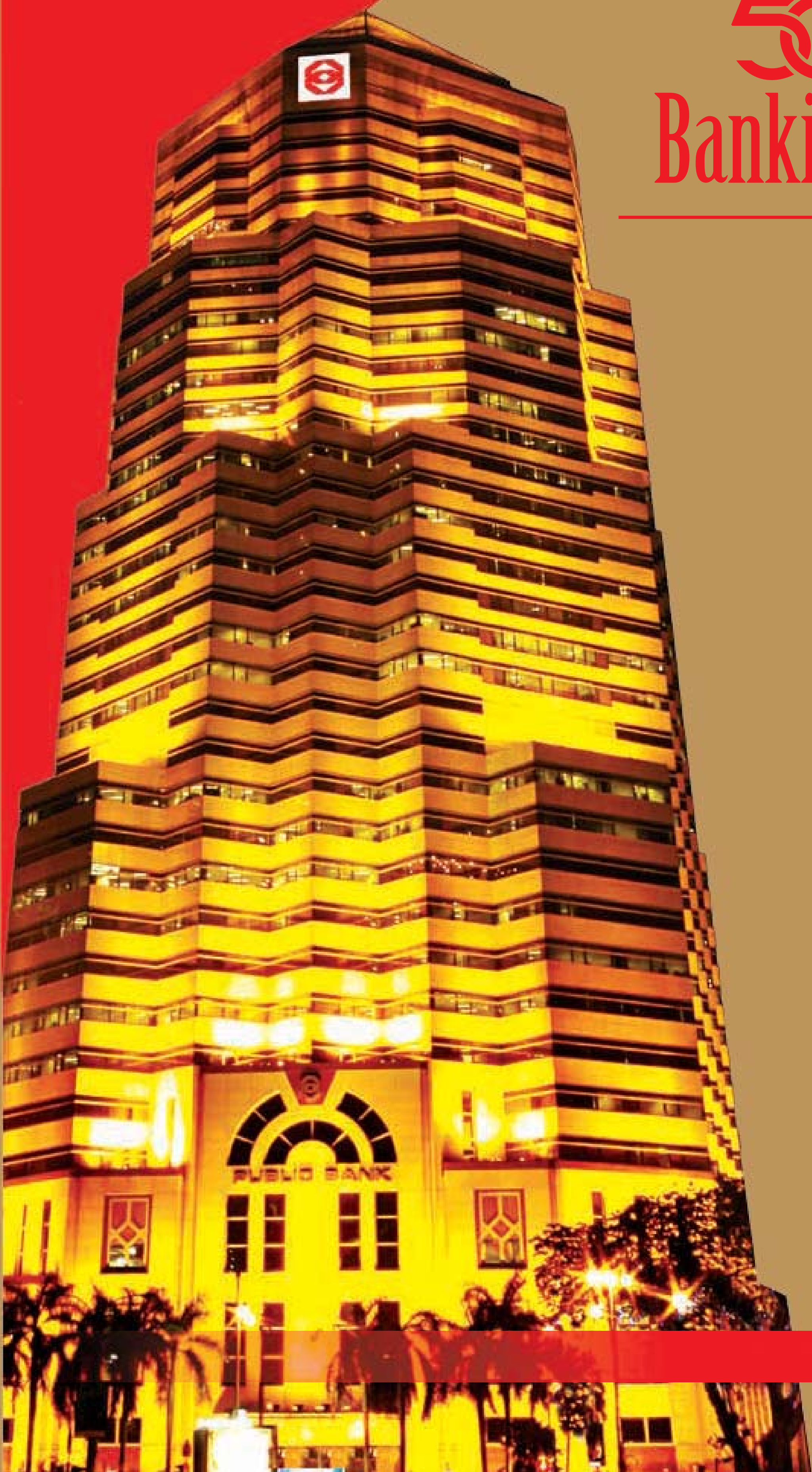


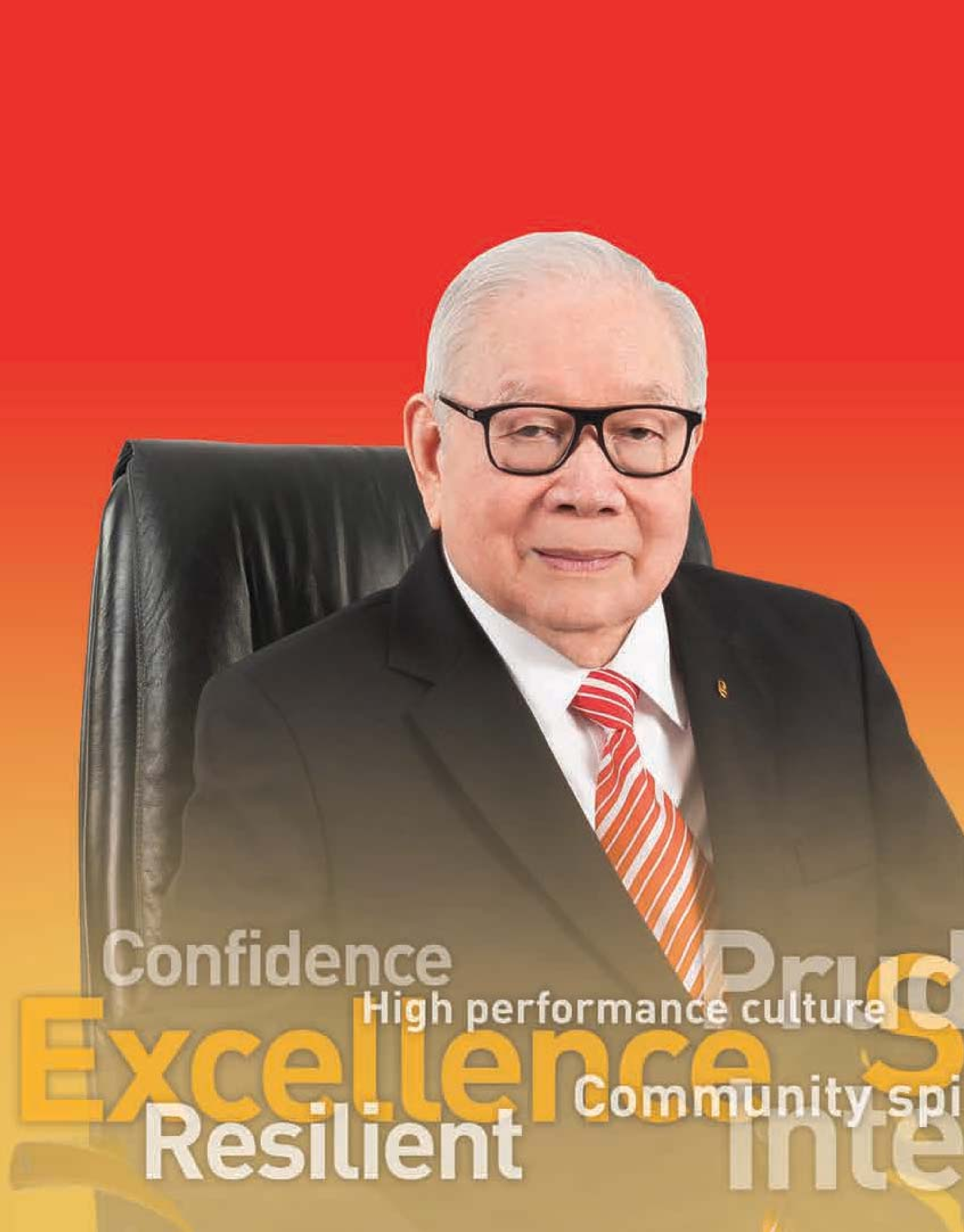
50 Years of Banking Excellence

Since 1966

FINANCIAL STATEMENTS

PUBLIC BANK

2016 ANNUAL REPORT


Confidence
High performance culture
Excellence
Community spi
Resilient

Our Journey of Success Since 1966

Public Bank's success story begins with a remarkable man driven by a remarkable dream. His dream – to found a bank for the public; his vision – to lead a bank which will be the most profitable and efficient in Malaysia. What began as a personal conviction for Tan Sri Dato' Sri Dr. Teh Hong Piow, Public Bank's Founder and Chairman, flourished into a journey of unparalleled excellence and momentous achievements. Public Bank now stands tall as the third largest banking group in Malaysia with a strong regional presence in Asia.

Under Tan Sri Dato' Sri Dr. Teh Hong Piow's sterling leadership, Public Bank continues to grow even stronger, more dynamic and more resilient. His personal traits, beliefs and values have given the Bank its identity, shaped its corporate culture and helped define its status as the most respected premier financial institution in Malaysia.

50 Years of Banking Excellence

Public Bank is proud to celebrate 50 years of banking excellence. As we celebrate, we are reminded of how far we have come on our journey from humble beginnings to becoming the third largest banking group in Malaysia today.

The rich legacy of the Bank over the last five decades is a tribute to the leadership of its founder, Tan Sri Dato' Sri Dr. Teh Hong Piow. With strong determination, profound ingenuity and clear vision, Tan Sri Teh powered Public Bank to what it is today – well-recognised in the local financial scenario with a strong corporate reputation. Leading through the strength and consistency of his character, Tan Sri Teh has always stood by the exacting standards of integrity which translates into sound business ethics for the Bank. It is these values that have stood the test of time and laid the foundation for the Bank's meteoric rise in the Malaysian industry through its 50 years of existence.

A bank constantly in touch with the financial needs of the people, businesses and corporations, in tune with changing times and trends, Public Bank's journey of banking excellence will continue to surge onwards towards the next chapter of the Bank's story of growth and profitability.


PUBLIC BANK

INSIDE THIS REPORT

FINANCIAL STATEMENTS

CORPORATE MISSION

To sustain the position of being the most efficient, profitable and respected premier financial institution in Malaysia.

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 PHILOSOPHY

FINANCIAL HIGHLIGHTS

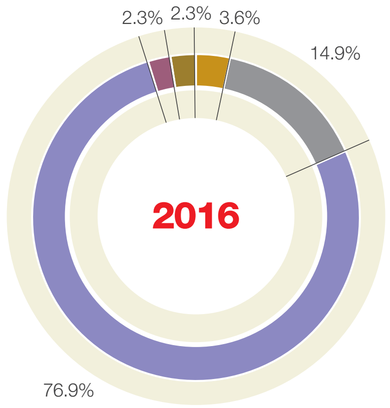
	GROUP		BANK	
	2016	**2015**	**2016**	**2015**
PROFITABILITY (RM'Million)				
Operating revenue	**20,103**	19,182	**14,834**	13,942
Operating profit	**6,745**	6,631	**5,105**	4,986
Profit before tax expense and zakat	**6,554**	6,491	**5,079**	5,000
Net profit attributable to equity holders of the Bank	**5,207**	5,062	**4,024**	3,989
KEY BALANCE SHEET DATA (RM'Million)				
Total assets	**380,053**	363,758	**303,810**	292,272
Loans, advances and financing	**292,429**	271,814	**232,795**	219,872
Deposits from customers	**309,974**	301,157	**241,957**	236,460
Shareholders' equity	**34,213**	31,231	**29,774**	27,945
FINANCIAL RATIOS (%)				
Profitability Ratios				
Net interest margin on average interest bearing assets	**2.2**	2.2	**2.0**	2.0
Net return on equity[1]	**16.5**	17.8	**14.6**	15.5
Return on average assets	**1.8**	1.8	**1.7**	1.7
Return on average risk-weighted assets	**2.7**	2.8	**2.6**	2.7
Capital Adequacy Ratios				
Common Equity Tier I capital ratio	**11.9**	11.4	**11.7**	12.2
Tier I capital ratio	**12.7**	12.6	**12.8**	13.6
Total capital ratio	**16.0**	15.9	**15.2**	15.9
Asset Quality Ratio				
Gross impaired loans ratio	**0.5**	0.5	**0.4**	0.5

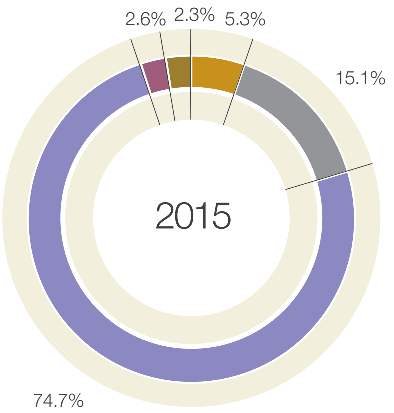
[1] *Based on average equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.*

SIMPLIFIED GROUP BALANCE SHEET

ASSETS

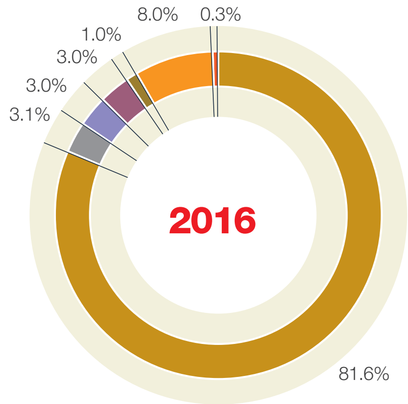
- Cash and balances with banks and reverse repurchase agreements
- Portfolio of financial investments
- Loans, advances and financing
- Statutory deposits with Central Banks
- Other assets (including intangible assets)

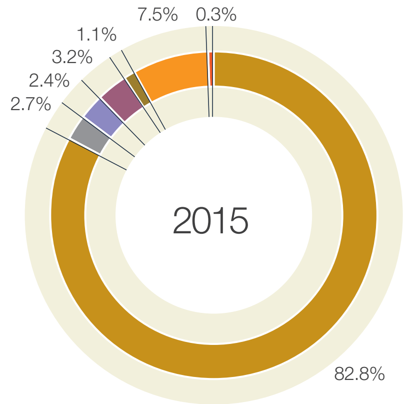




LIABILITIES & EQUITY

- 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

YEAR ENDED 31 DECEMBER	2016	2015	2014	2013	2012
OPERATING RESULTS (RM'Million)					
Operating profit	**6,745**	6,631	6,067	5,655	5,329
Profit before tax expense and zakat	**6,554**	6,491	5,814	5,310	5,047
Net profit attributable to equity holders of the Bank	**5,207**	5,062	4,519	4,065	3,827
KEY BALANCE SHEET DATA (RM'Million)					
Total assets	**380,053**	363,758	345,722	305,725	274,824
Loans, advances and financing	**292,429**	271,814	243,222	219,416	196,052
Total liabilities	**344,689**	331,450	316,847	284,528	256,106
Deposits from customers	**309,974**	301,157	276,540	250,873	225,042
Core customer deposits	**258,155**	245,171	216,707	201,258	177,035
Paid-up capital	**3,882**	3,882	3,882	3,532	3,532
Shareholders' equity	**34,213**	31,231	28,025	20,424	18,018
Commitments and contingencies	**105,592**	107,533	95,813	87,986	79,458
SHARE INFORMATION AND VALUATION					
Share Information					
Per share (sen)					
Basic/Diluted earnings	**134.8**	131.1	123.7	116.1	109.3
Net dividend	**58.0**	56.0	54.0	52.0	50.0
Net assets	**886.0**	808.8	725.7	583.2	514.5
Share price as at 31 December (RM)	**19.72**	18.52	18.30	19.40	16.28
Market capitalisation (RM'Million)	**76,556**	71,897	71,043	68,668	57,521
Valuations					
Net dividend yield (%)	**2.9**	3.0	3.0	2.7	3.1
Dividend payout ratio (%)	**43.0**	42.7	46.1	44.8	45.3
Price to earnings multiple (times)	**14.6**	14.1	14.8	16.7	14.9
Price to book multiple (times)	**2.2**	2.3	2.5	3.3	3.2

RM6.55 billion
PROFIT BEFORE TAX

0.5%
GROSS IMPAIRED LOANS RATIO

FIVE-YEAR GROUP FINANCIAL SUMMARY

YEAR ENDED 31 DECEMBER	2016	2015	2014	2013	2012
FINANCIAL RATIOS (%)					
Profitability Ratios					
Net interest margin on average interest bearing assets	**2.2**	2.2	2.2	2.4	2.5
Net return on equity[1]	**16.5**	17.8	19.9[#]	22.4	24.1
Return on average assets	**1.8**	1.8	1.8	1.8	1.9
Return on average risk-weighted assets	**2.7**	2.8	2.8	2.8	2.9
Cost/income ratio	**32.3**	30.5	30.0	30.7	31.2
Asset Quality Ratios					
Net loan to deposit ratio	**94.3**	90.3	88.0	87.5	87.1
Gross impaired loans ratio	**0.5**	0.5	0.6	0.7	0.7
Loan loss coverage					
– Exclude regulatory reserve	**120.7**	120.8	122.4	118.5	126.0
– Include regulatory reserve	**248.5**	258.6	218.6	127.1	135.3
Capital Adequacy Ratios					
Common Equity Tier I ("CET I") capital ratio	**11.9**	11.4	11.3	9.3	N/A
Tier I capital ratio	**12.7**	12.6	12.8	11.1	11.4
Total capital ratio	**16.0**	15.9	16.4	14.3	14.7
CET I capital (RM'Million)	**29,856**	27,329	24,775	18,527	N/A
Tier I capital (RM'Million)	**32,007**	30,118	27,942	22,079	20,512
Tier II capital (RM'Million)	**8,198**	8,092	7,891	6,458	5,861
Total capital (RM'Million)	**40,205**	38,210	35,833	28,537	26,373
PRODUCTIVITY RATIOS					
No. of employees	**18,651**	18,373	18,198	17,924	17,625
Gross loans per employee (RM'000)	**15,761**	14,883	13,465	12,340	11,222
Deposits per employee (RM'000)	**16,620**	16,391	15,196	13,996	12,768
Profit before tax per employee (RM'000)	**351**	353	320	296	286
MARKET SHARE (%)					
Domestic market share					
Loans, advances & financing	**17.7**	17.4	17.1	16.9	16.7
Deposits from customers	**16.7**	16.6	15.9	15.7	15.2
Core customer deposits	**17.5**	16.8	16.6	17.5	16.6

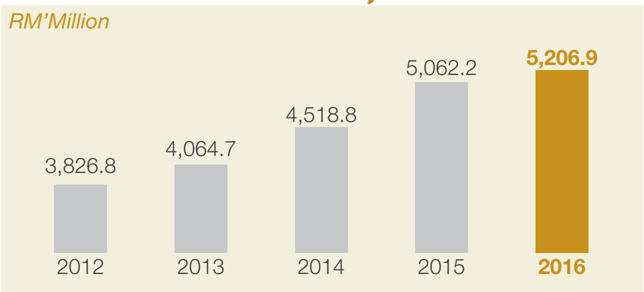
[1] *Based on average equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.*
[#] *Average equity is adjusted with weighted average of net proceeds from rights issue.*
N/A Not applicable

↑ 2.9%
CUSTOMER DEPOSITS

↑ 7.5%
GROSS LOANS

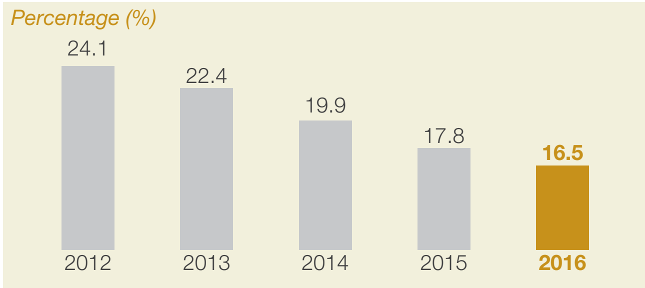
SUMMARY OF FIVE-YEAR GROUP GROWTH

RM5,206.9 million



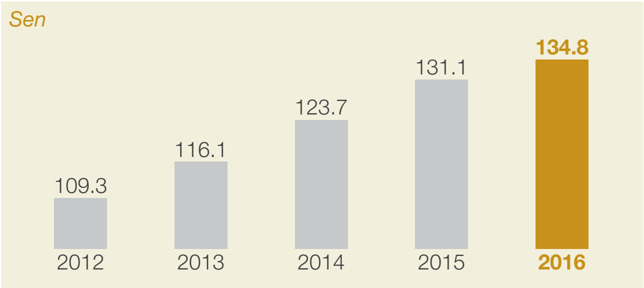
NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

16.5%



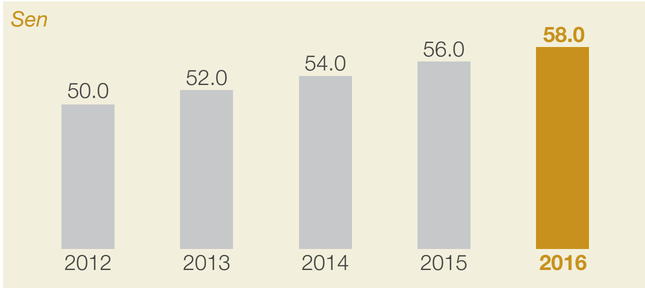
NET RETURN ON EQUITY

134.8 sen



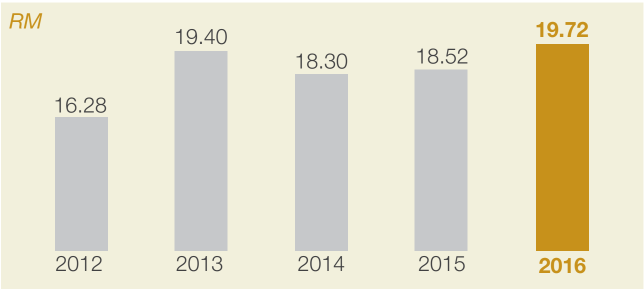
EARNINGS PER SHARE

58.0 sen



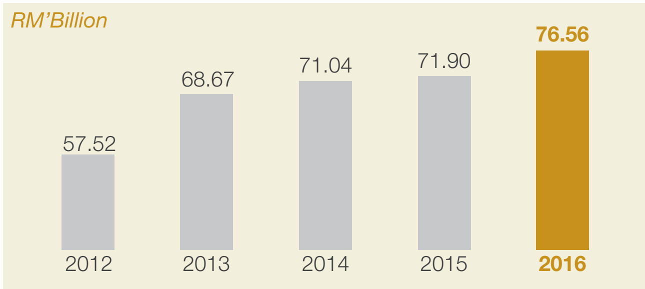
DIVIDEND PER SHARE

RM19.72



SHARE PRICE

RM76.56 billion



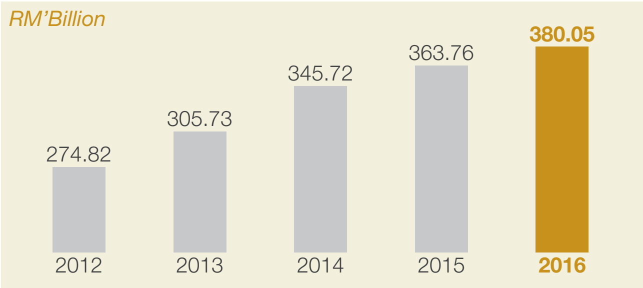
MARKET CAPITALISATION

PUBLIC BANK'S RANKING BY MARKET CAPITALISATION ON BURSA MALAYSIA SECURITIES BERHAD

Year	2012	2013	2014	2015	2016
Ranking	2nd	2nd	3rd	3rd	**3rd**

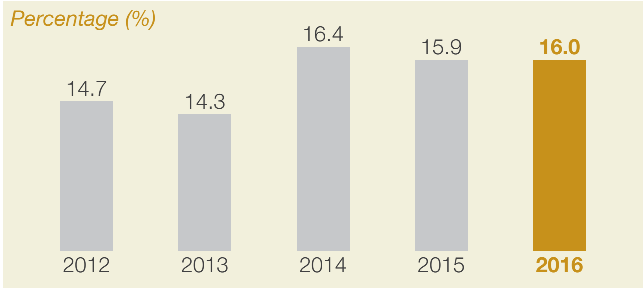
SUMMARY OF FIVE-YEAR GROUP GROWTH

RM380.05 billion



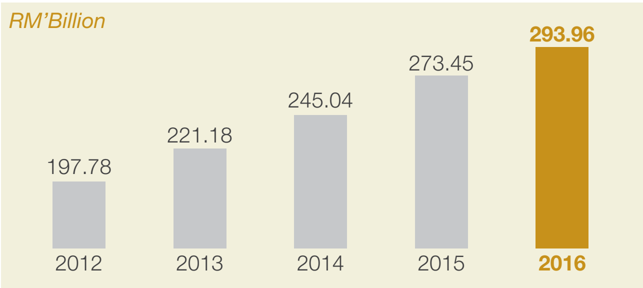
TOTAL ASSETS

16.0%



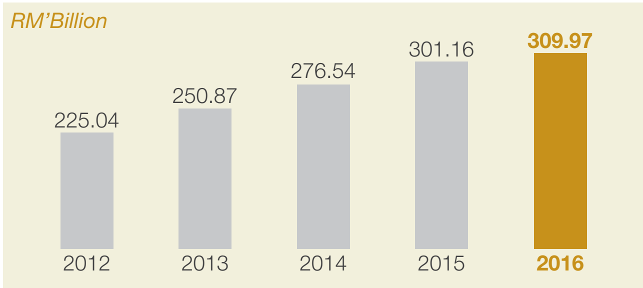
TOTAL CAPITAL RATIO

RM293.96 billion



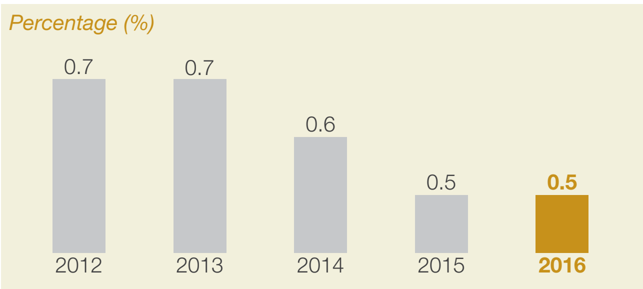
GROSS LOANS, ADVANCES AND FINANCING

RM309.97 billion



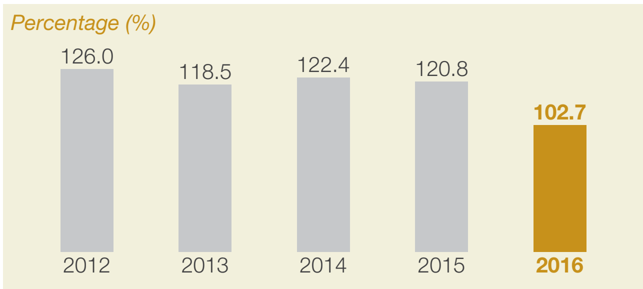
CUSTOMER DEPOSITS

0.5%



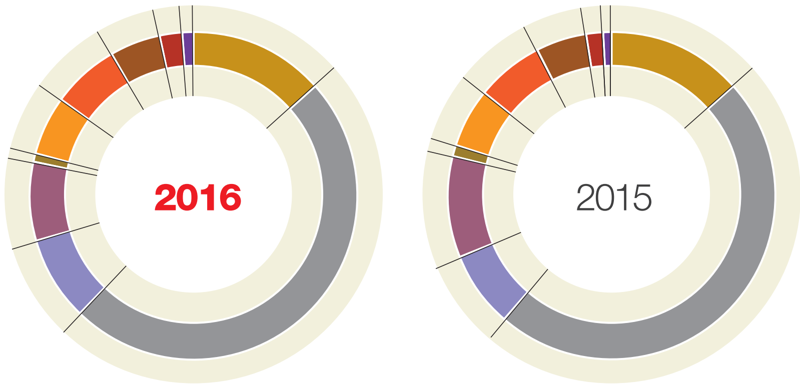
GROSS IMPAIRED LOANS RATIO

102.7%



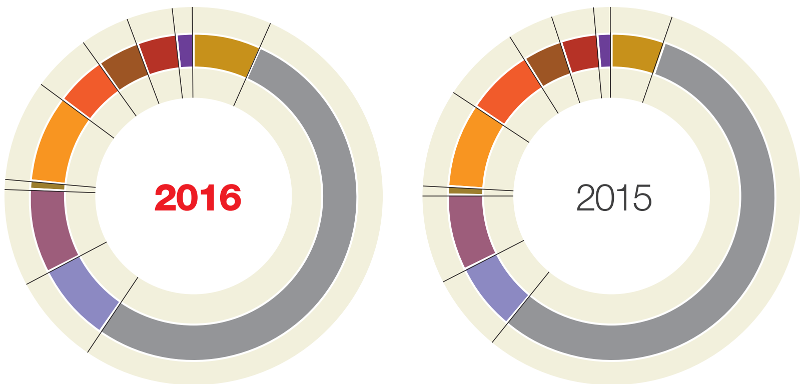
LOAN LOSS COVERAGE

SEGMENTAL ANALYSIS



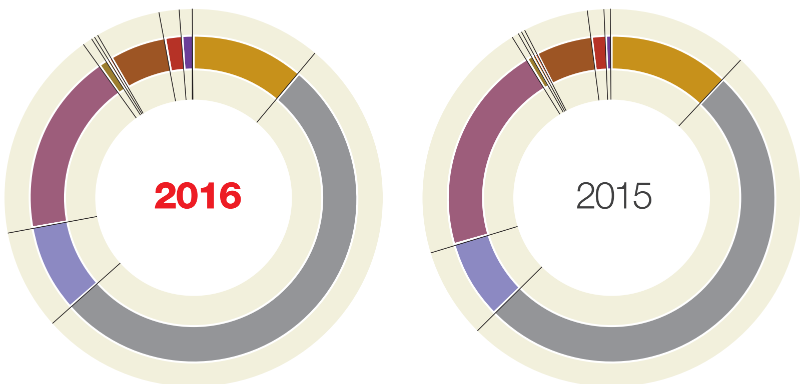
OPERATING REVENUE

	2016 %	2015 %
Domestic		
Hire purchase	**13.4**	13.5
Retail operations	**49.0**	47.9
Corporate lending	**8.3**	7.7
Treasury and capital market operations	**7.9**	9.9
Investment banking	**0.8**	1.1
Fund management	**5.8**	6.0
Others	**6.6**	6.4
Overseas		
Hong Kong SAR	**5.0**	5.0
Cambodia	**2.1**	1.9
Other countries	**1.1**	0.6



PROFIT BEFORE TAX

	2016 %	2015 %
Domestic		
Hire purchase	**6.9**	5.4
Retail operations	**52.9**	55.8
Corporate lending	**7.7**	6.6
Treasury and capital market operations	**8.5**	7.6
Investment banking	**0.7**	0.9
Fund management	**8.7**	8.3
Others	**5.1**	6.6
Overseas		
Hong Kong SAR	**4.1**	3.9
Cambodia	**3.9**	3.6
Other countries	**1.5**	1.3



TOTAL ASSETS

	2016 %	2015 %
Domestic		
Hire purchase	**11.4**	12.1
Retail operations	**52.6**	51.0
Corporate lending	**8.6**	7.8
Treasury and capital market operations	**18.2**	20.7
Investment banking	**0.6**	0.7
Fund management	**0.1**	0.1
Others	**0.2**	0.2
Overseas		
Hong Kong SAR	**5.6**	5.5
Cambodia	**1.7**	1.5
Other countries	**1.0**	0.4

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 of the Bank are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements 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 of the Bank are prepared with reasonable accuracy from the accounting records of the Group and of the Bank so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2016 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 judgements 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 of the Bank to prevent and detect fraud and other irregularities.

FINANCIAL STATEMENTS

DIRECTOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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 year ended 31 December 2016.

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 15 and 16 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	**6,554,032**	**5,079,255**
Tax expense and zakat	**(1,286,597)**	**(1,055,350)**
Profit for the year	**5,267,435**	**4,023,905**
Attributable to:		
Equity holders of the Bank	**5,206,875**	**4,023,905**
Non-controlling interests	**60,560**	**-**
Profit for the year	**5,267,435**	**4,023,905**

DIVIDENDS

The amount of dividends paid by the Bank since 31 December 2015 were as follows:

	RM'000
In respect of financial year ended 31 December 2015:	
Second interim dividend of 32.0% on 3,861,494,043 ordinary shares of RM1.00 each, paid on 1 March 2016	**1,235,678**
In respect of financial year ended 31 December 2016:	
First interim dividend of 26.0% on 3,861,494,043 ordinary shares of RM1.00 each, paid on 22 August 2016	**1,003,989**
	2,239,667

DIRECTOR'S REPORT

DIVIDENDS (CONTINUED)

Subsequent to the financial year end, on 2 February 2017, the Directors declared a second interim dividend of 32.0%, with the total amounting to approximately RM1,235,678,094 in respect of the current financial year. This is computed based on the issued and paid-up capital as at 31 December 2016, excluding treasury shares held by the Bank, of 3,861,494,043 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 2017. 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 2017.

The Directors do not propose any final dividend for the financial year ended 31 December 2016.

ISSUE OF SHARES

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

SHARE BUY-BACK

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

As at 31 December 2016, the Bank held 20,644,304 Public Bank Berhad ("PBB") Shares as treasury shares out of its total issued and paid-up share capital of 3,882,138,347 PBB Shares. Such treasury shares are held at a carrying amount of RM149,336,528. Further information is disclosed in Note 28 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 29 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 of 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 of the Bank, inadequate to any substantial extent.

DIRECTOR'S REPORT

CURRENT ASSETS

Before the statements of profit or loss and statements of financial position of the Group and of 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 of the Bank have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of 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 of 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 of 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 of the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business of the Group and of the Bank.

No contingent liability or other liability of the Group and of 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 of 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 of 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 of 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 of the Bank for the current financial year in which this report is made.

DIRECTOR'S REPORT

SIGNIFICANT EVENTS DURING THE YEAR

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

SUBSEQUENT EVENTS

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

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 Dato' Sri Tay Ah Lek
Dato' Sri Lee Kong Lam
Tang Wing Chew
Lai Wan
Lai Wai Keen
Cheah Kim Ling

In accordance with Article 111 of the Bank's Articles of Association, Tan Sri Dato' Sri Dr. Teh Hong Piow and Tan Sri Dato' Sri Tay Ah Lek retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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 of its subsidiary company during the financial year were as follows:

Shares Held in the Bank

	Number of Ordinary Shares of RM1.00 Each			
Direct interests:	**Balance at 1.1.2016**	**Acquired**	**Disposed**	**Balance at 31.12.2016**
Tan Sri Dato' Sri Dr. Teh Hong Piow	24,711,282	–	–	**24,711,282**
Tan Sri Dato' Sri Tay Ah Lek	4,888,845	–	–	**4,888,845**
Dato' Sri Lee Kong Lam	418,952	–	–	**418,952**

DIRECTORS' INTERESTS (CONTINUED)

Shares Held in the Bank (continued)

	Number of Ordinary Shares of RM1.00 Each			
Deemed interests:	**Balance at 1.1.2016**	**Acquired**	**Disposed**	**Balance at 31.12.2016**
Tan Sri Dato' Sri Dr. Teh Hong Piow	893,918,771	–	(9,723,800)	**884,194,971**
Tan Sri Dato' Sri Tay Ah Lek	1,389,745	–	–	**1,389,745**
Dato' Sri Lee Kong Lam	78,452	–	–	**78,452**
Lai Wan	18,654	–	–	**18,654**
Cheah Kim Ling	12,392	–	–	**12,392**

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

	Number of Ordinary Shares of HKD0.10 Each			
Direct interests:	**Balance at 1.1.2016**	**Acquired**	**Disposed**	**Balance at 31.12.2016**
Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	**350,000**

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 deemed interests of 908,906,253 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.

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.

DIRECTOR'S REPORT

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:

Lai Wan (Independent)
Dato' Sri Lee Kong Lam (Non-Independent)
Tang Wing Chew (Independent)
Lai Wai Keen (Independent)

BUSINESS REVIEW 2016

In 2016, the business environment in Malaysia faced various challenges stemming from multiple external and domestic headwinds. The Britain's referendum results to exit from the European Union, United States of America presidential election, volatility in global oil prices, and geopolitical tensions led to increased uncertainties in the global economy and financial markets. The environment of risk aversion resulted in the fall of regional currencies, including the Malaysian Ringgit. In the domestic economy, the persistent low commodity prices, weak Ringgit and high cost of living continued to weigh on consumer and business sentiments. However, as domestic demand remained on a positive trajectory, the Malaysian gross domestic product is expected to remain on track, growing by 4.0% to 4.5% in 2016.

The macroeconomic challenges exerted downside pressure on banks' earnings. During the year, industry loans growth trended downwards as both household and business loans posted lower growth. In addition, Bank Negara Malaysia's macroprudential measures to tighten credit conditions and property cooling measures continued to have an impact on loans growth. Nevertheless, sustained domestic demand supported demand for financing whilst banks continued to compete intensely in the retail space for market share. Although interest margin continued to be compressed, it remained generally steady. In terms of asset quality, gross impaired loans ratio remained low and stable during the year.

The Public Bank Group achieved satisfactory performance in 2016. The Group's sustained profitability remained supported by its loans growth of 7.5%. In the domestic market, the Group also sustained its leading market share positions in the financing for the purchase of residential properties, commercial properties and passenger vehicles. In line with Bank Negara Malaysia's decision to reduce its Overnight Policy Rate by 25 basis points to 3.00% in July 2016, the Group revised downwards its Base Rate and Base Lending Rate/Base Financing Rate, to pass on the benefit to consumers.

On deposit-taking, the Public Bank Group's total customer deposits achieved a growth rate of 2.9% in 2016, supported by its strong customer base. During the year, in addition to rolling out various deposits campaigns offering competitive interest rates and special gifts, the Group launched the PB eFixed Deposit Account, which provides customers the convenience to perform placements and withdrawals of fixed deposit account online via PBe online banking.

BUSINESS REVIEW 2016 (CONTINUED)

During the year, the Public Bank Group continued to widen its revenue stream by growing its non-interest income, mainly contributed by the Group's unit trust management business and transactional banking fee income which accounted for two-thirds of the Group's total non-interest income. The Group's unit trust business, undertaken by Public Bank's wholly-owned subsidiary, Public Mutual, maintained a strong domestic market share of 46.8% in the private retail unit trust industry. The partnership with AIA Berhad to promote the bancassurance business continued to yield favourable results with continued growth in annualised new premium.

In 2016, the Public Bank Group sustained its position as the most-cost efficient bank in Malaysia, with cost-to-income ratio standing at 32.3%, well below the banking industry's average ratio of 48.8%. Despite prevailing cost pressure faced by industry players, maintaining prudent cost management has provided the Group a competitive advantage in sustaining profitability.

Prioritising customer experience remained a key growth strategy for the Public Bank Group. The Group has an extensive 259 branches, more than 2,000 self service terminals and a large team of skilled employees to provide high quality customer service. The Group's key customer strategies include innovation and digitisation initiatives to enhance the features of its PBe online banking and PB engage mobile application. The Group's continuous effort in digital transformation has resulted in significant growth in new users registration and online transactions carried out on Public Bank's electronic payment channel.

The Public Bank Group remained committed to grow its overseas operations. As at the end of 2016, the Group has a regional network comprising 82 branches in Hong Kong, 4 in China, 30 in Cambodia, 7 in Vietnam, 4 in Laos and 3 in Sri Lanka. During the year, the Group achieved a key milestone when Public Bank Vietnam Limited (formerly known as VID Public Bank, a joint venture bank) became a wholly-owned subsidiary of Public Bank with effect from 1 April 2016, further strengthening the Group's presence in the region.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2017

The Malaysian economy is expected to remain stable in 2017. With gross domestic product is expected to grow between 4.5% and 5.0%, supported by its domestic-driven and diversified economy. The private sector will continue to spearhead growth while the economy continues to expand led by healthy private consumption expenditure. In addition, private investments will be supported by on-going infrastructure projects in the Eleventh Malaysia Plan 2016 – 2020.

The prevailing economic fundamentals supported by manageable inflationary risk, accommodative macro policies and stable employment condition will be supportive of growth. Monetary policy will continue to focus on price stability and growth sustainability.

The Malaysian financial system remains well-capitalised while credit expansion amid the accommodative monetary policy stance will continue to augur well for domestic growth. In addition, further liberalisation of the financial sector, as guided by the Financial Sector Blueprint 2011-2020, will enable greater flexibility for the banking system and capital market to facilitate financing.

Despite the foreign exchange volatility and weak Ringgit, the weaker-than-expected Ringgit could potentially spur domestic growth due to better discretionary spending in Ringgit terms and increase in local expenses.

Globally, lacklustre commodity prices and weak global demand will continue to weigh on Malaysian exports. However, the implementation of prudent economic policies will continue to ensure that growth trajectory remains on track.

DIRECTOR'S REPORT

BUSINESS OUTLOOK FOR 2017

In 2017, economic headwinds stemming from persistent uncertainties in the global economy will continue to pose major risks to the economic outlook. However, the Malaysian economy is likely to weather through the headwinds with sustained domestic demand supporting the economy. Domestic gross domestic product is likely to grow at a steady pace of between 4.5% and 5.0% in 2017.

The economic headwinds in 2017 are likely to continue weighing on banks' earnings prospect. Industry loans are expected to grow at a moderate pace as households and businesses will remain cautious on spending. Nevertheless, supportive measures from Budget 2017 will help to stimulate the economy and spur demand for financing. The Malaysian banking sector's sound fundamental will also continue to underpin the sector's resilience. Amid the ongoing uncertainties in the economy and pressure on earnings, the banking landscape is expected to remain competitive and managing balance sheet as well as pursuing cost efficiency will remain the key strategies for banks.

In the face of the challenging operating environment, the Group will remain vigilant to maintain a competitive advantage and further strengthen its market share in the core retail banking business by leveraging on its strong PB Brand and well-reputed service values.

Lending to the retail banking segment will continue to be the Public Bank Group's key strategy. In the residential properties sector, the Group will continue to focus on the broader base mass market and owner occupied mortgage. The full stamp duty exemption for first time home buyer purchasing a house of up to RM300,000 between 1 January 2017 and 31 December 2018, is expected to provide impetus for property financing.

Another key focus for the Public Bank Group is the extension of credit to the small and medium enterprises ("SMEs"). The Government's supportive measures are likely to help cushion the knock-on effects from weak consumer sentiments. As the Government has declared 2017 as the Start-up and SME Promotion Year, the new tax scheme to increase SMEs' revenue announced in Budget 2017 is expected to bring positive impact to the businesses. The numerous incentives focused on the development of SMEs will also benefit the businesses.

On the funding side, the Public Bank Group will continue to enhance its deposits products by offering attractive features and competitive interest rates. The Group will also step up its efforts to tap on potential new market particularly the younger generation customers. Based on its strong deposits franchise, the Group is expected to sustain a healthy loan-to-deposit ratio.

To supplement its interest revenue, the Public Bank Group will continue to promote its non-interest income through its extensive range of products such as unit trust funds, bancassurance, credit cards, foreign exchange-related transactions and transactional banking services. The increased sophistication among customers and demand for diversified investment portfolio will continue to sustain demand for wealth management products. Cross-selling will also continue to play an important part in promoting the Group's fee-based products and services. Given the continued market volatility and heightened customer concern, the Group will remain agile and vigilant of emerging risks.

The Public Bank Group will continue to grow and strengthen its regional operations. To sustain its business growth, the Group will continue to focus on improving its delivery standards and infrastructure, enhance its cost efficiency and productivity, as well as continue to invest in digital transformation and innovation.

DIRECTOR'S REPORT

AUDITORS

The retiring auditors, Messrs. Ernst & Young, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW
Chairman

TAN SRI DATO' SRI TAY AH LEK
Managing Director

Kuala Lumpur
Date: 2 February 2017

STATEMENT BY DIRECTORS

We, TAN SRI DATO' SRI DR. TEH HONG PIOW and TAN SRI DATO' SRI TAY AH LEK, 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 28 to 258 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 2016 and of their financial performance and cash flows for the year then ended.

The supplementary information set out in Note 57 on pages 259 to 260 has been prepared 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 the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW
Chairman

TAN SRI DATO' SRI TAY AH LEK
Managing Director

Kuala Lumpur
Date: 2 February 2017

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 and supplementary information set out on pages 28 to 260, 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 2 February 2017

BEFORE ME:

Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

PUBLIC BANK BERHAD
(INCORPORATED IN MALAYSIA)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Public Bank Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Bank, and the statements of profit or loss, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 44 to 66.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and of the Bank for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Bank as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and of the Bank. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITORS' REPORT

Key audit matters (continued)

Risk area and rationale	Our response
Impairment of loans, advances and financing The impairment of loans, advances and financing, which includes individual and collective impairment, is estimated by the management through the application of judgment and use of subjective assumptions. A material portion of the impairment is collectively calculated based on models developed which give rise to certain degree of uncertainty. Due to the significance of loans, advances and financing (representing 77% of total assets of the Group and of the Bank) and the corresponding uncertainty inherent in such an estimate, we considered this as a key audit matter. Refer to summary of significant accounting policies in Note 2(iv)(h)(i), significant accounting estimates and judgment in Note 2(iv)(a)(ii) and the disclosures of loans, advances and financing in Note 9 to the financial statements.	Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans, advances and financing, and evaluating the methodologies, inputs and assumptions used by the Group and the Bank in calculating collective impairment allowance and individual impairment allowance. For collective impairment, we checked to historical loss data and compared the assumptions used by the Group and the Bank for collective impairment allowances to externally available industry, financial and economic data. As part of this, we assessed the reasonableness of the Group's and the Bank's estimates and assumptions, specifically in respect of the inputs to the impairment models and the consistency of judgment applied in the use of economic factors, loss identification periods and the observation period for historical default rates. For a sample of exposures that were subject to an individual impairment assessment, we specifically reviewed the Group's and the Bank's assumptions on the expected future cash flows, including the value of realisable collateral based on available market information. We also assessed whether the financial statement disclosures appropriately reflect the Group's and the Bank's exposure to credit risk.
Goodwill Goodwill impairment testing of cash generating units ("CGUs") relies on estimates of value-in-use based on estimated future cash flows. The Group and the Bank are required to annually test the amount of goodwill for impairment. We focused on this area due to: (i) the significance of the goodwill of RM2,534 million and RM695 million recognised in the financial statements of the Group and of the Bank respectively; and (ii) the level of the subjectivity associated with the assumptions used in estimating the value in use of the CGUs. Refer to summary of significant accounting policies in Note 2(iv)(l)(i), significant accounting estimates and judgment in Note 2(iv)(a)(iii) and the disclosure of goodwill in Note 19 to the financial statements.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group and the Bank in performing the impairment assessment. We tested the basis of preparing the cash flow forecasts taking into account the back testing results on the accuracy of previous forecasts and the historic evidence supporting underlying assumptions. We also assessed the appropriateness of the other key assumptions, such as the growth rates used to extrapolate the cash flows and the discount rates applied, by comparing against internal information, and external economic and market data. We also reviewed management's sensitivity and stress testing analysis and tested independently those assumptions to which the outcome of the impairment test is most sensitive.

INDEPENDENT AUDITORS' REPORT

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of the financial statements of the Group and of the Bank that 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 of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITORS' REPORT

Auditors' responsibilities for the audit of the financial statements (continued)

– Obtain an understanding of internal control relevant to the audit 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 Group's and of the Bank's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Bank for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 financial statements and the auditors' reports of all the subsidiary companies of which we have not acted as auditors, which are indicated in Note 15 to the financial statements, being financial statements that have been included in the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

Report on other legal and regulatory requirements (continued)

(c) We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(d) The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification, and in respect of the subsidiary companies incorporated in Malaysia, did not include any comment required to be made under Section 174(3) of the Act.

Other reporting responsibilities

The supplementary information set out in Note 57 on pages 259 to 260 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of 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.

