



PUBLIC BANK

(6463-H)

2014 Annual Report
Financial Statements



ENHANCING
Stakeholders' Value



Enhancing Stakeholders' Value

At Public Bank, we recognise that we have obligations to multiple stakeholders – shareholders, customers, employees, the community and regulators – and we strive to consistently deliver optimum value to all of them.

By continuing to implement strategies that ensure sustainable profitability and ROE while balancing our responsibility to our stakeholders, we aim to enhance the long-term intrinsic brand value every step of the way.

This year's theme 'Enhancing Stakeholders' Value' is a testament to Public Bank's creed of sustainable growth and excellence. Like a thriving plant that steadily grows, this year marks the continuation of this legacy to constantly add value, improve performance and deliver strong returns to our stakeholders.



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Basel II

255 Pillar 3 Disclosure

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.



Financial Highlights

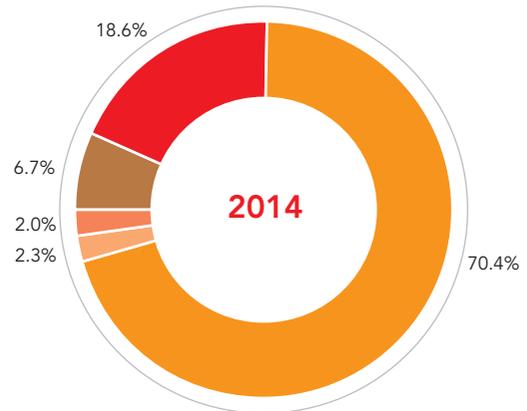
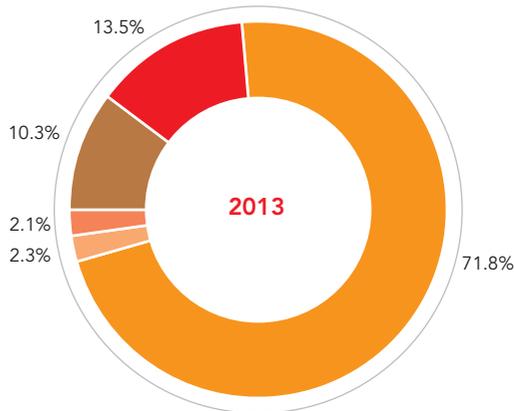
	GROUP		BANK	
	2014	2013	2014	2013
PROFITABILITY (RM'Million)				
Operating revenue	16,860	15,264	12,732	11,504
Operating profit	6,067	5,655	5,118	4,747
Profit before tax expense and zakat	5,814	5,310	5,019	4,647
Net profit attributable to equity holders of the Bank	4,519	4,065	4,030	3,705
KEY BALANCE SHEET DATA (RM'Million)				
Total assets	345,722	305,725	286,668	252,839
Loans, advances and financing	243,222	219,416	201,928	182,405
Deposits from customers	276,540	250,873	226,217	201,872
Shareholders' equity	28,025	20,424	25,943	18,822
FINANCIAL RATIOS (%)				
Profitability Ratios				
Net interest margin on average interest bearing assets	2.2	2.4	2.1	2.2
Net return on equity ¹	19.9 [#]	22.4	19.3 [#]	22.0
Return on average assets	1.8	1.8	1.9	1.9
Return on average risk-weighted assets	2.8	2.8	2.9	2.9
Capital Adequacy Ratios				
Common Equity Tier I capital ratio	11.3	9.3	12.7	10.9
Tier I capital ratio	12.8	11.1	14.4	13.0
Total capital ratio	16.4	14.3	16.3	14.1
Asset Quality Ratio				
Gross impaired loans ratio	0.6	0.7	0.6	0.6

¹ Based on average equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.

[#] Average equity is adjusted with weighted average of net proceeds from rights issue.

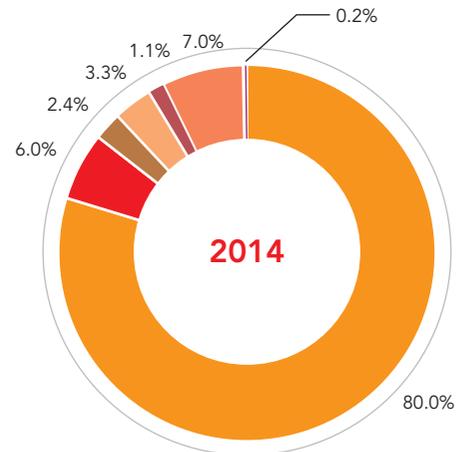
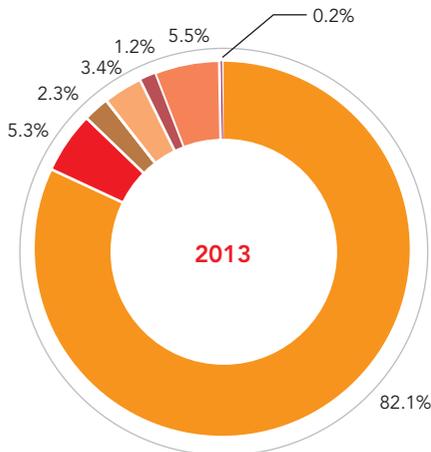


Simplified Group Balance Sheet



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

PROFIT BEFORE TAX



RM 5.81 bil

GROSS IMPAIRED LOANS RATIO



0.6%

YEAR ENDED 31 DECEMBER	2014	2013	2012	2011	2010
OPERATING RESULTS (RM'MILLION)					
Operating profit	6,067	5,655	5,329	5,200	4,738
Profit before tax expense and zakat	5,814	5,310	5,047	4,878	4,086
Net profit attributable to equity holders of the Bank	4,519	4,065	3,827	3,684	3,048
KEY BALANCE SHEET DATA (RM'MILLION)					
Total assets	345,722	305,725	274,824	250,773	226,988
Loans, advances and financing	243,222	219,416	196,052	175,953	154,864
Total liabilities	316,847	284,528	256,106	234,262	212,644
Deposits from customers	276,540	250,873	225,042	200,371	176,872
Core customer deposits	216,707	201,258	177,035	157,297	143,639
Paid-up capital	3,882	3,532	3,532	3,532	3,532
Shareholders' equity	28,025	20,424	18,018	15,813	13,692
Commitments and contingencies	95,813	87,986	79,458	70,847	69,206
SHARE INFORMATION AND VALUATION					
Share Information					
Per share (sen)					
Basic/Diluted earnings	123.7	116.1	109.3	105.2	87.2
Net dividend	54.0	52.0	50.0	48.0	45.5
Net assets	725.7	583.2	514.5	451.5	391.0
Share price as at 31 December (RM)	18.30	19.40	16.28	13.38	13.02
Market capitalisation (RM'Million)	71,043	68,668	57,521	47,066	45,964
Valuations (Local Share)					
Net dividend yield (%)	3.0	2.7	3.1	3.6	3.5
Dividend payout ratio (%)	46.1	44.8	45.3	48.3	52.3
Price to earnings multiple (times)	14.8	16.7	14.9	12.7	14.9
Price to book multiple (times)	2.5	3.3	3.2	3.0	3.3



CUSTOMER DEPOSITS

 **10.2%**

GROSS LOANS

 **10.8%**

YEAR ENDED 31 DECEMBER	2014	2013	2012	2011	2010
FINANCIAL RATIOS (%)					
Profitability Ratios					
Net interest margin on average interest bearing assets	2.2	2.4	2.5	2.7	2.7
Net return on equity ¹	19.9 [#]	22.4	24.1	26.8	27.1
Return on average assets	1.8	1.8	1.9	2.0	1.8
Return on average risk-weighted assets	2.8	2.8	2.9	3.2	3.1
Cost/income ratio	30.0	30.7	31.2	29.8	30.7
Asset Quality Ratios					
Net loan to deposit ratio	88.0	87.5	87.1	87.8	87.6
Gross impaired loans ratio	0.6	0.7	0.7	0.9	1.1
Loan loss coverage					
– Exclude regulatory reserve	122.4	118.5	126.0	113.8	94.2
– Include regulatory reserve	218.6	127.1	135.3	122.1	99.8
Capital Adequacy Ratios					
Common Equity Tier I ("CET I") capital ratio	11.3	9.3	N/A	N/A	N/A
Tier I capital ratio	12.8	11.1	11.4	11.2	11.3
Total capital ratio	16.4	14.3	14.7	15.6	14.2
CET I capital (RM'Million)	24,775	18,527	N/A	N/A	N/A
Tier I capital (RM'Million)	27,942	22,079	20,512	18,341	15,936
Tier II capital (RM'Million)	7,891	6,458	5,861	7,166	4,056
Total capital (RM'Million)	35,833	28,537	26,373	25,507	19,992
PRODUCTIVITY RATIOS					
No. of employees	18,198	17,924	17,625	17,511	17,369
Gross loans per employee (RM'000)	13,465	12,340	11,222	10,148	9,013
Deposits per employee (RM'000)	15,196	13,996	12,768	11,443	10,183
Profit before tax per employee (RM'000)	320	296	286	279	235
MARKET SHARE (%)					
Domestic market share					
Loans, advances & financing	17.2	16.9	16.7	16.4	16.3
Deposits from customers	15.9	15.7	15.2	14.9	14.8
Core customer deposits	18.7	17.5	16.6	16.1	16.3

¹ Based on average equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.

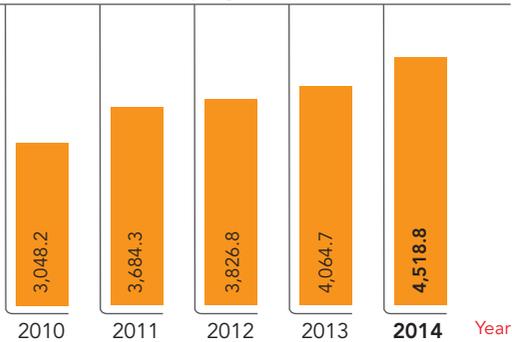
[#] Average equity is adjusted with weighted average of net proceeds from rights issue.

Summary of Five-Year Group Growth

RM4,518.8 Million

Net Profit Attributable To Equity Holders

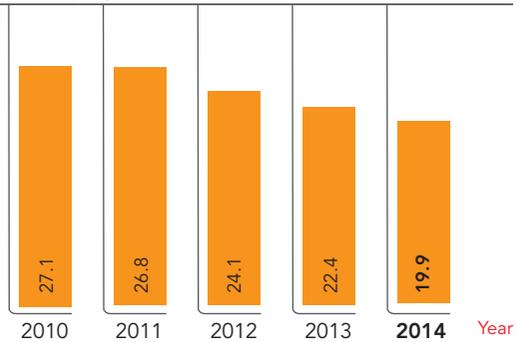
RM'Million



19.9%

Net Return On Equity

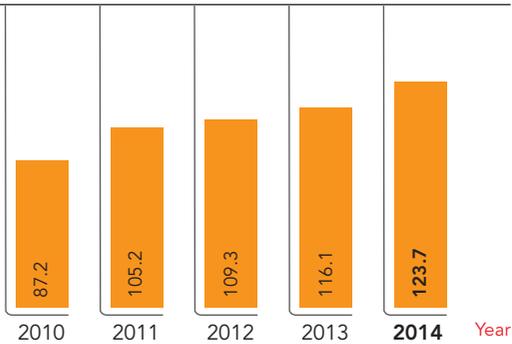
Percentage (%)



123.7 Sen

Earnings Per Share

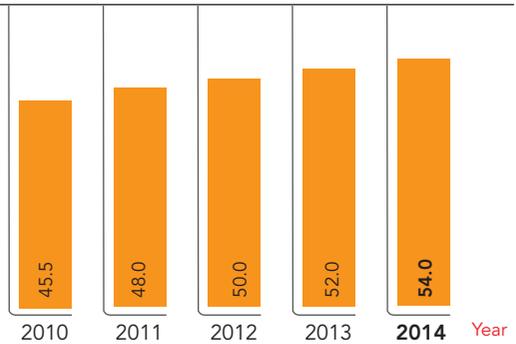
Sen



54.0 Sen

Dividend Per Share

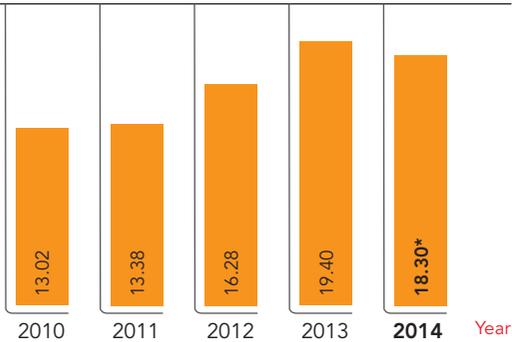
Sen



RM18.30

Share Price

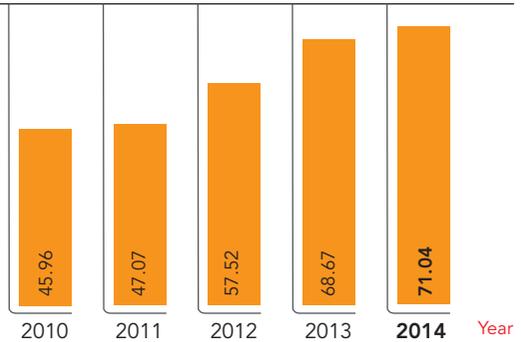
RM



RM71.04 Billion

Market Capitalisation

RM'Billion



* After one for ten rights issue in August 2014.

PUBLIC BANK'S RANKING BY MARKET CAPITALISATION ON BURSA MALAYSIA SECURITIES BERHAD

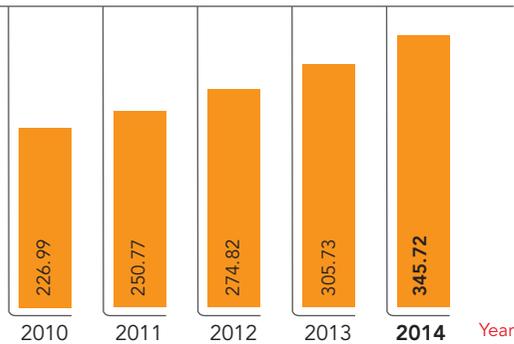
Year	2010	2011	2012	2013	2014
Ranking	4th	5th	2nd	2nd	3rd



RM345.72 Billion

Total Assets

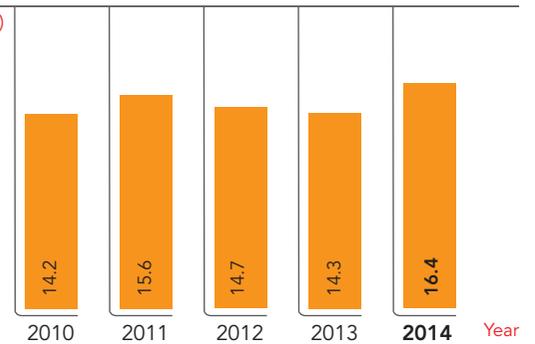
RM' Billion



16.4%

Total Capital Ratio

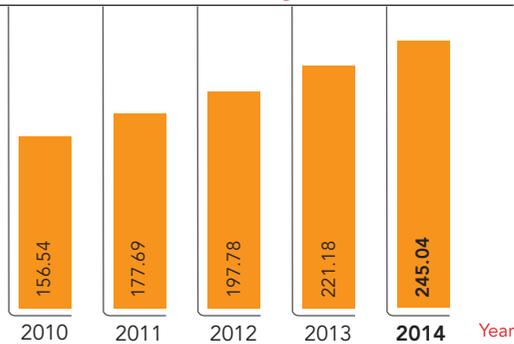
Percentage (%)



RM245.04 Billion

Gross Loans, Advances and Financing

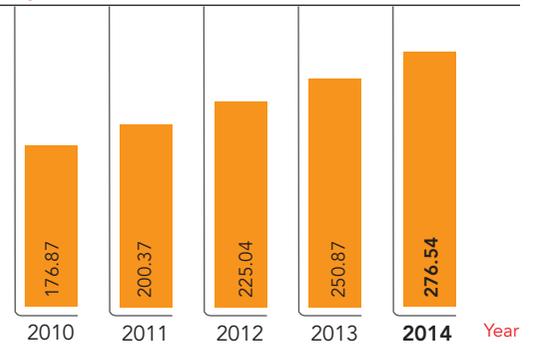
RM' Billion



RM276.54 Billion

Customer Deposits

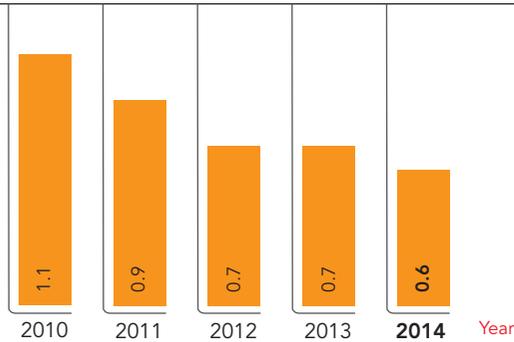
RM' Billion



0.6%

Gross Impaired Loans Ratio

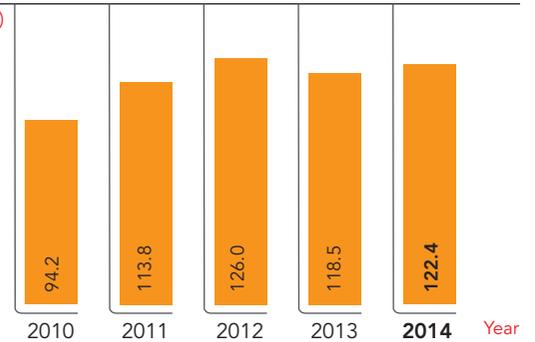
Percentage (%)



122.4%

Loan Loss Coverage

Percentage (%)



Segmental Analysis

2013

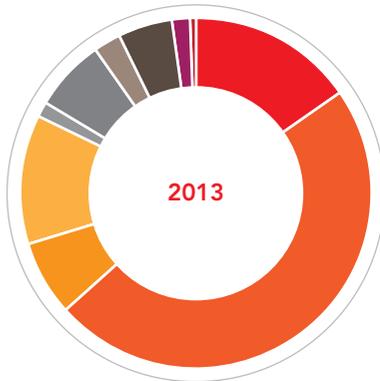
OPERATING REVENUE

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



2014

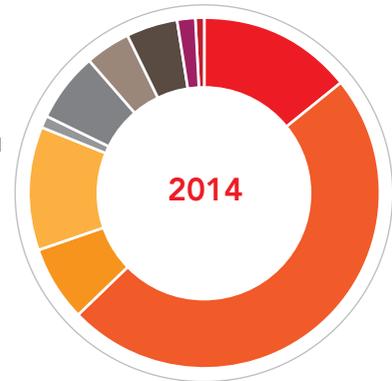
OPERATING REVENUE

Domestic

- 14.4% ● Hire purchase
- 48.6% ● Retail operations
- 6.9% ● Corporate lending
- 11.4% ● Treasury and capital market operations
- 1.3% ● Investment banking
- 6.4% ● Fund management
- 4.2% ● Others

Overseas

- 4.6% ● Hong Kong SAR
- 1.7% ● Cambodia
- 0.5% ● Other Countries



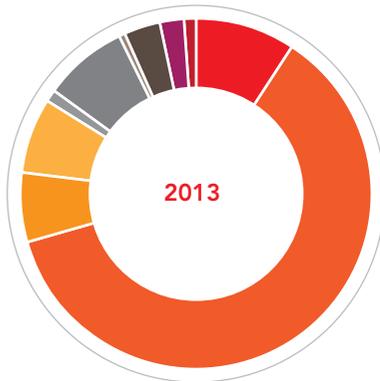
PROFIT BEFORE TAX

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



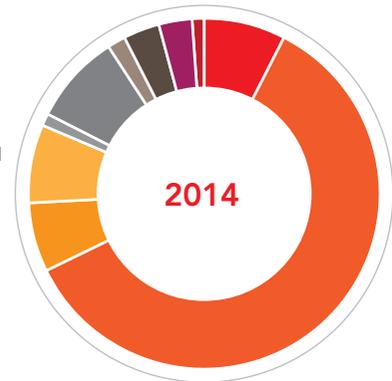
PROFIT BEFORE TAX

Domestic

- 7.7% ● Hire purchase
- 60.1% ● Retail operations
- 6.4% ● Corporate lending
- 7.2% ● Treasury and capital market operations
- 1.2% ● Investment banking
- 8.4% ● Fund management
- 1.6% ● Others

Overseas

- 3.4% ● Hong Kong SAR
- 2.9% ● Cambodia
- 1.1% ● Other Countries



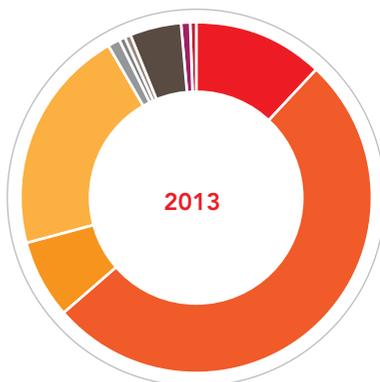
TOTAL ASSETS

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



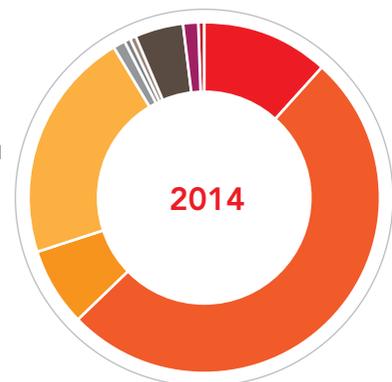
TOTAL ASSETS

Domestic

- 11.9% ● Hire purchase
- 51.9% ● Retail operations
- 7.3% ● Corporate lending
- 21.5% ● Treasury and capital market operations
- 1.0% ● Investment banking
- 0.1% ● Fund management
- 0.1% ● Others

Overseas

- 4.6% ● Hong Kong SAR
- 1.3% ● Cambodia
- 0.3% ● Other Countries





Analysis of the Financial Statements

ANALYSIS OF THE INCOME STATEMENT

Net Income

The Public Bank Group's net income grew by 6.3% or RM515.0 million to RM8.67 billion in 2014 mainly due to higher net interest income and other operating income.

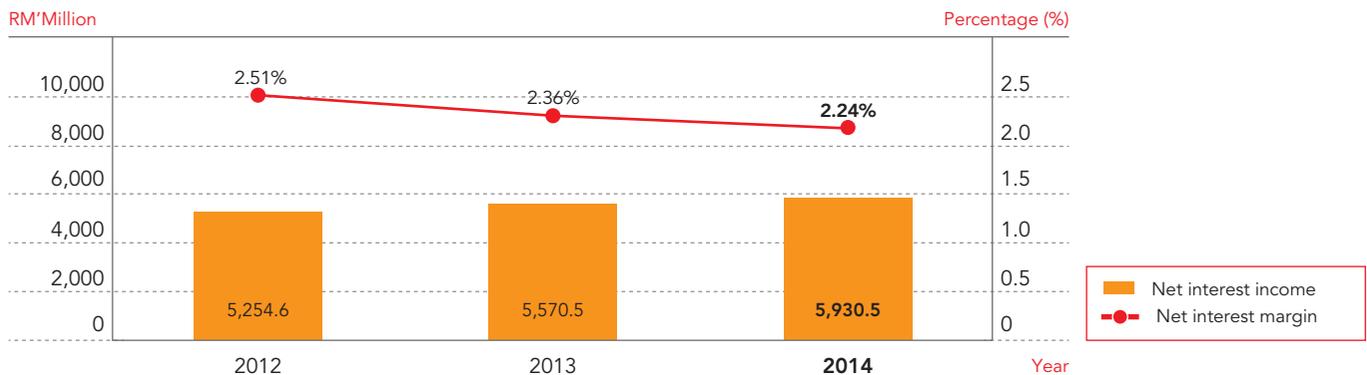
	2014 RM'000	2013 RM'000	Variance		Contribution
			RM'000	%	%
Net interest income	5,930,473	5,570,538	359,935	6.5	68.4
Net income from Islamic Banking Business	831,196	837,136	(5,940)	(0.7)	9.6
Other operating income	1,911,688	1,750,643	161,045	9.2	22.0
Net income	8,673,357	8,158,317	515,040	6.3	100.0

Net interest income

Despite continued net interest margin compression, net interest income increased by 6.5% or RM359.9 million to RM5.93 billion in 2014 mainly attributable to healthy loans and customer deposits growth as well as the positive impact arising from the hike in the overnight policy rate ("OPR") in July 2014. Net interest income contributed 68.4% to the Public Bank Group's total net income and was the Group's main source of income.

Net interest margin further declined by 12 basis points to 2.24% in 2014. The margin compression during the year was due to competitive pricing from lending, rebalancing of the loans book coupled with the increased funding cost resulting from the intense competition from deposits taking. This was partially offset by the positive impact arising from the OPR hike in July 2014.

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 RM831.2 million and contributed 9.6% to the Group's total net income in 2014.

Other operating income

The Public Bank Group's other operating income increased by 9.2% or RM161.0 million from RM1,750.6 million in 2013 to RM1,911.7 million in 2014. This was mainly due to 8.3% growth in net fee and commission income and 17.8% increase in net gains and losses on financial instruments.

	2014 RM'000	2013 RM'000	Variance	
			RM'000	%
Net fee and commission income	1,381,675	1,275,345	106,330	8.3
of which:				
Net commission, service charges and fees	429,032	407,428	21,604	5.3
Net brokerage and commissions from stock broking activities	88,598	80,053	8,545	10.7
Income from fund management activities	713,494	656,022	57,472	8.8
Net gains and losses on financial instruments	196,761	166,983	29,778	17.8
Other income	333,252	308,315	24,937	8.1
of which:				
Profits from foreign exchange business	268,940	232,844	36,096	15.5
Total other operating income	1,911,688	1,750,643	161,045	9.2

Other Operating Income Contribution 2014



The Group's net fee and commission income increased by 8.3% or RM106.3 million to RM1,381.7 million in 2014, mainly due to higher income from the Group's fund management business which grew by 8.8% or RM57.5 million to RM713.5 million in 2014. Net asset value of unit trust funds under management increased to RM63.03 billion as at the end of 2014. Net commission, service charges and fees grew by 5.3% or RM21.6 million to RM429.0 million in 2014 whilst net brokerage and commissions from stock broking activities expanded by 10.7% or RM8.5 million to RM88.6 million in 2014.

Net gains and losses on financial instruments grew by 17.8% or RM29.8 million to RM196.8 million in 2014 mainly due to net gain arising from financial investments available-for-sale.

Other income increased by 8.1% or RM24.9 million to RM333.3 million in 2014.

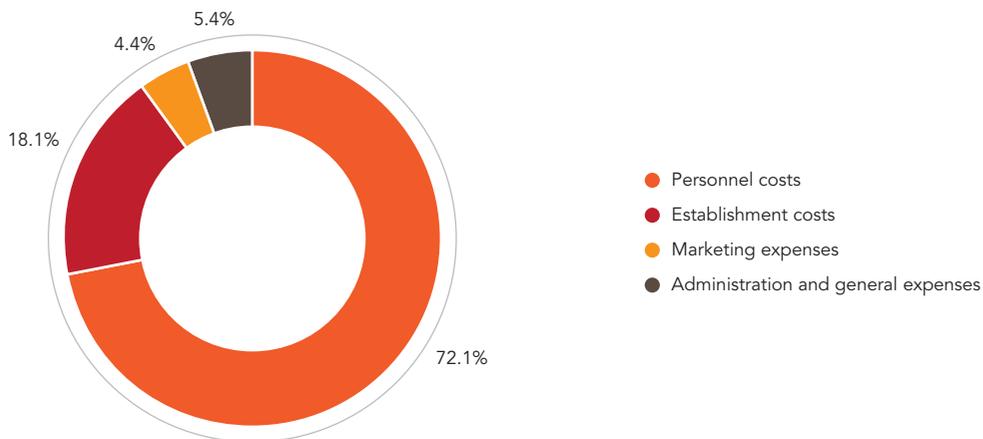


Other operating expenses

The other operating expenses of the Public Bank Group registered an increase of 4.1% or RM102.2 million to RM2,605.9 million in 2014 mainly due to higher personnel costs partially offset by lower marketing expenses as well as administration and general expenses.

	2014 RM'000	2013 RM'000	Variance	
			RM'000	%
Personnel costs	1,878,614	1,744,608	134,006	7.7
Establishment costs	472,821	466,656	6,165	1.3
Marketing expenses	114,195	147,398	(33,203)	(22.5)
Administration and general expenses	140,235	144,974	(4,739)	(3.3)
Total other operating expenses	2,605,865	2,503,636	102,229	4.1

Other Operating Expenses Contribution 2014



Personnel costs grew by 7.7% or RM134.0 million to RM1,878.6 million in 2014 as compared to RM1,744.6 million in 2013. The increase was due to annual salary increments and increased staff strength from 17,924 as at the end of 2013 to 18,198 as at the end of 2014. Personnel costs accounted for 72.1% of the total other operating expenses of the Group.

Establishment costs represent 18.1% of the Group's total other operating expenses. Establishment costs increased by 1.3% or RM6.2 million in 2014 as a result of higher expenses incurred for utility and rental.

Marketing expenses decreased by 22.5% or RM33.2 million, accounting for 4.4% of the Group's total other operating expenses in 2014.

Administration and general expenses accounted for 5.4% of the total other operating expenses of the Group.

Allowance for Impairment on Loans, Advances and Financing

	2014 RM'000	2013 RM'000	Variance	
			RM'000	%
Collective assessment allowance	358,852	340,289	18,563	5.5
Individual assessment allowance	167,701	225,747	(58,046)	(25.7)
Bad debts recovered from stock broking activities	(152)	(2)	(150)	(>100.0)
Impaired loans and financing written off	107	644	(537)	(83.4)
Impaired loans and financing recovered	(267,508)	(215,426)	(52,082)	(24.2)
Total allowance for impairment on loans, advances and financing	259,000	351,252	(92,252)	(26.3)

The Group's allowance for impairment on loans, advances and financing decreased by 26.3% or RM92.3 million to RM259.0 million in 2014. The decrease was mainly due to lower individual assessment allowance of RM58.0 million and higher impaired loans and financing recovered of RM52.1 million partially offset by higher collective assessment allowance of RM18.6 million as a result of a higher loan base.

Impairment loss

A higher writeback of impairment loss of RM0.8 million was reported in 2014 as compared to RM0.1 million in 2013.

Tax expenses and zakat

The Public Bank Group's tax expense was RM1,250.9 million in 2014, an increase of 3.9% or RM46.6 million from RM1,204.3 million in 2013 due to higher pre-tax profit generated.

The Group's effective tax rate was 21.5% in 2014, lower than the 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

	2014 RM'Million	2013 RM'Million	Variance	
			RM'Million	%
Assets				
Cash and balances with banks	16,817	22,080	(5,263)	(23.8)
Reverse repurchase agreements	6,314	9,542	(3,228)	(33.8)
Financial assets held-for-trading	18,364	15,812	2,552	16.1
Financial investments available-for-sale	25,459	17,619	7,840	44.5
Financial investments held-to-maturity	20,414	7,794	12,620	161.9
Loans, advances and financing	243,222	219,416	23,806	10.8
Statutory deposits with Central Banks	8,064	6,925	1,139	16.4
Other assets	7,068	6,537	531	8.1
Total Assets	345,722	305,725	39,997	13.1
Liabilities				
Deposits from customers	276,540	250,873	25,667	10.2
Deposits from banks	20,670	16,176	4,494	27.8
Debt securities issued and other borrowed funds	11,428	10,370	1,058	10.2
Other liabilities	8,209	7,109	1,100	15.5
Total Liabilities	316,847	284,528	32,319	11.4
Total Equity	28,875	21,197	7,678	36.2
Total Liabilities and Equity	345,722	305,725	39,997	13.1

Total assets

The Public Bank Group's total assets stood at RM345.72 billion as at the end of 2014, an increase of RM40.00 billion or 13.1% over the previous financial year. The strong growth in the assets was mainly contributed by growth in loans and financial investments of 10.8% and 55.8% respectively.

As at the end of 2014, loans, advances and financing and financial investments collectively accounted for 88.9% of the Group's total assets. The proportion of interest-bearing assets remained high at 93.5%.

Cash and balances with banks

The excess liquidity in the Group was mainly held in short-term money market placements. As at the end of 2014, cash and balances with banks decreased by RM5.26 billion, mainly due to reallocation of excess funds into higher yielding assets.

Reverse repurchase agreements

The Group's holdings of reverse repurchase agreements as an alternative avenue for the placement of liquid funds, decreased by RM3.23 billion which was mainly due to lower Malaysian Government Securities purchased under resale agreements.

Financial investments

The Group holds financial investments portfolio for the purpose of better yield and liquidity. Holdings of trading book positions are classified under financial assets held-for-trading. The Group's trading book position accounted for 28.6% of the Group's total financial investments, consist mainly of money market instruments and government-related securities.

The Group's banking book positions are classified under financial investments available-for-sale and financial investments held-to-maturity portfolios. As at the end of 2014, the Group's banking book positions grew by RM20.46 billion or 80.5% and accounted for 71.4% of the Group's total financial investments. The increase is part of the Group's on-going effort to improve its overall asset yield as well as meeting regulatory liquidity requirements.

The financial investments of the Group's banking book positions consist mainly of Malaysian Government-related securities.

Loans, advances and financing

The Group's loan book grew by RM23.81 billion or 10.8% to RM243.22 billion as at the end of 2014, outpacing the banking system's loan growth of 8.7%. The growth in loan book is contributed by both the domestic and overseas operations which recorded growth of 10.5% and 14.9% respectively. As a result, the Group's domestic lending market share had grown to 17.2% as at the end of 2014. The Group's loan growth was mainly attributed to its lending growth in its retail banking segment with extension of credit mainly to residential properties, purchase of passenger vehicles and small and medium enterprises, which grew by 11.9%, 7.5% and 19.5% respectively.

Despite the strong loan growth achieved during the year, the Public Bank Group recorded a significantly lower gross impaired loans ratio of 0.6% as compared to the domestic banking industry's gross impaired loans ratio of 1.7%.

Total liabilities and equity

The increase in total liabilities of RM32.32 billion in 2014 was mainly due to the increase in customer deposits and deposits from banks of RM25.67 billion and RM4.49 billion respectively.

The Bank completed the renounceable rights issue exercise during the year which raised RM4.8 billion of equity capital. Together with the strong net profit of RM4.52 billion registered during the year, the Group's equity had further strengthened to a record of RM28.87 billion.

Deposits from customers

The Group's deposits from customers grew by RM25.67 billion or 10.2% to RM276.54 billion. This was supported mainly from the Group's strong growth in the domestic customer deposits of 9.9%, surpassing the banking system's deposit growth of 7.6%. As a result, the Group's domestic deposit market share improved to 15.9% as at the end of 2014. With steady inflow of customer deposits, the Group remained well funded with a stable net loan to deposit ratio of 88.0% as at the end of 2014.

Deposits from banks

Deposits from banks consist mainly of interbank borrowings, which increased by RM4.49 billion to RM20.67 billion, due to the Group's funding and gapping activities.

Debt securities issued and other borrowed funds

The Group's debt instruments consist of Subordinated Notes, Subordinated Sukuk Murabahah, Innovative Tier I Capital Securities, Non-innovative Tier I Stapled Securities, Senior Medium Term Notes and other borrowings. These funds allow the Group to diversify its funding base and to grow its balance sheet.

During the year, the Group issued Senior Medium Term Notes and Subordinated Sukuk Murabahah of RM1.00 billion and RM500 million respectively, and redeemed its previously issued Subordinated Notes of RM473 million.

Other liabilities

Other liabilities increased by RM1.10 billion, mainly due to the increase in loans and financing sold to Cagamas Berhad of RM1.42 billion during the year.



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, 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 2014 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 2014

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 2014.

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	5,814,255	5,019,001
Tax expense and zakat	(1,250,915)	(989,399)
Profit for the year	4,563,340	4,029,602
Attributable to:		
Equity holders of the Bank	4,518,830	4,029,602
Non-controlling interests	44,510	–
Profit for the year	4,563,340	4,029,602

DIVIDENDS

The amount of dividends paid by the Bank since 31 December 2013 were as follows:

	RM'000
In respect of financial year ended 31 December 2013:	
Second interim single tier dividend of 30.0% on 3,502,125,130 ordinary shares of RM1.00 each, paid on 28 February 2014	1,050,638
In respect of financial year ended 31 December 2014:	
First interim single tier dividend of 23.0% on 3,852,337,643 ordinary shares of RM1.00 each, paid on 20 August 2014	886,037
	1,936,675

DIVIDENDS (CONTINUED)

Subsequent to the financial year end, on 5 February 2015, the Directors declared a second interim single tier dividend of 31.0%, with the total amounting to approximately RM1,197,063,153 in respect of the current financial year. This is computed based on the issued and paid-up capital as at 31 December 2014, excluding treasury shares held by the Bank, of 3,861,494,043 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 24 February 2015. 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 2015.

