associated company is included in the carrying amount of the investment. Any excess of the Group's share of the fair value of the associated company's net identifiable assets and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the results of the associated company in the period in which the investment is acquired.

The gain or loss on disposal of an associated company is the difference between the net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the associated company being disposed. All gains or losses on disposal of associated companies are recognised in the statement of profit or loss.

In the Bank's separate financial statements, the investment in associated companies is stated at cost less impairment losses, if any, determined on an individual basis. On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is recognised in the statement of profit or loss.

(c) Foreign Currency

(i) Functional and Presentation Currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates, ie. the functional currency. The financial statements of the Group and the Bank are presented in Ringgit Malaysia (RM), which is the Bank's functional currency.

(ii) Foreign Currency Transactions and Balances

In preparing the financial statements of the individual entities, transactions in currencies other than each entity's functional currency, ie. foreign currencies, are translated into the functional currency at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rate ruling at the reporting date. Exchange differences arising on the settlement of monetary items or on translating monetary items at reporting date are recognised in the statement of profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate prevailing at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at exchange rates at the date when the fair value is determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in other comprehensive income if the gain or loss on the fair value of the non-monetary item is recognised directly in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised directly in the statement of profit or loss if the gain or loss on the fair value of the non-monetary item is recognised in the statement of profit or loss.

(iii) Net Investment in Foreign Operations

Exchange differences arising from monetary items that form part of the Bank's net investment in foreign operations and that are denominated in the functional currency of the Bank or the foreign operations are recognised in the statement of profit or loss of the Bank. In the Group financial statements, such exchange differences are recognised initially in other comprehensive income and will be reclassified to the statement of profit or loss only upon disposal of the net investment.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(c) Foreign Currency (Cont'd.)

(iv) Consolidation of Financial Statements of Foreign Operations

The results and financial position of the Group's foreign operations and its subsidiary companies incorporated in the Federal Territory of Labuan, whose functional currencies are not the presentation currency or the currency of a hyperinflationary economy, are translated into the presentation currency at average exchange rates for the year and at the closing exchange rate as at reporting date respectively. All resulting exchange differences are recognised in equity through other comprehensive income as a foreign currency translation reserve and are subsequently reclassified to statement of profit or loss upon disposal of the foreign operation. Exchange differences arising from foreign currency borrowings designated as hedges of a net investment in a foreign operation are recognised in the foreign currency translation reserve in equity through other comprehensive income until the disposal of the net investment, at which time the accumulated translation differences are taken to the statement of profit or loss.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

	2013	2012
1 USD	RM3.2801	RM3.0580
1 HKD	RM0.4225	RM0.3945

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances with banks and other financial institutions, and short-term deposits maturing within one (1) month.

(e) Financial Assets and Liabilities

(i) Initial Recognition and Subsequent Measurement

Financial instruments are classified in the following categories – financial instruments at fair value through profit or loss, loans and receivables, financial investments held-to-maturity and financial investments available-for-sale. Management determines the classification of financial instruments at initial recognition.

(1) Financial Instruments at Fair Value through Profit or Loss

Financial assets classified in this category consist of financial assets held-for-trading. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing it in the near term. Derivative financial instruments not designated in an effective hedge transaction are also classified in this category.

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the statement of profit or loss. Gains and losses from changes in fair value and dividend income are included directly in "Net gains and losses on financial instruments" in the statement of profit or loss. Interest income is recognised as "Interest income" in the statement of profit or loss. Regular way purchases and sales of financial assets held-for-trading are recognised at settlement date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(e) Financial Assets and Liabilities (Cont'd.)

(i) Initial Recognition and Subsequent Measurement (Cont'd.)

(2) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks, reverse repurchase agreements and loans, advances and financing. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised in "Interest income" in the statement of profit or loss. Impairment losses on loans, advances and financing are recognised in the statement of profit or loss as "Allowance for impairment on loans, advances and financing". Regular way recognition of loans, advances and financing is recorded on settlement date, when all the conditions under the loan contract have been fulfilled.

(3) Financial Investments Held-to-Maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments that management has the intention and ability to hold to maturity. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest on investments held-to-maturity is included in "Interest income" in the statement of profit or loss. Impairment losses, if any, are recognised in the statement of profit or loss as "Impairment on other assets". Regular way purchases and sales of financial investments held-to-maturity are recognised at settlement date.

If the Group or the Bank were to sell or reclassify more than an insignificant amount of financial investments held-to-maturity before maturity, the entire category would be tainted and be reclassified to available-for-sale. Furthermore, the Group and the Bank would be prohibited from classifying any financial assets as held-to-maturity for the following two years.

(4) Financial Investments Available-for-Sale

Financial investments available-for-sale are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories above. Financial investments available-for-sale include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market conditions.

These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the other comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the statement of profit or loss. If an investment available-for-sale is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the statement of profit or loss. Likewise, upon disposal of investments available-for-sale, the cumulative fair value gain or loss recognised in other comprehensive income is also transferred to the statement of profit or loss. Interest income on financial investments available-for-sale is included in "Interest income" and dividend income is recognised in "Net gains and losses on financial instruments" in the statement of profit or loss. Regular way purchases and sales of financial investments available-for-sale are recognised at settlement date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(e) Financial Assets and Liabilities (Cont'd.)

(i) Initial Recognition and Subsequent Measurement (Cont'd.)

(4) Financial Investments Available-for-Sale (Cont'd.)

Investments in unquoted equity instruments which are classified as available-for-sale and whose fair value cannot be reliably measured are measured at cost. These investments are assessed for impairment at each reporting date.

(5) Financial Liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost. The Group and the Bank do not have any non-derivative financial liabilities designated at fair value through profit or loss. Financial liabilities measured at amortised cost include deposits from customers, deposits from banks and debt securities issued and other borrowed funds. Certain debt securities issued by the Group and the Bank have been designated in effective hedges of interest rate risk, and the carrying value of these financial liabilities have been adjusted for changes in fair value related to the hedged exposure.

(ii) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or when the rights to receive further cash flows from the assets have been transferred to a third party and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they are redeemed or extinguished.

Collateral furnished by the Group and the Bank under repurchase agreements are not derecognised as the Group and the Bank retain substantially all the risks and rewards on the basis of the pre-determined repurchase price, and hence the criteria for derecognition are not met.

(iii) Reclassification of Financial Assets

The Group and the Bank may choose to reclassify non-derivative assets out from the held-for-trading category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Group and the Bank may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group and the Bank have the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in the statement of profit or loss is not reversed.

During the reporting period, the Group and the Bank have not made any such reclassifications of financial assets.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(e) Financial Assets and Liabilities (Cont'd.)

(iv) Determination of Fair Value

All financial instruments are recognised initially at fair value. At initial recognition, the fair value of a financial instrument is the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments measured at fair value are measured in accordance with the valuation methodologies as set out in Note 45.

Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost, and assessed for impairment at each reporting date.

(v) Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and to settle the liability simultaneously. This is not generally the case for financial instruments with master netting agreements and therefore, the related assets and liabilities are presented on a gross basis in the statement of financial position.

(f) Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value. Derivatives are classified as financial assets when their fair values are positive and financial liabilities when their fair values are negative.

Derivatives which are not designated in an effective hedge transaction are classified as held-for-trading, with changes in fair value recognised in "Net gains and losses on financial instruments" in the statement of profit or loss. For derivative transactions which meet the specific criteria for hedge accounting, the Group applies either fair value, cash flow or net investment hedge accounting.

At inception of the hedge relationship, the Group and the Bank formally documents the relationship between the hedged item and the hedging instruments, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge relationship. Hedges are expected to be highly effective in offsetting the designated risk in the hedged item, and are assessed at inception of the hedge relationship and on an ongoing basis to ensure that they remain highly effective throughout the hedge period. A hedge is deemed as highly effective if the cumulative changes in the fair value or cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the period for which the hedge is designated.

The Group and the Bank will discontinue hedge accounting if the hedging instrument expires, is sold, terminated or exercised or if the hedge no longer meets the criteria for hedge accounting or is revoked.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(f) Derivative Financial Instruments and Hedge Accounting (Cont'd.)

(i) Fair Value Hedge

Fair value hedges are hedges against exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment that is attributable to a particular risk, and could affect profit or loss. For designated and qualifying fair value hedges, changes in the fair value of the hedging instrument are recognised in the statement of profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The net result is reported as hedge ineffectiveness under "Net gains and losses on financial instruments" in the statement of profit or loss.

If the hedging instrument is sold, terminated or exercised or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised to the statement of profit or loss over the remaining period to maturity using the effective interest rate.

(ii) Cash Flow Hedge

Cash flow hedges are hedges of the exposure to variability in future cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in equity via other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged forecast cash flows affect the statement of profit or loss. If the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gain or loss previously recognised in other comprehensive income is adjusted to the initial cost of the asset or liability.

When a hedging instrument expires or is sold, terminated, exercised or where the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss as hedge ineffectiveness.

(iii) Net Investment Hedge

Net investment hedges are hedges against the exposure to exchange rate fluctuations on the net assets of the Group's foreign operations and are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in the foreign currency translation reserve in equity via other comprehensive income while any gain or loss relating to the ineffective portion is recognised directly in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity is transferred to the statement of profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(g) Embedded Derivatives

Some hybrid financial instruments contain both an embedded derivative and a non-derivative component. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss.

(h) Impairment of Financial Assets

(i) Loans, Advances and Financing

Loans, advances and financing ("loan(s)") of the Group and the Bank are classified as impaired when they fulfill any of the following criteria:

- (1) principal or interest or both are past due for three (3) months or more;
- (2) where a loan is in arrears for less than three (3) months, the loan exhibits indications of significant credit weaknesses; or
- (3) where an impaired loan has been rescheduled or restructured, the loan will continue to 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.

For the determination of impairment on loans, the Group and the Bank assess at each reporting date whether there is any objective evidence that a loan or a group of loans is impaired. A loan or a group of loans is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (ie. an "incurred loss event") and that loss event has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

The criteria that the Group and the Bank use to determine that there is objective evidence of an impairment include:

- (1) any significant financial difficulty of the obligor;
- (2) a breach of contract, such as a default or delinquency in interest or principal payments;
- (3) a high probability of bankruptcy or other financial reorganisation of the obligor;
- (4) concerns over the viability of the obligor's business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its debt obligations; and
- (5) any adverse news or developments affecting the local economic conditions or business environment which will adversely affect the repayment capacity of the borrower.

The Group and the Bank first assess individually whether objective evidence of impairment exists for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk characteristics and collectively assessed for impairment, where applicable. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(h) Impairment of Financial Assets (Cont'd.)

(i) Loans, Advances and Financing (Cont'd.)

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the statement of profit or loss. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the statement of profit or loss.

Where a loan shows evidence of significant credit weaknesses, the Group and the Bank may seek to renegotiate the loan rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new loan terms and conditions via restructuring. Management monitors the renegotiated loan to ensure that all the revised terms are met and that the repayments are made promptly for a continuous period. Where an impaired loan is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six (6) months before the loan is classified as non-impaired. These loans continue to be subjected to individual or collective impairment assessment.

(ii) Financial Investments Available-for-Sale

The Group and the Bank assess at each reporting date whether there is objective evidence that a financial investment classified as available-for-sale is impaired.

In the case of quoted equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised) is removed from equity and recognised in the statement of profit or loss. For unquoted equity investments which are measured at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss.

For debt instruments, impairment is assessed based on the same criteria as other financial investments available-for-sale. Where impairment losses have been previously recognised in the statement of profit or loss, if there is a subsequent increase in the fair value of the debt instrument that can be objectively related to a credit event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(h) Impairment of Financial Assets (Cont'd.)

(iii) Financial Investments Held-to-Maturity

The Group and the Bank assess at each reporting date whether objective evidence of impairment of financial investments held-to-maturity exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised. If, in a subsequent period, the amount of the impairment loss decrease and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(i) Investment Properties

Investment properties are properties which are held to earn rental income or for capital appreciation or both. Properties that are occupied by companies in the Group for conduct of business operations are accounted for as owner-occupied rather than as investment properties upon consolidation.

In accordance with MFRS 140, investment properties can be measured using either the cost or fair value method. The Group has adopted the fair value method in measuring investment properties. Investment properties are measured initially at its cost, including transaction cost. Subsequent to initial recognition, all properties are measured at fair value, with any changes recognised in the statement of profit or loss. When an item of property and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation reserve. If a fair value gain reverses a previously recognised impairment loss, the gain is recognised in the statement of profit or loss. Upon disposal of the investment property, any surplus previously recorded in revaluation reserve is transferred to retained earnings.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. Fair values of investment properties are determined with reference to quotations of market value provided by independent professional valuers.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the statement of profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(j) Assets Acquired Under Lease

Leases in which the Group is a lessee and assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases in which the Group is a lessee are classified as operating leases.

(i) Finance Lease

Upon initial recognition, the leased asset and the corresponding lease obligations are measured at an amount equal to the lower of the fair value of the leased asset at the beginning of the lease term and the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine, otherwise the Group's incremental borrowing rate is used. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to property and equipment. Depreciation is provided at rates which write off the cost or valuation of the asset over the term of the relevant lease or, where it is likely that the Group will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to the statement of profit or loss over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Operating Lease

All assets under operating leases are not recognised on the statement of financial position. All lease rentals payable are accounted for on a straight-line basis over the lease term and are charged to the statement of profit or loss. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised in the statement of profit or loss in the period the termination takes place.

(k) Property and Equipment and Depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of replaced parts are derecognised. All other repairs and maintenance are charged to the statement of profit or loss when they are incurred.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent to initial recognition, property and equipment other than freehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at cost. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(v)(n).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(k) Property and Equipment and Depreciation (Cont'd.)

Freehold land with an indefinite useful life and work-in-progress which are not yet available for use are not depreciated. Depreciation of other property and equipment is provided on a straight line basis calculated to write off the cost of each asset to its residual value over the term of its estimated useful lives at the following principal annual rates:

Leasehold land	Over the remaining leasehold period
Buildings	2.0%
Renovations	Over the term of the leases ranging from 2 – 7 years
Office equipment, furniture and fittings	10.0% – 33.3%
Computer equipment and software	20.0% – 33.3%
Motor vehicles	20.0%

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the statement of profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property.

(l) Goodwill and Intangible Assets

(i) Goodwill

Goodwill is measured as the excess of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest over the fair value of the Group's share of the identifiable net assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. For the purpose of impairment assessment, goodwill is allocated to cash-generating units ("CGU") which are expected to benefit from the synergies of the business combination. Each CGU represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with MFRS 8 Operating Segments. The carrying amount of goodwill is assessed annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, by comparing the recoverable amount from the CGU against the carrying amount of its net assets, including attributable goodwill. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Where the fair value of the Group's share of identifiable net assets acquired exceed the amount of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest, the entire resulting gain is recognised immediately in the statement of profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(l) Goodwill and Intangible Assets (Cont'd.)

(ii) Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Intangible assets are recognised only when the identifiability and economic benefit probability criterion are met. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with an indefinite useful life are not amortised but are reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Intangible assets with an indefinite useful life are reviewed annually to determine whether the indefinite useful life assumption continues to be supportable.

Intangible assets with a finite useful life will be amortised on a straight line basis over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

(m) Foreclosed Properties

Foreclosed properties are those acquired in full or partial satisfaction of debts and are stated at the lower of cost and fair value.

(n) Impairment of Non-Financial Assets

Non-financial assets other than goodwill, such as property and equipment, investments in subsidiary and associated companies and foreclosed properties, are assessed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where such indications exist, the carrying amount of the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and the value-in-use.

The impairment loss is recognised in the statement of profit or loss, and is reversed only if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying value that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years.

Impairment of goodwill is discussed under the accounting policy on goodwill in Note 2(v)(l)(i).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(o) Repurchase and Reverse Repurchase Agreements

Securities purchased under resale agreements (ie. reverse repurchase agreements) at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recognised in 'reverse repurchase agreements' in the statement of financial position, reflecting the transaction's economic substance as a collateralised loan by the Group and the Bank. The difference between the purchase and resale prices is recognised in 'interest income' in the statement of profit or loss and is accrued over the life of the agreement using the effective interest method.

Securities sold under repurchase agreements (ie. repurchase agreements) at a specified future date are not derecognised from the statement of financial position as the Group and the Bank retain substantially all the risks and rewards of ownership. The consideration received is recognised as an asset with the corresponding obligation, including accrued interest as a liability, reflecting the transaction's economic substance as a collateralised loan given to the Group and the Bank. The difference between the sale and the repurchase prices is recognised in 'interest expense' in the statement of profit or loss and is accrued over the life of the agreement using the effective interest method.

(p) Bills and Acceptances Payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

(q) General Insurance

General insurance underwriting results are determined after taking into account reinsurances, unearned premium reserves, net commissions and net claims incurred.

Unearned premium reserves ("UPR") represent the unexpired risks at the end of the financial year. A fixed percentage method or time apportionment method is used in determining the UPR at reporting date.

Provision is made for outstanding claims based on the estimated costs of all claims together with related expenses less reinsurance recoveries in respect of claims notified but not settled at reporting date. Provision is also made for the cost of claims together with related expenses incurred but not reported at reporting date using a mathematical method of estimation determined by the management on a case by case basis.

(r) Profit Equalisation Reserve ("PER")

PER is the amount appropriated out of the total Islamic banking gross income in order to maintain a certain level of return to Investment Account Holders ("IAH") which is as stipulated by Bank Negara Malaysia's Guidelines on Profit Equalisation Reserve. The amount appropriated is shared by the IAH and the Group. The PER of the IAH is classified as a liability and is recognised at cost, with subsequent apportionments being recognised in the statement of profit or loss. The eventual distribution of PER as profit distributable to the IAH is treated as an outflow of funds due to the settlement of the obligation to the IAH. The PER of the Group is classified as a separate reserve in equity and subsequent apportionments to and distributions from retained profits are treated as a transfer between reserves.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(s) Provisions

A provision is recognised when there is a present legal or constructive obligation where as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation and the amount can be reliably estimated.

Provisions are reviewed at each reporting date and if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Where the effect of the value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

(t) Debt Securities Issued

Debt securities issued are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Group's debt securities issued consist mainly of subordinated notes, Innovative Tier I capital securities and borrowings. These debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Group to make cash payments of either principal or interest or both to holders of the debt securities and that the Group is contractually obliged to settle the financial instrument in cash or another financial instrument.

The Group has also issued Non-Innovative Tier I stapled securities which are potentially perpetual debt instruments, subject to the occurrence of certain events. This debt security is classified as a liability in the statement of financial position as there is a contractual obligation to deliver cash or other financial instruments to its holders in the form of regular interest payments, potentially extending into the indefinite future.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost. Generally, it is the Group's policy to hedge the fixed interest rate risk on these debt securities, and apply fair value hedge accounting. When hedge accounting is applied to fixed-rate debt instruments, the carrying values of the debt securities are adjusted for changes in fair value related to the hedged exposure, instead of being carried at amortised cost.

(u) Share Capital

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Costs directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

(v) Treasury Shares

When the Bank re-acquires its own equity shares, the amount of the consideration paid, including directly attributable costs, is recognised in equity. Shares re-acquired are held as treasury shares and presented as a deduction from equity. No gain or loss is recognised in the statement of profit or loss on the sale, re-issuance or cancellation of the treasury shares. Should such treasury shares be reissued by re-sale in the open market, the difference between the sales consideration and the carrying amount are shown as a movement in equity, as appropriate. Where treasury shares are distributed as share dividends, the cost of the treasury shares are applied in the reduction of the share premium reserve or distributable retained profits or both.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(w) Contingent Liabilities and Contingent Assets

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(x) Operating Revenue

Operating revenue of the Group comprises all types of revenue derived from commercial banking, investment banking, financing and other Islamic banking activities, stock-broking, general insurance, management of unit trust funds and sale of trust units but excluding all related companies transactions.

Operating revenue of the Bank comprises gross interest income, commissions earned and other income derived from commercial banking operations.

(y) Interest and Financing Income and Expense

For all financial instruments measured at amortised cost and interest/profit-bearing financial assets classified as held-for-trading and available-for-sale, interest and financing income and expense are recognised under "Interest income", "Interest expense" and "Net income from Islamic banking business" respectively in the statement of profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest/financing income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. Significant fees and transaction costs integral to the effective interest rate, as well as premiums or discounts are also considered.

For impaired financial assets where the value of the financial asset has been written down as a result of an impairment loss, interest/financing income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(z) Fee and Commission Income

The Group and the Bank earn fee and commission income from a diverse range of services provided to its customers. Such income are generally recognised on an accrual basis when the services have been provided.

Fees earned for the provision of services over a period of time, such as asset management and loan arrangement and management, are accrued over the period. Fee income from the provision of transaction services, such as funds remittances and stock-broking, are recognised upon completion of the underlying transaction. Fees that are linked to the performance of a certain activity or service, such as corporate advisory services, are recognised upon completion of the performance criteria.

(aa) Dividend Income

Dividend income is recognised when the right to receive payment is established.

(ab) Employee Benefits

(i) Short-Term Employee Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees' Provident Fund ("EPF"). Overseas subsidiary companies make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the statement of profit or loss as incurred.

(iii) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a fully funded defined benefit plan approved by the Inland Revenue Board known as the Public Bank Group Officers' Retirement Benefits Fund (the "Fund") for its eligible employees. The obligations under the Fund are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years are estimated. The benefit is calculated using the Projected Unit Credit Method in order to determine its present value. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), are recognised immediately in defined benefit reserve via other comprehensive income and are not subsequently recycled to the statement of profit or loss. Past service costs, whether unvested or already vested, are recognised immediately in the statement of profit or loss as incurred. Net interest cost is calculated by applying the discount rate to the net defined benefit asset or liability. The Group recognises the changes in the net defined benefit obligation which includes current service costs, past service costs and net interest expense or income under "Personnel costs" in the statement of profit or loss.

The amount recognised in the statement of financial position represents the actual deficit or surplus in the Fund. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from or reductions in future contributions to the Fund.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(ab) Employee Benefits (Cont'd.)

(iv) Share-based Compensation Benefits

The Group operates a share-based compensation scheme which allows the eligible directors and employees of Public Financial Holdings Limited ("PFHL") and its subsidiary companies to acquire shares in PFHL.

Where the Group pays for services of its employees using share options, the fair value of the transaction is recognised as an expense in the statement of profit or loss over the vesting periods of the grants, with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share option at the date of the grant and the number of share options to be vested by the vesting date taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. At the reporting date, the Group revises its estimate of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in the statement of profit or loss and a corresponding adjustment to equity over the remaining vesting period.

(ac) Tax Expense

Tax expense comprises current and deferred tax. Tax expense is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense in the statement of profit or loss except to the extent that it relates to items that are charged or credited in other comprehensive income or directly to equity. In such cases, tax expense is charged or credited to other comprehensive income or to equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Deferred tax is not provided for goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that at the time of transaction, affects neither accounting nor taxable profit. Deferred tax relating to fair value remeasurement of financial investments available-for-sale and cash flow hedges, which are recognised in other comprehensive income, is also charged or credited directly to other comprehensive income, and is subsequently recognised in the statement of profit or loss when the deferred fair value gain or loss is recognised in the statement of profit or loss.

For investment properties which are carried at fair value, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off under the same taxable entity and taxation authority. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

(v) Summary of Significant Accounting Policies (Cont'd.)

(ad) Dividends

Dividends declared on ordinary shares are accounted for as an appropriation of retained profits in the period in which they are approved.

(ae) Earnings Per Share

The Group presents basic and diluted (where applicable) earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period net of treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. No adjustment is made for anti-dilutive potential ordinary shares.

(af) Segment Reporting

Segment reporting in the financial statements are presented on the same basis as it is used by management internally for evaluating operating segment performance and in deciding how to allocate resources to operating segments. Operating segments are distinguishable components of the Group that engage in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance, and for which discrete financial information is available.

All transactions between operating segments are conducted based on mutually agreed allocation bases, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

3. CASH AND BALANCES WITH BANKS

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Cash and bank balances	2,569,628	2,338,784	1,535,828	1,571,400
Money market deposit placements:				
– maturing within one month	17,613,595	14,496,988	9,850,588	8,667,310
– maturing after one month	1,897,194	1,800,179	1,363,670	1,441,133
	19,510,789	16,297,167	11,214,258	10,108,443
	22,080,417	18,635,951	12,750,086	11,679,843

4. REVERSE REPURCHASE AGREEMENTS

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Malaysian Government Securities	9,537,953	8,158,410	8,634,572	7,309,057
Foreign government treasury bills	4,016	96	4,016	96
	9,541,969	8,158,506	8,638,588	7,309,153

The fair value of securities accepted as collateral under reverse repurchase agreements that the Group and the Bank are permitted to sell or repledge in the absence of default by their owners was RM9,666,173,000 (31 December 2012 – RM8,371,213,000) and RM8,756,873,000 (31 December 2012 – RM7,502,535,000) respectively, of which none (31 December 2012 – none) have been resold.

5. FINANCIAL ASSETS HELD-FOR-TRADING

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
At fair value				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	–	68,286	–	68,286
Malaysian Government Securities	223,523	141,362	223,523	141,362
Malaysian Government Investment Certificates	1,310,771	193,352	1,106,521	193,352
Bank Negara Malaysia Monetary Notes	49,346	3,424,343	49,346	1,906,237
Bank Negara Malaysia Bills	–	149,736	–	–
	1,583,640	3,977,079	1,379,390	2,309,237
Money market instruments:				
Negotiable instruments of deposit	13,822,929	11,836,221	12,274,547	10,715,460
Non-money market instruments:				
Equity securities				
– Quoted shares in Malaysia	–	879	–	879
Debt securities				
– Unquoted private debt securities	405,394	802,956	332,489	573,468
	405,394	803,835	332,489	574,347
	15,811,963	16,617,135	13,986,426	13,599,044

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Derivative financial instruments are off-balance sheet financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and equity prices) of the underlying instruments. These instruments further allow the Group and the Bank to transfer, modify or reduce its foreign exchange and interest rate risks via designated hedge relationships. Derivative financial instruments that are entered into for hedging purposes but which do not meet the hedge effectiveness criteria or which relate to customers' transactions are classified as trading derivatives. The Group and the Bank may also take conservative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates via its trading derivatives.

The table below shows the Group's and the Bank's derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts as at the reporting date. The notional amounts of these derivative financial instruments refer to the underlying contract value on which changes in the value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the financial year end but are not indicative of either the market risk or credit risk inherent in the derivative contracts. The risks associated with the use of derivative financial instruments, as well as management's policy for controlling these risks are set out in Note 44 to the financial statements.

Group	31 December 2013			31 December 2012		
	Contract/ Notional Amount RM'000	Fair Value		Contract/ Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
At fair value						
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards	1,044,710	10,725	7,906	1,033,464	3,876	6,225
– Currency swaps	15,803,116	156,182	65,266	10,845,757	11,659	57,565
– Currency options	8,486	11	11	–	–	–
Interest rate related contracts						
– Interest rate swaps	450,000	48	208	–	–	–
Equity related contracts						
– Options purchased	52,089	16,616	–	126,594	12,154	–
Precious metal contracts						
– Forwards	1,890	1	1	206	1	–
	17,360,291	183,583	73,392	12,006,021	27,690	63,790
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	8,209,872	143,220	69,022	10,952,180	321,694	133,993
Cash flow hedge						
Foreign exchange contracts						
– Cross currency interest rate swaps	2,132,065	–	191,322	1,376,100	–	35,669
Interest rate related contracts						
– Interest rate swaps	2,177,000	38,551	854	3,179,000	21,081	112
	12,518,937	181,771	261,198	15,507,280	342,775	169,774
Total	29,879,228	365,354	334,590	27,513,301	370,465	233,564

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

Bank	31 December 2013			31 December 2012		
	Contract/ Notional Amount RM'000	Fair Value		Contract/ Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
At fair value						
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards	1,005,721	10,687	7,873	990,285	3,814	6,175
– Currency swaps	15,658,457	155,895	65,041	10,832,687	11,595	57,562
– Currency options	8,486	11	11	–	–	–
Interest rate related contracts						
– Interest rate swaps	469,681	48	832	18,348	–	1,360
Equity related contracts						
– Options purchased	52,089	16,616	–	126,594	12,154	–
Precious metal contracts						
– Forwards	1,890	1	1	206	1	–
	17,196,324	183,258	73,758	11,968,120	27,564	65,097
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	7,747,377	143,220	47,084	10,521,002	321,694	94,038
Cash flow hedge						
Foreign exchange contracts						
– Cross currency interest rate swaps	2,132,065	–	191,322	1,376,100	–	35,669
Interest rate related contracts						
– Interest rate swaps	3,677,000	24,251	117,331	4,179,000	15,086	15,956
	13,556,442	167,471	355,737	16,076,102	336,780	145,663
Total	30,752,766	350,729	429,495	28,044,222	364,344	210,760

With the exception of options contracts, the fair values of derivative financial instruments are normally zero or negligible at inception. The subsequent change in fair value is either favourable or unfavourable as a result of fluctuations in the underlying market interest rates and/or foreign exchange rates relative to the terms of the respective contracts.

The fair value at inception of options contracts purchased represents the consideration paid for these contracts, with subsequent changes in the fair value dependent on the movements in the value of the underlying asset and/or index.

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

As at 31 December 2013, the Group and the Bank have positions in the following types of derivative financial instruments:

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange exposures in foreign currency or interest rates.

Options

Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of an underlying asset at a predetermined price. The seller receives a premium from the purchaser in consideration of risk. Options may be either exchange-traded or negotiated between the purchaser and the seller in the over-the-counter market.

Over-the-counter derivatives may expose the Group and the Bank to the risks associated with the absence of an exchange to close out an open position. This credit risk represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk, the Group and the Bank continually monitor and assess the credit standing of these counterparties.

Where derivatives of the Group and the Bank have been designated for the purpose of hedging and meet the hedge effectiveness criteria, the accounting treatment of these derivatives will depend on the nature of the instrument hedged and the type of hedge transaction, as described in Note 2(v)(f). These hedge transactions include:

Fair Value Hedges

The Group and the Bank use fair value hedges to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. The financial instruments hedged for interest rate risk include the Bank's debt securities issued and financial investments available-for-sale. The Group and the Bank primarily use interest rate swaps as hedges of interest rate risk.

The net gains and losses arising from fair value hedges during the year are as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
(Loss)/gain on hedging instruments	(110,501)	1,341	(128,519)	(8,209)
Gain/(loss) on the hedged items attributable to the hedged risk	112,665	(3,096)	130,625	7,080
Exchange differences	(33)	29	–	–
Ineffectiveness charged to the statement of profit or loss (Note 33)	2,131	(1,726)	2,106	(1,129)

The gains and losses on the ineffective portions of the Group's and the Bank's fair value hedges are recognised immediately in the statement of profit or loss under "Net gains and losses on financial instruments".

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

Cash Flow Hedges

The Group and the Bank principally use interest/profit rate swaps to protect against exposures to variability in future cash flows on non-trading financial assets and liabilities which bear interest/profit at variable rates.

Set out below is a schedule indicating as at the financial year end, the periods when the hedged cash flows are expected to occur and when they are expected to impact the statement of profit or loss:

	Group			
	Within 1 year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
2013				
Cash inflows/(outflows) on assets	1,198	519	(2,523)	–
Cash inflows/(outflows) on liabilities	25,202	66,825	(109,582)	2,514
Net cash inflows/(outflows)	26,400	67,344	(112,105)	2,514
2012				
Cash inflows on assets	1,185	60	–	–
Cash inflows/(outflows) on liabilities	9,560	35,540	(64,781)	3,616
Net cash inflows/(outflows)	10,745	35,600	(64,781)	3,616
Bank				
	Within 1 year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
2013				
Cash inflows/(outflows) on assets	9,642	3,544	(23,872)	(106,576)
Cash inflows/(outflows) on liabilities	24,962	62,187	(116,479)	–
Net cash inflows/(outflows)	34,604	65,731	(140,351)	(106,576)
2012				
Cash inflows/(outflows) on assets	9,572	16,089	3,453	(43,663)
Cash inflows/(outflows) on liabilities	9,836	35,838	(67,708)	–
Net cash inflows/(outflows)	19,408	51,927	(64,255)	(43,663)

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

Cash Flow Hedges (Cont'd.)

There were no cash flow hedges that were discontinued as a result of the hedged cash flows no longer expected to occur.

The net gain on cash flow hedges reclassified from equity to the statement of profit or loss is recognised in "Net gains and losses on financial instruments". During the financial year, a net gain of RM1,083,000 (2012 – net gain of RM16,000) was recognised by the Group and the Bank in the statement of profit or loss.

The gains and losses on the ineffective portions of such derivatives are recognised immediately in the statement of profit or loss under "Net gains and losses on financial instruments". During the financial year, a gain of RM572,000 (2012 – gain of RM44,000) (Note 33) was recognised by the Group and the Bank.

Hedge of Net Investment in Foreign Operations

The Group's statement of financial position is affected by gains and losses as a result of the translation of net assets of its subsidiary companies denominated in currencies other than its functional currency. The Group hedges its exposures to foreign exchange risk via the designation of certain long-term borrowings and short-term interbank borrowing funding pools.

The financial instruments designated as net investment hedges are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Long-term borrowings	193,526	180,422
Short-term interbank borrowings	2,912,729	2,715,504
	3,106,255	2,895,926

The gains and losses on the ineffective portions that was recognised in the statement of profit or loss under "Other operating income" during the financial year arising from hedges of net investment in foreign operations was a loss of RM964,000 (2012 – gain of RM962,000).

7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
At fair value				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	1,386,790	845,916	1,386,790	845,916
Malaysian Government Securities	975,356	491,355	975,356	491,355
Malaysian Government Investment Certificates	3,140,471	1,389,493	1,703,562	836,162
Bank Negara Malaysia Monetary Notes	4,604,017	7,341,239	4,604,017	7,341,239
	10,106,634	10,068,003	8,669,725	9,514,672
Money market instruments:				
Negotiable instruments of deposit	198,844	–	198,844	–
Non-money market instruments:				
Equity securities [#]				
– Quoted shares and convertible loan stocks in Malaysia	4,785	36,210	4,785	36,210
– Quoted shares and convertible loan stocks outside Malaysia	11,897	10,984	–	–
– Unquoted shares	110,249	108,383	106,285	104,614
Debt securities				
– Unquoted private debt securities	2,078,879	2,014,665	1,607,095	1,554,903
Unit trust funds	5,107,224	4,962,875	4,538,133	4,409,845
	7,313,034	7,133,117	6,256,298	6,105,572
	17,618,512	17,201,120	15,124,867	15,620,244
[#] Stated at cost, net of impairment loss amounting to	6,265	26,135	6,265	26,135

7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (CONT'D.)

A reconciliation of accumulated impairment loss by class of financial instrument is as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Non-money market instruments:				
Equity securities				
At 1 January	26,135	35,477	26,135	29,115
Impairment made during the year (Note 38)	–	3,533	–	3,533
Amount written off	(19,870)	(12,875)	(19,870)	(6,513)
At 31 December	6,265	26,135	6,265	26,135

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
At amortised cost				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	19,961	–	–	–
Malaysian Government Securities	1,235,500	1,139,827	1,205,514	1,089,201
Malaysian Government Investment Certificates	2,190,194	1,739,184	2,119,819	1,739,184
Foreign government treasury bills	756,069	727,307	111,725	58,285
Other foreign government securities	197,872	–	–	–
	4,399,596	3,606,318	3,437,058	2,886,670
Money market instruments:				
Negotiable instruments of deposit	1,890,742	1,717,161	1,528,777	1,472,807
Bankers' acceptances and Islamic accepted bills	279,895	299,437	89,092	–
	2,170,637	2,016,598	1,617,869	1,472,807
Non-money market instruments:				
Debt securities				
– Cagamas bonds	130,287	5,059	90,436	5,059
– Unquoted private debt securities	1,093,138	629,951	642,544	144,933
	1,223,425	635,010	732,980	149,992
Accumulated impairment losses	(107)	(155)	(107)	(155)
	7,793,551	6,257,771	5,787,800	4,509,314

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY (CONT'D.)

The maturity structure of government securities and treasury bills and money market instruments held is as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Maturity within one year	3,906,731	3,489,815	1,233,085	775,953
More than one year to three years	1,001,784	1,338,234	813,279	1,315,849
More than three years to five years	634,420	526,924	512,742	526,924
More than five years	1,027,298	267,943	2,495,821	1,740,751
	6,570,233	5,622,916	5,054,927	4,359,477

The indicative market value of government securities and treasury bills and money market instruments is as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Malaysian Government Treasury Bills	19,923	—	—	—
Malaysian Government Securities	1,234,386	1,147,849	1,204,636	1,097,185
Malaysian Government Investment Certificates	2,170,604	1,744,179	2,101,077	1,744,179
Foreign government treasury bills	755,198	727,016	111,375	58,296
Other foreign government securities	197,941	—	—	—
Negotiable instruments of deposit	1,885,280	1,720,492	1,512,786	1,474,027
Bankers' acceptances and Islamic accepted bills	279,879	299,432	89,082	—

A reconciliation of accumulated impairment loss by class of financial instrument is as follows:

	Group and Bank	
	2013 RM'000	2012 RM'000
Non-money Market Instruments:		
Debt Securities		
At 1 January	155	1,102
Amount written off	(48)	(947)
At 31 December	107	155

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9. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
At amortised cost				
Overdrafts	9,694,121	9,528,841	8,319,983	8,291,756
Term loans/financing				
– Housing loans/financing	69,371,088	59,867,383	60,472,169	52,536,395
– Syndicated term loans/financing	1,782,419	1,974,334	1,071,646	881,720
– Hire purchase receivables	44,923,671	42,021,461	31,906,568	30,138,506
– Other term loans/financing	83,603,166	73,633,407	70,256,580	61,665,524
Credit card receivables	1,623,283	1,604,211	1,613,033	1,594,106
Bills receivables	132,233	130,609	112,310	97,980
Trust receipts	318,642	324,142	262,301	278,177
Claims on customers under acceptance credits [#]	4,146,270	4,020,397	4,013,598	4,007,132
Revolving credits	4,247,740	3,464,140	4,273,079	3,505,412
Staff loans [*]	1,333,170	1,214,239	1,254,160	1,141,458
Gross loans, advances and financing	221,175,803	197,783,164	183,555,427	164,138,166
Less: Allowance for impaired loans and financing				
– collective assessment allowance	(1,592,085)	(1,529,566)	(1,071,089)	(1,059,484)
– individual assessment allowance	(167,925)	(201,995)	(79,765)	(110,074)
Net loans, advances and financing	219,415,793	196,051,603	182,404,573	162,968,608

[#] Included in claims on customers under acceptance credits of the Group and the Bank are bankers' acceptance rediscounted of RM974,991,000 (31 December 2012 – RM2,306,869,000) and RM974,121,000 (31 December 2012 – RM2,305,913,000) respectively.

^{*} Included in staff loans of the Group and the Bank are loans to directors of subsidiary companies amounting to RM3,499,000 (31 December 2012 – RM3,785,000) and RM3,092,000 (31 December 2012 – RM3,313,000) respectively.

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

Gross loans, advances and financing presented by class of financial instruments are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Retail loans/financing*				
– Housing loans/financing	69,371,088	59,867,383	60,472,169	52,536,395
– Hire purchase	44,923,671	42,021,461	31,906,568	30,138,506
– Credit cards	1,623,283	1,604,211	1,613,033	1,594,106
– Other loans/financing ^	74,634,000	66,421,547	64,745,015	57,307,670
	190,552,042	169,914,602	158,736,785	141,576,677
Corporate loans/financing	30,623,761	27,868,562	24,818,642	22,561,489
	221,175,803	197,783,164	183,555,427	164,138,166

* Included in retail loans/financing are loans/financing granted to individual borrowers and mid-market commercial enterprises.

^ Included in other loans/financing are term loans, trade financing, overdrafts and revolving credits.

