

RESILIENTALWAYS

2012 ANNUAL REPORT

Public Bank Berhad (6463-H)

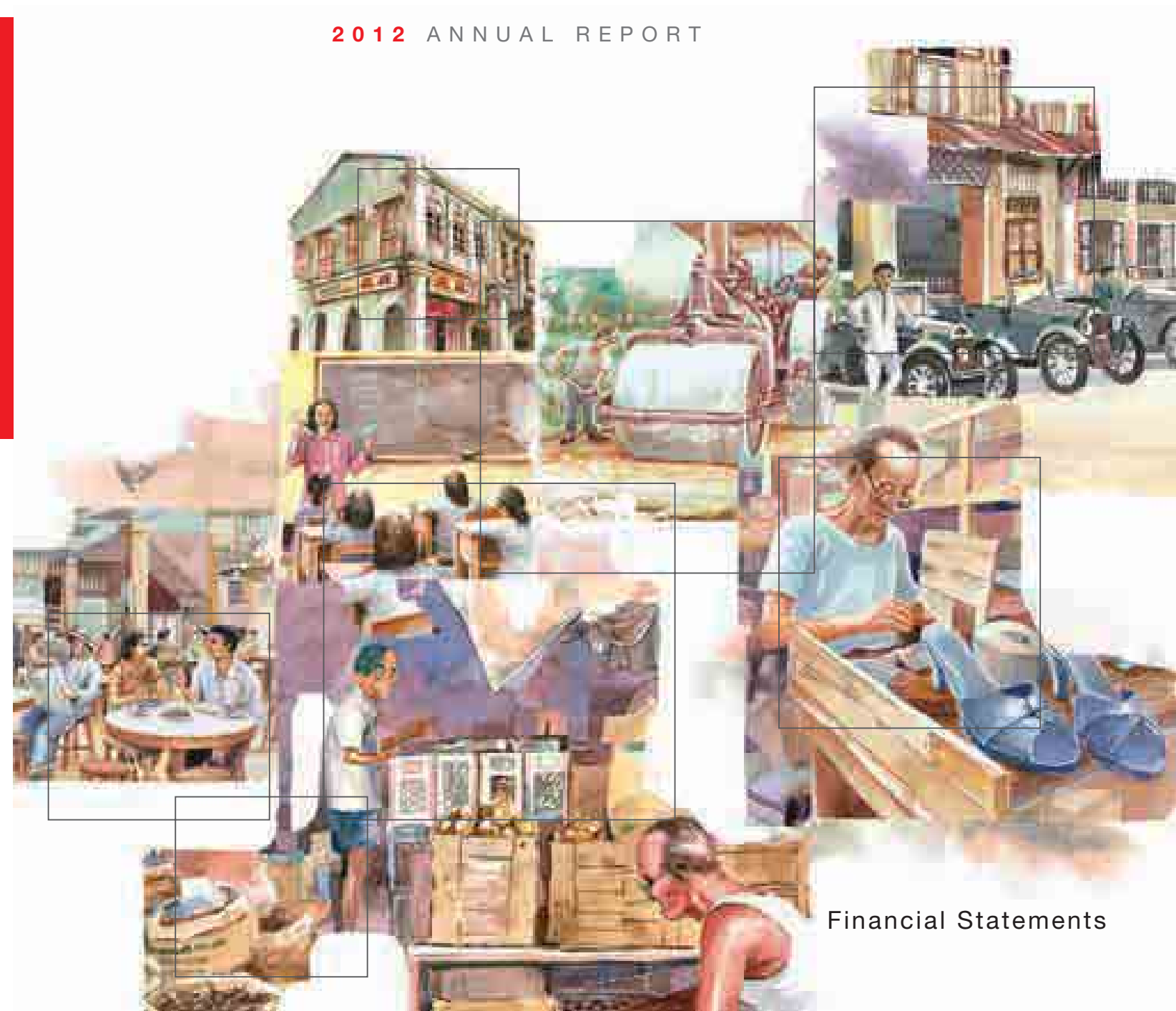
RESILIENTALWAYS

PUBLIC BANK BERHAD (6463-H)

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Financial Statements 2012 Annual Report



Financial Statements

RESILIENT ALWAYS is reflected through Malaysia's rich tapestry of old-world trades that have been woven into our social fabric today. They are symbols of resilience and resoluteness as they can still be found in our towns despite changing trends. Through these times, Public Bank has reached out to many of these entrepreneurs and helped them evolve and remain relevant.

Public Bank is a company of enduring strength and resilience as time and momentum marches onwards. Over the years, we have overcome challenging market environments and global economic crises to demonstrate resilience in weathering adversity. We credit our endurance to a visionary approach to managing our business, and to the commitment of our people. The outstanding and resilient track record of the Group is a testament of our consistently strong financial and business performance. We are well-placed to forge ahead to continue delivering excellence to our customers and shareholders in the coming years and beyond.

CORPORATE PHILOSOPHY

Public Bank Cares ...

FOR ITS **CUSTOMERS**

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

FOR ITS **EMPLOYEES**

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

FOR ITS **SHAREHOLDERS**

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

FOR THE **COMMUNITY** It Serves

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

... With Integrity

CORPORATE MISSION

**TO SUSTAIN THE POSITION OF BEING THE MOST EFFICIENT,
PROFITABLE AND RESPECTED PREMIER FINANCIAL
INSTITUTION IN MALAYSIA.**

CONTENTS

Financial Highlights	2
Simplified Group Balance Sheet	3
Five Year Group Financial Summary	4
Summary of Five-Year Group Growth	6
Segmental Analysis	10
Analysis of the Financial Statements	11
Statement of Responsibility by Directors	17
Financial Statements	18

Basel II

Pillar 3 Disclosure	308
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FINANCIAL HIGHLIGHTS

PROFIT BEFORE TAX

RM 5.10^b

	Group		Bank	
	2012	2011 [#]	2012	2011 [#]
PROFITABILITY (RM'MILLION)				
Operating revenue	14,058	12,756	10,630	9,436
Operating profit	5,386	5,200	4,765	4,367
Profit before tax expense and zakat	5,104	4,878	4,682	4,328
Net profit attributable to equity holders of the Bank	3,869	3,684	3,749	3,451

KEY BALANCE SHEET DATA (RM'MILLION)				
Total assets	274,625	250,559	228,384	206,563
Loans, advances and financing	196,052	175,953	162,969	143,385
Deposits from customers	225,042	200,371	181,688	159,384
Shareholders' equity	17,944	15,722	16,823	14,757

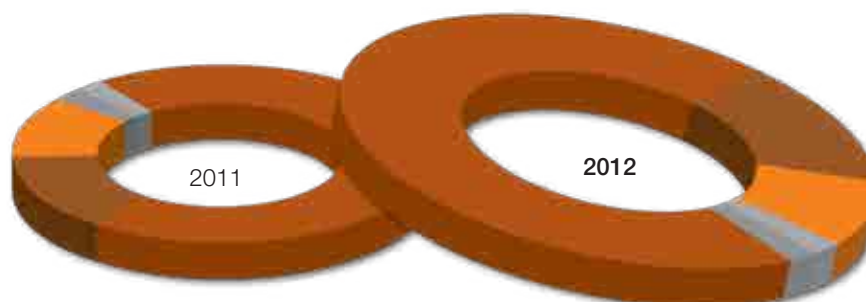
FINANCIAL RATIOS (%)				
Profitability Ratios				
Net interest margin on average interest bearing assets ¹	3.1	3.3	2.9	3.0
Net return on equity ²	24.5	26.8	25.4	26.7
Return on average assets	1.9	2.0	2.2	2.2
Return on average risk-weighted assets	3.0	3.2	3.3	3.4
Capital Adequacy Ratios				
Tier I capital ratio	11.4	11.2	13.6	13.5
Risk-weighted capital ratio	14.6	15.6	14.5	15.6
Asset Quality Ratio				
Gross impaired loans ratio	0.7	0.9	0.6	0.8

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

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

[#] Restated as a result of retrospective application of MFRS 139.

SIMPLIFIED GROUP BALANCE SHEET

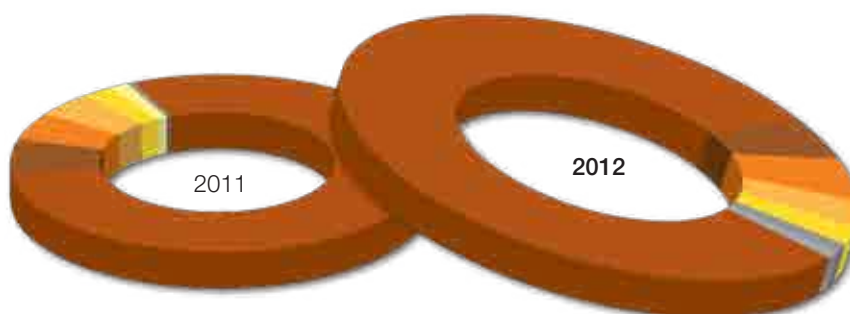


ASSETS 2011

70.2%	Loans, advances and financing
14.0%	Portfolio of financial investments
11.2%	Cash and balances with banks and reverse repurchase agreements
2.4%	Other assets (including intangible assets)
2.2%	Statutory deposits with Central Banks

ASSETS 2012

71.4%	Loans, advances and financing
14.6%	Portfolio of financial investments
9.8%	Cash and balances with banks and reverse repurchase agreements
2.1%	Other assets (including intangible assets)
2.1%	Statutory deposits with Central Banks



LIABILITIES & EQUITY 2011

80.0%	Deposits from customers
6.3%	Deposits from banks
4.9%	Reserves
4.5%	Debt securities issued and other borrowed funds
2.6%	Bills and acceptances payable and other liabilities
1.4%	Share capital
0.3%	Non-controlling interests

LIABILITIES & EQUITY 2012

81.9%	Deposits from customers
4.7%	Deposits from banks
5.2%	Reserves
3.6%	Debt securities issued and other borrowed funds
3.0%	Bills and acceptances payable and other liabilities
1.3%	Share capital
0.3%	Non-controlling interests

FIVE-YEAR GROUP FINANCIAL SUMMARY

Year Ended 31 December	2012	2011 [#]	2010 [#]	2009	2008
OPERATING RESULTS (RM'Million)					
Operating profit	5,386	5,200	4,738	4,015	3,948
Profit before tax expense and zakat	5,104	4,878	4,086	3,321	3,379
Net profit attributable to equity holders of the Bank	3,869	3,684	3,048	2,517	2,581
KEY BALANCE SHEET DATA (RM'Million)					
Total assets	274,625	250,559	226,988	217,136	196,163
Loans, advances and financing	196,052	175,953	154,864	135,336	118,386
Total liabilities	255,981	234,140	212,644	205,421	185,934
Deposits from customers	225,042	200,371	176,872	170,892	151,185
Core customer deposits	177,035	157,297	143,639	127,623	111,204
Paid-up capital	3,532	3,532	3,532	3,532	3,532
Shareholders' equity	17,944	15,722	13,692	11,023	9,537
Commitments and contingencies	79,458	70,847	69,206	61,435	52,867
SHARE INFORMATION AND VALUATION					
Share Information					
Per share (sen)					
Basic/Diluted earnings	110.5	105.2	87.2	73.3	76.9
Net dividend					
– Cash dividend	50.0	48.0	45.5	41.3	41.0
– Share dividend	–	–	–	1 for 68	1 for 35
Net assets	512.4	448.9	391.0	319.4	284.2
Share price as at 31 December (RM)					
– Local	16.28	13.38	13.02	11.30	8.85
– Foreign	16.30	13.20	13.00	11.26	8.75
Market capitalisation (RM'Million)	57,521	47,066	45,964	39,868	31,152
Valuations (Local Share)					
Net dividend yield (%)	3.1	3.6	3.5	3.7	4.6
Net dividend yield (including share dividend) (%)	3.1	3.6	3.5	5.1	7.5
Dividend payout ratio (%)	45.3	48.3	52.3	56.6	53.2
Dividend payout ratio (including share dividend) (%)	45.3	48.3	52.3	79.3	84.8
Price to earnings multiple (times)	14.7	12.7	14.9	15.4	11.5
Price to book multiple (times)	3.2	3.0	3.3	3.5	3.1

PROFIT BEFORE TAX

↑ RM 5.10b

GROSS IMPAIRED LOANS RATIO

0.7%

Five-Year Group Financial Summary

CUSTOMER DEPOSITS

↑ **12.3%**

GROSS LOANS

↑ **11.3%**

Year Ended 31 December	2012	2011 [#]	2010 [#]	2009	2008
FINANCIAL RATIOS (%)					
Profitability Ratios					
Net interest margin on average interest bearing assets ¹	3.1	3.3	3.4	3.2	3.2
Net return on equity ²	24.5	26.8	27.1	26.1	30.4
Return on average assets	1.9	2.0	1.8	1.6	1.8
Return on average risk-weighted assets	3.0	3.2	3.1	2.8	3.2
Cost/income ratio	30.5	29.8	30.7	32.6	31.2
Asset Quality Ratios					
Net loan to deposit ratio	87.1	87.8	87.6	79.2	78.3
Gross impaired loans ratio ³	0.7	0.9	1.1	1.4	1.0
Loan loss coverage	126.0	113.8	94.2	120.3 [^]	159.7
Capital Adequacy Ratios					
Tier I capital ratio	11.4	11.2	11.3	10.5	8.3
Risk-weighted capital ratio	14.6	15.6	14.2	14.6	13.7
Capital base (RM'Million)	26,298	25,416	19,992	18,221	15,775
Tier 1 – equity capital	16,544	14,334	12,040	9,161	8,157
– debt capital	3,893	3,916	3,896	3,964	1,440
Tier 2 – loan impairment reserves	1,038	1,073	1,002	2,052	1,760
– debt capital	4,870	6,138	3,102	3,218	4,419
Others	(47)	(45)	(48)	(174)	(1)
PRODUCTIVITY RATIOS					
No. of employees	17,625	17,511	17,369	17,169	16,160
Gross loan per employee (RM'000)	11,222	10,148	9,013	8,015	7,467
Deposits per employee (RM'000)	12,768	11,443	10,183	9,953	9,356
Profit before tax per employee (RM'000)	290	279	235	193	209
MARKET SHARE (%)					
Domestic market share					
Loans, advances & financing	16.7	16.4	16.3	15.9	14.8
Deposits from customers	15.2	14.9	14.8	16.3	15.5
Core customer deposits	16.7	16.1	16.3	15.4	14.7

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

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

³ FYE 2009 to 2012 are based on a more stringent criteria on classification of impaired loans under MFRS/FRS 139. FYE 2008 is based on 3 months classification under BNM/GP3.

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

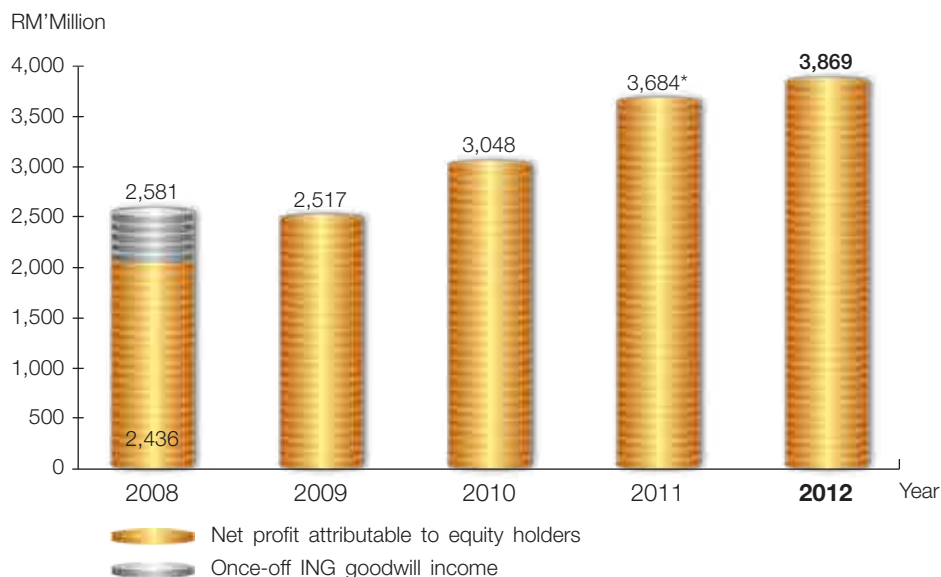
[#] Restated as a result of retrospective application of MFRS 139. For FYE 2010, only relevant balance sheet items have been restated to position as at 1 January 2011.

SUMMARY OF FIVE-YEAR GROUP GROWTH

Resilient Performance Amid Challenging Environment

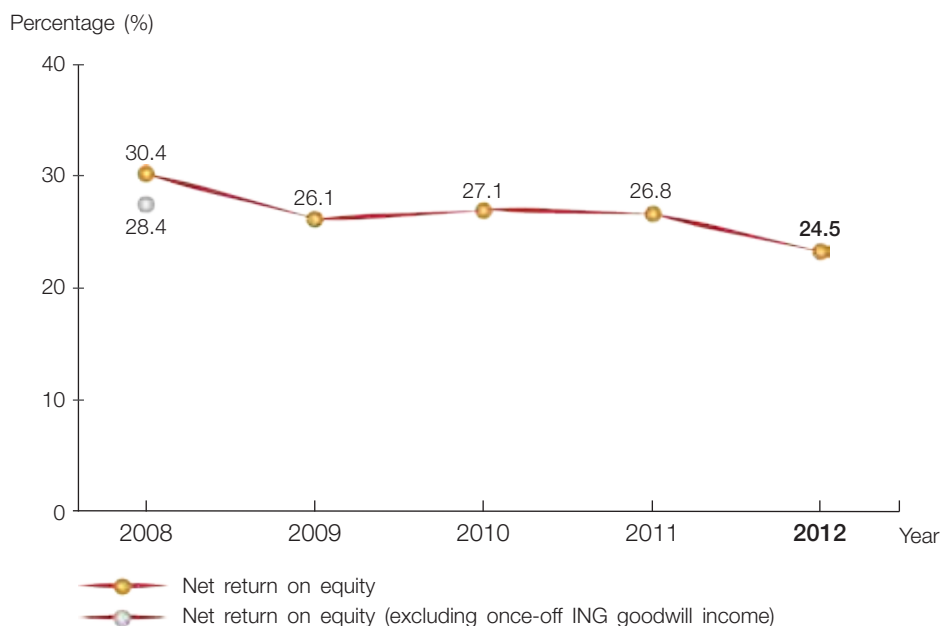
Enhancing Shareholder Value

Commendable Profit Track Record



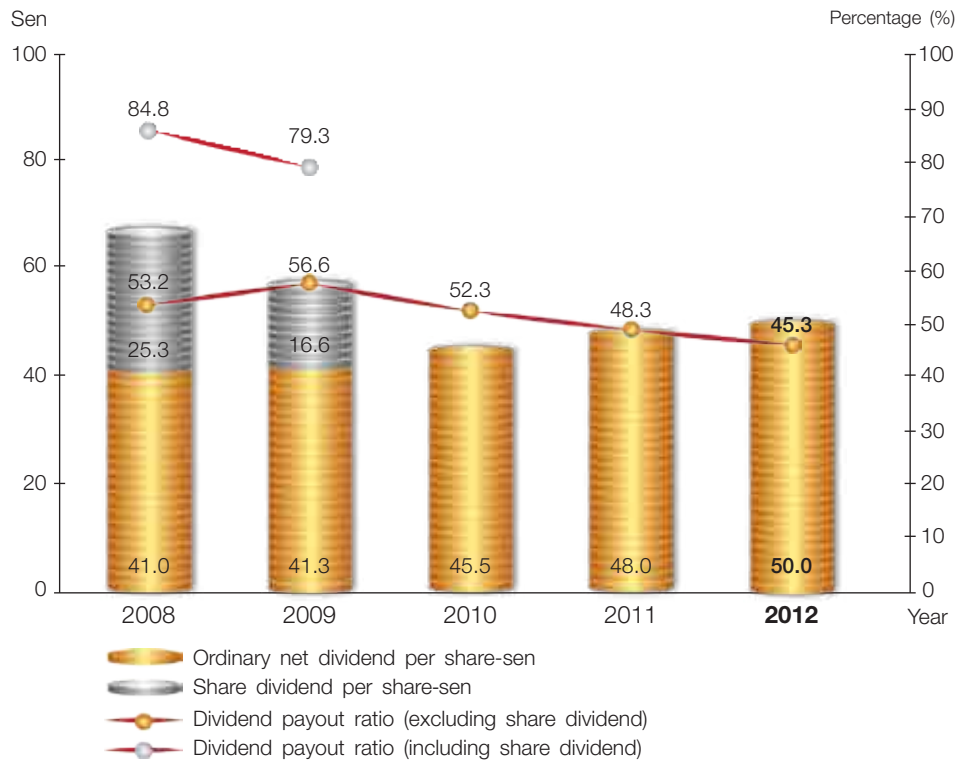
* Restated due to retrospective application of MFRS 139 which resulted in a change in accounting policy on collective assessment allowance for loans

Attractive Shareholder Return

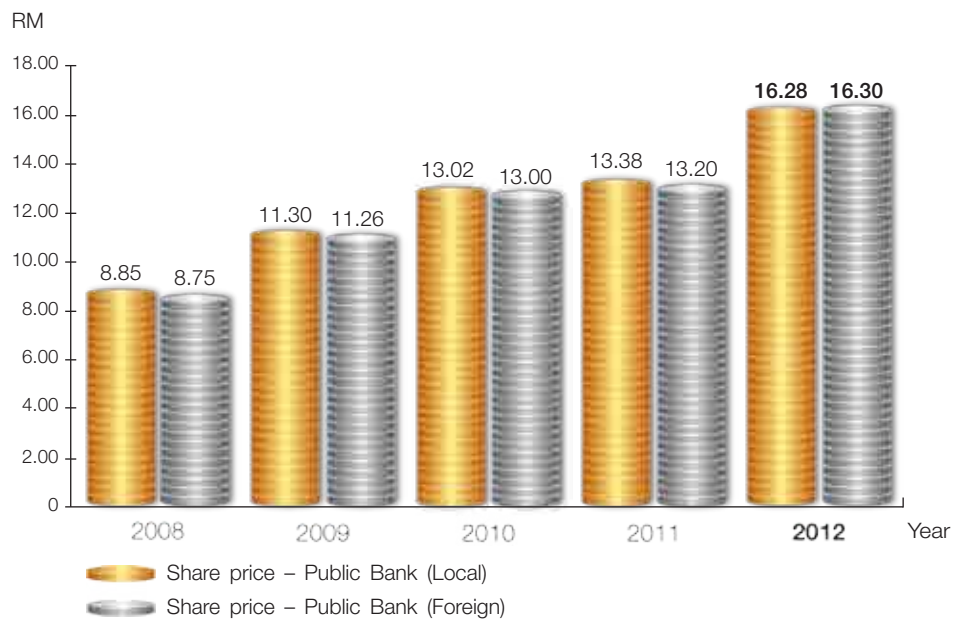


Summary of Five-Year Group Growth

Healthy Dividend Payout



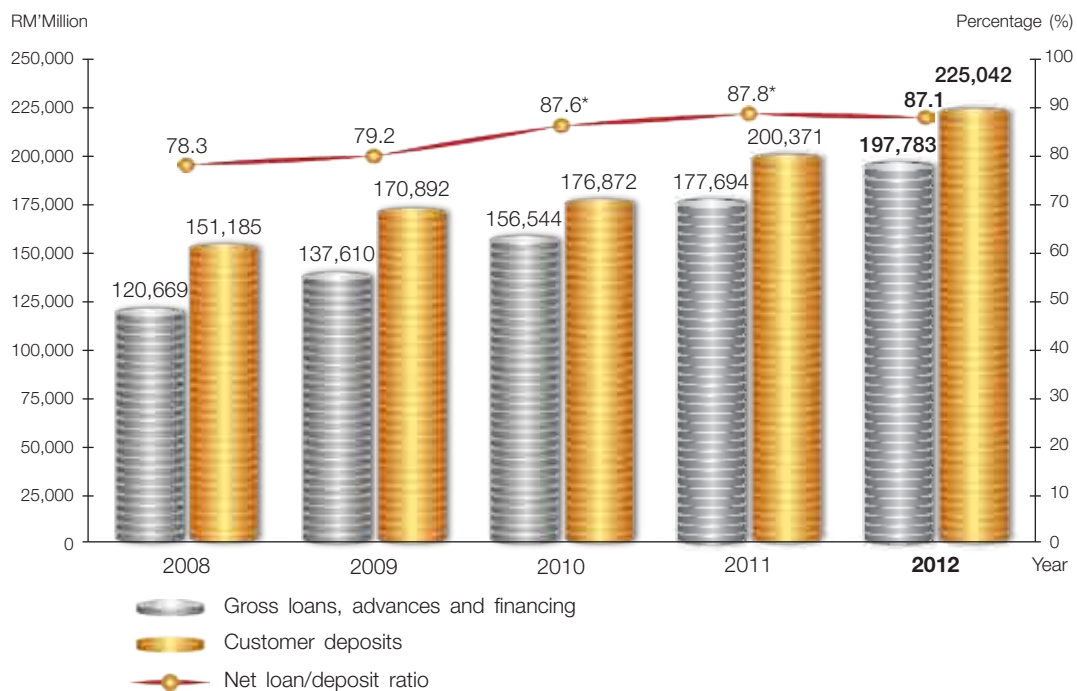
Improving Share Price



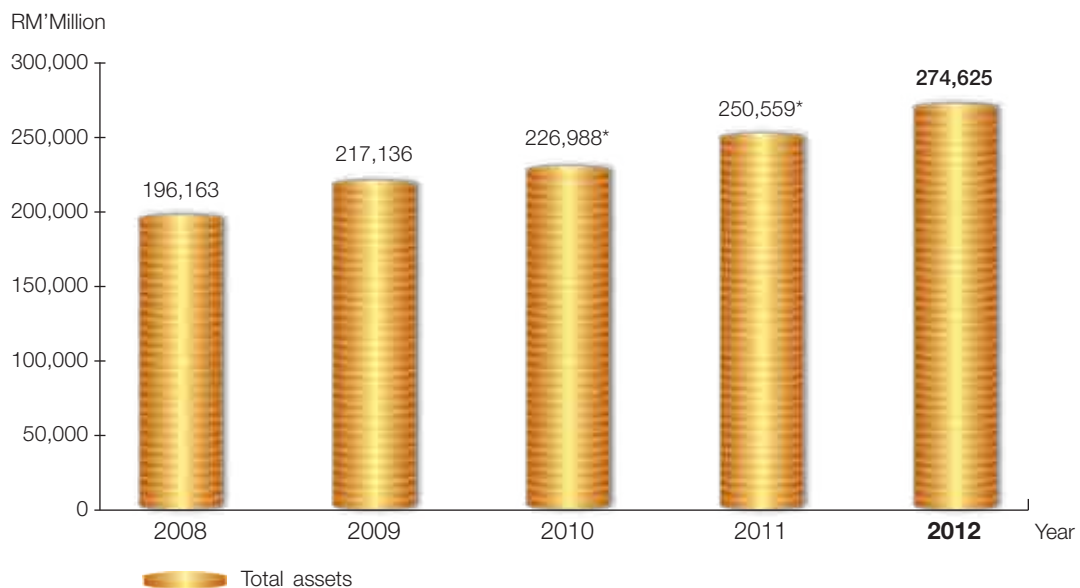
Summary of Five-Year Group Growth

Healthy Balance Sheet Growth

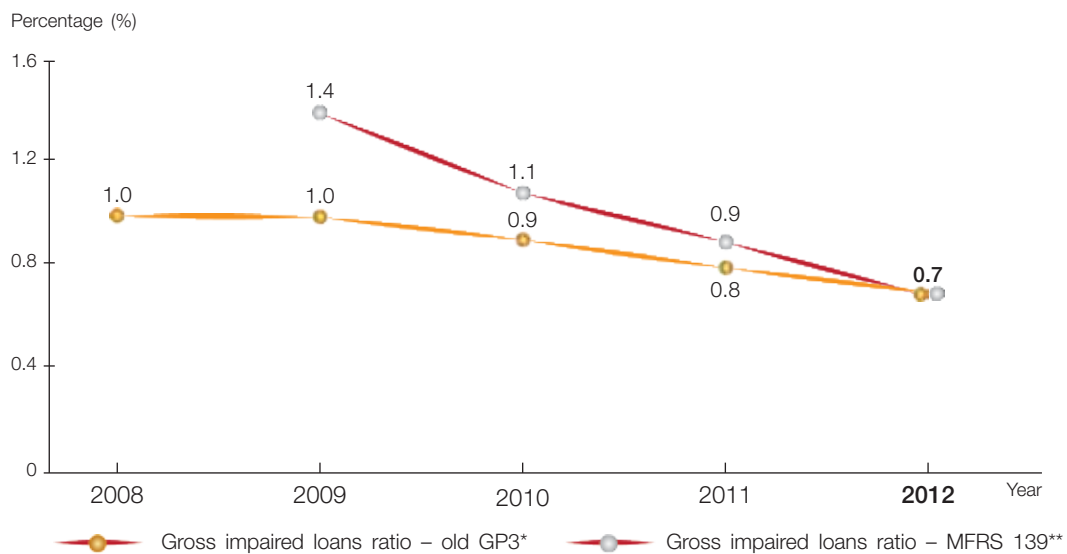
Healthy Growth in Loans and Customer Deposits with Stable Loan/Deposit Ratio



Steady Asset Growth



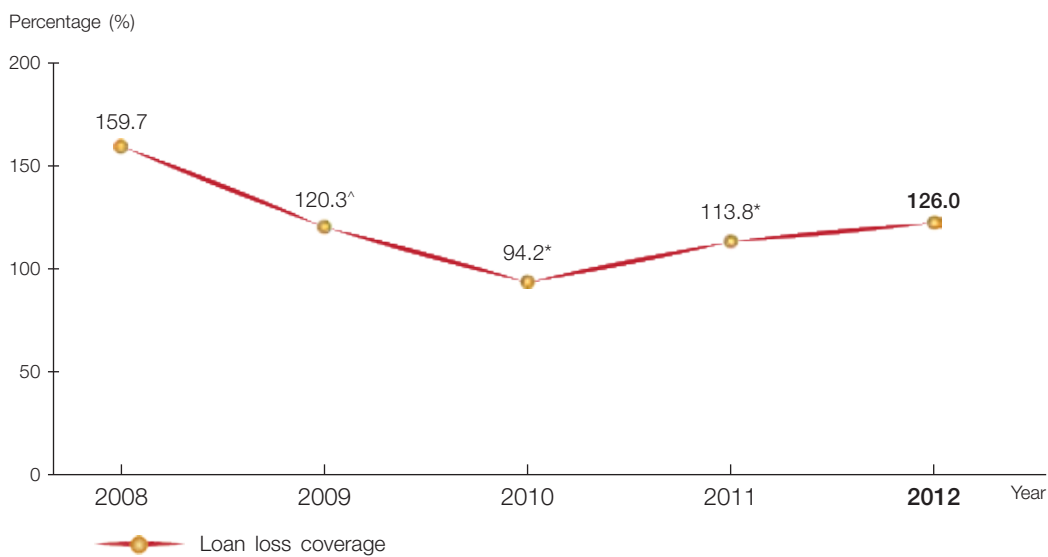
Summary of Five-Year Group Growth



* Old GP3 – loans in arrears for 3 months or more

** MFRS 139 – loans in arrears for 3 months or more and significant loans below 3 months which show indications of impairment

High Loan Loss Reserves



SEGMENTAL ANALYSIS

2011

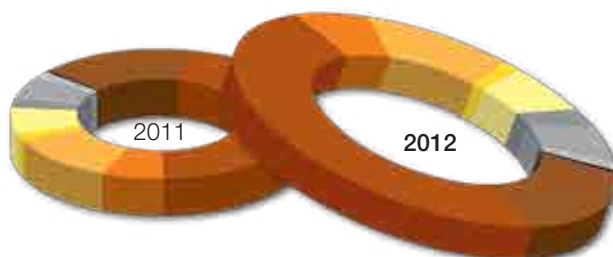
Domestic

16.9%	Hire purchase
46.1%	Retail operations
6.6%	Corporate lending
12.0%	Treasury and capital market operations
1.5%	Investment banking
6.8%	Fund management
2.3%	Others

Overseas

5.8%	Hong Kong SAR
1.7%	Cambodia
0.3%	Other countries

Operating Revenue



2012

Domestic

16.0%	Hire purchase
48.0%	Retail operations
6.9%	Corporate lending
11.8%	Treasury and capital market operations
1.3%	Investment banking
6.2%	Fund management
2.6%	Others

Overseas

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

2011

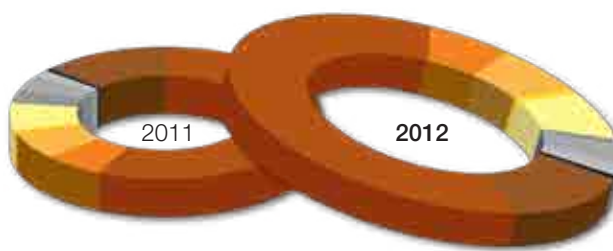
Domestic

13.2%	Hire purchase
57.0%	Retail operations
6.3%	Corporate lending
6.6%	Treasury and capital market operations
1.0%	Investment banking
6.6%	Fund management
3.2%	Others

Overseas

3.6%	Hong Kong SAR
1.9%	Cambodia
0.6%	Other countries

Profit Before Tax



2012

Domestic

13.1%	Hire purchase
58.5%	Retail operations
6.3%	Corporate lending
6.6%	Treasury and capital market operations
0.9%	Investment banking
7.3%	Fund management
0.9%	Others

Overseas

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

2011

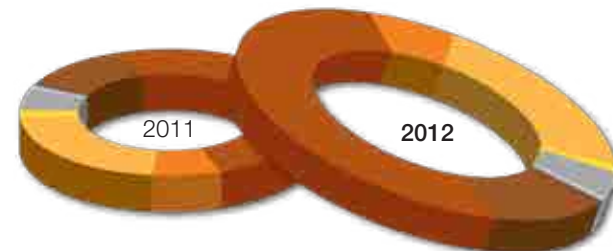
Domestic

12.8%	Hire purchase
49.3%	Retail operations
7.5%	Corporate lending
22.0%	Treasury and capital market operations
1.6%	Investment banking
0.1%	Fund management
0.1%	Others

Overseas

5.3%	Hong Kong SAR
1.1%	Cambodia
0.2%	Other countries

Total Assets



2012

Domestic

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

Overseas

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

ANALYSIS OF THE FINANCIAL STATEMENTS

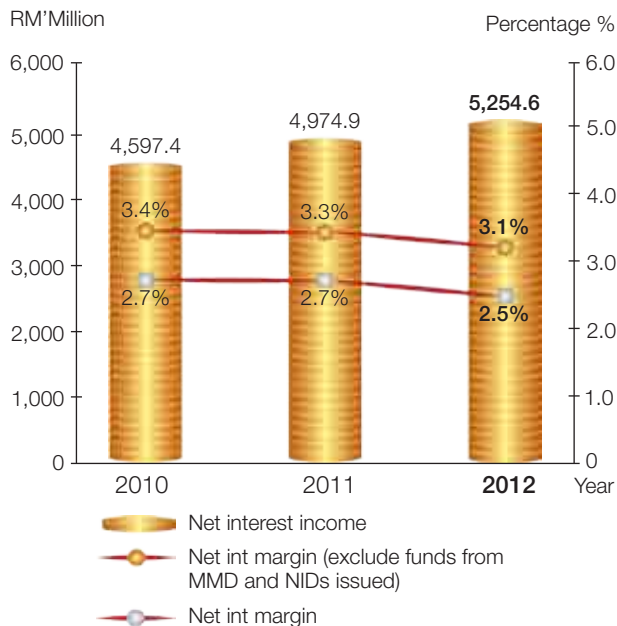
Analysis of the Income Statement

Net Income

The Public Bank Group's net income grew 4.6% to RM7.75 billion in 2012 from RM7.41 billion in 2011.

	2012 RM'000	2011 RM'000	Variance		Contribution %
			RM'000	%	
Net interest income	5,254,645	4,974,931	279,714	5.6	67.8
Net income from Islamic Banking Business	843,766	868,342	(24,576)	(2.8)	10.9
Other operating income	1,648,298	1,565,297	83,001	5.3	21.3
Net income	7,746,709	7,408,570	338,139	4.6	100.0

Net Interest Income and Margins



Net Interest Income

Net interest income rose 5.6% or RM279.7 million in 2012, representing 67.8% of the Public Bank Group's total net income.

Net interest margin on interest-bearing assets (excluding funds from wholesale deposits) fell 20 basis points to 3.1% in 2012 mainly due to narrowing loan and deposit spread as a result of keen market competition. Despite the compression of net interest margin, the Group's net income increased by 4.6% or RM338.1 million to RM7,746.7 million in 2012 primarily due to healthy growth in loans and customer deposits.

Net Income From Islamic Banking Business

In 2012, the Public Bank Group's net income from Islamic banking business accounted for 10.9% of the Group's total net income. The decrease in net income by RM24.6 million was mainly due to a transfer to Profit Equalisation Reserve ("PER") of investment account holders in 2012 as compared to a transfer from PER in 2011.

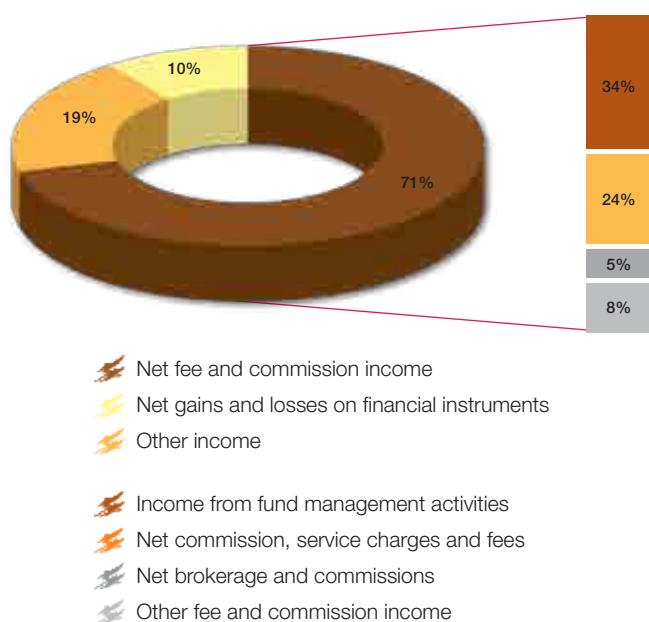
Analysis of the Financial Statements

Other Operating Income

The Public Bank Group's other operating income accounted for 21.3% of the Group's total net income. Other operating income grew by 5.3% to RM1,648.3 million in 2012 from RM1,565.3 million in 2011 mainly due to higher commission income and fee income from the Group's fund management business.

	2012 RM'000	2011 RM'000	Variance RM'000	%
Net fee and commission income	1,165,313	1,118,909	46,404	4.1
of which:				
Net commission, service charges and fees	394,684	360,794	33,890	9.4
Net brokerage and commissions	75,509	100,946	(25,437)	(25.2)
Income from fund management activities	557,126	525,317	31,809	6.1
Net gains and losses on financial instruments	170,244	166,154	4,090	2.5
Other income	312,741	280,234	32,507	11.6
of which:				
Profits from foreign exchange business	225,445	217,563	7,882	3.6
Total other operating income	1,648,298	1,565,297	83,001	5.3

Other Operating Income Contribution 2012



The Public Bank Group's net fee and commission income grew by RM46.4 million or 4.1% in 2012 to RM1,165.3 million, led by strong performance of the Group's fund management business which reported an increase in income of RM31.8 million or 6.1% to RM557.1 million. This was supported by the growth in net asset value of unit trust funds under management by 22.0% to RM54.58 billion as compared to RM44.75 billion in 2011. Net commission, service charges and fees increased to RM394.7 million in 2012, representing a 9.4% growth from 2011. Net brokerage and commissions from stock-broking activities contributed RM75.5 million to the Group's total other operating income in 2012.

Net gains and losses on financial instruments rose by RM4.1 million or 2.5% to RM170.2 million in 2012.

Other income increased by RM32.5 million or 11.6% to RM312.7 million in 2012 as a result of gain on revaluation of investment properties in Hong Kong and higher volume of the Group's foreign exchange business.

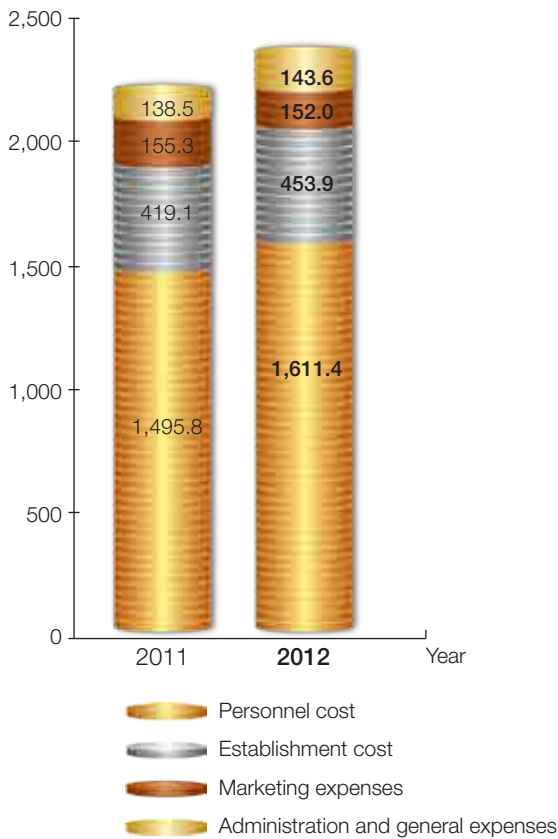
Analysis of the Financial Statements

Other Operating Expenses

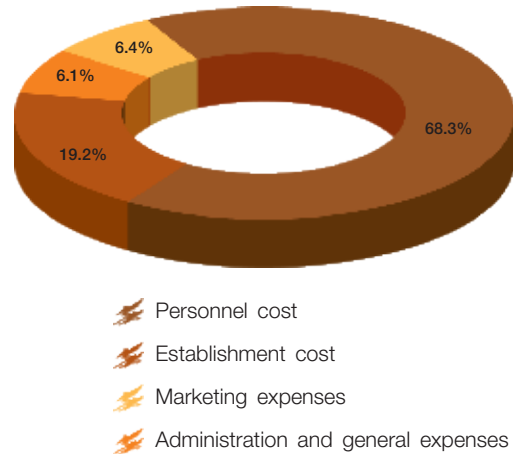
Other operating expenses of the Public Bank Group increased by 6.9% to RM2,360.9 million in 2012 as a result of higher personnel and establishment costs. Personnel cost accounted for 68.3% of total operating expenses of the Group.

Total Other Operating Expenses

RM'Million



Other Operating Expenses Contribution 2012



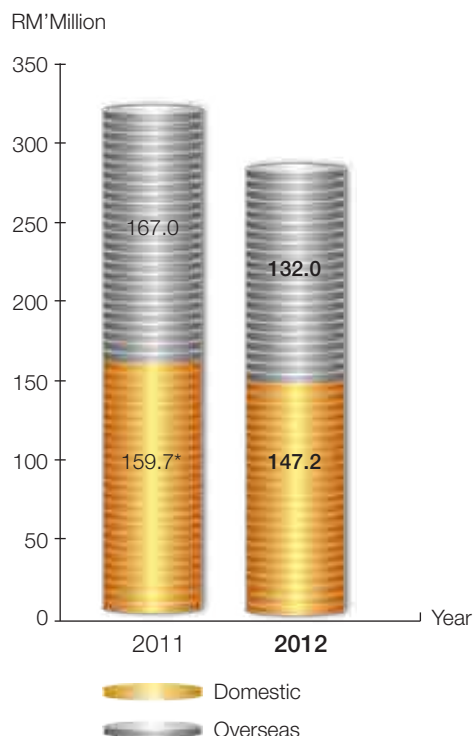
Personnel cost rose by 7.7% to RM1,611.4 million in 2012 primarily due to annual salary expense and higher headcounts to support business expansion. The Public Bank Group's staff force expanded to 17,625 as at the end of 2012 from 17,511 a year ago.

Establishment cost accounted for 19.2% of total other operating expenses of the Group. In 2012, establishment cost increased by 8.3% from RM419.1 million in 2011 to RM453.9 million in 2012 due to the opening of new branches and investment in infrastructure to support expansion in business volume.

The Group's marketing expenses decreased by 2.1% to RM152.0 million in 2012 whilst administration and general expenses increased by 3.7% to RM143.6 million in 2012, accounting for 6.4% and 6.1% respectively of the Group's total other operating expenses.

Analysis of the Financial Statements

Allowance for Impairment on Loans, Advances and Financing



* Restated due to retrospective application of MFRS 139 which resulted in a change in accounting policy on collective assessment allowance for loans

Allowance for Impairment on Loans, Advances and Financing

The domestic allowance for impairment on loans, advances and financing fell by RM12.5 million to RM147.2 million in 2012 mainly due to the improvement in collective assessment allowance offset by lower recoveries.

The overseas allowance for impairment on loan, advances and financing dropped by RM35.0 million or 20.9% to RM132.0 million in 2012 due to improved credit conditions in the Group's Hong Kong and Cambodian operations.

Impairment Loss

Impairment loss on foreclosed properties and financial investments available-for-sale amounted to RM6.6 million in 2012 as compared to impairment loss written back of RM1.6 million in 2011.

Tax Expenses and Zakat

In 2012, the Public Bank Group's tax expense increased by RM38.7 million or 3.4% to RM1,192.2 million consistent with the higher reported pre-tax profits.

The Group's effective tax rate was 23.4% in 2012, lower than Malaysia's statutory tax rate of 25.0% mainly due to certain income not subject to tax and the effects of lower tax rates in jurisdictions outside Malaysia.

Analysis of the Financial Statements

Analysis of the Statement of Financial Position

	2012 RM'Million	2011 [#] RM'Million	Variance RM'Million	%
Assets				
Cash and balances with banks	18,636	18,634	2	0.0
Reverse repurchase agreements	8,159	9,287	(1,128)	(12.1)
Financial assets held-for-trading	16,617	10,657	5,960	55.9
Financial investments available-for-sale	17,201	16,719	482	2.9
Financial investments held-to-maturity	6,257	7,629	(1,372)	(18.0)
Loans, advances and financing	196,052	175,953	20,099	11.4
Statutory deposits with Central Banks	5,787	5,598	189	3.4
Other assets	5,916	6,082	(166)	(2.7)
Total Assets	274,625	250,559	24,066	9.6
Liabilities				
Deposits from customers	225,042	200,371	24,671	12.3
Deposits from banks	12,849	15,807	(2,958)	(18.7)
Debt securities issued and other borrowed funds	9,947	11,318	(1,371)	(12.1)
Other liabilities	8,143	6,643	1,500	22.6
Total Liabilities	255,981	234,139	21,842	9.3
Total Equity	18,644	16,420	2,224	13.5
Total Liabilities and Equity	274,625	250,559	24,066	9.6

[#] Restated as a result of retrospective application of MFRS 139.

Total Assets

The Public Bank Group's total assets stood at RM274.63 billion as at 31 December 2012, an increase of RM24.07 billion or 9.6% over the previous financial year. The increase was the result of another year of strong loan growth of 11.3% despite the intense competition.

As at the end of December 2012, net loans, advances and financing accounted for 71.4% of the Group's total assets as compared to 70.2% in the previous year. The proportion of interest-bearing assets has remained high at 93.2% at the end of 2012.

Cash and Balances With Banks

Excess liquidity in the Group was mainly held in short-term money market placements. There was no significant change in cash and balances with banks as compared to 2011.

Reverse Repurchase Agreements

The Group's holdings of reverse repurchase agreements, as an alternative avenue for the placement of liquid funds, decreased by RM1.13 billion.

Analysis of the Financial Statements

Financial Investments

The Group's financial investments comprise primarily of government-related securities and money market instruments, which are mainly held for yield and liquidity purposes. Holdings of trading book positions, classified under financial assets held-for-trading has increased by RM5.96 billion mainly due to an increase in holdings of government-related securities and money market instruments. As at the end of 2012, financial assets held-for-trading comprised 41.5% of the Group's financial investments.

The Group's banking book positions are held under its financial investments available-for-sale and financial investments held-to-maturity portfolios. Financial investments available-for-sale increased marginally by RM0.48 billion due to higher holdings of government-related securities, whereas financial investments held-to-maturity decreased by RM1.37 billion as a result of decreased holdings of money market instruments. As at 31 December 2012, 42.9% and 15.6% of the Group's financial investments were held in financial investments available-for-sale and financial investments held-to-maturity respectively.

Loans, Advances and Financing

The Group's loan book grew by RM20.10 billion or 11.4% to RM196.05 billion as at end of 2012. During the same period, domestic loan growth was even stronger at 12.5%, as the Public Bank Group continued to focus on its core strengths in the financing of residential properties, purchase of passenger vehicles and small- and medium-sized enterprises, which grew by 17.1%, 8.5% and 22.2% respectively. The Group's loan growth has continued to outpace that of the Malaysian banking industry. As a result, the market share increased to 16.7% as at the end of 2012. Despite adopting a strong organic growth strategy, the asset quality of the loan base has not been compromised, with the impaired loan ratio receding to 0.7% as at end of 2012.

Total Liabilities and Equity

The Public Bank Group's total liabilities grew by RM21.84 billion in 2012 due to strong growth in customer deposits of RM24.67 billion, partially offset by a drop in deposits from banks by RM2.96 billion. The Group's equity has also grown to RM18.64 billion, to correspond with the expansion in the asset base. This was mainly due to strong net profits of RM3.87 billion registered during the year.

Deposits from Customers

The Group's deposits from customers grew by RM24.67 billion or 12.3% to RM225.04 billion on the back of a surge in core customer deposits as well as wholesale deposits. Domestic core customer deposits registered a stronger growth rate, resulting in a higher market share of 16.7% as at the end of 2012. The Group's loan to deposit ratio remained healthy at 87.1%.

Deposits from Banks

Deposits from banks which consist mainly of interbank borrowings, decreased by RM2.96 billion due to the Group's funding and gapping activities.

Debt Securities Issued and Other Borrowed Funds

The Group's debt securities comprise Subordinated Notes, Innovative Tier 1 Capital Securities and Non-innovative Tier 1 Stapled Securities. These funds allow the Group to diversify its funding base, whilst strengthening its capital position and improving its return on equity. During the year, the Group fully redeemed its USD400.0 million Subordinated Notes. There were no issuance of replacement Tier 2 capital instruments as the Group has sufficient Tier 2 capital to sustain its immediate capital requirements.

Other liabilities

Other liabilities increased by RM1.50 billion, mainly due to the increase in bills and acceptances payable and recourse obligations on loans and financing sold to Cagamas by RM0.95 billion and RM0.49 billion respectively.

STATEMENT OF RESPONSIBILITY BY DIRECTORS

In respect of the preparation of the annual audited financial statements

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

The Directors are also responsible for ensuring that the annual audited financial statements of the Group and the Bank are prepared with reasonable accuracy from the accounting records of the Group and the Bank so as to give a true and fair view of the financial position of the Group and the Bank as of 31 December 2012 and of their financial performance and cash flows for the year then ended.

In preparing the audited financial statements which include the opening MFRS statements of financial position of the Group and the Bank as of 1 January 2011 (the transition date to MFRS framework), the Directors have:

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

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Group and the Bank to prevent and detect fraud and other irregularities.

FINANCIAL STATEMENTS

19	Directors' Report		
28	Statement by Directors		
28	Statutory Declaration		
29	Independent Auditors' Report		
31	Statements of Financial Position		
33	Income Statements		
34	Statements of Comprehensive Income		
35	Consolidated Statement of Changes in Equity		
37	Statement of Changes in Equity		
39	Statements of Cash Flows		
42	Notes to the Financial Statements		
42	1. Principal Activities and General Information	148	31. Interest Expense
42	2. Basis of Preparation and Accounting Policies	149	32. Fee and Commission Income and Expense
74	3. Cash and Balances with Banks	150	33. Net Gains and Losses on Financial Instruments
75	4. Reverse Repurchase Agreements	151	34. Other Operating Income
75	5. Financial Assets Held-For-Trading	152	35. Other Operating Expenses
77	6. Derivative Financial Assets/Liabilities	154	36. Directors' Remuneration
82	7. Financial Investments Available-For-Sale	157	37. Allowance for Impairment on Loans, Advances and Financing
84	8. Financial Investments Held-To-Maturity		38. Impairment/(Writeback of Impairment) on Other Assets
87	9. Loans, Advances and Financing	157	39. Tax Expense and Zakat
101	10. Other Assets	158	40. Earnings Per Share
102	11. Statutory Deposits with Central Banks	160	41. Dividends
103	12. Deferred Tax	161	42. Related Party Transactions
108	13. Investment in Subsidiary Companies	162	43. Credit Transactions and Exposures with Connected Parties
111	14. Investment in Associated Companies	172	44. Financial Risk Management
112	15. Investment Properties		45. Fair Values of Financial Instruments
114	16. Property and Equipment	173	46. Operating Leases
118	17. Intangible Assets	247	47. Capital and Other Commitments
121	18. Deposits from Customers	259	48. Commitments and Contingencies
123	19. Deposits from Banks	260	49. Capital Adequacy
124	20. Bills and Acceptances Payable	261	50. Capital Management
124	21. Recourse Obligations on Loans and Financing Sold to Cagamas	263	51. Segment Information
124	22. Debt Securities Issued and Other Borrowed Funds	268	52. Changes in Accounting Policies
134	23. Other Liabilities	269	53. Rating Statement
136	24. Employee Benefits	275	54. Significant Events
142	25. Provision For Tax Expense and Zakat	291	55. Subsequent Events
142	26. Share Capital	291	56. Islamic Banking Business
143	27. Treasury Shares	292	57. Realised and Unrealised Profits
144	28. Other Reserves	306	
147	29. Retained Profits		
148	30. Interest Income		



DIRECTORS' REPORT

for the financial year ended 31 December 2012

The Directors have pleasure in presenting to the members their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2012.

Principal Activities

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

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

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

Financial Results

	Group RM'000	Bank RM'000
Profit before tax expense and zakat	5,103,926	4,681,734
Tax expense and zakat	(1,192,165)	(933,174)
Profit for the year	3,911,761	3,748,560
Attributable to:		
Equity holders of the Bank	3,869,273	3,748,560
Non-controlling interests	42,488	–
Profit for the year	3,911,761	3,748,560

Dividends

The amount of dividends paid by the Bank since 31 December 2011 were as follows:

	RM'000
In respect of financial year ended 31 December 2011:	
Second interim single tier dividend of 28% on 3,502,125,130 ordinary shares of RM1.00 each, paid on 27 February 2012	980,595
In respect of financial year ended 31 December 2012:	
First interim single tier dividend of 20% on 3,502,125,130 ordinary shares of RM1.00 each, paid on 15 August 2012	700,425
	1,681,020

Directors' Report

Dividends (Cont'd.)

Subsequent to the financial year end, on 6 February 2013, the Directors declared a second interim single tier dividend of 30.0%, with the total amounting to approximately RM1,050,637,539 in respect of the current financial year. This is computed based on the issued and paid-up capital as at 31 December 2012, excluding treasury shares held by the Bank, of 3,502,125,130 ordinary shares of RM1.00 each, to be paid and distributed to shareholders whose names appear in the Record of Depositors at the close of business on 25 February 2013. The financial statements for the current financial year do not reflect these dividends. Upon declaration, the dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2013. The Directors do not propose any final dividend for the financial year ended 31 December 2012.

Issue of Shares

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

Share Buy-Back

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

As at 31 December 2012, the Bank held 29,800,704 Public Bank Berhad ("PBB") Shares as treasury shares out of its total issued and paid-up share capital of 3,531,925,834 PBB Shares. Such treasury shares are held at a carrying amount of RM215,571,989. Further information is disclosed in Note 27 to the financial statements.

Reserves, Provisions and Allowances

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

Bad and Doubtful Debts and Financing

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

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

Directors' Report

Current Assets

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

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

Valuation Methods

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

Contingent and Other Liabilities

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

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

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

Change of Circumstances

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

Items of Unusual Nature

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

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

Directors' Report

Significant Events During The Year

The significant events during the financial year are as disclosed in Note 54 to the financial statements.

Subsequent Events

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

Compliance with Bank Negara Malaysia's Expectations on Financial Reporting

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those as set out in the Guidelines on Financial Reporting for Financial Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

Directors of The Bank

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

Tan Sri Dato' Sri Dr. Teh Hong Piow
Tan Sri Datuk Seri Utama Thong Yaw Hong
Tan Sri Dato' Sri Tay Ah Lek
Dato' Sri Lee Kong Lam
Dato' Yeoh Chin Kee
Dato' Haji Abdul Aziz bin Dato' Dr. Omar
Quah Poh Keat
Tang Wing Chew
Lai Wan (*appointed on 26 April 2012*)
Lai Wai Keen (*appointed on 29 May 2012*)

In accordance with Article 111 of the Bank's Articles of Association, Dato' Haji Abdul Aziz bin Dato' Dr. Omar retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 109 of the Bank's Articles of Association, Lai Wai Keen retires at the forthcoming Annual General Meeting and, being eligible, offers herself for re-election.

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

Directors' Report

Directors' Interests

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

Shares Held in the Bank

	Number of Ordinary Shares of RM1.00 Each			Balance at 31.12.2012
	Balance at 1.1.2012	Acquired	Disposed	
Direct interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	22,464,802	–	–	22,464,802
Tan Sri Datuk Seri Utama Thong Yaw Hong	7,633,342	–	–	7,633,342
Tan Sri Dato' Sri Tay Ah Lek	6,898,951	–	(1,000,000)	5,898,951
Dato' Sri Lee Kong Lam	380,866	–	–	380,866
Dato' Yeoh Chin Kee	150,000	–	(50,000)	100,000
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	532,037	–	(50,000)	482,037

	Number of Ordinary Shares of RM1.00 Each			Balance at 31.12.2012
	Balance at 1.1.2012	Acquired	Disposed	
Indirect interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	820,835,261	–	–	820,835,261
Tan Sri Datuk Seri Utama Thong Yaw Hong	857,785	–	–	857,785
Tan Sri Dato' Sri Tay Ah Lek	354,315	–	–	354,315
Dato' Sri Lee Kong Lam	434,957	–	–	434,957
Lai Wan (<i>appointed on 26 April 2012</i>)	16,959	–	–	16,959
Lai Wai Keen (<i>appointed on 29 May 2012</i>)	3,007	–	–	3,007

Shares Held in a Subsidiary Company

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

	Number of Ordinary Shares of HKD0.10 Each			Balance at 31.12.2012
	Balance at 1.1.2012	Acquired	Disposed	
Direct interests:				
Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	350,000

Directors' Report

Directors' Interests (Cont'd.)

Share Options Held in a Subsidiary Company

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

	Option Price HKD	Number of PFHL Share Options				Balance at 31.12.2012
		Balance at 1.1.2012	Granted	Exercised	Lapsed	
Tan Sri Dato' Sri Tay Ah Lek	6.35	1,230,000	–	–	–	1,230,000

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

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

Directors' Benefits

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

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

Remuneration Committee

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

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

Tan Sri Datuk Seri Utama Thong Yaw Hong (*Independent*)
Dato' Yeoh Chin Kee (*Non-Independent*)
Dato' Haji Abdul Aziz bin Dato' Dr. Omar (*Independent*)
Quah Poh Keat (*Independent*)
Tang Wing Chew (*Independent*)

Business Review 2012

The operating environment in Malaysia remained supportive of the banking business in 2012. Despite the challenging global economic conditions, the Malaysian economy remained stable, underpinned by strong domestic demand. The Malaysian banking sector continued to be resilient with sound capitalisation, sustained profitability, high asset quality and ample liquidity.

In 2012, the Public Bank Group continued to achieve commendable performance. Lending to retail sector remained the main focus of the Group with concentration in loans for the financing of residential properties, purchase of passenger vehicles, and lending to small and mid-market commercial enterprises. During the year, the Group's total loans outstanding increased by 11.3%, with home mortgages increasing by 17.1%, passenger vehicle hire purchase financing increasing by 8.5% and loans to small- and medium-sized enterprises ("SMEs") increasing by 22.2%.

The Public Bank Group continued to uphold its strong asset quality, underpinned by the Group's prudent credit culture and stringent underwriting standards. Gross impaired loans ratio further improved to 0.7% as at the end of 2012.

The Public Bank Group's funding and liquidity remained strong, supported by its reputable retail deposit franchise. During the year, the continued expansion in deposit growth was mainly attributed to steady inflows of fixed deposits and low-cost savings and current account deposits, which grew by 13.2%, 8.0% and 13.5% respectively. The Group also maintained a healthy loan-to-deposit ratio of 87.1%. In terms of cost efficiency, the Group maintained its top ranking in the Malaysian banking industry with cost-to-income ratio of 30.5%.

To grow the Public Bank Group's business, the Group continued to place emphasis to expand fee-based business such as unit trust, bancassurance and transactional banking services. In the Group's unit trust management business, Public Mutual, Public Bank's wholly-owned subsidiary, retained its market leader position in the Malaysian unit trust industry. Public Mutual will continue to grow its business by further intensifying its marketing and promotional initiatives as well as launching new funds.

To better serve its customers, the Public Bank Group increased its domestic branch network to 255 branches as at the end of 2012. The Group further expanded its wide network of self service machines to 522 Automated Teller Machines, 532 Cheque Deposit Machines, 405 Cash Deposit Terminals and 186 Cash Recycling Machines. The Group also improved its internet banking and mobile banking service capabilities for greater customer convenience as well as strengthened its large sales and marketing force to deliver high quality services to its customers.

The Public Bank Group remained committed to expand its overseas business. As at the end of 2012, the Group has 122 overseas branches, with 83 branches in Hong Kong, 3 branches in China, 24 branches in Cambodia, 7 branches in Vietnam, 4 branches in Laos, a branch in Sri Lanka and 3 representative offices in Shanghai, Shenyang and Taipei.

During the year, the Public Bank Group fulfilled its Corporate Social Responsibility through various programmes on education, professional development, environmental conservation and support of the underprivileged.

Directors' Report

Economic Outlook and Prospects for 2013

The Malaysian economy is expected to grow between 4.5% and 5.5% in 2013. While risks remain arising from the sluggish growth in major advanced economies, strong domestic demand will continue to provide impetus to the domestic economy.

The healthy employment conditions and moderate inflation will continue to support private consumption whilst the various measures announced under the 2013 Budget to address rising cost of living will further stimulate consumption. The ongoing implementation of projects under the Economic Transformation Programme ("ETP") will continue to support private investments. On the supply side, growth is expected to be broad-based, with the ongoing projects under the ETP expected to accelerate growth in the construction and services sectors.

Monetary policy will remain supportive of economic growth whilst ensuring inflationary pressure is manageable and risk of a build-up of financial imbalances is mitigated. The Government's commitment to strengthen the country's finances while maintaining sustainable economic growth will enhance investors' confidence. Malaysia is expected to maintain its high sovereign ratings, reflecting the country's strong external liquidity and sound financial sector.

Business Outlook for 2013

The Malaysian economy is expected to remain supportive of the banking sector in 2013 whilst the banking sector is anticipated to remain resilient. Banks will continue to enhance innovation in products and services to achieve competitive advantage. In the retail lending business, accommodative interest rates, healthy employment conditions and moderate inflation will continue to support growth. Corporate lending is expected to benefit from the ongoing implementation of the ETP.

