PUBLIC BANK

(6463-H)

2013 Annual Report

# Safeguarding

## Our Brand Value

Financial Statements

# Safeguarding Our Brand Value

As the global economy moves amidst challenges, we continue to enhance value whilst safeguarding the integrity of what we represent. At Public Bank, we have remained committed to a superior standard of excellence. We have focused on strategies that set the benchmark. We have delivered results towards our most vital component – you. We have ensured that our stakeholders are always in good hands.

Safeguarding our brand value encompasses all areas of our business, ensuring that in the pursuit of banking excellence, we remain steadfast in protecting and guarding our stakeholders for a sustainably stable future. This year's theme is depicted by a pair of hands protectively holding the Public Bank logo, symbolising the brand as a valuable asset, worth its weight in gold.

# 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.**

# WHAT'S INSIDE


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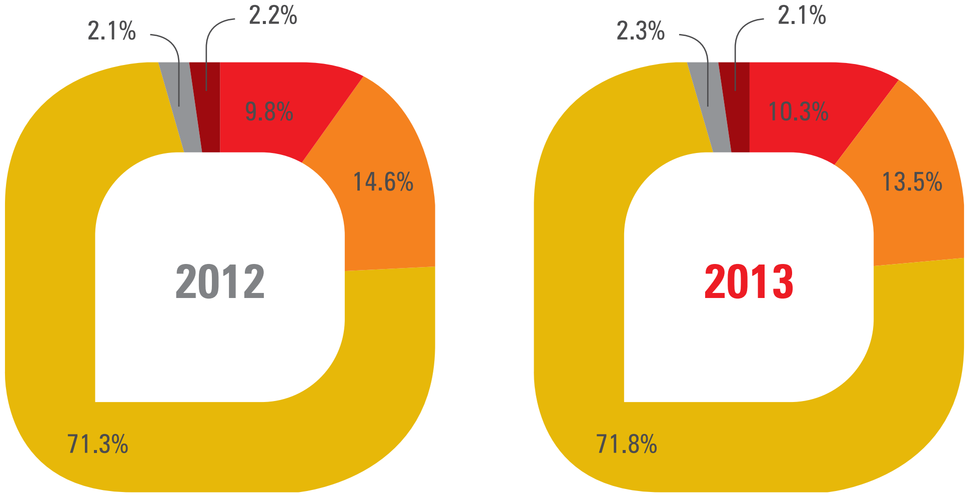
# FINANCIAL HIGHLIGHTS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| **PROFITABILITY (RM'Million)** | | | | |
| Operating revenue | **15,264** | 14,058 | **11,504** | 10,630 |
| Operating profit | **5,655** | 5,329 | **4,747** | 4,711 |
| Profit before tax expense and zakat | **5,310** | 5,047 | **4,647** | 4,627 |
| Net profit attributable to equity holders of the Bank | **4,065** | 3,827 | **3,705** | 3,707 |
| **KEY BALANCE SHEET DATA (RM'Million)** | | | | |
| Total assets | **305,725** | 274,824 | **252,839** | 228,576 |
| Loans, advances and financing | **219,416** | 196,052 | **182,405** | 162,969 |
| Deposits from customers | **250,873** | 225,042 | **201,872** | 181,688 |
| Shareholders' equity | **20,424** | 18,018 | **18,822** | 16,895 |
| **FINANCIAL RATIOS (%)** | | | | |
| **Profitability Ratios** | | | | |
| Net interest margin on average interest bearing assets[1] | **2.9** | 3.1 | **2.7** | 2.9 |
| Net return on equity[2] | **22.4** | 24.1 | **22.0** | 25.0 |
| Return on average assets | **1.8** | 1.9 | **1.9** | 2.1 |
| Return on average risk-weighted assets | **2.8** | 2.9 | **2.9** | 3.2 |
| **Capital Adequacy Ratios** | | | | |
| Common Equity Tier I capital ratio | **9.3** | N/A | **10.9** | N/A |
| Tier I capital ratio | **11.1** | 11.4 | **13.0** | 13.6 |
| Total capital ratio | **14.3** | 14.7 | **14.1** | 14.5 |
| **Asset Quality Ratio** | | | | |
| Gross impaired loans ratio | **0.7** | 0.7 | **0.6** | 0.6 |

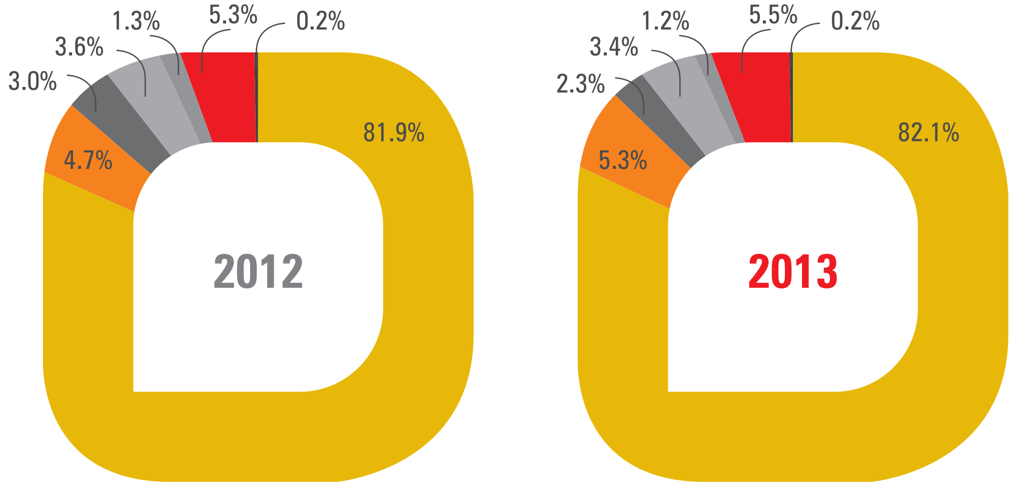
1 *Excluding negotiable instruments of deposit and money market deposits which are on-lent to interbank.*
2 *Based on equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.*

# SIMPLIFIED GROUP BALANCE SHEET




## ASSETS

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




## LIABILITIES & EQUITY

Deposits from customers
Deposits from banks
Bills and acceptances payable and other liabilities
Debt securities issued and other borrowed funds
Share capital
Reserves
Non-controlling interests

# FIVE-YEAR GROUP FINANCIAL SUMMARY

**RM5.31bil**
PROFIT BEFORE TAX

**0.7%**
GROSS IMPAIRED LOANS RATIO

| Year Ended 31 December | 2013 | 2012# | 2011# | 2010 | 2009 |
|---|---|---|---|---|---|
| **OPERATING RESULTS (RM'Million)** | | | | | |
| Operating profit | **5,655** | 5,329 | 5,200 | 4,738 | 4,015 |
| Profit before tax expense and zakat | **5,310** | 5,047 | 4,878 | 4,086 | 3,321 |
| Net profit attributable to equity holders of the Bank | **4,065** | 3,827 | 3,684 | 3,048 | 2,517 |
| **KEY BALANCE SHEET DATA (RM'Million)** | | | | | |
| Total assets | **305,725** | 274,824 | 250,773 | 226,988 | 217,136 |
| Loans, advances and financing | **219,416** | 196,052 | 175,953 | 154,864 | 135,336 |
| Total liabilities | **284,528** | 256,106 | 234,262 | 212,644 | 205,421 |
| Deposits from customers | **250,873** | 225,042 | 200,371 | 176,872 | 170,892 |
| Core customer deposits | **201,258** | 177,035 | 157,297 | 143,639 | 127,623 |
| Paid-up capital | **3,532** | 3,532 | 3,532 | 3,532 | 3,532 |
| Shareholders' equity | **20,424** | 18,018 | 15,813 | 13,692 | 11,023 |
| Commitments and contingencies | **87,986** | 79,458 | 70,847 | 69,206 | 61,435 |
| **SHARE INFORMATION AND VALUATION** | | | | | |
| **Share Information** | | | | | |
| Per share (sen) | | | | | |
| Basic/Diluted earnings | **116.1** | 109.3 | 105.2 | 87.2 | 73.3 |
| Net dividend | | | | | |
| – Cash dividend | **52.0** | 50.0 | 48.0 | 45.5 | 41.3 |
| – Share dividend | **–** | – | – | – | 1 for 68 |
| Net assets | **583.2** | 514.5 | 451.5 | 391.0 | 319.4 |
| Share price as at 31 December (RM) | | | | | |
| – Local | **19.40** | 16.28 | 13.38 | 13.02 | 11.30 |
| – Foreign | **19.54** | 16.30 | 13.20 | 13.00 | 11.26 |
| Market capitalisation (RM'Million) | **68,668** | 57,521 | 47,066 | 45,964 | 39,868 |
| **Valuations (Local Share)** | | | | | |
| Net dividend yield (%) | **2.7** | 3.1 | 3.6 | 3.5 | 3.7 |
| Net dividend yield (including share dividend) (%) | **2.7** | 3.1 | 3.6 | 3.5 | 5.1 |
| Dividend payout ratio (%) | **44.8** | 45.3 | 48.3 | 52.3 | 56.6 |
| Dividend payout ratio (including share dividend) (%) | **44.8** | 45.3 | 48.3 | 52.3 | 79.3 |
| Price to earnings multiple (times) | **16.7** | 14.9 | 12.7 | 14.9 | 15.4 |
| Price to book multiple (times) | **3.3** | 3.2 | 3.0 | 3.3 | 3.5 |

**11.5%** CUSTOMER DEPOSITS

**11.8%** GROSS LOANS

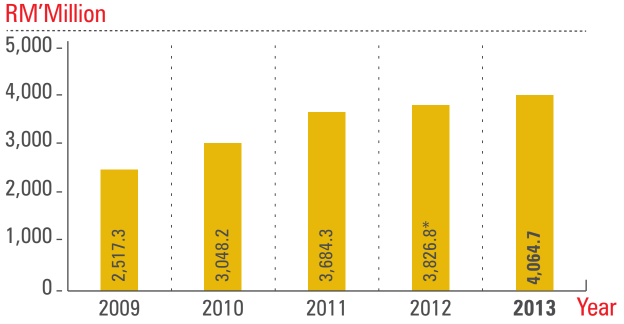
| Year Ended 31 December | 2013 | 2012# | 2011# | 2010 | 2009 |
|---|---|---|---|---|---|
| **FINANCIAL RATIOS (%)** | | | | | |
| **Profitability Ratios** | | | | | |
| Net interest margin on average interest bearing assets[1] | **2.9** | 3.1 | 3.3 | 3.4 | 3.2 |
| Net return on equity[2] | **22.4** | 24.1 | 26.8 | 27.1 | 26.1 |
| Return on average assets | **1.8** | 1.9 | 2.0 | 1.8 | 1.6 |
| Return on average risk-weighted assets | **2.8** | 2.9 | 3.2 | 3.1 | 2.8 |
| Cost/income ratio | **30.7** | 31.2 | 29.8 | 30.7 | 32.6 |
| **Asset Quality Ratios** | | | | | |
| Net loan to deposit ratio | **87.5** | 87.1 | 87.8 | 87.6 | 79.2 |
| Gross impaired loans ratio | **0.7** | 0.7 | 0.9 | 1.1 | 1.4 |
| Loan loss coverage | **118.5** | 126.0 | 113.8 | 94.2 | 120.3^ |
| **Capital Adequacy Ratios** | | | | | |
| Common Equity Tier I ("CET I") capital ratio | **9.3** | N/A | N/A | N/A | N/A |
| Tier I capital ratio | **11.1** | 11.4 | 11.2 | 11.3 | 10.5 |
| Total capital ratio | **14.3** | 14.7 | 15.6 | 14.2 | 14.6 |
| CET I capital (RM'Million) | **18,527** | N/A | N/A | N/A | N/A |
| Tier I capital (RM'Million) | **22,079** | 20,512 | 18,341 | 15,936 | 13,125 |
| Tier II capital (RM'Million) | **6,458** | 5,861 | 7,166 | 4,056 | 5,096 |
| Total capital (RM'Million) | **28,537** | 26,373 | 25,507 | 19,992 | 18,221 |
| **PRODUCTIVITY RATIOS** | | | | | |
| No. of employees | **17,924** | 17,625 | 17,511 | 17,369 | 17,169 |
| Gross loan per employee (RM'000) | **12,340** | 11,222 | 10,148 | 9,013 | 8,015 |
| Deposits per employee (RM'000) | **13,996** | 12,768 | 11,443 | 10,183 | 9,953 |
| Profit before tax per employee (RM'000) | **296** | 286 | 279 | 235 | 193 |
| **MARKET SHARE (%)** | | | | | |
| Domestic market share | | | | | |
| Loans, advances & financing | **16.9** | 16.7 | 16.4 | 16.3 | 15.9 |
| Deposits from customers | **15.3** | 15.2 | 14.9 | 14.8 | 16.3 |
| Core customer deposits | **17.2** | 16.6 | 16.1 | 16.3 | 15.4 |

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 due to the adoption of FRS 139.*
# *Restated due to retrospective application of MFRS 119. For FYE2011, only relevant balance sheet items have been restated to position as at 1 January 2012.*

# SUMMARY OF FIVE-YEAR GROUP GROWTH

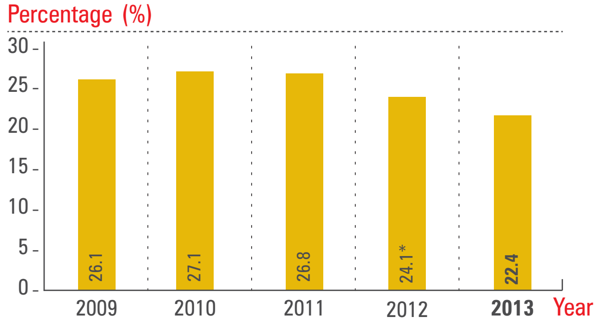
### Net Profit Attributable To Equity Holders

**RM4,064.7 Million**



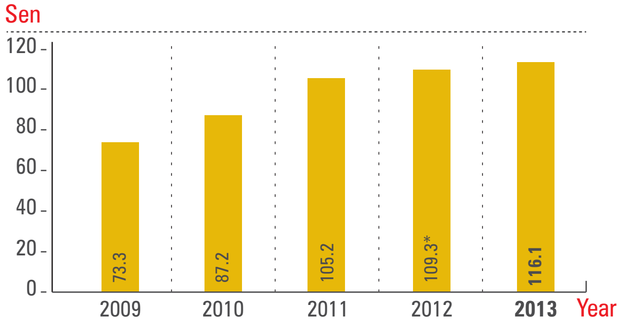

### Net Return On Equity

**22.4%**



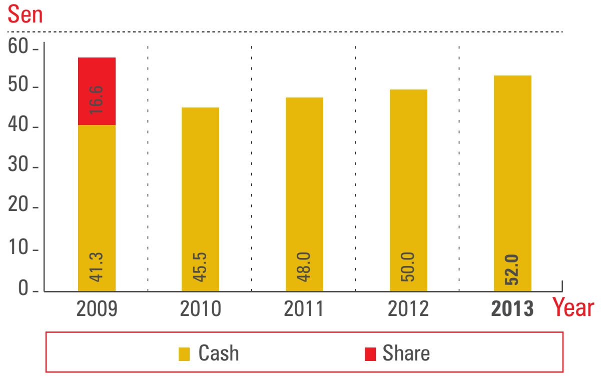

### Earnings Per Share

**116.1 Sen**



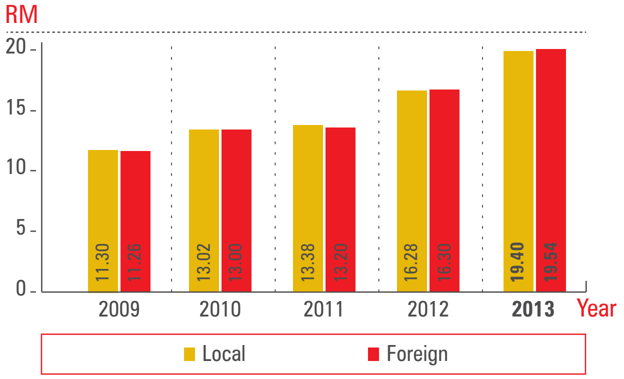

### Dividend Per Share

**52.0 Sen**



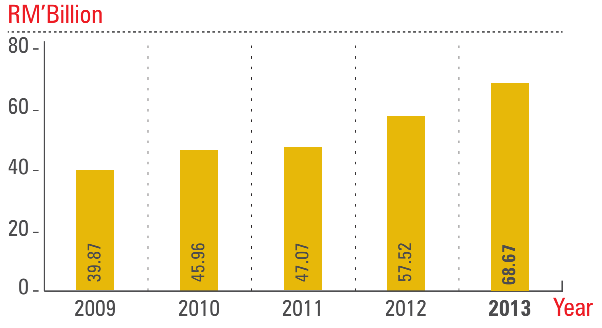

### Share Price

**RM19.40**




### Market Capitalisation

**RM68.67 Billion**



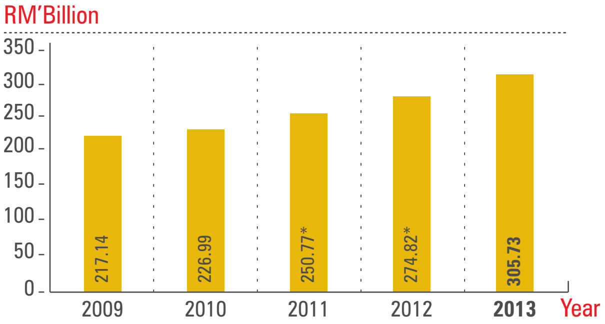

### Public Bank's Ranking by Market Capitalisation on Bursa Malaysia Securities Berhad

| Year | **2013** | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Ranking | **2nd** | 2nd | 5th | 4th | 5th |

* *Restated due to retrospective application of MFRS 119*

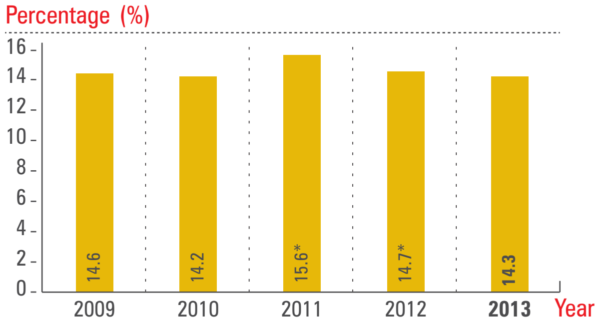
## Total Assets

**RM305.73 Billion**



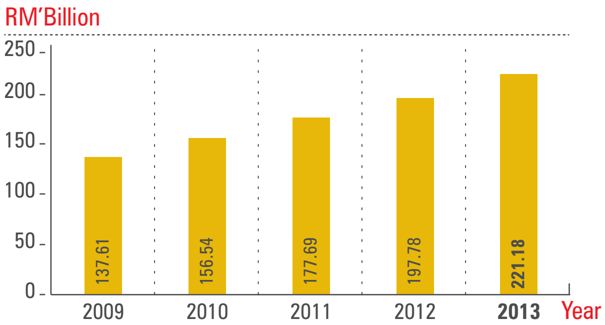

## Total Capital Ratio

**14.3%**



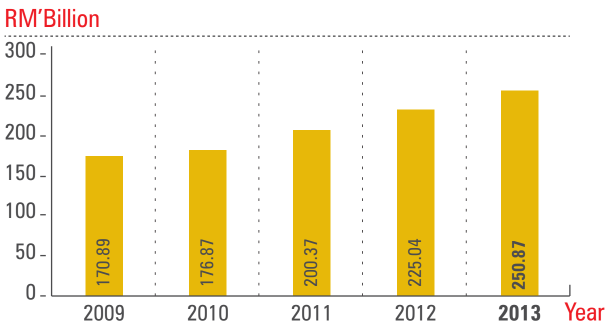

## Gross Loans, Advances and Financing

**RM221.18 Billion**



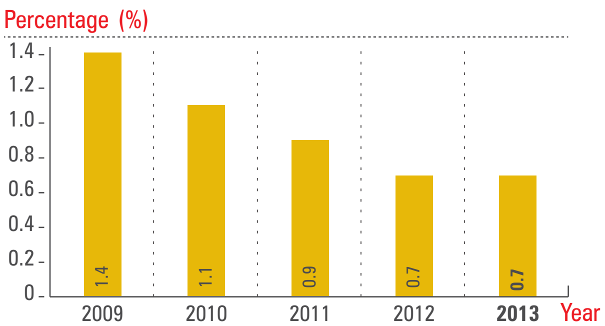

## Customer Deposits

**RM250.87 Billion**



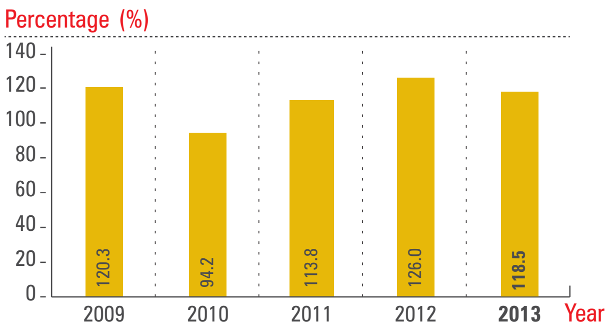

## Gross Impaired Loans Ratio

**0.7%**




## Loan Loss Coverage

**118.5%**




* *Restated due to retrospective application of MFRS 119*

# SEGMENTAL ANALYSIS


## Operating Revenue (2012)

**Domestic**

| | |
|---|---|
| 16.0% | Hire purchase |
| 48.0% | Retail operations |
| 6.9% | Corporate lending |
| 11.9% | Treasury and capital market operations |
| 1.3% | Investment banking |
| 6.2% | Fund management |
| 2.5% | Others |

**Overseas**

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

## Operating Revenue (2013)

**Domestic**

| | |
|---|---|
| 15.3% | Hire purchase |
| 48.2% | Retail operations |
| 7.0% | Corporate lending |
| 11.9% | Treasury and capital market operations |
| 1.3% | Investment banking |
| 6.7% | Fund management |
| 2.5% | Others |

**Overseas**

| | |
|---|---|
| 5.0% | Hong Kong SAR |
| 1.6% | Cambodia |
| 0.5% | Other countries |



## Profit Before Tax (2012)

**Domestic**

| | |
|---|---|
| 13.2% | Hire purchase |
| 59.2% | Retail operations |
| 6.4% | Corporate lending |
| 7.0% | Treasury and capital market operations |
| 0.9% | Investment banking |
| 7.4% | Fund management |
| (0.5%) | Others |

**Overseas**

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

## Profit Before Tax (2013)

**Domestic**

| | |
|---|---|
| 9.3% | Hire purchase |
| 61.9% | Retail operations |
| 6.4% | Corporate lending |
| 7.1% | Treasury and capital market operations |
| 0.9% | Investment banking |
| 8.0% | Fund management |
| (0.2%) | Others |

**Overseas**

| | |
|---|---|
| 3.5% | Hong Kong SAR |
| 2.2% | Cambodia |
| 0.9% | Other countries |



## 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 |

## Total Assets (2013)

**Domestic**

| | |
|---|---|
| 12.2% | Hire purchase |
| 52.3% | Retail operations |
| 7.2% | Corporate lending |
| 20.9% | Treasury and capital market operations |
| 1.2% | Investment banking |
| 0.1% | Fund management |
| 0.1% | Others |

**Overseas**

| | |
|---|---|
| 4.6% | Hong Kong SAR |
| 1.1% | Cambodia |
| 0.3% | Other countries |

# ANALYSIS OF THE FINANCIAL STATEMENTS



## ANALYSIS OF THE INCOME STATEMENT

### Net income

The Public Bank Group's net income registered a growth of 5.3% to RM8.16 billion in 2013 from RM7.75 billion in 2012. The growth was mainly contributed by increase in net interest income by 6.0% and other operating income by 6.2%.

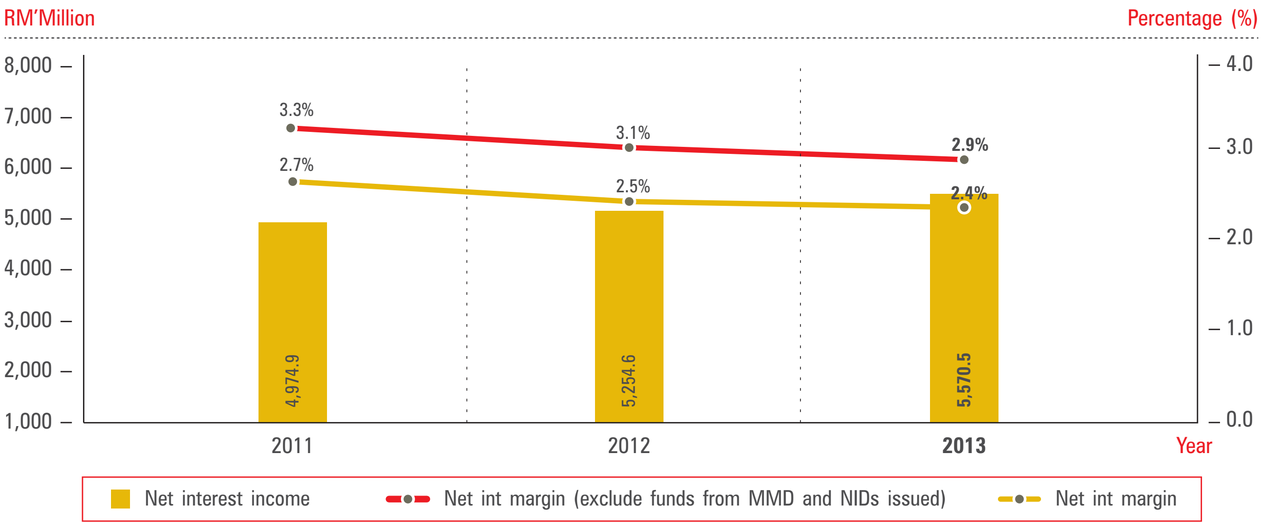
| | 2013 | 2012 | Variance | | Contribution |
|---|---|---|---|---|---|
| | **RM'000** | **RM'000** | **RM'000** | **%** | **%** |
| Net interest income | **5,570,538** | 5,254,645 | 315,893 | 6.0 | 68.3 |
| Net income from Islamic Banking Business | **837,136** | 843,766 | (6,630) | (0.8) | 10.3 |
| Other operating income | **1,750,643** | 1,648,298 | 102,345 | 6.2 | 21.4 |
| **Net income** | **8,158,317** | 7,746,709 | 411,608 | 5.3 | 100.0 |

### Net interest income

Net interest income remained as the Public Bank Group's primary source of income as it contributed 68.3% of the Group's total net income in 2013. Net interest income increased by 6.0% or RM315.9 million to RM5.57 billion in 2013 due to strong loans and customer deposits growth but was offset by lower net interest margin.

Net interest margin on interest-bearing assets declined by 15 basis points to 2.4% in 2013 as a result of intense market competition.

***Net Interest Income and Margins***




### Net income from Islamic banking business

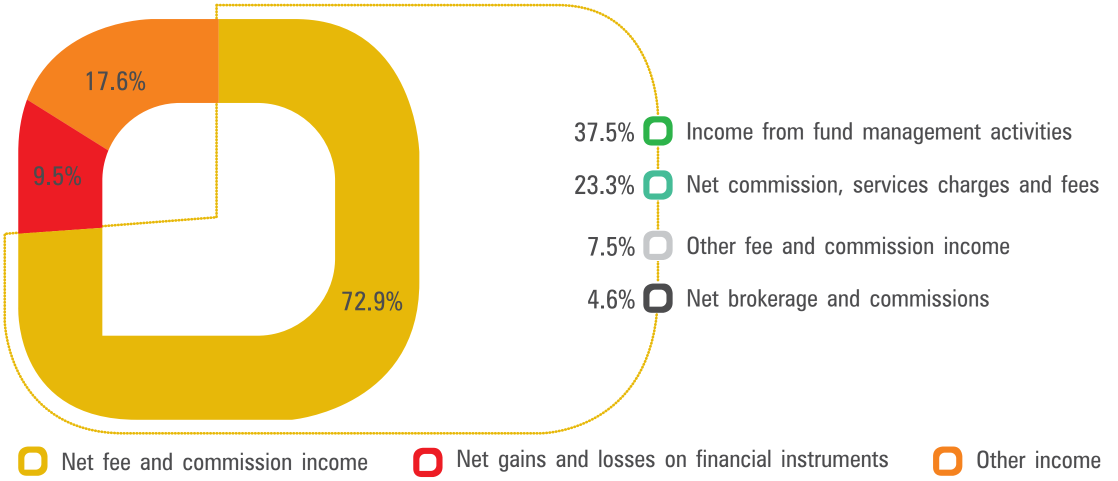
The Public Bank Group's net income from Islamic banking business remained stable at RM837.1 million in 2013. The decrease in net income by 0.8% was mainly due to net interest margin compression in 2013.

## Other operating income

Other operating income continued to expand by RM102.3 million or 6.2% to RM1,750.6 million as compared to the previous corresponding financial year. This was mainly due to growth in net fee and commission income by 9.4%.

| | 2013 RM'000 | 2012 RM'000 | Variance RM'000 | Variance % |
|---|---|---|---|---|
| **Net fee and commission income** | **1,275,345** | 1,165,313 | 110,032 | 9.4 |
| *of which:* | | | | |
| *Net commission, service charges and fees* | **407,428** | 394,684 | 12,744 | 3.2 |
| *Net brokerage and commissions* | **80,053** | 75,509 | 4,544 | 6.0 |
| *Income from fund management activities* | **656,022** | 557,126 | 98,896 | 17.8 |
| **Net gains and losses on financial instruments** | **166,983** | 170,244 | (3,261) | (1.9) |
| **Other income** | **308,315** | 312,741 | (4,426) | (1.4) |
| *of which:* | | | | |
| *Profits from foreign exchange business* | **232,844** | 225,445 | 7,399 | 3.3 |
| **Total other operating income** | **1,750,643** | 1,648,298 | 102,345 | 6.2 |

***Other Operating Income Contribution 2013***




The increase of net fee and commission income by RM110.0 million or 9.4% to RM1,275.3 million was mainly attributed to higher income from the Public Bank Group's fund management activities. The higher income was a result of growth in net asset value of unit trust funds under management by 14.5% to RM62.50 billion in 2013. Net commission, service charges and fees rose by RM12.7 million or 3.2% to RM407.4 million in 2013. Net brokerage and commissions from stock broking activities contributed RM80.1 million to the Group's total other operating income in 2013.

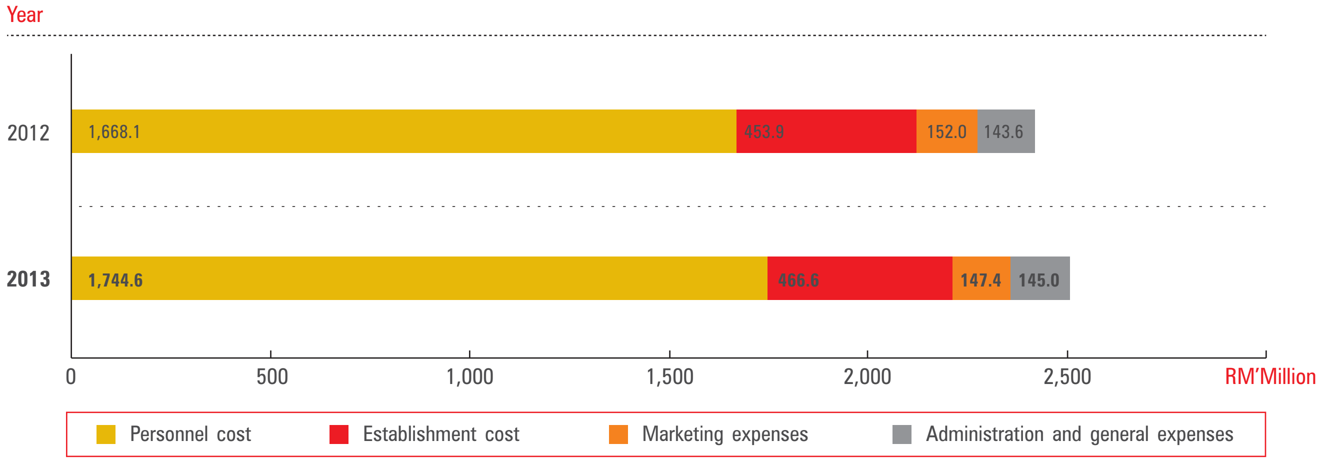
Net gains and losses on financial instruments decreased by RM3.3 million or 1.9% to RM167.0 million in 2013.

Other income accounted for 17.6% of the Group's total other operating income in 2013 as compared to 19.0% in 2012.

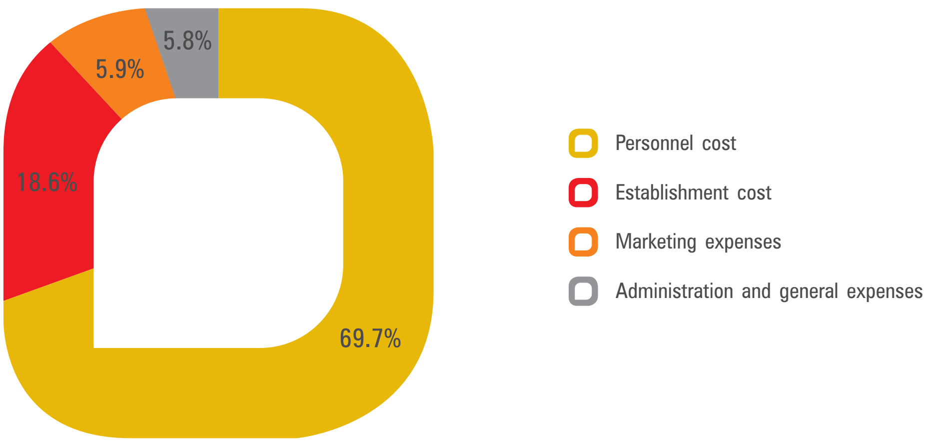
## Other operating expenses

The other operating expenses of the Public Bank Group reported an increase of 3.6% or RM86.0 million to RM2,503.6 million in 2013, mainly due to higher personnel cost.

***Total Other Operating Expenses***




***Other Operating Expenses Contribution 2013***




Personnel cost accounted for 69.7% of the total other operating expenses of the Group. In 2013, personnel cost grew by 4.6% to RM1,744.6 million as a result of annual salary increments and increased staff strength to support business expansion. This is reflected by the increase in employees of the Group from 17,625 as at the end of 2012 to 17,924 as at the end of 2013.

Establishment cost rose by 2.8% or RM12.7 million to RM466.6 million in 2013. The increase was primarily due to opening of new branches and expansion of existing branches. Establishment cost accounted for 18.6% of total other operating expenses of the Group.

Marketing expenses decreased by 3.0% or RM4.6 million whilst administration and general expenses increased by 1.0% or RM1.4 million in 2013, accounting for 5.9% and 5.8% respectively of the Group's total operating expenses.

***Allowance for Impairment on Loans, Advances and Financing***






## Allowance for impairment on loans, advances and financing

Domestic allowance for impairment on loans, advances and financing increased by 36.5% or RM53.8 million to RM201.0 million in 2013, mainly due to higher collective assessment allowance particularly in respect of the hire purchase lending portfolio.

Overseas allowance for impairment on loans, advances and financing grew from RM132.0 million in 2012 to RM150.3 million in 2013 mainly due to loans growth in the Group's Cambodian operations.

## Writeback of impairment loss

A writeback of impairment loss was reported in 2013 at RM0.1 million as compared to impairment loss of RM6.6 million in 2012 due to lower impairment loss on foreclosed properties and equity securities in 2013.

## Tax expenses and zakat

The Public Bank Group's tax expense was RM1,204.3 million in 2013, an increase of 2.2% or RM26.3 million from RM1,178.0 million in 2012.

The Group's effective tax rate was 22.7% in 2013, lower than Malaysia's statutory tax rate of 25% mainly due to certain income not subject to tax and the effects of lower tax rates in jurisdictions outside Malaysia.

## ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

| | 2013 RM'Million | 2012# RM'Million | Variance RM'Million | % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with banks | **22,080** | 18,636 | 3,444 | 18.5 |
| Reverse repurchase agreements | **9,542** | 8,159 | 1,383 | 17.0 |
| Financial assets held-for-trading | **15,812** | 16,617 | (805) | (4.8) |
| Financial investments available-for-sale | **17,619** | 17,201 | 418 | 2.4 |
| Financial investments held-to-maturity | **7,794** | 6,258 | 1,576 | 24.5 |
| Loans, advances and financing | **219,416** | 196,052 | 23,364 | 11.9 |
| Statutory deposits with Central Banks | **6,925** | 5,787 | 1,138 | 19.7 |
| Other assets | **6,537** | 6,114 | 423 | 6.9 |
| **Total Assets** | **305,725** | 274,824 | 30,901 | 11.2 |
| **Liabilities** | | | | |
| Deposits from customers | **250,873** | 225,042 | 25,831 | 11.5 |
| Deposits from banks | **16,176** | 12,849 | 3,327 | 25.9 |
| Debt securities issued and other borrowed funds | **10,370** | 9,947 | 423 | 4.3 |
| Other liabilities | **7,109** | 8,268 | (1,159) | (14.0) |
| **Total Liabilities** | **284,528** | 256,106 | 28,422 | 11.1 |
| **Total Equity** | **21,197** | 18,718 | 2,479 | 13.2 |
| **Total Liabilities and Equity** | **305,725** | 274,824 | 30,901 | 11.2 |

\# *Restated due to retrospective application of MFRS 119*

### Total assets

The Public Bank Group's total assets increased by RM30.90 billion or 11.2% higher at RM305.73 billion as at 31 December 2013. The increase was mainly contributed by strong loan growth of 11.9% and higher cash and bank balances.

As at the end of December 2013, net loans, advances and financing remained as the largest component of the Group's total assets at 71.8% as compared to 71.3% in the previous year. The proportion of interest-bearing assets remained high at 93.3%.

### Cash and balances with banks

Cash and balances with banks stood at RM22.08 billion as at 31 December 2013, an increase of RM3.44 billion or 18.5% during the year. The excess liquidity in the Group was mainly held in short-term money market placements.

### Reverse repurchase agreements

The reverse repurchase agreements, as an alternative avenue for the placement of liquid funds, increased by RM1.38 billion mainly due to higher Malaysian Government Securities purchased under resale agreements with Bank Negara Malaysia.

## Financial investments

The Group's financial investments portfolio are mainly held for yield and liquidity purposes. Holdings of trading book positions are classified under financial assets held-for-trading. The Group's trading book position which accounted for 38.4% of the Group's total financial investments decreased by RM0.8 billion during the year, mainly due to the decrease in holdings of government-related securities partially offset by increase in holdings of money market instruments.

The Group's banking book positions are classified under its financial investments available-for-sale and financial investments held-to-maturity portfolios. As at 31 December 2013, 42.7% and 18.9% of the Group's total financial investments were held in financial investments available-for-sale and financial investments held-to-maturity respectively.

Financial investments available-for-sale increased marginally by RM0.4 billion, whereas financial investments held-to-maturity increased by RM1.54 billion or 24.5% which was mainly attributable to the increased holdings of government-related securities and non-money market instruments.

## Loans, advances and financing

The Group was able to maintain its strong growth momentum by expanding its loan base by RM23.36 billion or 11.9% to RM219.42 billion as at end of 2013. This was supported by its domestic loan which recorded a stronger growth at 12.0%, outpacing the domestic banking industry's loan growth of 10.6%. As a result, the market share had grown to 16.9% as at December 2013. The Group's focus has remained on the retail sector with extension of credit mainly to residential properties, purchase of passenger vehicles and small and medium enterprises, which grew by 16.0%, 6.9% and 19.2% respectively. Despite the consistent double digit growth in its loan portfolio year after year, the asset quality has not been compromised, with the impaired loan ratio remaining at 0.7% as at end of 2013.

## Total liabilities and equity

The Public Bank Group's total liabilities grew by RM28.42 billion in 2013, mainly from an increase in customer deposits and deposits from banks by RM25.83 billion and RM3.33 billion respectively. The Group's equity had remained strong at RM21.20 billion, despite the payment of dividends amounting to RM1.82 billion in 2013, which was mainly due to strong net profits of RM4.06 billion registered during the year.

## Deposits from customers

In tandem with the loan growth, the Group's deposits from customers grew by RM25.83 billion or 11.5% to RM250.87 billion, which was mainly due to the strong growth in core customer deposits. Domestic core customer deposits registered a stronger growth rate, translating into a higher market share of 17.4% as at December 2013. The Group's loan to deposit ratio remained healthy at 87.5%.

## Deposits from banks

As part of the Group's funding and gapping activities, deposits from banks increased by RM3.33 billion to RM16.18 billion, due to higher interbank borrowings.

## Debt securities issued and other borrowed funds

The Group's debt instruments consist of Subordinated Notes, Innovative Tier I Capital Securities, Non-innovative Tier I Stapled Securities, Senior Medium Term Notes and other borrowings. Besides funding the expansion of its balance sheet and diversifying its funding base, these funds have also strengthened the Group's capital base and improving its return on equity.

During the year, the Group issued RM0.4 billion Senior Medium Term Notes and RM1.95 billion in nominal value of subordinated notes under its RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme, in replacement for the redemption of RM1.4 billion subordinated notes issued in prior years.

## Other liabilities

Other liabilities decreased by RM1.16 billion, mainly due to the decrease in bills and acceptances payable by RM1.48 billion.

# 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.

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 2013 and of their financial performance and cash flows for the year then ended.

In preparing the annual audited financial statements, the Directors have:

a. applied the appropriate and relevant accounting policies on a consistent basis;

b. made judgments and estimates that are reasonable and prudent; and

c. prepared the audited financial statements on a going concern basis.

The Directors also have a general responsibility to take reasonable steps to safeguard the assets of the Group and the Bank to prevent and detect fraud and other irregularities.

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# DIRECTORS' REPORT

for the financial year ended 31 December 2013

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 2013.

## 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 | 5,309,984 | 4,646,632 |
| Tax expense and zakat | (1,204,342) | (941,517) |
| Profit for the year | 4,105,642 | 3,705,115 |
| Attributable to: | | |
| Equity holders of the Bank | 4,064,683 | 3,705,115 |
| Non-controlling interests | 40,959 | – |
| Profit for the year | 4,105,642 | 3,705,115 |

## DIVIDENDS

The amount of dividends paid by the Bank since 31 December 2012 were as follows:

| | RM'000 |
|---|---|
| In respect of financial year ended 31 December 2012:<br>Second interim single tier dividend of 30.0% on 3,502,125,130 ordinary shares of RM1.00 each, paid on 5 March 2013 | 1,050,638 |
| In respect of financial year ended 31 December 2013:<br>First interim single tier dividend of 22.0% on 3,502,125,130 ordinary shares of RM1.00 each, paid on 20 August 2013 | 770,467 |
| | 1,821,105 |

## DIVIDENDS (CONT'D.)

Subsequent to the financial year end, on 5 February 2014, 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 2013, 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 20 February 2014. The financial statements for the current financial year do not reflect these dividends. Upon declaration, this dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2014.



The Directors do not propose any final dividend for the financial year ended 31 December 2013.



## 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 2013, 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 statements of profit or loss and statements of financial position of the Group and the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for doubtful debts and financing.

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

## CURRENT ASSETS

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

## CURRENT ASSETS (CONT'D.)

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

## VALUATION METHODS

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

## CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the Group or the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability in respect of the Group or the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business.

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

## CHANGE OF CIRCUMSTANCES

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

## ITEMS OF UNUSUAL NATURE

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

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

## SIGNIFICANT EVENTS DURING THE YEAR

The significant events during the financial year are as disclosed in Note 55 to the financial statements.

## SUBSEQUENT EVENTS

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

## DIRECTORS OF THE BANK

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

Tan Sri Dato' Sri Dr. Teh Hong Piow
Tan Sri Datuk Seri Utama Thong Yaw Hong
Tan Sri Dato' Sri Tay Ah Lek
Dato' Sri Lee Kong Lam
Dato' Yeoh Chin Kee
Dato' Haji Abdul Aziz bin Dato' Dr. Omar
Tang Wing Chew
Lai Wan
Lai Wai Keen
Quah Poh Keat *(resigned on 1 October 2013)*

In accordance with Article 111 of the Bank's Articles of Association, Tang Wing Chew retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself 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 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.

Dato' Yeoh Chin Kee who retires pursuant to Section 129 of the Companies Act, 1965, will not be seeking re-appoinment at the forthcoming Annual General Meeting and therefore shall retire at the conclusion of the said Annual General Meeting.

## 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 1.1.2013** | **Acquired** | **Disposed** | **Balance at 31.12.2013** |
| **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 | 5,898,951 | – | – | 5,898,951 |
| Dato' Sri Lee Kong Lam | 380,866 | – | – | 380,866 |
| Dato' Yeoh Chin Kee | 100,000 | – | – | 100,000 |
| Dato' Haji Abdul Aziz bin Dato' Dr. Omar | 482,037 | – | (400,000) | 82,037 |

## DIRECTORS' INTERESTS (CONT'D.)

### Shares Held in the Bank (Cont'd.)

| | Number of Ordinary Shares of RM1.00 Each | | | |
|---|---|---|---|---|
| | Balance at 1.1.2013 | Acquired | Disposed | Balance at 31.12.2013 |
| **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 | 16,959 | – | – | 16,959 |
| Lai Wai Keen | 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 1.1.2013 | Acquired | Disposed | Balance at 31.12.2013 |
| **Direct interests:** | | | | |
| Tan Sri Dato' Sri Tay Ah Lek | 350,000 | – | – | 350,000 |

### Share Options Held in a Subsidiary Company

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

| | | Number of PFHL Share Options | | | | |
|---|---|---|---|---|---|---|
| | Option Price HKD | Balance at 1.1.2013 | Granted | Exercised | Lapsed | Balance at 31.12.2013 |
| 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, Chief Executive Officer, Deputy Chief Executive Officer and key Senior Management Officers whereupon recommendations are made to the Board of Directors for approval.

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

Tan Sri Datuk Seri Utama Thong Yaw Hong (Independent)
Dato' Sri Lee Kong Lam (Non-Independent) (appointed on 9 December 2013)
Dato' Yeoh Chin Kee (Non-Independent)
Dato' Haji Abdul Aziz bin Dato' Dr. Omar (Non-Independent)
Tang Wing Chew (Independent)
Lai Wan (Independent) (appointed on 5 January 2014)
Lai Wai Keen (Independent) (appointed on 5 January 2014)
Quah Poh Keat (Independent) (resigned on 1 October 2013)

## BUSINESS REVIEW 2013

Despite the challenging global economic conditions, the Malaysian economy remained resilient in 2013, driven mainly by domestic demand. The operating environment remained supportive of the banking business. During the year, the Malaysian banking sector continued to be sound and stable, underpinned by strong capitalisation, high asset quality and ample liquidity.

In 2013, the Public Bank Group continued to achieve strong performance in its lending and deposit-taking business. Lending to the retail sector remained the main focus of the Group with extension of credit mainly to residential mortgages, purchase of passenger vehicle and lending to small and mid-market commercial enterprises. During the year, the Group's total loans outstanding increased by 11.8%, with home mortgages increasing by 16.0%, passenger vehicle hire purchase financing increasing by 6.9% and loans to small and medium enterprises ("SMEs") increasing by 19.2%.

The Public Bank Group continued to sustain its strong asset quality, backed by its prudent credit policy, strong credit culture and strong risk management practices. As at the end of 2013, the gross impaired loans ratio remained low at 0.7%, which was significantly lower than the banking industry's ratio of 1.9%.

## BUSINESS REVIEW 2013 (CONT'D.)

To grow its deposit-taking business, the Public Bank Group accelerated its efforts to attract deposits through its strong deposit franchise coupled with attractive deposit rates and deposit campaigns, namely PB Golden Fortune, PB FD Fortune, PB Super FD Rates and PB Golden Fortune 2. During the year, the Group achieved strong deposit growth of 11.5%, mainly attributed to steady inflow of fixed deposits, low-cost savings and current accounts, which grew by 13.7%, 8.8% and 17.1% respectively. As at the end of 2013, the Group's loan-to-deposit ratio remained healthy at 87.5%. The Group continued to lead the Malaysian banking industry in terms of cost efficiency with its lower cost-to-income ratio of 30.7%.

During the year, the Public Bank Group continued to intensify its effort to grow fee-based income from unit trust, bancassurance products, card business, trade finance and remittance business. In its fund management business, Public Mutual, Public Bank's wholly-owned subsidiary, retained its market leadership in the private unit trust industry, with overall market share of 41.2% as at the end of 2013, underpinned by its superior fund performance, strong distribution capabilities and strong branding. Public Mutual successfully launched four unit trust funds in 2013 with total of funds under its management reaching 104 as at the end of 2013. Net asset value of funds under its management increased by 14.5% during the year to RM62.5 billion.

The Public Bank Group's bancassurance business continued to expand during the year. Under the strategic partnership with AIA Group, Public Bank unveiled two regular premium investment-linked bancassurance products known as empower Plan and empower Edu Plan. These two products offer a combination of protection and investment elements to suit the different lifestyle needs of its customers. In addition, a new insurance product, the PB Care PA Plan was introduced through the telemarketing channel.

As at the end of 2013, the Public Bank Group further expanded its domestic branch network to 258 branches, to better serve its large customer base of individuals and business enterprises. The Group also continued to invest in multiple delivery channels and its strong sales and marketing force to drive business growth. In line with Bank Negara Malaysia's objective to migrate from paper-based payments to electronic payments, the Group has implemented various initiatives to improve its e-banking platform to enhance customers' banking experience.

The Public Bank Group remains committed to expand its overseas business. Today, the Group's overseas operations comprise 124 branches, with 83 branches in Hong Kong, 3 branches in China, 25 branches in Cambodia, 7 branches in Vietnam, 4 branches in Laos, 2 branches in Sri Lanka and 3 representative offices in Shanghai, Shenyang and Taipei.

In 2013, the Group continued to undertake Corporate Social Responsibility programmes in nation building, enhancement of the market place, promotion of the work place, education, community and health care support and environmental conservation.

## ECONOMIC OUTLOOK AND PROSPECTS FOR 2014

The global economy is expected to strengthen moderately in 2014. Growth in major advanced economies is likely to gain traction, while growth in most Asian economies will remain at a healthy pace. However, there remains downside risks to global growth, including fiscal uncertainty in the US and unresolved balance sheet problem in the euro area. Furthermore, persistent high unemployment and public debt remain a concern to the economic outlook.

The Malaysian economic growth is expected to sustain in 2014, underpinned by sustained domestic demand led by private sector activities and a recovery in the external sector. Favourable labour market and wage increases will continue to support consumption. Private investments are expected to remain resilient as the implementation of Economic Transformation Programme continues. Capital spending in export oriented-industries is also expected to increase as the global economy improves. On the supply side, growth is likely to be broad-based, with strong performance in the services, manufacturing and construction sectors. The expected reduction of subsidies by the Government is likely to contribute to a rise in inflation, but it is expected to remain manageable.

## ECONOMIC OUTLOOK AND PROSPECTS FOR 2014 (CONT'D.)

On monetary policy, Bank Negara Malaysia is expected to keep interest rates accommodative to support growth, while ensuring price stability. On fiscal policy, the Government has taken important steps to strengthen fiscal management, including the introduction of Goods and Services Tax in April 2015 and subsidy rationalisation. The Government targets to reduce the fiscal deficit to 3.5% of GDP in 2014 from 4.0% in 2013. While the eventual tapering of asset purchase programme by the US is likely to raise the risk of capital outflows, Malaysia's strong external position and sound financial system will help the country to navigate the volatility.



## BUSINESS OUTLOOK FOR 2014

Outlook for the Malaysian economy is expected to remain stable in 2014, with private sector-led domestic demand being the anchor of growth. Amidst the positive economic outlook, the Malaysian banking industry is expected to remain resilient due to its strong capitalisation and asset quality, sustained profitability, and healthy liquidity profile. Net interest margin is likely to remain compressed due to intense competition in the banking sector.



In 2013, the Government introduced a set of measures to further promote healthy and sustainable household and property sectors. These measures include setting the maximum tenure for personal financing and loan for purchase of properties, prohibiting features of Developer Interest Bearing Scheme and raising the Real Property Gains Tax. These prudential measures address the risk from excessive household indebtedness among the lower-income segments, and will help to ensure a healthy and sustainable credit market, hence preserve stability in the financial system.

The Public Bank Group will continue to focus on organic growth strategies to grow its retail loans and customer deposits. The lending business will continue to be supported by growth in home mortgages, vehicle financing and lending to SMEs. Based on the healthy pace of economic growth, accommodative monetary environment and higher income growth, the Group continues to see growth opportunities in the lending business. The Group will further drive new product innovation, enhance service delivery and loan turnaround time, as well as promote cross-selling activities to further expand its market share.

The Public Bank Group will continue to implement its prudent credit appraisal and approval process as well as stringent underwriting standards. For its funding side, the Group will continue to promote core customer deposits to maintain efficient funding cost as well as to retain a stable and healthy liquidity position.

The Public Bank Group will continue to expand the scale and scope of its fee-based activities, targeting fee income from unit trust, bancassurance, foreign-exchange related transactions and transactional banking services. The Group will further tap on the continuing expansion of the economy and increasing affluence of customers to grow its fee-based income. To meet customer's various investment appetites, the Group will offer a wider range of financial product offerings. The Group will also continue to make further progress to grow its overseas business and tap on growth opportunities in the region.

The Public Bank Group will continue to enhance its multi-channel banking, including its extensive branch network, large sales and marketing staff force, as well as multiple electronic and self-service channels, such as internet banking and self-service machines to further expand its business. In addition, the Group will place more emphasis on delivering high standard of customer service. Human capital and talent development will continue to be a major focus of the Group.

To sustain long-term business growth, the Public Bank Group will continue to adhere to strong corporate governance practices, sound risk management and prudent credit policies. The Group will also continue to assess and enhance its capability to manage new regulatory changes while maintaining the viability of its business.

## 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: 5 February 2014

# STATEMENT BY DIRECTORS

We, TAN SRI DATO' SRI DR. TEH HONG PIOW and TAN SRI DATUK SERI UTAMA THONG YAW HONG, being two of the Directors of PUBLIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 29 to 256 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 2013 and of their financial performance and cash flows for the year then ended.

The information set out in Note 58 to the financial statements on pages 257 to 258 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 PIOW**
*Director*

**TAN SRI DATUK SERI UTAMA THONG YAW HONG**
*Director*

Kuala Lumpur
Date: 5 February 2014

# STATUTORY DECLARATION

I, YIK SOOK LING, being the officer primarily responsible for the financial management of PUBLIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 29 to 258, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed **YIK SOOK LING** at KUALA LUMPUR
in WILAYAH PERSEKUTUAN this 5 February 2014

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 2013 of the Group and of the Bank, and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 29 to 256.

### Directors' Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the accounts and the auditors' reports of all the subsidiary companies of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (CONT'D.)