Ernst & Young
AF: 0039
Chartered Accountants

Yap Seng Chong
No. 2190/12/17(J)
Chartered Accountant

Kuala Lumpur, Malaysia
Date: 2 February 2017

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
ASSETS					
Cash and balances with banks	3	**10,684,092**	14,831,059	**5,059,890**	9,098,632
Reverse repurchase agreements	4(a)	**2,793,563**	4,379,161	**2,268,564**	3,740,691
Financial assets held-for-trading	5	**1,178,884**	3,102,761	**576,329**	1,442,617
Derivative financial assets	6	**618,141**	688,086	**628,145**	677,630
Financial investments available-for-sale	7	**33,345,205**	29,907,707	**23,655,309**	23,086,012
Financial investments held-to-maturity	8	**22,173,926**	21,944,049	**17,044,541**	17,685,187
Loans, advances and financing	9	**292,429,184**	271,814,471	**232,794,693**	219,872,074
Other assets	10	**2,994,523**	3,035,964	**3,028,257**	3,071,000
Statutory deposits with Central Banks	12	**8,900,566**	9,514,419	**6,586,569**	7,455,845
Deferred tax assets	13	**65,189**	65,666	**–**	–
Collective investments	14	**–**	–	**5,140,765**	–
Investment in subsidiary companies	15	**–**	–	**5,655,494**	4,674,545
Investment in associated companies	16	**38,137**	190,920	**30,000**	121,295
Investment properties	17	**699,469**	485,175	**–**	–
Property and equipment	18	**1,528,326**	1,422,853	**645,794**	651,470
Intangible assets	19	**2,603,621**	2,375,915	**695,393**	695,393
TOTAL ASSETS		**380,052,826**	363,758,206	**303,809,743**	292,272,391
LIABILITIES					
Deposits from customers	20	**309,973,568**	301,157,089	**241,957,458**	236,460,158
Deposits from banks	21	**11,810,823**	9,969,521	**12,289,026**	10,563,090
Obligations on securities sold under repurchase agreements	4(b)	**2,469,834**	–	**2,469,834**	–
Bills and acceptances payable	22	**327,272**	362,892	**325,597**	362,043
Recourse obligations on loans and financing sold to Cagamas	23	**1,922,023**	1,922,021	**1,422,007**	1,422,005
Derivative financial liabilities	6	**1,328,691**	1,007,580	**1,322,747**	1,045,621
Debt securities issued and other borrowed funds	24	**11,514,274**	11,666,880	**10,383,129**	10,565,149
Other liabilities	25	**4,624,169**	4,520,303	**3,371,725**	3,388,373
Provision for tax expense and zakat	26	**563,114**	689,131	**376,065**	413,764
Deferred tax liabilities	13	**155,287**	155,050	**118,653**	107,001
TOTAL LIABILITIES		**344,689,055**	331,450,467	**274,036,241**	264,327,204

STATEMENTS OF FINANCIAL POSITION

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
EQUITY					
Share capital	27	**3,882,138**	3,882,138	**3,882,138**	3,882,138
Reserves		**30,480,514**	27,498,297	**26,040,701**	24,212,386
Treasury shares	28	**(149,337)**	(149,337)	**(149,337)**	(149,337)
Equity attributable to equity holders of the Bank		**34,213,315**	31,231,098	**29,773,502**	27,945,187
Non-controlling interests		**1,150,456**	1,076,641	**–**	–
TOTAL EQUITY		**35,363,771**	32,307,739	**29,773,502**	27,945,187
TOTAL LIABILITIES AND EQUITY		**380,052,826**	363,758,206	**303,809,743**	292,272,391
COMMITMENTS AND CONTINGENCIES	49	**105,592,459**	107,533,269	**97,032,508**	100,614,706
Net assets per share attributable to equity holders of the Bank (RM)		**8.86**	8.09	**7.71**	7.24

The accompanying notes form an integral part of the financial statements

STATEMENTS OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
Operating revenue	2(iv)(x)	**20,102,740**	19,181,550	**14,834,374**	13,941,929
Interest income	30	**15,067,528**	14,218,486	**13,537,566**	12,964,990
Interest expense	31	**(8,147,121)**	(7,841,463)	**(7,903,957)**	(7,571,270)
Net interest income		**6,920,407**	6,377,023	**5,633,609**	5,393,720
Net income from Islamic banking business	56	**941,638**	828,638	**–**	–
		7,862,045	7,205,661	**5,633,609**	5,393,720
Fee and commission income	32(a)	**2,289,015**	2,261,790	**972,727**	937,033
Fee and commission expense	32(b)	**(724,025)**	(708,947)	**(310,623)**	(295,692)
Net fee and commission income	32	**1,564,990**	1,552,843	**662,104**	641,341
Net gains and losses on financial instruments	33	**74,022**	236,165	**82,171**	232,404
Other operating income	34	**455,394**	551,113	**840,964**	658,030
Net income		**9,956,451**	9,545,782	**7,218,848**	6,925,495
Other operating expenses	35	**(3,211,470)**	(2,915,157)	**(2,113,580)**	(1,939,050)
Operating profit before impairment losses		**6,744,981**	6,630,625	**5,105,268**	4,986,445
(Allowance)/Writeback of allowance for impairment on loans, advances and financing	37	**(192,740)**	(146,231)	**(26,439)**	14,163
Writeback of impairment/(Impairment) on other assets	38	**430**	(556)	**426**	(528)
		6,552,671	6,483,838	**5,079,255**	5,000,080
Share of profit after tax of equity accounted associated companies		**1,361**	7,557	**–**	–
Profit before tax expense and zakat		**6,554,032**	6,491,395	**5,079,255**	5,000,080
Tax expense and zakat	39	**(1,286,597)**	(1,370,156)	**(1,055,350)**	(1,011,451)
Profit for the year		**5,267,435**	5,121,239	**4,023,905**	3,988,629
Attributable to:					
Equity holders of the Bank		**5,206,875**	5,062,152	**4,023,905**	3,988,629
Non-controlling interests		**60,560**	59,087	**–**	–
Profit for the year		**5,267,435**	5,121,239	**4,023,905**	3,988,629
Earnings per RM1.00 share:					
– basic/diluted (sen)	40	**134.8**	131.1		

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 2016

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit for the year		**5,267,435**	5,121,239	**4,023,905**	3,988,629
Other comprehensive income/(loss):					
Items that will not be reclassified to profit or loss:					
Defined benefit reserves:					
– Gain on remeasurements of defined benefit plans	29	**54,814**	52,635	**53,997**	60,586
Items that may be reclassified to profit or loss:					
Foreign currency translation reserves:					
– Currency translation differences in respect of					
– Foreign operations		**347,126**	1,119,926	**12,199**	25,338
– Net investment hedge	29	**(253,118)**	(765,259)	**–**	–
Revaluation reserves:					
– Net change in revaluation of financial investments available-for-sale	29	**(111,955)**	97,470	**(80,451)**	85,143
Hedging reserves:					
– Net change in cash flow hedges	29	**5,625**	1,288	**68,399**	1,525
		(12,322)	453,425	**147**	112,006
Income tax relating to components of other comprehensive income/(loss):					
– Defined benefit reserves	29	**(13,128)**	(13,469)	**(12,959)**	(14,541)
– Revaluation reserves	29	**30,962**	(27,370)	**19,308**	(20,466)
– Hedging reserves	29	**(1,350)**	(309)	**(16,416)**	(366)
		16,484	(41,148)	**(10,067)**	(35,373)
Share of loss of equity accounted associated companies					
– Revaluation reserves	29	**(108)**	(50)	**–**	–
Other comprehensive income for the year, net of tax		**58,868**	464,862	**44,077**	137,219
Total comprehensive income for the year		**5,326,303**	5,586,101	**4,067,982**	4,125,848
Total comprehensive income for the year attributable to:					
– Equity holders of the Bank		**5,221,884**	5,330,252	**4,067,982**	4,125,848
– Non-controlling interests		**104,419**	255,849	**–**	–
		5,326,303	5,586,101	**4,067,982**	4,125,848

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

		<---------------- Attributable to Equity Holders of the Bank ---------------->							
				Non-distributable Reserves	Distributable Reserves				
2016 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 2016		3,882,138	5,535,515	7,700,465	14,262,317	(149,337)	31,231,098	1,076,641	32,307,739
Profit for the year		–	–	–	5,206,875	–	5,206,875	60,560	5,267,435
Other comprehensive income for the year		–	–	15,009	–	–	15,009	43,859*	58,868
Total comprehensive income for the year		–	–	15,009	5,206,875	–	5,221,884	104,419	5,326,303
Transactions with owners/other equity movements:									
Transfer to statutory reserves		–	–	26,281	(26,281)	–	–	–	–
Transfer to regulatory reserves		–	–	307,618	(307,618)	–	–	–	–
Transfer from general reserves		–	–	(2,777)	2,777	–	–	–	–
Transfer to Profit Equalisation Reserves of Islamic banking institution		–	–	86	(86)	–	–	–	–
Dividends paid	41	–	–	–	(2,239,667)	–	(2,239,667)	(30,604)	(2,270,271)
		–	–	331,208	(2,570,875)	–	(2,239,667)	(30,604)	(2,270,271)
At 31 December 2016		3,882,138	5,535,515	8,046,682	16,898,317	(149,337)	34,213,315	1,150,456	35,363,771
		Note 27		Note 29		Note 28			

* 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2015 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 2015		3,882,138	5,535,515	6,883,560	11,872,792	(149,337)	28,024,668	850,113	28,874,781
Profit for the year		–	–	–	5,062,152	–	5,062,152	59,087	5,121,239
Other comprehensive income for the year		–	–	268,100	–	–	268,100	196,762*	464,862
Total comprehensive income for the year		–	–	268,100	5,062,152	–	5,330,252	255,849	5,586,101
Transactions with owners/other equity movements:									
Transfer to statutory reserves		–	–	32,214	(32,214)	–	–	–	–
Transfer to regulatory reserves		–	–	430,618	(430,618)	–	–	–	–
Transfer to general reserves		–	–	85,940	(85,940)	–	–	–	–
Transfer to Profit Equalisation Reserves of Islamic banking institution		–	–	33	(33)	–	–	–	–
Dividends paid	41	–	–	–	(2,123,822)	–	(2,123,822)	(29,321)	(2,153,143)
		–	–	548,805	(2,672,627)	–	(2,123,822)	(29,321)	(2,153,143)
At 31 December 2015		3,882,138	5,535,515	7,700,465	14,262,317	(149,337)	31,231,098	1,076,641	32,307,739
		Note 27		Note 29		Note 28			

* 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 2016

		<---------- Attributable to Equity Holders of the Bank ---------->					
				Non-distributable Reserves	Distributable Reserves		
2016 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**
At 1 January 2016		**3,882,138**	**5,535,515**	**6,636,542**	**12,040,329**	**(149,337)**	**27,945,187**
Profit for the year		**–**	**–**	**–**	**4,023,905**	**–**	**4,023,905**
Other comprehensive income for the year		**–**	**–**	**44,077**	**–**	**–**	**44,077**
Total comprehensive income for the year		**–**	**–**	**44,077**	**4,023,905**	**–**	**4,067,982**
Transactions with owners/other equity movements:							
Transfer to regulatory reserves		**–**	**–**	**233,010**	**(233,010)**	**–**	**–**
Transfer from general reserves		**–**	**–**	**(2,777)**	**2,777**	**–**	**–**
Dividends paid	41	**–**	**–**	**–**	**(2,239,667)**	**–**	**(2,239,667)**
		–	**–**	**230,233**	**(2,469,900)**	**–**	**(2,239,667)**
At 31 December 2016		**3,882,138**	**5,535,515**	**6,910,852**	**13,594,334**	**(149,337)**	**29,773,502**
		Note 27		Note 29		Note 28	
2015 Bank							
At 1 January 2015		3,882,138	5,535,515	6,144,009	10,530,836	(149,337)	25,943,161
Profit for the year		–	–	–	3,988,629	–	3,988,629
Other comprehensive income for the year		–	–	137,219	–	–	137,219
Total comprehensive income for the year		–	–	137,219	3,988,629	–	4,125,848
Transactions with owners/other equity movements:							
Transfer to regulatory reserves		–	–	355,314	(355,314)	–	–
Dividends paid	41	–	–	–	(2,123,822)	–	(2,123,822)
		–	–	355,314	(2,479,136)	–	(2,123,822)
At 31 December 2015		3,882,138	5,535,515	6,636,542	12,040,329	(149,337)	27,945,187
		Note 27		Note 29		Note 28	

The accompanying notes form an integral part of the financial statements

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities					
Profit before tax expense and zakat		**6,554,032**	6,491,395	**5,079,255**	5,000,080
Adjustments for:					
Share of profit after tax of equity accounted associated companies		**(1,361)**	(7,557)	**–**	–
Depreciation of property and equipment	18, 35	**202,995**	181,116	**159,386**	140,847
Amortisation of core deposits intangible	35	**3,479**	–	**–**	–
Net gain on disposal of property and equipment	34	**(1,437)**	(1,506)	**(1,240)**	(1,514)
Net gain on disposal of foreclosed properties	34	**(2,109)**	(1,393)	**(2,109)**	(1,393)
Allowance for impaired loans and financing		**410,877**	370,687	**134,583**	105,456
Net gain arising from disposal of financial investments available-for-sale	33	**(39,412)**	(31,990)	**(36,599)**	(30,619)
Amortisation of cost and accretion of discount relating to debt securities issued		**2,587**	2,408	**2,330**	2,151
Unrealised (gain)/loss on revaluation of financial assets held-for-trading	33	**(39)**	1,071	**(20)**	1,129
Unrealised loss/(gain) on revaluation of trading derivatives	33	**12,191**	(1,649)	**5**	(1)
Gain representing ineffective portions of hedging derivatives	33	**(4,160)**	(12,199)	**(4,493)**	(12,230)
Transfer to Profit Equalisation Reserves	56	**96**	76	**–**	–
Dividends from financial investments available-for-sale	33	**(24,522)**	(178,837)	**(23,501)**	(178,150)
Dividends from collective investments	34	**–**	–	**(152,124)**	–
Dividends from subsidiary companies	34	**–**	–	**(580,342)**	(824,241)
Property and equipment written off	35(a)	**1,972**	102	**1,532**	102
Gain arising from fair valuation of previously held equity interests in VID Public Bank	15	**(23,192)**	–	**–**	–
Gain on revaluation of investment properties	17, 34	**(60,428)**	(107,061)	**–**	–
Impairment loss on financial investments available-for-sale	38	**–**	23	**–**	23
Impairment (written back)/loss on foreclosed properties	38	**(430)**	533	**(426)**	505
Operating profit before working capital changes		**7,031,139**	6,705,219	**4,576,237**	4,202,145

STATEMENTS OF CASH FLOWS

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities (continued)					
(Increase)/Decrease in operating assets:					
Placements with banks with original maturity more than three months		**(23,780)**	2,953,476	**200,000**	2,632,433
Reverse repurchase agreements		**1,585,598**	1,935,332	**1,472,127**	1,824,167
Financial assets held-for-trading		**1,923,916**	15,260,186	**866,308**	13,035,034
Loans, advances and financing		**(19,972,296)**	(28,991,675)	**(13,086,234)**	(18,077,588)
Other assets		**124,654**	(497,800)	**165,149**	(525,429)
Statutory deposits with Central Banks		**654,926**	(1,450,673)	**869,276**	(1,080,267)
Increase/(Decrease) in operating liabilities:					
Deposits from customers		**7,655,141**	24,616,913	**5,497,300**	10,243,167
Deposits from banks		**1,209,592**	(10,700,211)	**1,725,936**	(7,133,560)
Obligations on securities sold under repurchase agreements		**2,469,834**	–	**2,469,834**	–
Bills and acceptances payable		**(35,620)**	(298,826)	**(36,446)**	(299,125)
Recourse obligations on loans and financing sold to Cagamas		**2**	1	**2**	1
Other liabilities		**351,875**	87,422	**385,648**	727,774
Cash generated from operations		**2,974,981**	9,619,364	**5,105,137**	5,548,752
Income tax expense and zakat paid		**(1,396,698)**	(1,204,337)	**(1,091,464)**	(926,278)
Net cash generated from operating activities		**1,578,283**	8,415,027	**4,013,673**	4,622,474
Cash flows from investing activities					
Purchase of property and equipment	18	**(404,969)**	(278,790)	**(155,161)**	(131,977)
Addition to investment properties	17	**(28,432)**	–	**–**	–
Proceeds from disposal of property and equipment		**1,532**	1,571	**1,288**	1,544
Proceeds from disposal of foreclosed properties		**13,056**	16,935	**13,056**	16,222
Net purchase of financial investments		**(3,590,634)**	(5,843,307)	**(1,896,049)**	(2,404,003)
Additional investment in subsidiary companies		**–**	–	**(879,654)**	(238,465)
Additional investment in an associated company	16	**(20,000)**	–	**(10,000)**	–
Investment in collective investments		**–**	–	**(3,213,150)**	–
Acquisition of subsidiary companies, net of cash acquired		**531,531**	(11,308)	**–**	–
Dividends received from collective investments		**–**	–	**124,970**	–
Dividends received from subsidiary companies		**–**	–	**557,598**	802,496
Dividends received from financial investments available-for-sale		**24,522**	178,837	**23,501**	178,150
Net cash used in investing activities		**(3,473,394)**	(5,936,062)	**(5,433,601)**	(1,776,033)

STATEMENTS OF CASH FLOWS

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from financing activities					
Dividends paid to equity holders of the Bank		**(2,239,667)**	(2,123,822)	**(2,239,667)**	(2,123,822)
Dividends paid to non-controlling interests		**(30,604)**	(29,321)	**–**	–
Net drawdown of borrowings	24	**830,741**	2,244	**827,953**	–
Net proceeds from issuance of debt securities	24	**999,500**	–	**999,500**	–
Redemption of debt securities	24	**(2,006,600)**	–	**(2,006,600)**	–
Net cash used in financing activities		**(2,446,630)**	(2,150,899)	**(2,418,814)**	(2,123,822)
Net (decrease)/increase in cash and and cash equivalents		**(4,341,741)**	328,066	**(3,838,742)**	722,619
Cash and cash equivalents at beginning of year		**14,041,018**	13,073,321	**8,798,632**	8,076,013
Exchange differences on translation of opening balances		**163,194**	639,631	**–**	–
Cash and cash equivalents at end of year		**9,862,471**	14,041,018	**4,959,890**	8,798,632
Note:					
Cash and balances with banks	3	**10,684,092**	14,831,059	**5,059,890**	9,098,632
Less: Balances with banks with original maturity more than three months		**(821,621)**	(790,041)	**(100,000)**	(300,000)
Cash and cash equivalents at end of year		**9,862,471**	14,041,018	**4,959,890**	8,798,632

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

– 31 DECEMBER 2016

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, trustee services 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 2 February 2017.

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 Amendments to Malaysian Financial Reporting Standards ("MFRS"):

(i) Amendments to MFRSs that were Adopted or Early Adopted by the Group and the Bank

The Group and the Bank have adopted the following in the current financial year:

Effective for annual periods commencing on or after 1 January 2016

– Disclosure Initiative (Amendments to MFRS 101)

Effective for annual periods commencing on or after 1 January 2017 (Early Adoption)

– Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)
– Disclosure Initiative (Amendments to MFRS 107)

Effective for annual periods commencing on or after 1 January 2018 (Early Adoption)

– Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

The main effects of the adoption of Amendments to MFRSs above are summarised below:

(a) ***Disclosure Initiative (Amendments to MFRS 101)*** – The amendments to MFRS 101 aim to improve the presentation and disclosure in the financial statements and are designed to encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The adoption of these amendments resulted in changes to other comprehensive income disclosure. Since the amendments only affect disclosures, the adoption of these amendments did not have any financial impact on the Group and the Bank.

(b) ***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)*** – The amendments to MFRS 112 clarify the accounting treatment of deferred tax assets for unrealised losses on fixed-rate debt instruments measured at fair value. The adoption of these amendments did not have any financial impact on the Group and the Bank as the Group and the Bank already applied the principles under these amendments.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(i) Amendments to MFRSs that were Adopted or Early Adopted by the Group and the Bank (continued)

The main effects of the adoption of Amendments to MFRSs above are summarised below (continued):

(c) ***Disclosure Initiative (Amendments to MFRS 107)*** – The amendments to MFRS 107 requires entity to provide disclosures on changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. Arising from the adoption of these amendments, a reconciliation between the opening and closing balances for liabilities from financing activities has been disclosed. The adoption of these amendments did not have any financial impact on the Group and the Bank as it only affected disclosures.

(d) ***Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)*** – The amendments provide guidance on how to account for the following situations:

- The effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payments;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment transaction that changes the classification of the transaction from cash-settled to equity-settled.

As the Group and the Bank currently do not have any share-based payment transactions, the adoption of these amendments did not have any financial impact on the Group and the Bank.

(ii) (a) Amended Bank Negara Malaysia ("BNM")'s Policy Document on Financial Reporting for Islamic Banking Institutions

On 5 February 2016, BNM amended the Policy Document on Financial Reporting for Islamic Banking Institutions ("Amended Policy Document") to include requirements on the presentation and disclosure of investment account other than those which are reported as Islamic deposits, with immediate effect.

The Group is not affected by the requirements of the Amended Policy Document as the Group's investment accounts are classified as Islamic deposits in line with the transitional requirements under the BNM Policy Document on Transition policy under Islamic Financial Services Act 2013. The adoption of this requirement did not have any financial impact on the financial statements of the Group.

(b) Companies Act 2016

The Companies Act 2016 ("New Act") was enacted to replace the Companies Act 1965 with the objectives to create a legal and regulatory structure that will facilitate business, and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Group and of the Bank upon the commencement of the New Act on 31 January 2017 are:

(i) removal of the authorised share capital;
(ii) shares of the Bank will cease to have par or nominal value; and
(iii) the Bank's share premium account will become part of the Bank's share capital.

The adoption of the New Act is not expected to have any financial impact on the Group and the Bank for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on disclosures to the annual report and financial statements for the financial year ending 31 December 2017.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Group and the Bank

The following MFRSs, Amendments to MFRSs and IC Interpretation have been issued by Malaysian Accounting Standards Board ("MASB") but are not yet effective to the Group and the Bank:

Effective for annual periods commencing on or after 1 January 2017

- Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2014 – 2016 Cycle"
  - Amendments to MFRS 12 Disclosure of Interests in Other Entities

Effective for annual periods commencing on or after 1 January 2018

- MFRS 15 Revenue from Contracts with Customers
- MFRS 9 Financial Instruments (2014)
- Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2014 – 2016 Cycle"
  - Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards
  - Amendments to MFRS 128 Investments in Associates and Joint Ventures
- Transfers of Investment Property (Amendments to MFRS 140)
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (Amendments to MFRS 4)

Effective for annual periods commencing on or after 1 January 2019

- MFRS 16 Leases

A brief description of the new MFRSs, Amendments to MFRSs and IC Interpretation above that have been issued is set out below:

(a) **Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2014 – 2016 Cycle".** The Annual Improvements consist of the following amendments:

(i) **Amendments to MFRS 12 Disclosure of Interests in Other Entities**

The amendments clarify that an entity is not required to disclose summarised financial information for subsidiary, joint venture or associate when it is classified as held for sale in accordance with MFRS 5.

(ii) **Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards**

The amendments remove certain provisions from the Standard that have served their intended purposes and are no longer required.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Group and the Bank (continued)

A brief description of the new MFRSs, Amendments to MFRSs and IC Interpretation above that have been issued is set out below (continued):

(a) **Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2014 – 2016 Cycle".** The Annual Improvements consist of the following amendments (continued):

(iii) **Amendments to MFRS 128 Investments in Associates and Joint Ventures**

The amendments clarify that when an investment in an associate or a joint venture is held by an entity which is a venture capital organisation, or a mutual fund, unit trust or similar entities, the entity may elect to measure that investment at fair value on an investment by investment basis in accordance with the Standard.

The adoption of Annual Improvements to MFRS Standards 2014 - 2016 Cycle is not expected to have any financial impact on the financial statements of the Group and of the Bank.

(b) ***MFRS 15 Revenue from Contracts with Customers*** – MFRS 15 establishes principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with customers. The core principle of MFRS 15 is that an entity recognises revenue in a manner which reflects the consideration an entity expects to be entitled in exchange for goods or services.

The adoption of MFRS 15 is not expected to have any material impact on the financial statements of the Group and of the Bank.

(c) ***MFRS 9 Financial Instruments (2014)*** – This final version of MFRS 9 replaces all previous versions of MFRS 9. Retrospective application is required, but comparative information is not compulsory.

The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The approach for classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held with two measurement categories – amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For financial liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Group and the Bank (continued)

A brief description of the new MFRSs, Amendments to MFRSs and IC Interpretation above that have been issued is set out below (continued):

Impairment

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables and certain loan commitments as well as financial guarantee contracts. At initial recognition, allowance for impairment is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12 month ECL"). In the event of a significant increase in credit risk, allowance for impairment is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

Hedge accounting

Under MFRS 9, the general hedge accounting requirements have been simplified for hedge effectiveness testing and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project.

MFRS 9 introduces significant changes in the way the Group and the Bank account for financial instruments, particularly on the accounting policy on allowance for loans, advances and financing.

The adoption of the requirements on classification and measurement will have an effect on the classification and measurement of the financial assets of the Group and of the Bank, but is not expected to have any impact on the classification and measurement of the financial liabilities of the Group and of the Bank.

The recognition and measurement of impairment under MFRS 9 is intended to be more forward-looking than under MFRS 139 and will result in an increase in the allowances for loans, advances and financing as more financial assets (MFRS 9 includes loan commitments and financial guarantee contracts) will be assessed for impairment and allowances for impairment will be made for at least 12 month ECL.

MFRS 9 allows entities to continue with the hedge accounting under MFRS 139 even when other elements of MFRS 9 become effective on 1 January 2018. The Group and the Bank will continue to apply hedge accounting under MFRS 139 until more clarity is obtained on the requirements of macro hedge accounting.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Group and the Bank (continued)

A brief description of the new MFRSs, Amendments to MFRSs and IC Interpretation above that have been issued is set out below (continued):

The preparation for MFRS 9 by the Group and the Bank had started in 2015 with the setting up of a MFRS 9 Project Team headed by the Chief Financial Officer of the Bank, and with assistance from consultants on the implementation of MFRS 9. During the financial year ended 31 December 2016, the Group and the Bank have completed the gap assessment and started on the development of MFRS 9 compliant impairment models for all impacted credit exposures.

(d) **Transfers of Investment Property (Amendments to MFRS 140)** – The amendments clarify the existing provisions in the Standard on transfer to, or from the investment property category. The adoption of these amendments is not expected to have any material financial impact on the financial statements of the Group and of the Bank.

(e) **IC Interpretation 22 Foreign Currency Transactions and Advance Consideration** – The IC Interpretation addresses the issue on which exchange rate is to be used in reporting foreign currency transactions that involve advance consideration paid or received. The adoption of the IC Interpretation is not expected to have any material financial impact on the financial statements of the Group and of the Bank.

(f) **Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (Amendments to MFRS 4)** – The amendments address the issues arising from the transitional challenges of applying the temporary exemption from MFRS 9 for an insurer in view that the upcoming new insurance contracts standard MFRS 17 is expected to be issued soon. The expiration date of the temporary exemption from MFRS 9 coincide with the tentative effective date of MFRS 17, as decided by IASB in November 2016. In addition, to reduce the impact of temporary volatility in reported results of entity dealing with insurance contracts, the amendments introduce two additional voluntary options, namely an overlay approach and a deferral approach. The adoption of these amendments is not expected to have any material financial impact on the financial statements of the Group and of the Bank.

(g) ***MFRS 16 Leases*** – MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Upon adoption of MFRS 16, the Group and the Bank are required to account for major part of their operating leases in the balance sheet by recognising the 'right-of-use' assets and the lease liability, thus increasing the assets and liabilities of the Group and of the Bank.

The financial effects arising from the adoption of this standard are still being assessed by the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Group and of 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 judgments, 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.

Significant areas of estimation, uncertainty and critical judgments 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 (Note 45)* – 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, judgment is required where market observable data are not available. Such judgment normally incorporate assumptions that other market participants would use in their valuations, including assumptions about interest/profit 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, judgment 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, judgments 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, judgments are made based on loan portfolio data (e.g. credit quality, default rates, recovery rates, etc.), credit concentration and economic data (e.g. unemployment rates, GDP growth rates, etc.) in order to arrive at impairment levels appropriate to the portfolio.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

(iii) *Impairment of goodwill and intangible assets (Note 19)* – 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 ("CGU") 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 judgment 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 judgment is required to evaluate the duration and extent by which the fair value of these equity investments is below their cost. In making this judgment, 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 18) requires management judgment 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.

(vi) *Valuation of investment properties (Note 17)* – 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 judgment 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 tax authority 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 13)* – 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 judgment 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

(ix) *Defined Benefit Plan (Note 11)* – 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

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

(i) Subsidiary Companies

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.

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.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

(i) Subsidiary Companies (continued)

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 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(iv)(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 (i.e. a bargain purchase), the entire resulting gain is recognised in 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 statement of profit or loss and other comprehensive income, 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 interests either at fair value or at the non-controlling interest's proportionate share of the subsidiary company's identifiable net assets.

In a business combination achieved in stages, the previously-held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in 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 interests' portion of total comprehensive income is attributed to non-controlling interests, even if this results in the non-controlling interests 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, investment in subsidiary companies is stated at cost less impairment losses, if any. On disposal of such investment, the difference between the net disposal proceeds and the net carrying value of the investment is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

(ii) Collective Investments

Collective investments are those investments in unit trust funds which the Group is deemed to have control, and hence consolidates the financial results of the funds. The basis of consolidating the collective investments is similar to that used in the consolidation of the subsidiary companies.

In the Bank's separate financial statements, collective investments 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 in profit or loss.

(iii) 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.

Investment in associated companies is accounted for in the 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 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.

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 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 investment, the difference between the net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(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, i.e. the functional currency. The financial statements of the Group and of the Bank are presented in Ringgit Malaysia ("RM"), which is also 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, i.e. 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 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 profit or loss if the gain or loss on the fair value of the non-monetary item is recognised in profit or loss.

(iii) Net Investment in Foreign Operations

In the Bank's separate financial statements, 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 profit or loss. In the consolidated financial statements, such exchange differences are recognised initially in other comprehensive income and will be reclassified to profit or loss only upon disposal of the net investment.

(iv) Consolidation of Financial Statements of Foreign Operations

The results and financial position of the Group's foreign operations and its subsidiary 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 other comprehensive income as a foreign currency translation reserve and are subsequently reclassified to 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 other comprehensive income until the disposal of the net investment, at which time the accumulated translation differences are taken to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(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 with original maturity of less than three (3) months.

(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, financial investments available-for-sale and non-derivative financial liabilities. Management determines the classification of financial instruments at initial recognition.

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

Financial instruments classified in this category consist of financial assets held-for-trading and derivative financial instruments not designated in an effective hedge transaction. 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.

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to 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) 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(i) Initial Recognition and Subsequent Measurement (continued)

(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 (for monetary items), which are recognised in 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 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(i) Initial Recognition and Subsequent Measurement (continued)

(5) Non-derivative Financial Liabilities

Non-derivative financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, non-derivative 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, repurchase agreements 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 financial 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 profit or loss is not reversed.

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

(iv) Determination of Fair Value

All financial instruments are recognised initially at fair value. At initial recognition, the fair value of a financial instrument is generally 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(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 and the Bank apply either fair value, cash flow or net investment hedge accounting.

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

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

(i) Fair Value Hedge

Fair value hedges are hedges against exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment that is attributable to a particular risk, and could affect profit or loss. For designated and qualifying fair value hedges, changes in the fair value of the hedging instrument are recognised in 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 profit or loss over the remaining period to maturity using the effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

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

(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 other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in other comprehensive income are recycled to profit or loss in the periods when the hedged forecast cash flows affect the 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 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 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 profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to profit or loss.

(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 profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(h) Impairment of Financial Assets

(i) Loans, Advances and Financing

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

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

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

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

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

(5) default occurs for repayments scheduled on intervals of ninety (90) days or more for financially distressed customer.

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 (i.e. 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/profit 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; or

(5) any adverse news or developments affecting the local economic conditions or business environment which will adversely affect the repayment capacity of the customer.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(h) Impairment of Financial Assets (continued)

(i) Loans, Advances and Financing (continued)

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 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 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 a loan has been renegotiated and classified as R&R in the Central Credit Reference Information System (CCRIS), 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 subject 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 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 investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar investment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(h) Impairment of Financial Assets (continued)

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

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 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 profit or loss.

(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 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, 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 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 other comprehensive income as a revaluation reserve. If a fair value gain reverses a previously recognised impairment loss, the gain is recognised in profit or loss. Upon disposal of the investment property, any surplus previously recorded in revaluation reserve is transferred to retained profits.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(i) Investment Properties (continued)

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 profit or loss.

(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 incremental borrowing rate of the Group or of the Bank 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 and the Bank will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to 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 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 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 Bank 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 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(iv)(n).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(k) Property and Equipment and Depreciation (continued)

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	50 years
Renovations	Over the term of the leases ranging from 2 – 10 years
Office equipment, furniture and fittings	3 – 10 years
Computer equipment and software	2 – 6 years
Motor vehicles	5 – 6 years

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 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) Intangible Assets

(i) Goodwill

Goodwill is measured as the excess of consideration transferred, any non-controlling interests 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 exceeds the amount of consideration transferred, any non-controlling interests and the acquisition-date fair value of any previously-held equity interest, the entire resulting gain is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(l) Intangible Assets (continued)

(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.

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 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(iv)(l)(i).

(o) Repurchase and Reverse Repurchase Agreements

Securities purchased under resale agreements (i.e. 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(o) Repurchase and Reverse Repurchase Agreements (continued)

Securities sold under repurchase agreements (i.e. 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(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 senior medium term notes, subordinated notes, subordinated sukuk murabahah, 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/profit or both to holders of the debt securities and that the Group is contractually obliged to settle the debt securities 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 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.

(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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(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, trustee services, management of unit trust funds and sale of trust units but excluding all related company 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/profit method.

The effective interest/profit 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/profit 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/profit 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/profit used to discount the future cash flows for the purpose of measuring the impairment loss.

(z) Fee and Commission Income

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

Fees earned for the provision of services over a period of time, such as asset management and loan arrangement and management, are accrued over the period. Fee income from the provision of transaction services, such as funds remittances and 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.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(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 and of the Bank. 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 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 profit or loss. Past service costs, whether unvested or already vested, are recognised immediately in profit or loss as incurred. Net interest income or 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.

(iv) Share-based Compensation Benefits

Where the Group pays for services of its employees using share options, the fair value of the transaction is recognised as an expense in 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. The Group could revise 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 profit or loss and a corresponding adjustment to equity over the remaining vesting period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(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 jurisdictions and is recognised as an expense in 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 substantively 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 profit or loss when the deferred fair value gain or loss is recognised in 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.

(ad) Dividends

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

(ae) Earnings Per Share

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

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iv) Significant Accounting Policies (continued)

(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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Cash and bank balances	**4,815,485**	3,988,715	**1,975,825**	2,104,286
Money market deposit placements:				
– maturing within one month	**3,312,308**	9,654,877	**2,494,340**	6,522,466
– maturing after one month	**2,556,299**	1,187,467	**589,725**	471,880
	5,868,607	10,842,344	**3,084,065**	6,994,346
	10,684,092	14,831,059	**5,059,890**	9,098,632

4. REVERSE REPURCHASE AGREEMENTS AND OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

a) Reverse Repurchase Agreements:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At amortised cost				
Malaysian Government Securities	**904,790**	3,065,423	**379,791**	2,426,953
Malaysian Government Investment Issues	**1,885,838**	1,308,443	**1,885,838**	1,308,443
Foreign government treasury bills	**2,935**	5,295	**2,935**	5,295
	2,793,563	4,379,161	**2,268,564**	3,740,691

4. REVERSE REPURCHASE AGREEMENTS AND OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

a) Reverse Repurchase Agreements (continued):

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 RM2,884,147,000 (2015 – RM4,542,570,000) and RM2,359,148,000 (2015 – RM3,839,891,000) respectively, of which none (2015 – none) has been resold.

b) Obligations on Securities Sold under Repurchase Agreements

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At amortised cost				
Financial investments available-for-sale	**2,469,451**	–	**2,469,451**	–
Financial investments held-to-maturity	**383**	–	**383**	–
	2,469,834	–	**2,469,834**	–

5. FINANCIAL ASSETS HELD-FOR-TRADING

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At fair value				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	**158,134**	–	**158,134**	–
Malaysian Government Securities	**202,195**	10,251	**202,195**	10,251
Malaysian Government Investment Issues	**141,292**	10,051	**130,979**	10,051
	501,621	20,302	**491,308**	20,302
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	**495,364**	1,739,611	**–**	151,231
Non-money market instruments:				
Debt securities				
– Cagamas bonds	**70,037**	231,822	**60,031**	231,822
– Unquoted private debt securities	**111,862**	1,111,026	**24,990**	1,039,262
	181,899	1,342,848	**85,021**	1,271,084
	1,178,884	3,102,761	**576,329**	1,442,617

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest/profit 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/profit 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 tables below show 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 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.

	2016			**2015**		
	Contract/ Notional Amount	**Fair Value**		**Contract/ Notional Amount**	**Fair Value**	
Group	**RM'000**	**Assets RM'000**	**Liabilities RM'000**	**RM'000**	**Assets RM'000**	**Liabilities RM'000**
At fair value						
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards	**1,940,142**	**26,642**	**9,719**	1,088,798	27,913	4,090
– Currency swaps	**25,110,102**	**495,676**	**249,205**	26,787,898	559,117	122,581
– Currency options	**47,027**	**–**	**–**	64,119	133	133
Precious metal contracts						
– Forwards	**673**	**–**	**4**	169	1	–
	27,097,944	**522,318**	**258,928**	27,940,984	587,164	126,804
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	**6,259,809**	**62,619**	**7,281**	7,645,536	74,562	10,461
Cash flow hedge						
Foreign exchange contracts						
– Cross currency interest rate swaps	**3,589,000**	**–**	**1,048,569**	3,007,900	–	869,784
Interest/profit rate related contracts						
– Interest/profit rate swaps	**7,825,275**	**33,204**	**13,913**	5,954,400	26,360	531
	17,674,084	**95,823**	**1,069,763**	16,607,836	100,922	880,776
Total	**44,772,028**	**618,141**	**1,328,691**	44,548,820	688,086	1,007,580

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

	2016			2015		
	Contract/ Notional Amount	Fair Value		Contract/ Notional Amount	Fair Value	
Bank	**RM'000**	**Assets RM'000**	**Liabilities RM'000**	**RM'000**	**Assets RM'000**	**Liabilities RM'000**
At fair value						
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards	1,871,305	26,631	9,700	1,012,169	27,791	3,973
– Currency swaps	24,350,800	493,320	235,075	25,565,298	557,098	122,372
– Currency options	47,027	–	–	64,119	133	133
Precious metal contracts						
– Forwards	673	–	4	169	1	–
	26,269,805	519,951	244,779	26,641,755	585,023	126,478
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	5,708,000	54,301	–	7,267,400	72,096	294
Cash flow hedge						
Foreign exchange contracts						
– Cross currency interest rate swaps	3,589,000	–	1,048,569	3,007,900	–	869,784
Interest rate related contracts						
– Interest rate swaps	11,155,275	53,893	29,399	9,284,400	20,511	49,065
	20,452,275	108,194	1,077,968	19,559,700	92,607	919,143
Total	46,722,080	628,145	1,322,747	46,201,455	677,630	1,045,621

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/profit 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.

As at 31 December 2016, 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.

NOTES TO THE FINANCIAL STATEMENTS

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

As at 31 December 2016, the Group and the Bank have positions in the following types of derivative financial instruments (continued):

Swaps

Swaps are contractual agreements between two parties to exchange exposures in foreign currency or interest/profit 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 fulfil 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 of 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(iv)(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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Loss on hedging instruments	**(3,080)**	(15,885)	**(11,816)**	(19,614)
Gain on the hedged items attributable to the hedged risk	**9,261**	20,529	**18,345**	24,234
Exchange differences	**15**	(55)	**–**	–
Ineffectiveness charged to profit or loss (Note 33)	**6,196**	4,589	**6,529**	4,620

The gains and losses on the ineffective portions of the Group's and of 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 (CONTINUED)

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
2016				
Cash inflows on assets	**792**	**521**	**–**	**–**
Cash (outflows)/inflows on liabilities	**(2,612)**	**8,001**	**(3,580)**	**–**
Net cash (outflows)/inflows	**(1,820)**	**8,522**	**(3,580)**	**–**
2015				
Cash inflows/(outflows) on assets	151	(55)	–	–
Cash inflows/(outflows) on liabilities	22,879	(25,930)	(700)	–
Net cash inflows/(outflows)	23,030	(25,985)	(700)	–

	Bank			
	Within 1 year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
2016				
Cash inflows/(outflows) on assets	**15,592**	**17,411**	**(388)**	**(23,433)**
Cash (outflows)/inflows on liabilities	**(3,265)**	**5,986**	**(3,580)**	**–**
Net cash inflows/(outflows)	**12,327**	**23,397**	**(3,968)**	**(23,433)**
2015				
Cash inflows/(outflows) on assets	5,003	6,913	(8,527)	(50,191)
Cash inflows/(outflows) on liabilities	20,491	(29,540)	(2,188)	–
Net cash inflows/(outflows)	25,494	(22,627)	(10,715)	(50,191)

NOTES TO THE FINANCIAL STATEMENTS

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Cash Flow Hedges (continued)

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

The net gains or losses on cash flow hedges reclassified from other comprehensive income to profit or loss is recognised in "Net gains and losses on financial instruments". During the financial year, no gain or loss (2015 – Nil) 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 loss of RM2,036,000 (2015 – gain of RM7,610,000) (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	
	2016 RM'000	**2015 RM'000**
Long-term borrowings	**–**	253,523
Short-term interbank borrowings	**4,616,351**	3,480,570
	4,616,351	3,734,093

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 RM101,000 (2015 – loss of RM34,000).

7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At fair value				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	**73,266**	58,468	**73,266**	–
Malaysian Government Securities	**5,899,049**	4,536,150	**5,305,888**	4,457,423
Malaysian Government Investment Issues	**14,133,503**	10,914,900	**7,710,185**	6,125,360
Other government treasury bills	**168,223**	–	**–**	–
	20,274,041	15,509,518	**13,089,339**	10,582,783
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	**8,544,128**	9,105,939	**8,293,626**	7,820,028
Secondary bankers' acceptance	**118,830**	–	**118,830**	–
	8,662,958	9,105,939	**8,412,456**	7,820,028
Non-money market instruments:				
Equity securities				
– Quoted shares and convertible loan stocks outside Malaysia	**3,167**	3,730	**–**	–
– Unquoted shares #	**120,534**	118,935	**115,481**	114,052
Debt securities				
– Cagamas bonds	**340,406**	100,482	**340,406**	100,482
– Unquoted private debt securities	**3,931,522**	1,997,922	**1,697,627**	1,522,939
Unit trust funds	**12,577**	3,071,181	**–**	2,945,728
	4,408,206	5,292,250	**2,153,514**	4,683,201
	33,345,205	29,907,707	**23,655,309**	23,086,012
# Stated at cost, net of impairment loss	**5,738**	5,738	**5,738**	5,738

Included in financial investments available-for-sale are the following securities sold under repurchase agreements (Note 4(b)):

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Malaysian Government Securities	**2,546,513**	–	**2,546,513**	–

NOTES TO THE FINANCIAL STATEMENTS

7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (CONTINUED)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Non-money market instruments:				
Equity securities – unquoted shares				
At 1 January	**5,738**	6,265	**5,738**	6,265
Impairment made during the year (Note 38)	**–**	23	**–**	23
Amount written off	**–**	(550)	**–**	(550)
At 31 December	**5,738**	5,738	**5,738**	5,738

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At amortised cost				
Government securities and treasury bills:				
Malaysian Government Securities	**1,934,046**	2,051,435	**1,903,918**	2,021,357
Malaysian Government Investment Issues	**12,157,420**	12,334,574	**9,683,010**	10,103,680
Foreign government treasury bills	**866,566**	909,721	**24,969**	65,029
Other foreign government securities	**473,031**	135,131	**–**	–
	15,431,063	15,430,861	**11,611,897**	12,190,066
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	**1,464,061**	1,561,205	**1,709,786**	1,647,165
Non-money market instruments:				
Debt securities				
– Cagamas bonds	**1,348,574**	1,403,795	**1,348,574**	1,363,718
– Unquoted private debt securities	**3,930,267**	3,548,234	**2,374,323**	2,484,284
	5,278,841	4,952,029	**3,722,897**	3,848,002
Accumulated impairment losses	**(39)**	(46)	**(39)**	(46)
	22,173,926	21,944,049	**17,044,541**	17,685,187

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY (CONTINUED)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Maturity within one year	**4,013,515**	2,615,347	**2,158,238**	606,636
More than one year to three years	**6,840,451**	4,620,203	**4,641,337**	2,337,819
More than three years to five years	**4,344,099**	5,005,716	**4,825,049**	5,265,886
More than five years	**1,697,059**	4,750,800	**1,697,059**	5,626,890
	16,895,124	16,992,066	**13,321,683**	13,837,231

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Malaysian Government Securities	**1,942,266**	2,075,488	**1,912,066**	2,045,085
Malaysian Government Investment Issues	**12,207,909**	12,332,911	**9,735,348**	10,098,632
Foreign government treasury bills	**863,014**	912,769	**24,887**	64,974
Other foreign government securities	**490,272**	133,746	**–**	–
Negotiable instruments of deposit and negotiable Islamic debt certificates	**1,460,647**	1,559,446	**1,681,064**	1,603,119

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

	Group and Bank	
	2016 RM'000	**2015 RM'000**
Non-money Market Instruments:		
Debt securities		
At 1 January	**46**	81
Amount written off	**(7)**	(35)
At 31 December	**39**	46

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY (CONTINUED)

Included in financial investments held-to-maturity are the following securities sold under repurchase agreements (Note 4(b)):

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Foreign government treasury bills	**383**	–	**383**	–

9. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At amortised cost				
Overdrafts	**11,382,475**	11,362,905	**8,604,041**	8,722,898
Term loans/financing				
– Housing loans/financing	**95,617,442**	87,035,603	**78,193,789**	73,102,157
– Syndicated term loans/financing	**3,410,498**	2,724,983	**1,320,488**	1,229,554
– Hire purchase receivables	**51,984,710**	52,156,547	**37,757,231**	37,937,879
– Other term loans/financing	**114,416,510**	106,600,011	**92,104,366**	86,838,382
Credit card receivables	**1,894,574**	1,781,170	**1,864,748**	1,759,828
Bills receivables	**193,599**	182,187	**155,721**	143,843
Trust receipts	**330,262**	292,013	**209,009**	239,365
Claims on customers under acceptance credits #	**3,848,443**	3,840,427	**3,613,254**	3,668,244
Revolving credits	**9,056,513**	5,806,945	**8,267,793**	5,724,545
Staff loans *	**1,824,156**	1,664,264	**1,642,793**	1,542,055
Gross loans, advances and financing	**293,959,182**	273,447,055	**233,733,233**	220,908,750
Less: Allowance for impaired loans and financing				
– collective assessment allowance	**(1,408,104)**	(1,510,637)	**(922,954)**	(1,001,839)
– individual assessment allowance	**(121,894)**	(121,947)	**(15,586)**	(34,837)
Net loans, advances and financing	**292,429,184**	271,814,471	**232,794,693**	219,872,074

Included in claims on customers under acceptance credits of the Group and of the Bank are bankers' acceptance rediscounted of RM32,405,000 (2015 – RM26,412,000) and RM32,405,000 (2015 – RM26,412,000) respectively.

* Included in staff loans of the Group and of the Bank are loans to directors of subsidiary companies amounting to RM5,959,000 (2015 – RM3,323,000) and RM5,540,000 (2015 – RM3,050,000) respectively.

