A32. Capital Adequacy

a) The capital adequacy ratios of the Group and of the Bank below are disclosed pursuant to the requirements of Bank Negara Malaysia ("BNM")'s Risk Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3):

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
Before deducting interim dividends *				
Common Equity Tier I ("CET I") capital ratio	**12.553%**	12.758%	**11.622%**	12.136%
Tier I capital ratio	**13.195%**	13.538%	**12.393%**	13.072%
Total capital ratio	**15.750%**	16.494%	**14.903%**	15.577%
After deducting interim dividends *				
CET I capital ratio	**12.553%**	12.248%	**11.622%**	11.506%
Tier I capital ratio	**13.195%**	13.028%	**12.393%**	12.442%
Total capital ratio	**15.750%**	15.984%	**14.903%**	14.947%

* Refer to interim dividends declared subsequent to the financial period/year end.

	Group		Bank	
	30 September 2018 RM'000	31 December 2017 RM'000	30 September 2018 RM'000	31 December 2017 RM'000
Components of CET I, Tier I and Tier II capital:				
CET I / Tier I capital:				
Share capital	**9,417,653**	9,417,653	**9,417,653**	9,417,653
Other reserves	**1,202,827**	945,620	**718,486**	625,430
Retained profits	**25,124,093**	24,723,059	**21,392,545**	20,811,292
Treasury shares	**-**	(149,337)	**-**	(149,337)
Qualifying non-controlling interests	**697,535**	673,372	**-**	-
Less: Goodwill and other intangible assets	**(2,458,273)**	(2,432,058)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(79,192)**	(70,984)	**-**	-
Less: Defined benefit pension fund assets	**(208,598)**	(231,496)	**(205,873)**	(228,475)
Less: Investment in banking / insurance subsidiary companies and associated companies deducted from CET I capital	**(59,579)**	(41,816)	**(5,629,441)**	(4,503,553)
Total CET I capital	**33,636,466**	32,834,013	**24,997,977**	25,277,617
Additional Tier I capital securities	**99,432**	-	**99,432**	-
Non-innovative Tier I stapled securities	**1,559,840**	1,949,800	**1,559,840**	1,949,800
Qualifying CET I and additional Tier I capital instruments held by third parties	**60,672**	57,550	**-**	-
Total Tier I capital	**35,356,410**	34,841,363	**26,657,249**	27,227,417

A32. Capital Adequacy (continued)

a) The capital adequacy ratios of the Group and of the Bank (continued):

	Group		Bank	
	30 September 2018 RM'000	**31 December 2017 RM'000**	**30 September 2018 RM'000**	**31 December 2017 RM'000**
Tier II capital				
Stage 1 and Stage 2 expected credit loss allowances	**1,464,359**	-	**1,030,967**	-
Collective assessment allowance[1]	**-**	871,293	**-**	549,872
Qualifying regulatory reserves	**1,582,258**	2,076,283	**1,418,405**	1,843,663
Subordinated notes	**2,949,978**	3,949,837	**2,949,978**	3,949,837
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**743,598**	718,418	**-**	-
Less: Investment in banking / insurance subsidiary companies and associated companies deducted from Tier II capital	**-**	(10,454)	**-**	(1,125,888)
Others	**107,459**	-	**-**	-
Total Tier II capital	**6,847,652**	7,605,377	**5,399,350**	5,217,484
Total capital	**42,204,062**	42,446,740	**32,056,599**	32,444,901

[1] Excludes collective assessment allowance on impaired loans/financing restricted from Tier II capital of the Group and of the Bank of RM446,667,000 and RM313,351,000 respectively.

The capital adequacy ratios of the Group consist of total capital and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies. The capital adequacy ratios of the Bank consist of total capital and risk-weighted assets derived from the Bank and from its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd.

A32. Capital Adequacy (continued)

a) The capital adequacy ratios of the Group and of the Bank (continued):

The total risk-weighted assets of the Group and of the Bank are computed based on the following approaches:

(i) Standardised Approach for Credit Risk;
(ii) Standardised Approach for Market Risk; and
(iii) Basic Indicator Approach for Operational Risk.

The capital adequacy ratios of the Group and of the Bank are computed in accordance with BNM's Capital Adequacy Frameworks on Capital Components and Basel II - Risk-Weighted Assets reissued on 2 February 2018. 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
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 their private sector credit exposures outside Malaysia in line with the respective jurisdictions' requirement to maintain their CCyB. Where the prevailing CCyB rate applied in jurisdiction outside Malaysia is more than 2.5%, the CCyB rate for that jurisdiction is capped at 2.5% for the purpose of calculating the Group and the Bank's CCyB, unless specified otherwise by BNM.