(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 58 to the financial statements on pages 257 to 258 has been compiled by the Group and the Bank as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

## OTHER MATTERS

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

**KPMG**
Firm Number: AF 0758
*Chartered Accountants*

**KHAW HOCK HOE**
Approval Number: 2229/04/14(J)
*Chartered Accountant*

Petaling Jaya
Date: 5 February 2014

# STATEMENTS OF FINANCIAL POSITION

as at 31 December 2013



| | | Group | | | Bank | | |
|---|---|---|---|---|---|---|---|
| | Note | 31 December 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) | 31 December 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) |
| **ASSETS** | | | | | | | |
| Cash and balances with banks | 3 | **22,080,417** | 18,635,951 | 18,633,783 | **12,750,086** | 11,679,843 | 10,508,349 |
| Reverse repurchase agreements | 4 | **9,541,969** | 8,158,506 | 9,287,255 | **8,638,588** | 7,309,153 | 8,435,611 |
| Financial assets held-for-trading | 5 | **15,811,963** | 16,617,135 | 10,656,825 | **13,986,426** | 13,599,044 | 10,406,551 |
| Derivative financial assets | 6 | **365,354** | 370,465 | 493,852 | **350,729** | 364,344 | 492,536 |
| Financial investments available-for-sale | 7 | **17,618,512** | 17,201,120 | 16,719,433 | **15,124,867** | 15,620,244 | 14,287,941 |
| Financial investments held-to-maturity | 8 | **7,793,551** | 6,257,771 | 7,629,233 | **5,787,800** | 4,509,314 | 7,073,857 |
| Loans, advances and financing | 9 | **219,415,793** | 196,051,603 | 175,952,777 | **182,404,573** | 162,968,608 | 143,385,498 |
| Other assets | 10 | **2,539,699** | 2,205,998 | 2,221,635 | **2,409,310** | 2,098,972 | 2,119,787 |
| Statutory deposits with Central Banks | 11 | **6,924,832** | 5,787,206 | 5,597,801 | **5,565,946** | 4,738,213 | 4,496,365 |
| Deferred tax assets | 12 | **70,121** | 63,227 | 46,093 | **–** | – | – |
| Investment in subsidiary companies | 13 | **–** | – | – | **4,436,050** | 4,263,581 | 4,088,581 |
| Investment in associated companies | 14 | **158,885** | 151,210 | 155,997 | **121,325** | 121,325 | 121,325 |
| Investment properties | 15 | **97,391** | 87,886 | 70,754 | **–** | – | – |
| Property and equipment | 16 | **1,302,997** | 1,309,533 | 1,341,940 | **568,346** | 607,934 | 657,124 |
| Intangible assets | 17 | **2,003,912** | 1,926,347 | 1,965,476 | **695,393** | 695,393 | 695,393 |
| **TOTAL ASSETS** | | **305,725,396** | 274,823,958 | 250,772,854 | **252,839,439** | 228,575,968 | 206,768,918 |
| **LIABILITIES** | | | | | | | |
| Deposits from customers | 18 | **250,873,189** | 225,042,325 | 200,370,525 | **201,871,592** | 181,688,444 | 159,384,439 |
| Deposits from banks | 19 | **16,175,836** | 12,849,313 | 15,806,732 | **16,923,048** | 14,408,778 | 16,717,349 |
| Bills and acceptances payable | 20 | **1,573,443** | 3,048,821 | 2,095,335 | **1,627,515** | 3,132,692 | 2,095,076 |
| Recourse obligations on loans and financing sold to Cagamas | 21 | **500,011** | 501,496 | 11,789 | **–** | 1,493 | 11,789 |
| Derivative financial liabilities | 6 | **334,590** | 233,564 | 236,724 | **429,495** | 210,760 | 190,325 |
| Debt securities issued and other borrowed funds | 22 | **10,369,825** | 9,946,853 | 11,317,833 | **9,906,434** | 9,081,942 | 10,422,749 |
| Other liabilities | 23 | **4,020,416** | 3,670,249 | 3,560,244 | **2,845,591** | 2,578,888 | 2,457,855 |
| Provision for tax expense and zakat | 25 | **585,229** | 740,283 | 777,405 | **362,971** | 522,088 | 563,807 |
| Deferred tax liabilities | 12 | **95,661** | 72,750 | 85,793 | **50,738** | 55,990 | 80,841 |
| **TOTAL LIABILITIES** | | **284,528,200** | 256,105,654 | 234,262,380 | **234,017,384** | 211,681,075 | 191,924,230 |

| | | Group | | | Bank | | |
|---|---|---|---|---|---|---|---|
| | Note | 31 December 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) | 31 December 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) |
| **EQUITY** | | | | | | | |
| Share capital | 26 | **3,531,926** | 3,531,926 | 3,531,926 | **3,531,926** | 3,531,926 | 3,531,926 |
| Reserves | | **17,107,240** | 14,702,086 | 12,496,636 | **15,505,701** | 13,578,539 | 11,528,334 |
| Treasury shares | 27 | **(215,572)** | (215,572) | (215,572) | **(215,572)** | (215,572) | (215,572) |
| **Equity attributable to equity holders of the Bank** | | **20,423,594** | 18,018,440 | 15,812,990 | **18,822,055** | 16,894,893 | 14,844,688 |
| Non-controlling interests | | **773,602** | 699,864 | 697,484 | **–** | – | – |
| **TOTAL EQUITY** | | **21,197,196** | 18,718,304 | 16,510,474 | **18,822,055** | 16,894,893 | 14,844,688 |
| **TOTAL LIABILITIES AND EQUITY** | | **305,725,396** | 274,823,958 | 250,772,854 | **252,839,439** | 228,575,968 | 206,768,918 |
| **COMMITMENTS AND CONTINGENCIES** | 49 | **87,986,206** | 79,457,595 | 70,847,182 | **83,587,446** | 75,691,031 | 66,266,801 |
| **Net assets per share attributable to ordinary equity holders of the Bank (RM)** | | **5.83** | 5.15 | 4.52 | **5.37** | 4.82 | 4.24 |

The accompanying notes form an integral part of the financial statements

# STATEMENTS OF PROFIT OR LOSS

for the year ended 31 December 2013

| | Note | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 (Restated) |
| Operating revenue | 2(v)(x) | **15,264,300** | 14,058,097 | **11,503,573** | 10,630,272 |
| Interest income | 30 | **11,366,092** | 10,404,241 | **10,368,420** | 9,465,598 |
| Interest expense | 31 | **(5,795,554)** | (5,149,596) | **(5,568,826)** | (4,917,078) |
| Net interest income | | **5,570,538** | 5,254,645 | **4,799,594** | 4,548,520 |
| Net income from Islamic banking business | 57 | **837,136** | 843,766 | **–** | – |
| | | **6,407,674** | 6,098,411 | **4,799,594** | 4,548,520 |
| Net fee and commission income | 32 | **1,275,345** | 1,165,313 | **520,243** | 490,025 |
| Net gains and losses on financial instruments | 33 | **166,983** | 170,244 | **162,861** | 168,210 |
| Other operating income | 34 | **308,315** | 312,741 | **975,058** | 1,155,109 |
| Net income | | **8,158,317** | 7,746,709 | **6,457,756** | 6,361,864 |
| Other operating expenses | 35 | **(2,503,636)** | (2,417,590) | **(1,710,684)** | (1,651,270) |
| Operating profit | | **5,654,681** | 5,329,119 | **4,747,072** | 4,710,594 |
| Allowance for impairment on loans, advances and financing | 37 | **(351,252)** | (279,244) | **(100,605)** | (77,007) |
| Writeback of impairment/(Impairment) on other assets | 38 | **149** | (6,626) | **165** | (6,601) |
| | | **5,303,578** | 5,043,249 | **4,646,632** | 4,626,986 |
| Share of profit after tax of equity accounted associated companies | | **6,406** | 3,985 | **–** | – |
| Profit before tax expense and zakat | | **5,309,984** | 5,047,234 | **4,646,632** | 4,626,986 |
| Tax expense and zakat | 39 | **(1,204,342)** | (1,177,992) | **(941,517)** | (919,487) |
| Profit for the year | | **4,105,642** | 3,869,242 | **3,705,115** | 3,707,499 |
| Attributable to: | | | | | |
| Equity holders of the Bank | | **4,064,683** | 3,826,754 | **3,705,115** | 3,707,499 |
| Non-controlling interests | | **40,959** | 42,488 | **–** | – |
| Profit for the year | | **4,105,642** | 3,869,242 | **3,705,115** | 3,707,499 |
| Earnings per RM1.00 share: | | | | | |
| – basic/diluted (sen) | 40 | **116.1** | 109.3 | | |

The accompanying notes form an integral part of the financial statements

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013

| | Note | Group 2013 RM'000 | Group 2012 RM'000 (Restated) | Bank 2013 RM'000 | Bank 2012 RM'000 (Restated) |
|---|---|---|---|---|---|
| Profit for the year | | **4,105,642** | 3,869,242 | **3,705,115** | 3,707,499 |
| **Other comprehensive income/(loss):** | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Defined benefit reserves: | | | | | |
| – Gain on remeasurements of defined benefit plans | 28 | **172,234** | 35,376 | **167,547** | 34,163 |
| Items that may be reclassified to profit or loss: | | | | | |
| Foreign currency translation reserves: | | | | | |
| – Currency translation differences in respect of | | | | | |
| – Foreign operations | | **296,193** | (134,122) | **–** | – |
| – Net investment hedge | 28 | **(209,365)** | 109,601 | **–** | – |
| Revaluation reserves: | | | | | |
| – Net change in revaluation of financial investments available-for-sale | 28 | **10,936** | 50,899 | **11,226** | 31,000 |
| – Share of (loss)/gain of equity accounted associated companies | 28 | **(449)** | 159 | **–** | – |
| Hedging reserves: | | | | | |
| – Net change in cash flow hedges | 28 | **(12,256)** | (11,764) | **(121,237)** | (33,528) |
| | | **85,059** | 14,773 | **(110,011)** | (2,528) |
| Income tax relating to components of other comprehensive income/(loss): | | | | | |
| – Defined benefit reserves | 28 | **(43,058)** | (8,844) | **(41,887)** | (8,541) |
| – Revaluation reserves | 28 | **(3,078)** | (8,406) | **(2,806)** | (7,750) |
| – Hedging reserves | 28 | **3,063** | 2,941 | **30,309** | 8,382 |
| | | **(43,073)** | (14,309) | **(14,384)** | (7,909) |
| Other comprehensive income for the year, net of tax | | **214,220** | 35,840 | **43,152** | 23,726 |
| Total comprehensive income for the year | | **4,319,862** | 3,905,082 | **3,748,267** | 3,731,225 |
| Total comprehensive income for the year attributable to: | | | | | |
| – Equity holders of the Bank | | **4,226,259** | 3,886,470 | **3,748,267** | 3,731,225 |
| – Non-controlling interests | | **93,603** | 18,612 | **–** | – |
| | | **4,319,862** | 3,905,082 | **3,748,267** | 3,731,225 |

The accompanying notes form an integral part of the financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

| 2013 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 |
|---|---|---|---|---|---|---|---|---|---|
| | | <------------------------------ Attributable to Equity Holders of the Bank | | | | | ------------------------------> | | |
| | | | Non-distributable Reserves | | Distributable Reserves | | | | |
| At 1 January 2013 | | | | | | | | | |
| – as previously stated | | 3,531,926 | 1,073,310 | 4,100,612 | 9,453,647 | (215,572) | 17,943,923 | 699,864 | 18,643,787 |
| – effects of adoption of MFRS 119 | 53 | – | – | 253,255 | (178,738) | – | 74,517 | – | 74,517 |
| At 1 January 2013, as restated | | 3,531,926 | 1,073,310 | 4,353,867 | 9,274,909 | (215,572) | 18,018,440 | 699,864 | 18,718,304 |
| Profit for the year | | – | – | – | 4,064,683 | – | 4,064,683 | 40,959 | 4,105,642 |
| Other comprehensive income for the year | | – | – | 161,576 | – | – | 161,576 | 52,644* | 214,220 |
| Total comprehensive income for the year | | – | – | 161,576 | 4,064,683 | – | 4,226,259 | 93,603 | 4,319,862 |
| Transactions with owners/other equity movements: | | | | | | | | | |
| Transfer to statutory reserves | | – | – | 10,081 | (10,081) | – | – | – | – |
| Transfer to regulatory reserves | | – | – | 241 | (241) | – | – | – | – |
| Transfer to general reserves | | – | – | 1,103 | (1,103) | – | – | – | – |
| Transfer from Profit Equalisation Reserve of Islamic banking institution | | – | – | (503) | 503 | – | – | – | – |
| Dividends paid | | – | – | – | (1,821,105) | – | (1,821,105) | (19,865) | (1,840,970) |
| | | – | – | 10,922 | (1,832,027) | – | (1,821,105) | (19,865) | (1,840,970) |
| At 31 December 2013 | | 3,531,926 | 1,073,310 | 4,526,365 | 11,507,565 | (215,572) | 20,423,594 | 773,602 | 21,197,196 |
| | | Note 26 | | Note 28 | Note 29 | Note 27 | | | |

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

| | | <------ 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 | 7,276,808 | (215,572) | 15,722,486 | 697,484 | 16,419,970 |
| – effects of adoption of MFRS 119 | 53 | – | – | 226,723 | (136,219) | – | 90,504 | – | 90,504 |
| At 1 January 2012, as restated | | 3,531,926 | 1,073,310 | 4,282,737 | 7,140,589 | (215,572) | 15,812,990 | 697,484 | 16,510,474 |
| Profit for the year (restated) | | – | – | – | 3,826,754 | – | 3,826,754 | 42,488 | 3,869,242 |
| Other comprehensive income/(loss) for the year | | – | – | 59,716 | – | – | 59,716 | (23,876)* | 35,840 |
| Total comprehensive income for the year | | – | – | 59,716 | 3,826,754 | – | 3,886,470 | 18,612 | 3,905,082 |
| 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 | | – | – | – | (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 | 4,353,867 | 9,274,909 | (215,572) | 18,018,440 | 699,864 | 18,718,304 |
| | | Note 26 | | Note 28 | Note 29 | Note 27 | | | |

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

The accompanying notes form an integral part of the financial statements

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013



| 2013 Bank | Note | Share Capital RM'000 | Share Premium RM'000 | Other Reserves RM'000 | Retained Profits RM'000 | Treasury Shares RM'000 | Total Equity RM'000 |
|---|---|---|---|---|---|---|---|
| | | <------------ Attributable to Equity Holders of the Bank | | | | ------------> | |
| | | | Non-distributable Reserves | | Distributable Reserves | | |
| At 1 January 2013 | | | | | | | |
| – as previously stated | | 3,531,926 | 1,073,310 | 3,514,328 | 8,918,940 | (215,572) | 16,822,932 |
| – effects of adoption of MFRS 119 | 53 | – | – | 244,569 | (172,608) | – | 71,961 |
| At 1 January 2013, as restated | | 3,531,926 | 1,073,310 | 3,758,897 | 8,746,332 | (215,572) | 16,894,893 |
| Profit for the year | | – | – | – | 3,705,115 | – | 3,705,115 |
| Other comprehensive income for the year | | – | – | 43,152 | – | – | 43,152 |
| Total comprehensive income for the year | | – | – | 43,152 | 3,705,115 | – | 3,748,267 |
| Transactions with owners/other equity movements: | | | | | | | |
| Transfer to general reserves | | – | – | 1,103 | (1,103) | – | – |
| Dividends paid | 41 | – | – | – | (1,821,105) | – | (1,821,105) |
| | | – | – | 1,103 | (1,822,208) | – | (1,821,105) |
| At 31 December 2013 | | 3,531,926 | 1,073,310 | 3,803,152 | 10,629,239 | (215,572) | 18,822,055 |
| | | Note 26 | | Note 28 | Note 29 | Note 27 | |

| 2012 Bank | Note | Share Capital RM'000 | Share Premium RM'000 | Other Reserves RM'000 | Retained Profits RM'000 | Treasury Shares RM'000 | Total Equity RM'000 |
|---|---|---|---|---|---|---|---|
| | | <------- Attributable to Equity Holders of the Bank | | | | -------> | |
| | | | Non-distributable Reserves | | Distributable Reserves | | |
| At 1 January 2012 | | | | | | | |
| – as previously stated | | 3,531,926 | 1,073,310 | 3,515,306 | 6,852,318 | (215,572) | 14,757,288 |
| – effects of adoption of MFRS 119 | 53 | – | – | 218,947 | (131,547) | – | 87,400 |
| At 1 January 2012, as restated | | 3,531,926 | 1,073,310 | 3,734,253 | 6,720,771 | (215,572) | 14,844,688 |
| Profit for the year (restated) | | – | – | – | 3,707,499 | – | 3,707,499 |
| Other comprehensive income for the year | | – | – | 23,726 | – | – | 23,726 |
| Total comprehensive income for the year | | – | – | 23,726 | 3,707,499 | – | 3,731,225 |
| 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 | 3,758,897 | 8,746,332 | (215,572) | 16,894,893 |
| | | 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 2013

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 (Restated) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax expense and zakat | **5,309,984** | 5,047,234 | **4,646,632** | 4,626,986 |
| Adjustments for: | | | | |
| Share of profit after tax of equity accounted associated companies | **(6,406)** | (3,985) | **–** | – |
| Depreciation of property and equipment | **161,188** | 167,253 | **127,694** | 135,515 |
| Net (gain)/loss on disposal of property and equipment | **(500)** | 446 | **(579)** | 425 |
| Net gain on disposal of foreclosed properties | **(2,657)** | (7,938) | **(2,657)** | (7,938) |
| Gain on liquidation of a subsidiary company | **–** | – | **(114)** | – |
| Allowance for impaired loans and financing | **566,036** | 474,064 | **228,830** | 184,249 |
| Net gain arising from disposal of financial investments available-for-sale | **(12,002)** | (7,629) | **(12,002)** | (7,629) |
| Net loss/(gain) arising from disposal of trading derivatives | **5,864** | (772) | **5,864** | (772) |
| Amortisation of cost and accretion of discount relating to debt securities issued | **2,074** | 3,020 | **2,074** | 3,020 |
| Unrealised loss on revaluation of financial assets held-for-trading | **9,238** | 3,330 | **9,243** | 3,312 |
| Unrealised gain on revaluation of trading derivatives | **(11,569)** | (3,222) | **(12,239)** | (5,733) |
| (Gain)/loss representing ineffective portions of hedging derivatives | **(2,703)** | 1,682 | **(2,678)** | 1,085 |
| Pension costs – defined benefit plan | **76,974** | 49,678 | **73,492** | 47,973 |
| Transfer to Profit Equalisation Reserve | **497** | 265 | **–** | – |
| Dividends from financial investments available-for-sale | **(145,960)** | (151,033) | **(140,802)** | (146,287) |
| Dividends from subsidiary companies | **–** | – | **(753,586)** | (853,080) |
| Dividends from associated companies | **–** | – | **(6,460)** | (4,783) |
| Property and equipment written off | **527** | 1,082 | **490** | 1,064 |
| Gain on revaluation of investment properties | **(2,547)** | (23,877) | **–** | – |
| Impairment loss on financial investments available-for-sale | **–** | 3,533 | **–** | 3,533 |
| Impairment (writeback)/loss on foreclosed properties | **(149)** | 3,093 | **(165)** | 3,068 |
| Operating profit before working capital changes | **5,947,889** | 5,556,224 | **4,163,037** | 3,984,008 |

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000 (Restated)** | **2013 RM'000** | **2012 RM'000 (Restated)** |
| **CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D.)** | | | | |
| (Increase)/Decrease in operating assets: | | | | |
| Placements with banks maturing after one month | **(97,015)** | 262,925 | **77,463** | 955,474 |
| Reverse repurchase agreements | **(1,383,463)** | 1,128,749 | **(1,329,435)** | 1,126,458 |
| Financial assets held-for-trading | **795,934** | (5,963,640) | **(396,625)** | (3,195,805) |
| Loans, advances and financing | **(23,940,776)** | (20,587,445) | **(19,675,113)** | (19,781,662) |
| Derivative financial assets | **28,792** | – | **28,792** | – |
| Other assets | **(263,994)** | (25,893) | **(198,360)** | 13,046 |
| Statutory deposits with Central Banks | **(1,137,626)** | (189,405) | **(827,733)** | (241,848) |
| Increase/(Decrease) in operating liabilities: | | | | |
| Deposits from customers | **25,830,864** | 24,672,572 | **20,183,148** | 22,304,777 |
| Deposits from banks | **3,326,523** | (2,957,419) | **2,514,270** | (2,308,571) |
| Bills and acceptances payable | **(1,475,378)** | 953,486 | **(1,505,177)** | 1,037,616 |
| Recourse obligations on loans and financing sold to Cagamas | **(1,485)** | 489,707 | **(1,493)** | (10,296) |
| Other liabilities | **97,140** | 362,650 | **289,850** | 204,522 |
| Cash generated from operations | **7,727,405** | 3,702,511 | **3,322,624** | 4,087,719 |
| Income tax expense and zakat paid | **(1,386,021)** | (1,259,558) | **(1,120,157)** | (993,966) |
| **Net cash generated from operating activities** | **6,341,384** | 2,442,953 | **2,202,467** | 3,093,753 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of property and equipment | **(128,912)** | (147,688) | **(88,150)** | (89,277) |
| Proceeds from disposal of property and equipment | **631** | 1,108 | **611** | 1,074 |
| Proceeds from disposal of foreclosed properties | **38,881** | 46,239 | **37,680** | 45,304 |
| Net (purchase)/sale of financial investments | **(2,006,250)** | 896,641 | **(817,631)** | 1,223,794 |
| Additional investment in a subsidiary company | **–** | – | **(175,000)** | (175,000) |
| Dividends received from associated companies | **6,460** | 4,783 | **6,460** | 4,783 |
| Dividends received from subsidiary companies | **–** | – | **713,770** | 820,670 |
| Dividends received from financial investments available-for-sale | **145,847** | 151,033 | **140,689** | 146,287 |
| **Net cash (used in)/generated from investing activities** | **(1,943,343)** | 952,116 | **(181,571)** | 1,977,635 |

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000 (Restated)** | **2013 RM'000** | **2012 RM'000 (Restated)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Net repayment of borrowings | **(401,520)** | (30,173) | **–** | – |
| Dividends paid to equity holders of the Bank | **(1,821,105)** | (1,681,020) | **(1,821,105)** | (1,681,020) |
| Dividends paid to non-controlling interests | **(19,865)** | (16,232) | **–** | – |
| Net proceeds from issuance of debt securities | **2,347,915** | – | **2,347,915** | – |
| Redemption of debt securities | **(1,400,000)** | (1,263,400) | **(1,400,000)** | (1,263,400) |
| **Net cash used in financing activities** | **(1,294,575)** | (2,990,825) | **(873,190)** | (2,944,420) |
| Net increase in cash and cash equivalents | **3,103,466** | 404,244 | **1,147,706** | 2,126,968 |
| Cash and cash equivalents at beginning of year | **16,835,772** | 16,570,679 | **10,238,710** | 8,111,742 |
| Exchange differences on translation of opening balances | **243,985** | (139,151) | **–** | – |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **20,183,223** | 16,835,772 | **11,386,416** | 10,238,710 |
| **Note:** | | | | |
| Cash and balances with banks (Note 3) | **22,080,417** | 18,635,951 | **12,750,086** | 11,679,843 |
| Less: Balances with banks with maturity more than one month | **(1,897,194)** | (1,800,179) | **(1,363,670)** | (1,441,133) |
| Cash and cash equivalents at end of year | **20,183,223** | 16,835,772 | **11,386,416** | 10,238,710 |

The accompanying notes form an integral part of the financial statements

# NOTES TO THE FINANCIAL STATEMENTS

– 31 DECEMBER 2013

## 1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

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

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

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



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



The financial statements were approved and authorised for issue by the Board of Directors on 5 February 2014.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The accounting policies adopted by the Group and the Bank are consistent with those adopted in the previous years except for the adoption of the following Malaysian Financial Reporting Standards ("MFRS"), Amendments to MFRSs and IC Interpretations:

### (i) MFRSs, Amendments to MFRSs and IC Interpretation Adopted by the Group and the Bank

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

– 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 3 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)

The adoption of IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine does not have any impact on the Group and the Bank as it is not relevant to the business of the Group and the Bank. The adoption of 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.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

### (i) MFRSs, Amendments to MFRSs and IC Interpretation Adopted by the Group and the Bank (Cont'd.)

The effects of the adoption of other applicable MFRSs and amendments to MFRSs above are summarised below:

***(a) MFRS 119 Employee Benefits (as amended by IASB in June 2011)*** – The adoption of the revised MFRS 119 has affected the accounting treatment of certain items such as the timing of the recognition of actuarial 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 statement of profit or loss. The corridor approach for accounting for unrecognised actuarial gains in prior years is discontinued.

– Past service costs, whether unvested or already vested, are recognised immediately in the statement of profit or loss as incurred and the annual defined benefit costs in the statement of profit or loss will include net interest expense/income on the defined benefit asset/liability.

The adoption of this revised MFRS 119 has resulted in changes to the recognition and measurement of the Group's and the Bank's defined benefit pension expense and termination benefits, as well as enhanced disclosures of the risks and characteristics of the Group's defined benefit plans. The financial effects of the adoption of MFRS 119 is disclosed in Note 53 Changes in Accounting Policies.

***(b) MFRS 10 Consolidated Financial Statements*** – MFRS 10 supersedes MFRS 127 Consolidated and Separate Financial Statements and IC Interpretation 112 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 which requires analysis of all facts and circumstances as well as the application of judgement when making the control assessment. The three elements to the definition of control in MFRS 10 are:

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

The adoption of this standard did not result in any change to the consolidation of its subsidiary companies as at the end of the reporting period, hence did not have any financial impact on the financial statements of the Group and the Bank.

***(c) MFRS 11 Joint Arrangements*** – MFRS 11 supersedes 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. 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. The adoption of this standard did not have any financial impact on the financial statements of the Group and the Bank as the Group does not have any interest in joint operations or joint ventures.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

### (i) MFRSs, Amendments to MFRSs and IC Interpretation Adopted by the Group and the Bank (Cont'd.)

The effects of the adoption of other applicable MFRSs and amendments to MFRSs above are summarised below (Cont'd.):

*(d)* ***MFRS 12 Disclosure of Interests in Other Entities*** – MFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiary companies, joint arrangements, associated companies and unconsolidated structured entities. The adoption of this standard did not have any financial impact on the Group and the Bank as the requirements affect presentation only.

*(e)* ***MFRS 127 Separate Financial Statements (as amended by IASB in May 2011)*** – As a consequence of the issuance of MFRS 10 and MFRS 12, MFRS 127 was reissued to cover only the requirements relating to the accounting for investments in subsidiary companies, associated companies and joint ventures in the separate financial statements of an entity. Under MFRS 127, such investments should be accounted for either at cost, or in accordance with MFRS 9. The Bank prepares separate financial statements but the adoption of this standard did not have any impact on the financial statements of the Bank as it already applies the principles under this MFRS.

*(f)* ***MFRS 128 Investments in Associates and Joint Ventures (as amended by IASB in May 2011)*** – 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, 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. The adoption of this standard did not have any impact on the financial statements of the Group and the Bank.

*(g)* ***MFRS 13 Fair Value Measurement*** – This standard establishes a single source of guidance under MFRSs for measuring fair value, and the disclosure requirements about fair value. MFRS 13 does not change when an entity is required to use fair value, but rather provide guidance on how to measure fair value under MFRS. MFRS 13 defines fair value as an exit price and emphasises the principle that fair value is a market-based measurement, not an entity-specific measurement. The adoption of this standard resulted in additional disclosures in the financial statements, in particular, on fair values of financial instruments but did not have any financial impact on the Group and the Bank.

*(h)* ***MFRS 3 Business Combinations (IFRS Business Combinations issued by IASB in 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 did not have any impact to the Group and the Bank as there were no investee that was previously not consolidated upon the application of MFRS 10.

*(i)* ***Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 7)*** – The amendments require more quantitative information to be disclosed about rights to set-off and related arrangements so as to provide users with information to evaluate the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set-off in accordance with MFRS 132. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective whether they are set off in accordance with MFRS 132. Since these amendments only affect disclosures, the adoption of these amendments did not have any financial impact on the Group and the Bank.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

### (i) MFRSs, Amendments to MFRSs and IC Interpretation Adopted by the Group and the Bank (Cont'd.)

The effects of the adoption of other applicable MFRSs and amendments to MFRSs above are summarised below (Cont'd.):

*(j)* ***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 did not have any financial impact to the Group and the Bank.

### (ii) Amendments to MFRSs and IC Interpretation that were Early Adopted by the Group and the Bank

The Group and the Bank have chosen to early adopt the following in the current financial year:

- Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)
- Investment Entities (Amendments to MFRS 10, MFRS 12 and MFRS 127)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS 136)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to MFRS 139)
- IC Interpretation 21 Levies

The main effects of the early adoption of Amendments to MFRSs and IC Interpretation above are summarised below:

*(a)* ***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 did not have any impact on the financial results of the Group and the Bank as the current accounting practice for the Group's offsetting arrangements fulfil the principles under the Amendments to MFRS 132.

*(b)* ***Investment Entities (Amendments to MFRS 10, MFRS 12 and MFRS 127)*** – These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under MFRS 10. The exception to consolidation requires all investment entity to measure its investments in subsidiary companies at fair value through profit or loss.

The adoption of these amendments did not have any impact on the financial results of the Group and the Bank as none of the entities in the Group qualify as an investment entity under MFRS 10.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

### (ii) Amendments to MFRSs and IC Interpretation that were Early Adopted by the Group and the Bank (Cont'd.)

*(c)* ***Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS 136)*** – When MFRS 13 was issued, MFRS 136 was amended which resulted in the unintended requirement to disclose the recoverable amount for each cash-generating unit ("CGU") for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. These amendments were consequently issued to remove the unintended consequences of MFRS 13 on the disclosures required under MFRS 136. The disclosure requirements were aligned with the original intention to require the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. In addition, these amendments also require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period.

The adoption of these amendments did not affect the Group as the recoverable amounts of the Group's CGUs are based on value in use under MFRS 136.

*(d)* ***Novation of Derivatives and Continuation of Hedge Accounting (Amendments to MFRS 139)*** – These amendments provide an exception for the discontinuation of hedge accounting when novation of a derivative designated as hedging instrument meets certain criteria.

The adoption of these amendments did not have any impact on the financial results of the Group and the Bank as the Group and the Bank have not novated its derivatives.

*(e)* ***IC Interpretation 21 Levies*** – IC Interpretation 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The adoption of this interpretation did not have any impact on the financial statements of the Group and the Bank as it is not relevant to the business of the Group and the Bank.

### (iii) Bank Negara Malaysia ("BNM") Guidelines

With effect from 1 January 2013, the Group and the Bank adopted the BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) ("the Framework") issued on 28 November 2012. This Framework outlines the general requirements on regulatory capital adequacy ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Framework has been developed based on internationally agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Framework, the minimum capital adequacy ratios are progressively increased from 1 January 2013 to 1 January 2019, and includes a phased introduction of a new capital conservation buffer of 2.5%. Additional capital requirements, including a new counter-cyclical buffer ranging from 0% to 2.5% will be established at a later stage.

On 28 June 2013, BNM issued policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions ("Policy Documents") to replace the Guidelines on Financial Reporting for Banking Institutions and Guidelines on Financial Reporting for Islamic Banking Institutions (BNM/GP8-i) respectively. These Policy Documents set minimum expectations for the application of MFRSs and aim to ensure adequate disclosures in the financial statements of banking institutions. The Bank and the domestic banking subsidiary companies of the Group have adopted the Policy Documents with effect from 30 June 2013. Since the adoption of the Policy Documents only affect certain disclosures in the financial statements, there is no impact on the financial results of the Group and the Bank.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

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

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)

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

*(a)* *(i)* ***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 assets. 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.

*(ii)* ***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 statement of profit or loss.

*(b)* ***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.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

### (iv) MFRSs and Amendments to MFRSs that have been Issued but Not Yet Effective to the Group and the Bank (Cont'd.)

Future Developments

The IASB plans to release the second and third phase of IFRS 9 in the near future which will address the impairment of financial assets measured at amortised cost and hedge accounting. The key changes proposed relate to:

(i) Impairment – a prescribed amount of expected losses will be reflected in impairment allowances for financial assets measured at amortised cost.
(ii) Hedge accounting – hedge accounting will be more principle-based and 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.

In addition to the above, the IASB plans to issue new standards on Leases, Insurance Contracts and Revenue Recognition. The Group will assess the effect of the adoption of these standards, when issued, to determine the financial effects upon adoption of these standards.

### (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.

## 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.

## 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 values for investment properties performed by management are determined with reference to quotations of market value provided by independent professional valuers.

*(vii) Income taxes (Note 39)* – The Group and the Bank are subject to income taxes in many jurisdictions. Significant management judgement is required in estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome will not be established until a later date. Liabilities for taxation are recognised based on estimates of whether taxes will be payable. The estimation process may involve seeking the advise of experts, where appropriate. Where the final liability for taxation assessed by the Inland Revenue Board is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.

*(viii) Deferred tax assets (Note 12)* – Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

*(ix) Defined Benefit Plan (Note 24)* – The defined benefit obligation is determined based on an actuarial valuation. The actuarial valuation involves making assumptions regarding the discount rate, future salary increases and attrition rates. Due to the long term nature of the defined benefit plan, such estimates are subject to significant uncertainty. The amount of defined benefit asset recognised in the statement of financial position is limited to the present value of economic benefits in the form of refunds or reductions in future contributions to the fund. The levels of future contributions to the plan which are used to assess this limit is subject to some uncertainty due to other assumptions made regarding fund membership levels and future salary increases.

#### (b) Basis of Consolidation

**(i) Subsidiary Companies**

The consolidated financial statements include the financial statements of the Bank and its subsidiary companies made up to the end of the financial year. Control is achieved when the Group:

– has power over the investee;
– is exposed, or has rights, to variable returns from the involvement with the investee; and
– has the ability to affect those returns through its power over investee.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control listed above.

## 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.)

When the Group has less than a majority of the voting rights but has rights that are sufficient to give it the practical ability to direct the relevant activities unilaterally, the Group considers all facts and circumstances in assessing whether or not the voting rights give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

In the previous financial years, control exists when the Group directly and 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 addition, previously, potential voting rights are considered in the assessment of control when such rights are presently exercisable whilst such rights are considered now only when they are substantive. The Group also did not consider de facto power in its previous assessment of control.

Subsidiary companies are consolidated from the date on which the Group controls, and ceases from the date that control ceases. The financial results of the subsidiary companies are included in the consolidated financial statements from the date that control is obtained until the date that the Group loses control.

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

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 statement of profit or loss of the Group. Non-controlling interests represent the portion of profit or loss and net assets of subsidiary companies not attributable, directly or indirectly, to the Group. Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from equity holders of the Bank. For each business combination, the Group will elect to measure the amount of non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary company's identifiable net assets.

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

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

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

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

##### (ii) Associated Companies

Associated companies are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not control or joint control of those policies.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

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

**(ii) Associated Companies (Cont'd.)**

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

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

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

**(c) Foreign Currency**

**(i) Functional and Presentation Currency**

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates, 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 statement of profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate prevailing at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at exchange rates at the date when the fair value is determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in other comprehensive income if the gain or loss on the fair value of the non-monetary item is recognised directly in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised directly in the statement of profit or loss if the gain or loss on the fair value of the non-monetary item is recognised in the statement of profit or loss.

**(iii) Net Investment in Foreign Operations**

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

## 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**

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

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

| | 2013 | 2012 |
|---|---|---|
| 1 USD | **RM3.2801** | RM3.0580 |
| 1 HKD | **RM0.4225** | RM0.3945 |

#### (d) Cash and Cash Equivalents

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

#### (e) Financial Assets and Liabilities

**(i) Initial Recognition and Subsequent Measurement**

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

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

Financial assets classified in this category consist of financial assets held-for-trading. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing it in the near term. Derivative financial instruments not designated in an effective hedge transaction are also classified in this category.

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

## 2. 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.)

**(2) Loans and Receivables**

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

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

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

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

**(4) Financial Investments Available-for-Sale**

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

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

## 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.)**

**(4) Financial Investments Available-for-Sale (Cont'd.)**

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

**(5) Financial Liabilities**

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

**(ii) Derecognition**

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

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

**(iii) Reclassification of Financial Assets**

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

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

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

##### (iv) Determination of Fair Value

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

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

##### (v) Offsetting of Financial Instruments

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

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

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

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

At inception of the hedge relationship, the Group and the Bank formally 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.

## 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.)

**(i) Fair Value Hedge**

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

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

**(ii) Cash Flow Hedge**

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

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

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

**(iii) Net Investment Hedge**

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

**(g) Embedded Derivatives**

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

**(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.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

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

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

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

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

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

Where a loan shows evidence of significant credit weaknesses, the Group and the Bank may seek to renegotiate the loan rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new loan terms and conditions via restructuring. Management monitors the renegotiated loan to ensure that all the revised terms are met and that the repayments are made promptly for a continuous period. Where an impaired loan is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six (6) months before the loan is classified as non-impaired. These loans continue to be subjected to individual or collective impairment assessment.

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

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

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

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

##### (iii) Financial Investments Held-to-Maturity

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

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised. If, in a subsequent period, the amount of the impairment loss decrease and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### (i) Investment Properties

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

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

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. Fair values of investment properties are determined with reference to quotations of market value provided by independent professional valuers.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (j) Assets Acquired Under Lease

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

**(i) Finance Lease**

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

**(ii) Operating Lease**

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

#### (k) Property and Equipment and Depreciation

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

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (k) Property and Equipment and Depreciation (Cont'd.)

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

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

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

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

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

#### (l) Goodwill and Intangible Assets

##### (i) Goodwill

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

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (l) Goodwill and Intangible Assets (Cont'd.)

**(ii) Intangible Assets**

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

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

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

#### (m) Foreclosed Properties

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

#### (n) Impairment of Non-Financial Assets

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

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (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 statement of profit or loss 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 retain substantially all the risks and rewards of ownership. The consideration received is recognised as an asset with the corresponding obligation, including accrued interest as a liability, reflecting the transaction's economic substance as a collateralised loan given to the Group and the Bank. The difference between the sale and the repurchase prices is recognised in 'interest expense' in the statement of profit or loss and is accrued over the life of the agreement using the effective interest method.

#### (p) Bills and Acceptances Payable

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

#### (q) General Insurance

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

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

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

#### (r) Profit Equalisation Reserve ("PER")

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (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.

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 statement of profit or loss on the sale, re-issuance or cancellation of the treasury shares. Should such treasury shares be reissued by re-sale in the open market, the difference between the sales consideration and the carrying amount are shown as a movement in equity, as appropriate. Where treasury shares are distributed as share dividends, the cost of the treasury shares are applied in the reduction of the share premium reserve or distributable retained profits or both.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (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.

#### (y) Interest and Financing Income and Expense

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

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (z) Fee and Commission Income

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

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

#### (aa) Dividend Income

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

#### (ab) Employee Benefits

**(i) Short-Term Employee Benefits**

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

**(ii) Defined Contribution Plan**

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

**(iii) Defined Benefit Plan**

The Bank and certain subsidiary companies contribute to a fully funded defined benefit plan approved by the Inland Revenue Board known as the Public Bank Group Officers' Retirement Benefits Fund (the "Fund") for its eligible employees. The obligations under the Fund are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years are estimated. The benefit is calculated using the Projected Unit Credit Method in order to determine its present value. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), are recognised immediately in defined benefit reserve via other comprehensive income and are not subsequently recycled to the statement of profit or loss. Past service costs, whether unvested or already vested, are recognised immediately in the statement of profit or loss as incurred. Net interest cost is calculated by applying the discount rate to the net defined benefit asset or liability. The Group recognises the changes in the net defined benefit obligation which includes current service costs, past service costs and net interest expense or income under "Personnel costs" in the statement of profit or loss.

The amount recognised in the statement of financial position represents the actual deficit or surplus in the Fund. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from or reductions in future contributions to the Fund.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (ab) Employee Benefits (Cont'd.)

**(iv) Share-based Compensation Benefits**

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

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

#### (ac) Tax Expense

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or 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 statement of profit or loss when the deferred fair value gain or loss is recognised in the statement of profit or loss.

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D.)

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

#### (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.

#### (af) Segment Reporting

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

All transactions between operating segments are conducted based on mutually agreed allocation bases, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

## 3. CASH AND BALANCES WITH BANKS

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Cash and bank balances | **2,569,628** | 2,338,784 | **1,535,828** | 1,571,400 |
| Money market deposit placements: | | | | |
| – maturing within one month | **17,613,595** | 14,496,988 | **9,850,588** | 8,667,310 |
| – maturing after one month | **1,897,194** | 1,800,179 | **1,363,670** | 1,441,133 |
| | **19,510,789** | 16,297,167 | **11,214,258** | 10,108,443 |
| | **22,080,417** | 18,635,951 | **12,750,086** | 11,679,843 |

## 4. REVERSE REPURCHASE AGREEMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Malaysian Government Securities | **9,537,953** | 8,158,410 | **8,634,572** | 7,309,057 |
| Foreign government treasury bills | **4,016** | 96 | **4,016** | 96 |
| | **9,541,969** | 8,158,506 | **8,638,588** | 7,309,153 |

The fair value of securities accepted as collateral under reverse repurchase agreements that the Group and the Bank are permitted to sell or repledge in the absence of default by their owners was RM9,666,173,000 (31 December 2012 – RM8,371,213,000) and RM8,756,873,000 (31 December 2012 – RM7,502,535,000) respectively, of which none (31 December 2012 – none) have been resold.

## 5. FINANCIAL ASSETS HELD-FOR-TRADING

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| **At fair value** | | | | |
| **Government securities and treasury bills:** | | | | |
| Malaysian Government Treasury Bills | **–** | 68,286 | **–** | 68,286 |
| Malaysian Government Securities | **223,523** | 141,362 | **223,523** | 141,362 |
| Malaysian Government Investment Certificates | **1,310,771** | 193,352 | **1,106,521** | 193,352 |
| Bank Negara Malaysia Monetary Notes | **49,346** | 3,424,343 | **49,346** | 1,906,237 |
| Bank Negara Malaysia Bills | **–** | 149,736 | **–** | – |
| | **1,583,640** | 3,977,079 | **1,379,390** | 2,309,237 |
| **Money market instruments:** | | | | |
| Negotiable instruments of deposit | **13,822,929** | 11,836,221 | **12,274,547** | 10,715,460 |
| **Non-money market instruments:** | | | | |
| Equity securities | | | | |
| – Quoted shares in Malaysia | **–** | 879 | **–** | 879 |
| Debt securities | | | | |
| – Unquoted private debt securities | **405,394** | 802,956 | **332,489** | 573,468 |
| | **405,394** | 803,835 | **332,489** | 574,347 |
| | **15,811,963** | 16,617,135 | **13,986,426** | 13,599,044 |

## 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 2013 | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|
| | Contract/ Notional | Fair Value | | Contract/ Notional | Fair Value | |
| Group | Amount RM'000 | Assets RM'000 | Liabilities RM'000 | Amount RM'000 | Assets RM'000 | Liabilities RM'000 |
| **At fair value** | | | | | | |
| **Trading derivatives:** | | | | | | |
| Foreign exchange contracts | | | | | | |
| – Currency forwards | **1,044,710** | **10,725** | **7,906** | 1,033,464 | 3,876 | 6,225 |
| – Currency swaps | **15,803,116** | **156,182** | **65,266** | 10,845,757 | 11,659 | 57,565 |
| – Currency options | **8,486** | **11** | **11** | – | – | – |
| Interest rate related contracts | | | | | | |
| – Interest rate swaps | **450,000** | **48** | **208** | – | – | – |
| Equity related contracts | | | | | | |
| – Options purchased | **52,089** | **16,616** | **–** | 126,594 | 12,154 | – |
| Precious metal contracts | | | | | | |
| – Forwards | **1,890** | **1** | **1** | 206 | 1 | – |
| | **17,360,291** | **183,583** | **73,392** | 12,006,021 | 27,690 | 63,790 |
| **Hedging derivatives:** | | | | | | |
| **Fair value hedge** | | | | | | |
| Interest rate related contracts | | | | | | |
| – Interest rate swaps | **8,209,872** | **143,220** | **69,022** | 10,952,180 | 321,694 | 133,993 |
| **Cash flow hedge** | | | | | | |
| Foreign exchange contracts | | | | | | |
| – Cross currency interest rate swaps | **2,132,065** | **–** | **191,322** | 1,376,100 | – | 35,669 |
| Interest rate related contracts | | | | | | |
| – Interest rate swaps | **2,177,000** | **38,551** | **854** | 3,179,000 | 21,081 | 112 |
| | **12,518,937** | **181,771** | **261,198** | 15,507,280 | 342,775 | 169,774 |
| **Total** | **29,879,228** | **365,354** | **334,590** | 27,513,301 | 370,465 | 233,564 |

## 6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

| Bank | 31 December 2013 Contract/ Notional Amount RM'000 | 31 December 2013 Fair Value Assets RM'000 | 31 December 2013 Fair Value Liabilities RM'000 | 31 December 2012 Contract/ Notional Amount RM'000 | 31 December 2012 Fair Value Assets RM'000 | 31 December 2012 Fair Value Liabilities RM'000 |
|---|---|---|---|---|---|---|
| **At fair value** | | | | | | |
| **Trading derivatives:** | | | | | | |
| Foreign exchange contracts | | | | | | |
| – Currency forwards | **1,005,721** | **10,687** | **7,873** | 990,285 | 3,814 | 6,175 |
| – Currency swaps | **15,658,457** | **155,895** | **65,041** | 10,832,687 | 11,595 | 57,562 |
| – Currency options | **8,486** | **11** | **11** | – | – | – |
| Interest rate related contracts | | | | | | |
| – Interest rate swaps | **469,681** | **48** | **832** | 18,348 | – | 1,360 |
| Equity related contracts | | | | | | |
| – Options purchased | **52,089** | **16,616** | **–** | 126,594 | 12,154 | – |
| Precious metal contracts | | | | | | |
| – Forwards | **1,890** | **1** | **1** | 206 | 1 | – |
| | **17,196,324** | **183,258** | **73,758** | 11,968,120 | 27,564 | 65,097 |
| **Hedging derivatives:** | | | | | | |
| **Fair value hedge** | | | | | | |
| Interest rate related contracts | | | | | | |
| – Interest rate swaps | **7,747,377** | **143,220** | **47,084** | 10,521,002 | 321,694 | 94,038 |
| **Cash flow hedge** | | | | | | |
| Foreign exchange contracts | | | | | | |
| – Cross currency interest rate swaps | **2,132,065** | **–** | **191,322** | 1,376,100 | – | 35,669 |
| Interest rate related contracts | | | | | | |
| – Interest rate swaps | **3,677,000** | **24,251** | **117,331** | 4,179,000 | 15,086 | 15,956 |
| | **13,556,442** | **167,471** | **355,737** | 16,076,102 | 336,780 | 145,663 |
| **Total** | **30,752,766** | **350,729** | **429,495** | 28,044,222 | 364,344 | 210,760 |

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

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

## 6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

As at 31 December 2013, the Group and the Bank have positions in the following types of derivative financial instruments:

### Forwards

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

### Swaps

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

### Options

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

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

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

**Fair Value Hedges**

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

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| (Loss)/gain on hedging instruments | **(110,501)** | 1,341 | **(128,519)** | (8,209) |
| Gain/(loss) on the hedged items attributable to the hedged risk | **112,665** | (3,096) | **130,625** | 7,080 |
| Exchange differences | **(33)** | 29 | **–** | – |
| Ineffectiveness charged to the statement of profit or loss (Note 33) | **2,131** | (1,726) | **2,106** | (1,129) |

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

## 6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

### Cash Flow Hedges

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

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

| | Group | | | |
|---|---|---|---|---|
| | Within 1 year RM'000 | 1 – 3 years RM'000 | 3 – 5 years RM'000 | Over 5 years RM'000 |
| **2013** | | | | |
| Cash inflows/(outflows) on assets | **1,198** | **519** | **(2,523)** | **–** |
| Cash inflows/(outflows) on liabilities | **25,202** | **66,825** | **(109,582)** | **2,514** |
| Net cash inflows/(outflows) | **26,400** | **67,344** | **(112,105)** | **2,514** |
| **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 |
| **2013** | | | | |
| Cash inflows/(outflows) on assets | **9,642** | **3,544** | **(23,872)** | **(106,576)** |
| Cash inflows/(outflows) on liabilities | **24,962** | **62,187** | **(116,479)** | **–** |
| Net cash inflows/(outflows) | **34,604** | **65,731** | **(140,351)** | **(106,576)** |
| **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) |

## 6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

### Cash Flow Hedges (Cont'd.)

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

The net gain on cash flow hedges reclassified from equity to the statement of profit or loss is recognised in "Net gains and losses on financial instruments". During the financial year, a net gain of RM1,083,000 (2012 – net gain of RM16,000) was recognised by the Group and the Bank in the statement of profit or loss.



The gains and losses on the ineffective portions of such derivatives are recognised immediately in the statement of profit or loss under "Net gains and losses on financial instruments". During the financial year, a gain of RM572,000 (2012 – gain of RM44,000) (Note 33) was recognised by the Group and the Bank.



### Hedge of Net Investment in Foreign Operations

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

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

| | Group | |
|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Long-term borrowings | **193,526** | 180,422 |
| Short-term interbank borrowings | **2,912,729** | 2,715,504 |
| | **3,106,255** | 2,895,926 |

The gains and losses on the ineffective portions that was recognised in the statement of profit or loss under "Other operating income" during the financial year arising from hedges of net investment in foreign operations was a loss of RM964,000 (2012 – gain of RM962,000).

## 7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| **At fair value** | | | | |
| **Government securities and treasury bills:** | | | | |
| Malaysian Government Treasury Bills | **1,386,790** | 845,916 | **1,386,790** | 845,916 |
| Malaysian Government Securities | **975,356** | 491,355 | **975,356** | 491,355 |
| Malaysian Government Investment Certificates | **3,140,471** | 1,389,493 | **1,703,562** | 836,162 |
| Bank Negara Malaysia Monetary Notes | **4,604,017** | 7,341,239 | **4,604,017** | 7,341,239 |
| | **10,106,634** | 10,068,003 | **8,669,725** | 9,514,672 |
| **Money market instruments:** | | | | |
| Negotiable instruments of deposit | **198,844** | – | **198,844** | – |
| **Non-money market instruments:** | | | | |
| Equity securities# | | | | |
| – Quoted shares and convertible loan stocks in Malaysia | **4,785** | 36,210 | **4,785** | 36,210 |
| – Quoted shares and convertible loan stocks outside Malaysia | **11,897** | 10,984 | **–** | – |
| – Unquoted shares | **110,249** | 108,383 | **106,285** | 104,614 |
| Debt securities | | | | |
| – Unquoted private debt securities | **2,078,879** | 2,014,665 | **1,607,095** | 1,554,903 |
| Unit trust funds | **5,107,224** | 4,962,875 | **4,538,133** | 4,409,845 |
| | **7,313,034** | 7,133,117 | **6,256,298** | 6,105,572 |
| | **17,618,512** | 17,201,120 | **15,124,867** | 15,620,244 |
| # Stated at cost, net of impairment loss amounting to | **6,265** | 26,135 | **6,265** | 26,135 |

## 7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (CONT'D.)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| **Non-money market instruments:** | | | | |
| **Equity securities** | | | | |
| At 1 January | **26,135** | 35,477 | **26,135** | 29,115 |
| Impairment made during the year (Note 38) | **–** | 3,533 | **–** | 3,533 |
| Amount written off | **(19,870)** | (12,875) | **(19,870)** | (6,513) |
| At 31 December | **6,265** | 26,135 | **6,265** | 26,135 |

## 8. FINANCIAL INVESTMENTS HELD-TO-MATURITY

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| **At amortised cost** | | | | |
| **Government securities and treasury bills:** | | | | |
| Malaysian Government Treasury Bills | **19,961** | – | **–** | – |
| Malaysian Government Securities | **1,235,500** | 1,139,827 | **1,205,514** | 1,089,201 |
| Malaysian Government Investment Certificates | **2,190,194** | 1,739,184 | **2,119,819** | 1,739,184 |
| Foreign government treasury bills | **756,069** | 727,307 | **111,725** | 58,285 |
| Other foreign government securities | **197,872** | – | **–** | – |
| | **4,399,596** | 3,606,318 | **3,437,058** | 2,886,670 |
| **Money market instruments:** | | | | |
| Negotiable instruments of deposit | **1,890,742** | 1,717,161 | **1,528,777** | 1,472,807 |
| Bankers' acceptances and Islamic accepted bills | **279,895** | 299,437 | **89,092** | – |
| | **2,170,637** | 2,016,598 | **1,617,869** | 1,472,807 |
| **Non-money market instruments:** | | | | |
| Debt securities | | | | |
| – Cagamas bonds | **130,287** | 5,059 | **90,436** | 5,059 |
| – Unquoted private debt securities | **1,093,138** | 629,951 | **642,544** | 144,933 |
| | **1,223,425** | 635,010 | **732,980** | 149,992 |
| Accumulated impairment losses | **(107)** | (155) | **(107)** | (155) |
| | **7,793,551** | 6,257,771 | **5,787,800** | 4,509,314 |

## 8. FINANCIAL INVESTMENTS HELD-TO-MATURITY (CONT'D.)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Maturity within one year | **3,906,731** | 3,489,815 | **1,233,085** | 775,953 |
| More than one year to three years | **1,001,784** | 1,338,234 | **813,279** | 1,315,849 |
| More than three years to five years | **634,420** | 526,924 | **512,742** | 526,924 |
| More than five years | **1,027,298** | 267,943 | **2,495,821** | 1,740,751 |
| | **6,570,233** | 5,622,916 | **5,054,927** | 4,359,477 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Malaysian Government Treasury Bills | **19,923** | – | **–** | – |
| Malaysian Government Securities | **1,234,386** | 1,147,849 | **1,204,636** | 1,097,185 |
| Malaysian Government Investment Certificates | **2,170,604** | 1,744,179 | **2,101,077** | 1,744,179 |
| Foreign government treasury bills | **755,198** | 727,016 | **111,375** | 58,296 |
| Other foreign government securities | **197,941** | – | **–** | – |
| Negotiable instruments of deposit | **1,885,280** | 1,720,492 | **1,512,786** | 1,474,027 |
| Bankers' acceptances and Islamic accepted bills | **279,879** | 299,432 | **89,082** | – |

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

| | Group and Bank | |
|---|---|---|
| | 2013 RM'000 | 2012 RM'000 |
| **Non-money Market Instruments:** | | |
| **Debt Securities** | | |
| At 1 January | **155** | 1,102 |
| Amount written off | **(48)** | (947) |
| At 31 December | **107** | 155 |

## 9. LOANS, ADVANCES AND FINANCING

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| **At amortised cost** | | | | |
| Overdrafts | **9,694,121** | 9,528,841 | **8,319,983** | 8,291,756 |
| Term loans/financing | | | | |
| – Housing loans/financing | **69,371,088** | 59,867,383 | **60,472,169** | 52,536,395 |
| – Syndicated term loans/financing | **1,782,419** | 1,974,334 | **1,071,646** | 881,720 |
| – Hire purchase receivables | **44,923,671** | 42,021,461 | **31,906,568** | 30,138,506 |
| – Other term loans/financing | **83,603,166** | 73,633,407 | **70,256,580** | 61,665,524 |
| Credit card receivables | **1,623,283** | 1,604,211 | **1,613,033** | 1,594,106 |
| Bills receivables | **132,233** | 130,609 | **112,310** | 97,980 |
| Trust receipts | **318,642** | 324,142 | **262,301** | 278,177 |
| Claims on customers under acceptance credits# | **4,146,270** | 4,020,397 | **4,013,598** | 4,007,132 |
| Revolving credits | **4,247,740** | 3,464,140 | **4,273,079** | 3,505,412 |
| Staff loans* | **1,333,170** | 1,214,239 | **1,254,160** | 1,141,458 |
| Gross loans, advances and financing | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |
| Less: Allowance for impaired loans and financing | | | | |
| – collective assessment allowance | **(1,592,085)** | (1,529,566) | **(1,071,089)** | (1,059,484) |
| – individual assessment allowance | **(167,925)** | (201,995) | **(79,765)** | (110,074) |
| Net loans, advances and financing | **219,415,793** | 196,051,603 | **182,404,573** | 162,968,608 |

\# Included in claims on customers under acceptance credits of the Group and the Bank are bankers' acceptance rediscounted of RM974,991,000 (31 December 2012 – RM2,306,869,000) and RM974,121,000 (31 December 2012 – RM2,305,913,000) respectively.

* Included in staff loans of the Group and the Bank are loans to directors of subsidiary companies amounting to RM3,499,000 (31 December 2012 – RM3,785,000) and RM3,092,000 (31 December 2012 – RM3,313,000) respectively.