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Retail loans/financing *				
– Housing loans/financing	**95,617,442**	87,035,603	**78,193,789**	73,102,157
– Hire purchase	**51,984,710**	52,156,547	**37,757,231**	37,937,879
– Credit cards	**1,894,574**	1,781,170	**1,864,748**	1,759,828
– Other loans/financing ^	**100,416,869**	93,544,319	**80,608,549**	77,651,094
	249,913,595	234,517,639	**198,424,317**	190,450,958
Corporate loans/financing	**44,045,587**	38,929,416	**35,308,916**	30,457,792
	293,959,182	273,447,055	**233,733,233**	220,908,750

* 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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Maturity within one year	**32,140,003**	30,141,088	**24,150,809**	23,225,806
More than one year to three years	**26,761,672**	23,815,757	**21,397,613**	19,020,655
More than three years to five years	**27,763,714**	26,592,749	**22,283,094**	21,139,374
More than five years	**207,293,793**	192,897,461	**165,901,717**	157,522,915
	293,959,182	273,447,055	**233,733,233**	220,908,750

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Non-bank financial institutions				
– Stock-broking companies	**6,498**	7,123	**6,498**	7,123
– Others	**7,973,937**	6,541,865	**7,745,345**	6,310,900
Business enterprises				
– Small and medium enterprises	**71,293,237**	63,968,815	**60,332,253**	55,447,812
– Others	**25,727,268**	25,486,515	**18,957,941**	19,146,647
Government and statutory bodies	**1,317,470**	1,331,532	**3,511**	15,094
Individuals	**184,602,651**	173,258,223	**143,843,020**	137,114,817
Other entities	**40,766**	42,614	**35,892**	39,222
Foreign entities	**2,997,355**	2,810,368	**2,808,773**	2,827,135
	293,959,182	273,447,055	**233,733,233**	220,908,750

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Malaysia	**269,915,021**	251,801,712	**232,568,210**	219,842,909
Hong Kong SAR and the People's Republic of China	**16,884,678**	16,466,441	**–**	–
Cambodia	**4,500,886**	4,113,061	**–**	–
Other countries	**2,658,597**	1,065,841	**1,165,023**	1,065,841
	293,959,182	273,447,055	**233,733,233**	220,908,750

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fixed rate				
– Housing loans/financing	**561,483**	633,185	**25,198**	55,899
– Hire purchase receivables	**49,383,643**	50,178,152	**37,465,523**	37,921,383
– Other fixed rate loans/financing	**18,923,138**	18,006,696	**8,313,755**	8,164,456
Variable rate				
– Base lending rate plus	**178,704,491**	164,560,568	**157,900,595**	149,341,274
– Cost plus	**29,921,800**	24,842,983	**28,465,197**	23,978,637
– Other variable rates	**16,464,627**	15,225,471	**1,562,965**	1,447,101
	293,959,182	273,447,055	**233,733,233**	220,908,750

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Purchase of securities	**2,023,713**	2,492,916	**1,686,519**	1,992,194
Purchase of transport vehicles	**52,252,411**	52,423,648	**38,029,309**	38,209,237
Purchase of landed properties	**174,914,751**	159,650,206	**146,261,128**	136,502,609
(of which: – residential	**98,752,335**	89,521,816	**80,983,504**	75,419,517
– non-residential)	**76,162,416**	70,128,390	**65,277,624**	61,083,092
Purchase of fixed assets (excluding landed properties)	**620,058**	209,714	**221,244**	170,570
Personal use	**11,757,996**	10,576,971	**6,194,844**	5,428,772
Credit card	**1,894,574**	1,781,170	**1,864,748**	1,759,828
Purchase of consumer durables	**1,869**	2,079	**113**	138
Construction	**6,162,820**	5,345,580	**5,069,312**	4,541,667
Mergers and acquisitions	**130,526**	154,871	**130,526**	154,871
Working capital	**39,354,135**	36,786,331	**29,526,976**	28,215,858
Other purpose	**4,846,329**	4,023,569	**4,748,514**	3,933,006
	293,959,182	273,447,055	**233,733,233**	220,908,750

NOTES TO THE FINANCIAL STATEMENTS

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Agriculture, hunting, forestry and fishing	**3,852,323**	3,343,665	**2,844,114**	2,742,319
Mining and quarrying	**233,419**	234,265	**197,969**	197,928
Manufacturing	**10,432,034**	9,823,981	**8,520,922**	8,452,012
Electricity, gas and water	**78,912**	65,785	**19,657**	14,579
Construction	**8,907,302**	7,957,050	**7,044,402**	6,604,430
Wholesale & retail trade and restaurants & hotels	**25,679,947**	24,289,039	**21,579,904**	21,135,248
Transport, storage and communication	**3,957,937**	3,683,227	**2,851,662**	2,784,138
Finance, insurance and business services	**16,826,372**	15,307,058	**14,700,442**	13,499,709
Real estate	**34,520,861**	30,372,942	**28,863,937**	25,164,142
Community, social and personal services	**3,445,030**	3,411,590	**1,906,585**	1,901,892
Households	**184,485,685**	173,217,520	**145,125,969**	138,324,271
Others	**1,539,360**	1,740,933	**77,670**	88,082
	293,959,182	273,447,055	**233,733,233**	220,908,750

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At 1 January	**1,351,816**	1,488,699	**1,002,520**	1,153,829
Impaired during the year	**2,984,569**	2,811,865	**2,026,986**	1,968,543
Reclassified as non-impaired	**(1,913,691)**	(1,958,288)	**(1,440,167)**	(1,511,772)
Recoveries	**(392,027)**	(378,690)	**(287,984)**	(306,295)
Amount written off	**(548,106)**	(608,655)	**(231,663)**	(275,487)
Amount arising from acquisition of Public Bank Vietnam Limited (formerly known as VID Public Bank)	**26,855**	–	**–**	–
Loans/financing converted to foreclosed properties/ investments	**(30,598)**	(28,356)	**(29,032)**	(28,085)
Exchange differences	**10,563**	25,241	**919**	1,787
At 31 December	**1,489,381**	1,351,816	**1,041,579**	1,002,520
Gross impaired loans as % of gross loans, advances and financing	**0.51%**	0.49%	**0.45%**	0.45%

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Malaysia	**1,208,752**	1,190,592	**980,743**	976,657
Hong Kong SAR and the People's Republic of China	**150,052**	104,900	**–**	–
Cambodia	**37,604**	30,461	**–**	–
Other countries	**92,973**	25,863	**60,836**	25,863
	1,489,381	1,351,816	**1,041,579**	1,002,520

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Purchase of securities	**3,435**	4,029	**3,435**	3,802
Purchase of transport vehicles	**317,926**	358,329	**221,725**	252,158
Purchase of landed properties	**735,199**	599,821	**570,775**	495,514
(of which: – residential	**570,019**	445,406	**427,743**	361,760
– non-residential)	**165,180**	154,415	**143,032**	133,754
Purchase of fixed assets (excluding landed properties)	**7,043**	523	**43**	143
Personal use	**152,479**	138,792	**46,161**	44,645
Credit card	**22,087**	23,694	**21,925**	23,596
Purchase of consumer durables	**–**	57	**–**	–
Construction	**28,611**	13,418	**17,359**	10,145
Working capital	**211,541**	198,036	**149,110**	157,419
Other purpose	**11,060**	15,117	**11,046**	15,098
	1,489,381	1,351,816	**1,041,579**	1,002,520

NOTES TO THE FINANCIAL STATEMENTS

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

Impaired loans/financing analysed by sector are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Agriculture, hunting, forestry and fishing	**29,097**	23,253	**16,088**	14,162
Mining and quarrying	**768**	2,373	**725**	868
Manufacturing	**42,218**	66,978	**28,690**	57,944
Electricity, gas and water	**2,454**	2,243	**–**	–
Construction	**77,267**	56,912	**59,814**	52,356
Wholesale & retail trade and restaurants & hotels	**132,155**	116,720	**99,144**	107,264
Transport, storage and communication	**22,801**	42,425	**20,605**	39,410
Finance, insurance and business services	**36,411**	23,000	**29,345**	16,252
Real estate	**38,677**	41,053	**27,825**	32,514
Community, social and personal services	**8,510**	4,542	**8,165**	3,976
Households	**1,098,423**	966,807	**751,053**	677,449
Others	**600**	5,510	**125**	325
	1,489,381	1,351,816	**1,041,579**	1,002,520

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

	<---------------- Retail Loans/Financing ---------------->					
Group	**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**
Collective Assessment Allowance						
2016						
At 1 January 2016	**388,231**	**594,109**	**23,629**	**450,114**	**54,554**	**1,510,637**
Allowance made during the year (Note 37)	**16,165**	**123,603**	**30,223**	**29,485**	**3,682**	**203,158**
Amount written off	**(23,520)**	**(211,267)**	**(31,197)**	**(51,381)**	**–**	**(317,365)**
Amount arising from acquisition of Public Bank Vietnam Limited (formerly known as VID Public Bank)	**294**	**408**	**–**	**7,040**	**–**	**7,742**
Exchange differences	**118**	**82**	**6**	**3,682**	**44**	**3,932**
At 31 December 2016	**381,288**	**506,935**	**22,661**	**438,940**	**58,280**	**1,408,104**

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Group	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
	<---------------- Retail Loans/Financing			---------------->		
Collective Assessment Allowance						
2015						
At 1 January 2015	487,324	607,340	25,869	505,080	56,515	1,682,128
Allowance (written back)/ made during the year (Note 37)	(76,752)	218,641	35,401	(5,710)	(2,495)	169,085
Amount written off	(22,582)	(231,915)	(37,665)	(59,749)	–	(351,911)
Exchange differences	241	43	24	10,493	534	11,335
At 31 December 2015	388,231	594,109	23,629	450,114	54,554	1,510,637

Bank	Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000	Corporate Loans RM'000	Total RM'000
	<---------------------- Retail Loans			---------------------->		
Collective Assessment Allowance						
2016						
At 1 January 2016	**327,864**	**413,161**	**23,471**	**191,312**	**46,031**	**1,001,839**
Allowance made during the year (Note 37)	**2,815**	**83,264**	**30,088**	**23,646**	**5,426**	**145,239**
Amount written off	**(18,396)**	**(150,099)**	**(31,130)**	**(25,133)**	**–**	**(224,758)**
Exchange differences	**–**	**–**	**–**	**634**	**–**	**634**
At 31 December 2016	**312,283**	**346,326**	**22,429**	**190,459**	**51,457**	**922,954**
2015						
At 1 January 2015	422,832	431,084	25,767	221,286	42,556	1,143,525
Allowance (written back)/ made during the year (Note 37)	(74,980)	155,213	35,357	(6,579)	3,475	112,486
Amount written off	(19,988)	(173,136)	(37,653)	(25,722)	–	(256,499)
Exchange differences	–	–	–	2,327	–	2,327
At 31 December 2015	327,864	413,161	23,471	191,312	46,031	1,001,839

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Group	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
	<---------------- Retail Loans/Financing			---------------->		
Individual Assessment Allowance						
2016						
At 1 January 2016	**2,680**	**2,318**	**–**	**88,568**	**28,381**	**121,947**
Net allowance made/(written back) during the year (Note 37)	**9,962**	**639**	**–**	**208,470**	**(11,352)**	**207,719**
Allowance made during the year	**10,046**	**765**	**–**	**231,648**	**–**	**242,459**
Amount written back in respect of recoveries	**(84)**	**(126)**	**–**	**(23,178)**	**(11,352)**	**(34,740)**
Amount written off	**(672)**	**(1,440)**	**–**	**(226,287)**	**(2,342)**	**(230,741)**
Amount transferred to allowance for impairment loss on foreclosed properties	**(164)**	**–**	**–**	**(1,526)**	**–**	**(1,690)**
Amount arising from acquisition of Public Bank Vietnam Limited (formerly known as VID Public Bank)	**73**	**70**	**–**	**3,229**	**–**	**3,372**
Exchange differences	**916**	**161**	**–**	**20,297**	**(87)**	**21,287**
At 31 December 2016	**12,795**	**1,748**	**–**	**92,751**	**14,600**	**121,894**
2015						
At 1 January 2015	178	807	–	101,347	37,754	140,086
Net allowance made during the year (Note 37)	3,619	1,821	–	194,720	1,442	201,602
Allowance made during the year	3,930	1,821	–	215,038	7,906	228,695
Amount written back in respect of recoveries	(311)	–	–	(20,318)	(6,464)	(27,093)
Amount written off	(1,374)	(680)	–	(242,107)	(12,583)	(256,744)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(1,612)	–	(1,612)
Exchange differences	257	370	–	36,220	1,768	38,615
At 31 December 2015	2,680	2,318	–	88,568	28,381	121,947

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Bank	Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000	Corporate Loans RM'000	Total RM'000
	<---------------------- Retail Loans	---------------------->				
Individual Assessment Allowance						
2016						
At 1 January 2016	**173**	**–**	**–**	**19,913**	**14,751**	**34,837**
Net allowance written back during the year (Note 37)	**(9)**	**–**	**–**	**(3,044)**	**(7,603)**	**(10,656)**
Allowance made during the year	**–**	**–**	**–**	**16,021**	**1,490**	**17,511**
Amount written back in respect of recoveries	**(9)**	**–**	**–**	**(19,065)**	**(9,093)**	**(28,167)**
Amount written off	**–**	**–**	**–**	**(6,905)**	**–**	**(6,905)**
Amount transferred to allowance for impairment loss on foreclosed properties	**(164)**	**–**	**–**	**(1,526)**	**–**	**(1,690)**
At 31 December 2016	**–**	**–**	**–**	**8,438**	**7,148**	**15,586**
2015						
At 1 January 2015	–	–	–	30,522	31,945	62,467
Net allowance made/(written back) during the year (Note 37)	1,495	–	–	(2,393)	(6,132)	(7,030)
Allowance made during the year	1,806	–	–	12,390	332	14,528
Amount written back in respect of recoveries	(311)	–	–	(14,783)	(6,464)	(21,558)
Amount written off	(1,322)	–	–	(6,604)	(11,062)	(18,988)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(1,612)	–	(1,612)
At 31 December 2015	173	–	–	19,913	14,751	34,837

NOTES TO THE FINANCIAL STATEMENTS

10. OTHER ASSETS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Deferred handling fees *	**252,828**	268,842	**185,575**	197,446
Interest/Income receivable	**61,899**	30,415	**24,076**	18,955
Other receivables, deposits and prepayments	**1,942,992**	2,030,648	**1,821,453**	1,942,399
Amount due from trust funds ^	**146,871**	151,408	**–**	–
Employee benefits (Note 11)	**302,904**	286,646	**298,391**	282,375
Foreclosed properties #	**88,265**	68,467	**86,472**	67,961
Outstanding contracts on clients' accounts @ ##	**198,764**	199,538	**–**	–
Amount due from subsidiary companies ^^	**–**	–	**39,160**	38,632
Dividend receivable from collective investments	**–**	–	**27,154**	–
Dividend receivable from subsidiary companies (Note 42(b))	**–**	–	**545,976**	523,232
	2,994,523	3,035,964	**3,028,257**	3,071,000
# Stated net of accumulated allowance for impairment loss	**38,892**	36,745	**38,615**	36,128
@ Stated net of accumulated allowance for bad and doubtful debts	**1,221**	1,219	**–**	–

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

^ 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 three (3) market days according to Bursa Malaysia Securities Berhad's trading rules.

11. EMPLOYEE BENEFITS

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 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 2015 by Actuarial Partners Consulting Sdn. Bhd.

As at 31 December 2016, the plan is in surplus of RM302,904,000 (31 December 2015: RM286,646,000) and no contributions are required to be made to the plan in the forthcoming financial year by the participating subsidiary companies 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 is reported quarterly to the Board of Trustees.

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Present value of funded obligations	**(990,390)**	(898,985)	**(975,633)**	(885,590)
Fair value of plan assets	**1,293,294**	1,185,631	**1,274,024**	1,167,965
Net assets (Note 10)	**302,904**	286,646	**298,391**	282,375

11. EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan (continued)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Obligation at 1 January	**898,985**	795,506	**885,590**	777,448
Recognised in profit or loss				
– current service cost	**54,608**	49,951	**53,794**	49,207
– interest cost	**49,471**	41,355	**48,734**	40,739
– allocation adjustment	**–**	–	**–**	6,205
Benefits paid – the Fund	**(12,674)**	(15,568)	**(12,485)**	(15,336)
Remeasurements recognised in other comprehensive income				
– effects of changes in demographic assumptions	**–**	(22,046)	**–**	(21,718)
– effects of changes in financial assumptions	**–**	(27,611)	**–**	(27,199)
– effects of experience adjustments	**–**	77,398	**–**	76,244
Obligation at 31 December	**990,390**	898,985	**975,633**	885,590

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Fair value at 1 January	**1,185,631**	1,065,303	**1,167,965**	1,041,121
Recognised in profit or loss				
– interest income	**65,523**	55,520	**64,547**	54,693
– allocation adjustment	**–**	–	**–**	(426)
Benefits paid – the Fund	**(12,674)**	(15,568)	**(12,485)**	(15,336)
Remeasurements recognised in other comprehensive income				
– return on plan assets (excluding amounts included in interest income)	**54,814**	80,376	**53,997**	79,178
– allocation adjustment	**–**	–	**–**	8,735
Fair value at 31 December	**1,293,294**	1,185,631	**1,274,024**	1,167,965

11. EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan (continued)

The fair value of plan assets constitutes the following:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Deposit placements and cash	**762**	19	**751**	19
Government Securities	**494,372**	475,690	**487,006**	468,602
Private Debt Securities	**220,307**	220,923	**217,024**	217,632
Quoted equity securities [1]	**944,737**	888,698	**930,660**	875,456
Unit trust funds [2]	**134,519**	131,606	**132,515**	129,645
Properties [3]	**625,162**	571,159	**615,847**	562,648
Plan assets (gross)	**2,419,859**	2,288,095	**2,383,803**	2,254,002
Other liabilities (net)	**(6,065)**	(6,895)	**(5,974)**	(6,792)
Borrowings	**(1,120,500)**	(1,095,569)	**(1,103,805)**	(1,079,245)
	1,293,294	1,185,631	**1,274,024**	1,167,965

[1] Quoted equity securities analysed by sectors are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Financial institutions *	**572,009**	537,676	**563,486**	529,665
Insurance companies	**256,149**	251,458	**252,333**	247,711
Property companies	**116,554**	98,944	**114,817**	97,470
Commercial/trading companies	**25**	620	**24**	610
	944,737	888,698	**930,660**	875,456

* Included in the fair value of equity securities of the Fund are ordinary shares of the Bank with a fair value of RM570,231,000 (2015 – RM535,531,000).

NOTES TO THE FINANCIAL STATEMENTS

11. EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan (continued)

[2] Unit trust funds analysed by type of funds are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Equity funds	**114,756**	113,185	**113,047**	111,499
Dividend funds	**19,763**	18,421	**19,468**	18,146
	134,519	131,606	**132,515**	129,645

[3] Properties analysed by type of properties are as follows *:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Terraced shop offices	**577,062**	523,289	**568,464**	515,491
Stratified office lots	**28,950**	28,950	**28,519**	28,519
Commercial buildings	**18,050**	17,850	**17,781**	17,584
Residential buildings	**1,100**	1,070	**1,083**	1,054
	625,162	571,159	**615,847**	562,648

* All the properties held as plan assets of the Group and of the Bank are occupied by the Bank and certain subsidiary companies of the Group. Certain floors in the commercial buildings and terraced shop offices are tenanted by external parties of which they contributed about 2.0% (2015: 2.0%) 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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Current service cost	**54,608**	49,951	**53,794**	49,207
Interest cost	**49,471**	41,355	**48,734**	40,739
Interest income	**(65,523)**	(55,520)	**(64,547)**	(54,693)
Allocation adjustment	**–**	–	**–**	6,631
Amount included under "personnel costs" (Note 35(a))	**38,556**	35,786	**37,981**	41,884

11. EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan (continued)

Actual return on plan assets is as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Interest income on plan assets	**65,523**	55,520	**64,547**	54,693
Remeasurements on plan assets	**54,814**	80,376	**53,997**	79,178
Allocation adjustment	**–**	–	**–**	8,735
Actual return on plan assets	**120,337**	135,896	**118,544**	142,606

(i) Actuarial Assumptions

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

	Group and Bank	
	2016	**2015**
Discount rate	**5.60%**	5.60%
Expected rate of salary increases	**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 2015.

As at 31 December 2016, the weighted average duration of the defined benefit obligation was 10.0 years.

NOTES TO THE FINANCIAL STATEMENTS

11. EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan (continued)

(ii) Sensitivity Analysis

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

	2016 Sensitivity		2015 Sensitivity	
	+1% RM'000	**–1% RM'000**	**+1% RM'000**	**–1% RM'000**
Group				
(Decrease)/Increase of present value of funded obligations:				
– Discount rate	**(72,478)**	**85,278**	(70,767)	83,641
– Expected salary	**90,308**	**(78,214)**	78,923	(68,130)
Bank				
(Decrease)/Increase of present value of funded obligations:				
– Discount rate	**(71,398)**	**84,007**	(69,712)	82,395
– Expected salary	**88,963**	**(77,049)**	77,747	(67,115)

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.

12. STATUTORY DEPOSITS WITH CENTRAL BANKS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Statutory deposits with Bank Negara Malaysia *	**8,054,702**	8,831,954	**6,527,599**	7,407,940
Statutory deposits with the National Bank of Cambodia #	**747,772**	634,560	**–**	–
Other statutory deposits	**98,092**	47,905	**58,970**	47,905
	8,900,566	9,514,419	**6,586,569**	7,455,845

* 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.

12. STATUTORY DEPOSITS WITH CENTRAL BANKS (CONTINUED)

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's 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 2002, the amounts are determined as a set percentage of the issued share capital of Campu Lonpac Insurance Plc; and

iii) Campu Securities Plc and this represents the non-interest bearing deposit specifically earmarked for Campu Securities Plc 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.

13. DEFERRED TAX

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At 1 January	**(89,384)**	(16,984)	**(107,001)**	(59,231)
Recognised in profit or loss (net) (Note 39)				
– relating to changes in tax rate	**(661)**	372	**(643)**	188
– relating to origination and reversal of temporary differences	**(13,685)**	(26,353)	**1,240**	(9,955)
– under provision of net deferred tax liabilities	**(2,724)**	(5,301)	**(2,182)**	(2,630)
Recognised in equity (net) (Note 29)	**16,484**	(41,148)	**(10,067)**	(35,373)
Exchange differences	**(128)**	30	**–**	–
At 31 December	**(90,098)**	(89,384)	**(118,653)**	(107,001)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Deferred tax assets, net	**65,189**	65,666	**–**	–
Deferred tax liabilities, net	**(155,287)**	(155,050)	**(118,653)**	(107,001)
	(90,098)	(89,384)	**(118,653)**	(107,001)

NOTES TO THE FINANCIAL STATEMENTS

13. DEFERRED TAX (CONTINUED)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Deferred tax assets	**86,065**	84,989	**24,209**	18,610
Deferred tax liabilities	**(176,163)**	(174,373)	**(142,862)**	(125,611)
	(90,098)	(89,384)	**(118,653)**	(107,001)

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 2015	11,531	–	105,051	116,582
Recognised in profit or loss (Note 39)				
– relating to changes in tax rate	–	–	161	161
– relating to origination and reversal of temporary differences	(44)	–	(8,687)	(8,731)
– over provision	–	–	(4,880)	(4,880)
Recognised in equity	–	–	(20,831)	(20,831)
Exchange differences	2,636	–	52	2,688
At 31 December 2015	14,123	–	70,866	84,989
Recognised in profit or loss (Note 39)				
– relating to changes in tax rate	**–**	**–**	**(880)**	**(880)**
– relating to origination and reversal of temporary differences	**1,279**	**–**	**(977)**	**302**
– over provision	**–**	**–**	**(1,976)**	**(1,976)**
Recognised in equity	**–**	**–**	**2,892**	**2,892**
Exchange differences	**720**	**–**	**18**	**738**
At 31 December 2016	**16,122**	**–**	**69,943**	**86,065**

13. DEFERRED TAX (CONTINUED)

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

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 2015	64,434	55,105	14,027	133,566
Recognised in profit or loss (Note 39)				
– relating to changes in tax rate	392	(609)	6	(211)
– relating to origination and reversal of temporary differences	(9,784)	15,906	11,500	17,622
– under provision	–	1	420	421
Recognised in equity	13,469	–	6,848	20,317
Exchange differences	1	2,657	–	2,658
At 31 December 2015	68,512	73,060	32,801	174,373
Recognised in profit or loss (Note 39)				
– relating to changes in tax rate	**–**	**(21)**	**(198)**	**(219)**
– relating to origination and reversal of temporary differences	**(9,271)**	**16,491**	**6,767**	**13,987**
– under provision	**–**	**634**	**114**	**748**
Recognised in equity	**13,128**	**–**	**(26,720)**	**(13,592)**
Exchange differences	**–**	**866**	**–**	**866**
At 31 December 2016	**72,369**	**91,030**	**12,764**	**176,163**

NOTES TO THE FINANCIAL STATEMENTS

13. DEFERRED TAX (CONTINUED)

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

Deferred tax assets of the Bank	Other Temporary Differences RM'000	Total RM'000
At 1 January 2015	47,117	47,117
Recognised in profit or loss (Note 39)		
– relating to origination and reversal of temporary differences	(5,045)	(5,045)
– over provision	(2,630)	(2,630)
Recognised in equity	(20,832)	(20,832)
At 31 December 2015	18,610	18,610
Recognised in profit or loss (Note 39)		
– relating to changes in tax rate	**(879)**	**(879)**
– relating to origination and reversal of temporary differences	**5,768**	**5,768**
– over provision	**(2,182)**	**(2,182)**
Recognised in equity	**2,892**	**2,892**
At 31 December 2016	**24,209**	**24,209**

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 2015	63,173	43,512	(337)	106,348
Recognised in profit or loss (Note 39)				
– relating to changes in tax rate	420	(608)	–	(188)
– relating to origination and reversal of temporary differences	(10,501)	15,204	207	4,910
Recognised in equity	14,541	–	–	14,541
At 31 December 2015	67,633	58,108	(130)	125,611
Recognised in profit or loss (Note 39)				
– relating to changes in tax rate	**–**	**(21)**	**(215)**	**(236)**
– relating to origination and reversal of temporary differences	**(9,152)**	**13,710**	**(30)**	**4,528**
Recognised in equity	**12,959**	**–**	**–**	**12,959**
At 31 December 2016	**71,440**	**71,797**	**(375)**	**142,862**

13. DEFERRED TAX (CONTINUED)

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	
	2016 RM'000	**2015 RM'000**
Unutilised tax losses	**19,911**	19,068
Unutilised capital allowances	**22,963**	22,963

Subject to the agreement by the relevant tax authorities, the Group has unabsorbed tax losses and unabsorbed capital allowances carried forward of RM19,911,000 (2015 – RM19,068,000) and RM22,963,000 (2015 – RM22,963,000) respectively which give rise to the recognised and unrecognised deferred tax assets in respect of the above unutilised tax losses and unutilised capital allowances.

14. COLLECTIVE INVESTMENTS

Details of the collective investments of the Bank are as follows:

			Effective Interest	
Name of Funds	**Principal Activities**	**Place of Incorporation**	**2016 %**	**2015 %**
Public Institutional Bond Fund	Bond fund	Malaysia	**100.0**	–
Public Wholesale Income Fund	Wholesale income fund	Malaysia	**100.0**	–
Public Islamic Wholesale Income Fund	Wholesale income fund	Malaysia	**100.0**	–

The collective investments have been consolidated in accordance with MFRS 10 Consolidated Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENT IN SUBSIDIARY COMPANIES

Bank	2016 Cost RM'000	2016 Market Value RM'000	2015 Cost RM'000	2015 Market Value RM'000
At cost:				
Quoted shares outside Malaysia				
– Quoted shares in Hong Kong SAR	**1,672,195**	**1,627,935**	1,672,195	1,648,820
Unquoted shares				
– In Malaysia	**3,030,611**		2,730,611	
– Outside Malaysia	**953,118**		272,169	
	5,655,924		4,674,975	
Less: Accumulated impairment losses	**(430)**		(430)	
	5,655,494		4,674,545	

Details of the subsidiary companies are as follows:

Name	Principal Activities	Effective Interest 2016 %	Effective Interest 2015 %
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 and management of unit trust funds and private retirement schemes	**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 Trustee Services Berhad	Trustee services	**100.0**	100.0

15. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

Details of the subsidiary companies are as follows (continued):

Name	Principal Activities	Effective Interest 2016 %	Effective Interest 2015 %
Local subsidiary companies (continued)			
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 Factors Sdn. Bhd.	Investment holding	**100.0**	100.0
PBFIN Berhad	Special purpose vehicle to issue subordinated notes under its holding company's Stapled Securities Programme	**100.0**	100.0
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
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
Public Bank Vietnam Limited (formerly known as VID Public Bank) #	Banking	**100.0**	Note (a)

* Shares quoted on The Stock Exchange of Hong Kong Limited.
\+ Subsidiary companies audited by Ernst & Young Hong Kong.
++ Subsidiary companies audited by Ernst & Young Cambodia.
\# Subsidiary company audited by KPMG Vietnam.

15. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

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, Winton (B.V.I.) Limited which is incorporated in the British Virgin Islands, and Public Bank Vietnam Limited which is incorporated in Socialist Republic of Vietnam.

(a) Acquisition of 50% Equity Capital in VID Public Bank ("VPB") Held by Joint Stock Commercial Bank for Investment and Development of Vietnam ("BIDV") resulting in VPB becoming a Wholly-owned Subsidiary of Public Bank Berhad

On 15 July 2014, the Bank entered into a conditional equity capital transfer agreement with BIDV for the Bank's acquisition of the remaining 50% equity interests in VPB not held by the Bank for a total cash consideration of USD76.6 million. On 24 March 2016, the Bank received the licence from the State Bank of Vietnam for the establishment and operation of VPB as a 100% foreign-owned bank in Vietnam with effect from 1 April 2016. With that, the acquisition was completed on 1 April 2016 and VPB became a wholly-owned subsidiary company of the Bank, and was renamed as Public Bank Vietnam Limited ("PBVN").

(i) The fair values of the identifiable net assets of PBVN and the goodwill and intangible assets arising from the acquisition as at the date of acquisition are as follows:

	RM'000 *
Assets	
Cash and balances with banks	838,071
Financial investments held-to-maturity	154,284
Loans, advances and financing	1,083,892
Derivative financial assets	827
Other assets	8,318
Statutory deposits with Central Banks	41,073
Property and equipment (Note 18)	4,265
	2,130,730
Liabilities	
Deposits from customers	(1,161,338)
Deposits from banks	(631,710)
Derivative financial liabilities	(3,027)
Other liabilities	(17,410)
Provision for tax expense	(1,154)
	(1,814,639)
Net identifiable assets	316,091
Less: 50% equity interests held prior to the acquisition	(158,045)
Net assets acquired	158,046
Add: Fair valuation of core deposits intangible (Note 19)	23,191
Fair value of net assets acquired	181,237
Goodwill on acquisition (Note 19)	117,503
Purchase consideration satisfied by cash	298,740

* Fair values converted based on the exchange rate of 3.90 as at date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

(a) Acquisition of 50% Equity Capital in VID Public Bank ("VPB") Held by Joint Stock Commercial Bank for Investment and Development of Vietnam ("BIDV") resulting in VPB becoming a Wholly-owned Subsidiary of Public Bank Berhad (continued)

(ii) The goodwill and intangible assets recognised are as follows:

	RM'000
Core deposits intangible	
– Arising from acquisition (Note 19)	23,191
– Arising from fair valuation of previously held 50% equity interests (Note 19)	23,192
	46,383
Goodwill on acquisition (Note 19)	117,503
Total goodwill and intangible assets recognised	163,886

(iii) The effect of the acquisition on cash flows is as follows:

	RM'000
Purchase consideration satisfied by cash	(298,740)
Cash and cash equivalents of subsidiary company acquired	830,271
Net cash inflow on acquisition	531,531

The revenue and profit contribution by PBVN to the Group since the acquisition date which are included in the consolidated statement of profit or loss are immaterial. Had PBVN been consolidated from the beginning of the year, the increase in revenue and profit to the Group would also be immaterial.

(b) Increase in Paid-up Share Capital of Public Bank Vietnam Limited

During the year, the Bank injected additional capital of VND1.63 trillion (RM280.9 million equivalent) to meet the minimum capital requirement set by the State Bank of Vietnam amounting to VND3.00 trillion (RM524.7 million equivalent).

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.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENT IN ASSOCIATED COMPANIES

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Unquoted shares, at cost	**60,010**	141,305	**30,000**	121,295
Share of post-acquisition reserves	**(21,873)**	49,615	**–**	–
	38,137	190,920	**30,000**	121,295
Represented by:				
Group's share of net assets	**38,137**	190,920		

The summarised financial information of associated companies is as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Total assets	**825,432**	2,448,857
Total liabilities	**698,328**	2,041,830
Operating revenue	**500,944**	396,133
Profit after tax	**(9,472)**	23,577
Total comprehensive income	**(9,567)**	23,671

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

			Effective Interest	
Name	**Principal Activities**	**Place of Incorporation**	**2016 %**	**2015 %**
AIA PUBLIC Takaful Berhad	Family takaful	Malaysia	**30.0**	30.0
Public Bank Vietnam Limited (formerly known as VID Public Bank)	Banking	Socialist Republic of Vietnam	*	50.0
CPB Properties Co., Ltd.	Property holding	Cambodia	**49.0**	49.0

* During the year, the Bank acquired the remaining 50% equity interest in VID Public Bank which was then renamed as Public Bank Vietnam Limited, as disclosed in Note 15(a). Consequently, the associated company became a subsidiary company of the Bank.

16. INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

During the year, the Bank and its wholly owned subsidiary company, Public Islamic Bank Berhad had each subscribed to 10,000,000 new ordinary shares of RM1.00 each, issued by AIA PUBLIC Takaful Berhad ("AIA PUBLIC") at an issue price of RM1.00 per ordinary share, for a total consideration of RM20,000,000. The new ordinary shares issued by AIA PUBLIC were in proportion to its existing shareholders' respective shareholding interest, hence the effective interest of the Bank in AIA PUBLIC remains unchanged.

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.

17. INVESTMENT PROPERTIES

		Group	
	Note	**2016 RM'000**	**2015 RM'000**
At fair value			
At 1 January		**485,175**	107,028
Transfer from owner-occupied property			
– Property and equipment	18	**123,065**	244,035
Transfer to owner-occupied property			
– Property and equipment	18	**(4,364)**	–
Fair valuation gain recognised in profit or loss	34	**60,428**	107,061
Addition		**28,432**	–
Exchange differences		**6,733**	27,051
At 31 December		**699,469**	485,175
Included in the above are:			
Freehold land and building		**502,500**	323,337
Short term leasehold land and building		**194,329**	159,198
Long term leasehold land and building		**2,640**	2,640
		699,469	485,175

17. INVESTMENT PROPERTIES (CONTINUED)

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 RM517,590,000 (2015 – RM336,977,000) have been determined with reference to quotations of market value provided by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd. The investment properties in Hong Kong SAR amounting to RM181,879,000 (2015 – RM148,198,000) 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 RM60,428,000 (2015 – RM107,061,000) has been recognised in profit or loss during the year.

The investment properties held by the Group are let under operating leases to third parties, from which the Group earned rental income of RM13,123,000 (2015 – RM12,159,000) (Note 34) during the year.

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

18. PROPERTY AND EQUIPMENT

Group 2016	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 2016		126,947	166,584	237,012	566,944	363,182	608,333	1,195,685	24,653	113,592	3,402,932
Amount arising from acquisition of a subsidiary company	15(a)	–	–	–	–	7,511	4,174	6,447	2,802	–	20,934
Additions		–	–	118	37	19,457	17,059	160,834	2,356	205,108	404,969
Disposals		–	–	–	–	(1,493)	(1,908)	(32,419)	(1,418)	–	(37,238)
Transfer from/(to) investment properties	17	–	3,961	–	403	–	–	–	–	(123,065)	(118,701)
Reclassification		–	–	–	195,635	(8,212)	8,201	11	–	(195,635)	–
Write-offs	35	–	–	–	(435)	(5,107)	(20,482)	(143,638)	(613)	–	(170,275)
Exchange differences		–	7,288	9,878	6,441	4,384	1,986	5,943	782	–	36,702
At 31 December 2016		126,947	177,833	247,008	769,025	379,722	617,363	1,192,863	28,562	–	3,539,323
Accumulated depreciation											
At 1 January 2016		–	45,185	12,191	208,292	287,000	488,151	913,900	20,506	–	1,975,225
Amount arising from acquisition of a subsidiary company	15(a)	–	–	–	–	5,925	2,785	5,448	2,511	–	16,669
Depreciation charge for the year	35	–	3,673	633	14,079	18,602	29,021	135,302	1,685	–	202,995
Disposals		–	–	–	–	(1,491)	(1,879)	(32,355)	(1,418)	–	(37,143)
Write-offs	35	–	–	–	–	(5,107)	(20,460)	(142,123)	(613)	–	(168,303)
Exchange differences		–	2,269	428	2,338	3,739	1,690	5,528	708	–	16,700
At 31 December 2016		–	51,127	13,252	224,709	308,668	499,308	885,700	23,379	–	2,006,143
Accumulated impairment loss											
At 1 January/ 31 December 2016		1,064	–	33	3,757	–	–	–	–	–	4,854
Carrying amounts											
At 31 December 2016		125,883	126,706	233,723	540,559	71,054	118,055	307,163	5,183	–	1,528,326

18. PROPERTY AND EQUIPMENT (CONTINUED)

Group 2015	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 2015		176,444	135,551	194,955	590,701	340,680	582,833	1,172,597	23,071	166,807	3,383,639
Amount arising from acquisition of a subsidiary company		–	–	–	–	–	316	282	–	–	598
Additions		–	–	–	116	22,461	13,997	124,222	822	117,172	278,790
Disposals		–	–	–	–	(5,241)	(2,074)	(19,566)	(835)	–	(27,716)
Transfer to investment properties	17	(49,497)	–	–	(51,121)	–	–	–	–	(170,387)	(271,005)
Reclassification		–	–	–	–	(8,781)	8,825	(44)	–	–	–
Write-offs	35	–	–	–	–	(4)	(1,440)	(102,846)	(51)	–	(104,341)
Exchange differences		–	31,033	42,057	27,248	14,067	5,876	21,040	1,646	–	142,967
At 31 December 2015		126,947	166,584	237,012	566,944	363,182	608,333	1,195,685	24,653	113,592	3,402,932
Accumulated depreciation											
At 1 January 2015		–	33,730	9,986	206,519	262,941	456,857	909,047	17,882	–	1,896,962
Amount arising from acquisition of a subsidiary company		–	–	–	–	–	271	281	–	–	552
Depreciation charge for the year	35	–	3,389	606	15,084	18,692	30,278	110,826	2,241	–	181,116
Disposals		–	–	–	–	(5,241)	(2,048)	(19,540)	(822)	–	(27,651)
Transfer to investment properties	17	–	–	–	(26,970)	–	–	–	–	–	(26,970)
Reclassification		–	–	–	–	–	44	(44)	–	–	–
Write-offs	35	–	–	–	–	(4)	(1,414)	(102,775)	(46)	–	(104,239)
Exchange differences		–	8,066	1,599	13,659	10,612	4,163	16,105	1,251	–	55,455
At 31 December 2015		–	45,185	12,191	208,292	287,000	488,151	913,900	20,506	–	1,975,225
Accumulated impairment loss											
At 1 January 2015		1,064	–	33	10,002	–	–	–	–	–	11,099
Transfer to investment properties	17	–	–	–	(6,245)	–	–	–	–	–	(6,245)
At 31 December 2015		1,064	–	33	3,757	–	–	–	–	–	4,854
Carrying amounts											
At 31 December 2015		125,883	121,399	224,788	354,895	76,182	120,182	281,785	4,147	113,592	1,422,853

18. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2016	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 2016		81,092	58	262,042	258,562	473,248	1,050,625	14,912	2,140,539
Additions		–	118	–	14,363	11,102	129,507	71	155,161
Disposals		–	–	–	–	(1,205)	(31,329)	(900)	(33,434)
Reclassification		–	–	–	(8,212)	8,201	11	–	–
Write-offs	35	–	–	–	(4,465)	(19,559)	(142,521)	(7)	(166,552)
Exchange differences		–	–	–	299	82	223	47	651
At 31 December 2016		81,092	176	262,042	260,547	471,869	1,006,516	14,123	2,096,365
Accumulated depreciation									
At 1 January 2016		–	56	105,243	203,419	364,537	803,027	12,787	1,489,069
Depreciation charge for the year	35	–	3	5,232	10,310	24,165	118,794	882	159,386
Disposals		–	–	–	–	(1,196)	(31,290)	(900)	(33,386)
Write-offs	35	–	–	–	(4,465)	(19,542)	(141,006)	(7)	(165,020)
Exchange differences		–	–	–	159	78	247	38	522
At 31 December 2016		–	59	110,475	209,423	368,042	749,772	12,800	1,450,571
Carrying amounts									
At 31 December 2016		81,092	117	151,567	51,124	103,827	256,744	1,323	645,794

18. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2015	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 2015		81,092	58	262,042	254,316	455,680	1,058,602	15,403	2,127,193
Additions		–	–	–	11,474	10,587	109,837	79	131,977
Disposals		–	–	–	–	(1,190)	(16,978)	(831)	(18,999)
Reclassification		–	–	–	(8,781)	8,825	(44)	–	–
Write-offs	35	–	–	–	(4)	(1,139)	(102,350)	(8)	(103,501)
Exchange differences		–	–	–	1,557	485	1,558	269	3,869
At 31 December 2015		81,092	58	262,042	258,562	473,248	1,050,625	14,912	2,140,539
Accumulated depreciation									
At 1 January 2015		–	55	100,012	191,807	340,564	823,822	11,968	1,468,228
Depreciation charge for the year	35	–	1	5,231	11,090	25,955	97,089	1,481	140,847
Disposals		–	–	–	–	(1,182)	(16,969)	(818)	(18,969)
Reclassification		–	–	–	–	44	(44)	–	–
Write-offs	35	–	–	–	(4)	(1,113)	(102,279)	(3)	(103,399)
Exchange differences		–	–	–	526	269	1,408	159	2,362
At 31 December 2015		–	56	105,243	203,419	364,537	803,027	12,787	1,489,069
Carrying amounts									
At 31 December 2015		81,092	2	156,799	55,143	108,711	247,598	2,125	651,470

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

Included in property and equipment of the Group and of the Bank are computer equipment and software under finance lease which will expire in one year with a carrying amount of RM35,409,000 (2015 - RM82,622,000 expiring in two years).

Details of the terms and conditions of the finance lease arrangement are disclosed in Note 25.

19. INTANGIBLE ASSETS

Group	Finite Useful Life Core Deposits Intangible RM'000	<-- Indefinite Useful Lives --> Goodwill RM'000	Share-broking Licence and Stock Exchange Trading Rights RM'000	Total RM'000
At 1 January 2015	–	2,056,629	26,513	2,083,142
Arising from acquisition of a subsidiary company	–	6,242	–	6,242
Exchange differences	–	286,457	74	286,531
At 31 December 2015	–	2,349,328	26,587	2,375,915
Arising from acquisition of a subsidiary company (Note 15(a)(ii))	**23,191**	**117,503**	**–**	**140,694**
Arising from revaluation of previously held equity interests (Note 15(a)(ii))	**23,192**	**–**	**–**	**23,192**
Amortisation during the year (Note 35(a))	**(3,479)**	**–**	**–**	**(3,479)**
Exchange differences	**–**	**67,281**	**18**	**67,299**
At 31 December 2016	**42,904**	**2,534,112**	**26,605**	**2,603,621**
	Note (a)	<----------- Note (b)	----------->	

Bank	Goodwill RM'000
1 January/31 December 2016	**695,393**
1 January/31 December 2015	695,393

(a) Intangible Assets with Finite Useful Life

Core deposits intangible is recognised as a result of the acquisition of the banking business operations of Public Bank Vietnam Limited. The core deposits intangible is deemed to have a finite useful life of 10 years and is amortised based on a straight line method.

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19. INTANGIBLE ASSETS (CONTINUED)

(b) Goodwill and Intangible Assets with Indefinite Useful Lives

For purposes of impairment assessment, goodwill and intangible assets with indefinite useful lives 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:

As at 31 December 2016	Group RM'000	Bank RM'000	Discount rate %	Nominal growth rate beyond initial cash flow projections %
Cash-generating Unit:				
Goodwill				
Hire purchase financing	395,953	395,953	9.3	4.9
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	299,440	299,440	8.3	4.9
Hong Kong operations	1,667,366	–	6.1	3.9
Fund management	19,555	–	8.3	4.9
Investment banking	28,053	–	9.3	4.9
Trustee services	6,242	–	8.3	4.9
Vietnam operations (Note 15(a))	117,503	–	3.9	6.9
	2,534,112	695,393		
Share-broking Licence and Stock Exchange Trading Rights				
Hong Kong operations	355	–	6.1	3.9
Investment banking	26,250	–	9.3	4.9
	26,605	–		
	2,560,717	695,393		

19. INTANGIBLE ASSETS (CONTINUED)

(b) Goodwill and Intangible Assets with Indefinite Useful Lives (continued)

As at 31 December 2015	Group RM'000	Bank RM'000	Discount rate %	Nominal growth rate beyond initial cash flow projections %
Cash-generating Unit:				
Goodwill				
Hire purchase financing	395,953	395,953	9.3	5.2
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	299,440	299,440	8.3	5.2
Hong Kong operations	1,600,085	–	6.1	3.9
Fund management	19,555	–	8.3	5.2
Investment banking	28,053	–	9.3	5.2
Trustee services	6,242	–	8.3	5.2
	2,349,328	695,393		
Share-broking Licence and Stock Exchange Trading Rights				
Hong Kong operations	337	–	6.1	3.9
Investment banking	26,250	–	9.3	5.2
	26,587	–		
	2,375,915	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 (5th) 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 profit or loss when the carrying amount of a CGU exceeds its recoverable amount.

19. INTANGIBLE ASSETS (CONTINUED)

(b) Goodwill and Intangible Assets with Indefinite Useful Lives (continued)

The intangible assets with indefinite useful lives consist 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 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.

20. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At amortised cost				
Core deposits:				
– Demand deposits	**45,470,463**	43,015,925	**37,646,794**	36,411,051
– Savings deposits	**32,502,203**	29,940,233	**21,869,236**	20,212,244
– Fixed deposits	**180,182,676**	172,215,278	**134,533,805**	130,256,890
	258,155,342	245,171,436	**194,049,835**	186,880,185
Wholesale deposits:				
– Negotiable instruments of deposit	**–**	974,136	**–**	–
– Money market deposits	**51,735,008**	54,936,458	**47,838,063**	49,510,402
	51,735,008	55,910,594	**47,838,063**	49,510,402
Other deposits	**83,218**	75,059	**69,560**	69,571
	309,973,568	301,157,089	**241,957,458**	236,460,158

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 of the Bank are deposits of RM2,652,932,000 (2015 - RM2,733,648,000) and RM1,930,479,000 (2015 - RM1,866,041,000) respectively held as collateral for loans, advances and financing.

20. DEPOSITS FROM CUSTOMERS (CONTINUED)

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Due within six months	**209,013,661**	203,507,697	**163,604,944**	159,442,404
More than six months to one year	**22,235,344**	24,465,822	**18,566,767**	20,184,202
More than one year to three years	**663,602**	149,236	**195,888**	138,383
More than three years to five years	**5,077**	3,117	**4,269**	2,303
	231,917,684	228,125,872	**182,371,868**	179,767,292

The deposits are sourced from the following types of customers:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Federal and state governments	**5,928,559**	5,357,331	**637,431**	970,422
Local government and statutory authorities	**3,181,497**	2,703,935	**2,297,882**	1,710,675
Business enterprises	**85,908,497**	90,188,769	**69,374,203**	72,367,534
Individuals	**159,080,957**	145,521,045	**128,109,932**	119,562,656
Foreign customers	**5,895,401**	4,736,774	**3,727,463**	3,863,101
Others	**49,978,657**	52,649,235	**37,810,547**	37,985,770
	309,973,568	301,157,089	**241,957,458**	236,460,158

21. DEPOSITS FROM BANKS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At amortised cost				
Licensed banks	**8,027,292**	5,502,133	**6,188,719**	4,095,605
Licensed investment banks	**23,340**	234,244	**78,755**	301,233
Bank Negara Malaysia	**544,280**	460,948	**525,829**	452,951
Other financial institutions	**3,215,911**	3,772,196	**5,495,723**	5,713,301
	11,810,823	9,969,521	**12,289,026**	10,563,090

22. 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.

