PILLAR 3 DISCLOSURE
As at 31 December 2018

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

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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.

	2018		2017	
	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	**243,758,710**	**19,500,697**	235,806,066	18,864,485
Market Risk	**4,313,276**	**345,062**	2,925,168	234,014
Operational Risk	**19,472,018**	**1,557,761**	18,620,545	1,489,644
Large Exposure Risk	**581,132**	**46,491**	–	–
Total	**268,125,136**	**21,450,011**	257,351,779	20,588,143
Bank				
Credit Risk	**195,930,586**	**15,674,447**	191,482,831	15,318,626
Market Risk	**4,994,901**	**399,592**	4,126,123	330,090
Operational Risk	**13,517,986**	**1,081,439**	12,678,955	1,014,316
Large Exposure Risk	**556,873**	**44,550**	–	–
Total	**215,000,346**	**17,200,028**	208,287,909	16,663,032

The Group and the Bank do not have any capital requirement for Large Exposure Risk as at 31 December 2017 as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.

1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank and its subsidiary and associated companies. The Group offers Islamic banking financial services via the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("Public Islamic"). Information on subsidiary and associated companies of the Group is available in Notes 18 and 19 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.

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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/revise 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/revise 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 Committees

Identify Risks that are Applicable to the Group

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

Assess the Applicable Risks

For risks that are identified to be applicable to the Group/the respective entities, ensure the risk assessments are supported by the following:
- consistent and robust risk assessment approaches
- quality data used for risk measurement
- sound techniques and methodologies that commensurate with the banking institution 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.

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2. CAPITAL MANAGEMENT (CONTINUED)

(c) Stress Test

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

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

(ii) To drive the development of stress test parameters, assumptions and scenarios that are relevant and effective, 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 the relevant committees prior to the execution of the stress test exercise; and

(v) To ensure the adverse unexpected 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 reviewed and 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 and Internal Controls.

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="9">10. COMPLIANCE COMMITTEE
(supported by Compliance Function)</td><td rowspan="9">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="3">ENSURE IMPLEMENTATION OF RISK AND COMPLIANCE POLICY</td><td>5. Dedicated Risk Committees
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
Risk Management Function
Compliance Function
Shariah Compliance Function</td></tr>
<tr><td rowspan="2">IMPLEMENT AND COMPLY WITH RISK POLICY</td><td>8. Support Functions
Human Resource
Information Technology
Finance
Banking Operations
Credit Control, Administration & Supervision
Property
Security</td></tr>
<tr><td>9. Business Functions
Corporate Lending
Investment Banking
Islamic Banking
Retail Banking and Financing Operations
Share Broking
Fund Management
Treasury and Capital Market Operations</td></tr>
</table>

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3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance Structure (continued)

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.

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 risk strategy and risk appetite.

Compliance Committee

The Compliance Committee maintains overall responsibility to oversee the design and implementation of sound compliance management system in assessing the compliance profile, and evaluating the effectiveness of the overall management of compliance risks. The Compliance Committee also deliberates on compliance issues identified regularly to ensure such issues are resolved effectively, and ensures appropriate infrastructure, resources, processes and systems are in place for compliance risk management.

Audit Committee

The Audit Committee reviews the internal control issues identified by the Internal Audit Division, the external auditors, the regulatory authorities and the senior management, including the timeliness of the remedial actions taken to address and resolve the audit issues identified and evaluates 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.

Shariah Committee

The Shariah Committee advises the Board on Shariah related matters. It provides objective and sound advice to ensure that the Islamic operations, business and activities are in compliance with Shariah. The Shariah Committee deliberates and endorses all Shariah matters 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.

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance Structure (continued)

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.

(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 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.

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3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(d) Risk Management and Internal Controls

The Group's risk management and internal control system provide reasonable assurance on the adequacy and effectiveness of the risk management approach in identifying, measuring, continuous monitoring and reporting of all the relevant and material risks on a group and entity-wide basis, including new and emerging risks.

The key elements of risk management and internal controls are as follows:

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	
	2018	**2017**	**2018**	**2017**
Before deducting interim dividends*:				
Common equity tier I ("CET I") capital ratio	**13.628%**	12.758%	**12.657%**	12.136%
Tier I capital ratio	**14.270%**	13.538%	**13.428%**	13.072%
Total capital ratio	**16.840%**	16.494%	**15.963%**	15.577%
After deducting interim dividends*:				
CET I capital ratio	**13.092%**	12.248%	**11.989%**	11.506%
Tier I capital ratio	**13.734%**	13.028%	**12.760%**	12.442%
Total capital ratio	**16.304%**	15.984%	**15.295%**	14.947%

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

The capital adequacy ratios of the banking subsidiary companies of the Bank are set out in Note 54(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 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 jurisdictions 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's 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.

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4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
CET I/Tier I capital				
Share capital	**9,417,653**	9,417,653	**9,417,653**	9,417,653
Other reserves	**1,247,057**	945,620	**759,892**	625,430
Retained profits	**28,051,532**	24,723,059	**23,619,722**	20,811,292
Treasury shares	**–**	(149,337)	**–**	(149,337)
Qualifying non-controlling interests	**702,333**	673,372	**–**	–
Less: Goodwill and other intangible assets	**(2,454,755)**	(2,432,058)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(81,374)**	(70,984)	**–**	–
Less: Defined benefit pension fund assets	**(249,036)**	(231,496)	**(245,535)**	(228,475)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	**(92,847)**	(41,816)	**(5,644,441)**	4,503,553
Total CET I capital	**36,540,563**	32,834,013	**27,211,898**	25,277,617
Additional Tier 1 capital securities	**99,462**	–	**99,462**	–
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	**61,325**	57,550	**–**	–
Total Tier I capital	**38,261,190**	34,841,363	**28,871,200**	27,227,417
Tier II capital				
Stage 1 and Stage 2 expected credit loss allowances	**1,706,858**	–	**1,277,949**	–
Collective assessment allowance[1]	**–**	871,293	**–**	549,872
Qualifying regulatory reserves	**1,340,126**	2,076,283	**1,171,183**	1,843,663
Subordinated notes	**2,999,980**	3,949,837	**2,999,980**	3,949,837
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**724,569**	718,418	**–**	–
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from Tier II capital	**–**	(10,454)	**–**	(1,125,888)
Others	**119,871**	–	**–**	–
Total Tier II capital	**6,891,404**	7,605,377	**5,449,112**	5,217,484
Total capital	**45,152,594**	42,446,740	**34,320,312**	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 RM446.7 million and RM313.4 million respectively.*