## 9. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Retail loans/financing* | | | | |
| – Housing loans/financing | **69,371,088** | 59,867,383 | **60,472,169** | 52,536,395 |
| – Hire purchase | **44,923,671** | 42,021,461 | **31,906,568** | 30,138,506 |
| – Credit cards | **1,623,283** | 1,604,211 | **1,613,033** | 1,594,106 |
| – Other loans/financing ^ | **74,634,000** | 66,421,547 | **64,745,015** | 57,307,670 |
| | **190,552,042** | 169,914,602 | **158,736,785** | 141,576,677 |
| Corporate loans/financing | **30,623,761** | 27,868,562 | **24,818,642** | 22,561,489 |
| | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |

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

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

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Maturity within one year | **29,512,905** | 26,478,852 | **24,665,072** | 22,175,219 |
| More than one year to three years | **21,787,337** | 22,671,399 | **17,348,887** | 18,602,463 |
| More than three years to five years | **21,614,004** | 18,899,528 | **16,869,100** | 14,547,090 |
| More than five years | **148,261,557** | 129,733,385 | **124,672,368** | 108,813,394 |
| | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |

## 9. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Banking institutions | **219,841** | 572,034 | **32,806** | 397,658 |
| Non-bank financial institutions | | | | |
| – Stock-broking companies | **10,415** | 14,202 | **10,415** | 14,202 |
| – Others | **5,867,394** | 5,676,475 | **5,796,575** | 5,434,225 |
| Business enterprises | | | | |
| – Small and medium enterprises | **46,466,558** | 38,966,081 | **41,907,628** | 35,195,448 |
| – Others | **24,774,604** | 24,147,664 | **19,839,602** | 19,727,188 |
| Government and statutory bodies | **328,984** | 341,178 | **9,205** | 19,300 |
| Individuals | **141,050,941** | 126,071,304 | **113,628,081** | 101,473,775 |
| Other entities | **43,708** | 42,618 | **41,090** | 39,740 |
| Foreign entities | **2,413,358** | 1,951,608 | **2,290,025** | 1,836,630 |
| | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Malaysia | **206,634,918** | 184,541,775 | **183,018,237** | 163,752,137 |
| Hong Kong SAR and the People's Republic of China | **11,573,237** | 10,778,263 | **–** | – |
| Cambodia | **2,430,458** | 2,077,097 | **–** | – |
| Other countries | **537,190** | 386,029 | **537,190** | 386,029 |
| | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |

## 9. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Fixed rate | | | | |
| – Housing loans/financing | **760,224** | 1,200,815 | **100,506** | 461,400 |
| – Hire purchase receivables | **43,231,795** | 40,487,636 | **31,896,405** | 30,128,935 |
| – Other fixed rate loans/financing | **15,294,702** | 15,447,863 | **8,200,180** | 8,170,545 |
| Variable rate | | | | |
| – Base lending rate plus | **131,488,842** | 113,302,637 | **123,273,711** | 107,615,616 |
| – Cost plus | **20,029,781** | 17,881,772 | **19,323,512** | 17,123,260 |
| – Other variable rates | **10,370,459** | 9,462,441 | **761,113** | 638,410 |
| | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Purchase of securities | **4,023,503** | 4,126,999 | **3,861,298** | 4,050,091 |
| Purchase of transport vehicles | **45,158,466** | 42,238,571 | **32,139,612** | 30,344,330 |
| Purchase of landed properties | **126,004,256** | 108,286,165 | **111,871,882** | 96,520,395 |
| (of which: – residential | **70,928,295** | 61,130,701 | **62,005,417** | 53,826,198 |
| – non-residential) | **55,075,961** | 47,155,464 | **49,866,465** | 42,694,197 |
| Purchase of fixed assets (excluding landed properties) | **242,072** | 298,551 | **212,738** | 258,721 |
| Personal use | **9,090,491** | 9,318,142 | **4,527,048** | 4,270,035 |
| Credit card | **1,623,283** | 1,604,211 | **1,613,033** | 1,594,106 |
| Purchase of consumer durables | **16,855** | 16,746 | **13,619** | 13,103 |
| Construction | **2,903,437** | 2,493,576 | **2,268,033** | 1,911,728 |
| Mergers and acquisitions | **208,454** | 220,006 | **208,454** | 220,006 |
| Working capital | **28,219,556** | 25,325,719 | **23,401,960** | 21,365,295 |
| Other purpose | **3,685,430** | 3,854,478 | **3,437,750** | 3,590,356 |
| | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |

## 9. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Agriculture, hunting, forestry and fishing | **2,847,443** | 2,690,193 | **2,471,313** | 2,422,271 |
| Mining and quarrying | **199,457** | 158,556 | **167,811** | 138,374 |
| Manufacturing | **8,891,271** | 8,149,499 | **7,885,681** | 7,316,331 |
| Electricity, gas and water | **54,698** | 38,083 | **21,429** | 14,898 |
| Construction | **6,597,972** | 6,039,106 | **5,580,719** | 5,174,150 |
| Wholesale & retail trade and restaurants & hotels | **19,372,207** | 17,304,919 | **17,702,488** | 15,819,202 |
| Transport, storage and communication | **3,395,952** | 3,182,098 | **2,577,828** | 2,434,007 |
| Finance, insurance and business services | **12,214,958** | 11,325,402 | **10,838,160** | 10,077,315 |
| Real estate | **21,064,548** | 17,850,585 | **17,867,116** | 14,926,521 |
| Community, social and personal services | **4,319,749** | 3,947,054 | **3,886,443** | 3,542,013 |
| Households | **141,214,063** | 126,342,848 | **114,444,907** | 102,115,314 |
| Others | **1,003,485** | 754,821 | **111,532** | 157,770 |
| | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| At 1 January | **1,374,086** | 1,529,657 | **1,014,660** | 1,150,234 |
| Impaired during the year | **2,939,301** | 2,575,901 | **2,125,565** | 1,881,155 |
| Reclassified as non-impaired | **(1,976,588)** | (1,924,842) | **(1,576,211)** | (1,571,125) |
| Recoveries | **(299,343)** | (299,087) | **(169,777)** | (234,953) |
| Amount written off | **(555,058)** | (475,296) | **(247,931)** | (185,974) |
| Loans/financing converted to foreclosed properties/investments | **(10,981)** | (24,759) | **(10,721)** | (24,502) |
| Exchange differences | **13,362** | (7,488) | **152** | (175) |
| At 31 December | **1,484,779** | 1,374,086 | **1,135,737** | 1,014,660 |
| Gross impaired loans as % of gross loans, advances and financing | **0.67%** | 0.69% | **0.62%** | 0.62% |

## 9. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Malaysia | **1,364,302** | 1,212,622 | **1,133,697** | 1,012,355 |
| Hong Kong SAR and the People's Republic of China | **74,329** | 96,054 | **–** | – |
| Cambodia | **44,108** | 63,105 | **–** | – |
| Other countries | **2,040** | 2,305 | **2,040** | 2,305 |
| | **1,484,779** | 1,374,086 | **1,135,737** | 1,014,660 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Purchase of securities | **3,466** | 5,852 | **3,462** | 5,848 |
| Purchase of transport vehicles | **357,474** | 263,313 | **256,600** | 189,226 |
| Purchase of landed properties | **676,066** | 591,758 | **608,140** | 497,871 |
| (of which: – residential | **526,930** | 420,286 | **468,751** | 371,040 |
| – non-residential) | **149,136** | 171,472 | **139,389** | 126,831 |
| Purchase of fixed assets (excluding landed properties) | **6,003** | 6,168 | **5,977** | 6,049 |
| Personal use | **169,312** | 165,205 | **48,542** | 47,086 |
| Credit card | **23,161** | 23,421 | **23,084** | 23,309 |
| Purchase of consumer durables | **82** | 377 | **4** | 309 |
| Construction | **11,469** | 14,109 | **8,855** | 13,369 |
| Working capital | **223,163** | 283,886 | **166,649** | 211,641 |
| Other purpose | **14,583** | 19,997 | **14,424** | 19,952 |
| | **1,484,779** | 1,374,086 | **1,135,737** | 1,014,660 |

## 9. LOANS, ADVANCES AND FINANCING (CONT'D.)

Impaired loans/financing analysed by sectors are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Agriculture, hunting, forestry and fishing | **16,692** | 11,772 | **2,559** | 4,422 |
| Mining and quarrying | **1,483** | 132 | **437** | 97 |
| Manufacturing | **110,739** | 130,029 | **98,646** | 117,907 |
| Electricity, gas and water | **1,551** | 1,205 | **–** | – |
| Construction | **41,188** | 68,336 | **37,600** | 66,813 |
| Wholesale & retail trade and restaurants & hotels | **130,908** | 117,113 | **106,597** | 86,462 |
| Transport, storage and communication | **61,167** | 54,959 | **59,778** | 47,954 |
| Finance, insurance and business services | **24,219** | 44,217 | **19,331** | 21,186 |
| Real estate | **23,715** | 61,688 | **21,458** | 30,388 |
| Community, social and personal services | **20,427** | 16,091 | **20,118** | 15,980 |
| Households | **1,050,632** | 867,416 | **768,342** | 622,571 |
| Others | **2,058** | 1,128 | **871** | 880 |
| | **1,484,779** | 1,374,086 | **1,135,737** | 1,014,660 |

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

| **Group** Collective Assessment Allowance | <---- 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** |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| At 1 January 2013 | **515,796** | **425,125** | **16,778** | **515,155** | **56,712** | **1,529,566** |
| Allowance made during the year (Note 37) | **16,495** | **240,540** | **40,286** | **41,603** | **1,365** | **340,289** |
| Amount written off | **(36,441)** | **(136,179)** | **(38,287)** | **(69,697)** | **–** | **(280,604)** |
| Exchange differences | **42** | **7** | **4** | **2,314** | **467** | **2,834** |
| At 31 December 2013 | **495,892** | **529,493** | **18,781** | **489,375** | **58,544** | **1,592,085** |
| **2012** | | | | | | |
| At 1 January 2012 | 510,453 | 396,811 | 15,064 | 514,128 | 59,588 | 1,496,044 |
| Allowance made/(written back) 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 |

## 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.):

| **Bank**<br>Collective Assessment Allowance | <---- **Retail Loans** ----<br>**Housing Loans RM'000** | **Hire Purchase RM'000** | **Credit Cards RM'000** | ----><br>**Other Loans RM'000** | **Corporate Loans RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| At 1 January 2013 | **462,611** | **291,076** | **16,716** | **247,193** | **41,888** | **1,059,484** |
| Allowance made during the year (Note 37) | **5,547** | **171,804** | **40,279** | **1,002** | **1,334** | **219,966** |
| Amount written off | **(33,030)** | **(98,605)** | **(38,287)** | **(38,836)** | **–** | **(208,758)** |
| Exchange differences | **–** | **–** | **–** | **397** | **–** | **397** |
| At 31 December 2013 | **435,128** | **364,275** | **18,708** | **209,756** | **43,222** | **1,071,089** |
| **2012** | | | | | | |
| At 1 January 2012 | 462,480 | 265,039 | 15,028 | 253,522 | 42,143 | 1,038,212 |
| Allowance made/(written back) 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 |

## 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<br>Individual Assessment Allowance | <---- 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 |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| At 1 January 2013 | **64** | **1,219** | **–** | **125,608** | **75,104** | **201,995** |
| Net allowance made during the year (Note 37) | **95** | **261** | **–** | **225,146** | **245** | **225,747** |
| Allowance made during the year | **95** | **327** | **–** | **238,775** | **3,714** | **242,911** |
| Amount written back in respect of recoveries | **–** | **(66)** | **–** | **(13,629)** | **(3,469)** | **(17,164)** |
| Amount written off | **–** | **(96)** | **–** | **(253,452)** | **(20,906)** | **(274,454)** |
| Exchange differences | **8** | **98** | **–** | **13,398** | **1,133** | **14,637** |
| At 31 December 2013 | **167** | **1,482** | **–** | **110,700** | **55,576** | **167,925** |
| **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 |

## 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.):

| **Bank**<br>Individual Assessment Allowance | <---------- **Retail Loans** ----------<br>**Housing Loans RM'000** | **Hire Purchase RM'000** | **Credit Cards RM'000** | ----------><br>**Other Loans RM'000** | **Corporate Loans RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| At 1 January 2013 | **–** | **–** | **–** | **48,952** | **61,122** | **110,074** |
| Net allowance made during the year (Note 37) | **–** | **–** | **–** | **8,357** | **507** | **8,864** |
| Allowance made during the year | **–** | **–** | **–** | **14,366** | **3,976** | **18,342** |
| Amount written back in respect of recoveries | **–** | **–** | **–** | **(6,009)** | **(3,469)** | **(9,478)** |
| Amount written off | **–** | **–** | **–** | **(19,361)** | **(19,812)** | **(39,173)** |
| At 31 December 2013 | **–** | **–** | **–** | **37,948** | **41,817** | **79,765** |
| **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 |

## 10. OTHER ASSETS

| | Group | | |
|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) |
| Deferred handling fees* | **242,734** | 236,571 | 230,402 |
| Interest/Income receivable | **69,650** | 32,942 | 52,824 |
| Other receivables, deposits and prepayments | **1,410,075** | 1,283,277 | 1,231,339 |
| Manager's stocks** | **87,984** | 67,652 | 22,696 |
| Amount due from trust funds ^ | **111,536** | 97,891 | 99,987 |
| Employee benefits (Note 24(a)) | **294,339** | 199,079 | 213,381 |
| Foreclosed properties # | **57,280** | 82,673 | 109,529 |
| Taxi licenses | **1,130** | 1,056 | 1,093 |
| Outstanding contracts on clients' accounts @## | **264,971** | 204,857 | 260,384 |
| | **2,539,699** | 2,205,998 | 2,221,635 |
| # Stated net of accumulated allowance for impairment loss amounting to | **34,293** | 43,615 | 45,717 |
| @ Stated net of accumulated allowance for bad and doubtful debts amounting to | **1,152** | 2,089 | 2,083 |

| | Bank | | |
|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) |
| Deferred handling fees* | **175,656** | 173,995 | 162,827 |
| Interest/Income receivable | **45,374** | 20,560 | 39,141 |
| Other receivables, deposits and prepayments | **1,338,651** | 1,156,749 | 1,165,635 |
| Employee benefits (Note 24(a)) | **286,306** | 192,251 | 206,061 |
| Foreclosed properties # | **55,982** | 80,522 | 106,652 |
| Amount due from subsidiary companies ^ ^ | **37,879** | 45,248 | 42,234 |
| Dividend receivable from subsidiary companies (Note 42(b)) | **469,462** | 429,647 | 397,237 |
| | **2,409,310** | 2,098,972 | 2,119,787 |
| # Stated net of accumulated allowance for impairment loss amounting to | **33,829** | 42,712 | 44,494 |

## 10. OTHER ASSETS (CONT'D.)

* This represents the unamortised balance of handling fees paid to motor vehicle dealers for hire purchase loans/financing.

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

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

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

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

## 11. STATUTORY DEPOSITS WITH CENTRAL BANKS

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Statutory deposits with Bank Negara Malaysia* | **6,476,300** | 5,381,471 | **5,536,450** | 4,709,380 |
| Statutory deposits with the National Bank of Cambodia # | **419,036** | 376,902 | **–** | – |
| Other statutory deposits | **29,496** | 28,833 | **29,496** | 28,833 |
| | **6,924,832** | 5,787,206 | **5,565,946** | 4,738,213 |

* The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009. The amount of the Statutory Reserve Requirement is determined based on a set percentage of total eligible liabilities.

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

(i) Cambodian Public Bank Plc and are maintained in compliance with Article 5 of NBC Prakas No. B7-01-136 and Prakas No. B7-012-140, the amounts of which are determined as set percentages of Cambodian Public Bank Plc's issued share capital and deposits from customers;

(ii) Campu Lonpac Insurance Plc and are maintained in compliance with Article 53 of the Royale Government's Sub-Decree on Insurance dated 22 October 2001 and Article 1 of the Ministry of Economy and Finance's Circular No. 009 SHV dated 9 December 2009, the amounts are determined as a set percentage of the issued share capital of Campu Lonpac Insurance Plc; and

(iii) Campu Securities Plc and this represents the non-interest bearing deposit specifically earmarked for Campu Securities Plc in compliance with the Law on the Issuance and Trading of Non-Government Securities and is determined in Article 17 of the Prakas No. 009 SECC/09 dated 18 November 2009 on Licensing of Securities Firms and Securities Representatives issued by the Securities and Exchange Commission of Cambodia.

## 12. DEFERRED TAX

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 (Restated) |
| At 1 January | | | | |
| – as previously stated | **15,316** | (9,532) | **(32,003)** | (51,708) |
| – effects of adoption of MFRS 119 | **(24,839)** | (30,168) | **(23,987)** | (29,133) |
| At 1 January, as restated | **(9,523)** | (39,700) | **(55,990)** | (80,841) |
| Recognised in the statement of profit or loss (net) (Note 39) | | | | |
| – relating to origination and reversal of temporary differences | **30,032** | 34,454 | **22,793** | 31,768 |
| – (under)/over provision of net deferred tax liabilities | **(3,294)** | 9,990 | **(3,157)** | 992 |
| Recognised in equity (net) (Note 28) | **(43,073)** | (14,309) | **(14,384)** | (7,909) |
| Exchange differences | **318** | 42 | **–** | – |
| At 31 December | **(25,540)** | (9,523) | **(50,738)** | (55,990) |

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 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) |
| Deferred tax assets, net | **70,121** | 63,227 | 46,093 |
| Deferred tax liabilities, net | **(95,661)** | (72,750) | (85,793) |
| | **(25,540)** | (9,523) | (39,700) |

| | Bank | | |
|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) |
| Deferred tax liabilities, net | **(50,738)** | (55,990) | (80,841) |

## 12. DEFERRED TAX (CONT'D.)

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

| | Group | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Deferred tax assets | **143,899** | 106,249 | 88,442 |
| Deferred tax liabilities | **(169,439)** | (115,772) | (128,142) |
| | **(25,540)** | (9,523) | (39,700) |

| | Bank | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Deferred tax assets | **73,242** | 42,461 | 32,690 |
| Deferred tax liabilities | **(123,980)** | (98,451) | (113,531) |
| | **(50,738)** | (55,990) | (80,841) |

## 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:

| Deferred tax assets of the Group | Allowance for Impaired Loans RM'000 | Tax Losses RM'000 | Other Temporary Differences RM'000 | Total RM'000 |
|---|---|---|---|---|
| At 1 January 2012 | | | | |
| – as previously stated | 8,550 | 118 | 57,451 | 66,119 |
| – effects of adoption of MFRS 119 | – | – | 22,323 | 22,323 |
| At 1 January 2012, as restated | 8,550 | 118 | 79,774 | 88,442 |
| Recognised in the statement of profit or loss (Note 39) | | | | |
| – relating to origination and reversal of temporary differences | 978 | (68) | 17,229 | 18,139 |
| – under/(over) provision | 5,146 | – | (5,073) | 73 |
| Recognised in equity | – | – | (48) | (48) |
| Exchange differences | (349) | (3) | (5) | (357) |
| At 31 December 2012 | 14,325 | 47 | 91,877 | 106,249 |
| Recognised in the statement of profit or loss (Note 39) | | | | |
| – relating to origination and reversal of temporary differences | **(2,441)** | **(48)** | **14,455** | **11,966** |
| – over provision | **–** | **–** | **(2,570)** | **(2,570)** |
| Recognised in equity | **–** | **–** | **27,259** | **27,259** |
| Exchange differences | **926** | **1** | **68** | **995** |
| At 31 December 2013 | **12,810** | **–** | **131,089** | **143,899** |

## 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.):

| Deferred tax liabilities of the Group | Defined Benefit Assets RM'000 | Excess of Capital Allowances Over Depreciation RM'000 | Other Temporary Differences RM'000 | Total RM'000 |
|---|---|---|---|---|
| At 1 January 2012 | | | | |
| – as previously stated | 484 | 75,245 | (78) | 75,651 |
| – effects of adoption of MFRS 119 | 52,491 | – | – | 52,491 |
| At 1 January 2012, as restated | 52,975 | 75,245 | (78) | 128,142 |
| Recognised in the statement of profit or loss (Note 39) | | | | |
| – relating to origination and reversal of temporary differences | (12,459) | (3,819) | (37) | (16,315) |
| – (over)/under provision | – | (9,951) | 34 | (9,917) |
| Recognised in equity | 8,844 | – | 5,417 | 14,261 |
| Exchange differences | – | (399) | – | (399) |
| At 31 December 2012 | 49,360 | 61,076 | 5,336 | 115,772 |
| Recognised in the statement of profit or loss (Note 39) | | | | |
| – relating to origination and reversal of temporary differences | **(19,251)** | **1,121** | **64** | **(18,066)** |
| – under provision | **199** | **474** | **51** | **724** |
| Recognised in equity | **43,058** | **–** | **27,274** | **70,332** |
| Exchange differences | **–** | **677** | **–** | **677** |
| At 31 December 2013 | **73,366** | **63,348** | **32,725** | **169,439** |

## 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.):

| **Deferred tax assets of the Bank** | **Other Temporary Differences RM'000** | **Total RM'000** |
|---|---|---|
| At 1 January 2012 | | |
| – as previously stated | 10,367 | 10,367 |
| – effects of adoption of MFRS 119 | 22,323 | 22,323 |
| At 1 January 2012, as restated | 32,690 | 32,690 |
| Recognised in the statement of profit or loss (Note 39) | | |
| – relating to origination and reversal of temporary differences | 14,120 | 14,120 |
| – over provision | (4,981) | (4,981) |
| Recognised in equity | 632 | 632 |
| At 31 December 2012 | 42,461 | 42,461 |
| Recognised in the statement of profit or loss (Note 39) | | |
| – relating to origination and reversal of temporary differences | **5,849** | **5,849** |
| – over provision | **(2,571)** | **(2,571)** |
| Recognised in equity | **27,503** | **27,503** |
| At 31 December 2013 | **73,242** | **73,242** |

## 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.):

| Deferred tax liabilities of the Bank | Defined Benefit Assets RM'000 | Excess of Capital Allowances Over Depreciation RM'000 | Other Temporary Differences RM'000 | Total RM'000 |
|---|---|---|---|---|
| At 1 January 2012 | | | | |
| – as previously stated | – | 62,475 | (400) | 62,075 |
| – effects of adoption of MFRS 119 | 51,456 | – | – | 51,456 |
| At 1 January 2012, as restated | 51,456 | 62,475 | (400) | 113,531 |
| Recognised in the statement of profit or loss (Note 39) | | | | |
| – relating to origination and reversal of temporary differences | (12,010) | (5,638) | – | (17,648) |
| – (over)/under provision | – | (5,976) | 3 | (5,973) |
| Recognised in equity | 8,541 | – | – | 8,541 |
| At 31 December 2012 | 47,987 | 50,861 | (397) | 98,451 |
| Recognised in the statement of profit or loss (Note 39) | | | | |
| – relating to origination and reversal of temporary differences | **(18,381)** | **1,437** | **–** | **(16,944)** |
| – under provision | **–** | **523** | **63** | **586** |
| Recognised in equity | **41,887** | **–** | **–** | **41,887** |
| At 31 December 2013 | **71,493** | **52,821** | **(334)** | **123,980** |

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

| | Group | | |
|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 1 January 2012 RM'000 |
| Unutilised tax losses | **15,123** | 14,137 | 14,911 |
| Unutilised capital allowances | **23,093** | 23,093 | 24,674 |

Subject to the agreement by the relevant tax authorities, the Group has unabsorbed tax losses and unabsorbed capital allowances carried forward of RM15,123,000 (31 December 2012 – RM14,421,000; 1 January 2012 – RM15,627,000) and RM23,093,000 (31 December 2012 – RM23,093,000; 1 January 2012 – 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.

## 13. INVESTMENT IN SUBSIDIARY COMPANIES

| Bank | 31 December 2013 Cost RM'000 | 31 December 2013 Market Value RM'000 | 31 December 2012 Cost RM'000 | 31 December 2012 Market Value RM'000 |
|---|---|---|---|---|
| **At cost:** | | | | |
| Quoted shares outside Malaysia | | | | |
| – Quoted shares in Hong Kong SAR | **1,672,195** | **1,358,629** | 1,672,195 | 1,160,897 |
| Unquoted shares | | | | |
| – In Malaysia | **2,492,116** | | 2,325,747 | |
| – Outside Malaysia | **272,169** | | 272,169 | |
| | **4,436,480** | | 4,270,111 | |
| Less: Accumulated impairment losses | **(430)** | | (6,530) | |
| | **4,436,050** | | 4,263,581 | |

Details of the subsidiary companies are as follows:

| Name | Principal Activities | Effective Interest 31 December 2013 % | Effective Interest 31 December 2012 % |
|---|---|---|---|
| **Local subsidiary companies** | | | |
| Public Islamic Bank Berhad | Islamic banking | **100.0** | 100.0 |
| Public Investment Bank Berhad+ | Investment banking | **100.0** | 100.0 |
| Public Invest Nominees (Tempatan) Sdn. Bhd.+ | Nominee services | **100.0** | 100.0 |
| Public Invest Nominees (Asing) Sdn. Bhd.+ | Nominee services | **100.0** | 100.0 |
| Public Consolidated Holdings Sdn. Bhd.+ | Investment holding | **100.0** | 100.0 |
| Public Mutual Berhad+ | Sale of trust units and management of unit trusts | **100.0** | 100.0 |
| Public Holdings Sdn. Bhd. | Property holding | **100.0** | 100.0 |
| Public Nominees (Tempatan) Sdn. Bhd. | Nominee services | **100.0** | 100.0 |
| Public Nominees (Asing) Sdn. Bhd. | Nominee services | **100.0** | 100.0 |
| Public Bank (L) Ltd. | Offshore banking | **100.0** | 100.0 |
| PB Trust (L) Ltd. | Offshore trust company | **100.0** | 100.0 |
| PB Venture Capital Sdn. Bhd. | Investment holding | **100.0** | 100.0 |
| Public Leasing & Factoring Sdn. Bhd. | Leasing and factoring | **100.0** | 100.0 |
| PB International Factoring Sdn. Bhd. | Dormant | **100.0** | 100.0 |
| PB Properties Sdn. Bhd. | Dormant | **–** | 100.0 |
| PBFIN Berhad | Dormant | **100.0** | 100.0 |

## 13. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D.)

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

| Name | Principal Activities | Effective Interest 31 December 2013 % | Effective Interest 31 December 2012 % |
|---|---|---|---|
| **Overseas subsidiary companies** | | | |
| Cambodian Public Bank Plc++ | Banking | **100.0** | 100.0 |
| Campu Securities Plc++ | Securities dealing and underwriting | **100.0** | 100.0 |
| Campu Lonpac Insurance Plc++ | General insurance | **55.0** | 55.0 |
| Public Financial Holdings Limited+* | Investment and property holding | **73.2** | 73.2 |
| Public Bank (Hong Kong) Limited+ | Banking | **73.2** | 73.2 |
| Public Finance Limited+ | Deposit-taking and finance | **73.2** | 73.2 |
| Public Financial Limited+ | Investment holding | **73.2** | 73.2 |
| Public Securities Limited+ | Stock and share broking | **73.2** | 73.2 |
| Public Securities (Nominees) Limited+ | Nominee services | **73.2** | 73.2 |
| Public Financial Securities Limited+ | Stock and share broking | **73.2** | 73.2 |
| Public Bank (Nominees) Limited+ | Nominee services | **73.2** | 73.2 |
| Public Futures Limited+ | Dormant | **73.2** | 73.2 |
| Public Credit Limited+ | Dormant | **73.2** | 73.2 |
| Public Pacific Securities Limited+ | Dormant | **73.2** | 73.2 |
| Public Investments Limited+ | Dormant | **73.2** | 73.2 |
| Public Realty Limited+ | Dormant | **73.2** | 73.2 |
| Winton (B.V.I.) Limited+ | Investment holding | **73.2** | 73.2 |
| Winton Financial Limited+ | Provision of financing | **73.2** | 73.2 |
| Winton Motors, Limited+ | Trading of taxi cabs and taxi licences, and leasing of taxis | **73.2** | 73.2 |
| Winton Holdings (Hong Kong) Limited+ | Dormant | **73.2** | 73.2 |

* Shares quoted on The Stock Exchange of Hong Kong Limited.
\+ Subsidiary companies not audited by KPMG.
\++ Subsidiary 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.

## 13. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D.)

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) Member's Voluntary Winding-up of PB Properties Sdn. Bhd.**

On 16 December 2013, PB Properties Sdn. Bhd., a dormant wholly-owned subsidiary of the Bank, commenced Member's Voluntary Winding-up pursuant to Section 254(1)(b) of the Companies Act, 1965. The winding-up proceedings have no material effect on the earnings and net assets of the Group for the financial year ended 31 December 2013.

There are no significant restrictions on the ability of the subsidiary companies to transfer funds to the Group in the form of cash dividends or repayment of loans and advances. Generally, for all subsidiary companies which are not wholly-owned by the Bank, non-controlling shareholders hold protective rights restricting the Bank's ability to use the assets of the subsidiary companies and settle the liabilities of the Group, unless approval is obtained from non-controlling shareholders.

The Group's subsidiary companies which have non-controlling interests are not material individually or in aggregate to the financial position, financial performance and cash flows of the Group.

## 14. INVESTMENT IN ASSOCIATED COMPANIES

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Unquoted shares, at cost | **141,365** | 141,365 | **121,325** | 121,325 |
| Share of post-acquisition reserves | **17,520** | 9,845 | **–** | – |
| | **158,885** | 151,210 | **121,325** | 121,325 |
| Represented by: | | | | |
| Group's share of net assets | **158,885** | 151,210 | | |

## 14. INVESTMENT IN ASSOCIATED COMPANIES (CONT'D.)

The summarised financial information of associated companies is as follows:

| | Group | |
|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Total assets | **1,550,785** | 1,304,324 |
| Total liabilities | **1,207,214** | 980,328 |
| Operating revenue | **186,594** | 192,817 |
| Profit after tax | **8,721** | 6,127 |
| Total comprehensive income | **7,629** | 6,524 |

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

| | | | Effective Interest | |
|---|---|---|---|---|
| **Name** | **Principal Activities** | **Place of Incorporation** | **31 December 2013 %** | **31 December 2012 %** |
| PB Trustee Services Berhad | Trustee services | Malaysia | **40.0** | 40.0 |
| AIA PUBLIC Takaful Berhad *(formerly known as ING PUBLIC Takaful Ehsan Berhad)* | Family takaful | Malaysia | **40.0** | 40.0 |
| VID Public Bank | Banking | Socialist Republic of Vietnam | **50.0** | 50.0 |
| CPB Properties Co., Ltd. | Property holding | Cambodia | **49.0** | 49.0 |

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

The Group's associated companies are not material individually or in aggregate to the financial position, financial performance and cash flows of the Group.

## 15. INVESTMENT PROPERTIES

| | | Group | |
|---|---|---|---|
| | Note | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| At valuation | | | |
| At 1 January | | **87,886** | 70,754 |
| Transfer to owner-occupied property | | | |
| – Property and equipment | 16 | **–** | (3,781) |
| Fair value adjustment arising from revaluation | 34 | **2,547** | 23,877 |
| Exchange differences | | **6,958** | (2,964) |
| At 31 December | | **97,391** | 87,886 |

Included in the above are:

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Short-term leasehold land and building | **95,391** | 85,936 |
| Long-term leasehold land and building | **2,000** | 1,950 |
| | **97,391** | 87,886 |

The Group's investment properties are stated at fair value and are situated in Malaysia and Hong Kong SAR. The investment properties in Malaysia amounting to RM2,000,000 (31 December 2012 – RM1,950,000) have been determined with reference to quotations of market value provided by an independent professional valuer. The investment properties in Hong Kong SAR amounting to RM95,391,000 (31 December 2012 – RM85,936,000) have been revalued by CS Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value based on their existing use. The Group has assessed that the highest and best use of its properties do not differ from their existing use. The increase in the fair values of RM2,547,000 (2012 – RM23,877,000) has been recognised in the statement of profit or loss during the financial year.

The investment properties held by the Group are let under operating leases to third parties, from which the Group earned rental income of RM6,068,000 (2012 – RM5,490,000) (Note 34) during the year.

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

## 16. PROPERTY AND EQUIPMENT

| Group 2013 | 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 2013 | | 176,444 | 116,035 | 171,940 | 575,110 | 311,090 | 534,309 | 933,885 | 22,154 | 82,691 | 2,923,658 |
| Additions | | – | – | – | 123 | 28,661 | 16,145 | 60,572 | 680 | 22,731 | 128,912 |
| Disposals | | – | – | – | – | (276) | (2,781) | (16,058) | (113) | – | (19,228) |
| Reclassification | | – | – | – | – | (11,637) | 11,637 | – | – | – | – |
| Write-offs | 35 | – | – | – | – | (796) | (2,985) | (8,223) | (2) | – | (12,006) |
| Exchange differences | | – | 8,221 | 11,385 | 7,473 | 3,341 | 1,400 | 4,783 | 391 | – | 36,994 |
| At 31 December 2013 | | 176,444 | 124,256 | 183,325 | 582,706 | 330,383 | 557,725 | 974,959 | 23,110 | 105,422 | 3,058,330 |
| Accumulated depreciation | | | | | | | | | | | |
| At 1 January 2013 | | – | 24,327 | 8,134 | 175,556 | 226,889 | 408,347 | 746,510 | 13,263 | – | 1,603,026 |
| Depreciation charge for the year | 35 | – | 2,671 | 515 | 13,702 | 16,458 | 30,091 | 94,720 | 3,031 | – | 161,188 |
| Disposals | | – | – | – | – | (210) | (2,735) | (16,042) | (110) | – | (19,097) |
| Reclassification | | – | – | – | – | – | (1) | – | 1 | – | – |
| Write-offs | 35 | – | – | – | – | (722) | (2,957) | (7,794) | (6) | – | (11,479) |
| Exchange differences | | – | 1,822 | 381 | 1,468 | 2,211 | 856 | 3,585 | 273 | – | 10,596 |
| At 31 December 2013 | | – | 28,820 | 9,030 | 190,726 | 244,626 | 433,601 | 820,979 | 16,452 | – | 1,744,234 |
| Accumulated impairment loss | | | | | | | | | | | |
| At 1 January/ 31 December 2013 | | 1,064 | – | 33 | 10,002 | – | – | – | – | – | 11,099 |
| Carrying amounts | | | | | | | | | | | |
| At 31 December 2013 | | 175,380 | 95,436 | 174,262 | 381,978 | 85,757 | 124,124 | 153,980 | 6,658 | 105,422 | 1,302,997 |

## 16. PROPERTY AND EQUIPMENT (CONT'D.)

| Group 2012 | 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 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 |
| Accumulated depreciation | | | | | | | | | | | |
| 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 |
| Accumulated impairment loss | | | | | | | | | | | |
| At 1 January/31 December 2012 | | 1,064 | – | 33 | 10,002 | – | – | – | – | – | 11,099 |
| Carrying amounts | | | | | | | | | | | |
| 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 |

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

## 16. PROPERTY AND EQUIPMENT (CONT'D.)

| Bank 2013 | Note | Freehold land RM'000 | Long term leasehold land RM'000 | Buildings RM'000 | Renovations RM'000 | Office equipment, furniture & fittings RM'000 | Computer equipment & software RM'000 | Motor vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| At 1 January 2013 | | 81,092 | 58 | 262,042 | 241,828 | 414,097 | 850,217 | 15,216 | 1,864,550 |
| Additions | | – | – | – | 23,869 | 13,467 | 50,358 | 456 | 88,150 |
| Disposals | | – | – | – | (1) | (2,103) | (11,689) | (113) | (13,906) |
| Reclassification | | – | – | – | (11,637) | 11,637 | – | – | – |
| Write-offs | 35 | – | – | – | (796) | (2,985) | (8,178) | (2) | (11,961) |
| Exchange differences | | – | – | – | 411 | 102 | 466 | 50 | 1,029 |
| At 31 December 2013 | | 81,092 | 58 | 262,042 | 253,674 | 434,215 | 881,174 | 15,607 | 1,927,862 |
| Accumulated depreciation | | | | | | | | | |
| At 1 January 2013 | | – | 51 | 89,549 | 173,325 | 299,766 | 685,096 | 8,829 | 1,256,616 |
| Depreciation charge for the year | 35 | – | 2 | 5,232 | 9,383 | 25,800 | 85,069 | 2,208 | 127,694 |
| Disposals | | – | – | – | (1) | (2,089) | (11,674) | (110) | (13,874) |
| Reclassification | | – | – | – | – | (1) | – | 1 | – |
| Write-offs | 35 | – | – | – | (722) | (2,957) | (7,786) | (6) | (11,471) |
| Exchange differences | | – | – | – | 75 | 60 | 382 | 34 | 551 |
| At 31 December 2013 | | – | 53 | 94,781 | 182,060 | 320,579 | 751,087 | 10,956 | 1,359,516 |
| Carrying amounts | | | | | | | | | |
| At 31 December 2013 | | 81,092 | 5 | 167,261 | 71,614 | 113,636 | 130,087 | 4,651 | 568,346 |

## 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 |

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

Included in property and equipment of the Group and the Bank are computer equipment and software under finance lease which will expire in one year with a carrying amount of RM24,255,000 (31 December 2012 – RM66,075,000).

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

## 17. INTAINGIBLE ASSETS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Goodwill | | | | |
| At 1 January | **1,899,875** | 1,938,994 | **695,393** | 695,393 |
| Exchange differences | **77,545** | (39,119) | **–** | – |
| At 31 December | **1,977,420** | 1,899,875 | **695,393** | 695,393 |
| Intangible Assets | | | | |
| At 1 January | **26,472** | 26,482 | **–** | – |
| Exchange differences | **20** | (10) | **–** | – |
| At 31 December | **26,492** | 26,472 | **–** | – |
| Total carrying amounts of goodwill and intangible assets | **2,003,912** | 1,926,347 | **695,393** | 695,393 |

Impairment Assessment on Goodwill and Intangible Assets

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

| | Group RM'000 | Bank RM'000 | Discount rate % | Nominal growth rate beyond initial cash flow projections % |
|---|---|---|---|---|
| **As at 31 December 2013** | | | | |
| Cash-generating unit: | | | | |
| Hire purchase financing | **395,953** | **395,953** | **9.8** | **5.6** |
| East Malaysia operations (in respect of business acquired from the former Hock Hua Bank) | **299,440** | **299,440** | **8.8** | **5.6** |
| Hong Kong operations | **1,234,661** | **–** | **7.0** | **4.8** |
| Fund management | **19,555** | **–** | **8.8** | **5.6** |
| Investment banking | **54,303** | **–** | **9.8** | **5.6** |
| | **2,003,912** | **695,393** | | |

## 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 31 December 2012** | | | | |
| Cash-generating unit: | | | | |
| 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 | | |

Goodwill is allocated to the Group's CGUs expected to benefit from the synergies of the acquisitions. For annual impairment assessment purposes, the recoverable amount of the CGUs are based on their value-in-use. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial forecasts approved by management. The key assumptions for the computation of value-in-use include the discount rates and growth rates applied. Discount rates used are based on the pre-tax weighted average cost of capital plus an appropriate risk premium, where applicable, at the date of assessment of the respective CGU. Cash flow projections are based on five (5) years financial budgets approved by management. Cash flows beyond the fifth (5) year are extrapolated to fifty (50) years using a nominal long-term growth rate which does not exceed the average of the last twenty (20) years' inflation-adjusted Gross Domestic Product growth rates of the respective countries where the CGUs operate. The forecast period is based on the Group's long-term perspective with respect to the operation of these units. Impairment is recognised in the statement of profit or loss when the carrying amount of a CGU exceeds its recoverable amount.

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

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

## 18. DEPOSITS FROM CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| **At amortised cost** | | | | |
| Core deposits: | | | | |
| – Demand deposits | **38,202,745** | 32,632,541 | **33,382,002** | 28,643,745 |
| – Savings deposits | **25,824,590** | 23,726,493 | **18,349,316** | 16,843,952 |
| – Fixed deposits | **137,230,286** | 120,675,603 | **107,341,341** | 93,931,585 |
| | **201,257,621** | 177,034,637 | **159,072,659** | 139,419,282 |
| Wholesale deposits: | | | | |
| – Negotiable instruments of deposit | **1,620,398** | 1,223,620 | **651,420** | 90,112 |
| – Money market deposits | **47,881,370** | 46,593,137 | **42,036,700** | 41,991,233 |
| | **49,501,768** | 47,816,757 | **42,688,120** | 42,081,345 |
| Other deposits | **113,800** | 190,931 | **110,813** | 187,817 |
| | **250,873,189** | 225,042,325 | **201,871,592** | 181,688,444 |

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 RM2,387,530,000 (31 December 2012 – RM2,158,106,000) and RM1,639,713,000 (31 December 2012 – RM1,535,859,000) respectively held as collateral for loans, advances and financing.

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Due within six months | **162,340,586** | 151,771,362 | **128,981,442** | 121,861,534 |
| More than six months to one year | **24,080,964** | 16,345,923 | **20,876,847** | 14,023,613 |
| More than one year to three years | **306,626** | 367,778 | **167,761** | 122,377 |
| More than three years to five years | **3,878** | 7,297 | **3,411** | 5,406 |
| | **186,732,054** | 168,492,360 | **150,029,461** | 136,012,930 |

## 18. DEPOSITS FROM CUSTOMERS (CONT'D.)

The deposits are sourced from the following types of customers:

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Federal and state governments | **1,451,465** | 1,617,446 | **234,600** | 162,506 |
| Local government and statutory authorities | **2,695,427** | 3,154,490 | **1,610,984** | 2,041,839 |
| Business enterprises | **77,616,935** | 64,959,217 | **62,433,119** | 52,239,124 |
| Individuals | **111,921,512** | 102,008,645 | **97,008,165** | 88,167,268 |
| Foreign customers | **6,655,412** | 4,444,181 | **5,914,089** | 3,840,822 |
| Others | **50,532,438** | 48,858,346 | **34,670,635** | 35,236,885 |
| | **250,873,189** | 225,042,325 | **201,871,592** | 181,688,444 |

## 19. DEPOSITS FROM BANKS

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| **At amortised cost** | | | | |
| Licensed banks | **4,234,141** | 3,080,562 | **2,893,468** | 2,168,377 |
| Licensed Islamic banks | **1,063,881** | 1,428,121 | **713,881** | 808,850 |
| Licensed investment banks | **3,473,912** | 3,573,682 | **3,494,590** | 3,435,195 |
| Bank Negara Malaysia | **1,980,255** | 2,602,861 | **1,977,865** | 2,602,861 |
| Other financial institutions | **5,423,647** | 2,164,087 | **7,843,244** | 5,393,495 |
| | **16,175,836** | 12,849,313 | **16,923,048** | 14,408,778 |

## 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

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| **At amortised cost** | | | | | |
| Borrowings | (a) | **463,391** | 864,911 | **–** | – |
| **At amortised cost, modified for change in value as a result of fair value hedges** | | | | | |
| Senior Medium Term Notes | (b) | **399,007** | – | **399,007** | – |
| Subordinated notes | (c) | **5,432,922** | 4,937,918 | **5,432,922** | 4,937,918 |
| Innovative Tier I capital securities | (d) | **1,957,844** | 1,955,765 | **1,957,844** | 1,955,765 |
| Non-Innovative Tier I stapled securities | (e) | **2,116,661** | 2,188,259 | **2,116,661** | 2,188,259 |
| | | **9,906,434** | 9,081,942 | **9,906,434** | 9,081,942 |
| | | **10,369,825** | 9,946,853 | **9,906,434** | 9,081,942 |

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

### (a) Borrowings

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Unsecured: | | | | |
| Term loans | **463,391** | 864,911 | **–** | – |

The unsecured term loans are denominated in Hong Kong Dollars. The loans are repayable within one year and bear interest at HIBOR plus 0.65% to 1.50% (31 December 2012 – HIBOR plus 0.65% to 1.20%).

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

| | Group and Bank | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Issued under the RM5.0 billion Senior MTNs Programme: | | |
| RM400 million Senior MTNs due in 2018 | **399,007** | – |

On 5 April 2013, the Bank obtained the approval from the Securities Commission for the establishment of a Senior Medium Term Notes Programme ("Senior MTNs Programme") to issue Senior MTNs of up to RM5.0 billion in nominal value. The tenor of the Senior MTNs Programme will be up to twenty (20) years from the date of first issuance. The Senior MTNs may be issued in series and each issuance shall have a tenure of more than one (1) year as may be determined by the Bank, provided that the Senior MTNs shall mature on or prior to the expiry of the Senior MTNs Programme. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Senior MTNs constitute direct unsecured liabilities of the Bank, and rank at least pari passu with all other present and future unsecured liabilities of the Banks, except for those liabilities preferred by law.

During the year, the Bank has issued a total of RM400 million in nominal value of Senior MTNs with a tenor of 5 years with interest ranging from 3.65% to 3.67% per annum.

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

### (c) Subordinated Notes

| | | Group and Bank | |
|---|---|---|---|
| | Note | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| 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 | (i)(a) | – | 1,399,824 |
| Second tranche: | | | |
| RM200 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014 | (i)(b) | **199,966** | 199,926 |
| Third tranche: | | | |
| RM223 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014 | (i)(c) | **222,958** | 222,913 |
| Fourth tranche: | | | |
| RM50 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014 | (i)(d) | **49,990** | 49,980 |
| Fifth tranche: | | | |
| RM3,000 million 4.28% Subordinated Notes due in 2022, callable in 2017 | (i)(e) | **2,998,207** | 2,997,708 |
| Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme: | | | |
| First tranche: | | | |
| RM1,000 million 4.80% Subordinated Notes due in 2023, callable in 2018 | (ii)(a) | **999,116** | – |
| Second tranche: | | | |
| RM450 million 4.77% Subordinated Notes due in 2023, callable in 2018 | (ii)(b) | **450,000** | – |
| Third tranche: | | | |
| RM500 million 4.73% Subordinated Notes due in 2023, callable in 2018 | (ii)(c) | **500,000** | – |
| | | **5,420,237** | 4,870,351 |
| Realised/unrealised fair value loss arising from fair value hedge | | **12,685** | 67,567 |
| | | **5,432,922** | 4,937,918 |

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

### (c) Subordinated Notes (Cont'd.)

(i) On 13 March 2008, the Bank obtained approval from Bank Negara Malaysia ("BNM") for a Subordinated Medium Term Note Programme ("the MTN Programme") for the issuance of up to RM5.0 billion in aggregate principal value of Subordinated Notes. The tenor of the MTN Programme will be up to fifteen (15) years, with the maturity for each issuance to range between ten (10) to fifteen (15) years, and callable from five (5) years prior to the relevant maturity date of each issuance. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.



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



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

(a) On 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. These Notes were fully redeemed on 16 May 2013 together with accrued interest.

(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.

(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.

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

### (c) Subordinated Notes (Cont'd.)

(i) (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.

(ii) The Bank obtained approval from BNM and the Securities Commission vide their letters dated 14 June 2013 and 10 July 2013 respectively, to establish a Basel III-Compliant Tier II Subordinated Medium Term Notes Programme ("the Basel III – Compliant MTNs Programme") of up to RM10.0 billion in Nominal value. The tenor of the Basel III – Compliant MTNs Programme will be up to thirty (30) years, with the tenure for each issuance not less than five (5) years from the issue date, and callable not earlier than five (5) years prior to the relevant maturity date of each issuance. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Notes will, subject to the prior consent of BNM, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the Notes will no longer fully qualify as Tier II Capital for the purposes of BNM's capital adequacy requirements or on the first call date or at any subsequent interest payment date thereafter at their nominal amount.

<u>Non Viability Loss Absorption</u>
In the event of an occurrence of a Non-Viability Event as determined by BNM and the Perbadanan Insurans Deposit Malaysia ("PIDM"), the Bank may be required, irrevocably (without the need for the consent of the holders of such Notes) to effect either a write-off in whole or in part of the outstanding principal and accrued and unpaid interest in respect of such Notes. The Trigger Event would be the earlier of:

(a) The notification by BNM and PIDM to the Bank in writing that they are of the view that the principal or partial write off of the Notes, together with the conversion or write off of any other Tier II capital instruments and Tier I capital instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, is an essential requirement to prevent the Bank from becoming non-viable; and

(b) The public announcement by BNM and PIDM that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Bank, without which the Bank would cease to be viable.

To the extent relevant in the event that such Notes are written-off, any written-off amount shall be irrevocably lost and holders of such Notes will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to write-off.

Upon the occurrence of a Non-Viability Event above, the Bank shall first convert or write off the relevant Tier I instruments, to be followed by the write off or conversion of the relevant Tier II instruments on a pari passu basis. Such write off shall not constitute an event of default or enforcement event, nor would it trigger any cross-default under the Notes. A Non-Viability Event shall be deemed to have occurred on the day on which the Bank received the notification from BNM.

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

### (c) Subordinated Notes (Cont'd.)

The Bank has issued the following tranches of Subordinated Notes under the Basel III – Compliant MTNs Programme:

(a) On 25 September 2013, the Bank issued the first tranche of RM1,000 million in aggregate nominal amount of Subordinated Notes due in 2023 callable in 2018. The Notes bear interest at the rate of 4.80% per annum from (and including) 25 September 2013 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 25 March and 25 September each year commencing 25 March 2014.

(b) On 28 October 2013, the Bank issued the second tranche of RM450 million in aggregate nominal amount of Subordinated Notes due in 2023 callable in 2018. The Notes bear interest at the rate of 4.77% per annum from (and including) 28 October 2013 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 28 April and 28 October each year commencing 28 April 2014.

(c) On 15 November 2013, the Bank issued the third tranche of RM500 million in aggregate nominal amount of Subordinated Notes due in 2023 callable in 2018. The Notes bear interest at the rate of 4.73% per annum from (and including) 15 November 2013 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 15 May and 15 November each year commencing 15 May 2014.

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.

In line with the transitional arrangements under the BNM's Capital Adequacy Framework (Capital Components) dated 28 November 2012 for the purpose of determining the capital adequacy ratios of the Group and the Bank, Subordinated Notes issued prior to 31 December 2012 will qualify as Tier II Capital but are subject to a gradual phase-out treatment with effective from 1 January 2013. The Subordinated Notes issued after 31 December 2012 which are Basel III – Compliant are fully qualified as Tier II Capital.

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.

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

### (d) Innovative Tier I Capital Securities

| | | Group and Bank | |
|---|---|---|---|
| | Note | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| USD200 million 6.84% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016 | (i) | **655,587** | 611,044 |
| RM1,200 million 5.10% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016 | (ii) | **1,199,456** | 1,199,273 |
| | | **1,855,043** | 1,810,317 |
| Realised/unrealised fair value loss arising from fair value hedge | | **102,801** | 145,448 |
| | | **1,957,844** | 1,955,765 |

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

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

### (d) 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.

In line with the transitional arrangements under the BNM's Capital Adequacy Framework (Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank, the Innovative Tier I Capital Securities issued prior to 31 December 2012 will qualify as Tier I Capital but are subject to a gradual phase-out treatment with effective from 1 January 2013.

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

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

| | | Group and Bank | |
|---|---|---|---|
| | **Note** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Issued under the RM5.0 billion Non-Innovative Tier I Stapled Securities Programme: | | | |
| First tranche: | | | |
| RM1,200 million 7.50% Stapled Securities callable in 2019 | (i) | **1,195,901** | 1,195,146 |
| Second tranche: | | | |
| RM888 million 7.20% Stapled Securities callable in 2019 | (ii) | **888,000** | 888,000 |
| | | **2,083,901** | 2,083,146 |
| Unrealised fair value loss arising from fair value hedge | | **32,760** | 105,113 |
| | | **2,116,661** | 2,188,259 |

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

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

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

(a) Non-Cumulative Perpetual Capital Securities ("NCPCS") issued by the Bank; and

(b) Subordinated Notes ("Sub-Notes") issued by PBFIN.

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

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

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

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

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

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

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

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

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

### (e) 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:

(i) the Bank elects that an assignment event occurs; or
(ii) BNM determines that an assignment event should occur; or
(iii) the redemption of the NCPCS pursuant to:
  (a) a tax redemption, whereby there is a more than an insubstantial risk that, as a result of changes in the applicable tax regulations, the Bank and/or PBFIN would become obliged to pay additional amounts or will no longer be able to obtain tax deductions for interest payments on the Sub-Notes or the inter-company loan between the Bank and PBFIN; or
  (b) a regulatory redemption, whereby the NCPCS no longer qualify as Non-Innovative Tier I Capital of the Bank for the purposes of BNM's capital adequacy ratio requirements; or
  (c) redemption of the NCPCS on the optional redemption date.
(iv) the deferral of any interest on the Sub-Notes; or
(v) the Bank is in breach of BNM's minimum capital adequacy ratio requirements; or
(vi) the commencement of winding up proceeding in respect of the Bank or PBFIN; or
(vii) the appointment of an administrator in connection with the restructuring of the Bank or PBFIN; or
(viii) the occurrence of the optional redemption date; or
(ix) PBFIN ceases to be, directly or indirectly, a wholly-owned subsidiary company of the Bank.

The Bank will not be able to pay any dividends to its shareholders or make any interest payments on any securities ranking pari passu with or junior to the NCPCS or acquire any of its ordinary shares or redeem any securities ranking pari passu with or junior to the NCPCS (collectively referred to as the "Dividend and Capital Stopper") if, following the occurrence of an assignment event, the Bank does not pay a distribution on the NCPCS on its due date for payment. The Dividend and Capital Stopper will only cease to be effective upon the resumption of payments of distribution on the NCPCS for a continuous period of one (1) year.

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

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

The NCPCS qualify as Non-Innovative Tier I Capital Instruments. In line with the transitional arrangements of the BNM's Capital Adequacy Framework (Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank, the NCPCS issued prior to 31 December 2012 will qualify as Tier I capital but are subject to a gradual phase-out treatment with effective from 1 January 2013.

## 22. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONT'D.)

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

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

## 23. OTHER LIABILITIES

| | Group | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Interest/Income payable | **1,186,739** | 1,102,170 | 866,442 |
| Other payables and accruals | **2,351,233** | 2,120,839 | 2,218,605 |
| Amount due to trust funds* | **66,534** | 46,656 | 65,013 |
| Unprocessed sales and/or redemptions# | **118,778** | 127,505 | 50,798 |
| Profit Equalisation Reserve of the investment account holder | **–** | 265 | – |
| Finance lease liabilities** | **26,484** | 60,723 | 93,779 |
| Outstanding contracts on clients' accounts^ | **255,125** | 199,195 | 249,464 |
| Dividend payable to shareholders | **15,523** | 12,896 | 16,143 |
| | **4,020,416** | 3,670,249 | 3,560,244 |

| | Bank | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Interest/Income payable | **1,009,164** | 935,099 | 748,209 |
| Other payables and accruals | **1,803,877** | 1,565,466 | 1,595,561 |
| Finance lease liabilities** | **26,484** | 60,723 | 93,779 |
| Dividend payable to shareholders | **1,866** | 2,461 | 2,933 |
| Amount due to subsidiary companies@ | **4,200** | 15,139 | 17,373 |
| | **2,845,591** | 2,578,888 | 2,457,855 |

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

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

## 23. OTHER LIABILITIES (CONT'D.)

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

| | 31 December 2013 | | |
|---|---|---|---|
| | Future Minimum Lease Payments RM'000 | Future Finance Charges RM'000 | Present Value of Finance Lease Liabilities RM'000 |
| Less than one year | **26,953** | **469** | **26,484** |

| | 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 |

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.

## 24. EMPLOYEE BENEFITS

### (a) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a defined benefit plan known as the Public Bank Group Officers' Retirement Benefits Fund ("the Fund") for its eligible employees. Under the Fund, eligible employees are entitled to one month of the final or last drawn salary for each completed year of service with the Group upon attainment of retirement age. Effective from 1 July 2013, the normal retirement age was raised from 55 years to 60 years in accordance with Malaysia's Minimum Retirement Age Act 2012, and an optional retirement age, from 55 years to anytime prior to 60 years was introduced. For employees who leave before the attainment of the normal retirement age or the optional retirement age, the retirement benefit will be computed based on the scale rate stipulated in the rules of the Fund. The deed of variation to effect these changes is pending the approval of the Inland Revenue Board.

The defined benefit plan is a tax exempt fund, fully funded by the Bank and certain subsidiary companies which are participating companies of the plan. Employees are not required to contribute to the plan. The funding requirements are based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions as set out below. The latest actuarial valuation for funding purposes was made as at 31 December 2012 by Actuarial Partners Consulting Sdn. Bhd.

As at 31 December 2013, the plan is in surplus of RM294,339,000 and no contributions are required to be made to the plan in the forthcoming financial year by the Group and the Bank. However, should there be a significant fall in value of the asset portfolio of the plan, an actuarial valuation will be conducted to re-assess the funding requirement.

The assets of the Fund are held separately from the assets of the Group and the Bank and are administered by a board of trustees. There are three (3) trustees currently, one (1) of whom is a member of the Board of Directors of the Bank and the remaining two (2) trustees are members of senior management of the Bank.

The defined benefit plan exposes the Group and the Bank to actuarial risks such as market (investment) risk, interest rate risk and salary risk. Market risk arises from investments delivering an inadequate return; changes in interest rate would affect the cost of borrowings as well as valuation of plan obligations; salary risk arises from higher than expected salary increase leading to higher plan obligations.

The investments of the plan comply with the requirement of the income tax ruling for tax exempt funds that 80% of the plan assets (gross) are invested in specified assets with at least 20% of plan assets (gross) in government issued securities. The strategic investment policy of the defined benefit plan can be summarised as plan asset mix based on 20% to 30% of investment properties, 20% to 25% of government securities and 45% to 60% in a combination of equities, unit trusts and cash.

Compliance with investment policies are reported quarterly to the Board of Trustees.