The Directors do not propose any final dividend for the financial year ended 31 December 2014.

ISSUE OF SHARES

During the year, the Bank issued 350,212,513 new ordinary shares of RM1.00 each in the Bank at an issue price of RM13.80 per ordinary share via a rights issue exercise for a total consideration of RM4.8 billion (after deducting direct expenses). As a result, the issued and paid-up capital of the Bank increased from 3,531,925,834 ordinary shares of RM1.00 each in the Bank ("PBB Shares") to 3,882,138,347 PBB Shares.

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

All the new ordinary shares that were issued rank pari passu in all respects with the existing ordinary shares of the Bank.

SHARE BUY-BACK

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

During the year, the Bank disposed 9,156,400 of its issued ordinary shares held as treasury shares for a total consideration of RM175,639,643 (after deducting transaction costs) in the open market at an average price of RM19.23 per share.

As at 31 December 2014, the Bank held 20,644,304 Public Bank Berhad ("PBB") Shares as treasury shares out of its total issued and paid-up share capital of 3,882,138,347 PBB Shares. Such treasury shares are held at a carrying amount of RM149,336,528. 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.

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 54 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 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
 Tang Wing Chew
 Lai Wan
 Lai Wai Keen
 Cheah Kim Ling (appointed on 29 April 2014)
 Dato' Yeoh Chin Kee (retired on 31 March 2014)
 Dato' Haji Abdul Aziz bin Dato' Dr. Omar (retired on 1 October 2014)

In accordance with Article 109 of the Bank's Articles of Association, Cheah Kim Ling retires at the forthcoming Annual General Meeting and, being eligible, offers herself 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, Tang Wing Chew 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.

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

	Balance at 1.1.2014	Number of Ordinary Shares of RM1.00 Each			Balance at 31.12.2014
		Rights Issue*	Acquired	Disposed	
Direct interests:					
Tan Sri Dato' Sri Dr. Teh Hong Piow	22,464,802	2,246,480	–	–	24,711,282
Tan Sri Datuk Seri Utama Thong Yaw Hong	7,633,342	763,334	–	–	8,396,676
Tan Sri Dato' Sri Tay Ah Lek	5,898,951	589,894	–	(1,600,000)	4,888,845
Dato' Sri Lee Kong Lam	380,866	38,086	–	–	418,952

**DIRECTORS' INTERESTS (CONTINUED)****Shares Held in the Bank (continued)**

	Number of Ordinary Shares of RM1.00 Each				Balance at 31.12.2014
	Balance at 1.1.2014	Rights Issue*	Acquired	Disposed	
Indirect interests:					
Tan Sri Dato' Sri Dr. Teh Hong Piow	820,835,261	82,083,510	–	(4,000,000)	898,918,771
Tan Sri Datuk Seri Utama Thong Yaw Hong	857,648	85,764	–	–	943,412
Tan Sri Dato' Sri Tay Ah Lek	354,315	35,430	1,000,000	–	1,389,745
Dato' Sri Lee Kong Lam	434,957	43,495	–	(400,000)	78,452
Lai Wan	16,959	1,695	–	–	18,654
Cheah Kim Ling (appointed on 29 April 2014)	11,266	1,126	–	–	12,392

* Arising from acceptance of provisional allotment of PBB rights shares pursuant to the Renounceable Rights Issue of 350,212,513 new ordinary shares of RM1.00 each in PBB on the basis of 1 rights share for every 10 existing PBB Shares held at an issue price of RM13.80 per rights share.

Shares Held in a Subsidiary Company**– Shares Held in Public Financial Holdings Limited ("PFHL")**

	Number of Ordinary Shares of HKD0.10 Each			Balance at 31.12.2014
	Balance at 1.1.2014	Acquired	Disposed	
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's Share Option Scheme ("PFHL Share Options")**

	Option		Number of PFHL Share Options			Balance at 31.12.2014
	Price HKD	Balance at 1.1.2014	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 923,630,053 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:

Lai Wan (Independent) (appointed on 5 January 2014)

Tan Sri Datuk Seri Utama Thong Yaw Hong (Non-Independent)

Dato' Sri Lee Kong Lam (Non-Independent)

Tang Wing Chew (Independent)

Lai Wai Keen (Independent) (appointed on 5 January 2014)

Dato' Yeoh Chin Kee (Non-Independent) (retired on 31 March 2014)

Dato' Haji Abdul Aziz bin Dato' Dr. Omar (Non-Independent) (retired on 1 October 2014)

BUSINESS REVIEW 2014

The operating environment in Malaysia remained supportive of the banking business in 2014. Backed by sustained profitability, sound capitalisation and high asset quality, the Malaysian banking sector had continued to foster efficiency of financial markets and raise contribution to economic growth.

During the year, total loans by the banking system moderated but remained at a healthy pace, due to the impact of Bank Negara Malaysia's macro-prudential measures to promote a more sustainable property market and to curb excessive household indebtedness. Intense competition for growth in the banking sector and volatility in market interest rates drove further compression in net interest margin.

During the year, the Public Bank Group continued to sustain a satisfactory performance, underpinned by continued healthy growth in loans and deposits, and sustained strong asset quality. Lending to the retail banking segment continued to be the main strategic focus of the Group with extended credit mainly to small and medium enterprises ("SME"), purchasing of residential properties and passenger vehicles.



BUSINESS REVIEW 2014 (CONTINUED)

Residential properties loan and commercial properties loan continued to grow strongly by 11.9% and 13.7% respectively in 2014. Lending to SMEs as represented mainly by the purchase of commercial properties and for working capital increased strongly by 19.5% in 2014. The Public Bank Group continued to maintain its market leadership in residential property financing and commercial property financing with market shares of 19.4% and 33.6% respectively.

To sustain its strong asset quality, the Public Bank Group continued to observe its prudent credit appraisal and approval process, and strong credit risk culture. The Group's asset quality remained strong across all economic sectors. Gross impaired loans ratio further improved to 0.61% as at the end of 2014. The Group continued to maintain a higher and more prudent loan loss coverage ratio of 122.4% as compared to the banking industry's coverage ratio of 106.3%.

In line with the healthy loan growth, the Public Bank Group's total customer deposits recorded a growth of 10.2%, resulting in an improved market share of 15.9%. During the year, the Group accelerated its efforts to attract deposits through attractive deposit campaigns. The Group also maintained a healthy loan-to-deposit ratio of 88.0%. In terms of efficiency, the Group continued to be the most efficiently managed bank in Malaysia with a low cost-to-income ratio of 30.0% as compared to the banking industry's average cost-to-income ratio of 45.6%.

The Public Bank Group continued to place emphasis to expand fee-based business such as unit trust, bancassurance and transactional banking services. The Group's unit trust management business carried out by Public Bank's wholly-owned subsidiary, Public Mutual, remained as the market leader in the private unit trust industry with a total net asset value of RM63.0 billion.

As part of the business expansion strategy, the Public Bank Group continued to expand its branch network during the year, with the total number of branch both domestically and overseas increased to 415 branches. The Group further expanded its wide network of self service machines, bringing them to a total of 1,801 units nationwide.

The Public Bank Group also improved its internet banking and mobile banking service capabilities for greater customer convenience. In May 2014, the Group unveiled a new and improved internet banking website to provide better and improved e-banking experience to its customers. The Group also introduced its first mobile banking application ("app") known as 'PB engage'. The new app, a seamless extension of PBe online banking, is designed to provide an engaging, secure and fuss free banking on the go.

As a responsible corporate citizen, the Public Bank Group continued to fulfill its Corporate Social Responsibility programmes including programmes on education, professional development, environmental conservation and support of the underprivileged. On concerns over the plight of the flood victims, the Group offers assistance by providing them moratoriums on monthly installments.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2015

The Malaysian economy faces increasing challenges in 2015, arising largely from the plunge of global oil prices since late 2014. However, the country's economic fundamentals remain intact and domestic demand is expected to continue to support economic activity. The GDP growth for 2015 is projected at 4.5% – 5.5%.

Besides the progressive implementation of the Economic Transformation Programme, the Government's decision to maintain the allocation for development expenditure in the revised 2015 Budget is not only supportive but will further underpin investment activity.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2015 (CONTINUED)

Private consumption is projected to moderate following the implementation of Goods and Services Tax ("GST") in April 2015. However, stable labour market, income growth and Government's measures such as the reduction in personal income tax rates will help to cushion the impact of GST on consumer spending.

On the external sector, export earnings are expected to be affected by the low global oil prices. However, the low oil prices could stimulate global consumption, therefore should benefit Malaysia's exports of manufactured products, helping to mitigate the impact of lower oil export revenue.

On the supply side, the services sector is expected to contribute most of the increase to GDP. Continued expansion of investment activity and an anticipated gradual global economic recovery are expected to support growth in the manufacturing sector. Growth in the construction sector is likely to remain strong, underpinned by activity in the residential and non-residential sub-sectors.

Inflation is expected to be on upward pressure in 2015 as the GST comes into effect. However, a more moderate domestic demand and low retail fuel prices should help to alleviate inflationary pressure.

BUSINESS OUTLOOK FOR 2015

Back by strong capitalisation, resilient asset quality and ample liquidity, the Malaysian banking sector will continue to be supportive of the domestic economy and operate as an effective financial intermediary. Steady economic growth, accommodative policies and various supportive measures by the Government will continue to underpin demand for financing. However, the anticipated moderation in economic activities and impact of Bank Negara Malaysia's macro-prudential measures could pose some challenges to banks' lending growth.

In 2015, the Public Bank Group will continue its organic growth strategies of growing its core business of consumer financing focusing on home mortgages, passenger vehicle hire purchase financing and lending to viable SMEs across economic sectors. Based on the steady expansion of the economy, stable employment prospect and ongoing demand for residential properties, the Group is well-placed to leverage on its strong position in the market to grow its lending market share. Also, the Group will remain prudent and take proactive measures to maintain its strong asset quality.

The Public Bank Group will also focus on broadening its income sources by undertaking more expanded efforts in generating non-interest income from unit trust business, investment income and fee income from banking operations. The Group will make further progress in growing organically its overseas business and capture growth opportunities in the region, in tandem with the increasing regional financial integration.

To increase profitability and improve customer retention, the Group will undertake more cross-selling efforts along with its numerous banking products. The Group is also cognisant of the competitive landscape and will drive further innovation in products, and enhance customer-centric service delivery for competitive advantage. In tandem with Bank Negara Malaysia's move towards e-payment, enhancing e-channels leveraging on the internet and mobile phone will remain a priority for the Group. The Group also sees great opportunities to reach out to larger customer base through its e-banking channels.

The Public Bank Group will remain vigilant on prudent management and risk management practices. In view of the progressive roll out of the Basel III requirements, the Group will continue to strengthen its capital and liquidity position to ensure sustainable business growth.



AUDITORS

The auditors, Messrs. KPMG, retire and do not seek re-appointment at the forthcoming Annual General Meeting of the Bank.

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 2015

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 253 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 2014 and of their financial performance and cash flows for the year then ended.

The information set out in Note 57 to the financial statements on page 254 has 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 2015

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 254, 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 2015

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 2014 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 253.

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 2014 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.
- (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 57 to the financial statements on page 254 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

Khaw Hock Hoe

Approval Number: 2229/04/16(J)
Chartered Accountant

Petaling Jaya

Date: 5 February 2015



Statements of Financial Position

As at 31 December 2014

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
ASSETS					
Cash and balances with banks	3	16,816,838	22,080,417	11,008,446	12,750,086
Reverse repurchase agreements	4	6,314,493	9,541,969	5,564,858	8,638,588
Financial assets held-for-trading	5	18,364,018	15,811,963	14,478,780	13,986,426
Derivative financial assets	6	703,072	365,354	691,014	350,729
Financial investments available-for-sale	7	25,458,820	17,618,512	20,391,822	15,124,867
Financial investments held-to-maturity	8	20,414,387	7,793,551	17,866,819	5,787,800
Loans, advances and financing	9	243,221,839	219,415,793	201,928,027	182,404,573
Other assets	10	2,472,233	2,539,699	2,450,489	2,409,310
Statutory deposits with Central Banks	11	8,063,746	6,924,832	6,375,578	5,565,946
Deferred tax assets	12	69,325	70,121	–	–
Investment in subsidiary companies	13	–	–	4,436,050	4,436,050
Investment in associated companies	14	157,415	158,885	121,325	121,325
Investment properties	15	107,028	97,391	–	–
Property and equipment	16	1,475,578	1,302,997	658,965	568,346
Intangible assets	17	2,083,142	2,003,912	695,393	695,393
TOTAL ASSETS		345,721,934	305,725,396	286,667,566	252,839,439
LIABILITIES					
Deposits from customers	18	276,540,176	250,873,189	226,216,991	201,871,592
Deposits from banks	19	20,669,732	16,175,836	17,696,650	16,923,048
Bills and acceptances payable	20	661,718	1,573,443	661,168	1,627,515
Recourse obligations on loans and financing sold to Cagamas	21	1,922,020	500,011	1,422,004	–
Derivative financial liabilities	6	488,193	334,590	523,725	429,495
Debt securities issued and other borrowed funds	22	11,427,765	10,369,825	10,440,383	9,906,434
Other liabilities	23	4,496,646	4,020,416	3,363,265	2,845,591
Provision for tax expense and zakat	25	554,594	585,229	340,988	362,971
Deferred tax liabilities	12	86,309	95,661	59,231	50,738
TOTAL LIABILITIES		316,847,153	284,528,200	260,724,405	234,017,384

The accompanying notes form an integral part of the financial statements

Statements of
Financial Position

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
EQUITY					
Share capital	26	3,882,138	3,531,926	3,882,138	3,531,926
Reserves		24,291,867	17,107,240	22,210,360	15,505,701
Treasury shares	27	(149,337)	(215,572)	(149,337)	(215,572)
Equity attributable to equity holders of the Bank		28,024,668	20,423,594	25,943,161	18,822,055
Non-controlling interests		850,113	773,602	–	–
TOTAL EQUITY		28,874,781	21,197,196	25,943,161	18,822,055
TOTAL LIABILITIES AND EQUITY		345,721,934	305,725,396	286,667,566	252,839,439
COMMITMENTS AND CONTINGENCIES	49	95,812,661	87,986,206	91,048,625	83,587,446
Net assets per share attributable to ordinary equity holders of the Bank (RM)		7.26	5.83	6.72	5.37

The accompanying notes form an integral part of the financial statements



Statements of Profit or Loss

For the year ended 31 December 2014

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Operating revenue	2(v)(x)	16,860,071	15,264,300	12,731,516	11,503,573
Interest income	30	12,636,087	11,366,092	11,602,472	10,368,420
Interest expense	31	(6,705,614)	(5,795,554)	(6,450,314)	(5,568,826)
Net interest income		5,930,473	5,570,538	5,152,158	4,799,594
Net income from Islamic banking business	56	831,196	837,136	–	–
		6,761,669	6,407,674	5,152,158	4,799,594
Net fee and commission income	32	1,381,675	1,275,345	539,800	520,243
Net gains and losses on financial instruments	33	196,761	166,983	193,631	162,861
Other operating income	34	333,252	308,315	988,472	975,058
Net income		8,673,357	8,158,317	6,874,061	6,457,756
Other operating expenses	35	(2,605,865)	(2,503,636)	(1,755,708)	(1,710,684)
Operating profit		6,067,492	5,654,681	5,118,353	4,747,072
Allowance for impairment on loans, advances and financing	37	(259,000)	(351,252)	(100,227)	(100,605)
Writeback of impairment on other assets	38	782	149	875	165
		5,809,274	5,303,578	5,019,001	4,646,632
Share of profit after tax of equity accounted associated companies		4,981	6,406	–	–
Profit before tax expense and zakat		5,814,255	5,309,984	5,019,001	4,646,632
Tax expense and zakat	39	(1,250,915)	(1,204,342)	(989,399)	(941,517)
Profit for the year		4,563,340	4,105,642	4,029,602	3,705,115
Attributable to:					
Equity holders of the Bank		4,518,830	4,064,683	4,029,602	3,705,115
Non-controlling interests		44,510	40,959	–	–
Profit for the year		4,563,340	4,105,642	4,029,602	3,705,115
Earnings per RM1.00 share:					
– basic/diluted (sen)	40	123.7	116.1		

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 2014

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit for the year		4,563,340	4,105,642	4,029,602	3,705,115
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	8,091	172,234	7,907	167,547
<u>Items that may be reclassified to profit or loss:</u>					
Foreign currency translation reserves:					
– Currency translation differences in respect of					
– Foreign operations		302,165	296,193	–	–
– Net investment hedge	28	(206,460)	(209,365)	–	–
Revaluation reserves:					
– Net change in revaluation of financial investments available-for-sale	28	(48,839)	10,936	(47,540)	11,226
– Share of loss of equity accounted associated companies	28	(76)	(449)	–	–
Hedging reserves:					
– Net change in cash flow hedges	28	17,311	(12,256)	87,675	(121,237)
		64,101	85,059	40,135	(110,011)
Income tax relating to components of other comprehensive income/(loss):					
– Defined benefit reserves	28	4,281	(43,058)	3,038	(41,887)
– Revaluation reserves	28	11,962	(3,078)	11,601	(2,806)
– Hedging reserves	28	(4,363)	3,063	(22,558)	30,309
		11,880	(43,073)	(7,919)	(14,384)
Other comprehensive income for the year, net of tax		84,072	214,220	40,123	43,152
Total comprehensive income for the year		4,647,412	4,319,862	4,069,725	3,748,267
Total comprehensive income for the year attributable to:					
– Equity holders of the Bank		4,549,693	4,226,259	4,069,725	3,748,267
– Non-controlling interests		97,719	93,603	–	–
		4,647,412	4,319,862	4,069,725	3,748,267

The accompanying notes form an integral part of the financial statements



Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

2014 Group	Note	Attributable to Equity Holders of the Bank							Non- controlling Interests RM'000	Total Equity RM'000
		Non-distributable Reserves			Distributable Reserves			Total Shareholders' 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 2014		3,531,926	1,073,310	4,526,365	11,507,565	(215,572)	20,423,594	773,602	21,197,196	
Profit for the year		-	-	-	4,518,830	-	4,518,830	44,510	4,563,340	
Other comprehensive income for the year		-	-	30,863	-	-	30,863	53,209*	84,072	
Total comprehensive income for the year		-	-	30,863	4,518,830	-	4,549,693	97,719	4,647,412	
Transactions with owners/ other equity movements:										
Issue of shares pursuant to rights issue exercise		350,212	4,462,205	-	-	-	4,812,417	-	4,812,417	
Disposal of treasury shares	27	-	-	-	109,404	66,235	175,639	-	175,639	
Transfer to statutory reserves		-	-	1,020,860	(1,020,860)	-	-	-	-	
Transfer to regulatory reserves		-	-	1,305,418	(1,305,418)	-	-	-	-	
Transfer to Profit Equalisation Reserves of Islamic banking institution		-	-	54	(54)	-	-	-	-	
Dividends paid		-	-	-	(1,936,675)	-	(1,936,675)	(21,208)	(1,957,883)	
		350,212	4,462,205	2,326,332	(4,153,603)	66,235	3,051,381	(21,208)	3,030,173	
At 31 December 2014		3,882,138	5,535,515	6,883,560	11,872,792	(149,337)	28,024,668	850,113	28,874,781	
		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

2013 Group	Note	Attributable to Equity Holders of the Bank							Non- controlling Interests RM'000	Total Equity RM'000
		Non-distributable Reserves			Distributable Reserves			Total Shareholders' 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 2013		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 Reserves 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.



Statement of Changes in Equity

For the year ended 31 December 2014

2014 Bank	Note	Attributable to Equity Holders of the Bank						Total Equity RM'000
		Non-distributable Reserves			Distributable Reserves			
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000		
At 1 January 2014		3,531,926	1,073,310	3,803,152	10,629,239	(215,572)	18,822,055	
Profit for the year		-	-	-	4,029,602	-	4,029,602	
Other comprehensive income for the year		-	-	40,123	-	-	40,123	
Total comprehensive income for the year		-	-	40,123	4,029,602	-	4,069,725	
Transactions with owners/other equity movements:								
Issue of shares pursuant to rights issue exercise		350,212	4,462,205	-	-	-	4,812,417	
Disposal of treasury shares	27	-	-	-	109,404	66,235	175,639	
Transfer to statutory reserves		-	-	1,007,400	(1,007,400)	-	-	
Transfer to regulatory reserves		-	-	1,293,334	(1,293,334)	-	-	
Dividends paid	41	-	-	-	(1,936,675)	-	(1,936,675)	
		350,212	4,462,205	2,300,734	(4,128,005)	66,235	3,051,381	
At 31 December 2014		3,882,138	5,535,515	6,144,009	10,530,836	(149,337)	25,943,161	
		Note 26		Note 28	Note 29	Note 27		

The accompanying notes form an integral part of the financial statements

Statement of
Changes in Equity

2013 Bank	Note	<----- Attributable to Equity Holders of the Bank ----->						Total Equity RM'000
		Non-distributable Reserves			Distributable Reserves			
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000		
At 1 January 2013		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		

The accompanying notes form an integral part of the financial statements



Statements of Cash Flows

For the year ended 31 December 2014

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax expense and zakat	5,814,255	5,309,984	5,019,001	4,646,632
Adjustments for:				
Share of profit after tax of equity accounted associated companies	(4,981)	(6,406)	-	-
Depreciation of property and equipment	159,049	161,188	123,090	127,694
Net gain on disposal of property and equipment	(996)	(500)	(973)	(579)
Net gain on disposal of foreclosed properties	(777)	(2,657)	(777)	(2,657)
Gain on liquidation of a subsidiary company	-	-	-	(114)
Allowance for impaired loans and financing	526,553	566,036	253,368	228,830
Net gain arising from disposal of financial investments available-for-sale	(12,509)	(12,002)	(8,999)	(12,002)
Net (gain)/loss arising from disposal of trading derivatives	(10,447)	5,864	(10,447)	5,864
Amortisation of cost and accretion of discount relating to debt securities issued	2,318	2,074	2,173	2,074
Unrealised (gain)/loss on revaluation of financial assets held-for-trading	(3,878)	9,238	(3,929)	9,243
Unrealised loss/(gain) on revaluation of trading derivatives	11,605	(11,569)	9,364	(12,239)
Gain representing ineffective portions of hedging derivatives	(7,531)	(2,703)	(7,784)	(2,678)
Transfer to Profit Equalisation Reserves	340	497	-	-
Dividends from financial investments available-for-sale	(165,623)	(145,960)	(163,604)	(140,802)
Dividends from subsidiary companies	-	-	(843,406)	(753,586)
Dividends from associated companies	-	-	(6,101)	(6,460)
Property and equipment written off	72	527	72	490
Gain on revaluation of investment properties	(5,304)	(2,547)	-	-
Impairment writeback on foreclosed properties	(782)	(149)	(875)	(165)
Operating profit before working capital changes	6,301,364	5,870,915	4,360,173	4,089,545

Statements of
Cash Flows

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)				
<u>(Increase)/Decrease in operating assets:</u>				
Placements with banks maturing after one month	(1,042,269)	(97,015)	(670,627)	77,463
Reverse repurchase agreements	3,227,476	(1,383,463)	3,073,730	(1,329,435)
Financial assets held-for-trading	(2,548,177)	795,934	(488,425)	(396,625)
Loans, advances and financing	(24,354,323)	(23,940,776)	(19,798,364)	(19,675,113)
Derivative financial assets	16,916	28,792	16,916	28,792
Other assets	83,131	(187,020)	(1,608)	(124,868)
Statutory deposits with Central Banks	(1,138,914)	(1,137,626)	(809,632)	(827,733)
<u>Increase/(Decrease) in operating liabilities:</u>				
Deposits from customers	25,666,987	25,830,864	24,345,399	20,183,148
Deposits from banks	4,493,896	3,326,523	773,602	2,514,270
Bills and acceptances payable	(911,725)	(1,475,378)	(966,347)	(1,505,177)
Recourse obligations on loans and financing sold to Cagamas	1,422,009	(1,485)	1,422,004	(1,493)
Other liabilities	110,370	97,140	389,176	289,850
Cash generated from operations	11,326,741	7,727,405	11,645,997	3,322,624
Income tax expense and zakat paid	(1,278,197)	(1,386,021)	(1,010,810)	(1,120,157)
Net cash generated from operating activities	10,048,544	6,341,384	10,635,187	2,202,467
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(304,192)	(128,912)	(214,685)	(88,150)
Proceeds from disposal of property and equipment	1,825	631	2,231	611
Proceeds from disposal of foreclosed properties	24,092	38,881	23,555	37,680
Net purchase of financial investments	(20,541,611)	(2,006,250)	(17,417,522)	(817,631)
Additional investment in a subsidiary company	-	-	-	(175,000)
Dividends received from associated companies	6,101	6,460	6,101	6,460
Dividends received from subsidiary companies	-	-	811,381	713,770
Dividends received from financial investments available-for-sale	165,623	145,847	163,604	140,689
Net cash used in investing activities	(20,648,162)	(1,943,343)	(16,625,335)	(181,571)



	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to equity holders of the Bank	(1,936,675)	(1,821,105)	(1,936,675)	(1,821,105)
Dividends paid to non-controlling interests	(21,208)	(19,865)	–	–
Net proceeds from rights issue	4,812,417	–	4,812,417	–
Net proceeds from disposal of treasury shares	175,639	–	175,639	–
Net drawdown/(repayment) of borrowings	25,131	(401,520)	–	–
Net proceeds from issuance of debt securities	1,498,215	2,347,915	999,500	2,347,915
Redemption of debt securities	(473,000)	(1,400,000)	(473,000)	(1,400,000)
Net cash generated from/(used in) financing activities	4,080,519	(1,294,575)	3,577,881	(873,190)
Net (decrease)/increase in cash and cash equivalents	(6,519,099)	3,103,466	(2,412,267)	1,147,706
Cash and cash equivalents at beginning of year	20,183,223	16,835,772	11,386,416	10,238,710
Exchange differences on translation of opening balances	213,251	243,985	–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	13,877,375	20,183,223	8,974,149	11,386,416
Note:				
Cash and balances with banks (Note 3)	16,816,838	22,080,417	11,008,446	12,750,086
Less: Balances with banks with maturity more than one month	(2,939,463)	(1,897,194)	(2,034,297)	(1,363,670)
Cash and cash equivalents at end of year	13,877,375	20,183,223	8,974,149	11,386,416

The accompanying notes form an integral part of the financial statements

Notes to the Financial Statements

– 31 December 2014

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 2015.

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 early adoption of the following Malaysian Financial Reporting Standard ("MFRS") and Amendments to MFRSs:

(i) MFRS and Amendments to MFRSs 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:

- Defined Benefit Plans: Employee Contributions (Amendments to MFRS 119)
- Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2010 – 2012 Cycle"
- Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2011 – 2013 Cycle"
- Agriculture: Bearer Plants (Amendments to MFRS 116 and MFRS 141)
- MFRS 14 Regulatory Deferral Accounts
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138)
- Accounting for Acquisitions of interests in Joint Operations (Amendments to MFRS 11)

The adoption of MFRS 14 Regulatory Deferral Accounts and Agriculture: Bearer Plants (Amendments to MFRS 116 and MFRS 141) did not have any impact on the Group and the Bank as they are not relevant to the business of the Group and the Bank. The adoption of Accounting for Acquisitions of interests in Joint Operations (Amendments to MFRS 11) did not have any impact on the Group and the Bank as the Group does not have any interest in joint operations.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(i) MFRS and Amendments to MFRSs that were Early Adopted by the Group and the Bank (continued)

The main effects of the early adoption of other Amendments to MFRSs above are summarised below:

- (a) **Defined Benefit Plans: Employee Contributions (Amendments to MFRS 119)** – The amendments to MFRS 119 provide a practical expedient in accounting for contributions from employees or third parties to the defined benefit plans. The adoption of the amendments to MFRS 119 did not have any financial impact on the Group and the Bank as the Group's defined benefit plan does not require employees or third parties to contribute to the plan.
- (b) **Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2010 – 2012 Cycle"** – The Annual Improvements to MFRSs 2010 – 2012 Cycle consist of the following amendments:
- (i) MFRS 2 Share-based Payment
The amendment clarifies the definition of 'vesting conditions' by separately defining 'performance condition' and 'service condition' to ensure consistent classification of conditions attached to a share-based payment.
- (ii) MFRS 3 Business Combinations
The amendment clarifies that when contingent consideration meets the definition of financial instrument, its classification as a liability or equity is determined by reference to MFRS 132 Financial Instruments: Presentation. In addition, contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value at each reporting date and changes in fair value shall be recognised in the statement of profit or loss.
- (iii) MFRS 8 Operating Segments
The amendment requires the disclosure of judgements made in applying the aggregation criteria to operating segments. This includes a brief description of the operating segment and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. In addition, a reconciliation of the total reportable segments' assets to the entity's assets is required if that amount is regularly provided to the chief operating decision maker.
- (iv) MFRS 13 Fair Value Measurement
The amendment clarifies that when International Accounting Standards Board ("IASB") issued IFRS 13, it did not remove the practical ability to measure short term receivables and payables with no stated interest rate at invoice amounts without discounting, if the effect of discounting is immaterial.
- (v) MFRS 116 Property, Plant and Equipment and MFRS 138 Intangible Assets
The amendment clarifies the accounting for the accumulated depreciation or amortisation when an asset is revalued.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(i) MFRS and Amendments to MFRSs that were Early Adopted by the Group and the Bank (continued)

The main effects of the early adoption of other Amendments to MFRSs above are summarised below (continued):

(b) ***Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2010 – 2012 Cycle"*** – The Annual Improvements to MFRSs 2010 – 2012 Cycle consist of the following amendments (continued):

(vi) MFRS 124 Related Party Disclosures

The amendment extends the definition of 'related party' to include an entity, or any member of a group of which it is a party, that provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The adoption of the Annual Improvements to MFRSs 2010 – 2012 Cycle did not have any financial impact on the Group and the Bank.

(c) ***Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2011 – 2013 Cycle"*** – The Annual Improvements to MFRSs 2011 – 2013 Cycle consist of the following amendments:

(i) MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards

The amendment relates to the IASB's Basis for Conclusions which clarifies that a first-time adopter is permitted but not required to apply a new or revised Standard that is not yet mandatory but is available for early application.

(ii) MFRS 3 Business Combinations

The amendment clarifies that MFRS 3 excludes from its scope the accounting for the formation of all types of joint arrangements (as defined in MFRS 11 Joint Arrangements) in the financial statements of the joint arrangement itself, but not to the parties to the joint arrangements for their interests in the joint arrangement.

(iii) MFRS 13 Fair Value Measurement

The amendment clarifies that the scope of the portfolio exception of MFRS 13 includes all contracts accounted for within the scope of MFRS 139 Financial Instruments: Recognition and Measurement or MFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in MFRS 132 Financial Instruments: Presentation.

(iv) MFRS 140 Investment Property

The amendment clarifies that the determination of whether an acquisition of investment property meets the definition of both a business combination as defined in MFRS 3 and investment property as defined in MFRS 140 requires the separate application of both Standards independently of each other.

The adoption of the Annual Improvements to MFRSs 2011 – 2013 Cycle did not have any financial impact on the Group and the Bank.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(i) MFRS and Amendments to MFRSs that were Early Adopted by the Group and the Bank (continued)

The main effects of the early adoption of other Amendments to MFRSs above are summarised below (continued):

- (d) **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138)** – The amendments to MFRS 116 and MFRS 138 clarify that the preparers should not use revenue-based methods to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets. The adoption of these amendments did not have any impact on the Group and the Bank as the Group and the Bank do not use revenue-based methods to calculate depreciation and amortisation of its property, plant and equipment or intangible assets.

(ii) Determination of Substantively Enacted Tax Rate in Measuring Deferred Tax Assets and Liabilities (FRSIC Consensus 21)

FRSIC 21 was developed by the Financial Reporting Standards Implementation Committee (“FRSIC”) and issued by the Malaysian Institute of Accountants on 17 February 2014.

In accordance with FRSIC 21, the announcement of changes in the Malaysian tax rate by the Government in the yearly budget speech has the substantive effect of actual enactment. This is because in Malaysia, historically, there has been no difference between tax rate announced by the Government in the yearly budget speech and the subsequent gazetted tax rate. Hence, an entity shall apply the revised or announced tax rate to the temporary differences that are expected to be reversed in the year of assessment and in subsequent years, as announced in the budget speech.

FRSIC 21 has been applied in the financial statements of the Group and the Bank in relation to the tax rate used in measuring deferred tax assets and liabilities in line with the announcement in the Budget Speech 2015 that corporate tax rate would reduce from 25% to 24% for year of assessment 2016. The changes were accounted for prospectively as a change in accounting estimates and as a result, the deferred tax expense of the Group and the Bank for the current financial year have been increased by RM653,000 and RM591,000 respectively.

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

On 4 February 2014, BNM issued a letter requiring banking institutions to maintain, in aggregate, collective impairment provisions and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of individual impairment provisions, pursuant to paragraph 13 of the BNM’s Policy Document on Classification and Impairment Provisions for Loans/Financing. The regulatory reserves are maintained in addition to the impairment provisions required under the MFRS 139 Financial Instruments: Recognition and Measurement, and it will be set aside from the retained profits to a separate reserve within equity as an additional credit risk absorbent. Banking institutions are required to comply with this requirement by 31 December 2015. During the financial year, the Group and the Bank have transferred RM1.30 billion and RM1.29 billion respectively from its retained profits to regulatory reserves in accordance with BNM’s requirements upon the early adoption by the Bank and its domestic banking subsidiary companies. The early adoption of this requirement did not have any impact to the current year profit or loss of the Group and the Bank. As regulatory reserves do not qualify as common equity Tier I (“CET I”) capital and Tier I capital under BNM’s Capital Adequacy Framework (Capital Components), the adoption of this requirement has resulted in a decrease of 0.6% respectively in CET I and Tier I capital ratios of the Group. For the Bank, the adoption of this requirement has resulted in a decrease of 0.7% respectively in CET I and Tier I capital ratios.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(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 Malaysian Accounting Standards Board ("MASB") but are not yet effective to the Group and the Bank:

Effective for annual periods commencing on or after 1 January 2016

- Equity Method in Separate Financial Statements (Amendments to MFRS 127)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)
- Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2012 – 2014 Cycle"

Effective for annual periods commencing on or after 1 January 2017

- MFRS 15 Revenue from Contracts with Customers

Effective for annual periods on or after 1 January 2018

- MFRS 9 Financial Instruments (2014)

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

- (a) **Equity Method in Separate Financial Statements (Amendments to MFRS 127)** – The amendments allow an entity to use the equity method in its separate financial statement to account for investments in subsidiary companies, joint ventures and associated companies, in addition to the existing cost method.

The adoption of Amendments to MFRS 127 is not expected to have any impact on the financial statement of the Bank as the Bank will continue to use its existing cost method to account for its investments in subsidiary companies and associated companies.

- (b) **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)** – The amendments address the inconsistency between the requirements of MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associate and Joint Venture and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. Full gain or loss is recognised when a transaction involves a business whether it is housed in a subsidiary company or not, as defined in MFRS 3 Business Combinations. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary company.

The adoption of these amendments is not expected to have any material impact on the financial statements of the Group and the Bank.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

A brief description of the Amendments to MFRSs and new MFRSs above that have been issued is set out below (continued):

(c) **Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2012 – 2014 Cycle"** – The Annual Improvements to MFRSs 2012 – 2014 Cycle consist of the following amendments:

(i) MFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment introduces specific guidance in MFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution is discontinued. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal and that changing the disposal method does not change the date of classification.

(ii) MFRS 7 Financial Instruments: Disclosures

MFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and an entity must assess the nature of the fee and arrangement in order to assess whether the disclosures are required.

The amendments also clarify the applicability of the amendments to MFRS 7 on offsetting disclosures to condensed interim financial statements.

(iii) MFRS 119 Employee Benefits

The amendment clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. When there is no deep market for high quality corporate bonds, government bonds denominated in similar currency must be used.

(iv) MFRS 134 Interim Financial Reporting

The amendment clarifies the meaning of 'elsewhere in the interim financial report' as used in MFRS 134 and states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and some other statement that is available to users of the financial statements on the same terms and at the same time.