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure (continued)

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

Capital Instruments	Capital Component	Main Features
Issued by the Bank:		
(a) Non-Innovative Tier I stapled securities ("NIT-I")	Tier I Capital	• Subordinated to all liabilities, including depositors and Subordinated Notes/Sukuk Murabahah, except to Basel III-ATICS • 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) Basel III-Compliant Additional Tier I capital securities ("Basel III-ATICS")	Tier I Capital	• Subordinated to all liabilities, including depositors and Subordinated Notes/Sukuk Murabahah, except to NIT-I • Unsecured • Perpetual, with 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-ATICS 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-ATICS
(c) Basel III-Compliant Subordinated notes ("Basel III-Compliant Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to NIT-I and Basel III-ATICS • 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 and Basel III-ATICS • 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 27 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 capital instruments which were issued after 31 December 2012 are fully qualified as regulatory capital.

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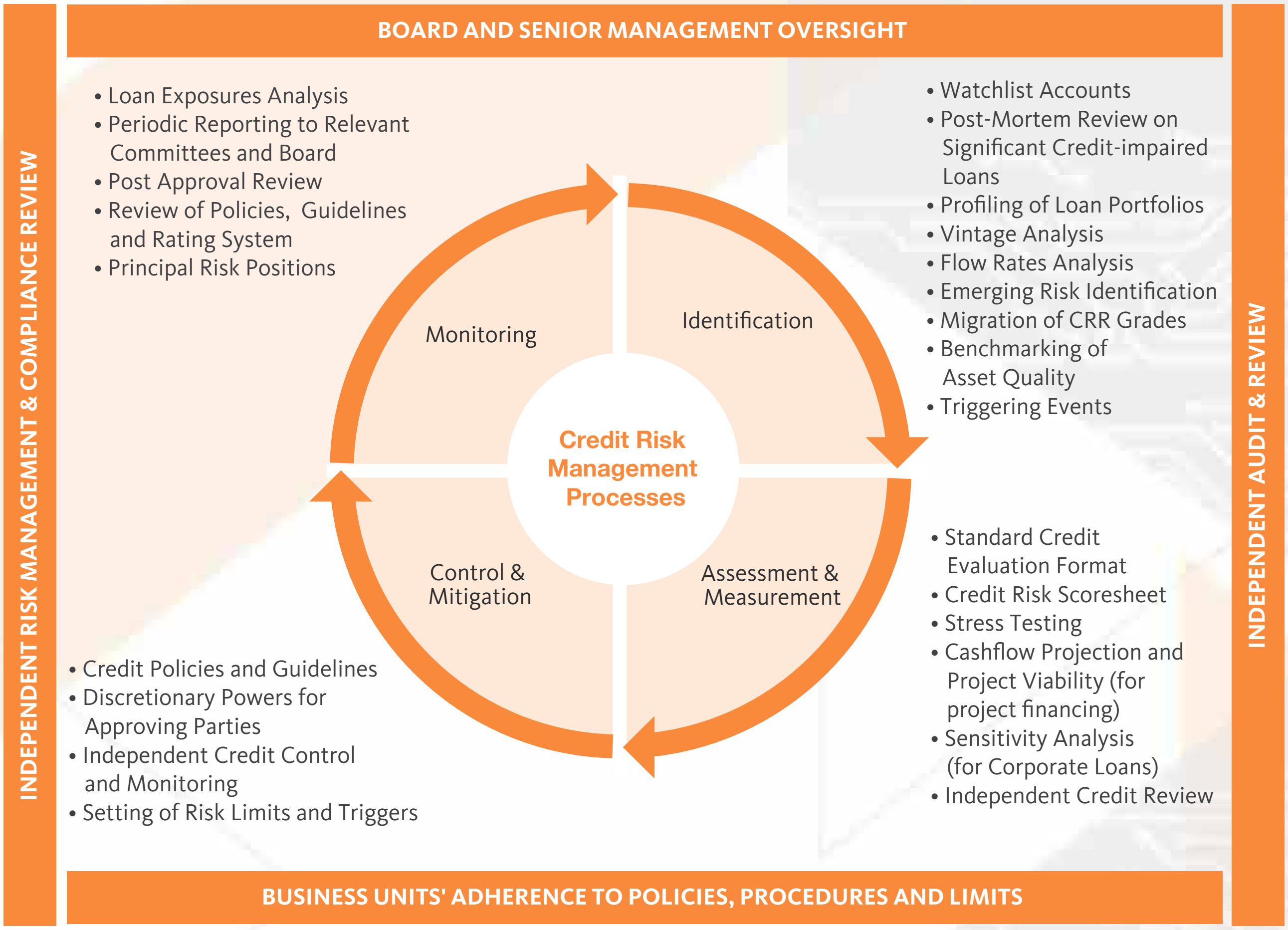
5. CREDIT RISK

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 48 to the financial statements.

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
2018				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	61,117,206	60,916,325	1,663,396	133,072
Public Sector Entities	2,072,039	2,072,039	49,633	3,971
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	15,060,728	15,060,728	4,228,340	338,267
Insurance Companies, Securities Firms and Fund Managers	444,896	444,878	444,878	35,590
Corporates	91,583,089	89,305,235	69,474,704	5,557,976
Regulatory Retail	128,526,289	127,553,860	98,105,114	7,848,409
Residential Mortgages	109,103,738	108,928,547	46,409,880	3,712,790
Higher Risk Assets	72,106	72,105	108,158	8,653
Other Assets	6,174,885	6,174,885	3,587,561	287,005
Equity Exposures	742,415	742,415	742,415	59,393
Defaulted Exposures	1,205,769	1,205,269	1,502,760	120,221
	416,103,160	412,476,286	226,316,839	18,105,347
Off-Balance Sheet Exposures				
Credit-related Exposures	21,139,417	20,462,894	16,996,889	1,359,751
Derivative Financial Instruments	886,469	886,469	371,057	29,685
Other Treasury-related Exposures	323,665	323,665	64,733	5,179
Defaulted Exposures	6,969	6,969	9,192	735
	22,356,520	21,679,997	17,441,871	1,395,350
Total Credit Exposures	438,459,680	434,156,283	243,758,710	19,500,697

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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
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, DFIs and 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)