The maturity structure of gross loans, advances and financing by residual contractual maturity is as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Maturity within one year	29,512,905	26,478,852	24,665,072	22,175,219
More than one year to three years	21,787,337	22,671,399	17,348,887	18,602,463
More than three years to five years	21,614,004	18,899,528	16,869,100	14,547,090
More than five years	148,261,557	129,733,385	124,672,368	108,813,394
	221,175,803	197,783,164	183,555,427	164,138,166

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

Gross loans, advances and financing analysed by type of customer are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Banking institutions	219,841	572,034	32,806	397,658
Non-bank financial institutions				
– Stock-broking companies	10,415	14,202	10,415	14,202
– Others	5,867,394	5,676,475	5,796,575	5,434,225
Business enterprises				
– Small and medium enterprises	46,466,558	38,966,081	41,907,628	35,195,448
– Others	24,774,604	24,147,664	19,839,602	19,727,188
Government and statutory bodies	328,984	341,178	9,205	19,300
Individuals	141,050,941	126,071,304	113,628,081	101,473,775
Other entities	43,708	42,618	41,090	39,740
Foreign entities	2,413,358	1,951,608	2,290,025	1,836,630
	221,175,803	197,783,164	183,555,427	164,138,166

Gross loans, advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Malaysia	206,634,918	184,541,775	183,018,237	163,752,137
Hong Kong SAR and the People's Republic of China	11,573,237	10,778,263	–	–
Cambodia	2,430,458	2,077,097	–	–
Other countries	537,190	386,029	537,190	386,029
	221,175,803	197,783,164	183,555,427	164,138,166

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

Gross loans, advances and financing analysed by interest rate/rate of return sensitivity are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Fixed rate				
– Housing loans/financing	760,224	1,200,815	100,506	461,400
– Hire purchase receivables	43,231,795	40,487,636	31,896,405	30,128,935
– Other fixed rate loans/financing	15,294,702	15,447,863	8,200,180	8,170,545
Variable rate				
– Base lending rate plus	131,488,842	113,302,637	123,273,711	107,615,616
– Cost plus	20,029,781	17,881,772	19,323,512	17,123,260
– Other variable rates	10,370,459	9,462,441	761,113	638,410
	221,175,803	197,783,164	183,555,427	164,138,166

Gross loans, advances and financing analysed by economic purpose are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Purchase of securities	4,023,503	4,126,999	3,861,298	4,050,091
Purchase of transport vehicles	45,158,466	42,238,571	32,139,612	30,344,330
Purchase of landed properties	126,004,256	108,286,165	111,871,882	96,520,395
(of which: – residential	70,928,295	61,130,701	62,005,417	53,826,198
– non-residential)	55,075,961	47,155,464	49,866,465	42,694,197
Purchase of fixed assets (excluding landed properties)	242,072	298,551	212,738	258,721
Personal use	9,090,491	9,318,142	4,527,048	4,270,035
Credit card	1,623,283	1,604,211	1,613,033	1,594,106
Purchase of consumer durables	16,855	16,746	13,619	13,103
Construction	2,903,437	2,493,576	2,268,033	1,911,728
Mergers and acquisitions	208,454	220,006	208,454	220,006
Working capital	28,219,556	25,325,719	23,401,960	21,365,295
Other purpose	3,685,430	3,854,478	3,437,750	3,590,356
	221,175,803	197,783,164	183,555,427	164,138,166

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

Gross loans, advances and financing analysed by sectors are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Agriculture, hunting, forestry and fishing	2,847,443	2,690,193	2,471,313	2,422,271
Mining and quarrying	199,457	158,556	167,811	138,374
Manufacturing	8,891,271	8,149,499	7,885,681	7,316,331
Electricity, gas and water	54,698	38,083	21,429	14,898
Construction	6,597,972	6,039,106	5,580,719	5,174,150
Wholesale & retail trade and restaurants & hotels	19,372,207	17,304,919	17,702,488	15,819,202
Transport, storage and communication	3,395,952	3,182,098	2,577,828	2,434,007
Finance, insurance and business services	12,214,958	11,325,402	10,838,160	10,077,315
Real estate	21,064,548	17,850,585	17,867,116	14,926,521
Community, social and personal services	4,319,749	3,947,054	3,886,443	3,542,013
Households	141,214,063	126,342,848	114,444,907	102,115,314
Others	1,003,485	754,821	111,532	157,770
	221,175,803	197,783,164	183,555,427	164,138,166

Movements in impaired loans, advances and financing ("impaired loans/financing") are as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	1,374,086	1,529,657	1,014,660	1,150,234
Impaired during the year	2,939,301	2,575,901	2,125,565	1,881,155
Reclassified as non-impaired	(1,976,588)	(1,924,842)	(1,576,211)	(1,571,125)
Recoveries	(299,343)	(299,087)	(169,777)	(234,953)
Amount written off	(555,058)	(475,296)	(247,931)	(185,974)
Loans/financing converted to foreclosed properties/investments	(10,981)	(24,759)	(10,721)	(24,502)
Exchange differences	13,362	(7,488)	152	(175)
At 31 December	1,484,779	1,374,086	1,135,737	1,014,660
Gross impaired loans as % of gross loans, advances and financing	0.67%	0.69%	0.62%	0.62%

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

Impaired loans/financing analysed by geographical distribution are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Malaysia	1,364,302	1,212,622	1,133,697	1,012,355
Hong Kong SAR and the People's Republic of China	74,329	96,054	–	–
Cambodia	44,108	63,105	–	–
Other countries	2,040	2,305	2,040	2,305
	1,484,779	1,374,086	1,135,737	1,014,660

Impaired loans/financing analysed by economic purpose are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Purchase of securities	3,466	5,852	3,462	5,848
Purchase of transport vehicles	357,474	263,313	256,600	189,226
Purchase of landed properties	676,066	591,758	608,140	497,871
(of which: – residential	526,930	420,286	468,751	371,040
– non-residential)	149,136	171,472	139,389	126,831
Purchase of fixed assets (excluding landed properties)	6,003	6,168	5,977	6,049
Personal use	169,312	165,205	48,542	47,086
Credit card	23,161	23,421	23,084	23,309
Purchase of consumer durables	82	377	4	309
Construction	11,469	14,109	8,855	13,369
Working capital	223,163	283,886	166,649	211,641
Other purpose	14,583	19,997	14,424	19,952
	1,484,779	1,374,086	1,135,737	1,014,660

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

Impaired loans/financing analysed by sectors are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Agriculture, hunting, forestry and fishing	16,692	11,772	2,559	4,422
Mining and quarrying	1,483	132	437	97
Manufacturing	110,739	130,029	98,646	117,907
Electricity, gas and water	1,551	1,205	–	–
Construction	41,188	68,336	37,600	66,813
Wholesale & retail trade and restaurants & hotels	130,908	117,113	106,597	86,462
Transport, storage and communication	61,167	54,959	59,778	47,954
Finance, insurance and business services	24,219	44,217	19,331	21,186
Real estate	23,715	61,688	21,458	30,388
Community, social and personal services	20,427	16,091	20,118	15,980
Households	1,050,632	867,416	768,342	622,571
Others	2,058	1,128	871	880
	1,484,779	1,374,086	1,135,737	1,014,660

A reconciliation of the allowance for impaired loans/financing by class of financial instrument is as follows:

Group	Retail Loans/Financing					Total RM'000
	Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000	Corporate Loans/ Financing RM'000	
2013						
At 1 January 2013	515,796	425,125	16,778	515,155	56,712	1,529,566
Allowance made during the year (Note 37)	16,495	240,540	40,286	41,603	1,365	340,289
Amount written off	(36,441)	(136,179)	(38,287)	(69,697)	–	(280,604)
Exchange differences	42	7	4	2,314	467	2,834
At 31 December 2013	495,892	529,493	18,781	489,375	58,544	1,592,085
2012						
At 1 January 2012	510,453	396,811	15,064	514,128	59,588	1,496,044
Allowance made/(written back) during the year (Note 37)	29,258	160,147	37,193	54,998	(2,397)	279,199
Amount written off	(23,890)	(131,823)	(35,478)	(52,805)	–	(243,996)
Exchange differences	(25)	(10)	(1)	(1,166)	(479)	(1,681)
At 31 December 2012	515,796	425,125	16,778	515,155	56,712	1,529,566

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

A reconciliation of the allowance for impaired loans/financing by class of financial instrument is as follows (Cont'd.):

Bank Collective Assessment Allowance	Retail Loans				Corporate Loans RM'000	Total RM'000
	Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000		
2013						
At 1 January 2013	462,611	291,076	16,716	247,193	41,888	1,059,484
Allowance made during the year (Note 37)	5,547	171,804	40,279	1,002	1,334	219,966
Amount written off	(33,030)	(98,605)	(38,287)	(38,836)	–	(208,758)
Exchange differences	–	–	–	397	–	397
At 31 December 2013	435,128	364,275	18,708	209,756	43,222	1,071,089
2012						
At 1 January 2012	462,480	265,039	15,028	253,522	42,143	1,038,212
Allowance made/(written back) during the year (Note 37)	21,826	115,362	37,166	13,020	(255)	187,119
Amount written off	(21,695)	(89,325)	(35,478)	(19,076)	–	(165,574)
Exchange differences	–	–	–	(273)	–	(273)
At 31 December 2012	462,611	291,076	16,716	247,193	41,888	1,059,484

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

A reconciliation of the allowance for impaired loans/financing by class of financial instrument is as follows (Cont'd.):

Group <u>Individual Assessment Allowance</u>	Retail Loans/Financing				Corporate Loans/ Financing RM'000	Total RM'000
	Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000		
2013						
At 1 January 2013	64	1,219	–	125,608	75,104	201,995
Net allowance made during the year (Note 37)	95	261	–	225,146	245	225,747
Allowance made during the year	95	327	–	238,775	3,714	242,911
Amount written back in respect of recoveries	–	(66)	–	(13,629)	(3,469)	(17,164)
Amount written off	–	(96)	–	(253,452)	(20,906)	(274,454)
Exchange differences	8	98	–	13,398	1,133	14,637
At 31 December 2013	167	1,482	–	110,700	55,576	167,925
2012						
At 1 January 2012	1,083	1,344	–	132,986	109,783	245,196
Net allowance made during the year (Note 37)	548	1,002	–	205,979	(12,664)	194,865
Allowance made during the year	548	1,079	–	240,026	5,266	246,919
Amount written back in respect of recoveries	–	(77)	–	(34,047)	(17,930)	(52,054)
Amount written off	(1,566)	(1,068)	–	(207,547)	(21,119)	(231,300)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(1,404)	–	(1,404)
Exchange differences	(1)	(59)	–	(4,406)	(896)	(5,362)
At 31 December 2012	64	1,219	–	125,608	75,104	201,995

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

A reconciliation of the allowance for impaired loans/financing by class of financial instrument is as follows (Cont'd.):

Bank <u>Individual Assessment Allowance</u>	<----- Retail Loans ----->					Total RM'000
	Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000	Corporate Loans RM'000	
2013						
At 1 January 2013	–	–	–	48,952	61,122	110,074
Net allowance made during the year (Note 37)	–	–	–	8,357	507	8,864
Allowance made during the year	–	–	–	14,366	3,976	18,342
Amount written back in respect of recoveries	–	–	–	(6,009)	(3,469)	(9,478)
Amount written off	–	–	–	(19,361)	(19,812)	(39,173)
At 31 December 2013	–	–	–	37,948	41,817	79,765
2012						
At 1 January 2012	1,080	–	–	56,107	77,561	134,748
Net allowance made during the year (Note 37)	486	–	–	11,830	(15,186)	(2,870)
Allowance made during the year	486	–	–	23,943	2,744	27,173
Amount written back in respect of recoveries	–	–	–	(12,113)	(17,930)	(30,043)
Amount written off	(1,566)	–	–	(17,581)	(1,253)	(20,400)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(1,404)	–	(1,404)
At 31 December 2012	–	–	–	48,952	61,122	110,074

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10. OTHER ASSETS

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Deferred handling fees*	242,734	236,571	230,402
Interest/Income receivable	69,650	32,942	52,824
Other receivables, deposits and prepayments	1,410,075	1,283,277	1,231,339
Manager's stocks**	87,984	67,652	22,696
Amount due from trust funds ^	111,536	97,891	99,987
Employee benefits (Note 24(a))	294,339	199,079	213,381
Foreclosed properties#	57,280	82,673	109,529
Taxi licenses	1,130	1,056	1,093
Outstanding contracts on clients' accounts @##	264,971	204,857	260,384
	2,539,699	2,205,998	2,221,635
# Stated net of accumulated allowance for impairment loss amounting to	34,293	43,615	45,717
@ Stated net of accumulated allowance for bad and doubtful debts amounting to	1,152	2,089	2,083

	Bank		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Deferred handling fees*	175,656	173,995	162,827
Interest/Income receivable	45,374	20,560	39,141
Other receivables, deposits and prepayments	1,338,651	1,156,749	1,165,635
Employee benefits (Note 24(a))	286,306	192,251	206,061
Foreclosed properties #	55,982	80,522	106,652
Amount due from subsidiary companies ^ ^	37,879	45,248	42,234
Dividend receivable from subsidiary companies (Note 42(b))	469,462	429,647	397,237
	2,409,310	2,098,972	2,119,787
# Stated net of accumulated allowance for impairment loss amounting to	33,829	42,712	44,494

10. OTHER ASSETS (CONT'D.)

- * This represents the unamortised balance of handling fees paid to motor vehicle dealers for hire purchase loans/financing.
- ** Manager's stocks represent trust units held by the fund management subsidiary company.
- ^ This balance refers to amount due from trust funds managed by the fund management subsidiary company in respect of cancellation and creation of trust units. It also includes management fee receivable from trust funds.
- ^^ These balances are unsecured, non-interest bearing and are repayable on demand.
- ## This balance represents outstanding purchase contracts in respect of the stock-broking business of the investment banking subsidiary company entered into on behalf of clients where settlements have yet to be made by clients. The trade settlement is 3 market days according to the Bursa Malaysia Securities Berhad's trading rules.

11. STATUTORY DEPOSITS WITH CENTRAL BANKS

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Statutory deposits with Bank Negara Malaysia*	6,476,300	5,381,471	5,536,450	4,709,380
Statutory deposits with the National Bank of Cambodia #	419,036	376,902	–	–
Other statutory deposits	29,496	28,833	29,496	28,833
	6,924,832	5,787,206	5,565,946	4,738,213

* The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009. The amount of the Statutory Reserve Requirement is determined based on a set percentage of total eligible liabilities.

These statutory deposits are maintained with the National Bank of Cambodia ("NBC") in respect of:

- (i) Cambodian Public Bank Plc and are maintained in compliance with Article 5 of NBC Prakas No. B7-01-136 and Prakas No. B7-012-140, the amounts of which are determined as set percentages of Cambodian Public Bank Plc's issued share capital and deposits from customers;
- (ii) Campu Lonpac Insurance Plc and are maintained in compliance with Article 53 of the Royale Government's Sub-Decree on Insurance dated 22 October 2001 and Article 1 of the Ministry of Economy and Finance's Circular No. 009 SHV dated 9 December 2009, the amounts are determined as a set percentage of the issued share capital of Campu Lonpac Insurance Plc; and
- (iii) Campu Securities Plc and this represents the non-interest bearing deposit specifically earmarked for Campu Securities Plc in compliance with the Law on the Issuance and Trading of Non-Government Securities and is determined in Article 17 of the Prakas No. 009 SECC/09 dated 18 November 2009 on Licensing of Securities Firms and Securities Representatives issued by the Securities and Exchange Commission of Cambodia.

NOTES TO THE
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12. DEFERRED TAX

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
At 1 January				
– as previously stated	15,316	(9,532)	(32,003)	(51,708)
– effects of adoption of MFRS 119	(24,839)	(30,168)	(23,987)	(29,133)
At 1 January, as restated	(9,523)	(39,700)	(55,990)	(80,841)
Recognised in the statement of profit or loss (net) (Note 39)				
– relating to origination and reversal of temporary differences	30,032	34,454	22,793	31,768
– (under)/over provision of net deferred tax liabilities	(3,294)	9,990	(3,157)	992
Recognised in equity (net) (Note 28)	(43,073)	(14,309)	(14,384)	(7,909)
Exchange differences	318	42	–	–
At 31 December	(25,540)	(9,523)	(50,738)	(55,990)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The net deferred tax assets and liabilities shown on the statement of financial position after appropriate offsetting are as follows:

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Deferred tax assets, net	70,121	63,227	46,093
Deferred tax liabilities, net	(95,661)	(72,750)	(85,793)
	(25,540)	(9,523)	(39,700)

	Bank		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Deferred tax liabilities, net	(50,738)	(55,990)	(80,841)

12. DEFERRED TAX (CONT'D.)

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Deferred tax assets	143,899	106,249	88,442
Deferred tax liabilities	(169,439)	(115,772)	(128,142)
	(25,540)	(9,523)	(39,700)

	Bank		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Deferred tax assets	73,242	42,461	32,690
Deferred tax liabilities	(123,980)	(98,451)	(113,531)
	(50,738)	(55,990)	(80,841)

NOTES TO THE
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12. DEFERRED TAX (CONT'D.)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group	Allowance for Impaired Loans RM'000	Tax Losses RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2012				
– as previously stated	8,550	118	57,451	66,119
– effects of adoption of MFRS 119	–	–	22,323	22,323
At 1 January 2012, as restated	8,550	118	79,774	88,442
Recognised in the statement of profit or loss (Note 39)				
– relating to origination and reversal of temporary differences	978	(68)	17,229	18,139
– under/(over) provision	5,146	–	(5,073)	73
Recognised in equity	–	–	(48)	(48)
Exchange differences	(349)	(3)	(5)	(357)
At 31 December 2012	14,325	47	91,877	106,249
Recognised in the statement of profit or loss (Note 39)				
– relating to origination and reversal of temporary differences	(2,441)	(48)	14,455	11,966
– over provision	–	–	(2,570)	(2,570)
Recognised in equity	–	–	27,259	27,259
Exchange differences	926	1	68	995
At 31 December 2013	12,810	–	131,089	143,899

12. DEFERRED TAX (CONT'D.)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows (Cont'd.):

Deferred tax liabilities of the Group	Defined Benefit Assets RM'000	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2012				
– as previously stated	484	75,245	(78)	75,651
– effects of adoption of MFRS 119	52,491	–	–	52,491
At 1 January 2012, as restated	52,975	75,245	(78)	128,142
Recognised in the statement of profit or loss (Note 39)				
– relating to origination and reversal of temporary differences	(12,459)	(3,819)	(37)	(16,315)
– (over)/under provision	–	(9,951)	34	(9,917)
Recognised in equity	8,844	–	5,417	14,261
Exchange differences	–	(399)	–	(399)
At 31 December 2012	49,360	61,076	5,336	115,772
Recognised in the statement of profit or loss (Note 39)				
– relating to origination and reversal of temporary differences	(19,251)	1,121	64	(18,066)
– under provision	199	474	51	724
Recognised in equity	43,058	–	27,274	70,332
Exchange differences	–	677	–	677
At 31 December 2013	73,366	63,348	32,725	169,439

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12. DEFERRED TAX (CONT'D.)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows (Cont'd.):

Deferred tax assets of the Bank	Other Temporary Differences RM'000	Total RM'000
At 1 January 2012		
– as previously stated	10,367	10,367
– effects of adoption of MFRS 119	22,323	22,323
At 1 January 2012, as restated	32,690	32,690
Recognised in the statement of profit or loss (Note 39)		
– relating to origination and reversal of temporary differences	14,120	14,120
– over provision	(4,981)	(4,981)
Recognised in equity	632	632
At 31 December 2012	42,461	42,461
Recognised in the statement of profit or loss (Note 39)		
– relating to origination and reversal of temporary differences	5,849	5,849
– over provision	(2,571)	(2,571)
Recognised in equity	27,503	27,503
At 31 December 2013	73,242	73,242

12. DEFERRED TAX (CONT'D.)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows (Cont'd.):

	Defined Benefit Assets RM'000	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
Deferred tax liabilities of the Bank				
At 1 January 2012				
– as previously stated	–	62,475	(400)	62,075
– effects of adoption of MFRS 119	51,456	–	–	51,456
At 1 January 2012, as restated	51,456	62,475	(400)	113,531
Recognised in the statement of profit or loss (Note 39)				
– relating to origination and reversal of temporary differences	(12,010)	(5,638)	–	(17,648)
– (over)/under provision	–	(5,976)	3	(5,973)
Recognised in equity	8,541	–	–	8,541
At 31 December 2012	47,987	50,861	(397)	98,451
Recognised in the statement of profit or loss (Note 39)				
– relating to origination and reversal of temporary differences	(18,381)	1,437	–	(16,944)
– under provision	–	523	63	586
Recognised in equity	41,887	–	–	41,887
At 31 December 2013	71,493	52,821	(334)	123,980

Deferred tax assets have not been recognised in respect of the following items as it is not probable that the respective subsidiary companies will generate sufficient future taxable profits available against which these can be utilised:

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000	1 January 2012 RM'000
Unutilised tax losses	15,123	14,137	14,911
Unutilised capital allowances	23,093	23,093	24,674

Subject to the agreement by the relevant tax authorities, the Group has unabsorbed tax losses and unabsorbed capital allowances carried forward of RM15,123,000 (31 December 2012 – RM14,421,000; 1 January 2012 – RM15,627,000) and RM23,093,000 (31 December 2012 – RM23,093,000; 1 January 2012 – RM24,674,000) respectively which give rise to the recognised and unrecognised deferred tax assets in respect of the above unutilised tax losses and unutilised capital allowances.

13. INVESTMENT IN SUBSIDIARY COMPANIES

Bank	31 December 2013		31 December 2012	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
At cost:				
Quoted shares outside Malaysia				
– Quoted shares in Hong Kong SAR	1,672,195	1,358,629	1,672,195	1,160,897
Unquoted shares				
– In Malaysia	2,492,116		2,325,747	
– Outside Malaysia	272,169		272,169	
	4,436,480		4,270,111	
Less: Accumulated impairment losses	(430)		(6,530)	
	4,436,050		4,263,581	

Details of the subsidiary companies are as follows:

Name	Principal Activities	Effective Interest	
		31 December 2013 %	31 December 2012 %
Local subsidiary companies			
Public Islamic Bank Berhad	Islamic banking	100.0	100.0
Public Investment Bank Berhad+	Investment banking	100.0	100.0
Public Invest Nominees (Tempatan) Sdn. Bhd.+	Nominee services	100.0	100.0
Public Invest Nominees (Asing) Sdn. Bhd.+	Nominee services	100.0	100.0
Public Consolidated Holdings Sdn. Bhd.+	Investment holding	100.0	100.0
Public Mutual Berhad+	Sale of trust units and management of unit trusts	100.0	100.0
Public Holdings Sdn. Bhd.	Property holding	100.0	100.0
Public Nominees (Tempatan) Sdn. Bhd.	Nominee services	100.0	100.0
Public Nominees (Asing) Sdn. Bhd.	Nominee services	100.0	100.0
Public Bank (L) Ltd.	Offshore banking	100.0	100.0
PB Trust (L) Ltd.	Offshore trust company	100.0	100.0
PB Venture Capital Sdn. Bhd.	Investment holding	100.0	100.0
Public Leasing & Factoring Sdn. Bhd.	Leasing and factoring	100.0	100.0
PB International Factoring Sdn. Bhd.	Dormant	100.0	100.0
PB Properties Sdn. Bhd.	Dormant	–	100.0
PBFIN Berhad	Dormant	100.0	100.0

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D.)

Details of the subsidiary companies are as follows (Cont'd.):

Name	Principal Activities	Effective Interest	
		31 December 2013 %	31 December 2012 %
Overseas subsidiary companies			
Cambodian Public Bank Plc++	Banking	100.0	100.0
Campu Securities Plc++	Securities dealing and underwriting	100.0	100.0
Campu Lonpac Insurance Plc++	General insurance	55.0	55.0
Public Financial Holdings Limited+*	Investment and property holding	73.2	73.2
Public Bank (Hong Kong) Limited+	Banking	73.2	73.2
Public Finance Limited+	Deposit-taking and finance	73.2	73.2
Public Financial Limited+	Investment holding	73.2	73.2
Public Securities Limited+	Stock and share broking	73.2	73.2
Public Securities (Nominees) Limited+	Nominee services	73.2	73.2
Public Financial Securities Limited+	Stock and share broking	73.2	73.2
Public Bank (Nominees) Limited+	Nominee services	73.2	73.2
Public Futures Limited+	Dormant	73.2	73.2
Public Credit Limited+	Dormant	73.2	73.2
Public Pacific Securities Limited+	Dormant	73.2	73.2
Public Investments Limited+	Dormant	73.2	73.2
Public Realty Limited+	Dormant	73.2	73.2
Winton (B.V.I.) Limited+	Investment holding	73.2	73.2
Winton Financial Limited+	Provision of financing	73.2	73.2
Winton Motors, Limited+	Trading of taxi cabs and taxi licences, and leasing of taxis	73.2	73.2
Winton Holdings (Hong Kong) Limited+	Dormant	73.2	73.2

* Shares quoted on The Stock Exchange of Hong Kong Limited.

+ Subsidiary companies not audited by KPMG.

++ Subsidiary company audited by KPMG Cambodia.

All the local subsidiary companies are incorporated in Malaysia. All the overseas subsidiary companies are incorporated in Hong Kong SAR except for Public Financial Holdings Limited which is incorporated in Bermuda, Cambodian Public Bank Plc, Campu Securities Plc and Campu Lonpac Insurance Plc which are incorporated in Cambodia, and Winton (B.V.I.) Limited which is incorporated in the British Virgin Islands.

13. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D.)

Significant events affecting the Group's subsidiary companies during the year are as follows:

(a) Increase in Paid-up Share Capital of Public Islamic Bank Berhad

During the financial year, the Bank subscribed to 7,000,000 ordinary shares of RM1.00 each issued by Public Islamic Bank Berhad at an issue price of RM25.00 per ordinary share for a total consideration of RM175,000,000.

(b) Member's Voluntary Winding-up of PB Properties Sdn. Bhd.

On 16 December 2013, PB Properties Sdn. Bhd., a dormant wholly-owned subsidiary of the Bank, commenced Member's Voluntary Winding-up pursuant to Section 254(1)(b) of the Companies Act, 1965. The winding-up proceedings have no material effect on the earnings and net assets of the Group for the financial year ended 31 December 2013.

There are no significant restrictions on the ability of the subsidiary companies to transfer funds to the Group in the form of cash dividends or repayment of loans and advances. Generally, for all subsidiary companies which are not wholly-owned by the Bank, non-controlling shareholders hold protective rights restricting the Bank's ability to use the assets of the subsidiary companies and settle the liabilities of the Group, unless approval is obtained from non-controlling shareholders.

The Group's subsidiary companies which have non-controlling interests are not material individually or in aggregate to the financial position, financial performance and cash flows of the Group.

14. INVESTMENT IN ASSOCIATED COMPANIES

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Unquoted shares, at cost	141,365	141,365	121,325	121,325
Share of post-acquisition reserves	17,520	9,845	–	–
	158,885	151,210	121,325	121,325
Represented by:				
Group's share of net assets	158,885	151,210		

14. INVESTMENT IN ASSOCIATED COMPANIES (CONT'D.)

The summarised financial information of associated companies is as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Total assets	1,550,785	1,304,324
Total liabilities	1,207,214	980,328
Operating revenue	186,594	192,817
Profit after tax	8,721	6,127
Total comprehensive income	7,629	6,524

Details of the associated companies, all of which are unquoted, are as follows:

Name	Principal Activities	Place of Incorporation	Effective Interest	
			31 December 2013 %	31 December 2012 %
PB Trustee Services Berhad	Trustee services	Malaysia	40.0	40.0
AIA PUBLIC Takaful Berhad <i>(formerly known as ING PUBLIC Takaful Ehsan Berhad)</i>	Family takaful	Malaysia	40.0	40.0
VID Public Bank	Banking	Socialist Republic of Vietnam	50.0	50.0
CPB Properties Co., Ltd.	Property holding	Cambodia	49.0	49.0

There are no significant restrictions on the ability of the associated companies to transfer funds to the Group in the form of cash dividends.

The Group's associated companies are not material individually or in aggregate to the financial position, financial performance and cash flows of the Group.

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15. INVESTMENT PROPERTIES

	Note	Group	
		31 December 2013 RM'000	31 December 2012 RM'000
<u>At valuation</u>			
At 1 January		87,886	70,754
Transfer to owner-occupied property			
– Property and equipment	16	–	(3,781)
Fair value adjustment arising from revaluation	34	2,547	23,877
Exchange differences		6,958	(2,964)
At 31 December		97,391	87,886

Included in the above are:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Short-term leasehold land and building	95,391	85,936
Long-term leasehold land and building	2,000	1,950
	97,391	87,886

The Group's investment properties are stated at fair value and are situated in Malaysia and Hong Kong SAR. The investment properties in Malaysia amounting to RM2,000,000 (31 December 2012 – RM1,950,000) have been determined with reference to quotations of market value provided by an independent professional valuer. The investment properties in Hong Kong SAR amounting to RM95,391,000 (31 December 2012 – RM85,936,000) have been revalued by CS Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value based on their existing use. The Group has assessed that the highest and best use of its properties do not differ from their existing use. The increase in the fair values of RM2,547,000 (2012 – RM23,877,000) has been recognised in the statement of profit or loss during the financial year.

The investment properties held by the Group are let under operating leases to third parties, from which the Group earned rental income of RM6,068,000 (2012 – RM5,490,000) (Note 34) during the year.

No investment properties were pledged as security for banking facilities at the reporting date.

16. PROPERTY AND EQUIPMENT

Group 2013	Note	Cost										Total RM'000
		Freehold land RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fixtures RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in- progress RM'000		
At 1 January 2013		176,444	116,035	171,940	575,110	311,090	534,309	933,885	22,154	82,691	2,923,658	
Additions		-	-	-	123	28,661	16,145	60,572	680	22,731	128,912	
Disposals		-	-	-	-	(276)	(2,781)	(16,058)	(113)	-	(19,228)	
Reclassification		-	-	-	-	(11,637)	11,637	-	-	-	-	
Write-offs	35	-	-	-	-	(796)	(2,985)	(8,223)	(2)	-	(12,006)	
Exchange differences		-	8,221	11,385	7,473	3,341	1,400	4,783	391	-	36,994	
At 31 December 2013		176,444	124,256	183,325	582,706	330,383	557,725	974,959	23,110	105,422	3,058,330	
Accumulated depreciation		-	-	-	-	-	-	-	-	-	-	
At 1 January 2013		-	24,327	8,134	175,556	226,889	408,347	746,510	13,263	-	1,603,026	
Depreciation charge for the year	35	-	2,671	515	13,702	16,458	30,091	94,720	3,031	-	161,188	
Disposals		-	-	-	-	(210)	(2,735)	(16,042)	(110)	-	(19,097)	
Reclassification		-	-	-	-	-	(1)	-	1	-	-	
Write-offs	35	-	-	-	-	(722)	(2,957)	(7,794)	(6)	-	(11,479)	
Exchange differences		-	1,822	381	1,468	2,211	856	3,585	273	-	10,596	
At 31 December 2013		-	28,820	9,030	190,726	244,626	433,601	820,979	16,452	-	1,744,234	
Accumulated impairment loss		-	-	-	-	-	-	-	-	-	-	
At 1 January/ 31 December 2013		1,064	-	33	10,002	-	-	-	-	-	11,099	
Carrying amounts		-	-	-	-	-	-	-	-	-	-	
At 31 December 2013		175,380	95,436	174,262	381,978	85,757	124,124	153,980	6,658	105,422	1,302,997	

NOTES TO THE
FINANCIAL STATEMENTS**16. PROPERTY AND EQUIPMENT (CONT'D.)**

Group 2012	Note	Freehold land RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Office					Total RM'000	
					Buildings RM'000	Renovations RM'000	Office equipment, furniture & fixtures RM'000	Computer equipment & software RM'000	Motor vehicles RM'000		Work-in- progress RM'000
Cost											
At 1 January 2012		176,444	120,182	173,952	576,979	292,238	514,426	900,402	23,179	44,529	2,822,331
Additions		-	-	-	1,771	30,659	14,937	59,647	2,512	38,162	147,688
Disposals		-	-	-	-	(878)	(2,093)	(13,295)	(1,104)	-	(17,370)
Transfer from investment properties	15	-	-	3,603	178	-	-	-	-	-	3,781
Reclassification		-	-	-	-	(9,359)	9,357	2	-	-	-
Write-offs	35	-	-	-	-	(3)	(1,617)	(9,958)	(2,201)	-	(13,779)
Exchange differences		-	(4,147)	(5,615)	(3,818)	(1,567)	(701)	(2,913)	(232)	-	(18,993)
At 31 December 2012		176,444	116,035	171,940	575,110	311,090	534,309	933,885	22,154	82,691	2,923,658
Accumulated depreciation											
At 1 January 2012		-	22,518	7,803	162,494	213,699	383,638	665,293	13,847	-	1,469,292
Depreciation charge for the year	35	-	2,609	505	13,606	15,166	28,544	103,986	2,837	-	167,253
Disposals		-	-	-	-	(878)	(2,034)	(11,810)	(1,094)	-	(15,816)
Reclassification		-	-	-	-	(152)	150	2	-	-	-
Write-offs	35	-	-	-	-	(1)	(1,574)	(8,921)	(2,201)	-	(12,697)
Exchange differences		-	(800)	(174)	(544)	(945)	(377)	(2,040)	(126)	-	(5,006)
At 31 December 2012		-	24,327	8,134	175,556	226,889	408,347	746,510	13,263	-	1,603,026
Accumulated impairment loss											
At 1 January/31 December 2012		1,064	-	33	10,002	-	-	-	-	-	11,099
Carrying amounts											
At 31 December 2012		175,380	91,708	163,773	389,552	84,201	125,962	187,375	8,891	82,691	1,309,533

No land and buildings of the Group were pledged as security for banking facilities at the reporting date.

16. PROPERTY AND EQUIPMENT (CONT'D.)

Bank 2013	Note	Office equipment, furniture & fittings										Motor vehicles	Total
		Freehold land	Long term leasehold land	Buildings	Renovations	Office equipment, furniture & fittings	Computer equipment & software	Motor vehicles	Motor vehicles	Motor vehicles	Motor vehicles		
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost													
At 1 January 2013		81,092	58	262,042	241,828	414,097	850,217	15,216	1,864,550				
Additions		-	-	-	23,869	13,467	50,358	456	88,150				
Disposals		-	-	-	(1)	(2,103)	(11,689)	(113)	(13,906)				
Reclassification		-	-	-	(11,637)	11,637	-	-	-				
Write-offs	35	-	-	-	(796)	(2,985)	(8,178)	(2)	(11,961)				
Exchange differences		-	-	-	411	102	466	50	1,029				
At 31 December 2013		81,092	58	262,042	253,674	434,215	881,174	15,607	1,927,862				
Accumulated depreciation													
At 1 January 2013		-	51	89,549	173,325	299,766	685,096	8,829	1,256,616				
Depreciation charge for the year	35	-	2	5,232	9,383	25,800	85,069	2,208	127,694				
Disposals		-	-	-	(1)	(2,089)	(11,674)	(110)	(13,874)				
Reclassification		-	-	-	-	(1)	-	1	-				
Write-offs	35	-	-	-	(722)	(2,957)	(7,786)	(6)	(11,471)				
Exchange differences		-	-	-	75	60	382	34	551				
At 31 December 2013		-	53	94,781	182,060	320,579	751,087	10,956	1,359,516				
Carrying amounts													
At 31 December 2013		81,092	5	167,261	71,614	113,636	130,087	4,651	568,346				

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16. PROPERTY AND EQUIPMENT (CONT'D.)

Bank 2012	Note	Freehold land		Long term leasehold land		Buildings		Renovations		Office equipment, furniture & fittings		Computer equipment & software		Motor vehicles		Total RM'000
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Cost																
At 1 January 2012		81,092	58	262,042	226,865	395,973	817,954	16,193	1,800,177							
Additions		-	-	24,172	12,159	50,559	2,387	89,277								
Disposals		-	-	-	(1,422)	(7,801)	(1,103)	(10,326)								
Reclassification		-	-	-	9,002	-	-	-								
Write-offs	35	-	-	-	(1,516)	(9,731)	(2,201)	(13,451)								
Exchange differences		-	-	-	(204)	(99)	(764)	(60)	(1,127)							
At 31 December 2012		81,092	58	262,042	241,828	414,097	850,217	15,216	1,864,550							
Accumulated depreciation																
At 1 January 2012		-	49	84,317	163,848	278,148	606,480	10,211	1,143,053							
Depreciation charge for the year	35	-	2	5,232	9,529	24,590	94,223	1,939	135,515							
Disposals		-	-	-	-	(1,415)	(6,319)	(1,083)	(8,827)							
Write-offs	35	-	-	-	(1)	(1,485)	(8,700)	(2,201)	(12,387)							
Exchange differences		-	-	-	(51)	(72)	(588)	(27)	(738)							
At 31 December 2012		-	51	89,549	173,325	299,766	685,096	8,829	1,256,616							
Carrying amounts																
At 31 December 2012		81,092	7	172,493	68,503	114,331	165,121	6,387	607,934							

No land and buildings of the Bank were pledged as security for banking facilities at the reporting date.

Included in property and equipment of the Group and the Bank are computer equipment and software under finance lease which will expire in one year with a carrying amount of RM24,255,000 (31 December 2012 – RM66,075,000).

Details of the terms and conditions of the finance lease arrangement are disclosed in Note 23.

17. INTANGIBLE ASSETS

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Goodwill				
At 1 January	1,899,875	1,938,994	695,393	695,393
Exchange differences	77,545	(39,119)	–	–
At 31 December	1,977,420	1,899,875	695,393	695,393
Intangible Assets				
At 1 January	26,472	26,482	–	–
Exchange differences	20	(10)	–	–
At 31 December	26,492	26,472	–	–
Total carrying amounts of goodwill and intangible assets	2,003,912	1,926,347	695,393	695,393

Impairment Assessment on Goodwill and Intangible Assets

For purposes of impairment assessment, goodwill and intangible assets have been allocated to the Group's cash-generating units ("CGU"), which are either operating segments or at a level not larger than an operating segment, as follows:

	Group RM'000	Bank RM'000	Discount rate %	Nominal growth rate beyond initial cash flow projections %
As at 31 December 2013				
<u>Cash-generating unit:</u>				
Hire purchase financing	395,953	395,953	9.8	5.6
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	299,440	299,440	8.8	5.6
Hong Kong operations	1,234,661	–	7.0	4.8
Fund management	19,555	–	8.8	5.6
Investment banking	54,303	–	9.8	5.6
	2,003,912	695,393		

17. INTANGIBLE ASSETS (CONT'D.)

Impairment Assessment on Goodwill and Intangible Assets (Cont'd.)

	Group RM'000	Bank RM'000	Discount rate %	Nominal growth rate beyond initial cash flow projections %
As at 31 December 2012				
<u>Cash-generating unit:</u>				
Hire purchase financing	395,953	395,953	10.5	5.7
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	299,440	299,440	9.5	5.7
Hong Kong operations	1,157,096	–	7.1	5.4
Fund management	19,555	–	9.5	5.7
Investment banking	54,303	–	10.5	5.7
	1,926,347	695,393		

Goodwill is allocated to the Group's CGUs expected to benefit from the synergies of the acquisitions. For annual impairment assessment purposes, the recoverable amount of the CGUs are based on their value-in-use. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial forecasts approved by management. The key assumptions for the computation of value-in-use include the discount rates and growth rates applied. Discount rates used are based on the pre-tax weighted average cost of capital plus an appropriate risk premium, where applicable, at the date of assessment of the respective CGU. Cash flow projections are based on five (5) years financial budgets approved by management. Cash flows beyond the fifth (5) year are extrapolated to fifty (50) years using a nominal long-term growth rate which does not exceed the average of the last twenty (20) years' inflation-adjusted Gross Domestic Product growth rates of the respective countries where the CGUs operate. The forecast period is based on the Group's long-term perspective with respect to the operation of these units. Impairment is recognised in the statement of profit or loss when the carrying amount of a CGU exceeds its recoverable amount.

The intangible assets consist mainly of a share-broking licence and stock exchange trading rights which are deemed to have indefinite useful lives as there are no expiry dates. The recoverable amount of the intangible assets have been assessed using the value-in-use method, by discounting the estimated cash flows from their CGUs. Impairment is recognised in the statement of profit or loss when the carrying amount of the CGUs exceeds their recoverable amounts.

Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the goodwill and intangible assets to exceed the recoverable amount of the CGU. Based on this review, there is no evidence of impairment on the Group's and the Bank's goodwill and intangible assets.

18. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
At amortised cost				
Core deposits:				
– Demand deposits	38,202,745	32,632,541	33,382,002	28,643,745
– Savings deposits	25,824,590	23,726,493	18,349,316	16,843,952
– Fixed deposits	137,230,286	120,675,603	107,341,341	93,931,585
	201,257,621	177,034,637	159,072,659	139,419,282
Wholesale deposits:				
– Negotiable instruments of deposit	1,620,398	1,223,620	651,420	90,112
– Money market deposits	47,881,370	46,593,137	42,036,700	41,991,233
	49,501,768	47,816,757	42,688,120	42,081,345
Other deposits	113,800	190,931	110,813	187,817
	250,873,189	225,042,325	201,871,592	181,688,444

Deposits from customers of the Bank and its wholly-owned Islamic banking subsidiary company, Public Islamic Bank Berhad are insured by Perbadanan Insurans Deposit Malaysia (“PIDM”), up to a maximum limit of RM250,000 per depositor per PIDM member bank. The deposit insurance covers all Ringgit Malaysia and foreign currency deposits held under current accounts, savings accounts and fixed deposits, inclusive of Islamic deposits. This guarantee excludes money market deposits and negotiable instruments of deposits.

Included in deposits from customers of the Group and the Bank are deposits of RM2,387,530,000 (31 December 2012 – RM2,158,106,000) and RM1,639,713,000 (31 December 2012 – RM1,535,859,000) respectively held as collateral for loans, advances and financing.

The maturity structure of fixed deposits, negotiable instruments of deposit and money market deposits are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Due within six months	162,340,586	151,771,362	128,981,442	121,861,534
More than six months to one year	24,080,964	16,345,923	20,876,847	14,023,613
More than one year to three years	306,626	367,778	167,761	122,377
More than three years to five years	3,878	7,297	3,411	5,406
	186,732,054	168,492,360	150,029,461	136,012,930

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18. DEPOSITS FROM CUSTOMERS (CONT'D.)

The deposits are sourced from the following types of customers:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Federal and state governments	1,451,465	1,617,446	234,600	162,506
Local government and statutory authorities	2,695,427	3,154,490	1,610,984	2,041,839
Business enterprises	77,616,935	64,959,217	62,433,119	52,239,124
Individuals	111,921,512	102,008,645	97,008,165	88,167,268
Foreign customers	6,655,412	4,444,181	5,914,089	3,840,822
Others	50,532,438	48,858,346	34,670,635	35,236,885
	250,873,189	225,042,325	201,871,592	181,688,444

19. DEPOSITS FROM BANKS

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
At amortised cost				
Licensed banks	4,234,141	3,080,562	2,893,468	2,168,377
Licensed Islamic banks	1,063,881	1,428,121	713,881	808,850
Licensed investment banks	3,473,912	3,573,682	3,494,590	3,435,195
Bank Negara Malaysia	1,980,255	2,602,861	1,977,865	2,602,861
Other financial institutions	5,423,647	2,164,087	7,843,244	5,393,495
	16,175,836	12,849,313	16,923,048	14,408,778

20. BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represents the Bank's own bills and acceptances rediscounted and outstanding in the market. These financial liabilities are stated at amortised cost.

21. RECOURSE OBLIGATIONS ON LOANS AND FINANCING SOLD TO CAGAMAS

This represents the proceeds received from housing loans (including Islamic financing) sold directly to Cagamas Berhad with recourse to the Bank and its wholly-owned subsidiary company, Public Islamic Bank Berhad. Under this agreement, the Bank and its subsidiary company undertake to administer the loans on behalf of Cagamas Berhad and to buy-back any loans which are regarded as defective based on prudential criteria set by Cagamas Berhad. These financial liabilities are stated at amortised cost.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS

	Note	Group		Bank	
		31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
At amortised cost					
Borrowings	(a)	463,391	864,911	–	–
At amortised cost, modified for change in value as a result of fair value hedges					
Senior Medium Term Notes	(b)	399,007	–	399,007	–
Subordinated notes	(c)	5,432,922	4,937,918	5,432,922	4,937,918
Innovative Tier I capital securities	(d)	1,957,844	1,955,765	1,957,844	1,955,765
Non-Innovative Tier I stapled securities	(e)	2,116,661	2,188,259	2,116,661	2,188,259
		9,906,434	9,081,942	9,906,434	9,081,942
		10,369,825	9,946,853	9,906,434	9,081,942

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(a) Borrowings

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Unsecured: Term loans	463,391	864,911	–	–

The unsecured term loans are denominated in Hong Kong Dollars. The loans are repayable within one year and bear interest at HIBOR plus 0.65% to 1.50% (31 December 2012 – HIBOR plus 0.65% to 1.20%).