The adoption of the Annual Improvements to MFRSs 2012 – 2014 Cycle is not expected to have any material impact on the financial statements of the Group and the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

A brief description of the Amendments to MFRSs and new MFRSs above that have been issued is set out below (continued):

- (d) **MFRS 15 Revenue from Contracts with Customers** – MFRS 15 establishes principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with customers. The core principle of MFRS 15 is that an entity recognises revenue in a manner which reflects the consideration an entity expects to be entitled in exchange for goods and services.

The adoption of MFRS 15 is not expected to have any material impact on the financial statements of the Group and the Bank.

- (e) **MFRS 9 Financial Instruments (2014)** – In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

MFRS 9 has two measurement categories – amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For financial liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of profit or loss, unless this creates an accounting mismatch.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables and certain loan commitments as well as financial guarantee contracts. At initial recognition, allowance for impairment is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12 month ECL"). In the event of a significant increase in credit risk, allowance for impairment is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

A brief description of the Amendments to MFRSs and new MFRSs above that have been issued is set out below (continued):

Hedge accounting

MFRS 9 establishes a more principle-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in MFRS 139. The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link between hedge accounting and risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project.

MFRS 9 introduces significant changes in the way the Group accounts for financial instruments, particularly on the Group's accounting policy on allowance for loans, advances and financing. The adoption of the requirements on classification and measurement will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have any impact on the classification and measurement of the Group's financial liabilities. The recognition and measurement of impairment under MFRS 9 is intended to be more forward-looking than under MFRS 139 and will result in an increase in the allowances for loans, advances and financing as more financial assets (MFRS 9 includes loan commitments and financial guarantee contracts) will be assessed for impairment and allowances for impairment will be made for at least 12 month ECL. Due to the complexity of the standard and its requirements, the financial effects of its adoption are still being assessed by the Group.

(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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

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.

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 (Note 45)** – 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 (e.g. credit quality, default rates, recovery rates, etc.), credit concentration and economic data (e.g. 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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

- (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.
- (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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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.

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.

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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

(i) Subsidiary Companies (continued)

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 (i.e. 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.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

(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.

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, i.e. 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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(c) Foreign Currency (continued)

(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, i.e. 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.

(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:

	2014	2013
1 USD	RM3.4978	RM3.2801
1 HKD	RM0.4510	RM0.4225

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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) 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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(i) Initial Recognition and Subsequent Measurement (continued)

(3) Financial Investments Held-to-Maturity (continued)

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.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(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.

(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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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 document 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.

(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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(f) Derivative Financial Instruments and Hedge Accounting (continued)

(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.

(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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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; or
- (2) where a loan is in arrears for less than three (3) months, the loan exhibits indications of significant credit weaknesses; or
- (3) where a loan is in arrears for less than three (3) months and has been rescheduled or restructured, the loan will be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of three (3) months; or
- (4) 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 (i.e. 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 (CONTINUED)**(v) Summary of Significant Accounting Policies (continued)****(h) Impairment of Financial Assets (continued)****(i) Loans, Advances and Financing (continued)**

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 a loan is in arrears for less than three (3) months and has been renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of three (3) months before the loan is classified as non-impaired. 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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(h) Impairment of Financial Assets (continued)

(ii) Financial Investments Available-for-Sale (continued)

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.

(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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(i) Investment Properties (continued)

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.

(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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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).

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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.

(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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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).

(o) Repurchase and Reverse Repurchase Agreements

Securities purchased under resale agreements (i.e. 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 (i.e. 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(q) General Insurance (continued)

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.

(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 senior medium term notes, subordinated notes, subordinated sukuk murabahah, 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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(t) Debt Securities Issued (continued)

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.

(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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**(v) Summary of Significant Accounting Policies (continued)****(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.

(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.



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(ab) Employee Benefits (continued)

(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.

(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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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 substantively 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.

(ad) Dividends

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



2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(v) Summary of Significant Accounting Policies (continued)

(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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash and bank balances	3,212,559	2,569,628	1,922,948	1,535,828
Money market deposit placements:				
– maturing within one month	10,664,816	17,613,595	7,051,201	9,850,588
– maturing after one month	2,939,463	1,897,194	2,034,297	1,363,670
	13,604,279	19,510,789	9,085,498	11,214,258
	16,816,838	22,080,417	11,008,446	12,750,086

4. REVERSE REPURCHASE AGREEMENTS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Malaysian Government Securities	5,939,865	9,537,953	5,190,230	8,634,572
Malaysian Government Investment Certificates	89,561	–	89,561	–
Unquoted private debt securities	249,223	–	249,223	–
Foreign government treasury bills	35,844	4,016	35,844	4,016
	6,314,493	9,541,969	5,564,858	8,638,588

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 RM6,477,010,000 (2013 – RM9,666,173,000) and RM5,717,354,000 (2013 – RM8,756,873,000) respectively, of which none (2013 – none) have been resold.

5. FINANCIAL ASSETS HELD-FOR-TRADING

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At fair value				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	77,292	–	77,292	–
Malaysian Government Securities	971,970	223,523	971,970	223,523
Malaysian Government Investment Certificates	91,272	1,310,771	91,272	1,106,521
Bank Negara Malaysia Monetary Notes	1,053,737	49,346	1,053,737	49,346
	2,194,271	1,583,640	2,194,271	1,379,390
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	15,705,105	13,822,929	12,242,739	12,274,547
Bankers' acceptances and Islamic accepted bills	367,994	–	–	–
	16,073,099	13,822,929	12,242,739	12,274,547
Non-money market instruments:				
Debt securities				
– Unquoted private debt securities	96,648	405,394	41,770	332,489
	18,364,018	15,811,963	14,478,780	13,986,426



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	Contract/ Notional Amount RM'000	2014		2013		
		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	1,062,357	17,135	15,777	1,044,710	10,725	7,906
– Currency swaps	19,942,011	543,550	128,529	15,803,116	156,182	65,266
– Currency options	79,437	52	52	8,486	11	11
Interest rate related contracts						
– Interest rate swaps	–	–	–	450,000	48	208
Equity related contracts						
– Options purchased	–	–	–	52,089	16,616	–
Precious metal contracts						
– Forwards	148	–	1	1,890	1	1
	21,083,953	560,737	144,359	17,360,291	183,583	73,392
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	8,034,454	106,469	20,716	8,209,872	143,220	69,022
Cash flow hedge						
Foreign exchange contracts						
– Cross currency interest rate swaps	2,448,425	–	322,516	2,132,065	–	191,322
Interest/profit rate related contracts						
– Interest/profit rate swaps	3,724,400	35,866	602	2,177,000	38,551	854
	14,207,279	142,335	343,834	12,518,937	181,771	261,198
Total	35,291,232	703,072	488,193	29,879,228	365,354	334,590

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Bank	2014			2013		
	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	1,009,062	16,980	15,669	1,005,721	10,687	7,873
– Currency swaps	19,694,997	542,726	125,933	15,658,457	155,895	65,041
– Currency options	79,437	52	52	8,486	11	11
Interest rate related contracts						
– Interest rate swaps	–	–	–	469,681	48	832
Equity related contracts						
– Options purchased	–	–	–	52,089	16,616	–
Precious metal contracts						
– Forwards	148	–	1	1,890	1	1
	20,783,644	559,758	141,655	17,196,324	183,258	73,758
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	7,684,679	106,469	9,285	7,747,377	143,220	47,084
Cash flow hedge						
Foreign exchange contracts						
– Cross currency interest rate swaps	2,448,425	–	322,516	2,132,065	–	191,322
Interest rate related contracts						
– Interest rate swaps	5,824,400	24,787	50,269	3,677,000	24,251	117,331
	15,957,504	131,256	382,070	13,556,442	167,471	355,737
Total	36,741,148	691,014	523,725	30,752,766	350,729	429,495

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 (CONTINUED)

As at 31 December 2014, 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Gain/(loss) on hedging instruments	17,242	(110,501)	6,736	(128,519)
(Loss)/gain on the hedged items attributable to the hedged risk	(11,284)	112,665	(541)	130,625
Exchange differences	(16)	(33)	-	-
Ineffectiveness charged to the statement of profit or loss (Note 33)	5,942	2,131	6,195	2,106

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 (CONTINUED)**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
2014				
Cash inflows/(outflows) on assets	99	(7)	(660)	–
Cash inflows/(outflows) on liabilities	41,823	(13,252)	(31,707)	–
Net cash inflows/(outflows)	41,922	(13,259)	(32,367)	–
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
Bank				
	Within 1 year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
2014				
Cash inflows/(outflows) on assets	638	(531)	(15,049)	(34,926)
Cash inflows/(outflows) on liabilities	39,485	(17,925)	(35,780)	–
Net cash inflows/(outflows)	40,123	(18,456)	(50,829)	(34,926)
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)



6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Cash Flow Hedges (continued)

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 RM41,000 (2013 – net gain of RM1,083,000) 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 RM1,589,000 (2013 – gain of RM572,000) (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	
	2014 RM'000	2013 RM'000
Long-term borrowings	206,367	193,526
Short-term interbank borrowings	3,109,500	2,912,729
	3,315,867	3,106,255

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 gain of RM112,000 (2013 – loss of RM964,000).

7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At fair value				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	389,603	1,386,790	78,452	1,386,790
Malaysian Government Securities	5,792,980	975,356	5,792,980	975,356
Malaysian Government Investment Certificates	6,435,034	3,140,471	4,398,611	1,703,562
Bank Negara Malaysia Monetary Notes	4,935,145	4,604,017	3,152,223	4,604,017
	17,552,762	10,106,634	13,422,266	8,669,725
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	1,091,364	198,844	1,002,749	198,844
Non-money market instruments:				
Equity securities				
– Quoted shares and convertible loan stocks in Malaysia	–	4,785	–	4,785
– Quoted shares and convertible loan stocks outside Malaysia	7,086	11,897	–	–
– Unquoted shares [#]	112,086	110,249	107,921	106,285
Debt securities				
– Unquoted private debt securities	1,421,176	2,078,879	1,052,762	1,607,095
Unit trust funds	5,274,346	5,107,224	4,806,124	4,538,133
	6,814,694	7,313,034	5,966,807	6,256,298
	25,458,820	17,618,512	20,391,822	15,124,867
[#] Stated at cost, net of impairment loss amounting to	6,265	6,265	6,265	6,265

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Non-money market instruments:				
Equity securities – unquoted shares				
At 1 January	6,265	26,135	6,265	26,135
Amount written off	–	(19,870)	–	(19,870)
At 31 December	6,265	6,265	6,265	6,265



8. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At amortised cost				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	174,363	19,961	9,752	–
Malaysian Government Securities	2,317,575	1,235,500	2,287,544	1,205,514
Malaysian Government Investment Certificates	11,160,710	2,190,194	10,103,198	2,119,819
Bank Negara Malaysia Monetary Notes	439,542	–	439,542	–
Foreign government treasury bills	708,132	756,069	20,149	111,725
Other foreign government securities	131,043	197,872	–	–
	14,931,365	4,399,596	12,860,185	3,437,058
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	1,065,018	1,890,742	1,586,876	1,528,777
Bankers' acceptances and Islamic accepted bills	–	279,895	–	89,092
	1,065,018	2,170,637	1,586,876	1,617,869
Non-money market instruments:				
Debt securities				
– Cagamas bonds	1,247,447	130,287	1,207,484	90,436
– Unquoted private debt securities	3,170,638	1,093,138	2,212,355	642,544
	4,418,085	1,223,425	3,419,839	732,980
Accumulated impairment losses	(81)	(107)	(81)	(107)
	20,414,387	7,793,551	17,866,819	5,787,800

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Maturity within one year	3,275,785	3,906,731	733,656	1,233,085
More than one year to three years	3,042,237	1,001,784	2,679,592	813,279
More than three years to five years	4,262,992	634,420	4,594,855	512,742
More than five years	5,415,369	1,027,298	6,438,958	2,495,821
	15,996,383	6,570,233	14,447,061	5,054,927

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY (CONTINUED)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Malaysian Government Treasury Bills	173,583	19,923	9,756	–
Malaysian Government Securities	2,306,534	1,234,386	2,276,673	1,204,636
Malaysian Government Investment Certificates	11,108,480	2,170,604	10,051,909	2,101,077
Bank Negara Malaysia Monetary Notes	439,832	–	439,832	–
Foreign government treasury bills	707,592	755,198	20,148	111,375
Other foreign government securities	130,659	197,941	–	–
Negotiable instruments of deposit and negotiable Islamic debt certificates	1,064,211	1,885,280	1,478,448	1,512,786
Bankers' acceptances and Islamic accepted bills	–	279,879	–	89,082

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

	Group and Bank	
	2014 RM'000	2013 RM'000
Non-money Market Instruments:		
Debt Securities		
At 1 January	107	155
Amount written off	(26)	(48)
At 31 December	81	107



9. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At amortised cost				
Overdrafts	10,195,284	9,694,121	8,394,145	8,319,983
Term loans/financing				
– Housing loans/financing	77,610,372	69,371,088	67,116,548	60,472,169
– Syndicated term loans/financing	1,513,802	1,782,419	1,008,885	1,071,646
– Hire purchase receivables	48,288,687	44,923,671	35,306,545	31,906,568
– Other term loans/financing	92,882,403	83,603,166	77,281,485	70,256,580
Credit card receivables	1,664,137	1,623,283	1,651,400	1,613,033
Bills receivables	171,747	132,233	153,681	112,310
Trust receipts	334,435	318,642	253,595	262,301
Claims on customers under acceptance credits [#]	4,206,587	4,146,270	4,053,227	4,013,598
Revolving credits	6,680,739	4,247,740	6,510,882	4,273,079
Staff loans [*]	1,495,860	1,333,170	1,403,626	1,254,160
Gross loans, advances and financing	245,044,053	221,175,803	203,134,019	183,555,427
Less: Allowance for impaired loans and financing				
– collective assessment allowance	(1,682,128)	(1,592,085)	(1,143,525)	(1,071,089)
– individual assessment allowance	(140,086)	(167,925)	(62,467)	(79,765)
Net loans, advances and financing	243,221,839	219,415,793	201,928,027	182,404,573

[#] Included in claims on customers under acceptance credits of the Group and the Bank are bankers' acceptance rediscounted of RM204,124,000 (2013 – RM974,991,000) and RM204,124,000 (2013 – RM974,121,000) respectively.

^{*} Included in staff loans of the Group and the Bank are loans to directors of subsidiary companies amounting to RM3,402,000 (2013 – RM3,499,000) and RM3,069,000 (2013 – RM3,092,000) respectively.

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Retail loans/financing*				
– Housing loans/financing	77,610,372	69,371,088	67,116,548	60,472,169
– Hire purchase	48,288,687	44,923,671	35,306,545	31,906,568
– Credit cards	1,664,137	1,623,283	1,651,400	1,613,033
– Other loans/financing^	83,615,227	74,634,000	71,399,103	64,745,015
	211,178,423	190,552,042	175,473,596	158,736,785
Corporate loans/financing	33,865,630	30,623,761	27,660,423	24,818,642
	245,044,053	221,175,803	203,134,019	183,555,427

* 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Maturity within one year	33,519,550	29,512,905	28,173,351	24,665,072
More than one year to three years	19,854,855	21,787,337	15,876,998	17,348,887
More than three years to five years	22,993,262	21,614,004	18,037,149	16,869,100
More than five years	168,676,386	148,261,557	141,046,521	124,672,368
	245,044,053	221,175,803	203,134,019	183,555,427



9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Banking institutions	–	219,841	–	32,806
Non-bank financial institutions				
– Stock-broking companies	8,803	10,415	8,803	10,415
– Others	6,672,659	5,867,394	6,553,083	5,796,575
Business enterprises				
– Small and medium enterprises	55,544,630	46,466,558	49,161,029	41,907,628
– Others	24,310,180	24,774,604	18,987,132	19,839,602
Government and statutory bodies	331,246	328,984	13,663	9,205
Individuals	155,717,324	141,050,941	126,060,649	113,628,081
Other entities	40,369	43,708	37,536	41,090
Foreign entities	2,418,842	2,413,358	2,312,124	2,290,025
	245,044,053	221,175,803	203,134,019	183,555,427

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Malaysia	228,337,847	206,634,918	202,409,537	183,018,237
Hong Kong SAR and the People's Republic of China	12,991,337	11,573,237	–	–
Cambodia	2,990,387	2,430,458	–	–
Other countries	724,482	537,190	724,482	537,190
	245,044,053	221,175,803	203,134,019	183,555,427

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Fixed rate				
– Housing loans/financing	682,813	760,224	79,311	100,506
– Hire purchase receivables	46,454,805	43,231,795	35,293,363	31,896,405
– Other fixed rate loans/financing	15,788,687	15,294,702	8,249,418	8,200,180
Variable rate				
– Base lending rate plus	147,647,383	131,488,842	136,427,954	123,273,711
– Cost plus	22,797,600	20,029,781	22,107,737	19,323,512
– Other variable rates	11,672,765	10,370,459	976,236	761,113
	245,044,053	221,175,803	203,134,019	183,555,427

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Purchase of securities	2,735,265	4,023,503	2,442,734	3,861,298
Purchase of transport vehicles	48,537,246	45,158,466	35,557,749	32,139,612
Purchase of landed properties	141,982,677	126,004,256	124,781,538	111,871,882
(of which: – residential	79,378,865	70,928,295	68,836,084	62,005,417
– non-residential)	62,603,812	55,075,961	55,945,454	49,866,465
Purchase of fixed assets (excluding landed properties)	245,063	242,072	214,981	212,738
Personal use	9,401,614	9,090,491	4,804,696	4,527,048
Credit card	1,664,137	1,623,283	1,651,400	1,613,033
Purchase of consumer durables	2,437	16,855	283	13,619
Construction	3,930,563	2,903,437	3,245,636	2,268,033
Mergers and acquisitions	181,552	208,454	181,552	208,454
Working capital	32,695,312	28,219,556	26,792,202	23,401,960
Other purpose	3,668,187	3,685,430	3,461,248	3,437,750
	245,044,053	221,175,803	203,134,019	183,555,427



9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Agriculture, hunting, forestry and fishing	2,936,114	2,847,443	2,357,855	2,471,313
Mining and quarrying	212,118	199,457	179,813	167,811
Manufacturing	9,112,010	8,891,271	8,118,522	7,885,681
Electricity, gas and water	46,009	54,698	10,832	21,429
Construction	7,257,376	6,597,972	6,148,560	5,580,719
Wholesale & retail trade and restaurants & hotels	22,105,505	19,372,207	19,774,038	17,702,488
Transport, storage and communication	3,534,084	3,395,952	2,661,683	2,577,828
Finance, insurance and business services	14,977,836	12,214,958	13,455,331	10,838,160
Real estate	25,230,068	21,064,548	21,400,509	17,867,116
Community, social and personal services	2,316,978	4,319,749	1,851,904	3,886,443
Households	155,917,337	141,214,063	127,091,475	114,444,907
Others	1,398,618	1,003,485	83,497	111,532
	245,044,053	221,175,803	203,134,019	183,555,427

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	1,484,779	1,374,086	1,135,737	1,014,660
Impaired during the year	2,745,274	2,939,301	1,965,840	2,125,565
Reclassified as non-impaired	(1,921,658)	(1,976,588)	(1,481,655)	(1,576,211)
Recoveries	(324,762)	(299,343)	(247,577)	(169,777)
Amount written off	(482,772)	(555,058)	(197,092)	(247,931)
Loans/financing converted to foreclosed properties/ investments	(21,724)	(10,981)	(21,542)	(10,721)
Exchange differences	9,562	13,362	118	152
At 31 December	1,488,699	1,484,779	1,153,829	1,135,737
Gross impaired loans as % of gross loans, advances and financing	0.61%	0.67%	0.57%	0.62%

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Malaysia	1,375,695	1,364,302	1,141,700	1,133,697
Hong Kong SAR and the People's Republic of China	62,326	74,329	–	–
Cambodia	38,549	44,108	–	–
Other countries	12,129	2,040	12,129	2,040
	1,488,699	1,484,779	1,153,829	1,135,737

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Purchase of securities	3,434	3,466	3,434	3,462
Purchase of transport vehicles	412,764	357,474	299,684	256,600
Purchase of landed properties	668,989	676,066	593,786	608,140
(of which: – residential	504,808	526,930	441,735	468,751
– non-residential)	164,181	149,136	152,051	139,389
Purchase of fixed assets (excluding landed properties)	164	6,003	160	5,977
Personal use	146,527	169,312	51,070	48,542
Credit card	25,409	23,161	25,353	23,084
Purchase of consumer durables	75	82	–	4
Construction	12,841	11,469	10,449	8,855
Working capital	202,794	223,163	154,249	166,649
Other purpose	15,702	14,583	15,644	14,424
	1,488,699	1,484,779	1,153,829	1,135,737



9. LOANS, ADVANCES AND FINANCING (CONTINUED)

Impaired loans/financing analysed by sectors are as follows:

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Agriculture, hunting, forestry and fishing	17,682	16,692	10,278	2,559
Mining and quarrying	2,220	1,483	1,056	437
Manufacturing	95,216	110,739	86,383	98,646
Electricity, gas and water	1,738	1,551	–	–
Construction	53,219	41,188	49,705	37,600
Wholesale & retail trade and restaurants & hotels	118,792	130,908	92,422	106,597
Transport, storage and communication	51,344	61,167	49,327	59,778
Finance, insurance and business services	26,795	24,219	19,137	19,331
Real estate	34,991	23,715	33,189	21,458
Community, social and personal services	16,669	20,427	15,976	20,118
Households	1,068,180	1,050,632	795,747	768,342
Others	1,853	2,058	609	871
	1,488,699	1,484,779	1,153,829	1,135,737

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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	
<u>Collective Assessment Allowance</u>						
2014						
At 1 January 2014	495,892	529,493	18,781	489,375	58,544	1,592,085
Allowance made/(written back) during the year (Note 37)	25,470	232,852	43,936	58,792	(2,198)	358,852
Amount written off	(34,075)	(155,010)	(36,853)	(45,791)	-	(271,729)
Exchange differences	37	5	5	2,704	169	2,920
At 31 December 2014	487,324	607,340	25,869	505,080	56,515	1,682,128
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

**9. LOANS, ADVANCES AND FINANCING (CONTINUED)**

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

Bank	<----- 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		
<u>Collective Assessment Allowance</u>						
2014						
At 1 January 2014	435,128	364,275	18,708	209,756	43,222	1,071,089
Allowance made/(written back) during the year (Note 37)	18,478	167,601	43,912	29,828	(666)	259,153
Amount written off	(30,774)	(100,792)	(36,853)	(18,827)	-	(187,246)
Exchange differences	-	-	-	529	-	529
At 31 December 2014	422,832	431,084	25,767	221,286	42,556	1,143,525
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

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

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	
<u>Individual Assessment</u>						
<u>Allowance</u>						
2014						
At 1 January 2014	167	1,482	–	110,700	55,576	167,925
Net allowance made/ (written back) during the year (Note 37)	–	75	–	173,588	(5,962)	167,701
Allowance made during the year	185	82	–	189,396	769	190,432
Amount written back in respect of recoveries	(185)	(7)	–	(15,808)	(6,731)	(22,731)
Amount written off	–	(853)	–	(199,082)	(11,108)	(211,043)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(444)	(1,223)	(1,667)
Exchange differences	11	103	–	16,585	471	17,170
At 31 December 2014	178	807	–	101,347	37,754	140,086
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



9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Bank	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		
<u>Individual Assessment Allowance</u>						
2014						
At 1 January 2014	-	-	-	37,948	41,817	79,765
Net allowance written back during the year (Note 37)	-	-	-	(3,238)	(2,547)	(5,785)
Allowance made during the year	185	-	-	6,639	2,701	9,525
Amount written back in respect of recoveries	(185)	-	-	(9,877)	(5,248)	(15,310)
Amount written off	-	-	-	(3,744)	(6,102)	(9,846)
Amount transferred to allowance for impairment loss on foreclosed properties	-	-	-	(444)	(1,223)	(1,667)
At 31 December 2014	-	-	-	30,522	31,945	62,467
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

10. OTHER ASSETS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deferred handling fees*	254,694	242,734	191,097	175,656
Interest/Income receivable	89,802	69,650	75,681	45,374
Other receivables, deposits and prepayments	1,415,176	1,410,075	1,326,005	1,338,651
Manager's stocks**	99,265	87,984	–	–
Amount due from trust funds^	107,730	111,536	–	–
Employee benefits (Note 24(a))	269,797	294,339	263,673	286,306
Foreclosed properties#	56,089	57,280	55,210	55,982
Taxi licenses	–	1,130	–	–
Outstanding contracts on clients' accounts@ ##	179,680	264,971	–	–
Amount due from subsidiary companies^^	–	–	37,336	37,879
Dividend receivable from subsidiary companies (Note 42(b))	–	–	501,487	469,462
	2,472,233	2,539,699	2,450,489	2,409,310
# Stated net of accumulated allowance for impairment loss amounting to	34,389	34,293	33,672	33,829
@ Stated net of accumulated allowance for bad and doubtful debts amounting to	1,209	1,152	–	–

* 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Statutory deposits with Bank Negara Malaysia*	7,480,240	6,476,300	6,340,040	5,536,450
Statutory deposits with the National Bank of Cambodia#	547,968	419,036	–	–
Other statutory deposits	35,538	29,496	35,538	29,496
	8,063,746	6,924,832	6,375,578	5,565,946

* 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’s 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 2002, 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.

12. DEFERRED TAX

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	(25,540)	(9,523)	(50,738)	(55,990)
Recognised in the statement of profit or loss (net) (Note 39)				
– relating to changes in tax rate	(653)	–	(591)	–
– relating to origination and reversal of temporary differences	(20)	30,032	2,649	22,793
– under provision of net deferred tax liabilities	(2,680)	(3,294)	(2,632)	(3,157)
Recognised in equity (net) (Note 28)	11,880	(43,073)	(7,919)	(14,384)
Exchange differences	29	318	–	–
At 31 December	(16,984)	(25,540)	(59,231)	(50,738)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deferred tax assets, net	69,325	70,121	–	–
Deferred tax liabilities, net	(86,309)	(95,661)	(59,231)	(50,738)
	(16,984)	(25,540)	(59,231)	(50,738)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deferred tax assets	116,582	143,899	47,117	73,242
Deferred tax liabilities	(133,566)	(169,439)	(106,348)	(123,980)
	(16,984)	(25,540)	(59,231)	(50,738)



12. DEFERRED TAX (CONTINUED)

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 2013	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
Recognised in the statement of profit or loss (Note 39)				
– relating to origination and reversal of temporary differences	(2,012)	–	(12,303)	(14,315)
– over provision	–	–	(2,635)	(2,635)
Recognised in equity	–	–	(11,114)	(11,114)
Exchange differences	733	–	14	747
At 31 December 2014	11,531	–	105,051	116,582

12. DEFERRED TAX (CONTINUED)

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

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 2013	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
Recognised in the statement of profit or loss (Note 39)				
– relating to changes in tax rate	2,447	(1,794)	–	653
– relating to origination and reversal of temporary differences	(7,098)	(7,166)	(31)	(14,295)
– under provision	–	2	43	45
Recognised in equity	(4,281)	–	(18,713)	(22,994)
Exchange differences	–	715	3	718
At 31 December 2014	64,434	55,105	14,027	133,566

Deferred tax assets of the Bank	Other Temporary Differences RM'000	Total RM'000
At 1 January 2013	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
Recognised in the statement of profit or loss (Note 39)		
– relating to origination and reversal of temporary differences	(12,533)	(12,533)
– over provision	(2,635)	(2,635)
Recognised in equity	(10,957)	(10,957)
At 31 December 2014	47,117	47,117



12. DEFERRED TAX (CONTINUED)

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

Deferred tax liabilities of the Bank	Defined Benefit Assets RM'000	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2013	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
Recognised in the statement of profit or loss (Note 39)				
– relating to changes in tax rate	2,382	(1,791)	–	591
– relating to origination and reversal of temporary differences	(7,664)	(7,518)	–	(15,182)
– over provision	–	–	(3)	(3)
Recognised in equity	(3,038)	–	–	(3,038)
At 31 December 2014	63,173	43,512	(337)	106,348

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	
	2014 RM'000	2013 RM'000
Unutilised tax losses	16,126	15,123
Unutilised capital allowances	22,963	23,093

Subject to the agreement by the relevant tax authorities, the Group has unabsorbed tax losses and unabsorbed capital allowances carried forward of RM16,126,000 (2013 – RM15,123,000) and RM22,963,000 (2013 – RM23,093,000) 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	2014		2013	
	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	1,341,665	1,672,195	1,358,629
Unquoted shares				
– In Malaysia	2,492,116		2,492,116	
– Outside Malaysia	272,169		272,169	
	4,436,480		4,436,480	
Less: Accumulated impairment losses	(430)		(430)	
	4,436,050		4,436,050	

Details of the subsidiary companies are as follows:

Name	Principal Activities	Effective Interest	
		2014 %	2013 %
<u>Local subsidiary companies</u>			
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 Factors Sdn. Bhd.	Dormant	100.0	100.0

**13. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)**

Details of the subsidiary companies are as follows (continued):

Name	Principal Activities	Effective Interest	
		2014 %	2013 %
<u>Local subsidiary companies (continued)</u>			
PBFIN Berhad	Special purpose vehicle to issue subordinated notes under its holding company's Stapled Securities Programme	100.0	100.0
<u>Overseas subsidiary companies</u>			
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 companies 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 (CONTINUED)

There were no significant events affecting the Group's subsidiary companies during the year.

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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Unquoted shares, at cost	141,365	141,365	121,325	121,325
Share of post-acquisition reserves	16,050	17,520	–	–
	157,415	158,885	121,325	121,325
Represented by:				
Group's share of net assets	157,415	158,885		

The summarised financial information of associated companies is as follows:

	Group	
	2014 RM'000	2013 RM'000
Total assets	1,915,817	1,550,785
Total liabilities	1,566,897	1,207,214
Operating revenue	291,710	186,594
Profit after tax	35,012	8,721
Total comprehensive income	33,947	7,629



14. INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

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

Name	Principal Activities	Place of Incorporation	Effective Interest	
			2014 %	2013 %
PB Trustee Services Berhad	Trustee services	Malaysia	40.0	40.0
AIA PUBLIC Takaful Berhad	Family takaful	Malaysia	30.0	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

The significant events affecting the Group's associated companies during the year are as follows:

(a) Dilution of Equity Interests in AIA PUBLIC Takaful Berhad

On 1 March 2014, AIA PUBLIC Takaful Berhad had successfully integrated its Takaful business with AIA AFG Takaful Berhad. As a result, the equity interests held by the Bank and its wholly-owned subsidiary company, Public Islamic Bank Berhad collectively were diluted from 40.0% to 30.0%.

(b) Proposed Acquisition of the Remaining 50% Equity Capital in VID Public Bank ("VPB")

On 15 July 2014, the Bank entered into a conditional equity capital transfer agreement ("ECTA") with Joint Stock Commercial Bank for Investment and Development of Vietnam for the Bank's acquisition of the remaining 50% equity interests in VPB not held by the Bank for a total cash consideration of USD76.6 million.

With the signing of the ECTA, the Bank has submitted an application to the State Bank of Vietnam for the approval to convert VPB, the existing joint venture bank, into a 100% foreign-owned bank in Vietnam. Upon completion of the Proposed Acquisition, VPB will become a wholly-owned subsidiary company of the Bank. The Bank had received the approval of Bank Negara Malaysia for the Proposed Acquisition.

The Proposed Acquisition does not have a material effect on the earnings and net assets of the Group and the Bank for the current financial year.

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.

15. INVESTMENT PROPERTIES

	Note	Group	
		2014 RM'000	2013 RM'000
<u>At valuation</u>			
At 1 January		97,391	87,886
Transfer to owner-occupied property			
– Property and equipment	16	(3,193)	–
Fair value adjustment arising from revaluation	34	5,304	2,547
Exchange differences		7,526	6,958
At 31 December		107,028	97,391

Included in the above are:

	Group	
	2014 RM'000	2013 RM'000
Short term leasehold land and building	104,778	95,391
Long term leasehold land and building	2,250	2,000
	107,028	97,391

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 RM2,250,000 (2013 – RM2,000,000) 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 RM104,778,000 (2013 – RM95,391,000) 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 RM5,304,000 (2013 – RM2,547,000) 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 RM6,698,000 (2013 – RM6,068,000) (Note 34) during the year.

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



16. PROPERTY AND EQUIPMENT

Group 2014	Note	Freehold land RM'000	Short term leasehold land RM'000		Long term leasehold land RM'000	Office equipment, furniture & fittings RM'000				Computer equipment & software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
			Buildings RM'000	Renovations RM'000		Renovations RM'000	Buildings RM'000	Office equipment, furniture & fittings RM'000					
<u>Cost</u>													
At 1 January 2014		176,444	124,256	183,325	582,706	330,383	557,725	974,959	23,110	105,422	3,058,330		
Additions		-	-	280	25,500	15,441	199,761	1,825	61,385	304,192			
Disposals		-	-	-	(1,934)	(4,116)	(4,685)	(2,253)	-	(12,988)			
Transfer from investment properties	15	-	2,898	-	295	-	-	-	-	-	3,193		
Reclassification		-	-	-	(16,341)	16,328	13	-	-	-			
Write-offs	35	-	-	-	(475)	(4,027)	(2,710)	(7)	-	(7,219)			
Exchange differences		-	8,397	11,630	7,420	3,547	1,482	5,259	396	-	38,131		
At 31 December 2014		176,444	135,551	194,955	590,701	340,680	582,833	1,172,597	23,071	166,807	3,383,639		
<u>Accumulated depreciation</u>													
At 1 January 2014		-	28,820	9,030	190,726	244,626	433,601	820,979	16,452	-	1,744,234		
Depreciation charge for the year	35	-	2,779	528	13,922	17,908	30,181	90,850	2,881	-	159,049		
Disposals		-	-	-	-	(1,926)	(4,021)	(4,444)	(1,768)	-	(12,159)		
Write-offs	35	-	-	-	-	(464)	(4,005)	(2,671)	(7)	-	(7,147)		
Exchange differences		-	2,131	428	1,871	2,797	1,101	4,333	324	-	12,985		
At 31 December 2014		-	33,730	9,986	206,519	262,941	456,857	909,047	17,882	-	1,896,962		
<u>Accumulated impairment loss</u>													
At 1 January/31 December 2014		1,064	-	33	10,002	-	-	-	-	-	-	-	11,099
<u>Carrying amounts</u>													
At 31 December 2014		175,380	101,821	184,936	374,180	77,739	125,976	263,550	5,189	166,807	1,475,578		

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16. PROPERTY AND EQUIPMENT (CONTINUED)

Group 2013	Note	Freehold land		Short term leasehold land		Long term leasehold land		Office equipment, furniture & fittings		Computer equipment & software		Motor vehicles		Work-in-progress		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	RM'000	
Cost																
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	28,661	16,145	60,572	680	22,731	128,912					
Disposals		-	-	-	(276)	(276)	(2,781)	(16,058)	(113)	-	(19,228)					
Reclassification		-	-	-	-	(11,637)	11,637	-	-	-	-					
Write-offs	35	-	-	-	(796)	(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		-	2,671	515	13,702	16,458	30,091	94,720	3,031	-	161,188					
Disposals	35	-	-	-	(210)	(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					

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



16. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2014	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings			Computer equipment & software RM'000	Motor vehicles RM'000	Total RM'000
						RM'000	RM'000	RM'000			
<u>Cost</u>											
At 1 January 2014		81,092	58	262,042	253,674	434,215	881,174	15,607	1,927,862		
Additions		-	-	-	17,235	11,767	184,413	1,270	214,685		
Disposals		-	-	-	(193)	(2,785)	(4,842)	(1,519)	(9,339)		
Reclassification		-	-	-	(16,341)	16,328	13	-	-		
Write-offs	35	-	-	-	(475)	(3,961)	(2,696)	(7)	(7,139)		
Exchange differences		-	-	-	416	116	540	52	1,124		
At 31 December 2014		81,092	58	262,042	254,316	455,680	1,058,602	15,403	2,127,193		
<u>Accumulated depreciation</u>											
At 1 January 2014		-	53	94,781	182,060	320,579	751,087	10,956	1,359,516		
Depreciation charge for the year	35	-	2	5,231	10,183	26,254	79,351	2,069	123,090		
Disposals		-	-	-	(115)	(2,409)	(4,462)	(1,095)	(8,081)		
Write-offs	35	-	-	-	(464)	(3,939)	(2,657)	(7)	(7,067)		
Exchange differences		-	-	-	143	79	503	45	770		
At 31 December 2014		-	55	100,012	191,807	340,564	823,822	11,968	1,468,228		
<u>Carrying amounts</u>											
At 31 December 2014		81,092	3	162,030	62,509	115,116	234,780	3,435	658,965		

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16. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2013	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Total RM'000
<u>Cost</u>									
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
<u>Accumulated depreciation</u>									
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
<u>Carrying amounts</u>									
At 31 December 2013		81,092	5	167,261	71,614	113,636	130,087	4,651	568,346

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 three years with a carrying amount of RM129,834,000 (2013 – RM24,255,000 expiring in one year).

