PILLAR 3 DISCLOSURE
As at 31 December 2015

Overview

The Pillar 3 Disclosure is required under the Bank Negara Malaysia ("BNM")'s Capital Adequacy Framework for Islamic Banks ("CAFIB"), which is the equivalent to Basel II issued by 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 Islamic banks 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 Islamic banks 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 Islamic banks 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 Islamic banks through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of Islamic banks that will enhance comparability amongst Islamic banks.

Public Islamic Bank Berhad ("the Bank") 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 CAFIB. Under the Standardised Approach, the Bank 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 Bank's average gross income for a fixed number of quarterly periods.

The Bank's Pillar 3 Disclosure is governed by the Public Bank Group ("the Group")'s Disclosure Policy on Basel II Risk-Weighted Capital Adequacy Framework/Capital Adequacy Framework for Islamic Banks - Pillar 3 which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been reviewed and verified by the internal auditors and certified by the Bank’s Chief Executive Officer. Under the BNM's CAFIB, 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.publicislamicbank.com.my

Overview (Cont'd.)

Minimum Regulatory Capital Requirements

The Bank's principal business activity is Islamic banking which focuses mainly on retail banking and financing operations. The following tables present the minimum regulatory capital requirements to support the Bank's risk-weighted assets.

	2015		**2014**	
	Risk-Weighted Assets RM'000	**Minimum Capital Requirement at 8% RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirement at 8% RM'000**
Credit Risk	**24,611,954**	**1,968,956**	20,402,877	1,632,230
Market Risk	**85,600**	**6,848**	178,375	14,270
Operational Risk	**1,549,041**	**123,923**	1,562,715	125,017
Total	**26,246,595**	**2,099,727**	22,143,967	1,771,517

The Bank 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 CAFIB.

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PUBLIC ISLAMIC BANK BERHAD (14328-V)

1. Scope of Application

The Pillar 3 Disclosure provided in this document is in respect of the Bank, which is involved in Islamic banking financial services and all the activities are mainly denominated in Ringgit Malaysia.

There were no restrictions or impediments on the transfer of funds or regulatory capital between the Bank and its holding company, Public Bank Berhad ("PBB").

There were no capital deficiencies in the Bank during the financial year.

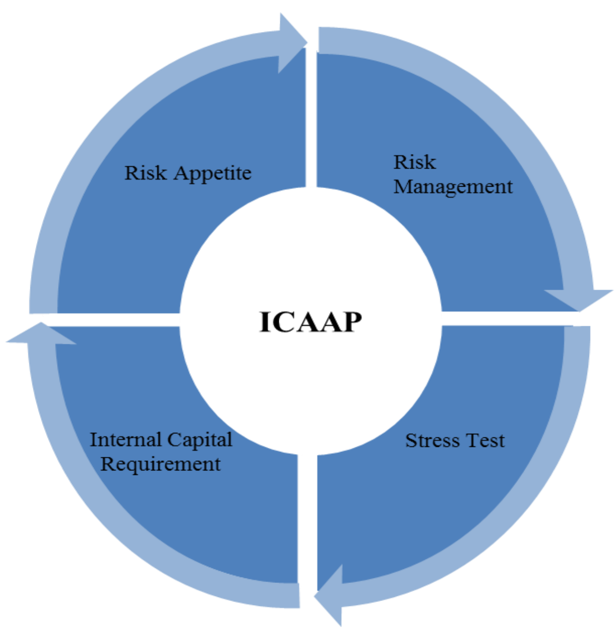
2. Capital Management

The objective of the Bank'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 Bank's capital base, 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 Bank achieves this through the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP requires the Bank 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.

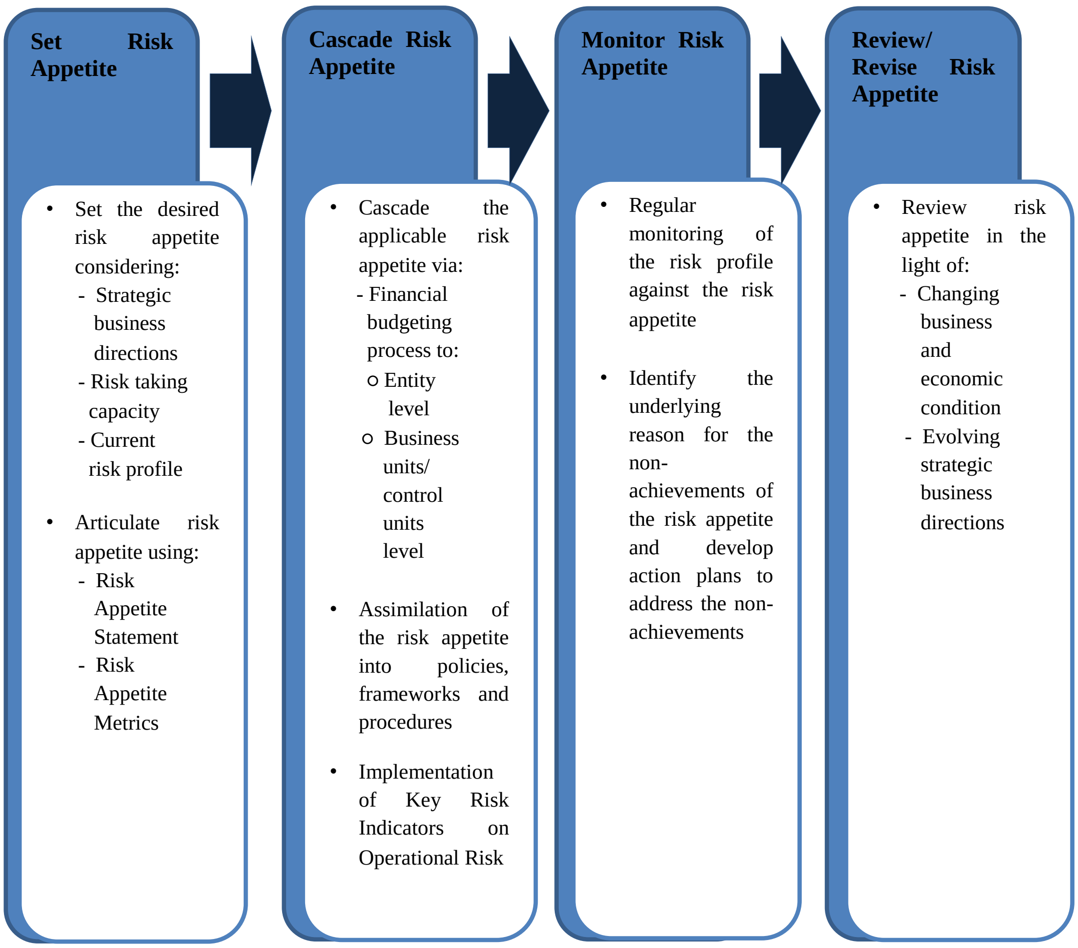
The key elements of the ICAAP are as follows:



2. Capital Management (Cont'd.)

(a) Risk Appetite

The Bank's Risk Appetite expresses the level of risk which the Bank is willing to assume within the Bank's capacity in order to achieve the Bank's objectives, as defined by a set of minimum quantitative metrics and qualitative standards. The key elements applied in setting the Bank's Risk Appetite are the strategic business directions, the risk taking capacity and the level of risk currently assumed by the Bank. 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 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:



2. Capital Management (Cont'd.)

(b) Risk Management

The Group Risk Management Framework sets out the principles applied in managing the material risks that the Bank is exposed to. The Framework serves to drive the development of a consistent risk management practices which enable the continuous identification, measurement, control and monitoring of all applicable and material risks and this include the continuous identification of emerging risks followed by the assessment of the risks on the Bank's business and capital positions. The Bank's risk limits established to manage the size of the risk exposures are aligned to the overall Risk Appetite.

