

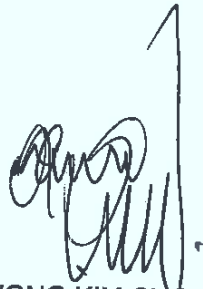
**UNITED OVERSEAS BANK (MALAYSIA) BHD**  
(Company No. 271809K)  
**AND ITS SUBSIDIARY COMPANIES**  
(Incorporated in Malaysia)

**PILLAR 3 DISCLOSURE**  
**31 DECEMBER 2014**

Domiciled in Malaysia  
Registered Office:  
Level 11, Menara UOB  
Jalan Raja Laut,  
50350 Kuala Lumpur

**Attestation by Chief Executive Officer pursuant to BASEL II – Pillar 3 Disclosures  
as at 31 December 2014.**

To the best of my knowledge, I hereby attest that United Overseas Bank (Malaysia) Bhd's Pillar 3 Disclosures prepared for submission to Bank Negara Malaysia is in accordance with Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) for the financial year ended 31 December 2014.



**WONG KIM CHOONG**  
Chief Executive Officer

Date: 4<sup>th</sup> February 2015

**United Overseas Bank (Malaysia) Bhd**  
**(Incorporated in Malaysia)**

### **Pillar 3 Disclosure**

United Overseas Bank (Malaysia) Bhd ('the Bank'), in compliance with the requirements under Bank Negara Malaysia Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), various additional quantitative and qualitative disclosures have been included in the annual report under the section 'Pillar 3 Disclosure'. Some of the disclosure requirements are also required under MFRS 7- Financial Instrument Disclosure which became effective on 1st January 2012 for the Bank which also included adoption of revised standards beginning on or after 1st January 2014. These disclosures have been included under 'Notes to the Financial Statements'. The disclosures are to facilitate the understanding of the Bank's risk profile and assessment of the Bank's capital adequacy.

### **Scope of Application**

In accordance with the accounting standards for financial reporting, all subsidiaries of the Bank are fully consolidated from the date the Bank obtains control until the date such control ceases. The Bank's investment in associates is accounted for using the equity method from the date the Bank obtains significant influence over the associates until the date such significant influence ceases.

However, for the purpose of computing capital adequacy requirements at the Bank level, investments in a subsidiary that carries out insurance business as an insurer are excluded from the consolidated financial statements of the Bank. In compliance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components), such investments are deducted from regulatory capital.

The transfer of funds or regulatory capital within the Group is generally subject to regulatory approval.

### **Capital Adequacy**

Our approach to capital management is to ensure that the UOBM Group maintains strong capital levels to support our businesses and growth, to meet regulatory capital requirements at all times and to maintain a good credit rating.

We achieve these objectives through the UOBM Group's Internal Capital Adequacy Assessment Process (ICAAP) whereby we actively monitor and manage the UOBM Group's capital position over a medium-term horizon, involving the following:

- setting capital targets for the Bank. As part of this, we take into account future regulatory changes and stakeholder expectations;
- forecasting capital demand for material risks based on the UOBM Group's risk appetite. This is evaluated across all business segments and includes the UOBM Group's capital position before and after mitigation actions under adverse but plausible stressed conditions; and
- determining the availability and composition of different capital components.

Two committees oversee our capital planning and assessment process. The Risk Management Committee assists the Board with the management of risks arising from the business of the UOBM Group while the Risk and Capital Committee manages the UOBM Group's ICAAP, overall risk profile and capital requirements. The UOBM Group's capital position, capital management plan, the contingency capital plan, as well as any capital management actions, are submitted to the senior management team and/or to the Board for approval.

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**Capital Adequacy (Cont'd)**

The aggregate breakdown of risk weighted assets ("RWA") by exposure in each category of the Bank for the current financial period 31st December 2014 are as follows:-

RM'000

Item	Exposure Class	Exposures Pre CRM	Exposures Post CRM	RWA	Min Cap. Requirement at 8%
1.0	<b>Credit Risk</b>				
1.1	<b>Exempted Exposures under Standardised Approach</b>				
	<b>On-Balance Sheet Exposures</b>				
	Public Sector Entities	-	-	-	-
	Banks, Development Financial Institutions & MDBs	-	-	-	-
	Corporates	1,618,098	1,616,068	1,616,068	129,285
	Regulatory Retail	-	-	-	-
	Other Assets	450,287	450,287	358,703	28,696
	Defaulted Exposures	7,565	7,565	11,347	908
	<b>Total for On-Balance Sheet Exposures</b>	<b>2,075,950</b>	<b>2,073,920</b>	<b>1,986,118</b>	<b>158,889</b>
	<b>Off-Balance Sheet Exposures</b>				
	OTC Derivatives	378,998	378,998	216,459	17,317
	Credit Derivatives	-	-	-	-
	Off-Balance sheet exposures other than OTC derivatives or credit derivatives	128,417	126,554	126,554	10,124
	Defaulted Exposures	-	-	-	-
	<b>Total Off-Balance Sheet Exposures</b>	<b>507,415</b>	<b>505,552</b>	<b>343,013</b>	<b>27,441</b>
	<b>Total On and Off-Balance Sheet Exposures (STD)</b>	<b>2,583,365</b>	<b>2,579,472</b>	<b>2,329,132</b>	<b>186,331</b>
1.2	<b>Exposures under FIRB Approach</b>				
	<b>On-Balance Sheet Exposures</b>				
	Sovereigns/Central Banks	18,833,792	18,833,792	-	-
	Banks, Development Financial Institutions & MDBs	3,007,600	3,007,601	666,568	53,325
	Corporate Exposures	24,022,107	21,513,970	22,872,579	1,829,806
	Residential Mortgages				
	Qualifying Purchased Retail Receivables				
	Qualifying Revolving Retail Exposures				
	Other Retail Exposures				
	Securitisation				
	Equity (Simple Risk Weight)	113,329	113,329	447,181	35,774
	Defaulted Exposures	532,297	520,373	-	-
	<b>Total for On-Balance Sheet Exposures</b>	<b>46,509,125</b>	<b>43,989,065</b>	<b>23,986,328</b>	<b>1,918,906</b>
	<b>Off-Balance Sheet Exposures</b>				
	Off-Balance sheet exposures other than OTC derivatives or credit derivatives	4,658,178	3,844,165	3,184,787	254,783
	OTC Derivatives	1,093,694	1,078,101	500,755	40,060
	Defaulted Exposures	9,049	7,472	-	-
	<b>Total Off-Balance Sheet Exposures</b>	<b>5,760,921</b>	<b>4,929,738</b>	<b>3,685,542</b>	<b>294,843</b>
	<b>Total On and Off-Balance Sheet Exposures (FIRB)</b>	<b>52,270,046</b>	<b>48,918,803</b>	<b>27,671,870</b>	<b>2,213,750</b>
	<b>Exposures under AIRB Approach</b>				
	<b>On-Balance Sheet Exposures</b>				
	Sovereigns/Central Banks				
	Banks, Development Financial Institutions & MDBs				
	Corporate Exposures	-	-	-	-
	Residential Mortgages	26,790,525	26,790,525	2,799,487	223,959
	Qualifying Purchased Retail Receivables	-	-	-	-
	Qualifying Revolving Retail Exposures	2,147,490	2,147,490	988,983	79,119
	Other Retail Exposures	14,212,469	14,212,469	2,600,406	208,032
	Securitisation				
	Equity (Simple Risk Weight)				
	Defaulted Exposures	571,450	571,450	551,702	44,136
	<b>Total for On-Balance Sheet Exposures</b>	<b>43,721,934</b>	<b>43,721,934</b>	<b>6,940,578</b>	<b>555,246</b>
	<b>Off-Balance Sheet Exposures</b>				
	Off Balance sheet exposures other than OTC derivatives or credit derivatives	2,944,089	2,944,089	426,934	34,155
	OTC Derivatives	6,255	6,255	2,517	201
	Defaulted Exposures	80	80	100	8
	<b>Total Off-Balance Sheet Exposures</b>	<b>2,950,424</b>	<b>2,950,424</b>	<b>429,551</b>	<b>34,364</b>
	<b>Total On and Off-Balance Sheet Exposures (AIRB)</b>	<b>46,672,358</b>	<b>46,672,358</b>	<b>7,370,129</b>	<b>589,610</b>
	<b>Total (Exempted Exposures (STD) and Exposures under IRB Approach)</b>	<b>101,525,769</b>	<b>98,170,633</b>	<b>37,371,131</b>	<b>2,989,690</b>
	<b>Total (Exempted Exposures (STD) and Exposures under IRB Approach) after scaling factor</b>			<b>39,473,651</b>	<b>3,157,892</b>
2.0	Large Exposures Risk Requirement				
3.0	Market Risk				
	<b>Long Position</b>		<b>Short Position</b>		
	Interest Rate Risk	34,776,665	26,371,966	542,441	43,395
	Foreign Currency Risk	487,906	533,407	101,595	8,128
	Equity Risk	-	-	-	-
	Commodity Risk	388,406	386,783	148,527	11,882
	Options Risk	-	-	10,800	864
	Inventory Risk	-	-	-	-
4.0	Operational Risk (Basic indicator approach)			4,344,262	347,541
5.0	Total RWA and Capital Requirements			44,621,275	3,569,702

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**Capital Adequacy (Cont'd)**

The aggregate breakdown of risk weighted assets ("RWA") by exposure in each category of the Bank for the current financial period 31st December 2013 are as follows:-