(b) Senior Medium Term Notes ("Senior MTNs")

	Group and Bank	
	31 December 2013 RM'000	31 December 2012 RM'000
Issued under the RM5.0 billion Senior MTNs Programme: RM400 million Senior MTNs due in 2018	399,007	–

On 5 April 2013, the Bank obtained the approval from the Securities Commission for the establishment of a Senior Medium Term Notes Programme ("Senior MTNs Programme") to issue Senior MTNs of up to RM5.0 billion in nominal value. The tenor of the Senior MTNs Programme will be up to twenty (20) years from the date of first issuance. The Senior MTNs may be issued in series and each issuance shall have a tenure of more than one (1) year as may be determined by the Bank, provided that the Senior MTNs shall mature on or prior to the expiry of the Senior MTNs Programme. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Senior MTNs constitute direct unsecured liabilities of the Bank, and rank at least pari passu with all other present and future unsecured liabilities of the Banks, except for those liabilities preferred by law.

During the year, the Bank has issued a total of RM400 million in nominal value of Senior MTNs with a tenor of 5 years with interest ranging from 3.65% to 3.67% per annum.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(c) Subordinated Notes

	Note	Group and Bank	
		31 December 2013 RM'000	31 December 2012 RM'000
Issued under the RM5.0 billion Subordinated Medium Term Note Programme:			
First tranche:			
RM1,400 million 4.73% Subordinated Notes due in 2018, callable with step-up in 2013	(i)(a)	–	1,399,824
Second tranche:			
RM200 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(i)(b)	199,966	199,926
Third tranche:			
RM223 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(i)(c)	222,958	222,913
Fourth tranche:			
RM50 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(i)(d)	49,990	49,980
Fifth tranche:			
RM3,000 million 4.28% Subordinated Notes due in 2022, callable in 2017	(i)(e)	2,998,207	2,997,708
Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme:			
First tranche:			
RM1,000 million 4.80% Subordinated Notes due in 2023, callable in 2018	(ii)(a)	999,116	–
Second tranche:			
RM450 million 4.77% Subordinated Notes due in 2023, callable in 2018	(ii)(b)	450,000	–
Third tranche:			
RM500 million 4.73% Subordinated Notes due in 2023, callable in 2018	(ii)(c)	500,000	–
		5,420,237	4,870,351
Realised/unrealised fair value loss arising from fair value hedge		12,685	67,567
		5,432,922	4,937,918

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(c) Subordinated Notes (Cont'd.)

- (i) On 13 March 2008, the Bank obtained approval from Bank Negara Malaysia (“BNM”) for a Subordinated Medium Term Note Programme (“the MTN Programme”) for the issuance of up to RM5.0 billion in aggregate principal value of Subordinated Notes. The tenor of the MTN Programme will be up to fifteen (15) years, with the maturity for each issuance to range between ten (10) to fifteen (15) years, and callable from five (5) years prior to the relevant maturity date of each issuance. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Subordinated Notes to be issued under the MTN Programme shall be issued at par. The Notes will, subject to the prior consent of BNM, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the Notes will no longer qualify as Tier II Capital for the purposes of BNM’s capital adequacy requirements or on the first call date or at any subsequent interest payment date thereafter at their principal amount plus accrued interest (if applicable).

The Bank has issued the following tranches of Subordinated Notes under the MTN Programme:

- (a) On 16 May 2008, the Bank issued the first tranche of RM1,400 million in aggregate principal amount of Subordinated Notes due in 2018 callable with step-up in 2013. The Notes bear interest at the rate of 4.73% per annum from (and including) 16 May 2008 to (but excluding) 16 May 2013 and thereafter, at the rate of 5.73% per annum from (and including) 16 May 2013 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 16 May and 16 November each year commencing 16 November 2008. These Notes were fully redeemed on 16 May 2013 together with accrued interest.
- (b) On 6 November 2009, the Bank issued the second tranche of RM200 million in aggregate principal amount of Subordinated Notes due in 2019 callable with step-up in 2014. The Notes bear interest at the rate of 4.60% per annum from (and including) 6 November 2009 to (but excluding) 6 November 2014 and thereafter, at the rate of 5.60% per annum from (and including) 6 November 2014 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 6 May and 6 November each year commencing 6 May 2010.
- (c) On 10 December 2009, the Bank issued the third tranche of RM223 million in aggregate principal amount of Subordinated Notes due in 2019 callable with step-up in 2014. The Notes bear interest at the rate of 4.60% per annum from (and including) 10 December 2009 to (but excluding) 10 December 2014 and thereafter, at the rate of 5.60% per annum from (and including) 10 December 2014 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 10 June and 10 December each year commencing 10 June 2010.
- (d) On 31 December 2009, the Bank issued the fourth tranche of RM50 million in aggregate principal amount of Subordinated Notes due in 2019 callable with step-up in 2014. The Notes bear interest at the rate of 4.60% per annum from (and including) 31 December 2009 to (but excluding) 31 December 2014 and thereafter, at the rate of 5.60% per annum from (and including) 31 December 2014 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 30 June and 31 December each year commencing 30 June 2010.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(c) Subordinated Notes (Cont'd.)

- (i) (e) On 3 August 2011, the Bank issued the fifth tranche of RM3,000 million in aggregate principal amount of Subordinated Notes due in 2022 callable in 2017. The Notes bear interest at the rate of 4.28% per annum from (and including) 3 August 2011 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 3 February and 3 August each year commencing 3 February 2012.
- (ii) The Bank obtained approval from BNM and the Securities Commission vide their letters dated 14 June 2013 and 10 July 2013 respectively, to establish a Basel III-Compliant Tier II Subordinated Medium Term Notes Programme (“the Basel III – Compliant MTNs Programme”) of up to RM10.0 billion in Nominal value. The tenor of the Basel III – Compliant MTNs Programme will be up to thirty (30) years, with the tenure for each issuance not less than five (5) years from the issue date, and callable not earlier than five (5) years prior to the relevant maturity date of each issuance. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Notes will, subject to the prior consent of BNM, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the Notes will no longer fully qualify as Tier II Capital for the purposes of BNM’s capital adequacy requirements or on the first call date or at any subsequent interest payment date thereafter at their nominal amount.

Non Viability Loss Absorption

In the event of an occurrence of a Non-Viability Event as determined by BNM and the Perbadanan Insurans Deposit Malaysia (“PIDM”), the Bank may be required, irrevocably (without the need for the consent of the holders of such Notes) to effect either a write-off in whole or in part of the outstanding principal and accrued and unpaid interest in respect of such Notes. The Trigger Event would be the earlier of:

- (a) The notification by BNM and PIDM to the Bank in writing that they are of the view that the principal or partial write off of the Notes, together with the conversion or write off of any other Tier II capital instruments and Tier I capital instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, is an essential requirement to prevent the Bank from becoming non-viable; and
- (b) The public announcement by BNM and PIDM that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Bank, without which the Bank would cease to be viable.

To the extent relevant in the event that such Notes are written-off, any written-off amount shall be irrevocably lost and holders of such Notes will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to write-off.

Upon the occurrence of a Non-Viability Event above, the Bank shall first convert or write off the relevant Tier I instruments, to be followed by the write off or conversion of the relevant Tier II instruments on a pari passu basis. Such write off shall not constitute an event of default or enforcement event, nor would it trigger any cross-default under the Notes. A Non-Viability Event shall be deemed to have occurred on the day on which the Bank received the notification from BNM.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(c) Subordinated Notes (Cont'd.)

The Bank has issued the following tranches of Subordinated Notes under the Basel III – Compliant MTNs Programme:

- (a) On 25 September 2013, the Bank issued the first tranche of RM1,000 million in aggregate nominal amount of Subordinated Notes due in 2023 callable in 2018. The Notes bear interest at the rate of 4.80% per annum from (and including) 25 September 2013 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 25 March and 25 September each year commencing 25 March 2014.
- (b) On 28 October 2013, the Bank issued the second tranche of RM450 million in aggregate nominal amount of Subordinated Notes due in 2023 callable in 2018. The Notes bear interest at the rate of 4.77% per annum from (and including) 28 October 2013 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 28 April and 28 October each year commencing 28 April 2014.
- (c) On 15 November 2013, the Bank issued the third tranche of RM500 million in aggregate nominal amount of Subordinated Notes due in 2023 callable in 2018. The Notes bear interest at the rate of 4.73% per annum from (and including) 15 November 2013 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 15 May and 15 November each year commencing 15 May 2014.

The above Subordinated Notes constitute unsecured liabilities of the Bank, and are subordinated in right of payment upon the occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Bank, other than the Innovative Tier I Capital Securities and the Non-Innovative Tier I Stapled Securities, which are subordinated to the Subordinated Notes, in accordance with the terms and conditions of the Subordinated Notes.

In line with the transitional arrangements under the BNM's Capital Adequacy Framework (Capital Components) dated 28 November 2012 for the purpose of determining the capital adequacy ratios of the Group and the Bank, Subordinated Notes issued prior to 31 December 2012 will qualify as Tier II Capital but are subject to a gradual phase-out treatment with effective from 1 January 2013. The Subordinated Notes issued after 31 December 2012 which are Basel III – Compliant are fully qualified as Tier II Capital.

The Bank has entered into interest rate swap contracts as fair value hedges of its Subordinated Notes in order to minimise its exposure to interest rate volatility, resulting in a change in the value of the Subordinated Notes. The Bank does not restate the value of its Subordinated Notes as a result of changes in its own credit risk.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(d) Innovative Tier I Capital Securities

	Note	Group and Bank	
		31 December 2013 RM'000	31 December 2012 RM'000
USD200 million 6.84% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(i)	655,587	611,044
RM1,200 million 5.10% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(ii)	1,199,456	1,199,273
		1,855,043	1,810,317
Realised/unrealised fair value loss arising from fair value hedge		102,801	145,448
		1,957,844	1,955,765

- (i) On 22 August 2006, the Bank issued USD200 million in aggregate principal amount of Innovative Tier I Capital Securities ("the USD IT-I Securities") due in 2036 and callable with step-up in 2016. The USD IT-I Securities bear interest at the rate of 6.84% per annum from (and including) 22 August 2006 to (but excluding) 22 August 2016 and thereafter, at the interest rate per annum of 2.30% above the London Interbank Offered Rate for three-month US Dollar deposits. The interest is payable semi-annually in arrears on 22 February and 22 August each year commencing on 22 February 2007 to 22 August 2016, and thereafter quarterly in arrears on 22 February, 22 May, 22 August and 22 November of each year.

The Bank may, at its option, defer the payment of interest up to a limit of 50 per cent of the aggregate principal of the USD IT-I Securities, with any subsequent deferral in excess of this limit subject to the prior approval of BNM. If the Bank has not made a payment of interest, whether deferred or not, it shall not pay any dividend to its ordinary shareholders and/or any interest on any security or instrument ranking junior to the USD IT-I Securities. The USD IT-I Securities were issued at a price of 100.0 percent of the principal amount of the USD IT-I Securities. The USD IT-I Securities will, subject to the prior consent of BNM, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the USD IT-I Securities will no longer qualify as Tier I Capital for the purposes of BNM's capital adequacy requirement or on 22 August 2016 or on any subsequent interest payment date thereafter at their principal amount plus accrued interest (if applicable).

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(d) Innovative Tier I Capital Securities (Cont'd.)

- (ii) On 22 December 2006, the Bank issued RM1,200 million in aggregate principal amount of Innovative Tier I Capital Securities ("the RM IT-I Securities") due in 2036 and callable with step-up in 2016. The RM IT-I Securities bear interest at the rate of 5.10% per annum from (and including) 22 December 2006 to (but excluding) 22 December 2016 and thereafter, at the interest rate per annum of 1.82% above the three-month Kuala Lumpur Interbank Offered Rate. The interest is payable semi-annually in arrears on 22 June and 22 December each year commencing on 22 June 2007 to 22 December 2016, and thereafter quarterly in arrears on 22 March, 22 June, 22 September and 22 December of each year.

The Bank may, at its option, defer the payment of interest up to a limit of 50 per cent of the aggregate principal of the RM IT-I Securities, with any subsequent deferral in excess of this limit subject to the prior approval of BNM. If the Bank has not made a payment of interest, whether deferred or not, it shall not pay any dividend to its ordinary shareholders and/or any interest on any security or instrument ranking junior to the RM IT-I Securities. The RM IT-I Securities were issued at a price of 100.0 percent of the principal amount of the RM IT-I Securities. The RM IT-I Securities will, subject to the prior consent of BNM, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the RM IT-I Securities will no longer qualify as Tier I Capital for the purposes of BNM's capital adequacy requirement or on 22 December 2016 or on any interest payment date thereafter at their principal amount plus accrued interest (if applicable).

The Innovative Tier I Capital Securities above are unsecured liabilities of the Bank and rank pari passu among themselves and equally with the Non-Innovative Tier I Stapled Securities, and are subordinated in right of payment upon occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities including the Subordinated Notes of the Bank in accordance with the terms and conditions of the Innovative Tier I Capital Securities.

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, the Innovative Tier I Capital Securities issued prior to 31 December 2012 will qualify as Tier I Capital but are subject to a gradual phase-out treatment with effective from 1 January 2013.

The Bank has entered into interest rate swap contracts as fair value hedges of its Innovative Tier I Capital Securities in order to minimise its exposure to interest rate volatility, resulting in a change in the value of the capital securities. The Bank does not restate the value of its Innovative Tier I Capital Securities as a result of changes in its own credit risk.

(e) Non-Innovative Tier I Stapled Securities

	Note	Group and Bank	
		31 December 2013 RM'000	31 December 2012 RM'000
Issued under the RM5.0 billion Non-Innovative Tier I Stapled Securities Programme:			
First tranche:			
RM1,200 million 7.50% Stapled Securities callable in 2019	(i)	1,195,901	1,195,146
Second tranche:			
RM888 million 7.20% Stapled Securities callable in 2019	(ii)	888,000	888,000
		2,083,901	2,083,146
Unrealised fair value loss arising from fair value hedge		32,760	105,113
		2,116,661	2,188,259

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(e) Non-Innovative Tier I Stapled Securities (Cont'd.)

On 16 March 2009, the Bank and PBFIN Berhad ("PBFIN"), a wholly-owned subsidiary company of the Bank, obtained approval from BNM for a Non-Innovative Tier I Stapled Securities ("Stapled Securities") Programme ("the NIT-I Programme") for the issuance of up to RM5.0 billion in nominal value of Stapled Securities, comprising the following securities:

- (a) Non-Cumulative Perpetual Capital Securities ("NCPCS") issued by the Bank; and
- (b) Subordinated Notes ("Sub-Notes") issued by PBFIN.

The NCPCS are stapled to an equivalent amount in nominal value of the Sub-Notes.

Under the NIT-I Programme, the tenor of the NCPCS will be perpetual, with the first optional redemption date to be on a date falling no earlier than the fifth (5th) anniversary of the first issue date, whilst the Sub-Notes have a maturity of fifty (50) years. The NCPCS will not be subject to the payment of any distribution until the occurrence of an assignment event, upon which distribution will be accrued at a fixed interest rate to be determined prior to each issuance of NCPCS. The Sub-Notes will bear interest at a rate which is the same rate as the distribution of the NCPCS together with which the Sub-Notes are stapled, payable semi-annually in arrears. Therefore, the Stapled Securities are effectively issued by the Bank and PBFIN at a pre-determined fixed interest rate.

The Bank and PBFIN have issued the following tranches of Stapled Securities under the NIT-I Programme:

- (i) On 5 June 2009, the Bank and PBFIN issued the first tranche of RM1,200 million in nominal value of Stapled Securities. The first optional redemption date of the NCPCS will be on 5 June 2019, whilst the Sub-Notes are due on 5 June 2059. The Stapled Securities were issued at par. The Sub-Notes bear interest at a rate of 7.50% per annum, payable semi-annually. Should an assignment event occur, the NCPCS will also accrue interest at a rate of 7.50% per annum.
- (ii) On 13 November 2009, the Bank and PBFIN issued the second tranche of RM888 million in nominal value of Stapled Securities. The first optional redemption date of the NCPCS will be on 13 November 2019, whilst the Sub-Notes are due on 13 November 2059. The Stapled Securities were issued at par. The Sub-Notes bear interest at a rate of 7.20% per annum, payable semi-annually. Should an assignment event occur, the NCPCS will also accrue interest at a rate of 7.20% per annum.

The other salient features of the NIT-I Programme are as follows:

The Bank may, at its option, redeem the NCPCS in whole but not in part, on a date falling no earlier than the fifth (5th) anniversary of the first issue date or on any distribution payment date thereafter, subject to fulfilling the following redemption conditions:

- (i) the Bank is solvent at the time of redemption and immediately thereafter;
- (ii) the Bank is not in breach of BNM's minimum capital adequacy ratio requirements; and
- (iii) the Bank has obtained written approval from BNM prior to the redemption.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(e) Non-Innovative Tier I Stapled Securities (Cont'd.)

The NCPCS will cease to be stapled to the Sub-Notes only upon the occurrence of an assignment event. Once unstapled, ownership of the Sub-Notes will be assigned to the Bank pursuant to a note assignment agreement entered into between the Bank and investors of the Stapled Securities on the date of the issue of the Stapled Securities. These investors will then hold only the NCPCS. An assignment event means the occurrence of any of the following events:

- (i) the Bank elects that an assignment event occurs; or
- (ii) BNM determines that an assignment event should occur; or
- (iii) the redemption of the NCPCS pursuant to:
 - (a) a tax redemption, whereby there is a more than an insubstantial risk that, as a result of changes in the applicable tax regulations, the Bank and/or PBFIN would become obliged to pay additional amounts or will no longer be able to obtain tax deductions for interest payments on the Sub-Notes or the inter-company loan between the Bank and PBFIN; or
 - (b) a regulatory redemption, whereby the NCPCS no longer qualify as Non-Innovative Tier I Capital of the Bank for the purposes of BNM's capital adequacy ratio requirements; or
 - (c) redemption of the NCPCS on the optional redemption date.
- (iv) the deferral of any interest on the Sub-Notes; or
- (v) the Bank is in breach of BNM's minimum capital adequacy ratio requirements; or
- (vi) the commencement of winding up proceeding in respect of the Bank or PBFIN; or
- (vii) the appointment of an administrator in connection with the restructuring of the Bank or PBFIN; or
- (viii) the occurrence of the optional redemption date; or
- (ix) PBFIN ceases to be, directly or indirectly, a wholly-owned subsidiary company of the Bank.

The Bank will not be able to pay any dividends to its shareholders or make any interest payments on any securities ranking pari passu with or junior to the NCPCS or acquire any of its ordinary shares or redeem any securities ranking pari passu with or junior to the NCPCS (collectively referred to as the "Dividend and Capital Stopper") if, following the occurrence of an assignment event, the Bank does not pay a distribution on the NCPCS on its due date for payment. The Dividend and Capital Stopper will only cease to be effective upon the resumption of payments of distribution on the NCPCS for a continuous period of one (1) year.

The NCPCS are direct and unsecured obligations of the Bank. The NCPCS rank pari passu and without preference among themselves, with the existing RM1,200 million and USD200 million Innovative Tier I Capital Securities and with the most junior class of preference shares (if any), but in priority to the rights and claims of holders of ordinary shares of the Bank. The NCPCS are subordinated in right of payment upon the occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Bank including the Subordinated Notes of the Bank.

The Sub-Notes constitute direct and unsecured obligations of PBFIN. The Sub-Notes rank pari passu and without preference among themselves and with the most junior class of preference shares (if any) of PBFIN, but in priority to the rights and claims of holders of ordinary shares of PBFIN. The Sub-Notes will be subordinated in right of payment upon the occurrence of any winding up proceeding of PBFIN to the prior payment in full of all liabilities of PBFIN except to those liabilities which rank equal with or junior to the Sub-Notes.

The NCPCS qualify as Non-Innovative Tier I Capital Instruments. In line with the transitional arrangements of the BNM's Capital Adequacy Framework (Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank, the NCPCS issued prior to 31 December 2012 will qualify as Tier I capital but are subject to a gradual phase-out treatment with effective from 1 January 2013.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

(e) Non-Innovative Tier I Stapled Securities (Cont'd.)

The Group has entered into interest rate swap contracts as fair value hedges of its Stapled Securities in order to minimise its exposure to interest rate volatility, resulting in a change in the value of the capital securities. The Bank does not restate the value of its Non-Innovative Tier I Capital Securities as a result of changes in its own credit risk.

23. OTHER LIABILITIES

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Interest/Income payable	1,186,739	1,102,170	866,442
Other payables and accruals	2,351,233	2,120,839	2,218,605
Amount due to trust funds*	66,534	46,656	65,013
Unprocessed sales and/or redemptions [#]	118,778	127,505	50,798
Profit Equalisation Reserve of the investment account holder	–	265	–
Finance lease liabilities**	26,484	60,723	93,779
Outstanding contracts on clients' accounts [^]	255,125	199,195	249,464
Dividend payable to shareholders	15,523	12,896	16,143
	4,020,416	3,670,249	3,560,244

	Bank		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Interest/Income payable	1,009,164	935,099	748,209
Other payables and accruals	1,803,877	1,565,466	1,595,561
Finance lease liabilities**	26,484	60,723	93,779
Dividend payable to shareholders	1,866	2,461	2,933
Amount due to subsidiary companies [@]	4,200	15,139	17,373
	2,845,591	2,578,888	2,457,855

* This balance refers to amount due to trust funds managed by the fund management subsidiary company in respect of cancellation and creation of trust units.

[#] The unprocessed sales and/or redemptions are in respect of the fund management activities of a subsidiary company.

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23. OTHER LIABILITIES (CONT'D.)

** Finance lease liabilities of the Group and the Bank are payable as follows:

	31 December 2013		
	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Finance Lease Liabilities RM'000
Less than one year	26,953	469	26,484

	31 December 2012		
	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Finance Lease Liabilities RM'000
Less than one year	35,932	1,693	34,239
Between one and three years	26,953	469	26,484
	62,885	2,162	60,723

The Bank leases computer equipment and software under finance lease (Note 16). At the end of the lease term, the Bank has the option to acquire the assets at a nominal price deemed to be a bargain purchase option. There are no restrictive covenants imposed by the lease agreement and no arrangements have been entered into for contingent rental payments.

^ These balances relate to contracts entered by the stock-broking business of the investment banking subsidiary company on behalf of clients where settlements are yet to be made and amount due to Bursa Malaysia Securities Clearing Sdn. Bhd. The trade settlement is three (3) market days according to Bursa Malaysia Securities Berhad's trading rules.

@ These balances are unsecured, non-interest bearing and have no fixed terms of repayment.

24. EMPLOYEE BENEFITS

(a) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a defined benefit plan known as the Public Bank Group Officers' Retirement Benefits Fund ("the Fund") for its eligible employees. Under the Fund, eligible employees are entitled to one month of the final or last drawn salary for each completed year of service with the Group upon attainment of retirement age. Effective from 1 July 2013, the normal retirement age was raised from 55 years to 60 years in accordance with Malaysia's Minimum Retirement Age Act 2012, and an optional retirement age, from 55 years to anytime prior to 60 years was introduced. For employees who leave before the attainment of the normal retirement age or the optional retirement age, the retirement benefit will be computed based on the scale rate stipulated in the rules of the Fund. The deed of variation to effect these changes is pending the approval of the Inland Revenue Board.

The defined benefit plan is a tax exempt fund, fully funded by the Bank and certain subsidiary companies which are participating companies of the plan. Employees are not required to contribute to the plan. The funding requirements are based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions as set out below. The latest actuarial valuation for funding purposes was made as at 31 December 2012 by Actuarial Partners Consulting Sdn. Bhd.

As at 31 December 2013, the plan is in surplus of RM294,339,000 and no contributions are required to be made to the plan in the forthcoming financial year by the Group and the Bank. However, should there be a significant fall in value of the asset portfolio of the plan, an actuarial valuation will be conducted to re-assess the funding requirement.

The assets of the Fund are held separately from the assets of the Group and the Bank and are administered by a board of trustees. There are three (3) trustees currently, one (1) of whom is a member of the Board of Directors of the Bank and the remaining two (2) trustees are members of senior management of the Bank.

The defined benefit plan exposes the Group and the Bank to actuarial risks such as market (investment) risk, interest rate risk and salary risk. Market risk arises from investments delivering an inadequate return; changes in interest rate would affect the cost of borrowings as well as valuation of plan obligations; salary risk arises from higher than expected salary increase leading to higher plan obligations.

The investments of the plan comply with the requirement of the income tax ruling for tax exempt funds that 80% of the plan assets (gross) are invested in specified assets with at least 20% of plan assets (gross) in government issued securities. The strategic investment policy of the defined benefit plan can be summarised as plan asset mix based on 20% to 30% of investment properties, 20% to 25% of government securities and 45% to 60% in a combination of equities, unit trusts and cash.

Compliance with investment policies are reported quarterly to the Board of Trustees.

A reconciliation of the opening balance of net assets is as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January				
– as previously stated	99,723	92,709	96,303	89,527
– effects of adoption of MFRS 119	99,356	120,672	95,948	116,534
At 1 January, as restated	199,079	213,381	192,251	206,061

24. EMPLOYEE BENEFITS (CONT'D.)

(a) Defined Benefit Plan (Cont'd.)

The amounts recognised in the statements of financial position are determined as follows:

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Present value of funded obligations	(722,167)	(626,318)	(490,348)
Fair value of plan assets	1,016,506	825,397	703,729
Net assets (Note 10)	294,339	199,079	213,381

	Bank		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Present value of funded obligations	(702,379)	(604,835)	(473,529)
Fair value of plan assets	988,685	797,086	679,590
Net assets (Note 10)	286,306	192,251	206,061

24. EMPLOYEE BENEFITS (CONT'D.)

(a) Defined Benefit Plan (Cont'd.)

Movements in the present value of funded obligations are as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
Obligation at 1 January				
– as previously stated	522,794	490,348	504,862	473,529
– effects of adoption of MFRS 119	103,524	–	99,973	–
Obligation at 1 January, as restated	626,318	490,348	604,835	473,529
Recognised in the statement of profit or loss				
– current service cost	46,340	32,770	45,070	31,646
– interest cost	32,336	29,708	31,450	28,689
– past service cost	41,086	30,125	39,960	29,091
– allocation adjustment	–	–	4,322	–
Benefits paid – the Fund	(23,913)	(33,841)	(23,258)	(32,680)
Remeasurements recognised in other comprehensive income				
– effects of changes in demographic assumptions	–	33,612	–	32,459
– effects of changes in financial assumptions	–	43,596	–	42,101
Obligation at 31 December	722,167	626,318	702,379	604,835

24. EMPLOYEE BENEFITS (CONT'D.)

(a) Defined Benefit Plan (Cont'd.)

Movements in the fair value of plan assets are as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
Fair value at 1 January	825,397	703,729	797,086	679,590
Recognised in the statement of profit or loss				
– interest income	42,788	42,925	41,615	41,453
– allocation adjustment	–	–	5,695	–
Benefits paid – the Fund	(23,913)	(33,841)	(23,258)	(32,680)
Remeasurements recognised in other comprehensive income				
– return on plan assets (excluding amounts included in interest income)	172,234	112,584	167,547	108,723
Fair value at 31 December	1,016,506	825,397	988,685	797,086

The fair value of plan assets constitutes the following:

	Note	Group		Bank	
		31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Deposit placements and cash		100,007	11	97,267	11
Government Securities		428,949	522,603	417,236	504,678
Quoted equity securities	(i)	788,081	643,431	766,488	621,361
Unit trust funds	(ii)	342,900	317,794	333,496	306,894
Properties	(iii)	485,073	426,160	471,781	411,543
Plan assets (gross)		2,145,010	1,909,999	2,086,268	1,844,487
Other assets/(liabilities) (net)		(6,191)	(3,376)	(6,021)	(3,260)
Borrowings		(1,122,313)	(1,081,226)	(1,091,562)	(1,044,141)
		1,016,506	825,397	988,685	797,086

24. EMPLOYEE BENEFITS (CONT'D.)

(a) Defined Benefit Plan (Cont'd.)

(i) Quoted equity securities analysed by sectors are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Financial institutions*	512,568	429,722	498,524	414,982
Insurance companies	181,817	151,584	176,835	146,385
Property companies	92,942	61,486	90,396	59,377
Commercial/trading companies	630	515	612	497
Others	124	124	121	120
	788,081	643,431	766,488	621,361

* Included in the fair value of equity securities of the Fund are ordinary shares of the Bank with a fair value of RM510,245,000 (31 December 2012 – RM427,628,000).

(ii) Unit trust funds analysed by type of funds are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Equity funds	110,162	95,159	107,144	91,895
Bond funds	162,456	157,754	158,005	152,343
Balanced funds	54,870	49,946	53,357	48,233
Dividend funds	15,412	14,935	14,990	14,423
	342,900	317,794	333,496	306,894

24. EMPLOYEE BENEFITS (CONT'D.)

(a) Defined Benefit Plan (Cont'd.)

(iii) Properties analysed by type of properties are as follows*:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Terraced shop offices	438,953	380,375	426,925	367,328
Stratified office lots	28,400	28,400	27,622	27,426
Commercial buildings	16,750	16,450	16,291	15,886
Residential buildings	970	935	943	903
	485,073	426,160	471,781	411,543

* All the properties held as plan assets of the Group and the Bank are occupied by the Bank and certain subsidiary companies of the Group. Certain floors in the commercial buildings and terrace shop offices are tenanted by external parties of which they contributed about 2.5% of the total rental income from properties.

The amounts recognised under other operating expenses in the statement of profit or loss are as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
Current service cost	46,340	32,770	45,070	31,646
Interest cost	32,336	29,708	31,450	28,689
Interest income	(42,788)	(42,925)	(41,615)	(41,453)
Past service cost	41,086	30,125	39,960	29,091
Allocation adjustment	–	–	(1,373)	–
Amount included under "personnel costs" (Note 35(a))	76,974	49,678	73,492	47,973

24. EMPLOYEE BENEFITS (CONT'D.)

(a) Defined Benefit Plan (Cont'd.)

Actual return on plan assets are as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Interest income on plan assets	42,788	42,925	41,615	41,453
Remeasurements on plan assets	172,234	112,584	167,547	108,723
Actual return on plan assets	215,022	155,509	209,162	150,176

(i) Actuarial Assumptions

Principal actuarial assumptions used at the reporting date (expressed as weighted averages):

	Group and Bank		
	31 December 2013	31 December 2012	1 January 2012
Discount rate	5.25%	5.25%	6.25%
Expected rate of salary increases	7.00%	7.00%	7.00%

The discount rate used in the actuarial assumptions is based on a blend of yields of long term high quality corporate bonds. The expected rate of salary increases takes into account the increases in salaries from factors such as inflation, productivity and promotions.

The principal actuarial assumptions are based on the latest actuarial valuation performed as of 31 December 2012.

As at 31 December 2012, the weighted average duration of the defined benefit obligation was 9.0 years.

24. EMPLOYEE BENEFITS (CONT'D.)

(a) Defined Benefit Plan (Cont'd.)

(ii) Sensitivity Analysis

The effect of changes in the principal actuarial assumptions on the present value of funded obligations as at 31 December 2013 are as follows:

	31 December 2013 Sensitivity	
	+1%	-1%
	RM'000	RM'000
(Decrease)/increase of present value of funded obligations:		
– Discount rate	(69,368)	86,310
– Expected salary	92,960	(76,765)

The sensitivity analysis presented above may not be representative of the actual change in the present value of funded obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

(b) Equity Compensation Benefits

Public Financial Holdings Limited Group Employees' Share Option Scheme

On 18 May 2005, an offer of options under the Public Financial Holdings Limited Group Employees' Share Option Scheme ("PFHL ESOS") was made to eligible participants to subscribe for 66,526,000 ordinary shares of Public Financial Holdings Limited ("PFHL"). The expiry date of granting of share options under the PFHL ESOS was 27 February 2012 with the exercise period of ten (10) years from the grant date.

The salient features of the PFHL ESOS are as follows:

- (i) Eligible participants of the PFHL ESOS include directors and employees working under "continuous contracts" for the purposes of the Hong Kong Employment Ordinance;
- (ii) The total number of shares to be issued under the PFHL ESOS shall not exceed in aggregate thirty percent (30%) of the issued and paid-up share capital of PFHL at any point of time during the tenure of the PFHL ESOS.

In addition, any individual director or employee's maximum entitlement shall not exceed one percent (1%) of the ordinary shares of PFHL in issue in the 12 months period up to (and including) the date of the grant. Any substantial shareholder or independent non-executive director's maximum entitlement shall not exceed one tenth percent (0.1%) of the ordinary shares of PFHL in issue and have an aggregate value based on the closing price of the ordinary shares of PFHL at the date of each grant, in excess of HKD5 million in the 12 months period up to (and including) the date of grant;

- (iii) The option exercise price for each ordinary share of HKD0.10 each of PFHL shall be determined by the directors at their discretion based on the higher of the closing price of the ordinary shares of PFHL on the Hong Kong Stock Exchange ("HKSE") at the offer date and the average closing price of the ordinary shares of PFHL on the HKSE for five (5) business days immediately preceding the offer date and the nominal value of an ordinary share of PFHL; and
- (iv) The Group is not legally bound or obliged to repurchase or settle the options in cash.

24. EMPLOYEE BENEFITS (CONT'D.)

(b) Equity Compensation Benefits (Cont'd.)

A summary of the movements in the number of PFHL ESOS and the weighted average exercise prices are as follows:

	2013		2012	
	Number of share options '000	Weighted average exercise price HKD	Number of share options '000	Weighted average exercise price HKD
At 1 January	25,375	6.35	26,413	6.35
Lapsed	(1,010)	6.35	(1,038)	6.35
At 31 December	24,365	6.35	25,375	6.35
Options exercisable at end of financial year	24,365	6.35	25,375	6.35
Weighted average share price during the financial year		3.83		3.28

Details of PFHL ESOS outstanding as at the end of the financial year are as follows:

Grant Date	Exercise Period	Exercise Price	Number of share options outstanding '000
18 May 2005	10 June 2005 to 9 June 2015	HKD6.35	24,365

The weighted average remaining contractual maturity of the PFHL ESOS outstanding as at the end of the financial year was 1.44 years (31 December 2012 – 2.44 years).

There were no new PFHL ESOS granted during the financial year (2012 - Nil). All share options issued have been vested prior to 1 January 2006 and, as allowed by the transitional provisions in MFRS 2 Share-based Payments, the recognition and measurement principles in MFRS 2 have not been applied.

25. PROVISION FOR TAX EXPENSE AND ZAKAT

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Tax expense	584,901	739,954	362,971	522,088
Zakat	328	329	–	–
	585,229	740,283	362,971	522,088

26. SHARE CAPITAL

Group and Bank	Number of Ordinary Shares of RM1.00 Each		Amount	
	31 December 2013 '000	31 December 2012 '000	31 December 2013 RM'000	31 December 2012 RM'000
Authorised: Ordinary shares of RM1.00 each	10,000,000	10,000,000	10,000,000	10,000,000
Issued and fully paid: Ordinary shares of RM1.00 each	3,531,926	3,531,926	3,531,926	3,531,926

27. TREASURY SHARES

The amount relates to the acquisition cost of treasury shares.

There were no shares bought back by the Bank during the year (31 December 2012 – Nil). The PBB Shares bought back in the previous years are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965.

None of the treasury shares held were resold or cancelled during the financial year.

Of the total 3,531,925,834 (31 December 2012 – 3,531,925,834) issued and paid-up PBB Shares as at 31 December 2013, 29,800,704 (31 December 2012 – 29,800,704) PBB Shares are held as treasury shares by the Bank. Treasury shares have no rights to voting, dividends and participation in other distribution. As at 31 December 2013, the number of outstanding PBB Shares in issue after the set-off is therefore 3,502,125,130 (31 December 2012 – 3,502,125,130) ordinary shares of RM1.00 each.

28. OTHER RESERVES

Group	Statutory Reserves RM'000	Capital Reserves RM'000	Foreign Currency Translation Reserves					Defined Benefit Reserves RM'000	Regulatory Reserves RM'000	General Reserves RM'000	Profit Equalisation Reserves RM'000	Total RM'000
			Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Reserves RM'000	Reserves RM'000					
At 1 January 2013	3,860,847	60,442	(84,632)	(6,484)	14,197	–	127,075	128,664	503	4,100,612		
– as previously stated	–	–	–	–	–	–	–	–	–	253,255		
– effects of adoption of MFRS 119 (Note 53)	–	–	–	–	–	–	–	–	–	–		
At 1 January 2013, as restated	3,860,847	60,442	(84,632)	(6,484)	14,197	253,255	127,075	128,664	503	4,353,867		
Net currency translation differences:												
– Currency translation differences in respect of												
– foreign operations	–	–	243,549	–	–	–	–	–	–	243,549		
– net investment hedge	–	–	(209,365)	–	–	–	–	–	–	(209,365)		
Net change in revaluation of financial investments available-for-sale:												
– Net unrealised gain	–	–	–	–	22,489	–	–	–	–	22,489		
– Net gain on disposal reclassified to the statement of profit or loss (Note 33)	–	–	–	–	(12,002)	–	–	–	–	(12,002)		
Net change in cash flow hedges:												
– Net unrealised loss	–	–	–	–	10,487	–	–	–	–	10,487		
– Net realised gain reclassified to the statement of profit or loss	–	–	–	(11,173)	–	–	–	–	–	(11,173)		
Gain on remeasurements of defined benefit plans (Note 24 (a))	–	–	–	–	–	172,234	–	–	–	172,234		
Deferred tax (Note 12)	–	–	–	3,063	(3,078)	(43,058)	–	–	–	(43,073)		
Other comprehensive income/(loss)	–	–	34,184	(9,193)	7,409	129,176	–	–	–	161,576		
Transferred from/(to) retained profits	10,081	–	–	–	–	–	241	1,103	(503)	10,922		
At 31 December 2013	3,870,928	60,442	(50,448)	(15,677)	21,606	382,431	127,316	129,767	–	4,526,365		

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER RESERVES (CONT'D.)

Group	Statutory Reserves RM'000	Capital Reserves RM'000	Foreign Currency Translation Reserves				Defined Benefit Reserves RM'000	Regulatory Reserves RM'000	General Reserves RM'000	Profit Equalisation Reserves RM'000	Total RM'000
			Statutory Reserves RM'000	Capital Reserves RM'000	Currency Translation Reserves RM'000	Hedging Reserves RM'000					
At 1 January 2012	3,851,106	60,442	(83,987)	2,339	(28,455)	-	126,823	127,746	-	4,056,014	
- as previously stated											
- effects of adoption of MFRS 119 (Note 53)						226,723				226,723	
At 1 January 2012, as restated	3,851,106	60,442	(83,987)	2,339	(28,455)	226,723	126,823	127,746	-	4,282,737	
Net currency translation differences:											
- Currency translation differences in respect of											
- foreign operations	-	-	(110,246)	-	-	-	-	-	-	(110,246)	
- net investment hedge	-	-	109,601	-	-	-	-	-	-	109,601	
	-	-	(645)	-	-	-	-	-	-	(645)	
Net change in revaluation of financial investments available-for-sale:											
- Net unrealised gain	-	-	-	-	55,154	-	-	-	-	55,154	
- Net gain on disposal reclassified to the statement of profit or loss (Note 33)	-	-	-	-	(7,629)	-	-	-	-	(7,629)	
- Impairment loss recognised in the statement of profit or loss (Note 38)	-	-	-	-	3,533	-	-	-	-	3,533	
	-	-	-	-	51,058	-	-	-	-	51,058	
Net change in cash flow hedges:											
- Net unrealised loss	-	-	-	(11,748)	-	-	-	-	-	(11,748)	
- Net realised gain reclassified to the statement of profit or loss	-	-	-	(16)	-	-	-	-	-	(16)	
	-	-	(11,764)	-	-	-	-	-	-	(11,764)	
Gain on remeasurements of defined benefit plans (Note 24 (a))	-	-	-	-	-	35,376	-	-	-	35,376	
Deferred tax (Note 12)	-	-	-	2,941	(8,406)	(8,844)	-	-	-	(14,309)	
Other comprehensive (loss)/income	-	-	(645)	(8,823)	42,652	26,532	-	-	-	59,716	
Transferred from retained profits	9,741	-	-	-	-	-	252	918	503	11,414	
At 31 December 2012	3,860,847	60,442	(84,632)	(6,484)	14,197	253,255	127,075	128,664	503	4,353,867	

28. OTHER RESERVES (CONT'D.)

Bank	Statutory Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Defined Benefit Reserves RM'000	General Reserves RM'000	Total RM'000
At 1 January 2013						
– as previously stated	3,531,926	(22,807)	3,535	–	1,674	3,514,328
– effects of adoption of MFRS 119 (Note 53)	–	–	–	244,569	–	244,569
At 1 January 2013, as restated	3,531,926	(22,807)	3,535	244,569	1,674	3,758,897
Net change in revaluation of financial investments available-for-sale:						
– Net unrealised gain	–	–	23,228	–	–	23,228
– Net gain on disposal reclassified to the statement of profit or loss (Note 33)	–	–	(12,002)	–	–	(12,002)
Net change in cash flow hedges:			11,226	–	–	11,226
– Net unrealised loss	–	(120,154)	–	–	–	(120,154)
– Net realised gain reclassified to the statement of profit or loss	–	(1,083)	–	–	–	(1,083)
Gain on remeasurements of defined benefit plans (Note 24 (a))	–	(121,237)	–	–	–	(121,237)
Deferred tax (Note 12)	–	30,309	(2,806)	(41,887)	–	(14,384)
Other comprehensive (loss)/income	–	(90,928)	8,420	125,660	–	43,152
Transferred from retained profits	–	–	–	–	1,103	1,103
At 31 December 2013	3,531,926	(113,735)	11,955	370,229	2,777	3,803,152

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FINANCIAL STATEMENTS

28. OTHER RESERVES (CONT'D.)

Bank	Statutory Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Defined Benefit Reserves RM'000	General Reserves RM'000	Total RM'000
At 1 January 2012						
– as previously stated	3,531,926	2,339	(19,715)	–	756	3,515,306
– effects of adoption of MFRS 119 (Note 53)	–	–	–	218,947	–	218,947
At 1 January 2012, as restated	3,531,926	2,339	(19,715)	218,947	756	3,734,253
Net change in revaluation of financial investments available-for-sale:						
– Net unrealised gain	–	–	35,096	–	–	35,096
– Net gain on disposal reclassified to the statement of profit or loss (Note 33)	–	–	(7,629)	–	–	(7,629)
– Impairment loss recognised in the statement of profit or loss (Note 38)	–	–	3,533	–	–	3,533
	–	–	31,000	–	–	31,000
Net change in cash flow hedges:						
– Net unrealised loss	–	(33,512)	–	–	–	(33,512)
– Net realised gain reclassified to the statement of profit or loss	–	(16)	–	–	–	(16)
	–	(33,528)	–	–	–	(33,528)
Gain on remeasurements of defined benefit plans (Note 24 (a))	–	–	–	34,163	–	34,163
Deferred tax (Note 12)	–	8,382	(7,750)	(8,541)	–	(7,909)
Other comprehensive (loss)/income	–	(25,146)	23,250	25,622	–	23,726
Transferred from retained profits	–	–	–	–	918	918
At 31 December 2012	3,531,926	(22,807)	3,535	244,569	1,674	3,758,897

28. OTHER RESERVES (CONT'D.)

The statutory reserves of the Group and the Bank are maintained in compliance with Section 47(2)(f) of the Financial Services Act 2013 and Section 57(2)(f) of the Islamic Financial Services Act 2013 and are not distributable as cash dividends.