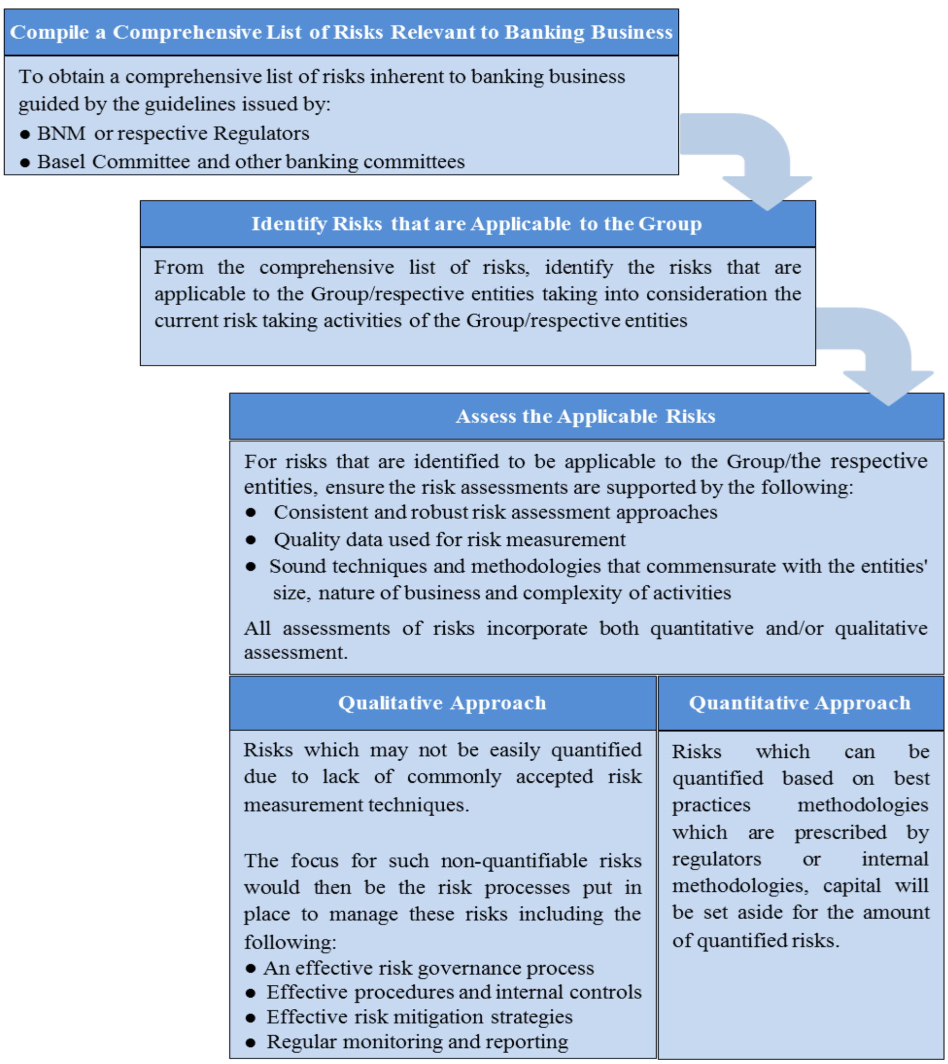
The Bank operates on seven fundamental principles and this is further discussed on item 3 of the Pillar 3 Disclosure.

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).



2. Capital Management (Cont'd.)

(c) Stress Test

The Bank’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 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 Bank’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 Bank’s Internal Capital Targets.

(d) Internal Capital Requirement

The Bank’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 Bank's strategic directions and business plans. In formulating the Bank’s capital plans, the Bank 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 Bank’s capital plans are reviewed regularly by the Board against the Bank’s Internal Capital Targets.

3. Risk Management Framework

As approved by BNM, the risk management functions of the Bank are undertaken by its holding company, PBB and is governed by the Group's 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="9">AUDIT COMMITTEE</td></tr>
<tr><td>Risk Management Committee</td></tr>
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Islamic Banking
Retail Banking and Financing Operations
Share Broking and Fund Management
Treasury and Capital Market Operations</td></tr>
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Board of Directors

The Board is ultimately responsible for the adequacy and effectiveness of risk management and system of internal control. The Board, through the RMC, maintains overall responsibility for risk oversight within the Group.

3. Risk Management Framework (Cont'd.)

(a) Risk Governance (Cont'd.)

Risk Management Committee

The RMC is responsible for overall risk oversight which includes inter-alia reviewing and approving risk management policies and limits, reviewing risk exposures and portfolio composition, and ensuring that infrastructure, resources and systems are put in place for effective risk management oversight. The RMC assists the Board in overseeing the effectiveness of the Group’s ICAAP and approving risk policies and frameworks relating to ICAAP.

Dedicated Risk Committees

The dedicated risk committees established to assist the RMC in the management of market and liquidity risk, credit risk and operational risk are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee ("ORMC") respectively. These committees are responsible for overseeing the development and assessing the effectiveness of risk management policies, reviewing risk exposures and portfolio composition, and ensuring that infrastructure, resources and systems are put in place to manage and control the Group’s risk taking activities.

Shariah Committee

The key responsibilities of the Shariah Committee are to advise the Board on Shariah matters pertaining to the Islamic operations and to deliberate and endorse Shariah related matters. The Shariah Committee is supported by the Shariah compliance and research functions.

Independent Risk Management and Control Units

The independent risk management and control units provide crucial support to the dedicated risk committees. They have the right to obtain information necessary to carry out their responsibilities and work closely among themselves to ensure the approved risk policies are implemented and complied with. They are also responsible for the identification, measurement, monitoring and reporting of risk exposures.

Business Units

The business units, being the first line of 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.

Audit Committee

The Audit Committee, supported by the IAD, provides an independent assessment on the adequacy and reliability of the risk management processes and system of internal controls, and compliance with approved risk policies and regulatory requirements.

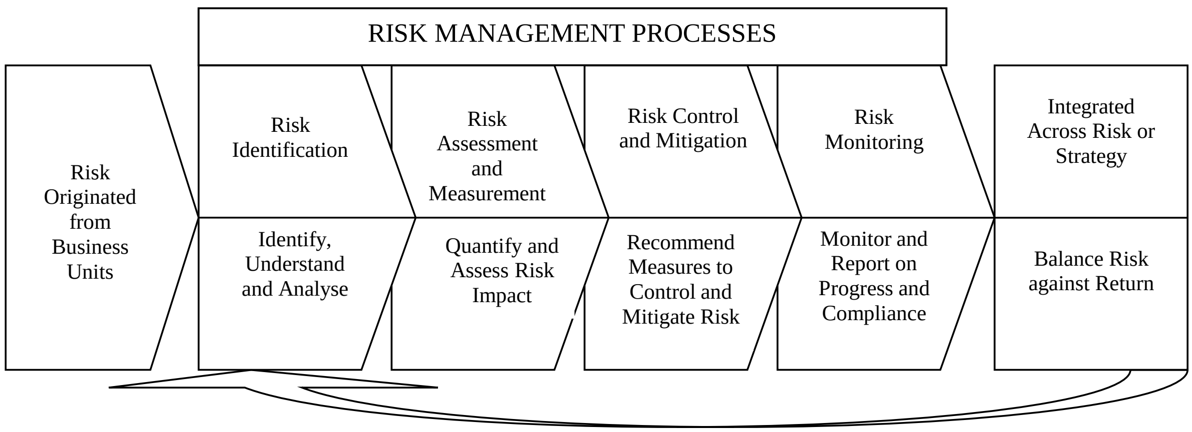
3. Risk Management Framework (Cont'd.)

(b) Risk Appetite

Risk Appetite is a key component in our management of risk. It describes the amount and types of risks the Bank is able and willing to accept in pursuit of the Bank's business objectives. The Risk Appetite Statement including the measurable risk thresholds (collectively referred to as RAS) is approved by the Board on the advised of the RMC. 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 Bank'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.

(a) Capital Adequacy Ratios

	2015	2014
Before deducting interim dividends*:		
Common equity tier I ("CET I") capital ratio	**10.771%**	11.730%
Tier I capital ratio	**10.771%**	11.730%
Total capital ratio	**13.481%**	14.580%
After deducting interim dividends*:		
CET I capital ratio	**10.771%**	11.007%
Tier I capital ratio	**10.771%**	11.007%
Total capital ratio	**13.481%**	13.857%

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

The minimum regulatory capital adequacy ratios, as required under BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) which includes transitional arrangements for year 2015, are set out as follows:

Calendar Year	CET I Capital Ratio %	Tier I Capital Ratio %	Total Capital Ratio %
2015 onwards*	4.5	6.0	8.0

* Before including capital conservation buffer of 2.5% and countercyclical capital buffer.

Banking institutions are also required to maintain a capital conservation buffer of up to 2.5% and a countercyclical capital buffer 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%

On 13 October 2015, BNM issued the revised Capital Adequacy Framework for Islamic Banks (Capital Components and Basel II Risk-Weighted Assets) ("Revised Framework") which is effective from 1 January 2016. Under the Revised Framework, a countercyclical capital buffer is required to be maintained if this buffer is applied by regulators in countries which the Group has exposures to, determined based on the weighted average of prevailing countercyclical capital buffer rates applied in that jurisdictions. The countercyclical capital buffer which is in a range of between 0% and 2.5% is not a requirement for exposures in Malaysia but may be applied by regulators in the future.

4. Capital Adequacy Ratios and Capital Structure (Cont'd.)

(b) Capital Structure

	2015 RM'000	2014 RM'000
CET I/Tier I capital		
Paid-up share capital	**207,217**	200,217
Share premium	**1,925,500**	1,757,500
Other reserves	**241,685**	215,823
Retained profits	**462,736**	431,300
Less: Defined benefit pension fund assets	**(2,157)**	(3,384)
Less: Investment in an associated company deducted from CET I capital	**(8,000)**	(4,000)
Total CET I/Tier I capital	**2,826,981**	2,597,456
Tier II capital		
Collective assessment allowance and regulatory reserves#	**224,109**	148,356
Subordinated sukuk murabahah	**499,117**	498,860
Less: Investment in an associated company deducted from Tier II capital	**(12,000)**	(16,000)
Total Tier II capital	**711,226**	631,216
Total capital	**3,538,207**	3,228,672

Excludes collective assessment allowance on impaired financing restricted from Tier II capital of the Bank of RM160.5 million (2014: RM173.5 million).