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



17. INTANGIBLE ASSETS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
<u>Goodwill</u>				
At 1 January	1,977,420	1,899,875	695,393	695,393
Exchange differences	79,209	77,545	–	–
At 31 December	2,056,629	1,977,420	695,393	695,393
<u>Intangible Assets</u>				
At 1 January	26,492	26,472	–	–
Exchange differences	21	20	–	–
At 31 December	26,513	26,492	–	–
Total carrying amounts of goodwill and intangible assets	2,083,142	2,003,912	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 2014				
<u>Cash-generating unit:</u>				
Hire purchase financing East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	395,953	395,953	9.5	5.3
Hong Kong operations	1,313,891	–	6.7	4.3
Fund management	19,555	–	8.5	5.3
Investment banking	54,303	–	9.5	5.3
	2,083,142	695,393		

17. INTANGIBLE ASSETS (CONTINUED)Impairment Assessment on Goodwill and Intangible Assets (continued)

	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		

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 (5th) 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At amortised cost				
Core deposits:				
– Demand deposits	41,431,899	38,202,745	35,771,299	33,382,002
– Savings deposits	27,675,462	25,824,590	19,094,648	18,349,316
– Fixed deposits	147,600,034	137,230,286	121,430,943	107,341,341
	216,707,395	201,257,621	176,296,890	159,072,659
Wholesale deposits:				
– Negotiable instruments of deposit	7,222,073	1,620,398	3,674,808	651,420
– Money market deposits	52,524,700	47,881,370	46,163,811	42,036,700
	59,746,773	49,501,768	49,838,619	42,688,120
Other deposits	86,008	113,800	81,482	110,813
	276,540,176	250,873,189	226,216,991	201,871,592

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 RM2,500,165,000 (2013 – RM2,387,530,000) and RM1,679,373,000 (2013 – RM1,639,713,000) 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Due within six months	183,926,889	162,340,586	152,166,260	128,981,442
More than six months to one year	23,113,861	24,080,964	19,025,282	20,876,847
More than one year to three years	302,336	306,626	75,204	167,761
More than three years to five years	3,721	3,878	2,816	3,411
	207,346,807	186,732,054	171,269,562	150,029,461

18. DEPOSITS FROM CUSTOMERS (CONTINUED)

The deposits are sourced from the following types of customers:

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Federal and state governments	3,229,842	1,451,465	549,568	234,600
Local government and statutory authorities	3,419,087	2,695,427	1,806,029	1,610,984
Business enterprises	83,961,654	77,616,935	70,180,944	62,433,119
Individuals	124,941,888	111,921,512	107,897,350	97,008,165
Foreign customers	5,884,641	6,655,412	5,262,723	5,914,089
Others	55,103,064	50,532,438	40,520,377	34,670,635
	276,540,176	250,873,189	226,216,991	201,871,592

19. DEPOSITS FROM BANKS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At amortised cost				
Licensed banks	10,484,982	4,234,141	8,085,476	2,893,468
Licensed Islamic banks	940,000	1,063,881	–	713,881
Licensed investment banks	350,344	3,473,912	260,990	3,494,590
Bank Negara Malaysia	344,471	1,980,255	340,503	1,977,865
Other financial institutions	8,549,935	5,423,647	9,009,681	7,843,244
	20,669,732	16,175,836	17,696,650	16,923,048

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 and Islamic house financing sold directly to Cagamas Berhad with recourse to the Bank and its wholly-owned subsidiary company, Public Islamic Bank Berhad. Under these agreements, the Bank and its subsidiary company undertake to administer the loans and financing on behalf of Cagamas Berhad and to buy-back any loans and financing 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	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At amortised cost					
Borrowings	(a)	488,522	463,391	–	–
At amortised cost, modified for change in value as a result of fair value hedges					
Senior Medium Term Notes	(b)	1,397,168	399,007	1,397,168	399,007
Subordinated notes/sukuk murabahah	(c)	5,453,023	5,432,922	4,954,163	5,432,922
Innovative Tier I capital securities	(d)	1,964,444	1,957,844	1,964,444	1,957,844
Non-Innovative Tier I stapled securities	(e)	2,124,608	2,116,661	2,124,608	2,116,661
		10,939,243	9,906,434	10,440,383	9,906,434
		11,427,765	10,369,825	10,440,383	9,906,434

(a) Borrowings

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Unsecured:				
Term loans	488,522	463,391	–	–

The unsecured term loans are denominated in Hong Kong Dollars. The loans are for a tenor of 4 years and bear interest at HIBOR plus 1.60% (2013 – HIBOR plus 0.65% to 1.50% repayable within one year).

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

	Group and Bank	
	2014 RM'000	2013 RM'000
Issued under the RM5.0 billion Senior MTNs Programme:		
RM400 million Senior MTNs due in 2018	399,237	399,007
RM1,000 million Senior MTNs due in 2019	997,931	–
	1,397,168	399,007

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)**(b) Senior Medium Term Notes ("Senior MTNs") (continued)**

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 issued a total of RM1.0 billion in nominal value of Senior MTNs with a tenor of 5 years at an interest rate of 4.20% per annum.

(c) Subordinated Notes/Sukuk Murabahah

Note	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
(i) Issued under the RM5.0 billion Subordinated Medium Term Note Programme:				
Second tranche:				
RM200 million 4.60%				
Subordinated Notes due in 2019, callable with step-up in 2014	(a)	–	199,966	–
Third tranche:				
RM223 million 4.60%				
Subordinated Notes due in 2019, callable with step-up in 2014	(b)	–	222,958	–
Fourth tranche:				
RM50 million 4.60%				
Subordinated Notes due in 2019, callable with step-up in 2014	(c)	–	49,990	–
Fifth tranche:				
RM3,000 million 4.28%				
Subordinated Notes due in 2022, callable in 2017	(d)	2,998,707	2,998,207	2,998,707
		2,998,707	3,471,121	2,998,707
Realised/unrealised fair value loss arising from fair value hedge		6,154	12,685	6,154
		3,004,861	3,483,806	3,004,861

**22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)****(c) Subordinated Notes/Sukuk Murabahah (continued)**

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
(ii) 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					
	(a)	999,302	999,116	999,302	999,116
Second tranche:					
RM450 million 4.77%					
Subordinated Notes due in 2023, callable in 2018					
	(b)	450,000	450,000	450,000	450,000
Third tranche:					
RM500 million 4.73%					
Subordinated Notes due in 2023, callable in 2018					
	(c)	500,000	500,000	500,000	500,000
		1,949,302	1,949,116	1,949,302	1,949,116
(iii) Issued under the RM5.0 billion Sukuk Murabahah Programme:					
First tranche:					
RM500 million 4.75%					
Subordinated Sukuk Murabahah due in 2024, callable in 2019					
	(a)	498,860	–	–	–
		5,453,023	5,432,922	4,954,163	5,432,922

(i) Issued under the RM5.0 billion Subordinated Medium Term Note Programme

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.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)**(c) Subordinated Notes/Sukuk Murabahah (continued)****(i) Issued under the RM5.0 billion Subordinated Medium Term Note Programme (continued)**

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 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 which commenced on 6 May 2010. These Notes were fully redeemed on 6 November 2014 together with accrued interest.
- (b) 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 which commenced on 10 June 2010. These Notes were fully redeemed on 10 December 2014 together with accrued interest.
- (c) 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 which commenced on 30 June 2010. These Notes were fully redeemed on 31 December 2014 together with accrued interest.
- (d) 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 which commenced on 3 February 2012.



22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah (continued)

(ii) Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme

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 tenor 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:

- 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
- 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 (CONTINUED)**(c) Subordinated Notes/Sukuk Murabahah (continued)****(ii) Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme (continued)**

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 which commenced on 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 which commenced on 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 which commenced on 15 May 2014.

(iii) Issued under the RM5.0 billion Sukuk Murabahah Programme

The Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("PIBB") obtained approval from BNM and the Securities Commission on 24 March 2014 and 21 April 2014 respectively, for the establishment of an Islamic medium term note programme under the Shariah principle of Murabahah to facilitate the issuance of Senior Sukuk Murabahah and/or Subordinated Sukuk Murabahah of up to RM5.0 billion in nominal value.

The tenor of the Sukuk Murabahah Programme is up to thirty (30) years from the date of first issuance of Sukuk Murabahah under the Sukuk Murabahah Programme. The tenor of each issuance of Subordinated Sukuk Murabahah, and subject to the call option, shall have at least five (5) years from the issue date, provided that the Subordinated Sukuk Murabahah mature on or prior to the expiry of the Sukuk Murabahah Programme. Each issuance will bear profit at a rate to be determined prior to the issuance, payable semi-annually in arrears.



22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah (continued)

(iii) Issued under the RM5.0 billion Sukuk Murabahah Programme (continued)

The Subordinated Sukuk Murabahah will, subject to the prior written consent of BNM, be redeemable in whole or in part, at the option of PIBB in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the Subordinated Sukuk Murabahah will no longer fully qualify as Tier II Capital for the purposes of BNM's capital adequacy requirements or changes in law which will make it unlawful to continue performing its obligations or on the first call date or at any subsequent profit payment date thereafter at their nominal amount.

Contingent Write-off of the Bank and PIBB

The Subordinated Sukuk Murabahah may, at the option of BNM and PIDM, be written-off upon the occurrence of a trigger event in relation to the Bank or PIBB. The trigger event would be the earlier of:

- The notification by BNM and PIDM to PIBB in writing that they are of the opinion that the write-off is necessary, without which the Bank or PIBB would cease to be viable; or
- 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 or PIBB, without which the Bank or PIBB would cease to be viable.

The write-off of Subordinated Sukuk Murabahah shall be permanent and shall not constitute an event of default or trigger cross-default clause. BNM and PIDM shall have the option to require the entire principal amount of the Subordinated Sukuk Murabahah outstanding, or a part thereof, and all other amount owing under the Subordinated Sukuk Murabahah, be written-off.

- (a) On 9 June 2014, PIBB issued the first tranche of RM500 million in nominal value of Subordinated Sukuk Murabahah due in 2024 callable in 2019. The Subordinated Sukuk Murabahah bear profit at the rate of 4.75% per annum from (and including) 9 June 2014 to (but excluding) the date of early redemption in full of such Sukuk or the maturity date of the Sukuk (whichever is earlier). The profit rate on these Sukuk will remain unchanged throughout the tenure of the Sukuk. The profit is payable semi-annually in arrears on 9 December and 9 June each year which commenced on 9 December 2014.

The above Subordinated Notes and Subordinated Sukuk Murabahah constitute unsecured liabilities/obligations of the Bank and PIBB respectively, 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 and PIBB, other than the Innovative Tier I Capital Securities and the Non-Innovative Tier I Stapled Securities, which are subordinated to the Subordinated Notes and Subordinated Sukuk Murabahah, in accordance with the terms and conditions of the Subordinated Notes and Subordinated Sukuk Murabahah.

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 effect from 1 January 2013. The Subordinated Notes issued after 31 December 2012 which are Basel III – Compliant are fully qualified as Tier II Capital.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)**(c) Subordinated Notes/Sukuk Murabahah (continued)**

The Subordinated Sukuk Murabahah to be issued from time to time under the Sukuk Murabahah Programme will qualify as Tier II capital for the computation of the regulatory capital of PIBB and the Group in accordance with BNM's Capital Adequacy Framework (Capital Components) for Islamic Banks.

The Bank has entered into interest rate swap contracts as fair value hedges of part 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.

(d) Innovative Tier I Capital Securities

	Note	Group and Bank	
		2014 RM'000	2013 RM'000
USD200 million 6.84% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(i)	699,263	655,587
RM1,200 million 5.10% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(ii)	1,199,639	1,199,456
		1,898,902	1,855,043
Realised/unrealised fair value loss arising from fair value hedge		65,542	102,801
		1,964,444	1,957,844

- (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 which commenced 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 percent 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 (CONTINUED)****(d) Innovative Tier I Capital Securities (continued)**

- (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 which commenced 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 percent 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 effect 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	
		2014 RM'000	2013 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)	1,196,656	1,195,901
Second tranche: RM888 million 7.20% Stapled Securities callable in 2019	(ii)	888,000	888,000
		2,084,656	2,083,901
Unrealised fair value loss arising from fair value hedge		39,952	32,760
		2,124,608	2,116,661

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)**(e) Non-Innovative Tier I Stapled Securities (continued)**

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 (CONTINUED)

(e) Non-Innovative Tier I Stapled Securities (continued)

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.

22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)**(e) Non-Innovative Tier I Stapled Securities (continued)**

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 effect from 1 January 2013.

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		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Interest/Income payable	1,399,565	1,186,739	1,236,480	1,009,164
Other payables and accruals	2,534,807	2,351,233	1,986,008	1,803,877
Amount due to trust funds*	47,243	66,534	–	–
Unprocessed sales and/or redemptions [#]	190,902	118,778	–	–
Profit Equalisation Reserve of the investment account holder	55	–	–	–
Finance lease liabilities**	136,627	26,484	136,627	26,484
Outstanding contracts on clients' accounts [^]	171,746	255,125	–	–
Dividend payable to shareholders	15,701	15,523	1,121	1,866
Amount due to subsidiary companies [@]	–	–	3,029	4,200
	4,496,646	4,020,416	3,363,265	2,845,591

* 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.



23. OTHER LIABILITIES (CONTINUED)

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

	2014		
	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Finance Lease Liabilities RM'000
Less than one year	52,664	4,680	47,984
Between one and three years	92,170	3,527	88,643
	144,834	8,207	136,627

	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

The Bank's finance lease of computer equipment and software in the previous year expired during the year. During the year, the Bank leased new computer equipment and software under finance lease which will expire in three years (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 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 2014, the plan is in surplus of RM269,797,000 (31 December 2013: RM294,339,000) and no contributions are required to be made to the plan in the forthcoming financial year by the participating subsidiary companies 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.



24. EMPLOYEE BENEFITS (CONTINUED)

(a) Defined Benefit Plan (continued)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Present value of funded obligations	(795,506)	(722,167)	(777,448)	(702,379)
Fair value of plan assets	1,065,303	1,016,506	1,041,121	988,685
Net assets (Note 10)	269,797	294,339	263,673	286,306

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Obligation at 1 January	722,167	626,318	702,379	604,835
Recognised in the statement of profit or loss				
– current service cost	48,084	46,340	46,994	45,070
– interest cost	37,915	32,336	37,053	31,450
– past service cost	–	41,086	–	39,960
– allocation adjustment	–	–	–	4,322
Benefits paid – the Fund	(12,660)	(23,913)	(12,372)	(23,258)
Transfer from subsidiary company and associated company	–	–	3,394	–
Obligation at 31 December	795,506	722,167	777,448	702,379

24. EMPLOYEE BENEFITS (CONTINUED)**(a) Defined Benefit Plan (continued)**

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Fair value at 1 January	1,016,506	825,397	988,685	797,086
Recognised in the statement of profit or loss				
– interest income	53,366	42,788	52,155	41,615
– allocation adjustment	–	–	(26)	5,695
Benefits paid – the Fund	(12,660)	(23,913)	(12,372)	(23,258)
Remeasurements recognised in other comprehensive income				
– return on plan assets (excluding amounts included in interest income)	8,091	172,234	7,907	167,547
Transfer from subsidiary company and associated company	–	–	4,772	–
Fair value at 31 December	1,065,303	1,016,506	1,041,121	988,685

The fair value of plan assets constitutes the following:

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deposit placements and cash		320,007	100,007	312,743	97,267
Government Securities		544,815	428,949	532,448	417,236
Quoted equity securities	(i)	829,361	788,081	810,534	766,488
Unit trust funds	(ii)	357,230	342,900	349,121	333,496
Properties	(iii)	527,011	485,073	515,048	471,781
Plan assets (gross)		2,578,424	2,145,010	2,519,894	2,086,268
Other liabilities (net)		(5,696)	(6,191)	(5,567)	(6,021)
Borrowings		(1,507,425)	(1,122,313)	(1,473,206)	(1,091,562)
		1,065,303	1,016,506	1,041,121	988,685

**24. EMPLOYEE BENEFITS (CONTINUED)****(a) Defined Benefit Plan (continued)**

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Financial institutions*	531,416	512,568	519,353	498,524
Insurance companies	188,281	181,817	184,006	176,835
Property companies	108,910	92,942	106,438	90,396
Commercial/trading companies	630	630	616	612
Others	124	124	121	121
	829,361	788,081	810,534	766,488

* Included in the fair value of equity securities of the Fund are ordinary shares of the Bank with a fair value of RM529,170,000 (2013 – RM510,245,000).

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Equity funds	117,302	110,162	114,640	107,144
Bond funds	167,176	162,456	163,381	158,005
Balanced funds	55,276	54,870	54,021	53,357
Dividend funds	17,476	15,412	17,079	14,990
	357,230	342,900	349,121	333,496

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Terraced shop offices	480,421	438,953	469,515	426,925
Stratified office lots	28,650	28,400	28,000	27,622
Commercial buildings	16,950	16,750	16,565	16,291
Residential buildings	990	970	968	943
	527,011	485,073	515,048	471,781

* 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 terraced shop offices are tenanted by external parties of which they contributed about 2.5% of the total rental income from properties.

24. EMPLOYEE BENEFITS (CONTINUED)**(a) Defined Benefit Plan (continued)**

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current service cost	48,084	46,340	46,994	45,070
Interest cost	37,915	32,336	37,053	31,450
Interest income	(53,366)	(42,788)	(52,155)	(41,615)
Past service cost	–	41,086	–	39,960
Allocation adjustment	–	–	26	(1,373)
Amount included under "personnel costs" (Note 35(a))	32,633	76,974	31,918	73,492

Actual return on plan assets are as follows:

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Interest income on plan assets	53,366	42,788	52,155	41,615
Remeasurements on plan assets (Note 28)	8,091	172,234	7,907	167,547
Actual return on plan assets	61,457	215,022	60,062	209,162

(i) Actuarial Assumptions

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

	Group and Bank	
	2014	2013
Discount rate	5.25%	5.25%
Expected rate of salary increases	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 (CONTINUED)

(a) Defined Benefit Plan (continued)

(ii) Sensitivity Analysis

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

	2014 Sensitivity		2013 Sensitivity	
	+1% RM'000	-1% RM'000	+1% RM'000	-1% RM'000
(Decrease)/increase of present value of funded obligations:				
– Discount rate	(72,371)	89,861	(69,368)	86,310
– Expected salary	105,487	(87,224)	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's Share Option Scheme

On 18 May 2005, an offer of options under the Public Financial Holdings Limited Group's Share Option Scheme ("PFHL SOS") 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 SOS was 27 February 2012 with the exercise period of ten (10) years from the grant date.

The salient features of the PFHL SOS are as follows:

- (i) Eligible participants of the PFHL SOS 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 SOS 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 SOS.

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;

24. EMPLOYEE BENEFITS (CONTINUED)**(b) Equity Compensation Benefits (continued)****Public Financial Holdings Limited Group's Share Option Scheme (continued)**

The salient features of the PFHL SOS are as follows (continued):

(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.

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

	2014		2013	
	Number of Share Options '000	Weighted Average Exercise Price HKD	Number of Share Options '000	Weighted Average Exercise Price HKD
At 1 January	24,365	6.35	25,375	6.35
Lapsed	(1,404)	6.35	(1,010)	6.35
At 31 December	22,961	6.35	24,365	6.35
Options exercisable at end of financial year	22,961	6.35	24,365	6.35
Weighted average share price during the financial year		3.71		3.83

Details of PFHL SOS 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	22,961

The weighted average remaining contractual maturity of the PFHL SOS outstanding as at the end of the financial year was 0.44 years (31 December 2013 – 1.44 years).

There were no new PFHL SOS granted during the financial year (2013 – 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Tax expense	554,266	584,901	340,988	362,971
Zakat	328	328	–	–
	554,594	585,229	340,988	362,971

26. SHARE CAPITAL

Group and Bank	Number of Ordinary Shares of RM1.00 Each		Amount	
	2014 '000	2013 '000	2014 RM'000	2013 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				
At 1 January	3,531,926	3,531,926	3,531,926	3,531,926
Issued pursuant to the rights issue exercise	350,212	–	350,212	–
At 31 December	3,882,138	3,531,926	3,882,138	3,531,926

Details of the issuance of rights issue are disclosed in Note 54.

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 (2013 – 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.

During the year, the Bank disposed 9,156,400 of its treasury shares for a total consideration of RM175,639,643 (after deducting transaction costs) in the open market at an average price of RM19.23 per share. As at 31 December 2014, 20,644,304 (2013 – 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 2014, the number of outstanding PBB Shares in issue after deducting treasury shares is therefore 3,861,494,043 (2013 – 3,502,125,130) ordinary shares of RM1.00 each.

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28. OTHER RESERVES

Group	Statutory Reserves RM'000	Foreign Currency			Hedging Reserves RM'000	Revaluation Reserves RM'000	Defined Benefit Reserves		Regulatory Reserves RM'000	General Reserves RM'000	Profit Equalisation Reserves RM'000	Total RM'000
		Capital Reserves RM'000	Translation Reserves RM'000	Reserves			Reserves					
At 1 January 2014	3,870,928	60,442	(50,448)	(15,677)	21,606	382,431	127,316	129,767	-	4,526,365		
Net currency translation differences:												
- Currency translation differences in respect of												
- foreign operations	-	248,956	-	-	-	-	-	-	-	248,956		
- net investment hedge	-	(206,460)	-	-	-	-	-	-	-	(206,460)		
	-	-	42,496	-	-	-	-	-	-	42,496		
Net change in revaluation of financial investments available-for-sale:												
- Net unrealised loss	-	-	-	-	(36,406)	-	-	-	-	(36,406)		
- Net gain on disposal reclassified to the statement of profit or loss (Note 33)	-	-	-	-	(12,509)	-	-	-	-	(12,509)		
	-	-	-	-	(48,915)	-	-	-	-	(48,915)		
Net change in cash flow hedges:												
- Net unrealised gain	-	-	-	17,352	-	-	-	-	-	17,352		
- Net realised gain reclassified to the statement of profit or loss	-	-	-	(41)	-	-	-	-	-	(41)		
	-	-	-	17,311	-	-	-	-	-	17,311		
Gain on remeasurements of defined benefit plans (Note 24 (a))	-	-	-	-	-	8,091	-	-	-	8,091		
Deferred tax (Note 12)	-	-	-	(4,363)	11,962	4,281	-	-	-	11,880		
Other comprehensive income/(loss)	-	-	42,496	12,948	(36,953)	12,372	-	-	-	30,863		
Transferred from retained profits	1,020,860	-	-	-	-	-	1,305,418	-	-	54	2,326,332	
At 31 December 2014	4,891,788	60,442	(7,952)	(2,729)	(15,347)	394,803	1,432,734	129,767	54	6,883,560		



28. OTHER RESERVES (CONTINUED)

Group	Statutory Reserves RM'000	Foreign Currency				Hedging Reserves RM'000	Revaluation Reserves RM'000	Defined Benefit Reserves		Regulatory Reserves RM'000	General Reserves RM'000	Profit Equalisation Reserves RM'000	Total RM'000
		Capital Reserves RM'000	Translation Reserves RM'000	Reserves	Reserves								
At 1 January 2013	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)	
	-	-	34,184	-	-	-	-	-	-	-	-	34,184	
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)	
	-	-	-	-	10,487	-	-	-	-	-	-	10,487	
Net change in cash flow hedges:													
– Net unrealised loss	-	-	-	(11,173)	-	-	-	-	-	-	-	(11,173)	
– Net realised gain reclassified to the statement of profit or loss	-	-	-	(1,083)	-	-	-	-	-	-	-	(1,083)	
	-	-	-	(12,256)	-	-	-	-	-	-	-	(12,256)	
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			

28. OTHER RESERVES (CONTINUED)

Bank	Statutory Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Defined Benefit Reserves RM'000	Regulatory Reserves RM'000	General Reserves RM'000	Total RM'000
At 1 January 2014	3,531,926	(113,735)	11,955	370,229	-	2,777	3,803,152
Net change in revaluation of financial investments available-for-sale:							
- Net unrealised loss	-	-	(38,541)	-	-	-	(38,541)
- Net gain on disposal reclassified to the statement of profit or loss (Note 33)	-	-	(8,999)	-	-	-	(8,999)
	-	-	(47,540)	-	-	-	(47,540)
Net change in cash flow hedges:							
- Net unrealised gain	-	87,716	-	-	-	-	87,716
- Net realised gain reclassified to the statement of profit or loss	-	(41)	-	-	-	-	(41)
	-	87,675	-	-	-	-	87,675
Gain on remeasurements of defined benefit plans (Note 24 (a))	-	-	-	7,907	-	-	7,907
Deferred tax (Note 12)	-	(22,558)	11,601	3,038	-	-	(7,919)
Other comprehensive income/ (loss)	-	65,117	(35,939)	10,945	-	-	40,123
Transferred from retained profits	1,007,400	-	-	-	1,293,334	-	2,300,734
At 31 December 2014	4,539,326	(48,618)	(23,984)	381,174	1,293,334	2,777	6,144,009

**28. OTHER RESERVES (CONTINUED)**

Bank	Statutory Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Defined Benefit Reserves RM'000	Regulatory Reserves RM'000	General Reserves RM'000	Total RM'000
At 1 January 2013	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)
	-	-	11,226	-	-	-	11,226
Net change in cash flow hedges:							
- Net unrealised loss	-	(120,154)	-	-	-	-	(120,154)
- Net realised gain reclassified to the statement of profit or loss	-	(1,083)	-	-	-	-	(1,083)
	-	(121,237)	-	-	-	-	(121,237)
Gain on remeasurements of defined benefit plans (Note 24 (a))	-	-	-	167,547	-	-	167,547
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

28. OTHER RESERVES (CONTINUED)

The statutory reserves of the Group and the Bank are maintained mainly 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 are maintained by the Bank and the Group's banking subsidiary companies in Malaysia and Hong Kong SAR as an additional credit risk absorbent in excess of the requirements of accounting standards. The reserves in respect of Malaysia are maintained in line with the requirements of Bank Negara Malaysia in which the Bank and its domestic banking subsidiary companies early adopted during the year as disclosed in Note 2 (iii). The reserves in respect of Hong Kong SAR are maintained in line with the requirements of the Hong Kong Monetary Authority.

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

The Bank can distribute dividends out of its entire retained earnings under the single-tier system.



30. INTEREST INCOME

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Loans and advances	10,575,410	9,596,439	9,709,835	8,757,158
Balances with banks	732,427	704,391	681,746	660,613
Financial investments available-for-sale	319,891	291,585	309,038	284,662
Financial investments held-to-maturity	474,230	249,862	412,649	174,990
Others	144,981	138,024	144,874	138,008
	12,246,939	10,980,301	11,258,142	10,015,431
Financial assets held-for-trading	389,148	385,791	344,330	352,989
	12,636,087	11,366,092	11,602,472	10,368,420

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 RM56,808,000 (2013 – RM53,248,000) and RM54,496,000 (2013 – RM49,829,000) respectively.

31. INTEREST EXPENSE

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deposits from banks	300,632	340,789	266,470	312,498
Deposits from customers	5,911,904	5,067,506	5,699,186	4,881,538
Loans sold to Cagamas	8,994	23	8,994	23
Debt securities issued and other borrowed funds	478,506	381,161	470,318	368,931
Others	5,578	6,075	5,346	5,836
	6,705,614	5,795,554	6,450,314	5,568,826

32. NET FEE AND COMMISSION INCOME

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Fee and commission income:				
Commissions	400,369	389,199	455,140	451,183
Service charges and fees	291,935	271,588	215,762	205,653
Guarantee fees	33,133	33,517	30,659	30,507
Processing fees	25,556	15,400	12,923	4,451
Commitment fees	67,604	61,445	63,737	58,384
Unit trust management fees	795,158	704,511	–	–
Fee on sale of trust units	286,676	313,801	–	–
Net brokerage and commissions from stock-broking activities	88,598	80,053	–	–
Other fee and commission income	45,167	38,896	32,590	30,253
	2,034,196	1,908,410	810,811	780,431
Fee and commission expense:				
Loan-related fees	(263,272)	(253,359)	(258,972)	(249,255)
Unit trust agency fees	(368,340)	(362,290)	–	–
Other fee and commission expense	(20,909)	(17,416)	(12,039)	(10,933)
	(652,521)	(633,065)	(271,011)	(260,188)
Net fee and commission income	1,381,675	1,275,345	539,800	520,243



33. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Net gain/(loss) arising on financial assets held-for-trading:				
– net gain on disposal	8,378	9,839	8,232	10,235
– gross dividend income	–	12	–	12
– unrealised revaluation gain/(loss)	3,878	(9,238)	3,929	(9,243)
	12,256	613	12,161	1,004
Net gain/(loss) arising on trading derivatives:				
– net gain/(loss) on disposal	10,447	(5,864)	10,447	(5,864)
– unrealised revaluation (loss)/gain	(11,605)	11,569	(9,364)	12,239
	(1,158)	5,705	1,083	6,375
Net gain arising on financial investments available-for-sale:				
– net gain on disposal (Note 28)	12,509	12,002	8,999	12,002
– gross dividend income	165,623	145,960	163,604	140,802
	178,132	157,962	172,603	152,804
Gain representing ineffective portions of hedging derivatives:				
– fair value hedge (Note 6)	5,942	2,131	6,195	2,106
– cash flow hedge (Note 6)	1,589	572	1,589	572
	7,531	2,703	7,784	2,678
	196,761	166,983	193,631	162,861

34. OTHER OPERATING INCOME

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Gross dividend income from:				
Associated companies	–	–	6,101	6,460
Subsidiary companies:				
– quoted outside Malaysia	–	–	56,543	53,881
– unquoted in Malaysia	–	–	786,863	699,705
	–	–	849,507	760,046
Other income:				
Foreign exchange profit	268,940	232,844	100,334	163,852
Rental income from:				
– investment properties (Note 15)	6,698	6,068	–	–
– other properties	16,378	14,981	12,507	11,559
Net gain on disposal of property and equipment	996	500	973	579
Net gain on disposal of foreclosed properties	777	2,657	777	2,657
Gain on revaluation of investment properties (Note 15)	5,304	2,547	–	–
Others	34,159	48,718	24,374	36,365
	333,252	308,315	138,965	215,012
	333,252	308,315	988,472	975,058



35. OTHER OPERATING EXPENSES

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Personnel costs				
– Salaries, allowances and bonuses	1,544,848	1,388,845	1,188,616	1,088,897
– Pension costs	203,116	232,668	179,281	208,398
– Others	130,650	123,095	109,628	107,639
	1,878,614	1,744,608	1,477,525	1,404,934
Establishment costs				
– Depreciation	159,049	161,188	123,090	127,694
– Rental	97,774	93,803	89,210	87,416
– Insurance	19,817	21,806	16,997	16,641
– Water and electricity	52,267	44,530	39,294	33,359
– General repairs and maintenance	67,261	72,558	57,184	63,842
– Information technology expenses	26,852	27,896	12,859	14,905
– Others	49,801	44,875	37,045	33,486
	472,821	466,656	375,679	377,343
Marketing expenses				
– Advertisement and publicity	41,338	63,289	14,067	24,550
– Others	72,857	84,109	38,893	39,893
	114,195	147,398	52,960	64,443
Administration and general expenses				
– Communication expenses	26,957	38,899	19,821	34,129
– Legal and professional fees	38,203	43,399	29,501	32,336
– Others	75,075	62,676	48,869	38,673
	140,235	144,974	98,191	105,138
Shared service cost charged to Public Islamic Bank Berhad	–	–	(248,647)	(241,174)
Total other operating expenses	2,605,865	2,503,636	1,755,708	1,710,684

35. OTHER OPERATING EXPENSES (CONTINUED)

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Auditors' remuneration*:				
– statutory audit fees	3,462	3,267	1,318	1,232
– audit related services	1,034	752	411	327
– other services	442	167	243	74
Depreciation of property and equipment (Note 16)	159,049	161,188	123,090	127,694
Direct operating expenses of investment properties that:				
– generated rental income	45	41	–	–
Directors' remuneration (Note 36)	52,577	51,683	40,032	40,244
Pension costs				
– defined contribution plan	170,483	155,694	147,363	134,906
– defined benefit plan (Note 24(a))	32,633	76,974	31,918	73,492
Property and equipment written off (Note 16)	72	527	72	490
Rental of premises	97,774	93,803	89,210	87,416

* 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 RM1,774,000 (2013 – RM1,665,000), RM262,000 (2013 – RM345,000) and RM59,000 (2013 – RM51,000) 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 RM218,000 (2013 – RM202,000), RM16,000 (2013 – RM14,000) and RM14,000 (2013 – RM13,000) 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 18,198 (2013 – 17,924) and 14,754 (2013 – 14,580) respectively.



36. DIRECTORS' REMUNERATION

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Directors of the Bank:				
Executive Directors:				
Fees	720	1,326	260	452
Salary and other remuneration, including meeting allowances	5,211	7,649	5,078	7,525
Bonuses	8,219	11,000	8,219	11,000
Benefits-in-kind	38	72	38	72
	14,188	20,047	13,595	19,049
Non-Executive Directors:				
Fees	4,569	4,293	2,199	2,017
Other remuneration	25,069	20,114	24,276	19,250
Benefits-in-kind	29	32	29	32
	29,667	24,439	26,504	21,299
Directors of subsidiary companies:				
Executive Directors:				
Fees	362	350	–	–
Salary and other remuneration, including meeting allowances	3,943	3,402	–	–
Bonuses	3,144	2,847	–	–
Benefits-in-kind	405	438	–	–
	7,854	7,037	–	–
Non-Executive Directors:				
Fees	1,058	523	–	–
Other remuneration	282	179	–	–
	1,340	702	–	–
Grand total	53,049	52,225	40,099	40,348
Total (excluding benefits-in-kind) (Note 35)	52,577	51,683	40,032	40,244

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 RM13,595,000 (2013 – RM11,142,000).

36. DIRECTORS' REMUNERATION (CONTINUED)

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

2014	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 Director:									
Tan Sri Dato' Sri Tay Ah Lek	2,772	260	8,219	2,306	38	13,595	460	133	14,188
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Ploow	-	352	-	22,990	29	23,371	657	50	24,078
Tan Sri Datuk Seri Utama Thong Yaw Hong	-	352	-	411	-	763	567	139	1,469
Dato' Sri Lee Kong Lam	-	260	-	147	-	407	411	170	988
Dato' Yeoh Chin Kee [⊗]	-	65	-	35	-	100	19	23	142
Dato' Haji Abdul Aziz bin Dato' Dr. Omar~	-	195	-	127	-	322	319	140	781
Tang Wing Chew	-	260	-	190	-	450	198	128	776
Lai Wan	-	260	-	156	-	416	164	87	667
Lai Wai Keen	-	260	-	134	-	394	35	56	485
Cheah Kim Ling	-	195	-	86	-	281	-	-	281
	-	2,199	-	24,276	29	26,504	2,370	793	29,667
Total Directors' remuneration	2,772	2,459	8,219	26,582	67	40,099	2,830	926	43,855

⊗ This represents the remuneration paid to this Director until his retirement on 31 March 2014.

~ This represents the remuneration paid to this Director until his retirement on 1 October 2014.



36. DIRECTORS' REMUNERATION (CONTINUED)

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

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 redesignation as Non-Independent Non-Executive Director on 28 November 2013.

