PILLAR 3 DISCLOSURE AS AT 31 DECEMBER 2017

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 ("the Board") and senior management on internal controls and corporate governance practices, to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times; and

(c) Pillar 3 aims to harness market discipline through enhanced disclosure to supplement regulatory supervision of banking institutions through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

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

The Group's Pillar 3 Disclosure is governed by the Group's Disclosure Policy on Basel II RWCAF/Capital Adequacy Framework for Islamic Banks – Pillar 3 which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been reviewed and verified by the internal auditors and certified by Public Bank Berhad ("the Bank")'s Managing Director/Chief Executive Officer. Under the BNM's RWCAF, the information disclosed herein is not required to be audited by external auditors. The Pillar 3 Disclosure will be published in the Bank's website, www.publicbankgroup.com.

PILLAR 3 DISCLOSURE AS AT 31 DECEMBER 2017

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.

	2017		2016	
	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	**235,806,066**	**18,864,485**	231,005,869	18,480,469
Market Risk	**2,925,168**	**234,014**	3,291,584	263,327
Operational Risk	**18,620,545**	**1,489,644**	17,364,426	1,389,154
Total	**257,351,779**	**20,588,143**	251,661,879	20,132,950
Bank				
Credit Risk	**191,482,831**	**15,318,626**	186,904,199	14,952,336
Market Risk	**4,126,123**	**330,090**	4,899,220	391,938
Operational Risk	**12,678,955**	**1,014,316**	11,525,983	922,079
Total	**208,287,909**	**16,663,032**	203,329,402	16,266,353

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

PILLAR 3 DISCLOSURE AS AT 31 DECEMBER 2017

1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank and its subsidiary and associated companies. The Group offers Islamic banking financial services via the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("Public Islamic"). Information on subsidiary and associated companies of the Group is available in Notes 15 and 16 to the financial statements respectively.

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

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

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

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

2. CAPITAL MANAGEMENT

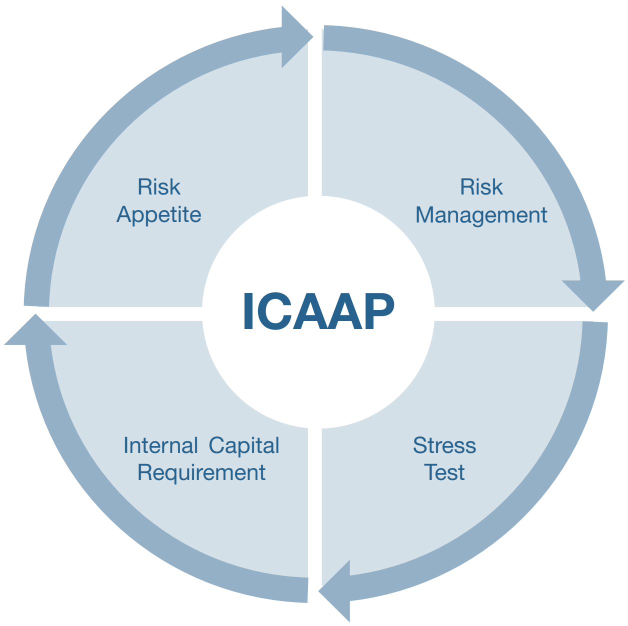
The objective of the Group's capital management is to protect the interests of its depositors, creditors and shareholders. To achieve this, the capital management is subject to ongoing review and the Board's approval on the level and composition of the Group's total capital, assessed against the following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

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

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

2. CAPITAL MANAGEMENT (CONTINUED)

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



(a) Risk Appetite

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

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

2. CAPITAL MANAGEMENT (CONTINUED)

(b) Risk Management

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

The key principles and components of the Group's Risk Management Framework are further discussed in item 3 of the Pillar 3 Disclosure.

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

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

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

(iii) Risk types not covered by Pillar 1 (e.g. credit concentration risk, interest rate risk on banking book, reputation risk, amongst others).

Compile a Comprehensive List of Risks

To obtain a comprehensive list of risks inherent to banking business guided by the guidelines issued by:

- BNM or respective Regulators
- Basel Committee and Banking Committee

Identify Risks that are Applicable to the Group

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

Assess the Applicable Risks

For risks that are identified to be applicable to the Group/respective entities, ensure the risk assessments are supported by the following:

- consistent and robust risk assessment approaches
- quality data used for risk measurement
- sound techniques and methodologies that commensurate with the banking institution's size, nature of business and complexity of activities

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

Qualitative Approach	Quantitative Approach
Risks which may not be easily quantified due to lack of commonly accepted risk measurement techniques. The focus for such non-quantifiable risks would then be the risk processes put in place to manage these risks including the following: • Adequate governance process • Adequate system, procedure and internal controls • Effective risk mitigation strategies • Regular monitoring and reporting	Risks which can be quantified based on best practices methodologies which are prescribed by regulators or internal methodologies, capital will be set aside for the amount of quantified risks. Apart from this, the quantified liquidity risk will be managed through the holdings of high quality liquid assets or identification of alternative funds.

2. CAPITAL MANAGEMENT (CONTINUED)

(c) Stress Test

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

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

(ii) To drive the development of stress test parameters, assumptions and scenarios that are relevant, taking into account the nature, risk profile and complexity of the Group's business as well as the environment in which it operates;

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

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

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

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

(d) Internal Capital Requirement

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

3. RISK MANAGEMENT FRAMEWORK

The key principles and components of the Group's Risk Management Framework are as follows:

(a) Risk Governance Structure;

(b) Risk Appetite;

(c) Risk Management Culture; and

(d) Risk Management Processes.

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance Structure

The Group's risk governance structure sets out the roles and responsibilities of the parties involved in the Group's risk management and internal control system as follows:

<table>
<tr><td rowspan="4">ESTABLISH RISK APPETITE & POLICY</td><td>1. Board of Directors</td><td rowspan="13">10. COMPLIANCE COMMITTEE
(supported by Compliance Function)</td><td rowspan="13">11. AUDIT COMMITTEE
(supported by Internal Audit Function)</td></tr>
<tr><td>2. Risk Management Committee</td></tr>
<tr><td>3. Credit Risk Management Committee</td></tr>
<tr><td>4. Shariah Committee</td></tr>
<tr><td rowspan="5">ENSURE IMPLEMENTATION OF RISK AND COMPLIANCE POLICY</td><td>5. Dedicated Risk Committees</td></tr>
<tr><td>Assets & Liabilities Management Committee
Operational Risk Management Committee
Internal Capital Adequacy Assessment Process Working Group</td></tr>
<tr><td>6. Credit Committee</td></tr>
<tr><td>7. Risk Management and Control Functions</td></tr>
<tr><td>Risk Management Function
Compliance Function
Shariah Compliance Function</td></tr>
<tr><td rowspan="4">IMPLEMENT AND COMPLY WITH RISK POLICY</td><td>8. Support Functions</td></tr>
<tr><td>Human Resource
Information Technology
Finance
Banking Operations
Credit Control, Administration & Supervision
Property
Security</td></tr>
<tr><td>9. Business Functions</td></tr>
<tr><td>Corporate Lending
Investment Banking
Islamic Banking
Retail Banking and Financing Operations
Share Broking and Fund Management
Treasury and Capital Market Operations</td></tr>
</table>

Board of Directors

The Board has overall responsibility for the Group's risk management and internal control system. For this purpose, the Board:

(i) Ensures that the corporate objectives are supported by sound risk strategies and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities;

(ii) Provides overall oversight on the soundness of the risk management processes and internal controls;

(iii) Responsible for the remuneration of the senior management and that the remuneration is aligned with prudent risk taking; and

(iv) Provides direction and guidance to the senior management on action plans to be taken to address the material risks identified.

PILLAR 3 DISCLOSURE AS AT 31 DECEMBER 2017

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance Structure (continued)

Risk Management Committee

The RMC assists the Board to oversee the management of all identified material risks including inter-alia reviewing risk management frameworks and policies, reviewing risk management limits, risk exposures and portfolio composition and ensuring risk infrastructure, resources and systems are put in place for effective risk management oversight.

Credit Risk Management Committee

The Credit Risk Management Committee assists the Board in discharging its oversight role over the management of credit risk including inter-alia in ensuring the risk infrastructures and systems are able to manage and control the risk taking activities within the credit related risk appetite.