The Public Bank Group will continue to pursue its long-term strategy of organic growth, focusing on its core retail banking and financing business. In its lending business, the Group remains focused on home mortgages, vehicle financing and lending to SMEs whilst maintaining its prudent lending policy and credit risk culture to sustain its strong asset quality. On the liability side, the Group will continue to mobilise low-cost retail deposits to maintain an efficient funding structure and a healthy balance sheet.

To further grow its business, the Public Bank Group will intensify its efforts to expand its fee- and transaction-based activities including unit trust, bancassurance and structured investment products. The Group will further embrace innovation in products and services and enhance the features of existing products to meet the demand of more discerning and sophisticated customers. In its overseas operations, the Group will continue to expand its regional business, particularly in the Hong Kong and Indochina markets, to take advantage of the growth potential in the region.

Directors' Report

Business Outlook for 2013 (Cont'd.)

The Public Bank Group will continue to tap on its extensive network of branches, and growing sales and marketing force to develop its business. For greater customer convenience, the Group will further expand its combined network of Automated Teller Machines, Cheque Deposit Machines, Cash Deposit Terminals and Cash Recycling Machines, and provide more value-added services through its internet banking and mobile banking channels. The Group will also further develop its customer relationship management processes to improve customers' banking experience.

The Public Bank Group's efforts to further strengthen its prudent management culture, risk management capacity and good corporate governance practices remain unabated. The Group will continue its efforts in capital management to support the Group's business growth strategies while maximising shareholders' returns.

Auditors

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

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW

Director

TAN SRI DATUK SERI UTAMA THONG YAW HONG

Director

Kuala Lumpur

Date: 6 February 2013

STATEMENT BY DIRECTORS

We, TAN SRI DATO' SRI DR. TEH HONG PIOU and TAN SRI DATUK SERI UTAMA THONG YAW HONG, being two of the Directors of PUBLIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 31 to 305 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2012 and of their financial performance and cash flows for the year then ended.

The information set out in Note 57 to the financial statements have been compiled in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOU

Director

TAN SRI DATUK SERI UTAMA THONG YAW HONG

Director

Kuala Lumpur

Date: 6 February 2013

STATUTORY DECLARATION

I, YIK SOOK LING, being the officer primarily responsible for the financial management of PUBLIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 31 to 305, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed **YIK SOOK LING** at KUALA LUMPUR
in WILAYAH PERSEKUTUAN this 6 February 2013

BEFORE ME:

Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

to the members of Public Bank Berhad

Report on the Financial Statements

We have audited the financial statements of Public Bank Berhad, which comprise the statements of financial position as at 31 December 2012 of the Group and of the Bank, and the income statements, statements of comprehensive income, changes in equity and cash flows of the Group and of the Bank for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 31 to 305.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2012 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Independent Auditors' Report

Report on Other Legal and Regulatory Requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the accounts and the auditors' reports of all the subsidiary companies of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.
- (c) We are satisfied that the accounts of the subsidiary companies that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 57 to the financial statements has been compiled by the Group and the Bank as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matters

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

KPMG

Firm Number: AF 0758
Chartered Accountants

Petaling Jaya
Date: 6 February 2013

KHAW HOCK HOE

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2012

		Group			Bank		
		31 December 2012	31 December 2011	1 January 2011	31 December 2012	31 December 2011	1 January 2011
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and balances with banks	3	18,635,951	18,633,783	34,690,439	11,679,843	10,508,349	27,172,447
Reverse repurchase agreements	4	8,158,506	9,287,255	365,877	7,309,153	8,435,611	10,737
Financial assets held-for-trading	5	16,617,135	10,656,825	6,360,620	13,599,044	10,406,551	5,812,736
Derivative financial assets	6	370,465	493,852	326,622	364,344	492,536	322,596
Financial investments							
available-for-sale	7	17,201,120	16,719,433	17,852,284	15,620,244	14,287,941	14,269,479
Financial investments held-to-maturity	8	6,257,771	7,629,233	5,229,617	4,509,314	7,073,857	5,230,399
Loans, advances and financing	9	196,051,603	175,952,777	154,864,165	162,968,608	143,385,498	125,949,437
Other assets	10	2,006,919	2,008,254	1,995,880	1,906,721	1,913,726	1,703,642
Statutory deposits with							
Central Banks	11	5,787,206	5,597,801	1,612,575	4,738,213	4,496,365	1,106,330
Deferred tax assets	12	63,227	46,093	296,815	–	–	194,657
Investment in subsidiary companies	13	–	–	–	4,263,581	4,088,581	3,888,581
Investment in associated companies	14	151,210	155,997	118,624	121,325	121,325	101,325
Investment properties	15	87,886	70,754	65,552	–	–	–
Property and equipment	16	1,309,533	1,341,940	1,278,319	607,934	657,124	617,544
Intangible assets	17	1,926,347	1,965,476	1,930,372	695,393	695,393	695,393
TOTAL ASSETS		274,624,879	250,559,473	226,987,761	228,383,717	206,562,857	187,075,303
LIABILITIES							
Deposits from customers	18	225,042,325	200,370,525	176,872,119	181,688,444	159,384,439	140,789,266
Deposits from banks	19	12,849,313	15,806,732	21,327,476	14,408,778	16,717,349	21,069,781
Bills and acceptances payable	20	3,048,821	2,095,335	2,308,836	3,132,692	2,095,076	2,450,006
Recourse obligations on loans							
and financing sold to Cagamas	21	501,496	11,789	16,319	1,493	11,789	16,319
Derivative financial liabilities	6	233,564	236,724	375,529	210,760	190,325	340,995
Debt securities issued and							
other borrowed funds	22	9,946,853	11,317,833	8,094,880	9,081,942	10,422,749	7,196,528
Other liabilities	23	3,570,526	3,467,535	2,839,874	2,482,585	2,368,327	1,675,651
Provision for tax expense							
and zakat	25	740,283	777,405	800,464	522,088	563,807	568,565
Deferred tax liabilities	12	47,911	55,625	8,391	32,003	51,708	–
TOTAL LIABILITIES		255,981,092	234,139,503	212,643,888	211,560,785	191,805,569	174,107,111

Statements of Financial Position

		Group			Bank		
		31 December 2012	31 December 2011	1 January 2011	31 December 2012	31 December 2011	1 January 2011
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EQUITY							
Share capital	26	3,531,926	3,531,926	3,531,926	3,531,926	3,531,926	3,531,926
Reserves		14,627,569	12,406,132	10,375,062	13,506,578	11,440,934	9,651,569
Treasury shares	27	(215,572)	(215,572)	(215,303)	(215,572)	(215,572)	(215,303)
Equity attributable to equity holders of the Bank		17,943,923	15,722,486	13,691,685	16,822,932	14,757,288	12,968,192
Non-controlling interests		699,864	697,484	652,188	–	–	–
TOTAL EQUITY		18,643,787	16,419,970	14,343,873	16,822,932	14,757,288	12,968,192
TOTAL LIABILITIES AND EQUITY		274,624,879	250,559,473	226,987,761	228,383,717	206,562,857	187,075,303
COMMITMENTS AND CONTINGENCIES							
	48	79,457,595	70,847,182	69,205,908	75,691,031	66,266,801	64,532,682
Net assets per share attributable to ordinary equity holders of the Bank (RM)							
		5.12	4.49	3.91	4.80	4.21	3.70

The accompanying notes form an integral part of the financial statements.

INCOME STATEMENTS

for the year ended 31 December 2012

		Group		Bank	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Operating revenue	2(v)(x)	14,058,097	12,756,360	10,630,272	9,436,092
Interest income	30	10,404,241	9,413,030	9,465,598	8,529,106
Interest expense	31	(5,149,596)	(4,438,099)	(4,917,078)	(4,237,383)
Net interest income		5,254,645	4,974,931	4,548,520	4,291,723
Net income from Islamic banking business	56	843,766	868,342	–	–
		6,098,411	5,843,273	4,548,520	4,291,723
Net fee and commission income	32	1,165,313	1,118,909	490,025	450,004
Net gains and losses on financial instruments	33	170,244	166,154	168,210	167,482
Other operating income	34	312,741	280,234	1,155,109	967,768
Net income		7,746,709	7,408,570	6,361,864	5,876,977
Other operating expenses	35	(2,360,898)	(2,208,684)	(1,596,522)	(1,509,815)
Operating profit		5,385,811	5,199,886	4,765,342	4,367,162
Allowance for impairment on loans, advances and financing	37	(279,244)	(326,755)	(77,007)	(40,938)
(Impairment)/Writeback of impairment on other assets	38	(6,626)	1,598	(6,601)	1,616
		5,099,941	4,874,729	4,681,734	4,327,840
Share of profit after tax of equity accounted associated companies		3,985	3,210	–	–
Profit before tax expense and zakat		5,103,926	4,877,939	4,681,734	4,327,840
Tax expense and zakat	39	(1,192,165)	(1,153,436)	(933,174)	(877,165)
Profit for the year		3,911,761	3,724,503	3,748,560	3,450,675
Attributable to:					
Equity holders of the Bank		3,869,273	3,684,289	3,748,560	3,450,675
Non-controlling interests		42,488	40,214	–	–
Profit for the year		3,911,761	3,724,503	3,748,560	3,450,675
Earnings per RM1.00 share:					
– basic/diluted (sen)	40	110.5	105.2	107.0	98.5

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

		Group		Bank	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit for the year		3,911,761	3,724,503	3,748,560	3,450,675
Other comprehensive (loss)/income:					
Foreign currency translation reserves:					
– Currency translation differences in respect of					
– Foreign operations		(134,122)	124,934	–	–
– Net investment hedge	28	109,601	(90,853)	–	–
		(24,521)	34,081	–	–
Revaluation reserves:					
– Net change in revaluation of financial investments available-for-sale	28	51,058	(27,479)	31,000	(28,640)
Hedging reserves:					
– Net change in cash flow hedges	28	(11,764)	(3,445)	(33,528)	(3,445)
		14,773	3,157	(2,528)	(32,085)
Income tax relating to components of other comprehensive income/loss:					
– Revaluation reserves	28	(8,406)	4,305	(7,750)	7,160
– Hedging reserves	28	2,941	861	8,382	861
		(5,465)	5,166	632	8,021
Other comprehensive income/(loss) for the year, net of tax		9,308	8,323	(1,896)	(24,064)
Total comprehensive income for the year		3,921,069	3,732,826	3,746,664	3,426,611
Total comprehensive income for the year attributable to:					
– Equity holders of the Bank		3,902,457	3,668,316	3,746,664	3,426,611
– Non-controlling interests		18,612	64,510	–	–
		3,921,069	3,732,826	3,746,664	3,426,611

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

		Attributable to Equity Holders of the Bank							
		Non-distributable Reserves			Distributable Reserves				
2012 Group	Note	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	Total Shareholders' Equity RM'000	Non- controlling Interests RM'000	Total Equity RM'000
At 1 January 2012									
– as previously stated		3,531,926	1,073,310	4,056,014	6,417,544	(215,572)	14,863,222	697,484	15,560,706
– effects of MFRS adoption	52	–	–	–	859,264	–	859,264	–	859,264
At 1 January 2012, as restated		3,531,926	1,073,310	4,056,014	7,276,808	(215,572)	15,722,486	697,484	16,419,970
Profit for the year		–	–	–	3,869,273	–	3,869,273	42,488	3,911,761
Other comprehensive income/ (loss) for the year		–	–	33,184	–	–	33,184	(23,876)*	9,308
Total comprehensive income for the year		–	–	33,184	3,869,273	–	3,902,457	18,612	3,921,069
Transactions with owners/ other equity movements:									
Transfer to statutory reserves		–	–	9,741	(9,741)	–	–	–	–
Transfer to regulatory reserves		–	–	252	(252)	–	–	–	–
Transfer to general reserves		–	–	918	(918)	–	–	–	–
Transfer to Profit Equalisation Reserve of Islamic banking institution		–	–	503	(503)	–	–	–	–
Dividends paid	41	–	–	–	(1,681,020)	–	(1,681,020)	(16,232)	(1,697,252)
		–	–	11,414	(1,692,434)	–	(1,681,020)	(16,232)	(1,697,252)
At 31 December 2012		3,531,926	1,073,310	4,100,612	9,453,647	(215,572)	17,943,923	699,864	18,643,787
		Note 26		Note 28		Note 27			

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

Consolidated Statement of Changes in Equity

		Attributable to Equity Holders of the Bank							
		Non-distributable Reserves			Distributable Reserves				
2011 Group	Note	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	Total Shareholders' Equity RM'000	Non- controlling Interests RM'000	Total Equity RM'000
At 1 January 2011									
– as previously stated		3,531,926	1,073,310	3,888,562	4,754,405	(215,303)	13,032,900	652,188	13,685,088
– effects of MFRS adoption	52	–	–	–	658,785	–	658,785	–	658,785
At 1 January 2011, as restated		3,531,926	1,073,310	3,888,562	5,413,190	(215,303)	13,691,685	652,188	14,343,873
Profit for the year		–	–	–	3,684,289	–	3,684,289	40,214	3,724,503
Other comprehensive (loss)/ income for the year		–	–	(15,973)	–	–	(15,973)	24,296*	8,323
Total comprehensive (loss)/ income for the year		–	–	(15,973)	3,684,289	–	3,668,316	64,510	3,732,826
Transactions with owners/ other equity movements:									
Buy-back of shares	27	–	–	–	–	(269)	(269)	–	(269)
Transfer to statutory reserves		–	–	29,895	(29,895)	–	–	–	–
Transfer to regulatory reserves		–	–	25,784	(25,784)	–	–	–	–
Transfer to general reserves		–	–	127,746	(127,746)	–	–	–	–
Dividends paid	41	–	–	–	(1,637,246)	–	(1,637,246)	(19,214)	(1,656,460)
		–	–	183,425	(1,820,671)	(269)	(1,637,515)	(19,214)	(1,656,729)
At 31 December 2011		3,531,926	1,073,310	4,056,014	7,276,808	(215,572)	15,722,486	697,484	16,419,970
		Note 26		Note 28		Note 27			

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

<div> <div></div> <div>Attributable to Equity Holders of the Bank</div> <div></div> </div>							
2012 Bank	Note	Non-distributable Reserves			Distributable Reserves		Total RM'000
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	
At 1 January 2012							
– as previously stated		3,531,926	1,073,310	3,515,306	6,004,958	(215,572)	13,909,928
– effects of MFRS adoption	52	–	–	–	847,360	–	847,360
At 1 January 2012, as restated							
		3,531,926	1,073,310	3,515,306	6,852,318	(215,572)	14,757,288
Profit for the year		–	–	–	3,748,560	–	3,748,560
Other comprehensive loss for the year		–	–	(1,896)	–	–	(1,896)
Total comprehensive (loss)/ income for the year							
		–	–	(1,896)	3,748,560	–	3,746,664
Transactions with owners/ other equity movements:							
Transfer to general reserves		–	–	918	(918)	–	–
Dividends paid	41	–	–	–	(1,681,020)	–	(1,681,020)
		–	–	918	(1,681,938)	–	(1,681,020)
At 31 December 2012							
		3,531,926	1,073,310	3,514,328	8,918,940	(215,572)	16,822,932
		Note 26		Note 28	Note 29	Note 27	

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Equity

		← Attributable to Equity Holders of the Bank →					
2011 Bank	Note	Share Capital RM'000	Non-distributable Reserves		Distributable Reserves		Total RM'000
			Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	
At 1 January 2011							
– as previously stated		3,531,926	1,073,310	3,538,614	4,374,204	(215,303)	12,302,751
– effects of MFRS adoption	52	–	–	–	665,441	–	665,441
At 1 January 2011, as restated		3,531,926	1,073,310	3,538,614	5,039,645	(215,303)	12,968,192
Profit for the year		–	–	–	3,450,675	–	3,450,675
Other comprehensive loss for the year		–	–	(24,064)	–	–	(24,064)
Total comprehensive (loss)/ income for the year		–	–	(24,064)	3,450,675	–	3,426,611
Transactions with owners/ other equity movements:							
Buy-back of shares	27	–	–	–	–	(269)	(269)
Transfer to general reserves		–	–	756	(756)	–	–
Dividends paid	41	–	–	–	(1,637,246)	–	(1,637,246)
		–	–	756	(1,638,002)	(269)	(1,637,515)
At 31 December 2011		3,531,926	1,073,310	3,515,306	6,852,318	(215,572)	14,757,288
		Note 26		Note 28	Note 29	Note 27	

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2012

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from operating activities				
Profit before tax expense and zakat	5,103,926	4,877,939	4,681,734	4,327,840
Adjustments for:				
Share of profit after tax of equity accounted associated companies	(3,985)	(3,210)	–	–
Depreciation of property and equipment	167,253	145,947	135,515	113,471
Net loss/(gain) on disposal of property and equipment	446	(11)	425	(82)
Net (gain)/loss on disposal of foreclosed properties	(7,938)	3,190	(7,938)	3,190
Allowance for impaired loans and financing	474,064	556,355	184,249	199,157
Net gain arising from sale of financial investments available-for-sale	(7,629)	(5,448)	(7,629)	(5,216)
Net (gain)/loss on disposal of trading derivatives	(772)	12,520	(772)	12,520
Amortisation of cost and accretion of discount relating to debt securities issued	3,020	3,499	3,020	3,499
Unrealised loss on revaluation of financial assets held-for-trading	3,330	333	3,312	213
Unrealised gain on revaluation of trading derivatives	(3,222)	(8,495)	(5,733)	(17,204)
Unrealised loss/(gain) on hedging derivatives	1,682	(8,288)	1,085	(6,438)
Pension costs–defined benefit plan	(7,014)	(19,633)	(6,774)	(18,875)
Transfer to/(from) Profit Equalisation Reserve	265	(33,436)	–	–
Dividends from financial assets held-for-trading	(38)	–	(38)	–
Dividends from financial investments available-for-sale	(151,033)	(147,823)	(146,287)	(142,859)
Dividends from subsidiary companies	–	–	(853,080)	(724,677)
Dividends from associated companies	–	–	(4,783)	(9,692)
Property and equipment written off	1,082	1,199	1,064	396
Gain on revaluation of investment properties	(23,877)	(2,711)	–	–
Impairment loss on financial investments available-for-sale	3,533	–	3,533	–
Impairment loss on financial investments held-to-maturity	–	45	–	45
Impairment loss/(writeback) on foreclosed properties	3,093	(1,643)	3,068	(1,661)
Operating profit before working capital changes	5,556,186	5,370,329	3,983,971	3,733,627

Statements of Cash Flows

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from operating activities (Cont'd.)				
Decrease/(Increase) in operating assets:				
Placements with banks maturing after one month	262,925	544,766	955,474	84,211
Reverse repurchase agreements	1,128,749	(8,921,378)	1,126,458	(8,424,874)
Financial assets held-for-trading	(5,963,640)	(4,296,538)	(3,195,805)	(4,594,028)
Loans, advances and financing	(20,587,445)	(21,658,064)	(19,781,662)	(17,647,510)
Other assets	(25,504)	(28,322)	13,284	(228,847)
Statutory deposits with Central Banks	(189,405)	(3,985,226)	(241,848)	(3,390,035)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	24,672,572	23,506,399	22,304,777	18,603,166
Deposits from banks	(2,957,419)	(5,520,744)	(2,308,571)	(4,352,432)
Bills and acceptances payable	953,486	(213,501)	1,037,616	(354,930)
Recourse obligations on loans and financing sold to Cagamas	489,707	(4,530)	(10,296)	(4,530)
Other liabilities	362,261	424,589	204,283	601,007
Cash generated from/(used in) operations	3,702,473	(14,782,220)	4,087,681	(15,975,175)
Income tax expense and zakat paid	(1,259,558)	(873,461)	(993,966)	(627,537)
Net cash generated from/(used in) operating activities	2,442,915	(15,655,681)	3,093,715	(16,602,712)
Cash flows from investing activities				
Purchase of property and equipment	(147,688)	(199,894)	(89,277)	(154,241)
Proceeds from disposal of property and equipment	1,108	979	1,074	967
Proceeds from disposal of foreclosed properties	46,239	27,560	45,304	27,289
Net sale/(purchase) of financial investments	896,641	(1,267,690)	1,223,794	(1,870,140)
Additional investment in a subsidiary company	–	–	(175,000)	(200,000)
Additional investment in an associated company	–	(40,000)	–	(20,000)
Dividends received from associated companies	4,783	9,692	4,783	9,692
Dividends received from subsidiary companies	–	–	820,670	726,976
Dividends received from financial assets held-for-trading	38	–	38	–
Dividends received from financial investments available-for-sale	151,033	147,761	146,287	142,797
Net cash generated from/(used in) investing activities	952,154	(1,321,592)	1,977,673	(1,336,660)

Statements of Cash Flows

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities				
Net repayment of borrowings	(30,173)	(3,268)	–	–
Dividends paid to equity holders of the Bank	(1,681,020)	(1,637,246)	(1,681,020)	(1,637,246)
Dividends paid to non-controlling interests	(16,232)	(19,214)	–	–
Buy-back of shares	–	(269)	–	(269)
Net proceeds from issuance of debt securities	–	2,997,000	–	2,997,000
Redemption of debt securities	(1,263,400)	–	(1,263,400)	–
Net cash (used in)/generated from financing activities	(2,990,825)	1,337,003	(2,944,420)	1,359,485
Net increase/(decrease) in cash and cash equivalents	404,244	(15,640,270)	2,126,968	(16,579,887)
Cash and cash equivalents at beginning of year	16,570,679	32,082,569	8,111,742	24,691,629
Exchange differences on translation of opening balances	(139,151)	128,380	–	–
Cash and cash equivalents at end of year	16,835,772	16,570,679	10,238,710	8,111,742
Note:				
Cash and balances with banks (Note 3)	18,635,951	18,633,783	11,679,843	10,508,349
Less: Balances with banks with maturity more than one month	(1,800,179)	(2,063,104)	(1,441,133)	(2,396,607)
Cash and cash equivalents at end of year	16,835,772	16,570,679	10,238,710	8,111,742

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2012

1. Principal Activities and General Information

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

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

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

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

The financial statements were approved and authorised for issue by the Board of Directors on 6 February 2013.

2. Basis of Preparation and Accounting Policies

(i) Effects of Adopting Malaysian Financial Reporting Standards (“MFRS”) Framework

Since the previous annual audited financial statements as at 31 December 2011 were issued, the Group and the Bank have adopted the MFRS framework established by the Malaysian Accounting Standards Board (“MASB”) with effect from 1 January 2012. This MFRS framework was introduced by the MASB in order to fully converge Malaysia’s existing Financial Reporting Standards (“FRS”) framework with the International Financial Reporting Standards (“IFRS”) framework established by the International Accounting Standards Board (“IASB”). These are the Group’s and the Bank’s first financial statements prepared in accordance with MFRSs and MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards has been applied. In the previous financial year, the financial statements of the Group and the Bank were presented in accordance with FRSs applicable in Malaysia as modified by Bank Negara Malaysia Guidelines. The financial impact arising on the adoption of MFRSs are disclosed in Note 52.

(A) Application of MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (“MFRS 1”)

MFRS 1 requires comparative information to be restated as if the requirements of MFRSs that were effective for annual periods beginning on or after 1 January 2012 have always been applied. However, MFRS 1 allows certain elective exemptions from such retrospective application and prohibits retrospective application in some other aspects.

(a) MFRS 1 Optional Exemptions

The Group and the Bank have made the following policy elections on transition date:

(i) Business Combinations

MFRS 1 provides the option to apply MFRS 3 Business Combinations prospectively for business combinations that occurred from the transition date of MFRS (i.e. 1 January 2011) or from designated dates prior to the transition date.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(i) Effects of Adopting Malaysian Financial Reporting Standards ("MFRS") Framework (Cont'd.)

(A) Application of MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") (Cont'd.)

(a) MFRS 1 Optional Exemptions (Cont'd.)

(i) Business Combinations (Cont'd.)

The Group and the Bank have elected not to restate business combinations that took place prior to the transition date of MFRS (i.e. 1 January 2011). In respect of acquisitions prior to the date of transition:

- (1) The classification of former business combinations under FRS is maintained;
- (2) There is no re-measurement of original fair values determined at the time of business combinations (date of acquisition); and
- (3) The carrying amount of goodwill recognised under FRS is not adjusted.

(ii) Share-based Payment Transactions

MFRS 1 provides retrospective relief from applying MFRS 2 Share-based Payment ("MFRS 2") to equity instruments granted on or after 7 November 2002 and vested before the transition date. The Group and the Bank have elected not to apply the requirements in MFRS 2 to equity instruments granted on or after 7 November 2002 and vested before the transition date.

(iii) Exemption for Fair Value as Deemed Cost – Property and Equipment

MFRS 1 provides the option to measure individual items of property and equipment at fair value at the date of transition and use that fair value as deemed cost at that date. The Group and the Bank have elected not to apply this exemption.

(iv) Exemption for Cumulative Translation Differences

MFRS 1 permits cumulative currency translation gains and losses to be reset to zero at the transition date, hence providing relief from determining cumulative currency translation differences in accordance with MFRS 121 The Effect of Changes in Foreign Exchange Rates from the date a foreign operation was acquired. The Group and the Bank have elected not to reset all cumulative translation differences to zero at the transition date.

(v) Exemption for Employee Benefits

MFRS 1 provides retrospective relief from applying MFRS 119 Employee Benefits in respect of the recognition of actuarial gains and losses. The Group and the Bank have elected not to recognise all cumulative actuarial gains and losses in opening retained earnings as at the transition date for all its employee benefit plans.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(i) Effects of Adopting Malaysian Financial Reporting Standards ("MFRS") Framework (Cont'd.)

(A) Application of MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") (Cont'd.)

(a) MFRS 1 Optional Exemptions (Cont'd.)

(vi) Designation of Previously Recognised Financial Instruments

MFRS 1 permits previously recognised financial instruments to be designated as available-for-sale or fair value through profit or loss on the transition date provided the criteria in MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139") are met. The Group and the Bank have not opted for any redesignation.

Other optional exemptions available under MFRS 1, which have been disclosed in the previous year's audited financial statements, are not applicable to the Group and the Bank and therefore have not been disclosed.

(b) MFRS 1 Mandatory Exceptions

(i) Estimates

MFRS 1 estimates as at the transition date shall be consistent with the estimates as at the same date made in accordance with previous FRSs in Malaysia.

(ii) Derecognition of Financial Assets and Financial Liabilities

The derecognition requirements in MFRS 139 shall be applied prospectively for transactions occurring on or after the transition date. However, an entity may apply the derecognition requirements from a retrospective date of the entity's choosing only if the specific requirements under MFRS 139 are met.

(iii) Hedge Accounting

Hedging relationships shall not be designated retrospectively and hedge accounting can only be applied prospectively from the transition date to a hedging relationship that qualifies for hedge accounting under MFRS 139 at that date.

(iv) Non-controlling Interest

Non-controlling interest shall not be retrospectively restated unless the entity elects to apply MFRS 3 Business Combinations retrospectively to past business combinations.

The Group and the Bank have complied with the requirements of the above mandatory exceptions where applicable.

In the Bank's separate financial statements, the Bank measured its investments in subsidiary companies, jointly controlled entities and associated companies at cost in accordance with MFRS 127 Consolidated and Separate Financial Statements.

There are no material differences between the statements of cash flows of the Group and the Bank presented under MFRSs and the statements of cash flows presented under FRSs, arising from the adoption of MFRSs.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(i) Effects of Adopting Malaysian Financial Reporting Standards ("MFRS") Framework (Cont'd.)

(B) Accounting Policy on the Collective Assessment Allowance for Impaired Loans, Advances and Financing

The Bank and its domestic banking subsidiary companies' collective assessment allowance were previously maintained at 1.5% of total outstanding loans, net of individual assessment allowance, being the transitional arrangement as prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing ("the Guidelines").

In conjunction with the convergence of the FRSs in Malaysia with the IFRSs that resulted in the MFRS framework, the Guidelines were revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of MFRS 139. Based on the revised Guidelines, the transitional arrangement is removed with effect from 1 January 2012.

The financial impact arising from the adoption of requirements under MFRS is disclosed in Note 52.

The accounting policies (including those early adopted) set out below have been applied consistently to the periods presented in these financial statements and in preparing the opening MFRS statements of financial position of the Group and the Bank at 1 January 2011 (being the transition date upon the adoption of the MFRS framework), unless otherwise stated.

(ii) IC Interpretations, Amendments to MFRSs and BNM Guidelines Adopted by the Group and the Bank

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

- IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to MFRS 1)
- Disclosures – Transfers of Financial Assets (Amendments to MFRS 7)

The adoption of IC Interpretation 19 does not have any financial impact on the Group and the Bank as the Group and the Bank do not have such instruments. The adoption of the Amendments to MFRS 1 and MFRS 7 does not have any impact on the Group and the Bank as they mainly help to clarify the requirements and provide further explanations to existing MFRSs.

During the financial year, the Islamic banking subsidiary company of the Group adopted the Guidelines on Profit Equalisation Reserve issued by Bank Negara Malaysia, which addresses the management of displaced commercial risk by Islamic banking institutions. A disclosure of the financial effects on adoption of these guidelines is provided in Note 52.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(iii) Amendments to MFRSs Early Adopted by the Group and the Bank

The Group and the Bank have chosen to early adopt the following:

- (i) Amendments to MFRS 101 Presentation of Items of Other Comprehensive Income which is effective for annual periods beginning on or after 1 July 2012. This amendment requires entities to separate items presented in 'other comprehensive income' ("OCI") in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

The adoption of these amendments did not have any impact on the financial results of the Group and the Bank as the changes only affect disclosures in the financial statements.

- (ii) Amendments to MFRSs contained in the document entitled "Annual Improvements 2009-2011 Cycle" which are effective for annual periods beginning on or after 1 January 2013. The Annual Improvements 2009-2011 Cycle contains amendments to the following MFRSs:

- (a) **Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards** – These amendments clarify that an entity that had previously applied MFRSs or IFRSs but did not do so in its most recent previous annual financial statements must either apply MFRS 1 or MFRS 108 Accounting Policies, Changes in Estimates and Errors in the period that the entity decides to reapply the MFRS framework.

The amendments also clarify on the treatment of capitalised borrowing costs which allow an additional relief for first-time adopters. Upon transition to MFRSs or IFRSs, an entity will be allowed to retain its previously capitalised borrowing costs without adjustment. After transition, borrowing costs including those that relate to qualifying assets under construction are recognised in accordance with MFRS 123 Borrowing Costs.

- (b) **Amendments to MFRS 101 Presentation of Financial Statements** – These amendments clarify that an entity is required to present a third statement of financial position only if a retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period. Nevertheless, an entity may present comparative information in addition to the minimum comparative financial statements as long as that information is prepared in accordance with MFRSs.
- (c) **Amendments to MFRS 116 Property, Plant and Equipment** – These amendments clarify that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition in MFRS 116. Otherwise, such items are classified as inventory in accordance with MFRS 102 Inventories.
- (d) **Amendments to MFRS 132 Financial Instruments: Presentation** – These amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with MFRS 112 Income Taxes.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(iii) Amendments to MFRSs Early Adopted by the Group and the Bank (Cont'd.)

- (ii) Amendments to MFRSs contained in the document entitled "Annual Improvements 2009-2011 Cycle" which are effective for annual periods beginning on or after 1 January 2013. The Annual Improvements 2009-2011 Cycle contains amendments to the following MFRSs: (Cont'd.)
 - (e) **Amendments to MFRS 134 Interim Financial Reporting** – To be consistent with the requirements in MFRS 8 Operating Segments, the amendments clarify that an entity shall disclose the total assets and liabilities for a particular reportable segment only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

The adoption of the Annual Improvements 2009-2011 Cycle did not have any financial impact on the Group and the Bank.

(iv) MFRSs, Amendments to MFRSs and IC Interpretations That Have Been Issued but Not Yet Effective to the Group and the Bank

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

Effective for annual periods commencing on or after 1 January 2013

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

Effective for annual periods commencing on or after 1 January 2014

- Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)

Effective for annual periods commencing on or after 1 January 2015

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(iv) **MFRSs, Amendments to MFRSs and IC Interpretations That Have Been Issued but Not Yet Effective to the Group and the Bank (Cont'd.)**

The following MFRSs, Amendments to MFRSs and IC Interpretations have been issued by the MASB but are not yet effective to the Group and the Bank: (Cont'd.)

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

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

- (i) **MFRS 10 Consolidated Financial Statements** – MFRS 10 supercedes MFRS 127 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities, which interprets the requirements of MFRS 10 in relation to special purpose entities. MFRS 10 sets out the requirements on how to apply the control principle in the preparation of consolidated financial statements, especially in circumstances where the investor holds less than the majority of voting power, or where the investee entity is designed in such a manner where voting rights are not the dominant factor in determining control, or in circumstances involving agency relationships, or where the investor has control over specific assets of the entity. There are three elements to the definition of control in MFRS 10:

- (a) Power by investor over an investee;
- (b) Exposure, or rights, to variable returns from investor's involvement with the investee; and
- (c) Investor's ability to affect those returns through its power over investee.

Concurrent with the issuance of MFRS 10, the following standards were also issued:

- MFRS 11 Joint Arrangements;
- MFRS 12 Disclosure of Interests in Other Entities;
- MFRS 127 Separate Financial Statements (as amended by IASB in May 2011); and
- MFRS 128 Investments in Associates and Joint Ventures (as amended by IASB in May 2011).

- (ii) **MFRS 11 Joint Arrangements** – MFRS 11 supercedes MFRS 131 Interests in Joint Ventures. Under MFRS 11, an entity accounts for its interest in a jointly controlled entity based on two types of joint arrangement: joint operations and joint ventures. The classification of joint arrangement is determined based on the assessment of the parties' rights and obligations arising from the arrangement. Joint operations arise where a joint operator has rights to the assets and obligation to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(iv) **MFRSs, Amendments to MFRSs and IC Interpretations That Have Been Issued but Not Yet Effective to the Group and the Bank (Cont'd.)**

- (iii) ***MFRS 12 Disclosure of Interests in Other Entities*** – This is a combined disclosure standard for interests in subsidiary companies, joint arrangements, associated companies and unconsolidated structured entities. The disclosure requirements in this MFRS are aimed at providing standardised and comparable information that enable users of financial statements to evaluate the nature, risks and financial effects of those interests on its financial position, financial performance and cash flows.
- (iv) ***MFRS 127 Separate Financial Statements (as amended by IASB in May 2011)*** – Upon the issuance and adoption of MFRS 10, the accounting requirements relating to the preparation of consolidated financial statements are no longer covered under MFRS 127. Therefore, MFRS 127 has now been reissued to only cover the requirements relating to the accounting for investments in subsidiary companies, associated companies and joint ventures in the separate financial statements of the entity. In such cases, the entity should account for such investments either at cost, or in accordance with MFRS 9.
- (v) ***MFRS 128 Investments in Associates and Joint Ventures (as amended by IASB in May 2011)*** – This revised MFRS 128 incorporates the requirements for accounting for joint ventures into the same accounting standard as that for accounting for investments in associated companies. However, the revised MFRS 128 exempts the investor from applying equity accounting in certain circumstances, i.e. where the investment in the associated company or joint venture is held indirectly via venture capital organisations or mutual funds and similar entities. In such cases, the entity shall measure the investment at fair value through profit or loss, in accordance with MFRS 9.

Each of the standards above is to be applied concurrently and the impending adoption of the above standards are not expected to result in any significant changes to the Group's and the Bank's accounting policies and will not have any material impact on the financial statements of the Group and the Bank.

- (vi) ***MFRS 13 Fair Value Measurement*** – This standard defines fair value and sets out a framework for measuring fair value, and the disclosure requirements about fair value. This standard is intended to address the inconsistencies in the requirements for measuring fair value in various MFRSs. The definition of fair value under this standard emphasises the principle that fair value is a market-based measurement, not an entity-specific measurement. The adoption of this standard is not expected to have a material impact on the financial statements of the Group and the Bank.
- (vii) ***MFRS 119 Employee Benefits (as amended by IASB in June 2011)*** – This revised MFRS 119 affects the accounting treatment of certain items such as the timing of the recognition of certain gains and losses arising from defined benefit plans and the presentation of changes in defined benefit liability or asset. The key changes include:
 - Actuarial gains and losses (renamed as 'remeasurements') are recognised immediately in other comprehensive income, and are not subsequently recycled to the income statement. The corridor approach for accounting for unrecognised actuarial gains is removed.
 - Past service costs, whether unvested or already vested, are recognised immediately in the income statement as incurred and the annual defined benefit costs in the income statement will include net interest expense/income on the defined benefit asset/liability.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(iv) **MFRSs, Amendments to MFRSs and IC Interpretations That Have Been Issued but Not Yet Effective to the Group and the Bank (Cont'd.)**

- (vii) ***MFRS 119 Employee Benefits (as amended by IASB in June 2011)*** – This revised MFRS 119 affects the accounting treatment of certain items such as the timing of the recognition of certain gains and losses arising from defined benefit plans and the presentation of changes in defined benefit liability or asset. The key changes include: (Cont'd.)

The revised MFRS 119 will result in changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The key changes to the accounting policy and financial impact to the Group and the Bank on initial adoption will be as follows:

- Actuarial gains and losses (“renamed as remeasurements”) will no longer be deferred using the corridor approach and will be recognised immediately in other comprehensive income which will not subsequently recycle to the income statement. This will result in a decrease of approximately RM174 million and RM168 million respectively to the retained profits of the Group and the Bank as at 1 January 2013. There will also be a consequential recognition of defined benefit reserves amounting to approximately RM194 million and RM187 million respectively in the statements of financial position of the Group and the Bank. Consequently, the net impact to shareholders’ equity of the Group and the Bank as at 1 January 2013 is expected to be approximately RM20 million and RM19 million respectively.
- Pension costs for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the interest cost and expected return on plan assets. The annual impact on net profit and earnings per share of the Group and the Bank from this change is not expected to be significant.

- (viii) ***MFRS 3 Business Combinations (IFRS Business Combinations issued by IASB March 2004) and MFRS 127 Consolidated and Separate Financial Statements (IAS 27 Consolidated and Separate Financial Statements revised by IASB in December 2003)*** – These are the earlier versions of MFRS 3 and MFRS 127 for which an entity can apply if it concludes that, upon applying MFRS 10, it shall consolidate an investee that was not previously consolidated and that control was obtained before the effective date of MFRS 3 and MFRS 127 issued by MASB in November 2011. The adoption of these amendments are not expected to have any financial impact to the Group and the Bank.

- (ix) ***Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 7)*** – The amendments require more quantitative information to be disclosed to enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position. The adoption of these amendments are not expected to have any financial impact on the Group and the Bank as the current practice for offsetting arrangements remained unchanged.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(iv) **MFRSs, Amendments to MFRSs and IC Interpretations That Have Been Issued but Not Yet Effective to the Group and the Bank (Cont'd.)**

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

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

- (xi) ***Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)*** – The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ that a right of set-off must not be contingent on a future event and must be legally enforceable for all counterparties in the normal course of business. The amendments further clarify that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria. The adoption of these amendments are not expected to have any financial impact to the Group and the Bank as the current practice for offsetting arrangements remained unchanged.

- (xii) (a) ***MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)*** – The IASB intends to replace IAS 39 with IFRS 9. MFRS 9 is the IFRS 9 equivalent standard in Malaysia. This issuance of MFRS 9 contains the accounting policy changes under the first phase of the IAS 39 replacement project, and specifies how an entity should classify and measure financial assets. This standard requires all financial assets to be classified based on an entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are to be initially measured at fair value. Subsequent to initial recognition, depending on the business model under which these assets are acquired, these will be measured at either fair value or amortised cost.

- (b) ***MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)*** – This issuance of MFRS 9 represents the second part of the first phase of IASB’s IAS 39 replacement project. This section of the standard specifies the requirements for the classification and measurement of financial liabilities, which are generally similar to the requirements of the original IAS 39. However, this standard requires that for financial liabilities designated at fair value through profit or loss, changes in fair value attributable to the credit risk of that liability are to be presented in other comprehensive income, whereas the remaining amount of the change in fair value will be presented in the income statement.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

(iv) **MFRSs, Amendments to MFRSs and IC Interpretations That Have Been Issued but Not Yet Effective to the Group and the Bank (Cont'd.)**

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

– These amendments require entities to apply MFRS 9 for annual periods beginning on or after 1 January 2015 instead of on or after 1 January 2013. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying MFRS 9 which was originally only available to companies that choose to apply MFRS 9 prior to 2012. The amendments to MFRS 7 require additional disclosures on transition from MFRS 139 Financial Instruments: Recognition and Measurement to MFRS 9.

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

Future Developments

It is expected that the IASB will release the second and third phase of IFRS 9 in 2013 which will address the impairment of financial assets measured at amortised cost and hedge accounting. The key changes proposed relate to:

- (a) Impairment – both expected losses and incurred losses will be reflected in impairment allowances for financial assets measured at amortised cost.
- (b) Hedge accounting – hedge accounting will be more aligned to financial risk management.

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

(v) **Summary of Significant Accounting Policies**

(a) **Basis of Accounting**

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

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

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

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

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

For loans of the Bank and its banking subsidiary companies which are collectively assessed, judgements are made based on loan portfolio data (eg. credit quality, default rates, recovery rates, etc), credit concentration and economic data (eg. unemployment rates, GDP growth rates, etc) in order to arrive at impairment levels appropriate to the portfolio.

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

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

(b) Basis of Consolidation

(i) Subsidiary Companies

The consolidated financial statements include the financial statements of the Bank and its subsidiary companies made up to the end of the financial year.

Subsidiary companies are consolidated from the date on which the Group gains control, and ceases from the date that control ceases. Control exists when the Group directly or indirectly holds the majority of the voting rights and has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial results of the subsidiary companies are included in the consolidated financial statements from the date that control is obtained until the date that the Group loses control.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

(i) Subsidiary Companies (Cont'd.)

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

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

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

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

(i) Subsidiary Companies (Cont'd.)

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

(ii) Associated Companies

Associated companies are those enterprises in which the Group has significant influence but not control, generally where the Group has long term equity interest and voting rights of between 20 to 50 percent. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not the power to exercise control over the policies.

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

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

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(c) Foreign Currency

(i) Functional and Presentation Currency

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

(ii) Foreign Currency Transactions and Balances

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

(iii) Net Investment in Foreign Operations

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

(iv) Consolidation of Financial Statements of Foreign Operations

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(c) Foreign Currency (Cont'd.)

(iv) Consolidation of Financial Statements of Foreign Operations (Cont'd.)

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

	2012	2011
1 USD	RM3.0580	RM3.1748
1 HKD	RM0.3945	RM0.4086

(d) Cash and Cash Equivalents

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

(e) Financial Assets and Liabilities

(i) Initial Recognition and Subsequent Measurement

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

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

Financial assets classified in this category consist of financial assets held-for-trading. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing it in the near term. Derivative financial instruments not designated in an effective hedge transaction are also classified in this category. The Group and the Bank do not have any financial instruments designated at fair value through profit or loss.

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

(2) Loans and Receivables

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

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

(3) Financial Investments Held-to-Maturity

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

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

(4) Financial Investments Available-for-Sale

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

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

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

(5) Financial Liabilities

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

(ii) Derecognition

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

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

(iii) Reclassification of Financial Assets

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

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

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

(iv) Determination of Fair Value

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

(v) Offsetting of Financial Instruments

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

(f) Derivative Financial Instruments and Hedge Accounting

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

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

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

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

(i) Fair Value Hedge

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

(ii) Cash Flow Hedge

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

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

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

(iii) Net Investment Hedge

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

(g) Embedded Derivatives

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

(h) Impairment of Financial Assets

(i) Loans, Advances and Financing

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

- (1) principal or interest or both are past due for three (3) months or more;
- (2) where a loan is in arrears for less than three (3) months, the loan exhibits indications of significant credit weaknesses; or
- (3) where an impaired loan has been rescheduled or restructured, the loan will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

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

(ii) Financial Investments Available-for-Sale

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

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

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

(iii) Financial Investments Held-to-Maturity

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

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised.

(iv) Rescheduled and Restructured Loans

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(i) Investment Properties

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

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

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. Fair values of investment properties are determined either by independent professional valuers or by management based on their judgement and estimates. Management's estimates have been made with reference to current prices in an active market for similar properties in the same location and condition and subject to similar lease and other contracts.

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

(j) Assets Acquired Under Lease

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

(i) Finance Lease

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(i) Assets Acquired Under Lease (Cont'd.)

(ii) Operating Lease

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

(k) Property and Equipment and Depreciation

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

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

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

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

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

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

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(l) Goodwill and Intangible Assets

(i) Goodwill

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

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

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

(ii) Intangible Assets

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

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(m) Foreclosed Properties

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

(n) Impairment of Non-Financial Assets

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

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

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

(o) Repurchase and Reverse Repurchase Agreements

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

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

(p) Bills and Acceptances Payable

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(q) General Insurance

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

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

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

(r) Profit Equalisation Reserve ("PER")

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

(s) Provisions

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

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

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

(t) Debt Securities Issued

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(t) Debt Securities Issued (Cont'd.)

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

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

(u) Share Capital

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

(v) Treasury Shares

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

(w) Contingent Liabilities and Contingent Assets

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

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

(x) Operating Revenue

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(y) Interest and financing income and expense

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

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

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

(z) Fee and Commission Income

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

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

(aa) Dividend Income

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

(ab) Employee Benefits

(i) Short-Term Employee Benefits

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

(ii) Defined Contribution Plan

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(ab) Employee Benefits (Cont'd.)

(iii) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a fully funded defined benefit plan approved by the Inland Revenue Board known as the Public Bank Group Officers' Retirement Benefits Fund (the "Fund") for its eligible employees. The obligations under the Fund are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years are estimated. The benefit is calculated using the Projected Unit Credit Method in order to determine its present value. Actuarial gains and losses are recognised as income or expense over four years when the cumulative unrecognised actuarial gains or losses for the Fund exceed ten percent (10%) of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Where there are any improvements in benefits for the Fund, past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any net defined benefit surplus resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service cost, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the Fund.

The amount recognised under personnel costs in the income statement includes the current service cost, interest cost, the expected return on plan assets and actuarial gains or losses recognised on the Fund.

(iv) Share-based Compensation Benefits

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

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(ac) Tax Expense

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

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

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

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

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

(ad) Dividends

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

(ae) Earnings Per Share

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

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (Cont'd.)

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

(af) Segment Reporting

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

All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

3. Cash and Balances with Banks

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Cash and bank balances	2,338,784	2,288,863	2,220,245
Money market deposit placements:			
– maturing within one month	14,496,988	14,281,816	29,862,324
– maturing after one month	1,800,179	2,063,104	2,607,870
	16,297,167	16,344,920	32,470,194
	18,635,951	18,633,783	34,690,439

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Cash and bank balances	1,571,400	1,275,341	1,382,876
Money market deposit placements:			
– maturing within one month	8,667,310	6,836,401	23,308,753
– maturing after one month	1,441,133	2,396,607	2,480,818
	10,108,443	9,233,008	25,789,571
	11,679,843	10,508,349	27,172,447

Notes to the Financial Statements

4. Reverse Repurchase Agreements

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Malaysian Government Securities	8,158,410	9,272,886	355,140
Foreign government treasury bills	96	14,369	10,737
	8,158,506	9,287,255	365,877

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Malaysian Government Securities	7,309,057	8,421,242	–
Foreign government treasury bills	96	14,369	10,737
	7,309,153	8,435,611	10,737

The fair value of securities accepted as collateral under reverse repurchase agreements that the Group and the Bank are permitted to sell or repledge in the absence of default by their owner was RM8,371,213,000 (31 December 2011 – RM9,575,356,000; 1 January 2011 – RM384,290,000) and RM7,502,535,000 (31 December 2011 – RM8,708,692,000; 1 January 2011 – RM10,737,000) respectively, of which none (31 December 2011 – none; 1 January 2011 – none) have been resold.

5. Financial Assets Held-For-Trading

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
At fair value			
Government securities and treasury bills:			
Malaysian Government Treasury Bills	68,286	–	–
Malaysian Government Securities	141,362	350,463	75,734
Malaysian Government Investment Certificates	193,352	334,009	–
Bank Negara Malaysia Monetary Notes	3,424,343	226,552	412,508
Bank Negara Malaysia Bills	149,736	–	99,803
	3,977,079	911,024	588,045

Notes to
the Financial Statements

5. Financial Assets Held-For-Trading (Cont'd.)

[illegible]

Notes to the Financial Statements

6. Derivative Financial Assets/Liabilities

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

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

	31 December 2012			31 December 2011			1 January 2011		
	Contract/ Notional Amount RM'000	Fair Value		Contract/ Notional Amount RM'000	Fair Value		Contract/ Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Group									
At fair value									
Trading derivatives:									
Foreign exchange contracts									
– Currency forwards	1,033,464	3,876	6,225	1,127,329	14,538	2,594	1,168,602	6,144	18,402
– Currency swaps	10,845,757	11,659	57,565	9,893,067	92,043	47,232	13,018,376	80,072	175,499
Interest rate related contracts									
– Interest rate swaps	–	–	–	460,000	16	370	159,190	65	76
Equity related contracts									
– Options purchased	126,594	12,154	–	148,325	11,244	–	408,167	21,048	–
Precious metal contracts									
– Forwards	206	1	–	16,896	77	2	929	–	–
	12,006,021	27,690	63,790	11,645,617	117,918	50,198	14,755,264	107,329	193,977
Hedging derivatives:									
Fair value hedge									
Interest rate related contracts									
– Interest rate swaps	10,952,180	321,694	133,993	12,423,875	371,896	185,608	9,879,746	212,544	181,371
Cash flow hedge									
Foreign exchange contracts									
– Cross currency interest rate swaps	1,376,100	–	35,669	–	–	–	–	–	–
Interest rate related contracts									
– Interest rate swaps	3,179,000	21,081	112	919,000	4,038	918	484,000	6,749	181
	15,507,280	342,775	169,774	13,342,875	375,934	186,526	10,363,746	219,293	181,552
Total	27,513,301	370,465	233,564	24,988,492	493,852	236,724	25,119,010	326,622	375,529

Notes to the Financial Statements

6. Derivative Financial Assets/Liabilities (Cont'd.)

	31 December 2012			31 December 2011			1 January 2011		
	Contract/ Notional Amount RM'000	Fair Value		Contract/ Notional Amount RM'000	Fair Value		Contract/ Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Bank									
At fair value									
Trading derivatives:									
Foreign exchange contracts									
– Currency forwards	990,285	3,814	6,175	1,102,192	14,475	2,548	1,140,748	6,106	18,371
– Currency swaps	10,832,687	11,595	57,562	9,547,903	90,790	46,440	12,816,888	76,093	173,378
Interest rate related contracts									
– Interest rate swaps	18,348	–	1,360	736,204	2,814	7,111	471,478	6,518	19,649
Equity related contracts									
– Options purchased	126,594	12,154	–	148,325	11,244	–	408,167	21,048	–
Precious metal contracts									
– Forwards	206	1	–	16,896	77	2	929	–	–
	11,968,120	27,564	65,097	11,551,520	119,400	56,101	14,838,210	109,765	211,398
Hedging derivatives:									
Fair value hedge									
Interest rate related contracts									
– Interest rate swaps	10,521,002	321,694	94,038	11,719,080	369,098	133,306	9,010,480	206,082	129,416
Cash flow hedge									
Foreign exchange contracts									
– Cross currency interest rate swaps	1,376,100	–	35,669	–	–	–	–	–	–
Interest rate related contracts									
– Interest rate swaps	4,179,000	15,086	15,956	919,000	4,038	918	484,000	6,749	181
	16,076,102	336,780	145,663	12,638,080	373,136	134,224	9,494,480	212,831	129,597
Total	28,044,222	364,344	210,760	24,189,600	492,536	190,325	24,332,690	322,596	340,995

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

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

Notes to the Financial Statements

6. Derivative Financial Assets/Liabilities (Cont'd.)

As at 31 December 2012, the Group and the Bank have positions in the following types of derivative financial instruments:

Forwards

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

Swaps

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

Options

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

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

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

Fair Value Hedges

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

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

	Group	
	2012	2011
	RM'000	RM'000
Gain on hedging instruments	1,341	155,173
Loss on the hedged items attributable to the hedged risk	(3,096)	(146,840)
Exchange differences	29	(42)
Ineffectiveness charged to the income statement (Note 33)	(1,726)	8,291

Notes to the Financial Statements

6. Derivative Financial Assets/Liabilities (Cont'd.)

Fair Value Hedges (Cont'd.)

The net gains and losses arising from fair value hedges during the year are as follows: (Cont'd.)

	Bank	
	2012	2011
	RM'000	RM'000
(Loss)/gain on hedging instruments	(8,209)	159,184
Gain/(loss) on the hedged items attributable to the hedged risk	7,080	(152,743)
Ineffectiveness charged to the income statement (Note 33)	(1,129)	6,441

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

Cash Flow Hedges

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

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

	Group			
	Within 1 year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
2012				
Cash inflows on assets	1,185	60	–	–
Cash inflows/(outflows) on liabilities	9,560	35,540	(64,781)	3,616
Net cash inflows/(outflows)	10,745	35,600	(64,781)	3,616
	Bank			
	Within 1 year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
2012				
Cash inflows/(outflows) on assets	9,572	16,089	3,453	(43,663)
Cash inflows/(outflows) on liabilities	9,836	35,838	(67,708)	–
Net cash inflows/(outflows)	19,408	51,927	(64,255)	(43,663)

Notes to the Financial Statements

6. Derivative Financial Assets/Liabilities (Cont'd.)

Cash Flow Hedges (Cont'd.)

	Within 1 year RM'000	Group and Bank		Over 5 years RM'000
		1 – 3 years RM'000	3 – 5 years RM'000	
2011				
Cash inflows on assets	1,875	1,945	–	–
Cash (outflows)/inflows on liabilities	(848)	(2,933)	3,080	–
Net cash inflows/(outflows)	1,027	(988)	3,080	–

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

The net gain on cash flow hedges reclassified from equity to the income statement is recognised in “Net gains and losses on financial instruments”. During the financial year, a net gain of RM16,000 (2011 – net gain of RM553,000) was recognised by the Group and the Bank in the income statement.

The gains and losses on the ineffective portions of such derivatives are recognised immediately in the income statement under “Net gains and losses on financial instruments”. During the financial year, a gain of RM44,000 (2011 – loss of RM3,000) (Note 33) was recognised by the Group and the Bank due to hedge ineffectiveness.

Hedge of Net Investment in Foreign Operations

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

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Long-term borrowings	180,422	527,008	511,695
Short-term interbank borrowings	2,715,504	2,479,480	2,179,328
	2,895,926	3,006,488	2,691,023

The gains and losses on the ineffective portions recognised in the income statement under “Other operating income” during the financial year that arose from hedges of net investment in foreign operations was a gain of RM962,000 (2011 – gain of RM2,000).

Notes to the Financial Statements

7. Financial Investments Available-For-Sale

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
At fair value			
Government securities and treasury bills:			
Malaysian Government Treasury Bills	845,916	194,678	–
Malaysian Government Securities	491,355	500,182	2,115,849
Malaysian Government Investment Certificates	1,389,493	501,137	2,002,864
Bank Negara Malaysia Monetary Notes	7,341,239	8,480,813	5,485,605
Bank Negara Malaysia Bills	–	–	1,063,115
	10,068,003	9,676,810	10,667,433
Non-money market instruments:			
Equity securities [#]			
– Quoted shares and convertible loan stocks in Malaysia	36,210	37,069	37,212
– Quoted shares and convertible loan stocks outside Malaysia	10,984	7,718	8,674
– Unquoted shares	108,383	108,836	108,193
Debt securities			
– Unquoted private debt securities	2,014,665	2,072,214	2,358,606
Unit trust funds	4,962,875	4,816,786	4,672,166
	7,133,117	7,042,623	7,184,851
	17,201,120	16,719,433	17,852,284
[#] Stated at cost, net of impairment loss amounting to	26,135	35,477	39,914

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
At fair value			
Government securities and treasury bills:			
Malaysian Government Treasury Bills	845,916	194,678	–
Malaysian Government Securities	491,355	500,182	2,105,763
Malaysian Government Investment Certificates	836,162	87,828	1,199,611
Bank Negara Malaysia Monetary Notes	7,341,239	7,492,295	4,568,078
	9,514,672	8,274,983	7,873,452

Notes to the Financial Statements

7. Financial Investments Available-For-Sale (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
At fair value (Cont'd.)			
Money market instruments:			
Negotiable instruments of deposit	–	–	272,599
Non-money market instruments:			
Equity securities [#]			
– Quoted shares and convertible loan stocks in Malaysia	36,210	37,069	34,947
– Unquoted shares	104,614	104,972	104,479
Debt securities			
– Unquoted private debt securities	1,554,903	1,591,926	1,833,351
Unit trust funds	4,409,845	4,278,991	4,150,651
	6,105,572	6,012,958	6,123,428
	15,620,244	14,287,941	14,269,479
[#] Stated at cost, net of impairment loss amounting to	26,135	29,115	33,482

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

	Group 2012 RM'000	2011 RM'000	Bank 2012 RM'000	2011 RM'000
Non-money market instruments:				
Equity securities				
At 1 January	35,477	39,914	29,115	33,482
Impairment made during the year (Note 38)	3,533	–	3,533	–
Amount written off	(12,875)	(4,437)	(6,513)	(4,367)
At 31 December	26,135	35,477	26,135	29,115

Notes to the Financial Statements

8. Financial Investments Held-To-Maturity

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Government securities and treasury bills:			
Malaysian Government Treasury Bills	–	9,896	3,654
Malaysian Government Securities	1,139,827	1,355,119	1,933,735
Malaysian Government Investment Certificates	1,739,184	702,108	549,330
Foreign government treasury bills	727,307	707,336	515,429
	3,606,318	2,774,459	3,002,148
Money market instruments:			
Negotiable instruments of deposit	1,717,161	1,281,183	1,010,727
Bankers' acceptances and Islamic accepted bills	299,437	3,011,092	492,166
	2,016,598	4,292,275	1,502,893
Non-money market instruments:			
Debt securities			
– Cagamas bonds	5,059	20,246	5,059
– Unquoted private debt securities	629,951	543,355	729,530
	635,010	563,601	734,589
Accumulated impairment losses	(155)	(1,102)	(10,013)
	6,257,771	7,629,233	5,229,617

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Government securities and treasury bills:			
Malaysian Government Treasury Bills	–	9,896	3,654
Malaysian Government Securities	1,089,201	1,254,175	1,772,055
Malaysian Government Investment Certificates	1,739,184	702,108	549,330
Foreign government treasury bills	58,285	98,562	80,010
	2,886,670	2,064,741	2,405,049

Notes to the Financial Statements

8. Financial Investments Held-To-Maturity (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost (Cont'd.)			
Money market instruments:			
Negotiable instruments of deposit	1,472,807	2,309,611	2,689,862
Bankers' acceptances and Islamic accepted bills	–	2,555,206	–
	1,472,807	4,864,817	2,689,862
Non-money market instruments:			
Debt securities			
– Cagamas bonds	5,059	5,059	5,059
– Unquoted private debt securities	144,933	140,342	140,442
	149,992	145,401	145,501
Accumulated impairment losses	(155)	(1,102)	(10,013)
	4,509,314	7,073,857	5,230,399

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Maturity within one year	3,489,815	5,659,533	2,833,384
More than one year to three years	1,338,234	1,081,268	965,868
More than three years to five years	526,924	315,648	700,644
More than five years	267,943	10,285	5,145
	5,622,916	7,066,734	4,505,041

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Maturity within one year	775,953	4,123,739	2,658,186
More than one year to three years	1,315,849	1,061,016	1,730,936
More than three years to five years	526,924	315,648	700,644
More than five years	1,740,751	1,429,155	5,145
	4,359,477	6,929,558	5,094,911

Notes to the Financial Statements

8. Financial Investments Held-To-Maturity (Cont'd.)

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Malaysian Government Treasury Bills	–	9,897	3,652
Malaysian Government Securities	1,147,849	1,368,167	1,946,257
Malaysian Government Investment Certificates	1,744,179	708,575	554,266
Foreign government treasury bills	727,016	707,216	515,605
Negotiable instruments of deposit	1,720,492	1,279,987	1,004,047
Bankers' acceptances and Islamic accepted bills	299,432	3,010,833	492,175

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Malaysian Government Treasury Bills	–	9,897	3,652
Malaysian Government Securities	1,097,185	1,267,052	1,784,640
Malaysian Government Investment Certificates	1,744,179	708,575	554,266
Foreign government treasury bills	58,296	98,505	80,186
Negotiable instruments of deposit	1,474,027	2,308,315	2,683,223
Bankers' acceptances and Islamic accepted bills	–	2,555,062	–

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

	Group and Bank	
	2012 RM'000	2011 RM'000
Non-money Market Instruments:		
Debt Securities		
At 1 January	1,102	10,013
Impairment made during the year (Note 38)	–	45
Amount written off	(947)	(8,956)
At 31 December	155	1,102

Notes to the Financial Statements

9. Loans, Advances and Financing

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Overdrafts	9,528,841	9,447,558	9,597,674
Term loans/financing			
– Housing loans/financing	59,867,383	51,315,764	43,891,024
– Syndicated term loans/financing	1,974,334	2,318,612	2,871,817
– Hire purchase receivables	42,021,461	38,727,779	35,328,422
– Other term loans/financing	73,633,407	64,851,835	54,989,863
Credit card receivables	1,604,211	1,522,267	1,348,902
Bills receivables	130,609	85,401	108,856
Trust receipts	324,142	382,921	377,087
Claims on customers under acceptance credits [#]	4,020,397	3,936,947	3,582,630
Revolving credits	3,464,140	4,003,269	3,486,986
Staff loans*	1,214,239	1,101,664	960,811
Gross loans, advances and financing	197,783,164	177,694,017	156,544,072
Less: Allowance for impaired loans and financing			
– collective assessment allowance	(1,529,566)	(1,496,044)	(1,414,973)
– individual assessment allowance	(201,995)	(245,196)	(264,934)
Net loans, advances and financing	196,051,603	175,952,777	154,864,165

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Overdrafts	8,291,756	8,326,695	8,500,942
Term loans			
– Housing loans	52,536,395	44,743,319	38,382,386
– Syndicated term loans	881,720	917,264	1,635,281
– Hire purchase receivables	30,138,506	26,680,963	24,839,999
– Other term loans	61,665,524	52,886,921	44,069,685
Credit card receivables	1,594,106	1,512,099	1,340,914
Bills receivables	97,980	82,204	95,828
Trust receipts	278,177	309,675	329,412
Claims on customers under acceptance credits [#]	4,007,132	3,921,063	3,572,220
Revolving credits	3,505,412	4,144,668	3,473,437
Staff loans*	1,141,458	1,033,587	903,078
Gross loans and advances	164,138,166	144,558,458	127,143,182

Notes to the Financial Statements

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

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost (Cont'd.)			
Less: Allowance for impaired loans			
– collective assessment allowance	(1,059,484)	(1,038,212)	(1,027,399)
– individual assessment allowance	(110,074)	(134,748)	(166,346)
Net loans and advances	162,968,608	143,385,498	125,949,437

Included in claims on customers under acceptance credits of the Group and the Bank are bankers' acceptance rediscounted of RM2,306,869,000 (31 December 2011 – RM1,294,373,000; 1 January 2011 – RM1,707,306,000) and RM2,305,913,000 (31 December 2011 – RM1,292,261,000; 1 January 2011 – RM1,706,661,000) respectively.