A reconciliation of the opening balance of net assets is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013<br>RM'000** | **2012<br>RM'000** | **2013<br>RM'000** | **2012<br>RM'000** |
| At 1 January | | | | |
| – as previously stated | **99,723** | 92,709 | **96,303** | 89,527 |
| – effects of adoption of MFRS 119 | **99,356** | 120,672 | **95,948** | 116,534 |
| At 1 January, as restated | **199,079** | 213,381 | **192,251** | 206,061 |

## 24. EMPLOYEE BENEFITS (CONT'D.)

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

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

| | Group | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Present value of funded obligations | **(722,167)** | (626,318) | (490,348) |
| Fair value of plan assets | **1,016,506** | 825,397 | 703,729 |
| Net assets (Note 10) | **294,339** | 199,079 | 213,381 |

| | Bank | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Present value of funded obligations | **(702,379)** | (604,835) | (473,529) |
| Fair value of plan assets | **988,685** | 797,086 | 679,590 |
| Net assets (Note 10) | **286,306** | 192,251 | 206,061 |

## 24. EMPLOYEE BENEFITS (CONT'D.)

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

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000 (Restated)** | **2013 RM'000** | **2012 RM'000 (Restated)** |
| Obligation at 1 January | | | | |
| – as previously stated | **522,794** | 490,348 | **504,862** | 473,529 |
| – effects of adoption of MFRS 119 | **103,524** | – | **99,973** | – |
| Obligation at 1 January, as restated | **626,318** | 490,348 | **604,835** | 473,529 |
| Recognised in the statement of profit or loss | | | | |
| – current service cost | **46,340** | 32,770 | **45,070** | 31,646 |
| – interest cost | **32,336** | 29,708 | **31,450** | 28,689 |
| – past service cost | **41,086** | 30,125 | **39,960** | 29,091 |
| – allocation adjustment | **–** | – | **4,322** | – |
| Benefits paid – the Fund | **(23,913)** | (33,841) | **(23,258)** | (32,680) |
| Remeasurements recognised in other comprehensive income | | | | |
| – effects of changes in demographic assumptions | **–** | 33,612 | **–** | 32,459 |
| – effects of changes in financial assumptions | **–** | 43,596 | **–** | 42,101 |
| Obligation at 31 December | **722,167** | 626,318 | **702,379** | 604,835 |

## 24. EMPLOYEE BENEFITS (CONT'D.)

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

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 (Restated) |
| Fair value at 1 January | **825,397** | 703,729 | **797,086** | 679,590 |
| Recognised in the statement of profit or loss | | | | |
| – interest income | **42,788** | 42,925 | **41,615** | 41,453 |
| – allocation adjustment | **–** | – | **5,695** | – |
| Benefits paid – the Fund | **(23,913)** | (33,841) | **(23,258)** | (32,680) |
| Remeasurements recognised in other comprehensive income | | | | |
| – return on plan assets (excluding amounts included in interest income) | **172,234** | 112,584 | **167,547** | 108,723 |
| Fair value at 31 December | **1,016,506** | 825,397 | **988,685** | 797,086 |

The fair value of plan assets constitutes the following:

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Deposit placements and cash | | **100,007** | 11 | **97,267** | 11 |
| Government Securities | | **428,949** | 522,603 | **417,236** | 504,678 |
| Quoted equity securities | (i) | **788,081** | 643,431 | **766,488** | 621,361 |
| Unit trust funds | (ii) | **342,900** | 317,794 | **333,496** | 306,894 |
| Properties | (iii) | **485,073** | 426,160 | **471,781** | 411,543 |
| Plan assets (gross) | | **2,145,010** | 1,909,999 | **2,086,268** | 1,844,487 |
| Other assets/(liabilities) (net) | | **(6,191)** | (3,376) | **(6,021)** | (3,260) |
| Borrowings | | **(1,122,313)** | (1,081,226) | **(1,091,562)** | (1,044,141) |
| | | **1,016,506** | 825,397 | **988,685** | 797,086 |

## 24. EMPLOYEE BENEFITS (CONT'D.)

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

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Financial institutions* | **512,568** | 429,722 | **498,524** | 414,982 |
| Insurance companies | **181,817** | 151,584 | **176,835** | 146,385 |
| Property companies | **92,942** | 61,486 | **90,396** | 59,377 |
| Commercial/trading companies | **630** | 515 | **612** | 497 |
| Others | **124** | 124 | **121** | 120 |
| | **788,081** | 643,431 | **766,488** | 621,361 |

* Included in the fair value of equity securities of the Fund are ordinary shares of the Bank with a fair value of RM510,245,000 (31 December 2012 – RM427,628,000).

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Equity funds | **110,162** | 95,159 | **107,144** | 91,895 |
| Bond funds | **162,456** | 157,754 | **158,005** | 152,343 |
| Balanced funds | **54,870** | 49,946 | **53,357** | 48,233 |
| Dividend funds | **15,412** | 14,935 | **14,990** | 14,423 |
| | **342,900** | 317,794 | **333,496** | 306,894 |

## 24. EMPLOYEE BENEFITS (CONT'D.)

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

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Terraced shop offices | **438,953** | 380,375 | **426,925** | 367,328 |
| Stratified office lots | **28,400** | 28,400 | **27,622** | 27,426 |
| Commercial buildings | **16,750** | 16,450 | **16,291** | 15,886 |
| Residential buildings | **970** | 935 | **943** | 903 |
| | **485,073** | 426,160 | **471,781** | 411,543 |

* All the properties held as plan assets of the Group and the Bank are occupied by the Bank and certain subsidiary companies of the Group. Certain floors in the commercial buildings and terrace shop offices are tenanted by external parties of which they contributed about 2.5% of the total rental income from properties.

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 (Restated) |
| Current service cost | **46,340** | 32,770 | **45,070** | 31,646 |
| Interest cost | **32,336** | 29,708 | **31,450** | 28,689 |
| Interest income | **(42,788)** | (42,925) | **(41,615)** | (41,453) |
| Past service cost | **41,086** | 30,125 | **39,960** | 29,091 |
| Allocation adjustment | **–** | – | **(1,373)** | – |
| Amount included under "personnel costs" (Note 35(a)) | **76,974** | 49,678 | **73,492** | 47,973 |

## 24. EMPLOYEE BENEFITS (CONT'D.)

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

Actual return on plan assets are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Interest income on plan assets | **42,788** | 42,925 | **41,615** | 41,453 |
| Remeasurements on plan assets | **172,234** | 112,584 | **167,547** | 108,723 |
| Actual return on plan assets | **215,022** | 155,509 | **209,162** | 150,176 |

(i) Actuarial Assumptions

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

| | Group and Bank | | |
|---|---|---|---|
| | **31 December 2013** | **31 December 2012** | **1 January 2012** |
| Discount rate | **5.25%** | 5.25% | 6.25% |
| Expected rate of salary increases | **7.00%** | 7.00% | 7.00% |

The discount rate used in the actuarial assumptions is based on a blend of yields of long term high quality corporate bonds. The expected rate of salary increases takes into account the increases in salaries from factors such as inflation, productivity and promotions.

The principal actuarial assumptions are based on the latest actuarial valuation performed as of 31 December 2012.

As at 31 December 2012, the weighted average duration of the defined benefit obligation was 9.0 years.

## 24. EMPLOYEE BENEFITS (CONT'D.)

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

(ii) Sensitivity Analysis

The effect of changes in the principal actuarial assumptions on the present value of funded obligations as at 31 December 2013 are as follows:

| | 31 December 2013 Sensitivity | |
|---|---|---|
| | +1% RM'000 | -1% RM'000 |
| (Decrease)/increase of present value of funded obligations: | | |
| – Discount rate | (69,368) | 86,310 |
| – Expected salary | 92,960 | (76,765) |

The sensitivity analysis presented above may not be representative of the actual change in the present value of funded obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

### (b) Equity Compensation Benefits

**Public Financial Holdings Limited Group 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.

## 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:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of share options '000 | Weighted average exercise price HKD | Number of share options '000 | Weighted average exercise price HKD |
| At 1 January | **25,375** | **6.35** | 26,413 | 6.35 |
| Lapsed | **(1,010)** | **6.35** | (1,038) | 6.35 |
| At 31 December | **24,365** | **6.35** | 25,375 | 6.35 |
| Options exercisable at end of financial year | **24,365** | **6.35** | 25,375 | 6.35 |
| Weighted average share price during the financial year | | **3.83** | | 3.28 |

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 | 24,365 |

The weighted average remaining contractual maturity of the PFHL ESOS outstanding as at the end of the financial year was 1.44 years (31 December 2012 – 2.44 years).

There were no new PFHL ESOS granted during the financial year (2012 - Nil). All share options issued have been vested prior to 1 January 2006 and, as allowed by the transitional provisions in MFRS 2 Share-based Payments, the recognition and measurement principles in MFRS 2 have not been applied.

## 25. PROVISION FOR TAX EXPENSE AND ZAKAT

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Tax expense | **584,901** | 739,954 | **362,971** | 522,088 |
| Zakat | **328** | 329 | **–** | – |
| | **585,229** | 740,283 | **362,971** | 522,088 |

## 26. SHARE CAPITAL

| | Number of Ordinary Shares of RM1.00 Each | | Amount | |
|---|---|---|---|---|
| **Group and Bank** | 31 December 2013 '000 | 31 December 2012 '000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Authorised: | | | | |
| Ordinary shares of RM1.00 each | **10,000,000** | 10,000,000 | **10,000,000** | 10,000,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of RM1.00 each | **3,531,926** | 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 2012 – Nil). The PBB Shares bought back in the previous years are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965.

None of the treasury shares held were resold or cancelled during the financial year.

Of the total 3,531,925,834 (31 December 2012 – 3,531,925,834) issued and paid-up PBB Shares as at 31 December 2013, 29,800,704 (31 December 2012 – 29,800,704) PBB Shares are held as treasury shares by the Bank. Treasury shares have no rights to voting, dividends and participation in other distribution. As at 31 December 2013, the number of outstanding PBB Shares in issue after the set-off is therefore 3,502,125,130 (31 December 2012 – 3,502,125,130) ordinary shares of RM1.00 each.

## 28. OTHER RESERVES

| Group | Statutory Reserves RM'000 | Capital Reserves RM'000 | Foreign Currency Translation Reserves RM'000 | Hedging Reserves RM'000 | Revaluation Reserves RM'000 | Defined Benefit Reserves RM'000 | Regulatory Reserves RM'000 | General Reserves RM'000 | Profit Equalisation Reserves RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | | | | | | | | | |
| – as previously stated | 3,860,847 | 60,442 | (84,632) | (6,484) | 14,197 | – | 127,075 | 128,664 | 503 | 4,100,612 |
| – effects of adoption of MFRS 119 (Note 53) | – | – | – | – | – | 253,255 | – | – | – | 253,255 |
| At 1 January 2013, as restated | 3,860,847 | 60,442 | (84,632) | (6,484) | 14,197 | 253,255 | 127,075 | 128,664 | 503 | 4,353,867 |
| Net currency translation differences: | | | | | | | | | | |
| – Currency translation differences in respect of | | | | | | | | | | |
| – foreign operations | – | – | 243,549 | – | – | – | – | – | – | 243,549 |
| – net investment hedge | – | – | (209,365) | – | – | – | – | – | – | (209,365) |
| | – | – | 34,184 | – | – | – | – | – | – | 34,184 |
| Net change in revaluation of financial investments available-for-sale: | | | | | | | | | | |
| – Net unrealised gain | – | – | – | – | 22,489 | – | – | – | – | 22,489 |
| – Net gain on disposal reclassified to the statement of profit or loss (Note 33) | – | – | – | – | (12,002) | – | – | – | – | (12,002) |
| | – | – | – | – | 10,487 | – | – | – | – | 10,487 |
| Net change in cash flow hedges: | | | | | | | | | | |
| – Net unrealised loss | – | – | – | (11,173) | – | – | – | – | – | (11,173) |
| – Net realised gain reclassified to the statement of profit or loss | – | – | – | (1,083) | – | – | – | – | – | (1,083) |
| | – | – | – | (12,256) | – | – | – | – | – | (12,256) |
| Gain on remeasurements of defined benefit plans (Note 24 (a)) | – | – | – | – | – | 172,234 | – | – | – | 172,234 |
| Deferred tax (Note 12) | – | – | – | 3,063 | (3,078) | (43,058) | – | – | – | (43,073) |
| Other comprehensive income/(loss) | – | – | 34,184 | (9,193) | 7,409 | 129,176 | – | – | – | 161,576 |
| Transferred from/(to) retained profits | 10,081 | – | – | – | – | – | 241 | 1,103 | (503) | 10,922 |
| At 31 December 2013 | 3,870,928 | 60,442 | (50,448) | (15,677) | 21,606 | 382,431 | 127,316 | 129,767 | – | 4,526,365 |

## 28. OTHER RESERVES (CONT'D.)

| Group | Statutory Reserves RM'000 | Capital Reserves RM'000 | Foreign Currency Translation Reserves RM'000 | Hedging Reserves RM'000 | Revaluation Reserves RM'000 | Defined Benefit Reserves RM'000 | Regulatory Reserves RM'000 | General Reserves RM'000 | Profit Equalisation Reserves RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 | | | | | | | | | | |
| – as previously stated | 3,851,106 | 60,442 | (83,987) | 2,339 | (28,455) | – | 126,823 | 127,746 | – | 4,056,014 |
| – effects of adoption of MFRS 119 (Note 53) | – | – | – | – | – | 226,723 | – | – | – | 226,723 |
| At 1 January 2012, as restated | 3,851,106 | 60,442 | (83,987) | 2,339 | (28,455) | 226,723 | 126,823 | 127,746 | – | 4,282,737 |
| Net currency translation differences: | | | | | | | | | | |
| – Currency translation differences in respect of | | | | | | | | | | |
| – foreign operations | – | – | (110,246) | – | – | – | – | – | – | (110,246) |
| – net investment hedge | – | – | 109,601 | – | – | – | – | – | – | 109,601 |
| | – | – | (645) | – | – | – | – | – | – | (645) |
| Net change in revaluation of financial investments available-for-sale: | | | | | | | | | | |
| – Net unrealised gain | – | – | – | – | 55,154 | – | – | – | – | 55,154 |
| – Net gain on disposal reclassified to the statement of profit or loss (Note 33) | – | – | – | – | (7,629) | – | – | – | – | (7,629) |
| – Impairment loss recognised in the statement of profit or loss (Note 38) | – | – | – | – | 3,533 | – | – | – | – | 3,533 |
| | – | – | – | – | 51,058 | – | – | – | – | 51,058 |
| Net change in cash flow hedges: | | | | | | | | | | |
| – Net unrealised loss | – | – | – | (11,748) | – | – | – | – | – | (11,748) |
| – Net realised gain reclassified to the statement of profit or loss | – | – | – | (16) | – | – | – | – | – | (16) |
| | – | – | – | (11,764) | – | – | – | – | – | (11,764) |
| Gain on remeasurements of defined benefit plans (Note 24 (a)) | – | – | – | – | – | 35,376 | – | – | – | 35,376 |
| Deferred tax (Note 12) | – | – | – | 2,941 | (8,406) | (8,844) | – | – | – | (14,309) |
| Other comprehensive (loss)/income | – | – | (645) | (8,823) | 42,652 | 26,532 | – | – | – | 59,716 |
| 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 | 253,255 | 127,075 | 128,664 | 503 | 4,353,867 |

## 28. OTHER RESERVES (CONT'D.)

| Bank | Statutory Reserves RM'000 | Hedging Reserves RM'000 | Revaluation Reserves RM'000 | Defined Benefit Reserves RM'000 | General Reserves RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| At 1 January 2013 | | | | | | |
| – as previously stated | 3,531,926 | (22,807) | 3,535 | – | 1,674 | 3,514,328 |
| – effects of adoption of MFRS 119 (Note 53) | – | – | – | 244,569 | – | 244,569 |
| At 1 January 2013, as restated | 3,531,926 | (22,807) | 3,535 | 244,569 | 1,674 | 3,758,897 |
| Net change in revaluation of financial investments available-for-sale: | | | | | | |
| – Net unrealised gain | – | – | 23,228 | – | – | 23,228 |
| – Net gain on disposal reclassified to the statement of profit or loss (Note 33) | – | – | (12,002) | – | – | (12,002) |
| | – | – | 11,226 | – | – | 11,226 |
| Net change in cash flow hedges: | | | | | | |
| – Net unrealised loss | – | (120,154) | – | – | – | (120,154) |
| – Net realised gain reclassified to the statement of profit or loss | – | (1,083) | – | – | – | (1,083) |
| | – | (121,237) | – | – | – | (121,237) |
| Gain on remeasurements of defined benefit plans (Note 24 (a)) | – | – | – | 167,547 | – | 167,547 |
| Deferred tax (Note 12) | – | 30,309 | (2,806) | (41,887) | – | (14,384) |
| Other comprehensive (loss)/income | – | (90,928) | 8,420 | 125,660 | – | 43,152 |
| Transferred from retained profits | – | – | – | – | 1,103 | 1,103 |
| At 31 December 2013 | 3,531,926 | (113,735) | 11,955 | 370,229 | 2,777 | 3,803,152 |

## 28. OTHER RESERVES (CONT'D.)

| Bank | Statutory Reserves RM'000 | Hedging Reserves RM'000 | Revaluation Reserves RM'000 | Defined Benefit Reserves RM'000 | General Reserves RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| At 1 January 2012 | | | | | | |
| – as previously stated | 3,531,926 | 2,339 | (19,715) | – | 756 | 3,515,306 |
| – effects of adoption of MFRS 119 (Note 53) | – | – | – | 218,947 | – | 218,947 |
| At 1 January 2012, as restated | 3,531,926 | 2,339 | (19,715) | 218,947 | 756 | 3,734,253 |
| Net change in revaluation of financial investments available-for-sale: | | | | | | |
| – Net unrealised gain | – | – | 35,096 | – | – | 35,096 |
| – Net gain on disposal reclassified to the statement of profit or loss (Note 33) | – | – | (7,629) | – | – | (7,629) |
| – Impairment loss recognised in the statement of profit or loss (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 the statement of profit or loss | – | (16) | – | – | – | (16) |
| | – | (33,528) | – | – | – | (33,528) |
| Gain on remeasurements of defined benefit plans (Note 24 (a)) | – | – | – | 34,163 | – | 34,163 |
| Deferred tax (Note 12) | – | 8,382 | (7,750) | (8,541) | – | (7,909) |
| Other comprehensive (loss)/income | – | (25,146) | 23,250 | 25,622 | – | 23,726 |
| Transferred from retained profits | – | – | – | – | 918 | 918 |
| At 31 December 2012 | 3,531,926 | (22,807) | 3,535 | 244,569 | 1,674 | 3,758,897 |

## 28. OTHER RESERVES (CONT'D.)

The statutory reserves of the Group and the Bank are maintained in compliance with Section 47(2)(f) of the Financial Services Act 2013 and Section 57(2)(f) of the Islamic Financial Services Act 2013 and are not distributable as cash dividends.

The capital reserves of the Group arose mainly from the capitalisation of retained profits that resulted from bonus issues by subsidiary companies and the restructuring exercise involving certain subsidiary companies undertaken by the Group in previous years.

The foreign currency translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiary companies and the subsidiary companies incorporated in the Federal Territory of Labuan, after offsetting the impact of the effective portion of net investment hedges.

The hedging reserves are in respect of the effective portion of unrealised fair value gains and losses on cash flow hedging instruments.

The revaluation reserves are in respect of unrealised fair value gains and losses on financial investments available-for-sale, after offsetting the impact of related fair value hedges.

The defined benefit reserves are in respect of remeasurements of the net defined benefit assets/liabilities.

The regulatory reserves 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.

## 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.

## 30. INTEREST INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Loans and advances | **9,596,439** | 8,856,696 | **8,757,158** | 8,061,363 |
| Balances with banks | **704,391** | 426,060 | **660,613** | 401,149 |
| Financial investments available-for-sale | **291,585** | 334,649 | **284,662** | 322,696 |
| Financial investments held-to-maturity | **249,862** | 262,287 | **174,990** | 187,645 |
| Others | **138,024** | 112,680 | **138,008** | 112,660 |
| | **10,980,301** | 9,992,372 | **10,015,431** | 9,085,513 |
| Financial assets held-for-trading | **385,791** | 411,869 | **352,989** | 380,085 |
| | **11,366,092** | 10,404,241 | **10,368,420** | 9,465,598 |

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 RM53,248,000 (2012 – RM52,143,000) and RM49,829,000 (2012 – RM49,523,000) respectively.

## 31. INTEREST EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Deposits from banks | **340,789** | 238,319 | **312,498** | 211,251 |
| Deposits from customers | **5,067,506** | 4,508,322 | **4,881,538** | 4,316,230 |
| Loans sold to Cagamas | **23** | 360 | **23** | 360 |
| Debt securities issued and other borrowed funds | **381,161** | 392,429 | **368,931** | 379,336 |
| Others | **6,075** | 10,166 | **5,836** | 9,901 |
| | **5,795,554** | 5,149,596 | **5,568,826** | 4,917,078 |

## 32. NET FEE AND COMMISSION INCOME AND EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Fee and commission income: | | | | |
| Commissions | **389,199** | 352,019 | **451,183** | 391,719 |
| Service charges and fees | **271,588** | 270,639 | **205,653** | 203,307 |
| Guarantee fees | **33,517** | 32,599 | **30,507** | 29,574 |
| Processing fees | **15,400** | 14,868 | **4,451** | 3,325 |
| Commitment fees | **61,445** | 60,443 | **58,384** | 57,700 |
| Unit trust management fees | **704,511** | 609,936 | **–** | – |
| Fee on sale of trust units | **313,801** | 260,302 | **–** | – |
| Net brokerage and commissions from stock-broking activities | **80,053** | 75,509 | **–** | – |
| Other fee and commission income | **38,896** | 49,342 | **30,253** | 39,743 |
| | **1,908,410** | 1,725,657 | **780,431** | 725,368 |
| Fee and commission expense: | | | | |
| Loan-related fees | **(253,359)** | (227,974) | **(249,255)** | (224,074) |
| Unit trust agency fees | **(362,290)** | (313,112) | **–** | – |
| Other fee and commission expense | **(17,416)** | (19,258) | **(10,933)** | (11,269) |
| | **(633,065)** | (560,344) | **(260,188)** | (235,343) |
| Net fee and commission income | **1,275,345** | 1,165,313 | **520,243** | 490,025 |

## 33. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013<br>RM'000 | 2012<br>RM'000 | 2013<br>RM'000 | 2012<br>RM'000 |
| Net gain/(loss) arising on financial assets held-for-trading: | | | | |
| – net gain on disposal | **9,839** | 12,562 | **10,235** | 12,148 |
| – gross dividend income | **12** | 38 | **12** | 38 |
| – unrealised revaluation loss | **(9,238)** | (3,330) | **(9,243)** | (3,312) |
| | **613** | 9,270 | **1,004** | 8,874 |
| Net (loss)/gain arising on trading derivatives: | | | | |
| – net (loss)/gain on disposal | **(5,864)** | 772 | **(5,864)** | 772 |
| – unrealised revaluation gain | **11,569** | 3,222 | **12,239** | 5,733 |
| | **5,705** | 3,994 | **6,375** | 6,505 |
| Net gain arising on financial investments available-for-sale: | | | | |
| – net gain on disposal (Note 28) | **12,002** | 7,629 | **12,002** | 7,629 |
| – gross dividend income | **145,960** | 151,033 | **140,802** | 146,287 |
| | **157,962** | 158,662 | **152,804** | 153,916 |
| Gain/(loss) representing ineffective portions of hedging derivatives: | | | | |
| – fair value hedge (Note 6) | **2,131** | (1,726) | **2,106** | (1,129) |
| – cash flow hedge (Note 6) | **572** | 44 | **572** | 44 |
| | **2,703** | (1,682) | **2,678** | (1,085) |
| | **166,983** | 170,244 | **162,861** | 168,210 |

## 34. OTHER OPERATING INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Gross dividend income from: | | | | |
| Associated companies | – | – | 6,460 | 4,783 |
| Subsidiary companies: | | | | |
| – quoted outside Malaysia | – | – | 53,881 | 45,043 |
| – unquoted in Malaysia | – | – | 699,705 | 808,037 |
| | – | – | 760,046 | 857,863 |
| Other income: | | | | |
| Foreign exchange profit | 232,844 | 225,445 | 163,852 | 252,661 |
| Rental income from: | | | | |
| – investment properties (Note 15) | 6,068 | 5,490 | – | – |
| – other properties | 14,981 | 14,392 | 11,559 | 11,307 |
| Net gain/(loss) on disposal of property and equipment | 500 | (446) | 579 | (425) |
| Net gain on disposal of foreclosed properties | 2,657 | 7,938 | 2,657 | 7,938 |
| Gain on revaluation of investment properties (Note 15) | 2,547 | 23,877 | – | – |
| Others | 48,718 | 36,045 | 36,365 | 25,765 |
| | 308,315 | 312,741 | 215,012 | 297,246 |
| | 308,315 | 312,741 | 975,058 | 1,155,109 |

## 35. OTHER OPERATING EXPENSES

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000 (Restated)** | **2013 RM'000** | **2012 RM'000 (Restated)** |
| Personnel costs | | | | |
| – Salaries, allowances and bonuses | **1,388,845** | 1,347,450 | **1,088,897** | 1,052,631 |
| – Pension costs | **232,668** | 201,843 | **208,398** | 180,811 |
| – Others | **123,095** | 118,761 | **107,639** | 103,969 |
| | **1,744,608** | 1,668,054 | **1,404,934** | 1,337,411 |
| Establishment costs | | | | |
| – Depreciation | **161,188** | 167,253 | **127,694** | 135,515 |
| – Rental | **93,803** | 84,962 | **87,416** | 81,657 |
| – Insurance | **21,806** | 20,293 | **16,641** | 15,833 |
| – Water and electricity | **44,530** | 43,674 | **33,359** | 32,166 |
| – General repairs and maintenance | **72,558** | 74,044 | **63,842** | 66,073 |
| – Information technology expenses | **27,896** | 26,475 | **14,905** | 14,521 |
| – Others | **44,875** | 37,233 | **33,486** | 27,143 |
| | **466,656** | 453,934 | **377,343** | 372,908 |
| Marketing expenses | | | | |
| – Advertisement and publicity | **63,289** | 74,352 | **24,550** | 25,153 |
| – Others | **84,109** | 77,645 | **39,893** | 43,148 |
| | **147,398** | 151,997 | **64,443** | 68,301 |
| Administration and general expenses | | | | |
| – Communication expenses | **38,899** | 38,724 | **34,129** | 30,328 |
| – Legal and professional fees | **43,399** | 43,654 | **32,336** | 33,936 |
| – Others | **62,676** | 61,227 | **38,673** | 30,074 |
| | **144,974** | 143,605 | **105,138** | 94,338 |
| Shared service cost charged to Public Islamic Bank Berhad | **–** | – | **(241,174)** | (221,688) |
| Total other operating expenses | **2,503,636** | 2,417,590 | **1,710,684** | 1,651,270 |

## 35. OTHER OPERATING EXPENSES (CONT'D.)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 (Restated) |
| Auditors' remuneration*: | | | | |
| – statutory audit fees | **3,267** | 3,129 | **1,232** | 1,193 |
| – audit related services | **752** | 548 | **327** | 282 |
| – other services | **167** | 480 | **74** | 408 |
| Depreciation of property and equipment (Note 16) | **161,188** | 167,253 | **127,694** | 135,515 |
| Direct operating expenses of investment properties that: | | | | |
| – generated rental income | **41** | 41 | **–** | – |
| Directors' remuneration (Note 36) | **51,683** | 44,661 | **40,244** | 34,130 |
| Pension costs | | | | |
| – defined contribution plan | **155,694** | 152,165 | **134,906** | 132,838 |
| – defined benefit plan (Note 24(a)) | **76,974** | 49,678 | **73,492** | 47,973 |
| Property and equipment written off (Note 16) | **527** | 1,082 | **490** | 1,064 |
| Rental of premises | **93,803** | 84,962 | **87,416** | 81,657 |

* 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 RM1,665,000 (2012 – RM1,553,000), RM345,000 (2012 – RM211,000) and RM51,000 (2012 – RM39,000) 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 RM202,000 (2012 – RM163,000), RM14,000 (2012 – RM14,000) and RM13,000 (2012 – RM11,000) 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 17,924 (2012 – 17,625) and 14,580 (2012 – 14,430) respectively.

## 36. DIRECTORS' REMUNERATION

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| **Directors of the Bank:** | | | | |
| Executive Directors: | | | | |
| Fees | **1,326** | 1,271 | **452** | 430 |
| Salary and other remuneration, including meeting allowances | **7,649** | 6,943 | **7,525** | 6,783 |
| Bonuses | **11,000** | 9,707 | **11,000** | 9,707 |
| Benefits-in-kind | **72** | 75 | **72** | 75 |
| | **20,047** | 17,996 | **19,049** | 16,995 |
| Non-Executive Directors: | | | | |
| Fees | **4,293** | 3,860 | **2,017** | 1,744 |
| Other remuneration | **20,114** | 16,306 | **19,250** | 15,457 |
| Benefits-in-kind | **32** | 33 | **32** | 33 |
| | **24,439** | 20,199 | **21,299** | 17,234 |
| Past Director: | | | | |
| Other remuneration | **–** | 9 | **–** | 9 |
| **Directors of subsidiary companies:** | | | | |
| Executive Directors: | | | | |
| Fees | **350** | 317 | **–** | – |
| Salary and other remuneration, including meeting allowances | **3,402** | 3,207 | **–** | – |
| Bonuses | **2,847** | 2,381 | **–** | – |
| Benefits-in-kind | **438** | 402 | **–** | – |
| | **7,037** | 6,307 | **–** | – |
| Non-Executive Directors: | | | | |
| Fees | **523** | 488 | **–** | – |
| Other remuneration | **179** | 172 | **–** | – |
| | **702** | 660 | **–** | – |
| Grand total | **52,225** | 45,171 | **40,348** | 34,238 |
| Total (excluding benefits-in-kind) (Note 35) | **51,683** | 44,661 | **40,244** | 34,130 |

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 RM11,142,000 (2012 – RM9,552,000).

## 36. DIRECTORS' REMUNERATION (CONT'D.)

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

| | Remuneration Received from the Bank | | | | | | Remuneration Received from Subsidiary Companies | | |
|---|---|---|---|---|---|---|---|---|---|
| 2013 | 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 | Group Total RM'000 |
| **Executive Directors:** | | | | | | | | | |
| Tan Sri Dato' Sri Tay Ah Lek | 2,340 | 236 | 6,575 | 1,954 | 37 | 11,142 | 512 | 79 | 11,733 |
| Dato' Sri Lee Kong Lam# | 1,788 | 216 | 4,425 | 1,443 | 35 | 7,907 | 362 | 45 | 8,314 |
| | 4,128 | 452 | 11,000 | 3,397 | 72 | 19,049 | 874 | 124 | 20,047 |
| **Non-Executive Directors:** | | | | | | | | | |
| Tan Sri Dato' Sri Dr. Teh Hong Piow | – | 320 | – | 17,891 | 32 | 18,243 | 645 | 48 | 18,936 |
| Tan Sri Datuk Seri Utama Thong Yaw Hong | – | 320 | – | 464 | – | 784 | 563 | 195 | 1,542 |
| Dato' Sri Lee Kong Lam^ | – | 20 | – | 13 | – | 33 | 33 | 37 | 103 |
| Dato' Yeoh Chin Kee | – | 236 | – | 148 | – | 384 | 126 | 123 | 633 |
| Dato' Haji Abdul Aziz bin Dato' Dr. Omar | – | 236 | – | 200 | – | 436 | 336 | 189 | 961 |
| Quah Poh Keat* | – | 177 | – | 124 | – | 301 | 437 | 135 | 873 |
| Tang Wing Chew | – | 236 | – | 146 | – | 382 | 116 | 123 | 621 |
| Lai Wan | – | 236 | – | 133 | – | 369 | 15 | 8 | 392 |
| Lai Wai Keen | – | 236 | – | 131 | – | 367 | 6 | 5 | 378 |
| | – | 2,017 | – | 19,250 | 32 | 21,299 | 2,277 | 863 | 24,439 |
| Total Directors' remuneration | 4,128 | 2,469 | 11,000 | 22,647 | 104 | 40,348 | 3,151 | 987 | 44,486 |

# This represents the remuneration paid to this Director from 1 January 2013 as an Executive Director until his redesignation as Non-Independent Non-Executive Director on 28 November 2013.

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

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

## 36. DIRECTORS' REMUNERATION (CONT'D.)

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

| | Remuneration Received from the Bank | | | | | | Remuneration Received from Subsidiary Companies | | |
|---|---|---|---|---|---|---|---|---|---|
| 2012 | 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 | Group Total 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 |

## 37. ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Allowance for impaired loans and financing: | | | | |
| Collective assessment allowance (Note 9) | **340,289** | 279,199 | **219,966** | 187,119 |
| – Retail loans/financing | | | | |
| – housing loans/financing | **16,495** | 29,258 | **5,547** | 21,826 |
| – hire purchase | **240,540** | 160,147 | **171,804** | 115,362 |
| – credit cards | **40,286** | 37,193 | **40,279** | 37,166 |
| – other loans/financing | **41,603** | 54,998 | **1,002** | 13,020 |
| – Corporate loans/financing | **1,365** | (2,397) | **1,334** | (255) |
| Individual assessment allowance (Note 9) | **225,747** | 194,865 | **8,864** | (2,870) |
| – Retail loans/financing | | | | |
| – housing loans/financing | **95** | 548 | **–** | 486 |
| – hire purchase | **261** | 1,002 | **–** | – |
| – other loans/financing | **225,146** | 205,979 | **8,357** | 11,830 |
| – Corporate loans/financing | **245** | (12,664) | **507** | (15,186) |
| Bad debts recovered from stock-broking activities | **(2)** | (39) | **–** | – |
| Impaired loans and financing written off | **644** | 871 | **554** | 692 |
| Impaired loans and financing recovered | **(215,426)** | (195,652) | **(128,779)** | (107,934) |
| | **351,252** | 279,244 | **100,605** | 77,007 |

## 38. (WRITEBACK OF IMPAIRMENT)/IMPAIRMENT ON OTHER ASSETS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Financial investments available-for-sale | | | | |
| – Non-money market instruments | | | | |
| – equity securities (Note 7 and 28) | **–** | 3,533 | **–** | 3,533 |
| Foreclosed properties | **(149)** | 3,093 | **(165)** | 3,068 |
| | **(149)** | 6,626 | **(165)** | 6,601 |

## 39. TAX EXPENSE AND ZAKAT

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated) | 2013 RM'000 | 2012 RM'000 (Restated) |
| Malaysian income tax | 1,168,309 | 1,151,748 | 956,324 | 939,774 |
| Overseas income tax | 65,424 | 59,853 | 8,983 | 7,794 |
| | 1,233,733 | 1,211,601 | 965,307 | 947,568 |
| (Over)/Under provision in prior years | | | | |
| – Malaysian income tax | (3,337) | 7,173 | (4,214) | 6,090 |
| – Overseas income tax | 420 | 3,332 | 60 | (1,411) |
| | 1,230,816 | 1,222,106 | 961,153 | 952,247 |
| Deferred tax expense/(income) (Note 12) | | | | |
| – Relating to origination and reversal of temporary differences arising from: | | | | |
| – allowance for losses on loans/financing | 2,441 | (978) | – | – |
| – tax losses | 48 | 68 | – | – |
| – excess/(shortfall) of capital allowance over depreciation | 1,121 | (3,819) | 1,437 | (5,638) |
| – defined benefit plan | (19,251) | (12,459) | (18,381) | (12,010) |
| – other temporary differences | (14,391) | (17,266) | (5,849) | (14,120) |
| | (30,032) | (34,454) | (22,793) | (31,768) |
| – under/(over) provision | 3,294 | (9,990) | 3,157 | (992) |
| | (26,738) | (44,444) | (19,636) | (32,760) |
| Tax expense | 1,204,078 | 1,177,662 | 941,517 | 919,487 |
| Zakat | 264 | 330 | – | – |
| | 1,204,342 | 1,177,992 | 941,517 | 919,487 |

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.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| **Tax savings arising from tax losses** | | | | |
| Tax savings arising from utilisation of tax losses | 2 | 2 | – | – |

## 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:

| Group | % | 2013 RM'000 | % | 2012 RM'000 (Restated) |
|---|---|---|---|---|
| Profit before tax expense | | **5,309,984** | | 5,047,234 |
| Income tax using Malaysian tax rate of 25% | **25.0** | **1,327,496** | 25.0 | 1,261,809 |
| Effects of different tax rates in foreign jurisdictions | **(0.5)** | **(24,272)** | (0.9) | (42,715) |
| Income not subject to tax | **(1.9)** | **(102,539)** | (1.9) | (95,605) |
| Effects of utilisation of unrecognised benefit of tax losses | **–** | **(2)** | – | (2) |
| Expenses not deductible for tax purposes | **0.6** | **30,114** | 0.8 | 38,684 |
| (Loss)/gain subject to tax at Bank but eliminated at Group | **(0.5)** | **(27,096)** | 0.3 | 14,976 |
| | **22.7** | **1,203,701** | 23.3 | 1,177,147 |
| Under provision in prior years | **–** | **377** | – | 515 |
| Tax expense for the year | **22.7** | **1,204,078** | 23.3 | 1,177,662 |

| Bank | % | 2013 RM'000 | % | 2012 RM'000 (Restated) |
|---|---|---|---|---|
| Profit before tax expense | | **4,646,632** | | 4,626,986 |
| Income tax using Malaysian tax rate of 25% | **25.0** | **1,161,658** | 25.0 | 1,156,747 |
| Income not subject to tax | **(5.1)** | **(238,407)** | (5.7) | (263,743) |
| Expenses not deductible for tax purposes | **0.4** | **19,263** | 0.5 | 22,796 |
| | **20.3** | **942,514** | 19.8 | 915,800 |
| (Over)/under provision in prior years | **–** | **(997)** | 0.1 | 3,687 |
| Tax expense for the year | **20.3** | **941,517** | 19.9 | 919,487 |

## 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 | |
|---|---|---|---|---|
| | 2013 | 2012 (Restated) | 2013 | 2012 (Restated) |
| Net profit attributable to equity holders of the Bank (RM'000) | 4,064,683 | 3,826,754 | 3,705,115 | 3,707,499 |
| '000 | | | | |
| Number of ordinary shares at beginning/end of the year | 3,502,125 | 3,502,125 | 3,502,125 | 3,502,125 |
| Basic earnings per share (sen) | 116.1 | 109.3 | 105.8 | 105.9 |

### (b) Diluted Earnings Per Share

The Group and the Bank have no dilution in their earnings per ordinary share as there are no dilutive potential ordinary shares.

## 41. DIVIDENDS

| | Group and Bank | |
|---|---|---|
| | **2013 RM'000** | **2012 RM'000** |
| Dividends recognised as distribution to ordinary equity holders of the Bank: | | |
| First interim single tier dividend of 22.0% (2012 – 20.0%) in respect of the financial year ended 31 December 2013 | **770,467** | 700,425 |
| Second interim single tier dividend of 30.0% (2011 – 28.0%) in respect of the financial year ended 31 December 2012 | **1,050,638** | 980,595 |
| | **1,821,105** | 1,681,020 |

Subsequent to the financial year end, on 5 February 2014, 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 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 2014. The Directors do not propose any final dividend in respect of the financial year ended 31 December 2013.

## 41. DIVIDENDS (CONT'D.)

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

| | Group and Bank Dividend per share | |
|---|---|---|
| | **2013 Sen** | **2012 Sen** |
| Dividends per RM1.00 ordinary share: | | |
| Paid: | | |
| First interim single tier dividend of 22.0% (2012 – 20.0%) | **22.00** | 20.00 |
| Declared subsequent to the financial year end: | | |
| Second interim single tier dividend of 30.0% (2012 – 30.0%) | **30.00** | 30.00 |
| | **52.00** | 50.00 |

## 42. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both. The related parties of the Group and the Bank are:

### (i) Subsidiary Companies

Details of the subsidiary companies are shown in Note 13.

### (ii) Associated Companies

Associated companies are those entities in which the Group has significant influence but not control, as disclosed in Note 14.

### (iii) Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes Executive Directors and Non-Executive Directors of the Bank and certain members of senior management of the Bank and chief executive officers of major subsidiary companies of the Group.

### (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.

## 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 | |
|---|---|---|---|---|---|---|
| **Group** | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| **Income earned:** | | | | | | |
| Interest on loans, advances and financing | **9** | 1 | **–** | – | **36,650** | 49,229 |
| Commission income | **–** | – | **36,782** | 33,427 | **–** | – |
| Rental income | **147** | 147 | **2,696** | 2,481 | **–** | – |
| Brokerage income | **4** | 9 | **–** | – | **1** | – |
| Others | **–** | – | **–** | – | **–** | – |
| | **160** | 157 | **39,478** | 35,908 | **36,651** | 49,229 |
| **Expenditure incurred:** | | | | | | |
| Interest on deposits | **143,204** | 100,592 | **6,069** | 5,914 | **–** | – |
| Interest on debt securities issued | **36** | – | **3,167** | 3,047 | **–** | – |
| Rental of premises | **–** | – | **600** | 590 | **25,092** | 21,104 |
| Insurance premiums | **–** | – | **29,048** | 26,121 | **–** | – |
| | **143,240** | 100,592 | **38,884** | 35,672 | **25,092** | 21,104 |

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

## 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Bank** | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| **Income earned:** | | | | | | | | | | |
| Interest on interbank lending and money market instruments held | 69,458 | 86,954 | 1,136 | 2,488 | – | – | – | – | – | – |
| Interest on loans, advances and financing | 7,934 | 7,933 | – | – | 9 | 1 | – | – | 36,650 | 49,229 |
| Dividend income (Note 34) | 753,586 | 853,080 | 6,460 | 4,783 | – | – | – | – | – | – |
| Shared service costs charged (Note 35) | 241,174 | 221,688 | – | – | – | – | – | – | – | – |
| Commission income | 80,103 | 56,237 | – | – | – | – | 36,515 | 33,114 | – | – |
| Rental income | 1,726 | 1,725 | – | – | 147 | 147 | 11 | 11 | – | – |
| Others | 2,510 | 2,520 | – | – | – | – | – | – | – | – |
| | 1,156,491 | 1,230,137 | 7,596 | 7,271 | 156 | 148 | 36,526 | 33,125 | 36,650 | 49,229 |
| **Expenditure incurred:** | | | | | | | | | | |
| Interest on deposits | 91,845 | 97,832 | 902 | 115 | 143,121 | 100,577 | 5,953 | 5,445 | – | – |
| Interest on debt securities issued | – | – | – | – | 36 | – | 3,167 | 3,047 | – | – |
| Rental of premises | 26,114 | 25,725 | – | – | – | – | 600 | 590 | 24,283 | 20,517 |
| Insurance premiums | – | – | – | – | – | – | 22,542 | 21,109 | – | – |
| Brokerage commission | 82 | 13 | – | – | – | – | – | – | – | – |
| Professional fees | 1,964 | 155 | – | – | – | – | – | – | – | – |
| | 120,005 | 123,725 | 902 | 115 | 143,157 | 100,577 | 32,262 | 30,191 | 24,283 | 20,517 |

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

Included in the significant transactions of the Group are interest on deposits paid to Directors of the Bank (including close members of their families) amounting to RM143,129,000 (2012 – RM100,542,000) and rental received from a Director of the Bank amounting to RM147,000 (2012 – RM147,000).

Included in the significant transactions of the Bank are interest on deposits paid to Directors of the Bank (including close members of their families) amounting to RM143,073,000 (2012 – RM100,542,000) and rental received from a Director of the Bank amounting to RM147,000 (2012 – RM147,000).

## 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<br>31 December 2013** | **Associated Companies<br>RM'000** | **Key Management Personnel*<br>RM'000** | **Companies in which Certain Directors have Substantial Interest<br>RM'000** | **Public Bank Group Officers' Retirement Benefits Fund<br>RM'000** |
|---|---|---|---|---|
| **Amount due from related parties** | | | | |
| Interbank lending | 147,811 | – | – | – |
| Loans, advances and financing | – | 2,749 | – | 1,122,852 |
| Rental deposits | – | – | – | 6,337 |
| | 147,811 | 2,749 | – | 1,129,189 |
| **Amount due to related parties** | | | | |
| Demand deposits | 8,589 | 10,201 | 5,394 | 5 |
| Term deposits | 1,292 | 3,935,264 | 115,410 | – |
| Debt securities issued | – | 500 | 65,000 | – |
| Interbank borrowing | 295,190 | – | – | – |
| Others | – | 433 | – | 33 |
| | 305,071 | 3,946,398 | 185,804 | 38 |
| **Commitments and contingencies** | | | | |
| Commitments | – | – | – | 882,149 |
| | – | – | – | 882,149 |

## 42. RELATED PARTY TRANSACTIONS (CONT'D.)

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

| **Group 31 December 2012** | **Associated Companies RM'000** | **Key Management Personnel* RM'000** | **Companies in which Certain Directors have Substantial Interest RM'000** | **Public Bank Group Officers' Retirement Benefits Fund RM'000** |
|---|---|---|---|---|
| **Amount due from related parties** | | | | |
| Interbank lending | 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 |

## 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**<br>**31 December 2013** | **Subsidiary Companies RM'000** | **Associated Companies RM'000** | **Key Management Personnel* RM'000** | **Companies in which Certain Directors have Substantial Interest RM'000** | **Public Bank Group Officers' Retirement Benefits Fund RM'000** |
|---|---|---|---|---|---|
| **Amount due from related parties** | | | | | |
| Interbank lending | **1,411,914** | **147,811** | **–** | **–** | **–** |
| Loans, advances and financing | **296,416** | **–** | **2,749** | **–** | **1,122,852** |
| Money market instruments held | **1,528,777** | **–** | **–** | **–** | **–** |
| Dividend receivable (Note 10) | **469,462** | **–** | **–** | **–** | **–** |
| Rental deposits | **34,753** | **–** | **–** | **–** | **6,147** |
| Interest receivable | **299** | **–** | **–** | **–** | **–** |
| Others | **1,059** | **–** | **–** | **–** | **–** |
| | **3,742,680** | **147,811** | **2,749** | **–** | **1,128,999** |
| **Amount due to related parties** | | | | | |
| Demand deposits | **92,431** | **686** | **9,818** | **5,394** | **5** |
| Term deposits | **2,608,020** | **1,292** | **3,926,192** | **115,410** | **–** |
| Debt securities issued | **–** | **–** | **500** | **65,000** | **–** |
| Interbank borrowing | **1,144,986** | **295,190** | **–** | **–** | **–** |
| Interest payable | **1,843** | **–** | **–** | **–** | **–** |
| Others | **590** | **–** | **54** | **–** | **33** |
| | **3,847,870** | **297,168** | **3,936,564** | **185,804** | **38** |
| **Commitments and contingencies** | | | | | |
| Guarantees | **116,577** | **–** | **–** | **–** | **–** |
| Commitments | **1,280,444** | **–** | **–** | **–** | **882,149** |
| | **1,397,021** | **–** | **–** | **–** | **882,149** |

## 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 31 December 2012** | **Subsidiary Companies RM'000** | **Associated Companies RM'000** | **Key Management Personnel* RM'000** | **Companies in which Certain Directors have Substantial Interest RM'000** | **Public Bank Group Officers' Retirement Benefits Fund RM'000** |
|---|---|---|---|---|---|
| **Amount due from related parties** | | | | | |
| Interbank lending | 1,281,760 | 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 |

* 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 RM3,938,534,000 (31 December 2012 – RM3,266,268,000) and RM3,931,479,000 (31 December 2012 – RM3,266,169,000) respectively.

## 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 (2012 – 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 | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Short-term employee benefits | | | | |
| Fee | **5,619** | 5,131 | **2,469** | 2,174 |
| Salary and other remuneration, including meeting allowances | **45,549** | 38,185 | **39,327** | 32,324 |
| Benefits-in-kind | **600** | 590 | **138** | 134 |
| Post-employment benefits | **4,146** | 4,060 | **3,550** | 3,508 |
| | **55,914** | 47,966 | **45,484** | 38,140 |

Included in the total key management personnel compensation are:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| Directors' remuneration including benefits-in-kind | | | | |
| – Directors of the Bank | **44,486** | 38,195 | **40,348** | 34,229 |

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

| | PFHL ESOS | |
|---|---|---|
| | **2013 '000** | **2012 '000** |
| At 1 January/31 December | **3,928** | 3,928 |

The share options were granted on the same terms and conditions as those offered to other employees of the Group (Note 24(b)).

## 43. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Outstanding credit exposures with connected parties | **1,756,651** | 2,031,542 | **2,552,959** | 2,692,235 |
| of which: | | | | |
| Total credit exposure which is impaired or in default | **104** | 466 | **72** | 341 |
| Total credit exposures | **230,273,829** | 205,379,208 | **206,155,123** | 183,958,523 |
| Percentage of outstanding credit exposures to connected parties | | | | |
| – as a proportion of total credit exposures | **0.76%** | 0.99% | **1.24%** | 1.46% |
| – as a proportion of total capital | **6.16%** | 7.73% | **10.82%** | 12.39% |
| – which is impaired or in default | **0.01%** | 0.02% | **0.00%** | 0.01% |

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

Based on these guidelines, a connected party refers to any of the following:

(i) Directors of the Bank and their close relatives;
(ii) Controlling shareholder and his close relatives;
(iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
(iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
(v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
(vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
(vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

## 44. FINANCIAL RISK MANAGEMENT

### Overview

The Group's business activities involve the use of financial instruments, including derivatives. These activities expose the Group to a variety of financial risks, mainly credit risk, market risk and liquidity and funding risk.

The Group's financial risk management is underpinned by the Group's risk appetite and is subject to the Board of Directors' oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC"), the Operational Risk Management Committee ("ORMC") and the Internal Capital Adequacy Assessment Process ("ICAAP") Working Group.

### Credit Risk

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

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk framework and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk is well managed and within the Group's risk appetite.

Risk Management Approach

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing group-wide credit risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the credit risk policies are implemented and complied with.

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(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 is included in the customer's loan application.

## 44. FINANCIAL RISK MANAGEMENT (CONT'D.)

### Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Lending to Corporate and Institutional Customers

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

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, investment in debt securities are subject to the minimum investment grade, minimum acceptable return and the maximum tenure. The investment parameters are also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Board of Directors. As at the reporting date, the Group does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

(d) Counterparty Credit Risk on Derivative Financial Instruments

Counterparty credit risk ("CCR") on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, option or credit derivative contract defaults prior to maturity date of the contract and the Group, at the relevant time, has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes. 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.

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Where possible, over-the-counter ("OTC") derivative financial instruments, especially interest rate swaps and options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any excess over the threshold levels.

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

## 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 the Credit Committee, CRMC and RMC, containing information on asset quality trends across major 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, Credit Committee, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.



There have been no changes to the process for managing credit risk and the methods used to measure credit risk.



(i) Credit Risk Exposures and Credit Risk Concentration

The following 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.

## 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<br>31 December 2013 | Government and Central Banks<br>RM'000 | Financial Services<br>RM'000 | Transport and Business Services<br>RM'000 | Agriculture, Manufacturing, Wholesale & Retail Trade<br>RM'000 | Construction & Real Estate<br>RM'000 | Residential Mortgages<br>RM'000 | Motor Vehicle Financing<br>RM'000 | Other Consumer Loans<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| **On-Balance Sheet Exposures** | | | | | | | | | |
| Cash and balances with banks | 13,060,851 | 9,019,566 | – | – | – | – | – | – | 22,080,417 |
| Reverse repurchase agreements | 9,541,969 | – | – | – | – | – | – | – | 9,541,969 |
| Financial assets held-for-trading | | | | | | | | | |
| – Government securities and treasury bills | 1,583,640 | – | – | – | – | – | – | – | 1,583,640 |
| – Money market instruments | – | 13,822,929 | – | – | – | – | – | – | 13,822,929 |
| – Non-money market instruments | – | 392,401 | – | – | 12,993 | – | – | – | 405,394 |
| Derivative financial assets | – | 365,354 | – | – | – | – | – | – | 365,354 |
| Financial investments available-for-sale | | | | | | | | | |
| – Government securities and treasury bills | 10,106,634 | – | – | – | – | – | – | – | 10,106,634 |
| – Money market instruments | – | 198,844 | – | – | – | – | – | – | 198,844 |
| – Non-money market instruments* | 308,645 | 5,157,996 | 869,046 | 850,416 | – | – | – | – | 7,186,103 |
| Financial investments held-to-maturity | | | | | | | | | |
| – Government securities and treasury bills | 4,399,596 | – | – | – | – | – | – | – | 4,399,596 |
| – Money market instruments | – | 2,170,637 | – | – | – | – | – | – | 2,170,637 |
| – Non-money market instruments | 1,086 | 664,277 | 333,885 | 224,070 | – | – | – | – | 1,223,318 |
| Gross loans, advances and financing | | | | | | | | | |
| – Retail loans/financing | | | | | | | | | |
| – housing loans/financing | – | – | – | – | – | 69,371,088 | – | – | 69,371,088 |
| – hire purchase | 186 | 3,644 | 3,285,530 | 3,740,195 | 1,596,987 | – | 36,297,090 | 39 | 44,923,671 |
| – credit cards | – | – | – | – | – | – | – | 1,623,283 | 1,623,283 |
| – other loans/financing | 28,151 | 29,509 | 5,265,977 | 22,726,516 | 13,109,399 | 2,881,710 | 216,628 | 30,376,110 | 74,634,000 |
| – Corporate loans/financing | – | 6,228,369 | 5,022,894 | 5,894,561 | 13,443,004 | 7,271 | – | 27,662 | 30,623,761 |
| Statutory deposits with Central Banks | 6,924,832 | – | – | – | – | – | – | – | 6,924,832 |
| | 45,955,590 | 38,053,526 | 14,777,332 | 33,435,758 | 28,162,383 | 72,260,069 | 36,513,718 | 32,027,094 | 301,185,470 |
| **Commitments and Contingencies** | | | | | | | | | |
| Contingent liabilities | 1,109 | 79,342 | 854,860 | 1,229,922 | 993,321 | – | – | 4,371 | 3,162,925 |
| Commitments | 517,229 | 1,295,837 | 5,063,998 | 11,155,680 | 11,987,781 | 11,533,644 | 14,162 | 13,375,722 | 54,944,053 |
| | 518,338 | 1,375,179 | 5,918,858 | 12,385,602 | 12,981,102 | 11,533,644 | 14,162 | 13,380,093 | 58,106,978 |
| **Total Credit Exposures** | 46,473,928 | 39,428,705 | 20,696,190 | 45,821,360 | 41,143,485 | 83,793,713 | 36,527,880 | 45,407,187 | 359,292,448 |

## 44. FINANCIAL RISK MANAGEMENT (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<br>31 December 2012 | Government and Central Banks<br>RM'000 | Financial Services<br>RM'000 | Transport and Business Services<br>RM'000 | Agriculture, Manufacturing, Wholesale & Retail Trade<br>RM'000 | Construction & Real Estate<br>RM'000 | Residential Mortgages<br>RM'000 | Motor Vehicle Financing<br>RM'000 | Other Consumer Loans<br>RM'000 | Total<br>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 | 118,877 | – | 519,446 | – | – | – | 802,956 |
| 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* | 310,299 | 5,009,709 | 835,166 | 822,366 | – | – | – | – | 6,977,540 |
| 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 | | | | | | | | | |
| – housing loans/financing | – | – | – | – | – | 59,867,383 | – | – | 59,867,383 |
| – hire purchase | 8 | 3,803 | 2,856,319 | 3,573,964 | 1,428,664 | – | 34,158,613 | 90 | 42,021,461 |
| – credit cards | – | – | – | – | – | – | – | 1,604,211 | 1,604,211 |
| – 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 |
| | 42,746,785 | 34,041,789 | 13,152,140 | 29,907,677 | 24,856,426 | 62,601,525 | 34,373,665 | 28,974,855 | 270,654,862 |
| **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** | 43,255,120 | 35,757,505 | 17,489,280 | 41,730,380 | 34,400,666 | 73,929,836 | 34,401,491 | 41,634,878 | 322,599,156 |

# 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<br>31 December 2013 | 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 | 5,351,128 | 7,398,958 | – | – | – | – | – | – | 12,750,086 |
| Reverse repurchase agreements | 8,638,588 | – | – | – | – | – | – | – | 8,638,588 |
| Financial assets held-for-trading | | | | | | | | | |
| – Government securities and treasury bills | 1,379,390 | – | – | – | – | – | – | – | 1,379,390 |
| – Money market instruments | – | 12,274,547 | – | – | – | – | – | – | 12,274,547 |
| – Non-money market instruments | – | 319,496 | – | – | 12,993 | – | – | – | 332,489 |
| Derivative financial assets | – | 350,729 | – | – | – | – | – | – | 350,729 |
| Financial investments available-for-sale | | | | | | | | | |
| – Government securities and treasury bills | 8,669,725 | – | – | – | – | – | – | – | 8,669,725 |
| – Money market instruments | – | 198,844 | – | – | – | – | – | – | 198,844 |
| – Non-money market instruments* | 308,635 | 4,588,905 | 748,122 | 499,566 | – | – | – | – | 6,145,228 |
| Financial investments held-to-maturity | | | | | | | | | |
| – Government securities and treasury bills | 3,437,058 | – | – | – | – | – | – | – | 3,437,058 |
| – Money market instruments | – | 1,617,869 | – | – | – | – | – | – | 1,617,869 |
| – Non-money market instruments | 1,086 | 180,991 | 326,726 | 224,070 | – | – | – | – | 732,873 |
| Gross loans and advances | | | | | | | | | |
| – Retail loans | | | | | | | | | |
| – housing loans | – | – | – | – | – | 60,472,169 | – | – | 60,472,169 |
| – hire purchase | 186 | 3,088 | 2,504,231 | 3,485,893 | 1,461,625 | – | 24,451,545 | – | 31,906,568 |
| – credit cards | – | – | – | – | – | – | – | 1,613,033 | 1,613,033 |
| – other loans | 9,019 | 19,369 | 4,350,857 | 20,680,191 | 11,796,724 | 2,761,624 | 209,032 | 24,918,199 | 64,745,015 |
| – Corporate loans | – | 5,813,059 | 4,598,147 | 4,189,158 | 10,183,345 | 7,271 | – | 27,662 | 24,818,642 |
| Statutory deposits with Central Banks | 5,565,946 | – | – | – | – | – | – | – | 5,565,946 |
| | 33,360,761 | 32,765,855 | 12,528,083 | 29,078,878 | 23,454,687 | 63,241,064 | 24,660,577 | 26,558,894 | 245,648,799 |
| **Commitments and Contingencies** | | | | | | | | | |
| Contingent liabilities | 1,109 | 144,919 | 742,295 | 871,944 | 772,136 | – | – | 2,190 | 2,534,593 |
| Commitments | 517,229 | 1,741,676 | 3,105,118 | 10,255,685 | 11,282,240 | 10,514,541 | 13,036 | 12,870,562 | 50,300,087 |
| | 518,338 | 1,886,595 | 3,847,413 | 11,127,629 | 12,054,376 | 10,514,541 | 13,036 | 12,872,752 | 52,834,680 |
| **Total Credit Exposures** | 33,879,099 | 34,652,450 | 16,375,496 | 40,206,507 | 35,509,063 | 73,755,605 | 24,673,613 | 39,431,646 | 298,483,479 |

## 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<br>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 | 5,250,114 | 6,429,729 | – | – | – | – | – | – | 11,679,843 |
| Reverse repurchase agreements | 7,309,153 | – | – | – | – | – | – | – | 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* | – | – | 118,877 | – | 454,591 | – | – | – | 573,468 |
| Derivative financial assets | – | 364,344 | – | – | – | – | – | – | 364,344 |
| Financial investments available-for-sale | | | | | | | | | |
| – Government securities and treasury bills | 9,514,672 | – | – | – | – | – | – | – | 9,514,672 |
| – Non-money market instruments* | 310,289 | 4,456,679 | 718,564 | 479,216 | – | – | – | – | 5,964,748 |
| Financial investments held-to-maturity | | | | | | | | | |
| – Government securities and treasury bills | 2,886,670 | – | – | – | – | – | – | – | 2,886,670 |
| – Money market instruments | – | 1,472,807 | – | – | – | – | – | – | 1,472,807 |
| – Non-money market instruments | 1,086 | 5,059 | 113,660 | – | 30,032 | – | – | – | 149,837 |
| Gross loans and advances | | | | | | | | | |
| – Retail loans | | | | | | | | | |
| – housing loans | – | – | – | – | – | 52,536,395 | – | – | 52,536,395 |
| – hire purchase | 8 | 3,192 | 2,116,776 | 3,277,041 | 1,288,360 | – | 23,453,129 | – | 30,138,506 |
| – credit cards | – | – | – | – | – | – | – | 1,594,106 | 1,594,106 |
| – 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 | 29,283,605 | 11,140,836 | 26,340,994 | 20,577,960 | 55,166,505 | 23,660,459 | 23,307,772 | 221,816,618 |
| **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 | 31,492,840 | 13,891,888 | 37,257,112 | 29,540,979 | 65,310,671 | 23,682,456 | 35,440,659 | 269,463,427 |

* Excluding equity securities of the Group and the Bank of RM126,931,000 (31 December 2012 – RM156,456,000) and RM111,070,000 (31 December 2012 – RM141,703,000) respectively which do not have any credit risk.