23. RECOURSE OBLIGATIONS ON LOANS AND FINANCING SOLD TO CAGAMAS

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

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At amortised cost					
Borrowings	(a)	**1,527,435**	602,614	**895,664**	–
At amortised cost, modified for change in value as a result of fair value hedges					
Senior Medium Term Notes	(b)	**2,405,237**	1,399,432	**2,405,237**	1,399,432
Subordinated notes/sukuk murabahah	(c)	**5,454,552**	5,451,922	**4,955,178**	4,952,805
Innovative Tier I capital securities	(d)	**–**	2,089,965	**–**	2,089,965
Non-Innovative Tier I stapled securities	(e)	**2,127,050**	2,122,947	**2,127,050**	2,122,947
		9,986,839	11,064,266	**9,487,465**	10,565,149
		11,514,274	11,666,880	**10,383,129**	10,565,149

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

Movements in debt securities issued and other borrowed funds are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	**11,666,880**	11,427,765	**10,565,149**	10,440,383
Addition/Issuance				
– Borrowings	**830,741**	2,244	**827,953**	–
– Senior Medium Term Notes	**999,500**	–	**999,500**	–
Repayment/Redemption				
– Innovative Tier I capital securities	**(2,006,600)**	–	**(2,006,600)**	–
Amortisation of cost/accretion of discount	**2,587**	2,408	**2,330**	2,151
Fair value changes	**(19,961)**	(37,188)	**(19,961)**	(37,188)
Exchange differences	**41,127**	271,651	**14,758**	159,803
	11,514,274	11,666,880	**10,383,129**	10,565,149

(a) Borrowings

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unsecured:				
Hong Kong Dollar term loans	**631,771**	602,614	**–**	–
United States Dollar term loan	**895,664**	–	**895,664**	–
	1,527,435	602,614	**895,664**	–

The unsecured Hong Kong Dollar term loans are for a tenor of 2 years and bear interest at HIBOR plus 1.60% (2015 – HIBOR plus 1.60% repayable within 3 years).

The unsecured United States Dollar term loan is for a tenor of 3 years and bear interest at LIBOR plus 1.03% (2015 – Nil).

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

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

	Group and Bank	
	2016 RM'000	**2015 RM'000**
Issued under the RM5.0 billion Senior MTNs Programme:		
RM400 million Senior MTNs due in 2018	**398,850**	398,850
RM1,000 million Senior MTNs due in 2019	**999,500**	999,500
RM1,000 million Senior MTNs due in 2021	**999,500**	–
	2,397,850	1,398,350
Cumulative amortisation of transaction costs	**1,202**	786
Unrealised fair value loss resulting from fair value hedge	**6,185**	296
	2,405,237	1,399,432

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.

On 28 September 2016, the Bank increased the programme limit of the Senior MTNs Programme from the current limit of up to RM5.0 billion in nominal value to up to RM20.0 billion in nominal value. In addition, the Bank also changed the tenure of the Senior MTNs Programme from twenty (20) years to thirty (30) years.

During the year, the Bank issued a total of RM1.0 billion in nominal value of Senior MTNs with a tenor of 5 years.

The interest rates for all the Senior MTNs above range between 3.65% and 4.22% (2015: ranging between 3.65% and 4.20%) per annum.

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.

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

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
(i) Issued under the RM5.0 billion Subordinated Medium Term Note Programme:					
Fifth tranche:					
RM3,000 million 4.28% Subordinated Notes due in 2022, callable in 2017		**2,997,000**	2,997,000	**2,997,000**	2,997,000
Cumulative amortisation of transaction costs		**2,707**	2,207	**2,707**	2,207
Realised/unrealised fair value loss arising from fair value hedge		**5,794**	4,109	**5,794**	4,109
		3,005,501	3,003,316	**3,005,501**	3,003,316
(ii) 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	(a)	**999,066**	999,066	**999,066**	999,066
Second tranche:					
RM450 million 4.77% Subordinated Notes due in 2023, callable in 2018	(b)	**450,000**	450,000	**450,000**	450,000
Third tranche:					
RM500 million 4.73% Subordinated Notes due in 2023, callable in 2018	(c)	**500,000**	500,000	**500,000**	500,000
Cumulative amortisation of transaction costs		**611**	423	**611**	423
		1,949,677	1,949,489	**1,949,677**	1,949,489
(iii) Issued under the RM5.0 billion Sukuk Murabahah Programme:					
First tranche:					
RM500 million 4.75% Subordinated Sukuk Murabahah due in 2024, callable in 2019		**498,715**	498,715	**–**	–
Cumulative amortisation of transaction costs		**659**	402	**–**	–
		499,374	499,117	**–**	–
		5,454,552	5,451,922	**4,955,178**	4,952,805

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah (continued)

(i) Issued under the RM5.0 billion Subordinated Medium Term Note Programme

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).

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 which commenced on 3 February 2012.

(ii) Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme

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 tenor 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.

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah (continued)

(ii) Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme (continued)

Non-Viability Loss Absorption

In the event of an occurrence of a Non-Viability Event as determined by BNM and 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:

– 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

– 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.

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 which commenced on 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 which commenced on 28 April 2014.

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah (continued)

(ii) Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme (continued)

The Bank has issued the following tranches of Subordinated Notes under the Basel III - Compliant MTNs Programme (continued):

(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 which commenced on 15 May 2014.

(iii) Issued under the RM5.0 billion Sukuk Murabahah Programme

The Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("PIBB") obtained approval from BNM and the Securities Commission on 24 March 2014 and 21 April 2014 respectively, for the establishment of an Islamic medium term note programme under the Shariah principle of Murabahah to facilitate the issuance of Senior Sukuk Murabahah and/or Subordinated Sukuk Murabahah of up to RM5.0 billion in nominal value.

The tenor of the Sukuk Murabahah Programme is up to thirty (30) years from the date of first issuance of Sukuk Murabahah under the Sukuk Murabahah Programme. The tenor of each issuance of Subordinated Sukuk Murabahah, and subject to the call option, shall have at least five (5) years from the issue date, provided that the Subordinated Sukuk Murabahah mature on or prior to the expiry of the Sukuk Murabahah Programme. Each issuance will bear profit at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Subordinated Sukuk Murabahah will, subject to the prior written consent of BNM, be redeemable in whole or in part, at the option of PIBB in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the Subordinated Sukuk Murabahah will no longer fully qualify as Tier II Capital for the purposes of BNM's capital adequacy requirements or changes in law which will make it unlawful to continue performing its obligations or on the first call date or at any subsequent profit payment date thereafter at their nominal amount.

Contingent Write-off of the Bank and PIBB

The Subordinated Sukuk Murabahah may, at the option of BNM and PIDM, be written-off upon the occurrence of a trigger event in relation to the Bank or PIBB. The trigger event would be the earlier of:

– The notification by BNM and PIDM to PIBB in writing that they are of the opinion that the write-off is necessary, without which the Bank or PIBB would cease to be viable; or

– 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 or PIBB, without which the Bank or PIBB would cease to be viable.

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah (continued)

(iii) Issued under the RM5.0 billion Sukuk Murabahah Programme (continued)

Contingent Write-off of the Bank and PIBB (continued)

The write-off of Subordinated Sukuk Murabahah shall be permanent and shall not constitute an event of default or trigger cross-default clause. BNM and PIDM shall have the option to require the entire principal amount of the Subordinated Sukuk Murabahah outstanding, or a part thereof, and all other amount owing under the Subordinated Sukuk Murabahah, be written-off.

On 9 June 2014, PIBB issued the first tranche of RM500 million in nominal value of Subordinated Sukuk Murabahah due in 2024 callable in 2019. The Subordinated Sukuk Murabahah bear profit at the rate of 4.75% per annum from (and including) 9 June 2014 to (but excluding) the date of early redemption in full of such Sukuk or the maturity date of the Sukuk (whichever is earlier). The profit rate on these Sukuk will remain unchanged throughout the tenure of the Sukuk. The profit is payable semi-annually in arrears on 9 December and 9 June each year which commenced on 9 December 2014.

The above Subordinated Notes and Subordinated Sukuk Murabahah constitute unsecured liabilities/obligations of the Bank and PIBB respectively, 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 and PIBB, other than the Innovative Tier I Capital Securities and the Non-Innovative Tier I Stapled Securities, which are subordinated to the Subordinated Notes and Subordinated Sukuk Murabahah, in accordance with the terms and conditions of the Subordinated Notes and Subordinated Sukuk Murabahah.

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 of 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 effect 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 Subordinated Sukuk Murabahah to be issued from time to time under the Sukuk Murabahah Programme will qualify as Tier II capital for the computation of the regulatory capital of PIBB and of the Group in accordance with BNM's Capital Adequacy Framework (Capital Components) for Islamic Banks.

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

NOTES TO THE FINANCIAL STATEMENTS

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(d) Innovative Tier I Capital Securities

		Group and Bank	
	Note	2016 RM'000	2015 RM'000
USD200 million 6.84% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(i)	–	857,251
RM1,200 million 5.10% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(ii)	–	1,198,171
		–	2,055,422
Cumulative amortisation of transaction costs		–	3,662
Realised/unrealised fair value loss arising from fair value hedge		–	30,881
		–	2,089,965

(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 which commenced 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 USD IT-I Securities were fully redeemed on 22 August 2016 together with accrued interest.

(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 which commenced 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 RM IT-I Securities were fully redeemed on 22 December 2016 together with accrued interest.

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(e) Non-Innovative Tier I Stapled Securities

	Note	Group and Bank 2016 RM'000	Group and Bank 2015 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)	**1,192,443**	1,192,443
Second tranche:			
RM888 million 7.20% Stapled Securities callable in 2019	(ii)	**888,000**	888,000
		2,080,443	2,080,443
Cumulative amortisation of transaction costs		**5,726**	4,968
Unrealised fair value loss arising from fair value hedge		**40,881**	37,536
		2,127,050	2,122,947

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.

NOTES TO THE FINANCIAL STATEMENTS

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

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

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

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

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

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

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

(i) the Bank is solvent at the time of redemption and immediately thereafter;

(ii) the Bank is not in breach of BNM's minimum capital adequacy ratio requirements; and

(iii) the Bank has obtained written approval from BNM prior to the redemption.

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

(i) the Bank elects that an assignment event occurs; or

(ii) BNM determines that an assignment event should occur; or

(iii) the redemption of the NCPCS pursuant to:

  (a) a tax redemption, whereby there is a more than an insubstantial risk that, as a result of changes in the applicable tax regulations, the Bank and/or PBFIN would become obliged to pay additional amounts or will no longer be able to obtain tax deductions for interest payments on the Sub-Notes or the inter-company loan between the Bank and PBFIN; or

  (b) a regulatory redemption, whereby the NCPCS no longer qualify as Non-Innovative Tier I Capital of the Bank for the purposes of BNM's capital adequacy ratio requirements; or

  (c) redemption of the NCPCS on the optional redemption date.

(iv) the deferral of any interest on the Sub-Notes; or

24. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

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

(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 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 of 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 effect from 1 January 2013.

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

NOTES TO THE FINANCIAL STATEMENTS

25. OTHER LIABILITIES

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Interest/Income payable	**1,613,157**	1,745,060	**1,349,479**	1,475,213
Other payables and accruals	**2,580,373**	2,333,802	**1,949,877**	1,820,562
Amount due to trust funds *	**37,184**	43,652	**–**	–
Unprocessed sales and/or redemptions #	**142,784**	102,538	**–**	–
Profit Equalisation Reserves of the investment account holder	**111**	53	**–**	–
Finance lease liabilities **	**38,740**	88,643	**38,740**	88,643
Outstanding contracts on clients' accounts ^	**188,551**	184,442	**–**	–
Dividend payable to shareholders	**23,269**	22,113	**1,166**	937
Amount due to subsidiary companies @	**–**	–	**32,463**	3,018
	4,624,169	4,520,303	**3,371,725**	3,388,373

* 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.

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

	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Finance Lease Liabilities RM'000
As At 31 December 2016			
Less than one year	**39,506**	**766**	**38,740**
As At 31 December 2015			
Less than one year	52,664	2,761	49,903
Between one and three years	39,506	766	38,740
	92,170	3,527	88,643

The Bank leases computer equipment and software under finance lease (Note 18). 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.

25. OTHER LIABILITIES (CONTINUED)

^ 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.

26. PROVISION FOR TAX EXPENSE AND ZAKAT

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Tax expense	**562,801**	688,808	**376,065**	413,764
Zakat	**313**	323	**–**	–
	563,114	689,131	**376,065**	413,764

27. SHARE CAPITAL

	Number of Ordinary Shares of RM1.00 Each		Amount	
Group and Bank	**2016 '000**	**2015 '000**	**2016 RM'000**	**2015 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 At 1 January/31 December	**3,882,138**	3,882,138	**3,882,138**	3,882,138

28. TREASURY SHARES

The amount relates to the acquisition cost of treasury shares.

There were no shares bought back by the Bank during the year (2015 – 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 3,882,138,347 (2015 – 3,882,138,347) issued and paid-up PBB Shares as at 31 December 2016, 20,644,304 (2015 – 20,644,304) 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 2016, the number of outstanding PBB Shares in issue after deducting treasury shares is therefore 3,861,494,043 (2015 - 3,861,494,043) ordinary shares of RM1.00 each.

29. 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 2016	4,924,002	60,442	149,953	(1,750)	54,703	433,969	1,863,352	215,707	87	7,700,465
Net currency translation differences:										
– Currency translation differences in respect of										
– foreign operations	–	–	303,267	–	–	–	–	–	–	303,267
– net investment hedge	–	–	(253,118)	–	–	–	–	–	–	(253,118)
	–	–	50,149	–	–	–	–	–	–	50,149
Net change in revaluation of financial investments available-for-sale:										
– Net unrealised loss	–	–	–	–	(72,543)	–	–	–	–	(72,543)
– Net gain on disposal reclassified to profit or loss (Note 33)	–	–	–	–	(39,412)	–	–	–	–	(39,412)
	–	–	–	–	(111,955)	–	–	–	–	(111,955)
Net change in cash flow hedges:										
– Net unrealised gain	–	–	–	5,625	–	–	–	–	–	5,625
Gain on remeasurements of defined benefit plans (Note 11)	–	–	–	–	–	54,814	–	–	–	54,814
Deferred tax (Note 13)	–	–	–	(1,350)	30,962	(13,128)	–	–	–	16,484
Share of loss of equity accounted associated company	–	–	–	–	(108)	–	–	–	–	(108)
Other comprehensive income/(loss)	–	–	50,149	4,275	(81,101)	41,686	–	–	–	15,009
Transferred from/(to) retained profits	26,281	–	–	–	–	–	307,618	(2,777)	86	331,208
At 31 December 2016	4,950,283	60,442	200,102	2,525	(26,398)	475,655	2,170,970	212,930	173	8,046,682

29. OTHER RESERVES (CONTINUED)

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 2015	4,891,788	60,442	(7,952)	(2,729)	(15,347)	394,803	1,432,734	129,767	54	6,883,560
Net currency translation differences:										
– Currency translation differences in respect of										
– foreign operations	–	–	923,164	–	–	–	–	–	–	923,164
– net investment hedge	–	–	(765,259)	–	–	–	–	–	–	(765,259)
	–	–	157,905	–	–	–	–	–	–	157,905
Net change in revaluation of financial investments available-for-sale:										
– Net unrealised gain	–	–	–	–	129,460	–	–	–	–	129,460
– Net gain on disposal reclassified to profit or loss (Note 33)	–	–	–	–	(31,990)	–	–	–	–	(31,990)
	–	–	–	–	97,470	–	–	–	–	97,470
Net change in cash flow hedges:										
– Net unrealised gain	–	–	–	1,288	–	–	–	–	–	1,288
Gain on remeasurements of defined benefit plans (Note 11)	–	–	–	–	–	52,635	–	–	–	52,635
Deferred tax (Note 13)	–	–	–	(309)	(27,370)	(13,469)	–	–	–	(41,148)
Share of loss of equity accounted associated company	–	–	–	–	(50)	–	–	–	–	(50)
Other comprehensive income	–	–	157,905	979	70,050	39,166	–	–	–	268,100
Transferred from retained profits	32,214	–	–	–	–	–	430,618	85,940	33	548,805
At 31 December 2015	4,924,002	60,442	149,953	(1,750)	54,703	433,969	1,863,352	215,707	87	7,700,465

29. OTHER RESERVES (CONTINUED)

Bank	Statutory 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	Total RM'000
At 1 January 2016	4,539,326	25,338	(47,459)	40,693	427,219	1,648,648	2,777	6,636,542
Net currency translation differences:								
– Currency translation differences in respect of foreign operations	–	12,199	–	–	–	–	–	12,199
Net change in revaluation of financial investments available-for-sale:								
– Net unrealised loss	–	–	–	(43,852)	–	–	–	(43,852)
– Net gain on disposal reclassified to profit or loss (Note 33)	–	–	–	(36,599)	–	–	–	(36,599)
	–	–	–	(80,451)	–	–	–	(80,451)
Net change in cash flow hedges:								
– Net unrealised gain	–	–	68,399	–	–	–	–	68,399
Gain on remeasurements of defined benefit plans (Note 11)	–	–	–	–	53,997	–	–	53,997
Deferred tax (Note 13)	–	–	(16,416)	19,308	(12,959)	–	–	(10,067)
Other comprehensive income/(loss)	–	12,199	51,983	(61,143)	41,038	–	–	44,077
Transferred from/(to) retained profits	–	–	–	–	–	233,010	(2,777)	230,233
At 31 December 2016	4,539,326	37,537	4,524	(20,450)	468,257	1,881,658	–	6,910,852

29. OTHER RESERVES (CONTINUED)

Bank	Statutory 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	Total RM'000
At 1 January 2015	4,539,326	–	(48,618)	(23,984)	381,174	1,293,334	2,777	6,144,009
Net currency translation differences:								
– Currency translation differences in respect of foreign operations	–	25,338	–	–	–	–	–	25,338
Net change in revaluation of financial investments available-for-sale:								
– Net unrealised gain	–	–	–	115,762	–	–	–	115,762
– Net gain on disposal reclassified to profit or loss (Note 33)	–	–	–	(30,619)	–	–	–	(30,619)
	–	–	–	85,143	–	–	–	85,143
Net change in cash flow hedges:								
– Net unrealised gain	–	–	1,525	–	–	–	–	1,525
Gain on remeasurements of defined benefit plans (Note 11)	–	–	–	–	60,586	–	–	60,586
Deferred tax (Note 13)	–	–	(366)	(20,466)	(14,541)	–	–	(35,373)
Other comprehensive income	–	25,338	1,159	64,677	46,045	–	–	137,219
Transferred from retained profits	–	–	–	–	–	355,314	–	355,314
At 31 December 2015	4,539,326	25,338	(47,459)	40,693	427,219	1,648,648	2,777	6,636,542

NOTES TO THE FINANCIAL STATEMENTS

29. OTHER RESERVES (CONTINUED)

The statutory reserves of the Group and of the Bank are maintained mainly 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 are maintained by the Bank and the Group's banking subsidiary companies in Malaysia and Hong Kong SAR as an additional credit risk absorbent in excess of the requirements of accounting standards. The reserves in respect of Malaysia are maintained in line with the requirements of Bank Negara Malaysia by the Bank and its domestic banking subsidiary companies. The reserves in respect of Hong Kong SAR are maintained in line with the requirements of the Hong Kong Monetary Authority.

The general reserves of the Group and of 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.

30. INTEREST INCOME

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Loans and advances	**12,782,059**	11,974,674	**11,550,018**	10,890,328
Balances with banks	**428,957**	476,110	**335,666**	435,850
Financial investments available-for-sale	**934,438**	498,757	**802,860**	457,679
Financial investments held-to-maturity	**726,890**	730,416	**676,277**	688,569
Others	**140,616**	140,294	**140,363**	140,286
	15,012,960	13,820,251	**13,505,184**	12,612,712
Financial assets held-for-trading	**54,568**	398,235	**32,382**	352,278
	15,067,528	14,218,486	**13,537,566**	12,964,990

Included in interest income on loans and advances for the current year is interest accrued on impaired loans of the Group and of the Bank of RM56,040,000 (2015 – RM56,083,000) and RM51,044,000 (2015 – RM53,470,000) respectively.

31. INTEREST EXPENSE

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Deposits from banks	**429,373**	446,750	**410,270**	412,175
Deposits from customers	**7,126,235**	6,825,726	**6,916,403**	6,602,758
Loans sold to Cagamas	**58,045**	57,596	**58,045**	57,596
Debt securities issued and other borrowed funds	**525,680**	495,762	**511,827**	483,361
Others	**7,788**	15,629	**7,412**	15,380
	8,147,121	7,841,463	**7,903,957**	7,571,270

NOTES TO THE FINANCIAL STATEMENTS

32. NET FEE AND COMMISSION INCOME

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
(a) Fee and commission income:				
Commissions	**503,991**	456,342	**557,665**	513,165
Service charges and fees	**334,485**	330,459	**243,181**	234,548
Guarantee fees	**38,942**	41,267	**36,126**	39,020
Processing fees	**21,877**	27,308	**8,119**	12,673
Commitment fees	**87,623**	88,730	**81,966**	83,422
Unit trust management fees	**872,241**	844,885	**–**	–
Fee on sale of trust units	**295,661**	311,358	**–**	–
Brokerage and commissions from stock-broking activities	**75,712**	94,463	**–**	–
Other fee and commission income	**58,483**	66,978	**45,670**	54,205
	2,289,015	2,261,790	**972,727**	937,033
(b) Fee and commission expense:				
Unit trust agency fees	**(396,082)**	(392,788)	**–**	–
Debit/Credit card related fees	**(293,156)**	(275,027)	**(283,363)**	(267,614)
Loan-related fees	**(13,576)**	(19,426)	**(11,345)**	(14,201)
Other fee and commission expense	**(21,211)**	(21,706)	**(15,915)**	(13,877)
	(724,025)	(708,947)	**(310,623)**	(295,692)
Net fee and commission income	**1,564,990**	1,552,843	**662,104**	641,341

NOTES TO THE FINANCIAL STATEMENTS

33. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Net gain/(loss) arising on financial assets held-for-trading:				
– net gain on disposal	**18,080**	12,561	**17,563**	12,533
– unrealised revaluation gain/(loss)	**39**	(1,071)	**20**	(1,129)
	18,119	11,490	**17,583**	11,404
Net (loss)/gain arising on trading derivatives:				
– unrealised revaluation (loss)/gain	**(12,191)**	1,649	**(5)**	1
Net gain arising on financial investments available-for-sale:				
– net gain on disposal (Note 29)	**39,412**	31,990	**36,599**	30,619
– gross dividend income	**24,522**	178,837	**23,501**	178,150
	63,934	210,827	**60,100**	208,769
Gain/(Loss) representing ineffective portions of hedging derivatives:				
– fair value hedge (Note 6)	**6,196**	4,589	**6,529**	4,620
– cash flow hedge (Note 6)	**(2,036)**	7,610	**(2,036)**	7,610
	4,160	12,199	**4,493**	12,230
	74,022	236,165	**82,171**	232,404

NOTES TO THE FINANCIAL STATEMENTS

34. OTHER OPERATING INCOME

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Gross dividend income from:				
Collective investments	**–**	–	**152,124**	–
Subsidiary companies:				
– quoted outside Malaysia	**–**	–	**81,332**	77,487
– unquoted in Malaysia	**–**	–	**499,010**	746,754
	–	–	**732,466**	824,241
Other income:				
Foreign exchange profit/(loss)	**273,621**	355,656	**37,606**	(216,736)
Rental income from:				
– investment properties (Note 17)	**13,123**	12,159	**–**	–
– other properties	**13,650**	13,438	**13,227**	13,055
Net gain on disposal of property and equipment	**1,437**	1,506	**1,240**	1,514
Net gain on disposal of foreclosed properties	**2,109**	1,393	**2,109**	1,393
Gain on revaluation of investment properties (Note 17)	**60,428**	107,061	**–**	–
Others	**91,026**	59,900	**54,316**	34,563
	455,394	551,113	**108,498**	(166,211)
	455,394	551,113	**840,964**	658,030

35. OTHER OPERATING EXPENSES

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Personnel costs				
– Salaries, allowances and bonuses	**1,847,711**	1,708,683	**1,396,515**	1,292,469
– Pension costs	**241,109**	223,385	**209,484**	202,078
– Others	**162,174**	145,888	**138,466**	121,045
	2,250,994	2,077,956	**1,744,465**	1,615,592
Establishment costs				
– Depreciation	**202,995**	181,116	**159,386**	140,847
– Rental	**118,160**	107,014	**94,984**	91,432
– Insurance	**20,343**	20,384	**17,609**	17,858
– Water and electricity	**54,215**	52,328	**39,237**	38,372
– General repairs and maintenance	**95,765**	77,588	**86,631**	69,539
– Information technology expenses	**47,351**	36,363	**21,770**	17,781
– Others	**61,021**	53,303	**40,069**	38,802
	599,850	528,096	**459,686**	414,631
Marketing expenses				
– Advertisement and publicity	**54,618**	53,663	**20,837**	16,533
– Others	**60,816**	62,358	**45,830**	44,318
	115,434	116,021	**66,667**	60,851
Administration and general expenses				
– Communication expenses	**53,505**	29,468	**45,222**	23,729
– Legal and professional fees	**50,975**	48,781	**35,797**	37,022
– Others	**140,712**	114,835	**82,652**	67,253
	245,192	193,084	**163,671**	128,004
Shared service cost charged to Public Islamic Bank Berhad	**–**	–	**(320,909)**	(280,028)
Total other operating expenses	**3,211,470**	2,915,157	**2,113,580**	1,939,050

35. OTHER OPERATING EXPENSES (CONTINUED)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Auditors' remuneration *:				
– audit	**4,121**	3,825	**1,403**	1,364
– regulatory related services	**767**	734	**343**	336
– other services	**519**	307	**150**	197
Depreciation of property and equipment (Note 18)	**202,995**	181,116	**159,386**	140,847
Amortisation of core deposits intangible (Note 19)	**3,479**	–	**–**	–
Direct operating expenses of investment properties that:				
– generated rental income	**2,117**	1,978	**–**	–
Directors' remuneration (Note 36)	**82,349**	64,430	**66,793**	50,479
Pension costs				
– defined contribution plan	**202,553**	187,599	**171,503**	160,194
– defined benefit plan (Note 11)	**38,556**	35,786	**37,981**	41,884
Property and equipment written off (Note 18)	**1,972**	102	**1,532**	102
Rental of premises	**118,160**	107,014	**94,984**	91,432

* Included in the auditors' remuneration of the Group are fees paid to accounting firms other than the Bank's auditors for audit, regulatory related services and other services amounting to RM242,000 (2015 – RM142,000), RM36,000 (2015 – RM16,000) and RM85,000 (2015 – RM17,000) respectively.

Included in the auditors' remuneration of the Bank are fees paid in relation to the Bank's overseas branches for audit, regulatory related services and other services amounting to RM279,000 (2015 – RM264,000), RM18,000 (2015 – RM16,000) and RM17,000 (2015 – RM17,000) respectively.

Regulatory related services include half year limited review, validation review based on agreed-upon procedures and review of statement on risk management and 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 18,651 (2015 – 18,373) and 14,717 (2015 – 14,846) respectively.

36. DIRECTORS' REMUNERATION

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Directors of the Bank:				
Executive Director/Chief Executive Officer:				
Fees	**720**	663	**287**	273
Salary and other remuneration, including meeting allowances	**8,806**	6,759	**8,510**	6,495
Bonuses	**13,890**	10,685	**13,890**	10,685
Benefits-in-kind	**25**	25	**25**	25
	23,441	18,132	**22,712**	17,478
Non-Executive Directors:				
Fees	**3,620**	3,822	**1,867**	1,903
Other remuneration	**42,703**	31,662	**42,239**	31,123
Benefits-in-kind	**29**	29	**29**	29
	46,352	35,513	**44,135**	33,055
Directors of subsidiary companies:				
Executive Directors:				
Fees	**424**	401	**–**	–
Salary and other remuneration, including meeting allowances	**5,558**	4,685	**–**	–
Bonuses	**4,254**	3,703	**–**	–
Benefits-in-kind	**730**	509	**–**	–
	10,966	9,298	**–**	–
Non-Executive Directors:				
Fees	**1,865**	1,658	**–**	–
Other remuneration	**509**	390	**–**	–
	2,374	2,048	**–**	–
Past Director:				
Other remuneration	**–**	2	**–**	–
	–	2	**–**	–
Grand total	**83,133**	64,993	**66,847**	50,533
Total (excluding benefits-in-kind) (Note 35)	**82,349**	64,430	**66,793**	50,479

36. DIRECTORS' REMUNERATION (CONTINUED)

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		
	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
2016									
Executive Director:									
Tan Sri Dato' Sri Tay Ah Lek	**4,500**	**287**	**13,890**	**4,010**	**25**	**22,712**	**433**	**296**	**23,441**
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Piow	**–**	**388**	**–**	**40,875**	**29**	**41,292**	**796**	**60**	**42,148**
Dato' Sri Lee Kong Lam	**–**	**331**	**–**	**305**	**–**	**636**	**469**	**178**	**1,283**
Tang Wing Chew	**–**	**287**	**–**	**279**	**–**	**566**	**212**	**77**	**855**
Lai Wan	**–**	**287**	**–**	**251**	**–**	**538**	**223**	**95**	**856**
Lai Wai Keen	**–**	**287**	**–**	**247**	**–**	**534**	**53**	**54**	**641**
Cheah Kim Ling	**–**	**287**	**–**	**282**	**–**	**569**	**–**	**–**	**569**
	–	**1,867**	**–**	**42,239**	**29**	**44,135**	**1,753**	**464**	**46,352**
Total Directors' remuneration	**4,500**	**2,154**	**13,890**	**46,249**	**54**	**66,847**	**2,186**	**760**	**69,793**
2015									
Executive Director:									
Tan Sri Dato' Sri Tay Ah Lek	3,465	273	10,685	3,030	25	17,478	390	264	18,132
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Piow	–	370	–	30,146	29	30,545	724	50	31,319
Tan Sri Datuk Seri Utama Thong Yaw Hong ^	–	154	–	155	–	309	262	30	601
Dato' Sri Lee Kong Lam	–	287	–	167	–	454	455	171	1,080
Tang Wing Chew	–	273	–	194	–	467	237	133	837
Lai Wan	–	273	–	167	–	440	204	99	743
Lai Wai Keen	–	273	–	145	–	418	37	56	511
Cheah Kim Ling	–	273	–	149	–	422	–	–	422
	–	1,903	–	31,123	29	33,055	1,919	539	35,513
Total Directors' remuneration	3,465	2,176	10,685	34,153	54	50,533	2,309	803	53,645

^ This represents the remuneration paid to this Director until his demise on 28 May 2015.

37. ALLOWANCE/(WRITEBACK OF ALLOWANCE) FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Allowance/(Writeback of allowance) for impaired loans and financing:				
Collective assessment allowance (Note 9)	**203,158**	169,085	**145,239**	112,486
– Retail loans/financing				
– housing loans/financing	**16,165**	(76,752)	**2,815**	(74,980)
– hire purchase	**123,603**	218,641	**83,264**	155,213
– credit cards	**30,223**	35,401	**30,088**	35,357
– other loans/financing	**29,485**	(5,710)	**23,646**	(6,579)
– Corporate loans/financing	**3,682**	(2,495)	**5,426**	3,475
Individual assessment allowance (Note 9)	**207,719**	201,602	**(10,656)**	(7,030)
– Retail loans/financing				
– housing loans/financing	**9,962**	3,619	**(9)**	1,495
– hire purchase	**639**	1,821	**–**	–
– other loans/financing	**208,470**	194,720	**(3,044)**	(2,393)
– Corporate loans/financing	**(11,352)**	1,442	**(7,603)**	(6,132)
Bad debts recovered from stock-broking activities	**(2)**	(5)	**–**	–
Impaired loans and financing written off	**119**	157	**119**	157
Impaired loans and financing recovered	**(218,254)**	(224,608)	**(108,263)**	(119,776)
	192,740	146,231	**26,439**	(14,163)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Financial investments available-for-sale				
– Non-money market instruments				
– unquoted equity securities (Note 7)	**–**	23	**–**	23
Foreclosed properties	**(430)**	533	**(426)**	505
	(430)	556	**(426)**	528

39. TAX EXPENSE AND ZAKAT

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Malaysian income tax	**1,159,092**	1,238,077	**1,042,613**	986,467
Overseas income tax	**114,244**	104,242	**9,877**	14,092
	1,273,336	1,342,319	**1,052,490**	1,000,559
(Over)/Under provision in prior years				
– Malaysian income tax	**(5,051)**	(1,514)	**983**	(1,558)
– Overseas income tax	**1,032**	(2,151)	**292**	53
	1,269,317	1,338,654	**1,053,765**	999,054
Deferred tax expense/(income) (Note 13)				
– Relating to changes in tax rate	**661**	(372)	**643**	(188)
– Relating to origination and reversal of temporary differences arising from:				
– allowance for losses on loans/financing	**(1,279)**	44	**–**	–
– excess of capital allowance over depreciation	**16,491**	15,906	**13,710**	15,204
– defined benefit plan	**(9,271)**	(9,784)	**(9,152)**	(10,501)
– other temporary differences	**7,744**	20,187	**(5,798)**	5,252
	13,685	26,353	**(1,240)**	9,955
– under provision	**2,724**	5,301	**2,182**	2,630
	16,409	31,654	**942**	12,585
Tax expense	**1,286,387**	1,369,936	**1,055,350**	1,011,451
Zakat	**210**	220	**–**	–
	1,286,597	1,370,156	**1,055,350**	1,011,451

The Malaysian income tax is calculated at the statutory tax rate of 24% (2015: 25%) on the estimated chargeable profit for the financial year. In accordance with the Finance Act 2015 which was gazetted on 30 December 2015, the corporate tax rate has been reduced to 24% with effect from Year of Assessment 2016 and therefore, the computation of deferred tax assets and deferred tax liabilities has been adjusted accordingly to reflect such changes.

Tax in foreign jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	Group		Bank	
Movement in tax losses	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
(Unrecognised tax losses)/tax savings arising from utilisation of tax losses	**(1)**	95	**–**	–

39. TAX EXPENSE AND ZAKAT (CONTINUED)

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	%	2016 RM'000	%	2015 RM'000
Profit before tax expense		**6,554,032**		6,491,395
Income tax using Malaysian tax rate	**24.0**	**1,572,968**	25.0	1,622,849
Effects of different tax rates in foreign jurisdictions	**(0.4)**	**(28,626)**	(0.6)	(39,342)
Income not subject to tax	**(3.4)**	**(218,770)**	(1.5)	(96,961)
Effects of utilisation of unrecognised benefit of tax losses	**–**	**1**	–	(95)
Expenses not deductible for tax purposes	**0.3**	**22,196**	0.3	18,834
Effects of net investment hedge in foreign operations	**(0.9)**	**(60,748)**	(2.1)	(136,613)
	19.6	**1,287,021**	21.1	1,368,672
Deferred tax relating to changes in tax rate	**–**	**661**	–	(372)
(Over)/Under provision in prior years	**–**	**(1,295)**	–	1,636
Tax expense for the year	**19.6**	**1,286,387**	21.1	1,369,936

Bank	%	2016 RM'000	%	2015 RM'000
Profit before tax expense		**5,079,255**		5,000,080
Income tax using Malaysian tax rate	**24.0**	**1,219,021**	25.0	1,250,020
Income not subject to tax	**(3.6)**	**(182,069)**	(5.1)	(254,723)
Expenses not deductible for tax purposes	**0.3**	**14,298**	0.3	15,217
	20.7	**1,051,250**	20.2	1,010,514
Deferred tax relating to changes in tax rate	**–**	**643**	–	(188)
Under provision in prior years	**0.1**	**3,457**	–	1,125
Tax expense for the year	**20.8**	**1,055,350**	20.2	1,011,451

NOTES TO THE FINANCIAL STATEMENTS

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 year divided by the weighted average number of ordinary shares of RM1.00 each in issue during the year excluding the weighted average treasury shares held by the Bank.

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Net profit attributable to equity holders of the Bank (RM'000)	**5,206,875**	5,062,152	**4,023,905**	3,988,629
'000 Number of ordinary shares at beginning/end of the year	**3,861,494**	3,861,494	**3,861,494**	3,861,494
Basic earnings per share (sen)	**134.8**	131.1	**104.2**	103.3

(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	
	2016 RM'000	**2015 RM'000**
Dividends recognised as distribution to ordinary equity holders of the Bank:		
First interim dividend of 26.0% (2015 – 24.0%) in respect of the financial year ended 31 December 2016	**1,003,989**	926,759
Second interim dividend of 32.0% (2014 – 31.0%) in respect of the financial year ended 31 December 2015	**1,235,678**	1,197,063
	2,239,667	2,123,822

41. DIVIDENDS (CONTINUED)

Subsequent to the financial year end, on 2 February 2017, the Directors declared a second interim dividend of 32.0%, with the total amounting to approximately RM1,235,678,094 computed based on the outstanding issued and paid-up capital, excluding treasury shares held by the Bank, of 3,861,494,043 ordinary shares of RM1.00 each, in respect of the financial year ended 31 December 2016. 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 2017. The Directors do not propose any final dividend in respect of the financial year ended 31 December 2016.

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

	Group and Bank Dividend per share	
	2016 Sen	**2015 Sen**
Dividends per RM1.00 ordinary share:		
Paid:		
First interim dividend of 26.0% (2015 – 24.0%)	**26.00**	24.00
Declared subsequent to the financial year end:		
Second interim dividend of 32.0% (2015 – 32.0%)	**32.00**	32.00
	58.00	56.00

NOTES TO THE FINANCIAL STATEMENTS

42. RELATED PARTY TRANSACTIONS

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

(i) Collective Investments

Collective Investments are those investments as disclosed in Note 14.

(ii) Subsidiary Companies

Details of the subsidiary companies are shown in Note 15.

(iii) Associated Companies

Associated companies are those entities in which the Group has significant influence but not control, as disclosed in Note 16.

(iv) Key Management Personnel and the Close Members of His/Her Family

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

(v) Public Bank Group Officers' Retirement Benefits Fund

Details of the retirement benefits fund are shown in Note 11.

(vi) 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 no more favourable than those generally available to the public.

42. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) The significant transactions of the Group and of the Bank with its related parties are as follows:

Group	Key Management Personnel *		Companies in which Certain Directors have Substantial Interest		Public Bank Group Officers' Retirement Benefits Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income earned:						
Interest on loans, advances and financing	**157**	149	**–**	–	**41,195**	46,627
Commission income	**–**	–	**42,392**	41,542	**–**	–
Rental income	**147**	147	**2,881**	2,856	**–**	–
Brokerage income	**1**	3	**584**	284	**3**	–
Fee income	**–**	–	**–**	73	**221**	158
	305	299	**45,857**	44,755	**41,419**	46,785
Expenditure incurred:						
Interest on deposits	**332,871**	254,796	**6,821**	5,315	**–**	–
Interest on debt securities issued	**126**	126	**3,701**	3,519	**–**	–
Rental of premises	**–**	–	**420**	494	**30,273**	28,800
Insurance premiums	**–**	–	**31,071**	29,532	**–**	–
	332,997	254,922	**42,013**	38,860	**30,273**	28,800

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

The table above includes the following transactions of the Group with the Directors of the Bank (including close members of their families):

(i) interest on deposits of RM331,863,000 (2015 – RM253,023,000);
(ii) rental income of RM147,000 (2015 – RM147,000); and
(iii) interest on loans, advances and financing received is nil (2015: RM1,000).

42. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) The significant transactions of the Group and of the Bank with its related parties are as follows (continued):

Bank	Collective Investments 2016 RM'000	Collective Investments 2015 RM'000	Subsidiary Companies 2016 RM'000	Subsidiary Companies 2015 RM'000	Associated Companies 2016 RM'000	Associated Companies 2015 RM'000	Key Management Personnel * 2016 RM'000	Key Management Personnel * 2015 RM'000	Companies in which Certain Directors have Substantial Interest 2016 RM'000	Companies in which Certain Directors have Substantial Interest 2015 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2016 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2015 RM'000
Income earned:												
Interest on interbank lending and money market instruments held	**-**	-	**73,578**	74,561	**-**	1,514	**-**	-	**-**	-	**-**	-
Interest/profit rate swaps	**-**	-	**13,468**	6,076	**-**	-	**-**	-	**-**	-	**-**	-
Interest on loans and advances	**-**	-	**9,660**	9,048	**-**	-	**96**	106	**-**	-	**41,195**	46,627
Dividend income (Note 34)	**152,124**	-	**580,342**	824,241	**-**	-	**-**	-	**-**	-	**-**	-
Shared service costs charged (Note 35)	**-**	-	**320,909**	280,028	**-**	-	**-**	-	**-**	-	**-**	-
Commission income	**-**	-	**79,852**	77,441	**-**	-	**-**	-	**41,854**	41,279	**-**	-
Rental income	**-**	-	**2,363**	2,547	**-**	140	**147**	147	**11**	7	**-**	-
Others	**-**	-	**3,916**	3,289	**-**	-	**-**	-	**-**	-	**-**	-
	152,124	-	**1,084,088**	1,277,231	**-**	1,654	**243**	253	**41,865**	41,286	**41,195**	46,627
Expenditure incurred:												
Interest on deposits	**66,864**	-	**59,755**	59,896	**-**	1,866	**332,555**	254,259	**6,385**	5,261	**-**	-
Interest on debt securities issued	**-**	-	**-**	-	**-**	-	**126**	126	**3,701**	3,519	**-**	-
Rental of premises	**-**	-	**26,795**	26,660	**-**	-	**-**	-	**420**	494	**28,570**	27,116
Insurance premiums	**-**	-	**-**	-	**-**	-	**-**	-	**23,835**	22,956	**-**	-
Fee and commission expense	**-**	-	**2,656**	8	**-**	-	**-**	-	**-**	-	**-**	-
Professional fees	**-**	-	**718**	197	**-**	-	**-**	-	**-**	-	**-**	-
Building maintenance	**-**	-	**3,304**	-	**-**	-	**-**	-	**-**	-	**-**	-
	66,864	-	**93,228**	86,761	**-**	1,866	**332,681**	254,385	**34,341**	32,230	**28,570**	27,116

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

The table above includes the following transactions of the Bank with its Directors (including close members of their families):

(i) interest on deposits of RM331,831,000 (2015 – RM252,942,000);
(ii) rental income of RM147,000 (2015 – RM147,000); and
(iii) interest on loans and advances is nil (2015: RM1,000).

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Group **31 December 2016**	**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				
Loans, advances and financing	–	9,748	–	1,121,987
Rental deposits	–	–	–	7,734
	–	9,748	–	1,129,721
Amount due to related parties				
Demand deposits	54,970	8,649	13,739	1,310
Term deposits	81,970	5,932,704	219,012	11
Debt securities issued	–	1,750	65,000	–
Others	–	1,312	–	–
	136,940	5,944,415	297,751	1,321
Commitments and contingencies				
Commitments	–	3,350	–	882,887

NOTES TO THE FINANCIAL STATEMENTS

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Group 31 December 2015	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	330,388	–	–	–
Loans, advances and financing	–	9,104	–	1,095,830
Rental deposits	–	–	–	7,280
	330,388	9,104	–	1,103,110
Amount due to related parties				
Demand deposits	56,597	14,004	7,276	17
Term deposits	–	5,021,980	146,818	–
Debt securities issued	–	1,750	65,000	–
Interbank borrowing	492,642	–	–	–
Others	–	1,154	–	102
	549,239	5,038,888	219,094	119
Commitments and contingencies				
Commitments	–	3,432	–	909,010

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

The tables above include the following outstanding balances of the Group with the Directors of the Bank (including close members of their families):

(i) demand deposits and term deposits of RM5,893,947,000 (2015 – RM4,982,503,000); and
(ii) loans, advances and financing of RM99,000 (2015: RM63,000).

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Bank 31 December 2016	Collective Investments RM'000	Subsidiary 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	–	1,280,150	–	–	–
Derivative financial assets	–	23,356	–	–	–
Loans and advances	–	696,993	6,728	–	1,121,987
Money market instruments held	–	1,709,786	–	–	–
Dividend receivable (Note 10)	27,154	545,976	–	–	–
Rental deposits	–	34,941	–	–	7,301
Interest receivable	–	3,597	–	–	–
Others	–	1,670	–	–	–
	27,154	4,296,469	6,728	–	1,129,288
Amount due to related parties					
Demand deposits	101	155,177	8,342	13,739	1,310
Term deposits	1,867,312	1,504,090	5,917,318	209,656	11
Debt securities issued	–	–	1,750	65,000	–
Interbank borrowing	–	1,919,346	–	–	–
Derivative financial liabilities	–	15,486	–	–	–
Interest payable	27,780	2,600	–	–	–
Others	–	611	993	–	–
	1,895,193	3,597,310	5,928,403	288,395	1,321
Commitments and contingencies					
Guarantees	–	25,100	–	–	–
Commitments	–	1,418,287	2,684	–	882,887
	–	1,443,387	2,684	–	882,887

NOTES TO THE FINANCIAL STATEMENTS

42. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Bank **31 December 2015**	**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	804,582	329,417	–	–	–
Derivative financial assets	1,636	–	–	–	–
Loans and advances	590,118	–	7,075	–	1,095,830
Money market instruments held	1,647,165	–	–	–	–
Dividend receivable (Note 10)	523,232	–	–	–	–
Rental deposits	35,026	–	–	–	6,859
Interest receivable	1,617	–	–	–	–
Others	1,666	–	–	–	–
	3,605,042	329,417	7,075	–	1,102,689
Amount due to related parties					
Demand deposits	160,007	–	13,859	7,276	17
Term deposits	1,522,650	–	5,003,744	115,310	–
Debt securities issued	–	–	1,750	65,000	–
Interbank borrowing	1,603,357	492,492	–	–	–
Derivative financial liabilities	48,534	–	–	–	–
Interest payable	1,040	–	–	–	–
Others	622	–	878	–	–
	3,336,210	492,492	5,020,231	187,586	17
Commitments and contingencies					
Guarantees	22,395	–	–	–	–
Commitments	1,502,395	–	2,645	–	909,010
	1,524,790	–	2,645	–	909,010

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

The tables above include the following outstanding balances of the Bank with its Directors (including close members of their families):

(i) demand deposits and term deposits of RM5,892,650,000 (2015 – RM4,980,608,000); and
(ii) loans and advances of RM99,000 (2015 – RM63,000).

42. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Loans, advances and financing granted to the Directors of the Bank and other key management personnel of the Group and of the Bank are on similar terms and conditions generally available to other employees within the Group.

None of the loans, advances and financing granted to key management personnel (2015 – 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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Short-term employee benefits:				
Fees	**4,339**	4,485	**2,152**	2,175
Salary and other remuneration, including meeting allowances	**100,978**	84,502	**87,431**	72,533
Benefits-in-kind	**1,214**	799	**258**	286
Post-employment benefits	**8,237**	7,550	**6,736**	6,305
	114,768	97,336	**96,577**	81,299

Included in the total key management personnel compensation are:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Directors' remuneration including benefits-in-kind – Directors of the Bank	**69,793**	53,645	**66,847**	50,533

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

	Public Financial Holdings Limited Group's Share Option Scheme	
	2016 '000	**2015 '000**
At 1 January	**–**	3,928
Lapsed	**–**	(3,928)
At 31 December	**–**	–

43. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Outstanding credit exposures with connected parties	**1,909,185**	1,723,740	**2,847,120**	2,652,325
of which: Total credit exposures which are impaired or in default	**1,052**	193	**955**	166
Total credit exposures	**324,230,473**	280,062,795	**255,953,014**	245,587,740
Percentage of outstanding credit exposures to connected parties				
– as a proportion of total credit exposures	**0.59%**	0.62%	**1.11%**	1.08%
– as a proportion of total capital	**4.75%**	4.50%	**9.18%**	8.57%
– which is impaired or in default	**0.06%**	0.01%	**0.03%**	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) Influential shareholder and his close relatives;

(iv) 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;

(v) 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;

(vi) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (v) 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;

(vii) Any person for whom the persons listed in (i) to (v) above is a guarantor; and

(viii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above include 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 and working group 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 activities and investing the surplus funds of the Group, such as trading or holding of debt securities, deposit placements, settlement of transactions, also expose the Group to credit risk and counterparty credit risk ("CCR").

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk frameworks and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

Risk Management Approach

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. The credit policies, guidelines and procedures 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 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.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

The management of credit risk starts with experienced key personnel appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. Loan applications of significant amounts and/or higher risk exposure 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 as well as the business condition and prospect. The credit assessment is assisted by the 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 tenures and these investment parameters are 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.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(d) 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.

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 over the threshold levels.

Where possible, the Group settles its OTC derivatives via the Payment-versus-Payment ("PVP") settlement method to further reduce settlement risk. For derivative financial instruments where the PVP settlement method is not possible, the Group establishes settlement limits through the Group's credit approval process.