* Included in staff loans of the Group and the Bank are loans to directors of subsidiary companies amounting to RM3,785,000 (31 December 2011 – RM3,374,000; 1 January 2011 – RM3,505,000) and RM3,313,000 (31 December 2011 – RM2,823,000; 1 January 2011 – RM2,891,000) respectively.

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Retail loans/financing*			
– Housing loans/financing	59,867,383	51,315,764	43,891,024
– Hire purchase	42,021,461	38,727,779	35,328,422
– Credit cards	1,604,211	1,522,267	1,348,902
– Other loans/financing^	66,421,547	59,650,401	52,904,601
Corporate loans/financing	169,914,602	151,216,211	133,472,949
	27,868,562	26,477,806	23,071,123
	197,783,164	177,694,017	156,544,072

Notes to the Financial Statements

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

Gross loans, advances and financing presented by class of financial instruments are as follows: (Cont'd.)

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Retail loans*			
– Housing loans	52,536,395	44,743,319	38,382,386
– Hire purchase	30,138,506	26,680,963	24,839,999
– Credit cards	1,594,106	1,512,099	1,340,914
– Other loans ^	57,307,670	50,654,228	44,786,687
	141,576,677	123,590,609	109,349,986
Corporate loans	22,561,489	20,967,849	17,793,196
	164,138,166	144,558,458	127,143,182

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

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

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Maturity within one year	26,478,852	28,165,244	25,130,683
More than one year to three years	22,671,399	16,730,279	16,618,501
More than three years to five years	18,899,528	19,594,355	18,258,072
More than five years	129,733,385	113,204,139	96,536,816
	197,783,164	177,694,017	156,544,072

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Maturity within one year	22,175,219	23,903,369	21,330,140
More than one year to three years	18,602,463	12,487,913	12,363,350
More than three years to five years	14,547,090	14,966,255	14,188,733
More than five years	108,813,394	93,200,921	79,260,959
	164,138,166	144,558,458	127,143,182

Notes to the Financial Statements

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

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Banking institutions	572,034	577,887	92,478
Non-bank financial institutions			
– Stock-broking companies	14,202	2,010	2,010
– Others	5,676,475	7,508,401	5,751,848
Business enterprises			
– Small and medium enterprises	38,966,081	31,893,730	28,022,864
– Others	24,147,664	23,208,613	22,226,128
Government and statutory bodies	341,178	324,378	326,226
Individuals	126,071,304	112,227,634	98,089,469
Other entities	42,618	32,698	30,207
Foreign entities	1,951,608	1,918,666	2,002,842
	197,783,164	177,694,017	156,544,072
	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Banking institutions	397,658	412,759	–
Non-bank financial institutions			
– Stock-broking companies	14,202	2,010	2,010
– Others	5,434,225	7,285,444	5,530,247
Business enterprises			
– Small and medium enterprises	35,195,448	28,410,394	25,109,061
– Others	19,727,188	18,625,966	17,595,432
Government and statutory bodies	19,300	368	371
Individuals	101,473,775	88,005,106	77,045,005
Other entities	39,740	29,501	27,340
Foreign entities	1,836,630	1,786,910	1,833,716
	164,138,166	144,558,458	127,143,182

Notes to the Financial Statements

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

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Malaysia	184,541,775	164,081,299	143,821,595
Hong Kong SAR and the People's Republic of China	10,778,263	11,347,423	10,699,655
Cambodia	2,077,097	1,940,890	1,769,499
Other countries	386,029	324,405	253,323
	197,783,164	177,694,017	156,544,072

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Malaysia	163,752,137	144,234,053	126,889,859
Other countries	386,029	324,405	253,323
	164,138,166	144,558,458	127,143,182

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Fixed rate			
– Housing loans/financing	1,200,815	1,506,165	1,928,071
– Hire purchase receivables	40,487,636	37,204,687	33,750,002
– Other fixed rate loans/financing	15,447,863	16,785,545	16,155,876
Variable rate			
– Base lending rate plus	113,302,637	96,548,480	83,051,326
– Cost plus	17,881,772	15,676,220	12,370,856
– Other variable rates	9,462,441	9,972,920	9,287,941
	197,783,164	177,694,017	156,544,072

Notes to the Financial Statements

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

Gross loans, advances and financing analysed by interest rate/rate of return sensitivity are as follows: (Cont'd.)

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Fixed rate			
– Housing loans	461,400	680,468	1,005,466
– Hire purchase receivables	30,128,935	26,671,253	24,832,082
– Other fixed rate loans	8,170,545	9,020,044	8,827,158
Variable rate			
– Base lending rate plus	107,615,616	92,614,278	80,438,068
– Cost plus	17,123,260	14,996,284	11,565,882
– Other variable rates	638,410	576,131	474,526
	164,138,166	144,558,458	127,143,182

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Purchase of securities	4,126,999	1,855,949	2,445,735
Purchase of transport vehicles	42,238,571	38,947,135	35,560,624
Purchase of landed properties	108,286,165	91,177,930	77,877,177
(of which: – residential	61,130,701	52,207,176	44,440,429
– non-residential)	47,155,464	38,970,754	33,436,748
Purchase of fixed assets (excluding landed properties)	298,551	269,973	282,626
Personal use	9,318,142	9,721,813	9,035,621
Credit card	1,604,211	1,522,267	1,348,902
Purchase of consumer durables	16,746	16,754	16,351
Construction	2,493,576	1,899,289	1,490,749
Mergers and acquisitions	220,006	208,269	8,183
Working capital	25,325,719	27,685,514	22,321,467
Other purpose	3,854,478	4,389,124	6,156,637
	197,783,164	177,694,017	156,544,072

Notes to the Financial Statements

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

Gross loans, advances and financing analysed by economic purpose are as follows: (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Purchase of securities	4,050,091	1,799,724	2,302,077
Purchase of transport vehicles	30,344,330	26,893,997	25,044,969
Purchase of landed properties	96,520,395	80,554,811	68,574,344
(of which: – residential	53,826,198	45,660,415	38,942,235
– non-residential)	42,694,197	34,894,396	29,632,109
Purchase of fixed assets (excluding landed properties)	258,721	238,335	276,826
Personal use	4,270,035	4,117,175	4,018,917
Credit card	1,594,106	1,512,099	1,340,914
Purchase of consumer durables	13,103	13,358	13,110
Construction	1,911,728	1,254,784	910,135
Mergers and acquisitions	220,006	208,269	8,183
Working capital	21,365,295	23,837,744	18,781,703
Other purpose	3,590,356	4,128,162	5,872,004
	164,138,166	144,558,458	127,143,182

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Agriculture, hunting, forestry and fishing	2,690,193	2,536,271	3,119,426
Mining and quarrying	158,556	136,637	120,644
Manufacturing	8,149,499	7,794,879	7,100,555
Electricity, gas and water	38,083	337,187	348,775
Construction	6,039,106	5,803,527	6,027,594
Wholesale & retail trade and restaurants & hotels	17,304,919	15,545,359	14,258,932
Transport, storage and communication	3,182,098	2,952,295	1,952,217
Finance, insurance and business services	11,325,402	13,304,589	10,173,718
Real estate	17,850,585	14,295,594	12,664,808
Community, social and personal services	3,947,054	1,755,094	1,484,692
Households	126,342,848	112,543,232	98,534,420
Others	754,821	689,353	758,291
	197,783,164	177,694,017	156,544,072

Notes to the Financial Statements

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

Gross loans, advances and financing analysed by sectors are as follows: (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Agriculture, hunting, forestry and fishing	2,422,271	2,273,676	2,890,865
Mining and quarrying	138,374	117,603	112,315
Manufacturing	7,316,331	6,875,511	6,457,253
Electricity, gas and water	14,898	305,237	299,389
Construction	5,174,150	4,914,034	5,237,417
Wholesale & retail trade and restaurants & hotels	15,819,202	14,248,824	13,100,713
Transport, storage and communication	2,434,007	2,321,421	1,366,257
Finance, insurance and business services	10,077,315	11,953,772	9,055,447
Real estate	14,926,521	11,565,396	9,745,025
Community, social and personal services	3,542,013	1,358,412	1,097,004
Households	102,115,314	88,449,903	77,486,033
Others	157,770	174,669	295,464
	164,138,166	144,558,458	127,143,182

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

	Group 2012 RM'000	Group 2011 RM'000	Bank 2012 RM'000	Bank 2011 RM'000
At 1 January	1,529,657	1,784,277	1,150,234	1,401,321
Impaired during the year	2,575,901	2,613,345	1,881,155	1,913,028
Reclassified as non-impaired	(1,924,842)	(2,042,648)	(1,571,125)	(1,711,860)
Recoveries	(299,087)	(308,784)	(234,953)	(219,155)
Amount written off	(475,296)	(509,166)	(185,974)	(220,039)
Loans/financing converted to foreclosed properties/investments	(24,759)	(14,333)	(24,502)	(13,169)
Exchange differences	(7,488)	6,966	(175)	108
At 31 December	1,374,086	1,529,657	1,014,660	1,150,234
Gross impaired loans as % of gross loans, advances and financing	0.69%	0.86%	0.62%	0.80%

	Group	Bank
Gross impaired loans as % of gross loans, advances and financing as at 1 January 2011	1.14%	1.10%

Notes to the Financial Statements

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

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Malaysia	1,212,622	1,348,309	1,579,947
Hong Kong SAR and the People's Republic of China	96,054	118,278	131,135
Cambodia	63,105	58,911	59,545
Other countries	2,305	4,159	13,650
	1,374,086	1,529,657	1,784,277

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Malaysia	1,012,355	1,146,075	1,387,671
Other countries	2,305	4,159	13,650
	1,014,660	1,150,234	1,401,321

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Purchase of securities	5,852	5,892	7,596
Purchase of transport vehicles	263,313	267,817	278,520
Purchase of landed properties	591,758	660,005	789,082
(of which: – residential	420,286	466,238	500,289
– non-residential)	171,472	193,767	288,793
Purchase of fixed assets (excluding landed properties)	6,168	6,187	9,041
Personal use	165,205	176,834	172,963
Credit card	23,421	22,284	27,296
Purchase of consumer durables	377	13	104
Construction	14,109	33,652	14,677
Working capital	283,886	329,539	442,712
Other purpose	19,997	27,434	42,286
	1,374,086	1,529,657	1,784,277

Notes to the Financial Statements

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

Impaired loans/financing analysed by economic purpose are as follows: (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Purchase of securities	5,848	5,883	7,588
Purchase of transport vehicles	189,226	198,061	205,589
Purchase of landed properties	497,871	563,476	704,487
(of which: – residential	371,040	413,183	449,634
– non-residential)	126,831	150,293	254,853
Purchase of fixed assets (excluding landed properties)	6,049	6,126	8,918
Personal use	47,086	52,995	54,842
Credit card	23,309	22,257	27,290
Purchase of consumer durables	309	13	104
Construction	13,369	19,696	14,677
Working capital	211,641	254,487	335,777
Other purpose	19,952	27,240	42,049
	1,014,660	1,150,234	1,401,321

Impaired loans/financing analysed by sectors are as follows:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Agriculture, hunting, forestry and fishing	11,772	6,254	16,545
Mining and quarrying	132	145	1,287
Manufacturing	130,029	152,709	198,787
Electricity, gas and water	1,205	1,251	1,579
Construction	68,336	120,275	147,581
Wholesale & retail trade and restaurants & hotels	117,113	109,014	140,202
Transport, storage and communication	54,959	103,802	151,498
Finance, insurance and business services	44,217	49,142	89,454
Real estate	61,688	71,180	105,459
Community, social and personal services	16,091	14,501	13,701
Households	867,416	899,344	901,532
Others	1,128	2,040	16,652
	1,374,086	1,529,657	1,784,277

Notes to the Financial Statements

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

Impaired loans/financing analysed by sectors are as follows: (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Agriculture, hunting, forestry and fishing	4,422	5,978	16,407
Mining and quarrying	97	110	215
Manufacturing	117,907	121,174	160,018
Construction	66,813	105,144	146,236
Wholesale & retail trade and restaurants & hotels	86,462	92,027	125,235
Transport, storage and communication	47,954	95,242	145,537
Finance, insurance and business services	21,186	22,287	50,318
Real estate	30,388	39,658	76,781
Community, social and personal services	15,980	14,488	13,569
Households	622,571	652,370	665,025
Others	880	1,756	1,980
	1,014,660	1,150,234	1,401,321

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

Group	Retail Loans/Financing					Corporate Loans/Financing RM'000	Total RM'000
	Housing Loans/Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/Financing RM'000			
<u>Collective Assessment Allowance</u>							
2012							
At 1 January 2012							
– as previously stated	719,457	555,422	22,717	1,011,052	335,887	2,644,535	
– effects of MFRS adoption	(209,004)	(158,611)	(7,653)	(496,924)	(276,299)	(1,148,491)	
At 1 January 2012, as restated	510,453	396,811	15,064	514,128	59,588	1,496,044	
Allowance made during the year (Note 37)	29,258	160,147	37,193	54,998	(2,397)	279,199	
Amount written off	(23,890)	(131,823)	(35,478)	(52,805)	–	(243,996)	
Exchange differences	(25)	(10)	(1)	(1,166)	(479)	(1,681)	
At 31 December 2012	515,796	425,125	16,778	515,155	56,712	1,529,566	

Notes to the Financial Statements

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

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

	Retail Loans/Financing					
	Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000	Corporate Loans/ Financing RM'000	Total RM'000
Group						
<u>Collective Assessment Allowance</u>						
2011						
At 1 January 2011						
– as previously stated	616,023	502,988	20,134	863,987	293,026	2,296,158
– effects of MFRS adoption	(90,625)	(144,461)	(2,563)	(408,800)	(234,736)	(881,185)
At 1 January 2011, as restated	525,398	358,527	17,571	455,187	58,290	1,414,973
Allowance made during the year (Note 37)	25,045	150,375	34,248	125,331	846	335,845
Amount written off	(39,996)	(112,100)	(36,757)	(67,178)	–	(256,031)
Exchange differences	6	9	2	788	452	1,257
At 31 December 2011	510,453	396,811	15,064	514,128	59,588	1,496,044

	Retail Loans					
	Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000	Corporate Loans RM'000	Total RM'000
Bank						
<u>Collective Assessment Allowance</u>						
2012						
At 1 January 2012						
– as previously stated	671,134	400,214	22,681	758,992	315,004	2,168,025
– effects of MFRS adoption	(208,654)	(135,175)	(7,653)	(505,470)	(272,861)	(1,129,813)
At 1 January 2012, as restated	462,480	265,039	15,028	253,522	42,143	1,038,212
Allowance made during the year (Note 37)	21,826	115,362	37,166	13,020	(255)	187,119
Amount written off	(21,695)	(89,325)	(35,478)	(19,076)	–	(165,574)
Exchange differences	–	–	–	(273)	–	(273)
At 31 December 2012	462,611	291,076	16,716	247,193	41,888	1,059,484

Notes to the Financial Statements

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

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

	Retail Loans				Corporate Loans RM'000	Total RM'000
	Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000		
Bank						
<u>Collective Assessment Allowance</u>						
2011						
At 1 January 2011						
– as previously stated	575,736	372,600	20,114	680,440	265,763	1,914,653
– effects of MFRS adoption	(99,805)	(141,997)	(2,563)	(412,174)	(230,715)	(887,254)
At 1 January 2011, as restated	475,931	230,603	17,551	268,266	35,048	1,027,399
Allowance made during the year (Note 37)	23,658	107,464	34,234	24,491	7,095	196,942
Amount written off	(37,109)	(73,028)	(36,757)	(39,332)	–	(186,226)
Exchange differences	–	–	–	97	–	97
At 31 December 2011	462,480	265,039	15,028	253,522	42,143	1,038,212

	Retail Loans/Financing				Corporate Loans/ Financing RM'000	Total RM'000
	Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000		
Group						
<u>Individual Assessment Allowance</u>						
2012						
At 1 January 2012	1,083	1,344	–	132,986	109,783	245,196
Net allowance made during the year (Note 37)	548	1,002	–	205,979	(12,664)	194,865
Allowance made during the year	548	1,079	–	240,026	5,266	246,919
Amount written back in respect of recoveries	–	(77)	–	(34,047)	(17,930)	(52,054)
Amount written off	(1,566)	(1,068)	–	(207,547)	(21,119)	(231,300)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(1,404)	–	(1,404)
Exchange differences	(1)	(59)	–	(4,406)	(896)	(5,362)
At 31 December 2012	64	1,219	–	125,608	75,104	201,995

Notes to the Financial Statements

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

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

Group	Retail Loans/Financing				Corporate Loans/ Financing RM'000	Total RM'000
	Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000		
<u>Individual Assessment Allowance</u>						
2011						
At 1 January 2011	188	2,199	–	156,356	106,191	264,934
Net allowance made during the year (Note 37)	1,413	2,121	–	203,862	13,114	220,510
Allowance made during the year	1,456	2,503	–	251,001	14,674	269,634
Amount written back in respect of recoveries	(43)	(382)	–	(47,139)	(1,560)	(49,124)
Amount written off	(537)	(3,127)	–	(237,321)	(12,150)	(253,135)
Exchange differences	19	151	–	10,089	2,628	12,887
At 31 December 2011	1,083	1,344	–	132,986	109,783	245,196

	Retail Loans					
Bank	Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000	Corporate Loans RM'000	Total RM'000
<u>Individual Assessment Allowance</u>						
2012						
At 1 January 2012	1,080	–	–	56,107	77,561	134,748
Net allowance made during the year (Note 37)	486	–	–	11,830	(15,186)	(2,870)
Allowance made during the year	486	–	–	23,943	2,744	27,173
Amount written back in respect of recoveries	–	–	–	(12,113)	(17,930)	(30,043)
Amount written off	(1,566)	–	–	(17,581)	(1,253)	(20,400)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(1,404)	–	(1,404)
At 31 December 2012	–	–	–	48,952	61,122	110,074

2011						
At 1 January 2011	–	–	–	90,691	75,655	166,346
Net allowance made during the year (Note 37)	1,080	–	–	(771)	1,906	2,215
Allowance made during the year	1,080	–	–	29,237	3,466	33,783
Amount written back in respect of recoveries	–	–	–	(30,008)	(1,560)	(31,568)
Amount written off	–	–	–	(33,813)	–	(33,813)
At 31 December 2011	1,080	–	–	56,107	77,561	134,748

Notes to the Financial Statements

10. Other Assets

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Deferred handling fees*	236,571	230,402	215,499
Interest/Income receivable	32,942	52,824	51,236
Other receivables, deposits and prepayments	1,283,277	1,231,339	1,078,469
Manager's stocks**	67,652	22,696	15,717
Amount due from trust funds^	97,891	99,987	147,197
Foreclosed properties#	82,673	109,529	125,539
Taxi licenses	1,056	1,093	6,082
Outstanding contracts on clients' accounts@ ##	204,857	260,384	356,141
	2,006,919	2,008,254	1,995,880

# Stated net of accumulated allowance for impairment loss amounting to	43,615	45,717	52,336
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@ Stated net of accumulated allowance for bad and doubtful debts amounting to	2,089	2,083	26,104
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	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Deferred handling fees*	173,995	162,827	158,187
Interest/Income receivable	20,560	39,141	39,624
Other receivables, deposits and prepayments	1,156,749	1,165,635	941,235
Foreclosed properties#	80,522	106,652	123,178
Amount due from subsidiary companies^^	45,248	42,234	41,882
Dividend receivable from subsidiary companies (Note 42(b))	429,647	397,237	399,536
	1,906,721	1,913,726	1,703,642

# Stated net of accumulated allowance for impairment loss amounting to	42,712	44,494	51,191
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* This represents the unamortised balance of handling fees paid to motor vehicle dealers for hire purchase loans.

** Manager's stocks represent trust units held by the fund management subsidiary company.

^ This balance refers to amount due from trust funds managed by the fund management subsidiary company in respect of cancellation and creation of trust units. It also includes management fee receivable from trust funds.

^^ These balances are unsecured, non-interest bearing and are repayable on demand.

This balance represents outstanding purchase contracts in respect of the stock-broking business of the investment banking subsidiary company entered into on behalf of clients where settlements have yet to be made by clients. The trade settlement is 3 market days according to the Bursa Malaysia Securities Berhad's trading rules.

Notes to the Financial Statements

11. Statutory Deposits with Central Banks

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Statutory deposits with Bank Negara Malaysia *	5,381,471	5,250,936	1,277,681
Statutory deposits with the National Bank of Cambodia #	376,902	322,380	317,714
Other statutory deposits	28,833	24,485	17,180
	5,787,206	5,597,801	1,612,575

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Statutory deposits with Bank Negara Malaysia *	4,709,380	4,471,880	1,089,150
Other statutory deposits	28,833	24,485	17,180
	4,738,213	4,496,365	1,106,330

* The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994). The amount of the Statutory Reserve Requirement is determined based on a set percentage of total eligible liabilities.

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

- (i) Cambodian Public Bank Plc and are maintained in compliance with Article 5 of NBC Prakas No. B701-136, the amounts of which are determined as set percentages of Cambodian Public Bank Plc's issued share capital and deposits from customers;
- (ii) Campu Lonpac Insurance Plc and are maintained in compliance with Article 53 of the Royale Government's Sub-Decree on Insurance dated 22 October 2001 and Article 1 of the Ministry of Economy and Finance's Circular No. 009 SHV dated 9 December 2002, the amounts are determined as a set percentage of the issued share capital of Campu Lonpac Insurance Plc; and
- (iii) Campu Securities Plc and this represents the non-interest bearing deposit specifically earmarked for Campu Securities Plc as required by the Securities and Exchange Commission of Cambodia.

Notes to the Financial Statements

12. Deferred Tax

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At 1 January				
– as previously stated	(9,532)	510,824	(51,708)	416,470
– effects of MFRS adoption	–	(222,400)	–	(221,813)
At 1 January, as restated	(9,532)	288,424	(51,708)	194,657
Recognised in income statement (net) (Note 39)				
– relating to changes in tax treatment for collective assessment allowance	–	(323,045)	–	(256,672)
– relating to origination and reversal of temporary differences	20,281	6,570	18,081	(2,017)
– over provision	9,990	13,441	992	4,303
Recognised in equity (net) (Note 28)	(5,465)	5,166	632	8,021
Exchange differences	42	(88)	–	–
At 31 December	15,316	(9,532)	(32,003)	(51,708)

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

	Group		
	31 December	31 December	1 January
	2012	2011	2011
	RM'000	RM'000	RM'000
Deferred tax assets, net	63,227	46,093	296,815
Deferred tax liabilities, net	(47,911)	(55,625)	(8,391)
	15,316	(9,532)	288,424

	Bank		
	31 December	31 December	1 January
	2012	2011	2011
	RM'000	RM'000	RM'000
Deferred tax assets, net	–	–	194,657
Deferred tax liabilities, net	(32,003)	(51,708)	–
	(32,003)	(51,708)	194,657

Notes to the Financial Statements

12. Deferred Tax (Cont'd.)

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Deferred tax assets	82,249	66,119	366,373
Deferred tax liabilities	(66,933)	(75,651)	(77,949)
	15,316	(9,532)	288,424

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Deferred tax assets	18,461	10,367	258,544
Deferred tax liabilities	(50,464)	(62,075)	(63,887)
	(32,003)	(51,708)	194,657

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

	Allowance for Impaired Loans RM'000	Tax Losses RM'000	Other Temporary Differences RM'000	Total RM'000
Deferred tax assets of the Group				
At 1 January 2011				
– as previously stated	549,284	331	39,158	588,773
– effects of MFRS adoption	(222,400)	–	–	(222,400)
At 1 January 2011, as restated	326,884	331	39,158	366,373
Recognised in income statement (Note 39)				
– relating to changes in tax treatment for collective assessment allowance	(323,045)	–	–	(323,045)
– relating to origination and reversal of temporary differences	4,414	(214)	(594)	3,606
– over provision	–	–	13,162	13,162
Recognised in equity	–	–	5,720	5,720
Exchange differences	297	1	5	303
At 31 December 2011	8,550	118	57,451	66,119

Notes to the Financial Statements

12. Deferred Tax (Cont'd.)

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

	Allowance for Impaired Loans RM'000	Tax Losses RM'000	Other Temporary Differences RM'000	Total RM'000
Deferred tax assets of the Group (Cont'd.)				
Recognised in income statement (Note 39)				
– relating to origination and reversal of temporary differences	978	(68)	15,552	16,462
– over/(under) provision	5,146	–	(5,073)	73
Recognised in equity	–	–	(48)	(48)
Exchange differences	(349)	(3)	(5)	(357)
At 31 December 2012	14,325	47	67,877	82,249

	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
Deferred tax liabilities of the Group			
At 1 January 2011	75,434	2,515	77,949
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	(580)	(2,384)	(2,964)
– over provision	–	(279)	(279)
Recognised in equity	–	554	554
Exchange differences	391	–	391
At 31 December 2011	75,245	406	75,651
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	(3,819)	–	(3,819)
– (over)/under provision	(9,951)	34	(9,917)
Recognised in equity	–	5,417	5,417
Exchange differences	(399)	–	(399)
At 31 December 2012	61,076	5,857	66,933

Notes to the Financial Statements

12. Deferred Tax (Cont'd.)

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

	Allowance for Impaired Loans RM'000	Other Temporary Differences RM'000	Total RM'000
Deferred tax assets of the Bank			
At 1 January 2011			
– as previously stated	478,485	1,872	480,357
– effects of MFRS adoption	(221,813)	–	(221,813)
At 1 January 2011, as restated	256,672	1,872	258,544
Recognised in income statement (Note 39)			
– relating to changes in tax treatment for collective assessment allowance	(256,672)	–	(256,672)
– relating to origination and reversal of temporary differences	–	(3,803)	(3,803)
– over provision	–	4,277	4,277
Recognised in equity (Note 28)	–	8,021	8,021
At 31 December 2011	–	10,367	10,367
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	–	12,443	12,443
– under provision	–	(4,981)	(4,981)
Recognised in equity (Note 28)	–	632	632
At 31 December 2012	–	18,461	18,461

Notes to the Financial Statements

12. Deferred Tax (Cont'd.)

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

	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
Deferred tax liabilities of the Bank			
At 1 January 2011	64,261	(374)	63,887
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	(1,786)	–	(1,786)
– over provision	–	(26)	(26)
At 31 December 2011	62,475	(400)	62,075
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	(5,638)	–	(5,638)
– (over)/under provision	(5,976)	3	(5,973)
At 31 December 2012	50,861	(397)	50,464

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Unutilised tax losses	14,137	14,911	14,462
Unutilised capital allowances	23,093	24,674	24,674

Subject to the agreement by the relevant tax authorities, the Group has unabsorbed tax losses and unabsorbed capital allowances carried forward of RM14,421,000 (31 December 2011 – RM15,627,000; 1 January 2011 – RM16,468,000) and RM23,093,000 (31 December 2011 – RM24,674,000; 1 January 2011 – RM24,674,000) respectively which give rise to the recognised and unrecognised deferred tax assets in respect of the above unutilised tax losses and unutilised capital allowances.

Notes to the Financial Statements

13. Investment in Subsidiary Companies

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
At Cost:			
Quoted shares outside Malaysia			
– Quoted shares in Hong Kong SAR	1,672,195	1,672,195	1,672,195
Unquoted shares			
– In Malaysia	2,325,747	2,150,747	1,950,747
– Outside Malaysia	272,169	272,169	272,169
	4,270,111	4,095,111	3,895,111
Less: Accumulated impairment losses	(6,530)	(6,530)	(6,530)
	4,263,581	4,088,581	3,888,581
At Market Value:			
Quoted shares outside Malaysia			
– Quoted shares in Hong Kong SAR	1,160,897	1,139,970	1,795,499

Details of the subsidiary companies are as follows:

Name	Principal Activities	Effective Interest		
		31 December	31 December	1 January
		2012	2011	2011
		%	%	%
Local subsidiary companies				
Public Islamic Bank Berhad	Islamic banking	100.0	100.0	100.0
Public Investment Bank Berhad +	Investment banking	100.0	100.0	100.0
Public Invest Nominees	Nominee services	100.0	100.0	100.0
(Tempatan) Sdn. Bhd. +				
Public Invest Nominees	Nominee services	100.0	100.0	100.0
(Asing) Sdn. Bhd. +				
Public Consolidated Holdings Sdn. Bhd. +	Investment holding	100.0	100.0	100.0
Public Mutual Berhad +	Sale of trust units and	100.0	100.0	100.0
	management			
	of unit trusts			
Public Holdings Sdn. Bhd.	Property holding	100.0	100.0	100.0
Public Nominees (Tempatan) Sdn. Bhd.	Nominee services	100.0	100.0	100.0
Public Nominees (Asing) Sdn. Bhd.	Nominee services	100.0	100.0	100.0

Notes to the Financial Statements

13. Investment in Subsidiary Companies (Cont'd.)

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

Name	Principal Activities	Effective Interest		
		31 December 2012 %	31 December 2011 %	1 January 2011 %
<u>Local subsidiary companies</u> (Cont'd.)				
Public Bank (L) Ltd.	Offshore banking	100.0	100.0	100.0
PB Trust (L) Ltd.	Offshore trust company	100.0	100.0	100.0
PB Venture Capital Sdn. Bhd.	Investment holding	100.0	100.0	100.0
Public Leasing & Factoring Sdn. Bhd.	Leasing and factoring	100.0	100.0	100.0
PB International Factors Sdn. Bhd.	Dormant	100.0	100.0	100.0
PB Properties Sdn. Bhd.	Dormant	100.0	100.0	100.0
PBFIN Berhad	Dormant	100.0	100.0	100.0
HHB Holdings Berhad+	Dormant	—	—	100.0
<u>Overseas subsidiary companies</u>				
Cambodian Public Bank Plc++	Banking	100.0	100.0	100.0
Campu Securities Plc++	Securities dealing and underwriting	100.0	100.0	100.0
Campu Lonpac Insurance Plc++	General insurance	55.0	55.0	55.0
Public Financial Holdings Limited+*	Investment and property holding	73.2	73.2	73.2
Public Bank (Hong Kong) Limited+	Banking	73.2	73.2	73.2
Public Finance Limited+	Deposit-taking and finance	73.2	73.2	73.2
Public Financial Limited+	Investment holding	73.2	73.2	73.2
Public Securities Limited+	Stock and share broking	73.2	73.2	73.2
Public Securities (Nominees) Limited+	Nominee services	73.2	73.2	73.2
Public Financial Securities Limited+	Stock and share broking	73.2	73.2	73.2
Public Bank (Nominees) Limited+	Nominee services	73.2	73.2	73.2
Public Futures Limited+	Dormant	73.2	73.2	73.2
Public Credit Limited+	Dormant	73.2	73.2	73.2
Public Pacific Securities Limited+	Dormant	73.2	73.2	73.2
Public Investments Limited+	Dormant	73.2	73.2	73.2
Public Realty Limited+	Dormant	73.2	73.2	73.2

Notes to the Financial Statements

13. Investment in Subsidiary Companies (Cont'd.)

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

Name	Principal Activities	Effective Interest		
		31 December	31 December	1 January
		2012 %	2011 %	2011 %
<u>Overseas subsidiary companies (Cont'd.)</u>				
Winton (B.V.I.) Limited +	Investment holding	73.2	73.2	73.2
Winton Financial Limited +	Provision of financing	73.2	73.2	73.2
Winton Motors, Limited +	Trading of taxi cabs and taxi licences, and leasing of taxis	73.2	73.2	73.2
Winton Holdings (Hong Kong) Limited +	Dormant	73.2	73.2	73.2
Winsure Company, Limited (Dissolved on 3 December 2012) +	Dormant	–	70.9	70.9

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

+ Subsidiary companies not audited by KPMG.

++ Subsidiary company audited by KPMG Cambodia.

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

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

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

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

(b) **Dissolution of Winsure Company, Limited**

Winsure Company, Limited, a dormant 70.9% indirectly owned subsidiary company of the Bank, commenced Member's Voluntary Winding-up on 8 June 2012. The final meeting was held on 3 September 2012 and the company was dissolved on 3 December 2012. The dissolution has no material effect on the earnings and net assets of the Group for the financial year ended 31 December 2012.

There are no significant restrictions on the ability of the subsidiary companies to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

Notes to the Financial Statements

14. Investment in Associated Companies

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Unquoted shares, at cost	141,365	141,365	101,365
Share of post-acquisition reserves	9,845	14,632	17,259
	151,210	155,997	118,624
Represented by:			
Group's share of net assets	151,210	155,997	118,624

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Unquoted shares, at cost	121,325	121,325	101,325

The summarised financial information of associated companies is as follows:

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Total assets	1,304,324	1,252,541	1,224,416
Total liabilities	986,328	917,181	983,207
Operating revenue	192,817	135,588	117,609
Profit after tax	6,127	5,670	25,534

Notes to the Financial Statements

14. Investment in Associated Companies (Cont'd.)

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

Name	Principal Activities	Place of Incorporation	Effective Interest		
			31 December 2012 %	31 December 2011 %	1 January 2011 %
PB Trustee Services Berhad	Trustee services	Malaysia	40.0	40.0	40.0
ING PUBLIC Takaful Ehsan Berhad	Family takaful	Malaysia	40.0	40.0	–
VID Public Bank	Banking	Socialist Republic of Vietnam	50.0	50.0	50.0
CPB Properties Company Ltd.	Property holding	Cambodia	49.0	49.0	49.0

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

15. Investment Properties

	Note	2012 RM'000	Group 2011 RM'000
<u>At valuation</u>			
At 1 January		70,754	65,552
Transfer to owner-occupied property			
– Property and equipment	16	(3,781)	–
Revaluation gain from fair value adjustment	34	23,877	2,711
Exchange differences		(2,964)	2,491
At 31 December		87,886	70,754

Notes to the Financial Statements

15. Investment Properties (Cont'd.)

Included in the above are:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Short-term leasehold land and building	85,936	64,888	60,269
Long-term leasehold land and building	1,950	5,866	5,283
	87,886	70,754	65,552

The Group's investment properties are stated at fair value and are situated in Malaysia and Hong Kong SAR. The investment properties in Malaysia amounting to RM1,950,000 (31 December 2011 – RM1,950,000; 1 January 2011 – RM1,850,000) have been valued on the basis of management's valuations based on current prices in an active market for similar properties in the same location and condition. The investment properties in Hong Kong SAR amounting to RM85,936,000 (31 December 2011 – RM68,804,000; 1 January 2011 – RM63,702,000) have been revalued by CS Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value based on their existing use. The increase in the fair values of RM23,877,000 (2011 – RM2,711,000) has been recognised in the income statement during the financial year.

The investment properties held by the Group are let under operating leases to third parties, from which the Group earned rental income of RM5,490,000 (2011 – RM4,887,000) (Note 34) during the year.

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

Notes to
the Financial Statements

16. Property and Equipment

	Note	Freehold land RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Group											
2012											
<u>Cost</u>											
At 1 January 2012		176,444	120,182	173,952	576,979	292,238	514,426	900,402	23,179	44,529	2,822,331
Additions		-	-	-	1,771	30,659	14,937	59,647	2,512	38,162	147,688
Disposals		-	-	-	-	(878)	(2,093)	(13,295)	(1,104)	-	(17,370)
Transfer from investment properties	15	-	-	3,603	178	-	-	-	-	-	3,781
Reclassification		-	-	-	-	(9,359)	9,357	2	-	-	-
Write-offs	35	-	-	-	-	(3)	(1,617)	(9,958)	(2,201)	-	(13,779)
Exchange differences		-	(4,147)	(5,615)	(3,818)	(1,567)	(701)	(2,913)	(232)	-	(18,993)
At 31 December 2012		176,444	116,035	171,940	575,110	311,090	534,309	933,885	22,154	82,691	2,923,658
<u>Accumulated depreciation</u>											
At 1 January 2012		-	22,518	7,803	162,494	213,699	383,638	665,293	13,847	-	1,469,292
Depreciation charge for the year	35	-	2,609	505	13,606	15,166	28,544	103,986	2,837	-	167,253
Disposals		-	-	-	-	(878)	(2,034)	(11,810)	(1,094)	-	(15,816)
Reclassification		-	-	-	-	(152)	150	2	-	-	-
Write-offs	35	-	-	-	-	(1)	(1,574)	(8,921)	(2,201)	-	(12,697)
Exchange differences		-	(800)	(174)	(544)	(945)	(377)	(2,040)	(126)	-	(5,006)
At 31 December 2012		-	24,327	8,134	175,556	226,889	408,347	746,510	13,263	-	1,603,026
<u>Accumulated impairment loss</u>											
At 1 January/31 December 2012		1,064	-	33	10,002	-	-	-	-	-	11,099
<u>Carrying amounts</u>											
At 31 December 2012		175,380	91,708	163,773	389,552	84,201	125,962	187,375	8,891	82,691	1,309,533
Property and equipment that have been fully depreciated which are still in use are as follows:											
<u>At cost</u>											
At 31 December 2012		-	-	-	396	165,970	207,823	489,837	6,132	-	870,158

Notes to the Financial Statements

16. Property and Equipment (Cont'd.)

Group 2011	Note	Freehold land RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Cost											
At 1 January 2011		175,877	-	285,376	571,007	283,185	490,970	790,582	23,069	22,727	2,642,793
Additions		567	-	-	2,883	24,847	16,342	132,820	633	21,802	199,894
Disposals		-	-	-	-	(620)	(3,799)	(10,991)	(571)	-	(15,981)
Reclassification		-	120,182	(120,182)	-	(13,181)	12,975	206	-	-	-
Write-offs	35	-	-	-	-	(3,167)	(2,532)	(14,017)	(105)	-	(19,821)
Exchange differences		-	-	8,758	3,089	1,174	470	1,802	153	-	15,446
At 31 December 2011		176,444	120,182	173,952	576,979	292,238	514,426	900,402	23,179	44,529	2,822,331
Accumulated depreciation											
At 1 January 2011		-	-	26,362	148,501	200,076	360,747	605,743	11,946	-	1,353,375
Depreciation charge for the year	35	-	2,575	511	13,512	15,790	28,176	82,916	2,467	-	145,947
Disposals		-	-	-	-	(620)	(3,238)	(10,965)	(566)	-	(15,389)
Reclassification		-	19,841	(19,841)	-	-	81	(81)	-	-	-
Write-offs	35	-	-	-	-	(2,398)	(2,410)	(13,709)	(105)	-	(18,622)
Exchange differences		-	102	771	481	851	282	1,389	105	-	3,981
At 31 December 2011		-	22,518	7,803	162,494	213,699	383,638	665,293	13,847	-	1,469,292
Accumulated impairment loss											
At 1 January/											
31 December 2011		1,064	-	33	10,002	-	-	-	-	-	11,099
Carrying amounts											
At 31 December 2011		175,380	97,664	166,116	404,483	78,539	130,788	235,109	9,332	44,529	1,341,940
At 1 January 2011		174,813	-	258,981	412,504	83,109	130,223	184,839	11,123	22,727	1,278,319
Property and equipment that have been fully depreciated which are still in use are as follows:											
At cost											
At 31 December 2011		-	-	-	395	156,261	197,545	436,046	8,212	-	798,459

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

Notes to the Financial Statements

16. Property and Equipment (Cont'd.)

Bank 2012	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Total RM'000
Cost									
At 1 January 2012		81,092	58	262,042	226,865	395,973	817,954	16,193	1,800,177
Additions		-	-	-	24,172	12,159	50,559	2,387	89,277
Disposals		-	-	-	-	(1,422)	(7,801)	(1,103)	(10,326)
Reclassification		-	-	-	(9,002)	9,002	-	-	-
Write-offs	35	-	-	-	(3)	(1,516)	(9,731)	(2,201)	(13,451)
Exchange differences		-	-	-	(204)	(99)	(764)	(60)	(1,127)
At 31 December 2012		81,092	58	262,042	241,828	414,097	850,217	15,216	1,864,550
Accumulated depreciation									
At 1 January 2012		-	49	84,317	163,848	278,148	606,480	10,211	1,143,053
Depreciation charge for the year	35	-	2	5,232	9,529	24,590	94,223	1,939	135,515
Disposals		-	-	-	-	(1,415)	(6,319)	(1,093)	(8,827)
Write-offs	35	-	-	-	(1)	(1,485)	(8,700)	(2,201)	(12,387)
Exchange differences		-	-	-	(51)	(72)	(588)	(27)	(738)
At 31 December 2012		-	51	89,549	173,325	299,766	685,096	8,829	1,256,616
Carrying amounts									
At 31 December 2012		81,092	7	172,493	68,503	114,331	165,121	6,387	607,934
Property and equipment that have been fully depreciated which are still in use are as follows:									
At cost									
At 31 December 2012		-	-	396	136,135	189,997	453,649	4,410	784,587

Notes to the Financial Statements

16. Property and Equipment (Cont'd.)

Bank 2011	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Total RM'000
Cost									
At 1 January 2011		81,092	58	262,042	223,264	376,249	716,476	16,710	1,675,891
Additions		-	-	-	16,742	12,197	125,189	113	154,241
Disposals		-	-	-	(1)	(2,712)	(10,294)	(540)	(13,547)
Reclassification		-	-	-	(12,738)	12,529	209	-	-
Write-offs	35	-	-	-	(515)	(2,322)	(13,735)	(105)	(16,677)
Exchange differences		-	-	-	113	32	109	15	269
At 31 December 2011		81,092	58	262,042	226,865	395,973	817,954	16,193	1,800,177
Accumulated depreciation									
At 1 January 2011		-	47	79,085	154,587	258,565	557,438	8,625	1,058,347
Depreciation charge for the year	35	-	2	5,232	9,743	23,938	72,719	1,837	113,471
Disposals		-	-	-	(1)	(2,223)	(10,279)	(159)	(12,662)
Reclassification		-	-	-	-	81	(81)	-	-
Write-offs	35	-	-	-	(511)	(2,235)	(13,430)	(105)	(16,281)
Exchange differences		-	-	-	30	22	113	13	178
At 31 December 2011		-	49	84,317	163,848	278,148	606,480	10,211	1,143,053
Carrying amounts									
At 31 December 2011		81,092	9	177,725	63,017	117,825	211,474	5,982	657,124
At 1 January 2011		81,092	11	182,957	68,677	117,684	159,038	8,085	617,544
Property and equipment that have been fully depreciated which are still in use are as follows:									
At cost									
At 31 December 2011		-	-	395	127,343	180,547	403,807	7,085	719,177

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

Notes to the Financial Statements

16. Property and Equipment (Cont'd.)

Included in property and equipment of the Group and the Bank are computer equipment and software under finance lease which will expire in two years with a carrying amount of RM66,075,000 (31 December 2011 – RM114,600,000; 1 January 2011 – RM41,850,000).

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

17. Intangible Assets

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<u>Goodwill</u>				
At 1 January	1,938,994	1,903,898	695,393	695,393
Exchange differences	(39,119)	35,096	–	–
At 31 December	1,899,875	1,938,994	695,393	695,393
<u>Intangible Assets</u>				
At 1 January	26,482	26,474	–	–
Exchange differences	(10)	8	–	–
At 31 December	26,472	26,482	–	–
Total carrying amounts of goodwill and intangible assets	1,926,347	1,965,476	695,393	695,393
			Group RM'000	Bank RM'000
Total carrying amounts of goodwill and intangible assets as at 1 January 2011			1,930,372	695,393

Notes to the Financial Statements

17. Intangible Assets (Cont'd.)

Impairment Assessment on Goodwill and Intangible Assets

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

	Group	Bank	Discount	Nominal
	RM'000	RM'000	rate	growth rate
			%	beyond initial
				cash flow
				projections
				%
As at 31 December 2012				
<u>Cash-generating unit:</u>				
Hire purchase financing	395,953	395,953	10.5	5.7
East Malaysia operations				
(in respect of business acquired				
from the former Hock Hua Bank)	299,440	299,440	9.5	5.7
Hong Kong operations	1,157,096	–	7.1	5.4
Fund management	19,555	–	9.5	5.7
Investment banking	54,303	–	10.5	5.7
	1,926,347	695,393		
As at 31 December 2011				
<u>Cash-generating unit:</u>				
Hire purchase financing	395,953	395,953	11.3	5.9
East Malaysia operations				
(in respect of business acquired				
from the former Hock Hua Bank)	299,440	299,440	10.3	5.9
Hong Kong operations	1,196,225	–	7.3	5.7
Fund management	19,555	–	10.3	5.9
Investment banking	54,303	–	11.3	5.9
	1,965,476	695,393		

Notes to the Financial Statements

17. Intangible Assets (Cont'd.)

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

	Group RM'000	Bank RM'000	Discount rate %	Nominal growth rate beyond initial cash flow projections %
As at 1 January 2011				
Cash-generating unit:				
Hire purchase financing	395,953	395,953	11.5	6.0
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	299,440	299,440	10.5	6.0
Hong Kong operations	1,161,121	–	7.5	5.7
Fund management	19,555	–	10.5	6.0
Investment banking	54,303	–	11.5	6.0
	1,930,372	695,393		

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

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

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

Notes to the Financial Statements

18. Deposits from Customers

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Core deposits:			
– Demand deposits	32,632,541	28,763,993	25,470,214
– Savings deposits	23,726,493	21,959,727	20,440,705
– Fixed deposits	120,675,603	106,572,984	97,727,833
	177,034,637	157,296,704	143,638,752
Wholesale deposits:			
– Negotiable instruments of deposit	1,223,620	2,283,027	3,389,826
– Money market deposits	46,593,137	40,589,452	29,379,017
	47,816,757	42,872,479	32,768,843
Other deposits	190,931	201,342	464,524
	225,042,325	200,370,525	176,872,119
		Bank	
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Core deposits:			
– Demand deposits	28,643,745	24,963,764	22,142,587
– Savings deposits	16,843,952	15,476,427	14,035,444
– Fixed deposits	93,931,585	82,521,018	76,311,260
	139,419,282	122,961,209	112,489,291
Wholesale deposits:			
– Negotiable instruments of deposit	90,112	752,718	899,029
– Money market deposits	41,991,233	35,471,442	26,938,395
	42,081,345	36,224,160	27,837,424
Other deposits	187,817	199,070	462,551
	181,688,444	159,384,439	140,789,266

Notes to the Financial Statements

18. Deposits from Customers (Cont'd.)

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

Included in deposits from customers of the Group and the Bank are deposits of RM2,158,106,000 (31 December 2011 – RM2,043,701,000; 1 January 2011 – RM2,133,616,000) and RM1,535,859,000 (31 December 2011 – RM1,399,914,000; 1 January 2011 – RM1,565,574,000) respectively held as collateral for loans, advances and financing.

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Due within six months	151,771,362	132,511,858	116,981,551
More than six months to one year	16,345,923	16,757,343	13,333,704
More than one year to three years	367,778	154,076	166,430
More than three years to five years	7,297	22,186	14,991
	168,492,360	149,445,463	130,496,676

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Due within six months	121,861,534	104,021,136	91,366,911
More than six months to one year	14,023,613	14,601,339	12,668,349
More than one year to three years	122,377	103,227	100,669
More than three years to five years	5,406	19,476	12,755
	136,012,930	118,745,178	104,148,684

Notes to the Financial Statements

18. Deposits from Customers (Cont'd.)

The deposits are sourced from the following types of customers:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Federal and state governments	1,617,446	1,779,056	1,721,576
Local government and statutory authorities	3,154,490	3,192,613	2,010,704
Business enterprises	64,959,217	61,617,324	54,490,618
Individuals	102,008,645	91,667,626	86,653,048
Foreign customers	4,444,181	4,810,192	5,206,065
Others	48,858,346	37,303,714	26,790,108
	225,042,325	200,370,525	176,872,119

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Federal and state governments	162,506	310,388	576,428
Local government and statutory authorities	2,041,839	2,145,272	1,333,049
Business enterprises	52,239,124	47,063,188	41,172,876
Individuals	88,167,268	79,051,389	73,187,600
Foreign customers	3,840,822	4,172,124	4,738,222
Others	35,236,885	26,642,078	19,781,091
	181,688,444	159,384,439	140,789,266

19. Deposits from Banks

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Licensed banks	3,080,562	4,210,837	3,956,369
Licensed Islamic banks	1,428,121	1,265,141	1,656,812
Licensed investment banks	3,573,682	3,759,282	8,334,268
Bank Negara Malaysia	2,602,861	2,848,131	2,820,178
Other financial institutions	2,164,087	3,723,341	4,559,849
	12,849,313	15,806,732	21,327,476

Notes to the Financial Statements

19. Deposits from Banks (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Licensed banks	2,168,377	2,948,408	1,982,454
Licensed Islamic banks	808,850	95,243	416,138
Licensed investment banks	3,435,195	4,840,635	8,310,404
Bank Negara Malaysia	2,602,861	2,845,613	2,817,551
Other financial institutions	5,393,495	5,987,450	7,543,234
	14,408,778	16,717,349	21,069,781

20. Bills and Acceptances Payable

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

21. Recourse Obligations on Loans and Financing Sold to Cagamas

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

22. Debt Securities Issued and Other Borrowed Funds

		31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost				
Borrowings	(a)	864,911	895,084	898,352
At amortised cost, modified for change in value as a result of fair value hedges				
Subordinated notes	(b)	4,937,918	6,256,738	3,188,194
Innovative Tier I capital securities	(c)	1,955,765	1,968,796	1,918,480
Non-Innovative Tier I stapled securities	(d)	2,188,259	2,197,215	2,089,854
		9,081,942	10,422,749	7,196,528
		9,946,853	11,317,833	8,094,880

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

		31 December 2012	Bank 31 December 2011	1 January 2011
	Note	RM'000	RM'000	RM'000
At amortised cost, modified for change in value as a result of fair value hedges				
Subordinated notes	(b)	4,937,918	6,256,738	3,188,194
Innovative Tier I capital securities	(c)	1,955,765	1,968,796	1,918,480
Non-Innovative Tier I stapled securities	(d)	2,188,259	2,197,215	2,089,854
		9,081,942	10,422,749	7,196,528

(a) Borrowings

	31 December 2012	Group 31 December 2011	1 January 2011
	RM'000	RM'000	RM'000
Unsecured:			
Term loans	864,911	895,084	866,676
Revolving credit	–	–	31,676
	864,911	895,084	898,352

The unsecured term loans are denominated in Hong Kong Dollars. The loans are for a tenure ranging from one to two years and bear interest at HIBOR plus 0.65% to 1.20% (31 December 2011 - HIBOR plus 0.65% to 1.20%; 1 January 2011 - HIBOR plus 0.95% to 1.20%).

The unsecured revolving credit in prior year was denominated in Hong Kong Dollars and was for a tenure of one year which bore interest at Cost of Funds plus 0.80%.

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(b) Subordinated Notes

	Note	Group and Bank		
		31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
USD400 million 5.00% Subordinated Notes due in 2017, callable with step-up in 2012	(i)	–	1,269,029	1,230,513
Issued under the RM5.0 billion Subordinated Medium Term Note Programme:				
First tranche:				
RM1,400 million 4.73% Subordinated Notes due in 2018, callable with step-up in 2013	(ii)(a)	1,399,824	1,399,345	1,398,869
Second tranche:				
RM200 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(ii)(b)	199,926	199,886	199,846
Third tranche:				
RM223 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(ii)(c)	222,913	222,869	222,824
Fourth tranche:				
RM50 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(ii)(d)	49,980	49,970	49,960
Fifth tranche:				
RM3,000 million 4.28% Subordinated Notes due in 2022, callable in 2017	(ii)(e)	2,997,708	2,997,207	–
		4,870,351	6,138,306	3,102,012
Unrealised fair value loss arising from fair value hedge		67,567	118,432	86,182
		4,937,918	6,256,738	3,188,194

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(b) Subordinated Notes (Cont'd.)

- (i) On 20 June 2005, the Bank issued USD400 million in aggregate principal amount of Subordinated Notes due in 2017 callable with step-up in 2012. The Notes bear interest at the rate of 5.000% per annum from (and including) 20 June 2005 to (but excluding) 20 June 2012 and, thereafter, at a rate per annum equal to the interest rate of five year US treasury notes plus 2.827%. The interest is payable semi-annually in arrears on 20 June and 20 December in each year commencing on 20 December 2005. The Notes were issued at a price of 99.383 per cent of the principal amount of the Notes. The Notes will, subject to the prior consent of Bank Negara Malaysia, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or on 20 June 2012 at their principal amount plus accrued interest (if applicable). These Notes were fully redeemed on 20 June 2012 together with accrued interest.
- (ii) On 13 March 2008, the Bank obtained approval from Bank Negara Malaysia for a Subordinated Medium Term Note Programme ("the MTN Programme") for the issuance of up to RM5.0 billion in aggregate principal value of Subordinated Notes. The tenor of the MTN Programme will be up to fifteen (15) years, with the maturity for each issuance to range between ten (10) to fifteen (15) years, and callable from five (5) years prior to the relevant maturity date of each issuance. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

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

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

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

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(b) Subordinated Notes (Cont'd.)

- (ii) (c) On 10 December 2009, the Bank issued the third tranche of RM223 million in aggregate principal amount of Subordinated Notes due in 2019 callable with step-up in 2014. The Notes bear interest at the rate of 4.60% per annum from (and including) 10 December 2009 to (but excluding) 10 December 2014 and thereafter, at the rate of 5.60% per annum from (and including) 10 December 2014 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 10 June and 10 December each year commencing 10 June 2010.
- (d) On 31 December 2009, the Bank issued the fourth tranche of RM50 million in aggregate principal amount of Subordinated Notes due in 2019 callable with step-up in 2014. The Notes bear interest at the rate of 4.60% per annum from (and including) 31 December 2009 to (but excluding) 31 December 2014 and thereafter, at the rate of 5.60% per annum from (and including) 31 December 2014 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 30 June and 31 December each year commencing 30 June 2010.
- (e) On 3 August 2011, the Bank issued the fifth tranche of RM3,000 million in aggregate principal amount of Subordinated Notes due in 2022 callable in 2017. The Notes bear interest at the rate of 4.28% per annum from (and including) 3 August 2011 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 3 February and 3 August each year commencing 3 February 2012.

The above Subordinated Notes constitute unsecured liabilities of the Bank, and are subordinated in right of payment upon the occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Bank, other than the Innovative Tier I Capital Securities and the Non-Innovative Tier I Stapled Securities, which are subordinated to the Subordinated Notes, in accordance with the terms and conditions of the Subordinated Notes. The Subordinated Notes qualify as Tier II Capital in line with the requirements of BNM's Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank.

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

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(c) Innovative Tier I Capital Securities

	Note	Group and Bank		
		31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
USD200 million 6.84% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(i)	611,044	634,213	615,631
RM1,200 million 5.10% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(ii)	1,199,273	1,199,090	1,198,907
		1,810,317	1,833,303	1,814,538
Unrealised fair value loss arising from fair value hedge		145,448	135,493	103,942
		1,955,765	1,968,796	1,918,480

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

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

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

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

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

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

The Innovative Tier I Capital Securities above are unsecured liabilities of the Bank and rank pari passu among themselves and equally with the Non-Innovative Tier I Stapled Securities, and are subordinated in right of payment upon occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities including the Subordinated Notes of the Bank in accordance with the terms and conditions of the Innovative Tier I Capital Securities. The Innovative Tier I Capital Securities qualify as Tier I Capital in line with the requirements of BNM's Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank, up to a maximum of 15% of the Tier I Capital, with the excess qualifying as Tier II Capital.

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

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(d) Non-Innovative Tier I Stapled Securities

		Group and Bank		
		31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
	Note			
Issued under the RM5.0 billion Non-Innovative Tier I Stapled Securities Programme:				
First tranche:				
RM1,200 million 7.50% Stapled Securities callable in 2019	(i)	1,195,146	1,194,388	1,193,633
Second tranche:				
RM888 million 7.20% Stapled Securities callable in 2019	(ii)	888,000	888,000	888,000
		2,083,146	2,082,388	2,081,633
Unrealised fair value loss arising from fair value hedge		105,113	114,827	8,221
		2,188,259	2,197,215	2,089,854

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

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

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

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

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

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

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

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

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

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

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

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

- (i) the Bank elects that an assignment event occurs; or
- (ii) BNM determines that an assignment event should occur; or
- (iii) the redemption of the NCPCS pursuant to:
 - (a) a tax redemption, whereby there is a more than an insubstantial risk that, as a result of changes in the applicable tax regulations, the Bank and/or PBFIN would become obliged to pay additional amounts or will no longer be able to obtain tax deductions for interest payments on the Sub-Notes or the inter-company loan between the Bank and PBFIN; or
 - (b) a regulatory redemption, whereby the NCPCS no longer qualify as Non-Innovative Tier I Capital of the Bank for the purposes of BNM's capital adequacy ratio requirements; or
 - (c) redemption of the NCPCS on the optional redemption date.

Notes to the Financial Statements

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

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

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

- (iv) the deferral of any interest on the Sub-Notes; or
- (v) the Bank is in breach of BNM's minimum capital adequacy ratio requirements; or
- (vi) the commencement of winding up proceeding in respect of the Bank or PBFIN; or
- (vii) the appointment of an administrator in connection with the restructuring of the Bank or PBFIN; or
- (viii) the occurrence of the optional redemption date; or
- (ix) PBFIN ceases to be, directly or indirectly, a wholly-owned subsidiary company of the Bank.

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

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

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

The NCPCS qualify as Non-Innovative Tier I Capital Instruments in line with the requirements of BNM's Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components), and qualify for inclusion as Tier I Capital for the purpose of determining the capital adequacy ratios of the Group and the Bank, up to a total limit of 50% for Innovative and Non-Innovative Tier I Capital Securities, with the excess qualifying as Tier II Capital.

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

Notes to the Financial Statements

23. Other Liabilities

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Interest/Income payable	1,102,170	866,442	749,173
Other payables and accruals	2,120,839	2,218,605	1,579,007
Amount due to trust funds *	46,656	65,013	89,858
Unprocessed sales and/or redemptions #	127,505	50,798	83,708
Employee benefits (Note 24(a))	(99,723)	(92,709)	(73,076)
Profit Equalisation Reserve of the investment account holder	265	–	33,436
Finance lease liabilities **	60,723	93,779	14,548
Outstanding contracts on clients' accounts ^	199,195	249,464	341,637
Dividend payable to shareholders	12,896	16,143	21,583
	3,570,526	3,467,535	2,839,874

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Interest/Income payable	935,099	748,209	660,711
Other payables and accruals	1,565,466	1,595,561	1,050,122
Employee benefits (Note 24(a))	(96,303)	(89,528)	(70,569)
Finance lease liabilities **	60,723	93,779	14,548
Dividend payable to shareholders	2,461	2,933	2,964
Amount due to subsidiary companies @	15,139	17,373	17,875
	2,482,585	2,368,327	1,675,651

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

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

Notes to the Financial Statements

23. Other Liabilities (Cont'd.)

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

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

31 December 2011			
	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Finance Lease Liabilities RM'000
Less than one year	35,932	2,876	33,056
Between one and three years	62,885	2,162	60,723
	98,817	5,038	93,779

1 January 2011			
	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Finance Lease Liabilities RM'000
Less than one year	14,750	202	14,548

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

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

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

Notes to the Financial Statements

24. Employee Benefits

(a) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a fully funded defined benefit plan known as the Public Bank Group Officers' Retirement Benefits Fund ("the Fund") for its eligible employees. Under the Fund, eligible employees are entitled to one month of the final/last drawn salary for each completed year of service with the Group upon attainment of the retirement age of 55. For employees who leave before the attainment of the retirement age, the retirement benefit will be computed based on the scale rate stipulated in the rules of the Fund.

Governance

The assets of the Fund are held separately from the assets of the Group and the Bank and are administered by a board of trustees. There are six (6) trustees currently, all of whom are members of senior management of the Bank.

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Present value of funded obligations	(522,794)	(490,348)	(447,908)
Fair value of plan assets	825,397	703,729	689,234
	302,603	213,381	241,326
Unrecognised actuarial gain	(202,880)	(120,672)	(168,250)
Net assets (Note 23)	99,723	92,709	73,076

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Present value of funded obligations	(504,862)	(473,529)	(432,545)
Fair value of plan assets	797,086	679,591	665,593
	292,224	206,062	233,048
Unrecognised actuarial gain	(195,921)	(116,534)	(162,479)
Net assets (Note 23)	96,303	89,528	70,569

Notes to the Financial Statements

24. Employee Benefits (Cont'd.)

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

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

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Obligation at 1 January	490,348	447,908	473,529	432,545
Current service cost	32,770	32,193	31,646	31,089
Interest cost	29,708	27,456	28,689	26,514
Benefits paid – the Fund	(33,841)	(29,444)	(32,680)	(28,434)
Actuarial loss on funded obligations	3,809	12,235	3,678	11,815
Obligation at 31 December	522,794	490,348	504,862	473,529

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

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Fair value at 1 January	703,729	689,234	679,591	665,593
Expected return on plan assets	56,917	54,450	54,965	52,582
Benefits paid – the Fund	(33,841)	(29,444)	(32,680)	(28,434)
Actuarial gain/(loss) on plan assets	98,592	(10,511)	95,210	(10,150)
Fair value at 31 December	825,397	703,729	797,086	679,591

The fair value of plan assets constitutes the following:

	Group		
	31 December	31 December	1 January
	2012	2011	2011
	RM'000	RM'000	RM'000
Deposit placements and cash	11	634,034	25
Government Securities	522,603	456,321	389,584
Equity securities*	643,431	538,726	525,307
Unit trust funds	317,794	297,585	309,102
Properties [#]	426,160	323,085	303,651
Other (liabilities)/assets (net)	(3,376)	27,652	14,942
Borrowings	(1,081,226)	(1,573,674)	(853,377)
	825,397	703,729	689,234

Notes to the Financial Statements

24. Employee Benefits (Cont'd.)

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

The fair value of plan assets constitutes the following: (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Deposit placements and cash	11	612,287	24
Government Securities	504,678	440,669	376,221
Equity securities*	621,361	520,248	507,289
Unit trust funds	306,894	287,378	298,500
Properties [#]	411,543	312,003	293,236
Other (liabilities)/assets (net)	(3,260)	26,704	14,429
Borrowings	(1,044,141)	(1,519,698)	(824,106)
	797,086	679,591	665,593

* Included in the fair value of equity securities are ordinary shares of the Bank held by the Fund with a fair value of RM427,628,000 (31 December 2011 – RM350,332,000; 1 January 2011 – RM341,792,000).

[#] All the properties held as plan assets of the Group and the Bank are occupied by the Bank and certain subsidiary companies of the Group.

The amounts recognised in other operating expenses in the income statements are as follows:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current service cost	32,770	32,193	31,646	31,089
Interest cost	29,708	27,456	28,689	26,514
Expected return on plan assets	(56,917)	(54,450)	(54,965)	(52,582)
Actuarial gains recognised	(12,575)	(24,832)	(12,144)	(23,980)
Allocation adjustment	–	–	–	84
Amount included under “personnel costs” (Note 35(a))	(7,014)	(19,633)	(6,774)	(18,875)
Expected return on plan assets	56,917	54,450	54,965	52,582
Actuarial gain/(loss) on plan assets	98,592	(10,511)	95,210	(10,150)
Actual return on plan assets	155,509	43,939	150,175	42,432

Notes to the Financial Statements

24. Employee Benefits (Cont'd.)

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

The surplus of the defined benefit plan for the past five years are as follows:

	2012 RM'000	2011 RM'000	2010 RM'000	2009 RM'000	2008 RM'000
Group					
Present value of funded obligations	(522,794)	(490,348)	(447,908)	(397,078)	(373,995)
Fair value of plan assets	825,397	703,729	689,234	563,614	437,201
Plan surplus	302,603	213,381	241,326	166,536	63,206
Experience adjustment on plan liabilities	3,809	12,235	21,666	(2,256)	8,397
Experience adjustment on plan assets	98,592	(10,511)	100,667	111,651	(179,710)
Bank					
Present value of funded obligations	(504,862)	(473,529)	(432,545)	(382,227)	(360,009)
Fair value of plan assets	797,086	679,591	665,593	542,534	420,850
Plan surplus	292,224	206,062	233,048	160,307	60,841
Experience adjustment on plan liabilities	3,678	11,815	20,923	(2,173)	8,221
Experience adjustment on plan assets	95,210	(10,150)	97,214	107,475	(175,937)

No estimated contributions are expected to be paid to the plan in the forthcoming financial year by the Group and the Bank.