The capital reserves of the Group arose mainly from the capitalisation of retained profits that resulted from bonus issues by subsidiary companies and the restructuring exercise involving certain subsidiary companies undertaken by the Group in previous years.

The foreign currency translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiary companies and the subsidiary companies incorporated in the Federal Territory of Labuan, after offsetting the impact of the effective portion of net investment hedges.

The hedging reserves are in respect of the effective portion of unrealised fair value gains and losses on cash flow hedging instruments.

The revaluation reserves are in respect of unrealised fair value gains and losses on financial investments available-for-sale, after offsetting the impact of related fair value hedges.

The defined benefit reserves are in respect of remeasurements of the net defined benefit assets/liabilities.

The regulatory reserves maintained by the Group's banking subsidiary companies in Hong Kong SAR are in line with the requirements of the Hong Kong Monetary Authority. The reserve is held as a buffer to absorb potential credit losses in excess of the requirements of accounting standards.

The general reserves of the Group and the Bank represent non-distributable profit reserves maintained in compliance with the requirements of the guidelines of the Central Bank of Sri Lanka and Prakas B7-010-182 and Circular No. B7-011-001 issued by the National Bank of Cambodia respectively.

The Profit Equalisation Reserves ("PER") of the Group are maintained in compliance with the requirements of the revised PER Guidelines issued by Bank Negara Malaysia.

29. RETAINED PROFITS

Prior to the year of assessment 2008, company income tax was based on the full imputation system where tax on dividend was imposed at both the company's and shareholders' level. The tax at shareholders' level took into account the tax imputed at the company's level through tax credits.

Pursuant to the Finance Act, 2007, the single tier system was introduced and took effect from the year of assessment 2008. Under the single tier system, tax on a company's profit is a final tax and dividend distributed to shareholders will be exempted from tax. With the implementation of the single tier system, companies with a credit balance in the Section 108 account are allowed either to elect for an irrevocable option to switch over to the single tier system or to continue using the available credit balance as at 31 December 2007 after adjusting for any tax deductions for the purpose of dividend distribution, until 31 December 2013.

The Bank had elected for the irrevocable option to disregard the remaining available Section 108 balance of RM63,899,000 on 23 February 2011. With such election, the Bank has switched over to the Single Tier System and is therefore allowed to distribute only Single Tier dividend henceforth.

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30. INTEREST INCOME

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Loans and advances	9,596,439	8,856,696	8,757,158	8,061,363
Balances with banks	704,391	426,060	660,613	401,149
Financial investments available-for-sale	291,585	334,649	284,662	322,696
Financial investments held-to-maturity	249,862	262,287	174,990	187,645
Others	138,024	112,680	138,008	112,660
	10,980,301	9,992,372	10,015,431	9,085,513
Financial assets held-for-trading	385,791	411,869	352,989	380,085
	11,366,092	10,404,241	10,368,420	9,465,598

Included in interest income on loans and advances for the current year is interest accrued on impaired loans of the Group and the Bank of RM53,248,000 (2012 – RM52,143,000) and RM49,829,000 (2012 – RM49,523,000) respectively.

31. INTEREST EXPENSE

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Deposits from banks	340,789	238,319	312,498	211,251
Deposits from customers	5,067,506	4,508,322	4,881,538	4,316,230
Loans sold to Cagamas	23	360	23	360
Debt securities issued and other borrowed funds	381,161	392,429	368,931	379,336
Others	6,075	10,166	5,836	9,901
	5,795,554	5,149,596	5,568,826	4,917,078

32. NET FEE AND COMMISSION INCOME AND EXPENSE

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Fee and commission income:				
Commissions	389,199	352,019	451,183	391,719
Service charges and fees	271,588	270,639	205,653	203,307
Guarantee fees	33,517	32,599	30,507	29,574
Processing fees	15,400	14,868	4,451	3,325
Commitment fees	61,445	60,443	58,384	57,700
Unit trust management fees	704,511	609,936	–	–
Fee on sale of trust units	313,801	260,302	–	–
Net brokerage and commissions from stock-broking activities	80,053	75,509	–	–
Other fee and commission income	38,896	49,342	30,253	39,743
	1,908,410	1,725,657	780,431	725,368
Fee and commission expense:				
Loan-related fees	(253,359)	(227,974)	(249,255)	(224,074)
Unit trust agency fees	(362,290)	(313,112)	–	–
Other fee and commission expense	(17,416)	(19,258)	(10,933)	(11,269)
	(633,065)	(560,344)	(260,188)	(235,343)
Net fee and commission income	1,275,345	1,165,313	520,243	490,025

33. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Net gain/(loss) arising on financial assets held-for-trading:				
– net gain on disposal	9,839	12,562	10,235	12,148
– gross dividend income	12	38	12	38
– unrealised revaluation loss	(9,238)	(3,330)	(9,243)	(3,312)
	613	9,270	1,004	8,874
Net (loss)/gain arising on trading derivatives:				
– net (loss)/gain on disposal	(5,864)	772	(5,864)	772
– unrealised revaluation gain	11,569	3,222	12,239	5,733
	5,705	3,994	6,375	6,505
Net gain arising on financial investments available-for-sale:				
– net gain on disposal (Note 28)	12,002	7,629	12,002	7,629
– gross dividend income	145,960	151,033	140,802	146,287
	157,962	158,662	152,804	153,916
Gain/(loss) representing ineffective portions of hedging derivatives:				
– fair value hedge (Note 6)	2,131	(1,726)	2,106	(1,129)
– cash flow hedge (Note 6)	572	44	572	44
	2,703	(1,682)	2,678	(1,085)
	166,983	170,244	162,861	168,210

34. OTHER OPERATING INCOME

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Gross dividend income from:				
Associated companies	–	–	6,460	4,783
Subsidiary companies:				
– quoted outside Malaysia	–	–	53,881	45,043
– unquoted in Malaysia	–	–	699,705	808,037
	–	–	760,046	857,863
Other income:				
Foreign exchange profit	232,844	225,445	163,852	252,661
Rental income from:				
– investment properties (Note 15)	6,068	5,490	–	–
– other properties	14,981	14,392	11,559	11,307
Net gain/(loss) on disposal of property and equipment	500	(446)	579	(425)
Net gain on disposal of foreclosed properties	2,657	7,938	2,657	7,938
Gain on revaluation of investment properties (Note 15)	2,547	23,877	–	–
Others	48,718	36,045	36,365	25,765
	308,315	312,741	215,012	297,246
	308,315	312,741	975,058	1,155,109

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35. OTHER OPERATING EXPENSES

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
Personnel costs				
– Salaries, allowances and bonuses	1,388,845	1,347,450	1,088,897	1,052,631
– Pension costs	232,668	201,843	208,398	180,811
– Others	123,095	118,761	107,639	103,969
	1,744,608	1,668,054	1,404,934	1,337,411
Establishment costs				
– Depreciation	161,188	167,253	127,694	135,515
– Rental	93,803	84,962	87,416	81,657
– Insurance	21,806	20,293	16,641	15,833
– Water and electricity	44,530	43,674	33,359	32,166
– General repairs and maintenance	72,558	74,044	63,842	66,073
– Information technology expenses	27,896	26,475	14,905	14,521
– Others	44,875	37,233	33,486	27,143
	466,656	453,934	377,343	372,908
Marketing expenses				
– Advertisement and publicity	63,289	74,352	24,550	25,153
– Others	84,109	77,645	39,893	43,148
	147,398	151,997	64,443	68,301
Administration and general expenses				
– Communication expenses	38,899	38,724	34,129	30,328
– Legal and professional fees	43,399	43,654	32,336	33,936
– Others	62,676	61,227	38,673	30,074
	144,974	143,605	105,138	94,338
Shared service cost charged to Public Islamic Bank Berhad	–	–	(241,174)	(221,688)
Total other operating expenses	2,503,636	2,417,590	1,710,684	1,651,270

35. OTHER OPERATING EXPENSES (CONT'D.)

(a) Included in other operating expenses are the following statutory disclosures:

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
Auditors' remuneration*:				
– statutory audit fees	3,267	3,129	1,232	1,193
– audit related services	752	548	327	282
– other services	167	480	74	408
Depreciation of property and equipment (Note 16)	161,188	167,253	127,694	135,515
Direct operating expenses of investment properties that:				
– generated rental income	41	41	–	–
Directors' remuneration (Note 36)	51,683	44,661	40,244	34,130
Pension costs				
– defined contribution plan	155,694	152,165	134,906	132,838
– defined benefit plan (Note 24(a))	76,974	49,678	73,492	47,973
Property and equipment written off (Note 16)	527	1,082	490	1,064
Rental of premises	93,803	84,962	87,416	81,657

* Included in the auditors' remuneration of the Group are fees paid to accounting firms other than the Bank's auditors for statutory audit fees, audit related services and other services amounting to RM1,665,000 (2012 – RM1,553,000), RM345,000 (2012 – RM211,000) and RM51,000 (2012 – RM39,000) respectively.

Included in the auditors' remuneration of the Bank are fees paid in relation to the Bank's overseas branches for statutory audit fees, audit related services and other services of RM202,000 (2012 – RM163,000), RM14,000 (2012 – RM14,000) and RM13,000 (2012 – RM11,000) respectively.

Audit related services included half year limited review, validation review based on agreed-upon procedures and review of statement of internal control.

(b) Employees

The number of persons employed by the Group and the Bank (excluding Directors) as at the end of the financial year was 17,924 (2012 – 17,625) and 14,580 (2012 – 14,430) respectively.

36. DIRECTORS' REMUNERATION

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Directors of the Bank:				
Executive Directors:				
Fees	1,326	1,271	452	430
Salary and other remuneration, including meeting allowances	7,649	6,943	7,525	6,783
Bonuses	11,000	9,707	11,000	9,707
Benefits-in-kind	72	75	72	75
	20,047	17,996	19,049	16,995
Non-Executive Directors:				
Fees	4,293	3,860	2,017	1,744
Other remuneration	20,114	16,306	19,250	15,457
Benefits-in-kind	32	33	32	33
	24,439	20,199	21,299	17,234
Past Director:				
Other remuneration	–	9	–	9
Directors of subsidiary companies:				
Executive Directors:				
Fees	350	317	–	–
Salary and other remuneration, including meeting allowances	3,402	3,207	–	–
Bonuses	2,847	2,381	–	–
Benefits-in-kind	438	402	–	–
	7,037	6,307	–	–
Non-Executive Directors:				
Fees	523	488	–	–
Other remuneration	179	172	–	–
	702	660	–	–
Grand total	52,225	45,171	40,348	34,238
Total (excluding benefits-in-kind) (Note 35)	51,683	44,661	40,244	34,130

Included in the remuneration of the Executive Directors is the remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind, during the financial year amounting to RM11,142,000 (2012 – RM9,552,000).

36. DIRECTORS' REMUNERATION (CONT'D.)

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

2013	Remuneration Received from the Bank					Remuneration Received from Subsidiary Companies			Group Total RM'000
	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Benefits-in-kind RM'000	Bank Total RM'000	Fees RM'000	Other Emoluments RM'000	
Executive Directors:									
Tan Sri Dato' Sri Tay Ah Lek	2,340	236	6,575	1,954	37	11,142	512	79	11,733
Dato' Sri Lee Kong Lam [#]	1,788	216	4,425	1,443	35	7,907	362	45	8,314
	4,128	452	11,000	3,397	72	19,049	874	124	20,047
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Piow	-	320	-	17,891	32	18,243	645	48	18,936
Tan Sri Datuk Seri Utama Thong Yaw Hong	-	320	-	464	-	784	563	195	1,542
Dato' Sri Lee Kong Lam [^]	-	20	-	13	-	33	33	37	103
Dato' Yeoh Chin Kee	-	236	-	148	-	384	126	123	633
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	-	236	-	200	-	436	336	189	961
Quah Poh Keat [*]	-	177	-	124	-	301	437	135	873
Tang Wing Chew	-	236	-	146	-	382	116	123	621
Lai Wan	-	236	-	133	-	369	15	8	392
Lai Wai Keen	-	236	-	131	-	367	6	5	378
	-	2,017	-	19,250	32	21,299	2,277	863	24,439
Total Directors' remuneration	4,128	2,469	11,000	22,647	104	40,348	3,151	987	44,486

[#] This represents the remuneration paid to this Director from 1 January 2013 as an Executive Director until his resignation as Non-Independent Non-Executive Director on 28 November 2013.

[^] This represents the remuneration paid to this Director subsequent to his resignation as Non-Independent Non-Executive Director.

^{*} This represents the remuneration paid to this Director until his resignation on 1 October 2013.

36. DIRECTORS' REMUNERATION (CONT'D.)

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The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows (Cont'd.):

2012	Remuneration Received from the Bank					Remuneration Received from Subsidiary Companies			Group Total RM'000
	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Benefits-in-kind RM'000	Bank Total RM'000	Fees RM'000	Other Emoluments RM'000	
Executive Directors:									
Tan Sri Dato' Sri Tay Ah Lek	2,028	215	5,572	1,696	41	9,552	477	79	10,108
Dato' Sri Lee Kong Lam	1,704	215	4,135	1,355	34	7,443	364	81	7,888
	3,732	430	9,707	3,051	75	16,995	841	160	17,996
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Piow	-	290	-	14,191	33	14,514	598	50	15,162
Tan Sri Datuk Seri Utama Thong Yaw Hong	-	290	-	473	-	763	525	195	1,483
Dato' Yeoh Chin Kee	-	215	-	134	-	349	126	123	598
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	-	215	-	214	-	429	319	189	937
Quah Poh Keat	-	215	-	169	-	384	433	169	986
Tang Wing Chew	-	215	-	131	-	346	115	123	584
Lai Wan	-	161	-	77	-	238	-	-	238
Lai Wai Keen	-	143	-	68	-	211	-	-	211
	-	1,744	-	15,457	33	17,234	2,116	849	20,199
Total Directors' remuneration	3,732	2,174	9,707	18,508	108	34,229	2,957	1,009	38,195

37. ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Allowance for impaired loans and financing:				
Collective assessment allowance (Note 9)	340,289	279,199	219,966	187,119
– Retail loans/financing				
– housing loans/financing	16,495	29,258	5,547	21,826
– hire purchase	240,540	160,147	171,804	115,362
– credit cards	40,286	37,193	40,279	37,166
– other loans/financing	41,603	54,998	1,002	13,020
– Corporate loans/financing	1,365	(2,397)	1,334	(255)
Individual assessment allowance (Note 9)	225,747	194,865	8,864	(2,870)
– Retail loans/financing				
– housing loans/financing	95	548	–	486
– hire purchase	261	1,002	–	–
– other loans/financing	225,146	205,979	8,357	11,830
– Corporate loans/financing	245	(12,664)	507	(15,186)
Bad debts recovered from stock-broking activities	(2)	(39)	–	–
Impaired loans and financing written off	644	871	554	692
Impaired loans and financing recovered	(215,426)	(195,652)	(128,779)	(107,934)
	351,252	279,244	100,605	77,007

38. (WRITEBACK OF IMPAIRMENT)/IMPAIRMENT ON OTHER ASSETS

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Financial investments available-for-sale				
– Non-money market instruments				
– equity securities (Note 7 and 28)	–	3,533	–	3,533
Foreclosed properties	(149)	3,093	(165)	3,068
	(149)	6,626	(165)	6,601

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39. TAX EXPENSE AND ZAKAT

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)	2013 RM'000	2012 RM'000 (Restated)
Malaysian income tax	1,168,309	1,151,748	956,324	939,774
Overseas income tax	65,424	59,853	8,983	7,794
	1,233,733	1,211,601	965,307	947,568
(Over)/Under provision in prior years				
– Malaysian income tax	(3,337)	7,173	(4,214)	6,090
– Overseas income tax	420	3,332	60	(1,411)
	1,230,816	1,222,106	961,153	952,247
Deferred tax expense/(income) (Note 12)				
– Relating to origination and reversal of temporary differences arising from:				
– allowance for losses on loans/financing	2,441	(978)	–	–
– tax losses	48	68	–	–
– excess/(shortfall) of capital allowance over depreciation	1,121	(3,819)	1,437	(5,638)
– defined benefit plan	(19,251)	(12,459)	(18,381)	(12,010)
– other temporary differences	(14,391)	(17,266)	(5,849)	(14,120)
	(30,032)	(34,454)	(22,793)	(31,768)
– under/(over) provision	3,294	(9,990)	3,157	(992)
	(26,738)	(44,444)	(19,636)	(32,760)
Tax expense	1,204,078	1,177,662	941,517	919,487
Zakat	264	330	–	–
	1,204,342	1,177,992	941,517	919,487

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% on the estimated chargeable profit for the year. The computation of deferred tax assets and deferred tax liabilities is also based on the statutory tax rate of 25%.

Tax in foreign jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Tax savings arising from tax losses				
Tax savings arising from utilisation of tax losses	2	2	–	–

39. TAX EXPENSE AND ZAKAT (CONT'D.)

A reconciliation of income tax expense applicable to profit before tax expense at the statutory tax rate to income tax expense at the effective income tax rate of the Group and of the Bank are as follows:

Group	%	2013 RM'000	%	2012 RM'000 (Restated)
Profit before tax expense		5,309,984		5,047,234
Income tax using Malaysian tax rate of 25%	25.0	1,327,496	25.0	1,261,809
Effects of different tax rates in foreign jurisdictions	(0.5)	(24,272)	(0.9)	(42,715)
Income not subject to tax	(1.9)	(102,539)	(1.9)	(95,605)
Effects of utilisation of unrecognised benefit of tax losses	–	(2)	–	(2)
Expenses not deductible for tax purposes	0.6	30,114	0.8	38,684
(Loss)/gain subject to tax at Bank but eliminated at Group	(0.5)	(27,096)	0.3	14,976
	22.7	1,203,701	23.3	1,177,147
Under provision in prior years	–	377	–	515
Tax expense for the year	22.7	1,204,078	23.3	1,177,662
Bank	%	2013 RM'000	%	2012 RM'000 (Restated)
Profit before tax expense		4,646,632		4,626,986
Income tax using Malaysian tax rate of 25%	25.0	1,161,658	25.0	1,156,747
Income not subject to tax	(5.1)	(238,407)	(5.7)	(263,743)
Expenses not deductible for tax purposes	0.4	19,263	0.5	22,796
	20.3	942,514	19.8	915,800
(Over)/under provision in prior years	–	(997)	0.1	3,687
Tax expense for the year	20.3	941,517	19.9	919,487

40. EARNINGS PER SHARE

(a) Basic Earnings Per Share

The calculation of the basic earnings per share is based on the net profit attributable to equity holders of the Bank for the financial year divided by the weighted average number of ordinary shares of RM1.00 each in issue during the financial year excluding the weighted average treasury shares held by the Bank.

	Group		Bank	
	2013	2012 (Restated)	2013	2012 (Restated)
Net profit attributable to equity holders of the Bank (RM'000)	4,064,683	3,826,754	3,705,115	3,707,499
'000				
Number of ordinary shares at beginning/end of the year	3,502,125	3,502,125	3,502,125	3,502,125
Basic earnings per share (sen)	116.1	109.3	105.8	105.9

(b) Diluted Earnings Per Share

The Group and the Bank have no dilution in their earnings per ordinary share as there are no dilutive potential ordinary shares.

41. DIVIDENDS

	Group and Bank	
	2013 RM'000	2012 RM'000
Dividends recognised as distribution to ordinary equity holders of the Bank:		
First interim single tier dividend of 22.0% (2012 – 20.0%) in respect of the financial year ended 31 December 2013	770,467	700,425
Second interim single tier dividend of 30.0% (2011 – 28.0%) in respect of the financial year ended 31 December 2012	1,050,638	980,595
	1,821,105	1,681,020

Subsequent to the financial year end, on 5 February 2014, the Directors declared a second interim single tier dividend of 30.0%, with the total amounting to approximately RM1,050,637,539 computed based on the outstanding issued and paid-up capital, excluding treasury shares held by the Bank, of 3,502,125,130 ordinary shares of RM1.00 each, in respect of the financial year ended 31 December 2013. The financial statements for the current financial year do not reflect these dividends. Upon declaration, the dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2014. The Directors do not propose any final dividend in respect of the financial year ended 31 December 2013.

41. DIVIDENDS (CONT'D.)

Accordingly, based on the above, the dividend declared per share for each financial year are as follows:

	Group and Bank Dividend per share	
	2013 Sen	2012 Sen
Dividends per RM1.00 ordinary share:		
Paid:		
First interim single tier dividend of 22.0% (2012 – 20.0%)	22.00	20.00
Declared subsequent to the financial year end:		
Second interim single tier dividend of 30.0% (2012 – 30.0%)	30.00	30.00
	52.00	50.00

42. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both. The related parties of the Group and the Bank are:

(i) Subsidiary Companies

Details of the subsidiary companies are shown in Note 13.

(ii) Associated Companies

Associated companies are those entities in which the Group has significant influence but not control, as disclosed in Note 14.

(iii) Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes Executive Directors and Non-Executive Directors of the Bank and certain members of senior management of the Bank and chief executive officers of major subsidiary companies of the Group.

(iv) Public Bank Group Officers' Retirement Benefits Fund

Details of the retirement benefits fund are shown in Note 24(a).

(v) Companies in Which Certain Directors Have Substantial Financial Interest

These are entities in which significant voting power in such entities directly or indirectly resides with certain Directors of the Bank.

All related party transactions are conducted on normal commercial terms which are not more favourable than those generally available to the public.

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42. RELATED PARTY TRANSACTIONS (CONT'D.)

(a) The significant transactions of the Group and the Bank with its related parties are as follows:

Group	Key Management Personnel*		Companies in which Certain Directors have Substantial Interest		Public Bank Group Officers' Retirement Benefits Fund	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Income earned:						
Interest on loans, advances and financing	9	1	–	–	36,650	49,229
Commission income	–	–	36,782	33,427	–	–
Rental income	147	147	2,696	2,481	–	–
Brokerage income	4	9	–	–	1	–
Others	–	–	–	–	–	–
	160	157	39,478	35,908	36,651	49,229
Expenditure incurred:						
Interest on deposits	143,204	100,592	6,069	5,914	–	–
Interest on debt securities issued	36	–	3,167	3,047	–	–
Rental of premises	–	–	600	590	25,092	21,104
Insurance premiums	–	–	29,048	26,121	–	–
	143,240	100,592	38,884	35,672	25,092	21,104

* Included transactions with close members of the key management personnel.

42. RELATED PARTY TRANSACTIONS (CONT'D.)

(a) The significant transactions of the Group and the Bank with its related parties are as follows (Cont'd.):

	Subsidiary Companies		Associated Companies		Key Management Personnel*		Companies in which Certain Directors have Substantial Interest		Public Bank Group Officers' Retirement Benefits Fund	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Bank										
Income earned:										
Interest on interbank lending and money market instruments held	69,458	86,954	1,136	2,488	-	-	-	-	-	-
Interest on loans, advances and financing	7,934	7,933	-	-	9	1	-	-	36,650	49,229
Dividend income (Note 34)	753,586	853,080	6,460	4,783	-	-	-	-	-	-
Shared service costs charged (Note 35)	241,174	221,688	-	-	-	-	-	-	-	-
Commission income	80,103	56,237	-	-	-	-	36,515	33,114	-	-
Rental income	1,726	1,725	-	-	147	147	11	11	-	-
Others	2,510	2,520	-	-	-	-	-	-	-	-
	1,156,491	1,230,137	7,596	7,271	156	148	36,526	33,125	36,650	49,229
Expenditure incurred:										
Interest on deposits	91,845	97,832	902	115	143,121	100,577	5,953	5,445	-	-
Interest on debt securities issued	-	-	-	-	36	-	3,167	3,047	-	-
Rental of premises	26,114	25,725	-	-	-	-	600	590	24,283	20,517
Insurance premiums	-	-	-	-	-	-	22,542	21,109	-	-
Brokerage commission	82	13	-	-	-	-	-	-	-	-
Professional fees	1,964	155	-	-	-	-	-	-	-	-
	120,005	123,725	902	115	143,157	100,577	32,262	30,191	24,283	20,517

* Included transactions with close members of the key management personnel.

Included in the significant transactions of the Group are interest on deposits paid to Directors of the Bank (including close members of their families) amounting to RM143,129,000 (2012 – RM100,542,000) and rental received from a Director of the Bank amounting to RM147,000 (2012 – RM147,000).

Included in the significant transactions of the Bank are interest on deposits paid to Directors of the Bank (including close members of their families) amounting to RM143,073,000 (2012 – RM100,542,000) and rental received from a Director of the Bank amounting to RM147,000 (2012 – RM147,000).

42. RELATED PARTY TRANSACTIONS (CONT'D.)

(b) The significant outstanding balances of the Group and the Bank with its related parties are as follows:

Group 31 December 2013	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
Amount due from related parties				
Interbank lending	147,811	–	–	–
Loans, advances and financing	–	2,749	–	1,122,852
Rental deposits	–	–	–	6,337
	147,811	2,749	–	1,129,189
Amount due to related parties				
Demand deposits	8,589	10,201	5,394	5
Term deposits	1,292	3,935,264	115,410	–
Debt securities issued	–	500	65,000	–
Interbank borrowing	295,190	–	–	–
Others	–	433	–	33
	305,071	3,946,398	185,804	38
Commitments and contingencies				
Commitments	–	–	–	882,149
	–	–	–	882,149

42. RELATED PARTY TRANSACTIONS (CONT'D.)

(b) The significant outstanding balances of the Group and the Bank with its related parties are as follows (Cont'd.):

Group 31 December 2012	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
Amount due from related parties				
Interbank lending	129,914	–	–	–
Loans, advances and financing	–	25	–	1,078,887
Rental deposits	–	–	–	5,457
	129,914	25	–	1,084,344
Amount due to related parties				
Demand deposits	12,068	7,965	6,696	9
Term deposits	4,426	3,261,124	105,944	–
Debt securities issued	–	–	55,000	–
Interbank borrowing	189,868	–	–	–
Others	–	385	–	78
	206,362	3,269,474	167,640	87
Commitments and contingencies				
Commitments	–	–	–	926,114
	–	–	–	926,114

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42. RELATED PARTY TRANSACTIONS (CONT'D.)

(b) The significant outstanding balances of the Group and the Bank with its related parties are as follows (Cont'd.):

Bank 31 December 2013	Subsidiary Companies RM'000	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
Amount due from related parties					
Interbank lending	1,411,914	147,811	–	–	–
Loans, advances and financing	296,416	–	2,749	–	1,122,852
Money market instruments held	1,528,777	–	–	–	–
Dividend receivable (Note 10)	469,462	–	–	–	–
Rental deposits	34,753	–	–	–	6,147
Interest receivable	299	–	–	–	–
Others	1,059	–	–	–	–
	3,742,680	147,811	2,749	–	1,128,999
Amount due to related parties					
Demand deposits	92,431	686	9,818	5,394	5
Term deposits	2,608,020	1,292	3,926,192	115,410	–
Debt securities issued	–	–	500	65,000	–
Interbank borrowing	1,144,986	295,190	–	–	–
Interest payable	1,843	–	–	–	–
Others	590	–	54	–	33
	3,847,870	297,168	3,936,564	185,804	38
Commitments and contingencies					
Guarantees	116,577	–	–	–	–
Commitments	1,280,444	–	–	–	882,149
	1,397,021	–	–	–	882,149

42. RELATED PARTY TRANSACTIONS (CONT'D.)

(b) The significant outstanding balances of the Group and the Bank with its related parties are as follows (Cont'd.):

Bank 31 December 2012	Subsidiary Companies RM'000	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
Amount due from related parties					
Interbank lending	1,281,760	129,914	–	–	–
Loans, advances and financing	276,659	–	25	–	1,078,887
Money market instruments held	1,472,807	–	–	–	–
Dividend receivable (Note 10)	429,647	–	–	–	–
Rental deposits	34,839	–	–	–	5,297
Interest receivable	375	–	–	–	–
Others	5,782	–	–	–	–
	3,501,869	129,914	25	–	1,084,184
Amount due to related parties					
Demand deposits	84,622	12,068	7,903	6,696	9
Term deposits	2,585,313	4,426	3,260,263	86,344	–
Debt securities issued	–	–	–	55,000	–
Interbank borrowing	1,482,454	189,868	–	–	–
Interest payable	1,244	–	–	–	–
Others	13,894	–	–	–	78
	4,167,527	206,362	3,268,166	148,040	87
Commitments and contingencies					
Guarantees	136,395	–	–	–	–
Commitments	816,889	–	–	–	926,114
	953,284	–	–	–	926,114

* Included transactions with close members of the key management personnel.

Included in the significant outstanding balances of the Group and the Bank are demand deposits and term deposits payable to Directors of the Bank (including close members of their families) amounting to RM3,938,534,000 (31 December 2012 – RM3,266,268,000) and RM3,931,479,000 (31 December 2012 – RM3,266,169,000) respectively.

42. RELATED PARTY TRANSACTIONS (CONT'D.)

- (c) There were no loans granted to the Directors of the Bank. Loans made to other key management personnel of the Group and the Bank are on similar terms and conditions generally available to other employees within the Group.

None of the loans granted to key management personnel (2012 – Nil) are impaired.

- (d) Key Management Personnel Compensation

The remuneration of Directors and other members of key management during the year are as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Short-term employee benefits				
Fee	5,619	5,131	2,469	2,174
Salary and other remuneration, including meeting allowances	45,549	38,185	39,327	32,324
Benefits-in-kind	600	590	138	134
Post-employment benefits	4,146	4,060	3,550	3,508
	55,914	47,966	45,484	38,140

Included in the total key management personnel compensation are:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Directors' remuneration including benefits-in-kind – Directors of the Bank	44,486	38,195	40,348	34,229

The movement in share options of key management personnel is as follows:

	PFHL ESOS	
	2013 '000	2012 '000
At 1 January/31 December	3,928	3,928

The share options were granted on the same terms and conditions as those offered to other employees of the Group (Note 24(b)).

43. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Outstanding credit exposures with connected parties	1,756,651	2,031,542	2,552,959	2,692,235
of which:				
Total credit exposure which is impaired or in default	104	466	72	341
Total credit exposures	230,273,829	205,379,208	206,155,123	183,958,523
Percentage of outstanding credit exposures to connected parties				
– as a proportion of total credit exposures	0.76%	0.99%	1.24%	1.46%
– as a proportion of total capital	6.16%	7.73%	10.82%	12.39%
– which is impaired or in default	0.01%	0.02%	0.00%	0.01%

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

Based on these guidelines, a connected party refers to any of the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

44. FINANCIAL RISK MANAGEMENT

Overview

The Group's business activities involve the use of financial instruments, including derivatives. These activities expose the Group to a variety of financial risks, mainly credit risk, market risk and liquidity and funding risk.

The Group's financial risk management is underpinned by the Group's risk appetite and is subject to the Board of Directors' oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC"), the Operational Risk Management Committee ("ORMC") and the Internal Capital Adequacy Assessment Process ("ICAAP") Working Group.

Credit Risk

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

Risk Governance

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

Risk Management Approach

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

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing 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 being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Lending to Retail Consumers and SMEs

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

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(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, investment in debt securities are subject to the minimum investment grade, minimum acceptable return and the maximum tenure. The investment parameters are also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Board of Directors. As at the 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

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

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

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 in threshold levels.

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

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

There have been no changes to the process for managing credit risk and the methods used to measure credit risk.

(i) Credit Risk Exposures and Credit Risk Concentration

The following table presents the Group's and the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group or the Bank would have to pay if the obligations for which the instruments are issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

By Industry Analysis

The analysis of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account any collateral held or other credit enhancements.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Group	Agriculture,										Total RM'000
	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Consumer Loans RM'000	Other		
31 December 2013											
On-Balance Sheet Exposures											
Cash and balances with banks	13,060,851	9,019,566	-	-	-	-	-	-	-	-	22,080,417
Reverse repurchase agreements	9,541,969	-	-	-	-	-	-	-	-	-	9,541,969
Financial assets held-for-trading											
- Government securities and treasury bills	1,583,640	-	-	-	-	-	-	-	-	-	1,583,640
- Money market instruments	-	13,822,929	-	-	-	-	-	-	-	-	13,822,929
- Non-money market instruments	-	392,401	-	-	12,993	-	-	-	-	-	405,394
Derivative financial assets	-	365,354	-	-	-	-	-	-	-	-	365,354
Financial investments available-for-sale											
- Government securities and treasury bills	10,106,634	-	-	-	-	-	-	-	-	-	10,106,634
- Money market instruments	-	198,844	-	-	-	-	-	-	-	-	198,844
- Non-money market instruments*	308,645	5,157,996	869,046	850,416	-	-	-	-	-	-	7,186,103
Financial investments held-to-maturity											
- Government securities and treasury bills	4,399,596	-	-	-	-	-	-	-	-	-	4,399,596
- Money market instruments	-	2,170,637	-	-	-	-	-	-	-	-	2,170,637
- Non-money market instruments	1,086	664,277	333,885	224,070	-	-	-	-	-	-	1,223,318
Gross loans, advances and financing											
- Retail loans/financing											
- housing loans/financing	-	-	-	-	-	69,371,088	-	-	-	-	69,371,088
- hire purchase	186	3,644	3,285,530	3,740,195	1,596,987	-	36,297,090	39	-	-	44,923,671
- credit cards	-	-	-	-	-	-	-	1,623,283	-	-	1,623,283
- other loans/financing	28,151	29,509	5,265,977	22,726,516	13,109,399	2,881,710	216,628	30,376,110	-	-	74,634,000
- Corporate loans/financing	-	6,228,369	5,022,894	5,894,561	13,443,004	7,271	-	27,662	-	-	30,623,761
Statutory deposits with Central Banks	6,924,832	-	-	-	-	-	-	-	-	-	6,924,832
	45,955,590	38,053,526	14,777,332	33,435,758	28,162,383	72,260,069	36,513,718	32,027,094	-	-	301,185,470
Commitments and Contingencies											
Contingent liabilities	1,109	79,342	854,860	1,229,922	993,321	-	-	4,371	-	-	3,162,925
Commitments	517,229	1,295,837	5,063,998	11,155,680	11,987,781	11,533,644	14,162	13,375,722	-	-	54,944,053
	518,338	1,375,179	5,918,858	12,385,602	12,981,102	11,533,644	14,162	13,380,093	-	-	58,106,978
Total Credit Exposures	46,473,928	39,428,705	20,696,190	45,821,360	41,143,485	83,793,713	36,527,880	45,407,187	-	-	359,292,448

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Bank	31 December 2013	Agriculture, Manufacturing, Retail Trade & Wholesale & Other										Total	
		Government and Central Banks	Financial Services	Transport and Business Services	Manufacturing Retail Trade	Wholesale & Retail Trade	Construction & Real Estate	Residential Mortgages	Motor Vehicle Financing	Consumer Loans	Other		
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures													
Cash and balances with banks		5,351,128	7,398,958	-	-	-	-	-	-	-	-	-	12,750,086
Reverse repurchase agreements		8,638,588	-	-	-	-	-	-	-	-	-	-	8,638,588
Financial assets held-for-trading													
- Government securities and treasury bills		1,379,390	-	-	-	-	-	-	-	-	-	-	1,379,390
- Money market instruments		-	12,274,547	-	-	-	-	-	-	-	-	-	12,274,547
- Non-money market instruments		-	319,496	-	-	-	-	-	-	-	-	-	332,489
Derivative financial assets		-	350,729	-	-	-	12,993	-	-	-	-	-	350,729
Financial investments available-for-sale													
- Government securities and treasury bills		8,669,725	-	-	-	-	-	-	-	-	-	-	8,669,725
- Money market instruments		-	198,844	-	-	-	-	-	-	-	-	-	198,844
- Non-money market instruments*		308,635	4,588,905	748,122	499,566	-	-	-	-	-	-	-	6,145,228
Financial investments held-to-maturity													
- Government securities and treasury bills		3,437,058	-	-	-	-	-	-	-	-	-	-	3,437,058
- Money market instruments		-	1,617,869	-	-	-	-	-	-	-	-	-	1,617,869
- Non-money market instruments		1,086	180,991	326,726	224,070	-	-	-	-	-	-	-	732,873
Gross loans and advances													
- Retail loans													
- housing loans		-	-	-	-	-	60,472,169	-	-	-	-	-	60,472,169
- hire purchase		186	3,088	2,504,231	3,485,893	-	-	24,451,545	-	-	-	-	31,906,568
- credit cards		-	-	-	-	-	-	-	-	-	1,613,033	-	1,613,033
- other loans		9,019	19,369	4,350,857	20,680,191	-	-	11,796,724	209,032	24,918,199	-	-	64,745,015
- Corporate loans		-	5,813,059	4,598,147	4,189,158	-	-	10,183,345	7,271	-	27,662	-	24,818,642
Statutory deposits with Central Banks		5,565,946	-	-	-	-	-	-	-	-	-	-	5,565,946
		33,360,761	32,765,855	12,528,083	29,078,878	23,454,687	63,241,064	24,660,577	26,558,894	245,648,799	-	-	245,648,799
Commitments and Contingencies													
Contingent liabilities		1,109	144,919	742,295	871,944	-	-	772,136	-	-	2,190	-	2,534,993
Commitments		517,229	1,741,676	3,105,118	10,255,685	11,282,240	10,514,541	13,036	12,870,562	50,300,087	-	-	50,300,087
		518,338	1,886,595	3,847,413	11,127,629	12,054,376	10,514,541	13,036	12,872,752	52,834,680	-	-	52,834,680
Total Credit Exposures		33,879,099	34,652,450	16,375,496	40,206,507	35,509,063	73,755,605	24,673,613	39,431,646	298,483,479	-	-	298,483,479

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Bank	Government and Central Banks RM'000	Financial Services RM'000	Transport and 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
				Transport and Business Services RM'000	Wholesale & Retail Trade RM'000	Manufacturing RM'000	Agriculture RM'000					
31 December 2012												
On-Balance Sheet Exposures												
Cash and balances with banks	5,250,114	6,429,729	-	-	-	-	-	-	-	-	11,679,843	
Reverse repurchase agreements	7,309,153	-	-	-	-	-	-	-	-	-	7,309,153	
Financial assets held-for-trading												
- Government securities and treasury bills	2,309,237	-	-	-	-	-	-	-	-	-	2,309,237	
- Money market instruments	-	10,715,460	-	-	-	-	-	-	-	-	10,715,460	
- Non-money market instruments*	-	-	118,877	-	-	-	454,591	-	-	-	573,468	
Derivative financial assets	-	364,344	-	-	-	-	-	-	-	-	364,344	
Financial investments available-for-sale												
- Government securities and treasury bills	9,514,672	-	-	-	-	-	-	-	-	-	9,514,672	
- Non-money market instruments*	310,289	4,456,679	718,564	479,216	-	-	-	-	-	-	5,964,748	
Financial investments held-to-maturity												
- Government securities and treasury bills	2,886,670	-	-	-	-	-	-	-	-	-	2,886,670	
- Money market instruments	-	1,472,807	-	-	-	-	-	-	-	-	1,472,807	
- Non-money market instruments	1,086	5,059	113,660	-	-	30,032	-	-	-	-	149,837	
Gross loans and advances												
- Retail loans												
- housing loans	-	-	-	-	-	-	52,536,395	-	-	-	52,536,395	
- hire purchase	8	3,192	2,116,776	3,277,041	1,288,360	23,453,129	-	-	-	-	30,138,506	
- credit cards	-	-	-	-	-	-	-	-	1,594,106	-	1,594,106	
- other loans	19,045	38,663	3,683,677	18,982,261	10,029,275	2,630,110	207,330	21,707,319	6,347	-	57,307,670	
- Corporate loans	-	5,797,682	4,379,282	3,602,476	8,775,702	-	-	-	-	-	22,561,489	
Statutory deposits with Central Banks	4,738,213	-	-	-	-	-	-	-	-	-	4,738,213	
	32,338,487	29,283,605	11,140,886	26,340,994	20,577,960	55,166,505	23,660,459	23,307,772	221,816,618			
Commitments and Contingencies												
Contingent liabilities	1,058	142,334	723,295	861,933	693,790	-	-	-	2,804	-	2,425,214	
Commitments	507,277	2,066,901	2,027,757	10,054,185	8,269,229	10,144,166	21,997	12,130,083	45,221,595			
	508,335	2,209,235	2,751,052	10,916,118	8,963,019	10,144,166	21,997	12,132,887	47,646,809			
Total Credit Exposures	32,846,822	31,492,840	13,891,888	37,257,112	29,540,979	65,310,671	23,682,456	35,440,659	269,463,427			

* Excluding equity securities of the Group and the Bank of RM126,931,000 (31 December 2012 - RM156,456,000) and RM111,070,000 (31 December 2012 - RM141,703,000) respectively which do not have any credit risk.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis

The analysis of credit concentration risk of financial assets of the Group and the Bank categorised by geographical distribution (i.e. based on the geographical location where the credit risk resides) is as follows:

Group 31 December 2013	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	17,998,169	2,408,098	937,413	736,737	22,080,417
Reverse repurchase agreements	9,537,953	–	–	4,016	9,541,969
Financial assets held-for-trading					
– Government securities and treasury bills	1,583,640	–	–	–	1,583,640
– Money market instruments	13,822,929	–	–	–	13,822,929
– Non-money market instruments	405,394	–	–	–	405,394
Derivative financial assets	256,977	4,120	–	104,257	365,354
Financial investments available-for-sale					
– Government securities and treasury bills	10,106,634	–	–	–	10,106,634
– Money market instruments	198,844	–	–	–	198,844
– Non-money market instruments*	7,186,103	–	–	–	7,186,103
Financial investments held-to-maturity					
– Government securities and treasury bills	3,445,657	722,974	–	230,965	4,399,596
– Money market instruments	1,370,106	666,286	–	134,245	2,170,637
– Non-money market instruments	846,371	116,968	–	259,979	1,223,318
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	66,010,600	3,305,380	41,907	13,201	69,371,088
– hire purchase	43,065,127	1,843,916	4,464	10,164	44,923,671
– credit cards	1,613,033	5,743	4,507	–	1,623,283
– other loans/financing	70,008,952	1,709,106	2,379,580	536,362	74,634,000
– Corporate loans/financing	24,946,456	5,153,931	–	523,374	30,623,761
Statutory deposits with Central Banks	6,476,300	–	419,036	29,496	6,924,832
	278,879,245	15,936,522	3,786,907	2,582,796	301,185,470
Commitments and Contingencies					
Contingent liabilities	2,655,706	99,974	374,107	33,138	3,162,925
Commitments	52,828,722	1,677,176	399,241	38,914	54,944,053
	55,484,428	1,777,150	773,348	72,052	58,106,978
Total Credit Exposures	334,363,673	17,713,672	4,560,255	2,654,848	359,292,448

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Group 31 December 2012	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	14,520,266	2,172,043	680,870	1,262,772	18,635,951
Reverse repurchase agreements	8,158,410	–	–	96	8,158,506
Financial assets held-for-trading					
– Government securities and treasury bills	3,977,079	–	–	–	3,977,079
– Money market instruments	11,836,221	–	–	–	11,836,221
– Non-money market instruments*	802,956	–	–	–	802,956
Derivative financial assets	241,176	316	–	128,973	370,465
Financial investments available-for-sale					
– Government securities and treasury bills	10,068,003	–	–	–	10,068,003
– Non-money market instruments*	6,977,492	–	–	48	6,977,540
Financial investments held-to-maturity					
– Government securities and treasury bills	2,879,011	669,022	–	58,285	3,606,318
– Money market instruments	1,350,766	428,854	–	236,978	2,016,598
– Non-money market instruments	172,283	48,973	–	413,599	634,855
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	56,760,190	3,057,726	37,708	11,759	59,867,383
– hire purchase	40,317,950	1,686,720	7,220	9,571	42,021,461
– credit cards	1,594,106	5,732	4,373	–	1,604,211
– other loans/financing	62,247,593	1,756,188	2,027,796	389,970	66,421,547
– Corporate loans/financing	22,333,532	4,804,727	–	730,303	27,868,562
Statutory deposits with Central Banks	5,381,471	–	376,902	28,833	5,787,206
	249,618,505	14,630,301	3,134,869	3,271,187	270,654,862
Commitments and Contingencies					
Contingent liabilities	2,569,308	122,950	382,767	31,051	3,106,076
Commitments	47,188,288	1,319,093	296,281	34,556	48,838,218
	49,757,596	1,442,043	679,048	65,607	51,944,294
Total Credit Exposures	299,376,101	16,072,344	3,813,917	3,336,794	322,599,156

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Bank 31 December 2013	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	11,272,192	744,996	–	732,898	12,750,086
Reverse repurchase agreements	8,634,572	–	–	4,016	8,638,588
Financial assets held-for-trading					
– Government securities and treasury bills	1,379,390	–	–	–	1,379,390
– Money market instruments	12,274,547	–	–	–	12,274,547
– Non-money market instruments	332,489	–	–	–	332,489
Derivative financial assets	242,677	3,795	–	104,257	350,729
Financial investments available-for-sale					
– Government securities and treasury bills	8,669,725	–	–	–	8,669,725
– Money market instruments	198,844	–	–	–	198,844
– Non-money market instruments*	6,145,228	–	–	–	6,145,228
Financial investments held-to-maturity					
– Government securities and treasury bills	3,325,333	–	–	111,725	3,437,058
– Money market instruments	1,617,869	–	–	–	1,617,869
– Non-money market instruments	732,873	–	–	–	732,873
Gross loans and advances					
– Retail loans					
– housing loans	60,458,968	–	–	13,201	60,472,169
– hire purchase	31,896,404	–	–	10,164	31,906,568
– credit cards	1,613,033	–	–	–	1,613,033
– other loans	64,231,190	–	–	513,825	64,745,015
– Corporate loans	23,885,540	444,839	–	488,263	24,818,642
Statutory deposits with Central Banks	5,536,450	–	–	29,496	5,565,946
	242,447,324	1,193,630	–	2,007,845	245,648,799
Commitments and Contingencies					
Contingent liabilities	2,389,799	12,674	103,902	28,218	2,534,593
Commitments	49,774,232	492,015	–	33,840	50,300,087
	52,164,031	504,689	103,902	62,058	52,834,680
Total Credit Exposures	294,611,355	1,698,319	103,902	2,069,903	298,483,479

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (cont'd.)