Shariah Committee

The Shariah Committee advises the Board on Shariah related matters. It deliberates and endorses all Shariah related matters covering the policies and procedures governing the Islamic operations, the Islamic products and the documents used in the Islamic business operations. It also deliberates on Shariah related findings and endorses rectification measures to address the findings. The Shariah Committee is supported by the Shariah compliance and research functions.

Dedicated Risk Committees

The dedicated risk committees assist the RMC in the management of all identified material risk. These committees are responsible for the effective implementation of the risk management strategies and policies as approved by the Board or by the RMC. The key responsibilities of the dedicated risk committees are as follows:

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

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

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

Compliance Committee

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

Audit Committee

The Audit Committee reviews the internal control issues identified by the Internal Audit Division, the external auditors, the regulatory authorities and the Management, including the timeliness of the remedial actions taken to address the audit issues identified and to evaluate the adequacy and effectiveness of the risk management and internal control systems put in place. The Audit Committee also reviews the effectiveness of the internal audit functions with particular emphasis on the audit methodologies applied, audit scope of coverage, audit cycle, adequacy of the manpower resources knowledge and competency of the internal audit personnel.

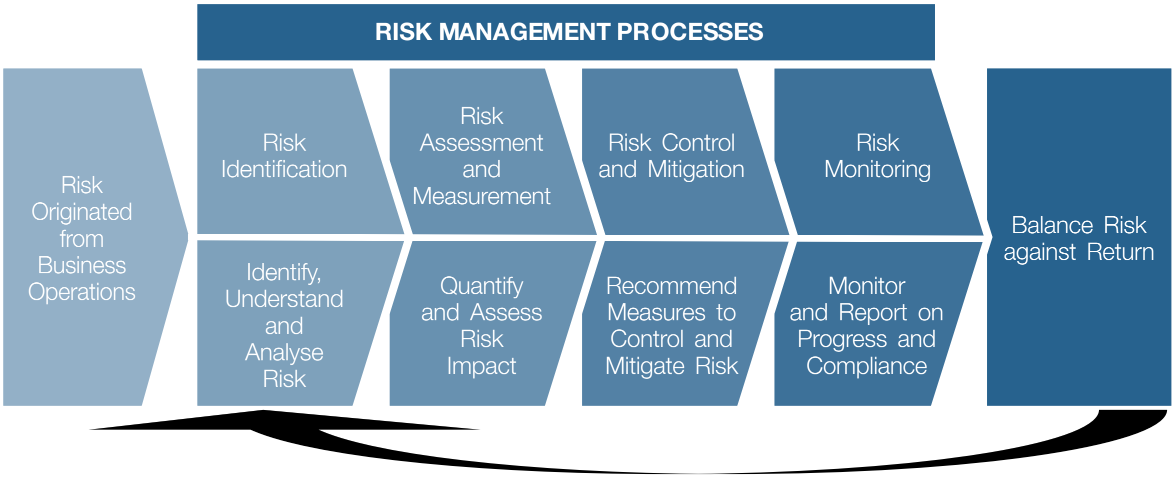
3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Risk Appetite

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

(c) Risk Management Processes

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



(d) Risk Management Culture

The culture of managing risk is embedded into the day-to-day operations and decision-making process through the following:

(i) Strong corporate governance;

(ii) Organisational structure with clearly defined roles and responsibilities;

(iii) Effective communication;

(iv) Commitment to compliance with laws, regulations and internal controls;

(v) Integrity in fiduciary responsibilities;

(vi) Clear policies, procedures and guidelines; and

(vii) Continuous training.

PILLAR 3 DISCLOSURE AS AT 31 DECEMBER 2017

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE

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

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

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Before deducting interim dividends*:				
Common equity tier I ("CET I") capital ratio	**12.758%**	11.864%	**12.136%**	11.725%
Tier I capital ratio	**13.538%**	12.718%	**13.072%**	12.751%
Total capital ratio	**16.494%**	15.976%	**15.577%**	15.248%
After deducting interim dividends*:				
CET I capital ratio	**12.248%**	11.373%	**11.506%**	11.117%
Tier I capital ratio	**13.028%**	12.227%	**12.442%**	12.143%
Total capital ratio	**15.984%**	15.485%	**14.947%**	14.640%

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

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

The capital adequacy ratios of the Group and of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) reissued on 4 August 2017 and Capital Adequacy Framework (Basel II – Risk-Weighted Assets) reissued on 2 March 2017. The minimum regulatory capital adequacy ratios before including capital conservation buffer and countercyclical capital buffer ("CCyB") for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively.

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

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

A CCyB is required to be maintained if this buffer is applied by regulators in countries which the Group and the Bank have exposures to, determined based on the weighted average of prevailing CCyB rates applied in those jurisdictions. The Group and the Bank have applied CCyB on its exposures in Hong Kong in line with Hong Kong Monetary Authority's requirement to maintain CCyB of 1.250% in Hong Kong. The Group's and the Bank's CCyB determined based on the weighted average of prevailing CCyB rates of its Hong Kong exposures are insignificant due to its immaterial Hong Kong exposures. The CCyB is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
CET I/Tier I capital				
Share capital	**9,417,653**	3,882,138	**9,417,653**	3,882,138
Share premium	**–**	5,535,515	**–**	5,535,515
Other reserves	**945,620**	5,873,014	**625,430**	5,158,625
Retained profits	**24,723,059**	16,898,317	**20,811,292**	13,533,372
Treasury shares	**(149,337)**	(149,337)	**(149,337)**	(149,337)
Qualifying non-controlling interests	**673,372**	752,070	**–**	–
Less: Goodwill and other intangible assets	**(2,432,058)**	(2,603,621)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(70,984)**	(65,189)	**–**	–
Less: Defined benefit pension fund assets	**(231,496)**	(230,359)	**(228,475)**	(227,351)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	**(41,816)**	(36,576)	**(4,503,553)**	(3,197,665)
Total CET I capital	**32,834,013**	29,855,972	**25,277,617**	23,839,904
Non-innovative Tier I stapled securities	**1,949,800**	2,086,169	**1,949,800**	2,086,169
Qualifying CET I and additional Tier I capital instruments held by third parties	**57,550**	64,824	**–**	–
Total Tier I capital	**34,841,363**	32,006,965	**27,227,417**	25,926,073
Tier II capital				
Collective assessment allowance and regulatory reserves #	**2,947,576**	2,887,573	**2,393,535**	2,336,302
Subordinated notes				
– meeting all relevant criteria	**3,949,837**	1,949,677	**3,949,837**	1,949,677
– subject to gradual phase-out treatment	**–**	2,923,800	**–**	2,923,800
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**718,418**	461,568	**–**	–
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from Tier II capital	**(10,454)**	(24,384)	**(1,125,888)**	(2,131,776)
Total Tier II capital	**7,605,377**	8,198,234	**5,217,484**	5,078,003
Total capital	**42,446,740**	40,205,199	**32,444,901**	31,004,076

\# *Excludes collective assessment allowance on impaired loans/financing restricted from Tier II capital of the Group and of the Bank of RM446.7 million (2016: RM472.4 million) and RM313.4 million (2016: RM333.9 million) respectively.*

Includes the qualifying regulatory reserves of the Group and of the Bank of RM2,076.3 million (2016: RM1,951.9 million) and RM1,843.7 million (2016: RM1,746.9 million) respectively.