Proposition of counterparty limits to financial institutions by the business units are independently assessed and evaluated by RMD before approval is granted by the relevant approving party. The Independent Credit Review ("ICR") Team within RMD was set up with objectives of providing independent evaluation and views on retail business loans and corporate loans of selected loan size and/or type. Periodical review/assessment of business sectors and industries in which the Bank's borrowers are significantly exposed to are also carried out by the ICR Team besides providing assistance in the formulation of credit policies and guidelines undertaken by the business units.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

Post approval reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Various credit risk analytics are performed periodically to identify key risk characteristics and to risk profile the credit portfolio. In addition, comprehensive assessment on emerging risk is conducted to assess the impact of the risk on the Bank's portfolio as well as establishing appropriate measures to mitigate the risk. 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 the credit profiling conducted, emerging risk assessment, 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 tables present 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 exposures, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the full 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.

Credit concentration risk arises from excessive exposures to any single exposure or group of exposure or sector that will potentially result in losses which are large enough to undermine the health of the Group and of the Bank. To manage this large exposures and to avoid any undue credit concentration risk, the Group has emplaced internal exposure limits expressed as a percentage of the Group's capital.

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 (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

Group 31 December 2016	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	1,468,511	9,215,581	-	-	-	-	-	-	10,684,092
Reverse repurchase agreements	2,793,563	-	-	-	-	-	-	-	2,793,563
Financial assets held-for-trading									
– Government securities and treasury bills	501,621	-	-	-	-	-	-	-	501,621
– Money market instruments	-	495,364	-	-	-	-	-	-	495,364
– Non-money market instruments	-	126,955	-	-	54,944	-	-	-	181,899
Derivative financial assets	-	618,141	-	-	-	-	-	-	618,141
Financial investments available-for-sale									
– Government securities and treasury bills	20,274,041	-	-	-	-	-	-	-	20,274,041
– Money market instruments	-	8,662,958	-	-	-	-	-	-	8,662,958
– Non-money market instruments *	380,474	2,808,917	448,433	460,455	186,226	-	-	-	4,284,505
Financial investments held-to-maturity									
– Government securities and treasury bills	15,431,063	-	-	-	-	-	-	-	15,431,063
– Money market instruments	-	1,464,061	-	-	-	-	-	-	1,464,061
– Non-money market instruments	193,896	3,640,086	592,042	847,777	5,001	-	-	-	5,278,802
Gross loans, advances and financing									
– Retail loans/financing									
– housing loans/financing	-	-	-	-	-	95,576,993	-	40,449	95,617,442
– hire purchase	-	5,347	3,228,927	4,475,661	2,118,687	-	42,156,088	-	51,984,710
– credit cards	-	15	408	1,195	174	-	-	1,892,782	1,894,574
– other loans/financing	15,591	38,756	7,383,505	29,772,979	19,060,637	4,996,239	249,670	38,899,492	100,416,869
– Corporate loans/financing	1,301,879	8,369,441	3,882,615	7,564,994	22,721,007	52,958	-	152,693	44,045,587
Statutory deposits with Central Banks	8,900,566	-	-	-	-	-	-	-	8,900,566
	51,261,205	35,445,622	15,535,930	43,123,061	44,146,676	100,626,190	42,405,758	40,985,416	373,529,858
Commitments and Contingencies									
Contingent liabilities	2,724	119,603	1,229,264	1,466,370	1,141,810	-	-	6,029	3,965,800
Commitments	522,767	1,544,689	4,758,381	11,649,021	12,802,947	11,852,832	1,485	13,722,509	56,854,631
	525,491	1,664,292	5,987,645	13,115,391	13,944,757	11,852,832	1,485	13,728,538	60,820,431
Total Credit Exposures	51,786,696	37,109,914	21,523,575	56,238,452	58,091,433	112,479,022	42,407,243	54,713,954	434,350,289

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

Group 31 December 2015	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	4,346,660	10,484,399	–	–	–	–	–	–	14,831,059
Reverse repurchase agreements	4,379,161	–	–	–	–	–	–	–	4,379,161
Financial assets held-for-trading									
– Government securities and treasury bills	20,302	–	–	–	–	–	–	–	20,302
– Money market instruments	–	1,739,611	–	–	–	–	–	–	1,739,611
– Non-money market instruments	–	308,476	–	–	1,034,372	–	–	–	1,342,848
Derivative financial assets	–	688,086	–	–	–	–	–	–	688,086
Financial investments available-for-sale									
– Government securities and treasury bills	15,509,518	–	–	–	–	–	–	–	15,509,518
– Money market instruments	–	9,105,939	–	–	–	–	–	–	9,105,939
– Non-money market instruments *	299,728	4,516,116	7,768	345,973	–	–	–	–	5,169,585
Financial investments held-to-maturity									
– Government securities and treasury bills	15,430,861	–	–	–	–	–	–	–	15,430,861
– Money market instruments	–	1,561,205	–	–	–	–	–	–	1,561,205
– Non-money market instruments	183,678	3,238,897	666,761	862,647	–	–	–	–	4,951,983
Gross loans, advances and financing									
– Retail loans/financing									
– housing loans/financing	–	–	–	–	–	87,001,114	–	34,489	87,035,603
– hire purchase	52	3,805	3,248,642	4,412,623	2,067,509	–	42,423,913	3	52,156,547
– credit cards	–	–	–	–	–	–	–	1,781,170	1,781,170
– other loans/financing	29,598	28,254	7,156,851	27,615,045	17,222,309	3,884,217	244,703	37,363,342	93,544,319
– Corporate loans/financing	1,301,882	6,701,955	3,927,345	7,468,677	19,451,372	29,813	–	48,372	38,929,416
Statutory deposits with Central Banks	9,514,419	–	–	–	–	–	–	–	9,514,419
	51,015,859	38,376,743	15,007,367	40,704,965	39,775,562	90,915,144	42,668,616	39,227,376	357,691,632
Commitments and Contingencies									
Contingent liabilities	1,901	85,122	849,889	1,361,297	1,066,768	–	–	5,865	3,370,842
Commitments	510,796	2,708,620	5,278,110	11,701,948	14,497,027	12,036,055	9,221	12,871,830	59,613,607
	512,697	2,793,742	6,127,999	13,063,245	15,563,795	12,036,055	9,221	12,877,695	62,984,449
Total Credit Exposures	51,528,556	41,170,485	21,135,366	53,768,210	55,339,357	102,951,199	42,677,837	52,105,071	420,676,081

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

Bank 31 December 2016	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	128	5,059,762	-	-	-	-	-	-	5,059,890
Reverse repurchase agreements	2,268,564	-	-	-	-	-	-	-	2,268,564
Financial assets held-for-trading									
– Government securities and treasury bills	491,308	-	-	-	-	-	-	-	491,308
– Non-money market instruments	-	60,031	-	-	24,990	-	-	-	85,021
Derivative financial assets	-	628,145	-	-	-	-	-	-	628,145
Financial investments available-for-sale									
– Government securities and treasury bills	13,089,339	-	-	-	-	-	-	-	13,089,339
– Money market instruments	-	8,412,456	-	-	-	-	-	-	8,412,456
– Non-money market instruments *	335,424	1,551,344	115,281	35,984	-	-	-	-	2,038,033
Financial investments held-to-maturity									
– Government securities and treasury bills	11,611,897	-	-	-	-	-	-	-	11,611,897
– Money market instruments	-	1,709,786	-	-	-	-	-	-	1,709,786
– Non-money market instruments	127,860	2,415,015	447,998	731,985	-	-	-	-	3,722,858
Gross loans and advances									
– Retail loans									
– housing loans	-	-	-	-	-	78,193,789	-	-	78,193,789
– hire purchase	-	4,623	2,485,080	4,292,641	1,987,922	-	28,986,965	-	37,757,231
– credit cards	-	15	408	1,195	174	-	-	1,862,956	1,864,748
– other loans	3,511	29,399	5,465,162	24,041,083	15,186,274	4,582,361	234,997	31,065,762	80,608,549
– Corporate loans	-	7,797,352	3,670,703	4,904,231	18,730,979	52,958	-	152,693	35,308,916
Statutory deposits with Central Banks	6,586,569	-	-	-	-	-	-	-	6,586,569
	34,514,600	27,667,928	12,184,632	34,007,119	35,930,339	82,829,108	29,221,962	33,081,411	289,437,099
Commitments and Contingencies									
Contingent liabilities	2,724	136,722	704,390	963,533	1,093,843	-	-	1,830	2,903,042
Commitments	522,767	2,217,700	2,376,539	9,751,623	11,292,017	8,852,311	550	12,393,879	47,407,386
	525,491	2,354,422	3,080,929	10,715,156	12,385,860	8,852,311	550	12,395,709	50,310,428
Total Credit Exposures	35,040,091	30,022,350	15,265,561	44,722,275	48,316,199	91,681,419	29,222,512	45,477,120	339,747,527

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

Bank 31 December 2015	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	1,100,006	7,998,626	–	–	–	–	–	–	9,098,632
Reverse repurchase agreements	3,740,691	–	–	–	–	–	–	–	3,740,691
Financial assets held-for-trading									
– Government securities and treasury bills	20,302	–	–	–	–	–	–	–	20,302
– Money market instruments	–	151,231	–	–	–	–	–	–	151,231
– Non-money market instruments	–	261,675	–	–	1,009,409	–	–	–	1,271,084
Derivative financial assets	–	677,630	–	–	–	–	–	–	677,630
Financial investments available-for-sale									
– Government securities and treasury bills	10,582,783	–	–	–	–	–	–	–	10,582,783
– Money market instruments	–	7,820,028	–	–	–	–	–	–	7,820,028
– Non-money market instruments *	299,718	4,261,663	7,768	–	–	–	–	–	4,569,149
Financial investments held-to-maturity									
– Government securities and treasury bills	12,190,066	–	–	–	–	–	–	–	12,190,066
– Money market instruments	–	1,647,165	–	–	–	–	–	–	1,647,165
– Non-money market instruments	127,876	2,430,127	522,701	767,252	–	–	–	–	3,847,956
Gross loans and advances									
– Retail loans									
– housing loans	–	–	–	–	–	73,102,157	–	–	73,102,157
– hire purchase	52	3,059	2,604,107	4,211,335	1,935,655	–	29,183,671	–	37,937,879
– credit cards	–	–	–	–	–	–	–	1,759,828	1,759,828
– other loans	15,042	18,400	5,410,806	23,510,157	14,488,813	3,691,309	233,143	30,283,424	77,651,094
– Corporate loans	–	6,407,074	3,724,245	4,907,443	15,340,845	29,813	–	48,372	30,457,792
Statutory deposits with Central Banks	7,455,845	–	–	–	–	–	–	–	7,455,845
	35,532,381	31,676,678	12,269,627	33,396,187	32,774,722	76,823,279	29,416,814	32,091,624	283,981,312
Commitments and Contingencies									
Contingent liabilities	1,901	53,745	700,313	986,755	975,789	–	–	1,204	2,719,707
Commitments	510,796	3,350,942	2,778,985	10,548,912	12,880,773	9,634,124	8,000	11,981,012	51,693,544
	512,697	3,404,687	3,479,298	11,535,667	13,856,562	9,634,124	8,000	11,982,216	54,413,251
Total Credit Exposures	36,045,078	35,081,365	15,748,925	44,931,854	46,631,284	86,457,403	29,424,814	44,073,840	338,394,563

* Excluding equity securities of the Group and of the Bank of RM123,701,000 (2015 – RM122,665,000) and RM115,481,000 (2015 – RM114,052,000) respectively which do not have any credit risk.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis

The analysis of credit concentration risk of financial assets of the Group and of the Bank categorised by geographical distribution (i.e. based on the geographical location where the credit risk resides) is as follows:

Group 31 December 2016	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	4,376,316	3,841,506	993,575	1,472,695	10,684,092
Reverse repurchase agreements	2,790,628	–	–	2,935	2,793,563
Financial assets held-for-trading					
– Government securities and treasury bills	501,621	–	–	–	501,621
– Money market instruments	495,364	–	–	–	495,364
– Non-money market instruments	181,899	–	–	–	181,899
Derivative financial assets	592,879	1,772	47	23,443	618,141
Financial investments available-for-sale					
– Government securities and treasury bills	20,105,818	–	–	168,223	20,274,041
– Money market instruments	8,662,958	–	–	–	8,662,958
– Non-money market instruments *	4,284,505	–	–	–	4,284,505
Financial investments held-to-maturity					
– Government securities and treasury bills	14,091,466	947,250	53,835	338,512	15,431,063
– Money market instruments	–	1,139,706	–	324,355	1,464,061
– Non-money market instruments	4,422,565	6,446	–	849,791	5,278,802
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	89,608,520	5,733,354	97,352	178,216	95,617,442
– hire purchase	49,469,827	2,395,925	1,772	117,186	51,984,710
– credit cards	1,874,969	6,972	12,324	309	1,894,574
– other loans/financing	91,130,448	2,534,097	4,389,438	2,362,886	100,416,869
– Corporate loans/financing	36,768,974	6,187,616	–	1,088,997	44,045,587
Statutory deposits with Central Banks	8,054,702	–	747,772	98,092	8,900,566
	337,413,459	22,794,644	6,296,115	7,025,640	373,529,858
Commitments and Contingencies					
Contingent liabilities	2,912,483	522,726	165,148	365,443	3,965,800
Commitments	53,594,780	2,126,958	675,656	457,237	56,854,631
	56,507,263	2,649,684	840,804	822,680	60,820,431
Total Credit Exposures	393,920,722	25,444,328	7,136,919	7,848,320	434,350,289

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis (continued)

Group 31 December 2015	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	9,151,220	2,729,277	1,422,972	1,527,590	14,831,059
Reverse repurchase agreements	4,373,866	–	–	5,295	4,379,161
Financial assets held-for-trading					
– Government securities and treasury bills	20,302	–	–	–	20,302
– Money market instruments	1,739,611	–	–	–	1,739,611
– Non-money market instruments	1,342,848	–	–	–	1,342,848
Derivative financial assets	615,363	13,894	–	58,829	688,086
Financial investments available-for-sale					
– Government securities and treasury bills	15,509,518	–	–	–	15,509,518
– Money market instruments	9,105,939	–	–	–	9,105,939
– Non-money market instruments *	5,169,585	–	–	–	5,169,585
Financial investments held-to-maturity					
– Government securities and treasury bills	14,386,009	947,663	–	97,189	15,430,861
– Money market instruments	–	1,137,075	–	424,130	1,561,205
– Non-money market instruments	4,531,725	62,876	–	357,382	4,951,983
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	81,478,870	5,453,609	77,376	25,748	87,035,603
– hire purchase	49,970,018	2,167,635	2,398	16,496	52,156,547
– credit cards	1,765,438	6,670	9,062	–	1,781,170
– other loans/financing	85,886,486	2,610,011	4,024,225	1,023,597	93,544,319
– Corporate loans/financing	32,407,520	6,228,543	–	293,353	38,929,416
Statutory deposits with Central Banks	8,831,954	–	634,560	47,905	9,514,419
	326,286,272	21,357,253	6,170,593	3,877,514	357,691,632
Commitments and Contingencies					
Contingent liabilities	2,807,642	128,312	389,075	45,813	3,370,842
Commitments	56,841,823	2,099,208	588,828	83,748	59,613,607
	59,649,465	2,227,520	977,903	129,561	62,984,449
Total Credit Exposures	385,935,737	23,584,773	7,148,496	4,007,075	420,676,081

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis (continued)

Bank 31 December 2016	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	3,743,458	98,698	–	1,217,734	5,059,890
Reverse repurchase agreements	2,265,629	–	–	2,935	2,268,564
Financial assets held-for-trading					
– Government securities and treasury bills	491,308	–	–	–	491,308
– Non-money market instruments	85,021	–	–	–	85,021
Derivative financial assets	611,720	1,534	47	14,844	628,145
Financial investments available-for-sale					
– Government securities and treasury bills	13,089,339	–	–	–	13,089,339
– Money market instruments	8,412,456	–	–	–	8,412,456
– Non-money market instruments *	2,038,033	–	–	–	2,038,033
Financial investments held-to-maturity					
– Government securities and treasury bills	11,586,928	–	–	24,969	11,611,897
– Money market instruments	1,709,786	–	–	–	1,709,786
– Non-money market instruments	3,722,858	–	–	–	3,722,858
Gross loans and advances					
– Retail loans					
– housing loans	78,128,017	–	–	65,772	78,193,789
– hire purchase	37,736,941	–	–	20,290	37,757,231
– credit cards	1,864,439	–	–	309	1,864,748
– other loans	79,529,897	–	–	1,078,652	80,608,549
– Corporate loans	34,166,947	68,194	–	1,073,775	35,308,916
Statutory deposits with Central Banks	6,527,599	–	–	58,970	6,586,569
	285,710,376	168,426	47	3,558,250	289,437,099
Commitments and Contingencies					
Contingent liabilities	2,864,794	17,355	3,075	17,818	2,903,042
Commitments	46,579,387	693,574	–	134,425	47,407,386
	49,444,181	710,929	3,075	152,243	50,310,428
Total Credit Exposures	335,154,557	879,355	3,122	3,710,493	339,747,527

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis (continued)

Bank 31 December 2015	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	7,186,431	214,850	171,880	1,525,471	9,098,632
Reverse repurchase agreements	3,735,396	–	–	5,295	3,740,691
Financial assets held-for-trading					
– Government securities and treasury bills	20,302	–	–	–	20,302
– Money market instruments	151,231	–	–	–	151,231
– Non-money market instruments	1,271,084	–	–	–	1,271,084
Derivative financial assets	608,981	11,753	–	56,896	677,630
Financial investments available-for-sale					
– Government securities and treasury bills	10,582,783	–	–	–	10,582,783
– Money market instruments	7,820,028	–	–	–	7,820,028
– Non-money market instruments *	4,569,149	–	–	–	4,569,149
Financial investments held-to-maturity					
– Government securities and treasury bills	12,125,037	–	–	65,029	12,190,066
– Money market instruments	1,647,165	–	–	–	1,647,165
– Non-money market instruments	3,847,956	–	–	–	3,847,956
Gross loans and advances					
– Retail loans					
– housing loans	73,076,409	–	–	25,748	73,102,157
– hire purchase	37,921,383	–	–	16,496	37,937,879
– credit cards	1,759,828	–	–	–	1,759,828
– other loans	76,627,497	–	–	1,023,597	77,651,094
– Corporate loans	30,070,522	113,658	–	273,612	30,457,792
Statutory deposits with Central Banks	7,407,940	–	–	47,905	7,455,845
	280,429,122	340,261	171,880	3,040,049	283,981,312
Commitments and Contingencies					
Contingent liabilities	2,660,636	16,628	3,075	39,368	2,719,707
Commitments	50,950,212	663,855	–	79,477	51,693,544
	53,610,848	680,483	3,075	118,845	54,413,251
Total Credit Exposures	334,039,970	1,020,744	174,955	3,158,894	338,394,563

* Excluding equity securities of the Group and of the Bank of RM123,701,000 (2015 - RM122,665,000) and RM115,481,000 (2015 - RM114,052,000) respectively which do not have any credit risk.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality of Gross Loans, Advances and Financing

Gross loans, advances and financing are analysed as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Neither past due nor impaired	**266,143,645**	246,484,560	**212,693,933**	200,097,486
Past due but not impaired	**26,326,156**	25,610,679	**19,997,721**	19,808,744
Impaired	**1,489,381**	1,351,816	**1,041,579**	1,002,520
	293,959,182	273,447,055	**233,733,233**	220,908,750

(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 (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

(a) Neither Past Due Nor Impaired (continued)

The credit quality of gross loans, advances and financing which is neither past due nor impaired is analysed as follows:

	2016			2015		
	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	**79,517,906**	**6,230,406**	**85,748,312**	71,804,039	5,960,099	77,764,138
– hire purchase	**35,955,565**	**4,448,534**	**40,404,099**	35,699,641	4,833,383	40,533,024
– credit cards	**1,117,650**	**423,398**	**1,541,048**	1,141,618	314,916	1,456,534
– other loans/financing	**89,244,058**	**5,645,935**	**94,889,993**	83,589,508	4,861,438	88,450,946
Corporate loans/financing	**42,980,294**	**579,899**	**43,560,193**	36,445,913	1,834,005	38,279,918
	248,815,473	**17,328,172**	**266,143,645**	228,680,719	17,803,841	246,484,560
Bank						
Retail loans						
– housing loans	**65,276,252**	**5,044,526**	**70,320,778**	60,469,039	4,991,027	65,460,066
– hire purchase	**26,516,321**	**3,191,872**	**29,708,193**	26,275,750	3,509,182	29,784,932
– credit cards	**1,100,363**	**419,383**	**1,519,746**	1,124,148	312,126	1,436,274
– other loans	**72,215,441**	**4,054,639**	**76,270,080**	69,375,770	4,176,349	73,552,119
Corporate loans	**34,391,044**	**484,092**	**34,875,136**	28,068,844	1,795,251	29,864,095
	199,499,421	**13,194,512**	**212,693,933**	185,313,551	14,783,935	200,097,486

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

(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 ninety (90) days.

An aging analysis of loans, advances and financing which are past due but not impaired is as follows:

Group	1 to 30 Days RM'000	31 to 59 Days RM'000	60 to 89 Days RM'000	Total RM'000
2016				
Retail loans/financing				
– housing loans/financing	**5,383,420**	**2,656,374**	**1,251,405**	**9,291,199**
– hire purchase	**6,430,250**	**3,959,939**	**877,177**	**11,267,366**
– credit cards	**235,710**	**73,324**	**22,405**	**331,439**
– other loans/financing	**3,183,885**	**1,275,332**	**550,941**	**5,010,158**
Corporate loans/financing	**335,715**	**86,938**	**3,341**	**425,994**
	15,568,980	**8,051,907**	**2,705,269**	**26,326,156**
2015				
Retail loans/financing				
– housing loans/financing	5,178,781	2,581,498	1,061,155	8,821,434
– hire purchase	6,611,667	3,807,376	859,505	11,278,548
– credit cards	203,747	70,316	26,893	300,956
– other loans/financing	3,094,098	1,182,488	361,408	4,637,994
Corporate loans/financing	561,942	3,796	6,009	571,747
	15,650,235	7,645,474	2,314,970	25,610,679

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

(b) Past Due But Not Impaired (continued)

An aging analysis of loans, advances and financing which are past due but not impaired is as follows (continued):

Bank	1 to 30 Days RM'000	31 to 59 Days RM'000	60 to 89 Days RM'000	Total RM'000
2016				
Retail loans				
– housing loans	**4,266,124**	**2,164,258**	**1,006,939**	**7,437,321**
– hire purchase	**4,550,576**	**2,692,223**	**589,720**	**7,832,519**
– credit cards	**228,128**	**72,980**	**21,969**	**323,077**
– other loans	**2,524,700**	**1,058,974**	**420,603**	**4,004,277**
Corporate loans	**320,512**	**80,015**	**–**	**400,527**
	11,890,040	**6,068,450**	**2,039,231**	**19,997,721**
2015				
Retail loans				
– housing loans	4,262,980	2,135,070	878,329	7,276,379
– hire purchase	4,708,252	2,622,275	583,957	7,914,484
– credit cards	203,125	70,147	26,687	299,959
– other loans	2,472,123	1,023,994	277,284	3,773,401
Corporate loans	541,799	2,722	–	544,521
	12,188,279	5,854,208	1,766,257	19,808,744

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

(c) Impaired Loans, Advances and Financing

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

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

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

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

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

(v) default occurs for repayments scheduled on intervals of ninety (90) days or more for financially distressed customer.

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 customer;

(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; or

(v) any adverse news or developments affecting the local economic conditions or business environment of the customer which will adversely affect the repayment capacity of the customer.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

(c) Impaired Loans, Advances and Financing (continued)

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**
2016				
Retail loans/financing				
– housing loans/financing	**577,931**	**60,189**	**12,795**	**47,724**
– hire purchase	**313,245**	**1,897**	**1,748**	**673**
– credit cards	**22,087**	**–**	**–**	**–**
– other loans/financing	**516,718**	**253,986**	**92,751**	**176,912**
Corporate loans/financing	**59,400**	**59,400**	**14,600**	**49,108**
	1,489,381	**375,472**	**121,894**	**274,417**
2015				
Retail loans/financing				
– housing loans/financing	450,031	28,578	2,680	18,291
– hire purchase	344,975	2,451	2,318	621
– credit cards	23,680	–	–	–
– other loans/financing	455,379	207,324	88,568	144,110
Corporate loans/financing	77,751	77,751	28,381	68,229
	1,351,816	316,104	121,947	231,251

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

(c) Impaired Loans, Advances and Financing (continued)

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 (continued):

Bank	Total Gross Impaired Loans and Advances RM'000	of which Individually <---------- Assessed as Impaired ----------> Gross Individually Assessed Impaired Loans RM'000	Individual Assessment Allowance RM'000	Fair Value of Collateral RM'000
2016				
Retail loans				
– housing loans	**435,690**	**5,039**	**–**	**5,039**
– hire purchase	**216,519**	**–**	**–**	**–**
– credit cards	**21,925**	**–**	**–**	**–**
– other loans	**334,192**	**113,101**	**8,438**	**107,865**
Corporate loans	**33,253**	**33,253**	**7,148**	**30,512**
	1,041,579	**151,393**	**15,586**	**143,416**
2015				
Retail loans				
– housing loans	365,712	9,367	173	9,367
– hire purchase	238,463	–	–	–
– credit cards	23,595	–	–	–
– other loans	325,574	119,352	19,913	113,259
Corporate loans	49,176	49,176	14,751	48,080
	1,002,520	117,895	34,837	170,706

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(iii) Collateral

The main types of collateral obtained by the Group and by 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 2016 are at 91.2% (2015 – 89.2%) and 91.8% (2015 – 90.4%) respectively. The financial effect of collateral held for other remaining 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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Residential properties	**37,145**	25,646	**35,741**	25,188
Non-residential properties	**51,120**	42,821	**50,731**	42,773
	88,265	68,467	**86,472**	67,961

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 (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(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 2016						31 December 2015					
	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-	-	346,802	346,802	-	-	-	-	1,488,361	1,488,361	-	-	-
A+ to A-	-	148,562	148,562	-	-	-	-	251,250	251,250	-	-	-
P-1 to P-2	-	-	-	-	181,899	181,899	-	-	-	-	1,342,848	1,342,848
	-	495,364	495,364	-	181,899	181,899	-	1,739,611	1,739,611	-	1,342,848	1,342,848
Bank												
AAA to AA-	-	-	-	-	-	-	-	49,829	49,829	-	-	-
A+ to A-	-	-	-	-	-	-	-	101,402	101,402	-	-	-
P-1 to P-2	-	-	-	-	85,021	85,021	-	-	-	-	1,271,084	1,271,084
	-	-	-	-	85,021	85,021	-	151,231	151,231	-	1,271,084	1,271,084

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(iv) Credit Quality of Financial Investments (continued)

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 (continued):

Financial Investments Available-for-sale

	<---- 31 December 2016 ----					---->	<---- 31 December 2015 ----					---->
	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												
Sovereign guaranteed	-	-	-	-	522,134	522,134	-	-	-	-	299,718	299,718
AAA to AA-	-	7,750,936	7,750,936	-	3,157,864	3,157,864	-	8,024,468	8,024,468	-	1,323,703	1,323,703
A+ to A-	-	861,756	861,756	368,612	-	368,612	-	1,000,355	1,000,355	345,973	-	345,973
Unrated	-	50,266	50,266	223,308	10	223,318	-	81,116	81,116	129,000	10	129,010
	-	8,662,958	8,662,958	591,920	3,680,008	4,271,928	-	9,105,939	9,105,939	474,973	1,623,431	2,098,404
Bank												
Sovereign guaranteed	-	-	-	-	486,688	486,688	-	-	-	-	299,718	299,718
AAA to AA-	-	7,650,458	7,650,458	-	1,551,345	1,551,345	-	6,869,415	6,869,415	-	1,323,703	1,323,703
A+ to A-	-	711,732	711,732	-	-	-	-	869,497	869,497	-	-	-
Unrated	-	50,266	50,266	-	-	-	-	81,116	81,116	-	-	-
	-	8,412,456	8,412,456	-	2,038,033	2,038,033	-	7,820,028	7,820,028	-	1,623,421	1,623,421

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(iv) Credit Quality of Financial Investments (continued)

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 (continued):

Financial Investments Held-to-maturity

	<---- 31 December 2016					---->	<---- 31 December 2015					---->
	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												
Sovereign guaranteed	-	-	-	-	2,520,746	2,520,746	-	-	-	-	2,535,447	2,535,447
AAA to AA-	229,024	-	229,024	387,750	1,900,733	2,288,483	165,130	-	165,130	13,077	1,995,192	2,008,269
A+ to A-	975,262	-	975,262	410,287	-	410,287	879,666	-	879,666	407,181	-	407,181
P-1 to P-2	259,775	-	259,775	58,200	-	58,200	516,409	-	516,409	-	-	-
Unrated	-	-	-	-	1,086	1,086	-	-	-	-	1,086	1,086
	1,464,061	-	1,464,061	856,237	4,422,565	5,278,802	1,561,205	-	1,561,205	420,258	4,531,725	4,951,983
Bank												
Sovereign guaranteed	-	-	-	-	2,020,821	2,020,821	-	-	-	-	2,055,991	2,055,991
AAA to AA-	-	1,709,786	1,709,786	-	1,700,951	1,700,951	-	1,647,165	1,647,165	-	1,790,879	1,790,879
Unrated	-	-	-	-	1,086	1,086	-	-	-	-	1,086	1,086
	-	1,709,786	1,709,786	-	3,722,858	3,722,858	-	1,647,165	1,647,165	-	3,847,956	3,847,956

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(iv) Credit Quality of Financial Investments (continued)

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, there were no financial investments which were past due (2015 – none).

Market Risk

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

The market risk exposure of the Group is identified into two types:

(i) 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.

(ii) Non-Traded Market Risk

Interest rate/rate of return risk, foreign exchange risk and equity prices risk arising mainly from the retail and commercial banking assets and liabilities, as well as financial investments designated as available-for-sale and held-to-maturity.

The Group's core market risks are as follows:

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

Risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in the interest rate/rate of return over time arising from activities such as deposits taking, lending or financing and investment.

(b) Foreign Exchange Risk

Risk of 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 company, 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.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

The Group's core market risks are as follows (continued):

(c) Displaced Commercial Risk ("DCR")

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.

(d) Equity Risk

Risk of adverse impact arising from movements in equity prices on equity positions held by the Group for dividend purposes.

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group's market risk frameworks and policies, aligns market risk management with risk appetite and implements actions to ensure that the market risk remains within established risk tolerance level.

(i) Traded Market Risk

Risk Management Approach

The Group's traded market risk frameworks comprise market risk policies and practices, delegation of authorities, 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 conduct daily compliance checking on the treasury operations. Any instances of non-compliance with the operational processes, procedures and limits will be reported to the Compliance Committee. 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 RMD. Changes to operational market risk limits are approved by the ALCO. The trading book positions and limits are reported to the ALCO regularly. 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 RM141,000 (2015 – RM266,000) and RM127,000 (2015 – RM238,000) respectively. The composition of the Group's and the Bank's trading portfolio is set out in Note 5 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk

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

The sources of IRR/RoRBB are as follows:

(i) Repricing Risk – Risk caused by timing differences in the interest rate/rate of return changes and cash flows that occur in the repricing and maturity of the Group's fixed and floating rate assets, liabilities and off-balance sheet instruments.

(ii) Yield Curve Risk – Risk when unanticipated changes in the yield curve has adverse effects on the Group's earnings and EVE.

(iii) Basis Risk – Risk arising from the imperfect correlation between changes in the interest rate/rate of return earned and paid on different instruments with otherwise similar repricing characteristics. This will affect the Group's net interest/profit margin, i.e. earnings and also future cash flows, which in turn affect economic value of the Group.

(iv) Optionality Risk – Risk of early repayments of loans/financing and early withdrawal of deposits due to changes in the interest rate/rate of return which will potentially affect future earnings.

Risk Management Approach

The Group emphasises the importance of IRR/RoRBB as most of the balance sheet items of the Group generate interest/profit income and interest/profit expense that are correlated to interest rate/rate of return. Hence, 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 due to the changing levels of interest rate/rate of return, whilst balancing the cost of hedging the risk. This is achieved in various manners 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 of 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's IRR/RoRBB is also governed by the Group's Interest Rate Risk/Rate of Return Risk Management Policy to ensure that all IRR/RoRBB is managed within its risk appetite. All limits and policies are approved by the RMC and are regularly reviewed to ensure that the limits and policies remain applicable and is able to surface potential interest rate/rate of return risk.

The Group uses a range of approaches to measure IRR/RoRBB, whereby the impact on NII/NPI and EVE is considered at all times, as follows:

(i) Repricing Gap Reports

Distribution of interest/profit sensitive assets, liabilities and off-balance sheet positions into time bands according to their remaining maturity or next repricing maturity. One of the challenges of this mismatch repricing analysis is the underlying assumptions of the embedded optionality of loan/financing prepayments, early deposits withdrawal and effective duration of liabilities which are contractually repayable on demand such as current and savings accounts.

This is measured on a monthly basis for the Bank and quarterly basis for the Group.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

Risk Management Approach (continued)

The Group uses a range of approaches to measure IRR/RoRBB, whereby the impact on NII/NPI and EVE is considered at all times, as follows (continued):

(ii) Sensitivity Analysis

Impact to NII/NPI – This is the projected Group's NII/NPI sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's interest rate/rate of return sensitivity gap as at the reporting date after taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. 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.

Impact to EVE – This measure takes a comprehensive view of the potential long-term effects of a 100 basis point parallel movement in interest/profit rates on the economic value of the Group's Balance Sheet. It requires all future cash flows associated with the Group's assets, liabilities and off-balance sheet positions to be discounted at relevant market rates to determine the overall net present value of the Group.

These are measured on a monthly basis for the Bank and quarterly basis for the Group.

(iii) Simulation Scenarios

As and when the need arises, analysis is performed on the sensitivity of projected NII/NPI and EVE under varying interest/profit rate and balance sheet scenarios. The analysis also incorporates business assumptions obtained from various lines of business and behavioural assumptions established based on statistical methods for the Group. The impact on earnings is measured against the approved Earning-at-Risk ("EaR") and EVE limits where new business and hedging strategies are carried out to mitigate any increasing interest rate/rate of return risk.

(iv) Stress Testing

The vulnerability of the Group's earnings and EVE under various levels of stress using a variety of economic parameters. This semi-annual practice is also to determine the adequacy of capital in meeting the adverse impact of extreme interest rate/rate of return movements on the Group's statements of financial position which can provide an early warning of the potential losses and to facilitate proactive management of the interest rate/rate of return risk.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

(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.

Group 2016	<---- 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	4,875,284	2,233,656	326,165	-	-	-	-	-	3,248,987	-	10,684,092	2.42
Reverse repurchase agreements	1,261,596	1,006,968	-	-	-	-	-	-	-	524,999	2,793,563	3.15
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	1,178,884	1,178,884	3.46
Financial investments available-for-sale	3,662,585	5,186,962	3,156,808	3,549,266	6,220,065	5,476,138	2,532,264	3,424,829	136,288	-	33,345,205	3.64
Financial investments held-to-maturity	89,673	1,047,774	4,807,362	2,793,842	5,130,658	1,896,877	3,975,536	2,431,118	1,086	-	22,173,926	3.55
Loans, advances and financing												
- non-impaired	220,806,918	8,289,207	16,238,959	12,605,424	9,693,279	7,649,993	5,453,739	11,732,282	-	-	292,469,801	5.25
- impaired *	-	-	-	-	-	-	-	-	(40,617)	-	(40,617)	-
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	16,925,654	522,318	17,447,972	-
TOTAL ASSETS	230,696,056	17,764,567	24,529,294	18,948,532	21,044,002	15,023,008	11,961,539	17,588,229	20,271,398	2,226,201	380,052,826	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

Group 2016	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 %
	<------- Non-trading book								------->			
LIABILITIES AND EQUITY												
Deposits from customers	138,861,793	54,858,334	76,970,074	359,490	197,761	1,504	3,574	-	38,721,038	-	309,973,568	3.03
Deposits from banks	6,994,642	3,325,554	899,928	46,138	132,760	140,457	149,087	-	122,257	-	11,810,823	2.26
Obligations on securities sold under repurchase agreements	2,469,834	-	-	-	-	-	-	-	-	-	2,469,834	3.07
Bills and acceptances payable	1,000	31,405	-	-	-	-	-	-	294,867	-	327,272	3.40
Recourse obligations on loans and financing sold to Cagamas	-	-	1,500,018	422,005	-	-	-	-	-	-	1,922,023	3.93
Debt securities issued and other borrowed funds	631,771	895,664	3,000,000	2,350,000	3,588,000	-	1,000,000	-	48,839	-	11,514,274	4.32
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	6,412,333	258,928	6,671,261	-
Total Liabilities	148,959,040	59,110,957	82,370,020	3,177,633	3,918,521	141,961	1,152,661	-	45,599,334	258,928	344,689,055	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	34,213,315	-	34,213,315	-
Non-controlling interests	-	-	-	-	-	-	-	-	1,150,456	-	1,150,456	-
TOTAL LIABILITIES AND EQUITY	148,959,040	59,110,957	82,370,020	3,177,633	3,918,521	141,961	1,152,661	-	80,963,105	258,928	380,052,826	
On-balance sheet interest/profit sensitivity gap	81,737,016	(41,346,390)	(57,840,726)	15,770,899	17,125,481	14,881,047	10,808,878	17,588,229	(60,691,707)	1,967,273	-	
Off-balance sheet interest/profit sensitivity gap (interest/profit rate swaps)	2,306,295	148,388	80,000	(950,000)	956,162	(930,000)	(1,063,350)	(547,495)	-	-	-	
TOTAL INTEREST/ PROFIT SENSITIVITY GAP	84,043,311	(41,198,002)	(57,760,726)	14,820,899	18,081,643	13,951,047	9,745,528	17,040,734	(60,691,707)	1,967,273	-	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

Group 2015	<---- 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	10,571,707	847,274	335,599	-	-	-	-	-	3,076,479	-	14,831,059	2.34
Reverse repurchase agreements	2,603,763	1,136,928	-	-	-	-	-	-	-	638,470	4,379,161	3.35
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	3,102,761	3,102,761	3.92
Financial investments available-for-sale	2,154,020	5,594,383	4,154,960	2,783,354	4,295,498	3,311,643	1,377,132	3,042,860	3,193,857	-	29,907,707	3.54
Financial investments held-to-maturity	126,587	810,275	2,264,060	3,543,699	2,561,030	4,645,857	1,784,419	6,207,036	1,086	-	21,944,049	3.51
Loans, advances and financing												
- non-impaired	203,639,563	7,902,016	12,008,409	12,882,408	9,636,963	7,754,958	5,627,740	12,643,182	-	-	272,095,239	5.37
- impaired *	-	-	-	-	-	-	-	-	(280,768)	-	(280,768)	-
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	17,191,834	587,164	17,778,998	-
TOTAL ASSETS	219,095,640	16,290,876	18,763,028	19,209,461	16,493,491	15,712,458	8,789,291	21,893,078	23,182,488	4,328,395	363,758,206	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

Group 2015	<---- 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	142,785,681	55,697,431	66,365,237	130,033	18,186	1,645	1,474	-	36,157,402	-	301,157,089	3.11
Deposits from banks	7,230,811	1,268,355	891,621	58,049	50,933	141,524	169,273	-	158,955	-	9,969,521	1.71
Bills and acceptances payable	26,412	-	-	-	-	-	-	-	336,480	-	362,892	3.56
Recourse obligations on loans and financing sold to Cagamas	-	-	-	1,500,017	422,004	-	-	-	-	-	1,922,021	3.93
Debt securities issued and other borrowed funds	602,614	-	2,059,400	3,000,000	2,350,000	3,588,000	-	-	66,866	-	11,666,880	4.55
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	6,245,260	126,804	6,372,064	-
Total Liabilities	150,645,518	56,965,786	69,316,258	4,688,099	2,841,123	3,731,169	170,747	-	42,964,963	126,804	331,450,467	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	31,231,098	-	31,231,098	-
Non-controlling interests	-	-	-	-	-	-	-	-	1,076,641	-	1,076,641	-
TOTAL LIABILITIES AND EQUITY	150,645,518	56,965,786	69,316,258	4,688,099	2,841,123	3,731,169	170,747	-	75,272,702	126,804	363,758,206	
On-balance sheet interest/profit sensitivity gap	68,450,122	(40,674,910)	(50,553,230)	14,521,362	13,652,368	11,981,289	8,618,544	21,893,078	(52,090,214)	4,201,591	-	
Off-balance sheet interest/profit sensitivity gap (interest/profit rate swaps)	1,688,673	(2,683,537)	1,559,400	(74,400)	(950,000)	1,859,090	(930,000)	(469,226)	-	-	-	
TOTAL INTEREST/ PROFIT SENSITIVITY GAP	70,138,795	(43,358,447)	(48,993,830)	14,446,962	12,702,368	13,840,379	7,688,544	21,423,852	(52,090,214)	4,201,591	-	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

	<------ Non-trading book							------>			
Bank 2016	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	2,486,097	597,968	-	-	-	-	-	-	1,975,825	-	5,059,890	2.15
Reverse repurchase agreements	1,261,596	1,006,968	-	-	-	-	-	-	-	-	2,268,564	3.19
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	576,329	576,329	3.21
Financial investments available-for-sale	3,471,036	4,930,426	1,314,037	1,337,851	4,706,288	2,790,211	1,896,579	3,093,400	115,481	-	23,655,309	3.62
Financial investments held-to-maturity	-	252,888	2,981,853	611,182	4,912,923	1,532,840	4,351,053	2,400,716	1,086	-	17,044,541	3.94
Loans and advances												
– non-impaired	184,770,721	6,168,854	10,633,239	9,168,124	6,818,928	5,324,711	3,621,650	6,185,427	-	-	232,691,654	5.14
– impaired *	-	-	-	-	-	-	-	-	103,039	-	103,039	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	21,890,466	519,951	22,410,417	-
TOTAL ASSETS	191,989,450	12,957,104	14,929,129	11,117,157	16,438,139	9,647,762	9,869,282	11,679,543	24,085,897	1,096,280	303,809,743	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

Bank 2016	<-- 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 %
LIABILITIES AND EQUITY												
Deposits from customers	109,284,537	41,699,592	57,001,404	182,287	3,668	1,159	3,110	-	33,781,701	-	241,957,458	3.18
Deposits from banks	6,602,229	3,866,811	1,013,471	43,811	131,160	140,457	138,165	-	352,922	-	12,289,026	2.22
Obligations on securities sold under repurchase agreements	2,469,834	-	-	-	-	-	-	-	-	-	2,469,834	3.07
Bills and acceptances payable	1,000	31,405	-	-	-	-	-	-	293,192	-	325,597	3.40
Recourse obligations on loans sold to Cagamas	-	-	1,000,002	422,005	-	-	-	-	-	-	1,422,007	4.05
Debt securities issued and other borrowed funds	-	895,664	3,000,000	2,350,000	3,088,000	-	1,000,000	-	49,465	-	10,383,129	4.63
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	4,944,411	244,779	5,189,190	-
Total Liabilities	118,357,600	46,493,472	62,014,877	2,998,103	3,222,828	141,616	1,141,275	-	39,421,691	244,779	274,036,241	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	29,773,502	-	29,773,502	-
TOTAL LIABILITIES AND EQUITY	118,357,600	46,493,472	62,014,877	2,998,103	3,222,828	141,616	1,141,275	-	69,195,193	244,779	303,809,743	
On-balance sheet interest sensitivity gap	73,631,850	(33,536,368)	(47,085,748)	8,119,054	13,215,311	9,506,146	8,728,007	11,679,543	(45,109,296)	851,501	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	518,625	(2,945,750)	280,000	(350,000)	1,990,750	(800,000)	(973,625)	2,280,000	-	-	-	
TOTAL INTEREST SENSITIVITY GAP	74,150,475	(36,482,118)	(46,805,748)	7,769,054	15,206,061	8,706,146	7,754,382	13,959,543	(45,109,296)	851,501	-	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

Bank 2015	<---- 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	6,522,467	471,880	-	-	-	-	-	-	2,104,285	-	9,098,632	2.28
Reverse repurchase agreements	2,603,763	1,136,928	-	-	-	-	-	-	-	-	3,740,691	3.37
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	1,442,617	1,442,617	3.93
Financial investments available-for-sale	1,338,292	5,265,773	2,474,482	947,547	3,117,641	2,997,257	1,083,960	2,801,279	3,059,781	-	23,086,012	3.68
Financial investments held-to-maturity	13,368	371,261	347,249	3,209,992	612,352	4,887,899	1,522,686	6,719,294	1,086	-	17,685,187	3.93
Loans and advances												
– non-impaired	174,362,658	5,801,103	8,066,024	9,145,117	6,765,111	5,135,890	3,791,217	6,839,110	-	-	219,906,230	5.29
– impaired *	-	-	-	-	-	-	-	-	(34,156)	-	(34,156)	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	16,762,156	585,022	17,347,178	-
TOTAL ASSETS	184,840,548	13,046,945	10,887,755	13,302,656	10,495,104	13,021,046	6,397,863	16,359,683	21,893,152	2,027,639	292,272,391	

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

Bank 2015	<----- 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 %
LIABILITIES AND EQUITY												
Deposits from customers	109,847,734	42,303,048	52,745,580	119,671	16,120	1,175	1,129	-	31,425,701	-	236,460,158	3.28
Deposits from banks	7,741,807	1,082,828	605,592	58,049	48,585	139,924	165,223	-	721,082	-	10,563,090	1.58
Bills and acceptances payable	26,412	-	-	-	-	-	-	-	335,631	-	362,043	3.56
Recourse obligations on loans sold to Cagamas	-	-	-	1,000,001	422,004	-	-	-	-	-	1,422,005	4.05
Debt securities issued and other borrowed funds	-	-	2,059,400	3,000,000	2,350,000	3,088,000	-	-	67,749	-	10,565,149	4.68
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	4,828,281	126,478	4,954,759	-
Total Liabilities	117,615,953	43,385,876	55,410,572	4,177,721	2,836,709	3,229,099	166,352	-	37,378,444	126,478	264,327,204	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	27,945,187	-	27,945,187	-
TOTAL LIABILITIES AND EQUITY	117,615,953	43,385,876	55,410,572	4,177,721	2,836,709	3,229,099	166,352	-	65,323,631	126,478	292,272,391	
On-balance sheet interest sensitivity gap	67,224,595	(30,338,931)	(44,522,817)	9,124,935	7,658,395	9,791,947	6,231,511	16,359,683	(43,430,479)	1,901,161	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	(30,000)	(5,673,000)	1,559,400	125,600	(350,000)	2,888,000	(800,000)	2,280,000	-	-	-	
TOTAL INTEREST SENSITIVITY GAP	67,194,595	(36,011,931)	(42,963,417)	9,250,535	7,308,395	12,679,947	5,431,511	18,639,683	(43,430,479)	1,901,161	-	

* 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 (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

(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 taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. 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.

	2016		2015	
	-100 bps	+100 bps	-100 bps	+100 bps
	<------------- Increase/(Decrease) ------------->			
	RM'000	RM'000	RM'000	RM'000
Group				
Impact on NII/NPI				
Ringgit Malaysia	**(284,126)**	**277,630**	(201,107)	189,246
United States Dollars	**19,551**	**(28,045)**	12,766	(33,428)
Hong Kong Dollars	**(23,549)**	**22,329**	(3,444)	10,654
Other Currencies	**(22,957)**	**20,527**	(14,414)	13,604
	(311,081)	**292,441**	(206,199)	180,076
Impact on EVE				
Ringgit Malaysia	**1,994,841**	**(1,582,295)**	2,007,306	(1,647,975)
United States Dollars	**4,366**	**18,131**	8,194	(14,357)
Hong Kong Dollars	**7,605**	**16,845**	2,967	4,761
Other Currencies	**4,858**	**2,730**	(1,658)	6,034
	2,011,670	**(1,544,589)**	2,016,809	(1,651,537)

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (continued)

(ii) Interest Rate/Rate of Return Risk Sensitivity Analysis (continued)

	2016		2015	
	-100 bps	+100 bps	-100 bps	+100 bps
	<------------- Increase/(Decrease)			------------->
	RM'000	RM'000	RM'000	RM'000
Bank				
Impact on NII				
Ringgit Malaysia	**(253,224)**	**251,500**	(212,283)	211,258
United States Dollars	**14,311**	**(19,046)**	7,053	(21,865)
Hong Kong Dollars	**3,142**	**(4,201)**	1,118	(3,748)
Other Currencies	**(11,691)**	**10,966**	(8,666)	8,568
	(247,462)	**239,219**	(212,778)	194,213
Impact on EVE				
Ringgit Malaysia	**1,642,010**	**(1,290,520)**	1,370,830	(1,425,992)
United States Dollars	**(20,936)**	**36,925**	(4,122)	4,207
Hong Kong Dollars	**(920)**	**1,263**	(617)	1,989
Other Currencies	**10,834**	**(6,906)**	6,996	(7,990)
	1,630,988	**(1,259,238)**	1,373,087	(1,427,786)

The reported amounts do not capture the impact of business growth or of management actions and are based on the balance sheet as at reporting date. In reality, the ALCO seeks to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection 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 and EVE are measured on a monthly basis for the Bank and quarterly basis for the Group, both of which are reported to the ALCO and the RMC.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(b) Displaced Commercial Risk ("DCR")

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.