## 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<br>31 December 2013 | Malaysia<br>RM'000 | Hong Kong<br>& China<br>RM'000 | Cambodia<br>RM'000 | Other<br>Countries<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|
| **On-Balance Sheet Exposures** | | | | | |
| Cash and balances with banks | 17,998,169 | 2,408,098 | 937,413 | 736,737 | 22,080,417 |
| Reverse repurchase agreements | 9,537,953 | – | – | 4,016 | 9,541,969 |
| Financial assets held-for-trading | | | | | |
| – Government securities and treasury bills | 1,583,640 | – | – | – | 1,583,640 |
| – Money market instruments | 13,822,929 | – | – | – | 13,822,929 |
| – Non-money market instruments | 405,394 | – | – | – | 405,394 |
| Derivative financial assets | 256,977 | 4,120 | – | 104,257 | 365,354 |
| Financial investments available-for-sale | | | | | |
| – Government securities and treasury bills | 10,106,634 | – | – | – | 10,106,634 |
| – Money market instruments | 198,844 | – | – | – | 198,844 |
| – Non-money market instruments* | 7,186,103 | – | – | – | 7,186,103 |
| Financial investments held-to-maturity | | | | | |
| – Government securities and treasury bills | 3,445,657 | 722,974 | – | 230,965 | 4,399,596 |
| – Money market instruments | 1,370,106 | 666,286 | – | 134,245 | 2,170,637 |
| – Non-money market instruments | 846,371 | 116,968 | – | 259,979 | 1,223,318 |
| Gross loans, advances and financing | | | | | |
| – Retail loans/financing | | | | | |
| – housing loans/financing | 66,010,600 | 3,305,380 | 41,907 | 13,201 | 69,371,088 |
| – hire purchase | 43,065,127 | 1,843,916 | 4,464 | 10,164 | 44,923,671 |
| – credit cards | 1,613,033 | 5,743 | 4,507 | – | 1,623,283 |
| – other loans/financing | 70,008,952 | 1,709,106 | 2,379,580 | 536,362 | 74,634,000 |
| – Corporate loans/financing | 24,946,456 | 5,153,931 | – | 523,374 | 30,623,761 |
| Statutory deposits with Central Banks | 6,476,300 | – | 419,036 | 29,496 | 6,924,832 |
| | 278,879,245 | 15,936,522 | 3,786,907 | 2,582,796 | 301,185,470 |
| **Commitments and Contingencies** | | | | | |
| Contingent liabilities | 2,655,706 | 99,974 | 374,107 | 33,138 | 3,162,925 |
| Commitments | 52,828,722 | 1,677,176 | 399,241 | 38,914 | 54,944,053 |
| | 55,484,428 | 1,777,150 | 773,348 | 72,052 | 58,106,978 |
| **Total Credit Exposures** | 334,363,673 | 17,713,672 | 4,560,255 | 2,654,848 | 359,292,448 |

## 44. FINANCIAL RISK MANAGEMENT (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<br>31 December 2012 | Malaysia<br>RM'000 | Hong Kong<br>& China<br>RM'000 | Cambodia<br>RM'000 | Other<br>Countries<br>RM'000 | Total<br>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* | 802,956 | – | – | – | 802,956 |
| 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* | 6,977,492 | – | – | 48 | 6,977,540 |
| 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 |
| | 249,618,505 | 14,630,301 | 3,134,869 | 3,271,187 | 270,654,862 |
| **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** | 299,376,101 | 16,072,344 | 3,813,917 | 3,336,794 | 322,599,156 |

## 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<br>31 December 2013 | Malaysia<br>RM'000 | Hong Kong & China<br>RM'000 | Cambodia<br>RM'000 | Other Countries<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|
| **On-Balance Sheet Exposures** | | | | | |
| Cash and balances with banks | 11,272,192 | 744,996 | – | 732,898 | 12,750,086 |
| Reverse repurchase agreements | 8,634,572 | – | – | 4,016 | 8,638,588 |
| Financial assets held-for-trading | | | | | |
| – Government securities and treasury bills | 1,379,390 | – | – | – | 1,379,390 |
| – Money market instruments | 12,274,547 | – | – | – | 12,274,547 |
| – Non-money market instruments | 332,489 | – | – | – | 332,489 |
| Derivative financial assets | 242,677 | 3,795 | – | 104,257 | 350,729 |
| Financial investments available-for-sale | | | | | |
| – Government securities and treasury bills | 8,669,725 | – | – | – | 8,669,725 |
| – Money market instruments | 198,844 | – | – | – | 198,844 |
| – Non-money market instruments* | 6,145,228 | – | – | – | 6,145,228 |
| Financial investments held-to-maturity | | | | | |
| – Government securities and treasury bills | 3,325,333 | – | – | 111,725 | 3,437,058 |
| – Money market instruments | 1,617,869 | – | – | – | 1,617,869 |
| – Non-money market instruments | 732,873 | – | – | – | 732,873 |
| Gross loans and advances | | | | | |
| – Retail loans | | | | | |
| – housing loans | 60,458,968 | – | – | 13,201 | 60,472,169 |
| – hire purchase | 31,896,404 | – | – | 10,164 | 31,906,568 |
| – credit cards | 1,613,033 | – | – | – | 1,613,033 |
| – other loans | 64,231,190 | – | – | 513,825 | 64,745,015 |
| – Corporate loans | 23,885,540 | 444,839 | – | 488,263 | 24,818,642 |
| Statutory deposits with Central Banks | 5,536,450 | – | – | 29,496 | 5,565,946 |
| | 242,447,324 | 1,193,630 | – | 2,007,845 | 245,648,799 |
| **Commitments and Contingencies** | | | | | |
| Contingent liabilities | 2,389,799 | 12,674 | 103,902 | 28,218 | 2,534,593 |
| Commitments | 49,774,232 | 492,015 | – | 33,840 | 50,300,087 |
| | 52,164,031 | 504,689 | 103,902 | 62,058 | 52,834,680 |
| **Total Credit Exposures** | 294,611,355 | 1,698,319 | 103,902 | 2,069,903 | 298,483,479 |

## 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<br>31 December 2012 | Malaysia<br>RM'000 | Hong Kong<br>& China<br>RM'000 | Cambodia<br>RM'000 | Other<br>Countries<br>RM'000 | Total<br>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* | 573,468 | – | – | – | 573,468 |
| 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* | 5,964,699 | – | – | 49 | 5,964,748 |
| 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 |
| | 217,912,338 | 1,349,440 | – | 2,554,840 | 221,816,618 |
| **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** | 264,907,305 | 1,819,975 | 124,559 | 2,611,588 | 269,463,427 |

* Excluding equity securities of the Group and the Bank of RM126,931,000 (31 December 2012 – RM156,456,000) and RM111,070,000 (31 December 2012 – RM141,703,000) respectively which do not have any credit risk.

## 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:

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Neither past due nor impaired | **196,579,102** | 174,605,825 | **164,288,935** | 145,889,967 |
| Past due but not impaired | **23,111,922** | 21,803,253 | **18,130,755** | 17,233,539 |
| Impaired | **1,484,779** | 1,374,086 | **1,135,737** | 1,014,660 |
| | **221,175,803** | 197,783,164 | **183,555,427** | 164,138,166 |

(a) Neither Past Due Nor Impaired

Gross loans, advances and financing which are neither past due nor impaired are identified into the following internally classified grades:

– "Good Grade" refers to loans, advances and financing which are neither past due nor impaired in the last six months and have never undergone any rescheduling or restructuring exercise previously.

– "Satisfactory Grade" refers to loans, advances and financing which may have been past due or impaired during the last six months or have undergone a rescheduling or restructuring exercise previously.

## 44. FINANCIAL RISK MANAGEMENT (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:

| | 31 December 2013 | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|
| | Good RM'000 | Satisfactory RM'000 | Total RM'000 | Good RM'000 | Satisfactory RM'000 | Total RM'000 |
| **Group** | | | | | | |
| Retail loans/financing | | | | | | |
| – housing loans/financing | **55,375,262** | **5,412,776** | **60,788,038** | 47,052,239 | 4,729,975 | 51,782,214 |
| – hire purchase | **29,544,427** | **4,578,774** | **34,123,201** | 27,379,390 | 4,336,792 | 31,716,182 |
| – credit cards | **992,690** | **326,443** | **1,319,133** | 949,108 | 402,059 | 1,351,167 |
| – other loans/financing | **65,929,090** | **4,552,008** | **70,481,098** | 58,261,500 | 3,989,530 | 62,251,030 |
| Corporate loans/financing | **28,628,473** | **1,239,159** | **29,867,632** | 25,021,110 | 2,484,122 | 27,505,232 |
| | **180,469,942** | **16,109,160** | **196,579,102** | 158,663,347 | 15,942,478 | 174,605,825 |
| **Bank** | | | | | | |
| Retail loans | | | | | | |
| – housing loans | **48,418,623** | **4,720,317** | **53,138,940** | 41,228,087 | 4,193,844 | 45,421,931 |
| – hire purchase | **21,149,356** | **3,245,126** | **24,394,482** | 19,711,318 | 3,149,387 | 22,860,705 |
| – credit cards | **983,785** | **325,599** | **1,309,384** | 940,096 | 401,516 | 1,341,612 |
| – other loans | **57,778,204** | **3,537,920** | **61,316,124** | 50,641,456 | 3,290,826 | 53,932,282 |
| Corporate loans | **22,958,193** | **1,171,812** | **24,130,005** | 20,045,437 | 2,288,000 | 22,333,437 |
| | **151,288,161** | **13,000,774** | **164,288,935** | 132,566,394 | 13,323,573 | 145,889,967 |

## 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 2013** | | | | |
| Retail loans/financing | | | | |
| – housing loans/financing | **4,506,130** | **2,421,841** | **1,123,745** | **8,051,716** |
| – hire purchase | **6,114,322** | **3,377,606** | **976,362** | **10,468,290** |
| – credit cards | **186,068** | **68,768** | **26,153** | **280,989** |
| – other loans/financing | **2,305,300** | **992,441** | **364,507** | **3,662,248** |
| Corporate loans/financing | **642,793** | **4,636** | **1,250** | **648,679** |
| | **13,754,613** | **6,865,292** | **2,492,017** | **23,111,922** |
| **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 |

## 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 2013** | | | | |
| Retail loans | | | | |
| – housing loans | **3,808,819** | **2,079,534** | **974,995** | **6,863,348** |
| – hire purchase | **4,312,830** | **2,319,158** | **648,720** | **7,280,708** |
| – credit cards | **185,909** | **68,746** | **25,910** | **280,565** |
| – other loans | **1,963,046** | **858,786** | **284,512** | **3,106,344** |
| Corporate loans | **598,478** | **1,312** | **–** | **599,790** |
| | **10,869,082** | **5,327,536** | **1,934,137** | **18,130,755** |
| **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 |

## 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 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.

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.

## 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 -------------> | | |
|---|---|---|---|---|
| **Group** | **Total Gross Impaired Loans, Advances and Financing RM'000** | **Gross Individually Assessed Impaired Loans/ Financing RM'000** | **Individual Assessment Allowance RM'000** | **Fair Value of Collateral RM'000** |
| **31 December 2013** | | | | |
| Retail loans/financing | | | | |
| – housing loans/financing | **531,334** | **6,097** | **167** | **6,097** |
| – hire purchase | **332,180** | **1,758** | **1,482** | **1,489** |
| – credit cards | **23,161** | **77** | **–** | **–** |
| – other loans/financing | **490,654** | **255,367** | **110,700** | **179,838** |
| Corporate loans/financing | **107,450** | **107,450** | **55,576** | **67,470** |
| | **1,484,779** | **370,749** | **167,925** | **254,894** |
| **31 December 2012** | | | | |
| Retail loans/financing | | | | |
| – housing loans/financing | 422,387 | 4,127 | 64 | 4,014 |
| – hire purchase | 243,070 | 1,933 | 1,219 | 1,595 |
| – credit cards | 23,421 | – | – | – |
| – other loans/financing | 531,775 | 271,712 | 125,608 | 187,070 |
| Corporate loans/financing | 153,433 | 153,433 | 75,104 | 90,852 |
| | 1,374,086 | 431,205 | 201,995 | 283,531 |

## 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 -------------> | | |
|---|---|---|---|---|
| **Bank** | **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** |
| **31 December 2013** | | | | |
| Retail loans | | | | |
| – housing loans | **469,881** | **2,753** | **–** | **2,753** |
| – hire purchase | **231,378** | **–** | **–** | **–** |
| – credit cards | **23,084** | **–** | **–** | **–** |
| – other loans | **322,547** | **134,617** | **37,948** | **115,429** |
| Corporate loans | **88,847** | **88,847** | **41,817** | **63,502** |
| | **1,135,737** | **226,217** | **79,765** | **181,684** |
| **31 December 2012** | | | | |
| Retail loans | | | | |
| – housing loans | 368,509 | 3,240 | – | 3,240 |
| – hire purchase | 168,925 | – | – | – |
| – credit cards | 23,309 | – | – | – |
| – other loans | 343,938 | 123,872 | 48,952 | 95,515 |
| Corporate loans | 109,979 | 109,979 | 61,122 | 62,862 |
| | 1,014,660 | 237,091 | 110,074 | 161,617 |

## 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/financing – charges over the properties being financed
– for motor vehicle financing – ownership claims over the vehicles financed
– for share margin financing – pledges over securities from listed exchange
– for other loans/financing – charges over business assets such as premises, inventories, trade receivables or deposits

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for gross loans, advances and financing for the Group and the Bank as at 31 December 2013 are at 89.9% (31 December 2012 – 90.0%) and 91.6% (31 December 2012 – 92.0%) respectively. The financial effect of collateral held for other remaining on-balance sheet financial assets is not significant.

Repossessed Collateral

Assets obtained by taking possession of collateral held as security against loans, advances and financing, and held as at the end of the financial year are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Residential properties | 30,776 | 52,306 | 29,552 | 50,676 |
| Non-residential properties | 26,504 | 30,366 | 26,430 | 29,845 |
| | 57,280 | 82,672 | 55,982 | 80,521 |

Repossessed collateral are sold as soon as practicable. Repossessed collateral are recognised in other assets on the statements of financial position. The Group and the Bank do not occupy repossessed properties for its business use.

## 44. FINANCIAL RISK MANAGEMENT (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**

| | 31 December 2013 | | | | | | 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Money Market Instruments | | | Non-money Market Instruments – Debt Securities | | | Money Market Instruments | | | Non-money Market Instruments – Debt Securities | | |
| | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 |
| **Group** | | | | | | | | | | | | |
| AAA to AA- | – | 9,311,372 | 9,311,372 | – | – | – | – | 7,564,363 | 7,564,363 | – | – | – |
| A+ to A- | – | 4,311,256 | 4,311,256 | – | – | – | – | 4,221,811 | 4,221,811 | – | – | – |
| P-1 to P-2 | – | – | – | – | 405,394 | 405,394 | – | – | – | – | 802,956 | 802,956 |
| Unrated | – | 200,301 | 200,301 | – | – | – | – | 50,047 | 50,047 | – | – | – |
| | – | 13,822,929 | 13,822,929 | – | 405,394 | 405,394 | – | 11,836,221 | 11,836,221 | – | 802,956 | 802,956 |
| **Bank** | | | | | | | | | | | | |
| AAA to AA- | – | 7,862,343 | 7,862,343 | – | – | – | – | 6,817,649 | 6,817,649 | – | – | – |
| A+ to A- | – | 4,211,903 | 4,211,903 | – | – | – | – | 3,847,764 | 3,847,764 | – | – | – |
| P-1 to P-2 | – | – | – | – | 332,489 | 332,489 | – | – | – | – | 573,468 | 573,468 |
| Unrated | – | 200,301 | 200,301 | – | – | – | – | 50,047 | 50,047 | – | – | – |
| | – | 12,274,547 | 12,274,547 | – | 332,489 | 332,489 | – | 10,715,460 | 10,715,460 | – | 573,468 | 573,468 |

## 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**

| | 31 December 2013 | | | | | | 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Money Market Instruments | | | Non-money Market Instruments – Debt Securities | | | Money Market Instruments | | | Non-money Market Instruments – Debt Securities | | |
| | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 |
| **Group** | | | | | | | | | | | | |
| AAA to AA- | – | 97,458 | 97,458 | – | 7,961 | 7,961 | – | – | – | – | 7,986 | 7,986 |
| A+ to A- | – | 101,386 | 101,386 | 265,428 | – | 265,428 | – | – | – | 260,944 | – | 260,944 |
| BBB+ to BBB- | – | – | – | 1,446,073 | – | 1,446,073 | – | – | – | 1,388,603 | – | 1,388,603 |
| Lower than BBB- | – | – | – | 50,772 | – | 50,772 | – | – | – | 46,834 | – | 46,834 |
| Unrated | – | – | – | – | 308,645 | 308,645 | – | – | – | – | 310,298 | 310,298 |
| | – | 198,844 | 198,844 | 1,762,273 | 316,606 | 2,078,879 | – | – | – | 1,696,381 | 318,284 | 2,014,665 |
| **Bank** | | | | | | | | | | | | |
| AAA to AA- | – | 97,458 | 97,458 | – | 7,961 | 7,961 | – | – | – | – | 7,986 | 7,986 |
| A+ to A- | – | 101,386 | 101,386 | 156,706 | – | 156,706 | – | – | – | 150,070 | – | 150,070 |
| BBB+ to BBB- | – | – | – | 1,083,020 | – | 1,083,020 | – | – | – | 1,039,725 | – | 1,039,725 |
| Lower than BBB- | – | – | – | 50,772 | – | 50,772 | – | – | – | 46,834 | – | 46,834 |
| Unrated | – | – | – | – | 308,636 | 308,636 | – | – | – | – | 310,288 | 310,288 |
| | – | 198,844 | 198,844 | 1,290,498 | 316,597 | 1,607,095 | – | – | – | 1,236,629 | 318,274 | 1,554,903 |

## 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**

| | 31 December 2013 | | | | | | 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Money Market Instruments | | | Non-money Market Instruments – Debt Securities | | | Money Market Instruments | | | Non-money Market Instruments – Debt Securities | | |
| | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 | International Ratings RM'000 | Domestic Ratings RM'000 | Total RM'000 |
| **Group** | | | | | | | | | | | | |
| AAA to AA- | 165,311 | 1,370,105 | 1,535,416 | – | 334,407 | 334,407 | 92,312 | 1,129,660 | 1,221,972 | 982 | 156,025 | 157,007 |
| A+ to A- | 441,047 | – | 441,047 | 278,453 | – | 278,453 | 287,511 | 180,611 | 468,122 | 160,178 | – | 160,178 |
| P-1 to P-2 | 194,174 | – | 194,174 | 98,494 | – | 98,494 | 286,009 | – | 286,009 | 301,413 | – | 301,413 |
| Unrated | – | – | – | – | 511,964 | 511,964 | – | 40,495 | 40,495 | – | 16,257 | 16,257 |
| | 800,532 | 1,370,105 | 2,170,637 | 376,947 | 846,371 | 1,223,318 | 665,832 | 1,350,766 | 2,016,598 | 462,573 | 172,282 | 634,855 |
| **Bank** | | | | | | | | | | | | |
| AAA to AA- | – | 1,617,869 | 1,617,869 | – | 246,814 | 246,814 | – | 1,472,807 | 1,472,807 | – | 138,637 | 138,637 |
| Unrated | – | – | – | – | 486,059 | 486,059 | – | – | – | – | 11,200 | 11,200 |
| | – | 1,617,869 | 1,617,869 | – | 732,873 | 732,873 | – | 1,472,807 | 1,472,807 | – | 149,837 | 149,837 |

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.

## 44. FINANCIAL RISK MANAGEMENT (CONT'D.)

### Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic banking activities of the Group includes rate of return risk and displaced commercial risk ("DCR").

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group's market risk 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 mainly 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 fixed income instruments is measured by the present value of 1 basis point change ("PV01") and controlled by daily and cumulative cut-loss limits. The compliance officers are deployed to conduct daily compliance checking on the treasury operations. Any instances of non-compliance with the operational processes, procedures and limits will be documented with remedial action plans and reported to the RMC. In addition, the compliance officers conduct independent verification on the daily mark-to-market valuation of fixed income instruments.

The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the 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 instruments as measured by PV01, averaged at RM276,000 (2012 – RM354,000) and RM226,000 (2012 – RM310,000) respectively. The composition of the Group's and the Bank's trading portfolio is set out in Note 5 to the financial statements.

(ii) Non-Traded Market Risk

The Group's core non-traded market risks are interest rate/rate of return risk in the banking book, DCR in the Group's Islamic banking business, foreign exchange risk and equity risk.

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")

IRR/RoRBB is the risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in the interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in the interest rate/rate of return sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge the interest rate/rate of return risk is set out in Note 6 to the financial statements.

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

## 44. FINANCIAL RISK MANAGEMENT (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.

| Group 31 December 2013 | <---- Non-trading book | | | | | | | ----> | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Effective interest rate/rate of return % |
| **ASSETS** | | | | | | | | | | | | |
| Cash and balances with banks | 17,872,840 | 1,473,957 | 419,076 | – | – | – | – | – | 2,314,544 | – | 22,080,417 | 2.80 |
| Reverse repurchase agreements | 2,389,737 | 6,248,851 | – | – | – | – | – | – | – | 903,381 | 9,541,969 | 3.04 |
| Financial assets held-for-trading | – | – | – | – | – | – | – | – | – | 15,811,963 | 15,811,963 | 3.37 |
| Financial investments available-for-sale | 1,535,283 | 2,576,570 | 6,068,696 | 1,091,482 | 694,956 | – | – | 417,357 | 5,234,168 | – | 17,618,512 | 2.80 |
| Financial investments held-to-maturity | 797,494 | 1,294,503 | 2,300,630 | 397,592 | 809,256 | 426,366 | 314,150 | 1,452,474 | 1,086 | – | 7,793,551 | 2.97 |
| Loans, advances and financing | | | | | | | | | | | | |
| – non-impaired | 159,916,633 | 8,259,722 | 10,427,567 | 10,289,434 | 8,203,788 | 6,834,488 | 4,689,694 | 11,069,698 | – | – | 219,691,024 | 5.30 |
| – impaired* | – | – | – | – | – | – | – | – | (275,231) | – | (275,231) | – |
| Other non-interest/ profit sensitive balances | – | – | – | – | – | – | – | – | 13,279,608 | 183,583 | 13,463,191 | – |
| **TOTAL ASSETS** | 182,511,987 | 19,853,603 | 19,215,969 | 11,778,508 | 9,708,000 | 7,260,854 | 5,003,844 | 12,939,529 | 20,554,175 | 16,898,927 | 305,725,396 | |

# 44. FINANCIAL RISK MANAGEMENT (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.)

| Group 31 December 2013 (Cont'd.) | <------ Non-trading book ------> 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 | Effective interest rate/rate of return % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | | | | | | | | | |
| Deposits from customers | 137,682,546 | 35,746,181 | 44,028,567 | 298,213 | 7,876 | 1,619 | 2,259 | – | 33,105,928 | – | 250,873,189 | 2.76 |
| Deposits from banks | 11,107,177 | 4,159,519 | 307,490 | 67,556 | 54,641 | 72,611 | 49,192 | – | 357,650 | – | 16,175,836 | 1.72 |
| Bills and acceptances payable | 471,737 | 422,749 | 21,738 | – | – | – | – | – | 657,219 | – | 1,573,443 | 3.24 |
| Recourse obligations on loans and financing sold to Cagamas | – | – | – | – | – | 500,011 | – | – | – | – | 500,011 | 3.60 |
| Debt securities issued and other borrowed funds | 463,391 | – | 473,000 | – | 1,856,020 | 3,000,000 | 2,350,000 | 2,088,000 | 139,414 | – | 10,369,825 | 4.29 |
| Other non-interest/ profit sensitive balances | – | – | – | – | – | – | – | – | 4,962,504 | 73,392 | 5,035,896 | – |
| **Total Liabilities** | 149,724,851 | 40,328,449 | 44,830,795 | 365,769 | 1,918,537 | 3,574,241 | 2,401,451 | 2,088,000 | 39,222,715 | 73,392 | 284,528,200 | |
| Equity attributable to equity holders of the Bank | – | – | – | – | – | – | – | – | 20,423,594 | – | 20,423,594 | – |
| Non-controlling interests | – | – | – | – | – | – | – | – | 773,602 | – | 773,602 | – |
| **TOTAL LIABILITIES AND EQUITY** | 149,724,851 | 40,328,449 | 44,830,795 | 365,769 | 1,918,537 | 3,574,241 | 2,401,451 | 2,088,000 | 60,419,911 | 73,392 | 305,725,396 | |
| On-balance sheet interest/ profit sensitivity gap | 32,787,136 | (20,474,846) | (25,614,826) | 11,412,739 | 7,789,463 | 3,686,613 | 2,602,393 | 10,851,529 | (39,865,736) | 16,825,535 | – | |
| Off-balance sheet interest/ profit sensitivity gap (interest/profit rate swaps) | 1,247,212 | (3,898,700) | (653,306) | (770,823) | 1,356,020 | 1,000,000 | 250,000 | 1,469,597 | – | – | – | |
| **TOTAL INTEREST/ PROFIT SENSITIVITY GAP** | 34,034,348 | (24,373,546) | (26,268,132) | 10,641,916 | 9,145,483 | 4,686,613 | 2,852,393 | 12,321,126 | (39,865,736) | 16,825,535 | – | |

# 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 | ------ | ------ | ------ | ------> | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group<br>31 December 2012 (Restated) | Up to<br>1 month<br>RM'000 | > 1 – 3<br>months<br>RM'000 | > 3 – 12<br>months<br>RM'000 | > 1 – 2<br>years<br>RM'000 | > 2 – 3<br>years<br>RM'000 | > 3 – 4<br>years<br>RM'000 | > 4 – 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-<br>interest/<br>profit<br>sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000 | Effective<br>interest<br>rate/rate<br>of return<br>% |
| **ASSETS** | | | | | | | | | | | | |
| Cash and balances with banks | 14,623,476 | 1,637,145 | 158,722 | – | – | – | – | – | 2,216,608 | – | 18,635,951 | 2.62 |
| Reverse repurchase agreements | 2,309,299 | 1,500,229 | 3,499,625 | – | – | – | – | – | – | 849,353 | 8,158,506 | 3.04 |
| Financial assets held-for-trading | – | – | – | – | – | – | – | – | – | 16,617,135 | 16,617,135 | 3.17 |
| Financial investments<br>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 | 2.86 |
| Financial investments<br>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 | 2.93 |
| 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 | 5.46 |
| – impaired* | – | – | – | – | – | – | – | – | (357,475) | – | (357,475) | – |
| Other non-interest/<br>profit sensitive balances | – | – | – | – | – | – | – | – | 11,874,182 | 27,690 | 11,901,872 | – |
| **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 | 18,942,743 | 17,494,178 | 274,823,958 | |

# 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.)

| Group 31 December 2012 (Restated) (Cont'd.) | Non-trading book: 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 | Effective interest rate/rate of return % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 | 2.66 |
| Deposits from banks | 7,223,118 | 3,320,518 | 1,332,603 | 116,302 | 78,820 | 62,199 | 72,757 | – | 642,996 | – | 12,849,313 | 1.88 |
| Bills and acceptances payable | 809,825 | 1,380,768 | 30,824 | – | – | – | – | – | 827,404 | – | 3,048,821 | 3.23 |
| Recourse obligations on loans and financing sold to Cagamas | 468 | 581 | 444 | – | – | – | 500,003 | – | – | – | 501,496 | 3.60 |
| 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 | 3.97 |
| Other non-interest/ profit sensitive balances | – | – | – | – | – | – | – | – | 4,653,056 | 63,790 | 4,716,846 | – |
| **Total Liabilities** | 131,174,824 | 45,597,744 | 36,151,783 | 854,244 | 97,752 | 1,879,381 | 3,574,474 | 2,088,000 | 34,623,662 | 63,790 | 256,105,654 | |
| Equity attributable to equity holders of the Bank | – | – | – | – | – | – | – | – | 18,018,440 | – | 18,018,440 | – |
| 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 | 53,341,966 | 63,790 | 274,823,958 | |
| 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 | – | |

# 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.)

| Bank 31 December 2013 | <---- Non-trading book ----> 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 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | | |
| Cash and balances with banks | 9,850,587 | 1,210,474 | 153,196 | – | – | – | – | – | 1,535,829 | – | 12,750,086 | 2.78 |
| Reverse repurchase agreements | 2,389,737 | 6,248,851 | – | – | – | – | – | – | – | – | 8,638,588 | 3.04 |
| Financial assets held-for-trading | – | – | – | – | – | – | – | – | – | 13,986,426 | 13,986,426 | 3.38 |
| Financial investments available-for-sale | 1,535,283 | 2,067,719 | 5,019,714 | 849,355 | 694,956 | – | – | 308,636 | 4,649,204 | – | 15,124,867 | 2.82 |
| Financial investments held-to-maturity | 49,899 | 266,377 | 985,257 | 297,481 | 649,967 | 326,332 | 292,507 | 2,918,894 | 1,086 | – | 5,787,800 | 3.73 |
| Loans and advances | | | | | | | | | | | | |
| – non-impaired | 141,859,058 | 6,420,122 | 7,193,988 | 7,286,262 | 5,688,770 | 4,834,693 | 3,088,073 | 6,048,724 | – | – | 182,419,690 | 5.20 |
| – impaired* | – | – | – | – | – | – | – | – | (15,117) | – | (15,117) | – |
| Other non-interest sensitive balances | – | – | – | – | – | – | – | – | 13,963,841 | 183,258 | 14,147,099 | – |
| **TOTAL ASSETS** | 155,684,564 | 16,213,543 | 13,352,155 | 8,433,098 | 7,033,693 | 5,161,025 | 3,380,580 | 9,276,254 | 20,134,843 | 14,169,684 | 252,839,439 | |

# 44. FINANCIAL RISK MANAGEMENT (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 | ---- | ---- | ----> | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank<br>31 December 2013 (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 % |
| **LIABILITIES AND EQUITY** | | | | | | | | | | | | |
| Deposits from customers | 109,295,687 | 27,111,925 | 36,265,556 | 162,187 | 5,037 | 1,592 | 1,819 | – | 29,027,789 | – | 201,871,592 | 2.91 |
| Deposits from banks | 12,364,230 | 3,709,579 | 119,880 | 67,556 | 54,641 | 72,611 | 46,802 | – | 487,749 | – | 16,923,048 | 1.76 |
| Bills and acceptances payable | 471,737 | 480,646 | 21,738 | – | – | – | – | – | 653,394 | – | 1,627,515 | 3.24 |
| Debt securities issued and other borrowed funds | – | – | 473,000 | – | 1,856,020 | 3,000,000 | 2,350,000 | 2,088,000 | 139,414 | – | 9,906,434 | 4.43 |
| Other non-interest sensitive balances | – | – | – | – | – | – | – | – | 3,615,037 | 73,758 | 3,688,795 | – |
| **Total Liabilities** | 122,131,654 | 31,302,150 | 36,880,174 | 229,743 | 1,915,698 | 3,074,203 | 2,398,621 | 2,088,000 | 33,923,383 | 73,758 | 234,017,384 | |
| Equity attributable to equity holders of the Bank | – | – | – | – | – | – | – | – | 18,822,055 | – | 18,822,055 | – |
| **TOTAL LIABILITIES AND EQUITY** | 122,131,654 | 31,302,150 | 36,880,174 | 229,743 | 1,915,698 | 3,074,203 | 2,398,621 | 2,088,000 | 52,745,438 | 73,758 | 252,839,439 | |
| On-balance sheet interest sensitivity gap | 33,552,910 | (15,088,607) | (23,528,019) | 8,203,355 | 5,117,995 | 2,086,822 | 981,959 | 7,188,254 | (32,610,595) | 14,095,926 | – | |
| Off-balance sheet interest sensitivity gap (interest rate swaps) | 332,409 | (5,946,391) | (518,822) | (541,216) | 1,356,020 | 1,200,000 | 750,000 | 3,368,000 | – | – | – | |
| **TOTAL INTEREST SENSITIVITY GAP** | 33,885,319 | (21,034,998) | (24,046,841) | 7,662,139 | 6,474,015 | 3,286,822 | 1,731,959 | 10,556,254 | (32,610,595) | 14,095,926 | – | |

## 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.)

| Bank 31 December 2012 (Restated) | <------- Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 12 months RM'000 | > 1 – 2 years RM'000 | Non-trading book > 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 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 | 326,622 | 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 | – | – | – | – | – | – | – | – | 12,862,198 | 27,564 | 12,889,762 | – |
| **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 | 18,920,335 | 13,626,608 | 228,575,968 | |

# 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.)

| Bank 31 December 2012 (Restated) (Cont'd.) | <------ Non-trading book ------> | | | | | | | | | Trading book RM'000 | Total RM'000 | 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 | | | |
| **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 | 2.81 |
| 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 | 1.81 |
| Bills and acceptances payable | 867,069 | 1,380,768 | 58,076 | – | – | – | – | – | 826,779 | – | 3,132,692 | 3.23 |
| Recourse obligations on loans sold to Cagamas | 468 | 581 | 444 | – | – | – | – | – | – | – | 1,493 | 4.45 |
| 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 | 4.21 |
| Other non-interest sensitive balances | – | – | – | – | – | – | – | – | 3,302,629 | 65,097 | 3,367,726 | – |
| **Total Liabilities** | 107,028,782 | 37,288,755 | 29,938,405 | 690,190 | 95,255 | 1,877,515 | 3,074,446 | 2,088,000 | 29,534,630 | 65,097 | 211,681,075 | |
| Equity attributable to equity holders of the Bank | – | – | – | – | – | – | – | – | 16,894,893 | – | 16,894,893 | – |
| **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 | 46,429,523 | 65,097 | 228,575,968 | |
| 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, advances and financing.

## 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.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | -100 bps | +100 bps | -100 bps | +100 bps |
| | <------------------------- (Decrease)/Increase | | | -------------------------> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Group** | | | | |
| Impact on NII/NPI | **(248,022)** | **140,809** | (163,807) | 65,846 |
| Impact on EVE | **932,989** | **(548,689)** | 914,718 | (561,732) |
| **Bank** | | | | |
| Impact on NII/NPI | **(222,636)** | **161,948** | (152,923) | 95,750 |
| Impact on EVE | **760,032** | **(447,000)** | 718,105 | (460,639) |

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. Where possible and material, loans/financing prepayments are generally estimated based on past statistics and trends. 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.

## 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.)

(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.

(b) Displaced Commercial Risk ("DCR")

DCR refers to the risk of Public Islamic Bank Berhad ("PIBB") bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the Investment Account Holders ("IAH") based on the contractual profit sharing ratio. PIBB does not have Profit Sharing Investment Accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

PIBB uses the Profit Equalisation Reserve ("PER") to manage its DCR and is governed by the Profit Equalisation Reserve Framework. PER is created by setting aside an amount out of the total gross income before distribution to the IAH and to PIBB. The amount of PER set aside is shared by both the IAH and PIBB. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, PIBB may employ the following techniques to ensure that the IAH receive market rate of return:

(i) to forgo part or all of PIBB's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or

(ii) to transfer PIBB's current year profits or retained earnings to the IAH on the basis of hibah.

(c) Foreign Exchange Risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, overseas branches and associated companies, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

Risk Management Approach

The Group manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position ("NOP") limit is set for overall NOP as well as NOP limits for individual currencies. The decision to hedge the Group's net investment in its overseas operations is based on its potential economic benefit and is periodically assessed by the ALCO.

(i) The following tables summarise the assets, liabilities and NOP by currencies as at the reporting date, which are mainly in Ringgit Malaysia, Hong Kong Dollars and United States Dollars. Other currencies mainly include exposure to Euro, Australian Dollars, Chinese Renminbi, New Zealand Dollars, Sri Lanka Rupees, Great Britain Pounds and Japanese Yen.

## 44. FINANCIAL RISK MANAGEMENT (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 2013 | Malaysian Ringgit RM'000 | Hong Kong Dollars RM'000 | United States Dollars RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with banks | 16,685,553 | 1,389,675 | 2,179,193 | 1,825,996 | 22,080,417 |
| Reverse repurchase agreements | 9,537,953 | – | – | 4,016 | 9,541,969 |
| Financial assets held-for-trading | 15,811,963 | – | – | – | 15,811,963 |
| Derivative financial assets | 282,499 | 325 | 82,530 | – | 365,354 |
| Financial investments available-for-sale | 15,816,691 | 2,874 | 1,786,999 | 11,948 | 17,618,512 |
| Financial investments held-to-maturity | 5,662,131 | 1,450,399 | 163,452 | 517,569 | 7,793,551 |
| Loans, advances and financing | 202,928,035 | 11,142,554 | 4,530,852 | 814,352 | 219,415,793 |
| Other assets | 1,513,878 | 925 | 30,555 | 994,341 | 2,539,699 |
| Statutory deposits with Central Banks | 6,476,300 | – | 446,725 | 1,807 | 6,924,832 |
| Deferred tax assets | 57,175 | 12,946 | – | – | 70,121 |
| Investment in associated companies | 37,155 | – | 121,730 | – | 158,885 |
| Investment properties | 2,000 | 95,391 | – | – | 97,391 |
| Property and equipment | 903,447 | 312,502 | 85,197 | 1,851 | 1,302,997 |
| Intangible assets | 769,251 | 1,234,661 | – | – | 2,003,912 |
| **TOTAL ASSETS** | **276,484,031** | **15,642,252** | **9,427,233** | **4,171,880** | **305,725,396** |
| **LIABILITIES** | | | | | |
| Deposits from customers | 225,861,580 | 9,857,046 | 11,167,845 | 3,986,718 | 250,873,189 |
| Deposits from banks | 8,117,595 | 1,576,585 | 5,391,702 | 1,089,954 | 16,175,836 |
| Bills and acceptances payable | 1,572,742 | – | 13 | 688 | 1,573,443 |
| Recourse obligations on loans and financing sold to Cagamas | 500,011 | – | – | – | 500,011 |
| Derivative financial liabilities | 265,310 | 258 | 69,022 | – | 334,590 |
| Debt securities issued and other borrowed funds | 9,168,317 | 463,391 | 738,117 | – | 10,369,825 |
| Other liabilities | 2,811,399 | 132,494 | 61,896 | 1,014,627 | 4,020,416 |
| Provision for tax expense and zakat | 548,454 | 6,380 | 23,843 | 6,552 | 585,229 |
| Deferred tax liabilities | 85,529 | 10,132 | – | – | 95,661 |
| **TOTAL LIABILITIES** | **248,930,937** | **12,046,286** | **17,452,438** | **6,098,539** | **284,528,200** |
| Non-controlling interests | – | 758,522 | 15,080 | – | 773,602 |
| **On-Balance Sheet Open Position** | **27,553,094** | **2,837,444** | **(8,040,285)** | **(1,926,659)** | **20,423,594** |
| **Off-Balance Sheet Open Position** | **(7,661,879)** | **(1,367,597)** | **6,608,384** | **2,421,092** | **–** |
| **NET OPEN POSITION** | **19,891,215** | **1,469,847** | **(1,431,901)** | **494,433** | **20,423,594** |

## 44. FINANCIAL RISK MANAGEMENT (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<br>31 December 2012 (Restated) | 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 | 1,349,057 | 52,469 | 11,530 | 792,942 | 2,205,998 |
| 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** | 247,778,621 | 14,486,667 | 8,790,916 | 3,767,754 | 274,823,958 |
| **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 | 2,648,280 | 99,830 | 111,660 | 810,479 | 3,670,249 |
| Provision for tax expense and zakat | 704,358 | 7,330 | 25,460 | 3,135 | 740,283 |
| Deferred tax liabilities | 63,063 | 9,687 | – | – | 72,750 |
| **TOTAL LIABILITIES** | 224,656,496 | 10,930,038 | 15,985,731 | 4,533,389 | 256,105,654 |
| Non-controlling interests | – | 686,608 | 13,256 | – | 699,864 |
| **On-Balance Sheet Open Position** | 23,122,125 | 2,870,021 | (7,208,071) | (765,635) | 18,018,440 |
| **Off-Balance Sheet Open Position** | (5,291,370) | (1,753,265) | 5,835,877 | 1,208,758 | – |
| **NET OPEN POSITION** | 17,830,755 | 1,116,756 | (1,372,194) | 443,123 | 18,018,440 |

## 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<br>31 December 2013 | Malaysian Ringgit RM'000 | Hong Kong Dollars RM'000 | United States Dollars RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with banks | 10,097,973 | 754,500 | 1,046,082 | 851,531 | 12,750,086 |
| Reverse repurchase agreements | 8,634,572 | – | – | 4,016 | 8,638,588 |
| Financial assets held-for-trading | 13,986,426 | – | – | – | 13,986,426 |
| Derivative financial assets | 268,199 | – | 82,530 | – | 350,729 |
| Financial investments available-for-sale | 13,809,676 | – | 1,315,140 | 51 | 15,124,867 |
| Financial investments held-to-maturity | 5,676,074 | – | 52,443 | 59,283 | 5,787,800 |
| Loans and advances | 180,035,266 | 444,083 | 1,352,052 | 573,172 | 182,404,573 |
| Other assets | 1,409,018 | – | 20,747 | 979,545 | 2,409,310 |
| Statutory deposits with Central Banks | 5,536,450 | – | 29,496 | – | 5,565,946 |
| Investment in subsidiary companies | 2,289,095 | 1,672,194 | 474,761 | – | 4,436,050 |
| Investment in associated companies | 20,030 | – | 101,295 | – | 121,325 |
| Property and equipment | 561,040 | – | 5,455 | 1,851 | 568,346 |
| Intangible assets | 695,393 | – | – | – | 695,393 |
| **TOTAL ASSETS** | 243,019,212 | 2,870,777 | 4,480,001 | 2,469,449 | 252,839,439 |
| **LIABILITIES** | | | | | |
| Deposits from customers | 195,129,046 | 6,270 | 4,308,017 | 2,428,259 | 201,871,592 |
| Deposits from banks | 9,263,727 | 380,015 | 6,147,419 | 1,131,887 | 16,923,048 |
| Bills and acceptances payable | 1,626,814 | – | 13 | 688 | 1,627,515 |
| Derivative financial liabilities | 381,787 | – | 47,708 | – | 429,495 |
| Debt securities issued and other borrowed funds | 9,168,317 | – | 738,117 | – | 9,906,434 |
| Other liabilities | 1,760,859 | 31,499 | 65,315 | 987,918 | 2,845,591 |
| Provision for tax expense | 359,771 | – | 1,808 | 1,392 | 362,971 |
| Deferred tax liabilities | 50,738 | – | – | – | 50,738 |
| **TOTAL LIABILITIES** | 217,741,059 | 417,784 | 11,308,397 | 4,550,144 | 234,017,384 |
| **On-Balance Sheet Open Position** | 25,278,153 | 2,452,993 | (6,828,396) | (2,080,695) | 18,822,055 |
| **Off-Balance Sheet Open Position** | (7,661,879) | (1,363,524) | 6,616,605 | 2,408,798 | – |
| **NET OPEN POSITION** | 17,616,274 | 1,089,469 | (211,791) | 328,103 | 18,822,055 |

## 44. FINANCIAL RISK MANAGEMENT (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<br>31 December 2012 (Restated) | 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 | 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 | 1,306,352 | – | 5,620 | 787,000 | 2,098,972 |
| 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** | 218,831,837 | 3,051,493 | 4,320,917 | 2,371,721 | 228,575,968 |
| **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 | 1,531,952 | 144,991 | 101,507 | 800,438 | 2,578,888 |
| Provision for tax expense | 515,448 | – | 5,491 | 1,149 | 522,088 |
| Deferred tax liabilities | 55,990 | – | – | – | 55,990 |
| **TOTAL LIABILITIES** | 197,668,345 | 335,564 | 10,368,520 | 3,308,646 | 211,681,075 |
| **On-Balance Sheet Open Position** | 21,163,492 | 2,715,929 | (6,047,603) | (936,925) | 16,894,893 |
| **Off-Balance Sheet Open Position** | (5,291,370) | (1,749,462) | 5,843,554 | 1,197,278 | – |
| **NET OPEN POSITION** | 15,872,122 | 966,467 | (204,049) | 260,353 | 16,894,893 |

## 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. 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 |
|---|---|---|---|
| **2013** | | | |
| United States Dollars | **1,751,573** | **(565,167)** | **1,186,406** |
| Hong Kong Dollars | **1,905,738** | **583,270** | **2,489,008** |
| Other currencies | **–** | **514,909** | **514,909** |
| | **3,657,311** | **533,012** | **4,190,323** |
| **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 |

(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 2013 RM'000 | Revaluation Sensitivity 2012 RM'000 |
|---|---|---|---|
| United States Dollars | +/– 5 | **–/+ 28,258** | –/+ 33,961 |
| Hong Kong Dollars | +/– 5 | **+/– 29,163** | +/– 22,043 |
| Other currencies | +/– 5 | **+/– 25,745** | +/– 21,711 |

## 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** | | |
| 2013 | **+/– 20** | **+/– 3,336** |
| 2012 | +/– 20 | +/– 9,615 |
| **Bank** | | |
| 2013 | **+/– 20** | **+/– 957** |
| 2012 | +/– 20 | +/– 7,418 |

### Liquidity and Funding Risk

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

Risk Governance

The ALCO is the primary committee responsible for liquidity and funding risk management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

## 44. FINANCIAL RISK MANAGEMENT (CONT'D.)

### Liquidity and Funding Risk (Cont'd.)

Risk Management Approach

The liquidity and funding risk management of the Group is aligned to the New Liquidity Framework issued by BNM, and is measured and managed based on projected cash flows. In addition to ensuring 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 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 2013, the Group holds a sizeable balance of government securities amounting to RM16,089.9 million (31 December 2012 – RM17,651.4 million) or 39% (31 December 2012 – 44%) of its portfolio of securities.

The Group's liquidity and funding positions are supported by the Group's significant retail deposit base, accompanied by funding from wholesale markets. The Group's retail deposit base comprises 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 debt instruments, certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

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

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Group to determine the cash flows mismatches under the "Specific Institution Liquidity Problem" and "Systemic Wide Liquidity Problem" scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Overseas subsidiary companies and overseas branches are required to comply with their respective local regulatory liquidity requirements and internal liquidity and funding limits. Similar risk management processes as practiced by Head Office are adopted by its overseas subsidiary companies and overseas branches. It is the Group's policy that the overseas subsidiary companies and overseas branches strive to attain a self-funding position in funding their respective operations.

## 44. FINANCIAL RISK MANAGEMENT (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

The following tables show the maturity analysis of the carrying amounts of the Group's and the Bank's assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Group and the Bank have significant amounts of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 7 days" time band) but which are historically a stable source of long-term funding for the Group and the Bank.

The Group and the Bank are subject to liquidity requirements to support calls under outstanding contingent liabilities and commitments as set out in Note 49 to the financial statements. The total outstanding contractual amounts of these items do not represent future cash requirements since the Group and the Bank expect many of these commitments (such as direct credit substitutes) to expire or be unconditionally cancelled without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

| Group<br>31 December 2013 | Up to 7 Days RM'000 | > 7 Days – 1 Month RM'000 | > 1 – 3 Months RM'000 | > 3 – 6 Months RM'000 | > 6 – 12 Months RM'000 | > 1 Year RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with banks | 13,416,152 | 6,771,232 | 1,473,957 | 418,796 | 280 | – | 22,080,417 |
| Reverse repurchase agreements | 100,737 | 2,641,080 | 6,800,152 | – | – | – | 9,541,969 |
| Financial investments | 730,960 | 5,070,697 | 11,990,602 | 4,747,872 | 7,794,116 | 10,889,779 | 41,224,026 |
| Derivative financial assets | 23,984 | 89,639 | 37,761 | 25,620 | 8,113 | 180,237 | 365,354 |
| Loans, advances and financing | 11,140,353 | 4,751,816 | 9,271,077 | 11,606,651 | 16,895,642 | 165,750,254 | 219,415,793 |
| Other asset balances | 42,320 | 21,359 | 4,649 | 1,321 | 1 | 13,028,187 | 13,097,837 |
| **TOTAL ASSETS** | 25,454,506 | 19,345,823 | 29,578,198 | 16,800,260 | 24,698,152 | 189,848,457 | 305,725,396 |
| **LIABILITIES** | | | | | | | |
| Deposits from customers | 98,910,457 | 71,764,702 | 35,746,181 | 19,950,941 | 24,077,626 | 423,282 | 250,873,189 |
| Deposits from banks | 4,773,671 | 6,691,156 | 4,159,519 | 277,010 | 30,480 | 244,000 | 16,175,836 |
| Recourse obligations on loans and financing sold to Cagamas | – | – | – | – | – | 500,011 | 500,011 |
| Derivative financial liabilities | 14,638 | 18,686 | 33,855 | 1,399 | 25,622 | 240,390 | 334,590 |
| Debt securities issued and other borrowed funds | – | – | – | – | 936,391 | 9,433,434 | 10,369,825 |
| Other liability balances | 867,640 | 831,165 | 709,793 | 158,043 | 191,065 | 3,517,043 | 6,274,749 |
| **TOTAL LIABILITIES** | 104,566,406 | 79,305,709 | 40,649,348 | 20,387,393 | 25,261,184 | 14,358,160 | 284,528,200 |
| **EQUITY** | | | | | | | |
| Equity attributable to equity holders of the Bank | – | – | – | – | – | 20,423,594 | 20,423,594 |
| Non-controlling interests | – | – | – | – | – | 773,602 | 773,602 |
| **TOTAL EQUITY** | – | – | – | – | – | 21,197,196 | 21,197,196 |
| **NET MATURITY MISMATCH** | (79,111,900) | (59,959,886) | (11,071,150) | (3,587,133) | (563,032) | 154,293,101 | – |

## 44. FINANCIAL RISK MANAGEMENT (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<br>31 December 2012 (Restated) | Up to<br>7 Days<br>RM'000 | > 7 Days –<br>1 Month<br>RM'000 | > 1 – 3<br>Months<br>RM'000 | > 3 – 6<br>Months<br>RM'000 | > 6 – 12<br>Months<br>RM'000 | > 1<br>Year<br>RM'000 | Total<br>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 | 11,498,466 | 11,531,407 |
| **TOTAL ASSETS** | 24,528,570 | 19,687,856 | 23,805,530 | 18,565,242 | 18,021,102 | 170,215,658 | 274,823,958 |
| **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 | 396 | 169,774 | 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 | 4,210,918 | 7,532,103 |
| **TOTAL LIABILITIES** | 89,821,879 | 69,027,551 | 45,957,941 | 19,830,577 | 17,108,859 | 14,358,847 | 256,105,654 |
| **EQUITY** | | | | | | | |
| Equity attributable to equity holders of the Bank | – | – | – | – | – | 18,018,440 | 18,018,440 |
| Non-controlling interests | – | – | – | – | – | 699,864 | 699,864 |
| **TOTAL EQUITY** | – | – | – | – | – | 18,718,304 | 18,718,304 |
| **NET MATURITY MISMATCH** | (65,293,309) | (49,339,695) | (22,152,411) | (1,265,335) | 912,243 | 137,138,507 | – |

## 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<br>31 December 2013 | Up to<br>7 Days<br>RM'000 | > 7 Days –<br>1 Month<br>RM'000 | > 1 – 3<br>Months<br>RM'000 | > 3 – 6<br>Months<br>RM'000 | > 6 – 12<br>Months<br>RM'000 | > 1<br>Year<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with banks | 5,506,570 | 5,879,846 | 1,210,475 | 153,195 | – | – | 12,750,086 |
| Reverse repurchase agreements | – | 2,389,737 | 6,248,851 | – | – | – | 8,638,588 |
| Financial investments | 384,117 | 4,497,049 | 9,698,160 | 3,594,673 | 5,685,784 | 11,039,310 | 34,899,093 |
| Derivative financial assets | 23,911 | 89,392 | 37,756 | 25,620 | 8,113 | 165,937 | 350,729 |
| Loans and advances | 10,052,610 | 3,856,319 | 7,638,411 | 9,716,816 | 13,543,338 | 137,597,079 | 182,404,573 |
| Other asset balances | 19,725 | 21,063 | 4,336 | 549 | – | 13,750,697 | 13,796,370 |
| **TOTAL ASSETS** | 15,986,933 | 16,733,406 | 24,837,989 | 13,490,853 | 19,237,235 | 162,553,023 | 252,839,439 |
| **LIABILITIES** | | | | | | | |
| Deposits from customers | 81,033,847 | 56,177,148 | 27,007,685 | 14,976,806 | 20,775,528 | 1,900,578 | 201,871,592 |
| Deposits from banks | 4,855,636 | 7,996,342 | 3,709,579 | 83,376 | 36,504 | 241,611 | 16,923,048 |
| Derivative financial liabilities | 14,505 | 18,562 | 33,854 | 1,399 | 23,018 | 338,157 | 429,495 |
| Debt securities issued and other borrowed funds | – | – | – | – | 473,000 | 9,433,434 | 9,906,434 |
| Other liability balances | 841,025 | 764,593 | 730,363 | 129,462 | 171,548 | 2,249,824 | 4,886,815 |
| **TOTAL LIABILITIES** | 86,745,013 | 64,956,645 | 31,481,481 | 15,191,043 | 21,479,598 | 14,163,604 | 234,017,384 |
| **EQUITY** | | | | | | | |
| Equity attributable to equity holders of the Bank | – | – | – | – | – | 18,822,055 | 18,822,055 |
| **TOTAL EQUITY** | – | – | – | – | – | 18,822,055 | 18,822,055 |
| **NET MATURITY MISMATCH** | (70,758,080) | (48,223,239) | (6,643,492) | (1,700,190) | (2,242,363) | 129,567,364 | – |

## 44. FINANCIAL RISK MANAGEMENT (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<br>31 December 2012 (Restated) | Up to 7 Days RM'000 | > 7 Days – 1 Month RM'000 | > 1 – 3 Months RM'000 | > 3 – 6 Months RM'000 | > 6 – 12 Months RM'000 | > 1 Year RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with banks | 5,868,797 | 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 | – | – | 12,504,483 | 12,525,418 |
| **TOTAL ASSETS** | 17,509,560 | 16,989,753 | 19,632,832 | 14,663,051 | 13,786,555 | 145,994,217 | 228,575,968 |
| **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 | 396 | 147,023 | 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 | 3,048,803 | 6,289,658 |
| **TOTAL LIABILITIES** | 71,065,127 | 61,334,593 | 37,594,042 | 15,921,316 | 14,247,719 | 11,518,278 | 211,681,075 |
| **EQUITY** | | | | | | | |
| Equity attributable to equity holders of the Bank | – | – | – | – | – | 16,894,893 | 16,894,893 |
| **TOTAL EQUITY** | – | – | – | – | – | 16,894,893 | 16,894,893 |
| **NET MATURITY MISMATCH** | (53,555,567) | (44,344,840) | (17,961,210) | (1,258,265) | (461,164) | 117,581,046 | – |

## 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:

| 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 2013** | | | | | | | |
| By contractual maturity | **98,910,457** | **71,764,702** | **35,746,181** | **19,950,941** | **24,077,626** | **423,282** | **250,873,189** |
| By behavioural maturity* | **22,635,138** | **8,681,156** | **13,900,280** | **16,759,316** | **9,420,951** | **179,476,348** | **250,873,189** |
| Difference | **76,275,319** | **63,083,546** | **21,845,901** | **3,191,625** | **14,656,675** | **(179,053,066)** | **–** |
| **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) | – |

| Bank | Up to 7 Days RM'000 | > 7 Days – 1 Month RM'000 | > 1 – 3 Months RM'000 | > 3 – 6 Months RM'000 | > 6 – 12 Months RM'000 | > 1 Year RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | |
| By contractual maturity | **81,033,847** | **56,177,148** | **27,007,685** | **14,976,806** | **20,775,528** | **1,900,578** | **201,871,592** |
| By behavioural maturity* | **10,848,145** | **2,701,456** | **6,390,389** | **13,592,119** | **7,086,379** | **161,253,104** | **201,871,592** |
| Difference | **70,185,702** | **53,475,692** | **20,617,296** | **1,384,687** | **13,689,149** | **(159,352,526)** | **–** |
| **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) | – |

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

## 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

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturity. The financial liabilities disclosed in the tables below will not agree to the carrying amounts reported in the statements of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and interest/profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

Within the "More than 1 year" maturity time band are financial liabilities with principal amount of RM9,294.0 million (31 December 2012 – RM7,372.6 million), all of which relate to Non-Innovative Tier I stapled securities, Innovative Tier I capital securities, Subordinated notes whereby the interest payments are computed up to the first optional redemption date.

| Group | Up to 7 Days RM'000 | > 7 Days – 1 Month RM'000 | > 1 – 3 Months RM'000 | > 3 – 6 Months RM'000 | > 6 – 12 Months RM'000 | > 1 Year RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | |
| Deposits from customers | **98,921,400** | **71,857,789** | **35,931,782** | **20,177,993** | **24,616,137** | **437,623** | **251,942,724** |
| Deposits from banks | **4,774,456** | **6,695,952** | **4,171,443** | **278,797** | **30,873** | **613,920** | **16,565,441** |
| Debt securities issued and other borrowed funds | **490** | **463,392** | **106,024** | **109,872** | **696,053** | **10,934,815** | **12,310,646** |
| Other liability balances | **896,761** | **852,731** | **766,104** | **163,642** | **228,610** | **4,541,947** | **7,449,795** |
| **Total Liabilities** | **104,593,107** | **79,869,864** | **40,975,353** | **20,730,304** | **25,571,673** | **16,528,305** | **288,268,606** |
| **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 |

## 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.)

| Bank | Up to 7 Days RM'000 | > 7 Days – 1 Month RM'000 | > 1 – 3 Months RM'000 | > 3 – 6 Months RM'000 | > 6 – 12 Months RM'000 | > 1 Year RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | |
| Deposits from customers | **81,043,224** | **56,250,592** | **27,154,392** | **15,159,787** | **21,283,823** | **1,909,330** | **202,801,148** |
| Deposits from banks | **4,856,549** | **8,002,873** | **3,722,945** | **83,722** | **36,888** | **252,150** | **16,955,127** |
| Debt securities issued and other borrowed funds | **490** | **–** | **16,084** | **109,919** | **696,053** | **10,934,815** | **11,757,361** |
| Other liability balances | **862,312** | **778,643** | **775,905** | **122,455** | **187,641** | **2,907,426** | **5,634,382** |
| **Total Liabilities** | **86,762,575** | **65,032,108** | **31,669,326** | **15,475,883** | **22,204,405** | **16,003,721** | **237,148,018** |
| **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 |

### 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 VALUE MEASUREMENTS

### (a) Determination of fair value and the fair value hierarchy

For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities and broker quotes on 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, as applicable. Changes in these assumptions could materially affect the fair values derived. The Group and the Bank generally use widely recognised valuation techniques with market observable inputs, if available, for the determination of fair value, which require minimal management judgement and estimation, due to the low complexity of the financial instruments held.