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4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure (continued)

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

	Capital Instruments	Capital Component	Main Features
Issued by the Bank:			
(a)	Non-Innovative Tier I stapled securities ("NIT-I")	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes • Unsecured • Perpetual, with optional redemption after 10 years. No step-up • Able to defer interest but will trigger an assignment event, resulting in unstapling of the NIT-I. Investors will end up holding the perpetual securities • Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders
(b)	Subordinated notes ("Sub Notes") (fully redeemed during the year)	Tier II Capital	• Subordinated to all liabilities, including depositors, except to NIT-I • Unsecured • Optional redemption after 6 years. No step-up • No provisions for deferral of interest. Non-payment will result in default
(c)	Basel III-Compliant Subordinated notes ("Basel III-Compliant Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to NIT-I • Unsecured • Optional redemption after 5 years. No step-up • Upon occurrence of a Non-Viability Event as determined by BNM and Malaysia Deposit Insurance Corporation, the Basel III-Compliant Sub Notes may be subject to write-off • The write-off shall not constitute an event of default or an enforcement event, nor would it trigger any cross-default under the Basel III-Compliant Sub Notes
Issued by Public Islamic:			
(a)	Basel III-Compliant Subordinated Sukuk Murabahah ("Basel III-Compliant Sub Sukuk Murabahah")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to NIT-I • Unsecured • Optional redemption after 5 years. No step-up • Upon occurrence of a Trigger Event at the Bank/Public Islamic as determined by BNM and Malaysia Deposit Insurance Corporation, the Basel III-Compliant Sub Sukuk Murabahah may be subject to write-off • The write-off shall not constitute an event of default or trigger any cross-default under the Basel III-Compliant Sub Sukuk Murabahah

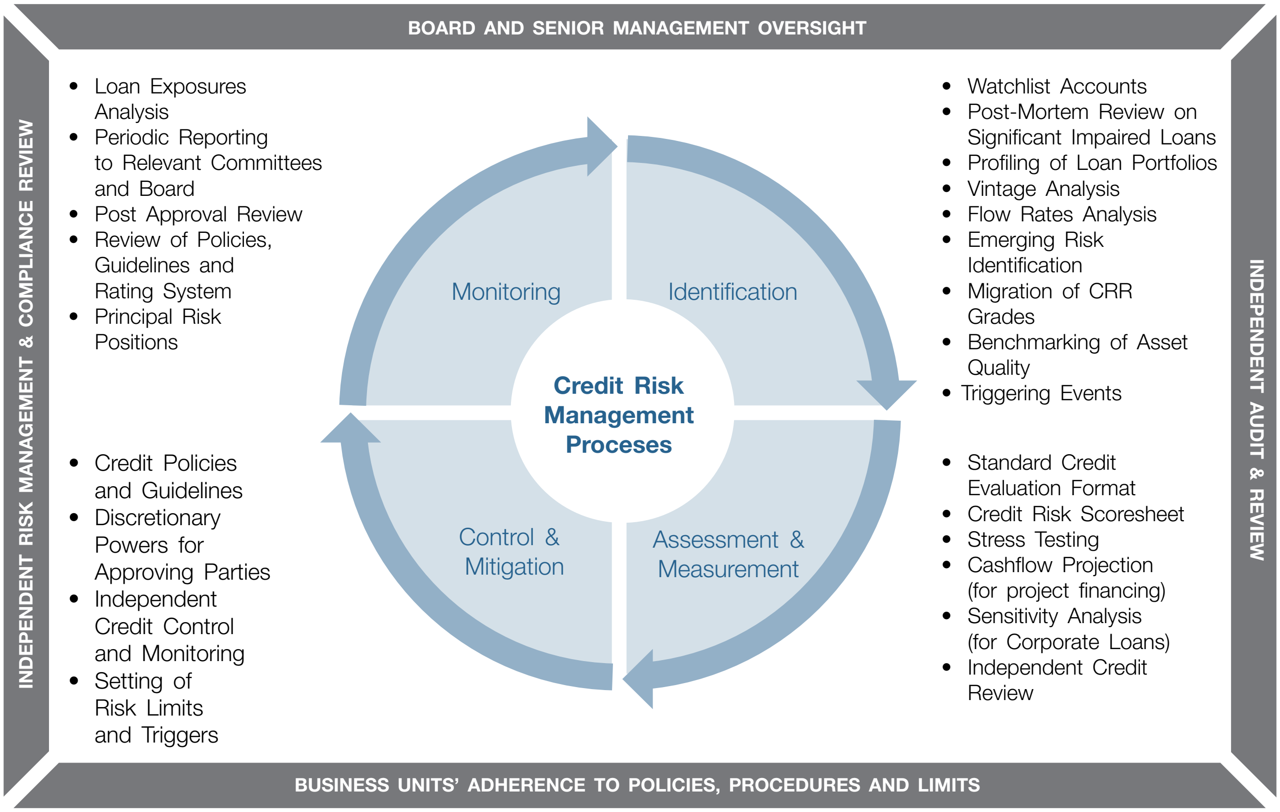
The details of the capital instruments are found in Note 24 to the financial statements.

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

5. CREDIT RISK

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Group's primary business is in commercial banking, the Group's exposure to credit risk is primarily from its lending and financing to retail consumers, small and medium enterprises ("SMEs") and corporate customers. Trading activities and investing the surplus funds of the Group, such as trading or holding of debt securities, deposit placements, settlement of transactions, also expose the Group to credit risk and counterparty credit risk ("CCR").

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



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

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5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk

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

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2017				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	50,519,227	49,868,162	1,025,982	82,079
Public Sector Entities	2,064,919	2,064,919	52,504	4,200
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	17,343,406	17,343,406	4,671,050	373,684
Insurance Companies, Securities Firms and Fund Managers	540,754	540,754	395,857	31,669
Corporates	86,739,587	83,458,860	66,641,206	5,331,296
Regulatory Retail	127,270,726	126,204,297	96,981,622	7,758,530
Residential Mortgages	100,126,444	99,978,912	42,111,226	3,368,898
Higher Risk Assets	46,139	46,138	69,207	5,537
Other Assets	5,953,531	5,953,531	3,648,977	291,918
Equity Exposures	147,194	147,194	147,194	11,775
Defaulted Exposures	1,376,318	1,375,455	1,881,225	150,498
	392,128,245	386,981,628	217,626,050	17,410,084
Off-Balance Sheet Exposures				
Credit-related Exposures	21,910,923	21,260,602	17,762,844	1,421,027
Derivative Financial Instruments	881,356	881,356	336,521	26,922
Other Treasury-related Exposures	383,815	383,815	70,580	5,646
Defaulted Exposures	7,043	7,043	10,071	806
	23,183,137	22,532,816	18,180,016	1,454,401
Total Credit Exposures	415,311,382	409,514,444	235,806,066	18,864,485

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

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

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

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
2017				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	31,827,286	31,827,286	38,373	3,070
Public Sector Entities	446,141	446,141	2,307	184
Banks, DFIs and MDBs	11,633,287	11,633,287	2,708,116	216,649
Insurance Companies, Securities Firms and Fund Managers	4,740	4,740	4,740	379
Corporates	74,152,328	71,832,228	56,513,841	4,521,107
Regulatory Retail	97,189,186	96,340,767	72,974,013	5,837,921
Residential Mortgages	80,884,536	80,757,205	33,584,609	2,686,769
Higher Risk Assets	39,306	39,306	58,959	4,717
Other Assets	4,201,684	4,201,684	3,320,186	265,615
Equity Exposures	5,452,771	5,452,771	5,452,771	436,222
Defaulted Exposures	1,057,564	1,056,883	1,462,532	117,003
	306,888,829	303,592,298	176,120,447	14,089,636
Off-Balance Sheet Exposures				
Credit-related Exposures	18,483,893	17,875,084	14,910,460	1,192,837
Derivative Financial Instruments	1,081,065	1,081,065	375,128	30,010
Other Treasury-related Exposures	383,815	383,815	70,580	5,646
Defaulted Exposures	4,361	4,361	6,216	497
	19,953,134	19,344,325	15,362,384	1,228,990
Total Credit Exposures	326,841,963	322,936,623	191,482,831	15,318,626

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

Bank Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2016				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	31,806,316	31,425,075	48,766	3,901
Public Sector Entities	435,937	435,937	704	56
Banks, DFIs and MDBs	17,145,199	15,252,549	3,465,347	277,228
Insurance Companies, Securities Firms and Fund Managers	6,658	6,658	6,658	533
Corporates	66,116,315	64,381,247	55,466,639	4,437,331
Regulatory Retail	96,036,677	95,275,120	72,038,053	5,763,044
Residential Mortgages	75,337,947	75,227,546	30,936,503	2,474,920
Higher Risk Assets	58,812	58,812	88,217	7,057
Other Assets	3,821,538	3,821,538	3,003,742	240,300
Equity Exposures	5,231,407	5,231,407	5,231,407	418,513
Defaulted Exposures	1,036,240	1,035,414	1,426,151	114,092
	297,033,046	292,151,303	171,712,187	13,736,975
Off-Balance Sheet Exposures				
Credit-related Exposures	18,015,903	17,433,105	14,614,022	1,169,122
Derivative Financial Instruments	1,567,736	1,567,736	569,194	45,536
Other Treasury-related Exposures	10,472	10,472	2,094	167
Defaulted Exposures	4,610	4,610	6,702	536
	19,598,721	19,015,923	15,192,012	1,215,361
Total Credit Exposures	316,631,767	311,167,226	186,904,199	14,952,336