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

	31 December 2012	31 December 2011	1 January 2011
Discount rate	6.25%	6.25%	6.25%
Expected return on plan assets	8.00%	8.00%	8.00%
Expected rate of salary increases	7.00%	7.00%	7.00%

The principal actuarial assumptions are based on the latest actuarial valuation performed as of 31 December 2010.

Notes to the Financial Statements

24. Employee Benefits (Cont'd.)

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

The expected rate of return on plan assets is based on the average rate of earnings expected on the funds invested to provide for the benefits included in the projected benefit obligation.

(b) Equity Compensation Benefits

Public Financial Holdings Limited Group Employees' Share Option Scheme

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

The salient features of the PFHL ESOS are as follows:

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

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

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

Notes to the Financial Statements

24. Employee Benefits (Cont'd.)

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

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

	2012		2011	
	Number of share options '000	Weighted average exercise price HKD	Number of share options '000	Weighted average exercise price HKD
At 1 January	26,413	6.35	28,509	6.35
Lapsed	(1,038)	6.35	(2,096)	6.35
At 31 December	25,375	6.35	26,413	6.35
Options exercisable at end of financial year	25,375	6.35	26,413	6.35
Weighted average share price during the financial year		3.28		4.59

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

Grant Date	Exercise Period	Exercise Price	Number of share options outstanding '000
18 May 2005	10 June 2005 to 9 June 2015	HKD6.35	25,375

The weighted average remaining contractual maturity of the PFHL ESOS outstanding as at the end of the financial year was 2.44 years (31 December 2011 – 3.44 years; 1 January 2011 – 4.44 years).

There were no new PFHL ESOS granted during the financial year (2011 – Nil). All share options issued have been vested prior to 1 January 2006 and, as allowed by the transitional provisions in MFRS 2 Share-based Payments, the recognition and measurement principles in MFRS 2 have not been applied.

Notes to the Financial Statements

25. Provision For Tax Expense and Zakat

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Tax expense	739,954	777,016	800,138
Zakat	329	389	326
	740,283	777,405	800,464

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Tax expense	522,088	563,807	568,565

26. Share Capital

	Number of Ordinary Shares of RM1.00 Each		
	31 December 2012 '000	31 December 2011 '000	1 January 2011 '000
Group and Bank			
Authorised:			
Ordinary shares of RM1.00 each	10,000,000	10,000,000	10,000,000
Issued and fully paid:			
Ordinary shares of RM1.00 each	3,531,926	3,531,926	3,531,926

Notes to the Financial Statements

26. Share Capital (Cont'd.)

	Amount		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Group and Bank			
Authorised:			
Ordinary shares of RM1.00 each	10,000,000	10,000,000	10,000,000
Issued and fully paid:			
Ordinary shares of RM1.00 each	3,531,926	3,531,926	3,531,926

27. Treasury Shares

The amount relates to the acquisition cost of treasury shares.

There were no shares bought back by the Bank during the year (31 December 2011 – Shares bought back of 20,000). The PBB Shares bought back in the previous years are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965.

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

Of the total 3,531,925,834 (31 December 2011 – 3,531,925,834; 1 January 2011 – 3,531,925,834) issued and paid-up PBB Shares as at 31 December 2012, 29,800,704 (31 December 2011 – 29,800,704; 1 January 2011 – 29,780,704) PBB Shares are held as treasury shares by the Bank. Treasury shares have no rights to voting, dividends and participation in other distribution. As at 31 December 2012, the number of outstanding PBB Shares in issue after the set-off is therefore 3,502,125,130 (31 December 2011 – 3,502,125,130; 1 January 2011 – 3,502,145,130) ordinary shares of RM1.00 each.

Notes to
the Financial Statements

28. Other Reserves

	Statutory Reserves RM'000	Capital Reserves RM'000	Foreign Currency Translation Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Regulatory Reserves RM'000	General Reserves RM'000	Profit Equalisation Reserves RM'000	Total RM'000
Group									
At 1 January 2012	3,851,106	60,442	(83,987)	2,339	(28,455)	126,823	127,746	-	4,056,014
Net currency translation differences:									
- Currency translation differences in respect of									
- foreign operations	-	-	(110,246)	-	-	-	-	-	(110,246)
- net investment hedge	-	-	109,601	-	-	-	-	-	109,601
Net change in revaluation of financial investments available-for-sale:			(645)	-	-	-	-	-	(645)
- Net unrealised gain	-	-	-	-	55,154	-	-	-	55,154
- Net gain on disposal reclassified to income statement (Note 33)	-	-	-	-	(7,629)	-	-	-	(7,629)
- Impairment loss recognised in the income statement (Note 38)	-	-	-	-	3,533	-	-	-	3,533
Net change in cash flow hedges:					51,058	-	-	-	51,058
- Net unrealised loss	-	-	-	(11,748)	-	-	-	-	(11,748)
- Net realised gain reclassified to income statement	-	-	-	(16)	-	-	-	-	(16)
Deferred tax (Note 12)	-	-	-	(11,764)	-	-	-	-	(11,764)
	-	-	-	2,941	(8,406)	-	-	-	(5,465)
Other comprehensive (loss)/income	-	-	(645)	(8,823)	42,652	-	-	-	33,184
Transferred from retained profits	9,741	-	-	-	-	252	918	503	11,414
At 31 December 2012	3,860,847	60,442	(84,632)	(6,484)	14,197	127,075	128,664	503	4,100,612

Notes to the Financial Statements

28. Other Reserves (Cont'd.)

	Statutory Reserves RM'000	Capital Reserves RM'000	Foreign Currency Translation Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Regulatory Reserves RM'000	General Reserves RM'000	Total RM'000
At 1 January 2011	3,821,211	60,442	(93,772)	4,923	(5,281)	101,039	-	3,888,562
Net currency translation differences:								
- Currency translation differences in respect of								
- foreign operations	-	-	100,638	-	-	-	-	100,638
- net investment hedge	-	-	(90,853)	-	-	-	-	(90,853)
Net change in revaluation of financial investments available-for-sale:								
- Net unrealised loss	-	-	-	-	(22,031)	-	-	(22,031)
- Net gain on disposal reclassified to income statement (Note 33)	-	-	-	-	(5,448)	-	-	(5,448)
Net change in cash flow hedges:								
- Net unrealised loss	-	-	-	(2,892)	-	-	-	(2,892)
- Net realised gain reclassified to income statement	-	-	-	(553)	-	-	-	(553)
Deferred tax (Note 12)	-	-	-	(3,445)	-	-	-	(3,445)
	-	-	-	861	4,305	-	-	5,166
Other comprehensive income/(loss)	-	-	9,785	(2,584)	(23,174)	-	-	(15,973)
Transferred from retained profits	29,895	-	-	-	-	25,784	127,746	183,425
At 31 December 2011	3,851,106	60,442	(83,987)	2,339	(28,455)	126,823	127,746	4,056,014

Notes to the Financial Statements

28. Other Reserves (Cont'd.)

Bank	Statutory Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	General Reserves RM'000	Total RM'000
At 1 January 2012	3,531,926	2,339	(19,715)	756	3,515,306
Net change in revaluation of financial investments available-for-sale:					
– Net unrealised gain	–	–	35,096	–	35,096
– Net gain on disposal reclassified to income statement (Note 33)	–	–	(7,629)	–	(7,629)
– Impairment loss recognised in the income statement (Note 38)	–	–	3,533	–	3,533
	–	–	31,000	–	31,000
Net change in cash flow hedges:					
– Net unrealised loss	–	(33,512)	–	–	(33,512)
– Net realised gain reclassified to income statement	–	(16)	–	–	(16)
	–	(33,528)	–	–	(33,528)
Deferred tax (Note 12)	–	8,382	(7,750)	–	632
Other comprehensive (loss)/income	–	(25,146)	23,250	–	(1,896)
Transferred from retained profits	–	–	–	918	918
At 31 December 2012	3,531,926	(22,807)	3,535	1,674	3,514,328
At 1 January 2011	3,531,926	4,923	1,765	–	3,538,614
Net change in revaluation of financial investments available-for-sale:					
– Net unrealised loss	–	–	(23,424)	–	(23,424)
– Net gain on disposal reclassified to income statement (Note 33)	–	–	(5,216)	–	(5,216)
	–	–	(28,640)	–	(28,640)
Net change in cash flow hedges:					
– Net unrealised loss	–	(2,892)	–	–	(2,892)
– Net realised gain reclassified to income statement	–	(553)	–	–	(553)
	–	(3,445)	–	–	(3,445)
Deferred tax (Note 12)	–	861	7,160	–	8,021
Other comprehensive loss	–	(2,584)	(21,480)	–	(24,064)
Transferred from retained profits	–	–	–	756	756
At 31 December 2011	3,531,926	2,339	(19,715)	756	3,515,306

Notes to the Financial Statements

28. Other Reserves (Cont'd.)

The statutory reserves of the Group and the Bank are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and Section 15 of the Islamic Banking Act, 1983 and are not distributable as cash dividends.

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

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

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

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

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

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

The Profit Equalisation Reserves ("PER") of the Group are maintained in compliance with the requirements of the revised PER Guidelines issued by Bank Negara Malaysia. The Group has adopted these revised PER Guidelines with effect from 1 January 2012 in its management of displaced commercial risk.

29. Retained Profits

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

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

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

Notes to the Financial Statements

30. Interest Income

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Loans and advances	8,856,696	7,980,679	8,061,363	7,215,709
Balances with banks	426,060	623,366	401,149	601,974
Financial investments available-for-sale	334,649	203,439	322,696	191,762
Financial investments held-to-maturity	262,287	266,371	187,645	189,410
Others	112,680	90,327	112,660	90,298
	9,992,372	9,164,182	9,085,513	8,289,153
Financial assets held-for-trading	411,869	248,848	380,085	239,953
	10,404,241	9,413,030	9,465,598	8,529,106

Included in interest income on loans and advances for the current year is interest accrued on impaired loans of the Group and the Bank of RM52,143,000 (2011 – RM62,195,000) and RM49,523,000 (2011 – RM60,096,000) respectively.

31. Interest Expense

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Deposits from banks	238,319	346,458	211,251	335,032
Deposits from customers	4,508,322	3,756,178	4,316,230	3,579,222
Loans sold to Cagamas	360	590	360	590
Debt securities issued and other borrowed funds	392,429	329,755	379,336	317,716
Others	10,166	5,118	9,901	4,823
	5,149,596	4,438,099	4,917,078	4,237,383

Notes to the Financial Statements

32. Fee and Commission Income and Expense

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Fee and commission income:				
Commissions	352,019	327,147	391,719	372,216
Service charges and fees	270,639	250,370	203,307	181,851
Guarantee fees	32,599	29,676	29,574	26,121
Processing fees	14,868	16,110	3,325	2,532
Commitment fees	60,443	59,311	57,700	56,433
Unit trust management fees	609,936	545,095	–	–
Fee on sale of trust units	260,302	321,586	–	–
Net brokerage and commissions				
from stock-broking activities	75,509	100,946	–	–
Other fee and commission income	49,342	45,154	39,743	34,778
	1,725,657	1,695,395	725,368	673,931
Fee and commission expense:				
Loan-related fees	(227,974)	(216,723)	(224,074)	(212,626)
Unit trust agency fees	(313,112)	(341,364)	–	–
Other fee and commission expense	(19,258)	(18,399)	(11,269)	(11,301)
	(560,344)	(576,486)	(235,343)	(223,927)
Net fee and commission income	1,165,313	1,118,909	490,025	450,004

Notes to the Financial Statements

33. Net Gains and Losses on Financial Instruments

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Net gain/(loss) arising on financial assets held-for-trading:				
– net gain on disposal	12,562	8,919	12,148	8,464
– gross dividend income	38	34	38	34
– unrealised revaluation loss	(3,330)	(333)	(3,312)	(213)
	9,270	8,620	8,874	8,285
Net gain/(loss) arising on trading derivatives:				
– net gain/(loss) on disposal	772	(12,520)	772	(12,520)
– unrealised revaluation gain	3,222	8,495	5,733	17,204
	3,994	(4,025)	6,505	4,684
Net gain arising on financial investments available-for-sale:				
– net gain on disposal (Note 28)	7,629	5,448	7,629	5,216
– gross dividend income	151,033	147,823	146,287	142,859
	158,662	153,271	153,916	148,075
(Loss)/Gain representing ineffective portions of hedging derivatives:				
– fair value hedge (Note 6)	(1,726)	8,291	(1,129)	6,441
– cash flow hedge (Note 6)	44	(3)	44	(3)
	(1,682)	8,288	(1,085)	6,438
	170,244	166,154	168,210	167,482

Notes to the Financial Statements

34. Other Operating Income

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Gross dividend income from:				
Associated companies	–	–	4,783	9,692
Subsidiary companies:				
– quoted outside Malaysia	–	–	45,043	51,674
– unquoted in Malaysia	–	–	808,037	673,003
	–	–	857,863	734,369
Other income:				
Foreign exchange profit	225,445	217,563	252,661	193,532
Rental income from:				
– investment properties (Note 15)	5,490	4,887	–	–
– other properties	14,392	13,375	11,307	10,553
Net (loss)/gain on disposal of property and equipment	(446)	11	(425)	82
Net gain/(loss) on disposal of foreclosed properties	7,938	(3,190)	7,938	(3,190)
Gain on revaluation of investment properties (Note 15)	23,877	2,711	–	–
Others	36,045	44,877	25,765	32,422
	312,741	280,234	297,246	233,399
	312,741	280,234	1,155,109	967,768

Notes to the Financial Statements

35. Other Operating Expenses

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Personnel costs				
– Salaries, allowances and bonuses	1,347,450	1,260,198	1,052,631	972,686
– Pension costs	145,151	118,813	126,063	101,477
– Others	118,761	116,778	103,969	102,775
	1,611,362	1,495,789	1,282,663	1,176,938
Establishment costs				
– Depreciation	167,253	145,947	135,515	113,471
– Rental	84,962	80,365	81,657	77,741
– Insurance	20,293	20,590	15,833	16,302
– Water and electricity	43,674	40,563	32,166	30,020
– General repairs and maintenance	74,044	69,483	66,073	62,331
– Information technology expenses	26,475	26,249	14,521	14,682
– Others	37,233	35,919	27,143	24,531
	453,934	419,116	372,908	339,078
Marketing expenses				
– Advertisement and publicity	74,352	75,174	25,153	25,019
– Others	77,645	80,138	43,148	34,720
	151,997	155,312	68,301	59,739
Administration and general expenses				
– Communication expenses	38,724	35,144	30,328	34,975
– Legal and professional fees	43,654	45,123	33,936	36,101
– Others	61,227	58,200	30,074	29,467
	143,605	138,467	94,338	100,543
Shared service cost charged to Public Islamic Bank Berhad	–	–	(221,688)	(166,483)
Total other operating expenses	2,360,898	2,208,684	1,596,522	1,509,815

Notes to the Financial Statements

35. Other Operating Expenses (Cont'd.)

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

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration*:				
– statutory audit fees	3,129	2,842	1,193	981
– audit related services	548	716	282	313
– other services	480	200	408	90
Depreciation of property and equipment (Note 16)	167,253	145,947	135,515	113,471
Direct operating expenses of investment properties that:				
– generated rental income	41	40	–	–
Directors' remuneration (Note 36)	44,661	37,957	34,130	28,207
Pension costs				
– defined contribution plan	152,165	138,446	132,837	120,352
– defined benefit plan (Note 24(a))	(7,014)	(19,633)	(6,774)	(18,875)
Property and equipment written off (Note 16)	1,082	1,199	1,064	396
Rental of premises	84,962	80,365	81,657	77,741

* Included in the auditors' remuneration of the Group are fees paid to accounting firms other than the Bank's auditors for statutory audit fees, audit related services and other services amounting to RM1,553,000 (2011 – RM1,575,000), RM211,000 (2011 – RM358,000) and RM39,000 (2011 – RM52,000) respectively.

Included in the auditors' remuneration of the Bank are fees paid in relation to the Bank's overseas branches for statutory audit fees, audit related services and other services of RM163,000 (2011 – RM81,000), RM14,000 (2011 – RM16,000) and RM11,000 (2011 – RM33,000) respectively.

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

(b) Employees

The number of persons employed by the Group and the Bank (excluding Directors) as at the end of the financial year was 17,625 (2011 – 17,511) and 14,430 (2011 – 14,352) respectively.

Notes to the Financial Statements

36. Directors' Remuneration

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors of the Bank:				
Executive Directors:				
Fees	1,271	1,172	430	390
Salary and other remuneration, including meeting allowances	6,943	5,713	6,783	5,564
Bonuses	9,707	8,440	9,707	8,440
Benefits-in-kind	75	73	75	73
	17,996	15,398	16,995	14,467
Non-Executive Directors:				
Fees	3,860	3,529	1,744	1,365
Other remuneration	16,306	13,273	15,457	12,411
Benefits-in-kind	33	33	33	33
	20,199	16,835	17,234	13,809
Past Director:				
Other remuneration	9	37	9	37
Benefits-in-kind	–	13	–	13
	9	50	9	50
Directors of subsidiary companies:				
Executive Directors:				
Fees	317	287	–	–
Salary and other remuneration, including meeting allowances	3,207	2,969	–	–
Bonuses	2,381	2,144	–	–
Benefits-in-kind	402	370	–	–
	6,307	5,770	–	–
Non-Executive Directors:				
Fees	488	297	–	–
Other remuneration	172	96	–	–
	660	393	–	–
Grand total	45,171	38,446	34,238	28,326
Total (excluding benefits-in-kind) (Note 35)	44,661	37,957	34,130	28,207

Included in the remuneration of the Executive Directors is the remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind, during the financial year amounting to RM9,552,000 (2011 – RM8,151,000).

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

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

Notes to
the Financial Statements**36. Directors' Remuneration (Cont'd.)**

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

2011	Remuneration received from the Bank				Remuneration received from Subsidiary Companies				Group Total RM'000	
	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Benefits-in-kind RM'000	Bank Total RM'000	Fees RM'000	Other Emoluments RM'000		
Executive Directors:										
Tan Sri Dato' Sri Tay Ah Lek	1,620	195	4,845	1,452	39	8,151	447	75	8,673	
Dato' Sri Lee Kong Lam	1,356	195	3,595	1,136	34	6,316	335	74	6,725	
	2,976	390	8,440	2,588	73	14,467	782	149	15,398	
Non-Executive Directors:										
Tan Sri Dato' Sri Dr. Teh Hong Piow	-	260	-	11,336	33	11,629	555	52	12,236	
Tan Sri Datuk Seri Utama Thong Yaw Hong	-	260	-	439	-	699	491	180	1,370	
Dato' Yeoh Chin Kee	-	195	-	126	-	321	126	116	563	
Y.A.M. Tengku Abdul Rahman Ibni Sultan	-	49	-	24	-	73	29	24	126	
Haji Ahmad Shah Al-Mustain Billah [#]	-	195	-	204	-	399	275	178	852	
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	-	49	-	29	-	78	189	68	335	
Dato' (Dr) Haji Mohamed Ishak	-	195	-	160	-	355	403	155	913	
bin Haji Mohamed Arifi *	-	162	-	93	-	255	96	89	440	
Quah Poh Keat	-									
Tang Wing Chew	-									
	-	1,365	-	12,411	33	13,809	2,164	862	16,835	
Total Directors' remuneration	2,976	1,755	8,440	14,999	106	28,276	2,946	1,011	32,233	

This represents the remuneration paid to this Director until his retirement on 20 March 2011.

* This represents the remuneration paid to this Director until his retirement on 14 March 2011.

Notes to the Financial Statements

37. Allowance for Impairment on Loans, Advances and Financing

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Allowance for impaired loans and financing:				
Collective assessment allowance (Note 9)	279,199	335,845	187,119	196,942
– Retail loans/financing				
– housing loans/financing	29,258	25,045	21,826	23,658
– hire purchase	160,147	150,375	115,362	107,464
– credit cards	37,193	34,248	37,166	34,234
– other loans/financing	54,998	125,331	13,020	24,491
– Corporate loans/financing	(2,397)	846	(255)	7,095
Individual assessment allowance (Note 9)	194,865	220,510	(2,870)	2,215
– Retail loans/financing				
– housing loans/financing	548	1,413	486	1,080
– hire purchase	1,002	2,121	–	–
– other loans/financing	205,979	203,862	11,830	(771)
– Corporate loans/financing	(12,664)	13,114	(15,186)	1,906
Bad debts recovered from stock-broking activities	(39)	(179)	–	–
Impaired loans and financing written off	871	601	692	419
Impaired loans and financing recovered	(195,652)	(230,022)	(107,934)	(158,638)
	279,244	326,755	77,007	40,938

38. Impairment/(Writeback of Impairment) on Other Assets

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Financial investments available-for-sale				
– Non-money market instruments				
– equity securities (Note 7 and 28)	3,533	–	3,533	–
Financial investments held-to-maturity				
– Non-money market instruments				
– debt securities (Note 8)	–	45	–	45
Foreclosed properties	3,093	(1,643)	3,068	(1,661)
	6,626	(1,598)	6,601	(1,616)

Notes to the Financial Statements

39. Tax Expense and Zakat

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Malaysian income tax				
– In respect of current year profit	1,151,748	1,106,626	939,774	871,388
– In respect of changes in tax treatment for collective assessment allowance	–	(323,045)	–	(256,672)
Overseas income tax	59,853	63,266	7,794	8,265
	1,211,601	846,847	947,568	622,981
Under/(Over) provision in prior years				
– Malaysian income tax	7,173	1,912	6,090	–
– Overseas income tax	3,332	1,325	(1,411)	(202)
	1,222,106	850,084	952,247	622,779
Deferred tax (income)/expense (Note 12)				
– In respect of changes in tax treatment for collective assessment allowance	–	323,045	–	256,672
– Relating to origination and reversal of temporary differences arising from:				
– allowance for losses on loans/financing	(978)	(4,414)	–	–
– tax losses	68	214	–	–
– excess of depreciation over capital allowances	(3,819)	(580)	(5,638)	(1,786)
– other temporary differences	(15,552)	(1,790)	(12,443)	3,803
	(20,281)	(6,570)	(18,081)	2,017
– over provision	(9,990)	(13,441)	(992)	(4,303)
	(30,271)	(20,011)	(19,073)	(2,286)
Tax expense	1,191,835	1,153,118	933,174	877,165
Zakat	330	318	–	–
	1,192,165	1,153,436	933,174	877,165

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

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

Notes to the Financial Statements

39. Tax Expense and Zakat (Cont'd.)

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Tax savings arising from tax losses				
Tax savings arising from utilisation of tax losses	2	2	–	–

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

		2012		2011
Group	%	RM'000	%	RM'000
Profit before tax expense		5,103,926		4,877,939
Income tax using Malaysian tax rate of 25%	25.0	1,275,982	25.0	1,219,485
Effects of different tax rates in foreign jurisdictions	(0.8)	(42,715)	(0.6)	(29,863)
Income not subject to tax	(1.9)	(95,605)	(1.6)	(77,103)
Effects of utilisation of unrecognised benefit of tax losses	–	(2)	–	(2)
Expenses not deductible for tax purposes	0.8	38,684	1.2	59,874
Income subject to tax at Bank but eliminated at Group	0.3	14,976	(0.2)	(9,069)
	23.4	1,191,320	23.8	1,163,322
Under/(over) provision in prior years	–	515	(0.2)	(10,204)
Tax expense for the year	23.4	1,191,835	23.6	1,153,118

Notes to the Financial Statements

39. Tax Expense and Zakat (Cont'd.)

A reconciliation of income tax expense applicable to profit before tax expense at the statutory tax rate to income tax expense at the effective income tax rate of the Group and of the Bank are as follows: (Cont'd.)

Bank	%	2012 RM'000	%	2011 RM'000
Profit before tax expense		4,681,734		4,327,840
Income tax using Malaysian tax rate of 25%	25.0	1,170,434	25.0	1,081,960
Income not subject to tax	(5.6)	(263,743)	(5.1)	(221,339)
Expenses not deductible for tax purposes	0.4	22,796	0.5	21,049
	19.8	929,487	20.4	881,670
Under/(over) provision in prior years	0.1	3,687	(0.1)	(4,505)
Tax expense for the year	19.9	933,174	20.3	877,165

40. Earnings Per Share

(a) Basic Earnings Per Share

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

	Group		Bank	
	2012	2011	2012	2011
Net profit attributable to equity holders of the Bank (RM'000)	3,869,273	3,684,289	3,748,560	3,450,675
'000				
Number of ordinary shares at beginning of the year	3,502,125	3,502,145	3,502,125	3,502,145
Effects of shares bought back and held as treasury shares	–	(13)	–	(13)
Weighted average number of ordinary shares in issue	3,502,125	3,502,132	3,502,125	3,502,132
Basic earnings per share (sen)	110.5	105.2	107.0	98.5

(b) Diluted Earnings Per Share

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

Notes to the Financial Statements

41. Dividends

	Group and Bank	
	2012	2011
	RM'000	RM'000
Dividends recognised as distribution to ordinary equity holders of the Bank:		
First interim single tier dividend of 20.0% (2011 – 20.0%) in respect of the financial year ended 31 December 2012	700,425	700,425
Second interim single tier dividend of 28.0% in respect of the financial year ended 31 December 2011 (2010 – 25.0% less 25.0% tax and single tier dividend of 8%)	980,595	936,821
	1,681,020	1,637,246

Subsequent to the financial year end, on 6 February 2013, the Directors declared a second interim single tier dividend of 30.0%, with the total amounting to approximately RM1,050,637,539 computed based on the outstanding issued and paid-up capital, excluding treasury shares held by the Bank, of 3,502,125,130 ordinary shares of RM1.00 each, in respect of the financial year ended 31 December 2012. The financial statements for the current financial year do not reflect these dividends. Upon declaration, the dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2013. The Directors do not propose any final dividend in respect of the financial year ended 31 December 2012.

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

	Group and Bank	
	Dividend per share	
	2012	2011
	Sen	Sen
Dividends per RM1.00 ordinary share:		
Paid:		
First interim single tier dividend of 20.0% (2011 – 20.0%)	20.00	20.00
Declared subsequent to the financial year end:		
Second interim single tier dividend of 30.0% (2011 – 28.0%)	30.00	28.00
	50.00	48.00

Notes to the Financial Statements

42. Related Party Transactions

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

(i) Subsidiary Companies

Details of the subsidiary companies are shown in Note 13.

(ii) Associated Companies

Associated companies are those entities in which the Group has significant influence but not control, and where it generally holds interest of between 20% to 50% in the entities as disclosed in Note 14.

(iii) Key Management Personnel

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

(iv) Public Bank Group Officers' Retirement Benefits Fund

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

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

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

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

Notes to the Financial Statements

42. Related Party Transactions (Cont'd.)

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

	Key Management Personnel *		Companies in which Certain Directors have Substantial Interest		Public Bank Group Officers' Retirement Benefits Fund	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Group						
Income earned:						
Interest on loans, advances and financing	1	–	–	–	49,229	39,879
Commission income	–	–	33,427	30,328	–	–
Rental income	147	147	2,481	2,435	–	–
Brokerage income	9	5	–	2	–	–
	157	152	35,908	32,765	49,229	39,879
Expenditure incurred:						
Interest on deposits	100,592	82,308	5,914	6,478	–	–
Interest on debt securities issued	–	113	3,047	2,283	–	–
Rental of premises	–	–	590	587	21,104	19,546
Insurance premiums	–	–	26,121	26,506	–	–
	100,592	82,421	35,672	35,854	21,104	19,546

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

Notes to
the Financial Statements

42. Related Party Transactions (Cont'd.)

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

	Subsidiary Companies		Associated Companies		Key Management Personnel*		Companies in which Certain Directors have Substantial Interest		Public Bank Group Officers' Retirement Benefits Fund	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Income earned:										
Interest on interbank lending and money market instruments held	86,954	91,608	2,488	834	-	-	-	-	-	-
Interest on loans, advances and financing	7,933	7,537	-	-	1	-	-	-	49,229	39,879
Dividend income (Note 34)	853,080	724,677	4,783	9,692	-	-	-	-	-	-
Shared service costs charged (Note 35)	221,688	166,483	-	-	-	-	-	-	-	-
Commission income	56,237	62,959	-	-	-	-	33,114	30,037	-	-
Rental income	1,725	1,725	-	-	147	147	11	11	-	-
Others	2,520	2,336	-	-	-	-	-	-	-	-
	1,230,137	1,057,325	7,271	10,526	148	147	33,125	30,048	49,229	39,879
Expenditure incurred:										
Interest on deposits	97,832	125,886	115	73	100,577	82,295	5,445	6,445	-	-
Interest on debt securities issued	-	-	-	-	-	113	3,047	2,283	-	-
Rental of premises	25,725	24,464	-	-	-	-	590	587	20,517	19,030
Insurance premiums	-	-	-	-	-	-	21,109	21,900	-	-
Brokerage commission	13	42	-	-	-	-	-	-	-	-
Professional fees	155	2,205	-	-	-	-	-	-	-	-
	123,725	152,597	115	73	100,577	82,408	30,191	31,215	20,517	19,030

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

Included in the significant transactions of the Group and the Bank are interest on deposits paid to Directors of the Bank (including close members of their families) amounting to RM100,542,000 (2011 – RM82,197,000) and rental received from a Director of the Bank amounting to RM147,000 (2011 – RM147,000).

Notes to the Financial Statements

42. Related Party Transactions (Cont'd.)

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

Group	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
31 December 2012				
Amount due from related parties				
Interbank lending	129,914	–	–	–
Loans, advances and financing	–	25	–	1,078,887
Rental deposits	–	–	–	5,457
	129,914	25	–	1,084,344
Amount due to related parties				
Demand deposits	12,068	7,965	6,696	9
Term deposits	4,426	3,261,124	105,944	–
Debt securities issued	–	–	55,000	–
Interbank borrowing	189,868	–	–	–
Others	–	385	–	78
	206,362	3,269,474	167,640	87
Commitments and contingencies				
Commitments	–	–	–	926,114
	–	–	–	926,114

Notes to the Financial Statements

42. Related Party Transactions (Cont'd.)

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

Group	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
31 December 2011				
Amount due from related parties				
Interbank lending	129,615	–	–	–
Loans, advances and financing	–	–	–	1,574,667
Rental deposits	–	–	–	4,939
	129,615	–	–	1,579,606
Amount due to related parties				
Demand deposits	4,262	11,674	8,059	22
Term deposits	17,339	2,895,131	88,913	–
Debt securities issued	–	1,500	55,000	–
Interbank borrowing	26,069	–	–	–
Others	–	375	–	10
	47,670	2,908,680	151,972	32
Commitments and contingencies				
Commitments	–	–	–	430,333
	–	–	–	430,333

Notes to the Financial Statements

42. Related Party Transactions (Cont'd.)

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

Group	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
1 January 2011				
Amount due from related parties				
Interbank lending	51,472	–	–	–
Loans, advances and financing	–	–	–	850,440
Rental deposits	–	–	–	4,671
	51,472	–	–	855,111
Amount due to related parties				
Demand deposits	907	10,708	6,705	15
Term deposits	107,397	2,649,993	256,737	–
Debt securities issued	–	1,500	–	–
Others	–	435	–	23
	108,304	2,662,636	263,442	38
Commitments and contingencies				
Commitments	–	–	–	1,154,555
	–	–	–	1,154,555

Notes to the Financial Statements

42. Related Party Transactions (Cont'd.)

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

Bank	Subsidiary	Associated	Key	Companies	Public Bank
31 December 2012	Companies	Companies	Management	in which	Group
	RM'000	RM'000	Personnel*	Directors have	Officers'
			RM'000	Substantial	Retirement
				Interest	Benefits
				RM'000	Fund
					RM'000
Amount due from related parties					
Interbank lending	1,281,760	129,914	-	-	-
Loans, advances and financing	276,659	-	25	-	1,078,887
Money market instruments held	1,472,807	-	-	-	-
Dividend receivable (Note 10)	429,647	-	-	-	-
Rental deposits	34,839	-	-	-	5,297
Interest receivable	375	-	-	-	-
Others	5,782	-	-	-	-
	3,501,869	129,914	25	-	1,084,184
Amount due to related parties					
Demand deposits	84,622	12,068	7,903	6,696	9
Term deposits	2,585,313	4,426	3,260,263	86,344	-
Debt securities issued	-	-	-	55,000	-
Interbank borrowing	1,482,454	189,868	-	-	-
Interest payable	1,244	-	-	-	-
Others	13,894	-	-	-	78
	4,167,527	206,362	3,268,166	148,040	87
Commitments and contingencies					
Guarantees	136,395	-	-	-	-
Commitments	816,889	-	-	-	926,114
	953,284	-	-	-	926,114

Notes to the Financial Statements

42. Related Party Transactions (Cont'd.)

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

Bank	Subsidiary	Associated	Key	Companies	Public Bank
31 December 2011	Companies	Companies	Management	in which	Group
	RM'000	RM'000	Personnel*	Directors have	Officers'
			RM'000	Substantial	Retirement
				Interest	Benefits
				RM'000	Fund
					RM'000
Amount due from related parties					
Interbank lending	2,029,281	129,615	–	–	–
Loans, advances and financing	246,510	–	–	–	1,574,667
Money market instruments held	3,608,132	–	–	–	–
Dividend receivable (Note 10)	397,237	–	–	–	–
Rental deposits	32,728	–	–	–	4,810
Interest receivable	950	–	–	–	–
Others	8,556	–	–	–	–
	6,323,394	129,615	–	–	1,579,477
Amount due to related parties					
Demand deposits	35,318	4,262	11,457	8,059	22
Term deposits	3,264,081	17,339	2,894,398	88,913	–
Debt securities issued	–	–	1,500	55,000	–
Interbank borrowing	2,886,282	26,069	–	–	–
Interest payable	5,110	–	–	–	–
Others	12,263	–	–	–	10
	6,203,054	47,670	2,907,355	151,972	32
Commitments and contingencies					
Guarantees	12,879	–	–	–	–
Commitments	864,494	–	–	–	430,333
	877,373	–	–	–	430,333

Notes to the Financial Statements

42. Related Party Transactions (Cont'd.)

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

Bank	Subsidiary Companies RM'000	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
1 January 2011					
Amount due from related parties					
Interbank lending	780,998	51,472	–	–	–
Loans, advances and financing	221,876	–	–	–	850,440
Money market instruments held	2,862,476	–	–	–	–
Dividend receivable (Note 10)	399,536	–	–	–	–
Rental deposits	32,648	–	–	–	4,542
Interest receivable	226	–	–	–	–
Others	9,008	–	–	–	–
	4,306,768	51,472	–	–	854,982
Amount due to related parties					
Demand deposits	95,391	907	10,592	6,705	15
Term deposits	2,225,526	107,397	2,648,674	254,535	–
Debt securities issued	–	–	1,500	–	–
Interbank borrowing	3,716,182	–	–	–	–
Interest payable	6,088	–	–	–	–
Others	11,787	–	154	–	23
	6,054,974	108,304	2,660,920	261,240	38
Commitments and contingencies					
Guarantees	11,879	–	–	–	–
Commitments	875,716	–	–	–	1,154,555
	887,595	–	–	–	1,154,555

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

Included in the significant outstanding balances of the Group and the Bank are demand deposits and term deposits payable to Directors of the Bank (including close members of their families) amounting to RM3,266,268,000 (31 December 2011 – RM2,903,020,000; 1 January 2011 – RM2,653,871,000) and RM3,266,169,000 (31 December 2011 – RM2,902,939,000; 1 January 2011 – RM2,653,787,000) respectively.

Notes to the Financial Statements

42. Related Party Transactions (Cont'd.)

- (c) There were no loans granted to the Directors of the Bank. Loans made to other key management personnel of the Group and the Bank are on similar terms and conditions generally available to other employees within the Group.

None of the loans granted to key management personnel (2011 – Nil) are impaired.

- (d) Key Management Personnel Compensation

The remuneration of Directors and other members of key management during the year are as follows:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Short-term employee benefits				
Fees	5,131	4,701	2,174	1,755
Salary and other remuneration, including meeting allowances	38,185	31,473	32,324	25,981
Benefits-in-kind	590	569	134	144
Post-employment benefits	4,060	5,275	3,508	4,765
	47,966	42,018	38,140	32,645

Included in the total key management personnel compensation are:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors' remuneration including benefits-in-kind				
– Directors of the Bank	38,195	32,233	34,229	28,276

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

	PFHL ESOS	
	2012 '000	2011 '000
At 1 January/31 December	3,928	3,928

The share options were granted on the same terms and conditions as those offered to other employees of the Group (Note 24(b)).

Notes to the Financial Statements

43. Credit Transactions and Exposures with Connected Parties

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Outstanding credit exposures with connected parties	2,031,542	2,411,076	1,803,346
of which:			
Total credit exposure which is impaired or in default	466	142	658
Total credit exposures	205,379,208	180,418,706	154,614,268
Percentage of outstanding credit exposures to connected parties			
– as a proportion of total credit exposures	0.99%	1.34%	1.17%
– as a proportion of capital base	7.73%	9.49%	9.02%
– which is impaired or in default	0.02%	0.01%	0.04%
	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Outstanding credit exposures with connected parties	2,692,235	3,070,236	2,342,500
of which:			
Total credit exposure which is impaired or in default	341	138	658
Total credit exposures	183,958,523	160,274,445	137,802,923
Percentage of outstanding credit exposures to connected parties			
– as a proportion of total credit exposures	1.46%	1.92%	1.70%
– as a proportion of capital base	12.39%	14.59%	14.47%
– which is impaired or in default	0.01%	0.00%	0.03%

Notes to the Financial Statements

43. Credit Transactions and Exposures with Connected Parties (Cont'd.)

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

44. Financial Risk Management

Overview

The Group's business activities involve the use of financial instruments, including derivatives. These activities expose the Group to a variety of financial risks, mainly credit risk, market risk and liquidity risk.

The Group's financial risk management is underpinned by the Group's risk appetite and is subject to the Board of Directors' oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC"), the Operational Risk Management Committee ("ORMC") and the Internal Capital Adequacy Assessment Process ("ICAAP") Working Group.

Credit Risk

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

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk framework and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

Risk Management Approach

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing group-wide risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Lending to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer through the use of an internal credit risk rating scoresheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer are included in the loan application.

(b) Lending to Corporate and Institutional Customers

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

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the Group's investment policy also stipulates the minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. The investment policy is also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Board of Directors. As at the reporting date, the Group does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

(d) Counterparty Credit Risk on Derivative Financial Instruments

Counterparty credit risk ("CCR") on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, option or credit derivative contract defaults prior to maturity date of the contract and the Group, at the relevant time, has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes. The Group may also take conservative trading derivative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Unlike on-balance sheet financial instruments, the Group's financial loss is not the entire contracted principal value of the derivatives, but equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract. The Group will only suffer a loss if the contract carries a positive economic value at time of default.

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Over-the-Counter ("OTC") derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any excess over the threshold levels.

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

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

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

There have been no changes to the process for managing credit risk and the methods used to measure credit risk.

(i) Credit Risk Exposures and Credit Risk Concentration

The following table presents the Group's and the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group or the Bank would have to pay if the obligations for which the instruments are issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

By Industry Analysis

The analysis of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account any collateral held or other credit enhancements.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Group

31 December 2012

	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	10,797,964	7,837,987	-	-	-	-	-	-	18,635,951
Reverse repurchase agreements	8,158,506	-	-	-	-	-	-	-	8,158,506
Financial assets held-for-trading									
- Government securities and treasury bills	3,977,079	-	-	-	-	-	-	-	3,977,079
- Money market instruments	-	11,836,221	-	-	-	-	-	-	11,836,221
- Non-money market instruments	-	164,633	119,756	-	519,446	-	-	-	803,835
Derivative financial assets	-	370,465	-	-	-	-	-	-	370,465
Financial investments available-for-sale									
- Government securities and treasury bills	10,068,003	-	-	-	-	-	-	-	10,068,003
- Non-money market instruments	310,379	5,122,182	849,264	850,015	1,277	-	-	-	7,133,117
Financial investments held-to-maturity									
- Government securities and treasury bills	3,606,318	-	-	-	-	-	-	-	3,606,318
- Money market instruments	-	2,016,598	-	-	-	-	-	-	2,016,598
- Non-money market instruments	1,086	477,895	120,832	-	35,042	-	-	-	634,855
Gross loans, advances and financing									
- Retail loans/financing	-	-	-	-	-	59,867,383	-	-	59,867,383
- housing loans/financing	8	3,803	2,856,319	3,573,964	1,428,664	-	34,158,613	90	42,021,461
- hire purchase	-	-	-	-	-	-	-	1,604,211	1,604,211
- credit cards	-	-	-	-	-	-	-	-	-
- other loans/financing	40,316	90,305	4,489,142	20,525,995	10,962,388	2,734,142	215,052	27,364,207	66,421,547
- Corporate loans/financing	-	6,234,173	4,731,804	4,985,352	11,910,886	-	-	6,347	27,868,562
Statutory deposits with Central Banks	5,787,206	-	-	-	-	-	-	-	5,787,206
	42,746,865	34,154,262	13,167,117	29,935,326	24,857,703	62,601,525	34,373,665	28,974,855	270,811,318
Commitments and Contingencies									
Contingent liabilities	1,058	56,940	933,474	1,219,444	874,247	-	-	20,913	3,106,076
Commitments	507,277	1,658,776	3,403,666	10,603,259	8,669,993	11,328,311	27,826	12,639,110	48,838,218
	508,335	1,715,716	4,337,140	11,822,703	9,544,240	11,328,311	27,826	12,660,023	51,944,294
Total Credit Exposures	43,255,200	35,869,978	17,504,257	41,758,029	34,401,943	73,929,836	34,401,491	41,634,878	322,755,612

Notes to
the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Group

31 December 2011

On-Balance Sheet Exposures

	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
Cash and balances with banks	10,153,521	8,480,262	-	-	-	-	-	-	18,633,783
Reverse repurchase agreements	9,287,255	-	-	-	-	-	-	-	9,287,255
Financial assets held-for-trading									
- Government securities and treasury bills	911,024	-	-	-	-	-	-	-	911,024
- Money market instruments	-	9,445,212	-	-	-	-	-	-	9,445,212
- Non-money market instruments	62,700	86,630	50,621	59,896	40,742	-	-	-	300,589
Derivative financial assets	-	493,852	-	-	-	-	-	-	493,852
Financial investments available-for-sale									
- Government securities and treasury bills	9,676,810	-	-	-	-	-	-	-	9,676,810
- Non-money market instruments	79	4,975,481	902,664	1,162,469	1,930	-	-	-	7,042,623
Financial investments held-to-maturity									
- Government securities and treasury bills	2,774,459	-	-	-	-	-	-	-	2,774,459
- Money market instruments	-	4,292,275	-	-	-	-	-	-	4,292,275
- Non-money market instruments	1,086	383,623	103,268	34,579	39,943	-	-	-	562,499
Gross loans, advances and financing									
- Retail loans/financing									
- housing loans/financing	-	-	-	-	-	51,315,764	-	-	51,315,764
- hire purchase	90	4,216	2,392,396	3,227,639	1,257,455	-	31,845,845	138	38,727,779
- credit cards	-	-	-	-	-	-	-	1,522,267	1,522,267
- other loans/financing	23,296	41,196	3,986,837	18,572,656	9,606,043	2,603,478	211,819	24,605,076	59,650,401
- Corporate loans/financing	-	8,320,977	3,235,738	5,211,724	9,700,540	-	-	8,827	26,477,806
Statutory deposits with Central Banks	5,597,801	-	-	-	-	-	-	-	5,597,801
	38,488,121	36,523,724	10,671,524	28,268,963	20,646,653	53,919,242	32,057,664	26,136,308	246,712,199
Commitments and Contingencies									
Contingent liabilities	851	58,424	896,507	1,151,018	801,768	-	-	14,847	2,923,415
Commitments	511,204	1,496,307	3,413,467	10,207,718	6,636,285	8,868,399	25,234	11,776,661	42,935,275
	512,055	1,554,731	4,309,974	11,358,736	7,438,053	8,868,399	25,234	11,791,508	45,858,690
Total Credit Exposures	39,000,176	38,078,455	14,981,498	39,627,699	28,084,706	62,787,641	32,082,898	37,927,816	292,570,889

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Group

1 January 2011

On-Balance Sheet Exposures

	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
Cash and balances with banks	28,397,686	6,292,753	-	-	-	-	-	-	34,690,439
Reverse repurchase agreements	365,877	-	-	-	-	-	-	-	365,877
Financial assets held-for-trading									
- Government securities and treasury bills	588,045	-	-	-	-	-	-	-	588,045
- Money market instruments	-	5,622,472	-	-	-	-	-	-	5,622,472
- Non-money market instruments	63,454	20,242	868	-	65,539	-	-	-	150,103
Derivative financial assets	-	326,622	-	-	-	-	-	-	326,622
Financial investments available-for-sale									
- Government securities and treasury bills	10,667,433	-	-	-	-	-	-	-	10,667,433
- Non-money market instruments	15	4,832,608	1,150,690	1,199,811	1,727	-	-	-	7,184,851
Financial investments held-to-maturity									
- Government securities and treasury bills	3,002,148	-	-	-	-	-	-	-	3,002,148
- Money market instruments	-	1,502,893	-	-	-	-	-	-	1,502,893
- Non-money market instruments	1,086	584,068	69,109	5,068	65,245	-	-	-	724,576
Gross loans, advances and financing									
- Retail loans/financing	-	-	-	-	-	-	-	-	-
- housing loans/financing	158	4,007	1,746,743	3,013,575	1,146,431	43,891,024	-	-	43,891,024
- hire purchase	-	-	-	-	-	-	29,416,721	787	35,328,422
- credit cards	-	-	-	-	-	-	-	1,348,902	1,348,902
- other loans/financing	25,120	37,093	3,455,163	16,866,005	8,420,862	2,502,355	201,093	21,396,910	52,904,601
- Corporate loans/financing	-	6,378,593	1,463,390	5,400,730	9,822,778	-	-	5,642	23,071,123
Statutory deposits with Central Banks	1,612,575	-	-	-	-	-	-	-	1,612,575
	44,723,597	25,601,341	7,885,963	26,485,189	19,522,582	46,393,379	29,617,814	22,752,241	222,982,106
Commitments and Contingencies									
Contingent liabilities	625	246,745	655,102	1,106,575	884,005	-	-	18,867	2,911,919
Commitments	501,134	4,584,592	3,123,421	10,281,416	4,462,845	7,717,766	364	10,503,441	41,174,979
	501,759	4,831,337	3,778,523	11,387,991	5,346,850	7,717,766	364	10,522,308	44,086,898
Total Credit Exposures	45,225,356	30,432,678	11,664,486	37,873,180	24,869,432	54,111,145	29,618,178	33,274,549	267,069,004

Notes to
the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Bank

31 December 2012

On-Balance Sheet Exposures

	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
Cash and balances with banks	5,250,114	6,429,729	-	-	-	-	-	-	11,679,843
Reverse repurchase agreements	7,309,153	-	-	-	-	-	-	-	7,309,153
Financial assets held-for-trading	2,309,237	-	-	-	-	-	-	-	2,309,237
- Government securities and treasury bills	-	10,715,460	-	-	-	-	-	-	10,715,460
- Money market instruments	-	-	119,756	-	454,591	-	-	-	574,347
- Non-money market instruments	-	-	-	-	-	-	-	-	364,344
Derivative financial assets	-	364,344	-	-	-	-	-	-	-
Financial investments available-for-sale	9,514,672	-	-	-	-	-	-	-	9,514,672
- Government securities and treasury bills	310,289	4,566,268	731,857	495,881	1,277	-	-	-	6,105,572
- Non-money market instruments	2,886,670	-	-	-	-	-	-	-	2,886,670
Financial investments held-to-maturity	-	1,472,807	-	-	-	-	-	-	1,472,807
- Government securities and treasury bills	1,086	5,059	113,660	-	30,032	-	-	-	149,837
- Money market instruments	-	-	-	-	-	-	-	-	-
- Non-money market instruments	-	-	-	-	-	-	-	-	-
Gross loans and advances	-	-	-	-	-	-	-	-	-
- Retail loans	-	-	-	-	-	52,536,395	-	-	52,536,395
- housing loans	8	3,192	2,116,776	3,277,041	1,288,360	-	23,453,129	-	30,138,506
- hire purchase	-	-	-	-	-	-	-	1,594,106	1,594,106
- credit cards	-	-	-	-	-	-	-	-	-
- other loans	19,045	38,653	3,693,677	18,982,261	10,029,275	2,630,110	207,330	21,707,319	57,307,670
- Corporate loans	-	5,797,682	4,379,282	3,602,476	8,775,702	-	-	6,347	22,561,489
Statutory deposits with Central Banks	4,738,213	-	-	-	-	-	-	-	4,738,213
	32,338,487	29,393,194	11,155,008	26,357,659	20,579,237	55,166,505	23,660,459	23,307,772	221,958,321
Commitments and Contingencies									
Contingent liabilities	1,058	142,334	723,295	861,933	693,790	-	-	2,804	2,425,214
Commitments	507,277	2,066,901	2,027,757	10,054,185	8,269,229	10,144,166	21,997	12,130,083	45,221,595
	508,335	2,209,235	2,751,052	10,916,118	8,963,019	10,144,166	21,997	12,132,887	47,646,809
Total Credit Exposures	32,846,822	31,602,429	13,906,060	37,273,777	29,542,256	65,310,671	23,682,456	35,440,659	269,605,130

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

	Bank	Government and Central Banks	Financial Services	Transport and Business Services	Agriculture, Manufacturing, Wholesale & Retail Trade	Construction & Real Estate	Residential Mortgages	Motor Vehicle Financing	Other Consumer Loans	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2011										
On-Balance Sheet Exposures										
Cash and balances with banks		2,257,000	8,251,349	-	-	-	-	-	-	10,508,349
Reverse repurchase agreements		8,435,611	-	-	-	-	-	-	-	8,435,611
Financial assets held-for-trading										
- Government securities and treasury bills		911,024	-	-	-	-	-	-	-	911,024
- Money market instruments		-	9,494,719	-	-	-	-	-	-	9,494,719
- Non-money market instruments		-	-	808	-	-	-	-	-	808
Derivative financial assets		-	492,536	-	-	-	-	-	-	492,536
Financial investments available-for-sale										
- Government securities and treasury bills		8,274,983	-	-	-	-	-	-	-	8,274,983
- Non-money market instruments		-	4,434,461	769,308	807,259	1,930	-	-	-	6,012,958
Financial investments held-to-maturity										
- Government securities and treasury bills		2,064,741	-	-	-	-	-	-	-	2,064,741
- Money market instruments		-	4,864,817	-	-	-	-	-	-	4,864,817
- Non-money market instruments		1,086	5,059	98,211	-	39,943	-	-	-	144,299
Gross loans and advances										
- Retail loans		-	-	-	-	-	44,743,319	-	-	44,743,319
- housing loans		-	-	-	-	-	-	-	-	-
- hire purchase	63	-	3,373	1,735,001	2,888,730	1,107,527	-	20,946,269	-	26,680,963
- credit cards	-	-	-	-	-	-	-	-	1,512,099	1,512,099
- other loans	-	-	28,008	3,315,180	17,280,723	8,765,767	2,508,937	204,018	18,551,595	50,654,228
- Corporate loans	-	-	7,662,940	2,883,047	3,816,817	6,596,218	-	-	8,827	20,967,849
Statutory deposits with Central Banks		4,496,365	-	-	-	-	-	-	-	4,496,365
		26,440,873	35,237,262	8,801,555	24,793,529	16,511,385	47,252,256	21,150,287	20,072,521	200,259,668
Commitments and Contingencies										
Contingent liabilities		851	20,303	659,675	832,838	628,059	-	-	4,018	2,145,744
Commitments		511,204	1,756,177	2,179,888	9,774,053	6,341,282	8,022,155	22,684	11,324,014	39,931,457
		512,055	1,776,480	2,839,563	10,606,891	6,969,341	8,022,155	22,684	11,328,032	42,077,201
Total Credit Exposures		26,952,928	37,013,742	11,641,118	35,400,420	23,480,726	55,274,411	21,172,971	31,400,553	242,336,869

Notes to
the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

	Bank	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
1 January 2011										
On-Balance Sheet Exposures										
Cash and balances with banks		22,943,533	4,228,914	-	-	-	-	-	-	27,172,447
Reverse repurchase agreements		10,737	-	-	-	-	-	-	-	10,737
Financial assets held-for-trading										
- Government securities and treasury bills		488,242	-	-	-	-	-	-	-	488,242
- Money market instruments		-	5,323,626	-	-	-	-	-	-	5,323,626
- Non-money market instruments		-	-	868	-	-	-	-	-	868
Derivative financial assets		-	322,596	-	-	-	-	-	-	322,596
Financial investments available-for-sale										
- Government securities and treasury bills		7,873,452	-	-	-	-	-	-	-	7,873,452
- Money market instruments		-	272,599	-	-	-	-	-	-	272,599
- Non-money market instruments		-	4,308,028	1,018,597	795,076	1,727	-	-	-	6,123,428
Financial investments held-to-maturity										
- Government securities and treasury bills		2,405,049	-	-	-	-	-	-	-	2,405,049
- Money market instruments		-	2,689,862	-	-	-	-	-	-	2,689,862
- Non-money market instruments		1,086	5,059	64,052	46	65,245	-	-	-	135,488
Gross loans and advances										
- Retail loans										
- housing loans		-	-	-	-	-	38,382,386	-	-	38,382,386
- hire purchase		110	3,572	1,618,548	2,798,876	1,040,922	-	19,377,971	-	24,839,999
- credit cards		-	-	-	-	-	-	-	1,340,914	1,340,914
- other loans		-	25,619	2,882,829	15,736,860	7,710,766	2,415,581	190,225	15,824,807	44,786,687
- Corporate loans		-	5,870,210	1,111,073	4,587,532	6,218,739	-	-	5,642	17,793,196
Statutory deposits with Central Banks		1,106,330	-	-	-	-	-	-	-	1,106,330
		34,828,539	23,050,085	6,695,967	23,918,390	15,037,399	40,797,967	19,568,196	17,171,363	181,067,906
Commitments and Contingencies										
Contingent liabilities		625	95,604	655,102	818,491	878,336	-	-	11,296	2,459,454
Commitments		501,134	4,380,223	1,525,152	9,919,312	4,266,927	7,069,717	-	10,078,073	37,740,538
		501,759	4,475,827	2,180,254	10,737,803	5,145,263	7,069,717	-	10,089,369	40,199,992
Total Credit Exposures		35,330,298	27,525,912	8,876,221	34,656,193	20,182,662	47,867,684	19,568,196	27,260,732	221,267,898

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis

The analysis of credit concentration risk of financial assets of the Group and the Bank categorised by geographical distribution (i.e. based on the geographical location where the credit risk resides) is as follows:

Group	Malaysia	Hong Kong & China	Cambodia	Other Countries	Total
31 December 2012	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	14,520,266	2,172,043	680,870	1,262,772	18,635,951
Reverse repurchase agreements	8,158,410	–	–	96	8,158,506
Financial assets held-for-trading					
– Government securities and treasury bills	3,977,079	–	–	–	3,977,079
– Money market instruments	11,836,221	–	–	–	11,836,221
– Non-money market instruments	803,835	–	–	–	803,835
Derivative financial assets	241,176	316	–	128,973	370,465
Financial investments available-for-sale					
– Government securities and treasury bills	10,068,003	–	–	–	10,068,003
– Non-money market instruments	7,119,321	2,684	80	11,032	7,133,117
Financial investments held-to-maturity					
– Government securities and treasury bills	2,879,011	669,022	–	58,285	3,606,318
– Money market instruments	1,350,766	428,854	–	236,978	2,016,598
– Non-money market instruments	172,283	48,973	–	413,599	634,855
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	56,760,190	3,057,726	37,708	11,759	59,867,383
– hire purchase	40,317,950	1,686,720	7,220	9,571	42,021,461
– credit cards	1,594,106	5,732	4,373	–	1,604,211
– other loans/financing	62,247,593	1,756,188	2,027,796	389,970	66,421,547
– Corporate loans/financing	22,333,532	4,804,727	–	730,303	27,868,562
Statutory deposits with Central Banks	5,381,471	–	376,902	28,833	5,787,206
	249,761,213	14,632,985	3,134,949	3,282,171	270,811,318
Commitments and Contingencies					
Contingent liabilities	2,569,308	122,950	382,767	31,051	3,106,076
Commitments	47,188,288	1,319,093	296,281	34,556	48,838,218
	49,757,596	1,442,043	679,048	65,607	51,944,294
Total Credit Exposures	299,518,809	16,075,028	3,813,997	3,347,778	322,755,612

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Group 31 December 2011	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	14,390,682	2,389,180	507,687	1,346,234	18,633,783
Reverse repurchase agreements	9,272,886	—	—	14,369	9,287,255
Financial assets held-for-trading					
– Government securities and treasury bills	911,024	—	—	—	911,024
– Money market instruments	9,445,212	—	—	—	9,445,212
– Non-money market instruments	300,589	—	—	—	300,589
Derivative financial assets	353,826	2,563	—	137,463	493,852
Financial investments available-for-sale					
– Government securities and treasury bills	9,676,810	—	—	—	9,676,810
– Non-money market instruments	7,031,989	2,780	79	7,775	7,042,623
Financial investments held-to-maturity					
– Government securities and treasury bills	2,067,123	608,774	—	98,562	2,774,459
– Money market instruments	3,866,399	123,279	—	302,597	4,292,275
– Non-money market instruments	199,122	41,866	—	321,511	562,499
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	47,910,465	3,360,273	34,373	10,653	51,315,764
– hire purchase	36,995,526	1,707,787	14,756	9,710	38,727,779
– credit cards	1,512,099	6,850	3,318	—	1,522,267
– other loans/financing	55,666,191	1,762,815	1,888,443	332,952	59,650,401
– Corporate loans/financing	21,048,568	5,061,492	—	367,746	26,477,806
Statutory deposits with Central Banks	5,250,936	—	322,380	24,485	5,597,801
	225,899,447	15,067,659	2,771,036	2,974,057	246,712,199
Commitments and Contingencies					
Contingent liabilities	2,402,832	145,702	344,384	30,497	2,923,415
Commitments	41,153,641	1,430,707	315,983	34,944	42,935,275
	43,556,473	1,576,409	660,367	65,441	45,858,690
Total Credit Exposures	269,455,920	16,644,068	3,431,403	3,039,498	292,570,889

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Group	Malaysia	Hong Kong & China	Cambodia	Other	Total
1 January 2011	RM'000	RM'000	RM'000	Countries RM'000	RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	30,487,145	2,162,429	505,966	1,534,899	34,690,439
Reverse repurchase agreements	355,140	–	–	10,737	365,877
Financial assets held-for-trading					
– Government securities and treasury bills	588,045	–	–	–	588,045
– Money market instruments	5,622,472	–	–	–	5,622,472
– Non-money market instruments	150,103	–	–	–	150,103
Derivative financial assets	62,311	11,366	–	252,945	326,622
Financial investments available-for-sale					
– Government securities and treasury bills	10,667,433	–	–	–	10,667,433
– Non-money market instruments	7,179,304	2,694	15	2,838	7,184,851
Financial investments held-to-maturity					
– Government securities and treasury bills	2,486,720	435,418	–	80,010	3,002,148
– Money market instruments	1,444,385	934	–	57,574	1,502,893
– Non-money market instruments	145,567	–	–	579,009	724,576
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	40,890,669	2,961,043	31,161	8,151	43,891,024
– hire purchase	33,486,157	1,810,869	23,479	7,917	35,328,422
– credit cards	1,340,914	6,222	1,766	–	1,348,902
– other loans/financing	49,231,483	1,693,655	1,713,093	266,370	52,904,601
– Corporate loans/financing	18,085,213	4,584,429	–	401,481	23,071,123
Statutory deposits with Central Banks	1,277,681	–	317,714	17,180	1,612,575
	203,500,742	13,669,059	2,593,194	3,219,111	222,982,106
Commitments and Contingencies					
Contingent liabilities	2,427,806	156,531	303,192	24,390	2,911,919
Commitments	38,472,535	2,302,920	303,265	96,259	41,174,979
	40,900,341	2,459,451	606,457	120,649	44,086,898
Total Credit Exposures	244,401,083	16,128,510	3,199,651	3,339,760	267,069,004

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Bank	Malaysia	Hong Kong	Cambodia	Other	Total
31 December 2012	RM'000	& China	RM'000	Countries	RM'000
		RM'000		RM'000	
On-Balance Sheet Exposures					
Cash and balances with banks	9,603,831	816,420	–	1,259,592	11,679,843
Reverse repurchase agreements	7,309,057	–	–	96	7,309,153
Financial assets held-for-trading					
– Government securities and treasury bills	2,309,237	–	–	–	2,309,237
– Money market instruments	10,715,460	–	–	–	10,715,460
– Non-money market instruments	574,347	–	–	–	574,347
Derivative financial assets	235,181	190	–	128,973	364,344
Financial investments available-for-sale					
– Government securities and treasury bills	9,514,672	–	–	–	9,514,672
– Non-money market instruments	6,105,523	–	–	49	6,105,572
Financial investments held-to-maturity					
– Government securities and treasury bills	2,828,385	–	–	58,285	2,886,670
– Money market instruments	1,472,807	–	–	–	1,472,807
– Non-money market instruments	149,837	–	–	–	149,837
Gross loans and advances					
– Retail loans					
– housing loans	52,524,636	–	–	11,759	52,536,395
– hire purchase	30,128,935	–	–	9,571	30,138,506
– credit cards	1,594,106	–	–	–	1,594,106
– other loans	56,942,971	–	–	364,699	57,307,670
– Corporate loans	21,335,676	532,830	–	692,983	22,561,489
Statutory deposits with Central Banks	4,709,380	–	–	28,833	4,738,213
	218,054,041	1,349,440	–	2,554,840	221,958,321
Commitments and Contingencies					
Contingent liabilities	2,262,356	11,835	124,559	26,464	2,425,214
Commitments	44,732,611	458,700	–	30,284	45,221,595
	46,994,967	470,535	124,559	56,748	47,646,809
Total Credit Exposures	265,049,008	1,819,975	124,559	2,611,588	269,605,130

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Bank	Malaysia	Hong Kong	Cambodia	Other	Total
31 December 2011	RM'000	& China	RM'000	Countries	RM'000
		RM'000		RM'000	
On-Balance Sheet Exposures					
Cash and balances with banks	8,390,944	772,124	–	1,345,281	10,508,349
Reverse repurchase agreements	8,421,242	–	–	14,369	8,435,611
Financial assets held-for-trading					
– Government securities and treasury bills	911,024	–	–	–	911,024
– Money market instruments	9,494,719	–	–	–	9,494,719
– Non-money market instruments	808	–	–	–	808
Derivative financial assets	353,826	1,247	–	137,463	492,536
Financial investments available-for-sale					
– Government securities and treasury bills	8,274,983	–	–	–	8,274,983
– Non-money market instruments	6,012,901	–	–	57	6,012,958
Financial investments held-to-maturity					
– Government securities and treasury bills	1,966,179	–	–	98,562	2,064,741
– Money market instruments	4,864,817	–	–	–	4,864,817
– Non-money market instruments	144,299	–	–	–	144,299
Gross loans and advances					
– Retail loans					
– housing loans	44,732,666	–	–	10,653	44,743,319
– hire purchase	26,671,253	–	–	9,710	26,680,963
– credit cards	1,512,099	–	–	–	1,512,099
– other loans	50,350,186	–	–	304,042	50,654,228
– Corporate loans	20,098,282	551,794	–	317,773	20,967,849
Statutory deposits with Central Banks	4,471,880	–	–	24,485	4,496,365
	196,672,108	1,325,165	–	2,262,395	200,259,668
Commitments and Contingencies					
Contingent liabilities	2,107,130	12,258	621	25,735	2,145,744
Commitments	39,424,322	476,213	–	30,922	39,931,457
	41,531,452	488,471	621	56,657	42,077,201
Total Credit Exposures	238,203,560	1,813,636	621	2,319,052	242,336,869

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Bank	Malaysia	Hong Kong	Cambodia	Other	Total
1 January 2011	RM'000	& China	RM'000	Countries	RM'000
		RM'000		RM'000	
On-Balance Sheet Exposures					
Cash and balances with banks	25,816,135	234,752	–	1,121,560	27,172,447
Reverse repurchase agreements	–	–	–	10,737	10,737
Financial assets held-for-trading					
– Government securities and treasury bills	488,242	–	–	–	488,242
– Money market instruments	5,323,626	–	–	–	5,323,626
– Non-money market instruments	868	–	–	–	868
Derivative financial assets	62,311	11,318	–	248,967	322,596
Financial investments available-for-sale					
– Government securities and treasury bills	7,873,452	–	–	–	7,873,452
– Money market instruments	272,599	–	–	–	272,599
– Non-money market instruments	6,123,428	–	–	–	6,123,428
Financial investments held-to-maturity					
– Government securities and treasury bills	2,325,039	–	–	80,010	2,405,049
– Money market instruments	2,689,862	–	–	–	2,689,862
– Non-money market instruments	135,488	–	–	–	135,488
Gross loans and advances					
– Retail loans					
– housing loans	38,374,235	–	–	8,151	38,382,386
– hire purchase	24,832,082	–	–	7,917	24,839,999
– credit cards	1,340,914	–	–	–	1,340,914
– other loans	44,549,431	–	–	237,256	44,786,687
– Corporate loans	17,129,705	356,563	–	306,928	17,793,196
Statutory deposits with Central Banks	1,089,150	–	–	17,180	1,106,330
	178,426,567	602,633	–	2,038,706	181,067,906
Commitments and Contingencies					
Contingent liabilities	2,423,185	11,879	–	24,390	2,459,454
Commitments	37,186,334	462,375	–	91,829	37,740,538
	39,609,519	474,254	–	116,219	40,199,992
Total Credit Exposures	218,036,086	1,076,887	–	2,154,925	221,267,898

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

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

Gross loans, advances and financing are analysed as follows:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Neither past due nor impaired	174,605,825	155,451,804	134,883,902
Past due but not impaired	21,803,253	20,712,556	19,875,893
Impaired	1,374,086	1,529,657	1,784,277
	197,783,164	177,694,017	156,544,072

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Neither past due nor impaired	145,889,967	127,036,038	110,018,054
Past due but not impaired	17,233,539	16,372,186	15,723,807
Impaired	1,014,660	1,150,234	1,401,321
	164,138,166	144,558,458	127,143,182

(a) Neither Past Due Nor Impaired

Gross loans, advances and financing which are neither past due nor impaired are identified into the following internally classified grades:

- “Good Grade” refers to loans, advances and financing which are neither past due nor impaired in the last six months and have never undergone any rescheduling or restructuring exercise previously.
- “Satisfactory Grade” refers to loans, advances and financing which may have been past due or impaired during the last six months or have undergone a rescheduling or restructuring exercise previously.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(a) Neither Past Due Nor Impaired (Cont'd.)