Includes the qualifying regulatory reserves for non-impaired financing of RM68.7 million (2014: Nil).

The Bank has issued capital instrument which qualify as component of regulatory capital under the BNM's CAFIB (Capital Components), as summarised in the following table:

Capital Instrument	Capital Component	Main Features
(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 PBB/the Bank 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 instrument are found in Note 18 to the financial statements.

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 Bank's primary business is in Islamic banking, the Bank's exposure to credit risk is primarily from its financing to retail consumers, small and medium enterprises ("SMEs") and corporate customers. Trading activities and investing the surplus funds of the Bank, such as trading or holding of debt securities, deposits placements, settlement of transactions, also expose the Bank to credit risk and counterparty credit risk ("CCR").

Minimum Regulatory Capital Requirements for Credit Risk

The following tables present the minimum regulatory capital requirements for credit risk.

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	**10,919,170**	**10,919,170**	**-**	**-**
Public Sector Entities	**1,372,240**	**1,372,240**	**2,911**	**233**
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	**670,215**	**670,215**	**112,780**	**9,022**
Corporates	**4,050,891**	**4,009,132**	**3,628,403**	**290,272**
Regulatory Retail	**19,169,039**	**19,104,335**	**14,671,210**	**1,173,697**
Residential Mortgages	**7,701,905**	**7,694,715**	**3,508,832**	**280,707**
Higher Risk Assets	**2,161**	**2,156**	**3,234**	**259**
Other Assets	**83,792**	**83,792**	**80,553**	**6,444**
Equity Exposures	**114,769**	**114,769**	**114,769**	**9,181**
Defaulted Exposures	**221,440**	**221,000**	**321,077**	**25,686**
	44,305,622	**44,191,524**	**22,443,769**	**1,795,501**
Off-Balance Sheet Exposures				
Credit-related Exposures	**2,649,170**	**2,644,168**	**2,100,164**	**168,013**
Derivative Financial Instruments	**327,219**	**327,219**	**65,443**	**5,236**
Defaulted Exposures	**1,730**	**1,730**	**2,578**	**206**
	2,978,119	**2,973,117**	**2,168,185**	**173,455**
Total Credit Exposures	**47,283,741**	**47,164,641**	**24,611,954**	**1,968,956**

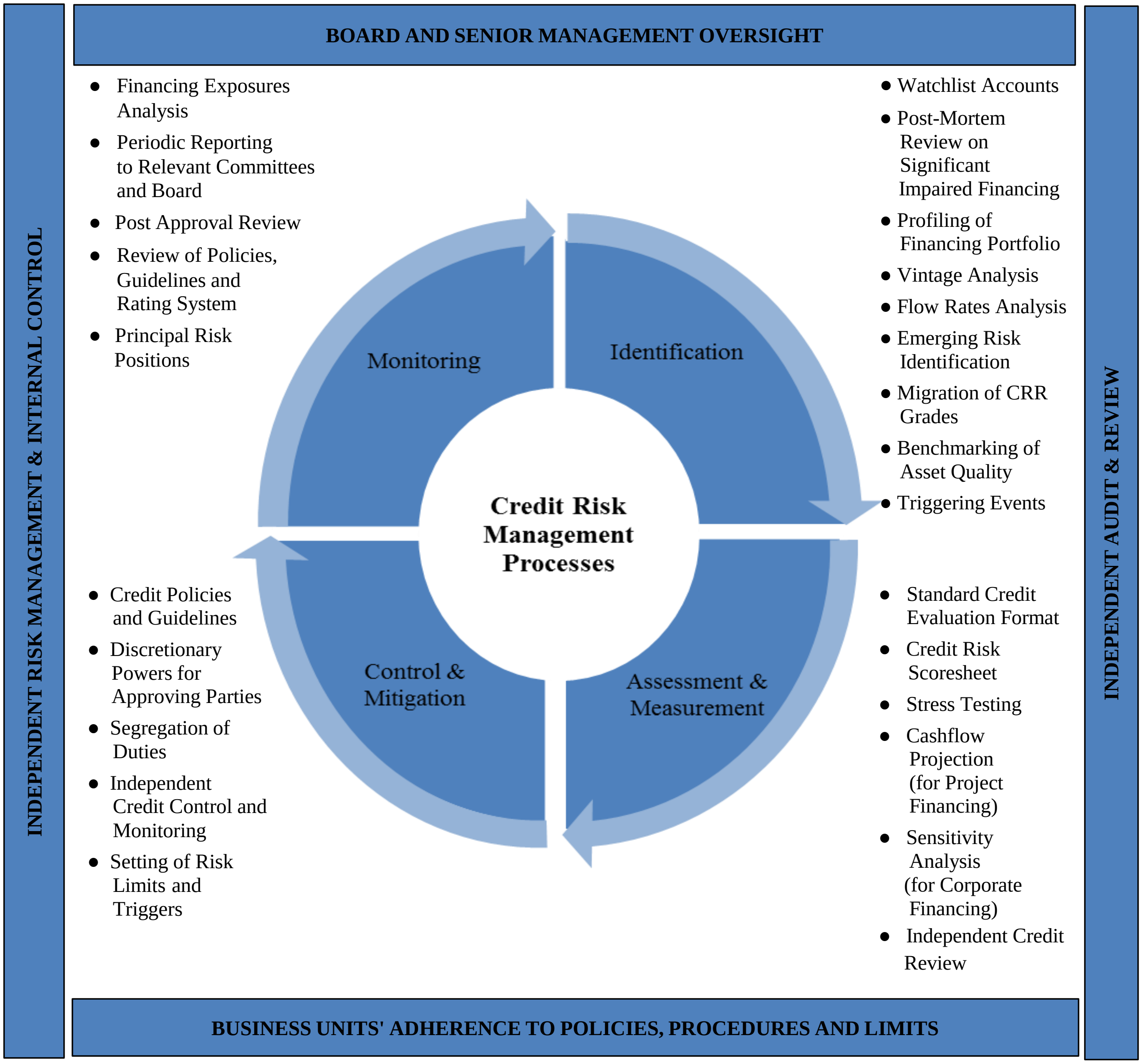
5. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

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
2014				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	8,845,150	8,845,150	-	-
Public Sector Entities	373,384	373,384	3,379	270
Banks, DFIs and MDBs	256,499	256,499	30,035	2,403
Corporates	2,836,150	2,813,750	2,478,096	198,248
Regulatory Retail	16,815,360	16,770,964	12,911,139	1,032,891
Residential Mortgages	5,874,708	5,868,737	2,678,969	214,317
Higher Risk Assets	3,938	3,929	5,893	471
Other Assets	71,080	71,080	68,520	5,482
Equity Exposures	468,222	468,222	468,222	37,458
Defaulted Exposures	272,444	271,793	400,708	32,057
	35,816,935	35,743,508	19,044,961	1,523,597
Off-Balance Sheet Exposures				
Credit-related Exposures	1,712,612	1,706,670	1,300,685	104,055
Derivative Financial Instruments	265,835	265,835	53,167	4,253
Defaulted Exposures	2,714	2,714	4,064	325
	1,981,161	1,975,219	1,357,916	108,633
Total Credit Exposures	37,798,096	37,718,727	20,402,877	1,632,230

5. Credit Risk (Cont'd.)

The following diagram presents the risk management processes over credit risk.



Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Bank'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.

5. Credit Risk (Cont'd.)

Risk Management Approach

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Bank's financing standards, discretionary power for financing approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent financing. 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 the Bank's credit risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the credit risk policies are implemented and complied with.

The management of credit risk starts with experienced key personnel appointed to the Credit Committee of PBB ("Credit Committee"). The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. Financing 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 financing with lower risk exposure. The Board has the authority to reject or modify the terms and conditions of financing which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Financing 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 payment track record and the current payment 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 financing application.

(b) Financing 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 Bank's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, investment in debt securities are subject to the minimum investment grade, minimum acceptable return and the maximum 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. As at reporting date, the Bank does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

5. Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(d) Counterparty Credit Risk on Derivative Financial Instruments

The Bank's derivative financial instruments is Islamic Profit Rate Swap ("IPRS") which was entered into for hedging purposes. The CCR on this derivative financial instruments is the risk that the Bank's counterparty in IPRS defaults prior to maturity date of the contract and the Bank, at the relevant time, has a claim on the counterparty.

Unlike on-balance sheet financial instruments, the Bank’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 Bank will only suffer a loss if the contract carries a positive economic value at time of default.

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Where possible, Over-the-Counter (“OTC”) derivative financial instruments, especially IPRS is transacted under master agreements, Islamic Derivatives Master Agreement (“IDMA”) and Credit Support Annex (“CSA”) agreements. IDMA 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.

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 retails business financing and corporate financing of selected financing size and/or type. Periodical review/assessment of business sectors and industries in which the Bank’s customers 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.