5.1 Distribution of Credit Exposures

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

(a) Industrial analysis

(b) Geographical analysis based on geographical location where the credit risk resides

(c) Maturity analysis based on the residual contractual maturity

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the full amount that the Group would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

(a) Industry Analysis

Group	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manu-facturing, Wholesale & Retail Trade RM'000	Con-struction & Real Estate RM'000	Resi-dential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
2017									
On-Balance Sheet Exposures									
Cash and balances with banks	4,720,825	9,285,716	–	–	–	–	–	–	14,006,541
Reverse repurchase agreements	651,065	–	–	–	–	–	–	–	651,065
Financial assets held-for-trading	699,796	646,834	–	–	29,911	–	–	–	1,376,541
Derivative financial assets	–	226,319	–	–	–	–	–	–	226,319
Financial investments available-for-sale *	20,821,936	8,292,900	293,490	501,634	251,955	–	–	–	30,161,915
Financial investments held-to-maturity	15,460,410	9,747,018	1,315,196	1,449,539	606,173	–	–	–	28,578,336
Gross loans, advances and financing	1,322,989	8,447,806	15,097,449	42,160,477	45,078,343	109,181,553	41,045,646	42,119,014	304,453,277
Statutory deposits with Central Banks	9,525,927	–	–	–	–	–	–	–	9,525,927
	53,202,948	36,646,593	16,706,135	44,111,650	45,966,382	109,181,553	41,045,646	42,119,014	388,979,921
Commitments and Contingencies									
Contingent liabilities	2,349	128,582	574,953	1,426,920	1,125,748	–	–	9,624	3,268,176
Commitments	546,056	1,625,010	3,969,700	11,319,663	13,544,167	14,088,337	115,303	13,567,368	58,775,604
	548,405	1,753,592	4,544,653	12,746,583	14,669,915	14,088,337	115,303	13,576,992	62,043,780
Total Credit Exposures	53,751,353	38,400,185	21,250,788	56,858,233	60,636,297	123,269,890	41,160,949	55,696,006	451,023,701

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(a) Industry Analysis (continued)

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

* *Excluding equity securities of RM163.1 million (2016: RM123.7 million) which do not have any credit risk.*

PILLAR 3 DISCLOSURE AS AT 31 DECEMBER 2017

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(b) Geographical Analysis

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2017					
On-Balance Sheet Exposures					
Cash and balances with banks	**8,011,273**	**3,548,566**	**1,169,917**	**1,276,785**	**14,006,541**
Reverse repurchase agreements	**651,065**	**–**	**–**	**–**	**651,065**
Financial assets held-for-trading	**1,376,541**	**–**	**–**	**–**	**1,376,541**
Derivative financial assets	**107,606**	**22,044**	**–**	**96,669**	**226,319**
Financial investments available-for-sale *	**30,068,037**	**–**	**–**	**93,878**	**30,161,915**
Financial investments held-to-maturity	**24,724,180**	**1,743,727**	**660,558**	**1,449,871**	**28,578,336**
Gross loans, advances and financing	**281,363,106**	**15,382,400**	**4,160,208**	**3,547,563**	**304,453,277**
Statutory deposits with Central Banks	**8,577,005**	**–**	**861,891**	**87,031**	**9,525,927**
	354,878,813	**20,696,737**	**6,852,574**	**6,551,797**	**388,979,921**
Commitments and Contingencies					
Contingent liabilities	**2,634,154**	**199,901**	**44,351**	**389,770**	**3,268,176**
Commitments	**56,151,983**	**1,564,720**	**698,834**	**360,067**	**58,775,604**
	58,786,137	**1,764,621**	**743,185**	**749,837**	**62,043,780**
Total Credit Exposures	**413,664,950**	**22,461,358**	**7,595,759**	**7,301,634**	**451,023,701**
2016					
On-Balance Sheet Exposures					
Cash and balances with banks	4,376,316	3,841,506	993,575	1,472,695	10,684,092
Reverse repurchase agreements	2,790,628	–	–	2,935	2,793,563
Financial assets held-for-trading	1,178,884	–	–	–	1,178,884
Derivative financial assets	592,879	1,772	47	23,443	618,141
Financial investments available-for-sale *	33,053,281	–	–	168,223	33,221,504
Financial investments held-to-maturity	18,514,031	2,093,402	53,835	1,512,658	22,173,926
Gross loans, advances and financing	268,815,711	16,894,991	4,500,886	3,747,594	293,959,182
Statutory deposits with Central Banks	8,054,702	–	747,772	98,092	8,900,566
	337,376,432	22,831,671	6,296,115	7,025,640	373,529,858
Commitments and Contingencies					
Contingent liabilities	2,912,483	522,726	165,148	365,443	3,965,800
Commitments	53,594,780	2,126,958	675,656	457,237	56,854,631
	56,507,263	2,649,684	840,804	822,680	60,820,431
Total Credit Exposures	393,883,695	25,481,355	7,136,919	7,848,320	434,350,289

* *Excluding equity securities of RM163.1 million (2016: RM123.7 million) which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(c) Maturity Analysis

Group	Up to 1 Year RM'000	>1 to 3 Years RM'000	>3 to 5 Years RM'000	>5 Years RM'000	Total RM'000
2017					
On-Balance Sheet Exposures					
Cash and balances with banks	**14,006,541**	**–**	**–**	**–**	**14,006,541**
Reverse repurchase agreements	**651,065**	**–**	**–**	**–**	**651,065**
Financial assets held-for-trading	**1,356,452**	**–**	**–**	**20,089**	**1,376,541**
Derivative financial assets	**94,729**	**43,776**	**81,597**	**6,217**	**226,319**
Financial investments available-for-sale *	**7,035,362**	**14,012,660**	**6,973,510**	**2,140,383**	**30,161,915**
Financial investments held-to-maturity	**5,097,557**	**8,653,603**	**11,121,460**	**3,705,716**	**28,578,336**
Gross loans, advances and financing	**33,814,979**	**24,733,045**	**28,856,199**	**217,049,054**	**304,453,277**
Statutory deposits with Central Banks	**–**	**–**	**–**	**9,525,927**	**9,525,927**
Total On-Balance Sheet Exposures	**62,056,685**	**47,443,084**	**47,032,766**	**232,447,386**	**388,979,921**
2016					
On-Balance Sheet Exposures					
Cash and balances with banks	10,684,092	–	–	–	10,684,092
Reverse repurchase agreements	2,793,563	–	–	–	2,793,563
Financial assets held-for-trading	1,168,571	–	–	10,313	1,178,884
Derivative financial assets	528,783	62,237	18,045	9,076	618,141
Financial investments available-for-sale *	12,006,355	9,769,331	8,008,402	3,437,416	33,221,504
Financial investments held-to-maturity	5,940,229	7,929,080	5,872,412	2,432,205	22,173,926
Gross loans, advances and financing	32,140,003	26,761,672	27,763,714	207,293,793	293,959,182
Statutory deposits with Central Banks	–	–	–	8,900,566	8,900,566
Total On-Balance Sheet Exposures	65,261,596	44,522,320	41,662,573	222,083,369	373,529,858

* *Excluding equity securities of RM163.1 million (2016: RM123.7 million) which do not have any credit risk.*

Approximately 16% (2016: 17%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 71% (2016: 71%) of the Group's gross loans, advances and financing has residual maturity of more than 5 years. The longer maturity is from the housing loans/financing and hire purchase which made up 51% (2016: 50%) of the portfolio and are traditionally longer term in nature and well secured.

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

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

(a) Off-Balance Sheet Exposures

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

(i) Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These exposures carry the same credit risk as loans even though they are contingent in nature;

(ii) Documentary and commercial letters of credit, which are undertakings by the Group on behalf of the customer. These exposures are usually collateralised by the underlying shipment of goods to which they relate;

(iii) Commitments to extend credit including the unutilised or undrawn portions of credit facilities;

(iv) Unutilised credit card lines; and

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

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

(b) Counterparty Credit Risk on Derivative Financial Instruments

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

Credit Ratings Downgrade

As at reporting date, there were no requirements to post additional collateral in the event of a one-notch downgrade in rating (2016: nil) as the ISDA/CSA agreements entered with the majority of the counterparties had removed the threshold limit for posting of additional collateral whereby any shortfalls in value, cash collateral were posted immediately. For ISDA/CSA with threshold limits, no collateral was required to be posted as the shortfalls were well within the threshold limits for one-notch downgrade.