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

Group	Good RM'000	Satisfactory RM'000	Total RM'000
31 December 2012			
Retail loans/financing			
– housing loans/financing	47,052,239	4,729,975	51,782,214
– hire purchase	27,379,390	4,336,792	31,716,182
– credit cards	949,108	402,059	1,351,167
– other loans/financing	58,261,500	3,989,530	62,251,030
Corporate loans/financing	25,021,110	2,484,122	27,505,232
	158,663,347	15,942,478	174,605,825
31 December 2011			
Retail loans/financing			
– housing loans/financing	39,548,652	4,320,137	43,868,789
– hire purchase	24,650,664	4,389,984	29,040,648
– credit cards	899,015	364,036	1,263,051
– other loans/financing	51,356,887	4,153,602	55,510,489
Corporate loans/financing	23,932,893	1,835,934	25,768,827
	140,388,111	15,063,693	155,451,804
1 January 2011			
Retail loans/financing			
– housing loans/financing	31,739,228	4,780,714	36,519,942
– hire purchase	21,603,635	4,968,184	26,571,819
– credit cards	784,750	300,972	1,085,722
– other loans/financing	43,313,871	4,762,377	48,076,248
Corporate loans/financing	20,668,331	1,961,840	22,630,171
	118,109,815	16,774,087	134,883,902

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(a) Neither Past Due Nor Impaired (Cont'd.)

The credit quality of gross loans, advances and financing which is neither past due nor impaired is analysed as follows: (Cont'd.)

Bank	Good RM'000	Satisfactory RM'000	Total RM'000
31 December 2012			
Retail loans			
– housing loans	41,228,087	4,193,844	45,421,931
– hire purchase	19,711,318	3,149,387	22,860,705
– credit cards	940,096	401,516	1,341,612
– other loans	50,641,456	3,290,826	53,932,282
Corporate loans	20,045,437	2,288,000	22,333,437
	132,566,394	13,323,573	145,889,967
31 December 2011			
Retail loans			
– housing loans	34,331,550	3,773,694	38,105,244
– hire purchase	17,091,856	2,893,190	19,985,046
– credit cards	889,851	363,495	1,253,346
– other loans	44,142,860	3,202,103	47,344,963
Corporate loans	18,824,662	1,522,777	20,347,439
	115,280,779	11,755,259	127,036,038
1 January 2011			
Retail loans			
– housing loans	27,428,816	4,285,071	31,713,887
– hire purchase	15,168,358	3,699,855	18,868,213
– credit cards	778,347	299,783	1,078,130
– other loans	36,854,708	3,936,639	40,791,347
Corporate loans	15,750,327	1,816,150	17,566,477
	95,980,556	14,037,498	110,018,054

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(b) Past Due But Not Impaired

Past due but not impaired loans, advances and financing are loans/financing where the customer has failed to make a principal or interest/profit payment when contractually due, and includes loans/financing which are due one or more days after the contractual due date but less than three (3) months.

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

Group	1 day to < 1 month RM'000	1 month to < 2 months RM'000	2 months to < 3 months RM'000	Total RM'000
31 December 2012				
Retail loans/financing				
– housing loans/financing	4,349,386	2,455,635	857,761	7,662,782
– hire purchase	5,966,493	3,324,963	770,753	10,062,209
– credit cards	134,768	68,478	26,377	229,623
– other loans/financing	2,276,387	1,113,493	248,862	3,638,742
Corporate loans/financing	172,138	3,214	34,545	209,897
	12,899,172	6,965,783	1,938,298	21,803,253
31 December 2011				
Retail loans/financing				
– housing loans/financing	3,832,483	2,238,316	906,303	6,977,102
– hire purchase	5,699,364	3,083,356	692,617	9,475,337
– credit cards	142,801	68,879	25,252	236,932
– other loans/financing	2,083,441	1,086,496	337,342	3,507,279
Corporate loans/financing	508,444	7,252	210	515,906
	12,266,533	6,484,299	1,961,724	20,712,556
1 January 2011				
Retail loans/financing				
– housing loans/financing	3,764,421	2,159,629	941,477	6,865,527
– hire purchase	5,277,407	2,708,855	595,913	8,582,175
– credit cards	154,321	56,888	24,681	235,890
– other loans/financing	2,472,329	1,167,686	311,085	3,951,100
Corporate loans/financing	233,026	6,247	1,928	241,201
	11,901,504	6,099,305	1,875,084	19,875,893

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(b) Past Due But Not Impaired (Cont'd.)

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

Bank	1 day to < 1 month RM'000	1 month to < 2 months RM'000	2 months to < 3 months RM'000	Total RM'000
31 December 2012				
Retail loans				
– housing loans	3,791,196	2,187,485	767,274	6,745,955
– hire purchase	4,282,226	2,308,408	518,242	7,108,876
– credit cards	134,568	68,451	26,166	229,185
– other loans	1,898,138	935,215	198,097	3,031,450
Corporate loans	115,748	2,325	–	118,073
	10,221,876	5,501,884	1,509,779	17,233,539
31 December 2011				
Retail loans				
– housing loans	3,401,075	2,003,670	820,806	6,225,551
– hire purchase	3,988,151	2,112,949	450,921	6,552,021
– credit cards	142,595	68,868	25,033	236,496
– other loans	1,746,255	884,506	236,384	2,867,145
Corporate loans	485,376	5,597	–	490,973
	9,763,452	5,075,590	1,533,144	16,372,186
1 January 2011				
Retail loans				
– housing loans	3,407,304	1,956,769	854,564	6,218,637
– hire purchase	3,704,150	1,791,891	369,724	5,865,765
– credit cards	154,189	56,720	24,585	235,494
– other loans	2,102,649	945,264	255,894	3,303,807
Corporate loans	92,984	5,825	1,295	100,104
	9,461,276	4,756,469	1,506,062	15,723,807

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing

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

- (i) principal or interest/profit or both are past due for three (3) months or more;
- (ii) where a loan/financing is in arrears for less than three (3) months, the loan/financing exhibits indications of significant credit weaknesses; or
- (iii) where an impaired loan/financing has been rescheduled or restructured, the loan/financing continues to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

In addition, loans/financing that are considered individually significant, the Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan/financing is impaired. The criteria that the Group uses to determine that there is objective evidence of impairment include:

- (i) any significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest/profit or principal payments;
- (iii) high probability of bankruptcy or other financial reorganisation of the borrower;
- (iv) the viability of the customer's business operations and its capability to trade successfully out of financial difficulties and to generate sufficient cash flow to service its debt obligations; and
- (v) any adverse news or developments affecting the local economic conditions or business environment of the borrower which will adversely affect the repayment capacity of the borrower.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

The breakdown of the gross amount of loans, advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Group and the Bank as security are as follows:

		of which Individually Assessed as Impaired		
		Gross Individually Assessed Impaired Loans/ Financing RM'000	Individual Assessment Allowance RM'000	Fair Value of Collateral RM'000
Group				
31 December 2012				
Retail loans/financing				
– housing loans/financing	422,387	4,127	64	5,946
– hire purchase	243,070	1,933	1,219	5,353
– credit cards	23,421	–	–	–
– other loans/financing	531,775	271,712	125,608	279,984
Corporate loans/financing	153,433	153,433	75,104	111,928
	1,374,086	431,205	201,995	403,211
31 December 2011				
Retail loans/financing				
– housing loans/financing	469,873	5,549	1,083	5,219
– hire purchase	211,794	2,656	1,344	2,433
– credit cards	22,284	–	–	–
– other loans/financing	632,633	351,830	132,986	375,373
Corporate loans/financing	193,073	193,073	109,783	142,569
	1,529,657	553,108	245,196	525,594
1 January 2011				
Retail loans/financing				
– housing loans/financing	505,555	619	188	841
– hire purchase	174,428	3,803	2,199	3,669
– credit cards	27,290	–	–	–
– other loans/financing	877,253	564,537	156,356	554,246
Corporate loans/financing	199,751	199,751	106,191	149,088
	1,784,277	768,710	264,934	707,844

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

The breakdown of the gross amount of loans, advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Group and the Bank as security are as follows: (Cont'd.)

		of which Individually Assessed as Impaired		
	Total Gross Impaired Loans and Advances RM'000	Gross Individually Assessed Impaired Loans RM'000	Individual Assessment Allowance RM'000	Fair Value of Collateral RM'000
Bank				
31 December 2012				
Retail loans				
– housing loans	368,509	3,240	–	3,998
– hire purchase	168,925	–	–	–
– credit cards	23,309	–	–	–
– other loans	343,938	123,872	48,952	130,331
Corporate loans	109,979	109,979	61,122	83,938
	1,014,660	237,091	110,074	218,267
31 December 2011				
Retail loans				
– housing loans	412,524	4,520	1,080	4,190
– hire purchase	143,896	–	–	–
– credit cards	22,257	–	–	–
– other loans	442,120	204,790	56,107	230,610
Corporate loans	129,437	129,437	77,561	111,445
	1,150,234	338,747	134,748	346,245
1 January 2011				
Retail loans				
– housing loans	449,862	–	–	–
– hire purchase	106,021	–	–	–
– credit cards	27,290	–	–	–
– other loans	691,533	416,672	90,691	430,020
Corporate loans	126,615	126,615	75,655	110,212
	1,401,321	543,287	166,346	540,232

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral

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

- for residential mortgages – charges over residential properties
- for commercial property loans – charges over the properties being financed
- for motor vehicle financing – ownership claims over the vehicles financed
- for share margin financing – pledges over securities from listed exchange
- for other loans – charges over business assets such as premises, inventories, trade receivables or deposits

- (a) Estimates of fair value of collateral for gross loans, advances and financing are based on the value the collateral assessed at the time of loan application, and are updated whenever there is new information available or when a loan/financing is classified as impaired. Estimates of fair value of collateral for other financial assets are based on available, quoted and observable market prices or dealer price quotations.

Group	Outstanding Balance RM'000	Fair Value of Collateral RM'000
31 December 2012		
Reverse repurchase agreements	8,158,506	8,371,213
Derivative financial assets #	370,465	195,407
Gross loans, advances and financing	197,783,164	307,150,465
	206,312,135	315,717,085
31 December 2011		
Reverse repurchase agreements	9,287,255	9,575,356
Derivative financial assets #	493,852	296,290
Gross loans, advances and financing	177,694,017	269,299,598
	187,475,124	279,171,244
1 January 2011		
Reverse repurchase agreements	365,877	384,290
Derivative financial assets #	326,622	107,858
Gross loans, advances and financing	156,544,072	236,993,602
	157,236,571	237,485,750

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

- (a) Estimates of fair value of collateral for gross loans, advances and financing are based on the value the collateral assessed at the time of loan application, and are updated whenever there is new information available or when a loan/financing is classified as impaired. Estimates of fair value of collateral for other financial assets are based on available, quoted and observable market prices or dealer price quotations. (Cont'd.)

Bank	Outstanding Balance RM'000	Fair Value of Collateral RM'000
31 December 2012		
Reverse repurchase agreements	7,309,153	7,502,535
Derivative financial assets #	364,344	195,407
Gross loans and advances	164,138,166	266,989,592
	171,811,663	274,687,534
31 December 2011		
Reverse repurchase agreements	8,435,611	8,708,692
Derivative financial assets #	492,536	296,273
Gross loans and advances	144,558,458	231,836,821
	153,486,605	240,841,786
1 January 2011		
Reverse repurchase agreements	10,737	10,737
Derivative financial assets #	322,596	107,844
Gross loans and advances	127,143,182	203,459,934
	127,476,515	203,578,515

For derivative instruments which are subject to master netting agreements and are settled on a net basis, the collateral values represent the cash collateral received on the net positive marked-to-market position with the same counterparty.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(b) The collateral held for gross loans, advances and financing are further analysed as follows:

Group	Outstanding Balance RM'000	Fair Value of Collateral RM'000
31 December 2012		
Neither past due nor impaired		
Retail loans/financing		
– housing loans/financing	51,782,214	82,968,413
– hire purchase	31,716,182	42,360,964
– credit cards	1,351,167	60,963
– other loans/financing	62,251,030	116,542,550
Corporate loans/financing	27,505,232	34,134,977
	174,605,825	276,067,867
Past due but not impaired		
Retail loans/financing		
– housing loans/financing	7,662,782	11,116,837
– hire purchase	10,062,209	11,657,955
– credit cards	229,623	767
– other loans/financing	3,638,742	6,249,470
Corporate loans/financing	209,897	352,360
	21,803,253	29,377,389
Impaired		
Retail loans/financing		
– housing loans/financing	422,387	617,850
– hire purchase	243,070	260,100
– credit cards	23,421	–
– other loans/financing	531,775	715,329
Corporate loans/financing	153,433	111,930
	1,374,086	1,705,209
Total gross loans, advances and financing		
Retail loans/financing		
– housing loans/financing	59,867,383	94,703,100
– hire purchase	42,021,461	54,279,019
– credit cards	1,604,211	61,730
– other loans/financing	66,421,547	123,507,349
Corporate loans/financing	27,868,562	34,599,267
	197,783,164	307,150,465

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(b) The collateral held for gross loans, advances and financing are further analysed as follows: (Cont'd.)

Group	Outstanding	Fair Value
31 December 2011	Balance	of Collateral
	RM'000	RM'000
Neither past due nor impaired		
Retail loans/financing		
– housing loans/financing	43,868,789	69,282,836
– hire purchase	29,040,648	39,403,625
– credit cards	1,263,051	65,860
– other loans/financing	55,510,489	102,710,495
Corporate loans/financing	25,768,827	27,590,226
	155,451,804	239,053,042
Past due but not impaired		
Retail loans/financing		
– housing loans/financing	6,977,102	10,149,697
– hire purchase	9,475,337	11,726,814
– credit cards	236,932	536
– other loans/financing	3,507,279	5,913,153
Corporate loans/financing	515,906	567,874
	20,712,556	28,358,074
Impaired		
Retail loans/financing		
– housing loans/financing	469,873	657,866
– hire purchase	211,794	251,350
– credit cards	22,284	–
– other loans/financing	632,633	836,696
Corporate loans/financing	193,073	142,570
	1,529,657	1,888,482
Total gross loans, advances and financing		
Retail loans/financing		
– housing loans/financing	51,315,764	80,090,399
– hire purchase	38,727,779	51,381,789
– credit cards	1,522,267	66,396
– other loans/financing	59,650,401	109,460,344
Corporate loans/financing	26,477,806	28,300,670
	177,694,017	269,299,598

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(b) The collateral held for gross loans, advances and financing are further analysed as follows: (Cont'd.)

Group	Outstanding Balance RM'000	Fair Value of Collateral RM'000
1 January 2011		
Neither past due nor impaired		
Retail loans/financing		
– housing loans/financing	36,519,942	56,711,352
– hire purchase	26,571,819	35,895,061
– credit cards	1,085,722	69,959
– other loans/financing	48,076,248	90,346,974
Corporate loans/financing	22,630,171	25,361,798
	134,883,902	208,385,144
Past due but not impaired		
Retail loans/financing		
– housing loans/financing	6,865,527	9,525,172
– hire purchase	8,582,175	10,496,140
– credit cards	235,890	694
– other loans/financing	3,951,100	6,083,563
Corporate loans/financing	241,201	393,416
	19,875,893	26,498,985
Impaired		
Retail loans/financing		
– housing loans/financing	505,555	677,061
– hire purchase	174,428	197,198
– credit cards	27,290	–
– other loans/financing	877,253	1,084,684
Corporate loans/financing	199,751	150,530
	1,784,277	2,109,473
Total gross loans, advances and financing		
Retail loans/financing		
– housing loans/financing	43,891,024	66,913,585
– hire purchase	35,328,422	46,588,399
– credit cards	1,348,902	70,653
– other loans/financing	52,904,601	97,515,221
Corporate loans/financing	23,071,123	25,905,744
	156,544,072	236,993,602

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(b) The collateral held for gross loans, advances and financing are further analysed as follows: (Cont'd.)

Bank	Outstanding	Fair Value
31 December 2012	Balance	of Collateral
	RM'000	RM'000
Neither past due nor impaired		
Retail loans		
– housing loans	45,421,931	74,988,093
– hire purchase	22,860,705	31,525,263
– credit cards	1,341,612	60,963
– other loans	53,932,282	106,510,884
Corporate loans	22,333,437	28,800,494
	145,889,967	241,885,697
Past due but not impaired		
Retail loans		
– housing loans	6,745,955	9,835,637
– hire purchase	7,108,876	8,342,530
– credit cards	229,185	767
– other loans	3,031,450	5,408,931
Corporate loans	118,073	153,586
	17,233,539	23,741,451
Impaired		
Retail loans		
– housing loans	368,509	544,711
– hire purchase	168,925	176,826
– credit cards	23,309	–
– other loans	343,938	556,967
Corporate loans	109,979	83,940
	1,014,660	1,362,444
Total gross loans and advances		
Retail loans		
– housing loans	52,536,395	85,368,441
– hire purchase	30,138,506	40,044,619
– credit cards	1,594,106	61,730
– other loans	57,307,670	112,476,782
Corporate loans	22,561,489	29,038,020
	164,138,166	266,989,592

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(b) The collateral held for gross loans, advances and financing are further analysed as follows: (Cont'd.)

Bank	Outstanding	Fair Value
31 December 2011	Balance	of Collateral
	RM'000	RM'000
Neither past due nor impaired		
Retail loans		
– housing loans	38,105,244	62,378,171
– hire purchase	19,985,046	28,240,491
– credit cards	1,253,346	65,860
– other loans	47,344,963	94,215,502
Corporate loans	20,347,439	22,458,980
	127,036,038	207,359,004
Past due but not impaired		
Retail loans		
– housing loans	6,225,551	9,110,088
– hire purchase	6,552,021	8,227,698
– credit cards	236,496	536
– other loans	2,867,145	5,047,393
Corporate loans	490,973	543,493
	16,372,186	22,929,208
Impaired		
Retail loans		
– housing loans	412,524	583,583
– hire purchase	143,896	173,220
– credit cards	22,257	–
– other loans	442,120	680,360
Corporate loans	129,437	111,446
	1,150,234	1,548,609
Total gross loans and advances		
Retail loans		
– housing loans	44,743,319	72,071,842
– hire purchase	26,680,963	36,641,409
– credit cards	1,512,099	66,396
– other loans	50,654,228	99,943,255
Corporate loans	20,967,849	23,113,919
	144,558,458	231,836,821

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(b) The collateral held for gross loans, advances and financing are further analysed as follows: (Cont'd.)

Bank	Outstanding	Fair Value
1 January 2011	Balance	of Collateral
	RM'000	RM'000
Neither past due nor impaired		
Retail loans		
– housing loans	31,713,887	50,986,697
– hire purchase	18,868,213	26,470,269
– credit cards	1,078,130	69,959
– other loans	40,791,347	82,074,999
Corporate loans	17,566,477	20,766,819
	110,018,054	180,368,743
Past due but not impaired		
Retail loans		
– housing loans	6,218,637	8,646,009
– hire purchase	5,865,765	7,358,587
– credit cards	235,494	694
– other loans	3,303,807	5,103,211
Corporate loans	100,104	208,018
	15,723,807	21,316,519
Impaired		
Retail loans		
– housing loans	449,862	600,992
– hire purchase	106,021	124,039
– credit cards	27,290	–
– other loans	691,533	937,987
Corporate loans	126,615	111,654
	1,401,321	1,774,672
Total gross loans and advances		
Retail loans		
– housing loans	38,382,386	60,233,698
– hire purchase	24,839,999	33,952,895
– credit cards	1,340,914	70,653
– other loans	44,786,687	88,116,197
Corporate loans	17,793,196	21,086,491
	127,143,182	203,459,934

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(c) Repossessed Collateral

Assets obtained by taking possession of collateral held as security against loans, advances and financing, and held as at the end of the financial year are as follows:

		Group	
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Residential properties	52,306	72,313	82,319
Non-residential properties	30,366	37,216	43,220
	82,672	109,529	125,539

		Bank	
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Residential properties	50,676	70,029	80,111
Non-residential properties	29,845	36,623	43,067
	80,521	106,652	123,178

Reposessed collateral are sold as soon as practicable. Repossessed collateral are recognised in other assets on the statements of financial position. The Group and the Bank do not occupy reposessed properties for its business use.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies:

Financial Assets Held-for-trading

Group	Money Market Instruments			Non-money Market Instruments – Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
31 December 2012						
AAA+ to AA-	–	7,564,363	7,564,363	–	–	–
A+ to A-	–	4,221,811	4,221,811	–	–	–
P-1	–	–	–	–	802,956	802,956
Unrated	–	50,047	50,047	–	–	–
	–	11,836,221	11,836,221	–	802,956	802,956
31 December 2011						
AAA+ to AA-	–	6,812,185	6,812,185	–	113,648	113,648
A+ to A-	–	2,603,088	2,603,088	–	–	–
P-1	–	–	–	–	186,133	186,133
Unrated	–	29,939	29,939	–	–	–
	–	9,445,212	9,445,212	–	299,781	299,781
1 January 2011						
AAA+ to AA-	–	3,563,206	3,563,206	–	83,696	83,696
A+ to A-	–	1,909,026	1,909,026	–	–	–
Unrated	–	150,240	150,240	–	65,539	65,539
	–	5,622,472	5,622,472	–	149,235	149,235

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies: (Cont'd.)

Financial Assets Held-for-trading (Cont'd.)

	Money Market Instruments			Non-money Market Instruments – Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Bank						
31 December 2012						
AAA+ to AA-	–	6,817,649	6,817,649	–	–	–
A+ to A-	–	3,847,764	3,847,764	–	–	–
P-1	–	–	–	–	573,468	573,468
Unrated	–	50,047	50,047	–	–	–
	–	10,715,460	10,715,460	–	573,468	573,468
31 December 2011						
AAA+ to AA-	–	6,315,421	6,315,421	–	–	–
A+ to A-	–	2,348,624	2,348,624	–	–	–
Unrated	–	830,674	830,674	–	–	–
	–	9,494,719	9,494,719	–	–	–
1 January 2011						
AAA+ to AA-	–	3,264,360	3,264,360	–	–	–
A+ to A-	–	1,909,026	1,909,026	–	–	–
Unrated	–	150,240	150,240	–	–	–
	–	5,323,626	5,323,626	–	–	–

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies: (Cont'd.)

Financial Investments Available-for-sale

Group	Money Market Instruments			Non-money Market Instruments – Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
31 December 2012						
AAA+ to AA-	–	–	–	–	7,986	7,986
A+ to A-	–	–	–	260,944	–	260,944
BBB+ to BBB-	–	–	–	1,388,603	–	1,388,603
Lower than BBB-	–	–	–	46,834	–	46,834
Unrated	–	–	–	–	310,298	310,298
	–	–	–	1,696,381	318,284	2,014,665
31 December 2011						
AAA+ to AA-	–	–	–	–	15,641	15,641
A+ to A-	–	–	–	561,676	–	561,676
BBB+ to BBB-	–	–	–	1,440,375	–	1,440,375
Lower than BBB-	–	–	–	44,468	–	44,468
Unrated	–	–	–	–	10,054	10,054
	–	–	–	2,046,519	25,695	2,072,214
1 January 2011						
AAA+ to AA-	–	–	–	–	15,575	15,575
A+ to A-	–	–	–	953,499	–	953,499
BBB+ to BBB-	–	–	–	1,332,044	–	1,332,044
Lower than BBB-	–	–	–	47,439	–	47,439
Unrated	–	–	–	–	10,049	10,049
	–	–	–	2,332,982	25,624	2,358,606

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies: (Cont'd.)

Financial Investments Available-for-sale (Cont'd.)

	Money Market Instruments			Non-money Market Instruments – Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Bank						
31 December 2012						
AAA+ to AA-	–	–	–	–	7,986	7,986
A+ to A-	–	–	–	150,070	–	150,070
BBB+ to BBB-	–	–	–	1,039,725	–	1,039,725
Lower than BBB-	–	–	–	46,834	–	46,834
Unrated	–	–	–	–	310,288	310,288
	–	–	–	1,236,629	318,274	1,554,903
31 December 2011						
AAA+ to AA-	–	–	–	–	15,641	15,641
A+ to A-	–	–	–	453,294	–	453,294
BBB+ to BBB-	–	–	–	1,078,523	–	1,078,523
Lower than BBB-	–	–	–	44,468	–	44,468
	–	–	–	1,576,285	15,641	1,591,926
1 January 2011						
AAA+ to AA-	–	–	–	–	15,575	15,575
A+ to A-	–	–	–	731,645	–	731,645
BBB+ to BBB-	–	–	–	1,038,692	–	1,038,692
Lower than BBB-	–	–	–	47,439	–	47,439
Unrated	–	272,599	272,599	–	–	–
	–	272,599	272,599	1,817,776	15,575	1,833,351

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies: (Cont'd.)

Financial Investments Held-to-maturity

Group	Money Market Instruments			Non-money Market Instruments – Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
31 December 2012						
AAA+ to AA-	92,312	1,129,660	1,221,972	982	156,025	157,007
A+ to A-	287,511	180,611	468,122	160,178	–	160,178
P-1	286,009	–	286,009	301,413	–	301,413
Unrated	–	40,495	40,495	–	16,257	16,257
	665,832	1,350,766	2,016,598	462,573	172,282	634,855
31 December 2011						
AAA+ to AA-	315,338	3,611,592	3,926,930	1,009	153,309	154,318
A+ to A-	110,538	234,736	345,274	–	–	–
P-1	–	–	–	362,368	29,557	391,925
Unrated	–	20,071	20,071	–	16,256	16,256
	425,876	3,866,399	4,292,275	363,377	199,122	562,499
1 January 2011						
AAA+ to AA-	58,508	983,166	1,041,674	523,300	134,321	657,621
A+ to A-	–	210,214	210,214	55,709	–	55,709
Unrated	–	251,005	251,005	–	11,200	11,200
Defaulted *	–	–	–	–	46	46
	58,508	1,444,385	1,502,893	579,009	145,567	724,576

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies: (Cont'd.)

Financial Investments Held-to-maturity (Cont'd.)

	Money Market Instruments			Non-money Market Instruments – Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Bank						
31 December 2012						
AAA+ to AA-	–	1,472,807	1,472,807	–	138,637	138,637
Unrated	–	–	–	–	11,200	11,200
	–	1,472,807	1,472,807	–	149,837	149,837
31 December 2011						
AAA+ to AA-	–	4,861,317	4,861,317	–	133,100	133,100
A+ to A-	–	3,500	3,500	–	–	–
Unrated	–	–	–	–	11,199	11,199
	–	4,864,817	4,864,817	–	144,299	144,299
1 January 2011						
AAA+ to AA-	–	2,589,878	2,589,878	–	124,242	124,242
A+ to A-	–	99,984	99,984	–	–	–
Unrated	–	–	–	–	11,200	11,200
Defaulted *	–	–	–	–	46	46
	–	2,689,862	2,689,862	–	135,488	135,488

* Stated net of accumulated impairment losses

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

The ratings shown for money market instruments (e.g. negotiable instruments of deposit and bankers' acceptances) are based on the ratings assigned to the respective financial institution issuing the financial instruments. The ratings shown for debt securities are based on the ratings assigned to the specific debt issuance.

As at the reporting date, none of the financial investments above are past due.

Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic banking activities of the Group includes rate of return risk and displaced commercial risk.

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risk remains within established risk tolerance level. The market risk of the Group is identified into traded market risk and non-traded market risk.

Types of Market Risk

(i) Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are primarily originated by the treasury operations.

Risk Management Approach

The Group's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. The Group's traded market risk for its interest rate/rate of return sensitive fixed income instruments is measured by the present value of 1 basis point change ("PV01") and independently reviewed by the Compliance Unit on a daily basis against approved market risk limits and report on limit excesses. In addition, the Compliance Unit also conducts independent verification on the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board of Directors. The trading book positions and limits are regularly reported to the ALCO. The Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board of Directors.

During the financial year, the Group's and the Bank's traded market risk exposures on fixed income securities as measured by PV01, averaged at RM354,000 (2011 – RM209,000) and RM310,000 (2011 – RM172,000) respectively. The composition of the Group's and the Bank's trading portfolio is set out in Note 5 to the financial statements.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk

The Group's core non-traded market risks are interest rate/rate of return risk in the banking book, displaced commercial risk in the Group's Islamic banking business, foreign exchange risk and equity risk.

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")

IRR/RoRBB is the risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in the interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in the interest rate/rate of return sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge the interest rate risk is set out in Note 6 to the financial statements.

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

- (i) The following tables indicate the effective interest rate/rate of return at the reporting date and the Group's and the Bank's sensitivity to the interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits.

		Non trading book										Effective interest rate/rate of return %
		Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000
Group 31 December 2012	ASSETS											
	Cash and balances with banks	14,623,476	1,637,145	158,722	-	-	-	-	-	2,216,608	-	18,635,951
	Reverse repurchase agreements	2,309,299	1,500,229	3,499,625	-	-	-	-	-	-	849,353	8,158,506
	Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	16,617,135	16,617,135
	Financial investments available-for-sale	1,940,785	3,590,877	3,098,219	2,112,313	821,437	7,985	-	421,162	5,208,342	-	17,201,120
	Financial investments held-to-maturity	852,441	1,533,791	1,609,454	1,075,587	314,055	326,622	274,675	270,060	1,086	-	6,257,771
	Loans, advances and financing											
	- non-impaired	137,666,627	8,882,816	10,189,734	9,554,502	7,963,005	6,124,798	4,888,438	11,139,158	-	-	196,409,078
	- impaired *	-	-	-	-	-	-	-	-	(357,475)	-	(357,475)
	Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	11,675,103	27,690	11,702,793
TOTAL ASSETS		157,392,628	17,144,858	18,555,754	12,742,402	9,098,497	6,459,405	5,163,113	11,830,380	18,743,664	17,494,178	274,624,879

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

		Non trading book										Effective interest rate/rate of return %
		Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 12 months RM'000	> 1 – 2 years RM'000	> 2 – 3 years RM'000	> 3 – 4 years RM'000	> 4 – 5 years RM'000	Over 5 years RM'000	Non-interest/profit sensitive RM'000	Trading book RM'000	
Group	31 December 2012											
LIABILITIES AND EQUITY												
	Deposits from customers	122,276,502	40,895,877	33,387,912	264,942	18,932	5,582	1,714	-	28,190,864	-	225,042,325
	Deposits from banks	7,223,118	3,320,518	1,332,603	116,302	78,820	62,199	72,757	-	642,996	-	12,946,313
	Bills and acceptances payable	809,825	1,380,768	30,824	-	-	-	-	-	827,404	-	3,048,821
	Recourse obligations on loans and financing sold to Cagamas	468	581	444	-	-	-	500,003	-	-	-	501,496
	Debt securities issued and other borrowed funds	864,911	-	1,400,000	473,000	-	1,811,600	3,000,000	2,088,000	309,342	-	9,946,853
	Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	4,528,494	63,790	4,592,284
	Total Liabilities	131,174,824	45,597,744	36,151,783	854,244	97,752	1,879,381	3,574,474	2,088,000	34,499,100	63,790	255,981,092
	Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	17,943,923	-	17,943,923
	Non-controlling interests	-	-	-	-	-	-	-	-	699,864	-	699,864
TOTAL LIABILITIES AND EQUITY												
		131,174,824	45,597,744	36,151,783	854,244	97,752	1,879,381	3,574,474	2,088,000	53,142,887	63,790	274,624,879
	On-balance sheet interest/profit sensitivity gap	26,217,804	(28,452,886)	(17,596,029)	11,888,158	9,000,745	4,580,024	1,588,639	9,742,380	(34,399,223)	17,430,388	-
	Off-balance sheet interest/profit sensitivity gap (interest/profit rate swaps)	1,149,670	(4,911,690)	1,552,000	(909,210)	(718,630)	1,311,600	1,000,000	1,526,260	-	-	-
TOTAL INTEREST/PROFIT SENSITIVITY GAP												
		27,367,474	(33,364,576)	(16,044,029)	10,978,948	8,282,115	5,891,624	2,588,639	11,268,640	(34,399,223)	17,430,388	-

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans, advances and financing.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

		Non trading book							Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
		Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000				
Group	31 December 2011											
ASSETS												
Cash and balances with banks	14,700,775	1,870,931	185,769	-	-	-	-	-	1,876,308	-	18,633,783	2.71
Reverse repurchase agreements	3,309,144	5,126,467	-	-	-	-	-	-	-	851,644	9,287,255	2.99
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	10,656,825	10,656,825	3.20
Financial investments available-for-sale	1,982,033	1,529,631	5,462,773	43,072	1,744,443	766,186	15,641	108,383	5,067,271	-	16,719,433	2.75
Financial investments held-to-maturity	2,718,681	2,200,029	1,163,089	367,866	764,552	231,806	171,940	10,284	1,086	-	7,629,233	3.09
Loans, advances and financing												
- non-impaired	119,978,352	8,733,820	9,668,639	9,676,408	7,352,758	5,679,249	4,077,534	10,997,600	-	-	176,164,360	5.67
- impaired *	-	-	-	-	-	-	-	-	(211,583)	-	(211,583)	-
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	11,562,249	117,918	11,680,167	-
TOTAL ASSETS	142,688,885	19,460,878	16,480,270	10,087,346	9,861,753	6,677,241	4,265,115	11,116,267	18,295,331	11,626,387	250,559,473	

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

		Non trading book							Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
		Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000				
Group	31 December 2011											
LIABILITIES AND EQUITY												
Deposits from customers	112,943,600	30,019,972	32,283,490	129,824	13,872	15,723	6,463	-	24,957,581	-	200,370,525	2.67
Deposits from banks	9,427,699	3,003,697	2,546,066	204,604	135,908	89,054	64,784	-	334,930	-	15,806,732	2.86
Bills and acceptances payable	555,736	703,033	33,417	-	-	-	-	-	803,149	-	2,095,335	3.24
Recourse obligations on loans sold to Cagamas	1,369	2,738	7,217	465	-	-	-	-	-	-	11,789	4.22
Debt securities issued and other borrowed funds	122,365	446,626	1,595,993	1,400,000	473,000	-	1,834,950	5,088,000	356,899	-	11,317,833	3.65
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	4,487,091	50,198	4,537,289	-
Total Liabilities	123,050,769	34,176,066	36,466,173	1,734,893	622,780	104,777	1,906,197	5,088,000	30,939,650	50,198	234,199,503	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	15,722,486	-	15,722,486	-
Non-controlling interests	-	-	-	-	-	-	-	-	697,484	-	697,484	-
TOTAL LIABILITIES AND EQUITY	123,050,769	34,176,066	36,466,173	1,734,893	622,780	104,777	1,906,197	5,088,000	47,359,620	50,198	250,559,473	
On-balance sheet interest/ profit sensitivity gap	19,638,116	(14,715,188)	(19,985,903)	8,352,453	9,238,973	6,572,464	2,358,918	6,028,267	(29,064,289)	11,576,189	-	
Off-balance sheet interest/ profit sensitivity gap (interest rate swaps)	913,096	(6,400,021)	(708,902)	1,552,000	(937,814)	(746,066)	1,334,950	4,992,757	-	-	-	
TOTAL INTEREST/PROFIT SENSITIVITY GAP	20,551,212	(21,115,209)	(20,694,805)	9,904,453	8,301,159	5,826,398	3,693,868	11,021,024	(29,064,289)	11,576,189	-	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans, advances and financing.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

	Non trading book										Effective interest rate/rate of return %
	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 12 months RM'000	> 1 – 2 years RM'000	> 2 – 3 years RM'000	> 3 – 4 years RM'000	> 4 – 5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000
Group											
1 January 2011											
ASSETS											
Cash and balances with banks	30,539,997	2,495,700	107,600	-	-	-	-	-	1,547,142	-	34,690,439
Reverse repurchase agreements	10,737	-	-	-	-	-	-	-	-	355,140	365,877
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	6,360,620	6,360,620
Financial investments available-for-sale	3,022,835	2,784,189	4,564,408	300,633	42,948	1,334,342	741,430	115,944	4,945,555	-	17,852,284
Financial investments held-to-maturity	986,027	964,958	1,485,915	664,092	347,538	599,745	134,839	45,371	1,132	-	5,229,617
Loans, advances and financing											
- non-impaired	101,810,775	7,693,242	9,268,805	9,053,927	7,462,739	5,060,930	4,497,391	9,911,986	-	-	154,759,795
- impaired *	-	-	-	-	-	-	-	-	104,370	-	104,370
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	7,519,329	105,430	7,624,759
TOTAL ASSETS	136,370,371	13,938,089	15,426,728	10,018,652	7,853,225	6,995,017	5,373,660	10,073,301	14,117,528	6,821,190	226,987,761

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

	Non trading book										Non- interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000						
Group														
1 January 2011														
LIABILITIES AND EQUITY														
Deposits from customers	92,554,997	31,477,938	30,051,704	142,642	23,458	6,401	9,081	-	22,605,898	-	176,872,119	2.34		
Deposits from banks	9,566,939	9,142,193	1,810,708	182,768	231,806	157,477	89,128	-	146,457	-	21,327,476	2.43		
Bills and acceptances payable	482,503	971,928	106,167	-	-	-	-	-	748,238	-	2,308,836	2.99		
Recourse obligations on loans sold to Cagamas	2,093	1,518	6,587	5,797	324	-	-	-	-	-	16,319	4.25		
Debt securities issued and other borrowed funds	898,352	-	-	1,233,000	1,400,000	473,000	-	3,904,500	186,028	-	8,094,880	3.45		
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	3,835,188	189,070	4,024,258	-		
Total Liabilities	103,504,884	41,593,577	31,975,166	1,564,207	1,655,588	636,878	98,209	3,904,500	27,521,809	189,070	212,643,888			
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	13,691,685	-	13,691,685	-		
Non-controlling interests	-	-	-	-	-	-	-	-	652,188	-	652,188	-		
TOTAL LIABILITIES AND EQUITY	103,504,884	41,593,577	31,975,166	1,564,207	1,655,588	636,878	98,209	3,904,500	41,865,682	189,070	226,987,761			
On-balance sheet interest/ profit sensitivity gap	32,865,487	(27,655,488)	(16,548,438)	8,454,445	6,197,637	6,358,139	5,275,451	6,188,801	(27,748,154)	6,632,120	-			
Off-balance sheet interest/ profit sensitivity gap (interest rate swaps)	764,500	(4,214,405)	(1,187,012)	912,492	1,552,000	(915,213)	(724,387)	3,812,025	-	-	-			
TOTAL INTEREST/PROFIT SENSITIVITY GAP	33,629,987	(31,869,893)	(17,735,450)	9,366,937	7,749,637	5,442,926	4,551,064	9,980,826	(27,748,154)	6,632,120	-			

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans, advances and financing.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 12 months RM'000	> 1 – 2 years RM'000	> 2 – 3 years RM'000	> 3 – 4 years RM'000	> 4 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Bank												
31 December 2012												
ASSETS												
Cash and balances with banks	8,667,310	1,441,133	-	-	-	-	-	-	1,571,400	-	11,679,843	2.67
Reverse repurchase agreements	2,309,299	1,500,229	3,499,625	-	-	-	-	-	-	-	7,309,153	3.04
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	13,599,044	13,599,044	3.18
Financial investments available-for-sale	1,940,785	3,590,877	3,098,219	1,442,380	589,160	7,985	-	310,289	4,640,549	-	15,620,244	2.89
Financial investments held-to-maturity	9,050	401,792	398,258	1,059,656	297,424	328,622	274,675	1,740,751	1,086	-	4,509,314	3.66
Loans and advances												
- non-impaired	123,112,909	7,006,764	7,114,457	6,741,558	5,611,151	4,227,326	3,447,028	5,862,313	-	-	163,123,506	5.33
- impaired *	-	-	-	-	-	-	-	-	(154,898)	-	(154,898)	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	12,669,947	27,564	12,697,511	-
TOTAL ASSETS	136,039,353	13,940,795	14,110,559	9,243,594	6,497,735	4,561,933	3,721,703	7,913,353	18,728,084	13,626,608	228,383,717	

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

		Non trading book										Effective interest rate %
		Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 12 months RM'000	> 1 – 2 years RM'000	> 2 – 3 years RM'000	> 3 – 4 years RM'000	> 4 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000	Total RM'000
Bank												
31 December 2012												
LIABILITIES AND EQUITY												
Deposits from customers	97,206,812	32,483,509	27,210,946	100,888	16,435	3,716	1,689	-	-	24,664,449	-	181,688,444
Deposits from banks	8,954,433	3,423,897	1,268,939	116,302	78,820	62,199	72,757	-	-	431,431	-	14,408,778
Bills and acceptances payable	867,069	1,380,768	58,076	-	-	-	-	-	-	826,779	-	3,132,692
Recourse obligations on loans sold to Cagamas	468	581	444	-	-	-	-	-	-	-	-	1,493
Debt securities issued and other borrowed funds	-	-	1,400,000	473,000	-	1,811,600	3,000,000	2,088,000	309,342	-	-	9,081,942
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	-	3,182,339	65,097	3,247,436
Total Liabilities	107,028,782	37,288,755	29,938,405	690,190	95,255	1,877,515	3,074,446	2,088,000	29,414,340	65,097	211,560,785	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	-	16,822,932	-	16,822,932
TOTAL LIABILITIES AND EQUITY	107,028,782	37,288,755	29,938,405	690,190	95,255	1,877,515	3,074,446	2,088,000	46,237,272	65,097	228,383,717	
On-balance sheet interest sensitivity gap	29,010,571	(23,347,960)	(15,827,846)	8,553,404	6,402,480	2,684,418	647,257	5,825,353	(27,509,188)	13,561,511	-	-
Off-balance sheet interest sensitivity gap (interest rate swaps)	242,640	(6,417,490)	1,552,000	(802,180)	(504,570)	1,311,600	1,200,000	3,418,000	-	-	-	-
TOTAL INTEREST SENSITIVITY GAP	29,253,211	(29,765,450)	(14,275,846)	7,751,224	5,897,910	3,996,018	1,847,257	9,243,353	(27,509,188)	13,561,511	-	-

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans and advances.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

		Non trading book										Effective interest rate %
		Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 12 months RM'000	> 1 – 2 years RM'000	> 2 – 3 years RM'000	> 3 – 4 years RM'000	> 4 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000	Total RM'000
Bank												
31 December 2011												
ASSETS												
Cash and balances with banks	6,836,401	2,294,575	102,032	-	-	-	-	-	-	1,275,341	-	10,508,349
Reverse repurchase agreements	3,309,144	5,126,467	-	-	-	-	-	-	-	-	-	8,435,611
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	-	10,406,551	10,406,551
Financial investments available-for-sale	1,527,458	995,688	5,452,729	43,072	1,208,392	527,077	15,641	-	-	4,517,884	-	14,287,941
Financial investments held-to-maturity	1,116,813	1,488,092	1,528,864	346,606	759,495	231,806	171,940	1,429,155	1,086	-	-	7,073,857
Loans and advances												
- non-impaired	106,931,806	6,573,383	6,573,870	6,835,474	4,983,251	3,772,220	2,576,942	5,161,278	-	-	-	143,408,224
- impaired*	-	-	-	-	-	-	-	-	-	(22,726)	-	(22,726)
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	-	12,345,650	119,400	12,465,050
TOTAL ASSETS	119,721,622	16,478,205	13,657,495	7,225,152	6,951,138	4,531,103	2,764,523	6,590,433	18,117,235	10,525,951	206,562,857	

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 12 months RM'000	> 1 – 2 years RM'000	> 2 – 3 years RM'000	> 3 – 4 years RM'000	> 4 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Bank												
31 December 2011												
LIABILITIES AND EQUITY												
Deposits from customers	90,155,951	20,103,113	27,350,696	83,125	9,722	15,086	4,390	-	21,662,356	-	159,384,439	2.80
Deposits from banks	11,900,951	2,974,050	1,028,483	204,604	135,908	89,054	64,784	-	319,515	-	16,717,349	2.25
Bills and acceptances payable	555,811	703,033	33,417	-	-	-	-	-	802,815	-	2,095,076	3.24
Recourse obligations on loans sold to Cagamas	1,369	2,738	7,217	465	-	-	-	-	-	-	11,789	4.22
Debt securities issued and other borrowed funds	-	-	1,269,900	1,400,000	473,000	-	1,834,950	5,088,000	356,899	-	10,422,749	3.84
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	3,118,066	56,101	3,174,167	-
Total Liabilities	102,614,082	23,782,934	29,689,713	1,688,194	618,630	104,140	1,904,124	5,088,000	26,259,651	56,101	191,805,569	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	14,757,288	-	14,757,288	-
TOTAL LIABILITIES AND EQUITY	102,614,082	23,782,934	29,689,713	1,688,194	618,630	104,140	1,904,124	5,088,000	41,016,939	56,101	206,562,857	
On-balance sheet interest sensitivity gap	17,107,540	(7,304,729)	(16,032,218)	5,536,958	6,332,508	4,426,963	860,399	1,502,433	(22,899,704)	10,469,850	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	801,980	(6,717,496)	(708,902)	1,552,000	(826,698)	(523,834)	1,334,950	5,088,000	-	-	-	
TOTAL INTEREST SENSITIVITY GAP	17,909,520	(14,022,225)	(16,741,120)	7,088,958	5,505,810	3,903,129	2,195,349	6,590,433	(22,899,704)	10,469,850	-	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans and advances.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 12 months RM'000	> 1 – 2 years RM'000	> 2 – 3 years RM'000	> 3 – 4 years RM'000	> 4 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Bank												
1 January 2011												
ASSETS												
Cash and balances with banks	23,415,833	2,451,011	29,807	-	-	-	-	-	1,275,796	-	27,172,447	2.69
Reverse repurchase agreements	10,737	-	-	-	-	-	-	-	-	-	10,737	8.27
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	5,812,736	5,812,736	2.93
Financial investments available-for-sale	2,004,129	2,266,508	3,525,727	280,508	42,948	1,212,858	511,833	15,575	4,409,393	-	14,269,479	2.52
Financial investments held-to-maturity	503,115	528,230	1,652,282	1,444,433	326,309	594,688	134,839	45,371	1,132	-	5,230,399	3.36
Loans and advances												
- non-impaired	90,620,306	5,465,720	6,474,888	6,386,257	5,387,044	3,398,137	3,210,892	4,798,617	-	-	125,741,861	5.56
- impaired *	-	-	-	-	-	-	-	-	207,576	-	207,576	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	8,520,303	109,765	8,630,068	-
TOTAL ASSETS	116,554,120	10,711,469	11,682,704	8,111,198	5,756,301	5,205,683	3,857,564	4,859,563	14,414,200	5,922,501	187,075,303	

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

	Non trading book										Effective interest rate %
	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 2 years	> 2 – 3 years	> 3 – 4 years	> 4 – 5 years	Over 5 years	Non- interest sensitive	Trading book	Total
Bank 1 January 2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES AND EQUITY											
Deposits from customers	73,720,431	21,205,735	25,941,293	80,245	15,515	4,947	8,299	-	19,812,801	-	140,789,266
Deposits from banks	8,373,409	10,658,843	1,152,097	148,292	231,806	157,477	89,129	-	258,728	-	21,089,781
Bills and acceptances payable	590,488	1,010,006	106,167	-	-	-	-	-	743,345	-	2,450,006
Recourse obligations on loans sold to Cagamas	2,093	1,518	6,587	5,797	324	-	-	-	-	-	16,319
Debt securities issued and other borrowed funds	-	-	-	1,233,000	1,400,000	473,000	-	3,904,500	186,028	-	7,196,528
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	2,373,814	211,397	2,585,211
Total Liabilities	82,686,421	32,876,102	27,206,144	1,467,334	1,647,645	635,424	97,428	3,904,500	23,374,716	211,397	174,107,111
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	12,968,192	-	12,968,192
TOTAL LIABILITIES AND EQUITY	82,686,421	32,876,102	27,206,144	1,467,334	1,647,645	635,424	97,428	3,904,500	36,342,908	211,397	187,075,303
On-balance sheet interest sensitivity gap	33,667,699	(22,164,633)	(15,523,440)	6,643,864	4,108,656	4,570,259	3,760,136	955,063	(21,928,708)	5,711,104	-
Off-balance sheet interest sensitivity gap (interest rate swaps)	656,613	(4,522,655)	(1,187,012)	912,492	1,552,000	(807,326)	(508,612)	3,904,500	-	-	-
TOTAL INTEREST SENSITIVITY GAP	34,524,312	(26,687,288)	(16,710,452)	7,556,356	5,660,656	3,762,933	3,251,524	4,859,563	(21,928,708)	5,711,104	-

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans and advances.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

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

The following tables present the projected Group's and Bank's sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's and Bank's interest rate/rate of return sensitivity gap as at the reporting date. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

	2012		2011	
	-100 bps	+100 bps	-100 bps	+100 bps
	Increase/(Decrease)			
	RM'000	RM'000	RM'000	RM'000
Group				
Impact on NII/NPI	(163,807)	65,846	(109,495)	21,556
Impact on EVE	914,718	(561,732)	1,261,842	(1,275,985)
Bank				
Impact on NII/NPI	(152,923)	95,750	(121,790)	69,085
Impact on EVE	718,105	(460,639)	817,462	(814,397)

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate/rate of return risk. In reality, treasury operations seek to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes that the interest rate/rate of return of all maturities move by the same amount and, therefore, does not reflect the potential impact on the NII/NPI and EVE of some rates changing while others remain unchanged. The projection also assumes constant statements of financial position and that all positions run to maturity.

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

- (iii) Stress testing is conducted semi-annually to determine the adequacy of capital in meeting the impact of extreme interest rate/rate of return movements on the Group's and the Bank's statements of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of the interest rate/rate of return risk.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(b) Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the risk of Public Islamic Bank Berhad ("PIBB") bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the Investment Account Holders ("IAH") based on the contractual profit sharing ratio. PIBB does not have Profit Sharing Investment Accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

PIBB uses the Profit Equalisation Reserve ("PER") to manage its DCR and is governed by the Profit Equalisation Reserve Framework. PER is created by setting aside an amount out of the total gross income before distribution to the IAH and to PIBB. The amount of PER set aside is shared by both the IAH and PIBB. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, PIBB may employ the following techniques to ensure that the IAH receive market rate of return:

- (i) to forgo part or all of PIBB's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or
- (ii) to transfer PIBB's current year profits or retained earnings to the IAH on the basis of hibah.

(c) Foreign Exchange Risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, overseas branches and associated companies, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

Risk Management Approach

The Group manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position ("NOP") limit is set for overall NOP as well as NOP limits for individual currencies. The decision to hedge the Group's net investment in its overseas operations is based on its potential economic benefit and is periodically assessed by the ALCO.

- (i) The following tables summarise the assets, liabilities and net open position by currency as at the reporting date, which are mainly in Ringgit Malaysia, Hong Kong Dollars and United States Dollars. Other currencies mainly include exposure to Euro, Australian Dollars, Chinese Renminbi, New Zealand Dollars, Sri Lanka Rupees, Great Britain Pounds and Japanese Yen.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Group 31 December 2012	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	13,376,770	1,513,184	1,811,102	1,934,895	18,635,951
Reverse repurchase agreements	8,158,410	–	–	96	8,158,506
Financial assets held-for-trading	16,617,135	–	–	–	16,617,135
Derivative financial assets	261,565	125	108,775	–	370,465
Financial investments available-for-sale	15,467,969	2,684	1,719,434	11,033	17,201,120
Financial investments held-to-maturity	4,402,056	1,025,062	370,602	460,051	6,257,771
Loans, advances and financing	180,981,769	10,339,737	4,165,223	564,874	196,051,603
Other assets	1,149,978	52,469	11,530	792,942	2,006,919
Statutory deposits with Central Banks	5,381,471	–	404,050	1,685	5,787,206
Deferred tax assets	48,784	14,443	–	–	63,227
Investment in associated companies	37,314	–	113,896	–	151,210
Investment properties	1,950	85,936	–	–	87,886
Property and equipment	925,120	295,931	86,304	2,178	1,309,533
Intangible assets	769,251	1,157,096	–	–	1,926,347
TOTAL ASSETS	247,579,542	14,486,667	8,790,916	3,767,754	274,624,879
LIABILITIES					
Deposits from customers	201,651,865	9,110,993	10,559,889	3,719,578	225,042,325
Deposits from banks	7,576,775	837,234	4,435,304	–	12,849,313
Bills and acceptances payable	3,048,199	–	425	197	3,048,821
Recourse obligations on loans and financing sold to Cagamas	501,496	–	–	–	501,496
Derivative financial liabilities	100,337	53	133,174	–	233,564
Debt securities issued and other borrowed funds	8,362,123	864,911	719,819	–	9,946,853
Other liabilities	2,548,557	99,830	111,660	810,479	3,570,526
Provision for tax expense and zakat	704,358	7,330	25,460	3,135	740,283
Deferred tax liabilities	38,224	9,687	–	–	47,911
TOTAL LIABILITIES	224,531,934	10,930,038	15,985,731	4,533,389	255,981,092
Non-controlling interests	–	686,608	13,256	–	699,864
On-Balance Sheet Open Position	23,047,608	2,870,021	(7,208,071)	(765,635)	17,943,923
Off-Balance Sheet Open Position	(5,291,370)	(1,753,265)	5,835,877	1,208,758	–
NET OPEN POSITION	17,756,238	1,116,756	(1,372,194)	443,123	17,943,923

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Group 31 December 2011	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	13,389,538	1,208,476	2,429,787	1,605,982	18,633,783
Reverse repurchase agreements	9,272,886	–	–	14,369	9,287,255
Financial assets held-for-trading	10,656,825	–	–	–	10,656,825
Derivative financial assets	379,741	1,316	112,795	–	493,852
Financial investments available-for-sale	14,638,429	2,780	2,070,449	7,775	16,719,433
Financial investments held-to-maturity	6,132,645	719,044	121,666	655,878	7,629,233
Loans, advances and financing	160,500,849	10,725,655	4,264,891	461,382	175,952,777
Other assets	1,151,305	28,374	68,058	760,517	2,008,254
Statutory deposits with Central Banks	5,250,936	–	345,135	1,730	5,597,801
Deferred tax assets	46,093	–	–	–	46,093
Investment in associated companies	42,445	–	113,552	–	155,997
Investment properties	1,950	68,804	–	–	70,754
Property and equipment	941,228	305,423	93,909	1,380	1,341,940
Intangible assets	769,251	1,196,225	–	–	1,965,476
TOTAL ASSETS	223,174,121	14,256,097	9,620,242	3,509,013	250,559,473
LIABILITIES					
Deposits from customers	177,011,694	8,786,500	10,392,532	4,179,799	200,370,525
Deposits from banks	12,575,445	91,529	3,139,758	–	15,806,732
Bills and acceptances payable	2,094,757	–	217	361	2,095,335
Recourse obligations on loans sold to Cagamas	11,789	–	–	–	11,789
Derivative financial liabilities	52,363	838	183,523	–	236,724
Debt securities issued and other borrowed funds	8,409,509	895,084	2,013,240	–	11,317,833
Other liabilities	1,524,785	693,499	508,583	740,668	3,467,535
Provision for tax expense and zakat	739,381	5,807	23,573	8,644	777,405
Deferred tax liabilities	52,367	3,258	–	–	55,625
TOTAL LIABILITIES	202,472,090	10,476,515	16,261,426	4,929,472	234,139,503
Non-controlling interests	–	684,512	12,972	–	697,484
On-Balance Sheet Open Position	20,702,031	3,095,070	(6,654,156)	(1,420,459)	15,722,486
Off-Balance Sheet Open Position	(4,843,728)	(2,048,762)	5,052,287	1,840,203	–
NET OPEN POSITION	15,858,303	1,046,308	(1,601,869)	419,744	15,722,486

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Group 1 January 2011	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	29,982,339	1,769,392	1,996,739	941,969	34,690,439
Reverse repurchase agreements	355,140	–	–	10,737	365,877
Financial assets held-for-trading	6,360,620	–	–	–	6,360,620
Derivative financial assets	154,318	4,026	168,278	–	326,622
Financial investments available-for-sale	15,484,632	2,694	2,356,154	8,804	17,852,284
Financial investments held-to-maturity	4,076,624	435,419	137,350	580,224	5,229,617
Loans, advances and financing	140,629,651	10,271,192	3,612,735	350,587	154,864,165
Other assets	1,258,010	210,026	145,396	382,448	1,995,880
Statutory deposits with Central Banks	1,277,681	–	333,753	1,141	1,612,575
Deferred tax assets	293,421	–	3,322	72	296,815
Investment in associated companies	2,035	–	116,589	–	118,624
Investment properties	1,850	63,702	–	–	65,552
Property and equipment	882,630	302,238	91,552	1,899	1,278,319
Intangible assets	769,251	1,161,121	–	–	1,930,372
TOTAL ASSETS	201,528,202	14,219,810	8,961,868	2,277,881	226,987,761
LIABILITIES					
Deposits from customers	152,061,430	9,541,746	11,302,857	3,966,086	176,872,119
Deposits from banks	17,499,324	87,551	3,740,601	–	21,327,476
Bills and acceptances payable	2,304,563	–	2,379	1,894	2,308,836
Recourse obligations on loans sold to Cagamas	16,319	–	–	–	16,319
Derivative financial liabilities	192,317	2,152	181,060	–	375,529
Debt securities issued and other borrowed funds	5,188,569	898,352	2,007,959	–	8,094,880
Other liabilities	1,787,540	410,584	269,174	372,576	2,839,874
Provision for tax expense and zakat	771,828	15,902	11,100	1,634	800,464
Deferred tax liabilities	3,499	4,892	–	–	8,391
TOTAL LIABILITIES	179,825,389	10,961,179	17,515,130	4,342,190	212,643,888
Non-controlling interests	–	640,398	11,790	–	652,188
On-Balance Sheet Open Position	21,702,813	2,618,233	(8,565,052)	(2,064,309)	13,691,685
Off-Balance Sheet Open Position	(8,350,139)	(1,636,880)	7,674,686	2,312,333	–
NET OPEN POSITION	13,352,674	981,353	(890,366)	248,024	13,691,685

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Bank	Malaysian	Hong Kong	United		
31 December 2012	Ringgit	Dollars	States	Others	Total
	RM'000	RM'000	Dollars	RM'000	RM'000
ASSETS					
Cash and balances with banks	8,551,469	847,398	994,666	1,286,310	11,679,843
Reverse repurchase agreements	7,309,057	–	–	96	7,309,153
Financial assets held-for-trading	13,599,044	–	–	–	13,599,044
Derivative financial assets	255,569	–	108,775	–	364,344
Financial investments available-for-sale	14,360,593	–	1,259,602	49	15,620,244
Financial investments held-to-maturity	4,451,028	–	38,442	19,844	4,509,314
Loans and advances	160,856,914	531,901	1,303,549	276,244	162,968,608
Other assets	1,114,101	–	5,620	787,000	1,906,721
Statutory deposits with Central Banks	4,709,380	–	28,833	–	4,738,213
Investment in subsidiary companies	2,116,626	1,672,194	474,761	–	4,263,581
Investment in associated companies	20,030	–	101,295	–	121,325
Property and equipment	600,382	–	5,374	2,178	607,934
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	218,639,586	3,051,493	4,320,917	2,371,721	228,383,717
LIABILITIES					
Deposits from customers	175,416,378	4,448	3,760,756	2,506,862	181,688,444
Deposits from banks	8,536,710	186,125	5,685,943	–	14,408,778
Bills and acceptances payable	3,132,070	–	425	197	3,132,692
Recourse obligations on loans sold to Cagamas	1,493	–	–	–	1,493
Derivative financial liabilities	116,181	–	94,579	–	210,760
Debt securities issued and other borrowed funds	8,362,123	–	719,819	–	9,081,942
Other liabilities	1,435,649	144,991	101,507	800,438	2,482,585
Provision for tax expense and zakat	515,448	–	5,491	1,149	522,088
Deferred tax liabilities	32,003	–	–	–	32,003
TOTAL LIABILITIES	197,548,055	335,564	10,368,520	3,308,646	211,560,785
On-Balance Sheet Open Position	21,091,531	2,715,929	(6,047,603)	(936,925)	16,822,932
Off-Balance Sheet Open Position	(5,291,370)	(1,749,462)	5,843,554	1,197,278	–
NET OPEN POSITION	15,800,161	966,467	(204,049)	260,353	16,822,932

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Bank	Malaysian	Hong Kong	United		
31 December 2011	Ringgit	Dollars	States	Others	Total
	RM'000	RM'000	Dollars	RM'000	RM'000
ASSETS					
Cash and balances with banks	6,565,943	1,460,272	1,628,491	853,643	10,508,349
Reverse repurchase agreements	8,421,242	–	–	14,369	8,435,611
Financial assets held-for-trading	10,406,551	–	–	–	10,406,551
Derivative financial assets	379,741	–	112,795	–	492,536
Financial investments available-for-sale	12,687,748	–	1,600,136	57	14,287,941
Financial investments held-to-maturity	6,975,296	–	57,647	40,914	7,073,857
Loans and advances	141,321,800	551,793	1,361,391	150,514	143,385,498
Other assets	1,083,176	36,444	49,056	745,050	1,913,726
Statutory deposits with Central Banks	4,471,880	–	24,485	–	4,496,365
Investment in subsidiary companies	1,941,626	1,672,194	474,761	–	4,088,581
Investment in associated companies	20,030	–	101,295	–	121,325
Property and equipment	650,965	–	4,779	1,380	657,124
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	195,621,391	3,720,703	5,414,836	1,805,927	206,562,857
LIABILITIES					
Deposits from customers	153,910,329	5,380	2,760,544	2,708,186	159,384,439
Deposits from banks	11,376,143	–	5,341,206	–	16,717,349
Bills and acceptances payable	2,094,498	–	217	361	2,095,076
Recourse obligations on loans sold to Cagamas	11,789	–	–	–	11,789
Derivative financial liabilities	52,363	–	137,962	–	190,325
Debt securities issued and other borrowed funds	8,409,509	–	2,013,240	–	10,422,749
Other liabilities	511,652	703,906	471,568	681,201	2,368,327
Provision for tax expense and zakat	556,862	–	6,318	627	563,807
Deferred tax liabilities	51,708	–	–	–	51,708
TOTAL LIABILITIES	176,974,853	709,286	10,731,055	3,390,375	191,805,569
On-Balance Sheet Open Position	18,646,538	3,011,417	(5,316,219)	(1,584,448)	14,757,288
Off-Balance Sheet Open Position	(4,843,728)	(2,072,454)	5,099,871	1,816,311	–
NET OPEN POSITION	13,802,810	938,963	(216,348)	231,863	14,757,288

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Bank	Malaysian	Hong Kong	United		
1 January 2011	Ringgit	Dollars	States	Others	Total
	RM'000	RM'000	Dollars	RM'000	RM'000
ASSETS					
Cash and balances with banks	25,268,063	542,280	842,832	519,272	27,172,447
Reverse repurchase agreements	–	–	–	10,737	10,737
Financial assets held-for-trading	5,812,736	–	–	–	5,812,736
Derivative financial assets	154,318	–	168,278	–	322,596
Financial investments available-for-sale	12,428,490	–	1,840,933	56	14,269,479
Financial investments held-to-maturity	5,150,342	–	23,509	56,548	5,230,399
Loans and advances	124,283,300	356,363	1,266,245	43,529	125,949,437
Other assets	1,096,092	104,556	126,354	376,640	1,703,642
Statutory deposits with Central Banks	1,089,150	–	17,180	–	1,106,330
Deferred tax assets	194,585	–	–	72	194,657
Investment in subsidiary companies	1,741,626	1,672,194	474,761	–	3,888,581
Investment in associated companies	30	–	101,295	–	101,325
Property and equipment	610,770	–	4,875	1,899	617,544
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	178,524,895	2,675,393	4,866,262	1,008,753	187,075,303
LIABILITIES					
Deposits from customers	134,880,381	7,857	3,039,915	2,861,113	140,789,266
Deposits from banks	13,865,518	–	7,204,263	–	21,069,781
Bills and acceptances payable	2,445,733	–	2,379	1,894	2,450,006
Recourse obligations on loans sold to Cagamas	16,319	–	–	–	16,319
Derivative financial liabilities	192,316	–	148,679	–	340,995
Debt securities issued and other borrowed funds	5,188,569	–	2,007,959	–	7,196,528
Other liabilities	870,836	219,261	216,043	369,511	1,675,651
Provision for tax expense and zakat	567,226	–	–	1,339	568,565
TOTAL LIABILITIES	158,026,898	227,118	12,619,238	3,233,857	174,107,111
On-Balance Sheet Open Position	20,497,997	2,448,275	(7,752,976)	(2,225,104)	12,968,192
Off-Balance Sheet Open Position	(8,350,139)	(1,572,812)	7,623,185	2,299,766	–
NET OPEN POSITION	12,147,858	875,463	(129,791)	74,662	12,968,192

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

- (ii) Structural foreign exchange risk represents the Group's currency exposure in its net investments in overseas operations and capital funds/retained earnings of overseas branches operations. Where possible, the Group manages such risk through funding investments in the same functional currencies. In addition, as part of its risk management strategy, the Group has designated certain funding in United States Dollars to hedge part of its Hong Kong Dollars structural currency exposure due to the pegging of Hong Kong Dollars to United States Dollars. The structural currency exposures of the Group as at the reporting date are as follows:

Group	Hedged RM'000	Unhedged RM'000	Total RM'000
2012			
United States Dollars	1,632,972	(679,219)	953,753
Hong Kong Dollars	1,776,698	440,852	2,217,550
Other currencies	–	434,228	434,228
	3,409,670	195,861	3,605,531
2011			
United States Dollars	1,695,317	(871,051)	824,266
Hong Kong Dollars	1,844,530	337,345	2,181,875
Other currencies	–	401,289	401,289
	3,539,847	(132,417)	3,407,430

(iii) Sensitivity Analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group on its non-trading unhedged positions as at each reporting date is summarised below:

Group	Change in Currency Rates %	Revaluation Sensitivity 2012 RM'000	2011 RM'000
United States Dollars	+/- 5	-/+ 33,961	-/+ 43,553
Hong Kong Dollars	+/- 5	+/- 22,043	+/- 16,867
Other currencies	+/- 5	+/- 21,711	+/- 20,064

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(d) Equity Risk

Equity risk refers to the adverse impact arising from movements in equity prices on equity positions held by the Group and the Bank for yield purposes.