By Geographical Analysis (cont'd.)

Bank 31 December 2012	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	9,603,831	816,420	–	1,259,592	11,679,843
Reverse repurchase agreements	7,309,057	–	–	96	7,309,153
Financial assets held-for-trading					
– Government securities and treasury bills	2,309,237	–	–	–	2,309,237
– Money market instruments	10,715,460	–	–	–	10,715,460
– Non-money market instruments*	573,468	–	–	–	573,468
Derivative financial assets	235,181	190	–	128,973	364,344
Financial investments available-for-sale					
– Government securities and treasury bills	9,514,672	–	–	–	9,514,672
– Non-money market instruments*	5,964,699	–	–	49	5,964,748
Financial investments held-to-maturity					
– Government securities and treasury bills	2,828,385	–	–	58,285	2,886,670
– Money market instruments	1,472,807	–	–	–	1,472,807
– Non-money market instruments	149,837	–	–	–	149,837
Gross loans and advances					
– Retail loans					
– housing loans	52,524,636	–	–	11,759	52,536,395
– hire purchase	30,128,935	–	–	9,571	30,138,506
– credit cards	1,594,106	–	–	–	1,594,106
– other loans	56,942,971	–	–	364,699	57,307,670
– Corporate loans	21,335,676	532,830	–	692,983	22,561,489
Statutory deposits with Central Banks	4,709,380	–	–	28,833	4,738,213
	217,912,338	1,349,440	–	2,554,840	221,816,618
Commitments and Contingencies					
Contingent liabilities	2,262,356	11,835	124,559	26,464	2,425,214
Commitments	44,732,611	458,700	–	30,284	45,221,595
	46,994,967	470,535	124,559	56,748	47,646,809
Total Credit Exposures	264,907,305	1,819,975	124,559	2,611,588	269,463,427

* Excluding equity securities of the Group and the Bank of RM126,931,000 (31 December 2012 – RM156,456,000) and RM111,070,000 (31 December 2012 – RM141,703,000) respectively which do not have any credit risk.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing

Gross loans, advances and financing are analysed as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Neither past due nor impaired	196,579,102	174,605,825	164,288,935	145,889,967
Past due but not impaired	23,111,922	21,803,253	18,130,755	17,233,539
Impaired	1,484,779	1,374,086	1,135,737	1,014,660
	221,175,803	197,783,164	183,555,427	164,138,166

(a) Neither Past Due Nor Impaired

Gross loans, advances and financing which are neither past due nor impaired are identified into the following internally classified grades:

- “Good Grade” refers to loans, advances and financing which are neither past due nor impaired in the last six months and have never undergone any rescheduling or restructuring exercise previously.
- “Satisfactory Grade” refers to loans, advances and financing which may have been past due or impaired during the last six months or have undergone a rescheduling or restructuring exercise previously.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

(a) Neither Past Due Nor Impaired (Cont'd.)

The credit quality of gross loans, advances and financing which is neither past due nor impaired is analysed as follows:

	31 December 2013			31 December 2012		
	Good RM'000	Satisfactory RM'000	Total RM'000	Good RM'000	Satisfactory RM'000	Total RM'000
Group						
Retail loans/financing						
– housing loans/financing	55,375,262	5,412,776	60,788,038	47,052,239	4,729,975	51,782,214
– hire purchase	29,544,427	4,578,774	34,123,201	27,379,390	4,336,792	31,716,182
– credit cards	992,690	326,443	1,319,133	949,108	402,059	1,351,167
– other loans/financing	65,929,090	4,552,008	70,481,098	58,261,500	3,989,530	62,251,030
Corporate loans/financing	28,628,473	1,239,159	29,867,632	25,021,110	2,484,122	27,505,232
	180,469,942	16,109,160	196,579,102	158,663,347	15,942,478	174,605,825
Bank						
Retail loans						
– housing loans	48,418,623	4,720,317	53,138,940	41,228,087	4,193,844	45,421,931
– hire purchase	21,149,356	3,245,126	24,394,482	19,711,318	3,149,387	22,860,705
– credit cards	983,785	325,599	1,309,384	940,096	401,516	1,341,612
– other loans	57,778,204	3,537,920	61,316,124	50,641,456	3,290,826	53,932,282
Corporate loans	22,958,193	1,171,812	24,130,005	20,045,437	2,288,000	22,333,437
	151,288,161	13,000,774	164,288,935	132,566,394	13,323,573	145,889,967

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

(b) Past Due But Not Impaired

Past due but not impaired loans, advances and financing are loans/financing where the customer has failed to make a principal or interest/profit payment when contractually due, and includes loans/financing which are due one or more days after the contractual due date but less than three (3) months.

An aging analysis of loans, advances and financing which are past due but not impaired is as follows:

Group	1 day to < 1 month RM'000	1 month to < 2 months RM'000	2 months to < 3 months RM'000	Total RM'000
31 December 2013				
Retail loans/financing				
– housing loans/financing	4,506,130	2,421,841	1,123,745	8,051,716
– hire purchase	6,114,322	3,377,606	976,362	10,468,290
– credit cards	186,068	68,768	26,153	280,989
– other loans/financing	2,305,300	992,441	364,507	3,662,248
Corporate loans/financing	642,793	4,636	1,250	648,679
	13,754,613	6,865,292	2,492,017	23,111,922
31 December 2012				
Retail loans/financing				
– housing loans/financing	4,349,386	2,455,635	857,761	7,662,782
– hire purchase	5,966,493	3,324,963	770,753	10,062,209
– credit cards	134,768	68,478	26,377	229,623
– other loans/financing	2,276,387	1,113,493	248,862	3,638,742
Corporate loans/financing	172,138	3,214	34,545	209,897
	12,899,172	6,965,783	1,938,298	21,803,253

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

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

An aging analysis of loans, advances and financing which are past due but not impaired is as follows (Cont'd.):

Bank	1 day to < 1 month RM'000	1 month to < 2 months RM'000	2 months to < 3 months RM'000	Total RM'000
31 December 2013				
Retail loans				
– housing loans	3,808,819	2,079,534	974,995	6,863,348
– hire purchase	4,312,830	2,319,158	648,720	7,280,708
– credit cards	185,909	68,746	25,910	280,565
– other loans	1,963,046	858,786	284,512	3,106,344
Corporate loans	598,478	1,312	–	599,790
	10,869,082	5,327,536	1,934,137	18,130,755
31 December 2012				
Retail loans				
– housing loans	3,791,196	2,187,485	767,274	6,745,955
– hire purchase	4,282,226	2,308,408	518,242	7,108,876
– credit cards	134,568	68,451	26,166	229,185
– other loans	1,898,138	935,215	198,097	3,031,450
Corporate loans	115,748	2,325	–	118,073
	10,221,876	5,501,884	1,509,779	17,233,539

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

(c) Impaired Loans, Advances and Financing

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 three (3) months or more;
- (ii) where a loan/financing is in arrears for less than three (3) months, the loan/financing exhibits indications of significant credit weaknesses; or
- (iii) where an impaired loan/financing has been rescheduled or restructured, the loan/financing will continue to 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.

In addition, loans/financing that are considered individually significant, the Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan/financing is impaired. The criteria that the Group uses to determine that there is objective evidence of impairment include:

- (i) any significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest/profit or principal payments;
- (iii) high probability of bankruptcy or other financial reorganisation of the borrower;
- (iv) the viability of the customer's business operations and its capability to trade successfully out of financial difficulties and to generate sufficient cash flow to service its debt obligations; and
- (v) any adverse news or developments affecting the local economic conditions or business environment of the borrower which will adversely affect the repayment capacity of the borrower.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

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

The breakdown of the gross amount of loans, advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Group and the Bank as security are as follows:

Group	Total Gross Impaired Loans, Advances and Financing RM'000	of which Individually Assessed as Impaired		
		Gross Individually Assessed Impaired Loans/ Financing RM'000	Individual Assessment Allowance RM'000	Fair Value of Collateral RM'000
31 December 2013				
Retail loans/financing				
– housing loans/financing	531,334	6,097	167	6,097
– hire purchase	332,180	1,758	1,482	1,489
– credit cards	23,161	77	–	–
– other loans/financing	490,654	255,367	110,700	179,838
Corporate loans/financing	107,450	107,450	55,576	67,470
	1,484,779	370,749	167,925	254,894
31 December 2012				
Retail loans/financing				
– housing loans/financing	422,387	4,127	64	4,014
– hire purchase	243,070	1,933	1,219	1,595
– credit cards	23,421	–	–	–
– other loans/financing	531,775	271,712	125,608	187,070
Corporate loans/financing	153,433	153,433	75,104	90,852
	1,374,086	431,205	201,995	283,531

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

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

The breakdown of the gross amount of loans, advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Group and the Bank as security are as follows (Cont'd.):

Bank	Total Gross Impaired Loans and Advances RM'000	of which Individually Assessed as Impaired		Fair Value of Collateral RM'000
		Gross Individually Assessed Impaired Loans RM'000	Individual Assessment Allowance RM'000	
31 December 2013				
Retail loans				
– housing loans	469,881	2,753	–	2,753
– hire purchase	231,378	–	–	–
– credit cards	23,084	–	–	–
– other loans	322,547	134,617	37,948	115,429
Corporate loans	88,847	88,847	41,817	63,502
	1,135,737	226,217	79,765	181,684
31 December 2012				
Retail loans				
– housing loans	368,509	3,240	–	3,240
– hire purchase	168,925	–	–	–
– credit cards	23,309	–	–	–
– other loans	343,938	123,872	48,952	95,515
Corporate loans	109,979	109,979	61,122	62,862
	1,014,660	237,091	110,074	161,617

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral

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

- for residential mortgages – charges over residential properties
- for commercial property loans/financing – charges over the properties being financed
- for motor vehicle financing – ownership claims over the vehicles financed
- for share margin financing – pledges over securities from listed exchange
- for other loans/financing – charges over business assets such as premises, inventories, trade receivables or deposits

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for gross loans, advances and financing for the Group and the Bank as at 31 December 2013 are at 89.9% (31 December 2012 – 90.0%) and 91.6% (31 December 2012 – 92.0%) respectively. The financial effect of collateral held for other remaining on-balance sheet financial assets is not significant.

Repossessed Collateral

Assets obtained by taking possession of collateral held as security against loans, advances and financing, and held as at the end of the financial year are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Residential properties	30,776	52,306	29,552	50,676
Non-residential properties	26,504	30,366	26,430	29,845
	57,280	82,672	55,982	80,521

Repossessed collateral are sold as soon as practicable. Repossessed collateral are recognised in other assets on the statements of financial position. The Group and the Bank do not occupy repossessed properties for its business use.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies:

Financial Assets Held-for-trading

	31 December 2013						31 December 2012					
	Money Market Instruments			Non-money Market Instruments – Debt Securities			Money Market Instruments			Non-money Market Instruments – Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Group												
AAA to AA-	-	9,311,372	9,311,372	-	-	-	-	7,564,363	7,564,363	-	-	-
A+ to A-	-	4,311,256	4,311,256	-	-	-	-	4,221,811	4,221,811	-	-	-
P-1 to P-2	-	-	-	-	405,394	405,394	-	-	-	-	802,956	802,956
Unrated	-	200,301	200,301	-	-	-	-	50,047	50,047	-	-	-
	-	13,822,929	13,822,929	-	405,394	405,394	-	11,836,221	11,836,221	-	802,956	802,956
Bank												
AAA to AA-	-	7,862,343	7,862,343	-	-	-	-	6,817,649	6,817,649	-	-	-
A+ to A-	-	4,211,903	4,211,903	-	-	-	-	3,847,764	3,847,764	-	-	-
P-1 to P-2	-	-	-	-	332,489	332,489	-	-	-	-	573,468	573,468
Unrated	-	200,301	200,301	-	-	-	-	50,047	50,047	-	-	-
	-	12,274,547	12,274,547	-	332,489	332,489	-	10,715,460	10,715,460	-	573,468	573,468

NOTES TO THE
FINANCIAL STATEMENTS**44. FINANCIAL RISK MANAGEMENT (CONT'D.)****Credit Risk (Cont'd.)**Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies (Cont'd.):

Financial Investments Available-for-sale

	31 December 2013						31 December 2012					
	Money Market Instruments			Non-money Market Instruments			Money Market Instruments			Non-money Market Instruments		
	International Ratings	Domestic Ratings	Total	International Ratings	Domestic Ratings	Total	International Ratings	Domestic Ratings	Total	International Ratings	Domestic Ratings	Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Group												
AAA to AA-	-	97,458	97,458	-	7,961	7,961	-	-	-	-	7,986	7,986
A+ to A-	-	101,386	101,386	265,428	-	265,428	-	-	-	260,944	-	260,944
BBB+ to BBB-	-	-	-	1,446,073	-	1,446,073	-	-	-	1,388,603	-	1,388,603
Lower than BBB-	-	-	-	50,772	-	50,772	-	-	-	46,834	-	46,834
Unrated	-	-	-	-	308,645	308,645	-	-	-	-	310,298	310,298
	-	198,844	198,844	1,762,273	316,606	2,078,879	-	-	-	1,696,381	318,284	2,014,665
Bank												
AAA to AA-	-	97,458	97,458	-	7,961	7,961	-	-	-	-	7,986	7,986
A+ to A-	-	101,386	101,386	156,706	-	156,706	-	-	-	150,070	-	150,070
BBB+ to BBB-	-	-	-	1,083,020	-	1,083,020	-	-	-	1,039,725	-	1,039,725
Lower than BBB-	-	-	-	50,772	-	50,772	-	-	-	46,834	-	46,834
Unrated	-	-	-	-	308,636	308,636	-	-	-	-	310,288	310,288
	-	198,844	198,844	1,290,498	316,597	1,607,095	-	-	-	1,236,629	318,274	1,554,903

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies (Cont'd.):

Financial Investments Held-to-maturity

	31 December 2013						31 December 2012					
	Money Market Instruments			Non-money Market Instruments – Debt Securities			Money Market Instruments			Non-money Market Instruments – Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Group												
AAA to AA-	165,311	1,370,105	1,535,416	-	334,407	334,407	92,312	1,129,660	1,221,972	982	156,025	157,007
A+ to A-	441,047	-	441,047	278,453	-	278,453	287,511	180,611	468,122	160,178	-	160,178
P-1 to P-2	194,174	-	194,174	98,494	-	98,494	286,009	-	286,009	301,413	-	301,413
Unrated	-	-	-	-	511,964	511,964	-	40,495	40,495	-	16,257	16,257
	800,532	1,370,105	2,170,637	376,947	846,371	1,223,318	665,832	1,350,766	2,016,598	462,573	172,282	634,855
Bank												
AAA to AA-	-	1,617,869	1,617,869	-	246,814	246,814	-	1,472,807	1,472,807	-	138,637	138,637
Unrated	-	-	-	-	486,059	486,059	-	-	-	-	11,200	11,200
	-	1,617,869	1,617,869	-	732,873	732,873	-	1,472,807	1,472,807	-	149,837	149,837

The ratings shown for money market instruments (e.g. negotiable instruments of deposit and bankers' acceptances) are based on the ratings assigned to the respective financial institution issuing the financial instruments. The ratings shown for debt securities are based on the ratings assigned to the specific debt issuance.

As at the reporting date, none of the financial investments above are past due.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk

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

Risk Governance

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

Types of Market Risk

(i) Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are mainly originated by the treasury operations.

Risk Management Approach

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

The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board of Directors. 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 of Directors.

During the financial year, the Group's and the Bank's traded market risk exposures on fixed income instruments as measured by PV01, averaged at RM276,000 (2012 – RM354,000) and RM226,000 (2012 – RM310,000) respectively. The composition of the Group's and the Bank's trading portfolio is set out in Note 5 to the financial statements.

(ii) Non-Traded Market Risk

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

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

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

Risk Management Approach

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

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

(i) The following tables indicate the effective interest rate/rate of return at the reporting date and the Group's and the Bank's sensitivity to the interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits.

Group	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-trading book		Effective interest rate/rate of return %	
									Non- interest/ profit sensitive RM'000	Trading book RM'000		Total RM'000
ASSETS												
Cash and balances with banks	17,872,840	1,473,957	419,076	-	-	-	-	-	2,314,544	-	22,080,417	2.80
Reverse repurchase agreements	2,389,737	6,248,851	-	-	-	-	-	-	-	903,381	9,541,969	3.04
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	15,811,963	15,811,963	3.37
Financial investments available-for-sale	1,535,283	2,576,570	6,068,696	1,091,482	694,956	-	-	417,357	5,234,168	-	17,818,512	2.80
Financial investments held-to-maturity	797,494	1,294,503	2,300,630	397,592	809,256	426,366	314,150	1,452,474	1,086	-	7,793,551	2.97
Loans, advances and financing - non-impaired	159,916,633	8,259,722	10,427,567	10,289,434	8,203,788	6,834,488	4,689,694	11,069,698	-	-	219,891,024	5.30
- impaired*	-	-	-	-	-	-	-	-	(275,231)	-	(275,231)	-
Other non-interest/ profit sensitive balances	-	-	-	-	-	-	-	-	13,279,608	183,583	13,463,191	-
TOTAL ASSETS	182,511,987	19,853,603	19,215,969	11,778,508	9,706,000	7,260,854	5,003,844	12,939,529	20,554,175	16,898,927	305,725,396	

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44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

Group	31 December 2013 (Cont'd.)	Non-trading book										Effective interest rate/rate of return %		
		Up to 1 month	> 1 - 3 months	> 3 - 12 months	> 1 - 2 years	> 2 - 3 years	> 3 - 4 years	> 4 - 5 years	Over 5 years	Non-interest/profit sensitive	Trading book		Total	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES AND EQUITY														
Deposits from customers		137,682,546	35,746,181	44,028,567	298,213	7,876	1,619	2,259	-	33,105,928	-	250,873,189	2.76	
Deposits from banks		11,107,177	4,159,519	307,490	67,556	54,641	72,611	49,192	-	357,650	-	16,175,836	1.72	
Bills and acceptances payable		471,737	422,749	21,738	-	-	-	-	-	657,219	-	1,573,443	3.24	
Recourse obligations on loans and financing sold to Cagamas		-	-	-	-	-	500,011	-	-	-	-	500,011	3.60	
Debt securities issued and other borrowed funds		463,391	-	473,000	-	1,856,020	3,000,000	2,350,000	2,088,000	139,414	-	10,369,825	4.29	
Other non-interest/profit sensitive balances		-	-	-	-	-	-	-	-	4,962,504	73,392	5,035,896	-	
Total Liabilities		149,724,851	40,328,449	44,830,795	365,769	1,918,537	3,574,241	2,401,451	2,088,000	39,222,715	73,392	284,528,200		
Equity attributable to equity holders of the Bank		-	-	-	-	-	-	-	-	20,423,594	-	20,423,594	-	
Non-controlling interests		-	-	-	-	-	-	-	-	773,602	-	773,602	-	
TOTAL LIABILITIES AND EQUITY		149,724,851	40,328,449	44,830,795	365,769	1,918,537	3,574,241	2,401,451	2,088,000	60,419,911	73,392	305,725,396		
On-balance sheet interest/profit sensitivity gap		32,787,136	(20,474,846)	(25,614,826)	11,412,739	7,789,463	3,686,613	2,602,393	10,851,529	(39,865,736)	16,825,535	-		
Off-balance sheet interest/profit sensitivity gap (interest/profit rate swaps)		1,247,212	(3,898,700)	(653,306)	(770,823)	1,356,020	1,000,000	250,000	1,469,597	-	-	-		
TOTAL INTEREST/PROFIT SENSITIVITY GAP		34,034,348	(24,373,546)	(26,268,132)	10,641,916	9,145,483	4,686,613	2,852,393	12,321,126	(39,865,736)	16,825,535	-		

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

Group	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
ASSETS												
Cash and balances with banks	14,623,476	1,637,145	158,722	-	-	-	-	-	2,216,608	-	18,635,951	2.62
Reverse repurchase agreements	2,309,299	1,500,229	3,499,625	-	-	-	-	-	-	849,353	8,158,506	3.04
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	16,617,135	16,617,135	3.17
Financial investments available-for-sale	1,940,785	3,590,877	3,089,219	2,112,313	821,437	7,985	-	421,162	5,208,342	-	17,201,120	2.86
Financial investments held-to-maturity	852,441	1,533,791	1,609,454	1,075,587	314,055	326,622	274,675	270,060	1,086	-	6,257,771	2.93
Loans, advances and financing												
- non-impaired	137,666,627	8,882,816	10,189,734	9,554,502	7,963,005	6,124,798	4,888,438	11,139,158	-	-	196,409,078	5.46
- impaired*	-	-	-	-	-	-	-	-	(357,475)	-	(357,475)	-
Other non-interest/ profit sensitive balances	-	-	-	-	-	-	-	-	11,874,182	27,690	11,901,872	-
TOTAL ASSETS	157,392,628	17,144,858	18,555,754	12,742,402	9,099,497	6,459,405	5,163,113	11,830,380	18,942,743	17,494,178	274,823,958	

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

Group	Non-trading book										Effective interest rate/rate of return %	
	Up to 1 month	> 1 - 3 months	> 3 - 12 months	> 1 - 2 years	> 2 - 3 years	> 3 - 4 years	> 4 - 5 years	Over 5 years	Non-interest/profit sensitive	Trading book		Total
(Cont'd.)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES AND EQUITY												
Deposits from customers	122,276,502	40,895,877	33,387,912	264,942	18,932	5,582	1,714	-	28,190,864	-	225,042,325	2.66
Deposits from banks	7,223,118	3,320,518	1,332,603	116,302	78,820	62,199	72,757	-	642,996	-	12,849,313	1.88
Bills and acceptances payable	809,825	1,380,768	30,824	-	-	-	-	-	827,404	-	3,048,821	3.23
Recourse obligations on loans and financing sold to Cagamas	468	581	444	-	-	-	500,003	-	-	-	501,496	3.60
Debt securities issued and other borrowed funds	864,911	-	1,400,000	473,000	-	1,811,600	3,000,000	2,088,000	309,342	-	9,946,853	3.97
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	4,653,056	63,790	4,716,846	-
Total Liabilities	131,174,824	45,597,744	36,151,783	854,244	97,752	1,879,381	3,574,474	2,088,000	34,623,662	63,790	256,105,654	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	18,018,440	-	18,018,440	-
Non-controlling interests	-	-	-	-	-	-	-	-	699,864	-	699,864	-
TOTAL LIABILITIES AND EQUITY	131,174,824	45,597,744	36,151,783	854,244	97,752	1,879,381	3,574,474	2,088,000	53,341,966	63,790	274,823,958	
On-balance sheet interest/profit sensitivity gap	26,217,804	(28,452,886)	(17,596,029)	11,888,158	9,000,745	4,580,024	1,588,639	9,742,380	(34,399,223)	17,430,388	-	
Off-balance sheet interest/profit sensitivity gap (interest/profit rate swaps)	1,149,670	(4,911,690)	1,552,000	(909,210)	(718,630)	1,311,600	1,000,000	1,526,260	-	-	-	
TOTAL INTEREST/PROFIT SENSITIVITY GAP	27,367,474	(33,364,576)	(16,044,029)	10,978,948	8,282,115	5,891,624	2,588,639	11,268,640	(34,399,223)	17,430,388	-	

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

Bank 31 December 2013	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive		Effective interest rate %	
									Trading book RM'000	Total RM'000		
ASSETS												
Cash and balances with banks	9,850,587	1,210,474	153,196	-	-	-	-	-	1,535,829	-	12,750,086	2.78
Reverse repurchase agreements	2,389,737	6,248,851	-	-	-	-	-	-	-	-	8,638,588	3.04
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	13,986,426	13,986,426	3.38
Financial investments available-for-sale	1,535,283	2,067,719	5,019,714	849,355	694,956	-	-	308,636	4,649,204	-	15,124,867	2.82
Financial investments held-to-maturity	49,899	266,377	985,257	297,481	649,967	326,332	292,507	2,918,894	1,086	-	5,787,800	3.73
Loans and advances	141,859,058	6,420,122	7,193,988	7,286,262	5,688,770	4,834,693	3,088,073	6,048,724	-	-	182,419,690	5.20
- non-impaired*	-	-	-	-	-	-	-	-	(15,117)	-	(15,117)	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	13,963,841	183,258	14,147,099	-
TOTAL ASSETS	155,684,564	16,213,543	13,352,155	8,433,098	7,033,693	5,161,025	3,380,580	9,276,254	20,134,843	14,169,684	252,839,439	

NOTES TO THE
FINANCIAL STATEMENTS**44. FINANCIAL RISK MANAGEMENT (CONT'D.)****Market Risk (Cont'd.)**

Types of Market Risk (Cont'd.)

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

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

Bank 31 December 2013 (Cont'd.)	Non-trading book										Effective interest rate %	
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000		Total RM'000
LIABILITIES AND EQUITY												
Deposits from customers	109,295,687	27,111,925	36,265,556	162,167	5,037	1,592	1,819	-	29,027,789	-	201,871,592	2.91
Deposits from banks	12,364,230	3,709,579	119,880	67,556	54,641	72,611	46,802	-	487,749	-	16,923,048	1.76
Bills and acceptances payable	471,737	480,646	21,738	-	-	-	-	-	653,394	-	1,627,515	3.24
Debt securities issued and other borrowed funds	-	-	473,000	-	1,856,020	3,000,000	2,350,000	2,088,000	139,414	-	9,906,434	4.43
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	3,615,037	73,758	3,688,795	-
Total Liabilities	122,131,654	31,302,150	36,880,174	229,743	1,915,698	3,074,203	2,398,621	2,088,000	33,923,383	73,758	234,017,384	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	18,822,055	-	18,822,055	-
TOTAL LIABILITIES AND EQUITY	122,131,654	31,302,150	36,880,174	229,743	1,915,698	3,074,203	2,398,621	2,088,000	52,745,438	73,758	252,839,439	
On-balance sheet interest sensitivity gap	33,552,910	(15,088,607)	(23,528,019)	8,203,355	5,117,995	2,086,822	981,959	7,188,254	(32,610,595)	14,095,926	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	332,409	(5,946,391)	(518,822)	(541,216)	1,356,020	1,200,000	750,000	3,368,000	-	-	-	
TOTAL INTEREST SENSITIVITY GAP	33,885,319	(21,034,998)	(24,046,841)	7,662,139	6,474,015	3,286,822	1,731,959	10,556,254	(32,610,595)	14,095,926	-	

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

Bank 31 December 2012 (Restated)	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive		Trading book RM'000	Total RM'000	Effective interest rate %
									RM'000	RM'000			
ASSETS													
Cash and balances with banks	8,667,310	1,441,133	-	-	-	-	-	-	1,571,400	-	-	11,679,843	2.67
Reverse repurchase agreements	2,309,299	1,500,229	3,499,625	-	-	-	-	-	-	-	-	7,309,153	3.04
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	-	13,599,044	13,599,044	3.18
Financial investments available-for-sale	1,940,785	3,590,877	3,098,219	1,442,380	589,160	7,985	-	310,299	4,640,549	-	-	15,620,244	2.89
Financial investments held-to-maturity	9,050	401,792	398,258	1,059,656	297,424	326,622	274,675	1,740,751	1,086	-	-	4,509,314	3.66
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-
- non-impaired	123,112,909	7,006,764	7,114,457	6,741,558	5,611,151	4,227,326	3,447,028	5,862,313	-	-	-	163,123,506	5.33
- impaired*	-	-	-	-	-	-	-	-	(154,898)	-	-	(154,898)	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	12,862,198	27,564	-	12,889,762	-
TOTAL ASSETS	136,039,353	13,940,795	14,110,559	9,243,594	6,497,785	4,561,933	3,721,703	7,913,353	18,920,335	13,626,608	228,575,968		

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

Bank 31 December 2012 (Restated) (Cont'd.)	Non-trading book										Effective interest rate %	
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000		Total RM'000
LIABILITIES AND EQUITY												
Deposits from customers	97,206,812	32,483,509	27,210,946	100,888	16,435	3,716	1,889	-	24,664,449	-	181,886,444	2.81
Deposits from banks	8,954,433	3,423,897	1,268,939	116,302	78,820	62,199	72,757	-	431,431	-	14,408,778	1.81
Bills and acceptances payable	867,069	1,380,768	58,076	-	-	-	-	-	826,779	-	3,132,692	3.23
Recourse obligations on loans sold to Cagamas	468	581	444	-	-	-	-	-	-	-	1,493	4.45
Debt securities issued and other borrowed funds	-	-	1,400,000	473,000	-	1,811,600	3,000,000	2,088,000	309,342	-	9,081,942	4.21
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	3,302,629	65,097	3,367,726	-
Total Liabilities	107,028,782	37,288,755	29,938,405	690,190	95,255	1,877,515	3,074,446	2,088,000	29,534,630	65,097	211,881,075	-
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	16,894,893	-	16,894,893	-
TOTAL LIABILITIES AND EQUITY	107,028,782	37,288,755	29,938,405	690,190	95,255	1,877,515	3,074,446	2,088,000	46,429,523	65,097	228,575,968	-
On-balance sheet interest sensitivity gap	29,010,571	(23,347,960)	(15,827,846)	8,563,404	6,402,480	2,684,418	647,257	5,825,353	(27,509,188)	13,561,511	-	-
Off-balance sheet interest sensitivity gap (interest rate swaps)	242,640	(6,417,490)	1,552,000	(802,180)	(504,570)	1,311,600	1,200,000	3,418,000	-	-	-	-
TOTAL INTEREST SENSITIVITY GAP	29,253,211	(29,765,450)	(14,275,846)	7,751,224	5,897,910	3,996,018	1,847,257	9,243,353	(27,509,188)	13,561,511	-	-

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans, advances and financing.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

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

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

	2013		2012	
	-100 bps	+100 bps	-100 bps	+100 bps
	<----- (Decrease)/Increase ----->			
	RM'000	RM'000	RM'000	RM'000
Group				
Impact on NII/NPI	(248,022)	140,809	(163,807)	65,846
Impact on EVE	932,989	(548,689)	914,718	(561,732)
Bank				
Impact on NII/NPI	(222,636)	161,948	(152,923)	95,750
Impact on EVE	760,032	(447,000)	718,105	(460,639)

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

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

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

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

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

(b) Displaced Commercial Risk ("DCR")

DCR refers to the risk of Public Islamic Bank Berhad ("PIBB") 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. PIBB does not have Profit Sharing Investment Accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

PIBB uses the 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 PIBB. The amount of PER set aside is shared by both the IAH and PIBB. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, PIBB may employ the following techniques to ensure that the IAH receive market rate of return:

- (i) to forgo part or all of PIBB'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 PIBB's current year profits or retained earnings to the IAH on the basis of hibah.

(c) Foreign Exchange Risk

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

Risk Management Approach

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

- (i) The following tables summarise the assets, liabilities and NOP by currencies as at the reporting date, which are mainly in Ringgit Malaysia, Hong Kong Dollars and United States Dollars. Other currencies mainly include exposure to Euro, Australian Dollars, Chinese Renminbi, New Zealand Dollars, Sri Lanka Rupees, Great Britain Pounds and Japanese Yen.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

(c) Foreign Exchange Risk (Cont'd.)

Group 31 December 2013	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	16,685,553	1,389,675	2,179,193	1,825,996	22,080,417
Reverse repurchase agreements	9,537,953	–	–	4,016	9,541,969
Financial assets held-for-trading	15,811,963	–	–	–	15,811,963
Derivative financial assets	282,499	325	82,530	–	365,354
Financial investments available-for-sale	15,816,691	2,874	1,786,999	11,948	17,618,512
Financial investments held-to-maturity	5,662,131	1,450,399	163,452	517,569	7,793,551
Loans, advances and financing	202,928,035	11,142,554	4,530,852	814,352	219,415,793
Other assets	1,513,878	925	30,555	994,341	2,539,699
Statutory deposits with Central Banks	6,476,300	–	446,725	1,807	6,924,832
Deferred tax assets	57,175	12,946	–	–	70,121
Investment in associated companies	37,155	–	121,730	–	158,885
Investment properties	2,000	95,391	–	–	97,391
Property and equipment	903,447	312,502	85,197	1,851	1,302,997
Intangible assets	769,251	1,234,661	–	–	2,003,912
TOTAL ASSETS	276,484,031	15,642,252	9,427,233	4,171,880	305,725,396
LIABILITIES					
Deposits from customers	225,861,580	9,857,046	11,167,845	3,986,718	250,873,189
Deposits from banks	8,117,595	1,576,585	5,391,702	1,089,954	16,175,836
Bills and acceptances payable	1,572,742	–	13	688	1,573,443
Recourse obligations on loans and financing sold to Cagamas	500,011	–	–	–	500,011
Derivative financial liabilities	265,310	258	69,022	–	334,590
Debt securities issued and other borrowed funds	9,168,317	463,391	738,117	–	10,369,825
Other liabilities	2,811,399	132,494	61,896	1,014,627	4,020,416
Provision for tax expense and zakat	548,454	6,380	23,843	6,552	585,229
Deferred tax liabilities	85,529	10,132	–	–	95,661
TOTAL LIABILITIES	248,930,937	12,046,286	17,452,438	6,098,539	284,528,200
Non-controlling interests	–	758,522	15,080	–	773,602
On-Balance Sheet Open Position	27,553,094	2,837,444	(8,040,285)	(1,926,659)	20,423,594
Off-Balance Sheet Open Position	(7,661,879)	(1,367,597)	6,608,384	2,421,092	–
NET OPEN POSITION	19,891,215	1,469,847	(1,431,901)	494,433	20,423,594

NOTES TO THE
FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

- (ii) Non-Traded Market Risk (Cont'd.)
- (c) Foreign Exchange Risk (Cont'd.)

Group 31 December 2012 (Restated)	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	13,376,770	1,513,184	1,811,102	1,934,895	18,635,951
Reverse repurchase agreements	8,158,410	–	–	96	8,158,506
Financial assets held-for-trading	16,617,135	–	–	–	16,617,135
Derivative financial assets	261,565	125	108,775	–	370,465
Financial investments available-for-sale	15,467,969	2,684	1,719,434	11,033	17,201,120
Financial investments held-to-maturity	4,402,056	1,025,062	370,602	460,051	6,257,771
Loans, advances and financing	180,981,769	10,339,737	4,165,223	564,874	196,051,603
Other assets	1,349,057	52,469	11,530	792,942	2,205,998
Statutory deposits with Central Banks	5,381,471	–	404,050	1,685	5,787,206
Deferred tax assets	48,784	14,443	–	–	63,227
Investment in associated companies	37,314	–	113,896	–	151,210
Investment properties	1,950	85,936	–	–	87,886
Property and equipment	925,120	295,931	86,304	2,178	1,309,533
Intangible assets	769,251	1,157,096	–	–	1,926,347
TOTAL ASSETS	247,778,621	14,486,667	8,790,916	3,767,754	274,823,958
LIABILITIES					
Deposits from customers	201,651,865	9,110,993	10,559,889	3,719,578	225,042,325
Deposits from banks	7,576,775	837,234	4,435,304	–	12,849,313
Bills and acceptances payable	3,048,199	–	425	197	3,048,821
Recourse obligations on loans and financing sold to Cagamas	501,496	–	–	–	501,496
Derivative financial liabilities	100,337	53	133,174	–	233,564
Debt securities issued and other borrowed funds	8,362,123	864,911	719,819	–	9,946,853
Other liabilities	2,648,280	99,830	111,660	810,479	3,670,249
Provision for tax expense and zakat	704,358	7,330	25,460	3,135	740,283
Deferred tax liabilities	63,063	9,687	–	–	72,750
TOTAL LIABILITIES	224,656,496	10,930,038	15,985,731	4,533,389	256,105,654
Non-controlling interests	–	686,608	13,256	–	699,864
On-Balance Sheet Open Position	23,122,125	2,870,021	(7,208,071)	(765,635)	18,018,440
Off-Balance Sheet Open Position	(5,291,370)	(1,753,265)	5,835,877	1,208,758	–
NET OPEN POSITION	17,830,755	1,116,756	(1,372,194)	443,123	18,018,440

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

(c) Foreign Exchange Risk (Cont'd.)

Bank 31 December 2013	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	10,097,973	754,500	1,046,082	851,531	12,750,086
Reverse repurchase agreements	8,634,572	–	–	4,016	8,638,588
Financial assets held-for-trading	13,986,426	–	–	–	13,986,426
Derivative financial assets	268,199	–	82,530	–	350,729
Financial investments available-for-sale	13,809,676	–	1,315,140	51	15,124,867
Financial investments held-to-maturity	5,676,074	–	52,443	59,283	5,787,800
Loans and advances	180,035,266	444,083	1,352,052	573,172	182,404,573
Other assets	1,409,018	–	20,747	979,545	2,409,310
Statutory deposits with Central Banks	5,536,450	–	29,496	–	5,565,946
Investment in subsidiary companies	2,289,095	1,672,194	474,761	–	4,436,050
Investment in associated companies	20,030	–	101,295	–	121,325
Property and equipment	561,040	–	5,455	1,851	568,346
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	243,019,212	2,870,777	4,480,001	2,469,449	252,839,439
LIABILITIES					
Deposits from customers	195,129,046	6,270	4,308,017	2,428,259	201,871,592
Deposits from banks	9,263,727	380,015	6,147,419	1,131,887	16,923,048
Bills and acceptances payable	1,626,814	–	13	688	1,627,515
Derivative financial liabilities	381,787	–	47,708	–	429,495
Debt securities issued and other borrowed funds	9,168,317	–	738,117	–	9,906,434
Other liabilities	1,760,859	31,499	65,315	987,918	2,845,591
Provision for tax expense	359,771	–	1,808	1,392	362,971
Deferred tax liabilities	50,738	–	–	–	50,738
TOTAL LIABILITIES	217,741,059	417,784	11,308,397	4,550,144	234,017,384
On-Balance Sheet Open Position	25,278,153	2,452,993	(6,828,396)	(2,080,695)	18,822,055
Off-Balance Sheet Open Position	(7,661,879)	(1,363,524)	6,616,605	2,408,798	–
NET OPEN POSITION	17,616,274	1,089,469	(211,791)	328,103	18,822,055

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

- (ii) Non-Traded Market Risk (Cont'd.)
- (c) Foreign Exchange Risk (Cont'd.)