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures

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

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2017				
Contingent Liabilities				
Direct credit substitutes	1,012,069		1,012,069	617,668
Transaction-related contingent items	1,697,926		848,963	466,335
Short-term self-liquidating trade-related contingencies	558,181		111,636	91,816
	3,268,176		1,972,668	1,175,819
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	27,556,467		13,778,234	11,518,444
– not exceeding one year	24,373,275		4,874,655	4,109,345
Unutilised credit card lines	6,462,047		1,292,409	969,307
Forward asset purchases	383,815		383,815	70,580
	58,775,604		20,329,113	16,667,676
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	20,822,638	94,115	351,229	111,653
– one year to less than five years	1,649,368	55,952	245,812	123,615
Interest/profit rate related contracts:				
– less than one year	1,450,000	613	2,439	518
– one year to less than five years	9,180,800	69,420	254,338	86,964
– five years and above	295,833	6,218	27,533	13,766
Commodity related contracts:				
– less than one year	412	1	5	5
	33,399,051	226,319	881,356	336,521
Total Off-Balance Sheet Exposures	95,442,831	226,319	23,183,137	18,180,016

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

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

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2017				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	978,443		978,443	592,730
Transaction-related contingent items	1,469,720		734,860	388,762
Short-term self-liquidating trade-related contingencies	139,041		27,808	25,117
	2,587,204		1,741,111	1,006,609
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	22,521,236		11,260,618	9,470,694
– not exceeding one year	21,142,579		4,228,516	3,493,099
Unutilised credit card lines	6,230,704		1,246,141	934,606
Forward asset purchases	383,815		383,815	70,580
	50,278,334		17,119,090	13,968,979
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	20,151,324	90,483	343,156	108,705
– one year to less than five years	1,649,368	55,952	245,812	123,615
Interest rate related contracts:				
– less than one year	2,050,000	1,889	5,064	1,043
– one year to less than five years	9,908,175	69,118	275,989	89,572
– five years and above	2,000,000	22,772	177,771	35,554
Commodity related contracts:				
– less than one year	412	1	5	5
	35,759,279	240,215	1,047,797	358,494
Total	88,624,817	240,215	19,907,998	15,334,082

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2017				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	**6,079**		**6,079**	**6,079**
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	**28,947**		**5,789**	**5,589**
Derivative Financial Instruments				
Interest rate related contracts:				
– one year to less than five years	**202,625**	**2,087**	**5,734**	**2,866**
– five years and above	**295,833**	**6,217**	**27,534**	**13,768**
	498,458	**8,304**	**33,268**	**16,634**
Total	**533,484**	**8,304**	**45,136**	**28,302**
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	**89,158,301**	**248,519**	**19,953,134**	**15,362,384**

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

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

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

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

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation

The Group's approach in granting credit facilities is based on the credit standing of the customer, source of repayment and debt servicing ability rather than placing primary reliance on credit risk mitigants ("CRM"). Depending on a customer's credit standing and the type of product, facilities may be provided unsecured. Nevertheless, mitigation of credit risk is a key aspect of effective risk management and takes many forms.

The main types of collateral obtained by the Group to mitigate credit risk are as follows:

(a) for residential mortgages – charges over residential properties;

(b) for commercial property loans/financing – charges over the properties being financed;

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

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

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

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

The valuation of CRM seeks to monitor and ensure that they will continue to provide the credit protection. Policy on the periodic valuation updates of CRM is in place to ensure this. The value of properties taken as collateral is generally updated from time to time during the review of the customers' facilities to reflect the current market value. The quality, liquidity and collateral type will determine the appropriate haircuts or discounts applied on the market value of the collateral.

Where there is a currency mismatch, haircuts are applied to protect against currency fluctuations, in addition to ongoing review and controls over maturity mismatch between collateral and exposures. In mortgage financing, the collateral is required to be insured at all times against major risks, for instance, against fire, with the respective banking entities as the loss payee under the insurance policy. In addition, customers are generally insured against major risks, such as, death and permanent disability.

The Group also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk, subject to internal guidelines on eligibility. Currently, the Group does not employ the use of derivative credit instruments such as credit default swaps, structured credit notes and securitisation structures to mitigate the Group's credit exposures. In addition, the Group enters into master netting arrangements with its derivative counterparties to reduce the credit risk, all amounts with the counterparty are settled on a net basis.

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5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation (continued)

Credit Risk Mitigation Analysis

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

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2017				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	50,519,227	–	651,065	–
Public Sector Entities	2,064,919	1,802,401	–	–
Banks, DFIs and MDBs	17,343,406	435,548	–	–
Insurance Companies, Securities Firms and Fund Managers	540,754	–	–	–
Corporates	86,739,587	4,832,146	3,280,727	–
Regulatory Retail	127,270,726	507	1,066,429	–
Residential Mortgages	100,126,444	–	147,532	–
Higher Risk Assets	46,139	–	1	–
Other Assets	5,953,531	–	–	–
Equity Exposures	147,194	–	–	–
Defaulted Exposures	1,376,318	–	863	–
	392,128,245	7,070,602	5,146,617	–
Off-Balance Sheet Exposures				
Credit-related Exposures	21,910,923	87,724	650,321	–
Derivative Financial Instruments	881,356	–	–	–
Other Treasury-related Exposures	383,815	–	–	–
Defaulted Exposures	7,043	–	–	–
	23,183,137	87,724	650,321	–
Total Credit Exposures	415,311,382	7,158,326	5,796,938	–

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation (continued)

Credit Risk Mitigation Analysis (continued)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2016				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	47,013,343	–	906,240	–
Public Sector Entities	1,919,531	1,800,332	–	–
Banks, DFIs and MDBs	23,608,586	435,548	1,892,650	–
Insurance Companies, Securities Firms and Fund Managers	373,161	–	–	–
Corporates	80,875,754	2,866,940	2,100,824	–
Regulatory Retail	123,250,858	685	901,972	–
Residential Mortgages	92,501,940	–	125,613	–
Higher Risk Assets	66,367	–	3	–
Other Assets	5,568,747	–	–	–
Equity Exposures	103,653	–	–	–
Defaulted Exposures	1,345,638	–	936	–
	376,627,578	5,103,505	5,928,238	–
Off-Balance Sheet Exposures				
Credit-related Exposures	22,167,259	93,340	634,786	–
Derivative Financial Instruments	1,340,694	–	–	–
Other Treasury-related Exposures	10,472	–	–	–
Defaulted Exposures	6,680	–	–	–
	23,525,105	93,340	634,786	–
Total Credit Exposures	400,152,683	5,196,845	6,563,024	–

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions ("ECAI") ratings used by the Group and are recognised by BNM in the RWCAF:

(a) Standard & Poor's ("S&P")
(b) Moody's Investors Service ("Moody's")
(c) Fitch Ratings ("Fitch")
(d) RAM Rating Services Berhad ("RAM")
(e) Malaysian Rating Corporation Berhad ("MARC")

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

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

Unrated and Rated Counterparties

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

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach. Each rated exposure must be assigned to one of the six credit quality rating categories defined in the table below:

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

5. CREDIT RISK (CONTINUED)

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

Unrated and Rated Counterparties (continued)

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

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

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

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5. CREDIT RISK (CONTINUED)

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

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

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

Group Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2017								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	15,068,048	568,529	–	–	–	–		15,636,577
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
– Sovereigns and Central Banks	1,026,401	46,963,109	–	350,639	2,140,362	–		50,480,511
– Public Sector Entities	–	1,802,401	–	–	–	–		1,802,401
– Banks, DFIs and MDBs	–	435,586	–	–	–	–		435,586
– Corporates	–	4,037,597	–	–	–	–		4,037,597
	1,026,401	53,238,693	–	350,639	2,140,362	–		56,756,095
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	7,716,682	4,398,332	2,635,458	53,416	533,989	148,374		15,486,251
– Corporates	536,588	23,841	–	–	–	–		560,429
– Regulatory Retail	507	–	–	–	–	–		507
	8,253,777	4,422,173	2,635,458	53,416	533,989	148,374		16,047,187
(iv) Exposures risk-weighted using ratings of Public Sector Entities								
– Public Sector Entities	45,169	–	–	–	–	–		45,169
Total Rated Exposures	24,393,395	58,229,395	2,635,458	404,055	2,674,351	148,374		88,485,028
(b) Total Unrated Exposures							303,643,217	303,643,217
	24,393,395	58,229,395	2,635,458	404,055	2,674,351	148,374	303,643,217	392,128,245