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. 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 post approval review, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management, Credit Committee, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

5. Credit Risk (Cont'd.)

5.1 Distribution of Credit Exposures

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

(a) Industrial analysis
(b) 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 exsposure to credit risk is the full amount that the Bank would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

(a) Industry Analysis

2015	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Financing RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	2,658,023	567,126	-	-	-	-	-	-	3,225,149
Financial assets held-for-trading	-	1,588,380	-	-	-	-	-	-	1,588,380
Derivative financial assets	-	56,019	-	-	-	-	-	-	56,019
Financial investments available-for-sale	4,666,040	114,768	-	-	-	-	-	-	4,780,808
Financial investments held-to-maturity	2,226,351	278,061	141,985	95,395	-	-	-	-	2,741,792
Gross financing and advances	1,316,438	230,965	860,410	2,306,820	3,043,553	8,534,720	11,581,167	4,178,677	32,052,750
Statutory deposits with Bank Negara Malaysia	1,423,800	-	-	-	-	-	-	-	1,423,800
	12,290,652	2,835,319	1,002,395	2,402,215	3,043,553	8,534,720	11,581,167	4,178,677	45,868,698
Commitments and Contingencies									
Contingent liabilities	-	51,080	5,717	14,876	75,282	-	-	50	147,005
Commitments	-	694	196,374	873,465	1,439,467	2,401,931	1,221	804,606	5,717,758
	-	51,774	202,091	888,341	1,514,749	2,401,931	1,221	804,656	5,864,763
Total Credit Exposures	12,290,652	2,887,093	1,204,486	3,290,556	4,558,302	10,936,651	11,582,388	4,983,333	51,733,461

5. Credit Risk (Cont'd.)

5.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis (Cont'd.)

2014	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Financing RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	2,500,113	152,736	-	-	-	-	-	-	2,652,849
Financial assets held-for-trading	-	2,571,794	-	-	-	-	-	-	2,571,794
Derivative financial assets	-	60,835	-	-	-	-	-	-	60,835
Financial investments available-for-sale	4,078,061	468,222	-	-	-	-	-	-	4,546,283
Financial investments held-to-maturity	1,181,142	278,069	141,985	50,320	-	-	-	-	1,651,516
Gross financing and advances	16,895	119,576	915,631	1,745,062	2,006,427	6,662,057	10,479,315	3,811,167	25,756,130
Statutory deposits with Bank Negara Malaysia	1,140,200	-	-	-	-	-	-	-	1,140,200
	8,916,411	3,651,232	1,057,616	1,795,382	2,006,427	6,662,057	10,479,315	3,811,167	38,379,607
Commitments and Contingencies									
Contingent liabilities	-	51,000	3,003	7,778	218,970	-	-	-	280,751
Commitments	-	46,648	164,854	815,944	766,136	1,120,617	3,683	524,366	3,442,248
	-	97,648	167,857	823,722	985,106	1,120,617	3,683	524,366	3,722,999
Total Credit Exposures	8,916,411	3,748,880	1,225,473	2,619,104	2,991,533	7,782,674	10,482,998	4,335,533	42,102,606

5. Credit Risk (Cont'd.)

5.1 Distribution of Credit Exposures (Cont'd.)

(b) Maturity Analysis

	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
2015					
On-Balance Sheet Exposures					
Cash and balances with banks	**3,225,149**	**-**	**-**	**-**	**3,225,149**
Financial assets held-for-trading	**1,588,380**	**-**	**-**	**-**	**1,588,380**
Derivative financial assets	**-**	**1,840**	**6,397**	**47,782**	**56,019**
Financial investments available-for-sale	**1,538,905**	**2,833,963**	**293,172**	**114,768**	**4,780,808**
Financial investments held-to-maturity	**40,363**	**1,724,264**	**663,532**	**313,633**	**2,741,792**
Gross financing and advances	**1,502,816**	**2,726,624**	**3,591,140**	**24,232,170**	**32,052,750**
Statutory deposits with Bank Negara Malaysia	**-**	**-**	**-**	**1,423,800**	**1,423,800**
Total On-Balance Sheet Exposures	**7,895,613**	**7,286,691**	**4,554,241**	**26,132,153**	**45,868,698**
2014					
On-Balance Sheet Exposures					
Cash and balances with banks	2,652,849	-	-	-	2,652,849
Financial assets held-for-trading	2,571,794	-	-	-	2,571,794
Derivative financial assets	-	2,809	11,678	46,348	60,835
Financial investments available-for-sale	3,654,137	423,924	-	468,222	4,546,283
Financial investments held-to-maturity	1,085,734	-	201,823	363,959	1,651,516
Gross financing and advances	1,133,656	2,002,504	3,541,449	19,078,521	25,756,130
Statutory deposits with Bank Negara Malaysia	-	-	-	1,140,200	1,140,200
Total On-Balance Sheet Exposures	11,098,170	2,429,237	3,754,950	21,097,250	38,379,607

Approximately 17% (2014: 29%) of the Bank's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 76% (2014: 74%) of the Bank's gross financing and advances has residual maturity of more than 5 years. The longer maturity is from the hire purchase and house financing which made up 64% (2014: 68%) 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 Bank expects many of these commitments (such as direct credit substitutes) to expire or be unconditionally cancelled without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

(c) All the financial assets are located in Malaysia and therefore no analysis of credit exposures of financial assets by geographical distribution is disclosed.

5. Credit Risk (Cont'd.)

5.2 Off-Balance Sheet Exposures

Off-balance sheet exposures of the Bank are mainly from the commitments to extend credit including the unutilised or undrawn portions of credit facilities. 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.

Composition of Off-Balance Sheet Exposures

The following tables present the composition of off-balance sheet exposures. All derivative financial instruments are at their notional amounts.

	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	**121,056**		**121,056**	**59,287**
Transaction-related contingent items	**22,297**		**11,149**	**6,896**
Short term self-liquidating trade-related contingencies	**3,652**		**730**	**588**
	147,005		**132,935**	**66,771**
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- exceeding one year	**4,581,376**		**2,290,688**	**1,848,183**
- not exceeding one year	**1,111,758**		**222,352**	**184,094**
Unutilised credit card lines	**24,624**		**4,925**	**3,694**
	5,717,758		**2,517,965**	**2,035,971**
Derivative Financial Instruments				
Profit rate related contracts:				
- one year to less than five years	**1,830,000**	**8,237**	**54,437**	**10,887**
- five years and above	**2,500,000**	**47,782**	**272,782**	**54,556**
	4,330,000	**56,019**	**327,219**	**65,443**
Total Off-Balance Sheet Exposures	**10,194,763**	**56,019**	**2,978,119**	**2,168,185**
2014				
Contingent Liabilities				
Direct credit substitutes	265,965		265,965	147,065
Transaction-related contingent items	12,050		6,025	3,503
Short term self-liquidating trade-related contingencies	2,736		547	513
	280,751		272,537	151,081
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- exceeding one year	2,514,464		1,257,232	991,915
- not exceeding one year	927,784		185,557	161,753
	3,442,248		1,442,789	1,153,668
Derivative Financial Instruments				
Profit rate related contracts:				
- one year to less than five years	1,600,000	14,487	69,487	13,897
- five years and above	1,500,000	46,348	196,348	39,270
	3,100,000	60,835	265,835	53,167
Total Off-Balance Sheet Exposures	6,822,999	60,835	1,981,161	1,357,916

5. Credit Risk (Cont'd.)

5.3 Credit Risk Mitigation

The Bank's approach in granting credit facilities is based on the credit standing of the customer, source of payment 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 Bank to mitigate credit risk are as follows:

(a) for residential mortgages - charges over residential properties
(b) for commercial property financing - charges over the properties being financed
(c) for motor vehicle financing - ownership claims over the vehicles financed
(d) for other 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 Bank'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 covered at all times against major risks, for instance, against fire, with the respective banking entities as the loss payee under the takaful policy. In addition, customers are generally covered against major risks, such as, death and permanent disability.

The Bank also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk, subject to internal guidelines on eligibility. Currently, the Bank does not employ the use of derivative credit instruments such as credit default swaps, structured credit notes and securitisation structures to mitigate the Bank's credit exposures. In addition, the Bank enters into master netting arrangements with its derivative counterparties to reduce the credit risk, all amounts with the counterparty are settled on a net basis.

5. Credit Risk (Cont'd.)

5.3 Credit Risk Mitigation (Cont'd.)

Credit Risk Mitigation Analysis

The following tables present the credit risk mitigation analysis of the Bank 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 Bank does not have any credit exposure which is reduced through the application of other eligible collateral.

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	**10,919,170**	**-**	**-**	**-**
Public Sector Entities	**1,372,240**	**1,357,684**	**-**	**-**
Banks, DFIs and MDBs	**670,215**	**106,316**	**-**	**-**
Corporates	**4,050,891**	**267,141**	**41,759**	**-**
Regulatory Retail	**19,169,039**	**-**	**64,704**	**-**
Residential Mortgages	**7,701,905**	**-**	**7,190**	**-**
Higher Risk Assets	**2,161**	**-**	**5**	**-**
Other Assets	**83,792**	**-**	**-**	**-**
Equity Exposures	**114,769**	**-**	**-**	**-**
Defaulted Exposures	**221,440**	**-**	**440**	**-**
	44,305,622	**1,731,141**	**114,098**	**-**
Off-Balance Sheet Exposures				
Credit-related Exposures	**2,649,170**	**74,064**	**5,002**	**-**
Derivative Financial Instruments	**327,219**	**-**	**-**	**-**
Defaulted Exposures	**1,730**	**-**	**-**	**-**
	2,978,119	**74,064**	**5,002**	**-**
Total Credit Exposures	**47,283,741**	**1,805,205**	**119,100**	**-**

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5. Credit Risk (Cont'd.)