MFRS 13 Fair Value Measurement requires each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition to be categorised according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of those financial instruments and non-financial assets:

Level 1 – Quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;

Level 2 – Fair values based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and

Level 3 – Fair values derived using unobservable inputs: inputs used are not based on observable market data and the unobservable inputs may have a significant impact on the valuation of the financial instruments and non-financial assets.

The Group's control framework in respect of the measurement of Level 3 fair values enables that the fair values are determined and validated by a function independent of the business unit undertaking the risks. Finance Division establishes the accounting policies and procedures governing valuation and is responsible for ensuring compliance with all relevant accounting standards. The team within Finance Division which oversees the fair value measurements, including Level 3 fair values, reports directly to the Chief Financial Officer. Independent verification on financial instruments is performed by Compliance Division. For investment properties, the valuation is determined with reference to quotations of market value provided by independent professional valuers.

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

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

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

| Group<br>31 December 2013 | Level 1<br>RM'000 | Level 2<br>RM'000 | Level 3<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held-for-trading | | | | |
| – Government securities and treasury bills | – | 1,583,640 | – | 1,583,640 |
| – Money market instruments | – | 13,822,929 | – | 13,822,929 |
| – Non-money market instruments | – | 405,394 | – | 405,394 |
| | – | 15,811,963 | – | 15,811,963 |
| Financial investments available-for-sale | | | | |
| – Government securities and treasury bills | – | 10,106,634 | – | 10,106,634 |
| – Money market instruments | – | 198,844 | – | 198,844 |
| – Non-money market instruments# | 3,351,529 | 3,851,256 | – | 7,202,785 |
| | 3,351,529 | 14,156,734 | – | 17,508,263 |
| Derivative financial assets | – | 348,738 | 16,616 | 365,354 |
| Total financial assets measured at fair value | 3,351,529 | 30,317,435 | 16,616 | 33,685,580 |
| **Non-financial assets** | | | | |
| Investment properties | – | – | 97,391 | 97,391 |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | – | 334,590 | – | 334,590 |
| Total financial liabilities measured at fair value | – | 334,590 | – | 334,590 |

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (b) Financial instruments and non-financial assets carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

| **Group**<br>**31 December 2012** | **Level 1**<br>**RM'000** | **Level 2**<br>**RM'000** | **Level 3**<br>**RM'000** | **Total**<br>**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 |
| **Non-financial assets** | | | | |
| Investment properties | – | – | 87,886 | 87,886 |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | – | 233,564 | – | 233,564 |
| Total financial liabilities measured at fair value | – | 233,564 | – | 233,564 |

# Excluding the carrying amount of equity securities – unquoted shares of the Group of RM110,249,000 (31 December 2012 – RM108,383,000) which are not carried at fair value.

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (b) Financial instruments and non-financial assets carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

| **Bank**<br>**31 December 2013** | **Level 1**<br>**RM'000** | **Level 2**<br>**RM'000** | **Level 3**<br>**RM'000** | **Total**<br>**RM'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held-for-trading | | | | |
| – Government securities and treasury bills | – | 1,379,390 | – | 1,379,390 |
| – Money market instruments | – | 12,274,547 | – | 12,274,547 |
| – Non-money market instruments | – | 332,489 | – | 332,489 |
| | – | 13,986,426 | – | 13,986,426 |
| Financial investments available-for-sale | | | | |
| – Government securities and treasury bills | – | 8,669,725 | – | 8,669,725 |
| – Money market instruments | – | 198,844 | – | 198,844 |
| – Non-money market instruments# | 2,885,269 | 3,264,744 | – | 6,150,013 |
| | 2,885,269 | 12,133,313 | – | 15,018,582 |
| Derivative financial assets | – | 334,113 | 16,616 | 350,729 |
| Total financial assets measured at fair value | 2,885,269 | 26,453,852 | 16,616 | 29,355,737 |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | – | 429,495 | – | 429,495 |
| Total financial liabilities measured at fair value | – | 429,495 | – | 429,495 |

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (b) Financial instruments and non-financial assets carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

| **Bank**<br>**31 December 2012** | **Level 1**<br>**RM'000** | **Level 2**<br>**RM'000** | **Level 3**<br>**RM'000** | **Total**<br>**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 |

# Excluding the carrying amount of equity securities – unquoted shares of the Bank of RM106,285,000 (31 December 2012 – RM104,614,000) which are not carried at fair value.

The Group and the Bank recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year (31 December 2012 – Nil).

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (b) Financial instruments and non-financial assets carried at fair value (Cont'd.)

**Reconciliation of movements in Level 3 financial instruments:**

| | Group and Bank | |
|---|---|---|
| | **2013 RM'000** | **2012 RM'000** |
| **Derivative Financial Assets** | | |
| At 1 January | **12,154** | 11,244 |
| Gains recognised in the statement of profit or loss | | |
| – realised | **771** | 1,015 |
| – unrealised | **5,027** | 2,628 |
| Sales | **(1,336)** | (2,733) |
| At 31 December | **16,616** | 12,154 |
| Total unrealised gains recognised in the statement of profit or loss reported under 'net gains and losses on financial instruments' relating to those assets or liabilities held at the end of the financial year | **5,027** | 2,628 |

The Group's exposure to financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) comprised a small number of financial instruments which constitute an insignificant component of the Group's and the Bank's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

All investment properties of the Group carried at fair values were classified under Level 3. A reconciliation of movements in Level 3 is disclosed in Note 15 Investment Properties.

The fair values of investment properties located in Malaysia are determined using comparison method by reference to the recent sales prices of comparable properties, adjustments are made where dissimilarities exist. The fair values of investment properties located in Hong Kong are determined using comparison method by reference to recent sales prices of comparable properties on a price per square meter basis. The price per square meter of the properties adopted, which were significant inputs, ranged from RM10,000 to RM187,000 (Weighted average: RM62,000). A significant change in the price per square meter will result in a significant change in the fair value of the investment properties in Hong Kong.

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

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

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group and the Bank which are not carried at fair value in the financial statements. It does not include those short term/on demand financial assets and financial liablilities where the carrying amounts are reasonable approximation of their fair values:

| Group | 31 December 2013 Carrying Amount RM'000 | 31 December 2013 Fair Value RM'000 | 31 December 2012 Carrying Amount RM'000 | 31 December 2012 Fair Value RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial investments available-for-sale | | | | |
| – Non-money market instruments | **110,249** | **110,249** | 108,383 | 108,383 |
| Financial investments held-to-maturity | | | | |
| – Government securities and treasury bills | **4,399,596** | **4,378,052** | 3,606,318 | 3,619,044 |
| – Money market instruments | **2,170,637** | **2,165,159** | 2,016,598 | 2,019,924 |
| – Non-money market instruments* | **1,223,318** | **1,213,791** | 634,855 | 637,260 |
| Loans, advances and financing | | | | |
| – Retail loans/financing | | | | |
| – housing loans/financing | **68,875,029** | **68,923,314** | 59,351,523 | 59,394,551 |
| – hire purchase | **44,392,696** | **44,411,074** | 41,595,117 | 41,664,638 |
| – credit cards | **1,604,502** | **1,604,502** | 1,587,433 | 1,587,433 |
| – other loans/financing | **74,033,925** | **74,000,993** | 65,780,784 | 65,763,119 |
| – Corporate loans/financing | **30,509,641** | **30,510,082** | 27,736,746 | 27,748,615 |
| **Financial liabilities** | | | | |
| Recourse obligations on loans and financing sold to Cagamas | **500,011** | **491,463** | 501,496 | 502,832 |
| Debt securities issued and other borrowed funds | **10,369,825** | **10,735,825** | 9,946,853 | 10,384,037 |

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (c) Fair values of financial instruments not carried at fair value (Cont'd.)

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group and the Bank which are not carried at fair value in the financial statements. It does not include those short term/on demand financial assets and financial liablilities where the carrying amounts are reasonable approximation of their fair values (Cont'd.):

| Bank | 31 December 2013 Carrying Amount RM'000 | 31 December 2013 Fair Value RM'000 | 31 December 2012 Carrying Amount RM'000 | 31 December 2012 Fair Value RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial investments available-for-sale | | | | |
| – Non-money market instruments | **106,285** | **106,285** | 104,614 | 104,614 |
| Financial investments held-to-maturity | | | | |
| – Government securities and treasury bills | **3,437,058** | **3,417,088** | 2,886,670 | 2,899,660 |
| – Money market instruments | **1,617,869** | **1,601,868** | 1,472,807 | 1,474,027 |
| – Non-money market instruments* | **732,873** | **723,416** | 149,837 | 152,447 |
| Loans and advances | | | | |
| – Retail loans | | | | |
| – housing loans | **60,037,041** | **60,037,197** | 52,073,784 | 52,074,136 |
| – hire purchase | **31,542,293** | **31,554,265** | 29,847,430 | 29,901,390 |
| – credit cards | **1,594,325** | **1,594,325** | 1,577,390 | 1,577,390 |
| – other loans | **64,497,311** | **64,497,311** | 57,011,525 | 57,011,525 |
| – Corporate loans | **24,733,603** | **24,730,331** | 22,458,479 | 22,454,809 |
| **Financial liabilities** | | | | |
| Recourse obligations on loans sold to Cagamas | **–** | **–** | 1,493 | 1,493 |
| Debt securities issued and other borrowed funds | **9,906,434** | **10,272,434** | 9,081,942 | 9,519,126 |

* The accumulated impairment losses of the Group and the Bank of RM107,000 (31 December 2012 – RM155,000) were netted off against the carrying amounts.

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (c) Fair values of financial instruments not carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

| | <------ Fair Value | | | ------> |
|---|---|---|---|---|
| **Group**<br>**31 December 2013** | **Level 1**<br>**RM'000** | **Level 2**<br>**RM'000** | **Level 3**<br>**RM'000** | **Total**<br>**RM'000** |
| **Financial assets** | | | | |
| Financial investments available-for-sale | | | | |
| – Non-money market instruments# | – | – | – | – |
| Financial investments held-to-maturity | | | | |
| – Government securities and treasury bills | – | 4,378,052 | – | 4,378,052 |
| – Money market instruments | – | 2,165,159 | – | 2,165,159 |
| – Non-money market instruments | – | 1,213,791 | – | 1,213,791 |
| Loans, advances and financing | | | | |
| – Retail loans/financing | | | | |
| – housing loans/financing | – | – | 68,923,314 | 68,923,314 |
| – hire purchase | – | – | 44,411,074 | 44,411,074 |
| – credit cards | – | – | 1,604,502 | 1,604,502 |
| – other loans/financing | – | – | 74,000,993 | 74,000,993 |
| – Corporate loans/financing | – | – | 30,510,082 | 30,510,082 |
| **Financial liabilities** | | | | |
| Recourse obligations on loans and financing sold to Cagamas | – | – | 491,463 | 491,463 |
| Debt securities issued and other borrowed funds | – | 10,735,825 | – | 10,735,825 |

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (c) Fair values of financial instruments not carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values (Cont'd.):

| | <---- Fair Value | | | ----> |
|---|---|---|---|---|
| **Group**<br>**31 December 2012** | **Level 1**<br>**RM'000** | **Level 2**<br>**RM'000** | **Level 3**<br>**RM'000** | **Total**<br>**RM'000** |
| **Financial assets** | | | | |
| Financial investments available-for-sale | | | | |
| – Non-money market instruments# | – | – | – | – |
| Financial investments held-to-maturity | | | | |
| – Government securities and treasury bills | – | 3,619,044 | – | 3,619,044 |
| – Money market instruments | – | 2,019,924 | – | 2,019,924 |
| – Non-money market instruments | – | 637,260 | – | 637,260 |
| Loans, advances and financing | | | | |
| – Retail loans/financing | | | | |
| – housing loans/financing | – | – | 59,394,551 | 59,394,551 |
| – hire purchase | – | – | 41,664,638 | 41,664,638 |
| – credit cards | – | – | 1,587,433 | 1,587,433 |
| – other loans/financing | – | – | 65,763,119 | 65,763,119 |
| – Corporate loans/financing | – | – | 27,748,615 | 27,748,615 |
| **Financial liabilities** | | | | |
| Recourse obligations on loans and financing sold to Cagamas | – | – | 502,832 | 502,832 |
| Debt securities issued and other borrowed funds | – | 10,384,037 | – | 10,384,037 |

# Excluding the carrying amount of equity securities-unquoted shares of the Group of RM110,249,000 (31 December 2012 – RM108,383,000) which are measured at cost less impairment.

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (c) Fair values of financial instruments not carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values (Cont'd.):

| | <---------- Fair Value | | | ----------> |
|---|---|---|---|---|
| **Bank**<br>**31 December 2013** | **Level 1**<br>**RM'000** | **Level 2**<br>**RM'000** | **Level 3**<br>**RM'000** | **Total**<br>**RM'000** |
| **Financial assets** | | | | |
| Financial investments available-for-sale | | | | |
| – Non-money market instruments# | – | – | – | – |
| Financial investments held-to-maturity | | | | |
| – Government securities and treasury bills | – | 3,417,088 | – | 3,417,088 |
| – Money market instruments | – | 1,601,868 | – | 1,601,868 |
| – Non-money market instruments | – | 723,416 | – | 723,416 |
| Loans and advances | | | | |
| – Retail loans | | | | |
| – housing loans | – | – | 60,037,197 | 60,037,197 |
| – hire purchase | – | – | 31,554,265 | 31,554,265 |
| – credit cards | – | – | 1,594,325 | 1,594,325 |
| – other loans | – | – | 64,497,311 | 64,497,311 |
| – Corporate loans | – | – | 24,730,331 | 24,730,331 |
| **Financial liabilities** | | | | |
| Debt securities issued and other borrowed funds | – | 10,272,434 | – | 10,272,434 |

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (c) Fair values of financial instruments not carried at fair value (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values (Cont'd.):

| | Fair Value | | | |
|---|---|---|---|---|
| **Bank**<br>**31 December 2012** | **Level 1**<br>**RM'000** | **Level 2**<br>**RM'000** | **Level 3**<br>**RM'000** | **Total**<br>**RM'000** |
| **Financial assets** | | | | |
| Financial investments available-for-sale | | | | |
| – Non-money market instruments# | – | – | – | – |
| Financial investments held-to-maturity | | | | |
| – Government securities and treasury bills | – | 2,899,660 | – | 2,899,660 |
| – Money market instruments | – | 1,474,027 | – | 1,474,027 |
| – Non-money market instruments | – | 152,447 | – | 152,447 |
| Loans and advances | | | | |
| – Retail loans | | | | |
| – housing loans | – | – | 52,074,136 | 52,074,136 |
| – hire purchase | – | – | 29,901,390 | 29,901,390 |
| – credit cards | – | – | 1,577,390 | 1,577,390 |
| – other loans | – | – | 57,011,525 | 57,011,525 |
| – Corporate loans | – | – | 22,454,809 | 22,454,809 |
| **Financial liabilities** | | | | |
| Recourse obligations on loans sold to Cagamas | – | – | 1,493 | 1,493 |
| Debt securities issued and other borrowed funds | – | 9,519,126 | – | 9,519,126 |

# Excluding the carrying amount of equity securities-unquoted shares of the Bank of RM106,285,000 (31 December 2012 – RM104,614,000) which are measured at cost less impairment.

## 45. FAIR VALUE MEASUREMENTS (CONT'D.)

### (c) 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:

(a) *Financial investments available-for-sale and financial investments held-to-maturity* – The fair values of financial investments held-to-maturity are estimated based on 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.

(b) *Loans, advances and financing* – The fair values of fixed rate loans/financing with remaining maturity of less than one year and variable rate loans/financing are estimated to approximate their carrying amounts. For fixed rate loans/financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using prevailing market rates of loans/financing of similar credit risks and maturity.

The fair values of impaired loans/financing are represented by their carrying amounts, net of any collective and individual assessment allowances, being the expected recoverable amount.

(c) *Recourse obligations on loans and financing sold to Cagamas* – The fair values of recourse obligations on loans and financing sold to Cagamas with remaining maturity of less than one (1) year are estimated to approximate their carrying amounts. The fair values of recourse obligations on loans and financing sold to Cagamas with remaining maturity of more than one year are estimated using discounted cash flows based on prevailing Cagamas rates with similar remaining period to maturity.

(d) *Debt securities issued and other borrowed funds* – The fair values of borrowings approximate their carrying amounts as these are variable rate borrowings. The fair values of debt securities issued are estimated based on quoted or observable market prices.

## 46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

| Group<br>31 December 2013 | Gross Amount Recognised as Financial Assets/ Liabilities<br>RM'000 | Gross Amount Offset in the Statement of Financial Position<br>RM'000 | Amount Presented in the Statement of Financial Position<br>RM'000 | Amount Not Set-off in the Statement of Financial Position | | Net Amount<br>RM'000 |
|---|---|---|---|---|---|---|
| | | | | Values of the Financial Instruments*<br>RM'000 | Cash Collateral Received/ Pledged<br>RM'000 | |
| **Financial assets** | | | | | | |
| Derivative financial assets | | | | | | |
| – Foreign exchange contracts | 166,918 | – | 166,918 | (62,316) | (81,338) | 23,264 |
| – Interest rate related contracts | 181,819 | – | 181,819 | (92,061) | (40,865) | 48,893 |
| – Equity related contracts | 16,616 | – | 16,616 | (8,187) | (3,018) | 5,411 |
| – Precious metal contracts | 1 | – | 1 | – | – | 1 |
| | 365,354 | – | 365,354 | (162,564) | (125,221) | 77,569 |
| Reverse repurchase agreements | 9,541,969 | – | 9,541,969 | (9,666,173) | – | (124,204) |
| | 9,907,323 | – | 9,907,323 | (9,828,737) | (125,221) | (46,635) |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | | | | | | |
| – Foreign exchange contracts | 264,505 | – | 264,505 | (141,255) | (16,182) | 107,068 |
| – Interest rate related contracts | 70,084 | – | 70,084 | (21,309) | – | 48,775 |
| – Precious metal contracts | 1 | – | 1 | – | – | 1 |
| | 334,590 | – | 334,590 | (162,564) | (16,182) | 155,844 |

## 46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

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

| Group 31 December 2012 | Gross Amount Recognised as Financial Assets/ Liabilities RM'000 | Gross Amount Offset in the Statement of Financial Position RM'000 | Amount Presented in the Statement of Financial Position RM'000 | Amount Not Set-off in the Statement of Financial Position: Values of the Financial Instruments* RM'000 | Amount Not Set-off in the Statement of Financial Position: Cash Collateral Received/ Pledged RM'000 | Net Amount RM'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial assets | | | | | | |
| – Foreign exchange contracts | 15,535 | – | 15,535 | (6,863) | (264) | 8,408 |
| – Interest rate related contracts | 342,775 | – | 342,775 | (86,913) | (187,762) | 68,100 |
| – Equity related contracts | 12,154 | – | 12,154 | (5,866) | (7,381) | (1,093) |
| – Precious metal contracts | 1 | – | 1 | – | – | 1 |
| | 370,465 | – | 370,465 | (99,642) | (195,407) | 75,416 |
| Reverse repurchase agreements | 8,158,506 | – | 8,158,506 | (8,371,213) | – | (212,707) |
| | 8,528,971 | – | 8,528,971 | (8,470,855) | (195,407) | (137,291) |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | | | | | | |
| – Foreign exchange contracts | 99,459 | – | 99,459 | (53,799) | (21,376) | 24,284 |
| – Interest rate related contracts | 134,105 | – | 134,105 | (45,843) | – | 88,262 |
| | 233,564 | – | 233,564 | (99,642) | (21,376) | 112,546 |

## 46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

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

| Bank<br>31 December 2013 | Gross Amount Recognised as Financial Assets/ Liabilities RM'000 | Gross Amount Offset in the Statement of Financial Position RM'000 | Amount Presented in the Statement of Financial Position RM'000 | Amount Not Set-off in the Statement of Financial Position | | Net Amount RM'000 |
|---|---|---|---|---|---|---|
| | | | | Values of the Financial Instruments* RM'000 | Cash Collateral Received/ Pledged RM'000 | |
| **Financial assets** | | | | | | |
| Derivative financial assets | | | | | | |
| – Foreign exchange contracts | 166,593 | – | 166,593 | (62,316) | (81,338) | 22,939 |
| – Interest rate related contracts | 167,519 | – | 167,519 | (92,061) | (40,865) | 34,593 |
| – Equity related contracts | 16,616 | – | 16,616 | (8,187) | (3,018) | 5,411 |
| – Precious metal contracts | 1 | – | 1 | – | – | 1 |
| | 350,729 | – | 350,729 | (162,564) | (125,221) | 62,944 |
| Reverse repurchase agreements | 8,638,588 | – | 8,638,588 | (8,756,873) | – | (118,285) |
| | 8,989,317 | – | 8,989,317 | (8,919,437) | (125,221) | (55,341) |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | | | | | | |
| – Foreign exchange contracts | 264,247 | – | 264,247 | (141,255) | (16,182) | 106,810 |
| – Interest rate related contracts | 165,247 | – | 165,247 | (21,309) | – | 143,938 |
| – Precious metal contracts | 1 | – | 1 | – | – | 1 |
| | 429,495 | – | 429,495 | (162,564) | (16,182) | 250,749 |

## 46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

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

| | | | | Amount Not Set-off in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| **Bank**<br>**31 December 2012** | **Gross Amount Recognised as Financial Assets/ Liabilities**<br>**RM'000** | **Gross Amount Offset in the Statement of Financial Position**<br>**RM'000** | **Amount Presented in the Statement of Financial Position**<br>**RM'000** | **Values of the Financial Instruments***<br>**RM'000** | **Cash Collateral Received/ Pledged**<br>**RM'000** | **Net Amount**<br>**RM'000** |
| **Financial assets** | | | | | | |
| Derivative financial assets | | | | | | |
| – Foreign exchange contracts | 15,409 | – | 15,409 | (6,863) | (264) | 8,282 |
| – Interest rate related contracts | 336,780 | – | 336,780 | (86,913) | (187,762) | 62,105 |
| – Equity related contracts | 12,154 | – | 12,154 | (5,866) | (7,381) | (1,093) |
| – Precious metal contracts | 1 | – | 1 | – | – | 1 |
| | 364,344 | – | 364,344 | (99,642) | (195,407) | 69,295 |
| Reverse repurchase agreements | 7,309,153 | – | 7,309,153 | (7,502,535) | – | (193,382) |
| | 7,673,497 | – | 7,673,497 | (7,602,177) | (195,407) | (124,087) |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | | | | | | |
| – Foreign exchange contracts | 99,406 | – | 99,406 | (53,799) | (21,376) | 24,231 |
| – Interest rate related contracts | 111,354 | – | 111,354 | (45,843) | – | 65,511 |
| | 210,760 | – | 210,760 | (99,642) | (21,376) | 89,742 |

* Include securities accepted as collateral.

## 46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D.)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivatives and reverse repurchase agreements included in the amount not set-off in the statement of financial position relate to transactions where:

(i) the counterparty has an offsetting exposure with the Group and the Bank and a master netting or similar arrangements is in place with a right to set-off only in the event of default, insolvency or bankruptcy; and

(ii) cash and securities are received or cash pledged in respect of the transaction described above.

## 47. OPERATING LEASES

### The Group and the Bank as a Lessee

The Group and the Bank lease a number of premises under operating leases. The leases typically run for an initial period of three years, with an option to renew. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Within one year | **29,774** | 24,767 | **439** | 518 |
| Between one and five years | **25,308** | 18,432 | **85** | 524 |
| More than five years | **4,576** | 34,370 | **–** | – |
| | **59,658** | 77,569 | **524** | 1,042 |

### The Group as a Lessor

The Group leases out its investment properties under operating leases with the term of the leases ranging from one to five years. None of the leases includes contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

| | Group | |
|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Within one year | **4,287** | 2,741 |
| Between one and five years | **3,034** | 1,731 |
| More than five years | **–** | 3,679 |
| | **7,321** | 8,151 |

## 48. CAPITAL AND OTHER COMMITMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Authorised and contracted for: | | | | |
| – Land and buildings | 403,340 | 30,204 | – | – |
| – Renovations | 2,837 | 1,262 | – | – |
| – Office equipment, furniture and fittings | 3,428 | 2,150 | 2,430 | 1,632 |
| – Computer equipment and software | 14,285 | 14,438 | 10,039 | 10,181 |
| – Motor vehicles | 98 | 98 | – | – |
| | 423,988 | 48,152 | 12,469 | 11,813 |
| Authorised but not contracted for: | | | | |
| – Renovations | 6,273 | 5,964 | – | – |
| – Office equipment, furniture and fittings | 962 | 65 | – | – |
| – Computer equipment and software | 10,392 | 6,612 | – | – |
| – Motor vehicles | 754 | – | – | – |
| – Additional investment in an associated company | 155,928 | 146,822 | 155,928 | 146,822 |
| | 174,309 | 159,463 | 155,928 | 146,822 |
| | 598,297 | 207,615 | 168,397 | 158,635 |

## 49. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's and the Bank's assets.

The notional amounts of the commitments and contingencies of the Group and the Bank are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| **Contingent liabilities** | | | | |
| Direct credit substitutes | **1,521,770** | 1,549,134 | **1,196,990** | 1,175,058 |
| Transaction-related contingent items | **1,173,514** | 1,031,792 | **1,041,919** | 908,204 |
| Short term self-liquidating trade-related contingencies | **467,641** | 525,150 | **295,684** | 341,952 |
| | **3,162,925** | 3,106,076 | **2,534,593** | 2,425,214 |
| **Commitments** | | | | |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | | |
| – exceeding one year | **29,229,501** | 24,158,799 | **26,897,981** | 22,211,606 |
| – not exceeding one year | **21,886,823** | 20,955,923 | **19,688,146** | 19,422,068 |
| Unutilised credit card lines | **3,823,553** | 3,693,110 | **3,713,960** | 3,587,921 |
| Forward asset purchases | **4,176** | 30,386 | **–** | – |
| | **54,944,053** | 48,838,218 | **50,300,087** | 45,221,595 |
| **Derivative financial instruments** | | | | |
| Foreign exchange related contracts: | | | | |
| – less than one year | **16,836,631** | 11,879,221 | **16,652,983** | 11,822,972 |
| – one year to less than five years | **2,151,746** | 1,376,100 | **2,151,746** | 1,376,100 |
| Interest rate related contracts: | | | | |
| – less than one year | **1,953,625** | 1,552,000 | **1,838,821** | 1,552,000 |
| – one year to less than five years | **6,176,844** | 9,929,440 | **6,247,237** | 9,408,350 |
| – five years and above | **2,706,403** | 2,649,740 | **3,808,000** | 3,758,000 |
| Commodity related contracts: | | | | |
| – less than one year | **1,890** | 206 | **1,890** | 206 |
| Equity related contracts: | | | | |
| – less than one year | **52,089** | 73,589 | **52,089** | 73,589 |
| – one year to less than five years | **–** | 53,005 | **–** | 53,005 |
| | **29,879,228** | 27,513,301 | **30,752,766** | 28,044,222 |
| | **87,986,206** | 79,457,595 | **83,587,446** | 75,691,031 |

Disclosure of the credit equivalent amount and risk-weighted asset amount of the commitments and contingencies above, as required by BNM's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), is presented in the Pillar 3 disclosures section of the Annual Report.

## 50. CAPITAL ADEQUACY

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

| | Group | | |
|---|---|---|---|
| | **31 December 2013** | **31 December 2012 (Restated)** | **1 January 2012 (Restated)** |
| Before deducting second interim dividends* | | | |
| Common equity Tier I ("CET I") capital ratio | **9.276%** | N/A | N/A |
| Tier I capital ratio | **11.055%** | 11.413% | 11.235% |
| Total capital ratio | **14.288%** | 14.674% | 15.625% |
| After deducting second interim dividends* | | | |
| CET I capital ratio | **8.750%** | N/A | N/A |
| Tier I capital ratio | **10.529%** | 10.828% | 10.634% |
| Total capital ratio | **13.762%** | 14.089% | 15.024% |

| | Bank | | |
|---|---|---|---|
| | **31 December 2013** | **31 December 2012 (Restated)** | **1 January 2012 (Restated)** |
| Before deducting second interim dividends* | | | |
| CET I capital ratio | **10.927%** | N/A | N/A |
| Tier I capital ratio | **13.023%** | 13.632% | 13.549% |
| Total capital ratio | **14.086%** | 14.534% | 15.643% |
| After deducting second interim dividends* | | | |
| CET I capital ratio | **10.300%** | N/A | N/A |
| Tier I capital ratio | **12.396%** | 12.931% | 12.823% |
| Total capital ratio | **13.459%** | 13.833% | 14.917% |

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

## 50. CAPITAL ADEQUACY (CONT'D.)

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



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



The capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) issued on 28 November 2012, which is effective from 1 January 2013. The minimum regulatory capital adequacy ratios, as required under BNM's Capital Adequacy Framework (Capital Components) which includes transitional arrangements for year 2013 and 2014, are set out as follows:

| Calendar Year | CET I Capital Ratio % | Tier I Capital Ratio % | Total Capital Ratio % |
|---|---|---|---|
| 2013 | 3.5 | 4.5 | 8.0 |
| 2014 | 4.0 | 5.5 | 8.0 |
| 2015 onwards* | 4.5 | 6.0 | 8.0 |

* Before including capital conservation buffer of 2.5%, counter-cyclical buffer and any other buffers to be introduced by BNM.

The comparative capital adequacy ratios and total capital have been computed with the then prevailing BNM's revised Risk Weighted Capital Adequacy Framework (Basel II) and have been restated for effects of the adoption of MFRS 119 Employee Benefits. Please refer to Note 53 Changes in Accounting Policies for a summary of the changes.

## 50. 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 2013** | | | | | | |
| Before deducting interim dividends*: | | | | | | |
| CET I capital ratio | **12.133%** | **27.252%** | **N/A** | **13.916%** | **27.468%** | **N/A** |
| Tier I capital ratio | **12.133%** | **27.252%** | **25.625%** | **13.916%** | **27.468%** | **N/A** |
| Total capital ratio | **12.751%** | **27.448%** | **25.671%** | **15.089%** | **28.409%** | **19.685%** |
| After deducting interim dividends*: | | | | | | |
| CET I capital ratio | **11.743%** | **26.139%** | **N/A** | **13.916%** | **25.257%** | **N/A** |
| Tier I capital ratio | **11.743%** | **26.139%** | **25.625%** | **13.916%** | **25.257%** | **N/A** |
| Total capital ratio | **12.360%** | **26.336%** | **25.671%** | **15.089%** | **26.199%** | **19.685%** |
| **31 December 2012 (Restated)** | | | | | | |
| Before deducting interim dividends*: | | | | | | |
| CET I capital ratio | N/A | N/A | N/A | N/A | N/A | N/A |
| Tier I capital ratio | 12.296%# | 27.454%# | 21.791% | 16.423% | 28.962% | N/A |
| Total capital ratio | 13.013%# | 27.622%# | 21.842% | 16.423% | 30.119% | 21.566% |
| After deducting interim dividends*: | | | | | | |
| CET I capital ratio | N/A | N/A | N/A | N/A | N/A | N/A |
| Tier I capital ratio | 11.354%# | 26.426%# | 21.791% | 16.423% | 26.509% | N/A |
| Total capital ratio | 12.071%# | 26.595%# | 21.842% | 16.423% | 27.666% | 21.566% |
| **1 January 2012 (Restated)** | | | | | | |
| Before deducting interim dividends*: | | | | | | |
| CET I capital ratio | N/A | N/A | N/A | N/A | N/A | N/A |
| Tier I capital ratio | 12.288%# | 18.196%# | 19.584% | 16.135% | 29.610% | N/A |
| Total capital ratio | 13.275%# | 18.286%# | 19.988% | 16.135% | 30.765% | 22.831% |
| After deducting interim dividends*: | | | | | | |
| CET I capital ratio | N/A | N/A | N/A | N/A | N/A | N/A |
| Tier I capital ratio | 10.896%# | 16.899%# | 19.584% | 16.135% | 26.946% | N/A |
| Total capital ratio | 11.884%# | 16.989%# | 19.988% | 16.135% | 28.101% | 22.831% |

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

\# Restated for the effects of the adoption of MFRS 119.

## 50. 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 risk-weighted assets of Public Islamic Bank Berhad are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Risk-weighted Assets) issued on 28 November 2012, which is effective from 1 January 2013. The minimum regulatory capital adequacy requirement for CET I capital ratio, Tier I capital ratio and total capital ratio are 3.5%, 4.5% and 8.0% respectively for year 2013. The comparative capital adequacy ratios of Public Islamic Bank Berhad are computed in accordance with the then prevailing BNM's Capital Adequacy Framework for Islamic Banks (CAFIB), which are based on the Basel II capital accord.

[2] The risk-weighted assets of Public Investment Bank Berhad are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) issued on 28 November 2012, which is effective on 1 January 2013. The minimum regulatory capital adequacy requirement for CET I capital ratio, Tier I capital ratio and total capital ratio are 3.5%, 4.5% and 8.0% respectively for year 2013. The comparative capital adequacy ratios of Public Investment Bank Berhad are computed in accordance with the then prevailing BNM's revised Risk-weighted Capital Adequacy Framework, which are based on the Basel II capital accord.

[3] The capital adequacy ratios of Public Bank (L) Ltd. for capital compliance on a standalone basis are computed in accordance with the Guidelines on Risk-weighted Capital Adequacy issued by the Labuan Financial Services Authority (Labuan FSA), which is based on the Basel I capital accord. The minimum regulatory capital adequacy requirements are 4.0% and 8.0% for the Tier I capital ratio and total capital ratio respectively.

[4] These two subsidiary companies have adopted the Standardised Approach for Credit and Market Risk. Public Bank (Hong Kong) Limited has adopted the Basic Indicator Approach for Operational Risk and Public Finance Limited has adopted the Standardised Approach for Operational Risk. With effect from 1 January 2013, the capital adequacy ratios of these two subsidiaries are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Banking Capital Rules. The comparative capital adequacy ratios of these two subsidiary companies are based on the Basel II capital accord.

[5] The amount presented here is the Solvency Ratio of Cambodian Public Bank Plc, which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with Prakas B7-010-182, B7-00-46, B7-04-206 and B7-07-135 issued by the National Bank of Cambodia. This ratio is derived as Cambodian Public Bank Plc's net worth divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory solvency ratio requirement is 15.0%.

## 50. CAPITAL ADEQUACY (CONT'D.)

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

| | Group | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Components of CET I, Tier I and Tier II Capital: | | | |
| CET I/Tier I Capital: | | | |
| 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 | **4,402,843** | 4,218,576 | 4,182,030 |
| Retained profits | **11,507,565** | 9,274,909 | 7,140,589 |
| Treasury shares | **(215,572)** | (215,572) | (215,572) |
| Qualifying non-controlling interests | **522,093** | 699,864 | 697,484 |
| Less: Goodwill | **(2,003,912)** | (1,899,875) | (1,938,994) |
| Less: Deferred tax assets, net | **(70,121)** | (64,900) | (46,093) |
| Less: Defined benefit pension fund assets | **(220,922)** | – | – |
| Total CET I Capital | **18,527,210** | 16,618,238 | 14,424,680 |
| Innovative Tier I capital securities | **1,630,440** | 1,810,317 | 1,833,303 |
| Non-Innovative Tier I stapled securities | **1,879,200** | 2,083,146 | 2,082,388 |
| Qualifying CET I and additional Tier I capital instruments held by third parties | **42,031** | – | – |
| Total Tier I Capital | **22,078,881** | 20,511,701 | 18,340,371 |
| Tier II Capital | | | |
| Collective assessment allowance# | **1,123,706** | 1,038,369 | 1,073,337 |
| Subordinated notes | | | |
| – meeting all relevant criteria | **1,949,116** | – | – |
| – subject to gradual phase-out treatment | **3,471,121** | 4,870,351 | 6,138,306 |
| Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties | **56,042** | – | – |
| Less: Investment in banking/insurance subsidiary companies and associated companies | **(142,255)** | (960) | (960) |
| Less: Holdings of other financial institutions' capital instruments | **–** | (46,834) | (44,468) |
| Total Tier II Capital | **6,457,730** | 5,860,926 | 7,166,215 |
| Total Capital | **28,536,611** | 26,372,627 | 25,506,586 |

## 50. CAPITAL ADEQUACY (CONT'D.)

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

| | Bank | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Components of CET I, Tier I and Tier II Capital: | | | |
| CET I/Tier I Capital: | | | |
| 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 | **3,924,896** | 3,750,880 | 3,741,556 |
| Retained profits | **10,892,504** | 9,104,376 | 6,952,315 |
| Treasury shares | **(215,572)** | (215,572) | (215,572) |
| Less: Goodwill | **(695,393)** | (695,393) | (695,393) |
| Less: Defined benefit pension fund assets | **(215,372)** | – | – |
| Total CET I Capital | **18,296,299** | 16,549,527 | 14,388,142 |
| Innovative Tier I capital securities | **1,630,440** | 1,810,317 | 1,833,303 |
| Non-Innovative Tier I stapled securities | **1,879,200** | 2,083,146 | 2,082,388 |
| Total Tier I Capital | **21,805,939** | 20,442,990 | 18,303,833 |
| Tier II Capital | | | |
| Collective assessment allowance# | **625,010** | 691,258 | 721,913 |
| Subordinated notes | | | |
| – meeting all relevant criteria | **1,949,116** | – | – |
| – subject to gradual phase-out treatment | **3,471,121** | 4,870,351 | 6,138,306 |
| Less: Investment in banking/insurance subsidiary companies and associated companies | **(4,264,787)** | (4,162,284) | (3,987,284) |
| Less: Holdings of other financial institutions' capital instruments | **–** | (46,834) | (44,468) |
| Total Tier II Capital | **1,780,460** | 1,352,491 | 2,828,467 |
| Total Capital | **23,586,399** | 21,795,481 | 21,132,300 |

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 RM600,816,000 (31 December 2012 – RM491,197,000; 1 January 2012 – RM422,707,000) and RM446,948,000 (31 December 2012 – RM369,214,000; 1 January 2012 – RM325,341,000) respectively.

Includes the Group's qualifying regulatory reserves for non-impaired loans which pertain to Public Bank (Hong Kong) Limited and Public Finance Limited amounting to RM132,437,000 (31 December 2012 – N/A; 1 January 2012 – N/A).

## 50. CAPITAL ADEQUACY (CONT'D.)

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

| | Group | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Credit risk | **183,113,937** | 164,279,544 | 148,877,780 |
| Market risk | **2,111,436** | 1,713,076 | 1,670,798 |
| Operational risk | **14,497,356** | 13,733,324 | 12,692,078 |
| | **199,722,729** | 179,725,944 | 163,240,656 |

| | Bank | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Credit risk | **154,360,722** | 137,471,265 | 123,271,403 |
| Market risk | **2,850,579** | 2,579,721 | 2,774,099 |
| Operational risk | **10,228,677** | 9,915,430 | 9,048,375 |
| | **167,439,978** | 149,966,416 | 135,093,877 |

Detailed information on the risk exposures above, as prescribed under BNM's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) is presented in the Pillar 3 disclosures section of the Annual Report.

## 51. CAPITAL MANAGEMENT

The Group actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Group's capital management strategy is to continue to maximise shareholders' value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Group's strategic planning review and is subject to the approval of the Board of Directors.

## 51. CAPITAL MANAGEMENT (CONT'D.)

The Group's capital is managed in line with the objectives of the Group Capital Management Framework. The key objectives under the framework include meeting regulatory capital requirements, optimising return to shareholders, maintaining adequate levels and optimum mix of capital, maintaining strong external credit ratings and allocation of capital across business units and subsidiary companies. In order to meet these objectives, the Group actively manages its capital structure and makes adjustments to address changes in the economic environment, regulatory requirements and risk characteristics inherent in its business operations. These initiatives include issuances of capital securities, adjustments to the amount of dividends distributed to shareholders and focus on growth in non-interest income and other less capital-intensive business activities. The Group's Internal Capital Adequacy Assessment Process ("ICAAP") assesses the Group's internal capital requirements beyond the minimum regulatory requirements to ensure its capital commensurates with the Group's risk profile, the complexity of the business activities undertaken and its risk appetite.



The Group's and Bank's regulatory capital are determined under BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) and their capital ratios have complied with the minimum requirements set under this guideline. Information on the Group's and Bank's capital adequacy ratios, regulatory minimum capital requirements and the components of capital base are disclosed in Note 50 (a) and (b).



## 52. SEGMENT INFORMATION

The following segment information has been prepared in accordance with MFRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Group's operating and reportable segments are business units engaged in providing different products or services and business units operating in different geographical locations. These businesses are managed and assessed separately as each requires a differentiated strategy focused on the specific products and services provided for the economic, competitive, geographical and regulatory environment in which it operates. For each operating segment, the Management Committee (the chief operating decision-maker) reviews the internal management reports monthly in order to assess their performance.

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

**(i) Hire Purchase**

The hire purchase operations focus on the provision of passenger vehicle financing to all levels of customers.

**(ii) Retail Operations**

Retail operations focus on providing products and services to individual customers and small and medium enterprises. The products and services offered to customers include credit facilities (mortgages, trade and personal loans), credit cards, remittance services, deposit collection and investment products.

**(iii) Corporate Lending**

The corporate lending operations cater to the funding needs of large corporate customers which are primarily public listed companies and their related corporations.

**(iv) Treasury and Capital Market Operations**

The treasury and capital market operations are involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading.

## 52. SEGMENT INFORMATION (CONT'D.)

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

**(v) Investment Banking**

The investment banking operations cater to the business needs of large corporate customers through the provision of financial solutions and direct lending. The services offered include structured financing, corporate advisory services, merger and acquisition, stock-broking and debt restructuring advisory services.

**(vi) Fund Management**

The fund management operations consist of sale of trust units and the management of unit trust funds as conducted by the Bank's wholly-owned subsidiary company, Public Mutual Berhad.

**(vii) Others**

Others refer mainly to non-core operations such as property holding.

The Group's overseas business operations are organised according to the following geographical locations:

**(i) Hong Kong SAR**

This includes all business operations conducted by the Group's subsidiary companies in Hong Kong SAR and the People's Republic of China, including retail and commercial banking and lending, wealth management services, stock-broking and other related financial services.

**(ii) Cambodia**

This comprises all business operations conducted by the Group's subsidiary companies in Cambodia, which includes mainly financing, deposit-taking, general insurance businesses and stock-broking.

**(iii) Other Countries**

This refers to the Group's banking business operations in the Socialist Republic of Vietnam, Lao People's Democratic Republic and Sri Lanka.

There are no changes in the operating segments during the year.

### Measurement and Evaluation of Segment Performance

The Management Committee evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, 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 based on mutually agreed allocation bases. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net interest income. In addition to the operating segments, the segment information disclosed also includes internal service providers (head office), which operate on a non-profit basis, and inter-segment eliminations.

### Major Customers

There is no single customer which contributes revenue amount greater than 10% of the Group's revenues for the current financial year (2012 – none).

## 52. SEGMENT INFORMATION (CONT'D.)

### By Business Segments:

| 2013 | Hire Purchase RM'000 | Retail Operations RM'000 | Corporate Lending RM'000 | Treasury and Capital 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | <—— Domestic Operating Segments ——> | | | | | | | | | <—— Overseas Operating Segments ——> | | | | | |
| External revenue | 2,333,254 | 7,366,038 | 1,063,171 | 1,820,583 | 205,780 | 1,019,141 | 5,156 | 371,384 | 14,184,507 | 761,830 | 247,950 | 70,013 | 1,079,793 | - | 15,264,300 |
| Revenue from other segments | - | 1,191,443 | 14,756 | 815,875 | 13,492 | 12,322 | 29,500 | 1,313,690 | 3,391,078 | - | 3,850 | - | 3,850 | (3,394,928) | - |
| Total revenue | 2,333,254 | 8,557,481 | 1,077,927 | 2,636,458 | 219,272 | 1,031,463 | 34,656 | 1,685,074 | 17,575,585 | 761,830 | 251,800 | 70,013 | 1,083,643 | (3,394,928) | 15,264,300 |
| Net interest income and Islamic banking income | 913,258 | 4,100,595 | 286,077 | 150,590 | 16,619 | 13,151 | (7,741) | 201,174 | 5,673,723 | 536,872 | 148,369 | 48,710 | 733,951 | - | 6,407,674 |
| Other income | 1,913 | 523,016 | 42,718 | 245,599 | 64,025 | 585,594 | 34,513 | 180,694 | 1,678,072 | 84,349 | 44,278 | 10,226 | 138,853 | (66,282) | 1,750,643 |
| Net income | 915,171 | 4,623,611 | 328,795 | 396,189 | 80,644 | 598,745 | 26,772 | 381,868 | 7,351,795 | 621,221 | 192,647 | 58,936 | 872,804 | (66,282) | 8,158,317 |
| Other operating expenses | (214,785) | (1,320,109) | (10,803) | (21,877) | (31,731) | (172,517) | (14,212) | (408,162) | (2,194,196) | (304,817) | (57,716) | (13,189) | (375,722) | 66,282 | (2,503,636) |
| of which: | | | | | | | | | | | | | | | |
| *Depreciation* | *(2,037)* | *(61,533)* | *(184)* | *(1,034)* | *(780)* | *(4,901)* | *(4,304)* | *(61,733)* | *(136,506)* | *(12,510)* | *(10,606)* | *(1,566)* | *(24,682)* | - | *(161,188)* |
| (Allowance)/writeback of allowance for impairment on loans, advances and financing | (205,015) | (16,972) | 21,331 | - | (309) | - | - | - | (200,965) | (132,433) | (15,761) | (2,093) | (150,287) | - | (351,252) |
| Writeback of impairment on other assets | - | 149 | - | - | - | - | - | - | 149 | - | - | - | - | - | 149 |
| Profit by segments | 495,371 | 3,286,679 | 339,323 | 374,312 | 48,604 | 426,228 | 12,560 | (26,294) | 4,956,783 | 183,971 | 119,170 | 43,654 | 346,795 | - | 5,303,578 |
| Reconciliation of segment profits to consolidated profits: | | | | | | | | | | | | | | | |
| Share of profit after tax of equity accounted associated companies | | | | | | | | | 258 | | | | 6,148 | | 6,406 |
| Profit before tax expense and zakat | | | | | | | | | 4,957,041 | | | | 352,943 | | 5,309,984 |
| Cost-to-income ratio | 23.5% | 28.6% | 3.3% | 5.5% | 39.3% | 28.8% | 53.1% | 106.9% | 29.8% | 49.1% | 30.0% | 22.4% | 43.0% | | 30.7% |

## 52. SEGMENT INFORMATION (CONT'D.)

### By Business Segments (Cont'd.):

| 2013 (Cont'd.) | Hire Purchase RM'000 | Retail Operations RM'000 | Corporate Lending RM'000 | Treasury and Capital 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | <— Domestic Operating Segments —> | | | | | | | | | <— Overseas Operating Segments —> | | | | | |
| Gross loans, advances and financing | 43,178,908 | 137,467,748 | 25,566,913 | - | 365,248 | 53,890 | 2,211 | - | 206,634,918 | 11,573,237 | 2,430,458 | 537,190 | 14,540,885 | - | 221,175,803 |
| Loan growth | 6.8% | 14.1% | 9.7% | - | 16.5% | 4.5% | 13.2% | - | 12.0% | 7.4% | 17.0% | 39.2% | 9.8% | - | 11.8% |
| Impaired loans and financing | 330,288 | 943,701 | 90,313 | - | - | - | - | - | 1,364,302 | 74,329 | 44,108 | 2,040 | 120,477 | - | 1,484,779 |
| Impaired loan ratio | 0.8% | 0.7% | 0.4% | - | - | - | - | - | 0.7% | 0.6% | 1.8% | 0.4% | 0.8% | - | 0.7% |
| Deposits from customers | - | 176,321,803 | 305,470 | 55,663,669 | 2,850,770 | - | - | - | 235,141,712 | 12,316,214 | 3,019,168 | 396,095 | 15,731,477 | - | 250,873,189 |
| Deposit growth | - | 14.7% | -4.9% | 3.7% | -4.9% | - | - | - | 11.6% | 9.0% | 11.3% | 13.7% | 9.5% | - | 11.5% |
| Addition to non-current assets | 1,324 | 56,130 | 23 | 2,290 | 559 | 4,525 | 22,881 | 27,610 | 115,342 | 8,739 | 3,955 | 876 | 13,570 | - | 128,912 |
| Segment assets | 42,899,484 | 184,423,380 | 25,495,712 | 73,670,860 | 4,259,476 | 344,470 | 319,936 | 21,079,419 | 352,492,737 | 16,200,403 | 4,064,847 | 807,083 | 21,072,333 | (71,040,117) | 302,524,953 |
| Reconciliation of segment assets to consolidated assets: | | | | | | | | | | | | | | | |
| Investment in associated companies | | | | | | | | | 37,158 | | | | 121,727 | | 158,885 |
| Unallocated assets | | | | | | | | | 1,037,646 | | | | - | | 1,037,646 |
| Intangible assets | | | | | | | | | 769,251 | | | | 1,234,661 | | 2,003,912 |
| Total assets | | | | | | | | | 354,336,792 | | | | 22,428,721 | | 305,725,396 |

## 52. SEGMENT INFORMATION (CONT'D.)

### By Business Segments (Cont'd.):

| 2012 (Restated) | Hire Purchase RM'000 | Retail Operations RM'000 | Corporate Lending RM'000 | Treasury and Capital 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | <— Domestic Operating Segments | | | | | | —> | | | <— Overseas Operating Segments | | —> | | | |
| External revenue | 2,257,989 | 6,747,976 | 965,969 | 1,671,370 | 184,373 | 870,984 | 4,818 | 346,443 | 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 | 2,403,572 | 208,939 | 882,770 | 34,136 | 1,803,401 | 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 | 145,129 | 14,096 | 12,532 | (7,703) | 122,792 | 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 | 372,092 | 74,146 | 522,058 | 26,203 | 321,824 | 7,009,572 | 598,507 | 167,063 | 37,881 | 803,451 | (66,314) | 7,746,709 |
| Other operating expenses | (211,028) | (1,342,137) | (9,811) | (19,445) | (29,608) | (149,897) | (14,479) | (353,397) | (2,129,802) | (291,285) | (51,375) | (11,442) | (354,102) | 66,314 | (2,417,590) |
| of which: *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 on other assets | – | (6,626) | – | – | – | – | – | – | (6,626) | – | – | – | – | – | (6,626) |
| Profit by segments | 668,335 | 2,986,224 | 322,300 | 352,647 | 44,123 | 372,161 | 11,724 | (31,573) | 4,725,941 | 181,399 | 110,498 | 25,411 | 317,308 | – | 5,043,249 |
| 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 | | | | | | | | | 4,722,254 | | | | 324,980 | | 5,047,234 |
| Cost-to-income ratio | 20.9% | 30.7% | 3.1% | 5.2% | 39.9% | 28.7% | 55.3% | 109.8% | 30.4% | 48.7% | 30.8% | 30.2% | 44.1% | | 31.2% |

## 52. SEGMENT INFORMATION (CONT'D.)

### By Business Segments (Cont'd.):

| 2012 (Restated) (Cont'd.) | Domestic Operating Segments: Hire Purchase RM'000 | Retail Operations RM'000 | Corporate Lending RM'000 | Treasury and Capital Market Operations RM'000 | Investment Banking RM'000 | Fund Management RM'000 | Others RM'000 | Head Office RM'000 | Total Domestic Operations RM'000 | Overseas Operating Segments: 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, advances and financing | 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% | 19.0% | -2.7% | – | 11.3% |
| Impaired loans and financing | 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 | 348,414 | 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 | 162,341,853 | 23,210,411 | 68,221,866 | 4,238,004 | 309,428 | 305,059 | 18,205,449 | 317,085,937 | 14,887,216 | 3,585,872 | 660,193 | 19,133,281 | (64,647,889) | 271,571,329 |
| 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 | | | | | | | | | 319,067,579 | | | | 20,404,268 | | 274,823,958 |

## 53. CHANGES IN ACCOUNTING POLICIES

### Effects of adopting MFRS 119 Employee Benefits (as amended by IASB in June 2011)

The adoption of the revised MFRS 119 affected 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 to the accounting policy and financial impact to the Group and the Bank are as follows:

– Actuarial gains and losses (renamed as 'remeasurements') are recognised immediately in other comprehensive income, and are not subsequently recycled to the statement of profit or loss. The corridor approach for accounting for unrecognised actuarial gains in prior years is discontinued.