RM'000

Item	Exposure Class	Exposures Pre CRM	Exposures Post CRM	RWA	Min Cap. Requirement at 8%
1.0	<b>Credit Risk</b>				
1.1	<b>Exempted Exposures under Standardised Approach</b>				
	<b>On-Balance Sheet Exposures</b>				
	Public Sector Entities	-	-	-	-
	Banks, Development Financial Institutions & MDBs	24	24	12	1
	Corporates	1,402,853	1,395,961	825,804	66,064
	Regulatory Retail	-	-	-	-
	Other Assets	470,005	470,005	355,497	28,440
	Defaulted Exposures	7,318	7,317	10,976	878
	<b>Total for On-Balance Sheet Exposures</b>	<b>1,880,200</b>	<b>1,873,307</b>	<b>1,192,289</b>	<b>95,383</b>
	<b>Off-Balance Sheet Exposures</b>				
	OTC Derivatives	143,400	143,400	110,874	8,870
	Credit Derivatives	-	-	-	-
	Off-Balance sheet exposures other than OTC derivatives or credit derivatives	124,444	117,399	117,399	9,392
	Defaulted Exposures	-	-	-	-
	<b>Total Off-Balance Sheet Exposures</b>	<b>267,843</b>	<b>260,799</b>	<b>228,273</b>	<b>18,262</b>
	<b>Total On and Off-Balance Sheet Exposures (STD)</b>	<b>2,148,043</b>	<b>2,134,106</b>	<b>1,420,562</b>	<b>113,645</b>
1.2	<b>Exposures under FIRB Approach</b>				
	<b>On-Balance Sheet Exposures</b>				
	Sovereigns/Central Banks	23,259,968	23,259,968	-	-
	Banks, Development Financial Institutions & MDBs	1,094,133	1,094,133	108,643	8,691
	Corporate Exposures	21,719,053	20,089,590	20,051,587	1,604,127
	Residential Mortgages				
	Qualifying Purchased Retail Receivables				
	Qualifying Revolving Retail Exposures				
	Other Retail Exposures				
	Securitisation				
	Equity (Simple Risk Weight)	33,572	33,572	130,350	10,428
	Defaulted Exposures	545,509	532,776	-	-
	<b>Total for On-Balance Sheet Exposures</b>	<b>46,652,235</b>	<b>45,010,038</b>	<b>20,290,581</b>	<b>1,623,246</b>
	<b>Off-Balance Sheet Exposures</b>				
	Off-Balance sheet exposures other than OTC derivatives or credit derivatives	4,506,825	3,866,862	3,384,722	270,778
	OTC Derivatives	685,309	663,050	312,792	25,023
	Defaulted Exposures	1,962	1,536	-	-
	<b>Total Off-Balance Sheet Exposures</b>	<b>5,194,097</b>	<b>4,531,449</b>	<b>3,697,513</b>	<b>295,801</b>
	<b>Total On and Off-Balance Sheet Exposures (FIRB)</b>	<b>51,846,332</b>	<b>49,541,486</b>	<b>23,988,095</b>	<b>1,919,048</b>
	<b>Exposures under AIRB Approach</b>				
	<b>On-Balance Sheet Exposures</b>				
	Sovereigns/Central Banks				
	Banks, Development Financial Institutions & MDBs				
	Corporate Exposures	38,693	42,138	23,690	1,895
	Residential Mortgages	25,051,349	25,051,349	2,881,675	230,534
	Qualifying Purchased Retail Receivables	-	-	-	-
	Qualifying Revolving Retail Exposures	1,939,008	1,939,008	915,703	73,256
	Other Retail Exposures	13,027,183	13,027,183	2,808,471	224,678
	Securitisation				
	Equity (Simple Risk Weight)				
	Defaulted Exposures	550,376	550,376	442,316	35,385
	<b>Total for On-Balance Sheet Exposures</b>	<b>40,606,610</b>	<b>40,610,055</b>	<b>7,071,854</b>	<b>565,748</b>
	<b>Off-Balance Sheet Exposures</b>				
	Off Balance sheet exposures other than OTC derivatives or credit derivatives	2,891,415	2,891,415	474,593	37,967
	OTC Derivatives	1,337	1,337	599	48
	Defaulted Exposures	180	180	304	24
	<b>Total Off-Balance Sheet Exposures</b>	<b>2,892,932</b>	<b>2,892,932</b>	<b>475,496</b>	<b>38,040</b>
	<b>Total On and Off-Balance Sheet Exposures (AIRB)</b>	<b>43,499,542</b>	<b>43,502,987</b>	<b>7,547,350</b>	<b>603,788</b>
	<b>Total (Exempted Exposures and Exposures under IRB Approach)</b>	<b>95,345,874</b>	<b>93,044,473</b>	<b>31,535,444</b>	<b>2,522,836</b>
	<b>Total (Exempted Exposures and Exposures under IRB Approach) after scaling factor</b>			<b>33,427,571</b>	<b>2,674,206</b>
2.0	Large Exposures Risk Requirement				
3.0	Market Risk				
	Interest Rate Risk	15,336,907	8,227,792	604,070	48,326
	Foreign Currency Risk	39,775	(29,936)	41,805	3,344
	Equity Risk	-	-	-	-
	Commodity Risk	-	-	-	-
	Options Risk	-	-	30,717	2,457
	Inventory Risk	-	-	-	-
4.0	Operational Risk (Basic indicator approach)			3,916,707	313,337
5.0	Total RWA and Capital Requirements			39,441,432	3,155,315

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### CAPITAL STRUCTURE

The Bank, on 29 March 2010 has issued RM500 million subordinated bonds at 4.88% p.a. maturing on 27 March 2020 (with call date on 30 March 2015) for working capital, general funding and corporate funding purposes.

On 30 August 2013, the Bank has issued another RM500 million subordinated bonds at 4.55% p.a. maturing on 29 August 2023 for working capital, general funding and corporate funding purposes.

	2014		2013	
	RM '000		RM '000	
	Group	Bank	Group	Bank
<b><u>Common Equity Tier 1 (CET1) Capital</u></b>				
Paid-up share capital	470,000	470,000	470,000	470,000
Share premium	322,555	322,555	322,555	322,555
Retained profits - audited	5,691,949	5,753,972	4,910,252	4,806,883
Statutory reserve	470,000	470,000	470,000	470,000
Other reserves	184,481	58,230	113,793	(5,274)
Regulatory adjustments applied in the calculation of CET1 Capital	(201,767)	(76,539)	(343,300)	(226,563)
Total CET1 / Tier 1 capital	<u>6,937,218</u>	<u>6,998,218</u>	<u>5,943,300</u>	<u>5,837,601</u>
<b><u>Tier 2 capital</u></b>				
Tier II capital instruments	900,000	900,000	950,000	950,000
Loan/financing loss provision - Surplus eligible provisions over expected losses	222,867	222,867	193,348	198,014
- Collective impairment provisions	58,999	53,678	34,322	29,656
Regulatory adjustments applied in the calculation of Tier 2 Capital	(24,091)	(80,019)	(66,219)	(119,778)
Total Tier II capital	<u>1,157,775</u>	<u>1,096,527</u>	<u>1,111,451</u>	<u>1,057,892</u>
Total capital	<u>8,094,993</u>	<u>8,094,745</u>	<u>7,054,751</u>	<u>6,895,493</u>

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

	2014		2013	
	Group	Bank	Group	Bank
CET1/Tier 1 ratio	15.461%	15.684%	14.980%	14.801%
Total capital	<u>18.042%</u>	<u>18.141%</u>	<u>17.781%</u>	<u>17.483%</u>
CET1/Tier 1 ratio (net of proposed dividends)	14.452%	14.668%	14.105%	13.920%
Total capital (net of proposed dividends)	<u>17.032%</u>	<u>17.126%</u>	<u>16.906%</u>	<u>16.603%</u>

Note: The capital ratios have been computed in accordance with Basel III Capital Adequacy Framework (capital components) approach.

## **RISK MANAGEMENT**

### **RISK MANAGEMENT OVERVIEW**

Effective risk management is integral to the Bank's business success. The Bank's approach to risk management is to ensure risks are managed within the levels established by the Bank's various senior management committees and approved by the Board and/or its committees.

The Bank has established a comprehensive framework of policies and procedures to identify, measure, monitor and control risks. These are guided by the Group's Risk Management Principles which advocate:

- Delivery of sustainable long-term growth using sound risk management principles and business practices;
- Continual improvement of risk discovery capabilities and risk controls; and
- Business development based on a prudent, consistent and efficient risk management framework

### **RISK MANAGEMENT GOVERNANCE AND FRAMEWORK**

The Board oversees a governance structure that is designed to ensure that the Bank's business activities are:

- conducted in a safe and sound manner and in line with the highest standards of professionalism;
- consistent with the Bank's overall business strategy and risk appetite; and
- subjected to adequate risk management and internal controls.

In this, the Board is supported by the Risk Management Committee (RMC).

The Bank has established Senior Management Committees to assist in making business decisions with due consideration to risks and returns. The main senior management committees involved in this are the Executive Committee (EXCO), Management Committee (MC), Asset and Liability Committee (ALCO), In-Country Credit Committee (ICCC), Technology & Corporate Infrastructure Committee (TCIC), Operational Risk Management Committee (ORMC) and the Risk and Capital Committee (RCC). These committees also assist the RMC in specific risk areas.

The RMC reviews the overall risk appetite and level of risk capital to maintain for the Bank. Senior management and the senior management committees are authorised to delegate risk appetite limits by location, business lines, and/or broad product lines.