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

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

37. ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Allowance for impaired loans and financing:				
Collective assessment allowance (Note 9)	358,852	340,289	259,153	219,966
– Retail loans/financing				
– housing loans/financing	25,470	16,495	18,478	5,547
– hire purchase	232,852	240,540	167,601	171,804
– credit cards	43,936	40,286	43,912	40,279
– other loans/financing	58,792	41,603	29,828	1,002
– Corporate loans/financing	(2,198)	1,365	(666)	1,334
Individual assessment allowance (Note 9)	167,701	225,747	(5,785)	8,864
– Retail loans/financing				
– housing loans/financing	–	95	–	–
– hire purchase	75	261	–	–
– other loans/financing	173,588	225,146	(3,238)	8,357
– Corporate loans/financing	(5,962)	245	(2,547)	507
Bad debts recovered from stock-broking activities	(152)	(2)	–	–
Impaired loans and financing written off	107	644	103	554
Impaired loans and financing recovered	(267,508)	(215,426)	(153,244)	(128,779)
	259,000	351,252	100,227	100,605

38. WRITEBACK OF IMPAIRMENT ON OTHER ASSETS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Foreclosed properties	(782)	(149)	(875)	(165)



39. TAX EXPENSE AND ZAKAT

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Malaysian income tax	1,191,703	1,168,309	1,000,727	956,324
Overseas income tax	77,373	65,424	10,008	8,983
	1,269,076	1,233,733	1,010,735	965,307
(Over)/Under provision in prior years				
– Malaysian income tax	(22,169)	(3,337)	(21,826)	(4,214)
– Overseas income tax	425	420	(84)	60
	1,247,332	1,230,816	988,825	961,153
Deferred tax expense/(income) (Note 12)				
– Relating to changes in tax rate	653	–	591	–
– Relating to origination and reversal of temporary differences arising from:				
– allowance for losses on loans/financing	2,012	2,441	–	–
– tax losses	–	48	–	–
– (shortfall)/excess of capital allowance over depreciation	(7,166)	1,121	(7,518)	1,437
– defined benefit plan	(7,098)	(19,251)	(7,664)	(18,381)
– other temporary differences	12,272	(14,391)	12,533	(5,849)
	20	(30,032)	(2,649)	(22,793)
– under provision	2,680	3,294	2,632	3,157
	2,700	(26,738)	(17)	(19,636)
Tax expense	1,250,685	1,204,078	989,399	941,517
Zakat	230	264	–	–
	1,250,915	1,204,342	989,399	941,517

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 for the current financial year is based on the tax rate of 24% and 25%, where applicable (tax rate of 25% for the previous financial year).

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Tax savings arising from tax losses				
Tax savings arising from utilisation of tax losses	3	2	–	–

39. TAX EXPENSE AND ZAKAT (CONTINUED)

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		2014		2013
	%	RM'000	%	RM'000
Profit before tax expense		5,814,255		5,309,984
Income tax using Malaysian tax rate of 25%	25.0	1,453,564	25.0	1,327,496
Effects of different tax rates in foreign jurisdictions	(0.5)	(32,245)	(0.5)	(24,272)
Income not subject to tax	(2.3)	(131,158)	(1.9)	(102,539)
Effects of utilisation of unrecognised benefit of tax losses	–	(3)	–	(2)
Expenses not deductible for tax purposes	0.3	18,428	0.6	30,114
Loss claimable at Bank but eliminated at Group	(0.7)	(39,490)	(0.5)	(27,096)
	21.8	1,269,096	22.7	1,203,701
Deferred tax relating to changes in tax rate	0.0	653	–	–
(Over)/under provision in prior years	(0.3)	(19,064)	–	377
Tax expense for the year	21.5	1,250,685	22.7	1,204,078
Bank		2014		2013
	%	RM'000	%	RM'000
Profit before tax expense		5,019,001		4,646,632
Income tax using Malaysian tax rate of 25%	25.0	1,254,750	25.0	1,161,658
Income not subject to tax	(5.1)	(257,076)	(5.1)	(238,407)
Expenses not deductible for tax purposes	0.2	10,412	0.4	19,263
	20.1	1,008,086	20.3	942,514
Deferred tax relating to changes in tax rate	–	591	–	–
Over provision in prior years	(0.4)	(19,278)	–	(997)
Tax expense for the year	19.7	989,399	20.3	941,517



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	
	2014	2013	2014	2013
Net profit attributable to equity holders of the Bank (RM'000)	4,518,830	4,064,683	4,029,602	3,705,115
'000				
Weighted average number of ordinary shares at beginning of the year	3,502,125	3,502,125	3,502,125	3,502,125
Effect of rights issue exercise	146,801	–	146,801	–
Effect of treasury shares sold	3,046	–	3,046	–
Weighted average number of ordinary shares at end of the year	3,651,972	3,502,125	3,651,972	3,502,125
Basic earnings per share (sen)	123.7	116.1	110.3	105.8

(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	
	2014 RM'000	2013 RM'000
Dividends recognised as distribution to ordinary equity holders of the Bank:		
First interim single tier dividend of 23.0% (2013 – 22.0%) in respect of the financial year ended 31 December 2014	886,037	770,467
Second interim single tier dividend of 30.0% (2012 – 30.0%) in respect of the financial year ended 31 December 2013	1,050,638	1,050,638
	1,936,675	1,821,105

41. DIVIDENDS (CONTINUED)

Subsequent to the financial year end, on 5 February 2015, the Directors declared a second interim single tier dividend of 31.0%, with the total amounting to approximately RM1,197,063,153 computed based on the outstanding issued and paid-up capital, excluding treasury shares held by the Bank, of 3,861,494,043 ordinary shares of RM1.00 each, in respect of the financial year ended 31 December 2014. 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 2015. The Directors do not propose any final dividend in respect of the financial year ended 31 December 2014.

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

	Group and Bank Dividend per share	
	2014 Sen	2013 Sen
Dividends per RM1.00 ordinary share:		
Paid:		
First interim single tier dividend of 23.0% (2013 – 22.0%)	23.00	22.00
Declared subsequent to the financial year end:		
Second interim single tier dividend of 31.0% (2013 – 30.0%)	31.00	30.00
	54.00	52.00

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.



42. RELATED PARTY TRANSACTIONS (CONTINUED)

(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.

(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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Income earned:						
Interest on loans, advances and financing	34	9	-	-	46,135	36,650
Commission income	-	-	39,478	36,782	-	-
Rental income	147	147	2,848	2,696	-	-
Brokerage income	31	4	297	-	-	1
	212	160	42,623	39,478	46,135	36,651
Expenditure incurred:						
Interest on deposits	208,689	143,204	6,139	6,069	-	-
Interest on debt securities issued	54	36	3,519	3,167	-	-
Rental of premises	-	-	598	600	26,517	25,092
Insurance premiums	-	-	28,964	29,048	-	-
	208,743	143,240	39,220	38,884	26,517	25,092

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

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Bank	Subsidiary Companies		Associated Companies		Key Management Personnel*		Companies in which Certain Directors have Substantial Interest		Public Bank Group Officers' Retirement Benefits Fund	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Income earned:										
Interest on interbank lending and money market instruments held	71,958	69,458	922	1,136	-	-	-	-	-	-
Interest on loans and advances	8,307	7,934	-	-	28	9	-	-	46,135	36,650
Dividend income (Note 34)	843,406	753,586	6,101	6,460	-	-	-	-	-	-
Shared service costs charged (Note 35)	248,647	241,174	-	-	-	-	-	-	-	-
Commission income	73,233	80,103	-	-	-	-	39,210	36,515	-	-
Rental income	1,776	1,726	166	-	147	147	11	11	-	-
Others	3,077	2,510	-	-	-	-	-	-	-	-
	1,250,404	1,156,491	7,189	7,596	175	156	39,221	36,526	46,135	36,650
Expenditure incurred:										
Interest on deposits	65,808	91,845	787	902	208,477	143,121	6,079	5,953	-	-
Interest on debt securities issued	-	-	-	-	54	36	3,519	3,167	-	-
Rental of premises	26,336	26,114	-	-	-	-	598	600	25,166	24,283
Insurance premiums	-	-	-	-	-	-	22,887	22,542	-	-
Brokerage commission	396	82	-	-	-	-	-	-	-	-
Professional fees	1,050	1,964	-	-	-	-	-	-	-	-
	93,590	120,005	787	902	208,531	143,157	33,083	32,262	25,166	24,283

* 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 RM208,532,000 (2013 – RM143,129,000) and rental received from a Director of the Bank amounting to RM147,000 (2013 – 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 RM208,386,000 (2013 – RM143,073,000) and rental received from a Director of the Bank amounting to RM147,000 (2013 – RM147,000).



42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Group 31 December 2014	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	267,525	-	-	-
Loans, advances and financing	-	3,612	-	1,507,857
Rental deposits	-	-	-	6,750
	267,525	3,612	-	1,514,607
Amount due to related parties				
Demand deposits	21,312	11,112	13,018	5
Term deposits	3,017	4,164,430	115,786	-
Debt securities issued	-	750	65,000	-
Interbank borrowing	422,011	-	-	-
Others	41	336	-	82
	446,381	4,176,628	193,804	87
Commitments and contingencies				
Commitments	-	-	-	497,154
	-	-	-	497,154

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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 (CONTINUED)**

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

Bank 31 December 2014	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	1,015,282	266,864	-	-	-
Loans and advances	357,822	-	3,350	-	1,507,857
Money market instruments held	1,586,876	-	-	-	-
Dividend receivable (Note 10)	501,487	-	-	-	-
Rental deposits	34,915	-	-	-	6,442
Interest receivable	177	-	-	-	-
Others	942	-	-	-	-
	3,497,501	266,864	3,350	-	1,514,299
Amount due to related parties					
Demand deposits	108,499	78	11,002	13,018	5
Term deposits	1,570,594	3,017	4,159,786	115,786	-
Debt securities issued	-	-	750	65,000	-
Interbank borrowing	509,562	421,843	-	-	-
Interest payable	1,137	-	-	-	-
Others	590	41	53	-	82
	2,190,382	424,979	4,171,591	193,804	87
Commitments and contingencies					
Guarantees	1,367,684	-	-	-	-
Commitments	1,251,532	-	-	-	497,154
	2,619,216	-	-	-	497,154

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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 and advances	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

* 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 RM4,160,145,000 (2013 – RM3,938,534,000) and RM4,160,055,000 (2013 – RM3,931,479,000) respectively.

**42. RELATED PARTY TRANSACTIONS (CONTINUED)**

- (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 (2013 – 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Short-term employee benefits				
Fees	5,290	5,619	2,459	2,469
Salary and other remuneration, including meeting allowances	50,945	45,549	43,169	39,327
Benefits-in-kind	590	600	121	138
Post-employment benefits	3,981	4,146	3,236	3,550
	60,806	55,914	48,985	45,484

Included in the total key management personnel compensation are:

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Directors' remuneration including benefits-in-kind				
– Directors of the Bank	43,855	44,486	40,099	40,348

The movement in share options of key management personnel is as follows:

	PFHL SOS	
	2014 '000	2013 '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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Outstanding credit exposures with connected parties	2,067,450	1,756,651	2,879,663	2,552,959
of which:				
Total credit exposure which is impaired or in default	115	104	100	72
Total credit exposures	253,855,727	230,273,829	226,476,469	206,155,123
Percentage of outstanding credit exposures to connected parties				
– as a proportion of total credit exposures	0.81%	0.76%	1.27%	1.24%
– as a proportion of total capital	5.77%	6.16%	9.67%	10.82%
– which is impaired or in default	0.01%	0.01%	0.00%	0.00%

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 frameworks 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.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(a) Lending to Retail Consumers and SMEs

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

(b) Lending to Corporate and Institutional Customers

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

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, 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.

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.



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

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

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

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

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 tables present 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.

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44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

Group 31 December 2014	Government and Central Banks		Transport and 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	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
On-Balance Sheet Exposures															
Cash and balances with banks	4,951,253	11,865,585	-	-	-	-	-	-	-	-	-	-	-	-	16,816,838
Reverse repurchase agreements	6,314,493	-	-	-	-	-	-	-	-	-	-	-	-	-	6,314,493
Financial assets held-for-trading															
- Government securities and treasury bills	2,194,271	-	-	-	-	-	-	-	-	-	-	-	-	-	2,194,271
- Money market instruments	-	16,073,099	-	-	-	-	-	-	-	-	-	-	-	-	16,073,099
- Non-money market instruments	-	54,878	-	-	-	-	41,770	-	-	-	-	-	-	-	96,648
Derivative financial assets	-	703,072	-	-	-	-	-	-	-	-	-	-	-	-	703,072
Financial investments available-for-sale															
- Government securities and treasury bills	17,552,762	-	-	-	-	-	-	-	-	-	-	-	-	-	17,552,762
- Money market instruments	-	1,091,364	-	-	-	-	-	-	-	-	-	-	-	-	1,091,364
- Non-money market instruments*	300,580	5,482,097	150,773	762,072	-	-	-	-	-	-	-	-	-	-	6,695,522
Financial investments held-to-maturity															
- Government securities and treasury bills	14,931,365	-	-	-	-	-	-	-	-	-	-	-	-	-	14,931,365
- Money market instruments	-	1,065,018	-	-	-	-	-	-	-	-	-	-	-	-	1,065,018
- Non-money market instruments	183,693	2,845,446	651,341	737,524	-	-	-	-	-	-	-	-	-	-	4,418,004
Gross loans, advances and financing															
- Retail loans/financing															
- housing loans/financing	-	-	-	-	-	-	77,610,372	-	-	-	-	-	-	-	77,610,372
- hire purchase	121	3,880	3,387,076	4,084,714	1,845,912	-	-	-	-	38,966,939	45	-	-	-	48,288,687
- credit cards	-	-	-	-	-	-	-	-	-	-	1,664,137	-	-	-	1,664,137
- other loans/financing	30,437	30,368	6,138,934	25,203,744	15,144,003	3,089,448	3,089,448	232,896	33,746,397	83,615,227	44,735	-	-	-	33,865,630
- Corporate loans/financing	-	6,836,603	4,397,196	6,517,015	16,057,476	12,605	-	-	-	-	-	-	-	-	8,063,746
Statutory deposits with Central Banks	8,063,746	-	-	-	-	-	-	-	-	-	-	-	-	-	8,063,746
	54,522,721	46,051,410	14,725,320	37,305,069	33,089,161	80,711,425	39,199,835	35,455,314	341,060,255						
Commitments and Contingencies															
Contingent liabilities	1,916	81,295	912,409	1,218,350	1,043,118	-	-	-	-	-	-	-	-	-	3,290,032
Commitments	960,005	1,896,421	5,276,859	11,238,050	13,315,813	11,381,257	20,675	13,142,317	57,231,397						
	961,921	1,977,716	6,189,268	12,456,400	14,358,931	11,381,257	20,675	13,175,261	60,521,429						
Total Credit Exposures	55,484,642	48,029,126	20,914,588	49,761,469	47,448,092	92,092,682	39,220,510	48,630,575	401,581,684						



44. FINANCIAL RISK MANAGEMENT (CONTINUED) Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

Group 31 December 2013	Government and Central Banks	Financial Services	Transport and 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
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 (CONTINUED) Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

Bank 31 December 2014	Government and Central Banks		Transport and 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	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
On-Balance Sheet Exposures															
Cash and balances with banks	1,140,236	9,868,210	-	-	-	-	-	-	-	-	-	-	-	-	11,008,446
Reverse repurchase agreements	5,564,858	-	-	-	-	-	-	-	-	-	-	-	-	-	5,564,858
Financial assets held-for-trading															
- Government securities and treasury bills	2,194,271	-	-	-	-	-	-	-	-	-	-	-	-	-	2,194,271
- Money market instruments	-	12,242,739	-	-	-	-	-	-	-	-	-	-	-	-	12,242,739
- Non-money market instruments	-	-	-	-	-	-	41,770	-	-	-	-	-	-	-	41,770
Derivative financial assets	-	691,014	-	-	-	-	-	-	-	-	-	-	-	-	691,014
Financial investments available-for-sale															
- Government securities and treasury bills	13,422,266	-	-	-	-	-	-	-	-	-	-	-	-	-	13,422,266
- Money market instruments	-	1,002,749	-	-	-	-	-	-	-	-	-	-	-	-	1,002,749
- Non-money market instruments*	300,570	5,013,875	150,773	393,668	-	-	-	-	-	-	-	-	-	-	5,858,886
Financial investments held-to-maturity															
- Government securities and treasury bills	12,860,185	-	-	-	-	-	-	-	-	-	-	-	-	-	12,860,185
- Money market instruments	-	1,586,876	-	-	-	-	-	-	-	-	-	-	-	-	1,586,876
- Non-money market instruments	127,891	2,097,396	507,267	687,204	-	-	-	-	-	-	-	-	-	-	3,419,758
Gross loans and advances															
- Retail loans															
- housing loans	-	-	-	-	-	-	67,116,548	-	-	-	-	-	-	-	67,116,548
- hire purchase	121	2,984	2,632,737	3,866,372	-	-	1,718,579	-	-	-	27,085,752	-	-	-	35,306,545
- credit cards	-	-	-	-	-	-	-	-	-	-	-	-	1,651,400	-	1,651,400
- other loans	13,542	20,954	4,877,039	22,151,627	-	-	13,144,718	-	-	-	224,717	-	28,032,050	-	71,399,103
- Corporate loans	-	6,536,045	3,881,861	4,503,828	-	-	12,681,349	-	-	-	-	-	44,735	-	27,660,423
Statutory deposits with Central Banks	6,375,578	-	-	-	-	-	-	-	-	-	-	-	-	-	6,375,578
	41,999,518	39,062,842	12,049,677	31,602,699	27,586,416	70,063,609	27,310,469	29,728,185	279,403,415						
Commitments and Contingencies															
Contingent liabilities	1,916	147,143	772,125	923,785	809,793	-	-	-	-	-	-	-	1,702	-	2,656,464
Commitments	890,345	2,240,066	3,058,351	10,188,161	12,500,163	10,260,640	16,992	12,496,295	51,651,013						
	892,261	2,387,209	3,830,476	11,111,946	13,309,956	10,260,640	16,992	12,497,997	54,307,477						
Total Credit Exposures	42,891,779	41,450,051	15,880,153	42,714,645	40,896,372	80,324,249	27,327,461	42,226,182	333,710,892						



44. FINANCIAL RISK MANAGEMENT (CONTINUED) Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

Bank	Government and Central Banks	Financial Services	Transport and Business Services	Agriculture, Manufacturing, Wholesale & Retail Trade	Construction & Real Estate	Residential Mortgages	Motor Vehicle Financing	Other Consumer Loans	Total
31 December 2013	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	-	-	12,993	-	-	-	332,489
Derivative financial assets	-	350,729	-	-	-	-	-	-	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	1,461,625	-	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	2,761,624	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
Commitments and Contingencies									
Contingent liabilities	1,109	144,919	742,295	871,944	772,136	-	-	2,190	2,534,593
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
	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
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

* Excluding equity securities of the Group and the Bank of RM119,472,000 (2013 – RM126,931,000) and RM107,921,000 (2013 – RM111,070,000) respectively which do not have any credit risk.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Credit Risk (continued)**Risk Management Approach (continued)(i) Credit Risk Exposures and Credit Risk Concentration (continued)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 2014	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	10,939,472	2,205,873	1,227,091	2,444,402	16,816,838
Reverse repurchase agreements	6,278,649	–	–	35,844	6,314,493
Financial assets held-for-trading					
– Government securities and treasury bills	2,194,271	–	–	–	2,194,271
– Money market instruments	16,073,099	–	–	–	16,073,099
– Non-money market instruments	96,648	–	–	–	96,648
Derivative financial assets	643,428	1,672	–	57,972	703,072
Financial investments available-for-sale					
– Government securities and treasury bills	17,552,762	–	–	–	17,552,762
– Money market instruments	1,091,364	–	–	–	1,091,364
– Non-money market instruments*	6,695,522	–	–	–	6,695,522
Financial investments held-to-maturity					
– Government securities and treasury bills	14,092,190	774,471	–	64,704	14,931,365
– Money market instruments	–	924,912	–	140,106	1,065,018
– Non-money market instruments	4,068,827	11,238	–	337,939	4,418,004
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	73,689,427	3,851,650	51,253	18,042	77,610,372
– hire purchase	46,280,833	1,991,429	3,242	13,183	48,288,687
– credit cards	1,651,400	5,836	6,901	–	1,664,137
– other loans/financing	78,077,818	1,915,161	2,928,991	693,257	83,615,227
– Corporate loans/financing	28,188,582	5,227,261	–	449,787	33,865,630
Statutory deposits with Central Banks	7,480,240	–	547,968	35,538	8,063,746
	315,094,532	16,909,503	4,765,446	4,290,774	341,060,255
Commitments and Contingencies					
Contingent liabilities	2,789,877	127,022	337,395	35,738	3,290,032
Commitments	54,760,075	2,039,383	394,057	37,882	57,231,397
	57,549,952	2,166,405	731,452	73,620	60,521,429
Total Credit Exposures	372,644,484	19,075,908	5,496,898	4,364,394	401,581,684



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis (continued)

Group 31 December 2013	Hong Kong & China			Cambodia RM'000	Other Countries RM'000	Total RM'000
	Malaysia RM'000	RM'000	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 (CONTINUED)**Credit Risk (continued)**

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis (continued)

Bank 31 December 2014	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	8,035,683	529,925	–	2,442,838	11,008,446
Reverse repurchase agreements	5,529,014	–	–	35,844	5,564,858
Financial assets held-for-trading					
– Government securities and treasury bills	2,194,271	–	–	–	2,194,271
– Money market instruments	12,242,739	–	–	–	12,242,739
– Non-money market instruments	41,770	–	–	–	41,770
Derivative financial assets	632,349	693	–	57,972	691,014
Financial investments available-for-sale					
– Government securities and treasury bills	13,422,266	–	–	–	13,422,266
– Money market instruments	1,002,749	–	–	–	1,002,749
– Non-money market instruments*	5,858,886	–	–	–	5,858,886
Financial investments held-to-maturity					
– Government securities and treasury bills	12,840,036	–	–	20,149	12,860,185
– Money market instruments	1,586,876	–	–	–	1,586,876
– Non-money market instruments	3,419,758	–	–	–	3,419,758
Gross loans and advances					
– Retail loans					
– housing loans	67,098,506	–	–	18,042	67,116,548
– hire purchase	35,293,362	–	–	13,183	35,306,545
– credit cards	1,651,400	–	–	–	1,651,400
– other loans	70,705,846	–	–	693,257	71,399,103
– Corporate loans	27,248,066	–	–	412,357	27,660,423
Statutory deposits with Central Banks	6,340,040	–	–	35,538	6,375,578
	275,143,617	530,618	–	3,729,180	279,403,415
Commitments and Contingencies					
Contingent liabilities	2,509,126	13,530	103,317	30,491	2,656,464
Commitments	51,090,199	524,663	–	36,151	51,651,013
	53,599,325	538,193	103,317	66,642	54,307,477
Total Credit Exposures	328,742,942	1,068,811	103,317	3,795,822	333,710,892



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis (continued)

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

* Excluding equity securities of the Group and the Bank of RM119,172,000 (2013 – RM126,931,000) and RM107,921,000 (2013 – RM111,070,000) respectively which do not have any credit risk.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Credit Risk (continued)**Risk Management Approach (continued)

(ii) Credit Quality of Gross Loans, Advances and Financing

Gross loans, advances and financing are analysed as follows:

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Neither past due nor impaired	219,560,698	196,579,102	183,272,757	164,288,935
Past due but not impaired	23,994,656	23,111,922	18,707,433	18,130,755
Impaired	1,488,699	1,484,779	1,153,829	1,135,737
	245,044,053	221,175,803	203,134,019	183,555,427

(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 (CONTINUED)****Credit Risk (continued)**Risk Management Approach (continued)

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

(a) Neither Past Due Nor Impaired (continued)

The credit quality of gross loans, advances and financing which is neither past due nor impaired is analysed as follows:

	2014			2013		
	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	62,419,681	6,169,392	68,589,073	55,375,262	5,412,776	60,788,038
– hire purchase	31,992,977	5,001,913	36,994,890	29,544,427	4,578,774	34,123,201
– credit cards	1,004,185	331,397	1,335,582	992,690	326,443	1,319,133
– other loans/financing	74,102,662	5,020,433	79,123,095	65,929,090	4,552,008	70,481,098
Corporate loans/financing	31,460,157	2,057,901	33,518,058	28,628,473	1,239,159	29,867,632
	200,979,662	18,581,036	219,560,698	180,469,942	16,109,160	196,579,102
Bank						
Retail loans						
– housing loans	54,278,149	5,263,628	59,541,777	48,418,623	4,720,317	53,138,940
– hire purchase	23,697,109	3,663,178	27,360,287	21,149,356	3,245,126	24,394,482
– credit cards	992,958	330,369	1,323,327	983,785	325,599	1,309,384
– other loans	63,547,495	4,123,799	67,671,294	57,778,204	3,537,920	61,316,124
Corporate loans	25,362,351	2,013,721	27,376,072	22,958,193	1,171,812	24,130,005
	167,878,062	15,394,695	183,272,757	151,288,161	13,000,774	164,288,935

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Credit Risk (continued)**Risk Management Approach (continued)(ii) Credit Quality of Gross Loans, Advances and Financing (continued)(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
2014				
Retail loans/financing				
– housing loans/financing	4,986,823	2,489,053	1,040,525	8,516,401
– hire purchase	6,364,373	3,616,588	922,870	10,903,831
– credit cards	199,501	74,986	28,658	303,145
– other loans/financing	2,624,891	1,052,361	331,768	4,009,020
Corporate loans/financing	258,976	2,622	661	262,259
	14,434,564	7,235,610	2,324,482	23,994,656
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

**44. FINANCIAL RISK MANAGEMENT (CONTINUED)****Credit Risk (continued)**Risk Management Approach (continued)(ii) Credit Quality of Gross Loans, Advances and Financing (continued)(b) Past Due But Not Impaired (continued)

An aging analysis of loans, advances and financing which are past due but not impaired is as follows (continued):

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
2014				
Retail loans				
– housing loans	4,147,023	2,109,435	877,708	7,134,166
– hire purchase	4,571,047	2,481,516	616,704	7,669,267
– credit cards	199,152	74,909	28,658	302,719
– other loans	2,214,117	905,987	266,909	3,387,013
Corporate loans	214,106	162	–	214,268
	11,345,445	5,572,009	1,789,979	18,707,433
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

(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 a loan/financing is in arrears for less than (3) months and has been rescheduled or restructured, the loan/financing will be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of three (3) months; or
- (iv) 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.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Credit Risk (continued)**Risk Management Approach (continued)

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

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

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.

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
2014				
Retail loans/financing				
– housing loans/financing	504,898	11,095	178	11,060
– hire purchase	389,966	836	807	563
– credit cards	25,410	–	–	–
– other loans/financing	483,112	226,281	101,347	159,196
Corporate loans/financing	85,313	85,313	37,754	58,310
	1,488,699	323,525	140,086	229,129
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



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

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

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 (continued):

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	
2014				
Retail loans				
– housing loans	440,605	9,375	–	9,375
– hire purchase	276,991	–	–	–
– credit cards	25,354	–	–	–
– other loans	340,796	139,608	30,522	125,511
Corporate loans	70,083	70,083	31,945	48,890
	1,153,829	219,066	62,467	183,776
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

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Credit Risk (continued)**Risk Management Approach (continued)

(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 2014 are at 88.3% (2013 – 89.9%) and 90.4% (2013 – 91.6%) 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Residential properties	27,317	30,776	26,512	29,552
Non-residential properties	28,773	26,504	28,699	26,430
	56,090	57,280	55,211	55,982

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 (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(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

Group	31 December 2014						31 December 2013					
	Money Market Instruments			Non-money Market Instruments			Money Market Instruments			Non-money Market Instruments		
	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
AAA to AA-	-	13,956,792	13,956,792	-	-	-	-	9,311,372	9,311,372	-	-	-
A+ to A-	-	1,753,380	1,753,380	-	-	-	-	4,311,256	4,311,256	-	-	-
P-1 to P-2	-	-	-	-	96,648	96,648	-	-	-	-	405,394	405,394
Unrated	-	362,927	362,927	-	-	-	-	200,301	200,301	-	-	-
	-	16,073,099	16,073,099	-	96,648	96,648	-	13,822,929	13,822,929	-	405,394	405,394
Bank												
AAA to AA-	-	10,648,807	10,648,807	-	-	-	-	7,862,343	7,862,343	-	-	-
A+ to A-	-	1,453,560	1,453,560	-	-	-	-	4,211,903	4,211,903	-	-	-
P-1 to P-2	-	-	-	-	41,770	41,770	-	-	-	-	332,489	332,489
Unrated	-	140,372	140,372	-	-	-	-	200,301	200,301	-	-	-
	-	12,242,739	12,242,739	-	41,770	41,770	-	12,274,547	12,274,547	-	332,489	332,489

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Credit Risk (continued)**Risk Management Approach (continued)

(iv) Credit Quality of Financial Investments (continued)

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 (continued):

Financial Investments Available-for-sale

Group	<----- 31 December 2014 ----->										----- 31 December 2013 ----->									
	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	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000		
Sovereign guaranteed	-	-	-	-	300,570	300,570	-	-	-	-	-	-	-	-	-	-	308,635	308,635		
AAA to AA-	-	1,091,364	1,091,364	-	161,874	161,874	-	97,458	97,458	97,458	97,458	-	7,961	7,961	-	7,961	7,961			
A+ to A-	-	-	-	261,007	-	261,007	-	101,386	101,386	101,386	101,386	265,428	-	265,428	-	-	265,428			
BBB+ to BBB-	-	-	-	643,963	-	643,963	-	-	-	-	-	1,446,073	-	1,446,073	-	-	1,446,073			
Lower than BBB-	-	-	-	53,752	-	53,752	-	-	-	-	-	50,772	-	50,772	-	-	50,772			
Unrated	-	-	-	-	10	10	-	-	-	-	-	-	-	-	-	10	10			
	-	1,091,364	1,091,364	958,722	462,454	1,421,176	-	198,844	198,844	198,844	198,844	1,762,273	316,606	2,078,879	-	316,606	2,078,879			
Bank																				
Sovereign guaranteed	-	-	-	-	300,570	300,570	-	-	-	-	-	-	-	-	-	-	308,635	308,635		
AAA to AA-	-	1,002,749	1,002,749	-	161,874	161,874	-	97,458	97,458	97,458	97,458	-	7,961	7,961	-	7,961	7,961			
A+ to A-	-	-	-	142,898	-	142,898	-	101,386	101,386	101,386	101,386	156,706	-	156,706	-	-	156,706			
BBB+ to BBB-	-	-	-	393,668	-	393,668	-	-	-	-	-	1,083,021	-	1,083,021	-	-	1,083,021			
Lower than BBB-	-	-	-	53,752	-	53,752	-	-	-	-	-	50,772	-	50,772	-	-	50,772			
	-	1,002,749	1,002,749	590,318	462,444	1,052,762	-	198,844	198,844	198,844	198,844	1,290,499	316,596	1,607,095	-	316,596	1,607,095			



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(iv) Credit Quality of Financial Investments (continued)

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 (continued):

Financial Investments Held-to-maturity

Group	31 December 2014										31 December 2013									
	Money Market Instruments					Non-money Market Instruments					Money Market Instruments					Non-money Market Instruments				
	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	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000		
Sovereign guaranteed	-	-	-	-	2,269,349	2,269,349	-	-	-	-	-	-	-	-	-	-	-	490,030		
AAA to AA-	134,371	-	134,371	11,238	1,798,392	1,809,630	165,311	1,063,404	1,228,715	-	-	-	-	-	-	-	355,255	355,255		
A+ to A-	669,753	-	669,753	303,138	-	303,138	441,047	282,073	723,120	278,453	-	-	-	-	-	-	-	278,453		
P-1 to P-2	260,894	-	260,894	34,801	-	34,801	194,174	-	194,174	98,494	-	-	-	-	-	-	-	98,494		
Unrated	-	-	-	-	1,086	1,086	-	24,628	24,628	-	-	-	-	-	-	-	1,086	1,086		
	1,065,018	-	1,065,018	349,177	4,068,827	4,418,004	800,532	1,370,105	2,170,637	376,947	-	-	-	-	-	-	846,371	1,223,318		
Bank																				
Sovereign guaranteed	-	-	-	-	1,834,959	1,834,959	-	-	-	-	-	-	-	-	-	-	-	484,973	484,973	
AAA to AA-	-	1,586,876	1,586,876	-	1,583,713	1,583,713	-	1,617,869	1,617,869	-	-	-	-	-	-	-	246,814	246,814		
Unrated	-	-	-	-	1,086	1,086	-	-	-	-	-	-	-	-	-	-	1,086	1,086		
	-	1,586,876	1,586,876	-	3,419,758	3,419,758	-	1,617,869	1,617,869	-	-	-	-	-	-	-	732,873	732,873		

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 (2013 – none) of the financial investments above are past due.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 frameworks 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 frameworks 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 Audit Committee. 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 ALCO. The trading book positions and limits are regularly reported to the ALCO. The Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board 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 RM271,000 (2013 – RM276,000) and RM235,000 (2013 – RM226,000) respectively. The composition of the Group's and the Bank's trading portfolio is set out in Note 5 to the financial statements.



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(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 (CONTINUED)**Market Risk (continued)**Types of Market Risk (continued)

(i) Non-Traded Market Risk (continued)

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

- (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.