– Past service costs, whether unvested or already vested, are recognised immediately in the statement of profit or loss as incurred. 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 revised MFRS 119 has resulted in changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. This change in accounting policy has been accounted for retrospectively and a summary of financial impact to the Group and the Bank on initial adoption are as follows:

**(i) Statements of Financial Position**

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2012 RM'000 | 1 January 2012 RM'000 | 31 December 2012 RM'000 | 1 January 2012 RM'000 |
| Other Assets | | | | |
| As previously stated | 2,006,919 | 2,008,254 | 1,906,721 | 1,913,726 |
| – Reclassification | 99,723 | 92,709 | 96,303 | 89,527 |
| – Effects of adoption of MFRS 119 | 99,356 | 120,672 | 95,948 | 116,534 |
| As restated | 2,205,998 | 2,221,635 | 2,098,972 | 2,119,787 |
| Other Assets – Employee Benefits (Note 10) | | | | |
| As previously stated | – | – | – | – |
| – Reclassification | 99,723 | 92,709 | 96,303 | 89,527 |
| – Effects of adoption of MFRS 119 | 99,356 | 120,672 | 95,948 | 116,534 |
| As restated | 199,079 | 213,381 | 192,251 | 206,061 |
| Other Liabilities | | | | |
| As previously stated | 3,570,526 | 3,467,535 | 2,482,585 | 2,368,328 |
| – Reclassification | 99,723 | 92,709 | 96,303 | 89,527 |
| As restated | 3,670,249 | 3,560,244 | 2,578,888 | 2,457,855 |

## 53. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

### Effects of adopting MFRS 119 Employee Benefits (as amended by IASB in June 2011) (Cont'd.)

**(i) Statements of Financial Position (Cont'd.)**

| | Group | | Bank | |
|---|---|---|---|---|
| | 31 December 2012 RM'000 | 1 January 2012 RM'000 | 31 December 2012 RM'000 | 1 January 2012 RM'000 |
| Other Liabilities | | | | |
| – Employee Benefits (Note 23) | | | | |
| As previously stated | (99,723) | (92,709) | (96,303) | (89,527) |
| – Reclassification | 99,723 | 92,709 | 96,303 | 89,527 |
| As restated | – | – | – | – |
| Deferred Tax Liabilities | | | | |
| As previously stated | 47,911 | 55,625 | 32,003 | 51,708 |
| – Effects of adoption of MFRS 119 | 24,839 | 30,168 | 23,987 | 29,133 |
| As restated | 72,750 | 85,793 | 55,990 | 80,841 |
| Retained Profits | | | | |
| As previously stated | 9,453,647 | 7,276,808 | 8,918,940 | 6,852,318 |
| – Effects of adoption of MFRS 119 | (178,738) | (136,219) | (172,608) | (131,547) |
| As restated | 9,274,909 | 7,140,589 | 8,746,332 | 6,720,771 |
| Other Reserves | | | | |
| – Defined Benefit Reserves (Note 28) | | | | |
| As previously stated | – | – | – | – |
| Effects of adoption of MFRS 119 | 253,255 | 226,723 | 244,569 | 218,947 |
| As restated | 253,255 | 226,723 | 244,569 | 218,947 |

## 53. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

### Effects of adopting MFRS 119 Employee Benefits (as amended by IASB in June 2011) (Cont'd.)

**(ii) Statements of Profit or Loss**

| | 2012 | |
|---|---|---|
| | **Group RM'000** | **Bank RM'000** |
| Other Operating Expenses | | |
| As previously stated | 2,360,898 | 1,596,522 |
| – Effects of adoption of MFRS 119 | 56,692 | 54,748 |
| As restated | 2,417,590 | 1,651,270 |
| Other Operating Expenses – Personnel Costs – Pension Costs (Note 35) | | |
| As previously stated | 145,151 | 126,063 |
| – Effects of adoption of MFRS 119 | 56,692 | 54,748 |
| As restated | 201,843 | 180,811 |
| Profit Before Tax Expenses and Zakat | | |
| As previously stated | 5,103,926 | 4,681,734 |
| – Effects of adoption of MFRS 119 | (56,692) | (54,748) |
| As restated | 5,047,234 | 4,626,986 |
| Tax Expense and Zakat | | |
| As previously stated | 1,192,165 | 933,174 |
| – Effects of adoption of MFRS 119 | (14,173) | (13,687) |
| As restated | 1,177,992 | 919,487 |
| Profit for the Year | | |
| As previously stated | 3,911,761 | 3,748,560 |
| – Effects of adoption of MFRS 119 | (42,519) | (41,061) |
| As restated | 3,869,242 | 3,707,499 |
| Profit Attributable to Equity Holders of the Bank | | |
| As previously stated | 3,869,273 | 3,748,560 |
| – Effects of adoption of MFRS 119 | (42,519) | (41,061) |
| As restated | 3,826,754 | 3,707,499 |

## 53. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

### Effects of adopting MFRS 119 Employee Benefits (as amended by IASB in June 2011) (Cont'd.)

**(iii) Capital Adequacy**

The adjustments to the financial statements of the Group and the Bank as a result of the adoption of MFRS 119, as discussed above, also had consequential effects on the comparative capital adequacy ratios. These are summarised below:

| | As at 31 December 2012 | | As at 1 January 2012 | |
|---|---|---|---|---|
| | As previously stated | As restated | As previously stated | As restated |
| **Group** | | | | |
| Tier I capital (RM'000) | 20,437,184 | 20,511,701 | 18,249,867 | 18,340,371 |
| Total capital (RM'000) | 26,298,110 | 26,372,627 | 25,416,082 | 25,506,586 |
| Risk-weighted assets (RM'000) | 179,526,865 | 179,725,944 | 163,027,275 | 163,240,656 |
| Before deducting second interim dividends* | | | | |
| Tier I capital ratio (%) | 11.384 | 11.413 | 11.194 | 11.235 |
| Total capital ratio (%) | 14.649 | 14.674 | 15.590 | 15.625 |
| After deducting second interim dividends* | | | | |
| Tier I capital ratio (%) | 10.799 | 10.828 | 10.593 | 10.634 |
| Total capital ratio (%) | 14.063 | 14.089 | 14.989 | 15.024 |
| **Bank** | | | | |
| Tier I capital (RM'000) | 20,371,029 | 20,442,990 | 18,216,433 | 18,303,833 |
| Total capital (RM'000) | 21,723,520 | 21,795,481 | 21,044,900 | 21,132,300 |
| Risk-weighted assets (RM'000) | 149,774,165 | 149,966,416 | 134,887,816 | 135,093,877 |
| Before deducting second interim dividends* | | | | |
| Tier I capital ratio (%) | 13.601 | 13.632 | 13.505 | 13.549 |
| Total capital ratio (%) | 14.504 | 14.534 | 15.602 | 15.643 |
| After deducting second interim dividends* | | | | |
| Tier I capital ratio (%) | 12.900 | 12.931 | 12.778 | 12.823 |
| Total capital ratio (%) | 13.803 | 13.833 | 14.875 | 14.917 |

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

## 54. RATING STATEMENT

As at 31 December 2013, the Bank was accorded the following ratings:

| Agencies | Date accorded/Reaffirmed | Ratings |
|---|---|---|
| Rating Agency Malaysia Berhad | 3 September 2013 (Reaffirmed) | Long-Term Rating: AAA |
| | 3 September 2013 (Reaffirmed) | Short-Term Rating: P1 |
| | 3 September 2013 (Reaffirmed) | Outlook: Stable |
| | 3 September 2013 (Reaffirmed) | RM5 Billion Subordinated Medium-Term Notes Programme: AA1/Stable |
| | 3 September 2013 (Reaffirmed) | Innovative Tier I Capital Securities: AA2/Stable |
| | 3 September 2013 (Reaffirmed) | Non-Cumulative Perpetual Capital Securities Programme: AA2/Stable |
| | 3 September 2013 (Reaffirmed) | Senior Medium-Term Notes Programme: AAA/Stable |
| | 3 September 2013 (Assigned) | RM10 Billion Subordinated Medium-Term Notes Programme: AA1/Stable |
| Moody's Investors Services | 20 November 2013 (Reaffirmed) | Foreign Currency:<br>Long-Term Deposits Rating: A3<br>Short-Term Deposits Rating: P-2 |
| | 20 November 2013 (Reaffirmed) | Local Currency:<br>Long-Term Deposits Rating: A1<br>Short-Term Deposits Rating: P-1 |
| | 20 November 2013 (Reaffirmed) | Financial Strength: C |
| | 20 November 2013 | Foreign Currency Outlook: Positive |
| | 20 November 2013 (Reaffirmed) | Local Currency Outlook: Stable |
| | 20 November 2013 (Reaffirmed) | Innovative Tier I Capital Securities: Baa2 |
| Standard & Poor's | 29 November 2013 (Reaffirmed) | Foreign Currency:<br>Long-Term Rating: A-<br>Short-Term Rating: A-2 |
| | 29 November 2013 (Reaffirmed) | Local Currency:<br>Long-Term Deposits Rating: A<br>Short-Term Deposits Rating: A-1 |
| | 29 November 2013 (Reaffirmed) | Asean Regional Scale Rating:<br>Long-Term Rating: axAA<br>Short-Term Rating: axA-1 |
| | 29 November 2013 (Reaffirmed) | Foreign Currency Outlook: Stable |
| | 29 November 2013 (Reaffirmed) | Local Currency Outlook: Stable |
| | 29 November 2013 (Reaffirmed) | Innovative Tier I Capital Securities: BBB- |

## 55. SIGNIFICANT EVENTS

The significant events relating to changes in the composition of the Group are disclosed in Notes 13 and those relating to debt issuance and debt redemption are disclosed in Note 22.

## 56. SUBSEQUENT EVENTS

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

## 57. ISLAMIC BANKING BUSINESS

The financial position as at 31 December 2013 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 2013

| | Note | Group | | |
|---|---|---|---|---|
| | | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| **ASSETS** | | | | |
| Cash and balances with banks | | **6,744,111** | 4,709,388 | 6,257,092 |
| Financial assets held-for-trading | | **1,752,632** | 2,638,867 | 1,249,014 |
| Derivative financial assets | | **130,777** | 21,839 | – |
| Financial investments available-for-sale | | **1,891,272** | 994,923 | 1,830,720 |
| Financial investments held-to-maturity | | **–** | – | 5,022 |
| Financing and advances | (a) | **22,904,370** | 20,168,110 | 19,224,468 |
| Other assets | | **88,537** | 77,402 | 85,645 |
| Statutory deposits with Bank Negara Malaysia | | **939,850** | 671,450 | 775,700 |
| Investment in an associated company | | **20,000** | 20,000 | 20,000 |
| Property and equipment | | **1,026** | 1,327 | 1,619 |
| **Total Assets** | | **34,472,575** | 29,303,306 | 29,449,280 |
| **LIABILITIES AND ISLAMIC BANKING FUNDS** | | | | |
| Deposits from customers | (b) | **28,400,736** | 23,703,338 | 20,029,935 |
| Deposits from banks | | **2,789,398** | 2,644,831 | 7,179,533 |
| Bills and acceptances payable | | **3,825** | 625 | 334 |
| Recourse obligations on financing sold to Cagamas | | **500,011** | 500,003 | – |
| Other liabilities | | **116,854** | 108,897 | 73,120 |
| Provision for zakat and taxation | | **36,012** | 50,188 | 46,512 |
| Deferred tax liabilities | | **34,293** | 6,588 | 1,029 |
| **Total Liabilities** | | **31,881,129** | 27,014,470 | 27,330,463 |
| Islamic Banking Funds | | **2,591,446** | 2,288,836 | 2,118,817 |
| **Total Liabilities and Islamic Banking Funds** | | **34,472,575** | 29,303,306 | 29,449,280 |
| **COMMITMENTS AND CONTINGENCIES** | | **5,650,699** | 4,642,159 | 1,910,159 |

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

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### Statement of Profit or Loss for the financial year ended 31 December 2013

| | Group | |
|---|---|---|
| | **2013 RM'000** | **2012 RM'000 (Restated)** |
| Income derived from investment of depositors' funds and others | **1,423,221** | 1,386,046 |
| Income derived from investment of Islamic Banking Funds | **119,799** | 111,916 |
| Allowance for impairment on financing and advances | **(100,756)** | (49,706) |
| Impairment on other assets | **(16)** | (25) |
| Profit Equalisation Reserve | **(497)** | (2,180) |
| **Total distributable income** | **1,441,751** | 1,446,051 |
| Income attributable to the depositors and others | **(705,387)** | (652,016) |
| **Total net income** | **736,364** | 794,035 |
| Personnel expenses | **(15,502)** | (17,850) |
| Other overheads and expenditures | **(247,623)** | (232,621) |
| **Profit before zakat and taxation** | **473,239** | 543,564 |
| Zakat | **(264)** | (330) |
| Taxation | **(115,935)** | (133,156) |
| **Profit for the year** | **357,040** | 410,078 |

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

| | Group | |
|---|---|---|
| | **2013 RM'000** | **2012 RM'000** |
| Income derived from investment of depositors' funds and others | **1,423,221** | 1,386,046 |
| Income derived from investment of Islamic Banking Funds | **119,799** | 111,916 |
| Income attributable to the depositors and others | **(705,387)** | (652,016) |
| Profit Equalisation Reserve | **(497)** | (2,180) |
| Net income from Islamic banking business reported in the statement of profit or loss of the Group | **837,136** | 843,766 |

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

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2013

| | Group | |
|---|---|---|
| | 2013<br>RM'000 | 2012<br>RM'000<br>(Restated) |
| Profit for the year | **357,040** | 410,078 |
| **Other comprehensive income:** | | |
| Items that will not be reclassified to profit or loss: | | |
| Defined benefit reserves: | | |
| – Gain on remeasurements of defined benefit plans | **2,823** | 739 |
| Items that may be reclassified to profit or loss: | | |
| Revaluation reserves: | | |
| – Net change in revaluation of financial investments available-for-sale | **1,020** | 1,441 |
| Hedging reserves: | | |
| – Net change in cash flow hedges | **108,981** | 21,764 |
| | **110,001** | 23,205 |
| Income tax relating to components of other comprehensive income: | | |
| – Defined benefit reserves | **(706)** | (185) |
| – Revaluation reserves | **(255)** | (360) |
| – Hedging reserves | **(27,246)** | (5,441) |
| | **(28,207)** | (5,986) |
| Other comprehensive income for the year, net of tax | **84,617** | 17,958 |
| Total comprehensive income for the year | **441,657** | 428,036 |

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

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### Statement of Changes in Islamic Banking Funds for the financial year ended 31 December 2013

| Group | Capital Funds RM'000 | <— Non-distributable Reserves: Share Premium RM'000 | Statutory Reserves RM'000 | Hedging Reserves RM'000 | Revaluation Reserves RM'000 | Defined Benefit Reserves RM'000 | Profit Equalisation Reserves RM'000 —> | Distributable Reserves: Retained Profits RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | | | | | | | | |
| – as previously stated | 193,217 | 1,589,500 | 207,546 | 16,323 | 2,116 | – | 503 | 278,074 | 2,287,279 |
| – effects of adoption of MFRS 119 | – | – | – | – | – | 5,293 | – | (3,736) | 1,557 |
| At 1 January 2013, as restated | 193,217 | 1,589,500 | 207,546 | 16,323 | 2,116 | 5,293 | 503 | 274,338 | 2,288,836 |
| Profit for the year | – | – | – | – | – | – | – | 357,040 | 357,040 |
| Other comprehensive income for the year | – | – | – | 81,735 | 765 | 2,117 | – | – | 84,617 |
| Total comprehensive income for the year | – | – | – | 81,735 | 765 | 2,117 | – | 357,040 | 441,657 |
| Transactions with owners/ other equity movements: | | | | | | | | | |
| Transfer from Profit Equalisation Reserves of Islamic banking institution | – | – | – | – | – | – | (503) | 503 | – |
| Issue of shares | 7,000 | 168,000 | – | – | – | – | – | – | 175,000 |
| Dividends paid | – | – | – | – | – | – | – | (314,047) | (314,047) |
| | 7,000 | 168,000 | – | – | – | – | (503) | (313,544) | (139,047) |
| At 31 December 2013 | 200,217 | 1,757,500 | 207,546 | 98,058 | 2,881 | 7,410 | – | 317,834 | 2,591,446 |

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

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### Statement of Changes in Islamic Banking Funds for the financial year ended 31 December 2013 (Cont'd.)

| | | <—— Non-distributable Reserves | | | | | ——> | Distributable Reserves | |
|---|---|---|---|---|---|---|---|---|---|
| Group | Capital Funds RM'000 | Share Premium RM'000 | Statutory Reserves RM'000 | Hedging Reserves RM'000 | Revaluation Reserves RM'000 | Defined Benefit Reserves RM'000 | Profit Equalisation Reserves RM'000 | Retained Profits RM'000 | Total RM'000 |
| At 1 January 2012 | | | | | | | | | |
| – as previously stated | 186,217 | 1,421,500 | 207,546 | – | 1,035 | – | – | 300,628 | 2,116,926 |
| – effects of adoptions of MFRS 119 | – | – | – | – | – | 4,739 | – | (2,848) | 1,891 |
| At 1 January 2012, as restated | 186,217 | 1,421,500 | 207,546 | – | 1,035 | 4,739 | – | 297,780 | 2,118,817 |
| Profit for the year (restated) | – | – | – | – | – | – | – | 410,078 | 410,078 |
| Other comprehensive income for the year | – | – | – | 16,323 | 1,081 | 554 | – | – | 17,958 |
| Total comprehensive income for the year | – | – | – | 16,323 | 1,081 | 554 | – | 410,078 | 428,036 |
| Transactions with owners/ other equity movements: | | | | | | | | | |
| Transfer to Profit Equalisation Reserves of 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 | 5,293 | 503 | 274,338 | 2,288,836 |

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

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### (a) Financing and Advances

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| **At amortised cost** | | |
| Cash line | **515,028** | 330,235 |
| Term financing | | |
| – House financing | **5,551,632** | 4,235,554 |
| – Syndicated financing | **300,647** | 412,933 |
| – Hire purchase receivables | **11,168,723** | 10,189,015 |
| – Other term financing | **5,557,720** | 5,184,288 |
| Trust receipts | **654** | – |
| Claims on customers under acceptance credits | **20,225** | 2,762 |
| Revolving credit | **90,229** | 68,223 |
| Gross financing and advances | **23,204,858** | 20,423,010 |
| Less: Allowance for impaired financing and advances | | |
| – collective assessment allowance | **(300,488)** | (254,261) |
| – individual assessment allowance | **–** | (639) |
| Net financing and advances | **22,904,370** | 20,168,110 |

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

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### (a) Financing and Advances (Cont'd.)

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Maturity within one year | **891,135** | 709,405 |
| More than one year to three years | **1,879,176** | 1,687,887 |
| More than three years to five years | **3,311,487** | 3,014,720 |
| More than five years | **17,123,060** | 15,010,998 |
| Gross financing and advances | **23,204,858** | 20,423,010 |

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Retail financing | | |
| – House financing | **5,551,632** | 4,235,554 |
| – Hire purchase | **11,168,723** | 10,189,015 |
| – Other financing* | **5,701,115** | 5,232,178 |
| | **22,421,470** | 19,656,747 |
| Corporate financing | **783,388** | 766,263 |
| | **23,204,858** | 20,423,010 |

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

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### (a) Financing and Advances (Cont'd.)

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Bai' Bithaman Ajil-i (deferred payment sale) | **8,128,835** | 7,011,275 |
| Ijarah Thamma Al-Bai'-i (leasing) | **11,168,723** | 10,189,015 |
| Ijarah Muntahia Bittamlik | **–** | 112,326 |
| Bai-Al-Einah-i | **2,500,022** | 3,062,356 |
| Musharakah Mutanaqisah | **1,386,398** | 45,276 |
| Murabahah Purchase Order | **20,880** | 2,762 |
| | **23,204,858** | 20,423,010 |

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Other domestic non-bank financial institutions | **70,819** | 242,250 |
| Domestic business enterprises | | |
| – Small and medium enterprises | **2,295,841** | 1,562,812 |
| – Others | **628,914** | 508,927 |
| Government and statutory authorities | **319,779** | 321,878 |
| Individuals | **19,829,076** | 17,739,162 |
| Other domestic entities | **2,618** | 2,878 |
| Foreign customers | **57,811** | 45,103 |
| | **23,204,858** | 20,423,010 |

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### (a) Financing and Advances (Cont'd.)

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

| | Group | |
|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Fixed rate | | |
| – House financing | **595,595** | 679,755 |
| – Hire purchase receivables | **11,168,723** | 10,189,015 |
| – Other fixed rate financing | **2,972,305** | 3,599,339 |
| Variable rate | | |
| – BFR plus | **8,056,503** | 5,554,563 |
| – Cost plus | **411,732** | 400,338 |
| | **23,204,858** | 20,423,010 |

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

| | Group | |
|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Purchase of securities | **4** | 4 |
| Purchase of transport vehicles | **11,168,115** | 10,187,456 |
| Purchase of landed properties | **8,020,809** | 5,941,722 |
| (of which: – residential | **5,504,881** | 4,185,965 |
| – non-residential) | **2,515,928** | 1,755,757 |
| Purchase of fixed assets (excluding landed properties) | **13,968** | 26,149 |
| Personal use | **2,724,165** | 3,234,529 |
| Purchase of consumer durables | **3,236** | 3,643 |
| Construction | **40,453** | 39,659 |
| Working capital | **1,015,039** | 755,405 |
| Other purpose | **219,069** | 234,443 |
| | **23,204,858** | 20,423,010 |

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### (a) Financing and Advances (Cont'd.)

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Agriculture, hunting, forestry and fishing | **291,915** | 208,156 |
| Mining and quarrying | **30,016** | 19,182 |
| Manufacturing | **213,926** | 126,675 |
| Electricity, gas and water | **1,216** | 1,161 |
| Construction | **451,152** | 348,382 |
| Wholesale & retail trade and restaurants & hotels | **598,855** | 423,316 |
| Transport, storage and communication | **121,013** | 112,119 |
| Finance, insurance and business services | **331,364** | 442,921 |
| Real estate | **843,349** | 545,893 |
| Community, social and personal services | **433,301** | 405,029 |
| Households | **19,886,887** | 17,784,265 |
| Others | **1,864** | 5,911 |
| | **23,204,858** | 20,423,010 |

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

| | Group | |
|---|---|---|
| | 2013 RM'000 | 2012 RM'000 |
| At 1 January | **175,167** | 173,277 |
| Impaired during the year | **523,987** | 442,749 |
| Reclassified as non-impaired during the year | **(388,637)** | (332,199) |
| Recoveries | **(30,337)** | (29,725) |
| Amount written off | **(71,846)** | (78,678) |
| Financing converted to foreclosed properties | **(260)** | (257) |
| At 31 December | **208,074** | 175,167 |
| Gross impaired financing as % of gross financing and advances | **0.90%** | 0.86% |

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### (a) Financing and Advances (Cont'd.)

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Purchase of securities | 4 | 4 |
| Purchase of transport vehicles | 99,044 | 72,212 |
| Purchase of landed properties | 63,156 | 61,700 |
| (of which: – residential | 54,835 | 48,359 |
| – non-residential) | 8,321 | 13,341 |
| Purchase of fixed assets (excluding landed properties) | – | 61 |
| Personal use | 44,497 | 40,597 |
| Purchase of consumer durables | 78 | 68 |
| Working capital | 1,136 | 480 |
| Other purpose | 159 | 45 |
| | 208,074 | 175,167 |

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Agriculture, hunting, forestry and fishing | 544 | 2 |
| Mining and quarrying | – | 35 |
| Manufacturing | 701 | 667 |
| Construction | 974 | 783 |
| Wholesale & retail trade and restaurants & hotels | 1,831 | 952 |
| Transport, storage and communication | 1,290 | 6,867 |
| Finance, insurance and business services | 705 | 649 |
| Real estate | 831 | – |
| Community, social and personal services | 309 | 111 |
| Households | 200,864 | 164,911 |
| Others | 25 | 190 |
| | 208,074 | 175,167 |

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

## 57. 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:

| | <— Retail Financing | —> | | | |
|---|---|---|---|---|---|
| | House Financing RM'000 | Hire Purchase RM'000 | Other Financing RM'000 | Corporate Financing RM'000 | Total RM'000 |
| **2013** | | | | | |
| Collective Assessment Allowance | | | | | |
| At 1 January 2013 | **52,476** | **133,903** | **66,530** | **1,352** | **254,261** |
| Allowance made/(written back) during the year | **11,194** | **68,836** | **38,046** | **(3)** | **118,073** |
| Amount written off | **(3,411)** | **(37,574)** | **(30,861)** | **–** | **(71,846)** |
| At 31 December 2013 | **60,259** | **165,165** | **73,715** | **1,349** | **300,488** |
| **2012** | | | | | |
| Collective Assessment Allowance | | | | | |
| At 1 January 2012 | 47,317 | 131,428 | 87,489 | 1,355 | 267,589 |
| Allowance made/(written back) 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 |
| **2013** | | | | | |
| Individual Assessment Allowance | | | | | |
| At 1 January 2013 | **–** | **–** | **639** | **–** | **639** |
| Amount written back in respect of recoveries | **–** | **–** | **(639)** | **–** | **(639)** |
| At 31 December 2013 | **–** | **–** | **–** | **–** | **–** |
| **2012** | | | | | |
| Individual Assessment Allowance | | | | | |
| 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 |

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### (b) Deposits From Customers

(i) By type of deposit:

| | Group | |
|---|---|---|
| **By type of deposit** | **31 December 2013 RM'000** | **31 December 2012 RM'000** |
| Savings deposit | | |
| – Wadiah | **4,823,093** | 4,568,625 |
| – Mudharabah | **63,510** | 66,681 |
| | **4,886,603** | 4,635,306 |
| Demand deposit | | |
| – Wadiah | **2,958,752** | 2,462,377 |
| – Mudharabah | **94,753** | 57,198 |
| | **3,053,505** | 2,519,575 |
| Term deposit | | |
| – Negotiable Islamic Debt Certificate | | |
| – Bai-Al-Einah | **642,941** | 522,400 |
| – General investment account | | |
| – Mudharabah | **3,205,661** | 3,075,664 |
| – Wakalah | **12,945,906** | 10,326,345 |
| | **16,151,567** | 13,402,009 |
| – Special investment account | | |
| – Wakalah | **3,666,120** | 2,624,048 |
| | **28,400,736** | 23,703,338 |

Included in Deposits from Customers are deposits of RM78,225,000 (31 December 2012 – RM41,551,000) held as collateral for financing and advances.

## 57. ISLAMIC BANKING BUSINESS (CONT'D.)

### (b) Deposits From Customers (Cont'd.)

(ii) By class of financial instrument:

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Core deposits | **24,091,675** | 20,556,890 |
| Wholesale deposits | **4,309,061** | 3,146,448 |
| | **28,400,736** | 23,703,338 |

(iii) By type of customers:

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Federal and state governments | **1,216,865** | 1,454,940 |
| Local government and statutory authorities | **1,084,443** | 1,112,651 |
| Business enterprises | **6,545,270** | 4,494,823 |
| Individuals | **5,498,911** | 5,113,732 |
| Foreign customers | **395,545** | 315,736 |
| Others | **13,659,702** | 11,211,456 |
| | **28,400,736** | 23,703,338 |

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

| | Group | |
|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 |
| Due within six months | **18,006,968** | 15,319,778 |
| More than six months to one year | **2,450,561** | 1,224,742 |
| More than one year to three years | **2,757** | 3,231 |
| More than three years to five years | **342** | 706 |
| | **20,460,628** | 16,548,457 |

## 58. REALISED AND UNREALISED PROFITS

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group and the Bank as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

| | Group | | |
|---|---|---|---|
| | **31 December 2013 RM'000** | **31 December 2012 RM'000 (Restated)** | **1 January 2012 RM'000 (Restated)** |
| Total retained profits of Public Bank Berhad and its subsidiaries: | | | |
| – Realised | **12,306,123** | 10,300,634 | 8,049,470 |
| – Unrealised | | | |
| – in respect of deferred tax recognised in the statement of profit or loss | **101,676** | 74,804 | 30,997 |
| – in respect of other items of income and expense | **81,457** | 75,611 | 52,059 |
| | **12,489,256** | 10,451,049 | 8,132,526 |
| Total share of retained profits from associated companies: | | | |
| – Realised | **3,484** | 4,495 | 6,433 |
| – Unrealised | **–** | – | – |
| | **12,492,740** | 10,455,544 | 8,138,959 |
| Less: Consolidation adjustments | **(985,175)** | (1,180,635) | (998,370) |
| Total Group retained profits as per consolidated accounts | **11,507,565** | 9,274,909 | 7,140,589 |

## 58. 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.):

| | Bank | | |
|---|---|---|---|
| | 31 December 2013 RM'000 | 31 December 2012 RM'000 (Restated) | 1 January 2012 RM'000 (Restated) |
| Total retained profits of Public Bank Berhad: | | | |
| – Realised | **10,573,116** | 8,713,794 | 6,723,874 |
| – Unrealised | | | |
| – in respect of deferred tax recognised in the statement of profit or loss | **38,745** | 19,109 | (13,651) |
| – in respect of other items of income and expense | **17,378** | 13,429 | 10,548 |
| Total Bank retained profits as per accounts | **10,629,239** | 8,746,332 | 6,720,771 |

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 2013



## OVERVIEW

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

(a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume;

(b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions to develop and employ more rigorous risk management framework and techniques, including specific oversight by the board of directors and senior management on internal controls and corporate governance practices, to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times; and

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

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

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

## OVERVIEW (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.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Risk-Weighted Assets RM'000** | **Minimum Capital Requirement at 8% RM'000** | **Risk-Weighted Assets RM'000 (Restated)** | **Minimum Capital Requirement at 8% RM'000 (Restated)** |
| **Group** | | | | |
| Credit Risk | **183,113,937** | **14,649,115** | 164,279,544 | 13,142,363 |
| Market Risk | **2,111,436** | **168,915** | 1,713,076 | 137,047 |
| Operational Risk | **14,497,356** | **1,159,788** | 13,733,324 | 1,098,666 |
| **Total** | **199,722,729** | **15,977,818** | 179,725,944 | 14,378,076 |
| **Bank** | | | | |
| Credit Risk | **154,360,722** | **12,348,858** | 137,471,265 | 10,997,701 |
| Market Risk | **2,850,579** | **228,046** | 2,579,721 | 206,378 |
| Operational Risk | **10,228,677** | **818,294** | 9,915,430 | 793,234 |
| **Total** | **167,439,978** | **13,395,198** | 149,966,416 | 11,997,313 |

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

## 1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank and its subsidiary and associated companies. The Group offers Islamic banking financial services via the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("Public Islamic"). Information on subsidiary and associated companies of the Group is available in Notes 13 and 14 to the financial statements respectively.

The basis of consolidation for financial accounting purposes is described in Note 2(v)(b) to the financial statements, and differs from that used for regulatory capital purposes. The investment in its banking 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 Internal Capital Adequacy Assessment Process ("ICAAP") is central to the Group's capital management whereby:

(i) The risk management processes are continuously reviewed and enhanced to facilitate a comprehensive risk assessment of the various types of risk that the Group may be exposed to apart from the traditional Pillar 1 credit, market and operational risks; and

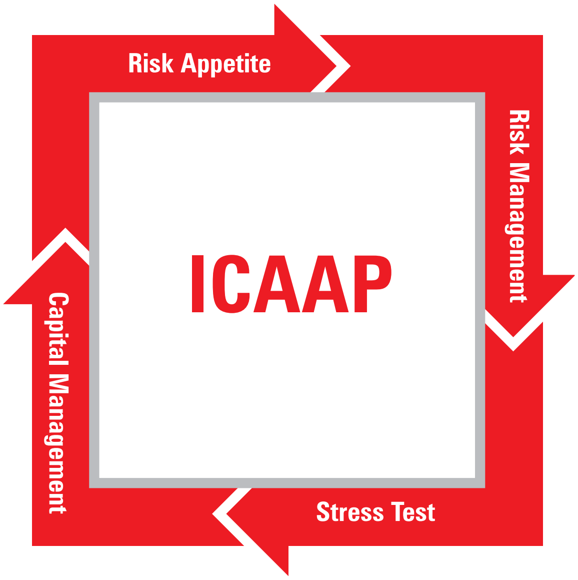
(ii) The setting aside of capital that commensurates with the Group's risk profile, complexity of the business activities undertaken, risk appetite, the environment in which it operates as well as its 3-year business plans.

The Board of Directors ("Board") maintains overall responsibility for effective oversight on ICAAP and is supported by the Risk Management Committee ("RMC") and ICAAP Working Group as well as four ICAAP Working Support Groups, that identify, assess, quantify the Pillar 2 risks on an ongoing basis and consider the results for capital management. Internal Audit Division ("IAD") is responsible to review the 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

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




**(a) Risk Appetite**

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

The key processes in setting the risk appetite are as follows:


The preparation of the 3-Year Mission/Key Targets is guided by the risk appetite to ensure that the risk appetite is incorporated into actionable plans and measures by the business and support units through the budget, business plans, capital management and risk management processes.

## 2. CAPITAL MANAGEMENT (CONT'D.)

### 2.1 Internal Capital Adequacy Assessment Process (Cont'd.)

**(b) Capital Management**

The Group's capital management is guided by the Group's Capital Management Framework and the Internal Capital Management Process.

As part of the internal capital management process, the Group has put in place the following:

(i) 3-year capital plan, whereby the Group's capital requirements are determined by taking into account its business and strategic plans and financial budget.

(ii) Internal Capital Targets ("ICT") that factors the following:

- Minimum capital as required under Basel III to meet the Group's business plans;
- Material and quantifiable Pillar 2 risks where capital has not been set aside under Pillar 1;
- Largest decline recorded under the Scenario 1 stress test in any of the three years stress horizon; and
- Capital buffers

(iii) Identified sources of internal capital available to meet the Group's capital requirements.

The Group's capital levels are monitored against the trigger limits for ICT and are reported to the Board, RMC and ICAAP Working Group. In addition, the Group's capital deficiency plan is also put in place to set out the actions required should a capital deficiency situation arise.

**(c) Stress Testing**

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

(i) To establish a comprehensive and consistent stress test process in conducting the stress test by all entities within the Group.

(ii) 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.

(iii) To ensure the stress test capture all material risks including emerging risks.

(vi) 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.

(v) 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 hypothetical increase in the level of household debts, slowdown in the growth of China's economy, currency risk of emerging countries and amongst others.

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.

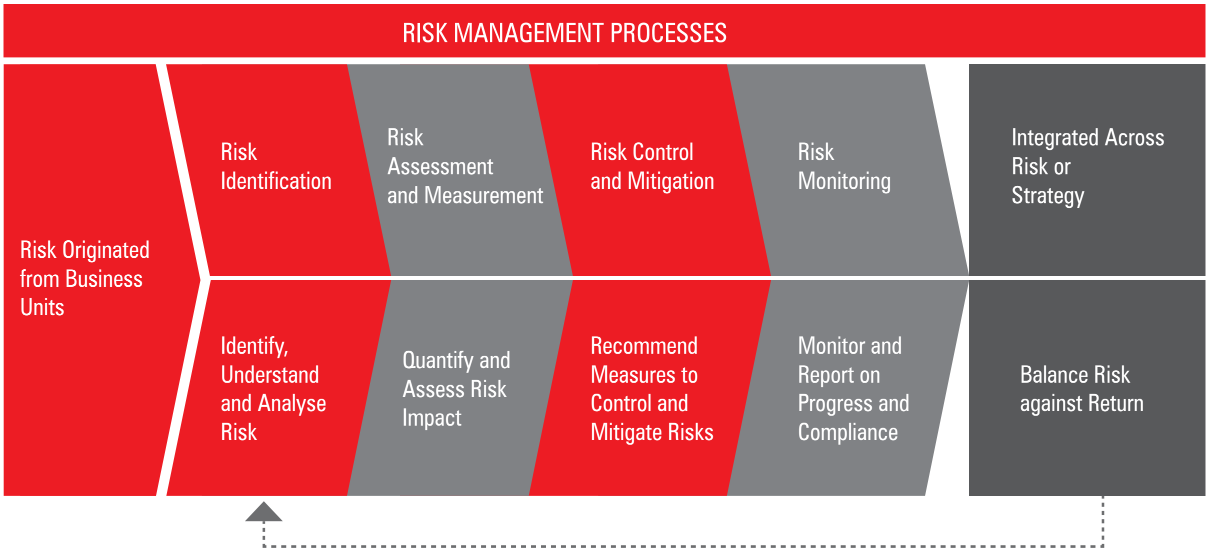
## 2. CAPITAL MANAGEMENT (CONT'D.)

### 2.1 Internal Capital Adequacy Assessment Process (Cont'd.)

**(d) Risk Management**

The Group's risk management processes are guided by the Group's Risk Management Framework which sets out the key principles on risk governance for effective risk management and outlines the Group's objective to instil a risk awareness culture among all levels of staff to ensure that the risk management functions are carried out effectively.

The risk management processes are as follows:




### 2.2 Capital Adequacy Ratios and Capital Structure

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

**(a) Capital Adequacy Ratios for the Group and the Bank**

| | Group | | Bank | |
|---|---|---|---|---|
| | **2013** | **2012 (Restated)** | **2013** | **2012 (Restated)** |
| **Before deducting interim dividends:*** | | | | |
| Common equity tier I ("CET I") capital ratio | **9.276%** | N/A | **10.927%** | N/A |
| Tier I capital ratio | **11.055%** | 11.413% | **13.023%** | 13.632% |
| Total capital ratio | **14.288%** | 14.674% | **14.086%** | 14.534% |
| **After deducting interim dividends:*** | | | | |
| CET I capital ratio | **8.750%** | N/A | **10.300%** | N/A |
| Tier I capital ratio | **10.529%** | 10.828% | **12.396%** | 12.931% |
| Total capital ratio | **13.762%** | 14.089% | **13.459%** | 13.833% |

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

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

## 2. CAPITAL MANAGEMENT (CONT'D.)

### 2.2 Capital Adequacy Ratios and Capital Structure (Cont'd.)

#### (b) Capital Structure

| | Group | | Bank | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 (Restated)* | 2013 RM'000 | 2012 RM'000 (Restated)* |
| **CET I capital/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 | **4,402,843** | 4,218,576 | **3,924,896** | 3,750,880 |
| Retained profits | **11,507,565** | 9,274,909 | **10,892,504** | 9,104,376 |
| Treasury shares | **(215,572)** | (215,572) | **(215,572)** | (215,572) |
| Qualifying non-controlling interests | **522,093** | 699,864 | **–** | – |
| Less: Goodwill | **(2,003,912)** | (1,899,875) | **(695,393)** | (695,393) |
| Less: Deferred tax assets, net | **(70,121)** | (64,900) | **–** | – |
| Less: Defined benefit pension fund assets | **(220,922)** | – | **(215,372)** | – |
| Total CET I capital | **18,527,210** | 16,618,238 | **18,296,299** | 16,549,527 |
| Innovative Tier I capital securities | **1,630,440** | 1,810,317 | **1,630,440** | 1,810,317 |
| Non-innovative Tier I stapled securities | **1,879,200** | 2,083,146 | **1,879,200** | 2,083,146 |
| Qualifying CET I and additional Tier I capital instruments held by third parties | **42,031** | – | **–** | – |
| Total Tier I capital | **22,078,881** | 20,511,701 | **21,805,939** | 20,442,990 |
| **Tier II capital** | | | | |
| Collective assessment allowance and regulatory reserves# | **1,123,706** | 1,038,369 | **625,010** | 691,258 |
| Subordinated notes | | | | |
| – meeting all relevant criteria | **1,949,116** | – | **1,949,116** | – |
| – subject to gradual phase-out treatment | **3,471,121** | 4,870,351 | **3,471,121** | 4,870,351 |
| Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties | **56,042** | – | **–** | – |
| Less: Investment in banking/insurance subsidiary companies and associated companies | **(142,255)** | (960) | **(4,264,787)** | (4,162,284) |
| Less: Holdings of other financial institutions' capital instruments | **–** | (46,834) | **–** | (46,834) |
| Total Tier II capital | **6,457,730** | 5,860,926 | **1,780,460** | 1,352,491 |
| **Total capital** | **28,536,611** | 26,372,627 | **23,586,399** | 21,795,481 |

\# *Excludes collective assessment allowance on impaired loans restricted from Tier II capital of the Group and the Bank of RM600.8 million (2012: RM491.2 million) and RM446.9 million (2012: RM369.2 million) respectively.*

*Includes the Group's qualifying regulatory reserves for non-impaired loans which pertain to Public Bank (Hong Kong) Limited and Public Finance Limited amounting to RM132.4 million (2012: N/A).*

* *The comparative capital adequacy ratios and total capital have been restated for effects of the adoption of MFRS 119 Employee Benefits and are computed in accordance with BNM's revised Risk-Weighted Capital Adequacy Framework (Basel II). Please refer to Note 53 Changes in Accounting Policies as disclosed in the financial statements for a summary of the changes.*

## 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 BNM's Capital Adequacy Framework (Capital Components), as summarised in the following table:

| Capital Instruments | Capital Component | Main Features |
|---|---|---|
| (a) Non-Innovative Tier I stapled securities ("NIT-1") | Tier I Capital | • Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with IT-1<br>• Unsecured<br>• Perpetual, with optional redemption after 10 years. No step-up<br>• 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<br>• 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 | • Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with NIT-1<br>• Unsecured<br>• Optional redemption with step-up after 10 years<br>• Option to defer interest up to 50% of aggregate principal<br>• Principal and interest stock settlement provision |
| (c) Subordinated notes ("Sub Notes") | Tier II Capital | • Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1<br>• Unsecured<br>• Sub Notes issued prior to January 2011 are subject to optional redemption with step-up<br>• Sub Notes issued subsequent to January 2011 do not contain step-up upon optional redemption date<br>• No provisions for deferral of interest. Non-payment will result in default |
| (d) Basel III-Compliant Subordinated notes ("Basel III-Compliant Sub Notes") | Tier II Capital | • Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1<br>• Unsecured<br>• Optional redemption after 5 years. No step-up<br>• Upon occurrence of a Non-Viability Event as determined by BNM and Malaysia Deposit Insurance Corporation, the Basel III-Compliant Sub Notes may be subject to write-off<br>• The write-off shall not constitute an event of default or an enforcement event, nor would it trigger any cross-default under the Basel III-Compliant Sub Notes |

The details of the capital and debt instruments are found in Note 22 to the financial statements.

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

## 3. RISK MANAGEMENT FRAMEWORK

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

(a) Risk Governance

(b) Risk Appetite

(c) Risk Management Processes

(d) Risk Culture

## 3. RISK MANAGEMENT FRAMEWORK (CONT'D.)

### (a) Risk Governance

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

| | | |
|---|---|---|
| **ESTABLISH RISK APPETITE & POLICIES** | **Board of Directors** | **AUDIT COMMITTEE** |
| | **Risk Management Committee** | |
| **ENSURE IMPLEMENTATION OF RISK POLICIES AND COMPLIANCE** | **Dedicated Risk Committees** | |
| | Assets & Liabilities Management Committee<br>Credit Risk Management Committee<br>Operational Risk Management Committee | |
| | **Shariah Committee** | |
| | **Independent Risk Management and Control Units** | |
| | Banking Operations<br>Credit Control, Administration and Supervision<br>Risk Management<br>Compliance | |
| **IMPLEMENT AND COMPLY WITH RISK POLICIES** | **Business Units** | |
| | Corporate Lending<br>Investment Banking<br>Islamic Banking<br>Retail Banking and Financing Operations<br>Share Broking and Fund Management<br>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 control. The Board, through the RMC, maintains overall responsibility for risk oversight within the Group.

**Risk Management Committee**

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

**Dedicated Risk Committees**

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

## 3. RISK MANAGEMENT FRAMEWORK (CONT'D.)

### (a) Risk Governance (Cont'd.)

**Shariah Committee**

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

**Independent Risk Management and Control Units**

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

**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 the Internal Audit Division, provides an independent assessment on the adequacy and reliability of the risk management processes and system of internal control, and compliance with approved risk policies and regulatory requirements.

### (b) Risk Appetite

The key processes 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 of the Annual Report 2013.

### (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.

### (d) Risk Culture

The inculcation of a risk awareness culture is a key aspect of an effective enterprise-wide risk management framework and the following are key factors of risk culture:

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

## 4. CREDIT RISK

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



### Minimum Regulatory Capital Requirements for Credit Risk

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



| Group<br>Exposure Class | Total Exposures before Credit Risk Mitigation RM'000 | Total Exposures after Credit Risk Mitigation RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirement at 8% RM'000 |
|---|---|---|---|---|
| **2013** | | | | |
| **On-Balance Sheet Exposures** | | | | |
| Sovereigns/Central Banks | 43,868,445 | 34,487,789 | 111,726 | 8,938 |
| Public Sector Entities | 710,882 | 710,882 | 19,550 | 1,564 |
| Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs") | 10,933,454 | 10,788,495 | 2,719,377 | 217,550 |
| Insurance Companies, Securities Firms and Fund Managers | 190,518 | 186,529 | 154,394 | 12,352 |
| Corporates | 53,871,845 | 50,802,520 | 45,906,131 | 3,672,490 |
| Regulatory Retail | 107,217,507 | 106,469,911 | 80,744,040 | 6,459,523 |
| Residential Mortgages | 59,871,984 | 59,809,665 | 24,927,740 | 1,994,219 |
| Higher Risk Assets | 100,871 | 100,795 | 151,193 | 12,095 |
| Other Assets | 5,250,041 | 5,250,041 | 2,690,719 | 215,258 |
| Equity Exposures | 5,206,890 | 5,206,890 | 5,206,890 | 416,551 |
| Defaulted Exposures | 1,696,051 | 1,682,995 | 2,428,396 | 194,272 |
| | 288,918,488 | 275,496,512 | 165,060,156 | 13,204,812 |
| **Off-Balance Sheet Exposures** | | | | |
| Credit-related Exposures | 21,945,654 | 21,476,703 | 17,682,827 | 1,414,626 |
| Derivative Financial Instruments | 1,067,569 | 1,067,569 | 350,308 | 28,025 |
| Other Treasury-related Exposures | 4,176 | 4,176 | 835 | 67 |
| Defaulted Exposures | 13,227 | 13,227 | 19,811 | 1,585 |
| | 23,030,626 | 22,561,675 | 18,053,781 | 1,444,303 |
| **Total Credit Exposures** | 311,949,114 | 298,058,187 | 183,113,937 | 14,649,115 |

## 4. CREDIT RISK (CONT'D.)

### Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

| Group<br>Exposure Class | Total Exposures before Credit Risk Mitigation<br>RM'000 | Total Exposures after Credit Risk Mitigation<br>RM'000 | Risk-Weighted Assets<br>RM'000 | Minimum Capital Requirement at 8%<br>RM'000 |
|---|---|---|---|---|
| **2012 (Restated)** | | | | |
| **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, DFIs and 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 | 4,795,255 | 4,795,255 | 2,697,942 | 215,835 |
| 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 |
| | 257,388,456 | 245,440,197 | 148,612,099 | 11,888,968 |
| **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** | 277,738,651 | 265,344,999 | 164,279,544 | 13,142,363 |

## 4. CREDIT RISK (CONT'D.)

### Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

| Bank<br>Exposure Class | Total Exposures before Credit Risk Mitigation RM'000 | Total Exposures after Credit Risk Mitigation RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirement at 8% RM'000 |
|---|---|---|---|---|
| **2013** | | | | |
| **On-Balance Sheet Exposures** | | | | |
| Sovereigns/Central Banks | 31,534,426 | 23,057,151 | 111,726 | 8,938 |
| Public Sector Entities | 321,692 | 321,692 | 1,841 | 147 |
| Banks, DFIs and MDBs | 8,193,605 | 8,048,646 | 1,959,203 | 156,736 |
| Insurance Companies, Securities Firms and Fund Managers | 10,726 | 10,726 | 10,726 | 858 |
| Corporates | 48,247,454 | 45,673,316 | 40,872,907 | 3,269,833 |
| Regulatory Retail | 85,013,584 | 84,308,224 | 63,730,519 | 5,098,442 |
| Residential Mortgages | 51,340,755 | 51,286,131 | 21,392,061 | 1,711,365 |
| Higher Risk Assets | 91,556 | 91,495 | 137,242 | 10,979 |
| Other Assets | 4,256,278 | 4,256,278 | 3,091,159 | 247,293 |
| Equity Exposures | 4,637,365 | 4,637,365 | 4,637,365 | 370,989 |
| Defaulted Exposures | 1,400,776 | 1,387,813 | 1,992,386 | 159,391 |
| | 235,048,217 | 223,078,837 | 137,937,135 | 11,034,971 |
| **Off-Balance Sheet Exposures** | | | | |
| Credit-related Exposures | 19,921,465 | 19,519,472 | 16,028,808 | 1,282,305 |
| Derivative Financial Instruments | 1,215,608 | 1,215,608 | 379,913 | 30,393 |
| Defaulted Exposures | 9,931 | 9,931 | 14,866 | 1,189 |
| | 21,147,004 | 20,745,011 | 16,423,587 | 1,313,887 |
| **Total Credit Exposures** | 256,195,221 | 243,823,848 | 154,360,722 | 12,348,858 |

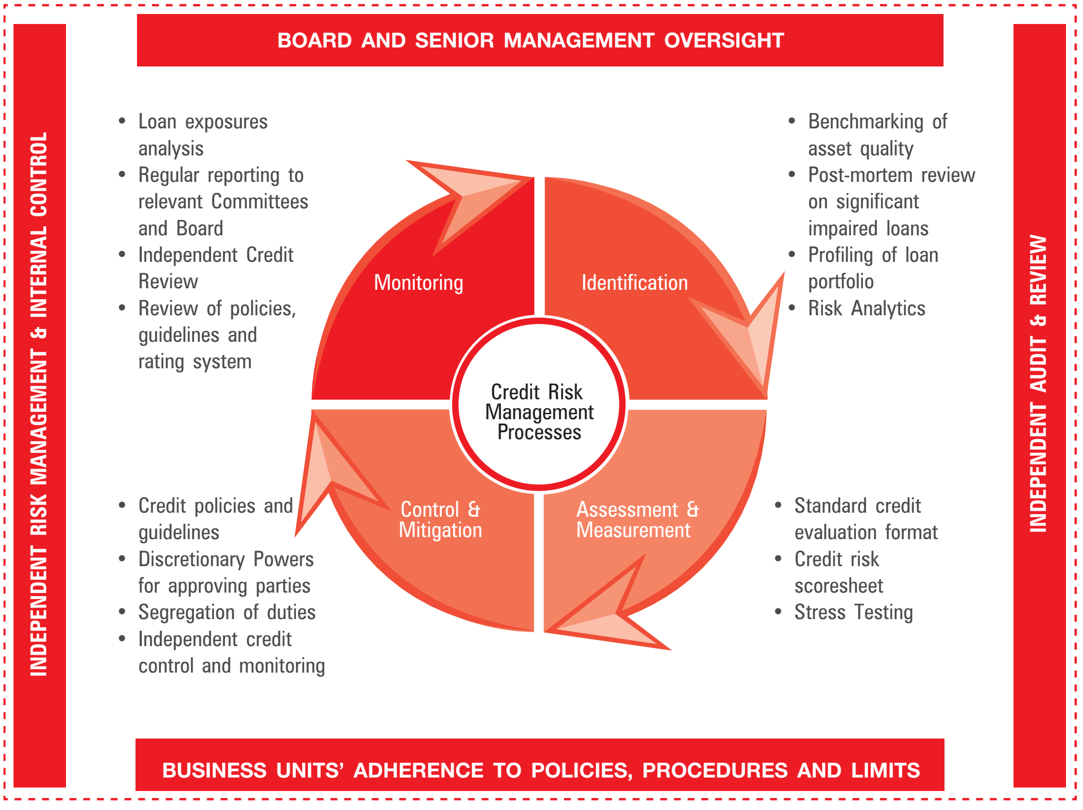
## 4. CREDIT RISK (CONT'D.)

### Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

| Bank<br>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 (Restated)** | | | | |
| **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 | 3,697,470 | 3,697,470 | 1,904,610 | 152,369 |
| 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 |
| | 211,188,776 | 200,496,505 | 123,152,871 | 9,852,230 |
| **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** | 229,905,260 | 218,860,488 | 137,471,265 | 10,997,701 |

## 4. CREDIT RISK (CONT'D.)

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




### Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk framework and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk is well managed and within the Group's risk appetite.

### Risk Management Approach

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division ("RMD"), the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing the group-wide credit risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the credit risk policies are implemented and complied with.

## 4. CREDIT RISK (CONT'D.)

**Risk Management Approach (Cont'd.)**

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 is included in the customer's loan application.

**(b) Lending to Corporate and Institutional Customers**

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

**(c) Credit Risk from Trading and Investment Activities**

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the investment in debt securities are subject to the minimum investment grade, minimum acceptable return and the maximum tenure. The investment parameters are also subject to regular review. The holdings of Collateralised 3Debt 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 the Credit Committee, CRMC and RMC, containing information on asset quality trends across major 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, Credit Committee, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

## 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

| Group | Government and Central Banks RM'000 | Financial Services RM'000 | Transport & Business Services RM'000 | Agriculture, Manufacturing, Wholesale & Retail Trade RM'000 | Construction & Real Estate RM'000 | Residential Mortgages RM'000 | Motor Vehicle Financing RM'000 | Other Consumer Loans RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | |
| **On-Balance Sheet Exposures** | | | | | | | | | |
| Cash and balances with banks | 13,060,851 | 9,019,566 | – | – | – | – | – | – | 22,080,417 |
| Reverse repurchase agreements | 9,541,969 | – | – | – | – | – | – | – | 9,541,969 |
| Financial assets held-for-trading | 1,583,640 | 14,215,330 | – | – | 12,993 | – | – | – | 15,811,963 |
| Derivative financial assets | – | 365,354 | – | – | – | – | – | – | 365,354 |
| Financial investments available-for-sale* | 10,415,279 | 5,356,840 | 869,046 | 850,416 | – | – | – | – | 17,491,581 |
| Financial investments held-to-maturity | 4,400,682 | 2,834,914 | 333,885 | 224,070 | – | – | – | – | 7,793,551 |
| Gross loans, advances and financing | 28,337 | 6,261,522 | 13,574,401 | 32,361,272 | 28,149,390 | 72,260,069 | 36,513,718 | 32,027,094 | 221,175,803 |
| Statutory deposits with Central Banks | 6,924,832 | – | – | – | – | – | – | – | 6,924,832 |
| | 45,955,590 | 38,053,526 | 14,777,332 | 33,435,758 | 28,162,383 | 72,260,069 | 36,513,718 | 32,027,094 | 301,185,470 |
| **Commitments and Contingencies** | | | | | | | | | |
| Contingent liabilities | 1,109 | 79,342 | 854,860 | 1,229,922 | 993,321 | – | – | 4,371 | 3,162,925 |
| Commitments | 517,229 | 1,295,837 | 5,063,998 | 11,155,680 | 11,987,781 | 11,533,644 | 14,162 | 13,375,722 | 54,944,053 |
| | 518,338 | 1,375,179 | 5,918,858 | 12,385,602 | 12,981,102 | 11,533,644 | 14,162 | 13,380,093 | 58,106,978 |
| **Total Credit Exposures** | 46,473,928 | 39,428,705 | 20,696,190 | 45,821,360 | 41,143,485 | 83,793,713 | 36,527,880 | 45,407,187 | 359,292,448 |

## 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 |
|---|---|---|---|---|---|---|---|---|---|
| **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 | 118,877 | – | 519,446 | – | – | – | 16,616,256 |
| Derivative financial assets | – | 370,465 | – | – | – | – | – | – | 370,465 |
| Financial investments available-for-sale* | 10,378,302 | 5,009,709 | 835,166 | 822,366 | – | – | – | – | 17,045,543 |
| 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 |
| | 42,746,785 | 34,041,789 | 13,152,140 | 29,907,677 | 24,856,426 | 62,601,525 | 34,373,665 | 28,974,855 | 270,654,862 |
| **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** | 43,255,120 | 35,757,505 | 17,489,280 | 41,730,380 | 34,400,666 | 73,929,836 | 34,401,491 | 41,634,878 | 322,599,156 |

* *Excluding equity securities of RM126.9 million (2012: RM156.5 million) which do not have any credit risk.*

## 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 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| **On-Balance Sheet Exposures** | | | | | |
| Cash and balances with banks | **17,998,169** | **2,408,098** | **937,413** | **736,737** | **22,080,417** |
| Reverse repurchase agreements | **9,537,953** | **–** | **–** | **4,016** | **9,541,969** |
| Financial assets held-for-trading | **15,811,963** | **–** | **–** | **–** | **15,811,963** |
| Derivative financial assets | **256,977** | **4,120** | **–** | **104,257** | **365,354** |
| Financial investments available-for-sale* | **17,491,581** | **–** | **–** | **–** | **17,491,581** |
| Financial investments held-to-maturity | **5,662,134** | **1,506,228** | **–** | **625,189** | **7,793,551** |
| Gross loans, advances and financing | **205,644,168** | **12,018,076** | **2,430,458** | **1,083,101** | **221,175,803** |
| Statutory deposits with Central Banks | **6,476,300** | **–** | **419,036** | **29,496** | **6,924,832** |
| | **278,879,245** | **15,936,522** | **3,786,907** | **2,582,796** | **301,185,470** |
| **Commitments and Contingencies** | | | | | |
| Contingent liabilities | **2,655,706** | **99,974** | **374,107** | **33,138** | **3,162,925** |
| Commitments | **52,828,722** | **1,677,176** | **399,241** | **38,914** | **54,944,053** |
| | **55,484,428** | **1,777,150** | **773,348** | **72,052** | **58,106,978** |
| **Total Credit Exposures** | **334,363,673** | **17,713,672** | **4,560,255** | **2,654,848** | **359,292,448** |
| **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* | 16,616,256 | – | – | – | 16,616,256 |
| Derivative financial assets | 241,176 | 316 | – | 128,973 | 370,465 |
| Financial investments available-for-sale* | 17,045,495 | – | – | 48 | 17,045,543 |
| 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 |
| | 249,618,505 | 14,630,301 | 3,134,869 | 3,271,187 | 270,654,862 |
| **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** | 299,376,101 | 16,072,344 | 3,813,917 | 3,336,794 | 322,599,156 |

** Excluding equity securities of RM126.9 million (2012: RM156.5 million) which do not have any credit risk.*

## 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 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| **On-Balance Sheet Exposures** | | | | | |
| Cash and balances with banks | **22,080,417** | **–** | **–** | **–** | **22,080,417** |
| Reverse repurchase agreements | **9,541,969** | **–** | **–** | **–** | **9,541,969** |
| Financial assets held-for-trading | **15,761,071** | **50,892** | **–** | **–** | **15,811,963** |
| Derivative financial assets | **185,117** | **92,086** | **31,095** | **57,056** | **365,354** |
| Financial investments available-for-sale* | **10,180,549** | **1,786,438** | **–** | **5,524,594** | **17,491,581** |
| Financial investments held-to-maturity | **4,392,628** | **1,206,847** | **740,517** | **1,453,559** | **7,793,551** |
| Gross loans, advances and financing | **29,512,905** | **21,787,337** | **21,614,004** | **148,261,557** | **221,175,803** |
| Statutory deposits with Central Banks | **–** | **–** | **–** | **6,924,832** | **6,924,832** |
| **Total On-Balance Sheet Exposures** | **91,654,656** | **24,923,600** | **22,385,616** | **162,221,598** | **301,185,470** |
| **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 | – | – | 16,616,256 |
| 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 | 5,384,037 | 17,045,543 |
| 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 | 141,287,622 | 270,654,862 |

* *Excluding equity securities of RM126.9 million (2012: RM156.5 million) which do not have any credit risk.*

Approximately 30% (2012: 30%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 67% (2012: 66%) of the Group's gross loans, advances and financing has residual maturity of more than 5 years. The longer maturity is from the housing loans/financing and hire purchase which made up 52% (2012: 52%) of the portfolio and are traditionally longer term in nature and well secured.