5. CREDIT RISK (CONTINUED)

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

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

Group Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
	← Rating Categories						→	
2017								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	175,374	5,359	–	–	–	–		180,733
– Regulatory Retail	320	–	–	–	–	–		320
	175,694	5,359	–	–	–	–		181,053
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
– Sovereigns and Central Banks	–	34,010	–	–	–	–		34,010
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	338,389	449,058	77,836	–	1,666	–		866,949
– Corporates	16,695	12,023	401	–	–	–		29,119
– Regulatory Retail	453	262	–	–	–	–		715
	355,537	461,343	78,237	–	1,666	–		896,783
Total Rated Exposures	531,231	500,712	78,237	–	1,666	–		1,111,846
(b) Total Unrated Exposures							22,071,291	22,071,291
	531,231	500,712	78,237	–	1,666	–	22,071,291	23,183,137
Total Credit Exposures before Credit Risk Mitigation	24,924,626	58,730,107	2,713,695	404,055	2,676,017	148,374	325,714,508	415,311,382

5. CREDIT RISK (CONTINUED)

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

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

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

5. CREDIT RISK (CONTINUED)

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

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

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

Under the RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia and BNM are accorded a preferential sovereign risk weight of 0%.

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5. CREDIT RISK (CONTINUED)

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

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

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

	← Credit Exposures after the Effect of Credit Risk Mitigation →											
Group Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2017												
0%	48,682,977	1,802,401	441,502	-	4,037,759	-	-	-	2,273,540	-	57,238,179	-
20%	365,760	265,934	14,094,507	-	15,796,704	1,280	-	-	38,768	-	30,562,953	6,112,591
35%	-	-	-	-	-	-	73,738,593	-	-	-	73,738,593	25,808,508
50%	-	-	3,776,597	289,795	615,329	20,253	21,026,616	-	-	-	25,728,590	12,864,295
75%	-	-	-	-	-	126,499,457	592,753	-	-	-	127,092,210	95,319,157
100%	953,449	-	391,065	275,464	70,989,169	11,038,980	6,622,182	-	3,641,223	147,194	94,058,726	94,058,726
150%	-	-	-	-	198,904	813,748	29,669	52,872	-	-	1,095,193	1,642,789
Total	50,002,186	2,068,335	18,703,671	565,259	91,637,865	138,373,718	102,009,813	52,872	5,953,531	147,194	409,514,444	235,806,066
Risk-Weighted Assets by Exposures	1,026,601	53,187	5,098,265	420,362	74,754,530	107,144,577	43,433,066	79,307	3,648,977	147,194	235,806,066	
Average Risk Weights	2.1%	2.6%	27.3%	74.4%	81.6%	77.4%	42.6%	150.0%	61.3%	100.0%	57.6%	
Deduction from Total Capital			-							-	-	

5. CREDIT RISK (CONTINUED)

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

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

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

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5. CREDIT RISK (CONTINUED)

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

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

	Credit Exposures after the Effect of Credit Risk Mitigation											
Bank Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2017												
0%	31,841,083	434,606	329,225	-	3,644,570	-	-	-	1,916,452	-	38,165,936	-
20%	101,543	14,951	11,431,968	-	14,414,108	1,280	-	-	-	-	25,963,850	5,192,770
35%	-	-	-	-	-	-	60,401,141	-	-	-	60,401,141	21,140,399
50%	-	-	1,165,138	-	610,152	284	16,657,536	-	-	-	18,433,110	9,216,555
75%	-	-	-	-	-	101,579,622	436,777	-	-	-	102,016,399	76,512,299
100%	18,684	-	350,688	29,244	59,979,782	4,266,182	4,714,271	-	2,195,236	5,452,771	77,006,858	77,006,858
150%	-	-	-	-	193,392	609,923	11,273	44,745	-	-	859,333	1,289,000
1250%	-	-	-	-	-	-	-	-	89,996	-	89,996	1,124,950
Total	31,961,310	449,557	13,277,019	29,244	78,842,004	106,457,291	82,220,998	44,745	4,201,684	5,452,771	322,936,623	191,482,831
Risk-Weighted Assets by Exposures	38,993	2,990	3,219,650	29,244	63,457,768	81,366,181	34,527,930	67,118	3,320,186	5,452,771	191,482,831	
Average Risk Weights	0.1%	0.7%	24.2%	100.0%	80.5%	76.4%	42.0%	150.0%	79.0%	100.0%	59.3%	
Deduction from Total Capital			-							-	-	

5. CREDIT RISK (CONTINUED)

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

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

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

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing

Gross Loans, Advances and Financing by Credit Quality

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

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

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

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

(i) Economic purpose

(ii) Geographical

(iii) Aging

(i) Economic Purpose

Group	2017 RM'000	2016 RM'000
Purchase of securities	**15,543**	434
Purchase of transport vehicles	**10,790,985**	11,278,184
Purchase of landed properties	**14,565,611**	12,677,704
(Of which: – residential	**9,974,193**	9,207,779
– non-residential)	**4,591,418**	3,469,925
Purchase of fixed assets (excluding landed properties)	**6,115**	10,902
Personal use	**750,065**	722,457
Credit card	**307,033**	331,439
Purchase of consumer durables	**108**	338
Construction	**116,417**	167,200
Working capital	**1,131,997**	983,316
Other purpose	**82,814**	154,182
	27,766,688	26,326,156

5. CREDIT RISK (CONTINUED)

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

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

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

(ii) Geographical

Group	2017 RM'000	2016 RM'000
Malaysia	**26,870,575**	25,338,934
Hong Kong & China	**288,142**	313,998
Cambodia	**291,877**	315,267
Other countries	**316,094**	357,957
	27,766,688	26,326,156

(iii) Aging

Group	2017 RM'000	2016 RM'000
1 day to 30 days	**16,343,558**	15,568,980
31 to 59 days	**8,334,470**	8,051,907
60 to 89 days	**3,088,660**	2,705,269
	27,766,688	26,326,156

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5. CREDIT RISK (CONTINUED)

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

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

(i) Economic purpose

(ii) Geographical

(i) Economic Purpose

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2017							
Purchase of securities	738	995	(995)	–	–	3,114	3,114
Purchase of transport vehicles	292,519	3,264	(1,647)	(781)	836	473,412	474,248
Purchase of landed properties	709,881	16,287	(5,810)	(2,414)	8,063	611,506	619,569
(Of which: – residential	560,264	12,795	(9,213)	(1,615)	1,967	413,267	415,234
– non-residential)	149,617	3,492	3,403	(799)	6,096	198,239	204,335
Purchase of fixed assets (excluding landed properties)	12,096	613	2,324	(857)	2,080	2,731	4,811
Personal use	138,065	51,173	165,079	(178,252)	38,000	77,212	115,212
Credit card	21,078	–	–	–	–	19,763	19,763
Purchase of consumer durables	–	–	–	–	–	23	23
Construction	27,039	9,342	(2,266)	(658)	6,418	14,183	20,601
Mergers and acquisitions	–	–	–	–	–	152	152
Working capital	265,147	37,886	32,140	(36,002)	34,024	105,849	139,873
Other purpose	9,103	2,334	(625)	60	1,769	10,015	11,784
	1,475,666	121,894	188,200	(218,904)	91,190	1,317,960	1,409,150

5. CREDIT RISK (CONTINUED)

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

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

(i) Economic Purpose (continued)

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

The movements in the collective assessment allowance for 2017 and 2016 are set out in Note 9 to the financial statements.