Bank 31 December 2012 (Restated)	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	8,551,469	847,398	994,666	1,286,310	11,679,843
Reverse repurchase agreements	7,309,057	–	–	96	7,309,153
Financial assets held-for-trading	13,599,044	–	–	–	13,599,044
Derivative financial assets	255,569	–	108,775	–	364,344
Financial investments available-for-sale	14,360,593	–	1,259,602	49	15,620,244
Financial investments held-to-maturity	4,451,028	–	38,442	19,844	4,509,314
Loans and advances	160,856,914	531,901	1,303,549	276,244	162,968,608
Other assets	1,306,352	–	5,620	787,000	2,098,972
Statutory deposits with Central Banks	4,709,380	–	28,833	–	4,738,213
Investment in subsidiary companies	2,116,626	1,672,194	474,761	–	4,263,581
Investment in associated companies	20,030	–	101,295	–	121,325
Property and equipment	600,382	–	5,374	2,178	607,934
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	218,831,837	3,051,493	4,320,917	2,371,721	228,575,968
LIABILITIES					
Deposits from customers	175,416,378	4,448	3,760,756	2,506,862	181,688,444
Deposits from banks	8,536,710	186,125	5,685,943	–	14,408,778
Bills and acceptances payable	3,132,070	–	425	197	3,132,692
Recourse obligations on loans sold to Cagamas	1,493	–	–	–	1,493
Derivative financial liabilities	116,181	–	94,579	–	210,760
Debt securities issued and other borrowed funds	8,362,123	–	719,819	–	9,081,942
Other liabilities	1,531,952	144,991	101,507	800,438	2,578,888
Provision for tax expense	515,448	–	5,491	1,149	522,088
Deferred tax liabilities	55,990	–	–	–	55,990
TOTAL LIABILITIES	197,668,345	335,564	10,368,520	3,308,646	211,681,075
On-Balance Sheet Open Position	21,163,492	2,715,929	(6,047,603)	(936,925)	16,894,893
Off-Balance Sheet Open Position	(5,291,370)	(1,749,462)	5,843,554	1,197,278	–
NET OPEN POSITION	15,872,122	966,467	(204,049)	260,353	16,894,893

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

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

(c) Foreign Exchange Risk (Cont'd.)

- (ii) Structural foreign exchange risk represents the Group's currency exposure in its net investments in overseas operations and capital funds/retained earnings of overseas branches. Where possible, the Group manages such risk through funding investments in the same functional currencies. In addition, as part of its risk management strategy, the Group has designated certain funding in United States Dollars to hedge part of its Hong Kong Dollars structural currency exposure due to the pegging of Hong Kong Dollars to United States Dollars. The structural currency exposures of the Group as at the reporting date are as follows:

Group	Hedged RM'000	Unhedged RM'000	Total RM'000
2013			
United States Dollars	1,751,573	(565,167)	1,186,406
Hong Kong Dollars	1,905,738	583,270	2,489,008
Other currencies	–	514,909	514,909
	3,657,311	533,012	4,190,323
2012			
United States Dollars	1,632,972	(679,219)	953,753
Hong Kong Dollars	1,776,698	440,852	2,217,550
Other currencies	–	434,228	434,228
	3,409,670	195,861	3,605,531

(iii) Sensitivity Analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group on its non-trading unhedged positions as at each reporting date is summarised below:

Group	Change in Currency Rates %	Revaluation Sensitivity	
		2013 RM'000	2012 RM'000
United States Dollars	+/- 5	-/+ 28,258	-/+ 33,961
Hong Kong Dollars	+/- 5	+/- 29,163	+/- 22,043
Other currencies	+/- 5	+/- 25,745	+/- 21,711

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

- (ii) Non-Traded Market Risk (Cont'd.)
 - (d) Equity Risk

Equity risk refers to the adverse impact arising from movements in equity prices on equity positions held by the Group and the Bank for yield purposes.

Risk Management Approach

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

Considering that other risk variables remain constant, the table below summarises the impact on the carrying amount of equity positions as at each reporting date should there be a change in equity market prices:

	Change in Equity Market Prices %	Sensitivity of Equity RM'000
Group		
2013	+/- 20	+/- 3,336
2012	+/- 20	+/- 9,615
Bank		
2013	+/- 20	+/- 957
2012	+/- 20	+/- 7,418

Liquidity and Funding Risk

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

Risk Governance

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

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach

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

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are borrowed by/financed to the customers. As at 31 December 2013, the Group holds a sizeable balance of government securities amounting to RM16,089.9 million (31 December 2012 – RM17,651.4 million) or 39% (31 December 2012 – 44%) 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 current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Group's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity. The Group accesses the wholesale markets through the issuance of debt instruments, certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

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

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

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

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity

The following tables show the maturity analysis of the carrying amounts of the Group's and the Bank's assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Group and the Bank have significant amounts of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 7 days" time band) but which are historically a stable source of long-term funding for the Group and the Bank.

The Group and the Bank are subject to liquidity requirements to support calls under outstanding contingent liabilities and commitments as set out in Note 49 to the financial statements. The total outstanding contractual amounts of these items do not represent future cash requirements since the Group and the Bank expect 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.

Group 31 December 2013	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
ASSETS							
Cash and balances with banks	13,416,152	6,771,232	1,473,957	418,796	280	–	22,080,417
Reverse repurchase agreements	100,737	2,641,080	6,800,152	–	–	–	9,541,969
Financial investments	730,960	5,070,697	11,990,602	4,747,872	7,794,116	10,889,779	41,224,026
Derivative financial assets	23,984	89,639	37,761	25,620	8,113	180,237	365,354
Loans, advances and financing	11,140,353	4,751,816	9,271,077	11,606,651	16,895,642	165,750,254	219,415,793
Other asset balances	42,320	21,359	4,649	1,321	1	13,028,187	13,097,837
TOTAL ASSETS	25,454,506	19,345,823	29,578,198	16,800,260	24,698,152	189,848,457	305,725,396
LIABILITIES							
Deposits from customers	98,910,457	71,764,702	35,746,181	19,950,941	24,077,626	423,282	250,873,189
Deposits from banks	4,773,671	6,691,156	4,159,519	277,010	30,480	244,000	16,175,836
Recourse obligations on loans and financing sold to Cagamas	–	–	–	–	–	500,011	500,011
Derivative financial liabilities	14,638	18,686	33,855	1,399	25,622	240,390	334,590
Debt securities issued and other borrowed funds	–	–	–	–	936,391	9,433,434	10,369,825
Other liability balances	867,640	831,165	709,793	158,043	191,065	3,517,043	6,274,749
TOTAL LIABILITIES	104,566,406	79,305,709	40,649,348	20,387,393	25,261,184	14,358,160	284,528,200
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	20,423,594	20,423,594
Non-controlling interests	–	–	–	–	–	773,602	773,602
TOTAL EQUITY	–	–	–	–	–	21,197,196	21,197,196
NET MATURITY MISMATCH	(79,111,900)	(59,959,886)	(11,071,150)	(3,587,133)	(563,032)	154,293,101	–

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Group 31 December 2012 (Restated)	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
ASSETS							
Cash and balances with banks	11,651,167	5,188,917	1,637,145	87,923	70,799	–	18,635,951
Reverse repurchase agreements	619,958	1,787,867	1,750,686	3,999,995	–	–	8,158,506
Financial investments	978,363	8,667,624	13,159,543	4,561,151	1,830,252	10,879,093	40,076,026
Derivative financial assets	1,508	6,159	6,084	5,958	1,883	348,873	370,465
Loans, advances and financing	11,256,979	4,028,117	7,249,178	9,910,060	16,118,043	147,489,226	196,051,603
Other asset balances	20,595	9,172	2,894	155	125	11,498,466	11,531,407
TOTAL ASSETS	24,528,570	19,687,856	23,805,530	18,565,242	18,021,102	170,215,658	274,823,958
LIABILITIES							
Deposits from customers	85,776,272	64,500,675	40,895,878	17,050,659	16,337,253	481,588	225,042,325
Deposits from banks	3,771,953	3,451,165	3,320,518	1,219,851	112,752	973,074	12,849,313
Recourse obligations on loans and financing sold to Cagamas	117	351	581	333	111	500,003	501,496
Derivative financial liabilities	5,367	32,395	18,968	6,664	396	169,774	233,564
Debt securities issued and other borrowed funds	–	–	–	1,400,000	523,363	8,023,490	9,946,853
Other liability balances	268,170	1,042,965	1,721,996	153,070	134,984	4,210,918	7,532,103
TOTAL LIABILITIES	89,821,879	69,027,551	45,957,941	19,830,577	17,108,859	14,358,847	256,105,654
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	18,018,440	18,018,440
Non-controlling interests	–	–	–	–	–	699,864	699,864
TOTAL EQUITY	–	–	–	–	–	18,718,304	18,718,304
NET MATURITY MISMATCH	(65,293,309)	(49,339,695)	(22,152,411)	(1,265,335)	912,243	137,138,507	–

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Bank 31 December 2013	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
ASSETS							
Cash and balances with banks	5,506,570	5,879,846	1,210,475	153,195	–	–	12,750,086
Reverse repurchase agreements	–	2,389,737	6,248,851	–	–	–	8,638,588
Financial investments	384,117	4,497,049	9,698,160	3,594,673	5,685,784	11,039,310	34,899,093
Derivative financial assets	23,911	89,392	37,756	25,620	8,113	165,937	350,729
Loans and advances	10,052,610	3,856,319	7,638,411	9,716,816	13,543,338	137,597,079	182,404,573
Other asset balances	19,725	21,063	4,336	549	–	13,750,697	13,796,370
TOTAL ASSETS	15,986,933	16,733,406	24,837,989	13,490,853	19,237,235	162,553,023	252,839,439
LIABILITIES							
Deposits from customers	81,033,847	56,177,148	27,007,685	14,976,806	20,775,528	1,900,578	201,871,592
Deposits from banks	4,855,636	7,996,342	3,709,579	83,376	36,504	241,611	16,923,048
Derivative financial liabilities	14,505	18,562	33,854	1,399	23,018	338,157	429,495
Debt securities issued and other borrowed funds	–	–	–	–	473,000	9,433,434	9,906,434
Other liability balances	841,025	764,593	730,363	129,462	171,548	2,249,824	4,886,815
TOTAL LIABILITIES	86,745,013	64,956,645	31,481,481	15,191,043	21,479,598	14,163,604	234,017,384
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	18,822,055	18,822,055
TOTAL EQUITY	–	–	–	–	–	18,822,055	18,822,055
NET MATURITY MISMATCH	(70,758,080)	(48,223,239)	(6,643,492)	(1,700,190)	(2,242,363)	129,567,364	–

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Bank 31 December 2012 (Restated)	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
ASSETS							
Cash and balances with banks	5,868,797	4,369,913	1,441,133	–	–	–	11,679,843
Reverse repurchase agreements	619,958	1,689,341	1,500,229	3,499,625	–	–	7,309,153
Financial investments	752,698	7,226,395	10,764,473	3,061,518	1,187,161	10,736,357	33,728,602
Derivative financial assets	1,508	6,079	6,079	5,958	1,842	342,878	364,344
Loans and advances	10,256,080	3,690,192	5,918,335	8,095,950	12,597,552	122,410,499	162,968,608
Other asset balances	10,519	7,833	2,583	–	–	12,504,483	12,525,418
TOTAL ASSETS	17,509,560	16,989,753	19,632,832	14,663,051	13,786,555	145,994,217	228,575,968
LIABILITIES							
Deposits from customers	66,814,970	54,868,586	32,483,510	13,193,033	14,017,913	310,432	181,688,444
Deposits from banks	3,990,443	5,395,421	3,423,897	1,164,667	104,272	330,078	14,408,778
Recourse obligations on loans sold to Cagamas	117	351	581	333	111	–	1,493
Derivative financial liabilities	5,367	32,342	18,968	6,664	396	147,023	210,760
Debt securities issued and other borrowed funds	–	–	–	1,400,000	–	7,681,942	9,081,942
Other liability balances	254,230	1,037,893	1,667,086	156,619	125,027	3,048,803	6,289,658
TOTAL LIABILITIES	71,065,127	61,334,593	37,594,042	15,921,316	14,247,719	11,518,278	211,681,075
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	16,894,893	16,894,893
TOTAL EQUITY	–	–	–	–	–	16,894,893	16,894,893
NET MATURITY MISMATCH	(53,555,567)	(44,344,840)	(17,961,210)	(1,258,265)	(461,164)	117,581,046	–

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Behavioural maturity of deposits from customers

In practice, deposits from customers behave differently from their contractual terms and typically, short-term customer accounts and non-maturing savings and current deposits extend to a longer period than their contractual maturity. The Group's and the Bank's behavioural maturity for deposits from customers are as follows:

Group	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
31 December 2013							
By contractual maturity	98,910,457	71,764,702	35,746,181	19,950,941	24,077,626	423,282	250,873,189
By behavioural maturity*	22,635,138	8,681,156	13,900,280	16,759,316	9,420,951	179,476,348	250,873,189
Difference	76,275,319	63,083,546	21,845,901	3,191,625	14,656,675	(179,053,066)	–
31 December 2012							
By contractual maturity	85,776,272	64,500,675	40,895,878	17,050,659	16,337,253	481,588	225,042,325
By behavioural maturity*	25,375,650	8,894,049	13,533,089	13,316,328	9,945,008	153,978,201	225,042,325
Difference	60,400,622	55,606,626	27,362,789	3,734,331	6,392,245	(153,496,613)	–
Bank							
Bank	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
31 December 2013							
By contractual maturity	81,033,847	56,177,148	27,007,685	14,976,806	20,775,528	1,900,578	201,871,592
By behavioural maturity*	10,848,145	2,701,456	6,390,389	13,592,119	7,086,379	161,253,104	201,871,592
Difference	70,185,702	53,475,692	20,617,296	1,384,687	13,689,149	(159,352,526)	–
31 December 2012							
By contractual maturity	66,814,970	54,868,586	32,483,510	13,193,033	14,017,913	310,432	181,688,444
By behavioural maturity*	13,177,075	3,276,869	6,147,818	10,538,316	6,487,486	142,060,880	181,688,444
Difference	53,637,895	51,591,717	26,335,692	2,654,717	7,530,427	(141,750,448)	–

* The behavioural maturity is derived based on BNM New Liquidity Framework's prescribed treatment of behavioural maturity.

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Maturity analysis of financial liabilities on an undiscounted basis

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturity. The financial liabilities disclosed in the tables below will not agree to the carrying amounts reported in the statements of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and interest/profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

Within the "More than 1 year" maturity time band are financial liabilities with principal amount of RM9,294.0 million (31 December 2012 – RM7,372.6 million), all of which relate to Non-Innovative Tier I stapled securities, Innovative Tier I capital securities, Subordinated notes whereby the interest payments are computed up to the first optional redemption date.

Group	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
31 December 2013							
Deposits from customers	98,921,400	71,857,789	35,931,782	20,177,993	24,616,137	437,623	251,942,724
Deposits from banks	4,774,456	6,695,952	4,171,443	278,797	30,873	613,920	16,565,441
Debt securities issued and other borrowed funds	490	463,392	106,024	109,872	696,053	10,934,815	12,310,646
Other liability balances	896,761	852,731	766,104	163,642	228,610	4,541,947	7,449,795
Total Liabilities	104,593,107	79,869,864	40,975,353	20,730,304	25,571,673	16,528,305	288,268,606
31 December 2012							
Deposits from customers	85,784,956	64,582,048	41,099,955	17,239,812	16,693,866	495,311	225,895,948
Deposits from banks	3,772,687	3,454,084	3,331,752	1,229,137	114,469	991,680	12,893,809
Debt securities issued and other borrowed funds	342,046	523,365	18,223	1,488,845	159,965	8,805,760	11,338,204
Other liability balances	283,506	1,073,640	1,760,104	160,671	175,150	4,800,119	8,253,190
Total Liabilities	90,183,195	69,633,137	46,210,034	20,118,465	17,143,450	15,092,870	258,381,151

44. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Maturity analysis of financial liabilities on an undiscounted basis (Cont'd.)

Bank	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
31 December 2013							
Deposits from customers	81,043,224	56,250,592	27,154,392	15,159,787	21,283,823	1,909,330	202,801,148
Deposits from banks	4,856,549	8,002,873	3,722,945	83,722	36,888	252,150	16,955,127
Debt securities issued and other borrowed funds	490	–	16,084	109,919	696,053	10,934,815	11,757,361
Other liability balances	862,312	778,643	775,905	122,455	187,641	2,907,426	5,634,382
Total Liabilities	86,762,575	65,032,108	31,669,326	15,475,883	22,204,405	16,003,721	237,148,018
31 December 2012							
Deposits from customers	66,821,268	54,938,310	32,659,385	13,352,398	14,352,221	316,578	182,440,160
Deposits from banks	3,991,275	5,400,308	3,432,981	1,171,123	105,424	343,827	14,444,938
Debt securities issued and other borrowed funds	500	–	18,223	1,488,845	159,965	8,805,760	10,473,293
Other liability balances	266,716	1,067,708	1,699,530	152,384	144,869	3,091,490	6,422,697
Total Liabilities	71,079,759	61,406,326	37,810,119	16,164,750	14,762,479	12,557,655	213,781,088

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To manage and mitigate operational risk, the Group places great emphasis on the importance of proper monitoring and reporting of business units' adherence to established risk policies, procedures and limits by independent control and support units, oversight provided by the management and the Board of Directors, and independent assessment of the adequacy and reliability of the risk management processes by the Internal Audit Division.

The operational risk management processes include establishment of system of internal controls, identification and assessment of operational risk inherent in new and existing products, processes and systems, regular disaster recovery and business continuity planning and simulations, self-compliance audit, and operational risk incident reporting and data collection.

45. FAIR VALUE MEASUREMENTS

(a) Determination of fair value and the fair value hierarchy

For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities and broker quotes on Bloomberg and Reuters.

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length. Valuation techniques used incorporate assumptions regarding discount rates, interest/profit rate yield curves, estimates of future cash flows and other factors, as applicable. Changes in these assumptions could materially affect the fair values derived. The Group and the Bank generally use widely recognised valuation techniques with market observable inputs, if available, for the determination of fair value, which require minimal management judgement and estimation, due to the low complexity of the financial instruments held.

MFRS 13 Fair Value Measurement requires each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition to be categorised according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of those financial instruments and non-financial assets:

Level 1 – Quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;

Level 2 – Fair values based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and

Level 3 – Fair values derived using unobservable inputs: inputs used are not based on observable market data and the unobservable inputs may have a significant impact on the valuation of the financial instruments and non-financial assets.

The Group's control framework in respect of the measurement of Level 3 fair values enables that the fair values are determined and validated by a function independent of the business unit undertaking the risks. Finance Division establishes the accounting policies and procedures governing valuation and is responsible for ensuring compliance with all relevant accounting standards. The team within Finance Division which oversees the fair value measurements, including Level 3 fair values, reports directly to the Chief Financial Officer. Independent verification on financial instruments is performed by Compliance Division. For investment properties, the valuation is determined with reference to quotations of market value provided by independent professional valuers.

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(b) Financial instruments and non-financial assets carried at fair value

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

Group 31 December 2013	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	1,583,640	–	1,583,640
– Money market instruments	–	13,822,929	–	13,822,929
– Non-money market instruments	–	405,394	–	405,394
	–	15,811,963	–	15,811,963
Financial investments available-for-sale				
– Government securities and treasury bills	–	10,106,634	–	10,106,634
– Money market instruments	–	198,844	–	198,844
– Non-money market instruments [#]	3,351,529	3,851,256	–	7,202,785
	3,351,529	14,156,734	–	17,508,263
Derivative financial assets	–	348,738	16,616	365,354
Total financial assets measured at fair value	3,351,529	30,317,435	16,616	33,685,580
Non-financial assets				
Investment properties	–	–	97,391	97,391
Financial liabilities				
Derivative financial liabilities	–	334,590	–	334,590
Total financial liabilities measured at fair value	–	334,590	–	334,590

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(b) Financial instruments and non-financial assets carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

Group 31 December 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	3,977,079	–	3,977,079
– Money market instruments	–	11,836,221	–	11,836,221
– Non-money market instruments	879	802,956	–	803,835
	879	16,616,256	–	16,617,135
Financial investments available-for-sale				
– Government securities and treasury bills	–	10,068,003	–	10,068,003
– Non-money market instruments [#]	3,288,512	3,736,222	–	7,024,734
	3,288,512	13,804,225	–	17,092,737
Derivative financial assets	–	358,311	12,154	370,465
Total financial assets measured at fair value	3,289,391	30,778,792	12,154	34,080,337
Non-financial assets				
Investment properties	–	–	87,886	87,886
Financial liabilities				
Derivative financial liabilities	–	233,564	–	233,564
Total financial liabilities measured at fair value	–	233,564	–	233,564

[#] Excluding the carrying amount of equity securities – unquoted shares of the Group of RM110,249,000 (31 December 2012 – RM108,383,000) which are not carried at fair value.

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(b) Financial instruments and non-financial assets carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

Bank	Level 1	Level 2	Level 3	Total
31 December 2013	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	1,379,390	–	1,379,390
– Money market instruments	–	12,274,547	–	12,274,547
– Non-money market instruments	–	332,489	–	332,489
	–	13,986,426	–	13,986,426
Financial investments available-for-sale				
– Government securities and treasury bills	–	8,669,725	–	8,669,725
– Money market instruments	–	198,844	–	198,844
– Non-money market instruments [#]	2,885,269	3,264,744	–	6,150,013
	2,885,269	12,133,313	–	15,018,582
Derivative financial assets	–	334,113	16,616	350,729
Total financial assets measured at fair value	2,885,269	26,453,852	16,616	29,355,737
Financial liabilities				
Derivative financial liabilities	–	429,495	–	429,495
Total financial liabilities measured at fair value	–	429,495	–	429,495

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(b) Financial instruments and non-financial assets carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

Bank 31 December 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	2,309,237	–	2,309,237
– Money market instruments	–	10,715,460	–	10,715,460
– Non-money market instruments	879	573,468	–	574,347
	879	13,598,165	–	13,599,044
Financial investments available-for-sale				
– Government securities and treasury bills	–	9,514,672	–	9,514,672
– Non-money market instruments [#]	2,835,936	3,165,022	–	6,000,958
	2,835,936	12,679,694	–	15,515,630
Derivative financial assets	–	352,190	12,154	364,344
Total financial assets measured at fair value	2,836,815	26,630,049	12,154	29,479,018
Financial liabilities				
Derivative financial liabilities	–	210,760	–	210,760
Total financial liabilities measured at fair value	–	210,760	–	210,760

[#] Excluding the carrying amount of equity securities – unquoted shares of the Bank of RM106,285,000 (31 December 2012 – RM104,614,000) which are not carried at fair value.

The Group and the Bank recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year (31 December 2012 – Nil).

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(b) Financial instruments and non-financial assets carried at fair value (Cont'd.)

Reconciliation of movements in Level 3 financial instruments:

	Group and Bank	
	2013 RM'000	2012 RM'000
Derivative Financial Assets		
At 1 January	12,154	11,244
Gains recognised in the statement of profit or loss		
– realised	771	1,015
– unrealised	5,027	2,628
Sales	(1,336)	(2,733)
At 31 December	16,616	12,154
Total unrealised gains recognised in the statement of profit or loss reported under 'net gains and losses on financial instruments' relating to those assets or liabilities held at the end of the financial year	5,027	2,628

The Group's exposure to financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) comprised a small number of financial instruments which constitute an insignificant component of the Group's and the Bank's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

All investment properties of the Group carried at fair values were classified under Level 3. A reconciliation of movements in Level 3 is disclosed in Note 15 Investment Properties.

The fair values of investment properties located in Malaysia are determined using comparison method by reference to the recent sales prices of comparable properties, adjustments are made where dissimilarities exist. The fair values of investment properties located in Hong Kong are determined using comparison method by reference to recent sales prices of comparable properties on a price per square meter basis. The price per square meter of the properties adopted, which were significant inputs, ranged from RM10,000 to RM187,000 (Weighted average: RM62,000). A significant change in the price per square meter will result in a significant change in the fair value of the investment properties in Hong Kong.

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(c) Fair values of financial instruments not carried at fair value

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group and the Bank which are not carried at fair value in the financial statements. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

Group	31 December 2013		31 December 2012	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial assets				
Financial investments available-for-sale				
– Non-money market instruments	110,249	110,249	108,383	108,383
Financial investments held-to-maturity				
– Government securities and treasury bills	4,399,596	4,378,052	3,606,318	3,619,044
– Money market instruments	2,170,637	2,165,159	2,016,598	2,019,924
– Non-money market instruments*	1,223,318	1,213,791	634,855	637,260
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	68,875,029	68,923,314	59,351,523	59,394,551
– hire purchase	44,392,696	44,411,074	41,595,117	41,664,638
– credit cards	1,604,502	1,604,502	1,587,433	1,587,433
– other loans/financing	74,033,925	74,000,993	65,780,784	65,763,119
– Corporate loans/financing	30,509,641	30,510,082	27,736,746	27,748,615
Financial liabilities				
Recourse obligations on loans and financing sold to Cagamas	500,011	491,463	501,496	502,832
Debt securities issued and other borrowed funds	10,369,825	10,735,825	9,946,853	10,384,037

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(c) Fair values of financial instruments not carried at fair value (Cont'd.)

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group and the Bank which are not carried at fair value in the financial statements. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values (Cont'd.):

Bank	31 December 2013		31 December 2012	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial assets				
Financial investments available-for-sale				
– Non-money market instruments	106,285	106,285	104,614	104,614
Financial investments held-to-maturity				
– Government securities and treasury bills	3,437,058	3,417,088	2,886,670	2,899,660
– Money market instruments	1,617,869	1,601,868	1,472,807	1,474,027
– Non-money market instruments*	732,873	723,416	149,837	152,447
Loans and advances				
– Retail loans				
– housing loans	60,037,041	60,037,197	52,073,784	52,074,136
– hire purchase	31,542,293	31,554,265	29,847,430	29,901,390
– credit cards	1,594,325	1,594,325	1,577,390	1,577,390
– other loans	64,497,311	64,497,311	57,011,525	57,011,525
– Corporate loans	24,733,603	24,730,331	22,458,479	22,454,809
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	1,493	1,493
Debt securities issued and other borrowed funds	9,906,434	10,272,434	9,081,942	9,519,126

* The accumulated impairment losses of the Group and the Bank of RM107,000 (31 December 2012 – RM155,000) were netted off against the carrying amounts.

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(c) Fair values of financial instruments not carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

Group	Fair Value			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2013				
Financial assets				
Financial investments available-for-sale				
– Non-money market instruments [#]	–	–	–	–
Financial investments held-to-maturity				
– Government securities and treasury bills	–	4,378,052	–	4,378,052
– Money market instruments	–	2,165,159	–	2,165,159
– Non-money market instruments	–	1,213,791	–	1,213,791
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	–	–	68,923,314	68,923,314
– hire purchase	–	–	44,411,074	44,411,074
– credit cards	–	–	1,604,502	1,604,502
– other loans/financing	–	–	74,000,993	74,000,993
– Corporate loans/financing	–	–	30,510,082	30,510,082
Financial liabilities				
Recourse obligations on loans and financing sold to Cagamas	–	–	491,463	491,463
Debt securities issued and other borrowed funds	–	10,735,825	–	10,735,825

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(c) Fair values of financial instruments not carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values (Cont'd.):

Group 31 December 2012	Fair Value			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial investments available-for-sale				
– Non-money market instruments [#]	–	–	–	–
Financial investments held-to-maturity				
– Government securities and treasury bills	–	3,619,044	–	3,619,044
– Money market instruments	–	2,019,924	–	2,019,924
– Non-money market instruments	–	637,260	–	637,260
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	–	–	59,394,551	59,394,551
– hire purchase	–	–	41,664,638	41,664,638
– credit cards	–	–	1,587,433	1,587,433
– other loans/financing	–	–	65,763,119	65,763,119
– Corporate loans/financing	–	–	27,748,615	27,748,615
Financial liabilities				
Recourse obligations on loans and financing sold to Cagamas	–	–	502,832	502,832
Debt securities issued and other borrowed funds	–	10,384,037	–	10,384,037

[#] Excluding the carrying amount of equity securities-unquoted shares of the Group of RM110,249,000 (31 December 2012 – RM108,383,000) which are measured at cost less impairment.

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(c) Fair values of financial instruments not carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values (Cont'd.):

Bank	Fair Value			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2013				
Financial assets				
Financial investments available-for-sale				
– Non-money market instruments [#]	–	–	–	–
Financial investments held-to-maturity				
– Government securities and treasury bills	–	3,417,088	–	3,417,088
– Money market instruments	–	1,601,868	–	1,601,868
– Non-money market instruments	–	723,416	–	723,416
Loans and advances				
– Retail loans				
– housing loans	–	–	60,037,197	60,037,197
– hire purchase	–	–	31,554,265	31,554,265
– credit cards	–	–	1,594,325	1,594,325
– other loans	–	–	64,497,311	64,497,311
– Corporate loans	–	–	24,730,331	24,730,331
Financial liabilities				
Debt securities issued and other borrowed funds	–	10,272,434	–	10,272,434

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(c) Fair values of financial instruments not carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values (Cont'd.):

Bank	Fair Value			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2012				
Financial assets				
Financial investments available-for-sale				
– Non-money market instruments [#]	–	–	–	–
Financial investments held-to-maturity				
– Government securities and treasury bills	–	2,899,660	–	2,899,660
– Money market instruments	–	1,474,027	–	1,474,027
– Non-money market instruments	–	152,447	–	152,447
Loans and advances				
– Retail loans				
– housing loans	–	–	52,074,136	52,074,136
– hire purchase	–	–	29,901,390	29,901,390
– credit cards	–	–	1,577,390	1,577,390
– other loans	–	–	57,011,525	57,011,525
– Corporate loans	–	–	22,454,809	22,454,809
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	1,493	1,493
Debt securities issued and other borrowed funds	–	9,519,126	–	9,519,126

[#] Excluding the carrying amount of equity securities-unquoted shares of the Bank of RM106,285,000 (31 December 2012 – RM104,614,000) which are measured at cost less impairment.

45. FAIR VALUE MEASUREMENTS (CONT'D.)

(c) Fair values of financial instruments not carried at fair value (Cont'd.)

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

- (a) *Financial investments available-for-sale and financial investments held-to-maturity* – The fair values of financial investments held-to-maturity are estimated based on broker/dealer price quotations. Financial investments available-for-sale as disclosed above consist of only equity securities-unquoted shares which are measured at cost less impairment. The carrying amounts of these financial instruments are deemed to approximate the fair values as their fair values cannot be reliably measured.
- (b) *Loans, advances and financing* – The fair values of fixed rate loans/financing with remaining maturity of less than one year and variable rate loans/financing are estimated to approximate their carrying amounts. For fixed rate loans/financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using prevailing market rates of loans/financing of similar credit risks and maturity.

The fair values of impaired loans/financing are represented by their carrying amounts, net of any collective and individual assessment allowances, being the expected recoverable amount.

- (c) *Recourse obligations on loans and financing sold to Cagamas* – The fair values of recourse obligations on loans and financing sold to Cagamas with remaining maturity of less than one (1) year are estimated to approximate their carrying amounts. The fair values of recourse obligations on loans and financing sold to Cagamas with remaining maturity of more than one year are estimated using discounted cash flows based on prevailing Cagamas rates with similar remaining period to maturity.
- (d) *Debt securities issued and other borrowed funds* – The fair values of borrowings approximate their carrying amounts as these are variable rate borrowings. The fair values of debt securities issued are estimated based on quoted or observable market prices.

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46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

Group	Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Amount Not Set-off in the Statement of Financial Position		Net Amount RM'000
				Values of the Financial Instruments* RM'000	Cash Collateral Received/ Pledged RM'000	
31 December 2013						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	166,918	–	166,918	(62,316)	(81,338)	23,264
– Interest rate related contracts	181,819	–	181,819	(92,061)	(40,865)	48,893
– Equity related contracts	16,616	–	16,616	(8,187)	(3,018)	5,411
– Precious metal contracts	1	–	1	–	–	1
	365,354	–	365,354	(162,564)	(125,221)	77,569
Reverse repurchase agreements	9,541,969	–	9,541,969	(9,666,173)	–	(124,204)
	9,907,323	–	9,907,323	(9,828,737)	(125,221)	(46,635)
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	264,505	–	264,505	(141,255)	(16,182)	107,068
– Interest rate related contracts	70,084	–	70,084	(21,309)	–	48,775
– Precious metal contracts	1	–	1	–	–	1
	334,590	–	334,590	(162,564)	(16,182)	155,844

46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (cont'd.):

Group	Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Amount Not Set-off in the Statement of Financial Position		
				Values of the Financial Instruments* RM'000	Cash Collateral Received/ Pledged RM'000	Net Amount RM'000
31 December 2012						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	15,535	–	15,535	(6,863)	(264)	8,408
– Interest rate related contracts	342,775	–	342,775	(86,913)	(187,762)	68,100
– Equity related contracts	12,154	–	12,154	(5,866)	(7,381)	(1,093)
– Precious metal contracts	1	–	1	–	–	1
	370,465	–	370,465	(99,642)	(195,407)	75,416
Reverse repurchase agreements	8,158,506	–	8,158,506	(8,371,213)	–	(212,707)
	8,528,971	–	8,528,971	(8,470,855)	(195,407)	(137,291)
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	99,459	–	99,459	(53,799)	(21,376)	24,284
– Interest rate related contracts	134,105	–	134,105	(45,843)	–	88,262
	233,564	–	233,564	(99,642)	(21,376)	112,546

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46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (Cont'd.):

	Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Amount Not Set-off in the Statement of Financial Position		Net Amount RM'000
				Values of the Financial Instruments* RM'000	Cash Collateral Received/ Pledged/ RM'000	
Bank						
31 December 2013						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	166,593	–	166,593	(62,316)	(81,338)	22,939
– Interest rate related contracts	167,519	–	167,519	(92,061)	(40,865)	34,593
– Equity related contracts	16,616	–	16,616	(8,187)	(3,018)	5,411
– Precious metal contracts	1	–	1	–	–	1
	350,729	–	350,729	(162,564)	(125,221)	62,944
Reverse repurchase agreements	8,638,588	–	8,638,588	(8,756,873)	–	(118,285)
	8,989,317	–	8,989,317	(8,919,437)	(125,221)	(55,341)
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	264,247	–	264,247	(141,255)	(16,182)	106,810
– Interest rate related contracts	165,247	–	165,247	(21,309)	–	143,938
– Precious metal contracts	1	–	1	–	–	1
	429,495	–	429,495	(162,564)	(16,182)	250,749

46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (Cont'd.):

	Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Amount Not Set-off in the Statement of Financial Position		Net Amount RM'000
				Values of the Financial Instruments*	Cash Collateral Received/ Pledged RM'000	
Bank						
31 December 2012						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	15,409	–	15,409	(6,863)	(264)	8,282
– Interest rate related contracts	336,780	–	336,780	(86,913)	(187,762)	62,105
– Equity related contracts	12,154	–	12,154	(5,866)	(7,381)	(1,093)
– Precious metal contracts	1	–	1	–	–	1
	364,344	–	364,344	(99,642)	(195,407)	69,295
Reverse repurchase agreements	7,309,153	–	7,309,153	(7,502,535)	–	(193,382)
	7,673,497	–	7,673,497	(7,602,177)	(195,407)	(124,087)
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	99,406	–	99,406	(53,799)	(21,376)	24,231
– Interest rate related contracts	111,354	–	111,354	(45,843)	–	65,511
	210,760	–	210,760	(99,642)	(21,376)	89,742

* Include securities accepted as collateral.

46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivatives and reverse repurchase agreements included in the amount not set-off in the statement of financial position relate to transactions where:

- (i) the counterparty has an offsetting exposure with the Group and the Bank and a master netting or similar arrangements is in place with a right to set-off only in the event of default, insolvency or bankruptcy; and
- (ii) cash and securities are received or cash pledged in respect of the transaction described above.

47. OPERATING LEASES

The Group and the Bank as a Lessee

The Group and the Bank lease a number of premises under operating leases. The leases typically run for an initial period of three years, with an option to renew. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Within one year	29,774	24,767	439	518
Between one and five years	25,308	18,432	85	524
More than five years	4,576	34,370	–	–
	59,658	77,569	524	1,042

The Group as a Lessor

The Group leases out its investment properties under operating leases with the term of the leases ranging from one to five years. None of the leases includes contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Within one year	4,287	2,741
Between one and five years	3,034	1,731
More than five years	–	3,679
	7,321	8,151

48. CAPITAL AND OTHER COMMITMENTS

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Authorised and contracted for:				
– Land and buildings	403,340	30,204	–	–
– Renovations	2,837	1,262	–	–
– Office equipment, furniture and fittings	3,428	2,150	2,430	1,632
– Computer equipment and software	14,285	14,438	10,039	10,181
– Motor vehicles	98	98	–	–
	423,988	48,152	12,469	11,813
Authorised but not contracted for:				
– Renovations	6,273	5,964	–	–
– Office equipment, furniture and fittings	962	65	–	–
– Computer equipment and software	10,392	6,612	–	–
– Motor vehicles	754	–	–	–
– Additional investment in an associated company	155,928	146,822	155,928	146,822
	174,309	159,463	155,928	146,822
	598,297	207,615	168,397	158,635

49. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's and the Bank's assets.

The notional amounts of the commitments and contingencies of the Group and the Bank are as follows:

	Group		Bank	
	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Contingent liabilities				
Direct credit substitutes	1,521,770	1,549,134	1,196,990	1,175,058
Transaction-related contingent items	1,173,514	1,031,792	1,041,919	908,204
Short term self-liquidating trade-related contingencies	467,641	525,150	295,684	341,952
	3,162,925	3,106,076	2,534,593	2,425,214
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	29,229,501	24,158,799	26,897,981	22,211,606
– not exceeding one year	21,886,823	20,955,923	19,688,146	19,422,068
Unutilised credit card lines	3,823,553	3,693,110	3,713,960	3,587,921
Forward asset purchases	4,176	30,386	–	–
	54,944,053	48,838,218	50,300,087	45,221,595
Derivative financial instruments				
Foreign exchange related contracts:				
– less than one year	16,836,631	11,879,221	16,652,983	11,822,972
– one year to less than five years	2,151,746	1,376,100	2,151,746	1,376,100
Interest rate related contracts:				
– less than one year	1,953,625	1,552,000	1,838,821	1,552,000
– one year to less than five years	6,176,844	9,929,440	6,247,237	9,408,350
– five years and above	2,706,403	2,649,740	3,808,000	3,758,000
Commodity related contracts:				
– less than one year	1,890	206	1,890	206
Equity related contracts:				
– less than one year	52,089	73,589	52,089	73,589
– one year to less than five years	–	53,005	–	53,005
	29,879,228	27,513,301	30,752,766	28,044,222
	87,986,206	79,457,595	83,587,446	75,691,031

Disclosure of the credit equivalent amount and risk-weighted asset amount of the commitments and contingencies above, as required by BNM's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), is presented in the Pillar 3 disclosures section of the Annual Report.

50. CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Group and the Bank as at 31 December are as follows:

	Group		
	31 December 2013	31 December 2012 (Restated)	1 January 2012 (Restated)
<u>Before deducting second interim dividends*</u>			
Common equity Tier I ("CET I") capital ratio	9.276%	N/A	N/A
Tier I capital ratio	11.055%	11.413%	11.235%
Total capital ratio	14.288%	14.674%	15.625%
<u>After deducting second interim dividends*</u>			
CET I capital ratio	8.750%	N/A	N/A
Tier I capital ratio	10.529%	10.828%	10.634%
Total capital ratio	13.762%	14.089%	15.024%
<u>Bank</u>			
	31 December 2013	31 December 2012 (Restated)	1 January 2012 (Restated)
<u>Before deducting second interim dividends*</u>			
CET I capital ratio	10.927%	N/A	N/A
Tier I capital ratio	13.023%	13.632%	13.549%
Total capital ratio	14.086%	14.534%	15.643%
<u>After deducting second interim dividends*</u>			
CET I capital ratio	10.300%	N/A	N/A
Tier I capital ratio	12.396%	12.931%	12.823%
Total capital ratio	13.459%	13.833%	14.917%

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

50. CAPITAL ADEQUACY (CONT'D.)

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies. The capital adequacy ratios of the Bank consist of capital base and risk-weighted assets derived from the Bank and from its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd.

The total risk-weighted assets of the Group and the Bank are computed based on the following approaches:

- (i) Standardised Approach for Credit Risk;
- (ii) Standardised Approach for Market Risk;
- (iii) Basic Indicator Approach for Operational Risk.

The capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) issued on 28 November 2012, which is effective from 1 January 2013. The minimum regulatory capital adequacy ratios, as required under BNM's Capital Adequacy Framework (Capital Components) which includes transitional arrangements for year 2013 and 2014, are set out as follows:

Calendar Year	CET I Capital Ratio %	Tier I Capital Ratio %	Total Capital Ratio %
2013	3.5	4.5	8.0
2014	4.0	5.5	8.0
2015 onwards*	4.5	6.0	8.0

* Before including capital conservation buffer of 2.5%, counter-cyclical buffer and any other buffers to be introduced by BNM.

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

50. CAPITAL ADEQUACY (CONT'D.)

(a) The capital adequacy ratios of the Group and the Bank as at 31 December are as follows (Cont'd.):

The capital adequacy ratios of the banking subsidiary companies of the Group are as follows:

	Public Islamic Bank Berhad ¹	Public Investment Bank Berhad ²	Public Bank (L) Ltd ³	Public Bank (Hong Kong) Limited ⁴	Public Finance Limited ⁴	Cambodian Public Bank Plc ⁵
31 December 2013						
<u>Before deducting interim dividends*:</u>						
CET I capital ratio	12.133%	27.252%	N/A	13.916%	27.468%	N/A
Tier I capital ratio	12.133%	27.252%	25.625%	13.916%	27.468%	N/A
Total capital ratio	12.751%	27.448%	25.671%	15.089%	28.409%	19.685%
<u>After deducting interim dividends*:</u>						
CET I capital ratio	11.743%	26.139%	N/A	13.916%	25.257%	N/A
Tier I capital ratio	11.743%	26.139%	25.625%	13.916%	25.257%	N/A
Total capital ratio	12.360%	26.336%	25.671%	15.089%	26.199%	19.685%
31 December 2012 (Restated)						
<u>Before deducting interim dividends*:</u>						
CET I capital ratio	N/A	N/A	N/A	N/A	N/A	N/A
Tier I capital ratio	12.296% [#]	27.454% [#]	21.791%	16.423%	28.962%	N/A
Total capital ratio	13.013% [#]	27.622% [#]	21.842%	16.423%	30.119%	21.566%
<u>After deducting interim dividends*:</u>						
CET I capital ratio	N/A	N/A	N/A	N/A	N/A	N/A
Tier I capital ratio	11.354% [#]	26.426% [#]	21.791%	16.423%	26.509%	N/A
Total capital ratio	12.071% [#]	26.595% [#]	21.842%	16.423%	27.666%	21.566%
1 January 2012 (Restated)						
<u>Before deducting interim dividends*:</u>						
CET I capital ratio	N/A	N/A	N/A	N/A	N/A	N/A
Tier I capital ratio	12.288% [#]	18.196% [#]	19.584%	16.135%	29.610%	N/A
Total capital ratio	13.275% [#]	18.286% [#]	19.988%	16.135%	30.765%	22.831%
<u>After deducting interim dividends*:</u>						
CET I capital ratio	N/A	N/A	N/A	N/A	N/A	N/A
Tier I capital ratio	10.896% [#]	16.899% [#]	19.584%	16.135%	26.946%	N/A
Total capital ratio	11.884% [#]	16.989% [#]	19.988%	16.135%	28.101%	22.831%

* Refers to interim dividends which have been declared subsequent to the financial year end.