The Group's and the Bank's CCyB which are determined based on the weighted average of prevailing CCyB rates of their private sector credit exposures outside Malaysia are insignificant due to their immaterial exposures. The CCyB is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

b) The breakdown of risk-weighted assets by each major risk category of the Group and of the Bank is as follows:

	Group		**Bank**	
	30 September 2018 RM'000	**31 December 2017 RM'000**	**30 September 2018 RM'000**	**31 December 2017 RM'000**
Credit risk	**243,729,364**	235,806,066	**195,949,776**	191,482,831
Market risk	**4,354,145**	2,925,168	**5,126,251**	4,126,123
Operational risk	**19,291,453**	18,620,545	**13,465,800**	12,678,955
Large exposure risk	**581,132**	-	**556,873**	-
	267,956,094	257,351,779	**215,098,700**	208,287,909

A32. Capital Adequacy (continued)

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

	Public Islamic Bank Berhad [1]	Public Investment Bank Berhad [2]	Public Bank (L) Ltd. [3]	Public Bank (Hong Kong) Limited [4]	Public Finance Limited [4]	Cambodian Public Bank Plc [5]	Public Bank Vietnam Limited [6]
30 September 2018							
Before deducting interim dividends: *							
CET I capital ratio	**11.552%**	**42.641%**	**19.334%**	**16.294%**	**22.492%**	**N/A**	**N/A**
Tier I capital ratio	**11.552%**	**42.641%**	**19.334%**	**16.294%**	**22.492%**	**N/A**	**N/A**
Total capital ratio	**15.590%**	**43.154%**	**19.338%**	**17.447%**	**23.540%**	**20.219%**	**28.873%**
After deducting interim dividends: *							
CET I capital ratio	**11.552%**	**42.641%**	**19.334%**	**16.294%**	**22.492%**	**N/A**	**N/A**
Tier I capital ratio	**11.552%**	**42.641%**	**19.334%**	**16.294%**	**22.492%**	**N/A**	**N/A**
Total capital ratio	**15.590%**	**43.154%**	**19.338%**	**17.447%**	**23.540%**	**20.219%**	**28.873%**
31 December 2017							
Before deducting interim dividends: *							
CET I capital ratio	11.992%	40.290%	N/A	16.172%	24.022%	N/A	N/A
Tier I capital ratio	11.992%	40.290%	23.521%	16.172%	24.022%	N/A	N/A
Total capital ratio	16.114%	40.799%	23.544%	17.319%	25.061%	18.385%	30.776%
After deducting interim dividends: *							
CET I capital ratio	11.852%	37.592%	N/A	16.172%	21.769%	N/A	N/A
Tier I capital ratio	11.852%	37.592%	23.521%	16.172%	21.769%	N/A	N/A
Total capital ratio	15.975%	38.101%	23.544%	17.319%	22.808%	18.385%	30.776%

* Refer to interim dividends declared subsequent to the financial period/year end.

A32. Capital Adequacy (continued)

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

[1] The risk-weighted assets of Public Islamic Bank Berhad ("PIBB") are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Frameworks for Islamic Banks on Capital Components and Risk-Weighted Assets reissued on 2 February 2018. The minimum regulatory capital adequacy requirements before including capital conservation buffer and CCyB for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively. PIBB is required to maintain a capital conservation buffer of up to 2.5% on transition arrangements and a CCyB if this buffer is applied by regulators in countries which PIBB has exposures to.

[2] The risk-weighted assets of Public Investment Bank Berhad ("PIVB") are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Frameworks on Capital Components and Basel II - Risk-Weighted Assets reissued on 2 February 2018. The minimum regulatory capital adequacy requirements before including capital conservation buffer and CCyB for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively. PIVB is required to maintain a capital conservation buffer of up to 2.5% on transition arrangements and a CCyB if this buffer is applied by regulators in countries which PIVB has exposures to.

[3] Effective from 1 July 2018, the risk-weighted assets of Public Bank (L) Ltd ("PBL") are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with the Banking Capital Adequacy Framework - Guidelines on Capital Components and Risk Weighted Assets issued by the Labuan Financial Services Authority ("Labuan FSA"). The minimum regulatory capital adequacy requirements for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively. Prior to 1 July 2018, the capital adequacy ratios of PBL for capital compliance on a standalone basis were computed in accordance with the Guidelines on Risk-Weighted Capital Adequacy issued by the Labuan FSA, which was based on the Basel I capital accord. The minimum regulatory capital adequacy requirements for the Tier I capital ratio and total capital ratio under Basel I were 4.0% and 8.0% respectively.

[4] These two subsidiary companies have adopted the Standardised Approach for Credit and Market Risk. Public Bank (Hong Kong) Limited has adopted the Basic Indicator Approach for Operational Risk and Public Finance Limited has adopted the Standardised Approach for Operational Risk. The capital adequacy ratios of these two subsidiary companies are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Banking Capital Rules. These two subsidiaries are required to maintain a capital conservation buffer of up to 2.5% on a transitional arrangement and a CCyB of 1.875% (2017: 1.25%) as imposed by Hong Kong Monetary Authority to their private sector exposures in Hong Kong with effect from 1 January 2018.

A32. Capital Adequacy (continued)

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

[5] The amount presented here is the solvency ratio of Cambodian Public Bank Plc ("Campu Bank"), which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with Prakas B7-010-182 and B7-00-46 (amended by NBC Prakas No. B7-04-206 dated 29 December 2004 and NBC Prakas No. B7-07-135 dated 27 August 2007) issued by the National Bank of Cambodia. This ratio is derived as Campu Bank's net worth divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory solvency ratio requirement is 15.0%.

[6] The amount presented here is the capital adequacy ratio of Public Bank Vietnam Limited ("PBVN"), which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with SBV Circular No.19/2017/TT-NHNN being amendment of and supplement to Circular No.36/2014/TT-NHNN on safety ratios, limits in operations of credit institutions issued by the State Bank of Vietnam. This ratio is derived as PBVN's capital divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory capital adequacy ratio requirement is 9.0%.