In accordance with the BNM's Transition Policy under Islamic Financial Services Act 2013, investment deposit products which are held as security against financing facilities are allowed to be classified as Islamic deposits until the settlement of the financing facilities.

As at reporting date, PIBB's investment deposits of RM90,115,000 (2015 – RM113,594,000) are subject to DCR and the Group has RM284,000 (2015 – RM140,000) PER to manage the DCR.

(c) Foreign Exchange Risk

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 the potential foreign exchange risk against the cost of hedging and is periodically assessed by the ALCO.

(i) The following tables summarised 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 Vietnamese Dong, Euro, Australian Dollars, Chinese Renminbi, New Zealand Dollars, Sri Lankan Rupees, Laotian Kip, Great Britain Pounds and Japanese Yen.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

Group 2016	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	4,086,872	1,159,732	3,376,810	2,060,678	10,684,092
Reverse repurchase agreements	2,790,628	–	–	2,935	2,793,563
Financial assets held-for-trading	1,178,884	–	–	–	1,178,884
Derivative financial assets	583,875	238	31,899	2,129	618,141
Financial investments available-for-sale	32,439,603	3,936	730,215	171,451	33,345,205
Financial investments held-to-maturity	18,514,031	2,183,579	811,452	664,864	22,173,926
Loans, advances and financing	266,731,421	15,098,926	7,949,340	2,649,497	292,429,184
Other assets	1,475,594	569,603	362,241	587,085	2,994,523
Statutory deposits with Central Banks	8,054,702	–	818,951	26,913	8,900,566
Deferred tax assets	48,704	3,619	–	12,866	65,189
Investment in associated companies	38,119	–	18	–	38,137
Investment properties	517,590	181,879	–	–	699,469
Property and equipment	981,713	432,641	96,105	17,867	1,528,326
Intangible assets	775,493	1,667,721	–	160,407	2,603,621
TOTAL ASSETS	338,217,229	21,301,874	14,177,031	6,356,692	380,052,826
LIABILITIES					
Deposits from customers	271,010,225	15,383,946	16,737,243	6,842,154	309,973,568
Deposits from banks	6,841,465	581,276	3,868,662	519,420	11,810,823
Obligations on securities sold under repurchase agreements	2,469,451	–	–	383	2,469,834
Bills and acceptances payable	326,938	–	–	334	327,272
Recourse obligations on loans and financing sold to Cagamas	1,922,023	–	–	–	1,922,023
Derivative financial liabilities	1,307,261	13,397	8,033	–	1,328,691
Debt securities issued and other borrowed funds	9,986,839	631,771	895,664	–	11,514,274
Other liabilities	2,603,543	747,352	373,955	899,319	4,624,169
Provision for tax expense and zakat	494,043	7,505	50,717	10,849	563,114
Deferred tax liabilities	136,938	18,349	–	–	155,287
TOTAL LIABILITIES	297,098,726	17,383,596	21,934,274	8,272,459	344,689,055
Non-controlling interests	–	1,123,616	26,840	–	1,150,456
On-Balance Sheet Open Position	41,118,503	2,794,662	(7,784,083)	(1,915,767)	34,213,315
Off-Balance Sheet Open Position	(8,187,483)	(806,848)	4,952,367	4,041,964	–
NET OPEN POSITION	32,931,020	1,987,814	(2,831,716)	2,126,197	34,213,315

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

Group 2015	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	8,340,688	762,869	4,215,044	1,512,458	14,831,059
Reverse repurchase agreements	4,373,865	–	–	5,296	4,379,161
Financial assets held-for-trading	3,102,761	–	–	–	3,102,761
Derivative financial assets	658,362	2,141	27,583	–	688,086
Financial investments available-for-sale	29,355,315	3,771	544,831	3,790	29,907,707
Financial investments held-to-maturity	18,917,734	1,807,774	860,399	358,142	21,944,049
Loans, advances and financing	248,410,197	14,766,734	7,240,382	1,397,158	271,814,471
Other assets	1,373,812	484,130	518,289	659,733	3,035,964
Statutory deposits with Central Banks	8,831,954	–	672,435	10,030	9,514,419
Deferred tax assets	51,263	352	–	14,051	65,666
Investment in associated companies	19,316	–	171,604	–	190,920
Investment properties	336,977	148,198	–	–	485,175
Property and equipment	914,760	404,175	95,257	8,661	1,422,853
Intangible assets	775,493	1,600,422	–	–	2,375,915
TOTAL ASSETS	325,462,497	19,980,566	14,345,824	3,969,319	363,758,206
LIABILITIES					
Deposits from customers	259,027,746	14,972,110	22,068,365	5,088,868	301,157,089
Deposits from banks	5,524,340	432,228	3,479,990	532,963	9,969,521
Bills and acceptances payable	361,186	–	–	1,706	362,892
Recourse obligations on loans and financing sold to Cagamas	1,922,021	–	–	–	1,922,021
Derivative financial liabilities	997,087	326	10,167	–	1,007,580
Debt securities issued and other borrowed funds	10,179,887	602,614	884,379	–	11,666,880
Other liabilities	2,815,407	612,716	184,174	908,006	4,520,303
Provision for tax expense and zakat	625,248	13,622	50,261	–	689,131
Deferred tax liabilities	140,400	14,650	–	–	155,050
TOTAL LIABILITIES	281,593,322	16,648,266	26,677,336	6,531,543	331,450,467
Non-controlling interests	–	1,053,258	23,383	–	1,076,641
On-Balance Sheet Open Position	43,869,175	2,279,042	(12,354,895)	(2,562,224)	31,231,098
Off-Balance Sheet Open Position	(13,629,371)	(231,424)	10,476,618	3,384,177	–
NET OPEN POSITION	30,239,804	2,047,618	(1,878,277)	821,953	31,231,098

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

Bank 2016	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	2,719,784	227,486	1,804,567	308,053	5,059,890
Reverse repurchase agreements	2,265,629	–	–	2,935	2,268,564
Financial assets held-for-trading	576,329	–	–	–	576,329
Derivative financial assets	604,564	–	23,581	–	628,145
Financial investments available-for-sale	23,621,370	–	33,878	61	23,655,309
Financial investments held-to-maturity	17,019,572	–	–	24,969	17,044,541
Loans and advances	229,701,744	94,758	2,073,528	924,663	232,794,693
Other assets	1,568,820	583,239	327,858	548,340	3,028,257
Statutory deposits with Central Banks	6,527,599	–	57,145	1,825	6,586,569
Collective investments	5,140,765	–	–	–	5,140,765
Investment in subsidiary companies	2,764,125	1,672,194	538,226	680,949	5,655,494
Investment in associated companies	30,000	–	–	–	30,000
Property and equipment	634,019	–	1,065	10,710	645,794
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	293,869,713	2,577,677	4,859,848	2,502,505	303,809,743
LIABILITIES					
Deposits from customers	230,850,329	6,938	7,814,695	3,285,496	241,957,458
Deposits from banks	6,897,303	–	4,919,347	472,376	12,289,026
Obligations on securities sold under repurchase agreements	2,469,451	–	–	383	2,469,834
Bills and acceptances payable	325,263	–	–	334	325,597
Recourse obligations on loans sold to Cagamas	1,422,007	–	–	–	1,422,007
Derivative financial liabilities	1,322,747	–	–	–	1,322,747
Debt securities issued and other borrowed funds	9,487,465	–	895,664	–	10,383,129
Other liabilities	2,531,942	–	98,479	741,304	3,371,725
Provision for tax expense	374,015	–	646	1,404	376,065
Deferred tax liabilities	118,653	–	–	–	118,653
TOTAL LIABILITIES	255,799,175	6,938	13,728,831	4,501,297	274,036,241
On-Balance Sheet Open Position	38,070,538	2,570,739	(8,868,983)	(1,998,792)	29,773,502
Off-Balance Sheet Open Position	(8,187,483)	(838,199)	5,608,961	3,416,721	–
NET OPEN POSITION	29,883,055	1,732,540	(3,260,022)	1,417,929	29,773,502

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

Bank 2015	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	5,832,178	193,996	2,711,308	361,150	9,098,632
Reverse repurchase agreements	3,735,395	–	–	5,296	3,740,691
Financial assets held-for-trading	1,442,617	–	–	–	1,442,617
Derivative financial assets	652,513	–	25,117	–	677,630
Financial investments available-for-sale	23,053,503	–	32,449	60	23,086,012
Financial investments held-to-maturity	17,620,158	–	–	65,029	17,685,187
Loans and advances	216,780,380	113,482	2,129,524	848,688	219,872,074
Other assets	1,423,879	487,329	506,288	653,504	3,071,000
Statutory deposits with Central Banks	7,407,940	–	46,362	1,543	7,455,845
Investment in subsidiary companies	2,464,125	1,672,194	538,226	–	4,674,545
Investment in associated companies	20,000	–	101,295	–	121,295
Property and equipment	642,263	–	546	8,661	651,470
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	281,770,344	2,467,001	6,091,115	1,943,931	292,272,391
LIABILITIES					
Deposits from customers	219,029,391	33,431	14,174,172	3,223,164	236,460,158
Deposits from banks	5,595,387	–	4,371,394	596,309	10,563,090
Bills and acceptances payable	360,337	–	–	1,706	362,043
Recourse obligations on loans sold to Cagamas	1,422,005	–	–	–	1,422,005
Derivative financial liabilities	1,045,621	–	–	–	1,045,621
Debt securities issued and other borrowed funds	9,680,770	–	884,379	–	10,565,149
Other liabilities	2,479,505	–	27,010	881,858	3,388,373
Provision for tax expense	409,668	–	3,669	427	413,764
Deferred tax liabilities	107,001	–	–	–	107,001
TOTAL LIABILITIES	240,129,685	33,431	19,460,624	4,703,464	264,327,204
On-Balance Sheet Open Position	41,640,659	2,433,570	(13,369,509)	(2,759,533)	27,945,187
Off-Balance Sheet Open Position	(13,629,371)	(875,250)	11,245,377	3,259,244	–
NET OPEN POSITION	28,011,288	1,558,320	(2,124,132)	499,711	27,945,187

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Foreign Exchange Risk (continued)

(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
2016			
United States Dollars	**2,276,726**	**(749,553)**	**1,527,173**
Hong Kong Dollars	**2,875,686**	**803,624**	**3,679,310**
Other currencies	**724,575**	**1,076,408**	**1,800,983**
	5,876,987	**1,130,479**	**7,007,466**
2015			
United States Dollars	2,969,227	(928,101)	2,041,126
Hong Kong Dollars	2,496,557	1,095,692	3,592,249
Other currencies	–	770,518	770,518
	5,465,784	938,109	6,403,893

(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 2016 RM'000	Revaluation Sensitivity 2015 RM'000
United States Dollars	+/– 1	**–/+ 7,496**	–/+ 9,281
Hong Kong Dollars	+/– 1	**+/– 8,036**	+/– 10,957
Other currencies	+/– 1	**+/– 10,764**	+/– 7,705

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(d) Equity Risk

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 summarised 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		
2016	**+/– 20**	**+/– 633**
2015	+/– 20	+/– 746
Bank		
2016	**+/– 20**	**–**
2015	+/– 20	–

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 supports the RMC in liquidity and funding risk management oversight. The ALCO reviews the Group's liquidity risk frameworks, policies and guidelines, and implements necessary actions to ensure that the liquidity and funding risk is well managed and within the established liquidity risk appetite and thresholds.

Risk Management Approach

The Group's liquidity and funding risk management is guided by the Group's Liquidity and Funding Risk Management Policy. The policy sets out the processes involved in identifying, assessing, measuring, controlling, mitigating and monitoring of the liquidity and funding risk. The policy also addresses the regulatory requirements on Basel III Liquidity standards, including the BNM's Basel III Liquidity Coverage Ratio which is effective from 1 June 2015 and Basel III Net Stable Funding Ratio.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of high quality 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.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

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 demand and time deposits which have traditionally in aggregate provided stable sources of funding. The Group's strong reputation in financial and capital strength, wide branches network and sound infrastructure together with 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 securities, 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.

Monitoring tools and liquidity/funding limits are established to manage liquidity and funding exposures within the Group, including maturity mismatch, concentration of funding, and significant foreign currencies position. Liquidity and funding positions are reported to the ALCO on a monthly basis.

Contingency funding plans are in place to identify and monitor early warning signals of a liquidity event. 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 event. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed on periodic basis or ad hoc if necessary by the various entities under the Group to detect any vulnerability in respective entities' cash flows under the "Institution Specific Liquidity Problem" and "Market Wide Liquidity Problem" scenarios. The outcome of stress test exercise will be utilised to strengthen the liquidity management within the Group.

(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 of 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 "demand and savings deposits" of non-bank customers which are 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 without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

Group 2016	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 – 3 Years RM'000	> 3 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
ASSETS									
Cash and balances with banks	6,412,546	1,719,968	2,225,413	322,358	3,807	–	–	–	10,684,092
Reverse repurchase agreements	896,084	759,837	1,137,642	–	–	–	–	–	2,793,563
Financial investments	54,978	3,809,143	6,651,166	2,385,020	6,214,848	17,698,411	13,880,814	6,003,635	56,698,015
Derivative financial assets	75,416	88,370	172,490	100,212	92,295	62,237	18,045	9,076	618,141
Loans, advances and financing	13,006,021	5,935,992	9,903,977	12,409,282	20,715,596	70,252,014	48,178,196	112,028,106	292,429,184
Other asset balances	24,567	15,007	20,351	1,951	23	–	–	16,767,932	16,829,831
TOTAL ASSETS	20,469,612	12,328,317	20,111,039	15,218,823	27,026,569	88,012,662	62,077,055	134,808,749	380,052,826
LIABILITIES									
Deposits from customers	115,360,055	62,183,072	54,888,701	50,626,737	26,352,677	557,250	5,076	–	309,973,568
Deposits from banks	3,381,988	3,734,910	3,325,555	533,417	366,511	178,898	289,544	–	11,810,823
Obligations on securities sold under repurchase agreements	257	2,469,577	–	–	–	–	–	–	2,469,834
Recourse obligations on loans and financing sold to Cagamas	–	–	–	500,016	1,000,002	422,005	–	–	1,922,023
Derivative financial liabilities	30,954	203,088	452,474	70,772	155,916	344,022	71,186	279	1,328,691
Debt securities issued and other borrowed funds	–	–	–	–	3,005,501	7,509,188	999,585	–	11,514,274
Other liability balances	464,854	535,188	647,643	742,855	263,077	4,717	495	3,011,013	5,669,842
TOTAL LIABILITIES	119,238,108	69,125,835	59,314,373	52,473,797	31,143,684	9,016,080	1,365,886	3,011,292	344,689,055
EQUITY									
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	34,213,315	34,213,315
Non-controlling interests	–	–	–	–	–	–	–	1,150,456	1,150,456
TOTAL EQUITY	–	–	–	–	–	–	–	35,363,771	35,363,771
NET MATURITY MISMATCH	(98,768,496)	(56,797,518)	(39,203,334)	(37,254,974)	(4,117,115)	78,996,582	60,711,169	96,433,686	–

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

Group 2015	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 – 3 Years RM'000	> 3 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
ASSETS									
Cash and balances with banks	9,553,395	4,094,791	847,274	282,145	53,454	–	–	–	14,831,059
Reverse repurchase agreements	1,093,263	2,015,466	1,270,432	–	–	–	–	–	4,379,161
Financial investments	412,066	3,228,955	8,126,703	2,276,264	4,163,058	13,183,580	11,119,051	12,444,840	54,954,517
Derivative financial assets	69,412	135,083	164,769	202,535	42,666	17,944	47,275	8,402	688,086
Loans, advances and financing	12,555,877	5,636,759	11,452,190	10,386,322	18,503,334	65,179,300	45,729,912	102,370,777	271,814,471
Other asset balances	16,759	10,595	2,192	730	138	–	–	17,060,498	17,090,912
TOTAL ASSETS	23,700,772	15,121,649	21,863,560	13,147,996	22,762,650	78,380,824	56,896,238	131,884,517	363,758,206
LIABILITIES									
Deposits from customers	101,398,238	77,521,067	55,721,209	41,899,711	24,465,526	148,219	3,119	–	301,157,089
Deposits from banks	3,349,253	4,040,513	1,268,355	855,882	35,739	108,982	310,797	–	9,969,521
Recourse obligations on loans and financing sold to Cagamas	–	–	–	–	–	1,922,021	–	–	1,922,021
Derivative financial liabilities	7,051	63,008	43,064	3,895	9,786	816,914	53,695	10,167	1,007,580
Debt securities issued and other borrowed funds	–	–	–	–	2,089,965	5,954,851	3,622,064	–	11,666,880
Other liability balances	484,959	624,447	778,758	727,597	334,103	1,616	652	2,775,244	5,727,376
TOTAL LIABILITIES	105,239,501	82,249,035	57,811,386	43,487,085	26,935,119	8,952,603	3,990,327	2,785,411	331,450,467
EQUITY									
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	31,231,098	31,231,098
Non-controlling interests	–	–	–	–	–	–	–	1,076,641	1,076,641
TOTAL EQUITY	–	–	–	–	–	–	–	32,307,739	32,307,739
NET MATURITY MISMATCH	(81,538,729)	(67,127,386)	(35,947,826)	(30,339,089)	(4,172,469)	69,428,221	52,905,911	96,791,367	–

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

Bank 2016	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 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
ASSETS									
Cash and balances with banks	3,676,634	403,425	597,968	-	-	-	-	381,863	5,059,890
Reverse repurchase agreements	595,356	666,240	1,006,968	-	-	-	-	-	2,268,564
Financial investments	432,189	3,063,838	5,440,959	675,953	3,899,132	11,572,823	10,580,603	5,610,682	41,276,179
Derivative financial assets	75,411	88,001	170,497	100,024	92,295	66,625	17,173	18,119	628,145
Loans and advances	11,121,008	4,624,291	7,401,451	9,527,954	16,335,771	56,637,675	39,175,448	87,971,095	232,794,693
Other asset balances	7,112	8,568	9,473	-	-	-	-	21,757,119	21,782,272
TOTAL ASSETS	15,907,710	8,854,363	14,627,316	10,303,931	20,327,198	68,277,123	49,773,224	115,738,878	303,809,743
LIABILITIES									
Deposits from customers	89,315,571	53,717,498	41,725,558	37,349,575	19,659,033	185,954	4,269	-	241,957,458
Deposits from banks	3,478,331	3,460,148	3,866,811	643,511	369,961	174,971	295,293	-	12,289,026
Obligations on securities sold under repurchase agreements	257	2,469,577	-	-	-	-	-	-	2,469,834
Recourse obligations on loans sold to Cagamas	-	-	-	-	1,000,002	422,005	-	-	1,422,007
Derivative financial liabilities	28,108	195,309	450,238	70,700	154,700	337,019	71,187	15,486	1,322,747
Debt securities issued and other borrowed funds	-	-	-	-	3,005,501	6,378,043	999,585	-	10,383,129
Other liability balances	403,682	468,694	528,122	570,969	226,488	1,889	330	1,991,866	4,192,040
TOTAL LIABILITIES	93,225,949	60,311,226	46,570,729	38,634,755	24,415,685	7,499,881	1,370,664	2,007,352	274,036,241
EQUITY									
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	29,773,502	29,773,502
TOTAL EQUITY	-	-	-	-	-	-	-	29,773,502	29,773,502
NET MATURITY MISMATCH	(77,318,239)	(51,456,863)	(31,943,413)	(28,330,824)	(4,088,487)	60,777,242	48,402,560	83,958,024	-

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

Bank 2015	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 – 3 Years RM'000	> 3 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
ASSETS									
Cash and balances with banks	5,675,823	2,950,929	300,000	–	–	–	–	171,880	9,098,632
Reverse repurchase agreements	857,735	1,746,028	1,136,928	–	–	–	–	–	3,740,691
Financial investments	301,987	2,210,314	5,898,708	1,325,246	1,516,787	7,887,532	10,491,802	12,581,440	42,213,816
Derivative financial assets	68,893	133,981	164,367	202,506	42,577	16,455	42,363	6,488	677,630
Loans and advances	10,808,707	4,338,606	9,087,106	8,051,230	14,576,809	53,243,101	37,380,427	82,386,088	219,872,074
Other asset balances	9,977	8,244	1,318	–	–	–	–	16,650,009	16,669,548
TOTAL ASSETS	17,723,122	11,388,102	16,588,427	9,578,982	16,136,173	61,147,088	47,914,592	111,795,905	292,272,391
LIABILITIES									
Deposits from customers	77,615,039	63,637,326	42,324,118	32,554,949	20,190,631	135,791	2,304	–	236,460,158
Deposits from banks	3,777,357	4,685,532	1,082,828	573,827	31,765	106,634	305,147	–	10,563,090
Recourse obligations on loans sold to Cagamas	–	–	–	–	–	1,422,005	–	–	1,422,005
Derivative financial liabilities	6,785	62,954	43,064	3,889	9,786	817,154	54,207	47,782	1,045,621
Debt securities issued and other borrowed funds	–	–	–	–	2,089,965	5,352,237	3,122,947	–	10,565,149
Other liability balances	477,856	502,353	603,656	528,788	244,272	1,590	546	1,912,120	4,271,181
TOTAL LIABILITIES	81,877,037	68,888,165	44,053,666	33,661,453	22,566,419	7,835,411	3,485,151	1,959,902	264,327,204
EQUITY									
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	27,945,187	27,945,187
TOTAL EQUITY	–	–	–	–	–	–	–	27,945,187	27,945,187
NET MATURITY MISMATCH	(64,153,915)	(57,500,063)	(27,465,239)	(24,082,471)	(6,430,246)	53,311,677	44,429,441	81,890,816	–

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(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 demand 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 – 3 Years RM'000	> 3 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
2016									
By contractual maturity	115,360,055	62,183,072	54,888,701	50,626,737	26,352,677	557,250	5,076	–	309,973,568
By behavioural maturity	13,521,813	13,298,308	19,104,879	6,878,471	6,539,634	550,386	278,465	249,801,612	309,973,568
Difference	101,838,242	48,884,764	35,783,822	43,748,266	19,813,043	6,864	(273,389)	(249,801,612)	–
2015									
By contractual maturity	101,398,238	77,521,067	55,721,209	41,899,711	24,465,526	148,219	3,119	–	301,157,089
By behavioural maturity	16,053,408	15,915,358	18,179,472	5,972,187	5,265,975	618,309	153,433	238,998,947	301,157,089
Difference	85,344,830	61,605,709	37,541,737	35,927,524	19,199,551	(470,090)	(150,314)	(238,998,947)	–

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 – 3 Years RM'000	> 3 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
2016									
By contractual maturity	89,315,571	53,717,498	41,725,558	37,349,575	19,659,033	185,954	4,269	–	241,957,458
By behavioural maturity	8,702,776	6,061,701	5,047,174	938,304	2,058,373	2,534	278,253	218,868,343	241,957,458
Difference	80,612,795	47,655,797	36,678,384	36,411,271	17,600,660	183,420	(273,984)	(218,868,343)	–
2015									
By contractual maturity	77,615,039	63,637,326	42,324,118	32,554,949	20,190,631	135,791	2,304	–	236,460,158
By behavioural maturity	11,175,957	7,510,267	5,626,156	158,700	623,528	464,461	153,433	210,747,656	236,460,158
Difference	66,439,082	56,127,059	36,697,962	32,396,249	19,567,103	(328,670)	(151,129)	(210,747,656)	–

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(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 for the Group and the Bank of RM6,938.0 million (2015 – RM8,938.0 million) and RM6,438.0 million (2015 – RM8,438.0 million), all of which relate to senior medium term notes, subordinated notes, subordinated sukuk murabahah and Non-Innovative Tier I stapled securities whereby the interest/profit 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 – 3 Years RM'000	> 3 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
2016									
Deposits from customers	115,375,377	62,272,727	55,198,344	51,260,809	27,021,586	591,496	5,785	–	311,726,124
Deposits from banks	3,382,722	3,738,432	3,338,099	537,944	372,733	187,976	315,855	–	11,873,761
Obligations on securities sold under repurchase agreements	257	2,472,869	–	–	–	–	–	–	2,473,126
Debt securities issued and other borrowed funds	–	1,216	64,655	85,676	3,269,275	8,038,000	1,063,300	–	12,522,122
Other liability balances	494,156	573,270	925,514	1,084,704	1,349,471	788,889	83,972	3,010,947	8,310,923
Total Liabilities	119,252,512	69,058,514	59,526,612	52,969,133	32,013,065	9,606,361	1,468,912	3,010,947	346,906,056
Direct credit substitutes	294,794	31,099	124,673	188,132	494,138	566,892	3,107	208	1,703,043
Transaction-related contingent items	263,509	57,002	130,866	249,881	343,319	478,559	183,718	19,014	1,725,868
Short term self-liquidating trade-related contingencies	102,885	109,156	266,523	45,398	12,927	–	–	–	536,889
Other commitments, such as formal standby facilities and credit lines	8,208,779	3,081,893	2,833,589	3,409,534	19,765,676	7,464,523	1,354,426	4,577,779	50,696,199
Unutilised credit card lines	6,147,960	–	–	–	–	–	–	–	6,147,960
Forward asset purchases	10,472	–	–	–	–	–	–	–	10,472
Total Commitments and Contingencies	15,028,399	3,279,150	3,355,651	3,892,945	20,616,060	8,509,974	1,541,251	4,597,001	60,820,431

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(c) Maturity analysis of financial liabilities on an undiscounted basis (continued)

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 – 3 Years RM'000	> 3 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
2015									
Deposits from customers	101,408,503	77,638,733	56,032,878	42,432,993	25,099,934	156,046	3,522	–	302,772,609
Deposits from banks	3,521,711	4,043,397	1,099,606	861,380	36,198	112,655	332,331	–	10,007,278
Debt securities issued and other borrowed funds	–	4,429	48,974	105,507	2,326,016	6,695,809	3,723,726	–	12,904,461
Other liability balances	490,769	566,518	587,057	407,915	221,001	2,260,124	137,510	2,775,268	7,446,162
Total Liabilities	105,420,983	82,253,077	57,768,515	43,807,795	27,683,149	9,224,634	4,197,089	2,775,268	333,130,510
Direct credit substitutes	258,249	39,715	92,656	249,802	496,515	228,979	55,233	277	1,421,426
Transaction-related contingent items	252,865	58,652	190,649	169,519	280,167	458,508	137,460	3,092	1,550,912
Short term self-liquidating trade-related contingencies	73,475	111,977	152,245	28,633	32,174	–	–	–	398,504
Other commitments, such as formal standby facilities and credit lines	8,762,056	2,926,409	1,694,598	3,325,661	14,866,306	15,224,503	1,027,945	5,727,388	53,554,866
Unutilised credit card lines	5,079,505	103,313	–	–	–	–	–	–	5,182,818
Forward asset purchases	875,084	839	–	–	–	–	–	–	875,923
Total Commitments and Contingencies	15,301,234	3,240,905	2,130,148	3,773,615	15,675,162	15,911,990	1,220,638	5,730,757	62,984,449

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(c) Maturity analysis of financial liabilities on an undiscounted basis (continued)

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 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
2016									
Deposits from customers	89,327,838	53,793,177	41,970,783	37,867,923	20,163,760	197,249	4,860	-	243,325,590
Deposits from banks	3,479,078	3,463,723	3,882,569	647,729	376,044	180,875	311,993	-	12,342,011
Obligations on securities sold under repurchase agreements	257	2,472,869	-	-	-	-	-	-	2,473,126
Debt securities issued and other borrowed funds	-	-	60,548	73,692	3,250,547	6,855,774	1,063,300	-	11,303,861
Other liability balances	430,137	553,320	858,613	487,325	1,334,358	776,785	89,870	2,016,825	6,547,233
Total Liabilities	93,237,310	60,283,089	46,772,513	39,076,669	25,124,709	8,010,683	1,470,023	2,016,825	275,991,821
Direct credit substitutes	294,339	29,964	117,787	159,554	460,638	201,804	18,064	150	1,282,300
Transaction-related contingent items	249,647	38,794	120,306	139,980	289,324	455,742	175,590	14,869	1,484,252
Short term self-liquidating trade-related contingencies	33,169	54,521	34,918	3,080	10,802	-	-	-	136,490
Other commitments, such as formal standby facilities and credit lines	8,105,385	782,361	2,524,531	2,753,783	16,412,910	6,016,108	1,232,277	3,637,425	41,464,780
Unutilised credit card lines	5,932,134	-	-	-	-	-	-	-	5,932,134
Forward asset purchases	10,472	-	-	-	-	-	-	-	10,472
Total Commitments and Contingencies	14,625,146	905,640	2,797,542	3,056,397	17,173,674	6,673,654	1,425,931	3,652,444	50,310,428

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(c) Maturity analysis of financial liabilities on an undiscounted basis (continued)

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 – 3 Years RM'000	> 3 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
2015									
Deposits from customers	77,627,592	63,732,733	42,565,463	33,036,614	20,759,540	143,853	2,609	–	237,868,404
Deposits from banks	3,778,229	4,690,229	1,085,197	577,375	32,117	109,762	323,646	–	10,596,555
Debt securities issued and other borrowed funds	–	3,008	42,904	95,857	2,307,305	6,022,992	3,211,851	–	11,683,917
Other liability balances	483,803	488,158	496,718	336,612	198,001	2,358,869	63,953	1,980,635	6,406,749
Total Liabilities	81,889,624	68,914,128	44,190,282	34,046,458	23,296,963	8,635,476	3,602,059	1,980,635	266,555,625
Direct credit substitutes	198,323	30,588	84,966	232,200	442,500	209,646	16,860	222	1,215,305
Transaction-related contingent items	222,348	46,118	93,196	152,978	246,936	451,314	134,829	3,094	1,350,813
Short term self-liquidating trade-related contingencies	28,424	56,034	32,050	4,907	32,174	–	–	–	153,589
Other commitments, such as formal standby facilities and credit lines	8,737,658	569,166	1,519,248	2,831,450	13,813,390	12,396,458	989,150	4,907,059	45,763,579
Unutilised credit card lines	5,054,881	–	–	–	–	–	–	–	5,054,881
Forward asset purchases	875,084	–	–	–	–	–	–	–	875,084
Total Commitments and Contingencies	15,116,718	701,906	1,729,460	3,221,535	14,535,000	13,057,418	1,140,839	4,910,375	54,413,251

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk Governance

The Group's operational risk management is guided by the Group's Operational Risk Management Framework which is designed to ensure that operational risks are consistently identified, assessed, mitigated/controlled, monitored and reported within the Group.

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. The Operational Risk Management Working Group ("ORMWG") is established to support and assist the ORMC in its ongoing review of the operational risk management policies and procedures and ensuring effective implementation of the policies and procedures within the business and support units.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational Risk (continued)

Risk Governance (continued)

To ensure effective management of operational risk, independent risk management and compliance functions provide support to the business and support units and conduct compliance checks on their implementation of risk management policies and tools to identify, assess, control and monitor operational risk.

The various business and support units are responsible for the day-to-day management of operational risks within their lines of business and functions and ensure that their business activities are carried out within the established operational risk management policies, guidelines, procedures and limits.

The internal audit function provides independent assurance on the adequacy and effectiveness of operational risk management framework, processes and systems.

Risk Management Approach

The day-to-day management of operational risk exposures is through a system of risk management and 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. The Group seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to ensure compliance with statutory and regulatory requirements as well as internal policies and guidelines.

Comprehensive risk assessments are conducted on major operational risk issues/emerging risk events arising from changes in business and operating environment to facilitate pro-active development of appropriate risk response to emerging operational risk events which would affect the achievement of the Group's business objectives. Periodic reviews and enhancements to operational risk limits and assessment of the control effectiveness are also conducted in response to changes in internal and external factors so that the Group's operational risk exposures are managed within its risk appetite.

The Group has put in place the disaster recovery and business continuity plans which are regularly tested and updated that enable the Group to respond and continue to operate critical business functions across a broad spectrum of interruptions to the business, arising from internal or external events. Where appropriate, the Group mitigates risk of high impact loss events by relevant insurance coverage.

44. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational Risk (continued)

Risk Management Approach (continued)

(a) Strategy and Processes (continued)

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.

The Group manages its outsourcing activities through the Group's 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.

(b) Tools and Methods for Risk Mitigation

To monitor and mitigate operational risk, the Group uses various tools and methods including:

(i) Control self-assessment – To assess the state of risk management and internal controls for continuous enhancements;

(ii) Key risk indicators – To collect statistical data on an ongoing basis to facilitate early detection of operational risk issues and control deficiencies; and

(iii) Operational risk incident reporting and data collection – To analyse the causes of operational risk incidents and trends of operational risk data which are useful in assessing the Group's operational risk exposures and in strengthening the internal control environment.

(c) Reporting

Reporting is one of the important processes in operational risk management. The Group's operational risk management processes are aimed to ensure that operational risk exposures are properly identified, escalated and managed on a timely manner.

Operational risk exposures 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 key operational risk areas included in the operational risk management reports are premises controls and safety, losses due to fraud or control lapses, IT risk management, business continuity management, outsourcing activities, compliance review results as well as litigation against the Group. The operational risk management reports are tabled to the ORMWG, the ORMC and the RMC for deliberations.

45. FAIR VALUE MEASUREMENTS

(a) Determination of fair value and the fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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, price quotations from Bond Pricing Agency Malaysia and broker quotes on Bloomberg/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 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 judgment 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.

NOTES TO THE FINANCIAL STATEMENTS

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(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 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	501,621	–	501,621
– Money market instruments	–	495,364	–	495,364
– Non-money market instruments	–	181,899	–	181,899
	–	1,178,884	–	1,178,884
Financial investments available-for-sale				
– Government securities and treasury bills	–	20,274,041	–	20,274,041
– Money market instruments	–	8,662,958	–	8,662,958
– Non-money market instruments #	3,167	4,284,505	–	4,287,672
	3,167	33,221,504	–	33,224,671
Derivative financial assets	–	618,141	–	618,141
Total financial assets measured at fair value	3,167	35,018,529	–	35,021,696
Non-financial assets				
Investment properties	–	–	699,469	699,469
Financial liabilities				
Derivative financial liabilities	–	1,328,691	–	1,328,691
Total financial liabilities measured at fair value	–	1,328,691	–	1,328,691

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

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 (continued):

Group 2015	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	20,302	–	20,302
– Money market instruments	–	1,739,611	–	1,739,611
– Non-money market instruments	–	1,342,848	–	1,342,848
	–	3,102,761	–	3,102,761
Financial investments available-for-sale				
– Government securities and treasury bills	–	15,509,518	–	15,509,518
– Money market instruments	–	9,105,939	–	9,105,939
– Non-money market instruments #	1,165,813	4,007,502	–	5,173,315
	1,165,813	28,622,959	–	29,788,772
Derivative financial assets	–	688,086	–	688,086
Total financial assets measured at fair value	1,165,813	32,413,806	–	33,579,619
Non-financial assets				
Investment properties	–	–	485,175	485,175
Financial liabilities				
Derivative financial liabilities	–	1,007,580	–	1,007,580
Total financial liabilities measured at fair value	–	1,007,580	–	1,007,580

Excluding the carrying amount of equity securities – unquoted shares of the Group of RM120,534,000 (2015 – RM118,935,000) which are not carried at fair value.

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

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 (continued):

Bank **2016**	**Level 1** **RM'000**	**Level 2** **RM'000**	**Level 3** **RM'000**	**Total** **RM'000**
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	491,308	–	491,308
– Non-money market instruments	–	85,021	–	85,021
	–	576,329	–	576,329
Financial investments available-for-sale				
– Government securities and treasury bills	–	13,089,339	–	13,089,339
– Money market instruments	–	8,412,456	–	8,412,456
– Non-money market instruments #	–	2,038,033	–	2,038,033
	–	23,539,828	–	23,539,828
Derivative financial assets	–	628,145	–	628,145
Total financial assets measured at fair value	–	24,744,302	–	24,744,302
Financial liabilities				
Derivative financial liabilities	–	1,322,747	–	1,322,747
Total financial liabilities measured at fair value	–	1,322,747	–	1,322,747

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

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 (continued):

Bank **2015**	**Level 1** **RM'000**	**Level 2** **RM'000**	**Level 3** **RM'000**	**Total** **RM'000**
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	20,302	–	20,302
– Money market instruments	–	151,231	–	151,231
– Non-money market instruments	–	1,271,084	–	1,271,084
	–	1,442,617	–	1,442,617
Financial investments available-for-sale				
– Government securities and treasury bills	–	10,582,783	–	10,582,783
– Money market instruments	–	7,820,028	–	7,820,028
– Non-money market instruments #	1,036,630	3,532,519	–	4,569,149
	1,036,630	21,935,330	–	22,971,960
Derivative financial assets	–	677,630	–	677,630
Total financial assets measured at fair value	1,036,630	24,055,577	–	25,092,207
Financial liabilities				
Derivative financial liabilities	–	1,045,621	–	1,045,621
Total financial liabilities measured at fair value	–	1,045,621	–	1,045,621

Excluding the carrying amount of equity securities – unquoted shares of the Bank of RM115,481,000 (2015 – RM114,052,000) 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 (2015 – None).

There were no movements in Level 3 financial instruments during the year (2015: None).

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 17.

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

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 RM16,000 to RM279,000 (2015: RM13,000 to RM256,000) with weighted average of RM125,000 (2015: RM86,000). 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.

(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 of 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 liabilities where the carrying amounts are reasonable approximation of their fair values and equity securities – unquoted shares:

	2016		2015	
Group	**Carrying Amount RM'000**	**Fair Value RM'000**	**Carrying Amount RM'000**	**Fair Value RM'000**
Financial assets				
Financial investments held-to-maturity				
– Government securities and treasury bills	**15,431,063**	**15,503,461**	15,430,861	15,454,914
– Money market instruments	**1,464,061**	**1,460,647**	1,561,205	1,559,446
– Non-money market instruments *	**5,278,802**	**5,275,579**	4,951,983	4,928,541
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	**95,223,359**	**95,286,146**	86,644,692	86,659,064
– hire purchase	**51,476,027**	**51,006,205**	51,560,120	50,755,393
– credit cards	**1,871,913**	**1,871,913**	1,757,541	1,757,541
– other loans/financing	**99,885,178**	**99,770,032**	93,005,637	92,980,225
– Corporate loans/financing	**43,972,707**	**43,995,748**	38,846,481	38,832,315
Financial liabilities				
Recourse obligations on loans and financing sold to Cagamas	**1,922,023**	**1,920,386**	1,922,021	1,915,865
Debt securities issued and other borrowed funds	**11,514,274**	**11,576,255**	11,666,880	11,812,988

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group and of 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 liabilities where the carrying amounts are reasonable approximation of their fair values and equity securities – unquoted shares (continued):

	2016		2015	
Bank	**Carrying Amount RM'000**	**Fair Value RM'000**	**Carrying Amount RM'000**	**Fair Value RM'000**
Financial assets				
Financial investments held-to-maturity				
– Government securities and treasury bills	**11,611,897**	**11,672,301**	12,190,066	12,208,691
– Money market instruments	**1,709,786**	**1,681,064**	1,647,165	1,603,119
– Non-money market instruments *	**3,722,858**	**3,721,748**	3,847,956	3,827,500
Loans and advances				
– Retail loans				
– housing loans	**77,881,506**	**77,881,506**	72,774,120	72,774,120
– hire purchase	**37,410,905**	**37,069,467**	37,524,718	36,928,512
– credit cards	**1,842,319**	**1,842,319**	1,736,357	1,736,357
– other loans	**80,409,652**	**80,409,652**	77,439,869	77,439,869
– Corporate loans	**35,250,311**	**35,252,035**	30,397,010	30,392,896
Financial liabilities				
Recourse obligations on loans sold to Cagamas	**1,422,007**	**1,420,370**	1,422,005	1,420,202
Debt securities issued and other borrowed funds	**10,383,129**	**10,443,634**	10,565,149	10,709,524

* The accumulated impairment losses of the Group and of the Bank of RM39,000 (2015 – RM46,000) were netted off against the carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

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 and equity securities – unquoted shares:

	<------------------------- Fair Value			------------------------->
Group	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
2016				
Financial assets				
Financial investments held-to-maturity				
– Government securities and treasury bills	–	15,503,461	–	15,503,461
– Money market instruments	–	1,460,647	–	1,460,647
– Non-money market instruments	–	5,275,579	–	5,275,579
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	–	–	95,286,146	95,286,146
– hire purchase	–	–	51,006,205	51,006,205
– credit cards	–	–	1,871,913	1,871,913
– other loans/financing	–	–	99,770,032	99,770,032
– Corporate loans/financing	–	–	43,995,748	43,995,748
Financial liabilities				
Recourse obligations on loans and financing sold to Cagamas	–	–	1,920,386	1,920,386
Debt securities issued and other borrowed funds	–	11,576,255	–	11,576,255

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

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 and equity securities – unquoted shares (continued):

Group	Fair Value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2015				
Financial assets				
Financial investments held-to-maturity				
– Government securities and treasury bills	–	15,454,914	–	15,454,914
– Money market instruments	–	1,559,446	–	1,559,446
– Non-money market instruments	–	4,928,541	–	4,928,541
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	–	–	86,659,064	86,659,064
– hire purchase	–	–	50,755,393	50,755,393
– credit cards	–	–	1,757,541	1,757,541
– other loans/financing	–	–	92,980,225	92,980,225
– Corporate loans/financing	–	–	38,832,315	38,832,315
Financial liabilities				
Recourse obligations on loans and financing sold to Cagamas	–	–	1,915,865	1,915,865
Debt securities issued and other borrowed funds	–	11,812,988	–	11,812,988

NOTES TO THE FINANCIAL STATEMENTS

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

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 and equity securities – unquoted shares (continued):

	<---------- Fair Value			---------->
Bank	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
2016				
Financial assets				
Financial investments held-to-maturity				
– Government securities and treasury bills	–	11,672,301	–	11,672,301
– Money market instruments	–	1,681,064	–	1,681,064
– Non-money market instruments	–	3,721,748	–	3,721,748
Loans and advances				
– Retail loans				
– housing loans	–	–	77,881,506	77,881,506
– hire purchase	–	–	37,069,467	37,069,467
– credit cards	–	–	1,842,319	1,842,319
– other loans	–	–	80,409,652	80,409,652
– Corporate loans	–	–	35,252,035	35,252,035
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	1,420,370	1,420,370
Debt securities issued and other borrowed funds	–	10,443,634	–	10,443,634

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

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 and equity securities – unquoted shares (continued):

Bank	Fair Value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2015				
Financial assets				
Financial investments held-to-maturity				
– Government securities and treasury bills	–	12,208,691	–	12,208,691
– Money market instruments	–	1,603,119	–	1,603,119
– Non-money market instruments	–	3,827,500	–	3,827,500
Loans and advances				
– Retail loans				
– housing loans	–	–	72,774,120	72,774,120
– hire purchase	–	–	36,928,512	36,928,512
– credit cards	–	–	1,736,357	1,736,357
– other loans	–	–	77,439,869	77,439,869
– Corporate loans	–	–	30,392,896	30,392,896
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	1,420,202	1,420,202
Debt securities issued and other borrowed funds	–	10,709,524	–	10,709,524

45. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

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 held-to-maturity* – The fair values of financial investments held-to-maturity are estimated based on quoted bid prices.

(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 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 bid prices.

46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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, reverse repurchase agreements and obligations on securities sold under 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 that are received from or pledged with counterparties.

46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

Group	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
2016						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	522,318	–	522,318	(124,431)	(337,847)	60,040
– Interest/profit rate related contracts	95,823	–	95,823	(72,018)	(18,672)	5,133
	618,141	–	618,141	(196,449)	(356,519)	65,173
Reverse repurchase agreements	2,793,563	–	2,793,563	(2,884,147)	–	(90,584)
	3,411,704	–	3,411,704	(3,080,596)	(356,519)	(25,411)
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	1,307,493	–	1,307,493	(182,536)	(1,064,151)	60,806
– Interest/profit rate related contracts	21,194	–	21,194	(13,913)	–	7,281
– Precious metal contracts	4	–	4	–	–	4
	1,328,691	–	1,328,691	(196,449)	(1,064,151)	68,091
Obligations on securities sold under repurchase agreements	2,469,834	–	2,469,834	(2,546,896)	–	(77,062)
	3,798,525	–	3,798,525	(2,743,345)	(1,064,151)	(8,971)

NOTES TO THE FINANCIAL STATEMENTS

46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (continued):

				Amount Not Set-off in the Statement of Financial Position		
Group	**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**	**Values of the Financial Instruments * RM'000**	**Cash Collateral Received/ Pledged RM'000**	**Net Amount RM'000**
2015						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	587,163	–	587,163	(130,728)	(259,413)	197,022
– Interest/profit rate related contracts	100,922	–	100,922	(65,854)	–	35,068
– Precious metal contracts	1	–	1	–	–	1
	688,086	–	688,086	(196,582)	(259,413)	232,091
Reverse repurchase agreements	4,379,161	–	4,379,161	(4,542,570)	–	(163,409)
	5,067,247	–	5,067,247	(4,739,152)	(259,413)	68,682
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	996,588	–	996,588	(195,757)	(699,761)	101,070
– Interest/profit rate related contracts	10,992	–	10,992	(825)	–	10,167
	1,007,580	–	1,007,580	(196,582)	(699,761)	111,237

46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (continued):

Bank	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
2016						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	519,951	–	519,951	(124,431)	(337,847)	57,673
– Interest rate related contracts	108,194	–	108,194	(72,018)	(18,672)	17,504
	628,145	–	628,145	(196,449)	(356,519)	75,177
Reverse repurchase agreements	2,268,564	–	2,268,564	(2,359,148)	–	(90,584)
	2,896,709	–	2,896,709	(2,555,597)	(356,519)	(15,407)
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	1,293,344	–	1,293,344	(182,536)	(1,064,151)	46,657
– Interest rate related contracts	29,399	–	29,399	(13,913)	–	15,486
– Precious metal contracts	4	–	4	–	–	4
	1,322,747	–	1,322,747	(196,449)	(1,064,151)	62,147
Obligations on securities sold under repurchase agreements	2,469,834	–	2,469,834	(2,546,896)	–	(77,062)
	3,792,581	–	3,792,581	(2,743,345)	(1,064,151)	(14,915)

NOTES TO THE FINANCIAL STATEMENTS

46. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (continued):

Bank	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
2015						
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	585,022	–	585,022	(130,728)	(259,413)	194,881
– Interest rate related contracts	92,607	–	92,607	(65,854)	–	26,753
– Precious metal contracts	1	–	1	–	–	1
	677,630	–	677,630	(196,582)	(259,413)	221,635
Reverse repurchase agreements	3,740,691	–	3,740,691	(3,839,891)	–	(99,200)
	4,418,321	–	4,418,321	(4,036,473)	(259,413)	122,435
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	996,262	–	996,262	(195,757)	(699,761)	100,744
– Interest rate related contracts	49,359	–	49,359	(825)	–	48,534
	1,045,621	–	1,045,621	(196,582)	(699,761)	149,278

* Include securities accepted as collateral.