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

## 4. CREDIT RISK (CONT'D.)

### 4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

#### (a) Off-Balance Sheet Exposures

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

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

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

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

(iv) Unutilised credit card lines.

(v) 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.

***(i) Risk Management Approach***

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Where possible, Over-the-Counter ("OTC") derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any excess 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 2013, the estimated additional collateral required to be posted for one notch downgrade was RM4.4 million (2012: RM17.2 million).

# 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 |
|---|---|---|---|---|
| **2013** | | | | |
| **Contingent Liabilities** | | | | |
| Direct credit substitutes | 1,521,770 | | 1,521,770 | 1,033,044 |
| Transaction-related contingent items | 1,173,514 | | 586,757 | 359,649 |
| Short-term self-liquidating trade-related contingencies | 467,641 | | 93,528 | 70,227 |
| | 3,162,925 | | 2,202,055 | 1,462,920 |
| **Commitments** | | | | |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | | |
| – exceeding one year | 29,229,501 | | 14,614,751 | 12,000,819 |
| – not exceeding one year | 21,886,823 | | 4,377,364 | 3,665,366 |
| Unutilised credit card lines | 3,823,553 | | 764,711 | 573,533 |
| Forward asset purchases | 4,176 | | 4,176 | 835 |
| | 54,944,053 | | 19,761,002 | 16,240,553 |
| **Derivative Financial Instruments** | | | | |
| Foreign exchange related contracts: | | | | |
| – less than one year | 16,836,631 | 166,918 | 312,662 | 86,666 |
| – one year to less than five years | 2,151,746 | – | 248,632 | 124,808 |
| Interest rate related contracts: | | | | |
| – less than one year | 1,953,625 | 1,582 | 5,527 | 1,708 |
| – one year to less than five years | 6,176,844 | 123,181 | 282,009 | 89,759 |
| – five years and above | 2,706,403 | 57,056 | 198,977 | 41,273 |
| Commodity related contracts: | | | | |
| – less than one year | 1,890 | 1 | 20 | 20 |
| Equity related contracts: | | | | |
| – less than one year | 52,089 | 16,616 | 19,742 | 6,074 |
| | 29,879,228 | 365,354 | 1,067,569 | 350,308 |
| **Total Off-Balance Sheet Exposures** | 87,986,206 | 365,354 | 23,030,626 | 18,053,781 |

## 4. CREDIT RISK (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 |
|---|---|---|---|---|
| **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 |

## 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.)**

| Bank | Principal Amount RM'000 | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk-Weighted Assets RM'000 |
|---|---|---|---|---|
| **2013** | | | | |
| **Bank (excluding Public Bank (L) Ltd.)** | | | | |
| **Contingent Liabilities** | | | | |
| Direct credit substitutes | 1,196,990 | | 1,196,990 | 871,028 |
| Transaction-related contingent items | 1,041,919 | | 520,959 | 303,860 |
| Short-term self-liquidating trade-related contingencies | 295,684 | | 59,136 | 40,908 |
| | 2,534,593 | | 1,777,085 | 1,215,796 |
| **Commitments** | | | | |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | | |
| – exceeding one year | 26,897,981 | | 13,448,992 | 11,042,240 |
| – not exceeding one year | 19,688,146 | | 3,937,629 | 3,203,666 |
| Unutilised credit card lines | 3,713,960 | | 742,792 | 557,094 |
| | 50,300,087 | | 18,129,413 | 14,803,000 |
| **Derivative Financial Instruments** | | | | |
| Foreign exchange related contracts: | | | | |
| – less than one year | 16,652,983 | 166,593 | 311,001 | 86,335 |
| – one year to less than five years | 2,151,746 | – | 248,632 | 124,808 |
| Interest rate related contracts: | | | | |
| – less than one year | 1,838,821 | 1,582 | 5,238 | 1,564 |
| – one year to less than five years | 6,247,237 | 119,711 | 290,243 | 90,717 |
| – five years and above | 3,808,000 | 46,226 | 333,227 | 66,646 |
| Commodity related contracts: | | | | |
| – less than one year | 1,890 | 1 | 20 | 20 |
| Equity related contracts: | | | | |
| – less than one year | 52,089 | 16,616 | 19,742 | 6,074 |
| | 30,752,766 | 350,729 | 1,208,103 | 376,164 |
| **Total** | 83,587,446 | 350,729 | 21,114,601 | 16,394,960 |

## 4. CREDIT RISK (CONT'D.)

### 4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

**Composition of Off-Balance Sheet Exposures (Cont'd.)**

| Bank | Principal Amount RM'000 | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk-Weighted Assets RM'000 |
|---|---|---|---|---|
| **2013** | | | | |
| **Public Bank (L) Ltd.** | | | | |
| **Contingent Liabilities** | | | | |
| Direct credit substitutes | 4,919 | | 4,919 | 4,919 |
| **Commitments** | | | | |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | | |
| – not exceeding one year | 99,894 | | 19,979 | 19,959 |
| **Derivative Financial Instruments** | | | | |
| Interest rate related contracts: | | | | |
| – less than one year | 114,804 | – | 289 | 144 |
| – one year to less than five years | 229,607 | – | 2,296 | 1,146 |
| – five years and above | 98,403 | – | 4,920 | 2,459 |
| | 442,814 | – | 7,505 | 3,749 |
| **Total** | 547,627 | – | 32,403 | 28,627 |
| **Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.** | 84,135,073 | 350,729 | 21,147,004 | 16,423,587 |

## 4. CREDIT RISK (CONT'D.)

### 4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

**Composition of Off-Balance Sheet Exposures (Cont'd.)**

| Bank | Principal Amount RM'000 | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk-Weighted Assets RM'000 |
|---|---|---|---|---|
| **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 |

# 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.)**

| Bank | Principal Amount RM'000 | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk-Weighted Assets RM'000 |
|---|---|---|---|---|
| **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 |

## 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 credit standing and the type of product, facilities may be provided unsecured. Nevertheless, mitigation of credit risk is a key aspect of effective risk management and takes many forms.

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

(a) for residential mortgages – charges over residential properties

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

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

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

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

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

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

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

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

## 4. CREDIT RISK (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<br>Exposure Class | Total Exposures before Credit Risk Mitigation<br>RM'000 | Total Exposures Covered by Guarantees<br>RM'000 | Total Exposures Covered by Eligible Financial Collateral<br>RM'000 | Total Exposures Covered by Other Eligible Collateral<br>RM'000 |
|---|---|---|---|---|
| **2013** | | | | |
| **On-Balance Sheet Exposures** | | | | |
| Sovereigns/Central Banks | 43,868,445 | – | 9,380,656 | – |
| Public Sector Entities | 710,882 | 613,134 | – | – |
| Banks, DFIs and MDBs | 10,933,454 | – | 144,959 | – |
| Insurance Companies, Securities Firms and Fund Managers | 190,518 | – | 3,989 | – |
| Corporates | 53,871,845 | 1,530,664 | 3,069,325 | – |
| Regulatory Retail | 107,217,507 | 1,256 | 747,596 | – |
| Residential Mortgages | 59,871,984 | – | 62,319 | – |
| Higher Risk Assets | 100,871 | – | 76 | – |
| Other Assets | 5,250,041 | – | – | – |
| Equity Exposures | 5,206,890 | – | – | – |
| Defaulted Exposures | 1,696,051 | – | 13,056 | – |
| | 288,918,488 | 2,145,054 | 13,421,976 | – |
| **Off-Balance Sheet Exposures** | | | | |
| Credit-related Exposures | 21,945,654 | 258,522 | 468,951 | – |
| Derivative Financial Instruments | 1,067,569 | – | – | – |
| Other Treasury-related Exposures | 4,176 | – | – | – |
| Defaulted Exposures | 13,227 | – | – | – |
| | 23,030,626 | 258,522 | 468,951 | – |
| **Total Credit Exposures** | 311,949,114 | 2,403,576 | 13,890,927 | – |

## 4. CREDIT RISK (CONT'D.)

### 4.3 Credit Risk Mitigation (Cont'd.)

**Credit Risk Mitigation Analysis (Cont'd.)**

| Group<br>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 (Restated)** | | | | |
| **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 | 4,795,255 | – | – | – |
| Equity Exposures | 5,089,445 | – | – | – |
| Defaulted Exposures | 1,454,976 | – | 12,834 | – |
| | 257,388,456 | 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** | 277,738,651 | 1,726,869 | 12,393,652 | – |

## 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 |

# 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.

## 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.

| | <---- Rating Categories ----> | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Group Exposure Class** | **1 RM'000** | **2 RM'000** | **3 RM'000** | **4 RM'000** | **5 RM'000** | **6 RM'000** | **Unrated RM'000** | **Total RM'000** |
| **2013** | | | | | | | | |
| **On-Balance Sheet Exposures** | | | | | | | | |
| (a) Rated Exposures | | | | | | | | |
| (i) Exposures risk-weighted using ratings of Corporates | | | | | | | | |
| – Corporates | 3,799,878 | 1,035,363 | 1,411,967 | – | – | – | | 6,247,208 |
| (ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks# | | | | | | | | |
| – Sovereigns and Central Banks | 1,189,381 | 41,644,508 | – | – | 894,048 | – | | 43,727,937 |
| – Public Sector Entities | – | 613,134 | – | – | – | – | | 613,134 |
| – Corporates | – | 572,759 | – | – | – | – | | 572,759 |
| | 1,189,381 | 42,830,401 | – | – | 894,048 | – | | 44,913,830 |
| (iii) Exposures risk-weighted using ratings of Banking Institutions | | | | | | | | |
| – Banks, DFIs and MDBs | 3,158,958 | 4,104,961 | 1,186,735 | 306,408 | – | – | | 8,757,062 |
| – Corporates | 1,016,964 | 27,803 | 5,409 | – | – | – | | 1,050,176 |
| – Regulatory Retail | – | 1,256 | – | – | – | – | | 1,256 |
| | 4,175,922 | 4,134,020 | 1,192,144 | 306,408 | – | – | | 9,808,494 |
| Total Rated Exposures | 9,165,181 | 47,999,784 | 2,604,111 | 306,408 | 894,048 | – | | 60,969,532 |
| (b) Total Unrated Exposures | | | | | | | 227,948,956 | 227,948,956 |
| | 9,165,181 | 47,999,784 | 2,604,111 | 306,408 | 894,048 | – | 227,948,956 | 288,918,488 |

# 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<br>Exposure Class | Rating Categories<br>1<br>RM'000 | 2<br>RM'000 | 3<br>RM'000 | 4<br>RM'000 | 5<br>RM'000 | 6<br>RM'000 | Unrated<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | |
| **Off-Balance Sheet Exposures** | | | | | | | | |
| (a) Rated Exposures | | | | | | | | |
| (i) Exposures risk-weighted using ratings of Corporates | | | | | | | | |
| – Corporates | 134,982 | 306,641 | – | – | – | – | | 441,623 |
| (ii) Exposures risk-weighted using ratings of Banking Institutions | | | | | | | | |
| – Banks, DFIs and MDBs | 441,175 | 590,382 | 41,060 | – | – | – | | 1,072,617 |
| – Corporates | 224,117 | 22,076 | 625 | – | – | – | | 246,818 |
| – Regulatory Retail | – | 925 | – | – | – | – | | 925 |
| | 665,292 | 613,383 | 41,685 | – | – | – | | 1,320,360 |
| Total Rated Exposures | 800,274 | 920,024 | 41,685 | – | – | – | | 1,761,983 |
| (b) Total Unrated Exposures | | | | | | | 21,268,643 | 21,268,643 |
| | 800,274 | 920,024 | 41,685 | – | – | – | 21,268,643 | 23,030,626 |
| **Total Credit Exposures before Credit Risk Mitigation** | 9,965,455 | 48,919,808 | 2,645,796 | 306,408 | 894,048 | – | 249,217,599 | 311,949,114 |

## 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 | 1 RM'000 | 2 RM'000 | 3 RM'000 | 4 RM'000 | 5 RM'000 | 6 RM'000 | Unrated RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| | <- Rating Categories | | | | | | -> | |
| **2012 (Restated)** | | | | | | | | |
| **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 | 818,663 | 36,723,458 | – | – | 793,525 | – | | 38,335,646 |
| – Public Sector Entities | – | 614,621 | – | – | – | – | | 614,621 |
| – Corporates | – | 15,172 | – | – | – | – | | 15,172 |
| | 818,663 | 37,353,251 | – | – | 793,525 | – | | 38,965,439 |
| (iii) Exposures risk-weighted using ratings of Banking Institutions | | | | | | | | |
| – Banks, DFIs and MDBs | 2,322,886 | 4,069,260 | 1,499,829 | 24,461 | – | – | | 7,916,436 |
| – Corporates | 739,169 | 151,846 | 4,367 | – | – | – | | 895,382 |
| – Regulatory Retail | 3,000 | 1,681 | – | – | – | – | | 4,681 |
| | 3,065,055 | 4,222,787 | 1,504,196 | 24,461 | – | – | | 8,816,499 |
| Total Rated Exposures | 7,356,437 | 42,579,803 | 2,829,140 | 24,461 | 793,525 | – | | 53,583,366 |
| (b) Total Unrated Exposures | | | | | | | 203,805,090 | 203,805,090 |
| | 7,356,437 | 42,579,803 | 2,829,140 | 24,461 | 793,525 | – | 203,805,090 | 257,388,456 |

# 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<br>Exposure Class | 1<br>RM'000 | 2<br>RM'000 | 3<br>RM'000 | 4<br>RM'000 | 5<br>RM'000 | 6<br>RM'000 | Unrated<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|---|---|---|
| | <---- Rating Categories ----> | | | | | | | |
| **2012 (Restated)** | | | | | | | | |
| **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 | 911,461 | 430,254 | 40,743 | – | 1,316 | – | | 1,383,774 |
| – Corporates | 221,142 | 11,926 | 990 | – | – | – | | 234,058 |
| – Regulatory Retail | – | 1,625 | – | – | – | – | | 1,625 |
| | 1,132,603 | 443,805 | 41,733 | – | 1,316 | – | | 1,619,457 |
| Total Rated Exposures | 1,307,562 | 596,830 | 41,733 | – | 1,316 | – | | 1,947,441 |
| (b) Total Unrated Exposures | | | | | | | 18,402,754 | 18,402,754 |
| | 1,307,562 | 596,830 | 41,733 | – | 1,316 | – | 18,402,754 | 20,350,195 |
| **Total Credit Exposures before Credit Risk Mitigation** | 8,663,999 | 43,176,633 | 2,870,873 | 24,461 | 794,841 | – | 222,207,844 | 277,738,651 |

\# *Under the RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia, BNM, overseas federal governments and central banks of their respective jurisdictions are accorded a preferential sovereign risk weight of 0%.*

# 4. CREDIT RISK (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.

| | <------ Credit Exposures after the Effect of Credit Risk Mitigation | | | | | | | | | ------> | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group Risk Weights | Sovereigns/ Central Banks RM'000 | Public Sector Entities RM'000 | Banks, DFIs and MDBs RM'000 | Insurance Companies, Securities Firms and Fund Managers RM'000 | Corporates RM'000 | Regulatory Retail RM'000 | Residential Mortgages RM'000 | Higher Risk Assets RM'000 | Other Assets RM'000 | Equity Exposures RM'000 | Total Exposures after Credit Risk Mitigation RM'000 | Total Risk-Weighted Assets RM'000 |
| **2013** | | | | | | | | | | | | |
| 0% | 34,476,072 | 613,134 | – | – | 510,878 | – | – | – | 2,440,286 | – | 38,040,370 | – |
| 20% | – | 101,479 | 10,319,139 | – | 5,175,931 | – | – | – | 148,795 | – | 15,745,344 | 3,149,069 |
| 35% | – | – | – | – | – | – | 42,601,388 | – | – | – | 42,601,388 | 14,910,486 |
| 50% | – | – | 1,123,100 | 64,268 | 1,394,542 | 12,169 | 15,119,025 | – | – | – | 17,713,104 | 8,856,552 |
| 75% | – | – | – | – | – | 113,687,785 | 594,006 | – | – | – | 114,281,791 | 85,711,343 |
| 100% | 111,726 | – | 429,182 | 142,769 | 52,463,486 | 4,304,292 | 2,736,290 | – | 2,660,960 | 5,206,890 | 68,055,595 | 68,055,595 |
| 150% | – | – | – | 1 | 161,885 | 1,329,246 | 14,674 | 114,789 | – | – | 1,620,595 | 2,430,892 |
| Total | 34,587,798 | 714,613 | 11,871,421 | 207,038 | 59,706,722 | 119,333,492 | 61,065,383 | 114,789 | 5,250,041 | 5,206,890 | 298,058,187 | 183,113,937 |
| Risk-Weighted Assets by Exposures | 111,726 | 20,296 | 3,054,560 | 174,904 | 54,438,770 | 91,570,084 | 25,673,804 | 172,184 | 2,690,719 | 5,206,890 | 183,113,937 | |
| Average Risk Weights | 0.3% | 2.8% | 25.7% | 84.5% | 91.2% | 76.7% | 42.0% | 150.0% | 51.3% | 100.0% | 61.4% | |
| Deduction from Total Capital | | | – | | | | | | | – | – | |

## 4. CREDIT RISK (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 --> | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group Risk Weights | Sovereigns/ Central Banks RM'000 | Public Sector Entities RM'000 | Banks, DFIs and MDBs RM'000 | Insurance Companies, Securities Firms and Fund Managers RM'000 | Corporates RM'000 | Regulatory Retail RM'000 | Residential Mortgages RM'000 | Higher Risk Assets RM'000 | Other Assets RM'000 | Equity Exposures RM'000 | Total Exposures after Credit Risk Mitigation RM'000 | Total Risk-Weighted Assets RM'000 |
| **2012 (Restated)** | | | | | | | | | | | | |
| 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 | – | 2,666,258 | 5,058,497 | 60,514,506 | 60,514,506 |
| 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 | 4,795,255 | 5,089,445 | 265,344,999 | 164,279,544 |
| 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 | 2,697,942 | 5,064,687 | 164,279,544 | |
| Average Risk Weights | 0.2% | 3.5% | 24.4% | 94.2% | 91.7% | 76.8% | 43.6% | 150.0% | 56.3% | 99.5% | 61.9% | |
| Deduction from Total Capital | | | 46,834 | | | | | | | – | 46,834 | |

# 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 ------> | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Risk Weights | Sovereigns/ Central Banks RM'000 | Public Sector Entities RM'000 | Banks, DFIs and MDBs RM'000 | Insurance Companies, Securities Firms and Fund Managers RM'000 | Corporates RM'000 | Regulatory Retail RM'000 | Residential Mortgages RM'000 | Higher Risk Assets RM'000 | Other Assets RM'000 | Equity Exposures RM'000 | Total Exposures after Credit Risk Mitigation RM'000 | Total Risk-Weighted Assets RM'000 |
| **2013** | | | | | | | | | | | | |
| 0% | 23,045,435 | 312,487 | – | – | 484,973 | – | – | – | 2,199,726 | – | 26,042,621 | – |
| 20% | – | 12,935 | 8,044,469 | – | 4,945,088 | – | – | – | – | – | 13,002,492 | 2,600,498 |
| 35% | – | – | – | – | – | – | 36,127,910 | – | – | – | 36,127,910 | 12,644,768 |
| 50% | – | – | 1,152,587 | – | 1,394,542 | 12,170 | 13,482,786 | – | – | – | 16,042,085 | 8,021,043 |
| 75% | – | – | – | – | – | 92,306,928 | 539,921 | – | – | – | 92,846,849 | 69,635,137 |
| 100% | 111,726 | – | 197,561 | 31,233 | 46,511,418 | 2,649,719 | 2,240,766 | – | 1,966,586 | 4,637,365 | 58,346,374 | 58,346,374 |
| 150% | – | – | – | 1 | 156,320 | 1,054,462 | 11,129 | 103,639 | – | – | 1,325,551 | 1,988,327 |
| 1250% | – | – | – | – | – | – | – | – | 89,966 | – | 89,966 | 1,124,575 |
| **Total** | 23,157,161 | 325,422 | 9,394,617 | 31,234 | 53,492,341 | 96,023,279 | 52,402,512 | 103,639 | 4,256,278 | 4,637,365 | 243,823,848 | 154,360,722 |
| Risk-Weighted Assets by Exposures | 111,726 | 2,587 | 2,382,748 | 31,234 | 48,432,188 | 73,467,692 | 22,048,562 | 155,459 | 3,091,161 | 4,637,365 | 154,360,722 | |
| Average Risk Weights | 0.5% | 0.8% | 25.4% | 100.0% | 90.5% | 76.5% | 42.1% | 150.0% | 72.6% | 100.0% | 63.3% | |
| Deduction from Total Capital | | | – | | | | | | | – | – | |

## 4. CREDIT RISK (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 ----> Sovereigns/ Central Banks RM'000 | Public Sector Entities RM'000 | Banks, DFIs and MDBs RM'000 | Insurance Companies, Securities Firms and Fund Managers RM'000 | Corporates RM'000 | Regulatory Retail RM'000 | Residential Mortgages RM'000 | Higher Risk Assets RM'000 | Other Assets RM'000 | Equity Exposures RM'000 | Total Exposures after Credit Risk Mitigation RM'000 | Total Risk-Weighted Assets RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2012 (Restated)** | | | | | | | | | | | | |
| 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 | – | 1,904,610 | 4,505,031 | 51,719,864 | 51,719,864 |
| 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 | 3,697,469 | 4,535,979 | 218,860,488 | 137,471,265 |
| 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 | 1,904,610 | 4,511,221 | 137,471,265 | |
| Average Risk Weights | 0.3% | 1.2% | 26.3% | 102.9% | 91.0% | 76.5% | 43.8% | 150.0% | 51.5% | 99.5% | 62.8% | |
| Deduction from Total Capital | | | 46,834 | | | | | | | – | 46,834 | |

## 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 | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Neither past due nor impaired | **196,579,102** | 174,605,825 |
| Past due but not impaired | **23,111,922** | 21,803,253 |
| Impaired | **1,484,779** | 1,374,086 |
| | **221,175,803** | 197,783,164 |
| Gross impaired loans as a percentage of gross loans, advances and financing | **0.67%** | 0.69% |

**(a) Neither Past Due Nor Impaired**

The credit quality of gross loans, advances and financing which are neither past due nor impaired is set out in Note 44(ii)(a) to the financial statements.

**(b) Past Due But Not Impaired**

Past due but not impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due, and include loans which are due one or more days after the contractual due date but less than 3 months. 60% (2012: 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

## 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 | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Purchase of securities | **11,781** | 44,109 |
| Purchase of transport vehicles | **10,471,570** | 10,060,835 |
| Purchase of landed properties | **10,337,015** | 9,927,276 |
| (Of which: – residential | **7,929,483** | 7,539,305 |
| – non-residential) | **2,407,532** | 2,387,971 |
| Purchase of fixed assets (excluding landed properties) | **9,679** | 14,518 |
| Personal use | **615,380** | 641,216 |
| Credit card | **280,990** | 229,623 |
| Purchase of consumer durables | **1,617** | 2,731 |
| Construction | **23,073** | 79,083 |
| Working capital | **1,111,686** | 659,349 |
| Other purpose | **249,131** | 144,513 |
| | **23,111,922** | 21,803,253 |

##### (ii) Geographical Analysis

| Group | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Malaysia | **22,619,163** | 21,329,633 |
| Hong Kong & China | **151,521** | 176,689 |
| Cambodia | **167,538** | 199,177 |
| Other countries | **173,700** | 97,754 |
| | **23,111,922** | 21,803,253 |

##### (iii) Aging Analysis

| Group | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| 1 day to <1 month | **13,754,613** | 12,899,172 |
| 1 month to <2 months | **6,865,292** | 6,965,783 |
| 2 months to <3 months | **2,492,017** | 1,938,298 |
| | **23,111,922** | 21,803,253 |

## 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 statement of profit or loss.

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

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

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

# 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 |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Purchase of securities | 3,466 | 2,471 | – | – | 2,471 | 7,413 | 9,884 |
| Purchase of transport vehicles | 357,474 | 7,850 | 303 | – | 8,153 | 529,960 | 538,113 |
| Purchase of landed properties | 676,066 | 25,881 | (5,184) | (3,773) | 16,924 | 817,007 | 833,931 |
| (Of which: – residential | 526,930 | 691 | 1,662 | (2,123) | 230 | 554,232 | 554,462 |
| – non-residential) | 149,136 | 25,190 | (6,846) | (1,650) | 16,694 | 262,775 | 279,469 |
| Purchase of fixed assets (excluding landed properties) | 6,003 | 460 | 387 | (380) | 467 | 1,711 | 2,178 |
| Personal use | 169,312 | 38,207 | 199,632 | (197,948) | 39,891 | 95,197 | 135,088 |
| Credit card | 23,161 | – | – | – | – | 18,781 | 18,781 |
| Purchase of consumer durables | 82 | – | – | – | – | 179 | 179 |
| Construction | 11,469 | 4,137 | 547 | 73 | 4,757 | 7,446 | 12,203 |
| Mergers and acquisitions | – | – | – | – | – | 379 | 379 |
| Working capital | 223,163 | 117,896 | 30,538 | (57,789) | 90,645 | 104,663 | 195,308 |
| Other purpose | 14,583 | 5,093 | (476) | – | 4,617 | 9,349 | 13,966 |
| | 1,484,779 | 201,995 | 225,747 | (259,817) | 167,925 | 1,592,085 | 1,760,010 |

# 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.)

| 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 |

The movements in the collective assessment allowance for 2013 and 2012 are set out in Note 9 to the financial statements.

## 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

| Group | Impaired Loans, Advances and Financing RM'000 | Individual Assessment Allowance at 1 January RM'000 | Net Charge for the Year RM'000 | Amounts Written Off/Other Movements RM'000 | Individual Assessment Allowance at 31 December RM'000 | Collective Assessment Allowance at 31 December RM'000 | Total Impairment Allowances for Loans, Advances and Financing RM'000 |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Malaysia | **1,343,237** | **111,918** | **8,393** | **(39,080)** | **81,231** | **1,455,468** | **1,536,699** |
| Hong Kong & China | **74,329** | **49,063** | **199,620** | **(198,209)** | **50,474** | **86,370** | **136,844** |
| Cambodia | **44,108** | **39,271** | **17,873** | **(22,650)** | **34,494** | **42,127** | **76,621** |
| Other countries | **23,105** | **1,743** | **(139)** | **122** | **1,726** | **8,120** | **9,846** |
| | **1,484,779** | **201,995** | **225,747** | **(259,817)** | **167,925** | **1,592,085** | **1,760,010** |

| 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** | | | | | | | |
| 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 |

The movements in the collective assessment allowance for 2013 and 2012 are set out in Note 9 to the financial statements.

## 5. MARKET RISK

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic banking activities of the Group includes rate of return risk and displaced commercial risk ("DCR").

**Minimum Regulatory Capital Requirements for Market Risk**

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

| | Long Position RM'000 | Short Position RM'000 | Risk-Weighted Assets RM'000 | Minimum Capital Requirement at 8% RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2013** | | | | |
| Interest rate/rate of return risk | **33,918,033** | **(17,198,819)** | **1,003,284** | **80,263** |
| Foreign exchange risk | **1,108,152** | **(566,324)** | **1,108,152** | **88,652** |
| **Total** | **35,026,185** | **(17,765,143)** | **2,111,436** | **168,915** |
| **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 |
| **Bank** | | | | |
| **2013** | | | | |
| Interest rate risk | **31,120,418** | **(17,136,668)** | **855,500** | **68,440** |
| Foreign exchange risk | **1,416,690** | **(1,995,079)** | **1,995,079** | **159,606** |
| **Total** | **32,537,108** | **(19,131,747)** | **2,850,579** | **228,046** |
| **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 |

## 5. MARKET RISK (CONT'D.)

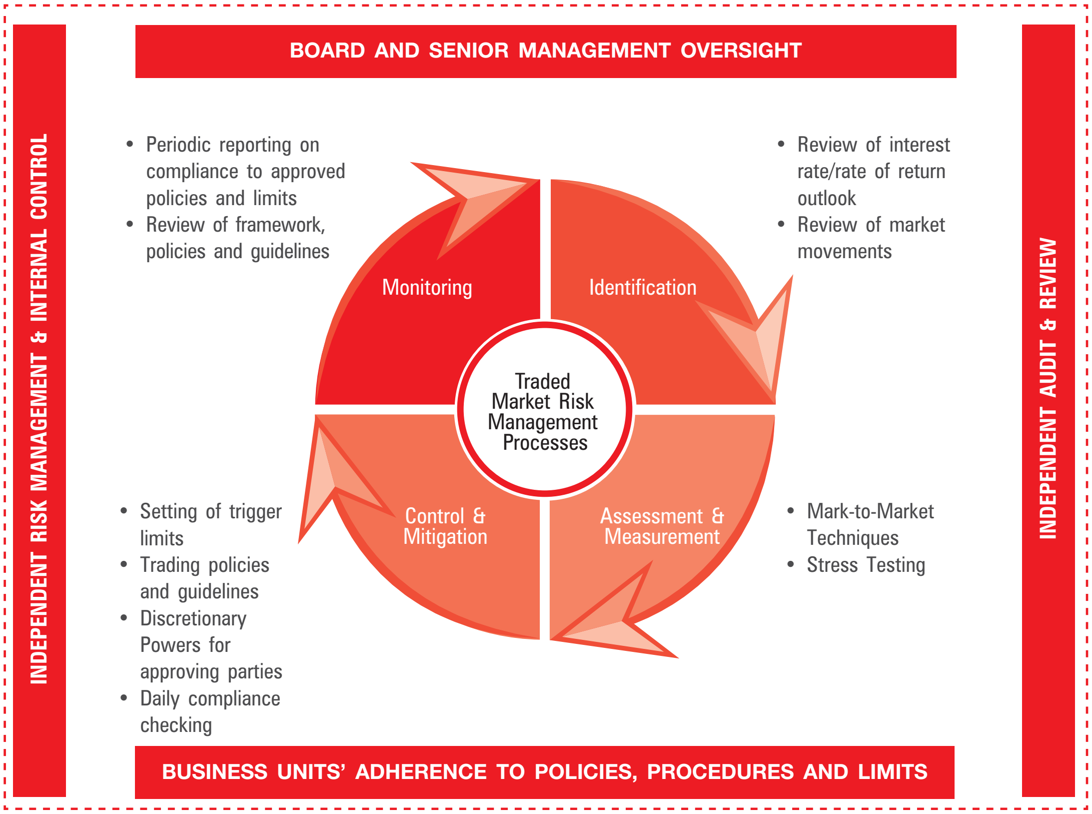
**Risk Governance**

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 mainly originated by the treasury operations.

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



## 5. MARKET RISK (CONT'D.)

### 5.1 Traded Market Risk (Cont'd.)

**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 fixed income instruments is measured by the present value of 1 basis point change ("PV01") and controlled by daily and cumulative cut-loss limits. The compliance officers are deployed to conduct daily compliance checking on the treasury operations. Any instances of non-compliance with the operational processes, procedures and limits will be documented with remedial action plans and reported to the RMC. In addition, the compliance officers conduct independent verification on the daily mark-to-market of fixed income instruments.

The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by 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 instruments as measured by PV01, averaged at RM276,000 (2012: RM354,000). The composition of the Group's trading portfolio is set out in Note 5 to the financial statements.

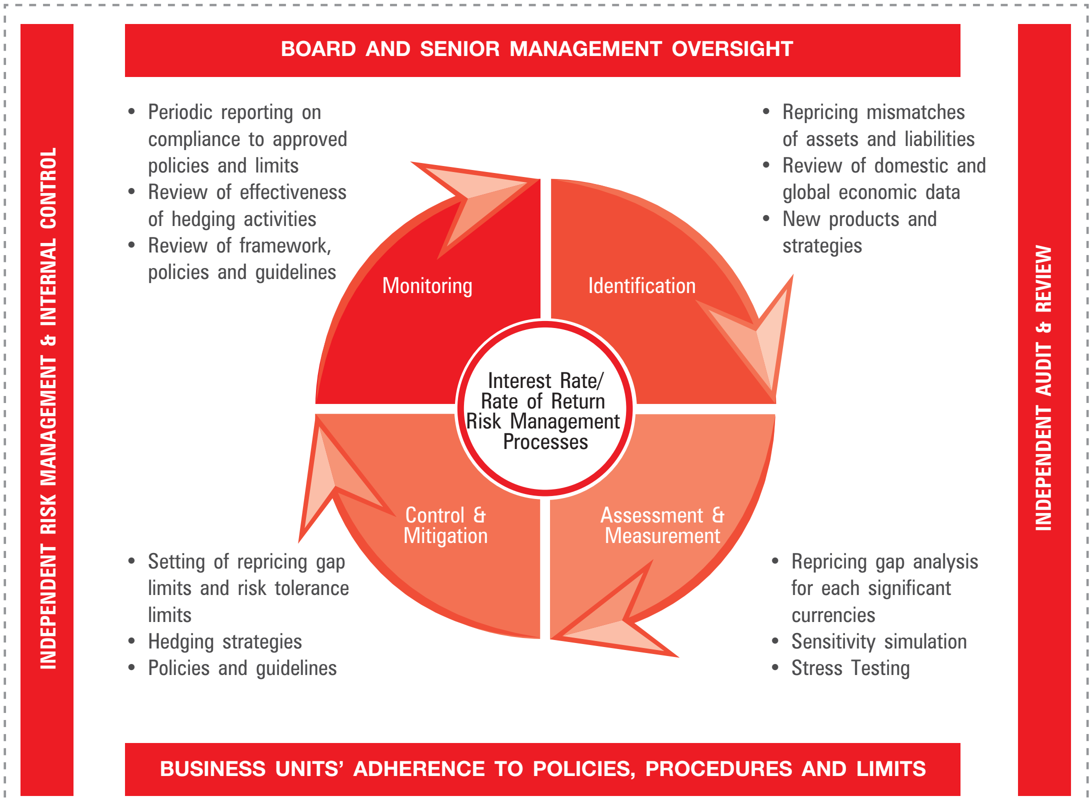
### 5.2 Non-Traded Market Risk

The Group's core non-traded market risks are interest rate/rate of return risk in the banking book, DCR in the Group's Islamic banking business, foreign exchange risk and equity risk.

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

Interest rate/rate of return risk in the banking book ("IRR/RoRBB") is the risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in the interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

The following diagram presents the risk management processes over IRR/RoRBB.



## 5. MARKET RISK (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***

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in the interest rate/rate of return sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge the interest rate/rate of return risk is set out in Note 6 to the financial statements.

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

(i) The table in Note 44(ii)(a)(i) to the financial statements sets out the Group's sensitivity to the interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits. As at 31 December 2013, the Group had an overall positive interest rate/rate of return gap of RM39,865.7 million (2012: RM34,399.2 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 sensivity 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.

## 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.)

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | -100 bps | +100 bps | -100 bps | +100 bps |
| | <---- Increase/(Decrease) | | | ----> |
| **Group** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Impact on NII/NPI** | | | | |
| Ringgit Malaysia | **(246,230)** | **164,538** | (161,036) | 86,044 |
| United States Dollars | **5,840** | **(25,770)** | 5,973 | (25,345) |
| Hong Kong Dollars | **(1,973)** | **(1,532)** | (2,209) | 436 |
| Other Currencies | **(5,659)** | **3,573** | (6,535) | 4,711 |
| **Total** | **(248,022)** | **140,809** | (163,807) | 65,846 |
| **Impact on EVE** | | | | |
| Ringgit Malaysia | **929,747** | **(558,481)** | 914,808 | (574,068) |
| United States Dollars | **4,660** | **(4,133)** | 4,281 | (4,069) |
| Hong Kong Dollars | **1,299** | **7,781** | 6 | 9,475 |
| Other Currencies | **(2,717)** | **6,144** | (4,377) | 6,930 |
| **Total** | **932,989** | **(548,689)** | 914,718 | (561,732) |

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. Where possible and material, loans/financing prepayments are generally estimated based on past statistics and trends. 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.

## 5. MARKET RISK (CONT'D.)

### 5.2 Non-Traded Market Risk (Cont'd.)

**(b) Displaced Commercial Risk**

DCR refers to the risk of Public Islamic bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the Investment Account Holders ("IAH") based on the contractual profit sharing ratio. Public Islamic does not have Profit Sharing Investment Accounts ("PSIA") which are eligible for risk absorbent treatment.

***Risk Management Approach***

Public Islamic uses Profit Equalisation Reserve ("PER") to manage its DCR and is governed by the Profit Equalisation Reserve Framework. PER is created by setting aside an amount out of the total gross income before distribution to the IAH and to Public Islamic. The amount of PER set aside is shared by both the IAH and Public Islamic. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, Public Islamic may employ the following techniques to ensure that the IAH receive market rate of return:

(i) to forgo part or all of Public Islamic's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or

(ii) to transfer Public Islamic's current year profits or retained earnings to the IAH on the basis of hibah.

**(c) Foreign Exchange Risk**

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, overseas branches and associated companies, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

***Risk Management Approach***

The Group manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position ("NOP") limit is set for overall NOP as well as NOP limits for individual currencies. The decision to hedge the Group's net investment in its overseas operations is based on its potential economic benefit and is periodically assessed by the ALCO.

The table in Note 44(ii)(c) 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 2013, a net long position of RM533.0 million (2012: RM195.9 million) or 13% (2012: 5%) of the Group's structural position.

**(d) Equity Risk**

Equity risk refers to the adverse impact arising from movements in equity prices on equity positions held by the Group for yield purposes.

***Risk Management Approach***

The Group manages such risk via pre-approved portfolio size and cut-loss limits. Decisions concerning such positions are made by the Share Investment Committee.

## 6. EQUITY EXPOSURES IN THE BANKING BOOK

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

### (a) Equity Exposures in the Banking Book

| Group | 2013 Gross Credit Exposure RM'000 | 2013 Risk-Weighted Assets RM'000 | 2012 Gross Credit Exposure RM'000 | 2012 Risk-Weighted Assets RM'000 |
|---|---|---|---|---|
| Publicly traded | | | | |
| Investments in unit trust funds | **5,107,225** | **5,107,225** | 4,962,875 | 4,962,875 |
| Holdings of equity investments | **11,897** | **11,897** | 38,805 | 38,805 |
| | **5,119,122** | **5,119,122** | 5,001,680 | 5,001,680 |
| Privately held | | | | |
| For socio-economic purposes | **87,768** | **87,768** | 87,765 | 63,007 |
| Not for socio-economic purposes | **18,981** | **28,472** | 37,313 | 55,970 |
| | **106,749** | **116,240** | 125,078 | 118,977 |
| **Total** | **5,225,871** | **5,235,362** | 5,126,758 | 5,120,657 |

#### (i) Publicly Traded

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

#### (ii) Privately Held

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

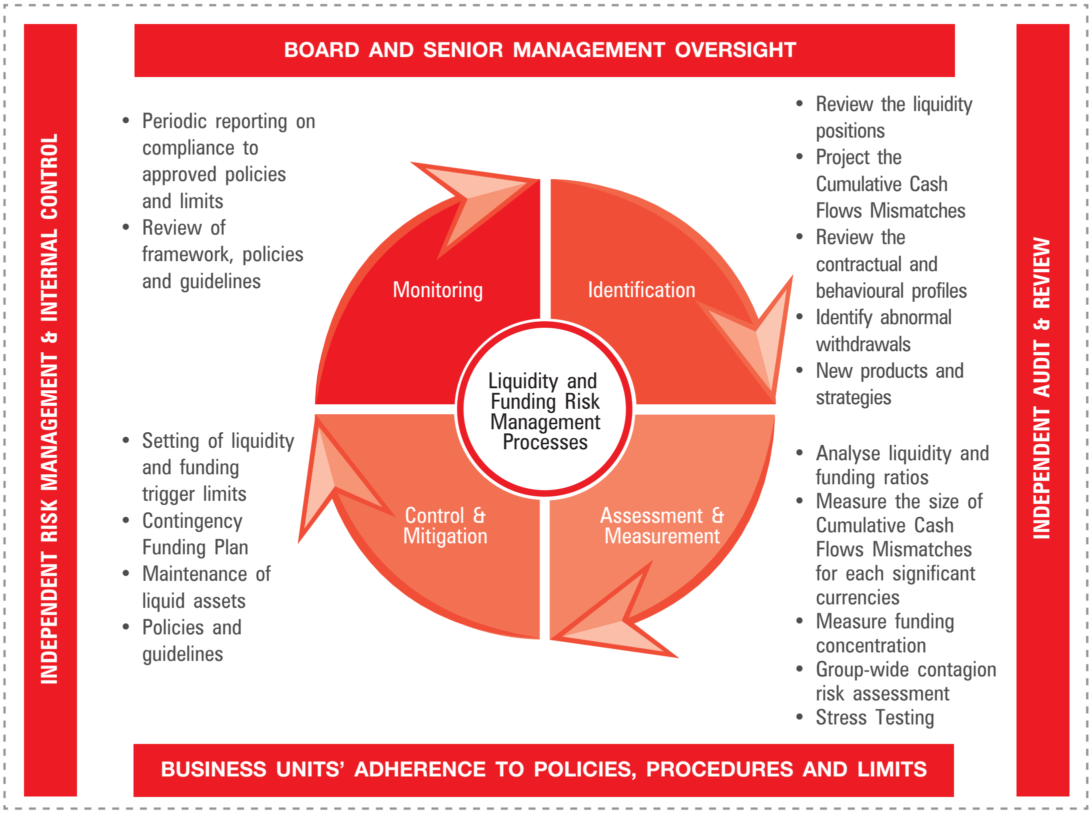
### (b) Gains and Losses on Equity Exposures in the Banking Book

| Group | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Realised gains/(losses) recognised in the statement of profit or loss | | |
| – Publicly traded equity investments | **2,123** | (64) |
| Unrealised gains/(losses) recognised in other comprehensive income | | |
| – Investments in unit trust funds | **15,192** | 21,997 |
| – Publicly traded equity investments | **10,755** | 9,627 |
| | **25,947** | 31,624 |

## 7. LIQUIDITY AND FUNDING RISK

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

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




### Risk Governance

The ALCO is the primary committee responsible for liquidity and funding risk management based on guidelines approved by the RMC. Liquidity policies and framework are reviewed by the ALCO and approved by the RMC prior to implementation.

### Risk Management Approach

The liquidity and funding risk management of the Group is aligned to the New Liquidity Framework issued by BNM, and is measured and managed based on projected cash flows. In addition to 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 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 2013, the Group holds a sizeable balance of government securities amounting to RM16,089.9 million (2012: RM17,651.4 million) or 39% (2012: 44%) of its portfolio of securities.

## 7. LIQUIDITY AND FUNDING RISK (CONT'D.)

**Risk Management Approach (Cont'd.)**

The Group's liquidity and funding positions are supported by the Group's significant retail deposit base, accompanied by funding from wholesale markets. The Group's retail deposit base comprises 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 debt instruments, certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

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

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Group to determine the cash flows mismatches under the "Specific Institution Liquidity Problem" and "Systemic Wide Liquidity Problem" scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Overseas subsidiary companies and overseas branches are required to comply with their respective local regulatory liquidity requirements and internal liquidity and funding limits. Similar risk management processes as practiced by Head Office are adopted by its overseas subsidiary companies and overseas branches. It is the Group's policy that the overseas subsidiary companies and overseas branches strive to attain a self-funding position in funding their respective operations.

## 8. OPERATIONAL RISK

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

**Minimum Regulatory Capital Requirements for Operational Risk**

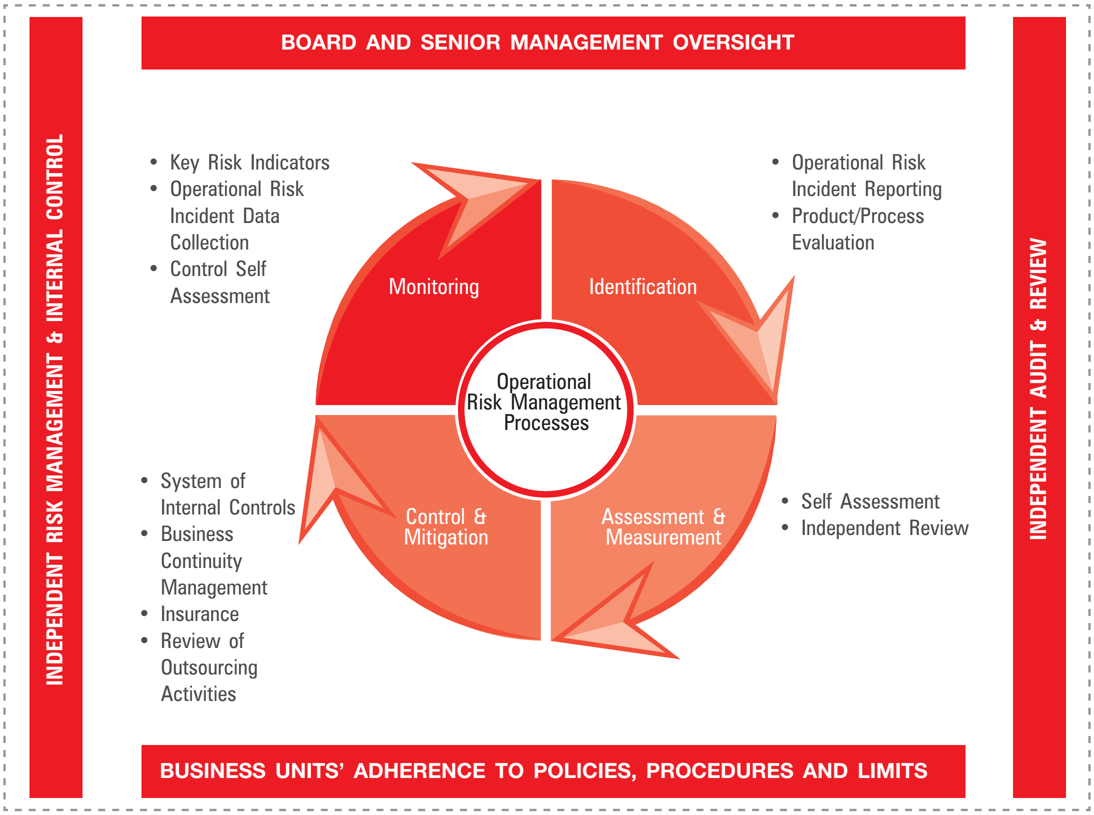
The following tables present the minimum regulatory capital requirements for operational risk of the Group and the Bank, computed using the Basic Indicator Approach.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | 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 | **14,497,356** | **1,159,788** | 13,733,324 | 1,098,666 |
| Bank | **10,228,677** | **818,294** | 9,915,430 | 793,234 |

## 8. OPERATIONAL RISK (CONT'D.)

**Minimum Regulatory Capital Requirements for Operational Risk (Cont'd.)**

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




**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.

## 8. OPERATIONAL RISK (CONT'D.)

**Risk Management Approach**

The day-to-day management of operational risk exposures is through a comprehensive system of internal controls to ensure that operational policies, guidelines and procedures are being adhered to at all levels throughout the Group. As events and business conditions evolve, the Group continues to strengthen and refine its operational risk management processes to ensure that the current and potential operational risk exposures are properly understood and managed.

**(a) Strategy and Processes**



The Group has put in place a disciplined product evaluation process. The Group's product evaluation process is governed by the Group's Policy and Procedures on Risk Management Practices for New Products. Each new product or service introduced as well as variations to existing products or services are subject to a rigorous risk review and sign-off process where risks are identified and assessed by divisions independent of the risk taking unit that proposes the products or services. This is further augmented by the Group's Framework on Product Transparency and Disclosure which emphasises the importance of safeguarding customers' confidentiality and promoting their awareness and understanding of the products and services, and informed decision making.



The Group continues to direct group-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Group operates in. The Group seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to support compliance with regulations governing anti-money laundering and counter financing of terrorism.

To further enhance operational risk management in response to threat of external fraud, losses arising from frauds or control lapses are analysed to identify the causes of such losses and to implement remedial actions to prevent recurrence. Analyses of impaired loans attributed to operational lapses are also conducted and the findings are disseminated to all business units as learning points.

The Group manages its outsourcing activities through the Guidelines on Outsourcing Activities which stipulate the requirements and the operating procedures to be observed in managing activities that are outsourced to third party service providers. This is to ensure that the risks associated with outsourcing activities are managed effectively.

The Group protects information security through continuous assessment of the security features on all computer platforms and network infrastructure, and implementation of appropriate security controls to protect against the misuse or compromise of information assets. In addition, the Group continues to undertake initiatives to maintain 100% system availability and robust system performance in the Group's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

**(b) Tools and Methods for Risk Mitigation**

The Group employs the following key methods to mitigate its operational risk:

(i) System of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes

(ii) Documented operational risk management policies and procedural manuals to mitigate errors by users

(iii) Processes to ensure compliance with internal policies, guidelines, controls and procedures and appropriate punitive actions are taken against errant staff

(iv) Periodic review and enhancement of operational risk limits and control effectiveness

(v) Disaster recovery and business continuity plans put in place to mitigate risk and manage the impact of loss events

(vi) Insurance coverage to mitigate risk of high impact loss events, where appropriate

## 8. OPERATIONAL RISK (CONT'D.)

**Risk Management Approach (Cont'd.)**

**(b) Tools and Methods for Risk Mitigation (Cont'd.)**

To monitor and mitigate operational risk, the Group uses various tools including:

(i) Control self-assessment – to enhance management assessment of the state of the control environment

(ii) Key risk indicators – to collect statistical data on an ongoing basis to facilitate early detection of operational control deficiencies

(iii) Operational risk incident reporting and data collection – to facilitate an enhanced analysis and timely reporting of operational risk data which are useful in assessing the Group's operational risk exposure and in strengthening the internal control environment

**(c) Reporting**

Reporting forms an essential part of operational risk management. The Group's risk management processes are designed to ensure that operational issues are identified, escalated and managed on a timely manner.

Operational risk areas for the key business and control units are reported through monthly operational risk management reports, which provide analyses and action plans for each significant business operation. The operational risk areas considered include premises controls and safety, losses due to fraud or control lapses, system availability, disaster recovery and business continuity plan simulations, outsourcing activities, compliance review results and legal actions taken against the Group. The operational risk management reports are tabled to the ORMC and the RMC for deliberations.

## 9. SHARIAH NON-COMPLIANCE RISK

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

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

**Islamic Banking Operations**

Shariah non-compliance risk emanating from Islamic banking operations is managed through the Shariah Governance Framework ("the Framework") which was endorsed by the Shariah Committee and approved by the Board of Directors of Public Islamic ("the Board of Public Islamic"). The Framework is drawn up in accordance 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 presided by qualified members who deliberate and endorse all Shariah matters which are subsequently noted and/or approved by the Board of Public Islamic. On a periodic basis, the Shariah Committee 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.

## 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 rules and principles through an end-to-end process from product development to operational review including the review of the uses of the financing extended to detect application of financing in Shariah non-compliance activities. Shariah research is responsible for conducting research on Shariah issues and providing Shariah advisory support to branches and business units. In addition, internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Audit Committee. Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services and the treatment of the consequential Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Committee and the approval by the Board of Public Islamic prior to implementation.

Ongoing Shariah review conducted on Public Islamic's operational processes in Islamic banking and financing transactions revealed that there is no Shariah non-compliant income recorded during the financial year under review (2012: Nil).

**Management of Shariah-Based Funds**

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

The Compliance Department of Public Mutual is responsible for assessing, monitoring and reporting on the company's compliance with the applicable Shariah rules and regulations in managing its Shariah-based fund. The Compliance Department conducts regular reviews and works closely with the Shariah Adviser to ensure all transactions under the Shariah-based funds comply with the Shariah requirements at all times.

Any securities held by the Shariah-based funds which subsequently turn Shariah non-compliant based on announcements made by the SACSC will be disposed of in the manner as stipulated by the SACSC. Any excess capital gains derived from such disposal would be channelled to charitable bodies accordingly.

During the financial year, a non-permissible income of RM1,062,973 (2012: 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.

# Past Award – Winning ANNUAL REPORTS

**2013** **NACRA Award**
- Overall Excellence Award – Silver Award
- Best Annual Report in Bahasa Malaysia – Platinum Award

**2012** **NACRA Award**
- Most Outstanding Annual Report – Gold Award
- Best Annual Report in Bahasa Malaysia – Platinum Award

**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

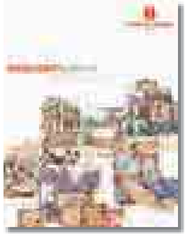
**1989** **NACRA Award**
- Most Outstanding Annual Report
- Best Annual Report – Finance Sector

**NACRA Commendation Award**
- Corporate Information
- Accounting Information
- Annual Report in Bahasa Malaysia

**1988** **MACRA Award**
- Best Overall Annual Report
- Best Corporate Information – 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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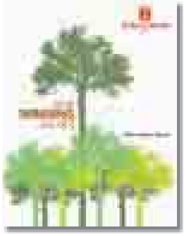
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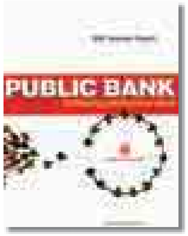

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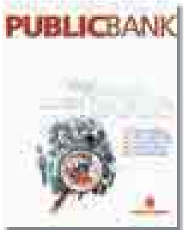

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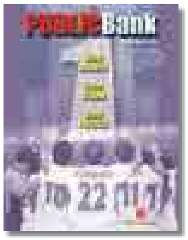
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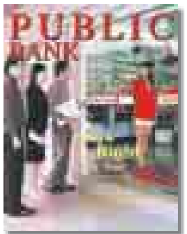

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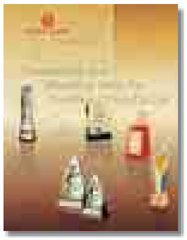
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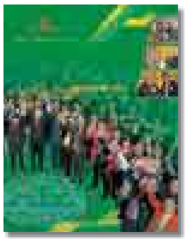
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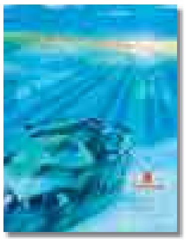
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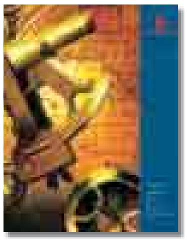
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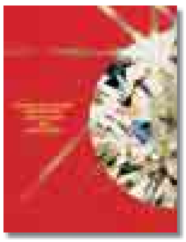
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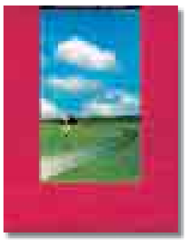
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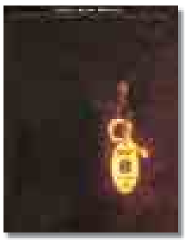
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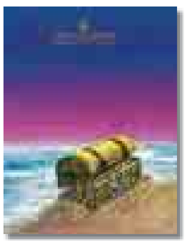
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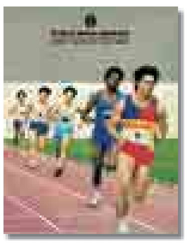
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