### **RISK APPETITE**

The Bank has established a risk appetite framework to define the amount of risk the Bank is able and willing to take in pursuit of its business objectives. The risk appetite defines suitable thresholds and limits across key areas including but not limited to credit risk, country risk, market risk, liquidity risk, operational risk and reputational risk. The objective of establishing a risk appetite framework is not to limit risk taking but to ensure that the Bank's risk profile is aligned to its business strategy. Our risk taking approach is focused on businesses which we understand and are well equipped to manage the risk involved. The Bank will continue to upgrade its risk management, information technology and other capabilities to support its strategic aspirations.

UOBM's risk appetite framework is updated and approved annually by the Board. Management monitors and reports the risk limits to the Board.

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### **BASEL FRAMEWORK**

The Bank has adopted the Basel Framework and observes the Bank Negara Malaysia (BNM) Risk Weighted Capital Adequacy Framework (Basel II) for Banks incorporated in Malaysia. UOBM continues to adopt a prudent and proactive approach in navigating the evolving regulatory landscape, with emphasis on sound risk management principles in delivering sustainable returns.

The Bank has adopted the Foundation Internal Ratings-Based (FIRB) approach for its non-retail exposures and the Advanced Internal Ratings-Based (AIRB) approach for its retail exposures. For Market risks, the Bank has adopted the Standardised Approach (SA). For Operational risks, the Bank has adopted the Basic Indicator Approach (BIA).

The Bank has adopted ICAAP to assess on an ongoing basis the amount of capital necessary to support its activities. The ICAAP is reviewed periodically to ensure that the Bank remains well-capitalised after considering all material risks. Stress testing is conducted to determine capital adequacy under stressed conditions.

### **CREDIT RISK**

Credit risk is the risk of loss arising from any failure by a borrower or counterparty to meet their financial obligations when they fall due. Credit risk is the single largest risk that the Bank faces in its core business as a commercial bank, arising primarily from loans and other lending-related commitments to retail, corporate and institutional borrowers. Treasury and capital market operations, and investments also expose the Bank to counterparty and issuer credit risks.

The Bank's portfolio is also reviewed and stress-tested regularly, and the Bank continuously monitors the operating environment to identify emerging risks and to formulate mitigating action.

#### **Credit Risk Governance and Organisation**

The Credit Working Group ("CWG"), ICCC and EXCO are the key oversight committees for credit risk and supports the CEO and Risk Management Committee in managing the Bank's overall credit risk exposures. The committees serves as an executive forum for discussions on all credit-related issues including the credit risk management framework, policies, processes, infrastructure, methodologies and systems. The EXCO also reviews and assesses the Bank's credit portfolios and credit risk profiles.

The Risk Management Division is responsible for the reporting, analysis and management of all elements of credit risk. It develops Bank-wide credit policies and guidelines, and focuses on facilitating business development within a prudent, consistent and efficient credit risk management framework.

#### **Credit Risk Policies and Processes**

The Bank has established credit policies and processes to manage credit risk in the following key areas:

##### **Credit approval process**

To maintain the independence and integrity of the credit approval process, the credit origination and approval functions are clearly segregated. Credit approval authority is delegated to officers based on their experience, seniority and track record, and is based on risk-adjusted scale according to a borrower's rating. All credit approval officers are guided by credit policies and credit acceptance guidelines that are periodically reviewed to ensure their continued relevance to the Bank's business strategy and the business environment.



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**Credit concentration risk**

Credit concentration risk may arise from a single large exposure or from multiple exposures that are closely correlated. This is managed by setting exposure limits on obligors, portfolios, borrowers, industries and countries, generally expressed as a percentage of the Bank's total capital. Regular assessments of emerging risks and reviews of industry are performed to identify areas in which concentration risks may accumulate.

**Country risk**

The Bank manages its country risk exposures within an established framework that involves setting limits for each country. Such limits are based on the country's risk rating, economic potential measured by its gross domestic product and the Bank's business strategy.

**Credit stress test**

Credit stress testing is a core component of the Bank's credit portfolio management process. Various regulatory and internal stress tests are conducted periodically. The main purpose of credit stress testing is to provide a forward-looking assessment of the Bank's credit portfolio under adverse economic scenarios. Under stress scenarios such as a severe recession, significant losses from the credit portfolio may occur. Stress tests are used to assess if the Bank's capital can withstand such a severe scenario, identify the vulnerability of various business units under such a scenario and formulate the appropriate mitigating action.

The Bank's stress test scenarios consider potential and plausible macroeconomic and geopolitical events in varying degrees of likelihood and severity. These are developed through consultation with relevant business units and are approved by senior management. The projected stressed variables such as gross domestic product and interest rates are applied consistently to all Bank portfolios to estimate credit losses.

**Credit exposures from foreign exchange and derivatives**

Exposures arising from FX and derivatives are usually mitigated through agreements such as the International Swaps and Derivatives Association ("ISDA") Master Agreements and the Credit Support Annex ("CSA"). Such agreements help to minimize credit exposure by allowing the Bank to offset what it owes to counterparty against what is due from that counterparty in the event of a default.

For Internal Ratings-Based ("IRB") purpose, the Bank does not recognise ISDA netting. The Current Exposure method is used to estimate its FX and derivative exposures on a gross basis.

**Credit Monitoring and Remedial Management**

The Bank regularly monitors credit exposures, portfolio performance and emerging risks that may impact its credit risk profile. The Board and senior management are updated on credit trends through internal risk reports. The reports also provide alerts on key economic, political and environmental developments across major portfolios and countries, so that mitigating actions can be taken if necessary.

**Delinquency monitoring**

The Bank monitors closely the delinquency of borrowing accounts as it is a key indicator of credit quality. An account is considered as delinquent when payment is not received on due date. Any delinquent accounts, including a revolving credit facility (such as an overdraft) with limit excesses, is closely monitored and managed through a robust process by officers from business units and risk management. Where appropriate, these accounts are also subject to more frequent credit reviews.

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**Classification and loan loss impairment**

The Bank classifies its credit portfolios according to the borrower's ability to repay the credit facility from their normal source of income.

All borrowing accounts are categorised into 'Pass', 'Special Mention' or 'Non-Performing' categories. Non-Performing accounts are further categorised as 'Substandard', 'Doubtful' or 'Loss' in accordance with Bank's Policy. Any account which is in delinquent (or in excess for a revolving credit facility such as an overdraft) for more than 90 days will be categorised automatically as "Non-Performing". In addition, any account that exhibits weaknesses jeopardising repayment on existing terms may be categorised as 'Non-Performing'.

Upgrading and declassification of a Non-Performing account to 'Pass' or 'Special Mention' status shall be supported by a credit assessment of the repayment capability, cash flows and financial position of the borrower. The Bank must also be satisfied that once the account is declassified, the account is unlikely to be classified again in the near future.

A restructured account is categorised as Non-Performing and placed on the appropriate classified grade based on the Bank's assessment of the financial condition of the borrower and the ability of the borrower to repay under the restructured terms. A restructured account must comply fully with the restructured terms before it can be declassified.

The Bank provides for impairment based on local regulatory requirements including BNM guidelines and FRS 139 for local reporting purposes. Additional impairment is provided for where necessary, to comply with the Bank's impairment policy.

**Bank Special Asset Management**

Special Asset Management Department ("SAMD") manages the Non-Performing portfolios of the Bank. SAMD proactively manages a portfolio of Non-Performing Loan ("NPL") accounts, with the primary intention of nursing these accounts back to health and transferring them back to the respective business units. SAMD manages accounts that the Bank intends to exit in order to maximise debt recovery.

**Write-Off Policy**

A classified account that is not secured by any realizable collateral will be written off either when the prospect of a recovery is considered poor or when all feasible avenues of recovery have been exhausted.

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## CREDIT RISK (Cont'd)

Credit Risk

## (i) Credit exposure by sector

	Sovereigns/ Central Banks	Public Sector Entities	Banks, Development Financial Institutions & MDBs	Insurance Cos, Securities Firms & Fund Managers	Corp (including Specialised lending & SME)	Retail	Residential Mortgages	Equity Exposures	Other Assets	Grand Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, Hunting, Forestry & Fishing	-	-	-	-	960,109	-	-	-	-	960,109
Mining & Quarrying	-	-	-	-	1,201,338	-	-	-	-	1,201,338
Manufacturing	-	-	-	-	5,356,715	-	-	-	-	5,356,715
Electricity, Gas & Water	-	-	-	-	42,560	-	-	-	-	42,560
Construction	-	-	-	-	8,298,546	-	-	-	-	8,298,546
Wholesale, Retail Trade, Restaurant & Hotels	-	-	-	-	6,133,435	-	-	-	-	6,133,435
Transport, Storage & Communication	-	-	2,531,107	206,408	923,464	-	-	-	-	923,464
Finance, Insurance & Business Services	52,698	-	-	-	2,121,038	-	-	-	-	4,911,252
Real Estate	-	-	-	-	3,819,680	-	-	-	-	3,819,680
Community, Social & Personal Services	-	-	-	-	93,955	-	-	-	-	93,955
Households	-	-	-	-	2,492	18,697,634	27,974,725	-	-	46,674,851
Others	18,881,093	88,620	1,783,813	-	1,747,585	-	-	113,329	-	22,614,441
Other assets not subject to credit risk	-	-	-	-	-	-	-	-	495,424	495,424
<b>Grand Total</b>	<b>18,933,791</b>	<b>88,620</b>	<b>4,314,920</b>	<b>206,408</b>	<b>30,700,918</b>	<b>18,697,634</b>	<b>27,974,725</b>	<b>113,329</b>	<b>495,424</b>	<b>101,525,769</b>