Risk Management Approach

The Group manages such risk via pre-approved portfolio size and cut-loss limits. Decisions concerning such positions are made by the Share Investment Committee.

Considering that other risk variables remain constant, the table below summarises the impact on the carrying amount of equity positions as at each reporting date should there be a change in equity market prices:

	Change in Equity Market Prices %	Sensitivity of Equity RM'000
Group		
2012	+/- 20	+/- 9,615
2011	+/- 20	+/- 9,119
Bank		
2012	+/- 20	+/- 7,418
2011	+/- 20	+/- 7,575

Liquidity and Funding Risk

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

Risk Governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approach

The liquidity risk management of the Group is aligned with the New Liquidity Framework issued by BNM, and is measured and managed based on projected cash flows. In addition to ensuring compliance with the New Liquidity Framework, the Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are borrowed by/financed to the customers. As at 31 December 2012, the Group holds a sizeable balance of government securities amounting to RM17,651.4 million (31 December 2011 – RM13,362.3 million; 1 January 2011 – RM14,257.6 million) or 44% (31 December 2011 – 38%; 1 January 2011 – 48%) of its portfolio of securities.

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

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

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Group to determine the cash flows mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Overseas subsidiary companies and overseas branches are required to comply with their respective local regulatory liquidity requirements and internal liquidity limits set by Head Office. Similar risk management processes as practiced by the Bank are adopted by its overseas subsidiary companies and overseas branches. It is the Group's policy that the overseas subsidiary companies and overseas branches strive to attain a self-funding position in funding their respective operations.

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

The following tables show the maturity analysis of the carrying amounts of the Group's and the Bank's assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Group has significant amounts of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 7 days" time band) but which are historically a stable source of long-term funding for the Group and the Bank.

The Group and the Bank are subject to liquidity requirements to support calls under outstanding contingent liabilities and commitments as set out in Note 48 to the financial statements. The total outstanding contractual amounts of these items do not represent future cash requirements since the Group and the Bank expects many of these commitments (such as direct credit substitutes) to expire or be unconditionally cancelled without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Group	Up to 7 Days	> 7 Days – 1 Month	> 1 – 3 Months	> 3 – 6 Months	> 6 – 12 Months	> 1 Year	Total
31 December 2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and balances with banks	11,651,167	5,188,917	1,637,145	87,923	70,799	–	18,635,951
Reverse repurchase agreements	619,958	1,787,867	1,750,686	3,999,995	–	–	8,158,506
Financial investments	978,363	8,667,624	13,159,543	4,561,151	1,830,252	10,879,093	40,076,026
Derivative financial assets	1,508	6,159	6,084	5,958	1,883	348,873	370,465
Loans, advances and financing	11,256,979	4,028,117	7,249,178	9,910,060	16,118,043	147,489,226	196,051,603
Other asset balances	20,595	9,172	2,894	155	125	11,299,387	11,332,328
TOTAL ASSETS	24,528,570	19,687,856	23,805,530	18,565,242	18,021,102	170,016,579	274,624,879
LIABILITIES							
Deposits from customers	85,776,272	64,500,675	40,895,878	17,050,659	16,337,253	481,588	225,042,325
Deposits from banks	3,771,953	3,451,165	3,320,518	1,219,851	112,752	973,074	12,849,313
Recourse obligations on loans and financing sold to Cagamas	117	351	581	333	111	500,003	501,496
Derivative financial liabilities	5,367	32,395	18,968	–	6,664	170,170	233,564
Debt securities issued and other borrowed funds	–	–	–	1,400,000	523,363	8,023,490	9,946,853
Other liability balances	268,170	1,042,965	1,721,996	153,070	134,984	4,086,356	7,407,541
TOTAL LIABILITIES	89,821,879	69,027,551	45,957,941	19,823,913	17,115,127	14,234,681	255,981,092
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	17,943,923	17,943,923
Non-controlling interests	–	–	–	–	–	699,864	699,864
TOTAL EQUITY	–	–	–	–	–	18,643,787	18,643,787
NET MATURITY MISMATCH	(65,293,309)	(49,339,695)	(22,152,411)	(1,258,671)	905,975	137,138,111	–

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Group	Up to 7 Days	> 7 Days – 1 Month	> 1 – 3 Months	> 3 – 6 Months	> 6 – 12 Months	> 1 Year	Total
31 December 2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and balances with banks	12,446,928	4,130,155	1,870,931	184,978	791	–	18,633,783
Reverse repurchase agreements	1,174,967	2,485,164	5,627,124	–	–	–	9,287,255
Financial investments	6,378,773	6,536,691	9,141,795	5,992,812	2,137,899	4,817,521	35,005,491
Derivative financial assets	27,049	33,982	28,788	38,986	1,363	363,684	493,852
Loans, advances and financing	10,577,737	4,915,137	7,756,416	8,736,518	15,894,851	128,072,118	175,952,777
Other asset balances	35,285	11,708	5,304	524	2	11,133,492	11,186,315
TOTAL ASSETS	30,640,739	18,112,837	24,430,358	14,953,818	18,034,906	144,386,815	250,559,473
LIABILITIES							
Deposits from customers	85,357,149	52,343,187	30,019,974	15,575,756	16,707,735	366,724	200,370,525
Deposits from banks	1,198,778	8,228,921	3,003,697	1,594,730	951,325	829,281	15,806,732
Recourse obligations on loans sold to Cagamas	342	1,027	2,738	3,429	3,788	465	11,789
Derivative financial liabilities	1,108	29,772	17,205	6,347	1,144	181,148	236,724
Debt securities issued and other borrowed funds	–	–	–	1,269,900	–	10,047,933	11,317,833
Other liability balances	238,105	701,287	973,717	134,560	109,867	4,238,364	6,395,900
TOTAL LIABILITIES	86,795,482	61,304,194	34,017,331	18,584,722	17,773,859	15,663,915	234,139,503
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	15,722,486	15,722,486
Non-controlling interests	–	–	–	–	–	697,484	697,484
TOTAL EQUITY	–	–	–	–	–	16,419,970	16,419,970
NET MATURITY MISMATCH	(56,154,743)	(43,191,357)	(9,586,973)	(3,630,904)	261,047	112,302,930	–

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Group	Up to 7 Days	> 7 Days – 1 Month	> 1 – 3 Months	> 3 – 6 Months	> 6 – 12 Months	> 1 Year	Total
1 January 2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and balances with banks	16,362,576	15,724,563	2,495,700	77,793	29,807	–	34,690,439
Reverse repurchase agreements	3,799	6,938	355,140	–	–	–	365,877
Financial investments	7,381,710	4,250,130	7,228,400	5,068,842	1,062,222	4,451,217	29,442,521
Derivative financial assets	4,783	27,835	47,787	11,703	1,678	232,836	326,622
Loans, advances and financing	10,654,320	3,855,170	6,008,602	7,999,952	14,304,778	112,041,343	154,864,165
Other asset balances	22,505	24,538	4,143	–	50	7,246,901	7,298,137
TOTAL ASSETS	34,429,693	23,889,174	16,139,772	13,158,290	15,398,535	123,972,297	226,987,761
LIABILITIES							
Deposits from customers	69,715,759	44,998,677	31,473,157	16,739,528	13,300,857	644,141	176,872,119
Deposits from banks	4,033,253	5,680,142	9,142,193	1,249,480	561,228	661,180	21,327,476
Recourse obligations on loans sold to Cagamas	–	–	1,335	–	1,177	13,807	16,319
Derivative financial liabilities	15,798	89,828	68,540	23,242	960	177,161	375,529
Debt securities issued and other borrowed funds	–	–	–	–	–	8,094,880	8,094,880
Other liability balances	211,655	623,372	1,161,944	211,372	100,145	3,649,077	5,957,565
TOTAL LIABILITIES	73,976,465	51,392,019	41,847,169	18,223,622	13,964,367	13,240,246	212,643,888
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	13,691,685	13,691,685
Non-controlling interests	–	–	–	–	–	652,188	652,188
TOTAL EQUITY	–	–	–	–	–	14,343,873	14,343,873
NET MATURITY MISMATCH	(39,546,772)	(27,502,845)	(25,707,397)	(5,065,332)	1,434,168	96,388,178	–

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Bank	Up to 7 Days	> 7 Days – 1 Month	> 1 – 3 Months	> 3 – 6 Months	> 6 – 12 Months	> 1 Year	Total
31 December 2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and balances with banks	5,868,797	4,369,913	1,441,133	-	-	-	11,679,843
Reverse repurchase agreements	619,958	1,689,341	1,500,229	3,499,625	-	-	7,309,153
Financial investments	752,698	7,226,395	10,764,473	3,061,518	1,187,161	10,736,357	33,728,602
Derivative financial assets	1,508	6,079	6,079	5,958	1,842	342,878	364,344
Loans and advances	10,256,080	3,690,192	5,918,335	8,095,950	12,597,552	122,410,499	162,968,608
Other asset balances	10,519	7,833	2,583	-	-	12,312,232	12,333,167
TOTAL ASSETS	17,509,560	16,989,753	19,632,832	14,663,051	13,786,555	145,801,966	228,383,717
LIABILITIES							
Deposits from customers	66,814,970	54,868,586	32,483,510	13,193,033	14,017,913	310,432	181,688,444
Deposits from banks	3,990,443	5,395,421	3,423,897	1,164,667	104,272	330,078	14,408,778
Recourse obligations on loans sold to Cagamas	117	351	581	333	111	-	1,493
Derivative financial liabilities	5,367	32,342	18,968	-	6,664	147,419	210,760
Debt securities issued and other borrowed funds	-	-	-	1,400,000	-	7,681,942	9,081,942
Other liability balances	254,230	1,037,893	1,667,086	156,619	125,027	2,928,513	6,169,368
TOTAL LIABILITIES	71,065,127	61,334,593	37,594,042	15,914,652	14,253,987	11,398,384	211,560,785
EQUITY							
Equity attributable to equity holders of the Bank	-	-	-	-	-	16,822,932	16,822,932
TOTAL EQUITY	-	-	-	-	-	16,822,932	16,822,932
NET MATURITY MISMATCH	(53,555,567)	(44,344,840)	(17,961,210)	(1,251,601)	(467,432)	117,580,650	-

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Bank	Up to 7 Days	> 7 Days – 1 Month	> 1 – 3 Months	> 3 – 6 Months	> 6 – 12 Months	> 1 Year	Total
31 December 2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and balances with banks	5,277,962	2,833,780	2,294,575	102,032	–	–	10,508,349
Reverse repurchase agreements	1,024,526	2,284,618	5,126,467	–	–	–	8,435,611
Financial investments	5,407,098	5,499,104	7,182,538	6,482,031	1,891,532	5,306,046	31,768,349
Derivative financial assets	26,960	32,799	28,749	38,981	1,363	363,684	492,536
Loans and advances	9,771,210	4,332,834	6,378,642	7,057,616	12,487,800	103,357,396	143,385,498
Other asset balances	20,136	10,812	8,754	389	–	11,932,423	11,972,514
TOTAL ASSETS	21,527,892	14,993,947	21,019,725	13,681,049	14,380,695	120,959,549	206,562,857
LIABILITIES							
Deposits from customers	66,601,685	45,017,636	20,103,113	12,786,529	14,564,167	311,309	159,384,439
Deposits from banks	1,646,083	10,574,383	2,974,050	898,009	130,474	494,350	16,717,349
Recourse obligations on loans sold to Cagamas	342	1,027	2,738	3,429	3,788	465	11,789
Derivative financial liabilities	936	29,247	17,105	6,306	1,144	135,587	190,325
Debt securities issued and other borrowed funds	–	–	–	1,269,900	–	9,152,849	10,422,749
Other liability balances	218,388	678,246	916,454	124,263	107,007	3,034,560	5,078,918
TOTAL LIABILITIES	68,467,434	56,300,539	24,013,460	15,088,436	14,806,580	13,129,120	191,805,569
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	14,757,288	14,757,288
TOTAL EQUITY	–	–	–	–	–	14,757,288	14,757,288
NET MATURITY MISMATCH	(46,939,542)	(41,306,592)	(2,993,735)	(1,407,387)	(425,885)	93,073,141	–

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.)

Bank	Up to 7 Days	> 7 Days – 1 Month	> 1 – 3 Months	> 3 – 6 Months	> 6 – 12 Months	> 1 Year	Total
1 January 2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and balances with banks	11,692,501	12,999,128	2,451,011	–	29,807	–	27,172,447
Reverse repurchase agreements	3,799	6,938	–	–	–	–	10,737
Financial investments	6,172,965	3,221,529	6,055,015	3,636,777	1,616,966	4,609,362	25,312,614
Derivative financial assets	4,758	23,843	47,778	11,703	1,678	232,836	322,596
Loans and advances	9,942,173	3,045,517	4,891,813	6,624,557	11,382,916	90,062,461	125,949,437
Other asset balances	15,810	20,003	3,766	–	46	8,267,847	8,307,472
TOTAL ASSETS	27,832,006	19,316,958	13,449,383	10,273,037	13,031,413	103,172,506	187,075,303
LIABILITIES							
Deposits from customers	56,073,940	37,000,695	21,205,688	13,286,459	12,652,482	570,002	140,789,266
Deposits from banks	2,155,485	6,476,652	10,658,843	1,108,079	44,018	626,704	21,069,781
Recourse obligations on loans sold to Cagamas	–	–	1,335	–	1,177	13,807	16,319
Derivative financial liabilities	15,477	88,022	68,515	22,400	960	145,621	340,995
Debt securities issued and other borrowed funds	–	–	–	–	–	7,196,528	7,196,528
Other liability balances	197,657	700,520	1,162,765	208,938	101,793	2,322,549	4,694,222
TOTAL LIABILITIES	58,442,559	44,265,889	33,097,146	14,625,876	12,800,430	10,875,211	174,107,111
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	12,968,192	12,968,192
TOTAL EQUITY	–	–	–	–	–	12,968,192	12,968,192
NET MATURITY MISMATCH	(30,610,553)	(24,948,931)	(19,647,763)	(4,352,839)	230,983	79,329,103	–

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Behavioural maturity of deposits from customers

In practice, deposits from customers behave differently from their contractual terms and typically, short-term customer accounts and non-maturing savings and current deposits extend to a longer period than their contractual maturity. The Group's and the Bank's behavioural maturity for deposits from customers are as follows:

	Deposits from Customers						Total RM'000
	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	
Group							
31 December 2012							
By contractual maturity	85,776,272	64,500,675	40,895,878	17,050,659	16,337,253	481,588	225,042,325
By behavioural maturity*	25,375,650	8,894,049	13,533,089	13,316,328	9,945,008	153,978,201	225,042,325
Difference	60,400,622	55,606,626	27,362,789	3,734,331	6,392,245	(153,496,613)	–
31 December 2011							
By contractual maturity	85,357,149	52,343,187	30,019,974	15,575,756	16,707,735	366,724	200,370,525
By behavioural maturity*	22,415,420	8,278,557	13,913,215	12,650,689	9,895,369	133,217,275	200,370,525
Difference	62,941,729	44,064,630	16,106,759	2,925,067	6,812,366	(132,850,551)	–
1 January 2011							
By contractual maturity	69,715,759	44,998,677	31,473,157	16,739,528	13,300,857	644,141	176,872,119
By behavioural maturity*	21,188,070	16,508,417	13,046,580	5,717,290	12,167,603	108,244,159	176,872,119
Difference	48,527,689	28,490,260	18,426,577	11,022,238	1,133,254	(107,600,018)	–

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Behavioural maturity of deposits from customers (Cont'd.)

	Deposits from Customers						Total RM'000
	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	
Bank							
31 December 2012							
By contractual maturity	66,814,970	54,868,586	32,483,510	13,193,033	14,017,913	310,432	181,688,444
By behavioural maturity*	13,177,075	3,276,869	6,147,818	10,538,316	6,487,486	142,060,880	181,688,444
Difference	53,637,895	51,591,717	26,335,692	2,654,717	7,530,427	(141,750,448)	–
31 December 2011							
By contractual maturity	66,601,685	45,017,636	20,103,113	12,786,529	14,564,167	311,309	159,384,439
By behavioural maturity*	9,621,444	3,237,473	6,165,476	9,266,962	6,056,794	125,036,290	159,384,439
Difference	56,980,241	41,780,163	13,937,637	3,519,567	8,507,373	(124,724,981)	–
1 January 2011							
By contractual maturity	56,073,940	37,000,695	21,205,688	13,286,459	12,652,482	570,002	140,789,266
By behavioural maturity*	12,857,364	9,673,967	3,806,290	3,107,860	10,340,052	101,003,733	140,789,266
Difference	43,216,576	27,326,728	17,399,398	10,178,599	2,312,430	(100,433,731)	–

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

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

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturity. The financial liabilities in the tables below will not agree to the carrying amounts reported in the statements of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest/profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

Within the "More than 1 year" maturity time band are financial liabilities with principal amount of RM2,088.0 million (31 December 2011 – RM2,088.0 million; 1 January 2011 – RM2,088.0 million), all of which relate to Non-Innovative Tier I Stapled Securities whereby the interest payments are computed up to the first optional redemption date.

The cash flows of commitments and contingent liabilities are not presented on an undiscounted basis as the total outstanding contractual amounts do not represent future cash requirements since the Group and the Bank expect many of these commitments to expire or be unconditionally cancelled without being called or drawn upon and many of the contingent liabilities are reimbursable by customers.

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Maturity analysis of financial liabilities on an undiscounted basis (Cont'd.)

Group	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
31 December 2012							
Deposits from customers	85,784,956	64,582,048	41,099,955	17,239,812	16,693,866	495,311	225,895,948
Deposits from banks	3,772,687	3,454,084	3,331,752	1,229,137	114,469	991,680	12,893,809
Debt securities issued and other borrowed funds	342,046	523,365	18,223	1,488,845	159,965	8,805,760	11,338,204
Other liability balances	283,506	1,073,640	1,760,104	160,671	175,150	4,800,119	8,253,190
Total Liabilities	90,183,195	69,633,137	46,210,034	20,118,465	17,143,450	15,092,870	258,381,151
31 December 2011							
Deposits from customers	85,367,511	52,408,968	30,167,834	15,750,532	17,078,955	376,008	201,149,808
Deposits from banks	1,199,110	8,238,830	3,018,165	1,612,013	971,946	865,403	15,905,467
Debt securities issued and other borrowed funds	–	122,365	542,352	1,697,038	182,663	10,616,728	13,161,146
Other liability balances	298,880	702,417	996,548	146,982	141,542	4,102,733	6,389,102
Total Liabilities	86,865,501	61,472,580	34,724,899	19,206,565	18,375,106	15,960,872	236,605,523
1 January 2011							
Deposits from customers	69,722,032	45,047,432	31,605,410	16,894,432	13,550,508	651,706	177,471,520
Deposits from banks	4,049,500	5,685,893	9,179,219	1,260,866	571,456	705,064	21,451,998
Debt securities issued and other borrowed funds	–	–	51,391	53,569	142,086	9,692,725	9,939,771
Other liability balances	415,103	625,222	1,181,347	231,502	140,434	3,800,350	6,393,958
Total Liabilities	74,186,635	51,358,547	42,017,367	18,440,369	14,404,484	14,849,845	215,257,247

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Maturity analysis of financial liabilities on an undiscounted basis (Cont'd.)

	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1 – 3 Months RM'000	> 3 – 6 Months RM'000	> 6 – 12 Months RM'000	> 1 Year RM'000	Total RM'000
Bank							
31 December 2012							
Deposits from customers	66,821,268	54,938,310	32,659,385	13,352,398	14,352,221	316,578	182,440,160
Deposits from banks	3,991,275	5,400,308	3,432,981	1,171,123	105,424	343,827	14,444,938
Debt securities issued and other borrowed funds	500	–	18,223	1,488,845	159,965	8,805,760	10,473,293
Other liability balances	266,716	1,067,708	1,699,530	152,384	144,869	3,091,490	6,422,697
Total Liabilities	71,079,759	61,406,326	37,810,119	16,164,750	14,762,479	12,557,655	213,781,088
31 December 2011							
Deposits from customers	66,609,609	45,075,874	20,203,949	12,939,434	14,917,373	316,917	160,063,156
Deposits from banks	1,646,447	10,584,550	2,984,761	906,643	132,029	513,098	16,767,528
Debt securities issued and other borrowed funds	–	–	95,726	1,370,945	182,663	10,616,728	12,266,062
Other liability balances	282,105	679,374	935,623	129,353	133,939	2,863,753	5,024,147
Total Liabilities	68,538,161	56,339,798	24,220,059	15,346,375	15,366,004	14,310,496	194,120,893
1 January 2011							
Deposits from customers	56,079,364	37,043,706	21,306,795	13,423,529	12,929,127	576,627	141,359,148
Deposits from banks	2,155,939	6,482,580	10,696,548	1,114,978	44,802	653,017	21,147,864
Debt securities issued and other borrowed funds	–	–	51,391	53,569	142,086	8,756,698	9,003,744
Other liability balances	415,866	702,546	1,178,303	216,872	128,059	2,440,842	5,082,488
Total Liabilities	58,651,169	44,228,832	33,233,037	14,808,948	13,244,074	12,427,184	176,593,244

Notes to the Financial Statements

44. Financial Risk Management (Cont'd.)

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To manage and mitigate operational risk, the Group places great emphasis on the importance of proper monitoring and reporting of business units' adherence to established risk policies, procedures and limits by independent control and support units, oversight provided by the management and the Board of Directors, and independent assessment of the adequacy and reliability of the risk management processes by the Internal Audit Division.

The operational risk management processes include establishment of system of internal controls, identification and assessment of operational risk inherent in new and existing products, processes and systems, regular disaster recovery and business continuity planning and simulations, self-compliance audit, and operational risk incident reporting and data collection.

45. Fair Values of Financial Instruments

(a) Financial instruments measured at fair value

Determination of fair value and the fair value hierarchy

MFRS 7 Financial Instruments: Disclosures requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of financial instruments:

Level 1 – quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;

Level 2 – valuation techniques based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and

Level 3 – valuation techniques using significant unobservable inputs: inputs used are not based on observable market data and the unobservable inputs have a significant impact on the instrument's valuation.

For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities and broker quotes from Bloomberg and Reuters.

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length. Valuation techniques used incorporate assumptions regarding discount rates, interest/profit rate yield curves, estimates of future cash flows and other factors. Changes in these assumptions could materially affect the fair values derived. The Group and the Bank generally use widely recognised valuation techniques with market observable inputs for the determination of fair value, which require minimal management judgement and estimation, due to the low complexity of the financial instruments held.

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(a) Financial instruments measured at fair value (Cont'd.)

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

Group	Level 1	Level 2	Level 3	Total
31 December 2012	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	3,977,079	–	3,977,079
– Money market instruments	–	11,836,221	–	11,836,221
– Non-money market instruments	879	802,956	–	803,835
	879	16,616,256	–	16,617,135
Financial investments available-for-sale				
– Government securities and treasury bills	–	10,068,003	–	10,068,003
– Non-money market instruments [#]	3,288,512	3,736,222	–	7,024,734
	3,288,512	13,804,225	–	17,092,737
Derivative financial assets	–	358,311	12,154	370,465
Total financial assets measured at fair value	3,289,391	30,778,792	12,154	34,080,337
Financial liabilities				
Derivative financial liabilities	–	233,564	–	233,564
Total financial liabilities measured at fair value	–	233,564	–	233,564

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(a) Financial instruments measured at fair value (Cont'd.)

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy: (Cont'd.)

Group	Level 1	Level 2	Level 3	Total
31 December 2011	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	911,024	–	911,024
– Money market instruments	–	9,445,212	–	9,445,212
– Non-money market instruments	808	299,781	–	300,589
	808	10,656,017	–	10,656,825
Financial investments available-for-sale				
– Government securities and treasury bills	–	9,676,810	–	9,676,810
– Non-money market instruments #	3,192,901	3,740,886	–	6,933,787
	3,192,901	13,417,696	–	16,610,597
Derivative financial assets	–	482,608	11,244	493,852
Total financial assets measured at fair value	3,193,709	24,556,321	11,244	27,761,274
Financial liabilities				
Derivative financial liabilities	–	236,724	–	236,724
Total financial liabilities measured at fair value	–	236,724	–	236,724

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(a) Financial instruments measured at fair value (Cont'd.)

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy: (Cont'd.)

Group 1 January 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	588,045	–	588,045
– Money market instruments	–	5,622,472	–	5,622,472
– Non-money market instruments	868	149,235	–	150,103
	868	6,359,752	–	6,360,620
Financial investments available-for-sale				
– Government securities and treasury bills	–	10,667,433	–	10,667,433
– Non-money market instruments #	3,108,739	3,967,919	–	7,076,658
	3,108,739	14,635,352	–	17,744,091
Derivative financial assets	–	305,574	21,048	326,622
Total financial assets measured at fair value	3,109,607	21,300,678	21,048	24,431,333
Financial liabilities				
Derivative financial liabilities	–	375,529	–	375,529
Total financial liabilities measured at fair value	–	375,529	–	375,529

Excluding the carrying amount of equity securities – unquoted shares of the Group of RM108,383,000 (31 December 2011 – RM108,836,000; 1 January 2011 – RM108,193,000) which are not carried at fair value.

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(a) Financial instruments measured at fair value (Cont'd.)

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy: (Cont'd.)

Bank	Level 1	Level 2	Level 3	Total
31 December 2012	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	2,309,237	–	2,309,237
– Money market instruments	–	10,715,460	–	10,715,460
– Non-money market instruments	879	573,468	–	574,347
	879	13,598,165	–	13,599,044
Financial investments available-for-sale				
– Government securities and treasury bills	–	9,514,672	–	9,514,672
– Non-money market instruments [#]	2,835,936	3,165,022	–	6,000,958
	2,835,936	12,679,694	–	15,515,630
Derivative financial assets	–	352,190	12,154	364,344
Total financial assets measured at fair value	2,836,815	26,630,049	12,154	29,479,018
Financial liabilities				
Derivative financial liabilities	–	210,760	–	210,760
Total financial liabilities measured at fair value	–	210,760	–	210,760

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(a) Financial instruments measured at fair value (Cont'd.)

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy: (Cont'd.)

Bank	Level 1	Level 2	Level 3	Total
31 December 2011	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	911,024	–	911,024
– Money market instruments	–	9,494,719	–	9,494,719
– Non-money market instruments	808	–	–	808
	808	10,405,743	–	10,406,551
Financial investments available-for-sale				
– Government securities and treasury bills	–	8,274,983	–	8,274,983
– Non-money market instruments [#]	2,756,290	3,151,696	–	5,907,986
	2,756,290	11,426,679	–	14,182,969
Derivative financial assets	–	481,292	11,244	492,536
Total financial assets measured at fair value	2,757,098	22,313,714	11,244	25,082,056
Financial liabilities				
Derivative financial liabilities	–	190,325	–	190,325
Total financial liabilities measured at fair value	–	190,325	–	190,325

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(a) Financial instruments measured at fair value (Cont'd.)

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy: (Cont'd.)

Bank	Level 1	Level 2	Level 3	Total
1 January 2011	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	488,242	–	488,242
– Money market instruments	–	5,323,626	–	5,323,626
– Non-money market instruments	868	–	–	868
	868	5,811,868	–	5,812,736
Financial investments available-for-sale				
– Government securities and treasury bills	–	7,873,452	–	7,873,452
– Money market instruments	–	272,599	–	272,599
– Non-money market instruments [#]	2,680,458	3,338,491	–	6,018,949
	2,680,458	11,484,542	–	14,165,000
Derivative financial assets	–	301,548	21,048	322,596
Total financial assets measured at fair value	2,681,326	17,597,958	21,048	20,300,332
Financial liabilities				
Derivative financial liabilities	–	340,995	–	340,995
Total financial liabilities measured at fair value	–	340,995	–	340,995

[#] Excluding the carrying amount of equity securities – unquoted shares of the Bank of RM104,614,000 (31 December 2011 – RM104,972,000; 1 January 2011 – RM104,479,000) which are not carried at fair value.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year.

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(a) Financial instruments measured at fair value (Cont'd.)

Determination of fair value and the fair value hierarchy (Cont'd.)

Reconciliation of movements in Level 3 financial instruments:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Derivative Financial Assets		
At 1 January	11,244	21,048
Gains/(Losses)		
– recognised in Income Statement	3,643	(4,225)
Sales	(2,733)	(5,579)
At 31 December	12,154	11,244
Total gains/(losses) recognised in the Income Statement relating to those assets or liabilities held at the end of the financial year	3,096	(4,342)

Changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

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

Set out below is a comparison of the carrying amounts and fair values of the financial instruments of the Group and the Bank which are not measured at fair value in the financial statements. These tables do not include non-financial assets and liabilities.

	31 December 2012		31 December 2011		1 January 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets						
Cash and balances with banks	18,635,951	18,635,951	18,633,783	18,633,783	34,690,439	34,690,439
Reverse repurchase agreements	8,158,506	8,158,506	9,287,255	9,287,255	365,877	365,877
Financial investments available-for-sale						
– Non-money market instruments	108,383	108,383	108,836	108,836	108,193	108,193
Financial investments held-to-maturity						
– Government securities and treasury bills	3,606,318	3,619,044	2,774,459	2,793,855	3,002,148	3,019,780
– Money market instruments	2,016,598	2,019,924	4,292,275	4,290,820	1,502,893	1,496,222
– Non-money market instruments [#]	634,855	637,260	562,499	566,698	724,576	728,388
Loans, advances and financing [*]						
– Retail loans/financing						
– housing loans/financing	59,867,319	59,910,347	51,314,681	51,357,871	43,890,836	44,001,718
– hire purchase	42,020,242	42,089,763	38,726,435	39,115,212	35,326,223	35,828,882
– credit cards	1,604,211	1,604,211	1,522,267	1,522,267	1,348,902	1,348,902
– other loans/financing	66,295,939	66,278,274	59,517,415	59,489,406	52,748,245	52,758,724
– Corporate loans/financing	27,793,458	27,805,327	26,368,023	26,392,682	22,964,932	22,852,900

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(b) Fair values of financial instruments not carried at fair value (Cont'd.)

Group	31 December 2012		31 December 2011		1 January 2011	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial liabilities						
Deposits from customers						
– Core deposits	177,034,637	177,037,849	157,296,704	157,292,180	143,638,752	143,639,242
– Wholesale deposits	47,816,757	47,816,797	42,872,479	42,872,493	32,768,843	32,767,051
– Other deposits	190,931	190,931	201,342	201,342	464,524	464,524
Deposits from banks	12,849,313	12,764,817	15,806,732	15,806,657	21,327,476	21,327,476
Bills and acceptances payable	3,048,821	3,048,821	2,095,335	2,095,335	2,308,836	2,308,836
Recourse obligations on loans and financing sold to Cagamas	501,496	502,832	11,789	11,859	16,319	16,934
Debt securities issued and other borrowed funds	9,946,853	10,384,037	11,317,833	11,858,216	8,094,880	8,507,405

Bank	31 December 2012		31 December 2011		1 January 2011	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial assets						
Cash and balances with banks	11,679,843	11,679,843	10,508,349	10,508,349	27,172,447	27,172,447
Reverse repurchase agreements	7,309,153	7,309,153	8,435,611	8,435,611	10,737	10,737
Financial investments available-for-sale						
– Non-money market instruments	104,614	104,614	104,972	104,972	104,479	104,479
Financial investments held-to-maturity						
– Government securities and treasury bills	2,886,670	2,899,660	2,064,741	2,084,029	2,405,049	2,422,744
– Money market instruments	1,472,807	1,474,027	4,864,817	4,863,377	2,689,862	2,683,223
– Non-money market instruments [#]	149,837	152,447	144,299	148,512	135,488	139,588
Loans and advances [*]						
– Retail loans						
– housing loans	52,536,395	52,536,747	44,742,239	44,743,121	38,382,386	38,382,742
– hire purchase	30,138,506	30,192,466	26,680,963	26,987,687	24,839,999	25,210,496
– credit cards	1,594,106	1,594,106	1,512,099	1,512,099	1,340,914	1,340,914
– other loans	57,258,718	57,258,718	50,598,121	50,598,121	44,695,996	44,695,996
– Corporate loans	22,500,367	22,496,697	20,890,288	20,902,522	17,717,541	17,602,847

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(b) Fair values of financial instruments not carried at fair value (Cont'd.)

	31 December 2012		31 December 2011		1 January 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial liabilities						
Deposits from customers						
– Core deposits	139,419,282	139,419,136	122,961,209	122,955,785	112,489,291	112,489,368
– Wholesale deposits	42,081,345	42,081,385	36,224,160	36,224,174	27,837,424	27,835,632
– Other deposits	187,817	187,817	199,070	199,070	462,551	462,551
Deposits from banks	14,408,778	14,408,778	16,717,349	16,717,349	21,069,781	21,069,781
Bills and acceptances payable	3,132,692	3,132,692	2,095,076	2,095,076	2,450,006	2,450,006
Recourse obligations on loans sold to Cagamas	1,493	1,493	11,789	11,859	16,319	16,934
Debt securities issued and other borrowed funds	9,081,942	9,519,126	10,422,749	10,963,132	7,196,528	7,609,053

The accumulated impairment losses of the Group and the Bank of RM155,000 (31 December 2011 – RM1,102,000; 1 January 2011 – RM10,013,000) were netted off against the carrying amounts.

* The collective assessment allowance of the Group and the Bank of RM1,529,566,000 (31 December 2011 – RM1,496,044,000; 1 January 2011 – RM1,414,973,000) and RM1,059,484,000 (31 December 2011 – RM1,038,212,000; 1 January 2011 – RM1,027,399,000) respectively, are not included in the carrying amounts.

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

- (a) **Cash and balances with banks and reverse repurchase agreements** – The carrying amounts of cash and bank balances approximate fair value due to the relatively short maturity of the financial instruments. The fair values of money market placements and reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments. For those financial instruments with maturity of more than one year, the fair values are estimated based on discounted cash flows using market interest rates at which similar placements would be made with financial institutions of similar credit risk and remaining period to maturity.
- (b) **Financial investments available-for-sale and financial investments held-to-maturity** – The fair values of financial investments held-to-maturity are estimated based on broker/dealer price quotations.

Financial investments available-for-sale as disclosed above consist of only equity securities-unquoted shares which are measured at cost less impairment. The carrying amounts of these financial instruments are deemed to approximate the fair values as their fair values cannot be reliably measured.

Notes to the Financial Statements

45. Fair Values of Financial Instruments (Cont'd.)

(b) Fair values of financial instruments not carried at fair value (Cont'd.)

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows: (Cont'd.)

- (c) *Loans, advances and financing* – The fair values of fixed rate loans/financing with remaining maturity of less than one year and variable rate loans/financing are estimated to approximate their carrying amounts. For fixed rate loans/financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of loans/financing of similar credit risks and maturity.

The fair values of impaired loans/financing are represented by their carrying amounts, net of any individual assessment allowance, being the expected recoverable amount.

- (d) *Deposits from customers* – The fair values of deposits payable on demand (demand and savings deposits), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturity of more than one year are estimated using discounted cash flows based on market rates for similar deposits from customers. The fair values of Islamic deposits are deemed to approximate their carrying amounts as rates of return are determined at the end of their holding periods based on the profit generated from the assets invested. The fair values of wholesale deposits are estimated based on quoted or observable market prices. Where such quoted or observable market prices are not available, the fair values of these wholesale deposits are estimated using the discounted cash flows technique.
- (e) *Deposits from banks and bills and acceptances payable* – The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments.
- (f) *Recourse obligations on loans and financing sold to Cagamas* – The fair values of recourse obligations on loans and financing sold to Cagamas with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of recourse obligations on loans and financing sold to Cagamas with remaining maturity of more than one year are estimated using discounted cash flows based on prevailing Cagamas rates with similar remaining period to maturity.
- (g) *Debt securities issued and other borrowed funds* – The fair values of borrowings approximate their carrying amounts as these are variable rate borrowings. The fair values of debt securities issued are estimated based on quoted or observable market prices.

Notes to the Financial Statements

46. Operating Leases

The Group and the Bank as a Lessee

The Group and the Bank leases a number of premises under operating leases. The leases typically run for an initial period of three years, with an option to renew. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Within one year	24,767	24,459	19,555
Between one and five years	18,432	22,266	14,547
More than five years	34,370	7,299	7,894
	77,569	54,024	41,996

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Within one year	518	654	1,155
Between one and five years	524	746	534
	1,042	1,400	1,689

The Group as a Lessor

The Group leases out its investment properties under operating leases with the term of the leases ranging from one to five years. None of the leases includes contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Within one year	2,741	3,426	2,512
Between one and five years	1,731	1,458	1,938
More than five years	3,679	–	–
	8,151	4,884	4,450

Notes to the Financial Statements

47. Capital and Other Commitments

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Authorised and contracted for:			
– Land and buildings	30,204	61,751	83,601
– Renovations	1,262	1,135	3,226
– Office equipment, furniture and fittings	2,150	1,569	3,487
– Computer equipment and software	14,438	34,957	26,574
– Motor vehicles	98	98	62
	48,152	99,510	116,950
Authorised but not contracted for:			
– Land and buildings	–	4,400	5,900
– Renovations	5,964	5,392	5,310
– Office equipment, furniture and fittings	65	291	339
– Computer equipment and software	6,612	3,456	4,674
– Motor vehicles	–	90	85
– Additional investment in an associated company	146,822	129,593	158,579
	159,463	143,222	174,887
	207,615	242,732	291,837

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Authorised and contracted for:			
– Office equipment, furniture and fittings	1,632	1,457	2,842
– Computer equipment and software	10,181	23,077	23,589
	11,813	24,534	26,431
Authorised but not contracted for:			
– Office equipment, furniture and fittings	–	–	39
– Computer equipment and software	–	97	96
– Additional investment in an associated company	146,822	129,593	158,579
	146,822	129,690	158,714
	158,635	154,224	185,145

Notes to the Financial Statements

48. Commitments and Contingencies

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's and the Bank's assets.

The notional amounts of the commitments and contingencies of the Group and the Bank are as follows:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Contingent liabilities			
Direct credit substitutes	1,549,134	1,482,009	1,580,171
Transaction-related contingent items	1,031,792	900,696	772,945
Short term self-liquidating trade-related contingencies	525,150	515,710	483,803
Obligations under an on-going underwriting agreement	–	25,000	75,000
	3,106,076	2,923,415	2,911,919
Commitments			
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
– exceeding one year	24,158,799	19,490,137	15,412,139
– not exceeding one year	20,955,923	19,919,554	22,717,264
Unutilised credit card lines	3,693,110	3,486,222	3,038,271
Forward asset purchases	30,386	39,362	7,305
	48,838,218	42,935,275	41,174,979
Derivative financial instruments			
Foreign exchange related contracts:			
– less than one year	11,879,221	11,013,882	14,180,707
– one year to less than five years	1,376,100	6,514	6,271
Interest rate related contracts:			
– less than one year	1,552,000	2,058,803	710,853
– one year to less than five years	9,929,440	6,560,830	5,815,108
– five years and above	2,649,740	5,183,242	3,996,975
Commodity related contracts:			
– less than one year	206	16,896	929
Equity related contracts:			
– less than one year	73,589	–	227,140
– one year to less than five years	53,005	148,325	181,027
	27,513,301	24,988,492	25,119,010
	79,457,595	70,847,182	69,205,908

Notes to the Financial Statements

48. Commitments and Contingencies (Cont'd.)

The notional amounts of the commitments and contingencies of the Group and the Bank are as follows: (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Contingent liabilities			
Direct credit substitutes	1,175,058	1,120,615	1,476,910
Transaction-related contingent items	908,204	779,091	676,528
Short term self-liquidating trade-related contingencies	341,952	221,038	231,016
Obligations under an on-going underwriting agreement	–	25,000	75,000
	2,425,214	2,145,744	2,459,454
Commitments			
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
– exceeding one year	22,211,606	18,177,027	14,338,422
– not exceeding one year	19,422,068	18,413,664	20,522,993
Unutilised credit card lines	3,587,921	3,330,591	2,875,523
Forward asset purchases	–	10,175	3,600
	45,221,595	39,931,457	37,740,538
Derivative financial instruments			
Foreign exchange related contracts:			
– less than one year	11,822,972	10,643,581	13,951,365
– one year to less than five years	1,376,100	6,514	6,271
Interest rate related contracts:			
– less than one year	1,552,000	2,058,803	570,013
– one year to less than five years	9,408,350	6,227,481	5,491,445
– five years and above	3,758,000	5,088,000	3,904,500
Commodity related contracts:			
– less than one year	206	16,896	929
Equity related contracts:			
– less than one year	73,589	–	227,140
– one year to less than five years	53,005	148,325	181,027
	28,044,222	24,189,600	24,332,690
	75,691,031	66,266,801	64,532,682

Disclosure of the credit equivalent amount and risk-weighted asset amount of the commitments and contingencies above, as required by Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), is presented in the Pillar 3 disclosures section of the Annual Report.

Notes to the Financial Statements

49. Capital Adequacy

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

	Group		
	31 December 2012	31 December 2011	1 January 2011
<u>Before deducting second interim dividends</u>			
Tier I capital ratio	11.4%	11.2%	11.3%
Risk-weighted capital ratio	14.6%	15.6%	14.2%
<u>After deducting second interim dividends</u>			
Tier I capital ratio	10.8%	10.6%	10.6%
Risk-weighted capital ratio	14.1%	15.0%	13.5%

	Bank		
	31 December 2012	31 December 2011	1 January 2011
<u>Before deducting second interim dividends</u>			
Tier I capital ratio	13.6%	13.5%	13.9%
Risk-weighted capital ratio	14.5%	15.6%	13.9%
<u>After deducting second interim dividends</u>			
Tier I capital ratio	12.9%	12.8%	13.1%
Risk-weighted capital ratio	13.8%	14.9%	13.1%

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

The capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework (RWCAF-Basel II). The Group and the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% (2011 – 8.0%) for the risk-weighted capital ratio.

Notes to the Financial Statements

49. Capital Adequacy (Cont'd.)

(a) The capital adequacy ratios of the Group and the Bank as at 31 December are as follows: (Cont'd.)

The capital adequacy ratios of the banking subsidiary companies of the Group are as follows:

	Public Islamic Bank Berhad ¹	Public Investment Bank Berhad ²	Public Bank (L) Ltd ³	Public Bank (Hong Kong) Limited ⁴	Public Finance Limited ⁴	Cambodian Public Bank Plc ⁵
31 December 2012						
<u>Before deducting interim dividends*:</u>						
Tier I capital ratio	12.3%	27.4%	21.8%	16.4%	29.0%	N/A
Risk-weighted capital ratio	13.0%	27.6%	21.8%	16.4%	30.1%	21.6%
<u>After deducting interim dividends*:</u>						
Tier I capital ratio	11.3%	26.4%	21.8%	16.4%	26.5%	N/A
Risk-weighted capital ratio	12.1%	26.6%	21.8%	16.4%	27.7%	21.6%
31 December 2011						
<u>Before deducting interim dividends*:</u>						
Tier I capital ratio	12.3%#	18.2%#	19.6%	16.1%	29.6%	N/A
Risk-weighted capital ratio	13.3%#	18.3%#	20.0%	16.1%	30.8%	22.8%
<u>After deducting interim dividends*:</u>						
Tier I capital ratio	10.9%#	16.9%#	19.6%	16.1%	27.0%	N/A
Risk-weighted capital ratio	11.9%#	17.0%#	20.0%	16.1%	28.1%	22.8%
1 January 2011						
<u>Before deducting interim dividends*:</u>						
Tier I capital ratio	12.6%#	19.5%#	11.8%	15.2%	31.5%	N/A
Risk-weighted capital ratio	13.7%#	19.6%#	12.1%	15.2%	32.6%	24.4%
<u>After deducting interim dividends*:</u>						
Tier I capital ratio	11.3%#	18.3%#	11.8%	15.2%	28.2%	N/A
Risk-weighted capital ratio	12.4%#	18.4%#	12.1%	15.2%	29.3%	24.4%

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

Restated for the effects of change in accounting policy on collective assessment allowance for loans, advances and financing.

Notes to the Financial Statements

49. Capital Adequacy (Cont'd.)

- (a) The capital adequacy ratios of the Group and the Bank as at 31 December are as follows: (Cont'd.)

The capital adequacy ratios of the banking subsidiary companies of the Group are as follows: (Cont'd.)

- ¹ The capital adequacy ratios of Public Islamic Bank Berhad are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB), which are based on the Basel II capital accord. Public Islamic Bank Berhad has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% for the risk-weighted capital ratio.
- ² The capital adequacy ratios of Public Investment Bank Berhad are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework, which are based on the Basel II capital accord. Public Investment Bank Berhad has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% for the risk-weighted capital ratio.
- ³ The capital adequacy ratios of Public Bank (L) Ltd. for capital compliance on a standalone basis are computed in accordance with the Guidelines on Risk-Weighted Capital Adequacy issued by the Labuan Financial Services Authority (Labuan FSA), which is based on the Basel I capital accord. The minimum regulatory capital adequacy requirements are 4.0% and 8.0% for the Tier I capital ratio and risk-weighted capital ratio respectively.
- ⁴ The capital adequacy ratios of these two subsidiary companies, which are located in Hong Kong SAR, are computed in accordance with the Banking (Capital) Rules under section 98A of the Banking Ordinance issued by the Hong Kong Monetary Authority, which is based on the Basel II capital accord. These two subsidiary companies have adopted the Standardised Approach for Credit and Market Risk. Public Bank (Hong Kong) Limited has adopted the Basic Indicator Approach for Operational Risk and Public Finance Limited has adopted the Standardised Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% for the risk-weighted capital ratio.
- ⁵ The amount presented here is the Solvency Ratio of Cambodian Public Bank Plc, which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with Prakas B7-010-182, B7-00-46, B7-04-206 and B7-07-135 issued by the National Bank of Cambodia. This ratio is derived as Cambodian Public Bank Plc's net worth divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory Solvency Ratio requirement is 15.0%.

Notes to the Financial Statements

49. Capital Adequacy (Cont'd.)

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
<u>Tier I Capital</u>			
Paid-up share capital	3,531,926	3,531,926	3,531,926
Share premium	1,073,310	1,073,310	1,073,310
Other reserves	3,965,321	3,955,307	3,787,881
Retained profits	9,453,647	7,276,808	5,413,190
Innovative Tier I capital securities	1,810,317	1,833,303	1,814,538
Non-Innovative Tier I stapled securities	2,083,146	2,082,388	2,081,633
Treasury shares	(215,572)	(215,572)	(215,303)
Non-controlling interests	699,864	697,484	652,188
Less: Goodwill	(1,899,875)	(1,938,994)	(1,903,898)
Less: Deferred tax assets, net	(64,900)	(46,093)	(298,959)
Total Tier I Capital	20,437,184	18,249,867	15,936,506
<u>Tier II Capital</u>			
Collective assessment allowance [#]	1,038,369	1,073,337	1,002,004
Subordinated notes	4,870,351	6,138,306	3,102,012
Total Tier II Capital	5,908,720	7,211,643	4,104,016
Total capital	26,345,904	25,461,510	20,040,522
Less: Investment in subsidiary and associated companies	(960)	(960)	(960)
Less: Holdings of other financial institutions' capital instruments	(46,834)	(44,468)	(47,439)
Capital base	26,298,110	25,416,082	19,992,123

Notes to the Financial Statements

49. Capital Adequacy (Cont'd.)

(b) The components of Tier I and Tier II Capital of the Group and of the Bank are as follows: (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
<u>Tier I Capital</u>			
Paid-up share capital	3,531,926	3,531,926	3,531,926
Share premium	1,073,310	1,073,310	1,073,310
Other reserves	3,506,311	3,522,609	3,508,238
Retained profits	9,276,984	7,083,862	5,307,242
Innovative Tier I capital securities	1,810,317	1,833,303	1,814,538
Non-Innovative Tier I stapled securities	2,083,146	2,082,388	2,081,633
Treasury shares	(215,572)	(215,572)	(215,303)
Less: Goodwill	(695,393)	(695,393)	(695,393)
Less: Deferred tax assets, net	–	–	(196,886)
Less: Investment in subsidiaries	–	–	(20,713)
Total Tier I Capital	20,371,029	18,216,433	16,188,592
<u>Tier II Capital</u>			
Collective assessment allowance [#]	691,258	721,913	711,998
Subordinated notes	4,870,351	6,138,306	3,102,012
Total Tier II Capital	5,561,609	6,860,219	3,814,010
Total capital	25,932,638	25,076,652	20,002,602
Less: Investment in subsidiary and associated companies	(4,162,284)	(3,987,284)	(3,766,571)
Less: Holdings of other financial institutions' capital instruments	(46,834)	(44,468)	(47,439)
Capital base	21,723,520	21,044,900	16,188,592

In arriving at the capital base of the Group and the Bank above, the second interim dividends were not deducted.

[#] Excludes collective assessment allowance on impaired loans restricted from Tier II capital of the Group and the Bank of RM491,197,000 (31 December 2011 – RM422,707,000; 1 January 2011 – RM412,969,000) and RM369,214,000 (31 December 2011 – RM325,341,000; 1 January 2011 – RM324,094,000) respectively.

Notes to the Financial Statements

49. Capital Adequacy (Cont'd.)

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Credit risk	164,080,465	148,664,399	128,486,892
Market risk	1,713,076	1,670,798	1,063,445
Operational risk	13,733,324	12,692,078	11,546,113
	179,526,865	163,027,275	141,096,450

	Bank		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Credit risk	137,279,014	123,065,342	106,083,803
Market risk	2,579,721	2,774,099	1,788,639
Operational risk	9,915,430	9,048,375	8,446,853
	149,774,165	134,887,816	116,319,295

Detailed information on the risk exposures above, as prescribed under BNM's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) is presented in the Pillar 3 disclosures section of the Annual Report.

50. Capital Management

The Group actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Group's capital management strategy is to continue to maximise shareholder value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Group's strategic planning review and is subject to the approval of the Board of Directors.

The Group's capital is managed in line with the objectives of the Group Capital Management Framework. The key objectives under the framework include meeting regulatory capital requirements, optimising return to shareholders, maintaining adequate levels and optimum mix of capital, maintaining strong external credit ratings and allocation of capital across business units and subsidiaries. In order to meet these objectives, the Group actively manages its capital structure and makes adjustments to address changes in the economic environment, regulatory requirements and risk characteristics inherent in its business operations. These initiatives include issuances of capital securities, adjustments to the amount of dividends distributed to shareholders and focus on growth in non-interest income and other less capital-intensive business activities. The Group's Internal Capital Adequacy Assessment Process ("ICAAP") assesses the Group's internal capital requirements beyond the minimum regulatory requirements to ensure its capital commensurates with the Group's risk profile, the complexity of the business activities undertaken and its risk appetite.

Notes to the Financial Statements

50. Capital Management (Cont'd.)

The Group's and Bank's regulatory capital are determined under Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework and their capital ratios have complied with the minimum requirements set under this guideline. Information on the Group's and Bank's capital adequacy ratios, regulatory minimum capital requirements and the components of capital base are disclosed in Note 49 (a) and (b).

51. Segment Information

The following segment information has been prepared in accordance with MFRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Group's operating and reportable segments are business units engaged in providing different products or services and business units operating in different geographical locations. These businesses are managed and assessed separately as each requires a differentiated strategy focused on the specific products and services provided for the economic, competitive, geographical and regulatory environment in which it operates. For each operating segment, the Board Executive Committee (the chief operating decision-maker) reviews the internal management reports monthly in order to assess their performance.

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

(i) Hire Purchase

The hire purchase operations is focused on the provision of passenger vehicle financing to all levels of customers.

(ii) Retail Operations

Retail operations focuses on providing products and services to individual customers and small- and medium-sized enterprises. The products and services offered to customers include credit facilities (mortgages, trade and personal loans), credit cards, remittance services, deposit collection and investment products.

(iii) Corporate Lending

The corporate lending operations caters to the funding needs of large corporate customers which are primarily public listed companies and their related corporations.

(iv) Treasury and Capital Market Operations

The treasury and capital market operations is involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading.

(v) Investment Banking

The investment banking operations caters to the business needs of large corporate customers through the provision of financial solutions and direct lending. The services offered include structured financing, corporate advisory services, merger and acquisition, share-broking and debt restructuring advisory services.

Notes to the Financial Statements

51. Segment Information (Cont'd.)

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

(vi) Fund Management

The fund management operations consists of sale of trust units and the management of unit trust funds as conducted by the Bank's wholly-owned subsidiary company, Public Mutual Berhad.

(vii) Others

Others refer mainly to non-core operations such as property holding.

The Group's overseas business operations is organised according to the following geographical locations:

(i) Hong Kong SAR

This includes all business operations conducted by the Group's subsidiaries in Hong Kong SAR and the People's Republic of China, including retail and commercial banking and lending, wealth management services, stockbroking and other related financial services.

(ii) Cambodia

This comprises all business operations conducted by the Group's subsidiary companies in Cambodia, which includes mainly financing, deposit-taking, general insurance businesses and stockbroking.

(iii) Other Countries

This refers to the Group's banking business operations in the Socialist Republic of Vietnam, Lao People's Democratic Republic and Sri Lanka.

There are no changes in the operating segments during the year.

Measurement and Evaluation of Segment Performance

The Board Executive Committee evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, loans and deposit growth and asset quality. Expenses directly associated with each operating segment are included in determining their respective profit. Transactions between operating segments are conducted on an arm's length basis. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net interest income. In addition to the operating segments, the segment information disclosed also includes internal service providers (head office), which operate on a non-profit basis, and inter-segment eliminations.

Major Customers

There is no single customer which contributes revenue amount greater than 10% of the Group's revenues for the current financial year (2011 – none).

Notes to the Financial Statements

51. Segment Information (Cont'd.)

By Business Segments:

	Domestic Operating Segments →							← Overseas Operating Segments →							
	Treasury and Capital														
	Hire Purchase	Retail Operations	Corporate Lending	Market Operations	Investment Banking	Fund Management	Others	Head Office	Total Domestic Operations	Hong Kong SAR	Cambodia	Other Countries	Total Overseas Operations	Inter-segment Elimination	Group Total
2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	2,257,989	6,747,976	965,969	1,658,039	184,373	870,984	4,818	359,774	13,049,922	740,680	219,518	47,977	1,008,175	-	14,058,097
Revenue from other segments	-	1,007,641	12,595	732,202	24,566	11,786	29,318	1,456,958	3,275,066	-	3,423	63	3,486	(3,278,552)	-
Total revenue	2,257,989	7,755,617	978,564	2,390,241	208,939	882,770	34,136	1,816,732	16,324,988	740,680	222,941	48,040	1,011,661	(3,278,552)	14,058,097
Net interest income and Islamic banking income	1,001,343	3,886,380	269,420	131,798	14,096	12,532	(7,703)	136,123	5,443,989	492,679	125,626	36,117	654,422	-	6,098,411
Other income	6,339	484,802	44,965	226,963	60,050	509,526	33,906	199,032	1,565,583	105,828	41,437	1,764	149,029	(66,314)	1,648,298
Net income	1,007,682	4,371,182	314,385	358,761	74,146	522,058	26,203	335,155	7,009,572	598,507	167,063	37,881	803,451	(66,314)	7,746,709
Other operating expenses of which:	(211,028)	(1,341,938)	(9,811)	(19,337)	(29,251)	(149,887)	(14,383)	(297,465)	(2,073,110)	(291,285)	(51,375)	(11,442)	(354,102)	66,314	(2,360,898)
Depreciation	(2,248)	(64,640)	(160)	(890)	(772)	(4,336)	(4,390)	(66,445)	(143,881)	(12,435)	(9,372)	(1,565)	(23,372)	-	(167,253)
(Allowance)/writeback of allowance for impairment on loans, advances and financing	(128,319)	(36,195)	17,726	-	(415)	-	-	-	(147,203)	(125,823)	(5,190)	(1,028)	(132,041)	-	(279,244)
Impairment loss	-	(6,626)	-	-	-	-	-	-	(6,626)	-	-	-	-	-	(6,626)
Profit by segments	668,335	2,986,423	322,300	339,424	44,480	372,161	11,820	37,680	4,782,633	181,399	110,498	25,411	317,308	-	5,099,941
Reconciliation of segment profits to consolidated profits:															
Share of (loss)/profit after tax of equity accounted associated companies									(3,687)				7,672		3,985
Profit before tax expense and zakat									4,778,946				324,980		5,103,926
Cost-to-income ratio	20.9%	30.7%	3.1%	5.4%	39.5%	28.7%	54.9%	88.8%	29.6%	48.7%	30.8%	30.2%	44.1%		30.5%

Notes to the Financial Statements

51. Segment Information (Cont'd.)

By Business Segments: (Cont'd.)