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
2018				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	40,342,425	40,342,425	54,228	4,338
Public Sector Entities	446,323	446,323	2,007	161
Banks, DFIs and MDBs	10,358,329	10,358,329	2,558,965	204,717
Insurance Companies, Securities Firms and Fund Managers	8,979	8,961	8,961	717
Corporates	77,026,973	75,583,503	58,043,625	4,643,490
Regulatory Retail	97,815,466	97,010,777	73,517,528	5,881,402
Residential Mortgages	86,732,285	86,584,459	36,396,246	2,911,700
Higher Risk Assets	62,022	62,022	93,033	7,443
Other Assets	4,480,282	4,480,282	3,400,615	272,049
Equity Exposures	6,220,982	6,220,982	6,220,982	497,678
Defaulted Exposures	916,817	916,415	1,189,260	95,141
	324,410,883	322,014,478	181,485,450	14,518,836
Off-Balance Sheet Exposures				
Credit-related Exposures	17,564,626	16,942,391	13,972,145	1,117,771
Derivative Financial Instruments	1,055,728	1,055,728	402,536	32,203
Other Treasury-related Exposures	323,665	323,665	64,733	5,179
Defaulted Exposures	4,260	4,260	5,722	458
	18,948,279	18,326,044	14,445,136	1,155,611
Total Credit Exposures	343,359,162	340,340,522	195,930,586	15,674,447

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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)

5.1 Distribution of Credit Exposures

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

(a) Industrial analysis
(b) Geographical analysis based on geographical location where the credit risk resides
(c) Maturity analysis based on the residual contractual maturity

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

(a) Industry Analysis

Group	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
2018									
On-Balance Sheet Exposures									
Cash and balances with banks	5,235,329	9,504,889	–	–	–	–	–	–	14,740,218
Reverse repurchase agreements	200,881	–	–	–	–	–	–	–	200,881
Financial assets at fair value through profit or loss*	1,924,256	–	–	–	31,929	–	–	–	1,956,185
Derivative financial assets	–	185,891	–	–	–	–	–	–	185,891
Financial investments at fair value through other comprehensive income*	34,458,019	6,312,336	289,394	680,435	255,099	–	–	–	41,995,283
Financial investments at amortised cost (Gross)	11,641,144	10,589,151	1,567,698	1,619,513	1,605,054	–	–	–	27,022,560
Gross loans, advances and financing	1,318,357	10,262,582	14,128,779	42,150,665	46,305,196	118,535,265	41,044,922	43,555,813	317,301,579
Statutory deposits with Central Banks	10,279,227	–	–	–	–	–	–	–	10,279,227
	65,057,213	36,854,849	15,985,871	44,450,613	48,197,278	118,535,265	41,044,922	43,555,813	413,681,824
Commitments and Contingencies									
Contingent liabilities	2,456	119,522	569,836	826,396	1,014,359	–	–	666,447	3,199,016
Commitments	518,609	1,633,583	3,748,542	11,715,846	11,107,701	14,136,868	65,580	14,222,292	57,149,021
	521,065	1,753,105	4,318,378	12,542,242	12,122,060	14,136,868	65,580	14,888,739	60,348,037
Total Credit Exposures	65,578,278	38,607,954	20,304,249	56,992,855	60,319,338	132,672,133	41,110,502	58,444,552	474,029,861

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5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (Continued)

(a) Industry Analysis (Continued)

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

* *Excluding equity securities which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (Continued)

(b) Geographical Analysis

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2018					
On-Balance Sheet Exposures					
Cash and balances with banks	9,141,156	2,951,967	1,423,505	1,223,590	14,740,218
Reverse repurchase agreements	200,881	–	–	–	200,881
Financial assets at fair value through profit or loss*	1,956,185	–	–	–	1,956,185
Derivative financial assets	140,861	4,948	–	40,082	185,891
Financial investments at fair value through other comprehensive income*	41,772,878	–	–	222,405	41,995,283
Financial investments at amortised cost (Gross)	22,234,980	2,028,587	1,323,520	1,435,473	27,022,560
Gross loans, advances and financing	293,447,564	15,884,113	4,355,773	3,614,129	317,301,579
Statutory deposits with Central Banks	9,153,911	–	1,032,714	92,602	10,279,227
	378,048,416	20,869,615	8,135,512	6,628,281	413,681,824
Commitments and Contingencies					
Contingent liabilities	2,512,565	111,329	142,933	432,189	3,199,016
Commitments	53,818,214	1,642,247	1,130,555	558,005	57,149,021
	56,330,779	1,753,576	1,273,488	990,194	60,348,037
Total Credit Exposures	434,379,195	22,623,191	9,409,000	7,618,475	474,029,861
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

** Excluding equity securities which do not have any credit risk.*

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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
2018					
On-Balance Sheet Exposures					
Cash and balances with banks	**14,740,218**	**–**	**–**	**–**	**14,740,218**
Reverse repurchase agreements	**200,881**	**–**	**–**	**–**	**200,881**
Financial assets at fair value through profit or loss*	**1,764,617**	**–**	**191,568**	**–**	**1,956,185**
Derivative financial assets	**79,033**	**16,334**	**79,866**	**10,658**	**185,891**
Financial investments at fair value through other comprehensive income*	**8,003,422**	**19,185,617**	**11,864,929**	**2,941,315**	**41,995,283**
Financial investments at amortised cost (Gross)	**4,890,901**	**5,755,011**	**11,614,113**	**4,758,419**	**27,018,444**
Gross loans, advances and financing	**33,476,534**	**25,630,391**	**30,813,477**	**227,381,177**	**317,301,579**
Statutory deposits with Central Banks	**–**	**–**	**–**	**10,279,227**	**10,279,227**
Total On-Balance Sheet Exposures	**63,155,606**	**50,587,353**	**54,563,953**	**245,370,796**	**413,677,708**
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

* *Excluding equity securities which do not have any credit risk.*

Approximately 15% (2017: 16%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 72% (2017: 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% (2017: 51%) of the portfolio and are traditionally longer term in nature and well secured.

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future cash requirements since the Group expects many of these commitments (such as direct credit substitutes) to expire 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 48 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 (2017: 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.