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5. CREDIT RISK (CONTINUED)

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

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

(ii) Geographical

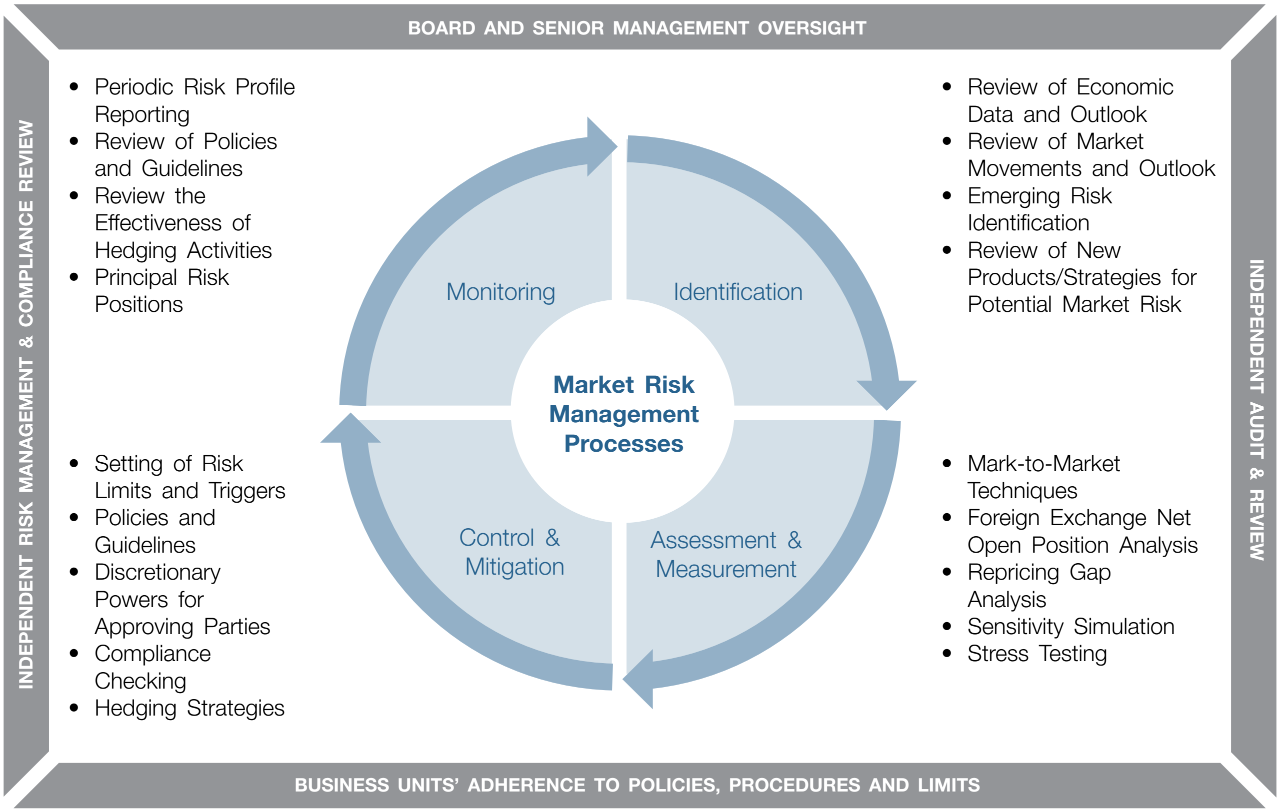
Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2017							
Malaysia	**1,188,012**	**15,620**	**(455)**	**(1,728)**	**13,437**	**1,176,703**	**1,190,140**
Hong Kong & China	**81,425**	**70,156**	**156,220**	**(187,801)**	**38,575**	**56,113**	**94,688**
Cambodia	**53,947**	**29,887**	**10,569**	**(26,183)**	**14,273**	**59,147**	**73,420**
Other countries	**152,282**	**6,231**	**21,866**	**(3,192)**	**24,905**	**25,997**	**50,902**
	1,475,666	**121,894**	**188,200**	**(218,904)**	**91,190**	**1,317,960**	**1,409,150**
2016							
Malaysia	1,208,752	34,837	(10,622)	(8,595)	15,620	1,259,436	1,275,056
Hong Kong & China	150,052	59,033	213,092	(201,969)	70,156	58,105	128,261
Cambodia	37,604	28,077	3,010	(1,200)	29,887	62,577	92,464
Other countries	92,973	–	2,239	3,992	6,231	27,986	34,217
	1,489,381	121,947	207,719	(207,772)	121,894	1,408,104	1,529,998

The movements in the collective assessment allowance for 2017 and 2016 are set out in Note 9 to the financial statements.

6. MARKET RISK

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

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



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

6. MARKET RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Market Risk

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

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
2017				
Interest rate/rate of return risk	**22,241,877**	**(20,440,430)**	**354,836**	**28,387**
Foreign exchange risk	**2,570,332**	**(1,068,582)**	**2,570,332**	**205,627**
Total	**24,812,209**	**(21,509,012)**	**2,925,168**	**234,014**
2016				
Interest rate/rate of return risk	28,272,479	(26,871,792)	690,329	55,226
Foreign exchange risk	2,601,255	(1,451,482)	2,601,255	208,101
Total	30,873,734	(28,323,274)	3,291,584	263,327
Bank				
2017				
Interest rate risk	**20,248,179**	**(19,795,421)**	**322,832**	**25,827**
Foreign exchange risk	**2,917,906**	**(3,803,291)**	**3,803,291**	**304,263**
Total	**23,166,085**	**(23,598,712)**	**4,126,123**	**330,090**
2016				
Interest rate risk	26,486,844	(26,222,397)	653,356	52,269
Foreign exchange risk	3,147,648	(4,245,864)	4,245,864	339,669
Total	29,634,492	(30,468,261)	4,899,220	391,938

7. EQUITY EXPOSURES IN THE BANKING BOOK

The following tables present the equity exposures in the banking book and the gains and losses on equity exposures in the banking book of the Group.

(a) Equity Exposures in the Banking Book

Group	2017 Gross Credit Exposure RM'000	2017 Risk-Weighted Assets RM'000	2016 Gross Credit Exposure RM'000	2016 Risk-Weighted Assets RM'000
Publicly traded				
Investments in unit trust funds	**12,997**	**12,997**	12,577	12,577
Holdings of equity investments	**3,441**	**3,441**	3,167	3,167
	16,438	**16,438**	15,744	15,744
Privately held				
For socio-economic purposes	**130,756**	**130,756**	87,909	87,909
Not for socio-economic purposes	**28,945**	**43,418**	32,625	48,938
	159,701	**174,174**	120,534	136,847
Total	**176,139**	**190,612**	136,278	152,591

(i) Publicly Traded

The investment in unit trust funds comprises bond fund and wholesale income funds, are held for yield purposes. Holdings of equity investments comprise mainly of shares listed in an exchange, are held for dividend yield purpose and to take advantage of favourable movements in equity prices. Decisions concerning investing in equities are made by the Share Investment Committee. Equity positions are monitored against pre-determined cut-loss limits. All publicly traded equity exposures are stated at fair value.

(ii) Privately Held

The privately held equity investments are unquoted and stated at cost adjusted for impairment loss, if any.

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

Group	2017 RM'000	2016 RM'000
Realised gains/(losses) recognised in the statement of profit or loss		
– Investments in unit trust funds	**–**	(2,763)
– Privately held equity investments	**42,870**	–
	42,870	(2,763)
Unrealised gains/(losses) recognised in other comprehensive income		
– Investments in unit trust funds	**4**	(1)
– Publicly traded equity investments	**274**	(562)
	278	(563)