	Domestic Operating Segments										Overseas Operating Segments				
	Treasury and Capital														
2012	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
Gross loans	40,434,621	120,440,651	23,299,542	-	313,440	51,567	1,954	-	184,541,775	10,778,263	2,077,097	386,029	13,241,389	-	197,783,164
Loan growth	9.0%	14.8%	7.2%	-	22.5%	6.7%	-7.6%	-	12.5%	-5.0%	7.0%	13.0%	-2.7%	-	11.3%
Impaired loans	241,137	860,301	111,184	-	-	-	-	-	1,212,622	96,054	63,105	2,305	161,464	-	1,374,086
Impaired loan ratio	0.6%	0.7%	0.5%	-	-	-	-	-	0.7%	0.9%	3.0%	0.6%	1.2%	-	0.7%
Deposits from customers	-	153,661,620	321,327	53,699,558	2,997,848	-	-	-	210,680,353	11,300,040	2,713,518	346,414	14,361,972	-	225,042,325
Deposit growth	-	14.8%	2.1%	10.0%	-12.2%	-	-	-	13.0%	0.7%	13.8%	9.8%	3.1%	-	12.3%
Addition to non-current assets	1,310	65,465	664	522	960	4,796	38,519	18,130	130,366	9,625	4,384	3,313	17,322	-	147,688
Segment assets	40,253,867	162,341,157	23,210,411	68,221,488	4,236,751	309,428	304,720	18,009,036	316,886,858	14,887,216	3,565,872	660,193	19,133,281	(64,647,889)	271,372,250
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									37,319				113,891		151,210
Unallocated assets									1,175,072				-		1,175,072
Intangible assets									769,251				1,157,096		1,926,347
Total assets									318,869,500				20,404,268		274,624,879

Notes to the Financial Statements

51. Segment Information (Cont'd.)

By Business Segments: (Cont'd.)

	Domestic Operating Segments										← Overseas Operating Segments →				
	Treasury and Capital														
2011	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
External revenue	2,150,378	5,879,167	845,770	1,533,285	191,297	867,354	4,640	290,289	11,762,180	733,407	216,691	44,082	994,180	-	12,756,360
Revenue from other segments	-	911,302	11,393	678,443	36,382	10,018	28,056	1,170,564	2,846,158	1	3,108	-	3,109	(2,849,267)	-
Total revenue	2,150,378	6,790,469	857,163	2,211,728	227,679	877,372	32,696	1,460,853	14,608,338	733,408	219,799	44,082	997,289	(2,849,267)	12,756,360
Net interest income and Islamic banking income	920,342	3,704,538	243,604	99,714	11,923	10,691	(7,308)	226,347	5,209,851	476,421	127,136	29,865	633,422	-	5,843,273
Other income	5,060	438,519	36,859	239,938	67,280	475,642	32,467	180,278	1,476,043	106,578	41,966	5,782	154,326	(65,072)	1,565,297
Net income	925,402	4,143,057	280,463	339,652	79,203	486,333	25,159	406,625	6,685,894	582,999	169,102	35,647	787,748	(65,072)	7,408,570
Other operating expenses of which:	(161,340)	(1,288,176)	(8,596)	(18,807)	(27,932)	(164,483)	(14,611)	(260,860)	(1,944,805)	(270,358)	(48,661)	(9,932)	(328,951)	65,072	(2,208,684)
Depreciation	(2,223)	(66,299)	(146)	(633)	(749)	(5,661)	(4,438)	(42,936)	(123,085)	(12,650)	(8,571)	(1,641)	(22,862)	-	(145,947)
(Allowance)/writeback of allowance for impairment on loans, advances and financing	(119,238)	(76,669)	35,816	-	52	-	-	-	(159,739)	(136,723)	(29,696)	(597)	(167,016)	-	(326,755)
Impairment written back/ (loss)	-	1,643	-	(45)	-	-	-	-	1,598	-	-	-	-	-	1,598
Profit by segments	644,824	2,780,155	307,683	320,800	51,323	321,850	10,548	145,765	4,562,948	175,918	90,745	25,118	291,781	-	4,874,729
Reconciliation of segment profits to consolidated profits:															
Share of (loss)/profit after tax of equity accounted associated companies									(1,498)				4,708		3,210
Profit before tax expense and zakat									4,561,450				296,489		4,877,939
Cost-to-income ratio	17.4%	31.1%	3.1%	5.5%	35.3%	33.8%	58.1%	64.2%	29.1%	46.4%	28.8%	27.9%	41.8%		29.8%

Notes to the Financial Statements

51. Segment Information (Cont'd.)

By Business Segments: (Cont'd.)

	Domestic Operating Segments										← Overseas Operating Segments →				
	Treasury and Capital														
2011	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
Gross loans	37,086,794	104,950,298	21,727,954	-	255,789	48,349	2,115	-	164,081,299	11,347,423	1,940,880	324,405	13,612,718	-	177,894,017
Loan growth	10.4%	14.9%	16.7%	-	7.3%	14.5%	-3.6%	-	14.1%	6.1%	9.7%	28.1%	7.0%	-	13.5%
Impaired loans	209,138	1,008,483	130,688	-	-	-	-	-	1,348,309	118,278	58,911	4,159	181,348	-	1,529,667
Impaired loan ratio	0.6%	1.0%	0.6%	-	-	-	-	-	0.8%	1.0%	3.0%	1.3%	1.3%	-	0.9%
Deposits from customers	-	133,891,761	314,594	48,823,150	3,415,424	-	-	-	186,444,929	11,223,467	2,384,771	317,388	13,925,596	-	200,370,525
Deposit growth	-	12.4%	43.0%	19.2%	51.7%	-	-	-	14.7%	-3.6%	0.0%	16.2%	-2.6%	-	13.3%
Addition to non-current assets	1,515	48,203	80	1,667	203	6,688	22,340	101,937	182,613	6,810	9,561	910	17,281	-	199,894
Segment assets	36,939,663	142,000,262	21,614,989	63,249,589	4,551,629	254,877	270,800	16,715,960	285,597,769	15,178,197	3,158,187	580,350	18,916,734	(57,252,413)	247,262,080
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies											40,847				155,997
Unallocated assets											1,175,910				1,175,910
Intangible assets											769,251				1,965,476
Total assets											287,593,777				250,559,473

Notes to the Financial Statements

52. Changes in Accounting Policies

(a) Effects of Adopting MFRS Framework

These audited financial statements are the Group's and the Bank's first annual financial statements prepared under the MFRS framework. Accordingly, the Group and the Bank have applied MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards upon their adoption of the MFRS framework on 1 January 2012. The MFRS adoption did not result in any financial impact to the Group and the Bank other than the financial impact arising from the change in accounting policy on collective assessment allowance.

The adoption of the MFRS framework has resulted in the following changes:

(i) **MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139") – Accounting Policy on Collective Assessment Allowance for Loans, Advances and Financing**

Prior to the transition to MFRS 139, the Bank and its domestic banking subsidiary companies had maintained their collective assessment allowance at 1.5% of total outstanding loans, advances and financing, net of individual assessment allowance, in line with Bank Negara Malaysia's transitional provisions under its Guidelines on Classification and Impairment Provisions for Loans/Financing. Upon the transition to MFRS 139 on 1 January 2012, these transitional provisions, which were allowed under the previous FRS framework, were removed and the Bank and its domestic banking subsidiary companies have applied the requirements of MFRS 139 in the determination of collective assessment allowance.

Under MFRS 139, collective assessment is performed on loans, advances and financing which are not individually significant based on the incurred loss approach. Loans, advances and financing which are individually assessed and where there is no objective evidence of impairment are also included in the group of loans, advances and financing for collective assessment. These loans, advances and financing are pooled into groups with similar credit risk characteristics and the future cash flows for each group is estimated on the basis of the historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans, advances and financing.

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(a) Effects of Adopting MFRS Framework (Cont'd.)

(i) MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139") – Accounting Policy on Collective Assessment Allowance for Loans, Advances and Financing (Cont'd.)

This change in accounting policy has been accounted for retrospectively and has resulted in a decrease in the collective assessment allowance charged in the income statement and a writeback of collective assessment allowance to the opening retained profits and opening collective assessment allowance in the statement of financial position. A summary of the financial impact of the change in accounting policy on the financial statements of the Group and the Bank are as follows:

	Group		Bank	
	31 December 2011 RM'000	1 January 2011 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Statement of Financial Position				
Loans, Advances and Financing				
– Collective Assessment Allowance (Note 9)				
– As previously stated	2,644,535	2,296,158	2,168,025	1,914,653
– Effects of MFRS adoption	(1,148,491)	(881,185)	(1,129,813)	(887,254)
As restated	1,496,044	1,414,973	1,038,212	1,027,399
Deferred Tax Assets				
– As previously stated	–	519,215	–	416,470
– Effects of MFRS adoption	–	(222,400)	–	(221,813)
As restated	–	296,815	–	194,657
Provision for Tax Expense and Zakat				
– As previously stated	488,178	–	281,354	–
– Effects of MFRS adoption	289,227	–	282,453	–
As restated	777,405	–	563,807	–
Retained Profits				
– As previously stated	6,417,544	4,754,405	6,004,958	4,374,204
– Effects of MFRS adoption	859,264	658,785	847,360	665,441
As restated	7,276,808	5,413,190	6,852,318	5,039,645

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(a) Effects of Adopting MFRS Framework (Cont'd.)

(i) MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139") – Accounting Policy on Collective Assessment Allowance for Loans, Advances and Financing (Cont'd.)

	Group 2011 RM'000	Bank 2011 RM'000
Income Statement		
Allowance for Impairment on Loans, Advances and Financing		
– Collective Assessment Allowance (Note 37)		
– As previously stated	603,151	439,501
– Effects of MFRS adoption	(267,306)	(242,559)
As restated	335,845	196,942
Tax Expense and Zakat		
– As previously stated	1,086,609	816,525
– Effects of MFRS adoption	66,827	60,640
As restated	1,153,436	877,165

(b) Other Change in Accounting Policies

During the year, the Group and the Bank have also adopted the following change in accounting policies:

(i) Guidelines on Profit Equalisation Reserve issued by Bank Negara Malaysia

On 19 May 2011, Bank Negara Malaysia issued its revised Guidelines on Profit Equalisation Reserve ("revised PER Guidelines"), which was effective for annual periods beginning on or after 1 July 2011. The Islamic banking subsidiary company of the Group has adopted these revised PER Guidelines with effect from 1 January 2012 in its management of displaced commercial risk.

Upon the adoption of these revised PER Guidelines, the Group will continue to set aside a portion of its profits into a Profit Equalisation Reserve ("PER"). The PER of the Investment Account Holder ("IAH") continues to be classified as a liability and is recognised at cost, with subsequent apportionments being recognised in the income statement. The eventual distribution of PER as profit distributable to the IAH will be treated as an outflow of funds due to the settlement of the obligation to the IAH. The PER of the Islamic Banking Institution ("IBI") is now classified as a separate reserve in equity and subsequent apportionments to and distributions from retained profits are treated as a transfer between reserves. This change in accounting policy is accounted for prospectively, and hence had no effect on comparative figures.

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework

In the preparation of the Group's and the Bank's opening MFRS statements of financial position, the amounts previously reported in accordance with the previous FRS framework have been adjusted for the financial effects of the adoption of the MFRS framework. A reconciliation of these changes is summarised in the following tables:

(i) Statement of Financial Position

Group	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
As At 31 December 2011			
ASSETS			
Cash and balances with banks	18,633,783		18,633,783
Reverse repurchase agreements	9,287,255		9,287,255
Financial assets held-for-trading	10,656,825		10,656,825
Derivative financial assets	493,852		493,852
Financial investments available-for-sale	16,719,433		16,719,433
Financial investments held-to-maturity	7,629,233		7,629,233
Loans, advances and financing	174,804,286	1,148,491	175,952,777
Other assets	2,008,254		2,008,254
Statutory deposits with Central Banks	5,597,801		5,597,801
Deferred tax assets	46,093		46,093
Investment in associated companies	155,997		155,997
Investment properties	70,754		70,754
Property and equipment	1,341,940		1,341,940
Intangible assets	1,965,476		1,965,476
TOTAL ASSETS	249,410,982		250,559,473
LIABILITIES			
Deposits from customers	200,370,525		200,370,525
Deposits from banks	15,806,732		15,806,732
Bills and acceptances payable	2,095,335		2,095,335
Recourse obligations on loans sold to Cagamas	11,789		11,789
Derivative financial liabilities	236,724		236,724
Debt securities issued and other borrowed funds	11,317,833		11,317,833
Other liabilities	3,467,535		3,467,535
Provision for tax expense and zakat	488,178	289,227	777,405
Deferred tax liabilities	55,625		55,625
TOTAL LIABILITIES	233,850,276		234,139,503

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(i) Statement of Financial Position (Cont'd.)

Group As At 31 December 2011	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
EQUITY			
Share capital	3,531,926		3,531,926
Share premium	1,073,310		1,073,310
Other reserves	4,056,014		4,056,014
Retained profits	6,417,544	859,264	7,276,808
Treasury shares	(215,572)		(215,572)
Equity attributable to equity holders of the Bank	14,863,222		15,722,486
Non-controlling interests	697,484		697,484
TOTAL EQUITY	15,560,706		16,419,970
TOTAL LIABILITIES AND EQUITY	249,410,982		250,559,473
Net assets per share attributable to ordinary equity holders of the Bank (RM)	4.24		4.49

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(i) Statement of Financial Position (Cont'd.)

Group As At 1 January 2011	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
ASSETS			
Cash and balances with banks	34,690,439		34,690,439
Reverse repurchase agreements	365,877		365,877
Financial assets held-for-trading	6,360,620		6,360,620
Derivative financial assets	326,622		326,622
Financial investments available-for-sale	17,852,284		17,852,284
Financial investments held-to-maturity	5,229,617		5,229,617
Loans, advances and financing	153,982,980	881,185	154,864,165
Other assets	1,995,880		1,995,880
Statutory deposits with Central Banks	1,612,575		1,612,575
Deferred tax assets	519,215	(222,400)	296,815
Investment in associated companies	118,624		118,624
Investment properties	65,552		65,552
Property and equipment	1,278,319		1,278,319
Intangible assets	1,930,372		1,930,372
TOTAL ASSETS	226,328,976		226,987,761
LIABILITIES			
Deposits from customers	176,872,119		176,872,119
Deposits from banks	21,327,476		21,327,476
Bills and acceptances payable	2,308,836		2,308,836
Recourse obligations on loans sold to Cagamas	16,319		16,319
Derivative financial liabilities	375,529		375,529
Debt securities issued and other borrowed funds	8,094,880		8,094,880
Other liabilities	2,839,874		2,839,874
Provision for tax expense and zakat	800,464		800,464
Deferred tax liabilities	8,391		8,391
TOTAL LIABILITIES	212,643,888		212,643,888

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(i) Statement of Financial Position (Cont'd.)

Group As At 1 January 2011	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
EQUITY			
Share capital	3,531,926		3,531,926
Share premium	1,073,310		1,073,310
Other reserves	3,888,562		3,888,562
Retained profits	4,754,405	658,785	5,413,190
Treasury shares	(215,303)		(215,303)
Equity attributable to equity holders of the Bank	13,032,900		13,691,685
Non-controlling interests	652,188		652,188
TOTAL EQUITY	13,685,088		14,343,873
TOTAL LIABILITIES AND EQUITY	226,328,976		226,987,761
Net assets per share attributable to ordinary equity holders of the Bank (RM)	3.72		3.91

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(i) Statement of Financial Position (Cont'd.)

Bank As At 31 December 2011	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
ASSETS			
Cash and balances with banks	10,508,349		10,508,349
Reverse repurchase agreements	8,435,611		8,435,611
Financial assets held-for-trading	10,406,551		10,406,551
Derivative financial assets	492,536		492,536
Financial investments available-for-sale	14,287,941		14,287,941
Financial investments held-to-maturity	7,073,857		7,073,857
Loans and advances	142,255,685	1,129,813	143,385,498
Other assets	1,913,726		1,913,726
Statutory deposits with Central Banks	4,496,365		4,496,365
Investment in subsidiary companies	4,088,581		4,088,581
Investment in associated companies	121,325		121,325
Property and equipment	657,124		657,124
Intangible assets	695,393		695,393
TOTAL ASSETS	205,433,044		206,562,857
LIABILITIES			
Deposits from customers	159,384,439		159,384,439
Deposits from banks	16,717,349		16,717,349
Bills and acceptances payable	2,095,076		2,095,076
Recourse obligations on loans sold to Cagamas	11,789		11,789
Derivative financial liabilities	190,325		190,325
Debt securities issued and other borrowed funds	10,422,749		10,422,749
Other liabilities	2,368,327		2,368,327
Provision for tax expense and zakat	281,354	282,453	563,807
Deferred tax liabilities	51,708		51,708
TOTAL LIABILITIES	191,523,116		191,805,569

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(i) Statement of Financial Position (Cont'd.)

Bank As At 31 December 2011	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
EQUITY			
Share capital	3,531,926		3,531,926
Share premium	1,073,310		1,073,310
Other reserves	3,515,306		3,515,306
Retained profits	6,004,958	847,360	6,852,318
Treasury shares	(215,572)		(215,572)
TOTAL EQUITY	13,909,928		14,757,288
TOTAL LIABILITIES AND EQUITY	205,433,044		206,562,857
Net assets per share attributable to ordinary equity holders of the Bank (RM)	3.97		4.21

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(i) Statement of Financial Position (Cont'd.)

Bank As At 1 January 2011	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
ASSETS			
Cash and balances with banks	27,172,447		27,172,447
Reverse repurchase agreements	10,737		10,737
Financial assets held-for-trading	5,812,736		5,812,736
Derivative financial assets	322,596		322,596
Financial investments available-for-sale	14,269,479		14,269,479
Financial investments held-to-maturity	5,230,399		5,230,399
Loans and advances	125,062,183	887,254	125,949,437
Other assets	1,703,642		1,703,642
Statutory deposits with Central Banks	1,106,330		1,106,330
Deferred tax assets	416,470	(221,813)	194,657
Investment in subsidiary companies	3,888,581		3,888,581
Investment in associated companies	101,325		101,325
Property and equipment	617,544		617,544
Intangible assets	695,393		695,393
TOTAL ASSETS	186,409,862		187,075,303
LIABILITIES			
Deposits from customers	140,789,266		140,789,266
Deposits from banks	21,069,781		21,069,781
Bills and acceptances payable	2,450,006		2,450,006
Recourse obligations on loans sold to Cagamas	16,319		16,319
Derivative financial liabilities	340,995		340,995
Debt securities issued and other borrowed funds	7,196,528		7,196,528
Other liabilities	1,675,651		1,675,651
Provision for tax expense and zakat	568,565		568,565
TOTAL LIABILITIES	174,107,111		174,107,111

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(i) Statement of Financial Position (Cont'd.)

	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
Bank			
As At 1 January 2011			
EQUITY			
Share capital	3,531,926		3,531,926
Share premium	1,073,310		1,073,310
Other reserves	3,538,614		3,538,614
Retained profits	4,374,204	665,441	5,039,645
Treasury shares	(215,303)		(215,303)
TOTAL EQUITY	12,302,751		12,968,192
TOTAL LIABILITIES AND EQUITY	186,409,862		187,075,303
Net assets per share attributable to ordinary equity holders of the Bank (RM)	3.51		3.70

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(ii) Reconciliation of Income Statement and Statement of Comprehensive Income

Income Statement	← For the Year Ended 31 December 2011 →		
	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
Group			
Operating revenue	12,756,360		12,756,360
Interest income	9,413,030		9,413,030
Interest expense	(4,438,099)		(4,438,099)
Net interest income	4,974,931		4,974,931
Net income from Islamic banking business	868,342		868,342
	5,843,273		5,843,273
Net fee and commission income	1,118,909		1,118,909
Net gains and losses on financial instruments	166,154		166,154
Other operating income	280,234		280,234
Net income	7,408,570		7,408,570
Other operating expenses	(2,208,684)		(2,208,684)
Operating profit	5,199,886		5,199,886
Allowance for impairment on loans, advances and financing	(594,061)	267,306	(326,755)
Writeback of impairment on other assets	1,598		1,598
	4,607,423		4,874,729
Share of profit after tax of equity accounted associated companies	3,210		3,210
Profit before tax expense and zakat	4,610,633		4,877,939
Tax expense and zakat	(1,086,609)	(66,827)	(1,153,436)
Profit for the year	3,524,024		3,724,503
Attributable to:			
– Equity holders of the Bank	3,483,810		3,684,289
– Non-controlling interests	40,214		40,214
	3,524,024		3,724,503
Earnings per RM1.00 share:			
– basic/diluted (sen)	99.5		105.2

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(ii) Reconciliation of Income Statement and Statement of Comprehensive Income (Cont'd.)

	← For the Year Ended 31 December 2011 →		
Statement of Comprehensive Income	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
Group			
Profit for the year	3,524,024	200,479	3,724,503
Other comprehensive income/(loss):			
Foreign currency translation reserves:			
– Currency translation differences in respect of			
– foreign operations	124,934		124,934
– net investment hedge	(90,853)		(90,853)
	34,081		34,081
Revaluation reserves:			
– Net change in revaluation of financial investments available-for-sale	(27,479)		(27,479)
Hedging reserves:			
– Net change in cash flow hedges	(3,445)		(3,445)
	3,157		3,157
Income tax relating to components of other comprehensive loss:			
– Revaluation reserves	4,305		4,305
– Hedging reserves	861		861
	5,166		5,166
Other comprehensive income for the year, net of tax	8,323		8,323
Total comprehensive income for the year	3,532,347		3,732,826
Total comprehensive income for the year attributable to:			
– Equity holders of the Bank	3,467,837		3,668,316
– Non-controlling interests	64,510		64,510
	3,532,347		3,732,826

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(ii) Reconciliation of Income Statement and Statement of Comprehensive Income (Cont'd.)

Income Statement	← For the Year Ended 31 December 2011 →		
	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
Bank			
Operating revenue	9,436,092		9,436,092
Interest income	8,529,106		8,529,106
Interest expense	(4,237,383)		(4,237,383)
Net interest income	4,291,723		4,291,723
Net fee and commission income	450,004		450,004
Net gains and losses on financial instruments	167,482		167,482
Other operating income	967,768		967,768
Net income	5,876,977		5,876,977
Other operating expenses	(1,509,815)		(1,509,815)
Operating profit	4,367,162		4,367,162
Allowance for impairment on loans and advances	(283,497)	242,559	(40,938)
Writeback of impairment on other assets	1,616		1,616
Profit before tax expense and zakat	4,085,281		4,327,840
Tax expense and zakat	(816,525)	(60,640)	(877,165)
Profit for the year	3,268,756		3,450,675

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

(ii) Reconciliation of Income Statement and Statement of Comprehensive Income (Cont'd.)

Statement of Comprehensive Income	← For the Year Ended 31 December 2011 →		
	Under the FRS Framework RM'000	Effects of MFRS Adoption MFRS 139 RM'000	Under the MFRS Framework RM'000
Bank			
Profit for the year	3,268,756	181,919	3,450,675
Other comprehensive loss:			
Revaluation reserves:			
– Net change in revaluation of financial investments available-for-sale	(28,640)		(28,640)
Hedging reserves:			
– Net change in cash flow hedges	(3,445)		(3,445)
	(32,085)		(32,085)
Income tax relating to components of other comprehensive loss:			
– Revaluation reserves	7,160		7,160
– Hedging reserves	861		861
	8,021		8,021
Other comprehensive loss for the year	(24,064)		(24,064)
Total comprehensive income for the year	3,244,692		3,426,611

Notes to the Financial Statements

52. Changes in Accounting Policies (Cont'd.)

(c) Financial Impact of Adoption of MFRS Framework (Cont'd.)

- (iii) There are no material differences between the statement of cash flows presented under the MFRSs and the statement of cash flows presented under FRSs.

(iv) Capital adequacy

The adjustments to the financial statements of the Group and the Bank as a result of the transition to the MFRS framework and the changes in accounting policies, as discussed above, also had consequential effects on the comparative capital adequacy ratios. These are summarised below:

	As at 31 December 2011		As at 1 January 2011	
	As previously stated: Under the FRS Framework	As restated: Under the MFRS Framework	As previously stated: Under the FRS Framework	As restated: Under the MFRS Framework
Group				
Tier 1 capital (RM'000)	17,390,603	18,249,867	15,055,321	15,936,506
Capital base (RM'000)	25,939,832	25,416,082	20,273,695	19,992,123
<u>Before deducting second interim dividends</u>				
Tier 1 capital ratio (%)	10.7	11.2	10.7	11.3
Risk-weighted capital ratio (%)	15.9	15.6	14.4	14.2
<u>After deducting second interim dividends</u>				
Tier 1 capital ratio (%)	10.1	10.6	10.0	10.6
Risk-weighted capital ratio (%)	15.3	15.0	13.7	13.5
Bank				
Tier 1 capital (RM'000)	17,369,073	18,216,433	15,322,051	16,188,592
Capital base (RM'000)	21,497,241	21,044,900	16,408,647	16,188,592
<u>Before deducting second interim dividends</u>				
Tier 1 capital ratio (%)	12.9	13.5	13.2	13.9
Risk-weighted capital ratio (%)	15.9	15.6	14.1	13.9
<u>After deducting second interim dividends</u>				
Tier 1 capital ratio (%)	12.1	12.8	12.4	13.1
Risk-weighted capital ratio (%)	15.2	14.9	13.3	13.1

Notes to the Financial Statements

53. Rating Statement

The Bank was accorded the following ratings:

Agencies	Date accorded/Reaffirmed	Ratings
Rating Agency Malaysia Berhad	5 June 2012 (Reaffirmed)	Long-Term Rating: AAA
	5 June 2012 (Reaffirmed)	Short-Term Rating: P1
	5 June 2012 (Reaffirmed)	Outlook: Stable
	5 June 2012 (Reaffirmed)	Subordinated Medium-Term Notes Programme: AA1
	5 June 2012 (Reaffirmed)	Innovative Tier I Capital Securities: AA2
	5 June 2012 (Reaffirmed)	Non-Cumulative Perpetual Capital Securities Programme: AA2
Moody's Investors Services	31 January 2013	Long-Term Deposits Rating: A3
	31 January 2013	Short-Term Deposits Rating: P-2
	31 January 2013	Financial Strength: C
	31 January 2013	Outlook: Stable
	31 January 2013	Subordinated Notes: A3
Standard & Poor's	20 November 2012	Long-Term Rating: A-
	20 November 2012	Short-Term Rating: A-2
		Asean Regional Scale Rating:
	20 November 2012	Long-Term Rating: axAA
	20 November 2012	Short-Term Rating: axA-1
	20 November 2012	Outlook: Stable
	20 November 2012	Innovative Tier-I Capital Securities: BBB-

54. Significant Events

The significant events relating to changes in the composition of the Group are disclosed in Notes 13 and those relating to debt redemption is disclosed in Note 22(b).

55. Subsequent Events

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

Notes to the Financial Statements

56. Islamic Banking Business

The financial position as at 31 December 2012 and results for the financial year ended on this date under the Islamic banking business of the Group, which is conducted by its wholly-owned subsidiary company, Public Islamic Bank Berhad, are summarised as follows:

Statement of Financial Position as at 31 December 2012

		31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
	Note			
ASSETS				
Cash and balances with banks		4,709,388	6,257,092	4,571,596
Financial assets held-for-trading		2,638,867	1,249,014	298,846
Derivative financial assets		21,839	–	–
Financial investments available-for-sale		994,923	1,830,720	2,138,048
Financial investments held-to-maturity		–	5,022	5,022
Financing and advances	(a)	20,168,110	19,224,468	16,340,155
Other assets		73,240	81,185	68,446
Statutory deposits with Bank Negara Malaysia		671,450	775,700	167,000
Deferred tax assets		–	–	70,362
Investment in an associated company		20,000	20,000	–
Property and equipment		1,327	1,619	1,545
Total Assets		29,299,144	29,444,820	23,661,020
LIABILITIES AND ISLAMIC BANKING FUNDS				
Deposits from customers	(b)	23,703,338	20,029,935	15,306,731
Deposits from banks		2,644,831	7,179,533	6,379,985
Bills and acceptances payable		625	334	4,893
Recourse obligations on financing sold to Cagamas		500,003	–	–
Other liabilities		106,812	71,182	70,471
Provision for zakat and taxation		50,188	46,512	83,417
Deferred tax liabilities		6,068	398	–
Total Liabilities		27,011,865	27,327,894	21,845,497
Islamic Banking Funds		2,287,279	2,116,926	1,815,523
Total Liabilities and Islamic Banking Funds		29,299,144	29,444,820	23,661,020
COMMITMENTS AND CONTINGENCIES				
		4,642,159	1,910,159	1,171,568

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

Income Statement for the year ended 31 December 2012

	Group	
	2012	2011
	RM'000	RM'000
Income derived from investment of depositors' funds and others	1,386,046	1,278,146
Income derived from investment of Islamic Banking Funds	111,916	98,125
Allowance for impairment on financing and advances	(49,706)	(78,310)
Impairment on other assets	(25)	(11)
Profit Equalisation Reserve	(2,180)	33,436
Total distributable income	1,446,051	1,331,386
Income attributable to the depositors and others	(652,016)	(541,365)
Total net income	794,035	790,021
Personnel expenses	(16,666)	(16,903)
Other overheads and expenditures	(232,621)	(167,216)
Profit before zakat and taxation	544,748	605,902
Zakat	(330)	(318)
Taxation	(133,452)	(149,037)
Profit for the year	410,966	456,547

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

	Group	
	2012	2011
	RM'000	RM'000
Income derived from investment of depositors' funds and others	1,386,046	1,278,146
Income derived from investment of Islamic Banking Funds	111,916	98,125
Income attributable to the depositors	(652,016)	(541,365)
Profit Equalisation Reserve	(2,180)	33,436
Net income from Islamic banking business reported in the income statement of the Group	843,766	868,342

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

Statement of Comprehensive Income for the year ended 31 December 2012

	2012 RM'000	Group 2011 RM'000
Profit for the year	410,966	456,547
Other comprehensive income:		
Revaluation reserves:		
– Net change in revaluation of financial investments available-for-sale	1,441	1,720
Hedging reserves:		
– Net change in cash flow hedges	21,764	–
	23,205	1,720
Income tax relating to components of other comprehensive income:		
– Revaluation reserves	(360)	(430)
– Hedging reserves	(5,441)	–
	(5,801)	(430)
Other comprehensive income for the year, net of tax	17,404	1,290
Total comprehensive income for the year	428,370	457,837

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

Statement of Changes in Islamic Banking Funds for the year ended 31 December 2012

	Non-distributable Reserves						Distributable Reserves	Total
	Capital Funds	Share Premium	Statutory Reserves	Hedging Reserves	Revaluation Reserves	Profit Equalisation Reserves	Retained Profits	
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2012								
– as previously stated	186,217	1,421,500	207,546	–	1,035	–	282,034	2,098,332
– effects of MFRS adoption	–	–	–	–	–	–	18,594	18,594
At 1 January 2012, as restated	186,217	1,421,500	207,546	–	1,035	–	300,628	2,116,926
Profit for the year	–	–	–	–	–	–	410,966	410,966
Other comprehensive income for the year	–	–	–	16,323	1,081	–	–	17,404
Total comprehensive income for the year	–	–	–	16,323	1,081	–	410,966	428,370
Transactions with owners/ other equity movements:								
Transfer to Profit Equalisation Reserves of the Islamic banking institution	–	–	–	–	–	503	(503)	–
Issue of shares	7,000	168,000	–	–	–	–	–	175,000
Dividends paid	–	–	–	–	–	–	(433,017)	(433,017)
	7,000	168,000	–	–	–	503	(433,520)	(258,017)
At 31 December 2012	193,217	1,589,500	207,546	16,323	2,116	503	278,074	2,287,279

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

Statement of Changes in Islamic Banking Funds for the year ended 31 December 2012 (Cont'd.)

Group	Non-distributable Reserves				Distributable Reserves	Total RM'000
	Capital Funds RM'000	Share Premium RM'000	Statutory Reserves RM'000	Revaluation Reserves RM'000	Retained Profits RM'000	
At 1 January 2011						
– as previously stated	178,217	1,229,500	187,546	(255)	220,380	1,815,388
– effects of MFRS adoption	–	–	–	–	135	135
At 1 January 2011, as restated	178,217	1,229,500	187,546	(255)	220,515	1,815,523
Profit for the year	–	–	–	–	456,547	456,547
Other comprehensive income for the year	–	–	–	1,290	–	1,290
Total comprehensive income for the year	–	–	–	1,290	456,547	457,837
Transactions with owners/ other equity movements:						
Issue of shares	8,000	192,000	–	–	–	200,000
Transfer to statutory reserves	–	–	20,000	–	(20,000)	–
Dividends paid	–	–	–	–	(356,434)	(356,434)
	8,000	192,000	20,000	–	(376,434)	(156,434)
At 31 December 2011	186,217	1,421,500	207,546	1,035	300,628	2,116,926

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(a) Financing and Advances

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
Cash line	330,235	246,412	159,508
Term financing			
– House financing	4,235,554	3,177,799	2,516,434
– Syndicated financing	412,933	401,792	381,496
– Hire purchase receivables	10,189,015	10,324,273	8,654,075
– Other term financing	5,184,288	5,335,516	4,798,625
Claims on customers under acceptance credits	2,762	–	–
Revolving credit	68,223	7,611	79,390
Gross financing and advances	20,423,010	19,493,403	16,589,528
Less: Allowance for impaired financing and advances			
– collective assessment allowance	(254,261)	(267,589)	(248,652)
– individual assessment allowance	(639)	(1,346)	(721)
Net financing and advances	20,168,110	19,224,468	16,340,155

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

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Maturity within one year	709,405	592,903	438,079
More than one year to three years	1,687,887	1,615,249	1,491,039
More than three years to five years	3,014,720	3,099,493	2,762,752
More than five years	15,010,998	14,185,758	11,897,658
Gross financing and advances	20,423,010	19,493,403	16,589,528

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(a) Financing and Advances (Cont'd.)

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Retail financing			
– House financing	4,235,554	3,177,799	2,516,434
– Hire purchase	10,189,015	10,324,273	8,654,075
– Other financing	5,232,178	5,248,564	4,617,979
	19,656,747	18,750,636	15,788,488
Corporate financing	766,263	742,767	801,040
	20,423,010	19,493,403	16,589,528

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Bai' Bithaman Ajil-i (deferred payment sale)	7,011,275	5,488,222	4,656,767
Ijarah Thamma Al-Bai'-i (leasing)	10,189,015	10,324,273	8,654,075
Ijarah Muntahia Bittamlik	112,326	101,104	80,809
Bai-Al-Einah-i	3,062,356	3,579,804	3,197,877
Musharakah Mutanaqisah	45,276	–	–
Murabahah Purchase Order	2,762	–	–
	20,423,010	19,493,403	16,589,528

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(a) Financing and Advances (Cont'd.)

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Other domestic non-bank financial institutions	242,250	222,957	208,585
Domestic business enterprises			
– Small and medium enterprises	1,562,812	1,321,766	973,451
– Others	508,927	472,732	537,497
Government and statutory authorities	321,878	324,010	325,855
Individuals	17,739,162	17,103,400	14,495,813
Other domestic entities	2,878	3,197	2,867
Foreign customers	45,103	45,341	45,460
	20,423,010	19,493,403	16,589,528

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Fixed rate			
– House financing	679,755	774,518	891,323
– Hire purchase receivables	10,189,015	10,324,273	8,654,075
– Other fixed rate financing	3,599,339	4,216,263	4,085,444
Variable rate			
– BFR plus	5,554,563	3,828,522	2,529,065
– Cost plus	400,338	349,827	429,621
	20,423,010	19,493,403	16,589,528

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(a) Financing and Advances (Cont'd.)

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Purchase of securities	4	114	8
Purchase of transport vehicles	10,187,456	10,323,981	8,655,897
Purchase of landed properties	5,941,722	4,583,503	3,744,874
(of which: – residential	4,185,965	3,137,434	2,469,002
– non-residential)	1,755,757	1,446,069	1,275,872
Purchase of fixed assets (excluding landed properties)	26,149	19,913	5,800
Personal use	3,234,529	3,720,077	3,308,884
Purchase of consumer durables	3,643	3,396	3,241
Construction	39,659	41,017	28,536
Working capital	755,405	552,837	571,026
Other purpose	234,443	248,565	271,262
	20,423,010	19,493,403	16,589,528

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Agriculture, hunting, forestry and fishing	208,156	206,981	179,429
Mining and quarrying	19,182	17,628	7,296
Manufacturing	126,675	114,652	96,625
Electricity, gas and water	1,161	1,218	1,191
Construction	348,382	318,911	246,503
Wholesale & retail trade and restaurants & hotels	423,316	357,755	276,127
Transport, storage and communication	112,119	78,696	62,191
Finance, insurance and business services	442,921	401,248	319,444
Real estate	545,893	442,531	449,141
Community, social and personal services	405,029	396,661	387,688
Households	17,784,265	17,148,741	14,541,272
Others	5,911	8,381	22,621
	20,423,010	19,493,403	16,589,528

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(a) Financing and Advances (Cont'd.)

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

	Group	
	2012 RM'000	2011 RM'000
At 1 January	173,277	162,629
Impaired during the year	442,749	432,444
Reclassified as non-impaired during the year	(332,199)	(317,261)
Recoveries	(29,725)	(33,566)
Amount written off	(78,678)	(69,805)
Financing converted to foreclosed properties	(257)	(1,164)
Gross impaired financing and advances	175,167	173,277
Gross impaired financing as % of gross financing and advances	0.86%	0.89%
Gross impaired financing as % of gross financing and advances as at 1 January 2011		0.98%

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

	Group		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Purchase of securities	4	9	8
Purchase of transport vehicles	72,212	67,100	69,469
Purchase of landed properties	61,700	63,978	56,227
(of which: – residential	48,359	52,026	50,036
– non-residential)	13,341	11,952	6,191
Purchase of fixed assets (excluding landed properties)	61	61	123
Personal use	40,597	41,287	35,805
Purchase of consumer durables	68	–	–
Working capital	480	648	760
Other purpose	45	194	237
	175,167	173,277	162,629

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(a) Financing and Advances (Cont'd.)

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

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Agriculture, hunting, forestry and fishing	2	276	138
Mining and quarrying	35	35	132
Manufacturing	667	565	933
Construction	783	1,175	1,345
Wholesale & retail trade and restaurants & hotels	952	980	2,977
Transport, storage and communication	6,867	8,384	5,101
Finance, insurance and business services	649	743	814
Real estate	–	–	41
Community, social and personal services	111	13	132
Households	164,911	160,885	150,975
Others	190	221	41
	175,167	173,277	162,629

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

(xii) A reconciliation of the allowance for impaired financing and advances are as follows:

	House Financing RM'000	Hire Purchase RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
2012					
Collective Assessment Allowance					
At 1 January 2012					
– as previously stated	47,667	154,864	78,708	11,142	292,381
– effects of MFRS adoption	(350)	(23,436)	8,781	(9,787)	(24,792)
At 1 January 2012, as restated	47,317	131,428	87,489	1,355	267,589
Allowance made during the year	7,354	44,973	12,770	(3)	65,094
Amount written off	(2,195)	(42,498)	(33,729)	–	(78,422)
At 31 December 2012	52,476	133,903	66,530	1,352	254,261

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(a) Financing and Advances (Cont'd.)

(xii) A reconciliation of the allowance for impaired financing and advances are as follows: (Cont'd.)

	← Retail Financing →			Corporate Financing RM'000	Total RM'000
	House Financing RM'000	Hire Purchase RM'000	Other Financing RM'000		
2011					
<u>Collective Assessment Allowance</u>					
At 1 January 2011					
– as previously stated	37,747	129,812	69,257	12,016	248,832
– effects of MFRS adoption	9,180	(2,464)	3,645	(10,541)	(180)
At 1 January 2011, as restated	46,927	127,348	72,902	1,475	248,652
Allowance made during the year	3,277	43,152	42,433	(120)	88,742
Amount written off	(2,887)	(39,072)	(27,846)	–	(69,805)
At 31 December 2011	47,317	131,428	87,489	1,355	267,589
2012					
<u>Individual Assessment Allowance</u>					
At 1 January 2012	–	–	1,346	–	1,346
Net allowance made during the year	–	–	(451)	–	(451)
Allowance made during the year	–	–	256	–	256
Amount written back in respect of recoveries	–	–	(707)	–	(707)
Amount written off	–	–	(256)	–	(256)
At 31 December 2012	–	–	639	–	639
2011					
<u>Individual Assessment Allowance</u>					
At 1 January 2011	–	–	721	–	721
Net allowance made during the year	–	–	625	–	625
Allowance made during the year	–	–	995	–	995
Amount written back in respect of recoveries	–	–	(370)	–	(370)
At 31 December 2011	–	–	1,346	–	1,346

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(b) Deposits From Customers

(i) By contract and type of deposit:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
At amortised cost			
<u>Non-Mudharabah Fund</u>			
Current deposits-i	2,462,377	2,307,971	2,075,047
Savings deposits-i	4,568,625	4,295,000	3,861,945
General investment deposits-i	10,326,345	2,584,424	–
Special investment deposits-i	2,624,048	–	–
Negotiable instruments of deposit-i	522,400	1,136,468	2,188,896
	20,503,795	10,323,863	8,125,888
<u>Mudharabah Fund</u>			
Current deposits-i	57,198	26,779	–
Savings deposits-i	66,681	72,294	75,642
General investment deposits-i	3,075,664	7,141,559	6,241,737
Special investment deposits-i	–	2,465,440	863,464
	3,199,543	9,706,072	7,180,843
	23,703,338	20,029,935	15,306,731

Included in Deposits from Customers of the Bank are deposits of RM41,551,000 (31 December 2011 – RM19,431,000; 1 January 2011 – RM13,937,000) held as collateral for financing and advances.

(ii) By class of financial instrument:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Core deposits	20,556,890	16,428,027	12,254,371
Wholesale deposits	3,146,448	3,601,908	3,052,360
	23,703,338	20,029,935	15,306,731

Notes to the Financial Statements

56. Islamic Banking Business (Cont'd.)

(b) Deposits From Customers (Cont'd.)

(iii) By type of customers:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Federal and state governments	1,454,940	1,468,668	1,145,148
Local government and statutory authorities	1,112,651	1,047,341	677,655
Business enterprises	4,494,823	4,633,957	3,804,140
Individuals	5,113,732	4,759,562	4,266,189
Foreign customers	315,736	241,701	97,021
Others	11,211,456	7,878,706	5,316,578
	23,703,338	20,029,935	15,306,731

(iv) The maturity structure of negotiable instruments of deposit-i, general and special investment deposits-i are as follows:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Due within six months	15,319,778	11,732,731	8,954,324
More than six months to one year	1,224,742	1,583,343	326,722
More than one year to three years	3,231	10,389	10,892
More than three years to five years	706	1,428	2,159
	16,548,457	13,327,891	9,294,097

Notes to the Financial Statements

57. Realised and Unrealised Profits

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group and the Bank as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	31 December 2012 RM'000	Group 31 December 2011 RM'000	1 January 2011 RM'000
Total retained profits of Public Bank Berhad and its subsidiaries:			
– Realised	10,538,951	8,231,095	5,830,145
– Unrealised			
– in respect of deferred tax recognised in the income statement	15,225	(14,409)	513,414
– in respect of other items of income and expense	75,611	52,059	51,092
	10,629,787	8,268,745	6,394,651
Total share of retained profits from associated companies:			
– Realised	4,495	6,433	13,648
– Unrealised	–	–	–
	10,634,282	8,275,178	6,408,299
Less: Consolidation adjustments	(1,180,635)	(998,370)	(995,109)
Total Group retained profits as per consolidated accounts	9,453,647	7,276,808	5,413,190

Notes to the Financial Statements

57. Realised and Unrealised Profits (Cont'd.)

The breakdown of retained profits of the Group and the Bank as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows: (Cont'd.)

	31 December 2012 RM'000	Bank 31 December 2011 RM'000	1 January 2011 RM'000
Total retained profits of Public Bank Berhad:			
– Realised	8,943,938	6,899,270	4,615,939
– Unrealised			
– in respect of deferred tax recognised in the income statement	(38,427)	(57,500)	418,699
– in respect of other items of income and expense	13,429	10,548	5,007
Total Bank retained profits as per accounts	8,918,940	6,852,318	5,039,645

The determination of realised and unrealised profits is based on the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

Accordingly, the unrealised retained profits of the Group and the Bank as disclosed above exclude translation gains and losses on monetary items denominated in a currency other than the functional currency and foreign exchange contracts, as these gains and losses are incurred in the ordinary course of business of the Group and the Bank, and are hence deemed as realised.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

PILLAR 3 DISCLOSURE

As at 31 December 2012

Overview

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

- (a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume.
- (b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions to develop and employ more rigorous risk management framework and techniques, including specific oversight by the board of directors and senior management on internal controls and corporate governance practices, to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times.
- (c) Pillar 3 aims to harness the power of 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 Disclosure Policy on Basel II Risk-Weighted Capital Adequacy Framework/Capital Adequacy Framework for Islamic Banks - Pillar 3 which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been reviewed and verified by the internal auditors and certified by Public Bank Berhad ("the Bank")'s Managing Director/Chief Executive Officer. Under the BNM's RWCAF, the information disclosed herein is not required to be audited by external auditors. The Pillar 3 Disclosure will be published in the Bank's website, www.publicbank.com.my

Pillar 3 Disclosure

Overview (Cont'd.)

Minimum Regulatory Capital Requirements

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

	2012		2011	
	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	164,080,465	13,126,437	148,664,399	11,893,152
Market Risk	1,713,076	137,047	1,670,798	133,664
Operational Risk	13,733,324	1,098,666	12,692,078	1,015,366
Total	179,526,865	14,362,150	163,027,275	13,042,182

Bank

Credit Risk	137,279,014	10,982,321	123,065,342	9,845,227
Market Risk	2,579,721	206,378	2,774,099	221,928
Operational Risk	9,915,430	793,234	9,048,375	723,870
Total	149,774,165	11,981,933	134,887,816	10,791,025

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

Pillar 3 Disclosure

1. Scope of Application

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank and its subsidiary and associated companies. The Group offers Islamic banking financial services via the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("Public Islamic"). Information on subsidiary and associated companies of the Group is available in Notes 13 and 14 to the financial statements respectively.

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

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

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

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

2. Capital Management

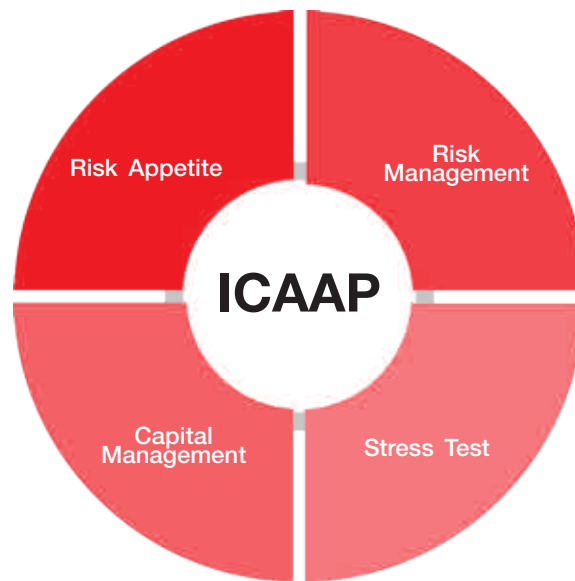
The Group's capital management is guided by the Group's Capital Management Framework which sets out the capital targets and outlines the Group's objective to diversify its sources of capital and to allocate capital efficiently. This objective is directed by the need to maintain a prudent relationship between available capital and risks in the underlying businesses to meet the expectations of key constituencies, including investors, regulators and rating agencies. Under the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group's risk management and capital management processes were enhanced to facilitate a comprehensive assessment of the various types of risk that the Group may be exposed to. The risk assessment is to determine the adequacy of capital that commensurates with the Group's risk profile, the complexity of the business activities undertaken, its risk appetite, the environment in which it operates as well as its 3-year business plans.

The Board of Directors ("Board") maintains overall responsibility for effective oversight on the adequacy and quality of capital to meet the Group's risk profile and business plan. The Board is supported by the Risk Management Committee ("RMC") and ICAAP Working Group. Four ICAAP Working Support Groups have been set up to identify, assess, quantify the Pillar 2 risks on an ongoing basis and consider the results for capital management. Internal Audit Division ("IAD") is responsible to conduct reviews of processes relating to the ICAAP to ensure their integrity, objectivity and consistency in application.

2. Capital Management (Cont'd.)

2.1 Internal Capital Adequacy Assessment Process

In line with the BNM's guidelines on Risk-Weighted Capital Adequacy Framework – Internal Capital Adequacy Assessment Process (Pillar 2), the Group has put in place the ICAAP Framework to assess the capital adequacy of the Group in a structured manner to ensure the level of capital maintained by the Group is adequate and takes into account the Group's risk profile and business strategies. The four elements of the Group's ICAAP are as follows:



(a) Risk Appetite

The risk appetite articulates the amount and types of risk that the Group is able and willing to accept in pursuit of its business objectives and concurrently reflecting the level of risk tolerance and limits set to govern, manage and control the Group's risk taking activities.

The key processes in setting the risk appetite are as follows:



Pillar 3 Disclosure

2. Capital Management (Cont'd.)

2.1 Internal Capital Adequacy Assessment Process (Cont'd.)

(b) Capital Management

The Group's capital management process under the ICAAP focuses on planning for the Group's capital requirements whilst ensuring that sufficient capital is maintained at levels in excess of minimum regulatory requirements and the Group's internal capital targets. The key drivers of the capital management process are the Group's capital plan and the Group's internal capital targets.

The capital plan is an integrated process whereby the Group's capital requirements are determined taking into account its business plan and strategic plans. The Group's internal capital targets incorporate, at minimum, the capital required to cover Pillar 1 risks, material and quantifiable Pillar 2 risks and capital losses in times of stress. Sources of capital available to meet the capital requirements are identified.

(c) Stress Testing

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

- To establish a comprehensive and consistent stress test process in conducting the stress test by all entities within the Group
- To develop stress test parameters, assumptions and scenarios that are relevant and take into account the nature, risk profile and complexity of the Group's business as well as the environment in which the Group operates
- To ensure the stress test capture all material risks including emerging risks
- To ensure all stress test parameters, assumptions and scenarios are duly deliberated by senior management and approved by the RMC prior to the execution of the stress test exercise
- To ensure loss outcomes are identified and that senior management are able to make informed decisions based on the stress test results

In view of the environment in which the Group operates, the stress scenarios are modeled along the events that occurred during the Asian Financial Crisis. This is supplemented by the incorporation of the risk factors experienced during 2008 Financial Crisis and the potential emerging risks which may have an impact to the Group. Some of the emerging risks considered are the prolonged European Debt Crisis and the hypothetical increase in the level of household debts.

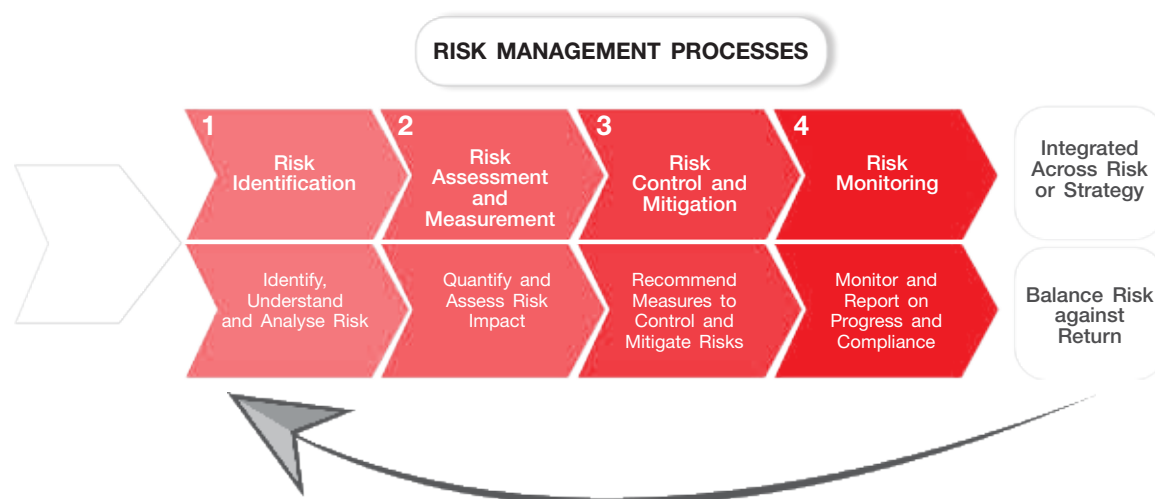
The results of the stress test are deliberated by the ICAAP Working Group and the RMC. The key focus is on the impact on profitability, asset quality, capital adequacy and liquidity positions of the Group as well as the identification of the appropriate actions to address the adverse effects of the stress events. Under ICAAP, the stress results are factored in to determine the internal capital targets of the banking entities and the Group.

2. Capital Management (Cont'd.)

2.1 Internal Capital Adequacy Assessment Process (Cont'd.)

(d) Risk Management

The risk management processes under ICAAP are as follows:



2.2 Capital Adequacy Ratios and Capital Structure

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

(a) Capital Adequacy Ratios

	Group		Bank	
	2012	2011	2012	2011
Before deducting second interim dividends:				
Tier I capital ratio	11.4%	11.2%	13.6%	13.5%
Risk-weighted capital ratio	14.6%	15.6%	14.5%	15.6%
After deducting second interim dividends:				
Tier I capital ratio	10.8%	10.6%	12.9%	12.8%
Risk-weighted capital ratio	14.1%	15.0%	13.8%	14.9%

The capital adequacy ratios of the banking subsidiary companies of the Group are set out in Note 49(a) to the financial statements.

Pillar 3 Disclosure

2. Capital Management (Cont'd.)

2.2 Capital Adequacy Ratios and Capital Structure (Cont'd.)

(b) Capital Structure

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Tier I capital				
Paid-up share capital	3,531,926	3,531,926	3,531,926	3,531,926
Share premium	1,073,310	1,073,310	1,073,310	1,073,310
Other reserves	3,965,321	3,955,307	3,506,311	3,522,609
Retained profits	9,453,647	7,276,808	9,276,984	7,083,862
Innovative Tier I capital securities	1,810,317	1,833,303	1,810,317	1,833,303
Non-innovative Tier I stapled securities	2,083,146	2,082,388	2,083,146	2,082,388
Treasury shares	(215,572)	(215,572)	(215,572)	(215,572)
Non-controlling interests	699,864	697,484	–	–
Less: Goodwill	(1,899,875)	(1,938,994)	(695,393)	(695,393)
Less: Deferred tax assets, net	(64,900)	(46,093)	–	–
	20,437,184	18,249,867	20,371,029	18,216,433
Tier II capital				
Collective assessment allowance [#]	1,038,369	1,073,337	691,258	721,913
Subordinated notes	4,870,351	6,138,306	4,870,351	6,138,306
	5,908,720	7,211,643	5,561,609	6,860,219
Total capital	26,345,904	25,461,510	25,932,638	25,076,652
Less: Investment in subsidiary and associated companies	(960)	(960)	(4,162,284)	(3,987,284)
Less: Holdings of other financial institutions' capital instruments	(46,834)	(44,468)	(46,834)	(44,468)
Capital base	26,298,110	25,416,082	21,723,520	21,044,900

[#] The collective assessment allowance on impaired loans, advances and financing which is restricted by BNM from Tier II capital of the Group and the Bank of RM491.2 million (2011: RM422.7 million) and RM369.2 million (2011: RM325.3 million) respectively were excluded.

The comparatives for capital adequacy ratios and components of capital base have been restated for the effects of the change in accounting policy on collective assessment allowance for loans, advances and financing during the financial year. Details of the restatement are as set out on Note 52(c)(iv) to the financial statements.

Pillar 3 Disclosure

2. Capital Management (Cont'd.)

2.2 Capital Adequacy Ratios and Capital Structure (Cont'd.)

(b) Capital Structure (Cont'd.)

The Bank has issued various capital instruments and debt instruments which qualify as components of regulatory capital under the Basel II RWCAF, as summarised in the following table:

	Capital Instruments	Capital Component	Main Features
(a)	Non-Innovative Tier I stapled securities ("NIT-1")	Tier I Capital	<ul style="list-style-type: none"> • Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with IT-1 • Unsecured • Perpetual, with optional redemption after 10 years. No step-up • Able to defer interest but will trigger an assignment event, resulting in unstapling of the NIT-1. Investors will end up holding the perpetual securities • Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders
(b)	Innovative Tier I capital securities ("IT-1")	Tier I Capital	<ul style="list-style-type: none"> • Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with NIT-1 • Unsecured • Optional redemption with step-up after 10 years • Option to defer interest up to 50% of aggregate principal • Principal and interest stock settlement provision
(c)	Subordinated notes ("Sub Notes")	Tier II Capital	<ul style="list-style-type: none"> • Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1 • Unsecured • Sub Notes issued prior to January 2011 are subject to optional redemption with step-up • Sub Notes issued subsequent to January 2011 do not contain step-up upon optional redemption date • No provisions for deferral of interest. Non-payment will result in default

Pillar 3 Disclosure

2. Capital Management (Cont'd.)

2.2 Capital Adequacy Ratios and Capital Structure (Cont'd.)

(b) Capital Structure (Cont'd.)

The details of the capital and debt instruments are found in Note 22 to the financial statements.

The capital instruments listed above fully qualify as regulatory capital under the existing Basel II RWCAF. However, these capital instruments do not contain features which are compliant with the Basel III capital requirements, as set out in the BNM's guidelines on Capital Adequacy Framework (Capital Components). Therefore, upon the implementation of Basel III with effect from 1 January 2013, these capital instruments will be subject to a gradual phase-out from regulatory capital, at an incremental rate of 10% per annum until the full redemption of these capital instruments or 2022, whichever is earlier.

3. Risk Management Framework

A key aspect of an effective enterprise-wide risk management framework within the Group is the inculcation of a risk awareness culture across all levels of staff in the Group as well as the commitment of all employees to the Group's Risk Management Framework. This risk awareness culture is reflected by the emphasis on strong corporate governance, organisational structure with clearly defined roles and responsibilities, effective communication and training, commitment to compliance with laws, regulations and internal controls, integrity in fiduciary responsibilities and clear policies, procedures and guidelines.

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

- Risk Governance
- Risk Appetite
- Risk Management Processes



Pillar 3
Disclosure

3. Risk Management Framework (Cont'd.)

(a) Risk Governance

The Group's risk governance sets out the responsibilities for risk management and system of internal controls.

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

Board of Directors

The Board is ultimately responsible for the adequacy and effectiveness of risk management and system of internal controls.

Risk Management Committee

The Board, through the RMC, maintains overall responsibility for risk oversight within the Group.

Pillar 3 Disclosure

3. Risk Management Framework (Cont'd.)

(a) Risk Governance (Cont'd)

Dedicated Risk Committees

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

Shariah Committee

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

Independent Risk Management and Control Units

The independent risk management and control units provide crucial support to the dedicated risk committees and are responsible for ensuring the approved risk policies are implemented and complied with. They are also responsible for the identification, measurement, monitoring and reporting of risk exposures.

Business Units

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

Audit Committee

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

(b) Risk Appetite

The key processes in setting the Group's risk appetite are presented earlier in item 2.1(a) of the Pillar 3 Disclosure, and the Risk Appetite Statement and further details of the risk appetite statement are presented in the Risk Management section on pages 112 to 117 of the Annual Report 2012.

(c) Risk Management Processes

The risk management processes for the key risk areas of the Group and the various analysis of risk exposures are set out in the ensuing sections of the Pillar 3 Disclosure.