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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
2018				
Contingent Liabilities				
Direct credit substitutes	974,325		974,325	579,964
Transaction-related contingent items	1,650,611		825,305	449,892
Short-term self-liquidating trade-related contingencies	574,080		114,816	90,843
	3,199,016		1,914,446	1,120,699
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	26,224,596		13,111,789	10,851,604
– not exceeding one year	23,502,389		4,700,477	3,969,022
Unutilised credit card lines	7,098,371		1,419,674	1,064,756
Forward asset purchases	323,665		323,665	64,733
	57,149,021		19,555,605	15,950,115
Derivative Financial Instruments				
Foreign exchange related contracts:				
– up to one year	22,574,272	57,831	300,368	98,401
– more than one year to five years	3,253,717	56,821	370,170	185,190
Interest/profit rate related contracts:				
– up to one year	5,139,280	21,202	30,750	10,205
– more than one year to five years	4,626,640	39,379	144,614	56,974
– more than five years	426,008	10,658	40,563	20,283
Commodity related contracts:				
– up to one year	382	–	4	4
	36,020,299	185,891	886,469	371,057
Total Off-Balance Sheet Exposures	96,368,336	185,891	22,356,520	17,441,871

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)

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. (Continued)

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:				
– up to one year	20,822,638	94,115	351,229	111,653
– more than one year to five years	1,649,368	55,952	245,812	123,615
Interest/profit rate related contracts:				
– up to one year	1,450,000	613	2,439	518
– more than one year to five years	9,180,800	69,420	254,338	86,964
– more than five years	295,833	6,218	27,533	13,766
Commodity related contracts:				
– up to 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**

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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)

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. (Continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2018				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	937,413		937,413	552,896
Transaction-related contingent items	1,382,478		691,239	350,919
Short-term self-liquidating trade-related contingencies	121,726		24,345	22,676
	2,441,617		1,652,997	926,491
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	21,269,141		10,634,120	8,824,868
– not exceeding one year	19,505,430		3,901,086	3,186,027
Unutilised credit card lines	6,799,934		1,359,987	1,019,990
Forward asset purchases	323,665		323,665	64,733
	47,898,170		16,218,858	13,095,618
Derivative Financial Instruments				
Foreign exchange related contracts:				
– up to one year	22,040,029	55,107	294,685	94,892
– more than one year to five years	3,253,717	56,821	370,170	185,190
Interest rate related contracts:				
– up to one year	5,315,200	21,345	31,333	10,230
– more than one year to five years	5,173,920	37,452	157,334	58,332
– more than five years	2,000,000	22,376	157,376	31,475
Commodity related contracts:				
– up to one year	382	–	4	4
	37,783,248	193,101	1,010,902	380,123
Total	88,123,035	193,101	18,882,757	14,402,232

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)

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. (Continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2018				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	4,136		4,136	4,136
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	82,798		16,560	16,355
Derivative Financial Instruments				
Interest rate related contracts:				
– up to one year	124,080	–	310	155
– more than one year to five years	82,720	2,300	3,953	1,976
– more than five years	426,008	10,658	40,563	20,282
	632,808	12,958	44,826	22,413
Total	719,742	12,958	65,522	42,904
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	88,842,777	206,059	18,948,279	14,445,136

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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)

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. (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:				
– up to one year	20,151,324	90,483	343,156	108,705
– more than one year to five years	1,649,368	55,952	245,812	123,615
Interest rate related contracts:				
– up to one year	2,050,000	1,889	5,064	1,043
– more than one year to five years	9,908,175	69,118	275,989	89,572
– more than five years	2,000,000	22,772	177,771	35,554
Commodity related contracts:				
– up to 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)

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. (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:				
– more than one year to five years	202,625	2,087	5,734	2,866
– more than five years	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

PILLAR 3 DISCLOSURE

As at 31 December 2018

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.

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
2018				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	61,117,206	–	200,881	–
Public Sector Entities	2,072,039	1,823,874	–	–
Banks, DFIs and MDBs	15,060,728	435,548	–	–
Insurance Companies, Securities Firms and Fund Managers	444,896	–	18	–
Corporates	91,583,089	7,163,846	2,277,854	–
Regulatory Retail	128,526,289	2	972,429	–
Residential Mortgages	109,103,738	–	175,191	–
Higher Risk Assets	72,106	–	1	–
Other Assets	6,174,885	–	–	–
Equity Exposures	742,415	–	–	–
Defaulted Exposures	1,205,769	–	500	–
	416,103,160	9,423,270	3,626,874	–
Off-Balance Sheet Exposures				
Credit-related Exposures	21,139,417	60,794	676,523	–
Derivative Financial Instruments	886,469	–	–	–
Other Treasury-related Exposures	323,665	–	–	–
Defaulted Exposures	6,969	–	–	–
	22,356,520	60,794	676,523	–
Total Credit Exposures	438,459,680	9,484,064	4,303,397	–

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As at 31 December 2018

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
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)

5.4 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

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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			
	Sovereigns and Central Banks	Corporates	Banking Institutions	
			For Exposure Greater Than Six Months Original Maturity	For Exposure Less Than Six Months Original Maturity
1	0%	20%	20%	20%
2	20%	50%	50%	20%
3	50%	100%	50%	20%
4	100%	100%	100%	50%
5	100%	150%	100%	50%
6	150%	150%	150%	150%

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

5. CREDIT RISK (CONTINUED)

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

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

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

Group Exposure Class	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 →							
2018								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	15,641,830	410,850	126,789	-	-	-		16,179,469
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	1,062,511	56,910,876	-	274,650	2,831,226	-		61,079,263
– Public Sector Entities	186,099	1,823,874	-	-	-	-		2,009,973
– Banks, DFIs and MDBs	-	435,586	-	-	-	-		435,586
– Corporates	-	6,680,353	-	-	-	-		6,680,353
	1,248,610	65,850,689	-	274,650	2,831,226	-		70,205,175
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	7,318,155	3,890,876	1,539,390	269,980	138,032	-		13,156,433
– Corporates	423,246	186,754	-	-	-	-		610,000
– Regulatory Retail	-	2	-	-	-	-		2
	7,741,401	4,077,632	1,539,390	269,980	138,032	-		13,766,435
(iv) Exposures risk-weighted using ratings of Public Sector Entities								
– Public Sector Entities	45,164	-	-	-	-	-		45,164
Total Rated Exposures	24,677,005	70,339,171	1,666,179	544,630	2,969,258	-		100,196,243
(b) Total Unrated Exposures							315,906,917	315,906,917
	24,677,005	70,339,171	1,666,179	544,630	2,969,258	-	315,906,917	416,103,160