5.3 Credit Risk Mitigation (Cont'd.)

Credit Risk Mitigation Analysis (Cont'd.)

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
2014				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	8,845,150	-	-	-
Public Sector Entities	373,384	356,489	-	-
Banks, DFIs and MDBs	256,499	106,323	-	-
Corporates	2,836,150	222,066	22,400	-
Regulatory Retail	16,815,360	-	44,396	-
Residential Mortgages	5,874,708	-	5,971	-
Higher Risk Assets	3,938	-	9	-
Other Assets	71,080	-	-	-
Equity Exposures	468,222	-	-	-
Defaulted Exposures	272,444	-	651	-
	35,816,935	684,878	73,427	-
Off-Balance Sheet Exposures				
Credit-related Exposures	1,712,612	143,250	5,942	-
Derivative Financial Instruments	265,835	-	-	-
Defaulted Exposures	2,714	-	-	-
	1,981,161	143,250	5,942	-
Total Credit Exposures	37,798,096	828,128	79,369	-

5. Credit Risk (Cont'd.)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Bank 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 Bank and are recognised by BNM in the CAFIB:

(a) Standard & Poor's ("S&P")
(b) Moody's Investors Services ("Moody's")
(c) Fitch Ratings ("Fitch")
(d) Rating Agency Malaysia Berhad ("RAM")
(e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

(a) Sovereigns and Central Banks
(b) Banking Institutions
(c) Corporates

Unrated and Rated Counterparties

In general, the rating specific to the credit exposure is used, i.e. the issue rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least pari passu with the obligation that is rated, as stipulated in the CAFIB. 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 (Cont'd.)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The Bank 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	Banking Institutions: For Exposure Less Than Six Months Original Maturity
1	0%	20%	20%	20%
2	20%	50%	50%	20%
3	50%	100%	50%	20%
4	100%	100%	100%	50%
5	100%	150%	100%	50%
6	150%	150%	150%	150%

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

5. Credit Risk (Cont'd.)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

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

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

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	**141,985**	**-**	**-**	**-**	**-**	**-**		**141,985**
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks [#]								
- Sovereigns and Central Banks	**-**	**10,919,170**	**-**	**-**	**-**	**-**		**10,919,170**
- Public Sector Entities	**-**	**1,357,684**	**-**	**-**	**-**	**-**		**1,357,684**
- Banks, DFIs and MDBs	**-**	**106,316**	**-**	**-**	**-**	**-**		**106,316**
- Corporates	**-**	**267,141**	**-**	**-**	**-**	**-**		**267,141**
	-	**12,650,311**	**-**	**-**	**-**	**-**		**12,650,311**
(iii) Exposures risk-weighted using ratings of Banking Institutions								
- Banks, DFIs and MDBs	**-**	**487,457**	**-**	**-**	**-**	**-**		**487,457**
Total Rated Exposures	**141,985**	**13,137,768**	**-**	**-**	**-**	**-**		**13,279,753**
(b) Total Unrated Exposures							**31,025,869**	**31,025,869**
	141,985	**13,137,768**	**-**	**-**	**-**	**-**	**31,025,869**	**44,305,622**
Off-Balance Sheet Exposures								
(a) Rated Exposures								
Exposures risk-weighted using ratings of Banking Institutions								
- Banks, DFIs and MDBs	**327,219**	**-**	**-**	**-**	**-**	**-**		**327,219**
- Corporates	**74,064**	**-**	**-**	**-**	**-**	**-**		**74,064**
	401,283	**-**	**-**	**-**	**-**	**-**		**401,283**
Total Rated Exposures	**401,283**	**-**	**-**	**-**	**-**	**-**		**401,283**
(b) Total Unrated Exposures							**2,576,836**	**2,576,836**
	401,283	**-**	**-**	**-**	**-**	**-**	**2,576,836**	**2,978,119**
Total Credit Exposures before Credit Risk Mitigation	**543,268**	**13,137,768**	**-**	**-**	**-**	**-**	**33,602,705**	**47,283,741**

5. Credit Risk (Cont'd.)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

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
2014								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
- Corporates	141,985	-	-	-	-	-		141,985
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
- Sovereigns and Central Banks	-	8,845,150	-	-	-	-		8,845,150
- Public Sector Entities	-	356,489	-	-	-	-		356,489
- Banks, DFIs and MDBs	-	106,323	-	-	-	-		106,323
- Corporates	-	222,066	-	-	-	-		222,066
	-	9,530,028	-	-	-	-		9,530,028
(iii) Exposures risk-weighted using ratings of Banking Institutions								
- Banks, DFIs and MDBs	97,823	-	-	-	-	-		97,823
Total Rated Exposures	239,808	9,530,028	-	-	-	-		9,769,836
(b) Total Unrated Exposures							26,047,099	26,047,099
	239,808	9,530,028	-	-	-	-	26,047,099	35,816,935
Off-Balance Sheet Exposures								
(a) Rated Exposures								
Exposures risk-weighted using ratings of Banking Institutions								
- Banks, DFIs and MDBs	265,835	-	-	-	-	-		265,835
- Corporates	143,250	-	-	-	-	-		143,250
	409,085	-	-	-	-	-		409,085
Total Rated Exposures	409,085	-	-	-	-	-		409,085
(b) Total Unrated Exposures							1,572,076	1,572,076
	409,085	-	-	-	-	-	1,572,076	1,981,161
Total Credit Exposures before Credit Risk Mitigation	648,893	9,530,028	-	-	-	-	27,619,175	37,798,096

Under the CAFIB, 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%.

5. Credit Risk (Cont'd.)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

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

The following tables present the credit exposures after the effect of credit risk mitigation by risk weights.

	Credit Exposures after the Effect of Credit Risk Mitigation											
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%	**10,919,170**	**1,357,684**	**106,316**	**-**	**267,141**	**-**	**-**	**-**	**3,239**	**-**	**12,653,550**	**-**
20%	**-**	**14,556**	**891,118**	**-**	**216,049**	**-**	**-**	**-**	**-**	**-**	**1,121,723**	**224,345**
35%	**-**	**-**	**-**	**-**	**-**	**-**	**4,690,524**	**-**	**-**	**-**	**4,690,524**	**1,641,683**
50%	**-**	**-**	**-**	**-**	**-**	**-**	**2,503,601**	**-**	**-**	**-**	**2,503,601**	**1,251,800**
75%	**-**	**-**	**-**	**-**	**-**	**19,151,494**	**61,706**	**-**	**-**	**-**	**19,213,200**	**14,409,900**
100%	**-**	**-**	**-**	**-**	**4,259,594**	**1,531,813**	**790,949**	**-**	**80,553**	**114,769**	**6,777,678**	**6,777,678**
150%	**-**	**-**	**-**	**-**	**414**	**198,633**	**2,376**	**2,942**	**-**	**-**	**204,365**	**306,548**
Total	**10,919,170**	**1,372,240**	**997,434**	**-**	**4,743,198**	**20,881,940**	**8,049,156**	**2,942**	**83,792**	**114,769**	**47,164,641**	**24,611,954**
Risk-Weighted Assets by Exposures	**-**	**2,911**	**178,224**	**-**	**4,303,425**	**16,193,383**	**3,734,276**	**4,413**	**80,553**	**114,769**	**24,611,954**	
Average Risk Weights	**-**	**0.2%**	**17.9%**	**-**	**90.7%**	**77.5%**	**46.4%**	**150.0%**	**96.1%**	**100.0%**	**52.2%**	
Deduction from Total Capital			**-**							**-**	**-**	

5. Credit Risk (Cont'd.)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

	Credit Exposures after the Effect of Credit Risk Mitigation											
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**
2014												
0%	8,845,150	356,489	106,323	-	222,066	-	-	-	2,560	-	9,532,588	-
20%	-	16,895	416,011	-	285,235	-	-	-	-	-	718,141	143,628
35%	-	-	-	-	-	-	3,170,785	-	-	-	3,170,785	1,109,775
50%	-	-	-	-	-	-	2,402,447	-	-	-	2,402,447	1,201,223
75%	-	-	-	-	-	16,249,156	66,649	-	-	-	16,315,805	12,236,854
100%	-	-	-	-	2,943,377	1,392,493	441,477	-	68,520	468,222	5,314,089	5,314,089
150%	-	-	-	-	1,350	258,123	565	4,834	-	-	264,872	397,308
Total	8,845,150	373,384	522,334	-	3,452,028	17,899,772	6,081,923	4,834	71,080	468,222	37,718,727	20,402,877
Risk-Weighted Assets by Exposures	-	3,379	83,202	-	3,002,449	13,966,545	2,803,309	7,251	68,520	468,222	20,402,877	
Average Risk Weights	-	0.9%	15.9%	-	87.0%	78.0%	46.1%	150.0%	96.4%	100.0%	54.1%	
Deduction from Total Capital			-							-	-	

5. Credit Risk (Cont'd.)

5.5 Credit Quality of Gross Financing and Advances

Gross Financing and Advances by Credit Quality

The following tables present the gross financing and advances analysed by credit quality.