## (ii) Credit exposure by remaining contractual maturities

	Sovereigns/ Central Banks	Public Sector Entities	Banks, Development Financial Institutions & MDBs	Insurance Cos, Securities Firms & Fund Managers	Corp (including Specialised lending & SME)	Retail	Residential Mortgages	Equity Exposures	Other Assets	Grand Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
< 3 Mths	502,709	5,651	183,669	19,123	3,061,188	166,364	-	-	437	3,939,142
3 - 6 Mths	-	5,800	84,242	34,763	32,603	3,012	-	-	-	160,420
6 - 12 Mths	-	9,629	140,545	8,868	12,947	129	-	-	-	172,117
1 - 3 Yrs	18,212,380	67,541	3,499,782	129,585	15,769,812	6,099,552	1,485,357	-	494,987	45,758,996
3 - 5 Yrs	218,702	-	394,096	13,371	5,354,998	326,567	267,153	-	-	6,574,887
> 5 Yrs	-	-	12,585	697	6,469,371	12,102,010	26,222,214	113,329	-	44,920,207
<b>Grand Total</b>	<b>18,933,791</b>	<b>88,620</b>	<b>4,314,920</b>	<b>206,408</b>	<b>30,700,918</b>	<b>18,697,634</b>	<b>27,974,725</b>	<b>113,329</b>	<b>495,424</b>	<b>101,525,769</b>

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CREDIT RISK (Cont'd)

Credit Risk

(i) Credit exposure by sector

	Sovereigns/		Public Sector		Banks, Development		Insurance		Corp		Residential		Equity		Other		Grand Total
	Central Banks	Banks	Entities	RM'000	Financial Institutions & MDBs	RM'000	Firms & Fund Managers	RM'000	(including Specialised lending & SME)	RM'000	Mortgages	RM'000	Exposures	RM'000	Assets	RM'000	
Agriculture, Hunting, Forestry & Fishing	-	-	-	-	-	-	-	-	373,741	-	-	-	-	-	-	-	373,741
Mining & Quarrying	-	-	-	-	-	-	-	-	379,022	-	-	-	-	-	-	-	379,022
Manufacturing	-	-	-	-	12,049	-	-	-	6,250,337	-	-	-	-	-	-	-	6,262,387
Electricity, Gas & Water	-	-	-	-	-	-	-	-	117,498	-	-	-	-	-	-	-	117,498
Construction	-	-	-	-	44,762	-	-	-	3,723,733	-	-	-	-	-	-	-	3,768,495
Wholesale, Retail Trade, Restaurant & Hotels	-	-	-	-	7,208	-	-	-	7,391,095	-	-	-	-	-	-	-	7,398,303
Transport, Storage & Communication	-	-	-	-	-	-	-	-	885,427	-	-	-	-	-	-	-	885,427
Finance, Insurance & Business Services	81,323	-	-	-	2,093,889	-	156,565	-	2,695,854	-	-	-	-	-	-	-	5,027,632
Real Estate	-	-	-	-	-	-	-	-	1,119,967	-	-	-	-	-	-	-	1,119,967
Community, Social & Personal Services	-	-	-	-	-	-	-	-	1,899,757	-	-	-	-	-	-	-	1,899,757
Households	-	-	-	-	-	-	-	199	-	17,356,827	26,076,851	-	-	-	-	-	43,433,877
Others	23,178,645	-	29,735	-	-	-	-	-	3,081,529	-	-	-	33,572	-	-	-	26,323,481
Other assets not subject to credit risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	504,329	-	504,329
<b>Grand Total</b>	<b>23,259,968</b>	<b>29,735</b>	<b>29,735</b>	<b>2,157,909</b>	<b>2,157,909</b>	<b>156,565</b>	<b>156,565</b>	<b>27,918,160</b>	<b>17,356,827</b>	<b>26,076,851</b>	<b>33,572</b>	<b>504,329</b>	<b>504,329</b>	<b>97,493,915</b>	<b>97,493,915</b>	<b>97,493,915</b>	

(ii) Credit exposure by remaining contractual maturities

	Sovereigns/		Public Sector		Banks, Development		Insurance		Corp		Residential		Equity		Other		Grand Total
	Central Banks	Banks	Entities	RM'000	Financial Institutions & MDBs	RM'000	Firms & Fund Managers	RM'000	(including Specialised lending & SME)	RM'000	Mortgages	RM'000	Exposures	RM'000	Assets	RM'000	
< 3 Mths	2,149,113	-	-	-	121,494	-	2,664	-	1,953,136	179,094	-	-	-	-	537	-	4,406,038
3 - 6 Mths	-	-	-	-	17,049	-	2,787	-	21,375	919	-	-	-	-	-	-	42,130
6 - 12 Mths	-	-	-	-	9,983	-	-	-	3,319	-	-	-	-	-	-	-	13,302
1 - 3 Yrs	20,031,709	-	29,735	-	1,604,788	-	142,173	-	15,606,846	5,865,468	1,319,356	-	-	503,793	-	-	45,103,867
3 - 5 Yrs	1,079,146	-	-	-	377,572	-	8,942	-	3,811,155	11,311,345	24,757,495	-	-	-	-	-	41,345,656
> 5 Yrs	-	-	-	-	27,023	-	-	-	6,522,329	-	-	-	33,572	-	-	-	6,582,924
<b>Grand Total</b>	<b>23,259,968</b>	<b>29,735</b>	<b>29,735</b>	<b>2,157,909</b>	<b>2,157,909</b>	<b>156,565</b>	<b>156,565</b>	<b>27,918,160</b>	<b>17,356,827</b>	<b>26,076,851</b>	<b>33,572</b>	<b>504,329</b>	<b>504,329</b>	<b>97,493,915</b>	<b>97,493,915</b>	<b>97,493,915</b>	

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**CREDIT RISK (Cont'd)**

**(iii) Past due and impaired loans analysed by industry**

The Bank	<u>As at 31 December 2014</u>		<u>As at 31 December 2013</u>	
	Past due but not impaired RM'000	Impaired Loans RM'000	Past due but not impaired RM'000	Impaired Loans RM'000
Agriculture, Hunting, Forestry & Fishing	1,758	-	-	164
Mining & Quarrying	1,752	-	713	-
Manufacturing	203,521	240,290	239,338	281,825
Electricity, Gas & Water	703	-	170	-
Construction	492,083	214,039	348,008	198,229
Wholesale, Retail Trade, Restaurant & Hotels	328,076	123,950	219,443	125,429
Transport, Storage & Communication	19,887	4,245	24,311	1,909
Finance, Insurance & Business Services	51,421	15,447	27,185	22,976
Real Estate	196,023	15,611	280,124	16,709
Community, Social & Personal Services	3,185	960	3,575	904
Households:	1,591,498	454,527	2,018,673	425,830
- purchase of residential properties	1,139,158	341,406	1,385,638	320,463
- purchase of non residential properties	262,396	43,532	265,163	37,862
- others	189,944	69,589	367,872	67,505
	<b>2,889,907</b>	<b>1,069,069</b>	<b>3,161,540</b>	<b>1,073,975</b>

**(iv) Individual and collective impairment provisions analysed by industry**

The Bank	<u>As at 31 December 2014</u>		<u>As at 31 December 2013</u>	
	Individual impairment RM'000	Collective impairment RM'000	Individual impairment RM'000	Collective impairment RM'000
Agriculture, Hunting, Forestry & Fishing	-	39,702	164	28,511
Mining & Quarrying	-	9,880	-	1,611
Manufacturing	85,128	148,818	151,152	141,720
Electricity, Gas & Water	-	606	-	281
Construction	9,516	127,241	20,464	79,884
Wholesale, Retail Trade, Restaurant & Hotels	47,856	104,658	41,605	79,491
Transport, Storage & Communication	1,815	15,512	124	10,264
Finance, Insurance & Business Services	5,270	70,438	10,342	63,932
Real Estate	1,867	104,934	1,732	56,904
Community, Social & Personal Services	352	1,421	186	1,946
Households:	51,396	284,903	49,088	262,960
- purchase of residential properties	27,768	127,675	24,344	97,349
- purchase of non residential properties	6,843	37,988	6,667	44,999
- others	16,785	119,240	18,077	120,612
Others	-	1,605	-	-
	<b>203,200</b>	<b>909,718</b>	<b>274,857</b>	<b>727,504</b>

**Impaired loans and impairment provision by geographical area**

All past due loans, impaired loans and impairment provision were from customers residing in Malaysia.