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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 (Continued)

Group	Rating Categories							
	1	2	3	4	5	6	Unrated	Total
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	94,543	-	-	-	-	-		94,543
– Regulatory Retail	320	-	-	-	-	-		320
	94,863	-	-	-	-	-		94,863
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	-	18,640	-	-	-	-		18,640
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	209,026	295,112	109,108	1,761	1,204	-		616,211
– Corporates	9,885	2,955	409	-	-	-		13,249
– Regulatory Retail	-	36	-	-	-	-		36
	218,911	298,103	109,517	1,761	1,204	-		629,496
Total Rated Exposures	313,774	316,743	109,517	1,761	1,204	-		742,999
(b) Total Unrated Exposures							21,613,521	21,613,521
	313,774	316,743	109,517	1,761	1,204	-	21,613,521	22,356,520
Total Credit Exposures before Credit Risk Mitigation	24,990,779	70,655,914	1,775,696	546,391	2,970,462	-	337,520,438	438,459,680

5. CREDIT RISK (CONTINUED)

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

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

Group Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
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

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As at 31 December 2018

5. CREDIT RISK (CONTINUED)

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

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

Group Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
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

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

5. CREDIT RISK (CONTINUED)

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

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

The following tables present the credit exposures of the Group and 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
2018												
0%	58,975,267	1,823,874	435,548	-	6,679,670	-	-	-	2,549,756	-	70,464,115	-
20%	490,728	251,837	11,402,002	-	16,169,503	320	-	-	46,960	-	28,361,350	5,672,270
35%	-	-	-	-	-	-	79,057,063	-	-	-	79,057,063	27,669,972
50%	2	-	4,259,674	-	611,319	68,778	23,505,432	-	-	-	28,445,205	14,222,602
75%	-	-	-	-	-	127,504,517	561,892	-	-	-	128,066,409	96,049,807
100%	1,568,978	-	275,320	464,929	72,852,158	11,686,351	7,829,985	-	3,578,169	742,415	98,998,305	98,998,305
150%	-	-	-	-	178,467	462,161	40,573	82,635	-	-	763,836	1,145,754
Total	61,034,975	2,075,711	16,372,544	464,929	96,491,117	139,722,127	110,994,945	82,635	6,174,885	742,415	434,156,283	243,758,710
Risk-Weighted Assets by Exposures	1,667,125	50,367	4,685,557	464,929	76,659,419	108,042,433	47,734,951	123,953	3,587,561	742,415	243,758,710	
Average Risk Weights	2.7%	2.4%	28.6%	100.0%	79.4%	77.3%	43.0%	150.0%	58.1%	100.0%	56.1%	
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)

Group Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation: 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)

Bank Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation											
	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
2018												
0%	40,311,200	436,290	329,225	-	5,771,126	-	-	-	2,114,619	-	48,962,460	-
20%	114,896	13,705	9,837,462	-	14,441,868	320	-	-	-	-	24,408,251	4,881,650
35%	-	-	-	-	-	-	63,998,986	-	-	-	63,998,986	22,399,645
50%	2	-	1,321,484	-	611,225	3,182	18,121,572	-	-	-	20,057,465	10,028,733
75%	-	-	-	-	-	102,192,391	386,832	-	-	-	102,579,223	76,934,417
100%	34,977	-	489,728	29,010	60,402,960	4,602,236	5,554,481	-	2,275,667	6,220,982	79,610,041	79,610,041
150%	-	-	-	-	172,798	381,005	9,580	70,717	-	-	634,100	951,150
1250%	-	-	-	-	-	-	-	-	89,996	-	89,996	1,124,950
Total	40,461,075	449,995	11,977,899	29,010	81,399,977	107,179,134	88,071,451	70,717	4,480,282	6,220,982	340,340,522	195,930,586
Risk-Weighted Assets by Exposures	57,957	2,741	3,117,962	29,010	63,856,144	81,819,692	37,319,406	106,075	3,400,617	6,220,982	195,930,586	
Average Risk Weights	0.1%	0.6%	26.0%	100.0%	78.4%	76.3%	42.4%	150.0%	75.9%	100.0%	57.6%	
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)

Bank Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation 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)

5.5 Credit Quality of Gross Loans, Advances and Financing

Gross Loans, Advances and Financing by Credit Quality

All loans, advances and financing are categorised as either:

(a) neither past due nor credit-impaired;

(b) past due but not credit-impaired; or

(c) credit-impaired.

A loan/advance/financing is considered past due when any payment (whether principal and/or interest/profit) due under the contractual terms are received late or missed.

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

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

(b) outstanding amount is in excess of approved limit for ninety (90) days or more in the case of revolving facilities; or

(c) where a loan/financing is in arrears or the outstanding amount has been in excess of the approved limit for less than ninety (90) days, the loan/financing exhibits indications of significant credit weaknesses; or

(d) where a loan/financing has been classified as rescheduled and restructured ("R&R"), the loan/financing will be classified as credit-impaired until repayments based on the revised and/or restructured terms have been continuously paid for a period of at least six (6) months; or

(e) for repayments scheduled on intervals of ninety (90) days or more, as soon as default occurs.

In addition, loans/financing that are considered individually significant, the Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan/financing is credit-impaired.

The gross loans, advances and financing analysed by credit quality are set out in the credit risk section of Note 48 (ii) 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)(ii) and (iii) to the financial statements.

(a) Past Due But Not Credit-impaired

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

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

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5. CREDIT RISK (CONTINUED)

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

(a) Past Due But Not Credit-impaired (Continued)

(i) Economic purpose

Group	2018 RM'000	2017 RM'000
Purchase of securities	**686**	15,543
Purchase of transport vehicles	**9,747,156**	10,790,985
Purchase of landed properties	**14,454,844**	14,565,611
(Of which: – residential	**10,182,267**	9,974,193
– non-residential)	**4,272,577**	4,591,418
Purchase of fixed assets (excluding landed properties)	**2,286**	6,115
Personal use	**797,950**	750,065
Credit card	**291,753**	307,033
Purchase of consumer durables	**319**	108
Construction	**49,848**	116,417
Working capital	**1,259,146**	1,131,997
Other purpose	**69,844**	82,814
	26,673,832	27,766,688

(ii) Geographical

Group	2018 RM'000	2017 RM'000
Malaysia	**25,886,412**	26,870,575
Hong Kong & China	**237,238**	288,142
Cambodia	**226,702**	291,877
Other countries	**323,480**	316,094
	26,673,832	27,766,688