	2015 RM'000	2014 RM'000
Neither past due nor impaired	**26,574,589**	20,577,155
Past due but not impaired	**5,266,357**	4,946,627
Impaired	**211,804**	232,348
	32,052,750	25,756,130
Gross impaired financing as a percentage of gross financing and advances	**0.66%**	0.90%

(a) Neither Past Due Nor Impaired

The credit quality of gross financing and advances which are neither past due nor impaired is set out in Note 38(ii)(a) to the financial statements.

(b) Past Due But Not Impaired

Past due but not impaired financing and advances are financing where the customer has failed to make a principal or profit payment when contractually due, and include financing which is due one or more days after the contractual due date but less than 3 months. 58% (2014: 57%) of the past due financing of the Bank is past due for less than 1 month.

Tables (i)-(ii) present the analysis of past due but not impaired financing and advances of the Bank, as follows:
(i) Economic purpose analysis
(ii) Aging analysis

(i) Economic Purpose Analysis

	2015 RM'000	2014 RM'000
Purchase of transport vehicles	**3,347,865**	3,223,176
Purchase of landed properties	**1,765,321**	1,553,964
(Of which: - residential	**1,446,886**	1,299,698
- non-residential)	**318,435**	254,266
Purchase of fixed assets (excluding landed properties)	**-**	104
Personal use	**120,969**	117,888
Credit Card	**647**	-
Purchase of consumer durables	**82**	356
Working capital	**29,364**	10,437
Other purpose	**2,109**	40,702
	5,266,357	4,946,627

5. Credit Risk (Cont'd.)

5.5 Credit Quality of Gross Financing and Advances (Cont'd.)

(b) Past Due But Not Impaired (Cont'd.)

(ii) Aging Analysis

	2015 RM'000	2014 RM'000
1 day to <1 month	**3,033,725**	2,815,249
1 month to <2 months	**1,726,695**	1,620,824
2 months to <3 months	**505,937**	510,554
	5,266,357	4,946,627

(c) Impaired Financing and Advances

The Bank assesses, at each reporting period, whether there is any objective evidence that an individually significant financing is impaired. "Objective evidence of impairment" exists when one or more events that have occurred after the initial recognition of the financing (an incurred "loss event") and that the loss event has an impact on future estimated cash flows of the financing or group of financing that can be reliably estimated. The criteria that the Bank uses to determine whether there is any objective evidence of impairment are set out in Note 38(ii)(c) to the financial statements.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the financing's carrying amount and the present value of estimated future cash flows discounted at the financing's original effective profit rate. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

Financing and advances which are not individually significant are collectively assessed. If the Bank determines that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financing with similar credit risk characteristics for collective impairment assessment.

The future cash flows of each of the group of financing with similar credit risk characteristics are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of financing.

Financing and advances are classified as impaired when they fulfill any of the following criteria:

(i) principal or profit or both are past due for ninety (90) days or more; or
(ii) where a financing is in arrears for less than ninety (90) days, the financing exhibits indications of significant credit weaknesses; or
(iii) where a financing, irregardless of impaired or non-impaired, has been rescheduled or restructured, the financing will be classified as impaired until payments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

5. Credit Risk (Cont'd.)

5.5 Credit Quality of Gross Financing and Advances (Cont'd.)

(c) Impaired Financing and Advances (Cont'd.)

Impaired Financing and Advances and the Related Impairment Allowances by Economic Purpose

The following tables present the impaired financing and advances and the related impairment allowances, analysed by economic purpose.

2015	Impaired Financing and Advances 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 Financing and Advances RM'000
Purchase of transport vehicles	**104,061**	-	-	-	-	**180,588**	**180,588**
Purchase of landed properties	**71,470**	-	-	-	-	**72,247**	**72,247**
(Of which: - residential	**64,435**	-	-	-	-	**59,401**	**59,401**
- non-residential)	**7,035**	-	-	-	-	**12,846**	**12,846**
Purchase of fixed assets (excluding landed properties)	**39**	-	-	-	-	**23**	**23**
Personal use	**35,317**	-	-	-	-	**56,992**	**56,992**
Credit card	**21**	-	-	-	-	**31**	**31**
Purchase of consumer durables	**57**	-	-	-	-	**83**	**83**
Construction	-	-	-	-	-	**148**	**148**
Working capital	**820**	-	-	-	-	**5,659**	**5,659**
Other purpose	**19**	-	-	-	-	**124**	**124**
	211,804	-	-	-	-	**315,895**	**315,895**

2014	Impaired Financing and Advances 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 Financing and Advances RM'000
Purchase of transport vehicles	112,140	-	-	-	-	176,166	176,166
Purchase of landed properties	71,886	-	-	-	-	75,231	75,231
(Of which: - residential	61,353	-	-	-	-	64,166	64,166
- non-residential)	10,533	-	-	-	-	11,065	11,065
Purchase of fixed assets (excluding landed properties)	-	-	-	-	-	23	23
Personal use	47,072	-	-	-	-	66,415	66,415
Purchase of consumer durables	75	-	-	-	-	92	92
Construction	-	-	-	-	-	112	112
Working capital	1,117	-	-	-	-	3,423	3,423
Other purpose	58	-	-	-	-	389	389
	232,348	-	-	-	-	321,851	321,851

The movements in the collective assessment allowance for 2015 and 2014 are set out in Note 8 to the financial statements.

6. Market Risk

Market risk is the risk that movements in market variables, including rate of return, foreign exchange rates, credit spreads, commodity prices and equity prices, will reduce the income or portfolio values of the Bank.

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

Exposure to Market Risk		Description
(a)	Traded Market Risk	Primarily the rate of return risk and credit spread risk, exists in the Bank'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.
(b)	Non-Traded Market Risk	Rate of return risk, foreign exchange risk and equity prices risk arising mainly from the retail and Islamic banking assets and liabilities, as well as financial investments designated as available-for-sale and held-to-maturity.

The Bank's core market risks are as follows:

- **Rate of Return Risk in the Banking Book ("RoRBB")** - Risk to the Bank's earnings and economic value of equity ("EVE") arising from adverse movements in the rate of return over time arising from activities such as desposits taking, financing and investment.

- **Displaced Commercial Risk ("DCR")** - Risk of the Bank 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. As at reporting date, the Bank does not have Profit Sharing Investment Accounts which are eligible for risk absorbent treatment.

The Bank does not have any material exposure to foreign exchange risk as at the reporting date as the Bank's activities are mainly denominated in Ringgit Malaysia.

Minimum Regulatory Capital Requirements for Market Risk

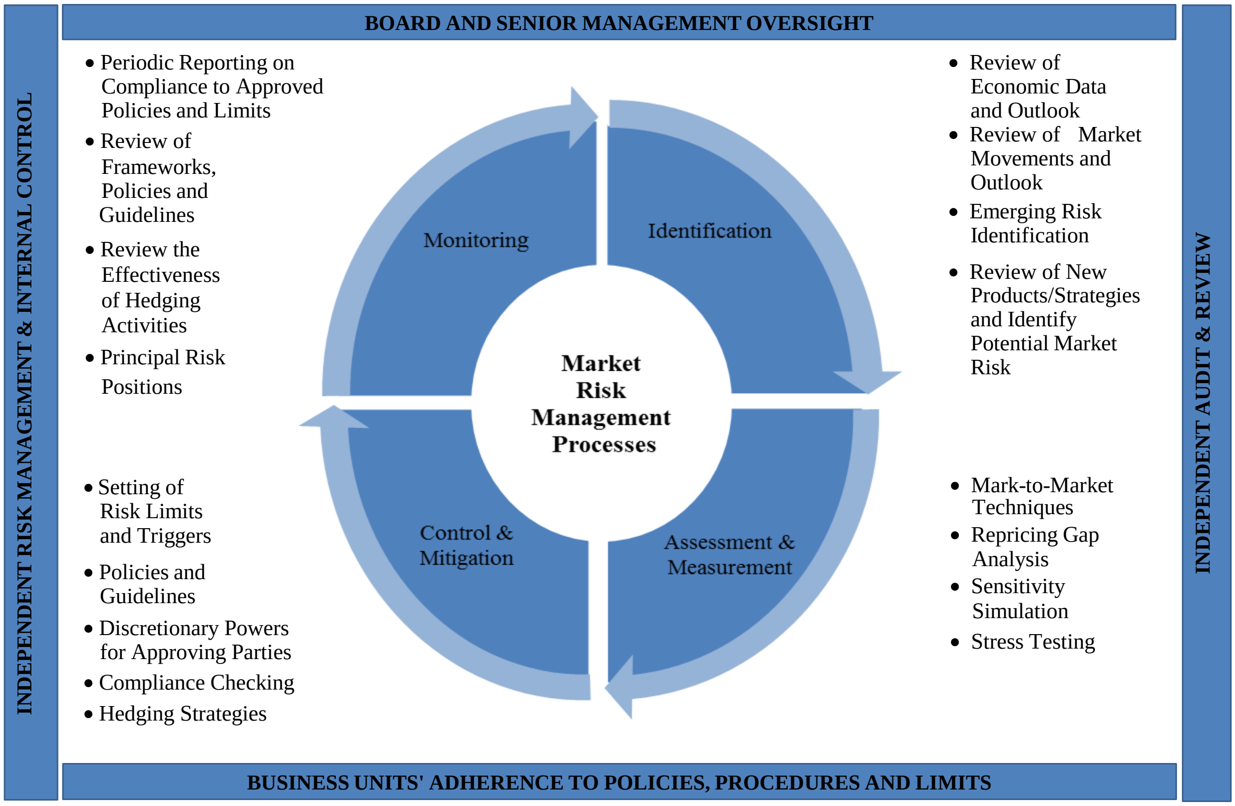
The following table presents the minimum regulatory capital requirements for market risk.