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**CREDIT RISK (Cont'd)**

**(v) Charges and write offs for individual impairment provisions analysed by industry**

The Bank	<u>As at 31 December 2014</u>		<u>As at 31 December 2013</u>	
	Individual impairment made during the year RM'000	Write offs during the year RM'000	Individual impairment made during the year RM'000	Write offs during the year RM'000
Agriculture, Hunting, Forestry & Fishing	-	-	-	-
Mining & Quarrying	-	-	-	-
Manufacturing	44,430	67,271	70,645	45,452
Electricity, Gas & Water	-	-	-	-
Construction	2,335	9,235	8,998	181
Wholesale, Retail Trade, Restaurant & Hotels	51,190	19,386	36,691	6,352
Transport, Storage & Communication	3,071	-	570	3,427
Finance, Insurance & Business Services	628	6,771	2,782	1,228
Real Estate	575	-	434	-
Community, Social & Personal Services	308	20	88	64
Households:	<b>115,083</b>	<b>77,844</b>	<b>145,540</b>	<b>82,384</b>
- purchase of residential properties	31,676	3,004	49,703	4,576
- purchase of non residential properties	3,612	594	6,375	4,896
- others	79,795	74,246	89,462	72,912
	<b>217,620</b>	<b>180,527</b>	<b>265,748</b>	<b>139,088</b>

**(vi) Movements in allowance for losses on loans, advances and financing are as follows:**

The Bank	<u>As at 31 December 2014</u>		<u>As at 31 December 2013</u>	
		RM'000		RM'000
<b>Collective Impairment</b>				
Balance as at 1 January		727,504		553,711
Allowance made during the year		182,214		173,793
Amount written back		-		-
Balance as at 31 December		<u>909,718</u>		<u>727,504</u>
		<u>As at 31 December 2014</u>		<u>As at 31 December 2013</u>
<b>Individual Impairment</b>		RM'000		RM'000
Balance as at 1 January		274,857		317,731
Allowance made during the year		217,620		265,748
Amount written back in respect of recoveries		(110,584)		(174,890)
Amount written off		(180,527)		(139,088)
Interest recognition on impaired loans		4,254		6,790
Transfer to debt restructuring		(2,420)		(1,434)
Balance as at 31 December		<u>203,200</u>		<u>274,857</u>

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### CREDIT RISK (Cont'd)

#### (vii) Geographical Analysis

<b>The Bank as at 31 December 2014</b>	<b>In Malaysia RM'000</b>	<b>Outside Malaysia RM'000</b>	<b>Total RM'000</b>
Cash and short-term funds	10,199,046	634,301	10,833,347
Securities purchased under resale agreements	502,709	-	502,709
Deposits and placements with financial institutions	130,516	-	130,516
Financial assets at fair value through profit or loss ("FVTPL")	2,392,138	-	2,392,138
Available-for-sale securities ("AFS")	9,228,698	22,145	9,250,843
Loans and advances	60,514,815	6,600,765	67,115,580
Derivative financial assets	754,719	151,227	905,946
Other assets	93,727	-	93,727
Statutory deposits with BNM	1,960,350	-	1,960,350
	<b>85,776,718</b>	<b>7,408,438</b>	<b>93,185,156</b>
<b>Commitments and Contingencies</b>	<b>68,968,096</b>	<b>7,326,271</b>	<b>76,294,367</b>

<b>The Bank as at 31 December 2013</b>	<b>In Malaysia RM'000</b>	<b>Outside Malaysia RM'000</b>	<b>Total RM'000</b>
Cash and short-term funds	14,438,782	665,352	15,104,134
Securities purchased under resale agreements	2,149,113	-	2,149,113
Deposits and placements with financial institutions	2,801,124	1,680	2,802,804
Financial assets at fair value through profit or loss ("FVTPL")	1,709,534	-	1,709,534
Available-for-sale securities ("AFS")	3,075,009	17,363	3,092,372
Loans and advances	56,559,215	4,920,111	61,479,326
Derivative financial assets	312,184	7,939	320,123
Other Assets	91,159	-	91,159
Statutory deposits with BNM	1,925,500	-	1,925,500
	<b>83,061,620</b>	<b>5,612,445</b>	<b>88,674,065</b>
<b>Commitments and Contingencies</b>	<b>51,631,440</b>	<b>2,510,784</b>	<b>54,142,224</b>

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**CREDIT RISK (Cont'd)**

**Credit Exposures under Basel II**

Under Basel II, credit risk for the various asset classes may be computed using a combination of:

- Standardised Approach ("SA");
- Foundation Internal Ratings-Based ("FIRB") Approach; and
- Advanced Internal Ratings-Based ("AIRB") Approach.

The table below summarises the approaches adopted by the Bank for credit risk computation.

The Bank has adopted the FIRB Approach for its non-retail exposures and the AIRB Approach for its retail exposures.

	Standardised*	FIRB	AIRB
	<u>RM'million</u>	<u>RM'million</u>	<u>RM'million</u>
Total Credit Exposures	2,583	52,270	46,672

\*Amount under Standardized Approach refers to credit exposures where IRB Approach is not applicable.

UOB (Malaysia) had on 7th January 2010 received approval from BNM to migrate directly to the Internal Ratings Basel Approach for credit risk beginning January 2010 as per the Risk-Weighted Capital Adequacy Framework.

For exposures subject to the Standardised Approach, approved External Credit Assessment Institutions ("ECAI") ratings and prescribed risk weights based on asset class are used in the computation of regulatory capital.

The ECAI used by the Bank are Rating Agency Malaysia, Fitch Ratings, Moody's Investors Service, Malaysian Rating Corporation Berhad and Standard & Poor's. ECAI ratings are mapped to a common credit quality grade prescribed by Bank Negara Malaysia.

(vi) The aggregate breakdown of credit risk exposure by risk weights of the bank are as follows:

Risk Weights	Bank - 31st December 2014							
	PSEs	Banks, MDBs and FDIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Other Assets	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	-	-	-	-	-	91,583	91,583	-
10%	-	-	-	-	-	-	-	-
20%	88,620	80,943	-	-	-	-	169,563	33,913
35%	-	-	-	-	-	-	-	-
50%	-	53,777	-	-	-	-	53,777	26,888
75%	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-
100%	-	-	206,323	1,646,821	-	403,841	2,256,985	2,256,985
110%	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-
150%	-	-	-	7,564	-	-	7,564	11,347
270%	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-
1250.0%	-	-	-	-	-	-	-	-
Total	88,620	134,720	206,323	1,654,385	-	495,424	2,579,472	2,329,132



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## CREDIT RISK (Cont'd)

(vi) The aggregate breakdown of credit risk exposure by risk weights of the bank are as follows: (Cont'd)

Risk Weights	Bank - 31st December 2013							
	PSEs	Banks, MDBs and FDIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Other Assets	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	-	-	-	-	-	114,508	114,508	-
10%	-	-	-	-	-	-	-	-
20%	29,735	4,777	-	712,696	-	-	747,207	149,441
35%	-	-	-	-	-	-	-	-
50%	-	9,857	-	-	-	-	9,857	4,929
75%	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-
100%	-	-	155,464	709,931	-	389,821	1,255,217	1,255,217
110%	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-
150%	-	-	-	7,317	-	-	7,317	10,975
270%	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-
1250.0%	-	-	-	-	-	-	-	-
Total	29,735	14,634	155,464	1,429,943	-	504,329	2,134,106	1,420,562

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**CREDIT RISK (Cont'd)**

**(vii) Rated exposures according to ratings by ECAI's**

**2014**  
**(RM'000)**

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<b>On and Off-Balance Sheet Exposures</b>						
<b>Credit Exposures (using Corporate Risk Weights)</b>						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	88,620
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	206,323
Corporates		-	-	-	-	1,821,662
<b>Total</b>		-	-	-	-	<b>2,116,606</b>

**2014**  
**(RM '000)**

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<b>On and Off-Balance Sheet Exposures</b>							
Banks, MDBs and FDIs		3,247	41,816	450	-	-	8,876
<b>Total</b>		<b>3,247</b>	<b>41,816</b>	<b>450</b>	-	-	<b>8,876</b>

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**CREDIT RISK (Cont'd)****(vii) Rated exposures according to ratings by ECAI's (Cont'd)**

2013  
(RM'000)

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<b>On and Off-Balance Sheet Exposures</b>						
<b>Credit Exposures (using Corporate Risk Weights)</b>						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	29,735
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	156,565
Corporates		712,696	-	-	-	730,084
<b>Total</b>		<b>712,696</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>916,384</b>

2013  
(RM '000)

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<b>On and Off-Balance Sheet Exposures</b>							
Banks, MDBs and FDIs		3,227	10,619	-	-	-	788
<b>Total</b>		<b>3,227</b>	<b>10,619</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>788</b>

## **CREDIT RISK (Cont'd)**

### **Internal credit rating system**

The Bank employs internal rating models to support the assessment of credit risk and the assignment of exposures to rating grades or pools. Internal ratings are used pervasively by the Bank in the areas of credit approval, credit review and monitoring, credit stress testing, limits setting, pricing and collections.

The Bank has established a credit rating governance framework to ensure the reliable and consistent performance of the Bank's rating systems. The framework defines the roles and responsibilities of the various parties in the credit rating process, including independent model performance monitoring, annual model validation and independent reviews by Internal Audit.

Credit risk models are independently validated before they are implemented to ensure they are fit for purpose. The robustness of these rating models is monitored on an ongoing basis, and all models are subject to annual reviews conducted by model owners to ascertain that the chosen risk factors and assumptions continue to remain relevant for the respective portfolios. All new models, model changes and annual reviews are approved by the EXCO or Board, depending on the materiality of the portfolio.

### **Non-Retail Exposures**

The Bank has adopted the FIRB approach for its non-retail exposures. Under this approach, the probability of default ("PD") for each borrower is estimated using internal models. These PD models employ qualitative and quantitative factors to provide an assessment of the borrower's ability to meet their financial obligations, and are calibrated to provide an estimate of the likelihood of default over one-year time horizon. A default is considered to have occurred if:

- the obligor is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising the security; or
- the obligor is past due for more than 90 days on any credit obligation to the Bank.

Supervisory loss given default ("LGD") and exposure at default ("EAD") parameters prescribed by the BNM are used together with the internal credit ratings to calculate risk weights and regulatory capital requirements.

While the Bank's internal risk rating grades may show some correlation with the rating grades of External Credit Assessment Institutions ("ECAI"), they are not directly comparable or equivalent to the ECAI ratings.