(iii) Aging

Group	2018 RM'000	2017 RM'000
1 day to 30 days	**15,905,838**	16,343,558
31 to 59 days	**7,669,213**	8,334,470
60 to 89 days	**3,098,781**	3,088,660
	26,673,832	27,766,688

5. CREDIT RISK (CONTINUED)

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

(b) Credit-impaired Loans, Advances and Financing

Tables (i)-(ii) present the analyses of credit-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[1] RM'000 (Restated)	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
2018							
Purchase of securities	722	–	–	–	–	20,095	20,095
Purchase of transport vehicles	304,027	836	1,877	(121)	2,592	493,988	496,580
Purchase of landed properties	803,830	8,063	15,270	(6,430)	16,903	723,267	740,170
(Of which: – residential	569,671	1,967	1,944	(669)	3,242	358,535	361,777
– non-residential)	234,159	6,096	13,326	(5,761)	13,661	364,732	378,393
Purchase of fixed assets (excluding landed properties)	7,500	2,080	172	12	2,264	3,652	5,916
Personal use	141,699	29,450	142,816	(141,427)	30,839	125,475	156,314
Credit card	19,572	–	–	–	–	47,217	47,217
Purchase of consumer durables	–	–	–	–	–	4	4
Construction	69,316	6,418	1,919	(2,324)	6,013	70,128	76,141
Mergers and acquisitions	–	–	–	–	–	179	179
Working capital	263,975	34,024	47,710	(34,858)	46,876	307,669	354,545
Other purpose	10,092	1,769	1,813	(824)	2,758	142,494	145,252
	1,620,733	82,640	211,577	(185,972)	108,245	1,934,168	2,042,413

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5. CREDIT RISK (CONTINUED)

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

(b) Credit-impaired Loans, Advances and Financing (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
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

Note:

1 *Restated due to the adoption of MFRS 9 Financial Instruments on 1 January 2018. The financial effects of the adoption of MFRS 9 are discussed in Note 57 to the financial statements.*

The movements in loss allowance which reflect the expected credit losses model on impairment for 2018 and collective assessment allowance for 2017 are set out in Note 12 to the financial statements.

5. CREDIT RISK (CONTINUED)

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

(b) Credit-impaired Loans, Advances and Financing (Continued)

(ii) Geographical

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January[1] RM'000 (Restated)	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
2018							
Malaysia	1,300,431	13,437	24,399	(8,542)	29,294	1,738,131	1,767,425
Hong Kong & China	104,861	30,025	141,205	(141,595)	29,635	123,819	153,454
Cambodia	65,858	14,273	25,889	478	40,640	42,762	83,402
Other countries	149,583	24,905	20,084	(36,313)	8,676	29,456	38,132
	1,620,733	82,640	211,577	(185,972)	108,245	1,934,168	2,042,413

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

Note:

1 *Restated due to the adoption of MFRS 9 Financial Instruments on 1 January 2018. The financial effects of the adoption of MFRS 9 are discussed in Note 57 to the financial statements.*

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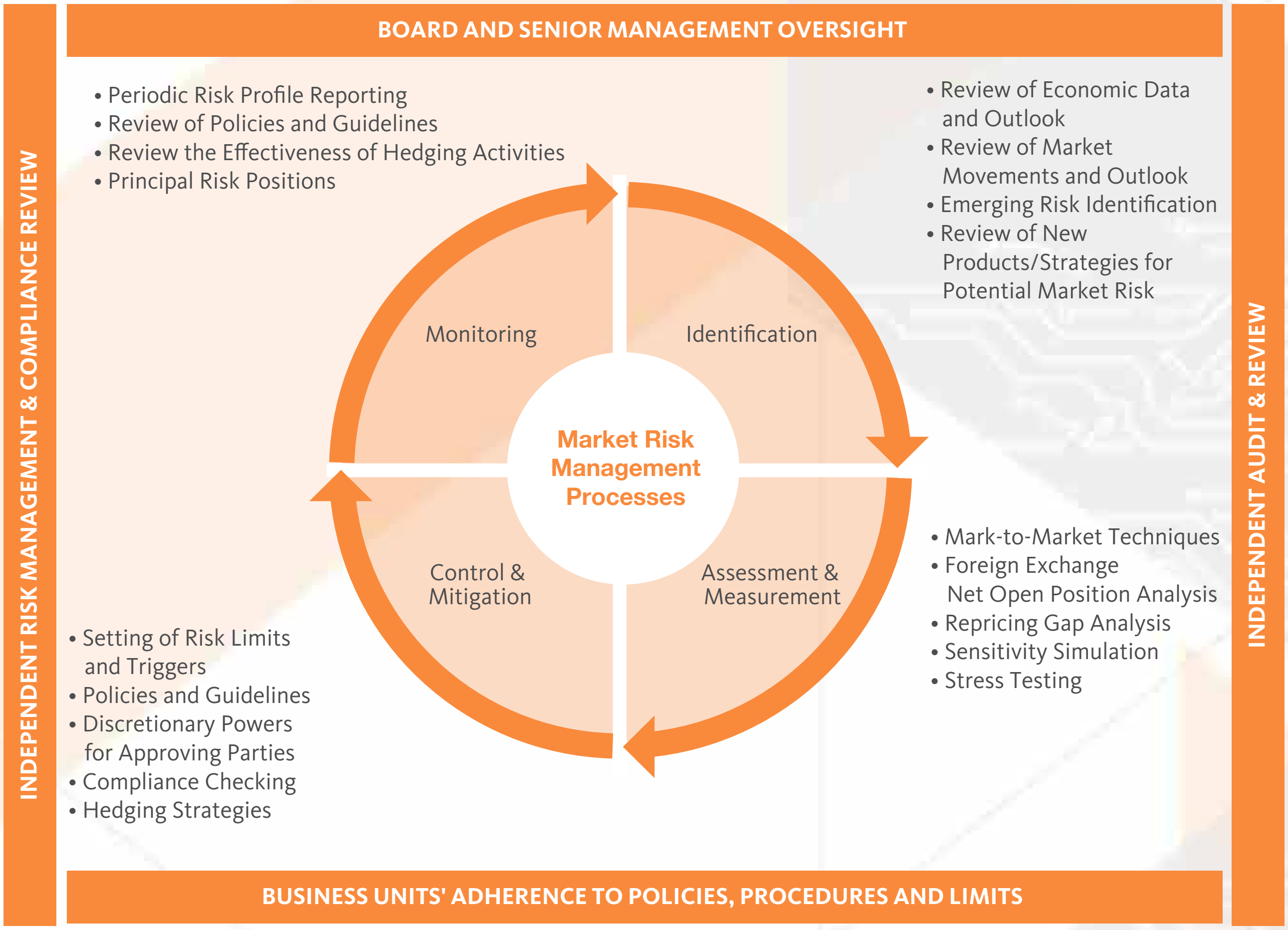
6. MARKET RISK

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 48 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.