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2015				
Rate of return risk	**1,588,380**	**-**	**85,600**	**6,848**
2014				
Rate of return risk	2,571,794	-	178,375	14,270

6. Market Risk (Cont'd.)

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Bank'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. The following diagram presents the risk management processes over market risk.



6.1 Traded Market Risk

Risk Management Approach

The Bank's traded market risk frameworks comprise market risk policies and practices, delegation of authorities, market risk limits and valuation methodologies. The Bank’s traded market risk for fixed income instruments is measured by the present value of 1 basis point change ("PV01") and controlled by daily and cumulative cut-loss limits. The compliance officers are deployed to conduct daily compliance checking on the treasury operations. Any instances of non-compliance with the operational processes, procedures and limits will be documented with remedial action plans and reported to the Audit Committee. In addition, the compliance officers conducts 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 regularly reported to the ALCO. The Bank does not have any exposures in trading financial derivative.

During the financial year, the Bank's traded market risk exposures on fixed income instruments as measured by PV01, averaged at RM20,000 (2014: RM27,000). The composition of the Bank's trading portfolio is set out in Note 4 to the financial statements.

6. Market Risk (Cont'd.)

6.2 Non-Traded Market Risk

(a) Rate of Return Risk in the Banking Book

The sources of RoRBB are as follows:

- **Repricing Risk** - Risk caused by timing differences in the rate of return changes and cash flows that occur in the repricing and maturity of the Bank's fixed and floating rate assest, liabilities and off-balance sheet instruments.

- **Yield Curve Risk** - Risk when unanticipated changes in the yield curve have adverse effects on the Bank's earnings and EVE.

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

- **Optionality Risk** - Risk of early payments of financing and early withdrawal of deposits due to changes in the rate of return which will potentially affect future earnings.

Risk Management Approach

The Bank emphasises the importance of RoRBB as most of the balance sheet items of the Bank generate profit income and profit expense that are correlated to rate of return. Hence, the primary objective in managing the RoRBB is to manage the volatility in the Bank's net profit income ("NPI") and EVE due to the changing levels of rate of return, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a 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 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 rate of return risk is set out in Note 5 to the financial statements.

The Bank's RoRBB is also governed by the Group's Interest/Profit Rate Risk Management Framework to ensure that all RoRBB is managed within its risk appetite. All limits and policies are approved by the Bank's Board of Directors and are regularly reviewed to ensure that the limits and policies remain applicable and is able to surface potential rate of return risk.

6. Market Risk (Cont'd.)

6.2 Non-Traded Market Risk (Cont'd.)

(a) Rate of Return Risk in the Banking Book (Cont'd.)

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

Measures		Description
(i)	**Repricing Gap Reports**	Distribution of 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 financing prepayments, early deposits withdrawal and effective duration of liabilities which are contractually payable on demand such as current and saving accounts. This is measured on a monthly basis for the Bank.
(ii)	**Sensitivity Analysis**	Impact to NPI - This is the projected Bank's NPI sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Bank's rate of return sensivity 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 rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing 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 rate of return on the economic value of the Bank's Balance Sheet. It requires all future cash flows associated with the Bank's assets, liabilities and off-balance sheet positions to be discounted at relevant market rates to determine the overall net present value of the Bank. This is measured on a monthly basis for the Bank.
(iii)	**Simulation Scenarios**	As and when the need arises, analysis is performed on the sensitivity of projected NPI and EVE under varying rate of return and balance sheet scenarios. The analysis also incorporates business assumptions obtained from various lines of business and behavioral assumptions established based on statistical methods for the Bank. 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 rate of return risk.
(iv)	**Stress Testing**	The vulnerability of the Bank'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 rate of return movements on the Bank's statements of financial position which can provide an early warning of the potential losses and to facilitate proactive management of the rate of return risk.

6. Market Risk (Cont'd.)

6.2 Non-Traded Market Risk (Cont'd.)

(a) Rate of Return Risk in the Banking Book (Cont'd.)

The following table presents the projected Bank's sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Bank's rate of return sensitivity gap as at 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 rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing rate of return.

	2015		**2014**	
	-100 bps	**+100 bps**	**-100 bps**	**+100 bps**
	←	**Increase/(Decrease)**		→
	RM'000	**RM'000**	**RM'000**	**RM'000**
Impact on NPI	**18,801**	**(29,921)**	2,450	(10,778)
Impact on EVE	**282,273**	**(246,935)**	179,832	(120,513)

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 rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statement of financial position and that all positions run to maturity.

The repricing profile of 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, financing prepayments are generally estimated based on past statistics and trends. The impact on the NPI and EVE are measured on a monthly basis, both of which are reported to the ALCO and the RMC.

(b) Displaced Commercial Risk

Risk Management Approach

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

(i) to forgo part or all of the Bank'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 the Bank'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, the Bank has transitioned all of its investment deposit products into Islamic deposits with effect from 1 July 2015. In respect of investment deposits products where the maturity period is beyond 30 June 2015 or held as security against financing facilities, BNM allows continued classification as investment deposits until their respective maturity period or settlement of the financing facilities.

As at reporting date, the Bank’s investment deposits of RM113.6 million (2014: RM321.7 million) are subject to DCR.

7. Equity Exposures in the Banking Book

The following table presents the equity exposures in the banking book.

	2015		2014	
	Gross Credit Exposure RM'000	**Risk-Weighted Assets RM'000**	**Gross Credit Exposure RM'000**	**Risk-Weighted Assets RM'000**
Publicly traded				
Investments in unit trust funds	**114,769**	**114,769**	468,222	468,222

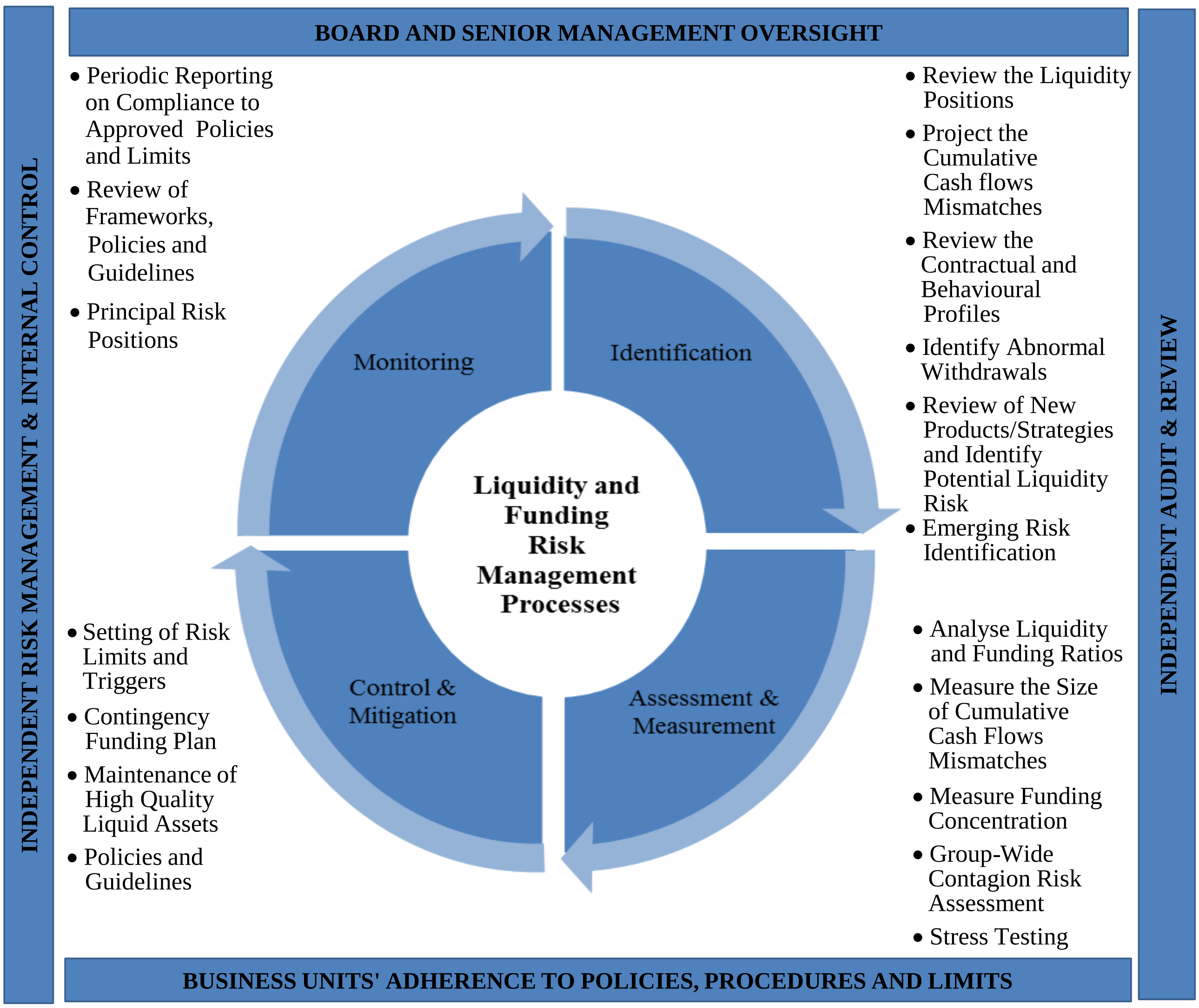
The publicly traded investment in unit trust funds comprises money market funds which are held for yield purposes.