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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Within one year	**46,347**	39,607	**790**	861
Between one and five years	**49,675**	33,802	**400**	1,146
More than five years	**18,197**	7,203	**–**	–
	114,219	80,612	**1,190**	2,007

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	
	2016 RM'000	**2015 RM'000**
Within one year	**10,236**	8,022
Between one and five years	**16,648**	3,013
More than five years	**412**	–
	27,296	11,035

48. CAPITAL AND OTHER COMMITMENTS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Authorised and contracted for:				
– Land and buildings	**–**	228,110	**–**	–
– Renovations	**2,903**	2,644	**2,784**	1,518
– Office equipment, furniture and fittings	**2,057**	1,528	**1,819**	1,301
– Computer equipment and software	**25,699**	57,197	**16,069**	46,884
	30,659	289,479	**20,672**	49,703
Authorised but not contracted for:				
– Renovations	**36,461**	9,645	**–**	–
– Office equipment, furniture and fittings	**6,389**	1,195	**–**	–
– Computer equipment and software	**25,722**	18,384	**–**	–
– Motor vehicles	**–**	2,063	**–**	–
– Additional investment in an associated company *	**–**	320,337	**–**	320,337
	68,572	351,624	**–**	320,337
	99,231	641,103	**20,672**	370,040

* The amount stated in the previous year represents the capital injection required upon the completion of the proposed acquisition of the remaining interests in Public Bank Vietnam Limited (formerly known as VID Public Bank).

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 of the Bank are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Contingent liabilities				
Direct credit substitutes	**1,703,043**	1,421,426	**1,282,300**	1,215,305
Transaction-related contingent items	**1,725,868**	1,550,912	**1,484,252**	1,350,813
Short term self-liquidating trade-related contingencies	**536,889**	398,504	**136,490**	153,589
	3,965,800	3,370,842	**2,903,042**	2,719,707
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	**27,105,843**	29,423,236	**21,587,512**	24,777,773
– not exceeding one year	**23,590,356**	24,131,630	**19,877,268**	20,985,806
Unutilised credit card lines	**6,147,960**	5,182,818	**5,932,134**	5,054,881
Forward asset purchases	**10,472**	875,923	**10,472**	875,084
	56,854,631	59,613,607	**47,407,386**	51,693,544
Derivative financial instruments				
Foreign exchange related contracts:				
– less than one year	**29,108,843**	27,931,563	**28,280,704**	26,632,334
– one year to less than five years	**1,577,428**	3,017,152	**1,577,428**	3,017,152
Interest/profit rate related contracts:				
– less than one year	**4,874,400**	1,559,400	**4,674,400**	1,559,400
– one year to less than five years	**8,663,188**	11,571,310	**9,468,875**	12,272,400
– five years and above	**547,496**	469,226	**2,720,000**	2,720,000
Commodity related contracts:				
– less than one year	**673**	169	**673**	169
	44,772,028	44,548,820	**46,722,080**	46,201,455
	105,592,459	107,533,269	**97,032,508**	100,614,706

Disclosure of the credit equivalent amount and risk-weighted asset 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.

NOTES TO THE FINANCIAL STATEMENTS

50. CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Group and of the Bank are as follows:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Before deducting second interim dividends *				
Common equity Tier I ("CET I") capital ratio	**11.864%**	11.401%	**11.725%**	12.184%
Tier I capital ratio	**12.718%**	12.565%	**12.751%**	13.588%
Total capital ratio	**15.976%**	15.941%	**15.248%**	15.919%
After deducting second interim dividends *				
CET I capital ratio	**11.373%**	10.886%	**11.117%**	11.549%
Tier I capital ratio	**12.227%**	12.049%	**12.143%**	12.953%
Total capital ratio	**15.485%**	15.425%	**14.640%**	15.284%

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

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

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

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

The capital adequacy ratios of the Group and of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) reissued on 13 October 2015 which became effective from 1 January 2016. The minimum regulatory capital adequacy ratios before including capital conservation buffer and countercyclical capital buffer ("CCyB") for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively.

50. CAPITAL ADEQUACY (CONTINUED)

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

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

Calendar Year	Capital Conservation Buffer
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

A CCyB is required to be maintained if this buffer is applied by regulators in countries which the Group and the Bank have exposures to, determined based on the weighted average of prevailing CCyB rates applied in those jurisdictions. With effect from 1 January 2016, the Group and the Bank have applied CCyB on its exposures in Hong Kong in line with Hong Kong Monetary Authority's requirement to maintain CCyB of 0.625% in Hong Kong. The Group's and the Bank's CCyB determined based on the weighted average of prevailing CCyB rates of its Hong Kong exposures are insignificant due to its immaterial Hong Kong exposures. The CCyB which is in a range of between 0% and 2.5% is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

NOTES TO THE FINANCIAL STATEMENTS

50. CAPITAL ADEQUACY (CONTINUED)

(b) The components of CET I, Tier I and Tier II capital of the Group and of the Bank are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Components of CET I, Tier I and Tier II Capital:				
CET I/Tier I Capital:				
Paid-up share capital	**3,882,138**	3,882,138	**3,882,138**	3,882,138
Share premium	**5,535,515**	5,535,515	**5,535,515**	5,535,515
Other reserves	**5,873,014**	5,808,689	**5,158,625**	5,121,669
Retained profits	**16,898,317**	14,262,317	**13,533,372**	11,984,176
Treasury shares	**(149,337)**	(149,337)	**(149,337)**	(149,337)
Qualifying non-controlling interests	**752,070**	706,192	**–**	–
Less: Goodwill and other intangible assets	**(2,603,621)**	(2,375,915)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(65,189)**	(65,666)	**–**	–
Less: Defined benefit pension fund assets	**(230,359)**	(217,995)	**(227,351)**	(215,151)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	**(36,576)**	(56,902)	**(3,197,665)**	(1,775,915)
Total CET I Capital	**29,855,972**	27,329,036	**23,839,904**	23,687,702
Innovative Tier I capital securities	**–**	1,268,120	**–**	1,268,120
Non-Innovative Tier I stapled securities	**2,086,169**	1,461,600	**2,086,169**	1,461,600
Qualifying CET I and additional Tier I capital instruments held by third parties	**64,824**	59,175	**–**	–
Total Tier I Capital	**32,006,965**	30,117,931	**25,926,073**	26,417,422
Tier II Capital:				
Collective assessment allowance and regulatory reserves #	**2,887,573**	2,761,020	**2,336,302**	2,247,354
Subordinated notes				
– meeting all relevant criteria	**1,949,677**	1,949,489	**1,949,677**	1,949,489
– subject to gradual phase-out treatment	**2,923,800**	2,999,206	**2,923,800**	2,999,206
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**461,568**	467,894	**–**	–
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from Tier II capital	**(24,384)**	(85,353)	**(2,131,776)**	(2,663,872)
Total Tier II Capital	**8,198,234**	8,092,256	**5,078,003**	4,532,177
Total Capital	**40,205,199**	38,210,187	**31,004,076**	30,949,599

50. CAPITAL ADEQUACY (CONTINUED)

(b) The components of CET I, Tier I and Tier II capital of the Group and of the Bank are as follows (continued):

In arriving at the total capital of the Group and of the Bank above, the second interim dividends were not deducted.

[#] Excludes collective assessment allowance on impaired loans/financing restricted from Tier II capital of the Group and of the Bank of RM472,411,000 (2015 – RM560,411,000) and RM333,901,000 (2015 – RM399,886,000) respectively.

Includes the qualifying regulatory reserves for non-impaired loans/financing of the Group and of the Bank of RM1,951,880,000 (2015: RM1,810,794,000) and RM1,746,886,000 (2015: RM1,645,027,000) respectively.

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Credit risk	**231,005,869**	220,881,570	**186,904,199**	179,788,298
Market risk	**3,291,584**	2,500,503	**4,899,220**	3,714,333
Operational risk	**17,364,426**	16,321,153	**11,525,983**	10,911,444
	251,661,879	239,703,226	**203,329,402**	194,414,075

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.

NOTES TO THE FINANCIAL STATEMENTS

50. CAPITAL ADEQUACY (CONTINUED)

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

	Public Islamic Bank Berhad[1]	Public Investment Bank Berhad[2]	Public Bank (L) Ltd[3]	Public Bank (Hong Kong) Limited[4]	Public Finance Limited[4]	Cambodian Public Bank Plc[5]	Public Bank Vietnam Limited[6]
2016							
Before deducting interim dividends *:							
CET I capital ratio	**11.138%**	**40.789%**	**N/A**	**14.338%**	**24.728%**	**N/A**	**N/A**
Tier I capital ratio	**11.138%**	**40.789%**	**23.153%**	**14.338%**	**24.728%**	**N/A**	**N/A**
Total capital ratio	**13.746%**	**41.316%**	**23.178%**	**15.490%**	**25.739%**	**18.136%**	**46.920%**
After deducting interim dividends *:							
CET I capital ratio	**10.923%**	**38.728%**	**N/A**	**14.338%**	**22.868%**	**N/A**	**N/A**
Tier I capital ratio	**10.923%**	**38.728%**	**23.153%**	**14.338%**	**22.868%**	**N/A**	**N/A**
Total capital ratio	**13.531%**	**39.255%**	**23.178%**	**15.490%**	**23.878%**	**18.136%**	**46.920%**
2015							
Before deducting interim dividends *:							
CET I capital ratio	10.771%	32.496%	N/A	14.306%	25.476%	N/A	N/A
Tier I capital ratio	10.771%	32.496%	25.121%	14.306%	25.476%	N/A	N/A
Total capital ratio	13.481%	32.941%	25.148%	15.483%	26.473%	20.214%	N/A
After deducting interim dividends *:							
CET I capital ratio	10.771%	30.416%	N/A	14.306%	23.143%	N/A	N/A
Tier I capital ratio	10.771%	30.416%	25.121%	14.306%	23.143%	N/A	N/A
Total capital ratio	13.481%	30.861%	25.148%	15.483%	24.140%	20.214%	N/A

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

50. CAPITAL ADEQUACY (CONTINUED)

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

[1] The risk-weighted assets of Public Islamic Bank Berhad ("PIBB") are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Risk-weighted Assets) reissued on 13 October 2015. The minimum regulatory capital adequacy requirements before including capital conservation buffer and countercyclical capital buffer ("CCyB") for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively. PIBB is required to maintain a capital conservation buffer of up to 2.5% on transition arrangements and a CCyB of between 0% and 2.5% if this buffer is applied by regulators in countries which PIBB has exposures to.

[2] The risk-weighted assets of Public Investment Bank Berhad ("PIVB") are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) reissued on 13 October 2015. The minimum regulatory capital adequacy requirements before including capital conservation buffer and CCyB for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively. PIVB is required to maintain a capital conservation buffer of up to 2.5% on transition arrangements and a CCyB of between 0% and 2.5% if this buffer is applied by regulators in countries which PIVB has exposures to.

[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. The capital adequacy ratios of these two subsidiary companies are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Banking Capital Rules.

[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%.

[6] The amount presented here is the Capital Adequacy Ratio of Public Bank Vietnam Limited ("PBVN"), which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with SBV Circular No.36/2014/TT-NHNN issued by the State Bank of Vietnam. This ratio is derived as PBVN's capital divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory capital adequacy ratio requirement is 9.0%.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 total capital 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.

52. SEGMENT INFORMATION (CONTINUED)

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 involve in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading.

(v) Investment Banking

The investment banking operations 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.

NOTES TO THE FINANCIAL STATEMENTS

52. SEGMENT INFORMATION (CONTINUED)

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, loan 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 (2015 – none).

52. SEGMENT INFORMATION (CONTINUED)

By Business Segments:

2016	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	2,696,435	9,841,129	1,676,072	1,586,681	169,618	1,169,119	77,762	1,254,762	18,471,578	1,003,607	415,745	211,810	1,631,162	-	20,102,740
Revenue from other segments	-	1,463,823	12,080	1,802,052	1,000	37,942	30,365	2,243,800	5,591,062	-	9,666	2,236	11,902	(5,602,964)	-
Total revenue	2,696,435	11,304,952	1,688,152	3,388,733	170,618	1,207,061	108,127	3,498,562	24,062,640	1,003,607	425,411	214,046	1,643,064	(5,602,964)	20,102,740
Net interest income and Islamic banking income	780,925	4,466,283	462,663	259,893	25,448	14,646	(8,089)	737,501	6,739,270	717,310	272,110	133,355	1,122,775	-	7,862,045
Other income	4,688	660,326	50,315	332,203	59,748	724,045	94,136	54,286	1,979,747	107,426	63,122	15,194	185,742	(71,083)	2,094,406
Net income	785,613	5,126,609	512,978	592,096	85,196	738,691	86,047	791,787	8,719,017	824,736	335,232	148,549	1,308,517	(71,083)	9,956,451
Other operating expenses	(249,023)	(1,679,287)	(12,245)	(33,885)	(37,994)	(165,788)	(14,135)	(531,766)	(2,724,123)	(422,160)	(84,538)	(51,732)	(558,430)	71,083	(3,211,470)
of which:															
Depreciation	*(2,495)*	*(71,540)*	*(192)*	*(1,425)*	*(905)*	*(7,111)*	*(3,142)*	*(82,438)*	*(169,248)*	*(15,291)*	*(15,209)*	*(3,247)*	*(33,747)*	-	*(202,995)*
(Allowance)/writeback of allowance for impairment on loans, advances and financing	(82,820)	18,446	1,813	-	1,711	-	-	-	(60,850)	(137,017)	4,391	736	(131,890)	-	(192,740)
Writeback of allowance for impairment on other assets	-	430	-	-	-	-	-	-	430	-	-	-	-	-	430
Profit by segments	453,770	3,466,198	502,546	558,211	48,913	572,903	71,912	260,021	5,934,474	265,559	255,085	97,553	618,197	-	6,552,671
Reconciliation of segment profits to consolidated profits:															
Share of (loss)/profit after tax of equity accounted associated companies									(1,092)				2,453		1,361
Profit before tax expense and zakat									5,933,382				620,650		6,554,032
Cost-to-income ratio	31.7%	32.8%	2.4%	5.7%	44.6%	22.4%	16.4%	67.2%	31.2%	51.2%	25.2%	34.8%	42.7%		32.3%

52. SEGMENT INFORMATION (CONTINUED)

By Business Segments (continued):

2016 (continued)	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	49,600,781	182,383,346	37,464,027	-	383,421	81,478	1,968	-	269,915,021	16,884,678	4,500,886	2,658,597	24,044,161	-	293,959,182
Loan growth	-1.0%	8.0%	15.9%	-	-2.1%	19.8%	-11.2%	-	7.2%	2.5%	9.4%	149.4%	11.1%	-	7.5%
Impaired loans and financing	310,360	862,797	35,595	-	-	-	-	-	1,208,752	150,052	37,604	92,973	280,629	-	1,489,381
Impaired loan ratio	0.6%	0.5%	0.1%	-	-	-	-	-	0.4%	0.9%	0.8%	3.5%	1.2%	-	0.5%
Deposits from customers	-	219,239,718	253,089	61,946,997	1,527,111	-	-	-	282,966,915	19,507,760	5,216,526	2,282,367	27,006,653	-	309,973,568
Deposit growth	-	7.9%	3.1%	-15.2%	4.6%	-	-	-	1.8%	6.6%	21.9%	264.7%	16.3%	-	2.9%
Addition to non-current assets	3,799	95,335	236	2,001	486	3,654	205,329	49,933	360,773	22,996	13,059	8,141	44,196	-	404,969
Segment assets	49,357,435	228,387,446	37,408,952	78,862,597	2,736,100	309,884	850,114	31,543,478	429,456,006	24,547,846	7,214,201	4,378,395	36,140,442	(89,193,842)	376,402,606
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									38,119				18		38,137
Unallocated assets									1,008,462				-		1,008,462
Intangible assets									775,493				1,828,128		2,603,621
Total assets									431,278,080				37,968,588		380,052,826

52. SEGMENT INFORMATION (CONTINUED)

By Business Segments (continued):

2015	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	2,582,697	9,193,066	1,472,984	1,890,442	201,711	1,157,275	6,777	1,227,081	17,732,033	964,897	367,832	116,788	1,449,517	-	19,181,550
Revenue from other segments	-	1,344,590	12,197	1,680,280	8,818	10,883	30,028	1,890,732	4,977,528	-	7,173	-	7,173	(4,984,701)	-
Total revenue	2,582,697	10,537,656	1,485,181	3,570,722	210,529	1,168,158	36,805	3,117,813	22,709,561	964,897	375,005	116,788	1,456,690	(4,984,701)	19,181,550
Net interest income and Islamic banking income	774,019	4,404,853	377,881	233,914	26,844	11,880	(8,398)	382,362	6,203,355	672,034	248,955	81,317	1,002,306	-	7,205,661
Other income	3,867	618,256	55,766	286,665	71,009	696,641	126,774	361,410	2,220,388	110,555	61,264	18,561	190,380	(70,647)	2,340,121
Net income	777,886	5,023,109	433,647	520,579	97,853	708,521	118,376	743,772	8,423,743	782,589	310,219	99,878	1,192,686	(70,647)	9,545,782
Other operating expenses	(244,218)	(1,565,952)	(12,047)	(28,776)	(38,540)	(167,322)	(15,297)	(415,693)	(2,487,845)	(394,309)	(84,082)	(19,568)	(497,959)	70,647	(2,915,157)
of which:															
Depreciation	*(1,953)*	*(62,466)*	*(176)*	*(1,277)*	*(786)*	*(8,029)*	*(4,428)*	*(73,632)*	*(152,747)*	*(13,587)*	*(12,906)*	*(1,876)*	*(28,369)*	-	*(181,116)*
(Allowance)/writeback of allowance for impairment on loans, advances and financing	(184,928)	165,055	4,063	-	205	-	-	-	(15,605)	(133,542)	6,588	(3,672)	(130,626)	-	(146,231)
Allowance for impairment on other assets	-	(533)	-	-	-	-	-	(23)	(556)	-	-	-	-	-	(556)
Profit by segments	348,740	3,621,679	425,663	491,803	59,518	541,199	103,079	328,056	5,919,737	254,738	232,725	76,638	564,101	-	6,483,838
Reconciliation of segment profits to consolidated profits:															
Share of (loss)/profit after tax of equity accounted associated companies									(590)				8,147		7,557
Profit before tax expense and zakat									5,919,147				572,248		6,491,395
Cost-to-income ratio	31.4%	31.2%	2.8%	5.5%	39.4%	23.6%	12.9%	55.9%	29.5%	50.4%	27.1%	19.6%	41.8%		30.5%

52. SEGMENT INFORMATION (CONTINUED)

By Business Segments (continued):

2015 (continued)	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	50,094,625	168,921,733	32,323,409	-	391,721	68,008	2,216	-	251,801,712	16,466,441	4,113,061	1,065,841	21,645,343	-	273,447,055
Loan growth	8.0%	10.2%	14.5%	-	-6.6%	13.1%	-2.6%	-	10.3%	26.7%	37.5%	47.1%	29.6%	-	11.6%
Impaired loans and financing	342,274	797,011	51,307	-	-	-	-	-	1,190,592	104,900	30,461	25,863	161,224	-	1,351,816
Impaired loan ratio	0.7%	0.5%	0.2%	-	-	-	-	-	0.5%	0.6%	0.7%	2.4%	0.7%	-	0.5%
Deposits from customers	-	203,219,247	245,596	73,018,186	1,459,377	-	-	-	277,942,406	18,307,887	4,280,968	625,828	23,214,683	-	301,157,089
Deposit growth	-	5.1%	-0.9%	16.3%	-26.8%	-	-	-	7.5%	33.5%	10.4%	31.6%	28.5%	-	8.9%
Addition to non-current assets	3,474	95,797	24	558	1,096	10,196	117,335	31,693	260,173	9,656	8,078	883	18,617	-	278,790
Segment assets	49,778,601	210,317,412	32,267,060	85,509,325	3,026,429	324,810	582,487	32,202,881	414,009,005	22,736,520	6,152,014	1,423,897	30,312,431	(84,163,262)	360,158,174
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									24,398				166,522		190,920
Unallocated assets									1,033,197				-		1,033,197
Intangible assets									775,493				1,600,422		2,375,915
Total assets									415,842,093				32,079,375		363,758,206

53. RATING STATEMENT

As at 31 December 2016, the Bank was accorded the following ratings:

Agencies	Date accorded/Reaffirmed	Ratings
RAM Rating Services Berhad	26 April 2016 (Reaffirmed)	Long-Term Rating: AAA
	26 April 2016 (Reaffirmed)	Short-Term Rating: P1
	26 April 2016 (Reaffirmed)	Outlook: Stable
	26 April 2016 (Reaffirmed)	RM5 Billion Subordinated Medium-Term Notes Programme: AA1/Stable
	26 April 2016 (Reaffirmed)	Non-Cumulative Perpetual Capital Securities Programme: AA2/Stable
	26 April 2016 (Reaffirmed)	Senior Medium-Term Notes Programme: AAA/Stable
	26 April 2016 (Reaffirmed)	RM10 Billion Subordinated Medium-Term Notes Programme: AA1/Stable
Moody's Investors Service	16 August 2016 (Reaffirmed)	Foreign Currency:
		Long-Term Deposits Rating: A3
		Short-Term Deposits Rating: P-2
	16 August 2016 (Reaffirmed)	Local Currency:
		Long-Term Deposits Rating: A3
		Short-Term Deposits Rating: P-2
	16 August 2016	Foreign Currency Outlook: Stable
	16 August 2016	Local Currency Outlook: Stable
Standard & Poor's Ratings Services	8 November 2016 (Reaffirmed)	Foreign Currency:
		Long-Term Rating: A-
		Short-Term Rating: A-2
	8 November 2016 (Reaffirmed)	Local Currency:
		Long-Term Deposits Rating: A-
		Short-Term Deposits Rating: A-2
	8 November 2016 (Reaffirmed)	Asean Regional Scale Rating:
		Long-Term Rating: axAA
		Short-Term Rating: axA-1
	8 November 2016 (Reaffirmed)	Foreign Currency Outlook: Stable
	8 November 2016 (Reaffirmed)	Local Currency Outlook: Stable

NOTES TO THE FINANCIAL STATEMENTS

54. SIGNIFICANT EVENTS

The significant events relating to changes in the composition of the Group are disclosed in Note 15 and 16.

55. SUBSEQUENT EVENTS

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

56. ISLAMIC BANKING BUSINESS

The financial position as at 31 December 2016 and results for the financial year ended on this date under the Islamic banking business of the Group, which is conducted by the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad, are summarised as follows:

Statement of Financial Position as at 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000
ASSETS			
Cash and balances with banks		**651,382**	3,225,149
Financial assets held-for-trading		**495,364**	1,588,380
Derivative financial assets		**18,153**	56,019
Financial investments available-for-sale		**6,140,438**	4,780,808
Financial investments held-to-maturity		**2,985,266**	2,741,792
Financing and advances	(a)	**37,235,682**	31,736,855
Other assets		**85,913**	82,895
Statutory deposits with Bank Negara Malaysia		**1,518,000**	1,423,800
Deferred tax assets		**4,242**	–
Collective investments		**497,836**	–
Investment in an associated company		**30,000**	20,000
Property and equipment		**1,250**	1,267
Total Assets		**49,663,526**	45,656,965
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(b)	**42,473,074**	39,097,445
Deposits from banks		**2,322,128**	2,318,814
Bills and acceptances payable		**1,675**	849
Recourse obligations on financing sold to Cagamas		**500,016**	500,016
Derivative financial liabilities		**23,356**	1,636
Subordinated Sukuk Murabahah		**499,374**	499,117
Other liabilities		**215,490**	212,673
Provision for zakat and taxation		**43,251**	40,680
Deferred tax liabilities		**-**	22,029
Total Liabilities		**46,078,364**	42,693,259
Islamic Banking Funds		**3,585,162**	2,963,706
Total Liabilities and Islamic Banking Funds		**49,663,526**	45,656,965
COMMITMENTS AND CONTINGENCIES		**11,222,116**	10,194,763

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

56. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Profit or Loss for the year ended 31 December 2016

	Group	
	2016 RM'000	**2015 RM'000**
Income derived from investment of depositors' funds and others	**2,109,906**	1,816,324
Income derived from investment of Islamic Banking Funds	**167,592**	134,344
Allowance for impairment on financing and advances	**(58,426)**	(68,806)
Writeback of impairment/(Impairment) on other assets	**4**	(28)
Profit Equalisation Reserves	**(96)**	(76)
Total distributable income	**2,218,980**	1,881,758
Income attributable to depositors and others	**(1,323,908)**	(1,121,954)
Total net income	**895,072**	759,804
Personnel expenses	**(16,840)**	(11,673)
Other overheads and expenditures	**(349,518)**	(298,009)
Profit before zakat and taxation	**528,714**	450,122
Zakat	**(210)**	(220)
Taxation	**(124,042)**	(109,455)
Profit for the year	**404,462**	340,447

Net income from Islamic banking business as reported in the statement of profit or loss of the Group is derived as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Income derived from investment of depositors' funds and others	**2,109,906**	1,816,324
Income derived from investment of Islamic Banking Funds	**167,592**	134,344
Income attributable to depositors and others	**(1,323,908)**	(1,121,954)
Profit Equalisation Reserves	**(96)**	(76)
Elimination of dividends from collective investments	**(11,856)**	–
Net income from Islamic banking business reported in the statement of profit or loss of the Group	**941,638**	828,638

The accompanying notes form an integral part of the financial statements

56. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

	Group	
	2016 RM'000	**2015 RM'000**
Profit for the year	**404,462**	340,447
Other comprehensive income/(loss):		
Items that will not be reclassified to profit or loss:		
Defined benefit reserves:		
– Gain/(Loss) on remeasurements of defined benefit plans	**543**	(4,364)
Items that may be reclassified to profit or loss:		
Revaluation reserves:		
– Net change in revaluation of financial investments available-for-sale	**(46,988)**	26,856
Hedging reserves:		
– Net change in cash flow hedges	**(62,774)**	(237)
	(109,762)	26,619
Income tax relating to components of other comprehensive income/(loss):		
– Defined benefit reserves	**(130)**	1,047
– Revaluation reserves	**11,277**	(6,460)
– Hedging reserves	**15,066**	57
	26,213	(5,356)
Other comprehensive (loss)/income for the year, net of tax	**(83,006)**	16,899
Total comprehensive income for the year	**321,456**	357,346

The accompanying notes form an integral part of the financial statements

56. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Changes in Islamic Banking Funds for the year ended 31 December 2016

		<------ 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	Regulatory Reserves RM'000	Retained Profits RM'000	Total RM'000
At 1 January 2016	207,217	1,925,500	227,546	45,709	21,879	4,293	87	68,739	462,736	2,963,706
Profit for the year	-	-	-	-	-	-	-	-	404,462	404,462
Other comprehensive (loss)/income for the year	-	-	-	(47,708)	(35,711)	413	-	-	-	(83,006)
Total comprehensive (loss)/income for the year	-	-	-	(47,708)	(35,711)	413	-	-	404,462	321,456
Transactions with owners/other equity movements:										
Transfer to Profit Equalisation Reserves of Islamic banking institution	-	-	-	-	-	-	86	-	(86)	-
Transfer to statutory reserves	-	-	12,000	-	-	-	-	-	(12,000)	-
Transfer to regulatory reserves	-	-	-	-	-	-	-	80,076	(80,076)	-
Issue of shares	12,000	288,000	-	-	-	-	-	-	-	300,000
	12,000	288,000	12,000	-	-	-	86	80,076	(92,162)	300,000
At 31 December 2016	219,217	2,213,500	239,546	(1,999)	(13,832)	4,706	173	148,815	775,036	3,585,162

The accompanying notes form an integral part of the financial statements

56. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Changes in Islamic Banking Funds for the year ended 31 December 2016 (continued)

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	Regulatory Reserves RM'000	Retained Profits RM'000	Total RM'000
		<----------	Non-distributable	Reserves	----------			---------->	Distributable Reserves	
At 1 January 2015	200,217	1,757,500	207,546	45,889	1,483	7,610	54	–	431,300	2,651,599
Profit for the year	–	–	–	–	–	–	–	–	340,447	340,447
Other comprehensive (loss)/income for the year	–	–	–	(180)	20,396	(3,317)	–	–	–	16,899
Total comprehensive (loss)/income for the year	–	–	–	(180)	20,396	(3,317)	–	–	340,447	357,346
Transactions with owners/other equity movements:										
Transfer to Profit Equalisation Reserves of Islamic banking institution	–	–	–	–	–	–	33	–	(33)	–
Transfer to statutory reserves	–	–	20,000	–	–	–	–	–	(20,000)	–
Transfer to regulatory reserves	–	–	–	–	–	–	–	68,739	(68,739)	–
Issue of shares	7,000	168,000	–	–	–	–	–	–	–	175,000
Dividends paid	–	–	–	–	–	–	–	–	(220,239)	(220,239)
	7,000	168,000	20,000	–	–	–	33	68,739	(309,011)	(45,239)
At 31 December 2015	207,217	1,925,500	227,546	45,709	21,879	4,293	87	68,739	462,736	2,963,706

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances

(i) Net financing and advances analysed by type are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
At amortised cost		
Cash line	**1,200,076**	1,001,462
Term financing		
– House financing	**11,480,503**	8,402,461
– Syndicated financing	**1,344,515**	1,320,788
– Hire purchase receivables	**11,732,886**	12,048,635
– Other term financing	**11,421,145**	9,005,444
Credit card receivables	**10,530**	5,610
Bills receivables	**3,270**	511
Trust receipts	**2,478**	1,005
Claims on customers under acceptance credits	**104,197**	75,839
Revolving credit	**197,789**	181,994
Staff financing	**39,961**	9,001
Gross financing and advances	**37,537,350**	32,052,750
Less: Allowance for impaired financing and advances		
– collective assessment allowance	**(301,634)**	(315,895)
– individual assessment allowance	**(34)**	–
Net financing and advances	**37,235,682**	31,736,855

All the Group's Islamic banking financing and advances are located in Malaysia.

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(ii) The maturity structure of gross financing and advances are as follows:

	Group 2016 RM'000	Group 2015 RM'000
Maturity within one year	**1,824,406**	1,502,816
More than one year to three years	**3,255,053**	2,726,624
More than three years to five years	**3,236,267**	3,591,140
More than five years	**29,221,624**	24,232,170
	37,537,350	32,052,750

(iii) Gross financing and advances presented by class of financial instruments are as follows:

	Group 2016 RM'000	Group 2015 RM'000
Retail financing		
– House financing	**11,480,503**	8,402,461
– Hire purchase	**11,732,886**	12,048,635
– Credit cards	**10,530**	5,610
– Other financing *	**11,492,287**	9,170,775
	34,716,206	29,627,481
Corporate financing	**2,821,144**	2,425,269
	37,537,350	32,052,750

* Included in other financing are other term financing, trade financing, cash line and revolving credit.

NOTES TO THE FINANCIAL STATEMENTS

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(iv) Gross financing and advances analysed by contract are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Bai' Bithaman Ajil (deferred payment sale)	**9,770,139**	9,650,943
Ijarah Thumma Al-Bai' (leasing)	**11,737,632**	12,050,347
Bai' Inah	**1,895,438**	2,037,228
Musharakah Mutanaqisah	**14,013,666**	8,231,267
Murabahah	**109,945**	77,355
Ujrah	**10,530**	5,610
	37,537,350	32,052,750

(v) Gross financing and advances analysed by type of customer are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Other domestic non-bank financial institutions	**228,592**	230,965
Domestic business enterprises		
– Small and medium enterprises	**7,023,420**	5,530,622
– Others	**1,109,988**	678,085
Government and statutory authorities	**1,313,959**	1,316,438
Individuals	**27,772,881**	24,224,720
Other domestic entities	**4,874**	3,392
Foreign customers	**83,636**	68,528
	37,537,350	32,052,750

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(vi) Gross financing and advances analysed by rate of return sensitivity are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Fixed rate		
– House financing	**429,769**	481,805
– Hire purchase receivables	**11,732,681**	12,048,635
– Other fixed rate financing	**3,042,732**	3,468,374
Variable rate		
– BFR plus	**20,602,923**	15,012,483
– Cost plus	**1,729,245**	1,041,453
	37,537,350	32,052,750

(vii) Gross financing and advances analysed by economic purpose are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Purchase of transport vehicles	**11,737,615**	12,050,318
Purchase of landed properties	**19,488,709**	14,249,481
(of which: – residential	**11,745,999**	8,497,749
– non-residential)	**7,742,710**	5,751,732
Purchase of fixed assets (excluding landed properties)	**4,660**	13,213
Personal use	**2,534,634**	2,429,620
Credit card	**10,530**	5,610
Purchase of consumer durables	**1,756**	1,941
Construction	**237,790**	109,584
Working capital	**3,454,971**	3,124,576
Other purpose	**66,685**	68,407
	37,537,350	32,052,750

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(viii) Gross financing and advances analysed by sector are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Agriculture, hunting, forestry and fishing	**837,589**	475,070
Mining and quarrying	**33,442**	34,962
Manufacturing	**637,469**	478,443
Electricity, gas and water	**1,272**	1,154
Construction	**1,015,486**	679,738
Wholesale & retail trade and restaurants & hotels	**1,730,052**	1,313,628
Transport, storage and communication	**322,348**	277,754
Finance, insurance and business services	**641,868**	620,903
Real estate	**2,920,892**	2,364,506
Community, social and personal services	**1,538,381**	1,509,692
Households	**27,856,517**	24,293,248
Others	**2,034**	3,652
	37,537,350	32,052,750

(ix) Movements in impaired financing and advances are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
At 1 January	**211,804**	232,348
Impaired during the year	**593,015**	558,945
Reclassified as non-impaired during the year	**(440,075)**	(437,925)
Recoveries	**(44,904)**	(45,881)
Amount written off	**(92,607)**	(95,412)
Financing converted to foreclosed properties	**(1,566)**	(271)
At 31 December	**225,667**	211,804
Gross impaired financing as % of gross financing and advances	**0.60%**	0.66%

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(x) Impaired financing and advances analysed by economic purpose are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Purchase of transport vehicles	**94,829**	104,061
Purchase of landed properties	**99,044**	71,470
(of which: – residential	**87,126**	64,435
– non-residential)	**11,918**	7,035
Purchase of fixed assets (excluding landed properties)	**–**	39
Personal use	**29,707**	35,317
Credit card	**66**	21
Purchase of consumer durables	**–**	57
Working capital	**2,007**	820
Other purpose	**14**	19
	225,667	211,804

(xi) Impaired financing and advances analysed by sector are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Agriculture, hunting, forestry and fishing	**516**	918
Mining and quarrying	**43**	130
Manufacturing	**534**	378
Construction	**6,201**	1,283
Wholesale & retail trade and restaurants & hotels	**1,761**	1,508
Transport, storage and communication	**938**	467
Finance, insurance and business services	**763**	1,270
Real estate	**622**	653
Community, social and personal services	**345**	566
Households	**213,761**	204,611
Others	**183**	20
	225,667	211,804

All the Group's Islamic banking impaired financing and advances are located in Malaysia.

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(xii) A reconciliation of the allowance for impaired financing and advances are as follows:

	<------ Retail Financing			------>		
	House Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
Collective Assessment Allowance						
2016						
At 1 January 2016	**58,474**	**180,587**	**31**	**72,974**	**3,829**	**315,895**
Allowance made during the year	**13,367**	**40,164**	**120**	**24,271**	**424**	**78,346**
Amount written off	**(5,124)**	**(61,168)**	**(67)**	**(26,248)**	**–**	**(92,607)**
At 31 December 2016	**66,717**	**159,583**	**84**	**70,997**	**4,253**	**301,634**
2015						
At 1 January 2015	63,910	176,166	–	80,390	1,385	321,851
Allowance (written back)/made during the year	(2,842)	63,200	43	26,611	2,444	89,456
Amount written off	(2,594)	(58,779)	(12)	(34,027)	–	(95,412)
At 31 December 2015	58,474	180,587	31	72,974	3,829	315,895
Individual Assessment Allowance						
2016						
At 1 January 2016	**–**	**–**	**–**	**–**	**–**	**–**
Allowance made during the year	**–**	**–**	**–**	**34**	**–**	**34**
At 31 December 2016	**–**	**–**	**–**	**34**	**–**	**34**
2015						
At 1 January 2015/31 December 2015	–	–	–	–	–	–

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(b) Deposits From Customers

(i) By type of deposit and contract:

	Group	
	2016 RM'000	**2015 RM'000**
By type of deposit		
Savings deposit		
– Wadiah	**5,855,625**	5,494,154
Demand deposit		
– Wadiah	**3,839,873**	3,521,768
Term deposit		
– Negotiable Islamic Debt Certificate		
– Bai' Inah	**–**	974,136
– Commodity Murabahah	**27,684,903**	24,388,180
– General investment account		
– Mudharabah	**90,115**	113,594
– Wakalah	**110,184**	149,849
	200,299	263,443
– Special term deposit account		
– Wadiah	**4,892,374**	4,455,764
	42,473,074	39,097,445

Included in Deposits from Customers are deposits of RM217,801,000 (2015 – RM173,742,000) held as collateral for financing and advances.

(ii) By class of financial instruments:

	Group	
	2016 RM'000	**2015 RM'000**
Core deposits	**37,580,700**	33,667,545
Wholesale deposits	**4,892,374**	5,429,900
	42,473,074	39,097,445

56. ISLAMIC BANKING BUSINESS (CONTINUED)

(b) Deposits From Customers (continued)

(iii) By type of customers:

	Group	
	2016 RM'000	**2015 RM'000**
Federal and state governments	**5,287,126**	4,386,909
Local government and statutory authorities	**883,615**	993,260
Business enterprises	**6,477,550**	7,167,337
Individuals	**14,731,939**	12,328,522
Foreign customers	**580,445**	444,119
Others	**14,512,399**	13,777,298
	42,473,074	39,097,445

(iv) The maturity structure of Islamic debt certificates, general and special investment accounts are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Due within six months	**30,055,815**	26,964,221
More than six months to one year	**2,719,052**	3,116,082
More than one year to three years	**2,035**	406
More than three years to five years	**674**	814
	32,777,576	30,081,523

57. REALISED AND UNREALISED PROFITS

The breakdown of retained profits of the Group and of the Bank as at the reporting date, into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad ("Bursa Malaysia") dated 25 March 2010.

The breakdown of retained profits of the Group and of the Bank as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Total retained profits of Public Bank Berhad and its subsidiary companies:		
– Realised	**16,497,750**	14,201,466
– Unrealised		
– in respect of deferred tax recognised in profit or loss	**49,746**	66,944
– in respect of other items of income and expense	**235,727**	175,680
	16,783,223	14,444,090
Total share of retained profits from associated companies:		
– Realised	**(13,253)**	8,061
	16,769,970	14,452,151
Less: Consolidation adjustments	**128,347**	(189,834)
Total Group retained profits as per consolidated accounts	**16,898,317**	14,262,317

	Bank	
	2016 RM'000	**2015 RM'000**
Total retained profits of Public Bank Berhad:		
– Realised	**13,567,604**	12,009,415
– Unrealised		
– in respect of deferred tax recognised in profit or loss	**24,189**	25,773
– in respect of other items of income and expense	**2,541**	5,141
Total Bank retained profits as per accounts	**13,594,334**	12,040,329

NOTES TO THE FINANCIAL STATEMENTS

57. REALISED AND UNREALISED PROFITS (CONTINUED)

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.

Accordingly, the unrealised retained profits of the Group and of 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 of 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 2016

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

PILLAR 3 DISCLOSURE

OVERVIEW (CONTINUED)

Minimum Regulatory Capital Requirements

The Group's principal business activity is commercial banking which focuses mainly on retail banking and financing operations. The following tables present the minimum regulatory capital requirements to support the Group's and the Bank's risk-weighted assets.

	2016		2015	
	Risk-Weighted Assets RM'000	**Minimum Capital Requirement at 8% RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirement at 8% RM'000**
Group				
Credit Risk	**231,005,869**	**18,480,469**	220,881,570	17,670,526
Market Risk	**3,291,584**	**263,327**	2,500,503	200,040
Operational Risk	**17,364,426**	**1,389,154**	16,321,153	1,305,692
Total	**251,661,879**	**20,132,950**	239,703,226	19,176,258
Bank				
Credit Risk	**186,904,199**	**14,952,336**	179,788,298	14,383,064
Market Risk	**4,899,220**	**391,938**	3,714,333	297,147
Operational Risk	**11,525,983**	**922,079**	10,911,444	872,915
Total	**203,329,402**	**16,266,353**	194,414,075	15,553,126

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

PILLAR 3 DISCLOSURE

1. SCOPE OF APPLICATION

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

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

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

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

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

2. CAPITAL MANAGEMENT

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

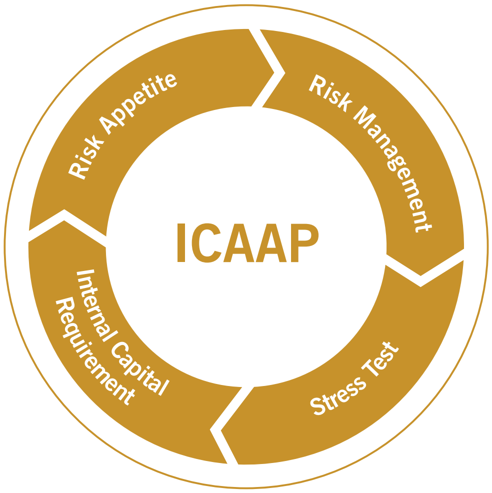
- Regulatory requirements on minimal capital required
- Capital levels maintained are adequate to support all material risks and to meet the strategic and business plans
- Capital levels maintained are adequate to support the strong external rating for domestic and international rating agencies
- An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

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

PILLAR 3 DISCLOSURE

2. CAPITAL MANAGEMENT (CONTINUED)

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



(a) Risk Appetite

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

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

2. CAPITAL MANAGEMENT (CONTINUED)

(b) Risk Management

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

The Group operates on seven fundamental principles and this is further discussed on item 3 of the Pillar 3 Disclosure.

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

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

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

(iii) Risks not specifically addressed under Pillar 1 (e.g. credit concentration risk, interest rate risk on banking book, reputation risk, amongst others).

Compile a Comprehensive List of Risks Relevant to Banking Business

To obtain a comprehensive list of risks inherent to banking business guided by the guidelines issued by:
- BNM or respective Regulators
- Basel Committee and other banking committees

Identify Risks that are Applicable to the Group

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

Assess the Applicable Risks

For risks that are identified to be applicable to the Group/the respective entities, ensure the risk assessments are supported by the following:
- Consistent and robust risk assessment approaches
- Quality data used for risk measurement
- Sound techniques and methodologies that commensurate with the entities' size, nature of business and complexity of activities

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

Qualitative Approach	Quantitative Approach
Risks which may not be easily quantified due to lack of commonly accepted risk measurement techniques. The focus for such non-quantifiable risks would then be the risk processes put in place to manage these risks including the following: • An effective risk governance process • Effective procedures and internal controls • Effective risk mitigation strategies • Regular monitoring and reporting	Risks which can be quantified based on best practices methodologies which are prescribed by regulators or internal methodologies, capital will be set aside for the amount of quantified risks.

2. CAPITAL MANAGEMENT (CONTINUED)

(c) Stress Test

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

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

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

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

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

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

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

(d) Internal Capital Requirement

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

3. RISK MANAGEMENT FRAMEWORK

The key elements of the Group's Risk Management Framework are as follows:

(a) Risk Governance
(b) Risk Appetite
(c) Risk Management Processes
(d) Risk Culture

(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:

<table>
<tr><td rowspan="2">ESTABLISH RISK APPETITE & POLICIES</td><td>Board of Directors</td><td rowspan="6">COMPLIANCE COMMITTEE</td><td rowspan="6">AUDIT COMMITTEE</td></tr>
<tr><td>Risk Management Committee</td></tr>
<tr><td rowspan="3">ENSURE IMPLEMENTATION OF RISK POLICIES AND COMPLIANCE</td><td>Dedicated Risk Committees
Assets & Liabilities Management Committee
Credit Risk Management Committee
Operational Risk Management Committee</td></tr>
<tr><td>Shariah Committee</td></tr>
<tr><td>Independent Risk Management and Control Units
Banking Operations
Credit Control, Administration and Supervision
Risk Management
Compliance</td></tr>
<tr><td>IMPLEMENT AND COMPLY WITH RISK POLICIES</td><td>Business Units
Corporate Lending
Investment Banking
Islamic Banking
Retail Banking and Financing Operations
Share Broking and Fund Management
Treasury and Capital Market Operations</td></tr>
</table>

Board of Directors

The Board has overall responsibility for the Group's risk management and internal control system and for reviewing its adequacy and effectiveness. The Board, through the RMC, maintains overall responsibility for risk oversight within the Group.

Risk Management Committee

The RMC is to assist the Board to oversee the management of all identified material risks including inter-alia reviewing risk management policies and frameworks, reviewing and approving risk management 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 reviewing the risk policies and frameworks relating to ICAAP.

PILLAR 3 DISCLOSURE

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance (continued)

In discharging its responsibilities, the RMC will ensure the corporate objectives are supported by sound risk management strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of the Group's activities and to provide effective oversight to ensure business activities are aligned to the risk strategy, risk appetite and policies approved by the Board. In addition, the RMC exercises oversight over the PBB subsidiaries' risk management and ensure that appropriate processes are established to monitor the subsidiaries' compliance with the Group's risk management policies.

Dedicated Risk Committees

The dedicated risk committees established to assist the RMC in the management of all identified material risks 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. The key responsibilities of the dedicated risk committees are as follows:

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

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

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

Shariah Committee

The key responsibilities of the Shariah Committee are to advise the Board on Shariah related matters on 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. These units have the right to obtain information necessary to carry out their responsibilities and to ensure the approved risk policies are effectively 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 defence 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.

Compliance Committee

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

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance (continued)

Audit Committee

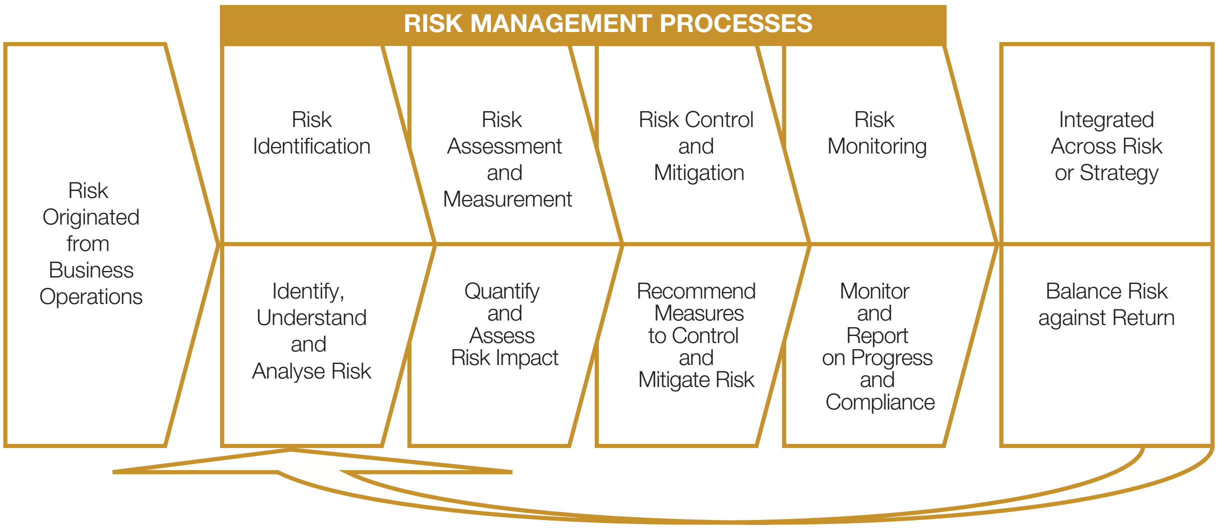
The Audit Committee reviews the internal control issues identified by the Internal Audit Division, the external auditors, the regulatory authorities and the Management, including the remedial actions taken to address issues identified, and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions with particular emphasis on the audit scope, the frequency of audits and the adequacy and knowledge of the resources.

(b) Risk Appetite

Risk Appetite is a key component in our management of risk. It describes the amount and types of risks the Group is able and willing to accept in pursuit of the Group's business objectives. The Risk Appetite Statement including the measurable risk thresholds (collectively referred to as RAS) is approved by the Board on the advice of the Group Risk Committee. The RAS is subject to annual review or more frequently in line with the changes in the risk environment.