Group	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2018				
Interest rate/rate of return risk	**25,730,145**	**(24,054,399)**	**1,986,236**	**158,899**
Foreign exchange risk	**2,326,897**	**(1,324,812)**	**2,327,040**	**186,163**
Total	**28,057,042**	**(25,379,211)**	**4,313,276**	**345,062**
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

Bank	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2018				
Interest rate risk	**25,227,697**	**(23,614,190)**	**1,974,659**	**157,973**
Foreign exchange risk	**1,266,958**	**(3,020,243)**	**3,020,242**	**241,619**
Total	**26,494,655**	**(26,634,433)**	**4,994,901**	**399,592**
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

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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

	2018		2017	
Group	**Gross Credit Exposure RM'000**	**Risk-Weighted Assets RM'000**	**Gross Credit Exposure RM'000**	**Risk-Weighted Assets RM'000**
Publicly traded				
Investments in unit trust funds	**12,956**	**12,956**	12,997	12,997
Holdings of equity investments	**2,204**	**2,204**	3,441	3,441
	15,160	**15,160**	16,438	16,438
Privately held				
For socio-economic purposes	**727,255**	**727,255**	130,756	130,756
Not for socio-economic purposes	**41,690**	**62,535**	28,945	43,418
	768,945	**789,790**	159,701	174,174
Total	**784,105**	**804,950**	176,139	190,612

(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 Group and the bank has adopted the requirements of MFRS 9 on 1 January 2018. Upon adoption of MFRS 9, the privately held equity investments are stated at fair value. Prior to the adoption of MFRS 9, these equity investments are stated at cost adjusted for impairment loss, if any.

7. EQUITY EXPOSURES IN THE BANKING BOOK (CONTINUED)

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

Group	2018 RM'000	2017 RM'000
Realised gains recognised in profit or loss		
– Privately held equity investments	–	42,870
Unrealised revaluation gain recognised in profit or loss		
– Privately held equity investments	8,049	–
Unrealised revaluation gain/(loss) recognised in other comprehensive income		
– Investments in unit trust funds	(6)	4
– Publicly traded equity investments	(1,236)	274
– Privately held equity investments	28,165	–
	26,923	278

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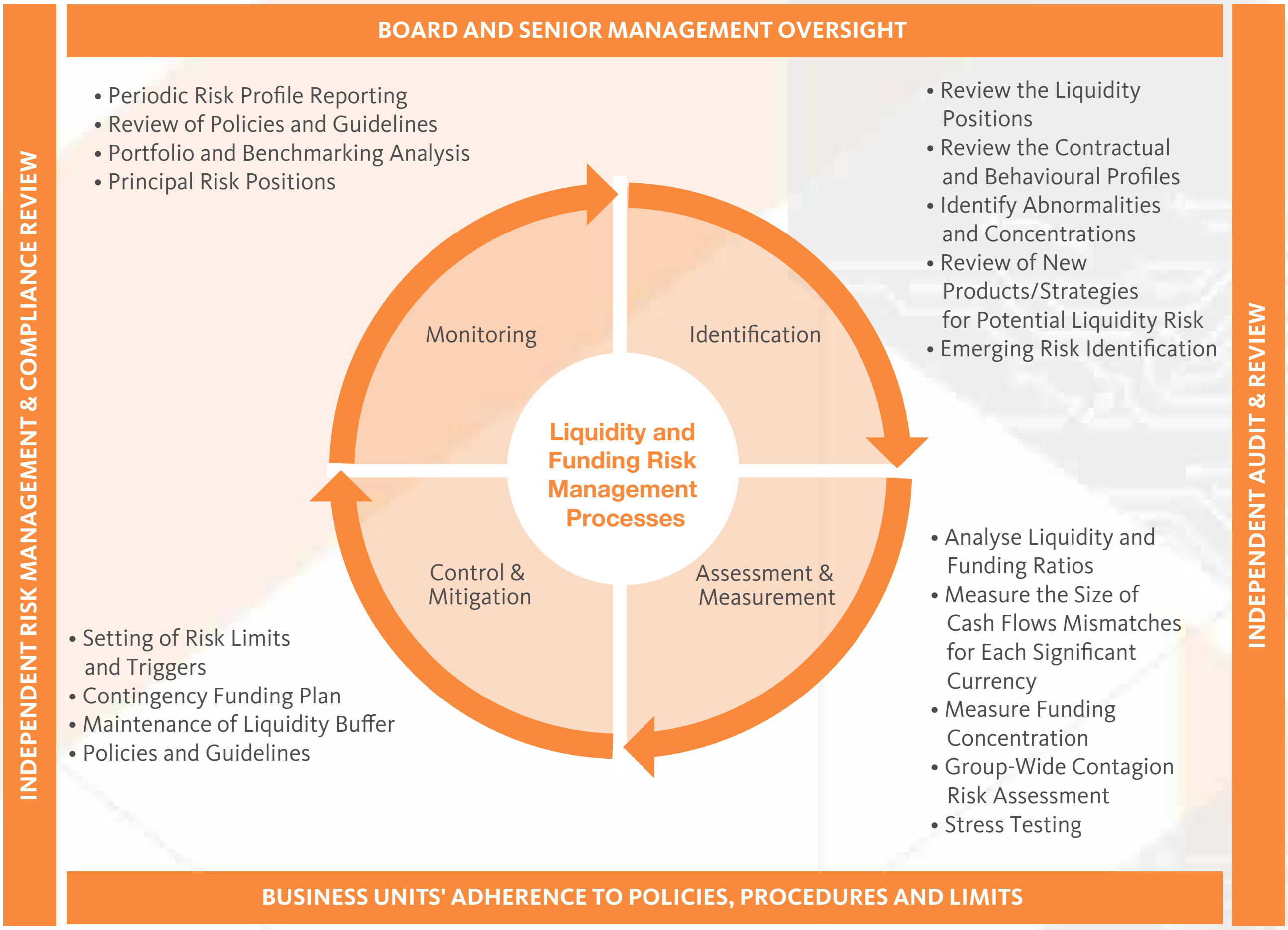
8. LIQUIDITY AND FUNDING RISK

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.