### **Corporate asset class**

The Bank has developed models to rate exposures in the Large Corporate and SME asset class. Credit risk factors used to derive a borrower's risk rating include its financial strength, quality of management, business risks, and the industry in which it operates. The borrower risk rating process is augmented by facility risk ratings, which take into account the type and structure of the facility, availability and type of collateral, and seniority of the exposure.

The Bank's internal rating grade structure for the Corporate asset class consists of 16 pass grades and four default grades. The Large Corporate and SME models are mapped to the rating scale and take into account the Bank's long-term average portfolio default rate.

### **Specialised Lending asset sub-class**

Within the corporate asset class, the Bank has three sub-classes for Specialised Lending: Income Producing Real Estate ("IPRE"), Commodities Finance ("CF"), and Project Finance ("PF"). Internal risk grades are derived based on a comprehensive assessment of financial and non-financial risk factors using internal scorecards.

**CREDIT RISK (Cont'd)**

**Income Producing Real Estate ("IPRE")**

The rating grade structure for IPRE exposures follows that of the corporate asset class, with 16 pass grades and four default grades.

**Commodities Finance ("CF") and Project Finance ("PF")**

Risk grades derived for CF and PF exposures are mapped to five supervisory slotting categories, which determines the risk weights to be applied to such exposures.

**Sovereign asset class**

The Bank has developed an internal Sovereign scorecard to rate exposures in this asset class. Public debt levels, balance of payments, fiscal budgets and other macroeconomic, stability and political risk factors are considered in the scorecard to assess sovereign credit risk in a structured and holistic manner. The scorecard has an internal rating grade structure consisting of 15 pass grades.

**Bank asset class**

The Bank has developed an internal Bank scorecard to rate exposures in this asset class, which takes into account asset quality, capital adequacy, liquidity, management, regulatory environment and robustness of the overall banking system. The scorecard has an internal rating grade structure consisting of 15 pass grades.

**Equity asset class**

The Bank adopts the following approaches for its equity investments:

- i. Simple Risk Weight ("SRW") Method for its equity investment portfolio; and
- ii. Probability of Default/Loss Given Default ("PD"/"LGD") Method for its investments in Tier-1 and Tier-2 perpetual securities issued by banks.

Investment exposures adopting the SRW method are subject to the supervisory risk weights, while investment exposures adopting the PD/LGD method are rated using the Bank's internal Bank scorecard.

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## **CREDIT RISK (Cont'd)**

### **Retail Exposures**

The Bank has adopted the AIRB Approach for its retail exposures, which comprises residential mortgages, qualifying revolving retail exposures and other retail exposures.

Exposures within each of these asset classes are not managed individually, but as part of a pool of similar exposures based on borrower and transaction characteristics. Internal risk segmentation models are used to estimate PD, LGD and Exposure At Default (EAD) parameters for each of these exposure pools based on historical internal loss data. Where internal loss data is insufficient to provide robust risk estimates, the segmentation models may incorporate internal and/or external proxies, and where necessary, may be augmented with appropriate margins of conservatism.

### **Residential Mortgage Asset Class**

This includes any credit facility (such as housing loan, term loan, overdraft) secured against a mortgage of a residential property or properties which meet criteria stipulated by BNM. Residential Mortgage exposures are assessed and managed using the Bank's framework of credit policies, procedures and the risk segmentation models.

### **Qualifying Revolving Retail Exposures (QRRE) Asset Class**

This includes credit card exposures and unsecured credit lines meeting criteria stipulated by BNM. QRRE are assessed and managed using a combination of application and behavioral scorecards, risk segmentation models, as well as internal credit policies and procedures.

### **Other Retail Asset Class**

This includes commercial properties, share financing and any other retail exposures not classified as Residential Mortgage or QRRE.

These exposures are assessed and managed using the Bank's framework of credit policies, procedures and risk segmentation models.

### **Use of internal estimates**

Internal ratings are used pervasively by the Bank in the areas of credit approval, credit review and monitoring, credit stress test, limits setting, pricing and collections.

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**CREDIT RISK (Cont'd)**

Credit risk profile

The following tables show the breakdown of exposures by RWA and EAD for the Bank using the respective internal rating scale for the model applicable to the asset classes:

**Exposures under the IRB Approach by Risk Grade (Non-Retail)**

2014  
RM'000

<b>CRR Band</b>	<b>1-9</b>	<b>10-16</b>	<b>17-20 (Default)</b>
<b>Total Non Retail Exposures (EAD)</b>			
Large Corporate, SME and Specialised Lending (IPRE)	19,496,449	8,932,455	560,588
Specialised Lending (CF and PF)	0	0	0
Sovereign	18,933,791	0	0
Bank	4,157,906	22,155	0
<b>Total Exposure</b>	<b>42,588,146</b>	<b>8,954,610</b>	<b>560,588</b>
<b>Undrawn Commitments</b>			
Large Corporate, SME and Specialised Lending (IPRE)	137,054	29,610	0
Specialised Lending (CF and PF)	0	0	0
Sovereign	0	0	0
Bank	0	0	0
<b>Total Exposure Undrawn Commitments</b>	<b>137,054</b>	<b>29,610</b>	<b>0</b>
<b>Exposure-Weighted Average LGD (%)</b>			
Large Corporate, SME and Specialised Lending (IPRE)	41%	42%	44%
Specialised Lending (CF and PF)	0%	0%	0%
Sovereign	45%	0%	0%
Bank	45%	45%	0%
<b>Exposure-Weighted Average Risk Weight (%)</b>			
Large Corporate, SME and Specialised Lending (IPRE)	74%	130%	0%
Specialised Lending (CF and PF)	0%	0%	0%
Sovereign	0%	0%	0%
Bank	25%	183%	0%

2014  
RM'000

<b>PD Range of Retail Exposure</b>	<b>0.00% to 1.00%</b>	<b>1.01% to 2.00%</b>	<b>2.01% to 99.99%</b>	<b>SD to default</b>
<b>Total Retail Exposure (EAD)</b>				
Residential Mortgage	24,205,099	646,440	2,750,027	373,159
Qualifying Revolving Retail	1,001,187	425,981	1,166,091	30,570
Other Retail	11,711,389	2,120,031	2,074,585	167,800
<b>Total Exposure</b>	<b>36,917,674</b>	<b>3,192,451</b>	<b>5,990,703</b>	<b>571,530</b>
<b>Undrawn Commitments</b>				
Residential Mortgage	752,928	3,054	55,058	-
Qualifying Revolving Retail	274,904	89,313	81,552	-
Other Retail	1,351,593	154,677	178,755	-
<b>Total Undrawn Commitments</b>	<b>2,379,425</b>	<b>247,044</b>	<b>315,365</b>	<b>-</b>
<b>Exposure Weighted Average LGD (%)</b>				
Residential Mortgage	11.54%	11.30%	11.79%	12.38%
Qualifying Revolving Retail	31.68%	47.28%	52.00%	65.10%
Other Retail	16.52%	25.09%	26.31%	24.05%
<b>Exposure Weighted Average Risk Weight (%)</b>				
Residential Mortgage	6.76%	17.72%	39.63%	63.79%
Qualifying Revolving Retail	6.19%	21.35%	77.99%	340.00%
Other Retail	12.50%	28.42%	40.93%	125.03%

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**CREDIT RISK (Cont'd)**

Credit risk profile

The following tables show the breakdown of exposures by risk-weighted asset ("RWA") and EAD for the Bank using the respective internal rating scale for the model applicable to the asset classes: (Cont'd)

**Exposures under the IRB Approach by Risk Grade (Non-Retail)**

**2013**  
**RM'000**

<b>CRR Band</b>	<b>1-9</b>	<b>10-16</b>	<b>17-20 (Default)</b>
<b>Total Non Retail Exposures (EAD)</b>			
Large Corporate, SME and Specialised Lending (IPRE)	18,308,650	7,618,594	547,923
Specialised Lending (CF and PF)	0	0	0
Sovereign	23,259,968	0	0
Bank	2,137,316	5,870	0
<b>Total Exposure</b>	<b>43,705,934</b>	<b>7,624,464</b>	<b>547,923</b>
<b>Undrawn Commitments</b>			
Large Corporate, SME and Specialised Lending (IPRE)	339,005	58,127	154
Specialised Lending (CF and PF)	0	0	0
Sovereign	0	0	0
Bank	0	0	0
<b>Total Exposure Undrawn Commitments</b>	<b>339,005</b>	<b>58,127</b>	<b>154</b>
<b>Exposure-Weighted Average LGD (%)</b>			
Large Corporate, SME and Specialised Lending (IPRE)	39.78%	39.36%	40.92%
Specialised Lending (CF and PF)	0.00%	0.00%	0.00%
Sovereign	45.00%	0.00%	0.00%
Bank	45.00%	45.00%	0.00%
<b>Exposure-Weighted Average Risk Weight (%)</b>			
Large Corporate, SME and Specialised Lending (IPRE)	76.24%	123.64%	0%
Specialised Lending (CF and PF)	0%	0%	0%
Sovereign	0%	0%	0%
Bank	23.71%	59.39%	0%