[#] Restated for the effects of the adoption of MFRS 119.

50. CAPITAL ADEQUACY (CONT'D.)

- (a) The capital adequacy ratios of the Group and the Bank as at 31 December are as follows (Cont'd.):

The capital adequacy ratios of the banking subsidiary companies of the Group are as follows (Cont'd.):

- ¹ The risk-weighted assets of Public Islamic Bank Berhad are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Risk-weighted Assets) issued on 28 November 2012, which is effective from 1 January 2013. The minimum regulatory capital adequacy requirement for CET I capital ratio, Tier I capital ratio and total capital ratio are 3.5%, 4.5% and 8.0% respectively for year 2013. The comparative capital adequacy ratios of Public Islamic Bank Berhad are computed in accordance with the then prevailing BNM's Capital Adequacy Framework for Islamic Banks (CAFIB), which are based on the Basel II capital accord.
- ² The risk-weighted assets of Public Investment Bank Berhad are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) issued on 28 November 2012, which is effective on 1 January 2013. The minimum regulatory capital adequacy requirement for CET I capital ratio, Tier I capital ratio and total capital ratio are 3.5%, 4.5% and 8.0% respectively for year 2013. The comparative capital adequacy ratios of Public Investment Bank Berhad are computed in accordance with the then prevailing BNM's revised Risk-weighted Capital Adequacy Framework, which are based on the Basel II capital accord.
- ³ The capital adequacy ratios of Public Bank (L) Ltd. for capital compliance on a standalone basis are computed in accordance with the Guidelines on Risk-weighted Capital Adequacy issued by the Labuan Financial Services Authority (Labuan FSA), which is based on the Basel I capital accord. The minimum regulatory capital adequacy requirements are 4.0% and 8.0% for the Tier I capital ratio and total capital ratio respectively.
- ⁴ These two subsidiary companies have adopted the Standardised Approach for Credit and Market Risk. Public Bank (Hong Kong) Limited has adopted the Basic Indicator Approach for Operational Risk and Public Finance Limited has adopted the Standardised Approach for Operational Risk. With effect from 1 January 2013, the capital adequacy ratios of these two subsidiaries are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Banking Capital Rules. The comparative capital adequacy ratios of these two subsidiary companies are based on the Basel II capital accord.
- ⁵ The amount presented here is the Solvency Ratio of Cambodian Public Bank Plc, which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with Prakas B7-010-182, B7-00-46, B7-04-206 and B7-07-135 issued by the National Bank of Cambodia. This ratio is derived as Cambodian Public Bank Plc's net worth divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory solvency ratio requirement is 15.0%.

50. CAPITAL ADEQUACY (CONT'D.)

(b) The components of CET I, Tier I and Tier II capital of the Group and of the Bank are as follows:

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Components of CET I, Tier I and Tier II Capital:			
<u>CET I/Tier I Capital:</u>			
Paid-up share capital	3,531,926	3,531,926	3,531,926
Share premium	1,073,310	1,073,310	1,073,310
Other reserves	4,402,843	4,218,576	4,182,030
Retained profits	11,507,565	9,274,909	7,140,589
Treasury shares	(215,572)	(215,572)	(215,572)
Qualifying non-controlling interests	522,093	699,864	697,484
Less: Goodwill	(2,003,912)	(1,899,875)	(1,938,994)
Less: Deferred tax assets, net	(70,121)	(64,900)	(46,093)
Less: Defined benefit pension fund assets	(220,922)	–	–
Total CET I Capital	18,527,210	16,618,238	14,424,680
Innovative Tier I capital securities	1,630,440	1,810,317	1,833,303
Non-Innovative Tier I stapled securities	1,879,200	2,083,146	2,082,388
Qualifying CET I and additional Tier I capital instruments held by third parties	42,031	–	–
Total Tier I Capital	22,078,881	20,511,701	18,340,371
<u>Tier II Capital</u>			
Collective assessment allowance [#]	1,123,706	1,038,369	1,073,337
Subordinated notes			
– meeting all relevant criteria	1,949,116	–	–
– subject to gradual phase-out treatment	3,471,121	4,870,351	6,138,306
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	56,042	–	–
Less: Investment in banking/insurance subsidiary companies and associated companies	(142,255)	(960)	(960)
Less: Holdings of other financial institutions' capital instruments	–	(46,834)	(44,468)
Total Tier II Capital	6,457,730	5,860,926	7,166,215
Total Capital	28,536,611	26,372,627	25,506,586

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50. CAPITAL ADEQUACY (CONT'D.)

(b) The components of CET I, Tier I and Tier II capital of the Group and of the Bank are as follows (Cont'd.):

	31 December 2013 RM'000	Bank	
		31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Components of CET I, Tier I and Tier II Capital:			
<u>CET I/Tier I Capital:</u>			
Paid-up share capital	3,531,926	3,531,926	3,531,926
Share premium	1,073,310	1,073,310	1,073,310
Other reserves	3,924,896	3,750,880	3,741,556
Retained profits	10,892,504	9,104,376	6,952,315
Treasury shares	(215,572)	(215,572)	(215,572)
Less: Goodwill	(695,393)	(695,393)	(695,393)
Less: Defined benefit pension fund assets	(215,372)	–	–
Total CET I Capital	18,296,299	16,549,527	14,388,142
Innovative Tier I capital securities	1,630,440	1,810,317	1,833,303
Non-Innovative Tier I stapled securities	1,879,200	2,083,146	2,082,388
Total Tier I Capital	21,805,939	20,442,990	18,303,833
<u>Tier II Capital</u>			
Collective assessment allowance [#]	625,010	691,258	721,913
Subordinated notes			
– meeting all relevant criteria	1,949,116	–	–
– subject to gradual phase-out treatment	3,471,121	4,870,351	6,138,306
Less: Investment in banking/insurance subsidiary companies and associated companies	(4,264,787)	(4,162,284)	(3,987,284)
Less: Holdings of other financial institutions' capital instruments	–	(46,834)	(44,468)
Total Tier II Capital	1,780,460	1,352,491	2,828,467
Total Capital	23,586,399	21,795,481	21,132,300

In arriving at the capital base of the Group and the Bank above, the second interim dividends were not deducted.

[#] Excludes collective assessment allowance on impaired loans restricted from Tier II capital of the Group and the Bank of RM600,816,000 (31 December 2012 – RM491,197,000; 1 January 2012 – RM422,707,000) and RM446,948,000 (31 December 2012 – RM369,214,000; 1 January 2012 – RM325,341,000) respectively.

Includes the Group's qualifying regulatory reserves for non-impaired loans which pertain to Public Bank (Hong Kong) Limited and Public Finance Limited amounting to RM132,437,000 (31 December 2012 – N/A; 1 January 2012 – N/A).

50. CAPITAL ADEQUACY (CONT'D.)

(c) The breakdown of risk-weighted assets by each major risk category is as follows:

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Credit risk	183,113,937	164,279,544	148,877,780
Market risk	2,111,436	1,713,076	1,670,798
Operational risk	14,497,356	13,733,324	12,692,078
	199,722,729	179,725,944	163,240,656

	Bank		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Credit risk	154,360,722	137,471,265	123,271,403
Market risk	2,850,579	2,579,721	2,774,099
Operational risk	10,228,677	9,915,430	9,048,375
	167,439,978	149,966,416	135,093,877

Detailed information on the risk exposures above, as prescribed under BNM's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) is presented in the Pillar 3 disclosures section of the Annual Report.

51. CAPITAL MANAGEMENT

The Group actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Group's capital management strategy is to continue to maximise shareholders' value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Group's strategic planning review and is subject to the approval of the Board of Directors.

51. CAPITAL MANAGEMENT (CONT'D.)

The Group's capital is managed in line with the objectives of the Group Capital Management Framework. The key objectives under the framework include meeting regulatory capital requirements, optimising return to shareholders, maintaining adequate levels and optimum mix of capital, maintaining strong external credit ratings and allocation of capital across business units and subsidiary companies. In order to meet these objectives, the Group actively manages its capital structure and makes adjustments to address changes in the economic environment, regulatory requirements and risk characteristics inherent in its business operations. These initiatives include issuances of capital securities, adjustments to the amount of dividends distributed to shareholders and focus on growth in non-interest income and other less capital-intensive business activities. The Group's Internal Capital Adequacy Assessment Process ("ICAAP") assesses the Group's internal capital requirements beyond the minimum regulatory requirements to ensure its capital commensurates with the Group's risk profile, the complexity of the business activities undertaken and its risk appetite.

The Group's and Bank's regulatory capital are determined under BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) and their capital ratios have complied with the minimum requirements set under this guideline. Information on the Group's and Bank's capital adequacy ratios, regulatory minimum capital requirements and the components of capital base are disclosed in Note 50 (a) and (b).

52. SEGMENT INFORMATION

The following segment information has been prepared in accordance with MFRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Group's operating and reportable segments are business units engaged in providing different products or services and business units operating in different geographical locations. These businesses are managed and assessed separately as each requires a differentiated strategy focused on the specific products and services provided for the economic, competitive, geographical and regulatory environment in which it operates. For each operating segment, the Management Committee (the chief operating decision-maker) reviews the internal management reports monthly in order to assess their performance.

The Group's domestic business, which also includes Islamic banking business, is organised into the following key operating segments:

(i) Hire Purchase

The hire purchase operations focus on the provision of passenger vehicle financing to all levels of customers.

(ii) Retail Operations

Retail operations focus on providing products and services to individual customers and small and medium enterprises. The products and services offered to customers include credit facilities (mortgages, trade and personal loans), credit cards, remittance services, deposit collection and investment products.

(iii) Corporate Lending

The corporate lending operations cater to the funding needs of large corporate customers which are primarily public listed companies and their related corporations.

(iv) Treasury and Capital Market Operations

The treasury and capital market operations are involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading.

52. SEGMENT INFORMATION (CONT'D.)

The Group's domestic business, which also includes Islamic banking business, is organised into the following key operating segments (Cont'd.):

(v) Investment Banking

The investment banking operations cater to the business needs of large corporate customers through the provision of financial solutions and direct lending. The services offered include structured financing, corporate advisory services, merger and acquisition, stock-broking and debt restructuring advisory services.

(vi) Fund Management

The fund management operations consist of sale of trust units and the management of unit trust funds as conducted by the Bank's wholly-owned subsidiary company, Public Mutual Berhad.

(vii) Others

Others refer mainly to non-core operations such as property holding.

The Group's overseas business operations are organised according to the following geographical locations:

(i) Hong Kong SAR

This includes all business operations conducted by the Group's subsidiary companies in Hong Kong SAR and the People's Republic of China, including retail and commercial banking and lending, wealth management services, stock-broking and other related financial services.

(ii) Cambodia

This comprises all business operations conducted by the Group's subsidiary companies in Cambodia, which includes mainly financing, deposit-taking, general insurance businesses and stock-broking.

(iii) Other Countries

This refers to the Group's banking business operations in the Socialist Republic of Vietnam, Lao People's Democratic Republic and Sri Lanka.

There are no changes in the operating segments during the year.

Measurement and Evaluation of Segment Performance

The Management Committee evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, loans and deposit growth and asset quality. Expenses directly associated with each operating segment are included in determining their respective profit. Transactions between operating segments are based on mutually agreed allocation bases. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net interest income. In addition to the operating segments, the segment information disclosed also includes internal service providers (head office), which operate on a non-profit basis, and inter-segment eliminations.

Major Customers

There is no single customer which contributes revenue amount greater than 10% of the Group's revenues for the current financial year (2012 – none).

NOTES TO THE FINANCIAL STATEMENTS

52. SEGMENT INFORMATION (CONT'D.)

By Business Segments:

	Domestic Operating Segments										Overseas Operating Segments				
	Hire Purchase	Retail Operations	Corporate Lending	Market Operations	Investment Banking	Fund Management	Others	Head Office	Domestic Operations	Hong Kong SAR	Cambodia	Other Countries	Total Overseas Operations	Inter-segment Elimination	Group Total
2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	2,333,254	7,366,038	1,063,171	1,820,563	206,780	1,019,141	5,156	371,384	14,184,507	761,830	247,950	70,013	1,079,793	-	15,264,300
Revenue from other segments	-	1,191,443	14,756	815,875	13,492	12,322	29,500	1,313,690	3,391,078	-	3,950	-	3,850	(3,394,928)	-
Total revenue	2,333,254	8,557,481	1,077,927	2,636,458	219,272	1,031,463	34,656	1,685,074	17,575,585	761,830	251,800	70,013	1,083,643	(3,394,928)	15,264,300
Net interest income and Islamic banking income	913,258	4,100,595	286,077	150,590	16,619	13,151	(7,741)	201,174	5,673,723	536,872	148,369	48,710	733,951	-	6,407,674
Other income	1,913	523,016	42,718	245,599	64,025	585,594	34,513	180,694	1,678,072	84,349	44,278	10,226	138,853	(66,282)	1,750,643
Net income	915,171	4,623,611	328,795	396,189	80,644	598,745	26,772	381,868	7,351,795	621,221	192,647	58,936	872,804	(66,282)	8,158,317
Other operating expenses	(214,785)	(1,320,109)	(10,803)	(21,877)	(31,731)	(172,517)	(14,212)	(408,162)	(2,194,196)	(304,817)	(57,716)	(13,189)	(375,722)	66,282	(2,503,636)
of which:															
Depreciation	(2,037)	(61,533)	(184)	(1,034)	(780)	(4,901)	(4,304)	(61,733)	(136,506)	(12,510)	(10,606)	(1,566)	(24,662)	-	(161,188)
(Allowance)/writeback of allowance for impairment on loans, advances and financing	(205,015)	(16,972)	21,331	-	(309)	-	-	-	(200,965)	(132,433)	(15,761)	(2,093)	(150,287)	-	(351,252)
Writeback of impairment on other assets	-	149	-	-	-	-	-	-	149	-	-	-	-	-	149
Profit by segments	495,371	3,286,679	339,323	374,312	48,604	426,228	12,560	(26,294)	4,956,783	183,971	119,770	43,654	346,795	-	5,303,578
Reconciliation of segment profits to consolidated profits:															
Share of profit after tax of equity accounted associated companies									258				6,148		6,406
Profit before tax expense and zakat									4,957,041				352,943		5,309,984
Cost-to-income ratio	23.5%	28.6%	3.3%	5.5%	39.3%	28.8%	53.1%	106.9%	29.8%	49.1%	30.0%	22.4%	43.0%		30.7%

52. SEGMENT INFORMATION (CONT'D.)

By Business Segments (Cont'd.):

	Domestic Operating Segments										Overseas Operating Segments				
	Hire Purchase	Retail Operations	Corporate Lending	Market Operations	Investment Banking	Fund Management	Others	Head Office	Total Domestic Operations	Hong Kong SAR	Cambodia	Other Countries	Total Overseas Operations	Inter-segment Elimination	Group Total
2013 (Cont'd.)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross loans, advances and financing	43,178,908	137,467,748	25,566,913	-	365,248	53,890	2,211	-	206,634,918	11,573,237	2,430,458	537,190	14,540,885	-	221,175,803
Loan growth	6.8%	14.1%	9.7%	-	16.5%	4.5%	13.2%	-	12.0%	7.4%	17.0%	39.2%	9.8%	-	11.8%
Impaired loans and financing	330,288	943,701	90,313	-	-	-	-	-	1,364,302	74,329	44,108	2,040	120,477	-	1,484,779
Impaired loan ratio	0.8%	0.7%	0.4%	-	-	-	-	-	0.7%	0.6%	1.8%	0.4%	0.8%	-	0.7%
Deposits from customers	-	176,321,803	305,470	55,663,669	2,850,770	-	-	-	235,141,712	12,316,214	3,019,168	396,095	15,731,477	-	250,873,189
Deposit growth	-	14.7%	-4.9%	3.7%	-4.9%	-	-	-	11.6%	9.0%	11.3%	13.7%	9.5%	-	11.5%
Addition to non-current assets	1,324	56,130	23	2,290	559	4,525	22,881	27,610	115,342	8,739	3,955	876	13,570	-	128,912
Segment assets	42,899,484	184,423,380	25,195,712	73,670,860	4,259,476	344,470	319,936	21,079,419	352,492,737	16,200,403	4,064,847	807,063	21,072,333	(71,040,117)	302,524,953
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									37,158				121,727		158,885
Unallocated assets									1,037,646				-		1,037,646
Intangible assets									769,251				1,234,661		2,003,912
Total assets									354,336,792				22,428,721		305,725,396

NOTES TO THE FINANCIAL STATEMENTS

52. SEGMENT INFORMATION (CONT'D.)

By Business Segments (Cont'd.):

	← Domestic Operating Segments →					← Overseas Operating Segments →										
	Hire Purchase	Retail Operations	Corporate Lending	Market Operations	Treasury and Capital	Investment Banking	Fund Management	Others	Head Office	Total Domestic Operations	Hong Kong SAR	Cambodia	Other Countries	Total Overseas Operations	Inter-segment Elimination	Group Total
2012 (Restated)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	2,257,989	6,747,976	965,969	1,671,370	870,984	184,373	870,984	4,818	346,443	13,049,922	740,680	219,518	47,977	1,008,175	-	14,058,097
Revenue from other segments	-	1,007,641	12,595	732,202	11,786	24,566	11,786	29,318	1,456,958	3,275,066	-	3,423	63	3,486	(3,278,552)	-
Total revenue	2,257,989	7,755,617	978,564	2,403,572	882,770	208,939	882,770	34,136	1,803,401	16,324,988	740,680	222,941	48,040	1,011,661	(3,278,552)	14,058,097
Net interest income and Islamic banking income	1,001,343	3,886,380	269,420	145,129	12,532	14,096	12,532	(7,703)	122,792	5,443,989	482,679	125,826	36,117	654,422	-	6,098,411
Other income	6,339	484,802	44,965	226,963	509,526	60,050	509,526	33,906	199,032	1,555,583	105,828	41,437	1,764	149,029	(66,314)	1,648,298
Net income	1,007,682	4,371,182	314,385	372,092	522,058	74,146	522,058	26,203	321,824	7,009,572	588,507	167,063	37,881	803,451	(66,314)	7,746,709
Other operating expenses of which:	(211,028)	(1,342,137)	(9,811)	(19,445)	(149,897)	(29,608)	(149,897)	(14,479)	(353,397)	(2,129,802)	(291,285)	(51,375)	(11,442)	(354,102)	66,314	(2,417,590)
Depreciation	(2,248)	(64,640)	(180)	(890)	(4,336)	(772)	(4,336)	(4,390)	(66,445)	(143,881)	(12,435)	(9,372)	(1,565)	(23,372)	-	(167,253)
(Allowance)/writeback of allowance for impairment on loans, advances and financing	(128,319)	(36,195)	17,726	-	-	(415)	-	-	-	(147,203)	(125,823)	(5,190)	(1,028)	(132,041)	-	(279,244)
Impairment on other assets	-	(6,626)	-	-	-	-	-	-	-	(6,626)	-	-	-	-	-	(6,626)
Profit by segments	688,335	2,986,724	322,300	352,647	372,161	44,123	372,161	11,724	(31,573)	4,725,941	181,399	110,488	25,411	317,308	-	5,043,249
Reconciliation of segment profits to consolidated profits:																
Share of (loss)/profit after tax of equity accounted associated companies										(3,687)				7,672		3,985
Profit before tax expense and zakat										4,722,254				324,980		5,047,234
Cost-to-income ratio	20.9%	30.7%	3.1%	5.2%	28.7%	39.8%	28.7%	55.3%	109.8%	30.4%	48.7%	30.8%	30.2%	44.1%		31.2%

52. SEGMENT INFORMATION (CONT'D.)

By Business Segments (Cont'd.):

	← Domestic Operating Segments →						← Overseas Operating Segments →								
	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
2012 (Restated) (Cont'd.)															
Gross loans, advances and financing	40,434,621	120,440,651	23,293,542	-	313,440	51,567	1,954	-	184,541,775	10,778,263	2,077,097	386,029	13,241,389	-	197,783,164
Loan growth	9.0%	14.8%	7.2%	-	22.5%	6.7%	-7.6%	-	12.5%	-5.0%	7.0%	19.0%	-2.7%	-	11.3%
Impaired loans and financing	241,137	860,301	111,184	-	-	-	-	-	1,212,622	96,054	63,105	2,305	161,464	-	1,374,086
Impaired loan ratio	0.6%	0.7%	0.5%	-	-	-	-	-	0.7%	0.9%	3.0%	0.6%	1.2%	-	0.7%
Deposits from customers	-	153,661,620	321,327	53,699,558	2,997,848	-	-	-	210,680,353	11,300,040	2,713,518	348,414	14,361,972	-	225,042,325
Deposit growth	-	14.8%	2.1%	10.0%	-12.2%	-	-	-	13.0%	0.7%	13.8%	9.8%	3.1%	-	12.3%
Addition to non-current assets	1,310	65,465	664	522	960	4,796	38,519	18,130	130,366	9,625	4,384	3,313	17,322	-	147,688
Segment assets	40,253,867	162,341,853	23,210,411	68,221,866	4,238,004	309,428	305,059	18,205,449	317,085,937	14,887,216	3,566,872	660,193	19,133,281	(64,647,889)	271,571,329
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									37,319				113,891		151,210
Unallocated assets									1,175,072				-		1,175,072
Intangible assets									769,251				1,157,096		1,926,347
Total assets									319,067,579				20,404,268		274,823,958

53. CHANGES IN ACCOUNTING POLICIES

Effects of adopting MFRS 119 Employee Benefits (as amended by IASB in June 2011)

The adoption of the revised MFRS 119 affected the accounting treatment of certain items such as the timing of the recognition of certain gains and losses arising from defined benefit plans and the presentation of changes in defined benefit liability or asset. The key changes to the accounting policy and financial impact to the Group and the Bank are as follows:

- Actuarial gains and losses (renamed as ‘remeasurements’) are recognised immediately in other comprehensive income, and are not subsequently recycled to the statement of profit or loss. The corridor approach for accounting for unrecognised actuarial gains in prior years is discontinued.
- Past service costs, whether unvested or already vested, are recognised immediately in the statement of profit or loss as incurred. Pension costs for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the interest cost and expected return on plan assets.

The revised MFRS 119 has resulted in changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. This change in accounting policy has been accounted for retrospectively and a summary of financial impact to the Group and the Bank on initial adoption are as follows:

(i) Statements of Financial Position

	Group		Bank	
	31 December 2012 RM'000	1 January 2012 RM'000	31 December 2012 RM'000	1 January 2012 RM'000
Other Assets				
As previously stated	2,006,919	2,008,254	1,906,721	1,913,726
– Reclassification	99,723	92,709	96,303	89,527
– Effects of adoption of MFRS 119	99,356	120,672	95,948	116,534
As restated	2,205,998	2,221,635	2,098,972	2,119,787
Other Assets				
– <u>Employee Benefits (Note 10)</u>				
As previously stated	–	–	–	–
– Reclassification	99,723	92,709	96,303	89,527
– Effects of adoption of MFRS 119	99,356	120,672	95,948	116,534
As restated	199,079	213,381	192,251	206,061
Other Liabilities				
As previously stated	3,570,526	3,467,535	2,482,585	2,368,328
– Reclassification	99,723	92,709	96,303	89,527
As restated	3,670,249	3,560,244	2,578,888	2,457,855

53. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

Effects of adopting MFRS 119 Employee Benefits (as amended by IASB in June 2011) (Cont'd.)

(i) Statements of Financial Position (Cont'd.)

	Group		Bank	
	31 December 2012 RM'000	1 January 2012 RM'000	31 December 2012 RM'000	1 January 2012 RM'000
<u>Other Liabilities</u>				
– Employee Benefits (Note 23)				
As previously stated	(99,723)	(92,709)	(96,303)	(89,527)
– Reclassification	99,723	92,709	96,303	89,527
As restated	–	–	–	–
<u>Deferred Tax Liabilities</u>				
As previously stated	47,911	55,625	32,003	51,708
– Effects of adoption of MFRS 119	24,839	30,168	23,987	29,133
As restated	72,750	85,793	55,990	80,841
<u>Retained Profits</u>				
As previously stated	9,453,647	7,276,808	8,918,940	6,852,318
– Effects of adoption of MFRS 119	(178,738)	(136,219)	(172,608)	(131,547)
As restated	9,274,909	7,140,589	8,746,332	6,720,771
<u>Other Reserves</u>				
– Defined Benefit Reserves (Note 28)				
As previously stated	–	–	–	–
Effects of adoption of MFRS 119	253,255	226,723	244,569	218,947
As restated	253,255	226,723	244,569	218,947

53. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

Effects of adopting MFRS 119 Employee Benefits (as amended by IASB in June 2011) (Cont'd.)

(ii) Statements of Profit or Loss

	2012	
	Group RM'000	Bank RM'000
Other Operating Expenses		
As previously stated	2,360,898	1,596,522
– Effects of adoption of MFRS 119	56,692	54,748
As restated	2,417,590	1,651,270
Other Operating Expenses – Personnel Costs		
– Pension Costs (Note 35)		
As previously stated	145,151	126,063
– Effects of adoption of MFRS 119	56,692	54,748
As restated	201,843	180,811
Profit Before Tax Expenses and Zakat		
As previously stated	5,103,926	4,681,734
– Effects of adoption of MFRS 119	(56,692)	(54,748)
As restated	5,047,234	4,626,986
Tax Expense and Zakat		
As previously stated	1,192,165	933,174
– Effects of adoption of MFRS 119	(14,173)	(13,687)
As restated	1,177,992	919,487
Profit for the Year		
As previously stated	3,911,761	3,748,560
– Effects of adoption of MFRS 119	(42,519)	(41,061)
As restated	3,869,242	3,707,499
Profit Attributable to Equity Holders of the Bank		
As previously stated	3,869,273	3,748,560
– Effects of adoption of MFRS 119	(42,519)	(41,061)
As restated	3,826,754	3,707,499

53. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

Effects of adopting MFRS 119 Employee Benefits (as amended by IASB in June 2011) (Cont'd.)

(iii) Capital Adequacy

The adjustments to the financial statements of the Group and the Bank as a result of the adoption of MFRS 119, as discussed above, also had consequential effects on the comparative capital adequacy ratios. These are summarised below:

	As at 31 December 2012		As at 1 January 2012	
	As previously stated	As restated	As previously stated	As restated
Group				
Tier I capital (RM'000)	20,437,184	20,511,701	18,249,867	18,340,371
Total capital (RM'000)	26,298,110	26,372,627	25,416,082	25,506,586
Risk-weighted assets (RM'000)	179,526,865	179,725,944	163,027,275	163,240,656
<u>Before deducting second interim dividends*</u>				
Tier I capital ratio (%)	11.384	11.413	11.194	11.235
Total capital ratio (%)	14.649	14.674	15.590	15.625
<u>After deducting second interim dividends*</u>				
Tier I capital ratio (%)	10.799	10.828	10.593	10.634
Total capital ratio (%)	14.063	14.089	14.989	15.024
Bank				
Tier I capital (RM'000)	20,371,029	20,442,990	18,216,433	18,303,833
Total capital (RM'000)	21,723,520	21,795,481	21,044,900	21,132,300
Risk-weighted assets (RM'000)	149,774,165	149,966,416	134,887,816	135,093,877
<u>Before deducting second interim dividends*</u>				
Tier I capital ratio (%)	13.601	13.632	13.505	13.549
Total capital ratio (%)	14.504	14.534	15.602	15.643
<u>After deducting second interim dividends*</u>				
Tier I capital ratio (%)	12.900	12.931	12.778	12.823
Total capital ratio (%)	13.803	13.833	14.875	14.917

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

54. RATING STATEMENT

As at 31 December 2013, the Bank was accorded the following ratings:

Agencies	Date accorded/Reaffirmed	Ratings
Rating Agency	3 September 2013 (Reaffirmed)	Long-Term Rating: AAA
Malaysia Berhad	3 September 2013 (Reaffirmed)	Short-Term Rating: P1
	3 September 2013 (Reaffirmed)	Outlook: Stable
	3 September 2013 (Reaffirmed)	RM5 Billion Subordinated Medium-Term Notes Programme: AA1/Stable
	3 September 2013 (Reaffirmed)	Innovative Tier I Capital Securities: AA2/Stable
	3 September 2013 (Reaffirmed)	Non-Cumulative Perpetual Capital Securities Programme: AA2/Stable
	3 September 2013 (Reaffirmed)	Senior Medium-Term Notes Programme: AAA/Stable
	3 September 2013 (Assigned)	RM10 Billion Subordinated Medium-Term Notes Programme: AA1/Stable
Moody's Investors Services	20 November 2013 (Reaffirmed)	Foreign Currency: Long-Term Deposits Rating: A3 Short-Term Deposits Rating: P-2
	20 November 2013 (Reaffirmed)	Local Currency: Long-Term Deposits Rating: A1 Short-Term Deposits Rating: P-1
	20 November 2013 (Reaffirmed)	Financial Strength: C
	20 November 2013	Foreign Currency Outlook: Positive
	20 November 2013 (Reaffirmed)	Local Currency Outlook: Stable
	20 November 2013 (Reaffirmed)	Innovative Tier I Capital Securities: Baa2
Standard & Poor's	29 November 2013 (Reaffirmed)	Foreign Currency: Long-Term Rating: A- Short-Term Rating: A-2
	29 November 2013 (Reaffirmed)	Local Currency: Long-Term Deposits Rating: A Short-Term Deposits Rating: A-1
	29 November 2013 (Reaffirmed)	Asean Regional Scale Rating: Long-Term Rating: axAA Short-Term Rating: axA-1
	29 November 2013 (Reaffirmed)	Foreign Currency Outlook: Stable
	29 November 2013 (Reaffirmed)	Local Currency Outlook: Stable
	29 November 2013 (Reaffirmed)	Innovative Tier I Capital Securities: BBB-

55. SIGNIFICANT EVENTS

The significant events relating to changes in the composition of the Group are disclosed in Notes 13 and those relating to debt issuance and debt redemption are disclosed in Note 22.

56. SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

57. ISLAMIC BANKING BUSINESS

The financial position as at 31 December 2013 and results for the financial year ended on this date under the Islamic banking business of the Group, which is conducted by its wholly-owned subsidiary company, Public Islamic Bank Berhad, are summarised as follows:

Statement of Financial Position as at 31 December 2013

	Note	Group		
		31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
ASSETS				
Cash and balances with banks		6,744,111	4,709,388	6,257,092
Financial assets held-for-trading		1,752,632	2,638,867	1,249,014
Derivative financial assets		130,777	21,839	–
Financial investments available-for-sale		1,891,272	994,923	1,830,720
Financial investments held-to-maturity		–	–	5,022
Financing and advances	(a)	22,904,370	20,168,110	19,224,468
Other assets		88,537	77,402	85,645
Statutory deposits with Bank Negara Malaysia		939,850	671,450	775,700
Investment in an associated company		20,000	20,000	20,000
Property and equipment		1,026	1,327	1,619
Total Assets		34,472,575	29,303,306	29,449,280
LIABILITIES AND ISLAMIC BANKING FUNDS				
Deposits from customers	(b)	28,400,736	23,703,338	20,029,935
Deposits from banks		2,789,398	2,644,831	7,179,533
Bills and acceptances payable		3,825	625	334
Recourse obligations on financing sold to Cagamas		500,011	500,003	–
Other liabilities		116,854	108,897	73,120
Provision for zakat and taxation		36,012	50,188	46,512
Deferred tax liabilities		34,293	6,588	1,029
Total Liabilities		31,881,129	27,014,470	27,330,463
Islamic Banking Funds		2,591,446	2,288,836	2,118,817
Total Liabilities and Islamic Banking Funds		34,472,575	29,303,306	29,449,280
COMMITMENTS AND CONTINGENCIES		5,650,699	4,642,159	1,910,159

The accompanying notes form an integral part of the financial statements.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

Statement of Profit or Loss for the financial year ended 31 December 2013

	Group	
	2013 RM'000	2012 RM'000 (Restated)
Income derived from investment of depositors' funds and others	1,423,221	1,386,046
Income derived from investment of Islamic Banking Funds	119,799	111,916
Allowance for impairment on financing and advances	(100,756)	(49,706)
Impairment on other assets	(16)	(25)
Profit Equalisation Reserve	(497)	(2,180)
Total distributable income	1,441,751	1,446,051
Income attributable to the depositors and others	(705,387)	(652,016)
Total net income	736,364	794,035
Personnel expenses	(15,502)	(17,850)
Other overheads and expenditures	(247,623)	(232,621)
Profit before zakat and taxation	473,239	543,564
Zakat	(264)	(330)
Taxation	(115,935)	(133,156)
Profit for the year	357,040	410,078

Net income from Islamic banking business as reported in the statement of profit or loss of the Group is derived as follows:

	Group	
	2013 RM'000	2012 RM'000
Income derived from investment of depositors' funds and others	1,423,221	1,386,046
Income derived from investment of Islamic Banking Funds	119,799	111,916
Income attributable to the depositors and others	(705,387)	(652,016)
Profit Equalisation Reserve	(497)	(2,180)
Net income from Islamic banking business reported in the statement of profit or loss of the Group	837,136	843,766

The accompanying notes form an integral part of the financial statements.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2013

	Group	
	2013 RM'000	2012 RM'000 (Restated)
Profit for the year	357,040	410,078
Other comprehensive income:		
<u>Items that will not be reclassified to profit or loss:</u>		
Defined benefit reserves:		
– Gain on remeasurements of defined benefit plans	2,823	739
<u>Items that may be reclassified to profit or loss:</u>		
Revaluation reserves:		
– Net change in revaluation of financial investments available-for-sale	1,020	1,441
Hedging reserves:		
– Net change in cash flow hedges	108,981	21,764
	110,001	23,205
Income tax relating to components of other comprehensive income:		
– Defined benefit reserves	(706)	(185)
– Revaluation reserves	(255)	(360)
– Hedging reserves	(27,246)	(5,441)
	(28,207)	(5,986)
Other comprehensive income for the year, net of tax	84,617	17,958
Total comprehensive income for the year	441,657	428,036

The accompanying notes form an integral part of the financial statements.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

Statement of Changes in Islamic Banking Funds for the financial year ended 31 December 2013

Group	Non-distributable Reserves							Distributable Reserves		Total RM'000
	Capital Funds RM'000	Share Premium RM'000	Statutory Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Defined Benefit Reserves RM'000	Profit Equalisation Reserves RM'000	Retained Profits RM'000		
At 1 January 2013										
– as previously stated	193,217	1,589,500	207,546	16,323	2,116	–	503	278,074	2,287,279	
– effects of adoption of MFRS 119	–	–	–	–	–	5,293	–	(3,736)	1,557	
At 1 January 2013, as restated	193,217	1,589,500	207,546	16,323	2,116	5,293	503	274,338	2,288,836	
Profit for the year	–	–	–	–	–	–	–	357,040	357,040	
Other comprehensive income for the year	–	–	–	81,735	765	2,117	–	–	84,617	
Total comprehensive income for the year	–	–	–	81,735	765	2,117	–	357,040	441,657	
Transactions with owners/ other equity movements:										
Transfer from Profit Equalisation Reserves of Islamic banking institution	–	–	–	–	–	–	(503)	503	–	
Issue of shares	7,000	168,000	–	–	–	–	–	–	175,000	
Dividends paid	–	–	–	–	–	–	–	(314,047)	(314,047)	
	7,000	168,000	–	–	–	–	(503)	(313,544)	(139,047)	
At 31 December 2013	200,217	1,757,500	207,546	98,058	2,881	7,410	–	317,834	2,591,446	

The accompanying notes form an integral part of the financial statements.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

Statement of Changes in Islamic Banking Funds for the financial year ended 31 December 2013 (Cont'd.)

Group	← Non-distributable Reserves →						Distributable Reserves		Total RM'000
	Capital Funds RM'000	Share Premium RM'000	Statutory Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Defined Benefit Reserves RM'000	Profit Equalisation Reserves RM'000	Retained Profits RM'000	
At 1 January 2012									
– as previously stated	186,217	1,421,500	207,546	–	1,035	–	–	300,628	2,116,926
– effects of adoptions of MFRS 119	–	–	–	–	–	4,739	–	(2,848)	1,891
At 1 January 2012, as restated	186,217	1,421,500	207,546	–	1,035	4,739	–	297,780	2,118,817
Profit for the year (restated)	–	–	–	–	–	–	–	410,078	410,078
Other comprehensive income for the year	–	–	–	16,323	1,081	554	–	–	17,958
Total comprehensive income for the year	–	–	–	16,323	1,081	554	–	410,078	428,036
Transactions with owners/ other equity movements:									
Transfer to Profit Equalisation Reserves of Islamic banking institution	–	–	–	–	–	–	503	(503)	–
Issue of shares	7,000	168,000	–	–	–	–	–	–	175,000
Dividends paid	–	–	–	–	–	–	–	(433,017)	(433,017)
	7,000	168,000	–	–	–	–	503	(433,520)	(258,017)
At 31 December 2012	193,217	1,589,500	207,546	16,323	2,116	5,293	503	274,338	2,288,836

The accompanying notes form an integral part of the financial statements.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(a) Financing and Advances

(i) Net financing and advances analysed by type are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
At amortised cost		
Cash line	515,028	330,235
Term financing		
– House financing	5,551,632	4,235,554
– Syndicated financing	300,647	412,933
– Hire purchase receivables	11,168,723	10,189,015
– Other term financing	5,557,720	5,184,288
Trust receipts	654	–
Claims on customers under acceptance credits	20,225	2,762
Revolving credit	90,229	68,223
Gross financing and advances	23,204,858	20,423,010
Less: Allowance for impaired financing and advances		
– collective assessment allowance	(300,488)	(254,261)
– individual assessment allowance	–	(639)
Net financing and advances	22,904,370	20,168,110

All the Group's Islamic banking financing and advances are located in Malaysia.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(a) Financing and Advances (Cont'd.)

(ii) The maturity structure of gross financing and advances are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Maturity within one year	891,135	709,405
More than one year to three years	1,879,176	1,687,887
More than three years to five years	3,311,487	3,014,720
More than five years	17,123,060	15,010,998
Gross financing and advances	23,204,858	20,423,010

(iii) Gross financing and advances presented by class of financial instrument are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Retail financing		
– House financing	5,551,632	4,235,554
– Hire purchase	11,168,723	10,189,015
– Other financing*	5,701,115	5,232,178
Corporate financing	22,421,470	19,656,747
	783,388	766,263
	23,204,858	20,423,010

* Included in other financing are other term financing, cash line and revolving credit.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(a) Financing and Advances (Cont'd.)

(iv) Gross financing and advances analysed by contract are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Bai' Bithaman Ajil-i (deferred payment sale)	8,128,835	7,011,275
Ijarah Thamma Al-Bai'-i (leasing)	11,168,723	10,189,015
Ijarah Muntahia Bittamlik	–	112,326
Bai-Al-Einah-i	2,500,022	3,062,356
Musharakah Mutanaqisah	1,386,398	45,276
Murabahah Purchase Order	20,880	2,762
	23,204,858	20,423,010

(v) Gross financing and advances analysed by type of customer are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Other domestic non-bank financial institutions	70,819	242,250
Domestic business enterprises		
– Small and medium enterprises	2,295,841	1,562,812
– Others	628,914	508,927
Government and statutory authorities	319,779	321,878
Individuals	19,829,076	17,739,162
Other domestic entities	2,618	2,878
Foreign customers	57,811	45,103
	23,204,858	20,423,010

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(a) Financing and Advances (Cont'd.)

(vi) Gross financing and advances analysed by rate of return sensitivity are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Fixed rate		
– House financing	595,595	679,755
– Hire purchase receivables	11,168,723	10,189,015
– Other fixed rate financing	2,972,305	3,599,339
Variable rate		
– BFR plus	8,056,503	5,554,563
– Cost plus	411,732	400,338
	23,204,858	20,423,010

(vii) Gross financing and advances analysed by economic purpose are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Purchase of securities	4	4
Purchase of transport vehicles	11,168,115	10,187,456
Purchase of landed properties	8,020,809	5,941,722
(of which: – residential	5,504,881	4,185,965
– non-residential)	2,515,928	1,755,757
Purchase of fixed assets (excluding landed properties)	13,968	26,149
Personal use	2,724,165	3,234,529
Purchase of consumer durables	3,236	3,643
Construction	40,453	39,659
Working capital	1,015,039	755,405
Other purpose	219,069	234,443
	23,204,858	20,423,010

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(a) Financing and Advances (Cont'd.)

(viii) Gross financing and advances analysed by sector are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Agriculture, hunting, forestry and fishing	291,915	208,156
Mining and quarrying	30,016	19,182
Manufacturing	213,926	126,675
Electricity, gas and water	1,216	1,161
Construction	451,152	348,382
Wholesale & retail trade and restaurants & hotels	598,855	423,316
Transport, storage and communication	121,013	112,119
Finance, insurance and business services	331,364	442,921
Real estate	843,349	545,893
Community, social and personal services	433,301	405,029
Households	19,886,887	17,784,265
Others	1,864	5,911
	23,204,858	20,423,010

(ix) Movements in impaired financing and advances are as follows:

	Group	
	2013 RM'000	2012 RM'000
At 1 January	175,167	173,277
Impaired during the year	523,987	442,749
Reclassified as non-impaired during the year	(388,637)	(332,199)
Recoveries	(30,337)	(29,725)
Amount written off	(71,846)	(78,678)
Financing converted to foreclosed properties	(260)	(257)
At 31 December	208,074	175,167
Gross impaired financing as % of gross financing and advances	0.90%	0.86%

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(a) Financing and Advances (Cont'd.)

(x) Impaired financing and advances analysed by economic purpose are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Purchase of securities	4	4
Purchase of transport vehicles	99,044	72,212
Purchase of landed properties	63,156	61,700
(of which: – residential	54,835	48,359
– non-residential)	8,321	13,341
Purchase of fixed assets (excluding landed properties)	–	61
Personal use	44,497	40,597
Purchase of consumer durables	78	68
Working capital	1,136	480
Other purpose	159	45
	208,074	175,167

(xi) Impaired financing and advances analysed by sector are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Agriculture, hunting, forestry and fishing	544	2
Mining and quarrying	–	35
Manufacturing	701	667
Construction	974	783
Wholesale & retail trade and restaurants & hotels	1,831	952
Transport, storage and communication	1,290	6,867
Finance, insurance and business services	705	649
Real estate	831	–
Community, social and personal services	309	111
Households	200,864	164,911
Others	25	190
	208,074	175,167

All the Group's Islamic banking impaired financing and advances are located in Malaysia.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(a) Financing and Advances (Cont'd.)