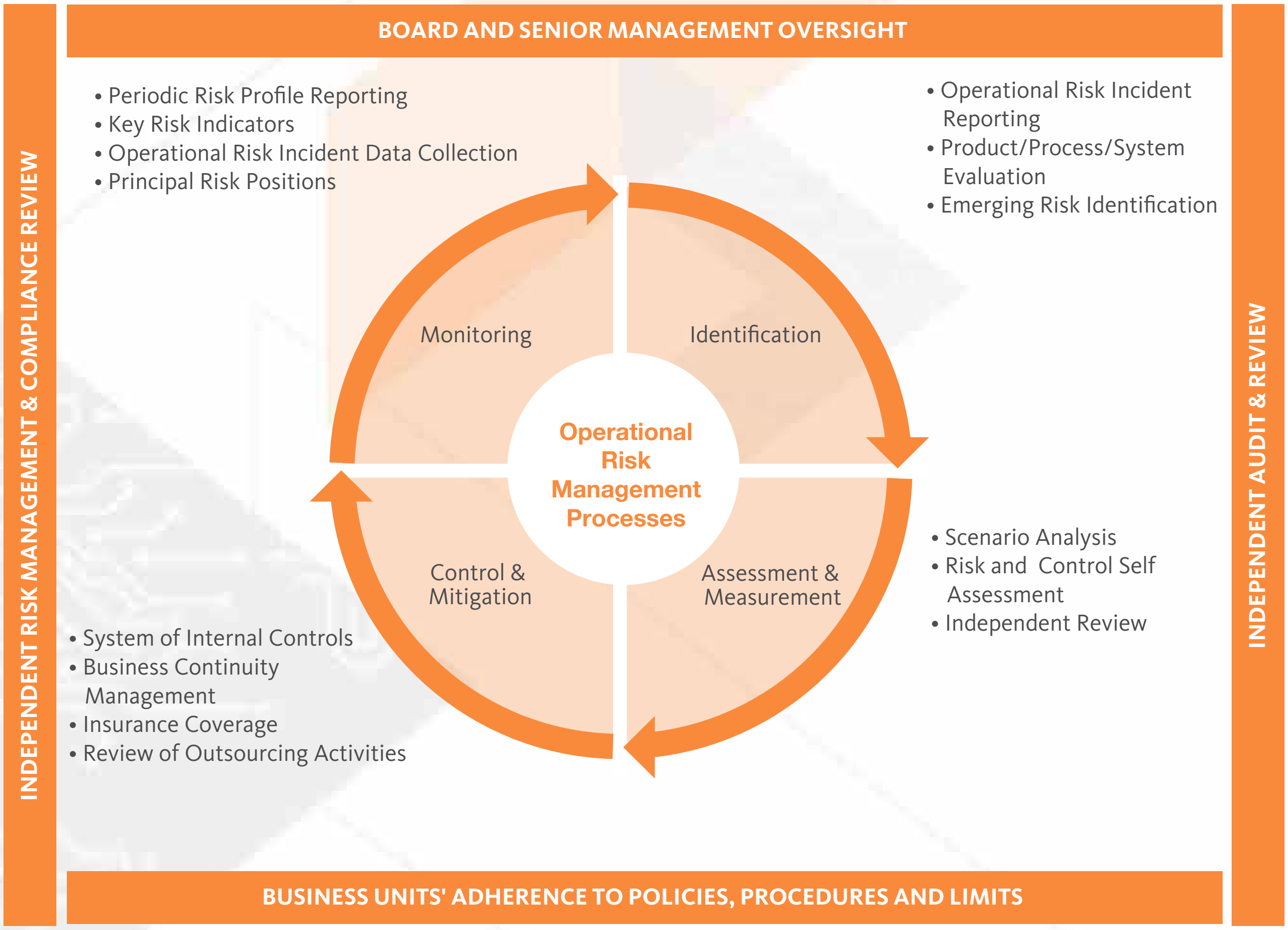


The risk governance and risk management approach for liquidity and funding risk are set out in the liquidity and funding risk section of Note 48 to the financial statements.

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 48 to the financial statements.

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9. OPERATIONAL RISK (CONTINUED)

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.

	2018		2017	
	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	**19,472,018**	**1,557,761**	18,620,545	1,489,644
Bank	**13,517,986**	**1,081,439**	12,678,955	1,014,316

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.

10. SHARIAH NON-COMPLIANCE RISK (CONTINUED)

Compliance assessments are performed periodically by compliance function to verify that Public Islamic is in compliance with regulatory requirements including Shariah requirements. Any identified non-compliances are escalated to both the Shariah Committee and the Public Islamic's Risk Management Committee on Compliance Function.

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 (2017: Nil).

Management of Shariah-Based Funds

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

The Compliance 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.

Shariah-compliant securities which are reclassified to be Shariah non-compliant upon review of the securities by the SACSC or the Shariah Adviser will result in the Shariah non-compliant securities being disposed off. For the purpose of purification, any capital gain arising from the disposal of the Shariah non-compliant securities made at a market price/valuation, at the time of the announcement/review day can be kept. However, gains derived from the disposal of the Shariah non-compliant securities after the announcement/review day at a market price/valuation that is above the closing price/valuation on the announcement/review day should be deposited into a separate account which is segregated from the funds' account.

The funds may channel such tainted income to baitumal and/or charitable bodies as may be advised by the Shariah Adviser. The funds may also at its discretion distribute the tainted income to the investors as soon as practically possible which shall be advised by the Shariah Adviser. Should such income be distributed to investors, the Manager will inform investors that it is the investors' obligation to purify it in accordance to Shariah principles upon receiving it from the funds.

During the financial year, a tainted income of RM5,506,908 (2017: RM4,683,866) under the Shariah-based funds arising from the disposal of Shariah non-compliant securities has been channelled to charitable bodies and distributed to investors as advised by the Shariah Adviser. The Compliance Division conducts onsite visit to the approved charitable bodies on a yearly basis and tabled the onsite visit report to the Risk and Compliance Committee for noting.