Group 2014	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate/rate of return %	
				> 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
ASSETS												
Cash and balances with banks	11,172,722	1,659,814	1,274,696	-	-	-	-	-	2,709,606	-	16,816,838	2.44
Reverse repurchase agreements	4,056,643	1,508,215	-	-	-	-	-	749,635	-	749,635	6,314,493	3.31
Financial assets held-for-trading	-	-	-	-	-	-	-	-	18,364,018	18,364,018	18,364,018	3.82
Financial investments available-for-sale	542,634	4,523,374	5,642,625	2,256,360	3,857,543	1,024,980	1,763,206	454,569	5,393,529	-	25,458,820	3.48
Financial investments held-to-maturity	304,912	686,457	2,731,286	933,187	3,358,999	426,825	4,601,382	7,370,253	1,086	-	20,414,387	3.60
Loans, advances and financing	-	-	-	-	-	-	-	-	-	-	-	-
- non-impaired	180,691,172	8,517,605	11,158,301	11,679,312	9,029,458	6,907,363	5,329,433	10,242,710	-	-	243,555,354	5.42
- impaired*	-	-	-	-	-	-	-	-	(333,515)	-	(333,515)	-
Other non-interest/ profit sensitive balances	-	-	-	-	-	-	-	-	14,570,802	560,737	15,131,539	-
TOTAL ASSETS	196,768,083	16,895,465	20,806,908	14,868,859	16,246,000	8,359,168	11,694,021	18,067,532	22,341,508	19,674,390	345,721,934	



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

Group 2014 (continued)	Non-trading book										Effective interest rate/rate of return %
	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	
LIABILITIES AND EQUITY											
Deposits from customers	107,007,010	50,250,985	87,461,339	31,725,198	6,349	2,063	1,659	-	85,573	-	276,540,176
Deposits from banks	13,821,196	4,343,456	2,036,472	48,069	63,973	50,725	118,659	5,555	181,627	-	20,669,732
Bills and acceptances payable	129,648	74,476	-	-	-	-	-	-	457,594	-	661,718
Recourse obligations on loans and financing sold to Cagamas	-	-	-	-	1,500,016	422,004	-	-	-	-	1,922,020
Debt securities issued and other borrowed funds	488,522	-	-	1,899,550	3,000,000	2,350,000	3,588,000	-	101,693	-	11,427,765
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	5,481,383	144,359	5,625,742
Total Liabilities	121,446,376	54,668,917	89,497,811	33,672,817	4,570,338	2,824,792	3,708,318	5,555	6,307,870	144,359	316,847,153
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	28,024,668	-	28,024,668
Non-controlling interests	-	-	-	-	-	-	-	-	850,113	-	850,113
TOTAL LIABILITIES AND EQUITY	121,446,376	54,668,917	89,497,811	33,672,817	4,570,338	2,824,792	3,708,318	5,555	35,182,651	144,359	345,721,934
On-balance sheet interest/profit sensitivity gap	75,321,707	(37,773,452)	(68,690,903)	(18,803,958)	11,675,662	5,534,376	7,985,703	18,061,977	(12,841,143)	19,530,031	-
Off-balance sheet interest/profit sensitivity gap (interest/profit rate swaps)	670,000	(3,710,909)	(297,309)	1,399,550	25,600	250,000	1,883,068	(220,000)	-	-	-
TOTAL INTEREST/PROFIT SENSITIVITY GAP	75,991,707	(41,484,361)	(68,988,212)	(17,404,408)	11,701,262	5,784,376	9,868,771	17,841,977	(12,841,143)	19,530,031	-

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

Group 2013	Non-trading book										Effective interest rate/rate of return %	
	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
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	903,381	9,541,969	3.04
Financial assets held-for-trading	-	-	-	-	-	-	-	-	15,811,963	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	-	17,618,512	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	-	-	219,691,024	5.30
- impaired*	-	-	-	-	-	-	-	(275,231)	-	-	(275,231)	-
Other non-interest/ profit sensitive balances	-	-	-	-	-	-	-	13,279,608	183,583	183,583	13,463,191	-
TOTAL ASSETS	182,511,987	19,853,603	19,215,969	11,778,508	9,708,000	7,260,854	5,003,844	12,939,529	20,554,175	16,898,927	305,725,396	



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

Group 2013 (continued)	Non-trading book										Effective interest rate/rate of return %	
	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
LIABILITIES AND EQUITY												
Deposits from customers	112,916,121	40,768,706	66,629,929	30,433,365	7,876	1,619	2,259	-	113,314	-	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
Recurse obligations on loans and financing sold to Gagamas	-	-	-	-	-	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	124,958,426	45,350,974	67,432,157	30,500,921	1,918,537	3,574,241	2,401,451	2,088,000	6,230,101	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	124,958,426	45,350,974	67,432,157	30,500,921	1,918,537	3,574,241	2,401,451	2,088,000	27,427,297	73,392	305,725,396	
On-balance sheet interest/profit sensitivity gap	57,553,561	(25,497,371)	(48,216,188)	(18,722,413)	7,789,463	3,686,613	2,602,393	10,851,529	(6,873,122)	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	58,800,773	(29,396,071)	(48,869,494)	(19,493,236)	9,145,483	4,686,613	2,852,393	12,321,126	(6,873,122)	16,825,535	-	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

Bank 2014	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	
ASSETS												
Cash and balances with banks	7,051,201	1,278,550	755,747	-	-	-	-	1,922,948	-	-	11,008,446	2.20
Reverse repurchase agreements	4,056,642	1,508,216	-	-	-	-	-	-	-	-	5,564,858	3.32
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	14,478,780	14,478,780	3.80
Financial investments available-for-sale	387,908	2,039,516	4,235,727	1,832,436	3,857,543	1,024,980	1,645,097	454,569	4,914,046	-	20,391,822	3.54
Financial investments held-to-maturity	19,055	222,588	570,302	668,021	3,210,318	331,703	4,864,062	7,979,684	1,086	-	17,866,819	3.90
Loans and advances												
- non-impaired	158,420,158	6,699,261	7,692,930	8,589,411	6,506,785	4,855,146	3,428,171	5,788,328	-	-	201,980,190	5.34
- impaired*	-	-	-	-	-	-	-	-	(52,163)	-	(52,163)	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	14,869,056	559,758	15,428,814	-
TOTAL ASSETS	169,934,964	11,748,131	13,254,706	11,089,868	13,574,646	6,211,829	9,937,330	14,222,581	21,654,973	15,038,538	286,667,566	



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

Bank 2014 (continued)	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	85,353,598	40,946,971	74,107,715	25,719,818	4,676	1,654	1,162	-	81,397	-	226,216,991	3.36
Deposits from banks	12,328,693	3,526,843	1,166,951	48,069	63,973	48,357	117,059	5,555	391,150	-	17,696,650	1.05
Bills and acceptances payable	129,648	74,476	-	-	-	-	-	-	457,044	-	661,168	3.76
Recourse obligations on loans sold to Cagamas	-	-	-	-	1,000,000	422,004	-	-	-	-	1,422,004	4.05
Debt securities issued and other borrowed funds	-	-	-	1,899,550	3,000,000	2,350,000	3,088,000	-	102,833	-	10,440,383	4.70
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	4,145,554	141,655	4,287,209	-
Total Liabilities	97,811,939	44,548,290	75,274,666	27,667,437	4,068,649	2,822,015	3,206,221	5,555	5,177,978	141,655	260,724,405	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	25,943,161	-	25,943,161	-
TOTAL LIABILITIES AND EQUITY	97,811,939	44,548,290	75,274,666	27,667,437	4,068,649	2,822,015	3,206,221	5,555	31,121,139	141,655	286,667,566	
On-balance sheet interest sensitivity gap	72,123,025	(32,800,159)	(62,019,960)	(16,577,569)	9,505,997	3,389,814	6,731,109	14,217,026	(9,466,166)	14,896,883	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	(380,000)	(5,970,774)	(192,377)	1,399,550	225,600	750,000	2,888,001	1,280,000	-	-	-	
TOTAL INTEREST SENSITIVITY GAP	71,743,025	(38,770,933)	(62,212,337)	(15,178,019)	9,731,597	4,139,814	9,619,110	15,497,026	(9,466,166)	14,896,883	-	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

Bank 2013	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate %	
				> 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
ASSETS												
Cash and balances with banks	9,850,587	1,210,474	153,196	-	-	-	-	-	-	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												
- non-impaired	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
- 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	



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

Bank 2013 (continued)	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	91,061,307	31,212,048	54,716,113	24,762,929	5,037	1,592	1,819	-	110,747	-	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	103,897,274	35,402,273	55,330,731	24,830,485	1,915,698	3,074,203	2,398,621	2,088,000	5,006,341	73,758	234,017,384	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	18,822,055	-	18,822,055	-
TOTAL LIABILITIES AND EQUITY	103,897,274	35,402,273	55,330,731	24,830,485	1,915,698	3,074,203	2,398,621	2,088,000	23,828,396	73,758	252,839,439	
On-balance sheet interest sensitivity gap	51,787,290	(19,188,730)	(41,978,576)	(16,397,387)	5,117,995	2,086,822	981,959	7,188,254	(3,693,553)	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	52,119,699	(25,135,121)	(42,497,398)	(16,938,603)	6,474,015	3,286,822	1,731,959	10,556,254	(3,693,553)	14,095,926	-	

* 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 (CONTINUED)**Market Risk (continued)**Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(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 taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

	2014		2013	
	-100 bps	+100 bps	-100 bps	+100 bps
	<----- Increase/(Decrease) ----->			
	RM'000	RM'000	RM'000	RM'000
Group				
Impact on NII/NPI	(223,761)	205,807	(248,022)	251,545
Impact on EVE	1,723,447	(1,377,719)	932,989	(548,689)
Bank				
Impact on NII	(194,300)	183,520	(222,636)	233,337
Impact on EVE	1,519,468	(1,222,776)	760,032	(447,000)

The reported amounts do not take into account actions that would be taken by the ALCO to mitigate the impact of this interest rate/rate of return risk. In reality, the ALCO seeks to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statements of financial position and that all positions run to maturity.

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

- (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.



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(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 the potential foreign exchange risk against the cost of hedging and is periodically assessed by the ALCO.

- (i) The following tables summarised 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 (CONTINUED)**Market Risk (continued)**

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

Group 2014	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	9,492,412	888,071	5,037,601	1,398,754	16,816,838
Reverse repurchase agreements	6,278,649	–	–	35,844	6,314,493
Financial assets held-for-trading	18,364,018	–	–	–	18,364,018
Derivative financial assets	648,170	979	53,923	–	703,072
Financial investments available-for-sale	24,463,521	3,069	985,090	7,140	25,458,820
Financial investments held-to-maturity	18,161,017	1,342,400	408,976	501,994	20,414,387
Loans, advances and financing	224,993,970	11,847,073	5,374,974	1,005,822	243,221,839
Other assets	1,152,846	91,403	200,489	1,027,495	2,472,233
Statutory deposits with Central Banks	7,480,240	–	576,633	6,873	8,063,746
Deferred tax assets	57,564	11,761	–	–	69,325
Investment in associated companies	25,036	–	132,379	–	157,415
Investment properties	2,250	104,778	–	–	107,028
Property and equipment	1,051,409	333,343	82,912	7,914	1,475,578
Intangible assets	769,251	1,313,891	–	–	2,083,142
TOTAL ASSETS	312,940,353	15,936,768	12,852,977	3,991,836	345,721,934
LIABILITIES					
Deposits from customers	253,263,265	11,024,022	7,945,788	4,307,101	276,540,176
Deposits from banks	7,057,729	727,433	11,935,389	949,181	20,669,732
Bills and acceptances payable	659,518	–	–	2,200	661,718
Recourse obligations on loans and financing sold to Cagamas	1,922,020	–	–	–	1,922,020
Derivative financial liabilities	466,412	2,704	19,077	–	488,193
Debt securities issued and other borrowed funds	10,186,057	293,039	948,669	–	11,427,765
Other liabilities	3,202,296	213,991	52,871	1,027,488	4,496,646
Provision for tax expense and zakat	508,269	8,388	35,434	2,503	554,594
Deferred tax liabilities	75,003	11,306	–	–	86,309
TOTAL LIABILITIES	277,340,569	12,280,883	20,937,228	6,288,473	316,847,153
Non-controlling interests	–	832,981	17,132	–	850,113
On-Balance Sheet Open Position	35,599,784	2,822,904	(8,101,383)	(2,296,637)	28,024,668
Off-Balance Sheet Open Position	(8,552,189)	(1,293,242)	6,938,955	2,906,476	–
NET OPEN POSITION	27,047,595	1,529,662	(1,162,428)	609,839	28,024,668



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

Group 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

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Market Risk (continued)**

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

Bank 2014	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	6,347,885	764,449	3,400,015	496,097	11,008,446
Reverse repurchase agreements	5,529,014	–	–	35,844	5,564,858
Financial assets held-for-trading	14,478,780	–	–	–	14,478,780
Derivative financial assets	637,091	–	53,923	–	691,014
Financial investments available-for-sale	19,775,173	–	616,595	54	20,391,822
Financial investments held-to-maturity	17,846,670	–	–	20,149	17,866,819
Loans and advances	199,563,210	–	1,597,705	767,112	201,928,027
Other assets	1,173,597	77,016	188,555	1,011,321	2,450,489
Statutory deposits with Central Banks	6,340,040	–	35,538	–	6,375,578
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	650,272	–	779	7,914	658,965
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	275,346,250	2,513,659	6,469,166	2,338,491	286,667,566
LIABILITIES					
Deposits from customers	221,149,305	10,691	2,477,604	2,579,391	226,216,991
Deposits from banks	5,084,913	–	11,580,492	1,031,245	17,696,650
Bills and acceptances payable	658,968	–	–	2,200	661,168
Recourse obligations on loans sold to Cagamas	1,422,004	–	–	–	1,422,004
Derivative financial liabilities	516,079	–	7,646	–	523,725
Debt securities issued and other borrowed funds	9,687,197	–	753,186	–	10,440,383
Other liabilities	2,331,778	–	21,650	1,009,837	3,363,265
Provision for tax expense	337,645	–	2,664	679	340,988
Deferred tax liabilities	59,231	–	–	–	59,231
TOTAL LIABILITIES	241,247,120	10,691	14,843,242	4,623,352	260,724,405
On-Balance Sheet Open Position	34,099,130	2,502,968	(8,374,076)	(2,284,861)	25,943,161
Off-Balance Sheet Open Position	(8,552,189)	(1,290,293)	7,174,028	2,668,454	–
NET OPEN POSITION	25,546,941	1,212,675	(1,200,048)	383,593	25,943,161



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

Bank 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 (CONTINUED)**Market Risk (continued)**Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

- (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
2014			
United States Dollars	1,867,799	(381,691)	1,486,108
Hong Kong Dollars	2,032,193	750,220	2,782,413
Other currencies	–	585,353	585,353
	3,899,992	953,882	4,853,874
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

(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	
		2014 RM'000	2013 RM'000
United States Dollars	+/- 5	-/+ 19,085	-/+ 28,258
Hong Kong Dollars	+/- 5	+/- 37,511	+/- 29,163
Other currencies	+/- 5	+/- 29,268	+/- 25,745



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Types of Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(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 dividend 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 summarised 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		
2014	+/- 20	+/- 1,417
2013	+/- 20	+/- 3,336
Bank		
2014	+/- 20	-
2013	+/- 20	+/- 957

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 (CONTINUED)

Liquidity and Funding Risk (continued)

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 ensure compliance with the New Liquidity Framework, the Group maintains a liquidity compliance buffer to meet any unexpected cash outflows. The Group is monitoring the Liquidity Coverage Ratio and Net Stable Funding Ratio in preparation to meet BNM's Basel III liquidity standards requirements. Detailed plans are put in place to ensure the Group is able to meet BNM's requirements on Liquidity Coverage Ratio.

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 2014, the Group holds a sizeable balance of government securities amounting to RM34,678.4 million (2013 – RM16,089.9 million) or 54% (2013 – 39%) of its portfolio of securities.

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

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

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed 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 (CONTINUED)****Liquidity and Funding Risk (continued)**Risk Management Approach (continued)

(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 2014	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	8,807,062	5,075,266	1,659,814	1,133,514	141,182	–	16,816,838
Reverse repurchase agreements	203,294	4,602,984	1,508,215	–	–	–	6,314,493
Financial investments	1,061,187	2,802,337	15,468,425	7,894,781	5,568,576	31,441,919	64,237,225
Derivative financial assets	114,374	137,113	254,283	46,005	8,958	142,339	703,072
Loans, advances and financing	11,564,688	5,515,850	10,633,449	11,697,126	20,513,462	183,297,264	243,221,839
Other asset balances	38,814	32,307	10,566	7,216	899	14,338,665	14,428,467
TOTAL ASSETS	21,789,419	18,165,857	29,534,752	20,778,642	26,233,077	229,220,187	345,721,934

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Liquidity and Funding Risk (continued)**

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

Group 2014	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
LIABILITIES							
Deposits from customers	104,534,038	62,706,280	45,013,306	40,779,736	23,112,049	394,767	276,540,176
Deposits from banks	9,671,281	4,331,543	4,343,456	1,575,448	461,023	286,981	20,669,732
Recourse obligations on loans and financing sold to Cagamas	–	–	–	–	–	1,922,020	1,922,020
Derivative financial liabilities	24,744	34,674	74,834	13,234	6,940	333,767	488,193
Debt securities issued and other borrowed funds	–	–	–	–	–	11,427,765	11,427,765
Other liability balances	584,741	661,087	729,648	537,664	186,126	3,100,001	5,799,267
TOTAL LIABILITIES	114,814,804	67,733,584	50,161,244	42,906,082	23,766,138	17,465,301	316,847,153
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	28,024,668	28,024,668
Non-controlling interests	–	–	–	–	–	850,113	850,113
TOTAL EQUITY	–	–	–	–	–	28,874,781	28,874,781
NET MATURITY MISMATCH	(93,025,385)	(49,567,727)	(20,626,492)	(22,127,440)	2,466,939	182,880,105	–



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

Group 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 (CONTINUED)**Liquidity and Funding Risk (continued)**

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

Bank 2014	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	4,879,095	4,095,054	1,278,550	755,747	–	–	11,008,446
Reverse repurchase agreements	3,998	4,052,644	1,508,216	–	–	–	5,564,858
Financial investments	603,013	1,753,462	10,934,118	5,917,201	2,746,082	30,783,545	52,737,421
Derivative financial assets	114,125	136,408	254,258	46,005	8,958	131,260	691,014
Loans and advances	10,210,123	4,400,780	8,732,686	9,761,737	16,953,133	151,869,568	201,928,027
Other asset balances	24,682	34,191	10,675	6,310	–	14,661,942	14,737,800
TOTAL ASSETS	15,835,036	14,472,539	22,718,503	16,487,000	19,708,173	197,446,315	286,667,566
LIABILITIES							
Deposits from customers	82,463,691	51,182,008	36,087,785	35,664,926	18,989,810	1,828,771	226,216,991
Deposits from banks	8,110,610	4,609,233	3,526,843	1,126,170	40,781	283,013	17,696,650
Recourse obligations on loans sold to Cagamas	–	–	–	–	–	1,422,004	1,422,004
Derivative financial liabilities	23,690	33,043	73,724	11,873	6,940	374,455	523,725
Debt securities issued and other borrowed funds	–	–	–	–	–	10,440,383	10,440,383
Other liability balances	572,533	554,336	588,192	428,124	154,858	2,126,609	4,424,652
TOTAL LIABILITIES	91,170,524	56,378,620	40,276,544	37,231,093	19,192,389	16,475,235	260,724,405
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	25,943,161	25,943,161
TOTAL EQUITY	–	–	–	–	–	25,943,161	25,943,161
NET MATURITY MISMATCH	(75,335,488)	(41,906,081)	(17,558,041)	(20,744,093)	515,784	155,027,919	–



44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

Bank 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 (CONTINUED)**Liquidity and Funding Risk (continued)**

Risk Management Approach (continued)

(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 demand 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
2014							
By contractual maturity	104,534,038	62,706,280	45,013,306	40,779,736	23,112,049	394,767	276,540,176
By behavioural maturity*	21,131,210	7,302,667	13,732,760	10,419,433	11,581,588	212,372,518	276,540,176
Difference	83,402,828	55,403,613	31,280,546	30,360,303	11,530,461	(211,977,751)	–
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)	–
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
2014							
By contractual maturity	82,463,691	51,182,008	36,087,785	35,664,926	18,989,810	1,828,771	226,216,991
By behavioural maturity*	13,604,035	1,979,061	5,711,653	5,806,028	8,491,931	190,624,283	226,216,991
Difference	68,859,656	49,202,947	30,376,132	29,858,898	10,497,879	(188,795,512)	–
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)	–

* The behavioural maturity is derived based on BNM New Liquidity Framework's prescribed treatment of behavioural maturity.

**44. FINANCIAL RISK MANAGEMENT (CONTINUED)****Liquidity and Funding Risk (continued)**Risk Management Approach (continued)

(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 for the Group and the Bank of RM10,837.5 million (2013 – RM9,294.0 million) and RM10,337.5 million (2013 – RM9,294.0 million), all of which relate to senior medium term notes, subordinated notes, subordinated sukuk murabahah, Non-Innovative Tier I stapled securities and Innovative Tier I capital securities whereby the interest/profit 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
2014							
Deposits from customers	104,547,203	62,800,736	45,280,956	41,320,617	23,718,139	411,157	278,078,808
Deposits from banks	9,672,458	4,333,835	4,352,650	1,582,951	465,415	480,980	20,888,289
Debt securities issued and other borrowed funds	–	4,245	48,185	104,644	261,494	12,742,803	13,161,371
Other liability balances	607,891	689,555	808,510	570,417	209,631	5,531,085	8,417,089
Total Liabilities	114,827,552	67,828,371	50,490,301	43,578,629	24,654,679	19,166,025	320,545,557
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	619	107,201	111,688	1,161,281	10,934,815	12,316,094
Other liability balances	896,761	852,731	766,104	163,642	228,610	4,541,947	7,449,795
Total Liabilities	104,593,107	79,407,091	40,976,530	20,732,120	26,036,901	16,528,305	288,274,054

44. FINANCIAL RISK MANAGEMENT (CONTINUED)**Liquidity and Funding Risk (continued)**

Risk Management Approach (continued)

(c) Maturity analysis of financial liabilities on an undiscounted basis (continued)

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
2014							
Deposits from customers	82,478,247	51,257,538	36,311,115	36,195,151	19,508,505	1,833,029	227,583,585
Deposits from banks	8,111,678	4,611,870	3,535,275	1,132,579	41,225	297,392	17,730,019
Debt securities issued and other borrowed funds	–	3,040	42,640	95,547	244,058	11,640,811	12,026,096
Other liability balances	595,199	581,913	660,203	450,530	167,133	4,090,158	6,545,136
Total Liabilities	91,185,124	56,454,361	40,549,233	37,873,807	19,960,921	17,861,390	263,884,836
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

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, monitoring of operational risk exposures using Key Risk Indicators 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, price quotations from Bond Pricing Agency Malaysia and broker quotes on Bloomberg/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 (CONTINUED)**(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 2014	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	–	2,194,271	–	2,194,271
– Money market instruments	–	16,073,099	–	16,073,099
– Non-money market instruments	–	96,648	–	96,648
	–	18,364,018	–	18,364,018
Financial investments available-for-sale				
– Government securities and treasury bills	–	17,552,762	–	17,552,762
– Money market instruments	–	1,091,364	–	1,091,364
– Non-money market instruments [#]	3,443,812	3,258,796	–	6,702,608
	3,443,812	21,902,922	–	25,346,734
Derivative financial assets	–	703,072	–	703,072
Total financial assets measured at fair value	3,443,812	40,970,012	–	44,413,824
Non-financial assets				
Investment properties	–	–	107,028	107,028
Financial liabilities				
Derivative financial liabilities	–	488,193	–	488,193
Total financial liabilities measured at fair value	–	488,193	–	488,193



45. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

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 (continued):

Group 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

[#] Excluding the carrying amount of equity securities – unquoted shares of the Group of RM112,086,000 (2013 – RM110,249,000) which are not carried at fair value.

45. FAIR VALUE MEASUREMENTS (CONTINUED)**(b) Financial instruments and non-financial assets carried at fair value (continued)**

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 (continued):

Bank 2014	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	–	2,194,271	–	2,194,271
– Money market instruments	–	12,242,739	–	12,242,739
– Non-money market instruments	–	41,770	–	41,770
	–	14,478,780	–	14,478,780
Financial investments available-for-sale				
– Government securities and treasury bills	–	13,422,266	–	13,422,266
– Money market instruments	–	1,002,749	–	1,002,749
– Non-money market instruments [#]	2,968,504	2,890,382	–	5,858,886
	2,968,504	17,315,397	–	20,283,901
Derivative financial assets	–	691,014	–	691,014
Total financial assets measured at fair value	2,968,504	32,485,191	–	35,453,695
Financial liabilities				
Derivative financial liabilities	–	523,725	–	523,725
Total financial liabilities measured at fair value	–	523,725	–	523,725



45. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

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 (continued):

Bank 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	–	1,379,390	–	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

[#] Excluding the carrying amount of equity securities – unquoted shares of the Bank of RM107,921,000 (2013 – RM106,285,000) 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 (2013 – Nil).

45. FAIR VALUE MEASUREMENTS (CONTINUED)**(b) Financial instruments and non-financial assets carried at fair value (continued)****Reconciliation of movements in Level 3 financial instruments:**

	Group and Bank	
	2014 RM'000	2013 RM'000
Derivative Financial Assets		
At 1 January	16,616	12,154
Gains recognised in the statement of profit or loss		
– realised	300	771
– unrealised	–	5,027
Sales	(16,916)	(1,336)
At 31 December	–	16,616
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

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 RM11,000 to RM208,000 (Weighted average: RM70,000). 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 (CONTINUED)

(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	2014		2013	
	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	112,086	112,086	110,249	110,249
Financial investments held-to-maturity				
– Government securities and treasury bills	14,931,365	14,866,680	4,399,596	4,378,052
– Money market instruments	1,065,018	1,064,211	2,170,637	2,165,159
– Non-money market instruments*	4,418,004	4,397,514	1,223,318	1,213,791
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	77,122,870	77,164,202	68,875,029	68,923,314
– hire purchase	47,680,540	47,336,367	44,392,696	44,411,074
– credit cards	1,638,268	1,638,268	1,604,502	1,604,502
– other loans/financing	83,008,800	83,007,127	74,033,925	74,000,993
– Corporate loans/financing	33,771,361	33,771,184	30,509,641	30,510,082
Financial liabilities				
Recourse obligations on loans and financing sold to Cagamas	1,922,020	1,908,833	500,011	491,463
Debt securities issued and other borrowed funds	11,427,765	11,756,156	10,369,825	10,735,825

45. FAIR VALUE MEASUREMENTS (CONTINUED)**(c) Fair values of financial instruments not carried at fair value (continued)**

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 (continued):

Bank	2014		2013	
	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	107,921	107,921	106,285	106,285
Financial investments held-to-maturity				
– Government securities and treasury bills	12,860,185	12,798,318	3,437,058	3,417,088
– Money market instruments	1,586,876	1,478,448	1,617,869	1,601,868
– Non-money market instruments*	3,419,758	3,403,208	732,873	723,416
Loans and advances				
– Retail loans				
– housing loans	66,693,716	66,693,752	60,037,041	60,037,197
– hire purchase	34,875,461	34,625,102	31,542,293	31,554,265
– credit cards	1,625,633	1,625,633	1,594,325	1,594,325
– other loans	71,147,295	71,147,295	64,497,311	64,497,311
– Corporate loans	27,585,922	27,581,412	24,733,603	24,730,331
Financial liabilities				
Recourse obligations on loans sold to Cagamas	1,422,004	1,417,726	–	–
Debt securities issued and other borrowed funds	10,440,383	10,763,654	9,906,434	10,272,434

* The accumulated impairment losses of the Group and the Bank of RM81,000 (2013 – RM107,000) were netted off against the carrying amounts.



45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

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
2014				
Financial assets				
Financial investments available-for-sale				
– Non-money market instruments [#]	–	–	–	–
Financial investments held-to-maturity				
– Government securities and treasury bills	–	14,866,680	–	14,866,680
– Money market instruments	–	1,064,211	–	1,064,211
– Non-money market instruments	–	4,397,514	–	4,397,514
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	–	–	77,164,202	77,164,202
– hire purchase	–	–	47,336,367	47,336,367
– credit cards	–	–	1,638,268	1,638,268
– other loans/financing	–	–	83,007,127	83,007,127
– Corporate loans/financing	–	–	33,771,184	33,771,184
Financial liabilities				
Recourse obligations on loans and financing sold to Cagamas	–	–	1,908,833	1,908,833
Debt securities issued and other borrowed funds	–	11,756,156	–	11,756,156

45. FAIR VALUE MEASUREMENTS (CONTINUED)**(c) Fair values of financial instruments not carried at fair value (continued)**

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 (continued):

Group	<----- Fair Value ----->			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
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

[#] Excluding the carrying amount of equity securities – unquoted shares of the Group of RM112,086,000 (2013 – RM110,249,000) which are measured at cost less impairment.



45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

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 (continued):

Bank	<----- Fair Value ----->			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2014				
Financial assets				
Financial investments available-for-sale				
– Non-money market instruments#	–	–	–	–
Financial investments held-to-maturity				
– Government securities and treasury bills	–	12,798,318	–	12,798,318
– Money market instruments	–	1,478,448	–	1,478,448
– Non-money market instruments	–	3,403,208	–	3,403,208
Loans and advances				
– Retail loans				
– housing loans	–	–	66,693,752	66,693,752
– hire purchase	–	–	34,625,102	34,625,102
– credit cards	–	–	1,625,633	1,625,633
– other loans	–	–	71,147,295	71,147,295
– Corporate loans	–	–	27,581,412	27,581,412
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	1,417,726	1,417,726
Debt securities issued and other borrowed funds	–	10,763,654	–	10,763,654

45. FAIR VALUE MEASUREMENTS (CONTINUED)**(c) Fair values of financial instruments not carried at fair value (continued)**

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 (continued):

Bank	<----- Fair Value ----->			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
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

[#] Excluding the carrying amount of equity securities – unquoted shares of the Bank of RM107,921,000 (2013 – RM106,285,000) which are measured at cost less impairment.



45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

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 quoted bid prices. 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 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 bid prices.

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	
2014						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	560,737	–	560,737	(118,982)	(399,654)	42,101
– Interest/profit rate related contracts	142,335	–	142,335	(70,478)	(9,063)	62,794
	703,072	–	703,072	(189,460)	(408,717)	104,895
Reverse repurchase agreements	6,314,493	–	6,314,493	(6,477,010)	–	(162,517)
	7,017,565	–	7,017,565	(6,666,470)	(408,717)	(57,622)
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	466,874	–	466,874	(184,918)	(88,616)	193,340
– Interest/profit rate related contracts	21,318	–	21,318	(4,542)	–	16,776
– Precious metal contracts	1	–	1	–	–	1
	488,193	–	488,193	(189,460)	(88,616)	210,117



46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (continued):

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	
2013						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	166,918	–	166,918	(62,316)	(81,338)	23,264
– Interest/profit 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/profit 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 (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (continued):

Bank	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	
2014						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	559,758	–	559,758	(118,982)	(399,654)	41,122
– Interest rate related contracts	131,256	–	131,256	(70,478)	(9,063)	51,715
	691,014	–	691,014	(189,460)	(408,717)	92,837
Reverse repurchase agreements	5,564,858	–	5,564,858	(5,717,354)	–	(152,496)
	6,255,872	–	6,255,872	(5,906,814)	(408,717)	(59,659)
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	464,170	–	464,170	(184,918)	(88,616)	190,636
– Interest rate related contracts	59,554	–	59,554	(4,542)	–	55,012
– Precious metal contracts	1	–	1	–	–	1
	523,725	–	523,725	(189,460)	(88,616)	245,649

**46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (continued):

Bank	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	
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

* Include securities accepted as collateral.

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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Within one year	33,072	29,774	431	439
Between one and five years	26,981	25,308	607	85
More than five years	4,781	4,576	–	–
	64,834	59,658	1,038	524

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	
	2014 RM'000	2013 RM'000
Within one year	3,743	4,287
Between one and five years	1,997	3,034
	5,740	7,321



48. CAPITAL AND OTHER COMMITMENTS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Authorised and contracted for:				
– Land and buildings	342,107	403,340	–	–
– Renovations	1,772	2,837	–	–
– Office equipment, furniture and fittings	1,866	3,428	1,637	2,430
– Computer equipment and software	53,228	14,285	48,403	10,039
– Motor vehicles	–	98	–	–
	398,973	423,988	50,040	12,469
Authorised but not contracted for:				
– Renovations	5,849	6,273	–	–
– Office equipment, furniture and fittings	909	962	–	–
– Computer equipment and software	21,542	10,392	–	–
– Motor vehicles	577	754	–	–
– Additional investment in an associated company*	543,212	155,928	543,212	155,928
	572,089	174,309	543,212	155,928
	971,062	598,297	593,252	168,397

* This represents the purchase consideration for the proposed acquisition of the remaining equity interests in VID Public Bank and the subsequent capital injection upon the completion of the proposed acquisition.

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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Contingent liabilities				
Direct credit substitutes	1,598,096	1,521,770	1,237,889	1,196,990
Transaction-related contingent items	1,285,971	1,173,514	1,121,989	1,041,919
Short term self-liquidating trade-related contingencies	405,965	467,641	296,586	295,684
	3,290,032	3,162,925	2,656,464	2,534,593
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	28,962,346	29,229,501	26,380,852	26,897,981
– not exceeding one year	23,074,157	21,886,823	20,356,377	19,688,146
Unutilised credit card lines	4,135,781	3,823,553	4,038,701	3,713,960
Forward asset purchases	1,059,113	4,176	875,083	–
	57,231,397	54,944,053	51,651,013	50,300,087
Derivative financial instruments				
Foreign exchange related contracts:				
– less than one year	21,082,468	16,836,631	20,782,159	16,652,983
– one year to less than five years	2,449,762	2,151,746	2,449,762	2,151,746
Interest/profit rate related contracts:				
– less than one year	821,971	1,953,625	577,129	1,838,821
– one year to less than five years	10,716,883	6,176,844	11,211,950	6,247,237
– five years and above	220,000	2,706,403	1,720,000	3,808,000
Commodity related contracts:				
– less than one year	148	1,890	148	1,890
Equity related contracts:				
– less than one year	–	52,089	–	52,089
	35,291,232	29,879,228	36,741,148	30,752,766
	95,812,661	87,986,206	91,048,625	83,587,446

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		Bank	
	2014	2013	2014	2013
Before deducting second interim dividends*				
Common equity Tier I ("CET I") capital ratio	11.328%	9.276%	12.686%	10.927%
Tier I capital ratio	12.776%	11.055%	14.397%	13.023%
Total capital ratio	16.384%	14.288%	16.324%	14.086%
After deducting second interim dividends*				
CET I capital ratio	10.781%	8.750%	12.029%	10.300%
Tier I capital ratio	12.228%	10.529%	13.740%	12.396%
Total capital ratio	15.836%	13.762%	15.668%	13.459%

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

The capital adequacy ratios of the Group consist of total capital and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies. The capital adequacy ratios of the Bank consist of total capital 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. The minimum regulatory capital adequacy ratios, as required under BNM's Capital Adequacy Framework (Capital Components) which includes transitional arrangements for year 2014, are set out as follows:

Calendar Year	CET I Capital Ratio %	Tier I Capital Ratio %	Total Capital Ratio %
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.

50. CAPITAL ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Group and the Bank as at 31 December are as follows (continued):

The capital adequacy ratios of the banking subsidiary companies of the Bank 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
2014						
<u>Before deducting interim dividends*:</u>						
CET I capital ratio	11.730%	44.638%	N/A	13.921%	26.449%	N/A
Tier I capital ratio	11.730%	44.638%	33.941%	13.921%	26.449%	N/A
Total capital ratio	14.580%	45.270%	33.980%	15.104%	27.425%	17.418%
<u>After deducting interim dividends*:</u>						
CET I capital ratio	11.007%	37.487%	N/A	13.921%	24.029%	N/A
Tier I capital ratio	11.007%	37.487%	33.941%	13.921%	24.029%	N/A
Total capital ratio	13.857%	38.119%	33.980%	15.104%	25.004%	17.418%
2013						
<u>Before deducting interim dividends*:</u>						
CET I capital ratio	12.133%	27.792%	N/A	13.916%	27.468%	N/A
Tier I capital ratio	12.133%	27.792%	25.625%	13.916%	27.468%	N/A
Total capital ratio	12.751%	27.993%	25.671%	15.089%	28.409%	19.685%
<u>After deducting interim dividends*:</u>						
CET I capital ratio	11.743%	26.657%	N/A	13.916%	25.257%	N/A
Tier I capital ratio	11.743%	26.657%	25.625%	13.916%	25.257%	N/A
Total capital ratio	12.360%	26.858%	25.671%	15.089%	26.199%	19.685%



50. CAPITAL ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Group and the Bank as at 31 December are as follows (continued):

The capital adequacy ratios of the banking subsidiary companies of the Bank are as follows (continued):

- 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. The minimum regulatory capital adequacy requirement for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.0%, 5.5% and 8.0% respectively for year 2014.
- 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. The minimum regulatory capital adequacy requirement for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.0%, 5.5% and 8.0% respectively for year 2014.
- 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. The capital adequacy ratios of these two subsidiary companies 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.
- 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 (CONTINUED)

(b) The components of CET I, Tier I and Tier II capital of the Group and of the Bank are as follows:

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Components of CET I, Tier I and Tier II Capital:				
<u>CET I/Tier I Capital:</u>				
Paid-up share capital	3,882,138	3,531,926	3,882,138	3,531,926
Share premium	5,535,515	1,073,310	5,535,515	1,073,310
Other reserves	5,453,501	4,402,843	4,945,825	3,924,896
Retained profits	11,872,792	11,507,565	10,668,300	10,892,504
Treasury shares	(149,337)	(215,572)	(149,337)	(215,572)
Qualifying non-controlling interests	566,877	522,093	–	–
Less: Goodwill and other intangible assets	(2,083,142)	(2,003,912)	(695,393)	(695,393)
Less: Deferred tax assets, net	(69,325)	(70,121)	–	–
Less: Defined benefit pension fund assets	(205,195)	(220,922)	(200,986)	(215,372)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	(28,451)	–	(852,957)	–
Total CET I Capital	24,775,373	18,527,210	23,133,105	18,296,299
Innovative Tier I capital securities	1,449,280	1,630,440	1,449,280	1,630,440
Non-Innovative Tier I stapled securities	1,670,400	1,879,200	1,670,400	1,879,200
Qualifying CET I and additional Tier I capital instruments held by third parties	46,764	42,031	–	–
Total Tier I Capital	27,941,817	22,078,881	26,252,785	21,805,939
<u>Tier II Capital:</u>				
Collective assessment allowance and regulatory reserves [#]	2,495,677	1,123,706	1,978,560	625,010
Subordinated notes/sukuk murabahah				
– meeting all relevant criteria	2,448,162	1,949,116	1,949,302	1,949,116
– subject to gradual phase-out treatment	2,998,707	3,471,121	2,998,707	3,471,121
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	62,352	56,042	–	–
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from Tier II capital	(113,804)	(142,255)	(3,411,830)	(4,264,787)
Total Tier II Capital	7,891,094	6,457,730	3,514,739	1,780,460
Total Capital	35,832,911	28,536,611	29,767,524	23,586,399



50. CAPITAL ADEQUACY (CONTINUED)

(b) The components of CET I, Tier I and Tier II capital of the Group and of the Bank are as follows (continued):

In arriving at the total capital 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 RM632,242,000 (2013 – RM600,816,000) and RM458,747,000 (2013 – RM446,948,000) respectively.

Includes the qualifying regulatory reserves for non-impaired loans of the Group and the Bank of RM1,445,791,000 (2013: RM132,437,000) and RM1,293,334,000 (2013: Nil) respectively.

(c) The breakdown of risk-weighted assets by each major risk category is as follows:

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Credit risk	200,875,562	183,113,937	168,570,558	154,360,722
Market risk	2,554,845	2,111,436	3,027,889	2,850,579
Operational risk	15,281,141	14,497,356	10,753,781	10,228,677
	218,711,548	199,722,729	182,352,228	167,439,978

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.

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.