(xii) A reconciliation of the allowance for impaired financing and advances are as follows:

	<———— Retail Financing ————>				
	House Financing RM'000	Hire Purchase RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
2013					
<u>Collective Assessment Allowance</u>					
At 1 January 2013	52,476	133,903	66,530	1,352	254,261
Allowance made/(written back) during the year	11,194	68,836	38,046	(3)	118,073
Amount written off	(3,411)	(37,574)	(30,861)	—	(71,846)
At 31 December 2013	60,259	165,165	73,715	1,349	300,488
2012					
<u>Collective Assessment Allowance</u>					
At 1 January 2012	47,317	131,428	87,489	1,355	267,589
Allowance made/(written back) during the year	7,354	44,973	12,770	(3)	65,094
Amount written off	(2,195)	(42,498)	(33,729)	—	(78,422)
At 31 December 2012	52,476	133,903	66,530	1,352	254,261
2013					
<u>Individual Assessment Allowance</u>					
At 1 January 2013	—	—	639	—	639
Amount written back in respect of recoveries	—	—	(639)	—	(639)
At 31 December 2013	—	—	—	—	—
2012					
<u>Individual Assessment Allowance</u>					
At 1 January 2012	—	—	1,346	—	1,346
Net allowance made during the year	—	—	(451)	—	(451)
Allowance made during the year	—	—	256	—	256
Amount written back in respect of recoveries	—	—	(707)	—	(707)
Amount written off	—	—	(256)	—	(256)
At 31 December 2012	—	—	639	—	639

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(b) Deposits From Customers

(i) By type of deposit:

By type of deposit	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Savings deposit		
– Wadiah	4,823,093	4,568,625
– Mudharabah	63,510	66,681
	4,886,603	4,635,306
Demand deposit		
– Wadiah	2,958,752	2,462,377
– Mudharabah	94,753	57,198
	3,053,505	2,519,575
Term deposit		
– Negotiable Islamic Debt Certificate		
– Bai-Al-Einah	642,941	522,400
– General investment account		
– Mudharabah	3,205,661	3,075,664
– Wakalah	12,945,906	10,326,345
	16,151,567	13,402,009
– Special investment account		
– Wakalah	3,666,120	2,624,048
	28,400,736	23,703,338

Included in Deposits from Customers are deposits of RM78,225,000 (31 December 2012 – RM41,551,000) held as collateral for financing and advances.

57. ISLAMIC BANKING BUSINESS (CONT'D.)

(b) Deposits From Customers (Cont'd.)

(ii) By class of financial instrument:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Core deposits	24,091,675	20,556,890
Wholesale deposits	4,309,061	3,146,448
	28,400,736	23,703,338

(iii) By type of customers:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Federal and state governments	1,216,865	1,454,940
Local government and statutory authorities	1,084,443	1,112,651
Business enterprises	6,545,270	4,494,823
Individuals	5,498,911	5,113,732
Foreign customers	395,545	315,736
Others	13,659,702	11,211,456
	28,400,736	23,703,338

(iv) The maturity structure of Islamic debt certificate and general and special investment account are as follows:

	Group	
	31 December 2013 RM'000	31 December 2012 RM'000
Due within six months	18,006,968	15,319,778
More than six months to one year	2,450,561	1,224,742
More than one year to three years	2,757	3,231
More than three years to five years	342	706
	20,460,628	16,548,457

58. REALISED AND UNREALISED PROFITS

On 25 March 2010, Bursa Malaysia Securities Berhad (“Bursa Malaysia”) issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group and the Bank as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	Group		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Total retained profits of Public Bank Berhad and its subsidiaries:			
– Realised	12,306,123	10,300,634	8,049,470
– Unrealised			
– in respect of deferred tax recognised in the statement of profit or loss	101,676	74,804	30,997
– in respect of other items of income and expense	81,457	75,611	52,059
	12,489,256	10,451,049	8,132,526
Total share of retained profits from associated companies:			
– Realised	3,484	4,495	6,433
– Unrealised	–	–	–
	12,492,740	10,455,544	8,138,959
Less: Consolidation adjustments	(985,175)	(1,180,635)	(998,370)
Total Group retained profits as per consolidated accounts	11,507,565	9,274,909	7,140,589

58. REALISED AND UNREALISED PROFITS (CONT'D.)

The breakdown of retained profits of the Group and the Bank as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows (Cont'd.):

	Bank		
	31 December 2013 RM'000	31 December 2012 RM'000 (Restated)	1 January 2012 RM'000 (Restated)
Total retained profits of Public Bank Berhad:			
– Realised	10,573,116	8,713,794	6,723,874
– Unrealised			
– in respect of deferred tax recognised in the statement of profit or loss	38,745	19,109	(13,651)
– in respect of other items of income and expense	17,378	13,429	10,548
Total Bank retained profits as per accounts	10,629,239	8,746,332	6,720,771

The determination of realised and unrealised profits is based on the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

Accordingly, the unrealised retained profits of the Group and the Bank as disclosed above exclude translation gains and losses on monetary items denominated in a currency other than the functional currency and foreign exchange contracts, as these gains and losses are incurred in the ordinary course of business of the Group and the Bank, and are hence deemed as realised.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

PILLAR 3 DISCLOSURE

As at 31 December 2013

OVERVIEW

The Pillar 3 Disclosure is required under the Bank Negara Malaysia (“BNM”)’s Risk-Weighted Capital Adequacy Framework (“RWCAF”), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. Basel II consists of 3 Pillars as follows:

- (a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume;
- (b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions to develop and employ more rigorous risk management framework and techniques, including specific oversight by the board of directors and senior management on internal controls and corporate governance practices, to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times; and
- (c) Pillar 3 aims to harness market discipline through enhanced disclosure to supplement regulatory supervision of banking institutions through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

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

The Group’s Pillar 3 Disclosure is governed by the Disclosure Policy on Basel II Risk-Weighted Capital Adequacy Framework/Capital Adequacy Framework for Islamic Banks - Pillar 3 which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been reviewed and verified by the internal auditors and certified by Public Bank Berhad (“the Bank”)’s Managing Director/Chief Executive Officer. Under the BNM’s RWCAF, the information disclosed herein is not required to be audited by external auditors. The Pillar 3 Disclosure will be published in the Bank’s website, www.publicbank.com.my

OVERVIEW (CONT'D.)

Minimum Regulatory Capital Requirements

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

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

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

1. SCOPE OF APPLICATION

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

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

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

There were no capital deficiencies in any of the subsidiary companies of the Group during the financial year.

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

2. CAPITAL MANAGEMENT

The Group's Internal Capital Adequacy Assessment Process ("ICAAP") is central to the Group's capital management whereby:

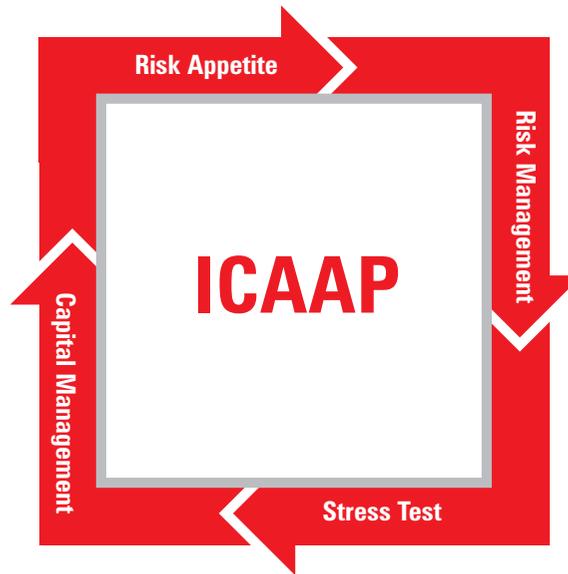
- (i) The risk management processes are continuously reviewed and enhanced to facilitate a comprehensive risk assessment of the various types of risk that the Group may be exposed to apart from the traditional Pillar 1 credit, market and operational risks; and
- (ii) The setting aside of capital that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

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

2. CAPITAL MANAGEMENT (CONT'D.)

2.1 Internal Capital Adequacy Assessment Process

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



(a) Risk Appetite

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

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



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

2. CAPITAL MANAGEMENT (CONT'D.)

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

(b) Capital Management

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

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

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

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

(c) Stress Testing

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

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

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

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

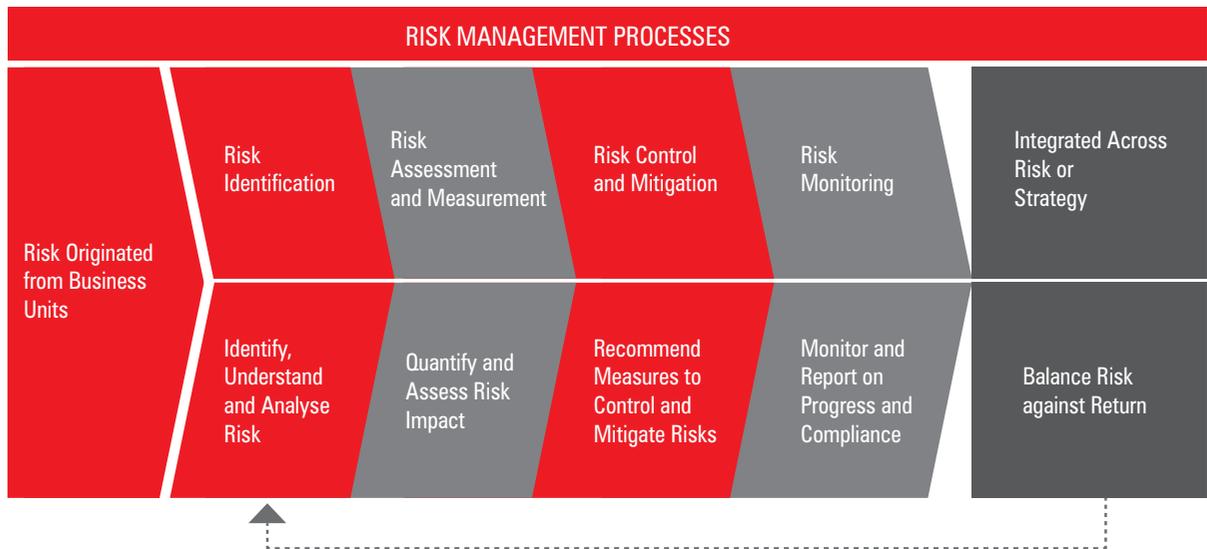
2. CAPITAL MANAGEMENT (CONT'D.)

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

(d) Risk Management

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

The risk management processes are as follows:



2.2 Capital Adequacy Ratios and Capital Structure

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

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

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

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

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

2. CAPITAL MANAGEMENT (CONT'D.)

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

(b) Capital Structure

	Group		Bank	
	2013 RM'000	2012 RM'000 (Restated)*	2013 RM'000	2012 RM'000 (Restated)*
CET I capital/Tier I capital				
Paid-up share capital	3,531,926	3,531,926	3,531,926	3,531,926
Share premium	1,073,310	1,073,310	1,073,310	1,073,310
Other reserves	4,402,843	4,218,576	3,924,896	3,750,880
Retained profits	11,507,565	9,274,909	10,892,504	9,104,376
Treasury shares	(215,572)	(215,572)	(215,572)	(215,572)
Qualifying non-controlling interests	522,093	699,864	–	–
Less: Goodwill	(2,003,912)	(1,899,875)	(695,393)	(695,393)
Less: Deferred tax assets, net	(70,121)	(64,900)	–	–
Less: Defined benefit pension fund assets	(220,922)	–	(215,372)	–
Total CET I capital	18,527,210	16,618,238	18,296,299	16,549,527
Innovative Tier I capital securities	1,630,440	1,810,317	1,630,440	1,810,317
Non-innovative Tier I stapled securities	1,879,200	2,083,146	1,879,200	2,083,146
Qualifying CET I and additional Tier I capital instruments held by third parties	42,031	–	–	–
Total Tier I capital	22,078,881	20,511,701	21,805,939	20,442,990
Tier II capital				
Collective assessment allowance and regulatory reserves [#]	1,123,706	1,038,369	625,010	691,258
Subordinated notes				
– meeting all relevant criteria	1,949,116	–	1,949,116	–
– subject to gradual phase-out treatment	3,471,121	4,870,351	3,471,121	4,870,351
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	56,042	–	–	–
Less: Investment in banking/insurance subsidiary companies and associated companies	(142,255)	(960)	(4,264,787)	(4,162,284)
Less: Holdings of other financial institutions' capital instruments	–	(46,834)	–	(46,834)
Total Tier II capital	6,457,730	5,860,926	1,780,460	1,352,491
Total capital	28,536,611	26,372,627	23,586,399	21,795,481

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

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

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

2. CAPITAL MANAGEMENT (CONT'D.)

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

(b) Capital Structure (Cont'd.)

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

Capital Instruments	Capital Component	Main Features
(a) Non-Innovative Tier I stapled securities ("NIT-1")	Tier I Capital	<ul style="list-style-type: none"> Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with IT-1 Unsecured Perpetual, with optional redemption after 10 years. No step-up Able to defer interest but will trigger an assignment event, resulting in unstapling of the NIT-1. Investors will end up holding the perpetual securities Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders
(b) Innovative Tier I capital securities ("IT-1")	Tier I Capital	<ul style="list-style-type: none"> Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with NIT-1 Unsecured Optional redemption with step-up after 10 years Option to defer interest up to 50% of aggregate principal Principal and interest stock settlement provision
(c) Subordinated notes ("Sub Notes")	Tier II Capital	<ul style="list-style-type: none"> Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1 Unsecured Sub Notes issued prior to January 2011 are subject to optional redemption with step-up Sub Notes issued subsequent to January 2011 do not contain step-up upon optional redemption date No provisions for deferral of interest. Non-payment will result in default
(d) Basel III-Compliant Subordinated notes ("Basel III-Compliant Sub Notes")	Tier II Capital	<ul style="list-style-type: none"> Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1 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

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

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

3. RISK MANAGEMENT FRAMEWORK

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

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



3. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Governance

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

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	

Board of Directors

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

Risk Management Committee

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

Dedicated Risk Committees

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

3. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Governance (Cont'd.)

Shariah Committee

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

Independent Risk Management and Control Units

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

Business Units

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

Audit Committee

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

(b) Risk Appetite

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

(c) Risk Management Processes

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

(d) Risk Culture

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

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

4. CREDIT RISK

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

Minimum Regulatory Capital Requirements for Credit Risk

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

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

4. CREDIT RISK (CONT'D.)

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

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

4. CREDIT RISK (CONT'D.)

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

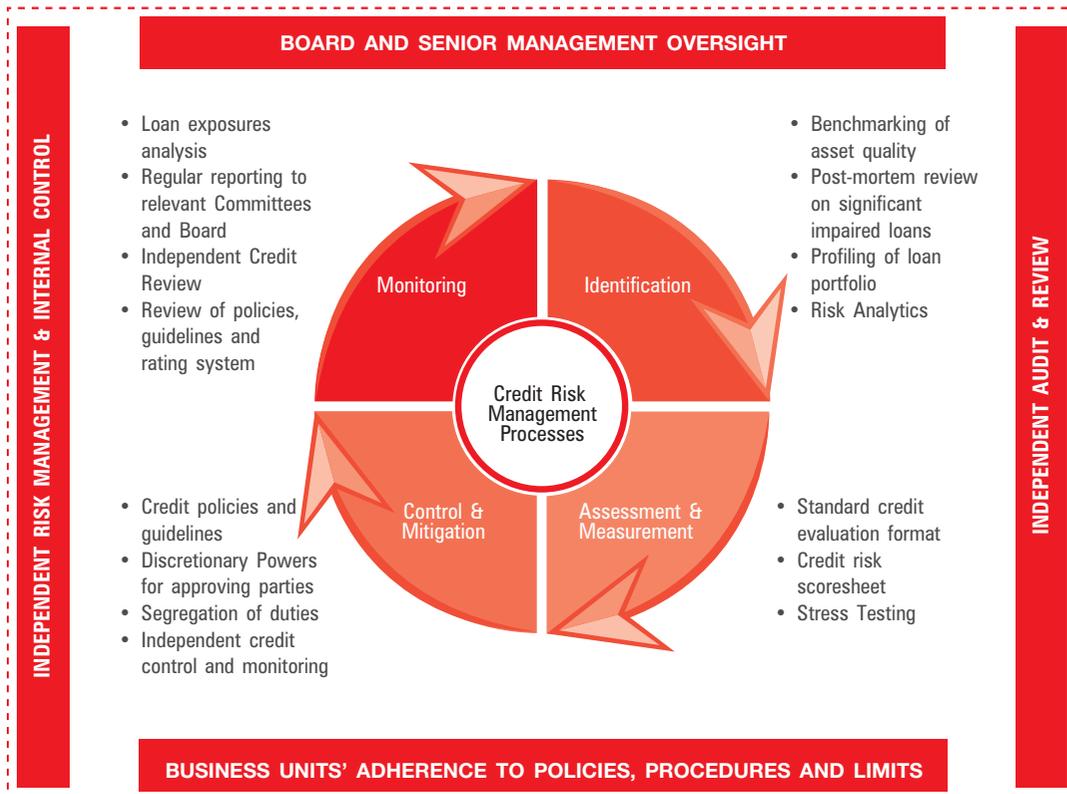
Bank Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2013				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	31,534,426	23,057,151	111,726	8,938
Public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

4. CREDIT RISK (CONT'D.)**Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)**

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

4. CREDIT RISK (CONT'D.)

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



Risk Governance

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

Risk Management Approach

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

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

4. CREDIT RISK (CONT'D.)

Risk Management Approach (Cont'd.)

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

(a) Lending to Retail Consumers and SMEs

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

(b) Lending to Corporate and Institutional Customers

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

(c) Credit Risk from Trading and Investment Activities

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

(d) Counterparty Credit Risk on Derivative Financial Instruments

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

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

4. CREDIT RISK (CONT'D.)

4.1 Distribution of Credit Exposures

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

- Industrial analysis based on its industrial distribution
- Geographical analysis based on the geographical location where the credit risk resides
- Maturity analysis based on the residual contractual maturity

For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

(a) Industry Analysis

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

4. CREDIT RISK (CONT'D.)

4.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis (Cont'd.)

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

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

4. CREDIT RISK (CONT'D.)

4.1 Distribution of Credit Exposures (Cont'd.)

(b) Geographical Analysis

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

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

4. CREDIT RISK (CONT'D.)

4.1 Distribution of Credit Exposures (Cont'd.)

(c) Maturity Analysis

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

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

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

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

4. CREDIT RISK (CONT'D.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

(a) Off-Balance Sheet Exposures

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

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

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out in item 4 of the Pillar 3 Disclosure.

(b) Counterparty Credit Risk on Derivative Financial Instruments

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

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

(i) Risk Management Approach

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

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

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

(ii) Credit Ratings Downgrade

Some netting and collateral arrangements may contain rating triggers, although the threshold levels in the majority of the Group's agreements are identical in the event of a one-notch rating downgrade. As at 31 December 2013, the estimated additional collateral required to be posted for one notch downgrade was RM4.4 million (2012: RM17.2 million).

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

4.3 Credit Risk Mitigation

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

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

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

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

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

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

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

4. CREDIT RISK (CONT'D.)

4.3 Credit Risk Mitigation (Cont'd.)

Credit Risk Mitigation Analysis

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

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2013				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	43,868,445	–	9,380,656	–
Public Sector Entities	710,882	613,134	–	–
Banks, DFIs and MDBs	10,933,454	–	144,959	–
Insurance Companies, Securities Firms and Fund Managers	190,518	–	3,989	–
Corporates	53,871,845	1,530,664	3,069,325	–
Regulatory Retail	107,217,507	1,256	747,596	–
Residential Mortgages	59,871,984	–	62,319	–
Higher Risk Assets	100,871	–	76	–
Other Assets	5,250,041	–	–	–
Equity Exposures	5,206,890	–	–	–
Defaulted Exposures	1,696,051	–	13,056	–
	288,918,488	2,145,054	13,421,976	–
Off-Balance Sheet Exposures				
Credit-related Exposures	21,945,654	258,522	468,951	–
Derivative Financial Instruments	1,067,569	–	–	–
Other Treasury-related Exposures	4,176	–	–	–
Defaulted Exposures	13,227	–	–	–
	23,030,626	258,522	468,951	–
Total Credit Exposures	311,949,114	2,403,576	13,890,927	–

4. CREDIT RISK (CONT'D.)

4.3 Credit Risk Mitigation (Cont'd.)

Credit Risk Mitigation Analysis (Cont'd.)

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

4. CREDIT RISK (CONT'D.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach

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

- (a) Standard & Poor's ("S&P")
- (b) Moody's Investors Services ("Moody's")
- (c) Fitch Ratings ("Fitch")
- (d) Rating Agency Malaysia Berhad ("RAM")
- (e) Malaysian Rating Corporation Berhad ("MARC")

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

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

Unrated and Rated Counterparties

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

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

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

4. CREDIT RISK (CONT'D.)**4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)**

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

4. CREDIT RISK (CONT'D.)

4.5 Credit Quality of Gross Loans, Advances and Financing

Gross Loans, Advances and Financing by Credit Quality

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

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

(a) Neither Past Due Nor Impaired

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

(b) Past Due But Not Impaired

Past due but not impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due, and include loans which are due one or more days after the contractual due date but less than 3 months. 60% (2012: 59%) of the past due loans of the Group are past due for less than 1 month.

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

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

4. CREDIT RISK (CONT'D.)**4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)****(b) Past Due But Not Impaired (Cont'd.)****(i) Economic Purpose Analysis**

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

(ii) Geographical Analysis

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

(iii) Aging Analysis

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

4. CREDIT RISK (CONT'D.)

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

(c) Impaired Loans, Advances and Financing

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

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

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

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

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

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

4. CREDIT RISK (CONT'D.)

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

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

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

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

The movements in the collective assessment allowance for 2013 and 2012 are set out in Note 9 to the financial statements.

4. CREDIT RISK (CONT'D.)

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

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

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

Group	Impaired Loans, Advances and Financing 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
2013							
Malaysia	1,343,237	111,918	8,393	(39,080)	81,231	1,455,468	1,536,699
Hong Kong & China	74,329	49,063	199,620	(198,209)	50,474	86,370	136,844
Cambodia	44,108	39,271	17,873	(22,650)	34,494	42,127	76,621
Other countries	23,105	1,743	(139)	122	1,726	8,120	9,846
	1,484,779	201,995	225,747	(259,817)	167,925	1,592,085	1,760,010

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
2012							
Malaysia	1,188,727	137,345	(3,321)	(22,106)	111,918	1,396,912	1,508,830
Hong Kong & China	96,054	67,894	194,624	(213,455)	49,063	88,502	137,565
Cambodia	63,105	34,230	7,372	(2,331)	39,271	38,294	77,565
Other countries	26,200	5,727	(3,810)	(174)	1,743	5,858	7,601
	1,374,086	245,196	194,865	(238,066)	201,995	1,529,566	1,731,561

The movements in the collective assessment allowance for 2013 and 2012 are set out in Note 9 to the financial statements.

5. MARKET RISK

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

Minimum Regulatory Capital Requirements for Market Risk

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

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

5. MARKET RISK (CONT'D.)

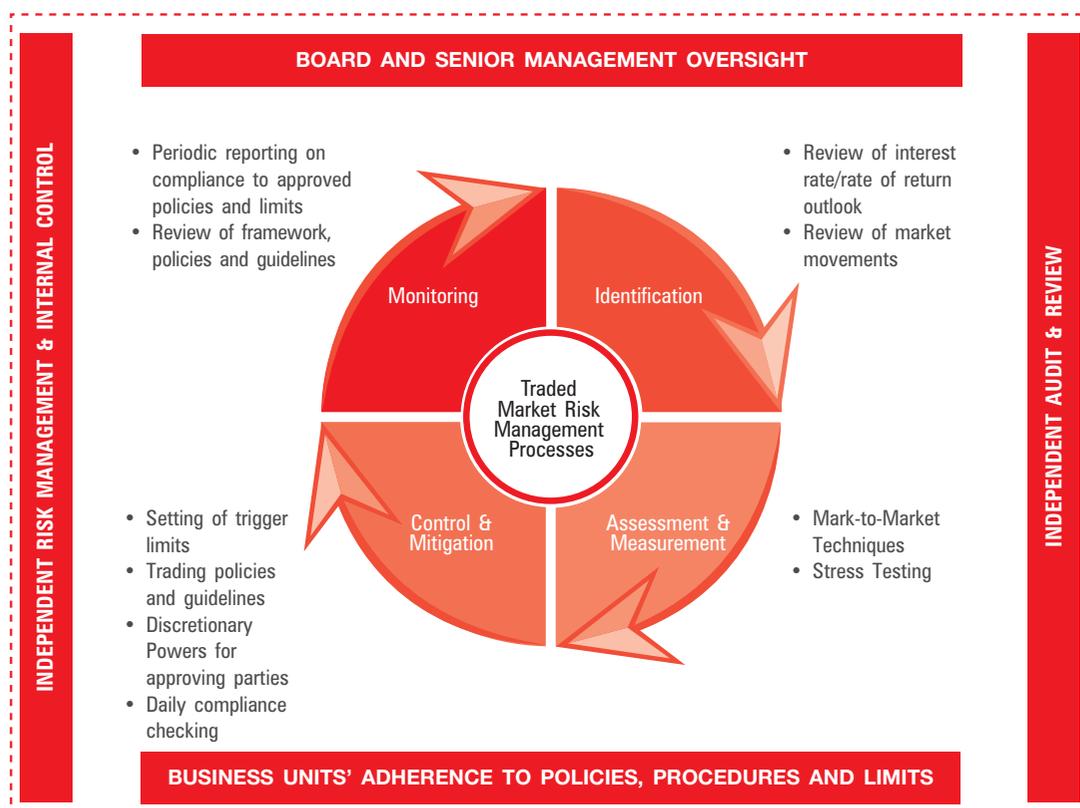
Risk Governance

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

5.1 Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are mainly originated by the treasury operations.

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



5. MARKET RISK (CONT'D.)

5.1 Traded Market Risk (Cont'd.)

Risk Management Approach

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

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

During the financial year, the Group's traded market risk exposures on fixed income instruments as measured by PV01, averaged at RM276,000 (2012: RM354,000). The composition of the Group's trading portfolio is set out in Note 5 to the financial statements.

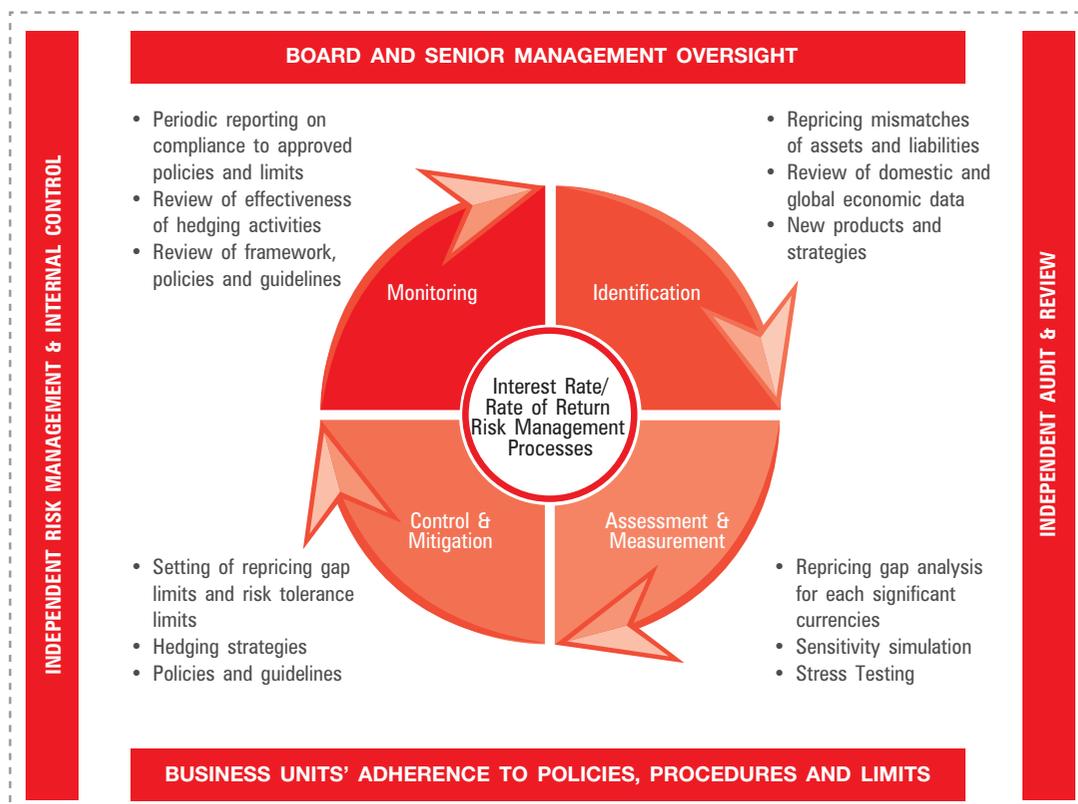
5.2 Non-Traded Market Risk

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

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

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

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



5. MARKET RISK (CONT'D.)

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

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

Risk Management Approach

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

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

(i) The table in Note 44(ii)(a)(i) to the financial statements sets out the Group's sensitivity to the interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits. As at 31 December 2013, the Group had an overall positive interest rate/rate of return gap of RM39,865.7 million (2012: RM34,399.2 million), being the net difference between interest rate/rate of return sensitive assets and liabilities.

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

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

5. MARKET RISK (CONT'D.)

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

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

Risk Management Approach (Cont'd.)

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

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

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

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

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

5. MARKET RISK (CONT'D.)

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

(b) Displaced Commercial Risk

DCR refers to the risk of Public Islamic bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the Investment Account Holders ("IAH") based on the contractual profit sharing ratio. Public Islamic does not have Profit Sharing Investment Accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

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

- (i) to forgo part or all of Public Islamic's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or
- (ii) to transfer Public Islamic's current year profits or retained earnings to the IAH on the basis of hibah.

(c) Foreign Exchange Risk

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

Risk Management Approach

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

The table in Note 44(ii)(c) to the financial statements sets out the Group's assets, liabilities and NOP by currencies and the Group's structural foreign exchange positions. As at 31 December 2013, a net long position of RM533.0 million (2012: RM195.9 million) or 13% (2012: 5%) of the Group's structural position.

(d) Equity Risk

Equity risk refers to the adverse impact arising from movements in equity prices on equity positions held by the Group for yield purposes.

Risk Management Approach

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

6. EQUITY EXPOSURES IN THE BANKING BOOK

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

(a) Equity Exposures in the Banking Book

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

(i) Publicly Traded

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

(ii) Privately Held

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

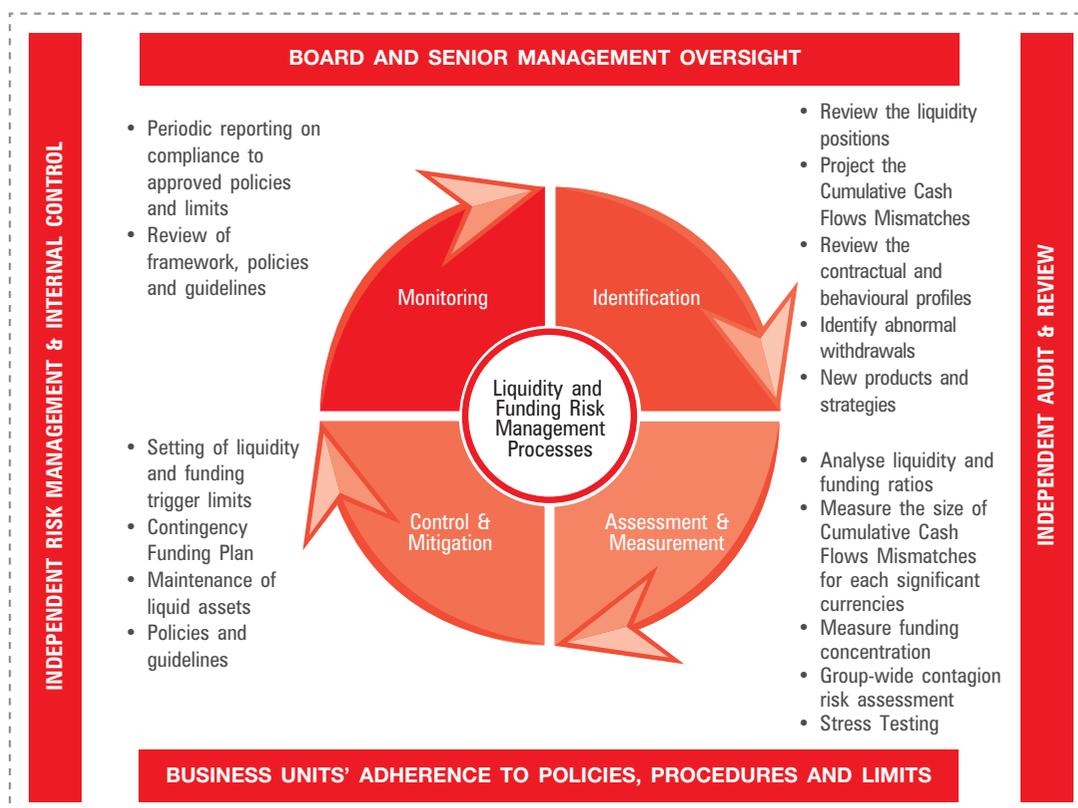
(b) Gains and Losses on Equity Exposures in the Banking Book

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

7. LIQUIDITY AND FUNDING RISK

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

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



Risk Governance

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

Risk Management Approach

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

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are borrowed by/financed to the customers. As at 31 December 2013, the Group holds a sizeable balance of government securities amounting to RM16,089.9 million (2012: RM17,651.4 million) or 39% (2012: 44%) of its portfolio of securities.

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

Risk Management Approach (Cont'd.)

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

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

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

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

8. OPERATIONAL RISK

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

Minimum Regulatory Capital Requirements for Operational Risk

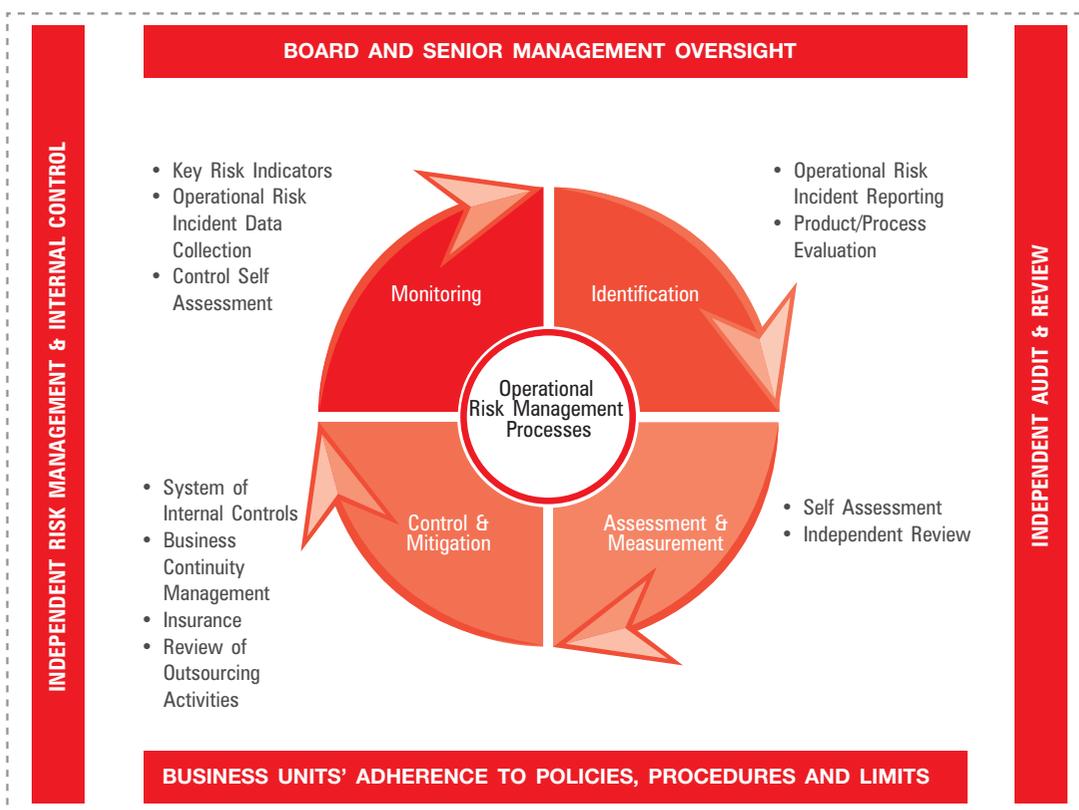
The following tables present the minimum regulatory capital requirements for operational risk of the Group and the Bank, computed using the Basic Indicator Approach.

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

8. OPERATIONAL RISK (CONT'D.)

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

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



Risk Governance

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

The Board, through RMC, maintains overall responsibility for risk oversight within the Group. The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for assessing the effectiveness of risk management policies and processes in relation to operational risk. To ensure effective oversight and management of operational risk, dedicated independent risk management and control units are put in place for ensuring the operational risk management policies, guidelines, procedures and limits are implemented and complied with.

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

8. OPERATIONAL RISK (CONT'D.)

Risk Management Approach

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

(a) Strategy and Processes

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

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

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

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

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

(b) Tools and Methods for Risk Mitigation

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

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

8. OPERATIONAL RISK (CONT'D.)

Risk Management Approach (Cont'd.)

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

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

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

(c) Reporting

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

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

9. SHARIAH NON-COMPLIANCE RISK

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

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

Islamic Banking Operations

Shariah non-compliance risk emanating from Islamic banking operations is managed through the Shariah Governance Framework ("the Framework") which was endorsed by the Shariah Committee and approved by the Board of Directors of Public Islamic ("the Board of Public Islamic"). The Framework is drawn up in accordance to the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010. The Framework, amongst others, sets out the roles and responsibilities of the Board of Public Islamic and the Shariah Committee, as well as the adoption of a systematic approach in reviewing Shariah compliance and the reporting process on Shariah matters. The Board of Public Islamic is ultimately responsible for Shariah compliance. In this regard, it performs diligence over the effective functioning of the Framework and ensures that policies relating to Shariah matters are implemented accordingly. The Shariah Committee is presided by qualified members who deliberate and endorse all Shariah matters which are subsequently noted and/or approved by the Board of Public Islamic. On a periodic basis, the Shariah Committee perform on-site inspections at branches to review the operations of Public Islamic to ensure that the operations are conducted in accordance to Shariah rules and principles.

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

Islamic Banking Operations (Cont'd.)

The Shariah Compliance Unit, which comprises Shariah review and Shariah research functions, is responsible for the continuous assessment on Shariah compliance for all activities and business operations of Public Islamic. The role of Shariah review is to examine and evaluate Public Islamic's level of compliance with the Shariah rules and principles through an end-to-end process from product development to operational review including the review of the uses of the financing extended to detect application of financing in Shariah non-compliance activities. Shariah research is responsible for conducting research on Shariah issues and providing Shariah advisory support to branches and business units. In addition, internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Audit Committee. Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services and the treatment of the consequential Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Committee and the approval by the Board of Public Islamic prior to implementation.

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

Management of Shariah-Based Funds

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

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

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

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

Past Award – Winning ANNUAL REPORTS

2013 NACRA Award
 • Overall Excellence Award – Silver Award
 • Best Annual Report in Bahasa Malaysia – Platinum Award

2012 NACRA Award
 • Most Outstanding Annual Report – Gold Award
 • Best Annual Report in Bahasa Malaysia – Platinum Award

2011 NACRA Award
 • Most Outstanding Annual Report – Gold Award
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia – Platinum Award

2010 NACRA Award
 • Most Outstanding Annual Report – Platinum Award
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia – Gold Award

2009 NACRA Award
 • Most Outstanding Annual Report – Platinum Award
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia – Platinum Award

2008 NACRA Award
 • Most Outstanding Annual Report – Platinum Award
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia – Platinum Award

2007 NACRA Award
 • Most Outstanding Annual Report – Platinum Award
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia – Platinum Award
 • Best Design Annual Report – Platinum Award

2006 NACRA Award
 • Most Outstanding Annual Report – Gold Award
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia – Platinum Award

2005 NACRA Award
 • Most Outstanding Annual Report
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia

2004 NACRA Award
 • Most Outstanding Annual Report
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia

2003 NACRA Award
 • Most Outstanding Annual Report
 • Industry Excellence Award – Finance Sector
 • Best Annual Report in Bahasa Malaysia

CITRA Award
 • Merit Award

2002 NACRA Award
 • Most Outstanding Annual Report
 • Industry Excellence Award – Finance Sector

CITRA Award
 • Special Jury Award

2001 NACRA Award
 • Most Outstanding Annual Report
 • Industry Excellence Award – Finance Sector

CITRA Award
 • Special Jury Award

2000 NACRA Award
 • Industry Excellence Award – Finance Sector

CITRA Award
 • Main Award

1999 NACRA Award
 • Industry Excellence Award – Finance Sector

1998 NACRA Award
 • Industry Excellence Award – Finance Sector

1997 NACRA Award
 • Best Annual Report in Bahasa Malaysia
 • Industry Excellence Award – Finance Sector

1996 NACRA Award
 • Most Outstanding Annual Report
 • Industry Excellence Award – Finance Sector

1995 NACRA Commendation Award
 • Accounting Information
 • Annual Report in Bahasa Malaysia

1994 NACRA Commendation Award
 • Accounting Information
 • Corporate Information
 • Annual Report in Bahasa Malaysia

1991 NACRA Award
 • Best Accounting Information – NACRA Commendation Award
 • Corporate Information

1990 NACRA Award
 • Best Accounting Information

1989 NACRA Award
 • Most Outstanding Annual Report
 • Best Annual Report – Finance Sector

NACRA Commendation Award
 • Corporate Information
 • Accounting Information
 • Annual Report in Bahasa Malaysia

1988 MACRA Award
 • Best Overall Annual Report
 • Best Corporate Information – NARA Award
 • Best Annual Report – Finance Sector

1987 MACRA Award
 • Best Corporate Information – NARA Award
 • Best Annual Report – Finance Sector

1986 MACRA Award
 • Best Corporate Information



2012



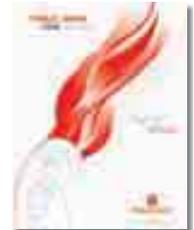
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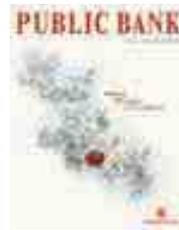
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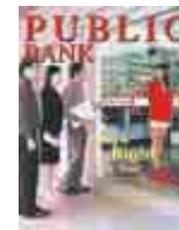
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