**2013**  
**RM'000**

<b>PD Range of Retail Exposure</b>	<b>0.00% to 1.00%</b>	<b>1.01% to 2.00%</b>	<b>2.01% to 99.99%</b>	<b>SD to default</b>
<b>Total Retail Exposure (EAD)</b>				
Residential Mortgage	19,952,065	665,685	5,107,427	351,674
Qualifying Revolving Retail	829,688	394,073	1,072,455	24,352
Other Retail	4,767,706	1,748,993	8,344,670	174,890
<b>Total Exposure</b>	<b>25,549,459</b>	<b>2,808,751</b>	<b>14,524,552</b>	<b>550,916</b>
<b>Undrawn Commitments</b>				
Residential Mortgage	633,142	7,941	32,744	-
Qualifying Revolving Retail	211,524	73,980	71,704	-
Other Retail	1,403,367	190,071	239,985	180
<b>Total Undrawn Commitments</b>	<b>2,248,033</b>	<b>271,992</b>	<b>344,433</b>	<b>180</b>
<b>Exposure Weighted Average LGD (%)</b>				
Residential Mortgage	10.72%	10.49%	10.45%	10.92%
Qualifying Revolving Retail	32.03%	45.97%	51.87%	65.60%
Other Retail	24.41%	27.39%	14.32%	27.53%
<b>Exposure Weighted Average Risk Weight (%)</b>				
Residential Mortgage	6.21%	16.01%	30.85%	58.59%
Qualifying Revolving Retail	6.35%	20.46%	78.52%	327.50%
Other Retail	18.55%	30.70%	21.05%	89.67%



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**CREDIT RISK (Cont'd)**

**2014**  
**RM'000**

<b>EL% Range of Retail Exposure</b>	<b>0 to 1.0%</b>	<b>1.0 to 5.0%</b>	<b>5.0 to 10.0%</b>	<b>10.0 to 30.0%</b>	<b>30.0% to 100%</b>
<b>Total Retail Exposure (EAD)</b>					
Residential Mortgage	27,038,487	737,450	61,240	137,547	-
Qualifying Revolving Retail	1,426,602	779,282	160,655	176,839	80,451
Other Retail	14,978,821	800,730	222,740	39,457	32,057
<b>Total Exposure</b>	<b>43,443,910</b>	<b>2,317,462</b>	<b>444,636</b>	<b>353,843</b>	<b>112,507</b>
<b>Undrawn Commitments</b>					
Residential Mortgage	809,124	1,917	-	-	-
Qualifying Revolving Retail	341,633	89,281	10,048	4,421	386
Other Retail	1,628,621	44,556	7,313	4,614	-
<b>Total Undrawn Commitments</b>	<b>2,779,378</b>	<b>135,754</b>	<b>17,361</b>	<b>9,035</b>	<b>386</b>
<b>Exposure Weighted Average Risk Weight (%)</b>					
Residential Mortgage	9.58%	61.46%	56.53%	0.09%	0.00%
Qualifying Revolving Retail	9.31%	50.71%	116.65%	168.12%	191.00%
Other Retail	15.95%	55.20%	98.51%	167.73%	26.47%

**2013**  
**RM'000**

<b>EL% Range of Retail Exposure</b>	<b>0 to 1.0%</b>	<b>1.0 to 5.0%</b>	<b>5.0 to 10.0%</b>	<b>10.0 to 30.0%</b>	<b>30.0% to 100%</b>
<b>Total Retail Exposure (EAD)</b>					
Residential Mortgage	24,901,955	1,035,263	-	139,633	-
Qualifying Revolving Retail	1,240,054	692,104	154,142	164,710	69,559
Other Retail	13,905,655	737,775	236,888	95,629	60,312
<b>Total Exposure</b>	<b>40,047,664</b>	<b>2,465,142</b>	<b>391,030</b>	<b>399,972</b>	<b>129,871</b>
<b>Undrawn Commitments</b>					
Residential Mortgage	673,338	489	-	-	-
Qualifying Revolving Retail	272,927	73,156	7,700	2,998	428
Other Retail	1,726,820	90,947	12,559	3,260	17
<b>Total Undrawn Commitments</b>	<b>2,673,085</b>	<b>164,592</b>	<b>20,259</b>	<b>6,258</b>	<b>445</b>
<b>Exposure Weighted Average Risk Weight (%)</b>					
Residential Mortgage	9.86%	64.95%	0.00%	0.01%	0.00%
Qualifying Revolving Retail	9.76%	50.66%	115.95%	170.29%	178.73%
Other Retail	18.62%	55.05%	109.88%	66.56%	26.34%

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**CREDIT RISK (Cont'd)**

**Actual loss by asset class**

Actual loss consists of impairment loss allowance and write-off to the Bank's income statement for the financial year ended 31 December 2014.

**Comparison of actual loss and expected loss by asset class**

<b>Asset Class</b>	<b>Actual Loss (as at 31 December 2014)</b>	<b>Expected loss (as at 31 December 2013)</b>	<b>Actual Loss (as at 31 December 2013)</b>	<b>Expected loss (as at 31 December 2012)</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Corporate	18,575	252,176	-4,941	230,402
Bank	0	1,140	0	1,262
Retail	56,335	196,494	49,695	141,532
<b>Total</b>	<b>74,910</b>	<b>449,811</b>	<b>44,754</b>	<b>373,197</b>

The actual loss in 2014 is lower than in 2013 due to exceptional recovery in 2014.

Expected Loss ("EL") is the estimated credit loss from defaults over a one-year horizon. EL is the product of PD, LGD and EAD. A comparison of actual loss and expected loss provides an indication of the predictive power of the IRB models used by the Bank.

However, they are not directly comparable due to the following reasons:

- EL as at 31 December 2013 is a measure of expected credit loss based on the credit exposure as at that date. On the other hand, impairment loss allowance and write-offs are accounting entries relating to a fluctuating portfolio over the course of the financial year. Moreover, write-offs may relate to defaults from prior years.
- EL is estimated based on non-default exposures only, while impairment loss allowance is an accounting estimate of likely loss from defaulted exposures. Write-offs are recorded on defaulted exposures when no further recovery is possible.

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### CREDIT RISK (Cont'd)

#### Actual loss by asset class

Actual loss consists of impairment loss allowance and write-off to the Bank's income statement for the financial year ended 31 December 2014

#### Loans, advances and financing

Movements in allowance for losses on loans, advances and financing are as follows:

	The Bank	
	2014 RM'000	2013 RM'000
<b>Collective Impairment</b>		
Balance as at 1 January	727,504	553,711
Allowance made during the year	182,214	173,793
Balance as at 31 December	<b>909,718</b>	<b>727,504</b>
	2014	2013
	RM'000	RM'000
<b>Individual Impairment</b>		
Balance as at 1 January	274,857	317,731
Allowance made during the year	217,620	265,748
Amount written back in respect of recoveries	(110,584)	(174,890)
Transfer to impairment losses in value of securities	-	-
Amount written off	(180,527)	(139,088)
Interest recognition on impaired loans	4,254	6,791
Transfer to debt restructuring	(2,420)	(1,435)
Other adjustment	-	-
Balance as at 31 December	<b>203,200</b>	<b>274,857</b>
	2014	2013
	RM'000	RM'000
<b>Allowance for losses on loans, advances and financing</b>		
(a) Individual Impairment		
- made in the financial year	217,620	265,748
- written back in the financial year	(110,584)	(174,890)
(b) Collective Impairment		
- made in the financial year	182,214	173,793
- written back	-	-
Impaired loans, advances and financing:		
- written-off	11,586	180
- recovered	(44,422)	(47,051)
	<b>256,414</b>	<b>217,780</b>

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## CREDIT RISK MITIGATION

### Credit risk mitigation

Potential credit losses are mitigated using a variety of instruments such as collateral, derivatives and guarantees. As a fundamental credit principle, the Bank generally does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed and the value of the collateral is monitored periodically.

The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Bank are cash, marketable securities, real estate, equipment, inventory and receivables. Policies and processes are in place to monitor collateral concentration.

Appropriate haircuts are applied to the market value of collateral, reflecting the underlying nature of the collateral, quality, volatility and liquidity. In addition, collateral taken by the Bank has to fulfill certain eligibility criteria (such as legal certainty across relevant jurisdictions) in order to be eligible for Internal Ratings-Based (IRB) purposes.

In extending credit facilities to small and medium enterprises (SMEs), personal guarantees are often taken as a form of moral support to ensure moral commitment from the principal shareholders and directors.

The credit risk mitigation of the bank for the current financial year are as follows:

2014  
RM'000

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
<b><i>Credit Risk</i></b>				
<b><i>On-Balance Sheet Exposure &amp; Off-Balance Sheet Exposures</i></b>				
Sovereign / Central Banks	18,833,792	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	3,007,600	-	-	-
Insurances Cos, Securities Firms & Fund Managers	206,408	-	-	-
Corporates	25,433,796	1,326,543	1,415,952	1,094,213
Regulatory Retail	16,362,214	-	-	-
Residential Mortgages	26,790,525	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	450,287	-	-	-
Specialised Financing / Investment	-	-	-	-
Equity Exposure	113,329	-	-	-
Securitisation Exposures	-	-	-	-
Defaulted Exposures	917,688	19,000	2,109	6,048
<b>Total for On-Balance Sheet Exposures</b>	<b>92,115,639</b>	<b>1,345,543</b>	<b>1,418,061</b>	<b>1,100,261</b>
<b><i>Off-Balance Sheet Exposures</i></b>				
OTC Derivatives	1,478,949	5,648	14,249	1,345
Credit Derivatives	-	-	-	-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	7,728,429	156,293	741,743	74,132
Defaulted Exposures	8,107	-	1,462	70
<b>Total for Off-Balance Sheet Exposures</b>	<b>9,215,485</b>	<b>161,941</b>	<b>757,454</b>	<b>75,547</b>
<b>Total for On and Off -Balance Sheet Exposures</b>	<b>101,331,124</b>	<b>1,507,484</b>	<b>2,175,515</b>	<b>1,175,808</b>