51. CAPITAL MANAGEMENT (CONTINUED)

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 total capital 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 (CONTINUED)

The Group's domestic business, which also includes Islamic banking business, is organised into the following key operating segments (continued):

(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, loan 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 (2013 – none).

52. SEGMENT INFORMATION (CONTINUED)

By Business Segments:

	←----- Domestic Operating Segments -----→										←-- Overseas Operating Segments --→				
	Treasury and Capital					Investment Banking					Total				
	Hire Purchase	Retail Operations	Corporate Lending	Market Operations	Fund Management	Others	Head Office	Domestic Operations	Hong Kong SAR	Cambodia	Other Countries	Overseas Operations	Total Overseas Operations	Inter-segment Elimination	Group Total
2014	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	2,424,802	8,193,013	1,170,795	1,913,800	1,082,754	5,680	702,433	15,711,573	782,259	279,890	86,349	1,148,498	-	16,860,071	
Revenue from other segments	-	1,359,000	14,725	948,987	15,466	29,829	1,426,173	3,799,074	-	6,661	-	6,661	(3,805,735)	-	
Total revenue	2,424,802	9,552,013	1,185,520	2,862,787	1,098,220	35,509	2,128,606	19,510,647	782,259	286,551	86,349	1,155,159	(3,805,735)	16,860,071	
Net interest income and Islamic banking income	874,067	4,381,308	307,707	174,878	16,386	(7,952)	229,416	5,997,549	529,059	175,908	59,153	764,120	-	6,761,669	
Other income	1,805	527,383	40,978	269,435	651,080	35,495	223,479	1,828,672	88,333	50,128	14,933	153,394	(70,378)	1,911,688	
Net income	875,872	4,908,691	348,685	444,313	667,466	27,543	452,895	7,826,221	617,392	226,036	74,086	917,514	(70,378)	8,673,357	
Other operating expenses of which:	(228,053)	(1,405,107)	(11,030)	(25,751)	(177,578)	(14,867)	(369,413)	(2,264,769)	(324,193)	(72,073)	(15,208)	(411,474)	70,378	(2,605,665)	
Depreciation (Allowance)/writeback of allowance for impairment on loans, advances and financing	(1,946)	(58,119)	(185)	(1,243)	(6,475)	(4,112)	(60,583)	(133,661)	(12,013)	(11,838)	(1,537)	(25,388)	-	(159,049)	
Writeback of impairment on other assets	-	-	-	-	-	-	-	782	-	-	-	-	-	782	
Profit by segments	448,869	3,493,784	370,959	418,562	489,888	12,676	83,482	5,385,996	198,343	167,647	57,288	423,278	-	5,809,274	
Reconciliation of segment profits to consolidated profits:															
Share of (loss)/profit after tax of equity accounted associated companies								(3,664)				8,645		4,981	
Profit before tax expense and zakat								5,382,332				431,923		5,814,255	
Cost-to-income ratio	26.0%	28.6%	3.2%	5.8%	32.7%	54.0%	81.6%	28.9%	52.5%	31.9%	20.5%	44.8%		30.0%	



52. SEGMENT INFORMATION (CONTINUED)

By Business Segments (continued):

	← Domestic Operating Segments →										← Overseas Operating Segments →						
	Treasury and Capital										Total Overseas Operations	Inter-segment Elimination	Group Total				
	Hire Purchase	Retail Operations	Corporate Lending	Market Operations	Investment Banking	Fund Management	Others	Head Office	Total Domestic Operations	Hong Kong SAR				Cambodia	Other Countries		
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	RM'000	
2014 (continued)																	
Gross loans, advances and financing	46,400,632	153,222,251	28,232,965	-	419,575	60,148	2,276	-	228,337,847	12,991,337	2,990,387	724,482	16,706,206	-	245,044,053		
Loan growth	7.5%	11.5%	10.4%	-	14.9%	11.6%	2.9%	-	10.5%	12.3%	23.0%	34.9%	14.9%	-	10.8%		
Impaired loans and financing	388,950	915,015	71,730	-	-	-	-	-	1,375,695	62,326	38,549	12,129	113,004	-	1,488,699		
Impaired loan ratio	0.8%	0.6%	0.3%	-	-	-	-	-	0.6%	0.5%	1.3%	1.7%	0.7%	-	0.6%		
Deposits from customers	-	193,434,103	247,938	62,795,649	1,994,069	-	-	-	258,471,759	13,714,375	3,878,319	475,723	18,068,447	-	276,540,176		
Deposit growth	-	9.7%	-18.8%	12.8%	-30.1%	-	-	-	9.9%	11.4%	28.5%	20.1%	14.9%	-	10.2%		
Addition to non-current assets	1,772	46,152	44	1,940	1,014	6,703	62,385	162,689	282,999	9,443	9,580	2,570	21,593	-	304,192		
Segment assets	46,054,982	201,068,969	28,167,240	83,405,294	3,881,269	370,729	378,197	29,022,582	392,349,242	17,927,356	5,080,531	977,604	23,985,491	(73,990,761)	342,343,972		
Reconciliation of segment assets to consolidated assets:																	
Investment in associated companies									25,035				132,380		157,415		
Unallocated assets									1,137,405				-		1,137,405		
Intangible assets									769,251				1,313,891		2,083,142		
Total assets									394,280,933				25,431,762		345,721,934		

52. SEGMENT INFORMATION (CONTINUED)

By Business Segments (continued):

	Domestic Operating Segments										Overseas Operating Segments				
	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	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
2013															
External revenue	2,333,254	7,366,038	1,063,171	1,820,583	205,780	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	815,975	13,492	12,322	29,500	1,313,690	3,391,078	-	3,850	-	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 of which:	(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	(2,503,686)
Depreciation	(2,037)	(61,533)	(184)	(1,034)	(780)	(4,901)	(4,304)	(61,733)	(136,506)	(12,510)	(10,606)	(1,566)	(24,682)	-	(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)	-	(651,252)
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	119,170	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%

53. RATING STATEMENT

As at 31 December 2014, the Bank was accorded the following ratings:

Agencies	Date accorded/Reaffirmed	Ratings
RAM Rating Services Berhad	23 April 2014 (Reaffirmed)	Long-Term Rating: AAA
	23 April 2014 (Reaffirmed)	Short-Term Rating: P1
	23 April 2014 (Reaffirmed)	Outlook: Stable
	23 April 2014 (Reaffirmed)	RM5 Billion Subordinated Medium-Term Notes Programme: AA1/Stable
	23 April 2014 (Reaffirmed)	Innovative Tier I Capital Securities: AA2/Stable
	23 April 2014 (Reaffirmed)	Non-Cumulative Perpetual Capital Securities Programme: AA2/Stable
	23 April 2014 (Reaffirmed)	Senior Medium-Term Notes Programme: AAA/Stable
	23 April 2014 (Reaffirmed)	RM10 Billion Subordinated Medium-Term Notes Programme: AA1/Stable
Moody's Investors Service	3 November 2014 (Reaffirmed)	Foreign Currency: Long-Term Deposits Rating: A3 Short-Term Deposits Rating: P-2
	3 November 2014 (Reaffirmed)	Local Currency: Long-Term Deposits Rating: A1 Short-Term Deposits Rating: P-1
	3 November 2014 (Reaffirmed)	Financial Strength: C
	3 November 2014 (Reaffirmed)	Foreign Currency Outlook: Positive
	3 November 2014 (Reaffirmed)	Local Currency Outlook: Stable
	3 November 2014 (Reaffirmed)	Innovative Tier I Capital Securities: Baa2
Standard & Poor's Ratings Services	27 November 2014 (Reaffirmed)	Foreign Currency: Long-Term Rating: A- Short-Term Rating: A-2
	27 November 2014 (Reaffirmed)	Local Currency: Long-Term Deposits Rating: A- Short-Term Deposits Rating: A-2
	27 November 2014 (Reaffirmed)	Asean Regional Scale Rating: Long-Term Rating: axAA Short-Term Rating: axA-1
	27 November 2014 (Reaffirmed)	Foreign Currency Outlook: Stable
	27 November 2014 (Reaffirmed)	Local Currency Outlook: Stable
	27 November 2014	Innovative Tier I Capital Securities: BB+



54. SIGNIFICANT EVENTS

a) Renounceable Rights Issue of 350,212,513 New Ordinary Shares of RM1.00 Each in Public Bank Berhad ("PBB Shares") on the Basis of One (1) Rights Share for Every Ten (10) Existing PBB Shares Held on 23 June 2014 at an Issue Price of RM13.80 Per Rights Share

On 29 April 2014, the Bank announced to undertake a renounceable rights issue of new PBB Shares ("Rights Issue") to its entitled shareholders to raise gross proceeds of up to RM5.0 billion.

Bursa Malaysia Securities Berhad ("Bursa Securities") granted its approval for the listing and quotation of the Rights Shares on the Main Market of Bursa Securities on 9 May 2014. On 14 May 2014, Bank Negara Malaysia granted its approval for the increase in the issued and paid-up share capital of the Bank pursuant to the Rights Issue. The shareholders of the Bank approved the Rights Issue at the Bank's extraordinary general meeting held on 6 June 2014.

On 9 June 2014, the Bank announced that 350,212,513 new PBB Shares on the basis of One (1) Rights Share for every Ten (10) existing PBB Shares will be issued at an issue price of RM13.80 per Rights Share. The entitlement date for the Rights Issue was on 23 June 2014.

The Rights Issue exercise was completed on 8 August 2014 and has raised a total gross proceeds of RM4.8 billion following the listing and quotation of 350,212,513 Rights Shares on the Main Market of Bursa Securities.

b) Other Significant Events

Other significant events relating to changes in the composition of the Group are disclosed in Note 14 and those relating to debt issuance and debt redemption are disclosed in Note 22.

55. SUBSEQUENT EVENTS

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

56. ISLAMIC BANKING BUSINESS

The financial position as at 31 December 2014 and results for the financial year ended on this date under the Islamic banking business of the Group, which is conducted by the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad, are summarised as follows:

Statement of Financial Position as at 31 December 2014

	Note	Group	
		2014 RM'000	2013 RM'000
ASSETS			
Cash and balances with banks		2,652,849	6,744,111
Financial assets held-for-trading		2,571,794	1,752,632
Derivative financial assets		60,835	130,777
Financial investments available-for-sale		4,546,283	1,891,272
Financial investments held-to-maturity		1,651,516	–
Financing and advances	(a)	25,434,279	22,904,370
Other assets		73,106	88,537
Statutory deposits with Bank Negara Malaysia		1,140,200	939,850
Investment in an associated company		20,000	20,000
Property and equipment		1,303	1,026
Total Assets		38,152,165	34,472,575
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(b)	30,727,614	28,400,736
Deposits from banks		3,620,104	2,789,398
Bills and acceptances payable		550	3,825
Recourse obligations on financing sold to Cagamas		500,016	500,011
Derivative financial liabilities		89	–
Subordinated Sukuk Murabahah		498,860	–
Other liabilities		98,041	116,854
Provision for zakat and taxation		39,847	36,012
Deferred tax liabilities		15,445	34,293
Total Liabilities		35,500,566	31,881,129
Islamic Banking Funds		2,651,599	2,591,446
Total Liabilities and Islamic Banking Funds		38,152,165	34,472,575
COMMITMENTS AND CONTINGENCIES		6,822,999	5,650,699

The accompanying notes form an integral part of the financial statements



56. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Profit or Loss for the financial year ended 31 December 2014

	Group	
	2014	2013
	RM'000	RM'000
Income derived from investment of depositors' funds and others	1,554,471	1,423,221
Income derived from investment of Islamic Banking Funds	127,824	119,799
Allowance for impairment on financing and advances	(90,045)	(100,756)
Impairment on other assets	(93)	(16)
Profit Equalisation Reserves	(340)	(497)
Total distributable income	1,591,817	1,441,751
Income attributable to depositors and others	(850,759)	(705,387)
Total net income	741,058	736,364
Personnel expenses	(14,706)	(15,502)
Other overheads and expenditures	(258,164)	(247,623)
Profit before zakat and taxation	468,188	473,239
Zakat	(230)	(264)
Taxation	(114,178)	(115,935)
Profit for the year	353,780	357,040

Net income from Islamic banking business as reported in the statement of profit or loss of the Group is derived as follows:

	Group	
	2014	2013
	RM'000	RM'000
Income derived from investment of depositors' funds and others	1,554,471	1,423,221
Income derived from investment of Islamic Banking Funds	127,824	119,799
Income attributable to depositors and others	(850,759)	(705,387)
Profit Equalisation Reserve	(340)	(497)
Net income from Islamic banking business reported in the statement of profit or loss of the Group	831,196	837,136

The accompanying notes form an integral part of the financial statements

56. ISLAMIC BANKING BUSINESS (CONTINUED)**Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2014**

	Group	
	2014 RM'000	2013 RM'000
Profit for the year	353,780	357,040
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	133	2,823
<u>Items that may be reclassified to profit or loss:</u>		
Revaluation reserves:		
– Net change in revaluation of financial investments available-for-sale	(1,909)	1,020
Hedging reserves:		
– Net change in cash flow hedges	(70,364)	108,981
	(72,273)	110,001
Income tax relating to components of other comprehensive income/(loss):		
– Defined benefit reserves	67	(706)
– Revaluation reserves	511	(255)
– Hedging reserves	18,195	(27,246)
	18,773	(28,207)
Other comprehensive (loss)/income for the year, net of tax	(53,367)	84,617
Total comprehensive income for the year	300,413	441,657

The accompanying notes form an integral part of the financial statements



56. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Changes in Islamic Banking Funds for the financial year ended 31 December 2014

Group	Non-distributable Reserves							Distributable Reserves	Total
	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 2014	200,217	1,757,500	207,546	98,058	2,881	7,410	-	317,834	2,591,446
Profit for the year	-	-	-	-	-	-	-	353,780	353,780
Other comprehensive (loss)/ income for the year	-	-	-	(52,169)	(1,398)	200	-	-	(53,367)
Total comprehensive (loss)/ income for the year	-	-	-	(52,169)	(1,398)	200	-	353,780	300,413
Transactions with owners/other equity movements:									
Transfer to Profit Equalisation Reserves of Islamic banking institution	-	-	-	-	-	-	54	(54)	-
Dividends paid	-	-	-	-	-	-	-	(240,260)	(240,260)
	-	-	-	-	-	-	54	(240,314)	(240,260)
At 31 December 2014	200,217	1,757,500	207,546	45,889	1,483	7,610	54	431,300	2,651,599

The accompanying notes form an integral part of the financial statements

56. ISLAMIC BANKING BUSINESS (CONTINUED)**Statement of Changes in Islamic Banking Funds for the financial year ended 31 December 2014
(continued)**

Group	Non-distributable Reserves						Distributable Reserves		Total
	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	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



56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances

(i) Net financing and advances analysed by type are as follows:

	Group	
	2014 RM'000	2013 RM'000
At amortised cost		
Cash line	708,440	515,028
Term financing		
– House financing	6,590,921	5,551,632
– Syndicated financing	300,688	300,647
– Hire purchase receivables	10,987,471	11,168,723
– Other term financing	6,994,726	5,557,720
Trust receipts	46	654
Claims on customers under acceptance credits	42,755	20,225
Revolving credit	131,083	90,229
Gross financing and advances	25,756,130	23,204,858
Less: Allowance for impaired financing and advances – collective assessment allowance	(321,851)	(300,488)
Net financing and advances	25,434,279	22,904,370

All the Group's Islamic banking financing and advances are located in Malaysia.

56. ISLAMIC BANKING BUSINESS (CONTINUED)**(a) Financing and Advances (continued)**

(ii) The maturity structure of gross financing and advances are as follows:

	Group	
	2014 RM'000	2013 RM'000
Maturity within one year	1,133,656	891,135
More than one year to three years	2,002,504	1,879,176
More than three years to five years	3,541,449	3,311,487
More than five years	19,078,521	17,123,060
Gross financing and advances	25,756,130	23,204,858

(iii) Gross financing and advances presented by class of financial instrument are as follows:

	Group	
	2014 RM'000	2013 RM'000
Retail financing		
– House financing	6,590,921	5,551,632
– Hire purchase	10,987,471	11,168,723
– Other financing*	7,293,450	5,701,115
	24,871,842	22,421,470
Corporate financing	884,288	783,388
	25,756,130	23,204,858

* Included in other financing are other term financing, trade financing, cash line and revolving credit.



56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(iv) Gross financing and advances analysed by contract are as follows:

	Group	
	2014 RM'000	2013 RM'000
Bai' Bithaman Ajil (deferred payment sale)	8,228,567	8,128,836
Ijarah Thumma Al-Bai' (leasing)	10,987,471	11,168,723
Bai' Inah	2,242,559	2,500,022
Musharakah Mutanaqisah	4,254,732	1,386,398
Murabahah	42,801	20,879
	25,756,130	23,204,858

(v) Gross financing and advances analysed by type of customer are as follows:

	Group	
	2014 RM'000	2013 RM'000
Other domestic non-bank financial institutions	119,576	70,819
Domestic business enterprises		
– Small and medium enterprises	3,751,411	2,295,841
– Others	616,101	628,914
Government and statutory authorities	317,583	319,779
Individuals	20,886,337	19,829,076
Other domestic entities	2,833	2,618
Foreign customers	62,289	57,811
	25,756,130	23,204,858

56. ISLAMIC BANKING BUSINESS (CONTINUED)**(a) Financing and Advances (continued)**

(vi) Gross financing and advances analysed by rate of return sensitivity are as follows:

	Group	
	2014 RM'000	2013 RM'000
Fixed rate		
– House financing	526,520	595,595
– Hire purchase receivables	10,987,471	11,168,723
– Other fixed rate financing	2,676,984	2,972,305
Variable rate		
– BFR plus	11,008,473	8,056,503
– Cost plus	556,682	411,732
	25,756,130	23,204,858

(vii) Gross financing and advances analysed by economic purpose are as follows:

	Group	
	2014 RM'000	2013 RM'000
Purchase of securities	–	4
Purchase of transport vehicles	10,987,180	11,168,115
Purchase of landed properties	10,491,682	8,020,809
(of which: – residential	6,567,043	5,504,881
– non-residential)	3,924,639	2,515,928
Purchase of fixed assets (excluding landed properties)	12,028	13,968
Personal use	2,528,675	2,724,165
Purchase of consumer durables	2,154	3,236
Construction	66,788	40,453
Working capital	1,485,300	1,015,039
Other purpose	182,323	219,069
	25,756,130	23,204,858



56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(viii) Gross financing and advances analysed by sector are as follows:

	Group	
	2014 RM'000	2013 RM'000
Agriculture, hunting, forestry and fishing	486,036	291,915
Mining and quarrying	31,189	30,016
Manufacturing	340,700	213,926
Electricity, gas and water	1,855	1,216
Construction	519,689	451,152
Wholesale & retail trade and restaurants & hotels	884,077	598,855
Transport, storage and communication	178,284	121,013
Finance, insurance and business services	409,403	331,364
Real estate	1,487,830	843,349
Community, social and personal services	465,064	433,301
Households	20,948,626	19,886,887
Others	3,377	1,864
	25,756,130	23,204,858

(ix) Movements in impaired financing and advances are as follows:

	Group	
	2014 RM'000	2013 RM'000
At 1 January	208,074	175,167
Impaired during the year	574,124	523,987
Reclassified as non-impaired during the year	(428,963)	(388,637)
Recoveries	(36,222)	(30,337)
Amount written off	(84,483)	(71,846)
Financing converted to foreclosed properties	(182)	(260)
At 31 December	232,348	208,074
Gross impaired financing as % of gross financing and advances	0.90%	0.90%

56. ISLAMIC BANKING BUSINESS (CONTINUED)**(a) Financing and Advances (continued)**

(x) Impaired financing and advances analysed by economic purpose are as follows:

	Group	
	2014 RM'000	2013 RM'000
Purchase of securities	–	4
Purchase of transport vehicles	112,140	99,044
Purchase of landed properties	71,886	63,156
(of which: – residential	61,353	54,835
– non-residential)	10,533	8,321
Personal use	47,072	44,497
Purchase of consumer durables	75	78
Working capital	1,117	1,136
Other purpose	58	159
	232,348	208,074

(xi) Impaired financing and advances analysed by sector are as follows:

	Group	
	2014 RM'000	2013 RM'000
Agriculture, hunting, forestry and fishing	1,234	544
Mining and quarrying	48	–
Manufacturing	1,402	701
Construction	1,122	974
Wholesale & retail trade and restaurants & hotels	3,261	1,831
Transport, storage and communication	1,444	1,290
Finance, insurance and business services	1,247	705
Real estate	205	831
Community, social and personal services	693	309
Households	221,440	200,864
Others	252	25
	232,348	208,074

All the Group's Islamic banking impaired financing and advances are located in Malaysia.

**56. ISLAMIC BANKING BUSINESS (CONTINUED)****(a) Financing and Advances (continued)**

(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
2014					
<u>Collective Assessment Allowance</u>					
At 1 January 2014	60,259	165,165	73,715	1,349	300,488
Allowance made during the year	6,952	65,219	33,639	36	105,846
Amount written off	(3,301)	(54,218)	(26,964)	-	(84,483)
At 31 December 2014	63,910	176,166	80,390	1,385	321,851
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
2014					
<u>Individual Assessment Allowance</u>					
At 1 January 2014	-	-	-	-	-
Amount written back in respect of recoveries	-	-	-	-	-
At 31 December 2014	-	-	-	-	-
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	-	-	-	-	-

56. ISLAMIC BANKING BUSINESS (CONTINUED)**(b) Deposits From Customers**

(i) By type of deposit and contract:

By type of deposit	Group	
	2014 RM'000	2013 RM'000
Savings deposit		
– Wadiah	5,136,085	4,823,093
– Mudharabah	–	63,510
	5,136,085	4,886,603
Demand deposit		
– Wadiah	3,259,675	2,958,752
– Mudharabah	–	94,753
	3,259,675	3,053,505
Term deposit		
– Negotiable Islamic Debt Certificate		
– Bai' Inah	3,516,265	642,941
– Commodity Murabahah	12,788,111	–
– General investment account		
– Mudharabah	321,692	3,205,661
– Wakalah	705,502	12,945,906
	1,027,194	16,151,567
– Special investment account		
– Wakalah	5,000,284	3,666,120
	5,000,284	3,666,120
	30,727,614	28,400,736

Included in Deposits from Customers are deposits of RM112,645,000 (2013 – RM78,225,000) held as collateral for financing and advances.



56. ISLAMIC BANKING BUSINESS (CONTINUED)

(b) Deposits From Customers (continued)

(ii) By class of financial instrument:

	Group	
	2014 RM'000	2013 RM'000
Core deposits	22,211,065	24,091,675
Wholesale deposits	8,516,549	4,309,061
	30,727,614	28,400,736

(iii) By type of customers:

	Group	
	2014 RM'000	2013 RM'000
Federal and state governments	2,680,274	1,216,865
Local government and statutory authorities	1,613,058	1,084,443
Business enterprises	6,622,117	6,545,270
Individuals	6,231,966	5,498,911
Foreign customers	345,420	395,545
Others	13,234,779	13,659,702
	30,727,614	28,400,736

(iv) The maturity structure of Islamic debt certificate, general and special investment accounts are as follows:

	Group	
	2014 RM'000	2013 RM'000
Due within six months	19,042,353	18,006,968
More than six months to one year	3,287,988	2,450,561
More than one year to three years	717	2,757
More than three years to five years	796	342
	22,331,854	20,460,628

57. 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	
	2014 RM'000	2013 RM'000
Total retained profits of Public Bank Berhad and its subsidiaries:		
– Realised	12,449,824	12,306,123
– Unrealised		
– in respect of deferred tax recognised in the statement of profit or loss	98,195	101,676
– in respect of other items of income and expense	69,969	81,457
	12,617,988	12,489,256
Total share of retained profits from associated companies:		
– Realised	1,726	3,484
	12,619,714	12,492,740
Less: Consolidation adjustments	(746,922)	(985,175)
Total Group retained profits as per consolidated accounts	11,872,792	11,507,565
	Bank	
	2014 RM'000	2013 RM'000
Total retained profits of Public Bank Berhad:		
– Realised	10,491,574	10,573,116
– Unrealised		
– in respect of deferred tax recognised in the statement of profit or loss	38,171	38,745
– in respect of other items of income and expense	1,091	17,378
Total Bank retained profits as per accounts	10,530,836	10,629,239

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 2014

OVERVIEW

The Pillar 3 Disclosure is required under the Bank Negara Malaysia (“BNM”)’s Risk-Weighted Capital Adequacy Framework (“RWCAF”), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. Basel II consists of 3 Pillars as follows:

- (a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume;
- (b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions to develop and employ more rigorous risk management framework and techniques, including specific oversight by the board of directors and senior management on internal controls and corporate governance practices, to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times; and
- (c) Pillar 3 aims to harness market discipline through enhanced disclosure to supplement regulatory supervision of banking institutions through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

The Public Bank Group (“the Group”) adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and applied the Basic Indicator Approach for operational risk of the Pillar 1 under BNM’s RWCAF. Under the Standardised Approach, the Group applied the standard risk weights prescribed by BNM to assess the capital requirements for exposures in credit risk and market risk. The assessment of the capital required for operational risk under the Basic Indicator Approach however, is based on a percentage fixed by BNM over the Group’s average gross income for a fixed number of quarterly periods.

The Group’s Pillar 3 Disclosure is governed by the Group’s Disclosure Policy on Basel II 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 (CONTINUED)**Minimum Regulatory Capital Requirements**

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

	2014		2013	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
Credit Risk	200,875,562	16,070,045	183,113,937	14,649,115
Market Risk	2,554,845	204,387	2,111,436	168,915
Operational Risk	15,281,141	1,222,491	14,497,356	1,159,788
Total	218,711,548	17,496,923	199,722,729	15,977,818
Bank				
Credit Risk	168,570,558	13,485,645	154,360,722	12,348,858
Market Risk	3,027,889	242,231	2,850,579	228,046
Operational Risk	10,753,781	860,302	10,228,677	818,294
Total	182,352,228	14,588,178	167,439,978	13,395,198

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 and insurance associated company, which is equity-accounted in the financial accounting consolidation and the investment in the subsidiary company engaged in insurance activities is excluded from the regulatory consolidation and is deducted from the regulatory capital.

There were no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group.

There were no capital deficiencies in any of the subsidiary companies of the Group during the financial year.

All information in the ensuing sections is based on the Group's positions. Certain information on capital adequacy relating to the Bank is presented on a voluntary basis to provide additional information to users. The capital adequacy-related information of the Bank, which is presented on a global basis, includes its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd, as required under the RWCAF.

2. CAPITAL MANAGEMENT

The Group's Internal Capital Adequacy Assessment Process ("ICAAP") is central to the Group's capital management whereby:

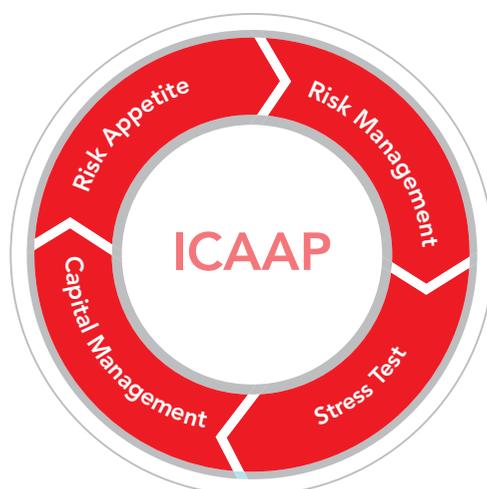
- (i) The risk management processes are continuously reviewed and enhanced to facilitate a comprehensive risk assessment of all material risks that the Group may be exposed to apart from the traditional Pillar 1 credit, market and operational risks; and
- (ii) The setting aside of capital that commensurates 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 and assess all material risks on an ongoing basis and ensure adequate capital levels are maintained to support the risk profile of the Group. Internal Audit Division ("IAD") is responsible to conduct reviews of processes relating to the ICAAP to ensure their integrity, objectivity and consistency in application.

2. CAPITAL MANAGEMENT (CONTINUED)

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 type of risk that the Group is able and willing to accept in pursuit of its business objectives, having regard to its strategic business directions, risk taking capacity and current risk profile.

The key processes to drive the development and integration of risk appetite into the day-to-day management and operations of the entities within the Group and its relevant business units and control units are set out in the Group's Risk Appetite Framework and summarised as follows:

Set Risk Appetite	Cascade Risk Appetite	Monitor Risk Appetite	Review/Revise Risk Appetite
<ul style="list-style-type: none"> Set the desired risk appetite considering: <ul style="list-style-type: none"> Strategic business directions Risk taking capacity Current risk profile Articulate risk appetite using: <ul style="list-style-type: none"> Risk Appetite Statement Risk Appetite Metrics 	<ul style="list-style-type: none"> Cascade the applicable risk appetite to: <ul style="list-style-type: none"> Entity level Business units/control units level Embed the risk appetite into policies and practices 	<ul style="list-style-type: none"> Regular monitoring of the risk profile against the risk appetite Mitigate undesired risk 	<ul style="list-style-type: none"> Review risk appetite in the light of: <ul style="list-style-type: none"> Changing business and economic condition Evolving strategic business directions



2. CAPITAL MANAGEMENT (CONTINUED)

2.1 Internal Capital Adequacy Assessment Process (Continued)

(b) Capital Management

The Group's capital management is guided by the Group's Capital Management Framework and the Group's 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 ICAAP Working Group, RMC and Board. 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 process is guided by the Group's Stress Test Policy ("Stress Test Policy"). The objectives of the Stress Test Policy are as follows:

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

2. CAPITAL MANAGEMENT (CONTINUED)

2.1 Internal Capital Adequacy Assessment Process (Continued)

(c) Stress Testing (Continued)

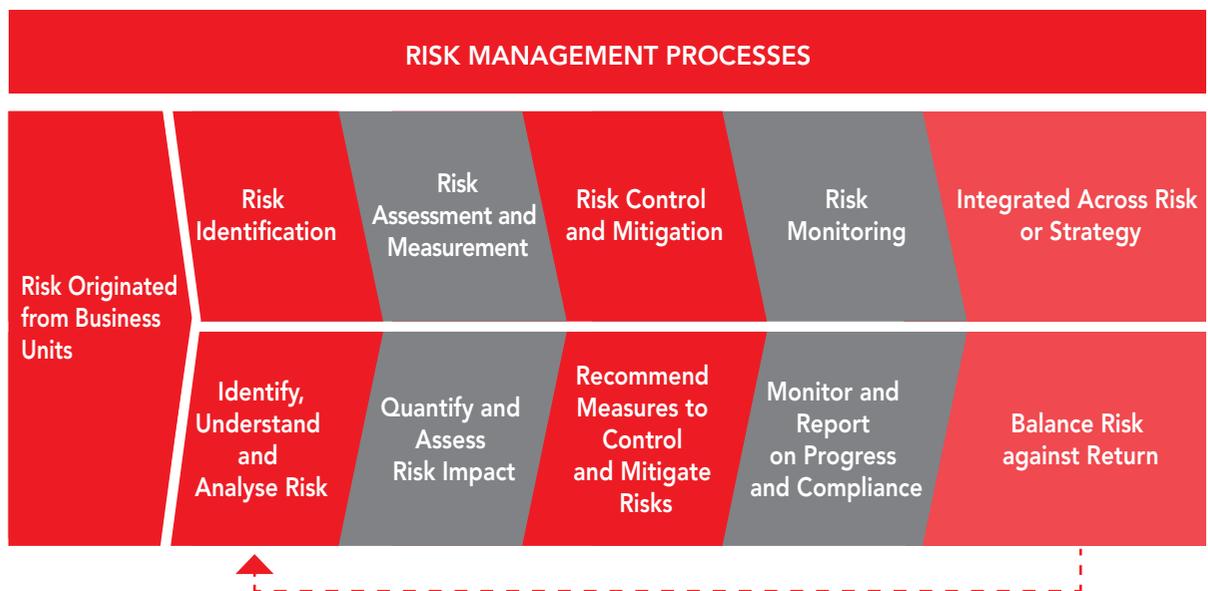
The stress scenarios are modeled along the events that occurred during the 1997/98 Asian Financial Crisis. This is supplemented by the incorporation of the risk factors experienced during 2008/09 Global Financial Crisis and the potential emerging risks which may have an impact to the Group. Some of the emerging risks considered are the hypothetical increase in the level of household debts, rising cost of living, slowdown in China and Japan's economies, end of Quantitative Easing and geopolitical risk.

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. In determining the ICT of the Group and banking entities, capital buffers are set aside to address any capital decline noted in the stress test.

(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. CAPITAL MANAGEMENT (CONTINUED)

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	
	2014	2013	2014	2013
Before deducting interim dividends*:				
Common equity tier I ("CET I") capital ratio	11.328%	9.276%	12.686%	10.927%
Tier I capital ratio	12.776%	11.055%	14.397%	13.023%
Total capital ratio	16.384%	14.288%	16.324%	14.086%
After deducting interim dividends*:				
CET I capital ratio	10.781%	8.750%	12.029%	10.300%
Tier I capital ratio	12.228%	10.529%	13.740%	12.396%
Total capital ratio	15.836%	13.762%	15.668%	13.459%

* 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.

The minimum regulatory capital adequacy ratios, as required under the BNM's Capital Adequacy Framework (Capital Components) which includes transitional arrangements for year 2014, are set out as follows:

Calendar Year	CET I Capital Ratio %	Tier I Capital Ratio %	Total Capital Ratio %
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.

2. CAPITAL MANAGEMENT (CONTINUED)**2.2 Capital Adequacy Ratios and Capital Structure (Continued)****(b) Capital Structure**

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
CET I capital/Tier I capital				
Paid-up share capital	3,882,138	3,531,926	3,882,138	3,531,926
Share premium	5,535,515	1,073,310	5,535,515	1,073,310
Other reserves	5,453,501	4,402,843	4,945,825	3,924,896
Retained profits	11,872,792	11,507,565	10,668,300	10,892,504
Treasury shares	(149,337)	(215,572)	(149,337)	(215,572)
Qualifying non-controlling interests	566,877	522,093	–	–
Less: Goodwill and other intangible assets	(2,083,142)	(2,003,912)	(695,393)	(695,393)
Less: Deferred tax assets, net	(69,325)	(70,121)	–	–
Less: Defined benefit pension fund assets	(205,195)	(220,922)	(200,986)	(215,372)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	(28,451)	–	(852,957)	–
Total CET I capital	24,775,373	18,527,210	23,133,105	18,296,299
Innovative Tier I capital securities	1,449,280	1,630,440	1,449,280	1,630,440
Non-innovative Tier I stapled securities	1,670,400	1,879,200	1,670,400	1,879,200
Qualifying CET I and additional Tier I capital instruments held by third parties	46,764	42,031	–	–
Total Tier I capital	27,941,817	22,078,881	26,252,785	21,805,939
Tier II capital				
Collective assessment allowance and regulatory reserves [#]	2,495,677	1,123,706	1,978,560	625,010
Subordinated notes/Sukuk Murabahah				
– meeting all relevant criteria	2,448,162	1,949,116	1,949,302	1,949,116
– subject to gradual phase-out treatment	2,998,707	3,471,121	2,998,707	3,471,121
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	62,352	56,042	–	–
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from Tier II capital	(113,804)	(142,255)	(3,411,830)	(4,264,787)
Total Tier II capital	7,891,094	6,457,730	3,514,739	1,780,460
Total capital	35,832,911	28,536,611	29,767,524	23,586,399

[#] Excludes collective assessment allowance on impaired loans/financing restricted from Tier II capital of the Group and the Bank of RM632.2 million (2013: RM600.8 million) and RM458.7 million (2013: RM446.9 million) respectively.

Includes the qualifying regulatory reserves for non-impaired loans/financing of the Group and the Bank of RM1,445.8 million (2013: RM132.4 million) and RM1,293.3 million (2013: Nil) respectively.