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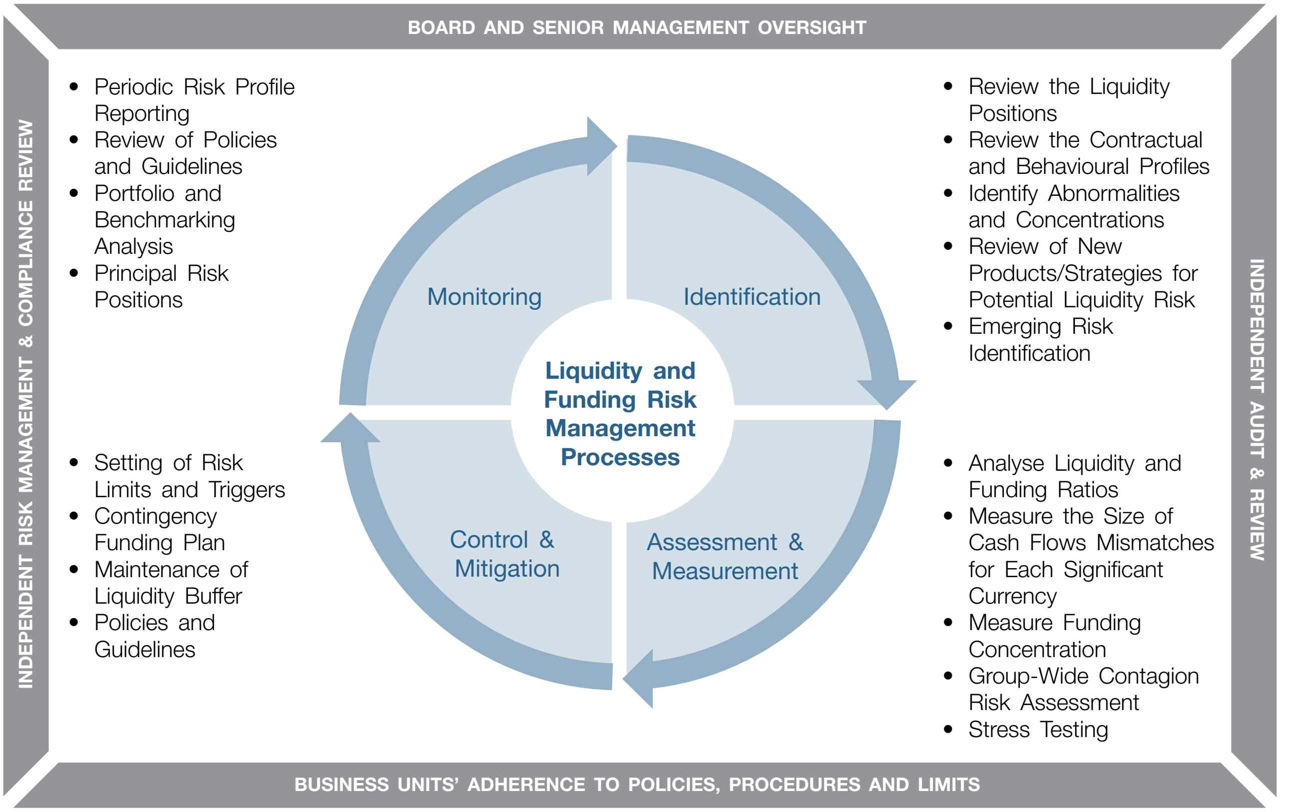
8. LIQUIDITY AND FUNDING RISK

Liquidity risk is the risk that the Group is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

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

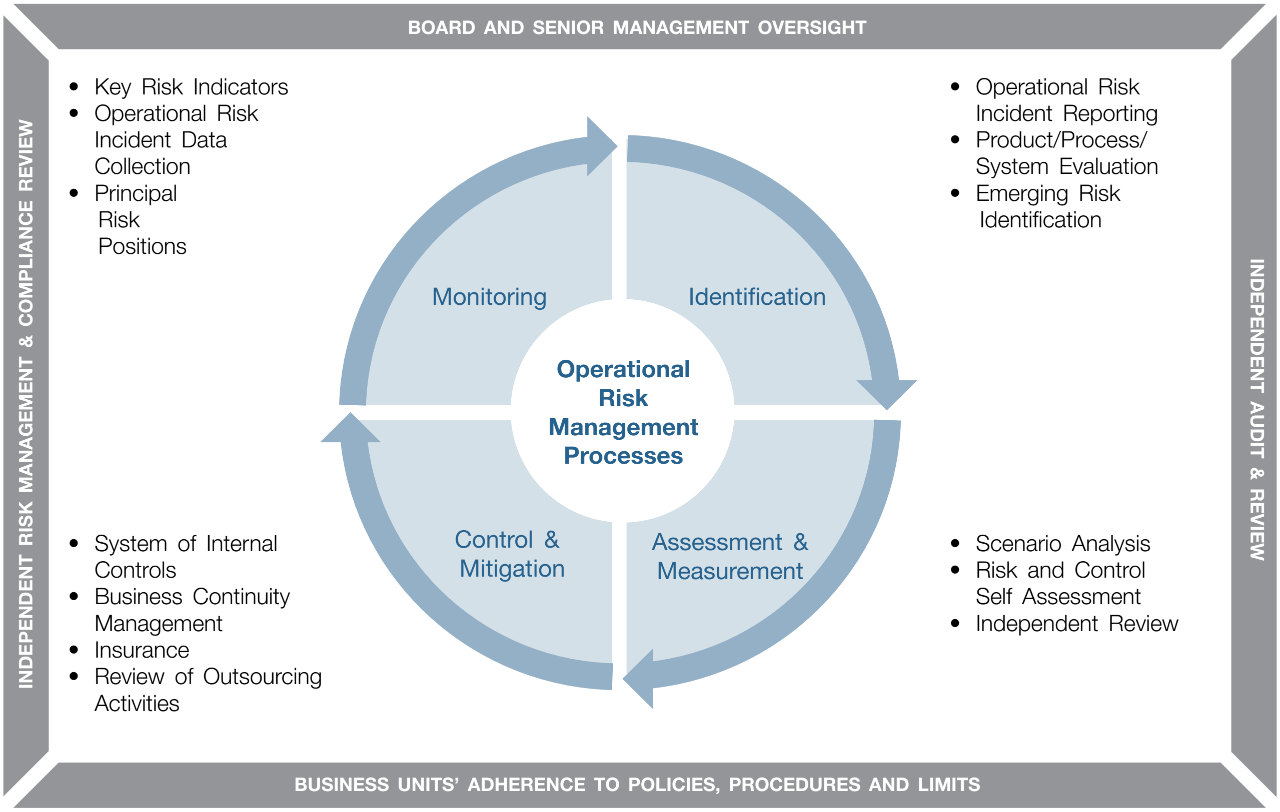


The risk governance and risk management approach for liquidity and funding risk are set out in the liquidity and funding risk section of Note 44 to the financial statements.

9. OPERATIONAL RISK

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

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



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

Minimum Regulatory Capital Requirements for Operational Risk

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

	2017		2016	
	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	**18,620,545**	**1,489,644**	17,364,426	1,389,154
Bank	**12,678,955**	**1,014,316**	11,525,983	922,079

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10. SHARIAH NON-COMPLIANCE RISK

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

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

Islamic Banking Operations

Shariah non-compliance risk emanating from Islamic banking operations is managed through the Shariah Governance Framework ("the Framework") which was endorsed by the Shariah Committee and approved by the Board of Directors of Public Islamic ("the Board of Public Islamic"). The Framework is drawn up in accordance with the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010. The Framework, amongst others, sets out the Shariah governance structure, as well as the adoption of a systematic approach in reviewing Shariah compliance and the reporting process on Shariah matters. The Board of Public Islamic is ultimately responsible for Shariah compliance. In this regard, the Board of Public Islamic, in consultation with the Shariah Committee, approves all policies relating to Shariah matters. The Shariah Committee is presided by qualified members who deliberate and endorse all Shariah matters which are subsequently noted and/or approved by the Board of Public Islamic. On a periodic basis, the members of the Shariah Committee perform on-site inspections at branches to review the operations of Public Islamic to ensure that the operations are conducted in accordance with Shariah rules and principles.

The Shariah Compliance Division, which comprises Shariah Review and Shariah Research & Secretariat 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 & Secretariat is responsible for conducting research on Shariah and Islamic banking contemporary issues and providing Shariah advisory support to branches and business units, as well as coordinating meetings, compiling proposal papers, disseminating Shariah decisions to relevant stakeholders and engaging with relevant parties who wish to seek further deliberations of issues from the Shariah Committee.

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

Internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Public Islamic's 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 (2016: Nil).

10. SHARIAH NON-COMPLIANCE RISK (CONTINUED)

Management of Shariah-Based Funds

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

The Compliance Division 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 Division conducts regular reviews and works closely with the Shariah Adviser to ensure all transactions under the Shariah-based funds comply with the Shariah requirements at all times.

Any securities held by the Shariah-based funds which subsequently turn Shariah non-compliant based on announcements made by the SACSC will be disposed of in the manner as stipulated by the SACSC for listed domestic equities or per cleansing mechanism as prescribed by the Shariah Adviser for unlisted domestic equities and foreign equities. Any excess capital gains derived from such disposal would be channelled to charitable bodies accordingly.

During the financial year, a non-permissible income of RM4,683,866 (2016: RM737,210) 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. The Compliance Division conducts onsite visit to the approved charitable bodies on a quarterly basis and tabled the onsite visit report to the Risk and Compliance Committee for noting.