Pillar 3 Disclosure

4. Credit Risk

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

Minimum Regulatory Capital Requirements for Credit Risk

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

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2012				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	38,425,804	30,282,326	58,286	4,663
Public Sector Entities	740,737	740,737	25,525	2,042
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	9,781,795	9,781,795	2,325,113	186,009
Insurance Companies, Securities Firms and Fund Managers	134,790	130,117	120,287	9,623
Corporates	47,424,805	44,430,110	40,465,715	3,237,258
Regulatory Retail	97,047,517	96,313,977	73,069,073	5,845,526
Residential Mortgages	52,341,275	52,282,314	22,493,564	1,799,485
Higher Risk Assets	152,057	151,979	227,968	18,237
Other Assets	4,596,176	4,596,176	2,498,863	199,909
Equity Exposures	5,089,445	5,089,445	5,064,687	405,175
Defaulted Exposures	1,454,976	1,442,142	2,063,939	165,115
	257,189,377	245,241,118	148,413,020	11,873,042
Off-Balance Sheet Exposures				
Credit-related Exposures	19,166,094	18,720,701	15,291,364	1,223,309
Derivative Financial Instruments	1,140,543	1,140,543	350,402	28,032
Other Treasury-related Exposures	30,386	30,386	6,077	486
Defaulted Exposures	13,172	13,172	19,602	1,568
	20,350,195	19,904,802	15,667,445	1,253,395
Total Credit Exposures	277,539,572	265,145,920	164,080,465	13,126,437

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2011				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	37,523,662	28,233,329	112,930	9,034
Public Sector Entities	424,498	424,498	24,762	1,981
Banks, DFIs and MDBs	12,721,460	12,721,460	3,015,440	241,235
Insurance Companies, Securities Firms and Fund Managers	109,724	104,784	102,813	8,225
Corporates	43,974,265	42,348,014	37,923,462	3,033,877
Regulatory Retail	87,201,260	86,521,527	65,392,177	5,231,374
Residential Mortgages	45,825,233	45,768,814	19,859,501	1,588,760
Higher Risk Assets	144,825	144,740	217,110	17,369
Other Assets	4,480,250	4,480,250	2,660,468	212,838
Equity Exposures	4,940,117	4,940,117	4,915,359	393,229
Defaulted Exposures	1,516,051	1,502,443	2,114,628	169,170
	238,861,345	227,189,976	136,338,650	10,907,092
Off-Balance Sheet Exposures				
Credit-related Exposures	15,262,103	14,891,963	11,976,216	958,097
Derivative Financial Instruments	1,101,907	1,101,907	320,105	25,609
Other Treasury-related Exposures	39,362	39,362	5,837	467
Defaulted Exposures	15,800	15,800	23,591	1,887
	16,419,172	16,049,032	12,325,749	986,060
Total Credit Exposures	255,280,517	243,239,008	148,664,399	11,893,152

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Bank Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2012				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	29,696,065	22,401,940	58,286	4,663
Public Sector Entities	331,806	331,806	3,860	309
Banks, DFIs and MDBs	7,063,482	7,063,482	1,798,361	143,869
Insurance Companies, Securities Firms and Fund Managers	12,565	12,565	12,565	1,005
Corporates	42,690,862	40,040,722	36,095,288	2,887,623
Regulatory Retail	76,788,135	76,102,231	57,479,225	4,598,338
Residential Mortgages	45,091,539	45,042,255	19,479,479	1,558,358
Higher Risk Assets	122,269	122,205	183,308	14,665
Other Assets	3,505,219	3,505,219	1,712,359	136,989
Equity Exposures	4,535,979	4,535,979	4,511,221	360,898
Defaulted Exposures	1,158,604	1,145,850	1,626,668	130,133
	210,996,525	200,304,254	122,960,620	9,836,850
Off-Balance Sheet Exposures				
Credit-related Exposures	17,419,326	17,066,825	13,925,105	1,114,008
Derivative Financial Instruments	1,288,145	1,288,145	379,925	30,394
Defaulted Exposures	9,013	9,013	13,364	1,069
	18,716,484	18,363,983	14,318,394	1,145,471
Total Credit Exposures	229,713,009	218,668,237	137,279,014	10,982,321

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

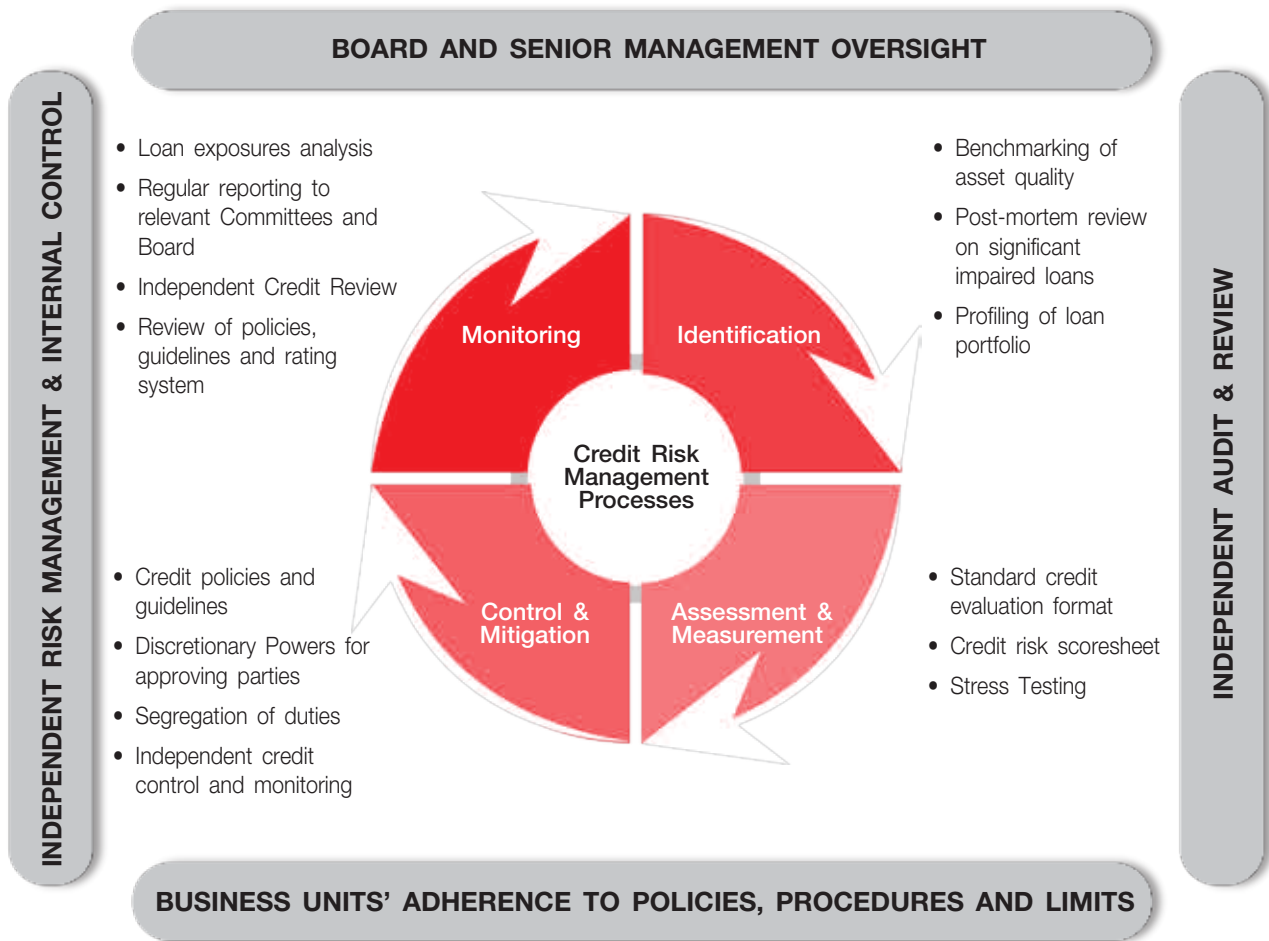
Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Bank Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2011				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	25,546,701	17,108,012	112,930	9,034
Public Sector Entities	368	368	74	6
Banks, DFIs and MDBs	12,419,174	12,419,174	2,891,695	231,336
Insurance Companies, Securities Firms and Fund Managers	522	522	522	42
Corporates	39,320,750	38,088,511	33,694,867	2,695,589
Regulatory Retail	66,927,938	66,279,997	49,888,839	3,991,107
Residential Mortgages	38,993,648	38,948,143	17,081,506	1,366,521
Higher Risk Assets	113,395	113,341	170,011	13,601
Other Assets	3,398,840	3,398,840	1,884,823	150,786
Equity Exposures	4,401,888	4,401,888	4,377,130	350,170
Defaulted Exposures	1,226,746	1,213,230	1,689,691	135,175
	192,349,970	181,972,026	111,792,088	8,943,367
Off-Balance Sheet Exposures				
Credit-related Exposures	13,880,612	13,589,298	10,937,859	875,029
Derivative Financial Instruments	1,099,473	1,099,473	319,619	25,569
Other Treasury-related Exposures	10,175	10,175	–	–
Defaulted Exposures	10,590	10,590	15,776	1,262
	15,000,850	14,709,536	11,273,254	901,860
Total Credit Exposures	207,350,820	196,681,562	123,065,342	9,845,227

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

The following diagram presents the credit risk governance and risk management approach.



Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk framework and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

Risk Management Approach

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

Within the Risk Management Division ("RMD"), the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing group-wide risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Lending to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer through the use of an internal credit risk rating scoresheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customers is included in the loan application.

(b) Lending to Corporate and Institutional Customers

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

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the Group's investment policy also stipulates the minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. The investment policy is also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Board. As at reporting date, the Group does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

(d) Counterparty Credit Risk on Derivative Financial Instruments

The management of the CCR on derivative financial instruments is set out in item 4.2(b) of the Pillar 3 Disclosure.

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

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures

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

- (a) Industrial analysis based on its industrial distribution
- (b) Geographical analysis based on the 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 maximum amount that the Group would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

(a) Industry Analysis

	Government and Central Banks	Financial Services	Transport & Business Services	Agriculture, Manufacturing, Wholesale & Retail Trade	Construction & Real Estate	Residential Mortgages	Motor Vehicle Financing	Other Consumer Loans	Total
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012									
On-Balance Sheet Exposures									
Cash and balances with banks	10,797,964	7,837,987	-	-	-	-	-	-	18,635,951
Reverse repurchase agreements	8,158,506	-	-	-	-	-	-	-	8,158,506
Financial assets held-for-trading	3,977,079	12,000,854	119,756	-	519,446	-	-	-	16,617,135
Derivative financial assets	-	370,465	-	-	-	-	-	-	370,465
Financial investments available-for-sale	10,378,382	5,122,182	849,264	850,015	1,277	-	-	-	17,201,120
Financial investments held-to-maturity	3,607,404	2,494,493	120,832	-	35,042	-	-	-	6,257,771
Gross loans, advances and financing	40,324	6,328,281	12,077,265	29,085,311	24,301,938	62,601,525	34,373,665	28,974,855	197,783,164
Statutory deposits with Central Banks	5,787,206	-	-	-	-	-	-	-	5,787,206
	42,746,865	34,154,262	13,167,117	29,935,326	24,857,703	62,601,525	34,373,665	28,974,855	270,811,318
Commitments and Contingencies									
Contingent liabilities	1,058	56,940	933,474	1,219,444	874,247	-	-	20,913	3,106,076
Commitments	507,277	1,658,776	3,403,666	10,603,259	8,669,993	11,328,311	27,826	12,639,110	48,838,218
	508,335	1,715,716	4,337,140	11,822,703	9,544,240	11,328,311	27,826	12,660,023	51,944,294
Total Credit Exposures	43,255,200	35,869,978	17,504,257	41,758,029	34,401,943	73,929,836	34,401,491	41,634,878	322,755,612

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis (Cont'd.)

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
2011									
On-Balance Sheet Exposures									
Cash and balances with banks	10,153,521	8,480,262	-	-	-	-	-	-	18,633,783
Reverse repurchase agreements	9,287,255	-	-	-	-	-	-	-	9,287,255
Financial assets held-for-trading	973,724	9,531,842	50,621	59,896	40,742	-	-	-	10,656,825
Derivative financial assets	-	493,852	-	-	-	-	-	-	493,852
Financial investments available-for-sale	9,676,889	4,975,481	902,664	1,162,469	1,930	-	-	-	16,719,433
Financial investments held-to-maturity	2,775,545	4,675,898	103,268	34,579	39,943	-	-	-	7,629,233
Gross loans, advances and financing	23,386	8,366,389	9,614,971	27,012,019	20,564,038	53,919,242	32,057,664	26,136,308	177,694,017
Statutory deposits with Central Banks	5,597,801	-	-	-	-	-	-	-	5,597,801
	38,488,121	36,523,724	10,671,524	28,268,963	20,646,653	53,919,242	32,057,664	26,136,308	246,712,199
Commitments and Contingencies									
Contingent liabilities	851	58,424	896,507	1,151,018	801,768	-	-	14,847	2,923,415
Commitments	511,204	1,496,307	3,413,467	10,207,718	6,636,285	8,868,399	25,234	11,776,661	42,935,275
	512,055	1,554,731	4,309,974	11,358,736	7,438,053	8,868,399	25,234	11,791,508	45,858,690
Total Credit Exposures	39,000,176	38,078,455	14,981,498	39,627,699	28,084,706	62,787,641	32,082,898	37,927,816	292,570,889

Pillar 3
Disclosure

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(b) Geographical Analysis

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2012					
On-Balance Sheet Exposures					
Cash and balances with banks	14,520,266	2,172,043	680,870	1,262,772	18,635,951
Reverse repurchase agreements	8,158,410	–	–	96	8,158,506
Financial assets held-for-trading	16,617,135	–	–	–	16,617,135
Derivative financial assets	241,176	316	–	128,973	370,465
Financial investments available-for-sale	17,187,324	2,684	80	11,032	17,201,120
Financial investments held-to-maturity	4,402,060	1,146,849	–	708,862	6,257,771
Gross loans, advances and financing	183,253,371	11,311,093	2,077,097	1,141,603	197,783,164
Statutory deposits with Central Banks	5,381,471	–	376,902	28,833	5,787,206
	249,761,213	14,632,985	3,134,949	3,282,171	270,811,318
Commitments and Contingencies					
Contingent liabilities	2,569,308	122,950	382,767	31,051	3,106,076
Commitments	47,188,288	1,319,093	296,281	34,556	48,838,218
	49,757,596	1,442,043	679,048	65,607	51,944,294
Total Credit Exposures	299,518,809	16,075,028	3,813,997	3,347,778	322,755,612

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(b) Geographical Analysis (Cont'd.)

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2011					
On-Balance Sheet Exposures					
Cash and balances with banks	14,390,682	2,389,180	507,687	1,346,234	18,633,783
Reverse repurchase agreements	9,272,886	–	–	14,369	9,287,255
Financial assets held-for-trading	10,656,825	–	–	–	10,656,825
Derivative financial assets	353,826	2,563	–	137,463	493,852
Financial investments					
available-for-sale	16,708,799	2,780	79	7,775	16,719,433
Financial investments					
held-to-maturity	6,132,644	773,919	–	722,670	7,629,233
Gross loans, advances and financing	163,132,849	11,899,217	1,940,890	721,061	177,694,017
Statutory deposits with Central Banks	5,250,936	–	322,380	24,485	5,597,801
	225,899,447	15,067,659	2,771,036	2,974,057	246,712,199
Commitments and Contingencies					
Contingent liabilities	2,402,832	145,702	344,384	30,497	2,923,415
Commitments	41,153,641	1,430,707	315,983	34,944	42,935,275
	43,556,473	1,576,409	660,367	65,441	45,858,690
Total Credit Exposures	269,455,920	16,644,068	3,431,403	3,039,498	292,570,889

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(c) Maturity Analysis

Group	Up to 1 Year RM'000	> 1 to 3 Years RM'000	> 3 to 5 Years RM'000	> 5 Years RM'000	Total RM'000
2012					
On-Balance Sheet Exposures					
Cash and balances with banks	18,635,951	–	–	–	18,635,951
Reverse repurchase agreements	8,158,506	–	–	–	8,158,506
Financial assets held-for-trading	16,480,389	135,867	–	879	16,617,135
Derivative financial assets	21,592	17,528	218,410	112,935	370,465
Financial investments available-for-sale	8,719,771	2,933,750	7,985	5,539,614	17,201,120
Financial investments held-to-maturity	3,996,773	1,389,642	601,297	270,059	6,257,771
Gross loans, advances and financing	26,478,852	22,671,399	18,899,528	129,733,385	197,783,164
Statutory deposits with Central Banks	–	–	–	5,787,206	5,787,206
Total On-Balance Sheet Exposures	82,491,834	27,148,186	19,727,220	141,444,078	270,811,318
2011					
On-Balance Sheet Exposures					
Cash and balances with banks	18,633,783	–	–	–	18,633,783
Reverse repurchase agreements	9,287,255	–	–	–	9,287,255
Financial assets held-for-trading	10,063,477	436,320	63,221	93,807	10,656,825
Derivative financial assets	130,168	44,675	135,693	183,316	493,852
Financial investments available-for-sale	14,041,708	1,787,515	781,827	108,383	16,719,433
Financial investments held-to-maturity	6,082,785	1,132,418	403,746	10,284	7,629,233
Gross loans, advances and financing	28,165,244	16,730,279	19,594,355	113,204,139	177,694,017
Statutory deposits with Central Banks	–	–	–	5,597,801	5,597,801
Total On-Balance Sheet Exposures	86,404,420	20,131,207	20,978,842	119,197,730	246,712,199

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(c) Maturity Analysis (Cont'd.)

Approximately 30% (2011: 35%) of the Group's exposures to customers is short-term, having contractual maturity of one year or less. About 66% (2011: 64%) 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 and hire purchase financing which made up 52% (2011: 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 or be unconditionally cancelled without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

4.2 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:

- 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
- 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
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities
- Unutilised credit card lines
- Principal/notional amount of derivative financial instruments

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out in item 4 of the Pillar 3 Disclosure.

(b) Counterparty Credit Risk on Derivative Financial Instruments

CCR on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, option or credit derivative contract defaults prior to maturity date of the contract and that the Group, at the relevant time, has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes. The Group may also take conservative trading derivative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Unlike on-balance sheet financial instruments, the Group's financial loss is not the entire contracted notional principal value of the derivatives, but equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract. The Group will only suffer losses if the contract carries a positive economic value at time of default.

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

(b) Counterparty Credit Risk on Derivative Financial Instruments (Cont'd.)

(i) *Risk Management Approach*

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Over-the-counter ("OTC") derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any excess in threshold levels.

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

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

(ii) *Credit Ratings Downgrade*

Some netting and collateral arrangements may contain rating triggers, although the threshold levels in the majority of the Group's agreements are identical in the event of a one-notch rating downgrade. As at 31 December 2012, the estimated additional collateral required to be posted for one notch downgrade was RM17.2 million (2011: RM35.2 million).

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures

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

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
2012				
Contingent Liabilities				
Direct credit substitutes	1,549,134		1,549,134	1,044,295
Transaction-related contingent items	1,031,792		515,896	327,800
Short-term self-liquidating trade-related contingencies	525,150		105,030	78,152
	3,106,076		2,170,060	1,450,247
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	24,158,799		12,079,400	9,850,369
– not exceeding one year	20,955,923		4,191,184	3,456,383
Unutilised credit card lines	3,693,110		738,622	553,967
Forward asset purchases	30,386		30,386	6,077
	48,838,218		17,039,592	13,866,796
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	11,879,221	15,535	129,015	42,387
– one year to less than five years	1,376,100	–	178,893	89,447
Interest rate related contracts:				
– less than one year	1,552,000	6,056	7,807	1,561
– one year to less than five years	9,929,440	223,784	526,997	151,197
– five years and above	2,649,740	112,935	277,019	55,402
Commodity related contracts:				
– less than one year	206	1	3	3
Equity related contracts:				
– less than one year	73,589	–	4,415	2,208
– one year to less than five years	53,005	12,154	16,394	8,197
	27,513,301	370,465	1,140,543	350,402
Total Off-Balance Sheet Exposures	79,457,595	370,465	20,350,195	15,667,445

Pillar 3
Disclosure

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
2011				
Contingent Liabilities				
Direct credit substitutes	1,482,009		1,482,009	1,050,606
Transaction-related contingent items	900,696		450,347	296,295
Short-term self-liquidating trade-related contingencies	515,710		103,142	90,580
Obligations under an on-going underwriting agreement	25,000		12,500	12,500
	2,923,415		2,047,998	1,449,981
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	19,490,137		8,548,749	6,734,106
– not exceeding one year	19,919,554		3,983,912	3,292,787
Unutilised credit card lines	3,486,222		697,244	522,933
Forward asset purchases	39,362		39,362	5,837
	42,935,275		13,269,267	10,555,663
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	11,013,882	106,472	226,354	93,611
– one year to less than five years	6,514	109	435	435
Interest rate related contracts:				
– less than one year	2,058,803	23,619	26,247	5,249
– one year to less than five years	6,560,830	169,014	339,371	111,780
– five years and above	5,183,242	183,317	486,144	97,228
Commodity related contracts:				
– less than one year	16,896	77	247	247
Equity related contracts:				
– one year to less than five years	148,325	11,244	23,109	11,555
	24,988,492	493,852	1,101,907	320,105
Total Off-Balance Sheet Exposures	70,847,182	493,852	16,419,172	12,325,749

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
Bank				
2012				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,175,058		1,175,058	875,742
Transaction-related contingent items	908,204		454,102	274,626
Short-term self-liquidating trade-related contingencies	341,952		68,390	49,750
	2,425,214		1,697,550	1,200,118
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	22,211,606		11,105,803	9,052,148
– not exceeding one year	19,422,068		3,884,413	3,125,061
Unutilised credit card lines	3,587,921		717,584	538,188
	45,221,595		15,707,800	12,715,397
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	11,822,972	15,409	128,612	42,306
– one year to less than five years	1,376,100	–	178,893	89,447
Interest rate related contracts:				
– less than one year	1,552,000	6,056	7,807	1,561
– one year to less than five years	9,408,350	222,566	512,427	147,777
– five years and above	3,758,000	108,158	428,738	85,748
Commodity related contracts:				
– less than one year	206	1	3	3
Equity related contracts:				
– less than one year	73,589	–	4,415	2,208
– one year to less than five years	53,005	12,154	16,394	8,197
	28,044,222	364,344	1,277,289	377,247
Total	75,691,031	364,344	18,682,639	14,292,762

Pillar 3
Disclosure

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
Bank (Cont'd.)				
2012				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	4,586		4,586	4,586
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	92,008		18,403	18,370
Derivative Financial Instruments				
Interest rate related contracts:				
– one year to less than five years	321,090	–	5,352	1,575
– five years and above	91,740	–	5,504	1,101
	412,830	–	10,856	2,676
Total	509,424	–	33,845	25,632
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	76,200,455	364,344	18,716,484	14,318,394

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
Bank				
2011				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,120,615		1,120,615	914,111
Transaction-related contingent items	779,091		389,546	248,187
Short-term self-liquidating trade-related contingencies	221,038		44,207	37,543
Obligations under an on-going underwriting agreement	25,000		12,500	12,500
	2,145,744		1,566,868	1,212,341
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	18,177,027		7,937,651	6,243,252
– not exceeding one year	18,413,664		3,682,733	2,960,674
Unutilised credit card lines	3,330,591		666,118	499,589
Forward asset purchases	10,175		10,175	–
	39,931,457		12,296,677	9,703,515
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	10,643,581	105,156	223,920	93,124
– one year to less than five years	6,514	109	435	435
Interest rate related contracts:				
– less than one year	2,058,803	23,619	26,247	5,249
– one year to less than five years	6,227,481	169,014	330,482	109,193
– five years and above	5,088,000	183,317	479,477	95,896
Commodity related contracts:				
– less than one year	16,896	77	247	247
Equity related contracts:				
– one year to less than five years	148,325	11,244	23,109	11,555
	24,189,600	492,536	1,083,917	315,699
Total	66,266,801	492,536	14,947,462	11,231,555

Pillar 3
Disclosure

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
Bank (Cont'd.)				
2011				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	4,762		4,762	4,762
Commitments				
Other commitments such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	165,348		33,070	33,017
Derivative Financial Instruments				
Interest rate related contracts:				
– one year to less than five years	333,349	–	8,889	2,587
– five years and above	95,242	–	6,667	1,333
	428,591	–	15,556	3,920
Total	598,701	–	53,388	41,699
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	66,865,502	492,536	15,000,850	11,273,254

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation

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

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

- (a) for residential mortgages – charges over residential properties
- (b) for commercial property loans – charges over the properties being financed
- (c) for motor vehicle financing – ownership claims over the vehicles financed
- (d) for share margin financing – pledges over securities from listed exchange
- (e) for other loans – charges over business assets such as premises, inventories, trade receivables or deposits

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

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

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

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

Pillar 3
Disclosure

4. Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation (Cont'd.)

Credit Risk Mitigation Analysis

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

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2012				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	38,425,804	–	8,143,478	–
Public Sector Entities	740,737	613,113	–	–
Banks, DFIs and MDBs	9,781,795	–	–	–
Insurance Companies, Securities Firms and Fund Managers	134,790	–	4,673	–
Corporates	47,424,805	901,307	2,994,695	–
Regulatory Retail	97,047,517	4,681	733,540	–
Residential Mortgages	52,341,275	–	58,961	–
Higher Risk Assets	152,057	–	78	–
Other Assets	4,596,176	–	–	–
Equity Exposures	5,089,445	–	–	–
Defaulted Exposures	1,454,976	–	12,834	–
	257,189,377	1,519,101	11,948,259	–
Off-Balance Sheet Exposures				
Credit-related Exposures	19,166,094	207,768	445,393	–
Derivative Financial Instruments	1,140,543	–	–	–
Other Treasury-related Exposures	30,386	–	–	–
Defaulted Exposures	13,172	–	–	–
	20,350,195	207,768	445,393	–
Total Credit Exposures	277,539,572	1,726,869	12,393,652	–

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation (Cont'd.)

Credit Risk Mitigation Analysis (Cont'd.)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2011				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	37,523,662	—	9,290,333	—
Public Sector Entities	424,498	300,687	—	—
Banks, DFIs and MDBs	12,721,460	—	—	—
Insurance Companies, Securities Firms and Fund Managers	109,724	—	4,940	—
Corporates	43,974,265	1,387,064	1,626,251	—
Regulatory Retail	87,201,260	3,089	679,733	—
Residential Mortgages	45,825,233	—	56,419	—
Higher Risk Assets	144,825	—	85	—
Other Assets	4,480,250	—	—	—
Equity Exposures	4,940,117	—	—	—
Defaulted Exposures	1,516,051	—	13,608	—
	238,861,345	1,690,840	11,671,369	—
Off-Balance Sheet Exposures				
Credit-related Exposures	15,262,103	271,046	370,140	—
Derivative Financial Instruments	1,101,907	—	—	—
Other Treasury-related Exposures	39,362	—	—	—
Defaulted Exposures	15,800	—	—	—
	16,419,172	271,046	370,140	—
Total Credit Exposures	255,280,517	1,961,886	12,041,509	—

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach

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

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

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

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

Unrated and Rated Counterparties

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

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

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

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

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

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

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

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

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

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

Group Exposure Class	Rating Categories						Unrated RM'000	Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000		
2012								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	3,472,719	1,003,765	1,324,944	–	–	–		5,801,428
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks [#]								
– Sovereigns and Central Banks	6,345,934	36,723,458	–	–	793,525	–		43,862,917
– Public Sector Entities	–	614,621	–	–	–	–		614,621
– Corporates	–	15,172	–	–	–	–		15,172
	6,345,934	37,353,251	–	–	793,525	–		44,492,710
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	6,933,737	17,042,958	3,120,435	24,581	–	–		27,121,711
– Corporates	739,169	151,846	4,367	–	–	–		895,382
– Regulatory Retail	3,000	1,681	–	–	–	–		4,681
	7,675,906	17,196,485	3,124,802	24,581	–	–		28,021,774
Total Rated Exposures	17,494,559	55,553,501	4,449,746	24,581	793,525	–		78,315,912
(b) Total Unrated Exposures							178,873,465	178,873,465
	17,494,559	55,553,501	4,449,746	24,581	793,525	–	178,873,465	257,189,377

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

Group Exposure Class	Rating Categories						Unrated RM'000	Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000		
2012								
Off-Balance Sheet Exposures								
(a)	Rated Exposures							
(i)	Exposures risk-weighted using ratings of Corporates							
	– Corporates	174,959	152,108	–	–	–	–	327,067
(ii)	Exposures risk-weighted using ratings of Sovereigns and Central Banks #							
	– Sovereigns and Central Banks	–	917	–	–	–	–	917
(iii)	Exposures risk-weighted using ratings of Banking Institutions							
	– Banks, DFIs and MDBs	914,180	635,407	40,743	–	1,316	–	1,591,646
	– Corporates	221,142	11,926	990	–	–	–	234,058
	– Regulatory Retail	–	1,625	–	–	–	–	1,625
		1,135,322	648,958	41,733	–	1,316	–	1,827,329
	Total Rated Exposures	1,310,281	801,983	41,733	–	1,316	–	2,155,313
(b)	Total Unrated Exposures						18,194,882	18,194,882
		1,310,281	801,983	41,733	–	1,316	–	20,350,195
Total Credit Exposures before Credit Risk Mitigation								
		18,804,840	56,355,484	4,491,479	24,581	794,841	–	277,539,572

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

Group Exposure Class	Rating Categories						Unrated RM'000	Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000		
2011								
On-Balance Sheet Exposures								
(a)	Rated Exposures							
(i)	Exposures risk-weighted using ratings of Corporates							
– Corporates	3,331,167	1,345,601	1,377,128	20,381	–	–		6,074,277
(ii)	Exposures risk-weighted using ratings of Sovereigns and Central Banks #							
– Sovereigns and Central Banks	859,079	35,832,717	–	–	685,013	–		37,376,809
– Public Sector Entities	–	300,687	–	–	–	–		300,687
– Corporates	–	10,115	–	–	–	–		10,115
	859,079	36,143,519	–	–	685,013	–		37,687,611
(iii)	Exposures risk-weighted using ratings of Banking Institutions							
– Banks, DFIs and MDBs	6,185,686	3,514,109	1,182,392	1,066	–	–		10,883,253
– Corporates	1,268,932	107,466	5,172	–	–	–		1,381,570
– Regulatory Retail	–	2,797	–	–	–	–		2,797
	7,454,618	3,624,372	1,187,564	1,066	–	–		12,267,620
Total Rated Exposures	11,644,864	41,113,492	2,564,692	21,447	685,013	–		56,029,508
(b)	Total Unrated Exposures						182,831,837	182,831,837
	11,644,864	41,113,492	2,564,692	21,447	685,013	–	182,831,837	238,861,345

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

Group Exposure Class	Rating Categories						Unrated RM'000	Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000		
2011								
Off-Balance Sheet Exposures								
(a)	Rated Exposures							
(i)	Exposures risk-weighted using ratings of Corporates							
	– Corporates	60,797	4,097	–	–	–	–	64,894
(ii)	Exposures risk-weighted using ratings of Sovereigns and Central Banks [#]							
	– Sovereigns and Central Banks	–	10,175	–	–	–	–	10,175
(iii)	Exposures risk-weighted using ratings of Banking Institutions							
	– Banks, DFIs and MDBs	778,334	324,025	35,745	–	–	–	1,138,104
	– Corporates	211,330	55,573	449	–	–	–	267,352
	– Regulatory Retail	–	1,251	–	–	–	–	1,251
		989,664	380,849	36,194	–	–	–	1,406,707
	Total Rated Exposures	1,050,461	395,121	36,194	–	–	–	1,481,776
(b)	Total Unrated Exposures						14,937,396	14,937,396
		1,050,461	395,121	36,194	–	–	–	16,419,172
Total Credit Exposures before Credit Risk Mitigation								
		12,695,325	41,508,613	2,600,886	21,447	685,013	–	255,280,517

Under the RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia, BNM, overseas federal governments and central banks of their respective jurisdictions are accorded a preferential sovereign risk weight of 0%.

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

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

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

Group Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation										Total Exposures after Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000		
2012												
0%	30,324,968	613,113	-	-	15,171	-	-	-	1,970,579	-	32,923,831	-
20%	-	128,973	9,642,591	-	4,577,957	3,000	-	-	158,418	30,948	14,541,887	2,908,377
35%	-	-	-	-	-	-	35,362,585	-	-	-	35,362,585	12,376,905
50%	-	-	1,194,367	19,661	1,328,266	13,476	13,810,657	-	-	-	16,366,427	8,183,214
75%	-	-	-	-	-	102,739,311	1,470,159	-	-	-	104,209,470	78,157,102
100%	58,286	-	155,673	130,787	45,004,188	4,459,934	2,980,883	-	2,467,179	5,058,497	60,315,427	60,315,427
150%	-	-	-	2,010	187,595	1,057,345	10,364	168,979	-	-	1,426,293	2,139,440
Total	30,383,254	742,086	10,992,631	152,458	51,113,177	108,273,066	53,634,648	168,979	4,596,176	5,089,445	265,145,920	164,080,465
Risk-Weighted Assets by Exposures	58,286	25,795	2,681,374	143,633	46,865,304	83,107,772	23,381,282	253,469	2,498,863	5,064,687	164,080,465	
Average Risk Weights	0.2%	3.5%	24.4%	94.2%	91.7%	76.8%	43.6%	150.0%	54.4%	99.5%	61.9%	
Deduction from Capital Base			46,834							-	46,834	

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

Group Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation										Total Exposures after Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000		
2011												
0%	28,230,585	300,688	-	-	25,214	-	-	-	1,727,933	-	30,284,420	-
20%	-	123,867	12,245,869	-	4,872,224	-	-	-	114,811	30,948	17,387,719	3,477,544
35%	-	-	-	-	-	-	30,342,394	-	-	-	30,342,394	10,619,838
50%	-	-	1,487,899	3,942	1,525,145	14,428	11,638,971	-	-	-	14,670,385	7,335,193
75%	-	-	-	-	-	92,894,073	3,248,853	-	-	-	96,142,926	72,107,195
100%	112,930	-	130,377	120,165	40,498,929	2,740,309	1,834,849	-	2,637,506	4,909,169	52,984,234	52,984,234
150%	-	-	-	2,011	196,889	1,052,413	15,109	160,508	-	-	1,426,930	2,140,395
Total	28,343,515	424,555	13,864,145	126,118	47,118,401	96,701,223	47,080,176	160,508	4,480,250	4,940,117	243,239,008	148,664,399
Risk-Weighted Assets by Exposures	112,930	24,773	3,323,500	125,153	42,531,280	73,996,698	20,733,476	240,762	2,660,468	4,915,359	148,664,399	
Average Risk Weights	0.4%	5.8%	24.0%	99.2%	90.3%	76.5%	44.0%	150.0%	59.4%	99.5%	61.1%	
Deduction from Capital Base			44,468							-	44,468	

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

	Credit Exposures after the Effect of Credit Risk Mitigation										Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000		
Bank												
Risk Weights												
2012												
0%	22,444,583	312,506	-	-	10,114	-	-	-	1,792,859	-	24,560,062	-
20%	-	20,648	6,944,387	-	4,391,175	3,000	-	-	-	30,948	11,390,158	2,278,032
35%	-	-	-	-	-	-	29,772,681	-	-	-	29,772,681	10,420,438
50%	-	-	1,432,568	-	1,328,279	13,476	12,595,910	-	-	-	15,370,233	7,685,117
75%	-	-	-	-	-	83,623,043	1,314,853	-	-	-	84,937,896	63,703,422
100%	58,286	-	131,230	32,896	40,001,541	2,585,410	2,500,860	-	1,712,359	4,505,031	51,527,613	51,527,613
150%	-	-	-	2,010	129,752	831,477	9,332	137,023	-	-	1,109,594	1,664,392
Total	22,502,869	333,154	8,508,185	34,906	45,860,861	87,056,406	46,193,636	137,023	3,505,218	4,535,979	218,668,237	137,279,014
Risk-Weighted Assets by Exposures	58,286	4,130	2,236,391	35,911	41,738,544	66,557,246	20,219,391	205,535	1,712,359	4,511,221	137,279,014	
Average Risk Weights	0.3%	1.2%	26.3%	102.9%	91.0%	76.5%	43.8%	150.0%	48.9%	99.5%	62.8%	
Deduction from Capital Base			46,834							-	46,834	

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

Bank Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation										Total Exposures after Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000		
2011												
0%	17,105,269	-	-	-	10,113	-	-	-	1,514,017	-	18,629,399	-
20%	-	423	12,121,649	-	4,623,031	-	-	-	-	30,948	16,776,051	3,355,210
35%	-	-	-	-	-	-	24,948,894	-	-	-	24,948,894	8,732,113
50%	-	-	1,374,339	-	1,573,158	14,427	10,729,406	-	-	-	13,691,330	6,845,665
75%	-	-	-	-	-	73,419,415	2,830,678	-	-	-	76,250,093	57,187,570
100%	112,930	-	129,615	19,845	35,708,009	1,395,383	1,646,273	-	1,884,823	4,370,940	45,267,818	45,267,818
150%	-	-	-	2,011	139,111	837,286	12,364	127,205	-	-	1,117,977	1,676,966
Total	17,218,199	423	13,625,603	21,856	42,053,422	75,666,511	40,167,615	127,205	3,398,840	4,401,888	196,681,562	123,065,342
Risk-Weighted Assets by Exposures	112,930	85	3,241,114	22,862	37,627,861	57,723,087	17,884,642	190,808	1,884,823	4,377,130	123,065,342	
Average Risk Weights	0.7%	20.0%	23.8%	104.6%	89.5%	76.3%	44.5%	150.0%	55.5%	99.4%	62.6%	
Deduction from Capital Base			44,468							-	44,468	

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing

Gross Loans, Advances and Financing by Credit Quality

The following tables present the gross loans, advances and financing of the Group analysed by credit quality.

Group	2012 RM'000	2011 RM'000
Neither past due nor impaired	174,605,825	155,451,804
Past due but not impaired	21,803,253	20,712,556
Impaired	1,374,086	1,529,657
	197,783,164	177,694,017
Gross impaired loans as a percentage of gross loans, advances and financing	0.69%	0.86%

(a) Neither Past Due Nor Impaired

The credit quality of gross loans, advances and financing which are neither past due nor impaired is set out in Note 44 to the financial statements.

(b) Past Due But Not Impaired

Past due but not impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due, and include loans which are due one or more days after the contractual due date but less than 3 months. 59% of the past due loans of the Group are past due for less than 1 month.

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

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

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(b) Past Due But Not Impaired (Cont'd.)

(i) Economic Purpose Analysis

Group	2012 RM'000	2011 RM'000
Purchase of securities	44,109	1,371
Purchase of transport vehicles	10,060,835	9,466,747
Purchase of landed properties	9,927,276	9,073,125
(Of which: – residential	7,539,305	6,836,082
– non-residential)	2,387,971	2,237,043
Purchase of fixed assets (excluding landed properties)	14,518	15,590
Personal use	641,216	679,036
Credit card	229,623	236,932
Purchase of consumer durables	2,731	1,122
Construction	79,083	66,556
Working capital	659,349	1,099,923
Other purpose	144,513	72,154
	21,803,253	20,712,556

(ii) Geographical Analysis

Group	2012 RM'000	2011 RM'000
Malaysia	21,329,633	20,205,091
Hong Kong & China	176,689	167,775
Cambodia	199,177	251,862
Other countries	97,754	87,828
	21,803,253	20,712,556

(iii) Aging Analysis

Group	2012 RM'000	2011 RM'000
1 day to <1 month	12,899,172	12,266,533
1 month to <2 months	6,965,783	6,484,299
2 months to <3 months	1,938,298	1,961,724
	21,803,253	20,712,556

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing

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

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

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

The Bank and its domestic banking subsidiaries' collective assessment allowance were previously maintained at 1.5% of total outstanding loans, advances and financing, net of individual assessment allowance, being the transitional arrangement as prescribed in the BNM's guidelines on Classification and Impairment Provisions for Loans/Financing ("the Guidelines").

In conjunction with the convergence of the Financial Reporting Standards in Malaysia with the International Financial Reporting Standards, the Guidelines were revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of the Malaysian Financial Reporting Standards 139: Financial Instruments: Recognition and Measurement ("MFRS 139"). Based on the revised Guidelines, the transitional arrangement was removed with effect from 1 January 2012.

Under MFRS 139, the future cash flows of each of the group of loans with similar credit risk characteristics are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

This change in accounting policy has been accounted for retrospectively, and has resulted in a restatement of the comparative collective assessment allowance amounts.

Impaired loans, advances and financing are loans whereby payments of principal or interest or both are past due for three (3) months or more, or loans which are past due for less than three (3) months which exhibit indications of significant credit weaknesses, or impaired loans which have been restructured/rescheduled, but where repayments based on the revised terms have yet to fulfill six (6) consecutive months of observation period.

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

- (i) Economic purpose
- (ii) Geographical location

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

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

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2012							
Purchase of securities	5,852	767	1,704	-	2,471	9,189	11,660
Purchase of transport vehicles	263,313	15,914	(5,668)	(2,396)	7,850	425,694	433,544
Purchase of landed properties	591,758	27,474	4,897	(6,490)	25,881	843,510	869,391
(Of which: - residential	420,286	1,912	272	(1,493)	691	563,275	563,966
- non-residential)	171,472	25,562	4,625	(4,997)	25,190	280,235	305,425
Purchase of fixed assets (excluding landed properties)	6,168	451	333	(324)	460	808	1,268
Personal use	165,205	42,610	188,109	(192,512)	38,207	95,108	133,315
Credit card	23,421	-	-	-	-	16,778	16,778
Purchase of consumer durables	377	-	-	-	-	136	136
Construction	14,109	7,894	(3,667)	(90)	4,137	7,857	11,994
Mergers and acquisitions	-	-	-	-	-	417	417
Working capital	283,886	141,376	9,766	(33,246)	117,896	115,144	233,040
Other purpose	19,997	8,710	(609)	(3,008)	5,093	14,925	20,018
	1,374,086	245,196	194,865	(238,066)	201,995	1,529,566	1,731,561

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

(i) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Economic Purpose (Cont'd.)

	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
Group							
2011							
Purchase of securities	5,892	1,529	276	(1,038)	767	6,988	7,755
Purchase of transport vehicles	267,817	40,399	5,311	(29,796)	15,914	397,878	413,792
Purchase of landed properties	660,005	31,919	(2,456)	(1,989)	27,474	799,195	826,669
(Of which: – residential	466,238	1,356	1,076	(520)	1,912	556,482	558,394
– non-residential)	193,767	30,563	(3,532)	(1,469)	25,562	242,713	268,275
Purchase of fixed assets (excluding landed properties)	6,187	515	(64)	–	451	752	1,203
Personal use	176,834	43,878	177,193	(178,461)	42,610	117,528	160,138
Credit card	22,284	–	–	–	–	15,064	15,064
Purchase of consumer durables	13	–	–	–	–	392	392
Construction	33,652	6,772	2,047	(925)	7,894	7,014	14,908
Mergers and acquisitions	–	–	–	–	–	416	416
Working capital	329,539	130,767	37,693	(27,084)	141,376	136,598	277,974
Other purpose	27,434	9,155	510	(955)	8,710	14,219	22,929
	1,529,657	264,934	220,510	(240,248)	245,196	1,496,044	1,741,240

[#] The comparatives for collective assessment allowance and total allowances for impaired loans, advances and financing have been restated for the effects of change in accounting policy on collective assessment allowance for loans, advances and financing during the financial year.

The movements in the collective assessment allowance for 2012 and 2011 are set out in Note 9 to the financial statements.

Pillar 3 Disclosure

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

(ii) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Geographical Location

	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
Group							
2012							
Malaysia	1,188,727	137,345	(3,321)	(22,106)	111,918	1,396,912	1,508,830
Hong Kong & China	96,054	67,894	194,624	(213,455)	49,063	88,502	137,565
Cambodia	63,105	34,230	7,372	(2,331)	39,271	38,294	77,565
Other countries	26,200	5,727	(3,810)	(174)	1,743	5,858	7,601
	1,374,086	245,196	194,865	(238,066)	201,995	1,529,566	1,731,561

	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
Group							
2011							
Malaysia	1,320,603	168,245	2,877	(33,777)	137,345	1,364,334	1,501,679
Hong Kong & China	118,278	68,090	189,795	(189,991)	67,894	89,311	157,205
Cambodia	58,911	22,157	28,714	(16,641)	34,230	36,428	70,658
Other countries	31,865	6,442	(876)	161	5,727	5,971	11,698
	1,529,657	264,934	220,510	(240,248)	245,196	1,496,044	1,741,240

[#] The comparatives for collective assessment allowance and total allowances for impaired loans, advances and financing have been restated for the effects of change in accounting policy on collective assessment allowance for loans, advances and financing during the financial year.

The movements in the collective assessment allowance for 2012 and 2011 are set out in Note 9 to the financial statements.

Pillar 3 Disclosure

5. Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic banking activities of the Group includes rate of return risk and displaced commercial risk ("DCR").

Minimum Regulatory Capital Requirements for Market Risk

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

	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
2012				
Interest rate/rate of return risk	29,334,637	(11,849,784)	823,535	65,883
Foreign exchange risk	888,109	(682,774)	888,109	71,049
Equity risk	879	–	1,432	115
Total	30,223,625	(12,532,558)	1,713,076	137,047
2011				
Interest rate/rate of return risk	22,849,408	(11,343,971)	802,907	64,233
Foreign exchange risk	754,363	(866,881)	866,881	69,350
Equity risk	808	–	1,010	81
Total	23,604,579	(12,210,852)	1,670,798	133,664
Bank				
2012				
Interest rate risk	25,439,745	(11,843,023)	658,938	52,715
Foreign exchange risk	1,230,972	(1,919,351)	1,919,351	153,548
Equity risk	879	–	1,432	115
Total	26,671,596	(13,762,374)	2,579,721	206,378
2011				
Interest rate risk	21,796,868	(11,413,106)	721,598	57,728
Foreign exchange risk	1,180,297	(2,051,491)	2,051,491	164,119
Equity risk	808	–	1,010	81
Total	22,977,973	(13,464,597)	2,774,099	221,928

Pillar 3 Disclosure

5. Market Risk (Cont'd.)

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risk remains within established risk tolerance level. The market risk of the Group is identified into traded market risk and non-traded market risk.

5.1 Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are primarily originated by the treasury operations.

Risk Management Approach

The Group's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. The Group's traded market risk for its interest rate/rate of return sensitive fixed income instruments is measured by the present value of 1 basis point change ("PV01") and independently reviewed by the Compliance Unit on a daily basis against approved market risk limits and report on limit excesses. In addition, the Compliance Unit also conducts independent verification on the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by RMD. Changes to market risk limits must be approved by the Board. The trading book positions and limits are regularly reported to the ALCO. The Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board.

During the financial year, the Group's traded market risk exposures on fixed income securities as measured by PV01, averaged at RM354,000 (2011: RM209,000). The composition of the Group's trading portfolio is set out in Note 5 to the financial statements.

5.2 Non-Traded Market Risk

The Group's core non-traded market risks are interest rate/rate of return risk in the banking book, DCR in the Group's Islamic banking business, foreign exchange risk and equity risk.

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

Interest rate/rate of return risk in the banking book ("IRR/RoRBB") is the risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in the interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in the interest rate/rate of return sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge the interest rate risk is set out in Note 6 to the financial statements.

Pillar 3 Disclosure

5. Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Risk Management Approach (Cont'd.)

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

- (i) The table in Note 44 to the financial statements sets out the Group's sensitivity to the interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits. As at 31 December 2012, the Group had an overall positive interest rate/rate of return gap of RM34,399.2 million (2011: RM29,064.3 million), being the net difference between interest rate/rate of return sensitive assets and liabilities.

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

The following tables present the projected Group's sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's interest rate/rate of return sensitivity gap as at the reporting date. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

Interest Rate/Rate of Return Risk Sensitivity Analysis

Group	2012		2011	
	-100 bps	+100 bps	-100 bps	+100 bps
	Increase/(Decrease)			
Impact on NII/NPI	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	(161,036)	86,044	(106,612)	35,488
United States Dollars	5,973	(25,345)	5,209	(21,232)
Hong Kong Dollars	(2,209)	436	(3,016)	3,540
Other Currencies	(6,535)	4,711	(5,076)	3,760
Total	(163,807)	65,846	(109,495)	21,556

Group	2012		2011	
	-100 bps	+100 bps	-100 bps	+100 bps
	Increase/(Decrease)			
Impact on EVE	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	914,808	(574,068)	1,258,693	(1,257,898)
United States Dollars	4,281	(4,069)	5,547	(18,488)
Hong Kong Dollars	6	9,475	862	(2,874)
Other Currencies	(4,377)	6,930	(3,260)	3,275
Total	914,718	(561,732)	1,261,842	(1,275,985)

Pillar 3 Disclosure

5. Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Interest Rate/Rate of Return Risk Sensitivity Analysis (Cont'd.)

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate/rate of return risk. In reality, treasury operations seek to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes that the interest rate/rate of return of all maturities move by the same amount and, therefore, does not reflect the potential impact on the NII/NPI and EVE of some rates changing while others remain unchanged. The projection also assumes a constant statements of financial position and that all positions run to maturity.

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

- (iii) Stress testing is conducted semi-annually to determine the adequacy of capital in meeting the impact of extreme interest rate/rate of return movements on the Group's statements of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of the interest rate/rate of return risk.

(b) Displaced Commercial Risk

DCR refers to the risk of Public Islamic bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the Investment Account Holders ("IAH") based on the contractual profit sharing ratio. Public Islamic does not have Profit Sharing Investment Accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

Public Islamic uses Profit Equalisation Reserve ("PER") to manage its DCR and is governed by the Profit Equalisation Reserve Framework. PER is created by setting aside an amount out of the total gross income before distribution to the IAH and to Public Islamic. The amount of PER set aside is shared by both the IAH and Public Islamic. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, Public Islamic may employ the following techniques to ensure that the IAH receive market rate of return:

- (i) to forgo part or all of Public Islamic's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or
- (ii) to transfer Public Islamic's current year profits or retained earnings to the IAH on the basis of hibah.

5. Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, overseas branches and associated companies, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

Risk Management Approach

The Group manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position ("NOP") limit is set for overall NOP as well as NOP limits for individual currencies. The decision to hedge the Group's net investment in its overseas operations is based on its potential economic benefit and is periodically assessed by the ALCO.

The table in Note 44 to the financial statements sets out the Group's assets, liabilities and NOP by currencies and the Group's structural foreign exchange positions. As at 31 December 2012, a net long position of RM195.9 million or 5% of the Group's structural position represents hedging of future earnings from overseas operations (2011: net short position of RM132.4 million).

(d) Equity Risk

Equity risk refers to the adverse impact arising from movements in equity prices on equity positions held by the Group for yield purposes.

Risk Management Approach

The Group manages such risk via pre-approved portfolio size and cut-loss limits. Decisions concerning such positions are made by the Share Investment Committee.

Pillar 3 Disclosure

6. Equity Exposures in the Banking Book

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

(a) Equity Exposures in the Banking Book

Group	2012		2011	
	Gross Credit Exposure RM'000	Risk- Weighted Assets RM'000	Gross Credit Exposure RM'000	Risk- Weighted Assets RM'000
<u>Publicly traded</u>				
Investments in unit trust funds	4,962,875	4,962,875	4,816,786	4,816,786
Holdings of equity investments	38,805	38,805	36,091	36,091
	5,001,680	5,001,680	4,852,877	4,852,877
<u>Privately held</u>				
For socio-economic purposes	87,765	63,007	87,240	62,482
Not for socio-economic purposes	37,313	55,970	38,196	57,294
	125,078	118,977	125,436	119,776
Total	5,126,758	5,120,657	4,978,313	4,972,653

(i) Publicly Traded

The investment in unit trust funds, comprises of bond fund and money market funds, is 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 equity shares are made by Share Investment Committee. Equity positions are monitored against pre-determined cut-loss limits. All publicly traded equity exposures are stated at fair value.

(ii) Privately Held

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

Pillar 3 Disclosure

6. Equity Exposures in the Banking Book (Cont'd.)

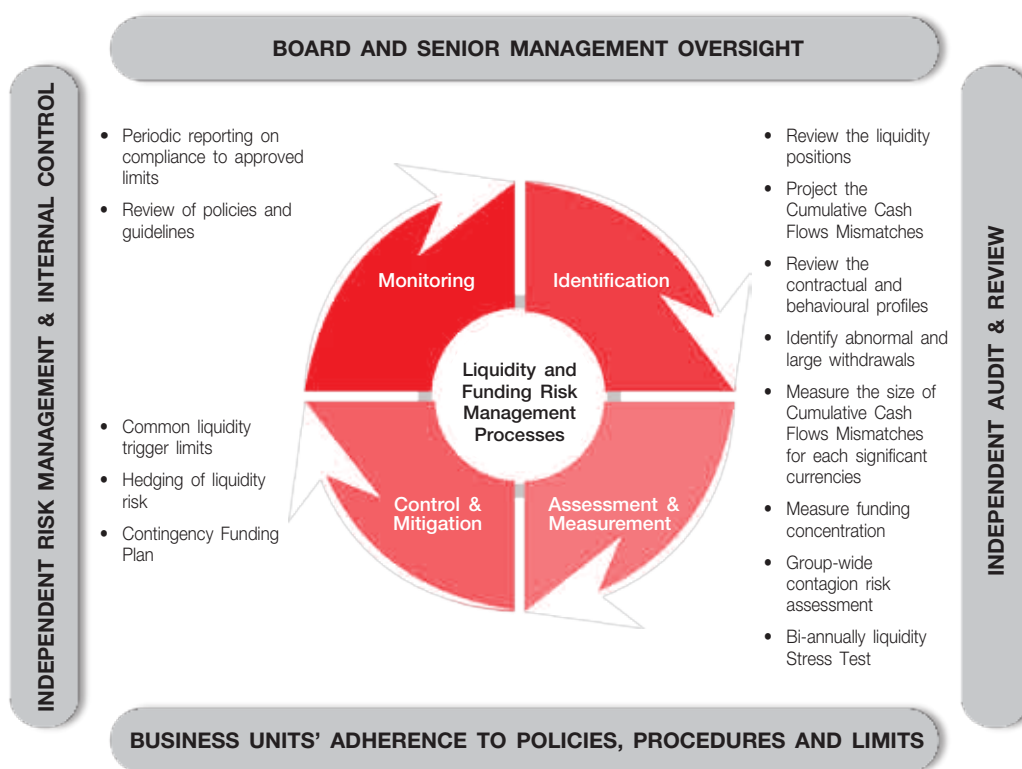
(b) Gains and Losses on Equity Exposures in the Banking Book

Group	2012 RM'000	2011 RM'000
Realised gains/(losses) recognised in the income statement		
– Publicly traded equity investments	(64)	736
Unrealised gains/(losses) recognised in revaluation reserve		
– Investments in unit trust funds	21,997	31,814
– Publicly traded equity investments	9,627	(8,423)
	31,624	23,391

7. Liquidity and Funding Risk

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

The following diagram presents the liquidity and funding risk governance and risk management approach.



Pillar 3 Disclosure

7. Liquidity and Funding Risk (Cont'd.)

Risk Governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approach

The liquidity risk management of the Group is aligned with the New Liquidity Framework issued by BNM, and is measured and managed based on projected cash flows. In addition to ensuring the compliance with the New Liquidity Framework, the Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are borrowed by/financed to the customers. As at 31 December 2012, the Group holds a sizeable balance of government securities amounting to RM17,651.4 million (2011: RM13,362.3 million) or 44% (2011: 38%) of its portfolio of securities.

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

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

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Group to determine the cash flows mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Overseas subsidiary companies and overseas branches are required to comply with their respective local regulatory liquidity requirements and internal liquidity limits set by Head Office. Similar risk management processes as practiced by the Bank are adopted by its overseas subsidiary companies and overseas branches. It is the Group's policy that the overseas subsidiary companies and overseas branches strive to attain a self-funding position in funding their respective operations.

Pillar 3 Disclosure

8. Operational Risk

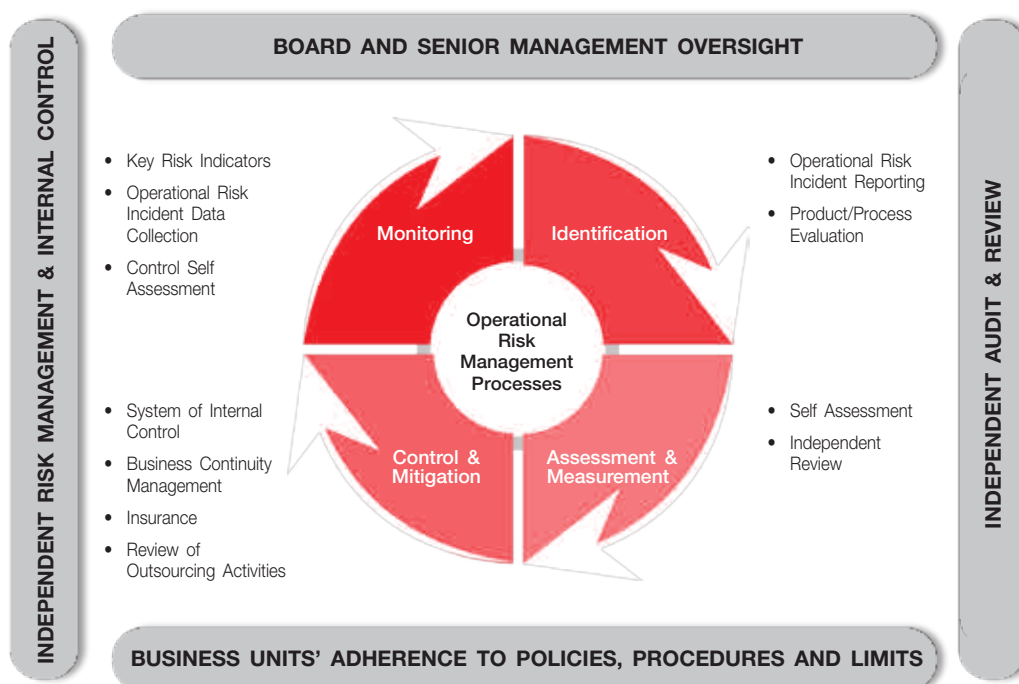
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is unavoidable for the Group as it is inherent in its business operations. The objective of the operational risk management of the Group is to manage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

Minimum Regulatory Capital Requirements for Operational Risk

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

	2012		2011	
	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	13,733,324	1,098,666	12,692,078	1,015,366
Bank	9,915,430	793,234	9,048,375	723,870

The following diagram presents the operational risk governance and risk management approach.



Pillar 3 Disclosure

8. Operational Risk (Cont'd.)

Risk Governance

The Group's operational risk management is guided by the Group's Risk Management Framework and the Group's operational risk management policies which are designed to provide a sound and well-controlled operational environment within the Group. The Group's Risk Management Framework sets out the Group's approach to identifying, assessing, monitoring and mitigating operational risk.

The Board, through RMC, maintains overall responsibility for risk oversight within the Group. The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for assessing the effectiveness of risk management policies and processes in relation to operational risk. To ensure effective oversight and management of operational risk, dedicated independent risk management and control units are put in place for ensuring the operational risk management policies, guidelines, procedures and limits are implemented and complied with.

The various business units are responsible for identifying, managing and mitigating operational risks within their lines of business and ensure that their business activities are carried out within the established operational risk management policies, guidelines, procedures and limits.

Risk Management Approach

The day-to-day management of operational risk exposures is through a comprehensive system of internal controls to ensure that operational policies, guidelines and procedures are being adhered to at all levels throughout the Group. As events and business conditions evolve, the Group continues to strengthen and refine its operational risk management processes to ensure that the current and potential operational risk exposures are properly understood and managed.

(a) Strategy and Processes

The Group has put in place a disciplined product evaluation process. The Group's product evaluation process is governed by the Group's Policy and Procedures on Risk Management Practices for New Products. Each new product or service introduced as well as variations to existing products or services are subject to a rigorous risk review and sign-off process where risks are identified and assessed by divisions independent of the risk taking unit that proposes the product or service. This is further augmented by the Group's Framework on Product Transparency and Disclosure which emphasises the importance of safeguarding customers' confidentiality and promoting their awareness and understanding of the products and services, and informed decision making.

The Group continues to direct group-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Group operates in. The Group seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to support compliance with regulations governing anti-money laundering and counter financing of terrorism.

To further enhance operational risk management in response to threat of external fraud, losses arising from frauds or control lapses are analysed to identify the causes of such losses and to implement remedial actions to prevent recurrence. Analyses of impaired loans attributed to operational lapses are also conducted and the findings are disseminated to all business units as learning points.

The Group manages its outsourcing activities through the Guidelines on Outsourcing Activities which stipulate the requirements and the operating procedures to be observed in managing activities that are outsourced to third party service providers. This is to ensure that the risks associated with outsourcing activities are managed effectively.

Pillar 3 Disclosure

8. Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Strategy and Processes (Cont'd.)

Disaster recovery and business continuity plans are put in place as an integral part of the Group's strategy to mitigate risk and manage the impact of loss events. Where appropriate, the Group mitigates risk of high impact loss events by relevant insurance coverage.

The Group protects information security through continuous assessment of the security features on all computer platforms and network infrastructure, and implementation of appropriate security controls to protect against the misuse or compromise of information assets. In addition, the Group continues to undertake initiatives to maintain 100% systems availability and robust system performance in the Group's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

(b) Tools and Methods for Risk Mitigation

The Group employs the following key methods to mitigate its operational risk:

- System of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes
- Documented operational risk management policies and procedural manuals to mitigate errors by users
- Processes to ensure compliance with internal policies, guidelines, controls and procedures and appropriate punitive actions are taken against errant staff
- Periodic review and enhancement of operational risk limits and control effectiveness
- Disaster recovery and business continuity plans put in place to mitigate risk and manage the impact of loss events
- Insurance coverage to mitigate risk of high impact loss events, where appropriate
- Review of outsourcing activities to ensure that service providers adhere to the terms and conditions in the service agreement and that their integrity and service quality are not compromised

To monitor and mitigate operational risk, the Group uses various tools including:

- Control self-assessment – to enhance management assessment of the state of the control environment
- Key risk indicators – to collect statistical data on an ongoing basis to facilitate early detection of operational control deficiencies
- Operational risk incident reporting and data collection – to facilitate an enhanced analysis and timely reporting of operational risk data which are useful in assessing the Group's operational risk exposure and in strengthening the internal control environment

Pillar 3 Disclosure

8. Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Reporting

Reporting forms an essential part of operational risk management. The Group's risk management processes are designed to ensure that operational issues are identified, escalated and managed on a timely manner.

Operational risk areas for the key business and control units are reported through monthly operational risk management reports, which provide analyses and action plans for each significant business operation. The operational risk areas considered include premises controls and safety, losses due to fraud or control lapses, system availability, disaster recovery and business continuity plan simulations, outsourcing activities and legal actions taken against the Group. The operational risk management reports are tabled to the ORMC and the RMC for deliberations.

9. Shariah Non-Compliance Risk

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

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

Islamic Banking Operations

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

Pillar 3 Disclosure

9. Shariah Non-Compliance Risk (Cont'd.)

Islamic Banking Operations (Cont'd.)

The Shariah Compliance Unit, which comprises Shariah review and Shariah research functions, is responsible for the continuous assessment on Shariah compliance for all activities and business operations of Public Islamic. The role of Shariah review is to examine and evaluate Public Islamic's level of compliance with the Shariah through the end-to-end product development process and operational review including the review of the financing application for possible use of financing for Shariah non-compliance activities. Shariah research is responsible for conducting research on Shariah issues and providing Shariah advisory support to branches and business units. In addition, internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Audit Committee. Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services and its 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.

Ongoing Shariah review conducted on Public Islamic's operational processes in financing transactions revealed that there is no Shariah non-compliant income recorded during the financial year under review. However, an amount of RM48,263 was identified in year 2011 as Shariah non-compliant income, of which a portion has been identified and approved by the Shariah Committee and the Board and channelled to the approved charitable bodies.

Management of Shariah-Based Funds

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

The Compliance Department in Public Mutual maintains strict oversight of the compliance practices on the management of the Shariah-based funds to ensure compliance with the required Shariah rules, regulations and requirements. The Compliance Department conducts regular reviews and works closely with the Shariah Adviser to ensure all transactions under the Shariah-based funds comply with the Shariah requirements at all times.

Any securities held by the Shariah-based funds which subsequently turn Shariah non-compliant based on announcements made by the SACSC will be disposed of in the manner as stipulated by the SACSC. Any excess capital gains derived from such disposal would be channelled to charitable bodies accordingly.

During the financial year, a non-permissible income of RM2,099,143 under the Shariah-based funds arising from the disposal of Shariah non-compliant securities has been channelled to charitable bodies as approved by the Shariah Adviser.

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Past Award – Winning ANNUAL REPORTS

2012 NACRA Award

- Most Outstanding Annual Report – Gold Award
- Best Annual Report in Bahasa Malaysia – Platinum Award



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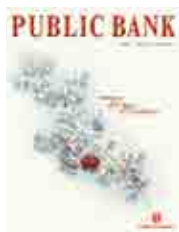
2009



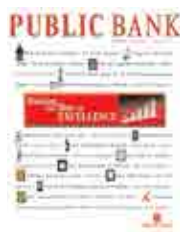
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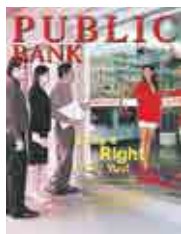
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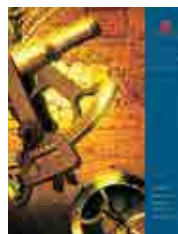
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2011 NACRA Award

- Most Outstanding Annual Report – Gold Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2010 NACRA Award

- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Gold Award

2009 NACRA Award

- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2008 NACRA Award

- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2007 NACRA Award

- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award
- Best Design Annual Report – Platinum Award

2006 NACRA Award

- Most Outstanding Annual Report – Gold Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2005 NACRA Award

- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia

2004 NACRA Award

- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia

2003 NACRA Award

- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia

CITRA Award

- Merit Award

2002 NACRA Award

- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

CITRA Award

- Special Jury Award

2001 NACRA Award

- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

CITRA Award

- Special Jury Award

2000 NACRA Award

- Industry Excellence Award – Finance Sector

CITRA Award

- Main Award

1999 NACRA Award

- Industry Excellence Award – Finance Sector

1998 NACRA Award

- Industry Excellence Award – Finance Sector

1997 NACRA Award

- Best Annual Report in Bahasa Malaysia
- Industry Excellence Award – Finance Sector

1996 NACRA Award

- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

1995 NACRA Commendation Award

- Accounting Information
- Annual Report in Bahasa Malaysia

1994 NACRA Commendation Award

- Accounting Information
- Corporate Information
- Annual Report in Bahasa Malaysia

1991 NACRA Award

- Best Accounting Information – NACRA Commendation Award
- Corporate Information

1990 NACRA Award

- Best Accounting Information

1989 NACRA Award

- Most Outstanding Annual Report
- Best Annual Report – Finance Sector

NACRA Commendation Award

- Corporate Information
- Accounting Information
- Annual Report in Bahasa Malaysia

1988 MACRA Award

- Best Overall Annual Report – NARA Award
- Best Annual Report – Finance Sector

1987 MACRA Award

- Best Corporate Information – NARA Award
- Best Annual Report – Finance Sector

1986 MACRA Award

- Best Corporate Information