2. CAPITAL MANAGEMENT (CONTINUED)

2.2 Capital Adequacy Ratios and Capital Structure (Continued)

(b) Capital Structure (Continued)

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

Capital Instruments	Capital Component	Main Features
Issued by the Bank:		
(a) Non-Innovative Tier I stapled securities ("NIT-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

2. CAPITAL MANAGEMENT (CONTINUED)

2.2 Capital Adequacy Ratios and Capital Structure (Continued)

(b) Capital Structure (Continued)

Capital Instruments	Capital Component	Main Features
Issued by Public Islamic:		
(a) Basel III-Compliant Subordinated Sukuk Murabahah ("Basel III-Compliant Sub Sukuk Murabahah")	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 Trigger Event at the Bank/Public Islamic as determined by BNM and Malaysia Deposit Insurance Corporation, the Basel III-Compliant Sub Sukuk Murabahah may be subject to write-off The write-off shall not constitute an event of default or trigger any cross-default under the Basel III-Compliant Sub Sukuk Murabahah

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

3. RISK MANAGEMENT FRAMEWORK

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

- Risk Governance
- Risk Appetite
- Risk Management Processes
- Risk Culture





3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance

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

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

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance (Continued)

Board of Directors

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

Risk Management Committee

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

Dedicated Risk Committees

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

Shariah Committee

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

Independent Risk Management and Control Units

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



3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance (Continued)

Business Units

The business units, being the first line of defence against risk, are responsible for identifying, mitigating and managing risk within their lines of business. These units ensure that their day-to-day business activities are carried out within the established risk policies, procedures and limits.

Audit Committee

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

(b) Risk Appetite

The key processes involved in the Group's risk appetite are presented earlier in item 2.1(a) of the Pillar 3 Disclosure and the Risk Appetite Statement is set out in the Risk Management section of the Annual Report 2014.

(c) Risk Management Processes

The risk management processes for the key risk areas of the Group and the analysis of the various 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. The key elements of the Group's risk culture are as follows:

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

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



4. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (Continued)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
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, DFIs and 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 (CONTINUED)**Minimum Regulatory Capital Requirements for Credit Risk (Continued)**

Bank Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2014				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	38,355,592	33,839,876	98,636	7,891
Public Sector Entities	441,088	441,088	2,734	219
Banks, DFIs and MDBs	12,358,269	11,577,237	2,832,716	226,617
Insurance Companies, Securities Firms and Fund Managers	259,127	9,067	9,067	725
Corporates	54,941,299	53,640,761	46,651,717	3,732,137
Regulatory Retail	90,241,385	89,493,475	67,572,195	5,405,776
Residential Mortgages	60,717,280	60,631,717	24,993,398	1,999,472
Higher Risk Assets	63,393	63,375	95,062	7,605
Other Assets	4,038,780	4,038,780	2,913,140	233,051
Equity Exposures	4,900,545	4,900,545	4,900,545	392,044
Defaulted Exposures	1,318,820	1,317,487	1,896,453	151,716
	267,635,578	259,953,408	151,965,663	12,157,253
Off-Balance Sheet Exposures				
Credit-related Exposures	19,921,040	19,496,802	15,977,915	1,278,233
Derivative Financial Instruments	1,618,286	1,618,286	504,222	40,338
Other Treasury-related Exposures	875,083	875,083	99,404	7,952
Defaulted Exposures	15,804	15,804	23,354	1,869
	22,430,213	22,005,975	16,604,895	1,328,392
Total Credit Exposures	290,065,791	281,959,383	168,570,558	13,485,645



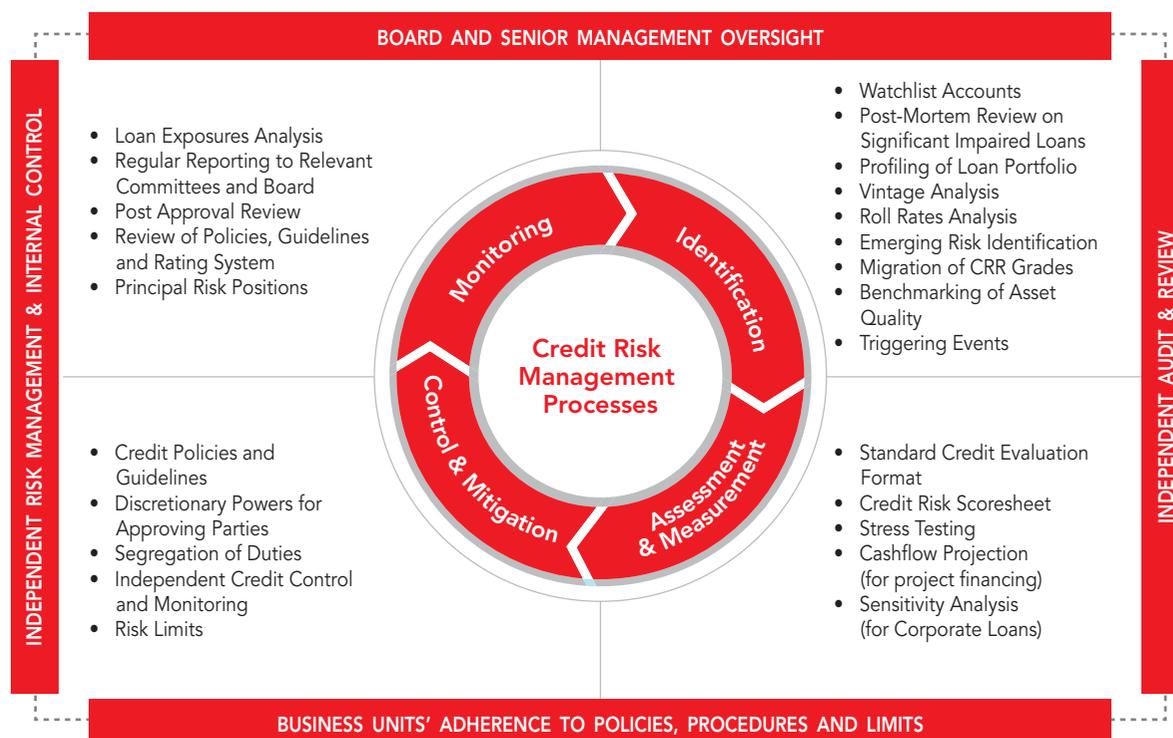
4. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (Continued)

Bank Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
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 (CONTINUED)

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



Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk frameworks and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk 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 (CONTINUED)

Risk Management Approach (Continued)

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 the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Lending to Retail Consumers and SMEs

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

(b) Lending to Corporate and Institutional Customers

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

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the investment in debt securities are subject to the minimum investment grade, minimum acceptable return and the maximum 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.

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

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



4. CREDIT RISK (CONTINUED)

4.1 Distribution of Credit Exposures (Continued)

(a) Industry Analysis (Continued)

Group	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
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

* Excluding equity securities of RM119.2 million (2013: RM126.9 million) which do not have any credit risk.

4. CREDIT RISK (CONTINUED)**4.1 Distribution of Credit Exposures (Continued)****(b) Geographical Analysis**

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

**4. CREDIT RISK (CONTINUED)****4.1 Distribution of Credit Exposures (Continued)****(b) Geographical Analysis (Continued)**

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
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

* Excluding equity securities of RM119.2 million (2013: RM126.9 million) which do not have any credit risk.

4. CREDIT RISK (CONTINUED)**4.1 Distribution of Credit Exposures (Continued)****(c) Maturity Analysis**

Group	Up to 1 Year RM'000	> 1 to 3 Years RM'000	> 3 to 5 Years RM'000	> 5 Years RM'000	Total RM'000
2014					
On-Balance Sheet Exposures					
Cash and balances with banks	16,816,838	-	-	-	16,816,838
Reverse repurchase agreements	6,314,493	-	-	-	6,314,493
Financial assets held-for-trading	18,364,018	-	-	-	18,364,018
Derivative financial assets	560,733	33,055	55,391	53,893	703,072
Financial investments available-for-sale*	10,708,633	6,113,903	2,788,186	5,728,926	25,339,648
Financial investments held-to-maturity	3,722,655	4,292,186	5,028,207	7,371,339	20,414,387
Gross loans, advances and financing	33,519,550	19,854,855	22,993,262	168,676,386	245,044,053
Statutory deposits with Central Banks	-	-	-	8,063,746	8,063,746
Total On-Balance Sheet Exposures	90,006,920	30,293,999	30,865,046	189,894,290	341,060,255
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

* Excluding equity securities of RM119.2 million (2013: RM126.9 million) which do not have any credit risk.

Approximately 26% (2013: 30%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 69% (2013: 67%) of the Group's gross loans, advances and financing has residual maturity of more than 5 years. The longer maturity is from the housing loans/financing and hire purchase which made up 51% (2013: 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 (CONTINUED)

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

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

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 over the threshold levels.

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

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

(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 2014, the estimated additional collateral required to be posted for one notch downgrade was RM41.5 million (2013: RM4.4 million).

4. CREDIT RISK (CONTINUED)**4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Continued)****Composition of Off-Balance Sheet Exposures**

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

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



4. CREDIT RISK (CONTINUED)

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

Composition of Off-Balance Sheet Exposures (Continued)

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
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/profit 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 (CONTINUED)

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

Composition of Off-Balance Sheet Exposures (Continued)

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



4. CREDIT RISK (CONTINUED)

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

Composition of Off-Balance Sheet Exposures (Continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2014				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	5,247		5,247	5,247
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	19,774		3,955	3,783
Derivative Financial Instruments				
Interest rate related contracts:				
– less than one year	244,842	–	245	122
– one year to less than five years	104,933	–	4,197	2,097
	349,775	–	4,442	2,219
Total	374,796	–	13,644	11,249
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	91,423,421	691,014	22,430,213	16,604,895

4. CREDIT RISK (CONTINUED)

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

Composition of Off-Balance Sheet Exposures (Continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
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 (CONTINUED)****4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Continued)****Composition of Off-Balance Sheet Exposures (Continued)**

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

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 (CONTINUED)

4.3 Credit Risk Mitigation (Continued)

Credit Risk Mitigation Analysis

The following tables present the credit risk mitigation analysis of the Group i.e. credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of cash, securities from listed exchange, unit trust or marketable securities. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2014				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	50,809,170	–	5,265,348	–
Public Sector Entities	883,812	783,909	–	–
Banks, DFIs and MDBs	14,379,452	435,548	781,032	–
Insurance Companies, Securities Firms and Fund Managers	540,605	–	253,694	–
Corporates	62,587,458	2,296,005	1,903,795	–
Regulatory Retail	113,110,547	700	821,298	–
Residential Mortgages	71,387,116	–	94,583	–
Higher Risk Assets	74,348	–	27	–
Other Assets	4,997,773	–	–	–
Equity Exposures	5,369,203	–	–	–
Defaulted Exposures	1,614,033	–	1,984	–
	325,753,517	3,516,162	9,121,761	–
Off-Balance Sheet Exposures				
Credit-related Exposures	22,226,918	204,433	452,168	–
Derivative Financial Instruments	1,459,897	–	–	–
Other Treasury-related Exposures	1,059,113	–	–	–
Defaulted Exposures	18,517	–	–	–
	24,764,445	204,433	452,168	–
Total Credit Exposures	350,517,962	3,720,595	9,573,929	–

4. CREDIT RISK (CONTINUED)**4.3 Credit Risk Mitigation (Continued)****Credit Risk Mitigation Analysis (Continued)**

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
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 (CONTINUED)

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 rated exposure must be assigned to one of the six credit quality rating categories defined in the table below:

Rating Category	S & P	Moody's	Fitch	RAM	MARC
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB1 to BB3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below	C1 and below	C+ and below

4. CREDIT RISK (CONTINUED)**4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)**

The Group uses a system to automatically execute the selection of ratings and allocation of risk weights. The following table is a summarised risk weight mapping matrix for each credit quality rating category:

Rating Category	Risk Weights Based on Credit Rating of the Counterparty Exposure Class			
	Sovereigns and Central Banks	Corporates	Banking Institutions	
			For Exposure Greater Than Six Months Original Maturity	For Exposure Less Than Six Months Original Maturity
1	0%	20%	20%	20%
2	20%	50%	50%	20%
3	50%	100%	50%	20%
4	100%	100%	100%	50%
5	100%	150%	100%	50%
6	150%	150%	150%	150%

In addition to the above, credit exposures under the counterparty exposure class of Banking Institutions, with an original maturity of below three months and denominated in RM, are all risk-weighted at 20% regardless of credit rating.



4. CREDIT RISK (CONTINUED)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

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

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

Group Exposure Class	Rating Categories							Unrated RM'000	Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000			
2014									
On-Balance Sheet Exposures									
(a) Rated Exposures									
(i) Exposures risk-weighted using ratings of Corporates									
– Corporates	5,610,760	1,554,449	795,108	–	–	–		7,960,317	
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks[#]									
– Sovereigns and Central Banks	972,371	48,839,423	–	–	938,145	–		50,749,939	
– Public Sector Entities	–	783,909	–	–	–	–		783,909	
– Banks, DFIs and MDBs	–	435,586	–	–	–	–		435,586	
– Corporates	–	1,651,349	–	–	–	–		1,651,349	
	972,371	51,710,267	–	–	938,145	–		53,620,783	
(iii) Exposures risk-weighted using ratings of Banking Institutions									
– Banks, DFIs and MDBs	3,386,693	5,507,152	2,954,442	683,458	471	–		12,532,216	
– Corporates	597,062	97,948	–	–	–	–		695,010	
– Regulatory Retail	–	700	–	–	–	–		700	
	3,983,755	5,605,800	2,954,442	683,458	471	–		13,227,926	
Total Rated Exposures	10,566,886	58,870,516	3,749,550	683,458	938,616	–		74,809,026	
(b) Total Unrated Exposures							250,944,491	250,944,491	
	10,566,886	58,870,516	3,749,550	683,458	938,616	–	250,944,491	325,753,517	

4. CREDIT RISK (CONTINUED)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

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

Group Exposure Class	Rating Categories						Unrated RM'000	Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000		
2014								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	177,688	399,130	–	–	–	–		576,818
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks [#]								
– Sovereigns and Central Banks	–	447,723	–	–	–	–		447,723
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	971,335	857,545	133,474	–	–	–		1,962,354
– Corporates	169,328	22,299	346	–	–	–		191,973
– Regulatory Retail	44	1,186	–	–	–	–		1,230
	1,140,707	881,030	133,820	–	–	–		2,155,557
Total Rated Exposures	1,318,395	1,727,883	133,820	–	–	–		3,180,098
(b) Total Unrated Exposures							21,584,347	21,584,347
	1,318,395	1,727,883	133,820	–	–	–	21,584,347	24,764,445
Total Credit Exposures before Credit Risk Mitigation	11,885,281	60,598,399	3,883,370	683,458	938,616	–	272,528,838	350,517,962



4. CREDIT RISK (CONTINUED)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

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

Group Exposure Class	Rating Categories						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	3,820,726	1,035,363	1,411,967	–	–	–		6,268,056
(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	–	551,911	–	–	–	–		551,911
	1,189,381	42,809,553	–	–	894,048	–		44,892,982
(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	9,186,029	47,978,936	2,604,111	306,408	894,048	–		60,969,532
(b) Total Unrated Exposures							227,948,956	227,948,956
	9,186,029	47,978,936	2,604,111	306,408	894,048	–	227,948,956	288,918,488

4. CREDIT RISK (CONTINUED)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

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

Group Exposure Class	Rating Categories						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	9,986,303	48,898,960	2,645,796	306,408	894,048	–	249,217,599	311,949,114

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 (CONTINUED)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

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

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

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

4. CREDIT RISK (CONTINUED)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

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

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 (CONTINUED)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued) Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Continued)

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

4. CREDIT RISK (CONTINUED)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

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

Bank Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation											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	Total Exposures after Credit Risk Mitigation 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 (CONTINUED)

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	2014 RM'000	2013 RM'000
Neither past due nor impaired	219,560,698	196,579,102
Past due but not impaired	23,994,656	23,111,922
Impaired	1,488,699	1,484,779
	245,044,053	221,175,803
Gross impaired loans as a percentage of gross loans, advances and financing	0.61%	0.67%

(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% (2013: 60%) of the past due loans of the Group are past due for less than 1 month.

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

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

4. CREDIT RISK (CONTINUED)**4.5 Credit Quality of Gross Loans, Advances and Financing (Continued)****(b) Past Due But Not Impaired (Continued)****(i) Economic Purpose Analysis**

Group	2014 RM'000	2013 RM'000
Purchase of securities	6,301	11,781
Purchase of transport vehicles	10,905,530	10,471,570
Purchase of landed properties	11,269,657	10,337,015
(Of which: – residential	8,385,236	7,929,483
– non-residential)	2,884,421	2,407,532
Purchase of fixed assets (excluding landed properties)	3,682	9,679
Personal use	617,552	615,380
Credit card	303,145	280,990
Purchase of consumer durables	359	1,617
Construction	110,827	23,073
Working capital	670,059	1,111,686
Other purpose	107,544	249,131
	23,994,656	23,111,922

(ii) Geographical Analysis

Group	2014 RM'000	2013 RM'000
Malaysia	23,426,570	22,619,163
Hong Kong & China	168,870	151,521
Cambodia	171,726	167,538
Other countries	227,490	173,700
	23,994,656	23,111,922

(iii) Aging Analysis

Group	2014 RM'000	2013 RM'000
1 day to <1 month	14,434,564	13,754,613
1 month to <2 months	7,235,610	6,865,292
2 months to <3 months	2,324,482	2,492,017
	23,994,656	23,111,922



4. CREDIT RISK (CONTINUED)

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

(c) Impaired Loans, Advances and Financing

The Group assesses, at each reporting period, whether there is any objective evidence that an individually significant loan is impaired. "Objective evidence of impairment" exists when one or more events that have occurred after the initial recognition of the loan (an incurred "loss event") and that the loss event has an impact on future estimated cash flows of the loan or group of loans that can be reliably estimated. The criteria that the Group uses to determine whether there is any objective evidence of impairment are set out in Note 44(ii)(c) to the financial statements.

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

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

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

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

- (i) principal or interest/profit or both are past due for 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 a loan/financing is in arrears for less than (3) months and has been rescheduled or restructured, the loan/financing will be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of three (3) months; or
- (iv) 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.

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 (CONTINUED)**4.5 Credit Quality of Gross Loans, Advances and Financing (Continued)****(c) Impaired Loans, Advances and Financing (Continued)****(i) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Economic Purpose**

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2014							
Purchase of securities	3,434	2,471	244	-	2,715	4,082	6,797
Purchase of transport vehicles	412,764	8,153	2,590	(522)	10,221	607,809	618,030
Purchase of landed properties	668,989	16,924	(4,422)	(228)	12,274	809,467	821,741
(Of which: - residential	504,808	230	(63)	11	178	543,300	543,478
- non-residential)	164,181	16,694	(4,359)	(239)	12,096	266,167	278,263
Purchase of fixed assets (excluding landed properties)	164	467	(239)	(225)	3	360	363
Personal use	146,527	39,891	167,536	(173,272)	34,155	95,643	129,798
Credit card	25,409	-	-	-	-	25,869	25,869
Purchase of consumer durables	75	-	-	-	-	92	92
Construction	12,841	4,757	706	(18)	5,445	8,369	13,814
Mergers and acquisitions	-	-	-	-	-	372	372
Working capital	202,794	90,645	964	(21,027)	70,582	120,616	191,198
Other purpose	15,702	4,617	322	(248)	4,691	9,449	14,140
	1,488,699	167,925	167,701	(195,540)	140,086	1,682,128	1,822,214



4. CREDIT RISK (CONTINUED)

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

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

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

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
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

The movements in the collective assessment allowance for 2014 and 2013 are set out in Note 9 to the financial statements.

4. CREDIT RISK (CONTINUED)**4.5 Credit Quality of Gross Loans, Advances and Financing (Continued)****(c) Impaired Loans, Advances and Financing (Continued)****(ii) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Geographical Location**

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2014							
Malaysia	1,375,695	81,231	(7,252)	(11,512)	62,467	1,537,243	1,599,710
Hong Kong & China	62,326	50,474	166,254	(177,864)	38,864	86,087	124,951
Cambodia	38,549	34,494	10,227	(5,966)	38,755	47,881	86,636
Other countries	12,129	1,726	(1,528)	(198)	-	10,917	10,917
	1,488,699	167,925	167,701	(195,540)	140,086	1,682,128	1,822,214
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

The movements in the collective assessment allowance for 2014 and 2013 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				
2014				
Interest rate/rate of return risk	39,894,395	(20,770,570)	1,229,355	98,348
Foreign exchange risk	1,325,490	(356,242)	1,325,490	106,039
Total	41,219,885	(21,126,812)	2,554,845	204,387
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
Bank				
2014				
Interest rate risk	35,182,988	(20,704,056)	991,299	79,304
Foreign exchange risk	1,605,032	(2,036,590)	2,036,590	162,927
Total	36,788,020	(22,740,646)	3,027,889	242,231
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

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group's market risk frameworks and policies, aligns market risk management with 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. MARKET RISK (CONTINUED)

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.



Risk Management Approach

The Group’s traded market risk frameworks 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 Audit Committee. In addition, the compliance officers conduct independent verification on the daily mark-to-market valuation of fixed income instruments.



5. MARKET RISK (CONTINUED)

5.1 Traded Market Risk (Continued)

Risk Management Approach (Continued)

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

During the financial year, the Group's traded market risk exposures on fixed income instruments as measured by PV01, averaged at RM271,000 (2013: RM276,000). The composition of the Group's trading portfolio is set out in Note 5 to the financial statements.

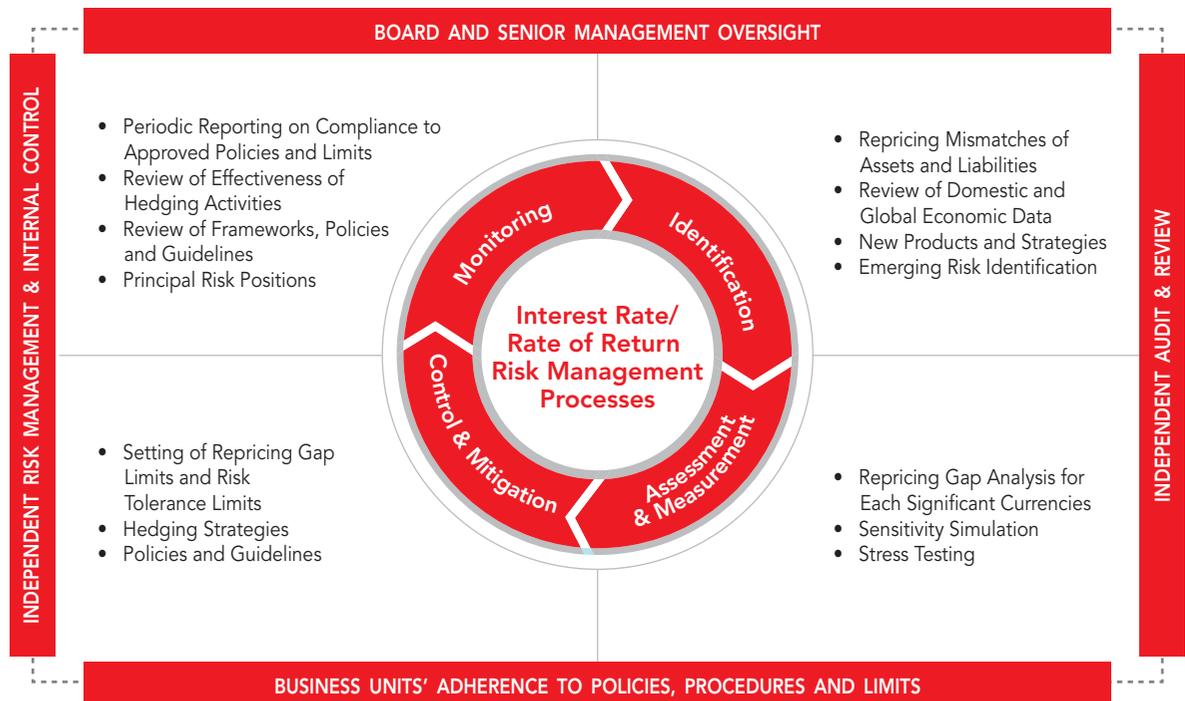
5.2 Non-Traded Market Risk

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 (CONTINUED)

5.2 Non-Traded Market Risk (Continued)

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

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 2014, the Group had an overall positive interest rate/rate of return gap of RM12,841.1 million (2013: RM6,873.1 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 taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

**5. MARKET RISK (CONTINUED)****5.2 Non-Traded Market Risk (Continued)****(a) Interest Rate/Rate of Return Risk in the Banking Book (Continued)****Risk Management Approach (Continued)**

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

Group	2014		2013	
	-100 bps RM'000	+100 bps RM'000	-100 bps RM'000	+100 bps RM'000
Impact on NII/NPI				
Ringgit Malaysia	(217,985)	212,732	(246,230)	253,885
United States Dollars	6,938	(19,582)	5,840	(13,149)
Hong Kong Dollars	(2,871)	3,397	(1,973)	5,583
Other Currencies	(9,843)	9,260	(5,659)	5,226
Total	(223,761)	205,807	(248,022)	251,545
Impact on EVE				
Ringgit Malaysia	1,706,211	(1,351,040)	929,747	(558,481)
United States Dollars	10,086	(20,727)	4,660	(4,133)
Hong Kong Dollars	2,688	(4,151)	1,299	7,781
Other Currencies	4,462	(1,801)	(2,717)	6,144
Total	1,723,447	(1,377,719)	932,989	(548,689)

The reported amounts do not take into account actions that would be taken by the ALCO to mitigate the impact of this interest rate/rate of return risk. In reality, the ALCO seeks to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statements of financial position and that all positions run to maturity.

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

- (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 (CONTINUED)

5.2 Non-Traded Market Risk (Continued)

(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 the potential foreign exchange risk against the cost of hedging and is periodically assessed by the ALCO.

The table in Note 44(ii)(c)(ii) to the financial statements sets out the Group's assets, liabilities and NOP by currencies and the Group's structural foreign exchange positions. As at 31 December 2014, there was a net long position of RM953.9 million (2013: RM533.0 million) or 20% (2013: 13%) 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 dividend 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	2014		2013	
	Gross Credit Exposure RM'000	Risk-Weighted Assets RM'000	Gross Credit Exposure RM'000	Risk-Weighted Assets RM'000
<u>Publicly traded</u>				
Investments in unit trust funds	5,274,346	5,274,346	5,107,225	5,107,225
Holdings of equity investments	7,086	7,086	11,897	11,897
	5,281,432	5,281,432	5,119,122	5,119,122
<u>Privately held</u>				
For socio-economic purposes	87,771	87,771	87,768	87,768
Not for socio-economic purposes	23,994	35,991	18,981	28,472
	111,765	123,762	106,749	116,240
Total	5,393,197	5,405,194	5,225,871	5,235,362

(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.

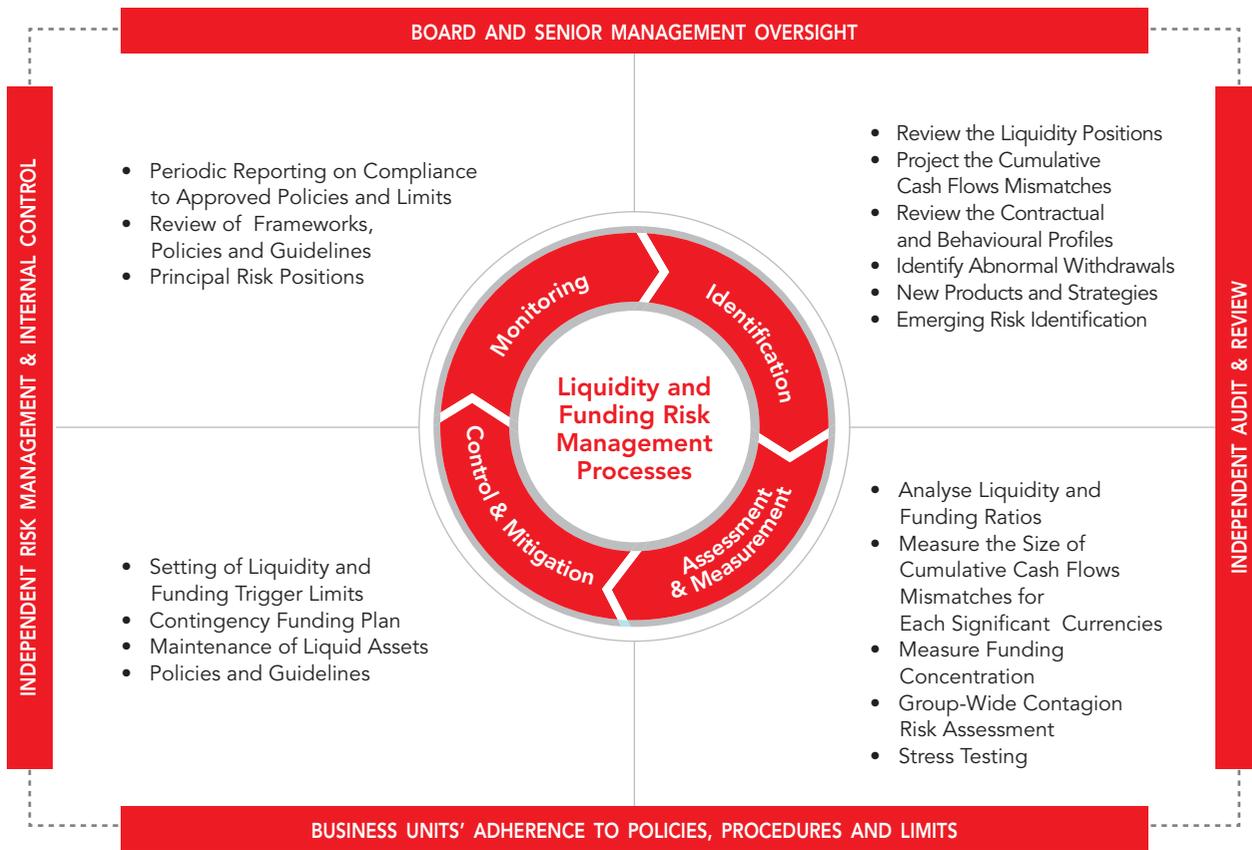
(b) Gains and Losses on Equity Exposures in the Banking Book

Group	2014 RM'000	2013 RM'000
Realised gains recognised in the statement of profit or loss		
– Publicly traded equity investments	250	2,123
Unrealised gains recognised in other comprehensive income		
– Investments in unit trust funds	9,230	15,192
– Publicly traded equity investments	7,086	10,755
	16,316	25,947

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 frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.



7. LIQUIDITY AND FUNDING RISK (CONTINUED)

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 ensure the compliance with the New Liquidity Framework, the Group maintains a liquidity compliance buffer to meet any unexpected cash outflows. The Group is monitoring the Liquidity Coverage Ratio and Net Stable Funding Ratio in preparation to meet BNM's Basel III liquidity standards requirements. Detailed plans are put in place to ensure the Group is able to meet BNM's requirements on Liquidity Coverage Ratio.

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 2014, the Group holds a sizeable balance of government securities amounting to RM34,678.4 million (2013: RM16,089.9 million) or 54% (2013: 39%) of its portfolio of securities.

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

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

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed 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.

	2014		2013	
	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	15,281,141	1,222,491	14,497,356	1,159,788
Bank	10,753,781	860,302	10,228,677	818,294

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





8. OPERATIONAL RISK (CONTINUED)

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 for 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 including risk management and compliance functions 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.

The Internal Audit Function provides independent assurance to the Board that operational risk management policies and processes are functioning as intended.

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.

8. OPERATIONAL RISK (CONTINUED)

Risk Management Approach (Continued)

(a) Strategy and Processes (Continued)

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; and
- (vi) Insurance coverage to mitigate risk of high impact loss events, where appropriate.

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; and
- (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.



8. OPERATIONAL RISK (CONTINUED)

Risk Management Approach (Continued)

(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 with 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 members of the Shariah Committee perform on-site inspections at branches to review the operations of Public Islamic to ensure that the operations are conducted in accordance with Shariah rules and principles.

9. SHARIAH NON-COMPLIANCE RISK (CONTINUED)

Islamic Banking Operations (Continued)

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 and Islamic banking contemporary 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 reviews and audits conducted on Public Islamic's operational processes in Islamic banking and financing transactions revealed that there is no Shariah non-compliant income recorded during the financial year under review (2013: 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 funds. The Compliance Department conducts regular reviews and works closely with the Shariah Adviser to ensure all transactions under the Shariah-based funds comply with the Shariah requirements at all times.

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

During the financial year, a non-permissible income of RM1,650,065 (2013: RM1,062,973) 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 Annual Report

- NACRA Award**
- Certificate of Merit

2012 Annual Report

- NACRA Award**
- Most Outstanding Annual Report – Silver Award
 - Best Annual Report in Bahasa Malaysia – Platinum Award

2011 Annual Report

- NACRA Award**
- Most Outstanding Annual Report – Gold Award
 - Best Annual Report in Bahasa Malaysia – Platinum Award

2010 Annual Report

- NACRA Award**
- Most Outstanding Annual Report – Gold Award
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia – Platinum Award

2009 Annual Report

- NACRA Award**
- Most Outstanding Annual Report – Platinum Award
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia – Gold Award

2008 Annual Report

- NACRA Award**
- Most Outstanding Annual Report – Platinum Award
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia – Platinum Award

2007 Annual Report

- NACRA Award**
- Most Outstanding Annual Report – Platinum Award
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia – Platinum Award

2006 Annual Report

- NACRA Award**
- Most Outstanding Annual Report – Platinum Award
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia – Platinum Award
 - Best Designed Annual Report – Platinum Award

2005 Annual Report

- NACRA Award**
- Most Outstanding Annual Report – Gold Award
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia

2004 Annual Report

- NACRA Award**
- Most Outstanding Annual Report
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia

CITRA Award

- Merit Award

2003 Annual Report

- NACRA Award**
- Most Outstanding Annual Report
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia

2002 Annual Report

- NACRA Award**
- Most Outstanding Annual Report
 - Industry Excellence Award – Finance Sector
 - Best Annual Report in Bahasa Malaysia

CITRA Award

- Merit Award

2001 Annual Report

- NACRA Award**
- Most Outstanding Annual Report
 - Industry Excellence Award – Finance Sector

CITRA Award

- Special Jury Award

2000 Annual Report

- NACRA Award**
- Most Outstanding Annual Report
 - Industry Excellence Award – Finance Sector

CITRA Award

- Special Jury Award

1999 Annual Report

- NACRA Award**
- Industry Excellence Award – Finance Sector

CITRA Award

- Main Award

1998 Annual Report

- NACRA Award**
- Industry Excellence Award – Finance Sector

1997 Annual Report

- NACRA Award**
- Best Annual Report in Bahasa Malaysia
 - Industry Excellence Award – Finance Sector

1996 Annual Report

- NACRA Award**
- Most Outstanding Annual Report
 - Industry Excellence Award – Finance Sector

1995 Annual Report

- NACRA Commendation Award**
- Accounting Information
 - Annual Report in Bahasa Malaysia

1994 Annual Report

- NACRA Commendation Award**
- Accounting Information
 - Corporate Information
 - Annual Report in Bahasa Malaysia

1991 Annual Report

- NACRA Award**
- Best Accounting Information – NACRA Commendation Award
 - Corporate Information

1990 Annual Report

- NACRA Award**
- Best Accounting Information

1989 Annual Report

- NACRA Award**
- Most Outstanding Annual Report
 - Best Annual Report – Finance Sector

NACRA Commendation Award

- Corporate Information
- Accounting Information
- Annual Report in Bahasa Malaysia

1988 Annual Report

- MACRA Award**
- Best Overall Annual Report
 - Best Corporate Information – NARA Award
 - Best Annual Report – Finance Sector

1987 Annual Report

- MACRA Award**
- Best Corporate Information – NARA Award
 - Best Annual Report – Finance Sector

1986 Annual Report

- MACRA Award**
- Best Corporate Information



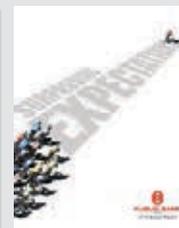
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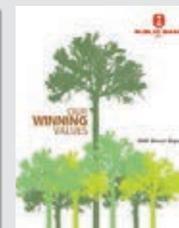
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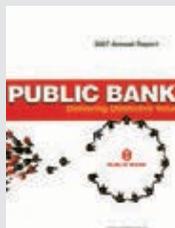
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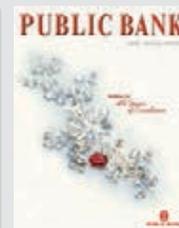
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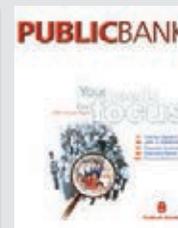
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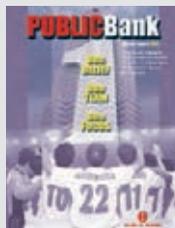
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2005



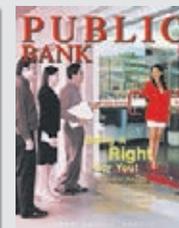
2004



2003



2002



2001



2000



1999



1998



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1996



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1994



1991



1990



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1988



1987



1986

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