(c) Risk Management Processes

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



(d) Risk Culture

The inculcation of a risk awareness culture is a key aspect of an effective enterprise-wide risk management framework. The key elements of the Group's risk culture are as follows:

(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. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE

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

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

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Before deducting interim dividends*:				
Common equity tier I ("CET I") capital ratio	**11.864%**	11.401%	**11.725%**	12.184%
Tier I capital ratio	**12.718%**	12.565%	**12.751%**	13.588%
Total capital ratio	**15.976%**	15.941%	**15.248%**	15.919%
After deducting interim dividends*:				
CET I capital ratio	**11.373%**	10.886%	**11.117%**	11.549%
Tier I capital ratio	**12.227%**	12.049%	**12.143%**	12.953%
Total capital ratio	**15.485%**	15.425%	**14.640%**	15.284%

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

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

The capital adequacy ratios of the Group and of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II - Risk-weighted Assets) reissued on 13 October 2015 which became effective from 1 January 2016. The minimum regulatory capital adequacy ratios before including capital conservation buffer and countercyclical capital buffer ("CCyB") for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively.

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

Calendar Year	**Capital Conservation Buffer**
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

A CCyB is required to be maintained if this buffer is applied by regulators in countries which the Group and the Bank have exposures to, determined based on the weighted average of prevailing CCyB rates applied in those jurisdictions. With effect from 1 January 2016, the Group and the Bank have applied CCyB on its exposures in Hong Kong in line with Hong Kong Monetary Authority's requirement to maintain CCyB of 0.625% in Hong Kong. The Group and the Bank's CCyB determined based on the weighted average of prevailing CCyB rates of its Hong Kong exposures are insignificant due to its immaterial Hong Kong exposures. The CCyB which is in a range of between 0% and 2.5% is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
CET I/Tier I capital				
Paid-up share capital	**3,882,138**	3,882,138	**3,882,138**	3,882,138
Share premium	**5,535,515**	5,535,515	**5,535,515**	5,535,515
Other reserves	**5,873,014**	5,808,689	**5,158,625**	5,121,669
Retained profits	**16,898,317**	14,262,317	**13,533,372**	11,984,176
Treasury shares	**(149,337)**	(149,337)	**(149,337)**	(149,337)
Qualifying non-controlling interests	**752,070**	706,192	**–**	–
Less: Goodwill and other intangible assets	**(2,603,621)**	(2,375,915)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(65,189)**	(65,666)	**–**	–
Less: Defined benefit pension fund assets	**(230,359)**	(217,995)	**(227,351)**	(215,151)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	**(36,576)**	(56,902)	**(3,197,665)**	(1,775,915)
Total CET I capital	**29,855,972**	27,329,036	**23,839,904**	23,687,702
Innovative Tier I capital securities	**–**	1,268,120	**–**	1,268,120
Non-innovative Tier I stapled securities	**2,086,169**	1,461,600	**2,086,169**	1,461,600
Qualifying CET I and additional Tier I capital instruments held by third parties	**64,824**	59,175	**–**	–
Total Tier I capital	**32,006,965**	30,117,931	**25,926,073**	26,417,422
Tier II capital				
Collective assessment allowance and regulatory reserves#	**2,887,573**	2,761,020	**2,336,302**	2,247,354
Subordinated notes				
– meeting all relevant criteria	**1,949,677**	1,949,489	**1,949,677**	1,949,489
– subject to gradual phase-out treatment	**2,923,800**	2,999,206	**2,923,800**	2,999,206
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**461,568**	467,894	**–**	–
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from Tier II capital	**(24,384)**	(85,353)	**(2,131,776)**	(2,663,872)
Total Tier II capital	**8,198,234**	8,092,256	**5,078,003**	4,532,177
Total capital	**40,205,199**	38,210,187	**31,004,076**	30,949,599

\# *Excludes collective assessment allowance on impaired loans/financing restricted from Tier II capital of the Group and of the Bank of RM472.4 million (2015: RM560.4 million) and RM333.9 million (2015: RM399.9 million) respectively.*

Includes the qualifying regulatory reserves for non-impaired loans/financing of the Group and of the Bank of RM1,951.9 million (2015: RM1,810.8 million) and RM1,746.9 million (2015: RM1,645.0 million) respectively.

PILLAR 3 DISCLOSURE

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

(b) Capital Structure (continued)

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

Capital Instruments	Capital Component	Main Features
Issued by the Bank:		
(a) Non-Innovative Tier I stapled securities ("NIT-I")	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with IT-I • Unsecured • Perpetual, with optional redemption after 10 years. No step-up • Able to defer interest but will trigger an assignment event, resulting in unstapling of the NIT-I. Investors will end up holding the perpetual securities • Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders
(b) Innovative Tier I capital securities ("IT-I") (fully redeemed during the year)	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with NIT-I • Unsecured • Optional redemption with step-up after 10 years • Option to defer interest up to 50% of aggregate principal • Principal and interest stock settlement provision
(c) Subordinated notes ("Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to IT-I and NIT-I • Unsecured • Sub Notes issued prior to January 2011 are subject to optional redemption with step-up • Sub Notes issued subsequent to January 2011 do not contain step-up upon optional redemption date • No provisions for deferral of interest. Non-payment will result in default
(d) Basel III-Compliant Subordinated notes ("Basel III-Compliant Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to IT-I and NIT-I • Unsecured • Optional redemption after 5 years. No step-up • Upon occurrence of a Non-Viability Event as determined by BNM and Malaysia Deposit Insurance Corporation, the Basel III-Compliant Sub Notes may be subject to write-off • The write-off shall not constitute an event of default or an enforcement event, nor would it trigger any cross-default under the Basel III-Compliant Sub Notes
Issued by Public Islamic:		
(a) Basel III-Compliant Subordinated Sukuk Murabahah ("Basel III-Compliant Sub Sukuk Murabahah")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to IT-I and NIT-I • Unsecured • Optional redemption after 5 years. No step-up • Upon occurrence of a Trigger Event at the Bank/Public Islamic as determined by BNM and Malaysia Deposit Insurance Corporation, the Basel III-Compliant Sub Sukuk Murabahah may be subject to write-off • The write-off shall not constitute an event of default or trigger any cross-default under the Basel III-Compliant Sub Sukuk Murabahah

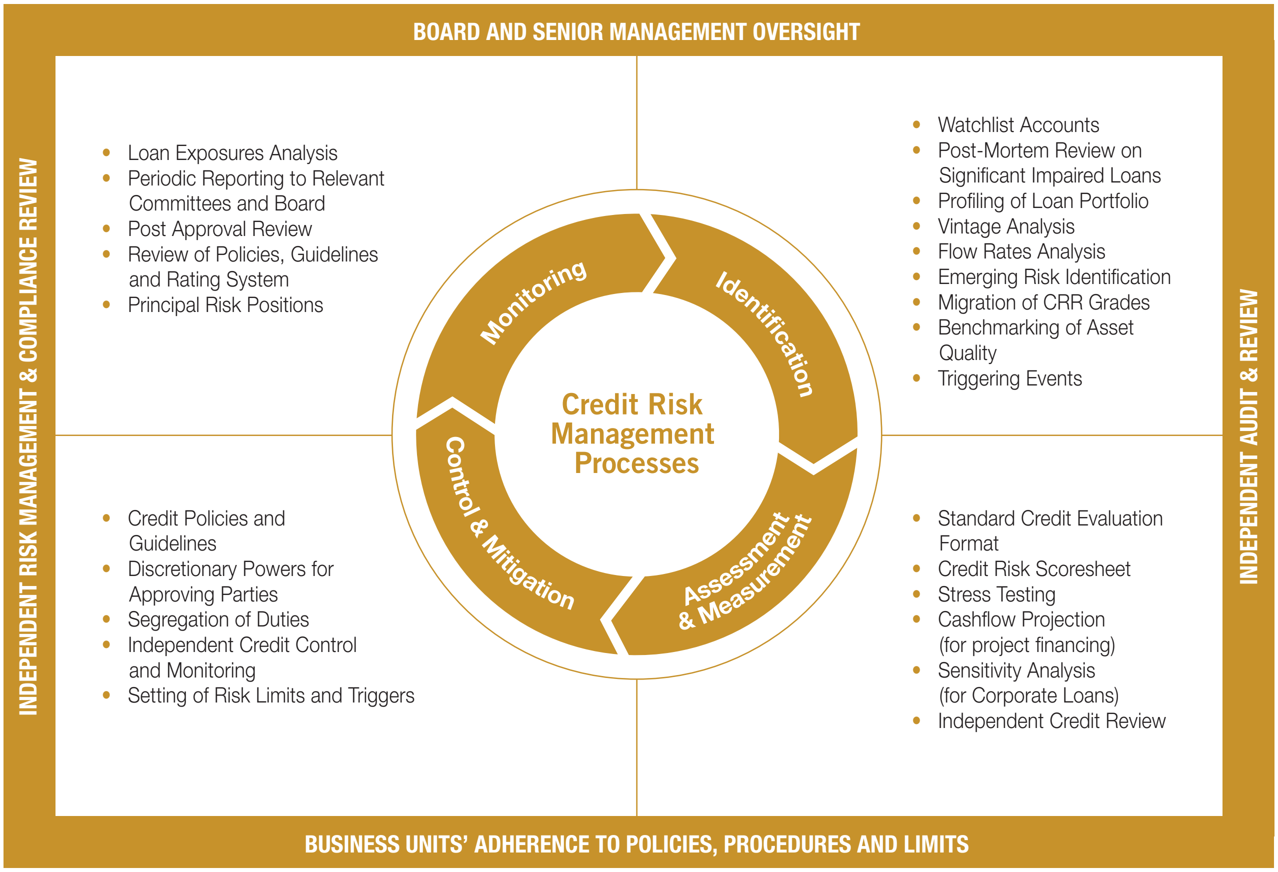
The details of the capital instruments are found in Note 24 to the financial statements.

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

5. CREDIT RISK

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

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



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

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk

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

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

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2015				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	47,300,341	44,807,163	72,489	5,799
Public Sector Entities	1,890,166	1,890,166	21,168	1,693
Banks, DFIs and MDBs	24,080,461	22,224,982	6,204,520	496,362
Insurance Companies, Securities Firms and Fund Managers	374,786	344,545	175,940	14,075
Corporates	72,084,138	70,290,716	62,126,838	4,970,147
Regulatory Retail	120,374,231	119,549,009	90,924,375	7,273,950
Residential Mortgages	82,589,578	82,487,092	33,735,452	2,698,836
Higher Risk Assets	72,945	72,940	109,410	8,753
Other Assets	5,317,196	5,317,196	3,145,261	251,621
Equity Exposures	3,162,811	3,162,811	3,162,811	253,025
Defaulted Exposures	1,300,585	1,299,555	1,844,325	147,546
	358,547,238	351,446,175	201,522,589	16,121,807
Off-Balance Sheet Exposures				
Credit-related Exposures	22,844,037	22,301,165	18,605,064	1,488,405
Derivative Financial Instruments	1,496,158	1,496,158	568,943	45,516
Other Treasury-related Exposures	875,923	875,923	175,185	14,015
Defaulted Exposures	7,054	7,054	9,789	783
	25,223,172	24,680,300	19,358,981	1,548,719
Total Credit Exposures	383,770,410	376,126,475	220,881,570	17,670,526

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

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

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (continued)

Bank Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2015				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	33,226,148	31,371,440	72,489	5,799
Public Sector Entities	441,737	441,737	3,019	242
Banks, DFIs and MDBs	19,769,812	17,914,332	4,185,698	334,856
Insurance Companies, Securities Firms and Fund Managers	37,576	7,335	7,335	587
Corporates	60,430,613	59,248,605	51,549,374	4,123,950
Regulatory Retail	95,370,573	94,641,902	71,505,607	5,720,448
Residential Mortgages	68,486,371	68,394,145	27,972,763	2,237,821
Higher Risk Assets	66,318	66,318	99,477	7,958
Other Assets	4,102,437	4,102,437	3,182,376	254,590
Equity Exposures	3,036,923	3,036,923	3,036,923	242,954
Defaulted Exposures	1,051,317	1,050,728	1,483,641	118,691
	286,019,825	280,275,902	163,098,702	13,047,896
Off-Balance Sheet Exposures				
Credit-related Exposures	19,529,301	19,017,096	15,893,015	1,271,441
Derivative Financial Instruments	1,723,226	1,723,226	614,355	49,149
Other Treasury-related Exposures	875,084	875,084	175,017	14,001
Defaulted Exposures	5,323	5,323	7,209	577
	22,132,934	21,620,729	16,689,596	1,335,168
Total Credit Exposures	308,152,759	301,896,631	179,788,298	14,383,064

5.1 Distribution of Credit Exposures

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

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

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

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(a) Industry Analysis

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

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(a) Industry Analysis (continued)

Group	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manu-facturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
2015									
On-Balance Sheet Exposures									
Cash and balances with banks	4,346,660	10,484,399	–	–	–	–	–	–	14,831,059
Reverse repurchase agreements	4,379,161	–	–	–	–	–	–	–	4,379,161
Financial assets held-for-trading	20,302	2,048,087	–	–	1,034,372	–	–	–	3,102,761
Derivative financial assets	–	688,086	–	–	–	–	–	–	688,086
Financial investments available-for-sale*	15,809,246	13,622,055	7,768	345,973	–	–	–	–	29,785,042
Financial investments held-to-maturity	15,614,539	4,800,102	666,761	862,647	–	–	–	–	21,944,049
Gross loans, advances and financing	1,331,532	6,734,014	14,332,838	39,496,345	38,741,190	90,915,144	42,668,616	39,227,376	273,447,055
Statutory deposits with Central Banks	9,514,419	–	–	–	–	–	–	–	9,514,419
	51,015,859	38,376,743	15,007,367	40,704,965	39,775,562	90,915,144	42,668,616	39,227,376	357,691,632
Commitments and Contingencies									
Contingent liabilities	1,901	85,122	849,889	1,361,297	1,066,768	–	–	5,865	3,370,842
Commitments	510,796	2,708,620	5,278,110	11,701,948	14,497,027	12,036,055	9,221	12,871,830	59,613,607
	512,697	2,793,742	6,127,999	13,063,245	15,563,795	12,036,055	9,221	12,877,695	62,984,449
Total Credit Exposures	51,528,556	41,170,485	21,135,366	53,768,210	55,339,357	102,951,199	42,677,837	52,105,071	420,676,081

* *Excluding equity securities of RM123.7 million (2015: RM122.7 million) which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(b) Geographical Analysis

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2016					
On-Balance Sheet Exposures					
Cash and balances with banks	4,376,316	3,841,506	993,575	1,472,695	10,684,092
Reverse repurchase agreements	2,790,628	–	–	2,935	2,793,563
Financial assets held-for-trading	1,178,884	–	–	–	1,178,884
Derivative financial assets	592,879	1,772	47	23,443	618,141
Financial investments available-for-sale*	33,053,281	–	–	168,223	33,221,504
Financial investments held-to-maturity	18,514,031	2,093,402	53,835	1,512,658	22,173,926
Gross loans, advances and financing	268,852,738	16,857,964	4,500,886	3,747,594	293,959,182
Statutory deposits with Central Banks	8,054,702	–	747,772	98,092	8,900,566
	337,413,459	22,794,644	6,296,115	7,025,640	373,529,858
Commitments and Contingencies					
Contingent liabilities	2,912,483	522,726	165,148	365,443	3,965,800
Commitments	53,594,780	2,126,958	675,656	457,237	56,854,631
	56,507,263	2,649,684	840,804	822,680	60,820,431
Total Credit Exposures	393,920,722	25,444,328	7,136,919	7,848,320	434,350,289
2015					
On-Balance Sheet Exposures					
Cash and balances with banks	9,151,220	2,729,277	1,422,972	1,527,590	14,831,059
Reverse repurchase agreements	4,373,866	–	–	5,295	4,379,161
Financial assets held-for-trading	3,102,761	–	–	–	3,102,761
Derivative financial assets	615,363	13,894	–	58,829	688,086
Financial investments available-for-sale*	29,785,042	–	–	–	29,785,042
Financial investments held-to-maturity	18,917,734	2,147,614	–	878,701	21,944,049
Gross loans, advances and financing	251,508,332	16,466,468	4,113,061	1,359,194	273,447,055
Statutory deposits with Central Banks	8,831,954	–	634,560	47,905	9,514,419
	326,286,272	21,357,253	6,170,593	3,877,514	357,691,632
Commitments and Contingencies					
Contingent liabilities	2,807,642	128,312	389,075	45,813	3,370,842
Commitments	56,841,823	2,099,208	588,828	83,748	59,613,607
	59,649,465	2,227,520	977,903	129,561	62,984,449
Total Credit Exposures	385,935,737	23,584,773	7,148,496	4,007,075	420,676,081

* *Excluding equity securities of RM123.7 million (2015: RM122.7 million) which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(c) Maturity Analysis

Group	Up to 1 Year RM'000	>1 to 3 Years RM'000	>3 to 5 Years RM'000	>5 Years RM'000	Total RM'000
2016					
On-Balance Sheet Exposures					
Cash and balances with banks	**10,684,092**	**–**	**–**	**–**	**10,684,092**
Reverse repurchase agreements	**2,793,563**	**–**	**–**	**–**	**2,793,563**
Financial assets held-for-trading	**1,168,571**	**–**	**–**	**10,313**	**1,178,884**
Derivative financial assets	**528,783**	**62,237**	**18,045**	**9,076**	**618,141**
Financial investments available-for-sale*	**12,006,355**	**9,769,331**	**8,008,402**	**3,437,416**	**33,221,504**
Financial investments held-to-maturity	**5,940,229**	**7,929,080**	**5,872,412**	**2,432,205**	**22,173,926**
Gross loans, advances and financing	**32,140,003**	**26,761,672**	**27,763,714**	**207,293,793**	**293,959,182**
Statutory deposits with Central Banks	**–**	**–**	**–**	**8,900,566**	**8,900,566**
Total On-Balance Sheet Exposures	**65,261,596**	**44,522,320**	**41,662,573**	**222,083,369**	**373,529,858**
2015					
On-Balance Sheet Exposures					
Cash and balances with banks	14,831,059	–	–	–	14,831,059
Reverse repurchase agreements	4,379,161	–	–	–	4,379,161
Financial assets held-for-trading	3,102,761	–	–	–	3,102,761
Derivative financial assets	614,465	17,944	47,275	8,402	688,086
Financial investments available-for-sale*	11,903,363	7,078,852	4,688,775	6,114,052	29,785,042
Financial investments held-to-maturity	3,200,923	6,104,728	6,430,276	6,208,122	21,944,049
Gross loans, advances and financing	30,141,088	23,815,757	26,592,749	192,897,461	273,447,055
Statutory deposits with Central Banks	–	–	–	9,514,419	9,514,419
Total On-Balance Sheet Exposures	68,172,820	37,017,281	37,759,075	214,742,456	357,691,632

* *Excluding equity securities of RM123.7 million (2015: RM122.7 million) which do not have any credit risk.*

Approximately 17% (2015: 19%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 71% (2015: 71%) of the Group's gross loans, advances and financing has residual maturity of more than 5 years. The longer maturity is from the housing loans/financing and hire purchase which made up 50% (2015: 51%) of the portfolio and are traditionally longer term in nature and well secured.

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

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

(a) Off-Balance Sheet Exposures

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

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

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

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

(iv) Unutilised credit card lines; and

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

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

(b) Counterparty Credit Risk on Derivative Financial Instruments

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

Credit Ratings Downgrade

As at reporting date, there were no requirements to post additional collateral in the event of a one-notch downgrade in rating (2015: RM14.4 million) as the ISDA/CSA agreements entered with the majority of the counterparties had removed the threshold limit for posting of additional collateral whereby any shortfalls in value, cash collateral were posted immediately. For ISDA/CSA with threshold limits, no collateral was required to be posted as the shortfalls were well within the threshold limits for one-notch downgrade.

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures

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

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

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2015				
Contingent Liabilities				
Direct credit substitutes	1,421,426		1,421,426	992,109
Transaction-related contingent items	1,550,912		775,456	471,690
Short-term self-liquidating trade-related contingencies	398,504		79,701	55,559
	3,370,842		2,276,583	1,519,358
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	29,423,236		14,711,618	12,307,414
– not exceeding one year	24,131,630		4,826,326	4,010,658
Unutilised credit card lines	5,182,818		1,036,564	777,423
Forward asset purchases	875,923		875,923	175,185
	59,613,607		21,450,431	17,270,680
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	27,931,563	587,095	893,726	363,215
– one year to less than five years	3,017,152	68	217,530	109,030
Interest/profit rate related contracts:				
– less than one year	1,559,400	27,369	31,267	14,433
– one year to less than five years	11,571,310	65,151	309,602	65,988
– five years and above	469,226	8,402	44,031	16,275
Commodity related contracts:				
– less than one year	169	1	2	2
	44,548,820	688,086	1,496,158	568,943
Total Off-Balance Sheet Exposures	107,533,269	688,086	25,223,172	19,358,981

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

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

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

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

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2015				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,215,305		1,215,305	893,325
Transaction-related contingent items	1,350,813		675,407	391,785
Short-term self-liquidating trade-related contingencies	153,589		30,718	27,854
	2,719,707		1,921,430	1,312,964
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	24,777,773		12,388,887	10,427,188
– not exceeding one year	20,985,806		4,197,160	3,385,882
Unutilised credit card lines	5,054,881		1,010,976	758,232
Forward asset purchases	875,084		875,084	175,017
	51,693,544		18,472,107	14,746,319
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	26,632,334	584,954	877,442	359,958
– one year to less than five years	3,017,152	68	217,530	109,030
Interest rate related contracts:				
– less than one year	1,559,400	27,369	31,267	14,433
– one year to less than five years	12,272,400	58,750	323,535	67,614
– five years and above	2,720,000	6,488	244,688	48,938
Commodity related contracts:				
– less than one year	169	1	2	2
	46,201,455	677,630	1,694,464	599,975
Total	100,614,706	677,630	22,088,001	16,659,258

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

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

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

Composition of Off-Balance Sheet Exposures (continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2015				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	6,445		6,445	6,445
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	48,630		9,726	9,513
Derivative Financial Instruments				
Interest rate related contracts:				
– one year to less than five years	128,910	–	3,867	1,934
– five years and above	249,226	2,466	24,895	12,446
	378,136	2,466	28,762	14,380
Total	433,211	2,466	44,933	30,338
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	101,047,917	680,096	22,132,934	16,689,596

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation

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

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

(a) for residential mortgages – charges over residential properties

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

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

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

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

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

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

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

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

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation (continued)

Credit Risk Mitigation Analysis

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

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

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation (continued)

Credit Risk Mitigation Analysis (continued)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2015				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	47,300,341	–	2,493,178	–
Public Sector Entities	1,890,166	1,784,327	–	–
Banks, DFIs and MDBs	24,080,461	435,520	1,855,479	–
Insurance Companies, Securities Firms and Fund Managers	374,786	–	30,241	–
Corporates	72,084,138	2,483,164	1,793,422	–
Regulatory Retail	120,374,231	3,799	825,222	–
Residential Mortgages	82,589,578	–	102,486	–
Higher Risk Assets	72,945	–	5	–
Other Assets	5,317,196	–	–	–
Equity Exposures	3,162,811	–	–	–
Defaulted Exposures	1,300,585	–	1,030	–
	358,547,238	4,706,810	7,101,063	–
Off-Balance Sheet Exposures				
Credit-related Exposures	22,844,037	129,079	542,872	–
Derivative Financial Instruments	1,496,158	–	–	–
Other Treasury-related Exposures	875,923	–	–	–
Defaulted Exposures	7,054	–	–	–
	25,223,172	129,079	542,872	–
Total Credit Exposures	383,770,410	4,835,889	7,643,935	–

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach

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

(a) Standard & Poor's ("S&P")

(b) Moody's Investors Service ("Moody's")

(c) Fitch Ratings ("Fitch")

(d) RAM Rating Services Berhad ("RAM")

(e) Malaysian Rating Corporation Berhad ("MARC")

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

(a) Sovereigns and Central Banks

(b) Banking Institutions

(c) Corporates

Unrated and Rated Counterparties

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

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

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

5. CREDIT RISK (CONTINUED)

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

Unrated and Rated Counterparties (continued)

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

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

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

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

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

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

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

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

5. CREDIT RISK (CONTINUED)

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

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

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

5. CREDIT RISK (CONTINUED)

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

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

Group Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2015								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	6,481,332	1,050,610	–	–	–	–		7,531,942
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	1,154,753	44,979,690	–	–	1,050,159	–		47,184,602
– Public Sector Entities	–	1,784,328	–	–	–	–		1,784,328
– Banks, DFIs and MDBs	–	2,291,114	–	–	–	–		2,291,114
– Insurance Companies, Securities Firms and Fund Managers	–	30,241	–	–	–	–		30,241
– Corporates	–	1,917,862	–	–	–	–		1,917,862
	1,154,753	51,003,235	–	–	1,050,159	–		53,208,147
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	8,945,147	5,702,926	4,191,240	379,305	–	–		19,218,618
– Corporates	546,710	64,161	5,156	–	–	–		616,027
– Regulatory Retail	3,316	483	–	–	–	–		3,799
	9,495,173	5,767,570	4,196,396	379,305	–	–		19,838,444
Total Rated Exposures	17,131,258	57,821,415	4,196,396	379,305	1,050,159	–		80,578,533
(b) Total Unrated Exposures							277,968,705	277,968,705
	17,131,258	57,821,415	4,196,396	379,305	1,050,159	–	277,968,705	358,547,238

5. CREDIT RISK (CONTINUED)

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

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

Group	Rating Categories							
	1	2	3	4	5	6	Unrated	Total
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2015								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	334,083	207,711	–	–	–	–		541,794
– Regulatory Retail	–	320	–	–	–	–		320
	334,083	208,031	–	–	–	–		542,114
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	–	12,891	–	–	–	–		12,891
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	509,330	1,678,394	159,620	–	–	–		2,347,344
– Corporates	100,507	12,817	425	–	–	–		113,749
– Regulatory Retail	182	1,611	–	–	–	–		1,793
	610,019	1,692,822	160,045	–	–	–		2,462,886
Total Rated Exposures	944,102	1,913,744	160,045	–	–	–		3,017,891
(b) Total Unrated Exposures							22,205,281	22,205,281
	944,102	1,913,744	160,045	–	–	–	22,205,281	25,223,172
Total Credit Exposures before Credit Risk Mitigation	18,075,360	59,735,159	4,356,441	379,305	1,050,159	–	300,173,986	383,770,410

 # Under the RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia, BNM, overseas federal governments and central banks of their respective jurisdictions are accorded a preferential sovereign risk weight of 0%.

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

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

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

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

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

5. CREDIT RISK (CONTINUED)

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

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

	Credit Exposures after the Effect of Credit Risk Mitigation											
Group Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2015												
0%	44,817,732	1,784,327	445,826	–	1,917,335	–	–	–	2,171,040	–	51,136,260	–
20%	37,302	108,756	18,687,710	–	7,462,190	3,498	–	–	1,119	–	26,300,575	5,260,115
35%	–	–	–	–	–	–	62,514,038	–	–	–	62,514,038	21,879,913
50%	–	–	4,666,214	337,210	1,475,523	5,532	16,899,852	–	–	–	23,384,331	11,692,166
75%	–	–	–	–	–	124,888,714	442,723	–	–	–	125,331,437	93,998,578
100%	65,029	–	860,129	28,594	69,312,707	5,900,704	3,802,895	–	3,145,037	3,162,811	86,277,906	86,277,906
150%	–	–	–	–	126,890	956,980	17,850	80,208	–	–	1,181,928	1,772,892
Total	44,920,063	1,893,083	24,659,879	365,804	80,294,645	131,755,428	83,677,358	80,208	5,317,196	3,162,811	376,126,475	220,881,570
Risk-Weighted Assets by Exposures	72,489	21,751	6,930,778	197,199	71,733,242	101,006,175	34,491,552	120,312	3,145,261	3,162,811	220,881,570	
Average Risk Weights	0.2%	1.1%	28.1%	53.9%	89.3%	76.7%	41.2%	150.0%	59.2%	100.0%	58.7%	
Deduction from Total Capital			–							–	–	

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

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

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

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

5. CREDIT RISK (CONTINUED)

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

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

Bank Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation											
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2015												
0%	31,382,011	426,643	329,204	-	1,599,997	-	-	-	1,955,015	-	35,692,870	-
20%	37,301	18,011	17,702,030	-	7,203,989	3,498	-	-	-	-	24,964,829	4,992,966
35%	-	-	-	-	-	-	51,490,661	-	-	-	51,490,661	18,021,731
50%	-	-	2,253,941	-	1,474,947	4,226	14,340,208	-	-	-	18,073,322	9,036,661
75%	-	-	-	-	-	101,406,137	381,018	-	-	-	101,787,155	76,340,366
100%	65,029	-	329,416	28,594	57,543,671	2,786,477	3,002,610	-	2,057,426	3,036,923	68,850,146	68,850,146
150%	-	-	-	-	122,585	741,596	10,674	72,797	-	-	947,652	1,421,478
1250%	-	-	-	-	-	-	-	-	89,996	-	89,996	1,124,950
Total	31,484,341	444,654	20,614,591	28,594	67,945,189	104,941,934	69,225,171	72,797	4,102,437	3,036,923	301,896,631	179,788,298
Risk-Weighted Assets by Exposures	72,489	3,602	4,996,792	28,594	59,905,821	79,956,286	28,496,220	109,195	3,182,376	3,036,923	179,788,298	
Average Risk Weights	0.2%	0.8%	24.2%	100.0%	88.2%	76.2%	41.2%	150.0%	77.6%	100.0%	59.6%	
Deduction from Total Capital			-							-	-	

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing

Gross Loans, Advances and Financing by Credit Quality

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

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

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

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

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

(i) Economic Purpose

Group	2016 RM'000	2015 RM'000
Purchase of securities	**434**	6,941
Purchase of transport vehicles	**11,278,184**	11,285,310
Purchase of landed properties	**12,677,704**	11,968,334
(Of which: – residential	**9,207,779**	8,725,832
– non-residential)	**3,469,925**	3,242,502
Purchase of fixed assets (excluding landed properties)	**10,902**	9,018
Personal use	**722,457**	651,208
Credit card	**331,439**	300,956
Purchase of consumer durables	**338**	82
Construction	**167,200**	190,088
Working capital	**983,316**	1,136,430
Other purpose	**154,182**	62,312
	26,326,156	25,610,679

5. CREDIT RISK (CONTINUED)

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

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

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

(ii) Geographical

Group	2016 RM'000	2015 RM'000
Malaysia	**25,338,934**	24,737,460
Hong Kong & China	**313,998**	217,557
Cambodia	**315,267**	317,832
Other countries	**357,957**	337,830
	26,326,156	25,610,679

(iii) Aging

Group	2016 RM'000	2015 RM'000
1 day to 30 days	**15,568,980**	15,650,235
31 to 59 days	**8,051,907**	7,645,474
60 to 89 days	**2,705,269**	2,314,970
	26,326,156	25,610,679

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

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

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

(i) Economic purpose
(ii) Geographical location

(i) Economic purpose

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

5. CREDIT RISK (CONTINUED)

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

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

(i) Economic Purpose (continued)

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2015							
Purchase of securities	4,029	2,715	(1,874)	–	841	3,638	4,479
Purchase of transport vehicles	358,329	10,221	1,320	80	11,621	594,907	606,528
Purchase of landed properties	599,821	12,274	12,182	(6,633)	17,823	664,760	682,583
(Of which: – residential	445,406	178	4,282	(1,780)	2,680	443,201	445,881
– non-residential)	154,415	12,096	7,900	(4,853)	15,143	221,559	236,702
Purchase of fixed assets (excluding landed properties)	523	3	636	(386)	253	958	1,211
Personal use	138,792	34,155	198,787	(190,185)	42,757	85,240	127,997
Credit card	23,694	–	–	–	–	23,629	23,629
Purchase of consumer durables	57	–	–	–	–	83	83
Construction	13,418	5,445	(91)	578	5,932	11,006	16,938
Mergers and acquisitions	–	–	–	–	–	241	241
Working capital	198,036	70,582	(7,220)	(23,195)	40,167	117,412	157,579
Other purpose	15,117	4,691	(2,138)	–	2,553	8,763	11,316
	1,351,816	140,086	201,602	(219,741)	121,947	1,510,637	1,632,584

The movements in the collective assessment allowance for 2016 and 2015 are set out in Note 9 to the financial statements.

PILLAR 3 DISCLOSURE

5. CREDIT RISK (CONTINUED)

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

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

(ii) Geographical Location

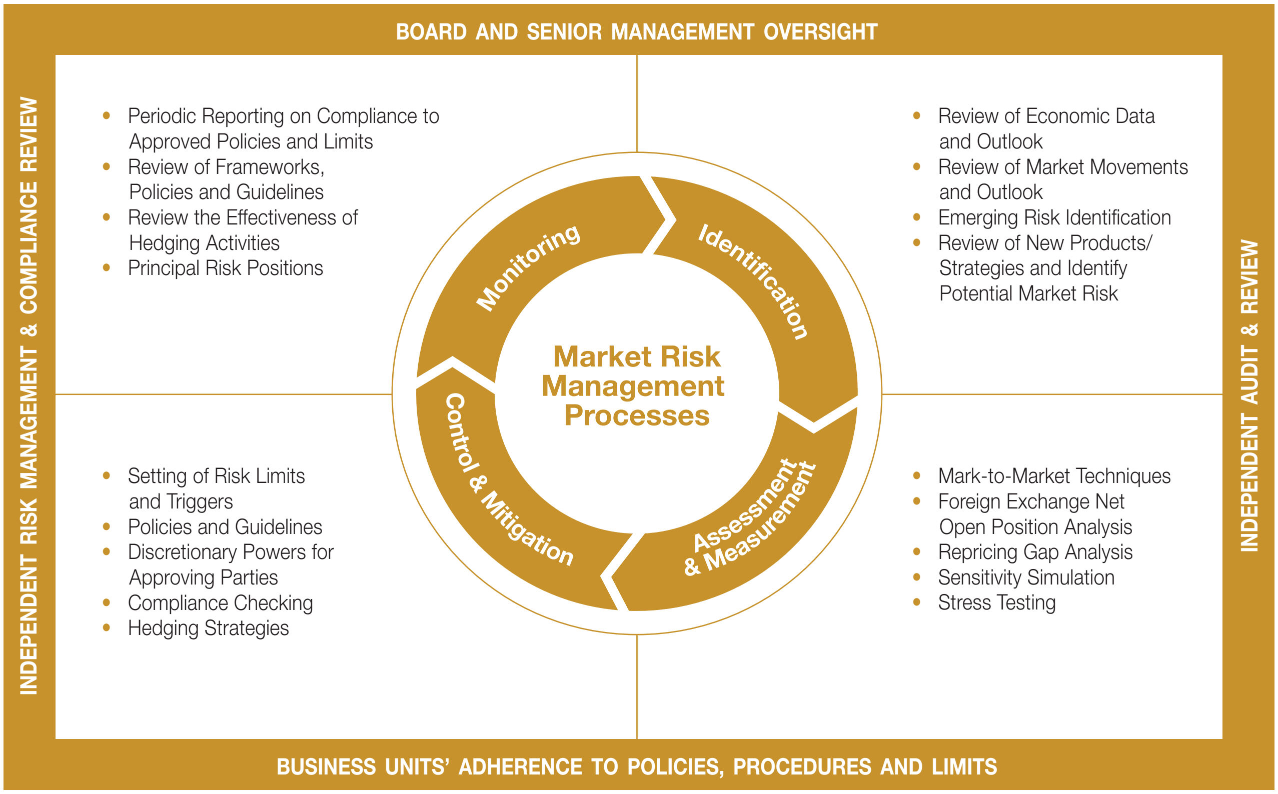
Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2016							
Malaysia	**1,208,752**	**34,837**	**(10,622)**	**(8,595)**	**15,620**	**1,259,436**	**1,275,056**
Hong Kong & China	**150,052**	**59,033**	**213,092**	**(201,969)**	**70,156**	**58,105**	**128,261**
Cambodia	**37,604**	**28,077**	**3,010**	**(1,200)**	**29,887**	**62,577**	**92,464**
Other countries	**92,973**	**–**	**2,239**	**3,992**	**6,231**	**27,986**	**34,217**
	1,489,381	**121,947**	**207,719**	**(207,772)**	**121,894**	**1,408,104**	**1,529,998**
2015							
Malaysia	1,190,592	62,467	(7,030)	(20,600)	34,837	1,349,289	1,384,126
Hong Kong & China	104,900	38,864	209,946	(189,777)	59,033	86,190	145,223
Cambodia	30,461	38,755	(1,314)	(9,364)	28,077	59,145	87,222
Other countries	25,863	–	–	–	–	16,013	16,013
	1,351,816	140,086	201,602	(219,741)	121,947	1,510,637	1,632,584

The movements in the collective assessment allowance for 2016 and 2015 are set out in Note 9 to the financial statements.

6. MARKET RISK

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

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



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

6. MARKET RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Market Risk

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

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
2016				
Interest rate/rate of return risk	**28,272,479**	**(26,871,792)**	**690,329**	**55,226**
Foreign exchange risk	**2,601,255**	**(1,451,482)**	**2,601,255**	**208,101**
Total	**30,873,734**	**(28,323,274)**	**3,291,584**	**263,327**
2015				
Interest rate/rate of return risk	30,924,503	(27,366,985)	597,882	47,830
Foreign exchange risk	1,902,621	(935,466)	1,902,621	152,210
Total	32,827,124	(28,302,451)	2,500,503	200,040
Bank				
2016				
Interest rate risk	**26,486,844**	**(26,222,397)**	**653,356**	**52,269**
Foreign exchange risk	**3,147,648**	**(4,245,864)**	**4,245,864**	**339,669**
Total	**29,634,492**	**(30,468,261)**	**4,899,220**	**391,938**
2015				
Interest rate risk	27,814,812	(26,577,465)	535,038	42,803
Foreign exchange risk	2,128,762	(3,179,295)	3,179,295	254,344
Total	29,943,574	(29,756,760)	3,714,333	297,147

7. EQUITY EXPOSURES IN THE BANKING BOOK

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

(a) Equity Exposures in the Banking Book

Group	2016 Gross Credit Exposure RM'000	2016 Risk-Weighted Assets RM'000	2015 Gross Credit Exposure RM'000	2015 Risk-Weighted Assets RM'000
Publicly traded				
Investments in unit trust funds	**12,577**	**12,577**	3,071,182	3,071,182
Holdings of equity investments	**3,167**	**3,167**	3,730	3,730
	15,744	**15,744**	3,074,912	3,074,912
Privately held				
For socio-economic purposes	**87,909**	**87,909**	87,899	87,899
Not for socio-economic purposes	**32,625**	**48,938**	31,036	46,554
	120,534	**136,847**	118,935	134,453
Total	**136,278**	**152,591**	3,193,847	3,209,365

(i) Publicly Traded

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

(ii) Privately Held

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

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

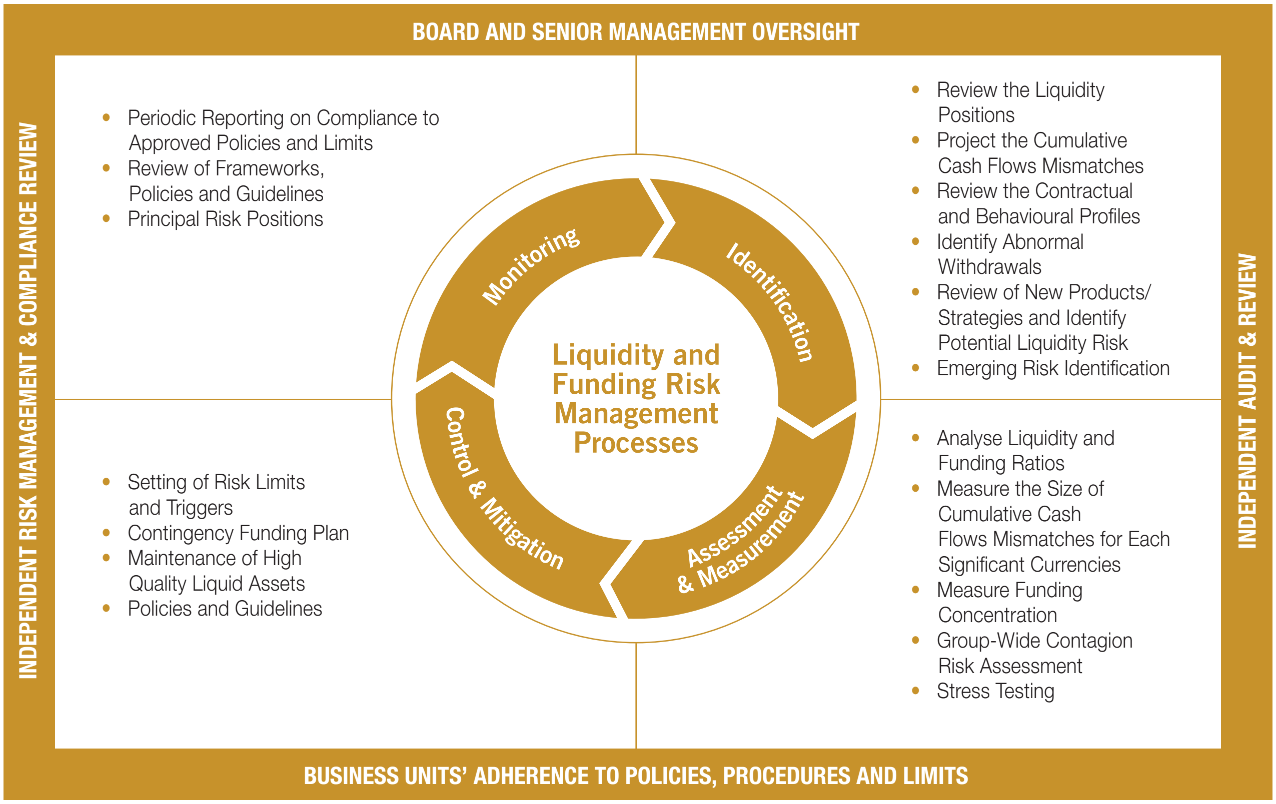
Group	2016 RM'000	2015 RM'000
Realised (losses)/gains recognised in the statement of profit or loss		
– Investments in unit trust funds	**(2,763)**	8,755
Unrealised (losses)/gains recognised in other comprehensive income		
– Investments in unit trust funds	**(1)**	745
– Publicly traded equity investments	**(562)**	(3,357)
	(563)	(2,612)

PILLAR 3 DISCLOSURE

8. LIQUIDITY AND FUNDING RISK

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

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

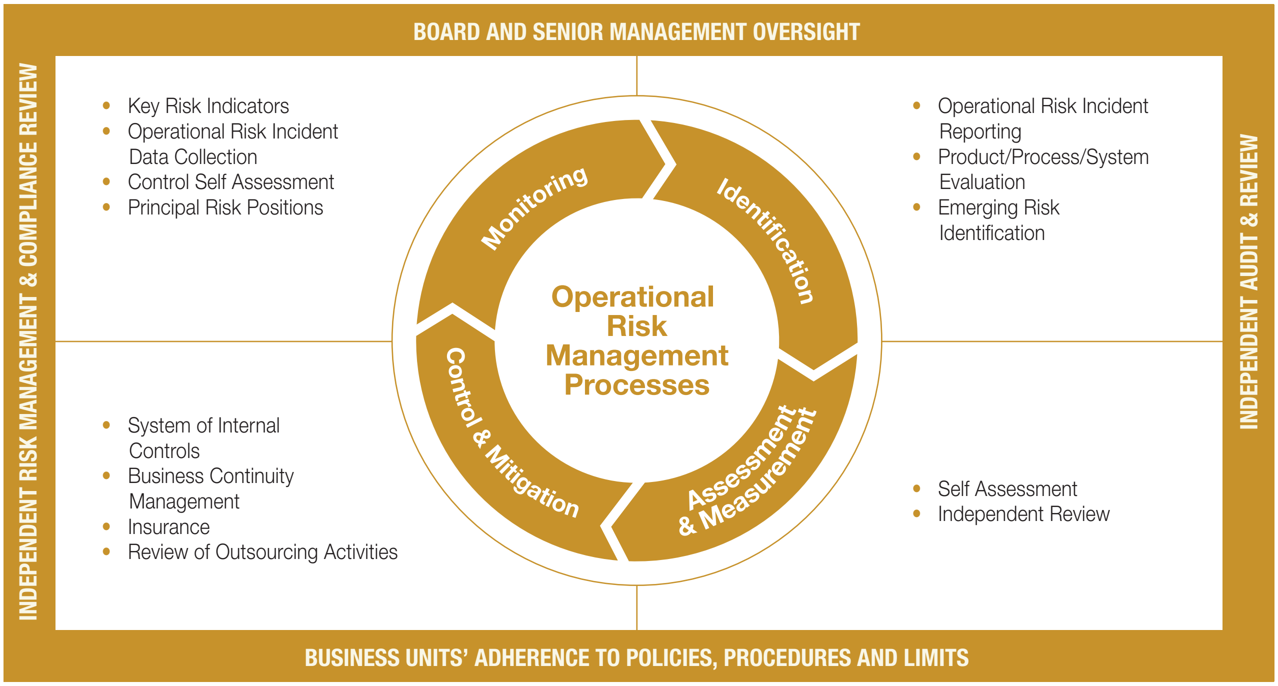


The risk governance and risk management approach for liquidity and funding risk are set out in the liquidity and funding risk section of Note 44 to the financial statements.

9. OPERATIONAL RISK

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

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



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

Minimum Regulatory Capital Requirements for Operational Risk

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

	2016		2015	
	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	**17,364,426**	**1,389,154**	16,321,153	1,305,692
Bank	**11,525,983**	**922,079**	10,911,444	872,915

10. SHARIAH NON-COMPLIANCE RISK

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

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

Islamic Banking Operations

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

The Shariah Compliance Division, which comprises Shariah Review and Shariah Research 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 and Islamic banking contemporary issues and providing Shariah advisory support to branches and business units.

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

Internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Audit Committee.

Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services and the treatment of the consequential Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Committee and the approval by the Board of Public Islamic prior to implementation.

Ongoing Shariah reviews and audits conducted on Public Islamic's operational processes in Islamic banking and financing transactions revealed that there is no Shariah non-compliant income recorded during the financial year under review (2015: Nil).

10. SHARIAH NON-COMPLIANCE RISK (CONTINUED)

Management of Shariah-Based Funds

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

The Compliance 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 funds. 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 for listed domestic equities or per cleansing mechanism as prescribed by the Shariah Adviser for unlisted domestic equities and foreign equities. Any excess capital gains derived from such disposal would be channelled to charitable bodies accordingly.

During the financial year, a non-permissible income of RM737,210.21 (2015: RM1,276,055) under the Shariah-based funds arising from the disposal of Shariah non-compliant securities has been channelled to charitable bodies as approved by the Shariah Adviser.

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- Certificate of Merit

2014 ANNUAL REPORT
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- Most Outstanding Annual Report – Silver Award
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2013 ANNUAL REPORT
NACRA Award
- Certificate of Merit

2012 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report – Silver Award
- Best Annual Report in Bahasa Malaysia – Platinum Award

2011 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report – Gold Award
- Best Annual Report in Bahasa Malaysia – Platinum Award

2010 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report – Gold Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2009 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Gold Award

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- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award
- Best Designed Annual Report – Platinum Award

2005 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report – Gold Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2004 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia

CITRA Award
- Merit Award

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- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia

2002 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

CITRA Award
- Merit Award

2001 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

CITRA Award
- Special Jury Award

2000 ANNUAL REPORT
NACRA Award
- Industry Excellence Award – Finance Sector

CITRA Award
- Special Jury Award

1999 ANNUAL REPORT
NACRA Award
- Industry Excellence Award – Finance Sector

CITRA Award
- Main Award

1998 ANNUAL REPORT
NACRA Award
- Industry Excellence Award – Finance Sector

1997 ANNUAL REPORT
NACRA Award
- Best Annual Report in Bahasa Malaysia
- Industry Excellence Award – Finance Sector

1996 ANNUAL REPORT
NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

1995 ANNUAL REPORT
NACRA Commendation Award
- Accounting Information
- Annual Report in Bahasa Malaysia

1994 ANNUAL REPORT
NACRA Commendation Award
- Accounting Information
- Corporate Information
- Annual Report in Bahasa Malaysia

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- Best Accounting Information

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