During the financial year, the realised gains on disposal of equity exposures in the banking book are RM2.1 million (2014: Nil). As at 31 December 2015, the Bank recorded an unrealised gains of RM1.8 million (2014: unrealised gains of RM3.4 million) arising from the mark-to-market of equity exposures in banking book. The unrealised gains were recognised in the other comprehensive income.

8. Liquidity and Funding Risk

Liquidity risk is the risk that the Bank 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 Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

The following diagram presents the risk management processes over liquidity and funding risk.



Risk Governance

The ALCO supports the RMC in liquidity and funding risk management oversight. The ALCO reviews the Bank'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.

8. Liquidity and Funding Risk (Cont'd.)

Risk Management Approach

The Bank's liquidity and funding risk management is aligned to the BNM’s Basel III Liquidity Coverage Ratio Framework which is effective from 1 June 2015 and is also guided by the Group's Liquidity and Funding Risk Management Framework which set out the processes involved in identifying, assessing, measuring, controlling, mitigating and monitoring of the liquidity and funding risk.

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 financed to the customers. As at 31 December 2015, the Bank holds a sizeable balance of government securities amounting to RM6,836.6 million (2014: RM5,203.4 million) or 75% (2014: 59%) of its portfolio of securities.

The Bank’s liquidity and funding positions are supported by the Bank’s core deposit base, accompanied by funding from wholesale markets. The Bank’s core deposit base comprises demand and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Bank’s reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors’ confidence and ensure liquidity. The Bank accesses the wholesale markets through the issuance of debt securities, certificate of deposits and the taking of Islamic money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

The primary tools for monitoring liquidity and funding positions are the maturity mismatch analysis, assessment on the concentration of fundings, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity and funding positions are reported to the ALCO on a monthly basis.

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed on quarterly basis to determine the cash flows mismatches under the “Institution Specific Liquidity Problem” and “Systemic Wide Liquidity Problem” scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

9. Operational Risk

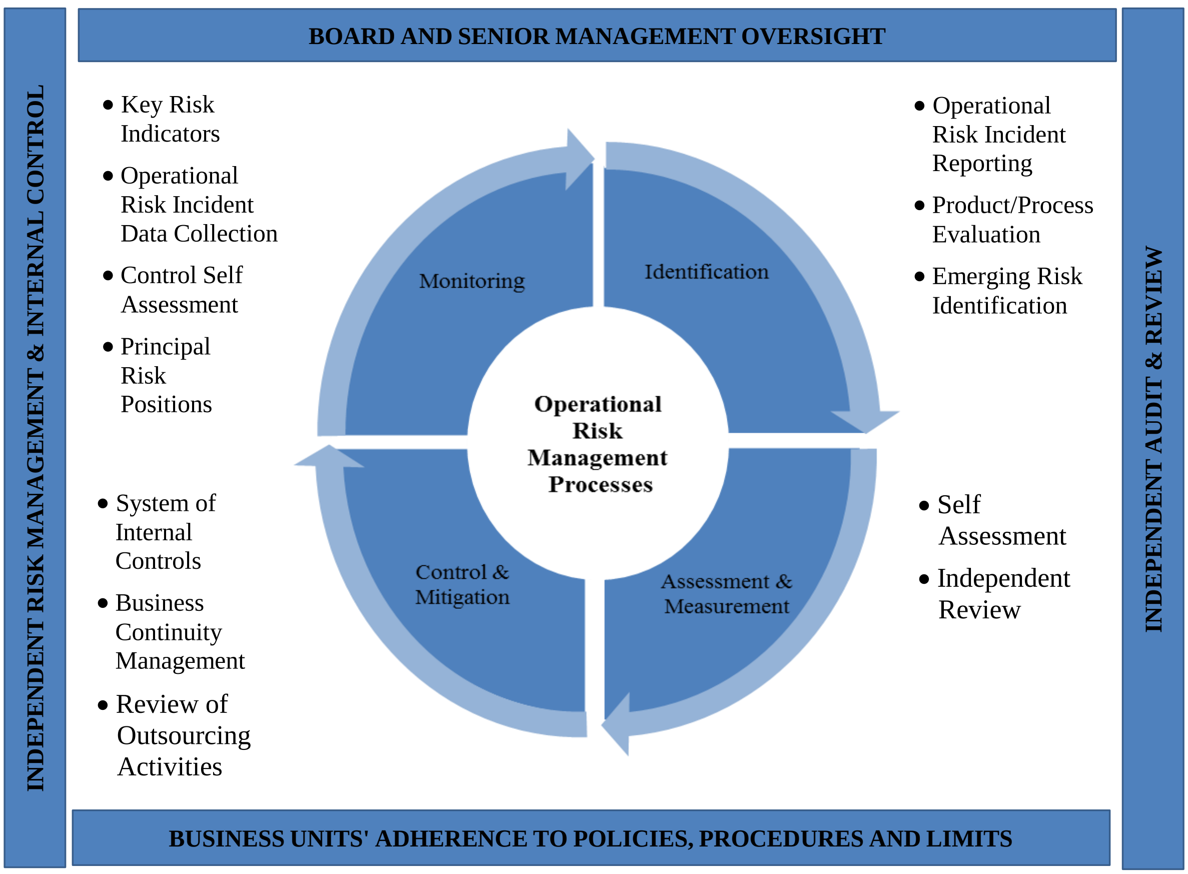
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is unavoidable as it is inherent in all banking businesses. The objective of the operational risk management of the Bank is to manage its operational risk within an acceptable level.

Minimum Regulatory Capital Requirements for Operational Risk

The following table present the minimum regulatory capital requirements for operational risk of the Bank, computed using the Basic Indicator Approach.

	2015		2014	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Operational Risk	**1,549,041**	**123,923**	1,562,715	125,017

The following diagram presents the risk management processes over operational risk.



9. Operational Risk (Cont'd.)

Risk Governance

The Bank'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 Bank.

The Board, through the RMC, maintains overall responsibility for risk oversight within the Bank. 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.

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 Bank. As events and business conditions evolve, the Bank 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.

9. Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Strategy and Processes

The Bank has put in place a disciplined product evaluation process. The Bank’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 Bank continues to direct group-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Bank operates. The Bank 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 assessment are conducted on major operational risk issues/emerging risk events due to 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 Bank'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 Bank's operational risk exposures are managed within its risk appetite.

The Bank has put in place the disaster recovery and business continuity plans which are regularly tested and updated that enable the Bank to respond and continue to operate critical business functions across a broad spectrum of interruptions to the business, arising from internal or external events.

The Bank 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 Bank continues to undertake initiatives to maintain 100% system availability and robust system performance in the Bank's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

The Bank 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.

9. Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Tools and Methods for Risk Mitigation

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

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

(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 trends of operational risk data which are useful in assessing the Bank'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 Bank's operational risk management processes are deliberately 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 Bank. The operational risk management reports are tabled to the ORMWG, the ORMC and the RMC for deliberations.

10. Shariah Non-Compliance Risk

Shariah non-compliance risk arises from the Bank's failure to comply with the Shariah rules and principles as determined by the Shariah Committee of the Bank or the relevant body, such as the Shariah Advisory Council of BNM.

This risk is managed through the Shariah Governance Framework ("the Framework") which was endorsed by the Shariah Committee and approved by the Board. 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 gorvernance structure, as well as the adoption of a systematic approach in reviewing Shariah compliance and the reporting process on Shariah matters. The Board is ultimately responsible for Shariah compliance. In this regard, the Board, 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. On a periodic basis, the members of the Shariah Committee perform on-site inspections at branches to review the operations of the Bank 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 the Bank. The role of Shariah Review is to examine and evaluate the Bank'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 risk inherent in Islamic banking operations. Shariah risk management function forms part of the Group's Risk Management Framework. In addition, internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Audit Committee. Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services and the treatment of the consequential Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Committee and the approval by the Board prior to implementation.

Ongoing Shariah reviews and audits conducted on the Bank'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 (2014: Nil).