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**CREDIT RISK MITIGATION (Cont'd)**

The credit risk mitigation of the bank for the current financial year are as follows:

2013  
RM'000

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
<b><u>Credit Risk</u></b>				
<b><u>On-Balance Sheet Exposure &amp; Off-Balance Sheet Exposures</u></b>				
Sovereign / Central Banks	23,259,968	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	1,094,156	-	-	-
Insurances Cos, Securities Firms & Fund Managers	156,565	-	-	-
Corporates	23,003,929	1,147,219	1,397,013	235,897
Regulatory Retail	14,966,134	-	-	-
Residential Mortgages	25,051,349	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	470,005	-	-	-
Specialised Financing / Investment	-	-	-	-
Equity Exposure	33,572	-	-	-
Securitisation Exposures	-	-	-	-
Defaulted Exposures	828,836	-	12,215	-
<b>Total for On-Balance Sheet Exposures</b>	<b>88,864,514</b>	<b>1,147,219</b>	<b>1,409,228</b>	<b>235,897</b>
<b><u>Off-Balance Sheet Exposures</u></b>				
OTC Derivatives	830,046	1,839	6,319	175
Credit Derivatives	-	-	-	-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	7,522,684	88,786	643,793	3,214
Defaulted Exposures	1,414	-	374	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>8,354,144</b>	<b>90,625</b>	<b>650,485</b>	<b>3,388</b>
<b>Total for On and Off -Balance Sheet Exposures</b>	<b>97,218,658</b>	<b>1,237,843</b>	<b>2,059,714</b>	<b>239,285</b>

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## **OFF-BALANCE SHEET AND COUNTERPARTY CREDIT RISK**

### **Credit exposures from foreign exchange and derivatives**

Pre-settlement limits for FX and derivative transactions are established using the potential future exposures (PFE) approach. This approach takes into consideration the transaction currency and tenor to address the credit risk exposures arising from adverse market movements.

The Off-Balance sheet exposure and their related counterparty credit risk of the Bank is as follows:-

	<b>2014</b>			
	<b>RM'000</b>			
Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
<b>Direct Credit Substitutes</b>	<b>2,284,617</b>		<b>2,284,617</b>	<b>1,596,309</b>
<b>Transaction related contingent items</b>	<b>4,308,410</b>		<b>2,131,960</b>	<b>1,432,231</b>
<b>Short term Self Liquidating trade related contingencies</b>	<b>303,122</b>		<b>72,428</b>	<b>35,560</b>
<b>Foreign exchange related contracts</b>	<b>28,225,912</b>	<b>658,539</b>	<b>848,293</b>	<b>343,075</b>
One year or less	27,635,265	607,710	765,392	262,353
Over one year to five years	590,647	50,829	82,900	80,721
<b>Interest/profit rate related contracts</b>	<b>20,007,324</b>	<b>96,737</b>	<b>497,293</b>	<b>277,962</b>
One year or less	5,264,883	8,552	17,116	9,336
Over one year to five years	14,578,461	84,741	466,895	258,472
Over five years	163,980	3,444	13,283	10,154
<b>Equity related contracts</b>	<b>1,097,906</b>	<b>20,700</b>	<b>73,946</b>	<b>34,445</b>
One year or less	657,720	14,625	47,313	19,670
Over one year to five years	440,187	6,075	26,634	14,775
Over five years	-	-	-	-
<b>Other Commodity Contracts</b>	<b>665,815</b>	<b>96,893</b>	<b>163,475</b>	<b>127,569</b>
One year or less	665,815	96,893	163,475	127,569
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
<b>Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year</b>	<b>1,792,002</b>		<b>209,253</b>	<b>170,685</b>
<b>Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year</b>	<b>10,082,012</b>		<b>753,635</b>	<b>160,193</b>
<b>Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness</b>	<b>7,456,903</b>		<b>2,113,519</b>	<b>239,000</b>
<b>Unutilised credit card lines</b>	<b>70,343</b>		<b>70,343</b>	<b>14,069</b>
<b>Off-balance sheet securitisation exposures due</b>	<b>-</b>		<b>-</b>	<b>-</b>
<b>Total</b>	<b>76,294,366</b>	<b>872,869</b>	<b>9,218,761</b>	<b>4,431,097</b>

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### **OFF-BALANCE SHEET AND COUNTERPARTY CREDIT RISK (Cont'd)**

#### **Credit exposures from foreign exchange and derivatives**

Pre-settlement limits for FX and derivative transactions are established using the potential future exposures (PFE) approach. This approach takes into consideration the transaction currency and tenor to address the credit risk exposures arising from adverse market movements.

The Off-Balance sheet exposure and their related counterparty credit risk of the Bank is as follows:- (Cont'd)

	2013 RM'000			
Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
<b>Direct Credit Substitutes</b>	2,438,929		2,438,883	1,742,235
<b>Transaction related contingent items</b>	3,422,435		1,690,834	1,165,257
<b>Short term Self Liquidating trade related contingencies</b>	287,869		74,871	39,893
<b>Foreign exchange related contracts</b>	13,557,153	192,104	357,695	164,846
One year or less	13,190,156	164,451	304,352	111,503
Over one year to five years	366,997	27,653	53,343	53,343
<b>Interest/profit rate related contracts</b>	17,473,403	135,600	586,180	348,299
One year or less	2,985,298	8,155	14,802	11,969
Over one year to five years	14,146,871	118,654	542,114	310,408
Over five years	341,234	8,790	29,264	25,922
<b>Equity related contracts</b>	686,601	4,433	28,490	10,716
One year or less	653,281	4,433	26,001	10,033
Over one year to five years	33,320	-	2,489	683
Over five years	-	-	-	-
<b>Other Commodity Contracts</b>	-	-	-	-
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
<b>Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year</b>	707,051		558,416	509,399
<b>Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year</b>	8,154,523		598,899	136,404
<b>Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness</b>	7,384,553		1,993,944	262,779
<b>Unutilised credit card lines</b>	29,707		29,707	5,941
<b>Total</b>	<b>54,142,222</b>	<b>332,137</b>	<b>8,357,918</b>	<b>4,385,771</b>

**MARKET RISK****MARKET RISK**

Market risk is governed by the Bank Asset and Liability Committee (ALCO), which meets monthly to review and provide directions on market risk matters. The Market Risk Management (MRM) and Balance Sheet Risk Management (BSRM) of the Risk Management Division (RMD) supports the RMC, RCC, EXCO and the ALCO with independent assessment of the market risk profile of the Bank.

The Bank's market risk framework comprises market risk policies and practices, the validation of valuation and risk models, which is performed by Head Office in Singapore, the control structure with appropriate delegation of authority and market risk limits. In addition, robust risk architecture as well as a new Product/Service Programme process ensures that market risk issues identified are adequately addressed prior to the launch of products and services. Management of derivatives risks is continually reviewed and enhanced to ensure that the complexities of the business are appropriately controlled.

Overall market risk appetite is balanced at the business and portfolio unit levels with the targeted revenue, and takes into account the capital position of the Group and Bank. This ensures that the Group and Bank remains well-capitalised even under stress conditions. The risk appetite is translated into risk limits that are delegated to business units. These risk limits have proportional returns that are commensurate with the risks taken.

**Standardised Approach**

The Bank currently adopts the Standardised Approach for the calculation of regulatory market risk capital but uses internal models to measure and control trading market risks. The financial products warehoused, measured and controlled with internal models include vanilla FX and FX options, plain vanilla interest rate, overnight index swap, cross currency basis swap spread, government bonds, quasi government bonds, corporate bonds and commodities.

**Internal Model Approach**

The Bank adopts a daily Value-at-Risk (VaR) to estimate market risk within a 99.0 per cent confidence interval using the historical simulation method. The method assumes that possible future changes in market rates may be implied by observed historical market movements.

VaR estimates are backtested against profit or loss of the trading book to validate the robustness of the methodology. The backtesting process analyses whether the exceptions are due to model deficiencies or market volatility. All backtest exceptions are tabled at ALCO with recommended actions and resolutions.

To complement the VaR measure, stress and scenario tests are performed to identify the Bank's vulnerability to event risk. These tests serve to provide early warnings of plausible extreme losses to facilitate proactive management of market risks. The Bank daily VaR on 31 December 2014 was RM 0.80 million.



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**MARKET RISK (Cont'd)**

	<b>Year end RM'000</b>	<b>High RM'000</b>	<b>Low RM'000</b>	<b>Average RM'000</b>
<b>2014</b>				
Interest rate	530	2,467	341	1,010
Foreign Exchange	303	3,371	202	954
Basis Swap Spread	486	3,637	379	638
Commodities	573	2,988	0	633
Total Diversified VaR	<b>801</b>	<b>5,159</b>	<b>647</b>	<b>1,685</b>
<b>2013</b>				
Interest rate	796	2,645	328	1,072
Foreign Exchange	645	2,780	184	1,144
Basis Swap Spread	471	5,038	471	1,704
Commodities	8	1,093	0	65
Total Diversified VaR	<b>862</b>	<b>6,785</b>	<b>719</b>	<b>2,258</b>

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## **OPERATIONAL RISK**

### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including reputation, legal and compliance risk but excludes strategic risk and business risk.

The objective is to manage operational risk at appropriate levels relative to the markets in which the businesses operate.

Operational risk is managed through a framework by which business and support units properly identify, assess, monitor, mitigate and report their risks. The Operational Risk Management Committee attended by senior management meets monthly to provide oversight of operational risk matters across the Bank.

The strategy for managing operational risk in the Bank is anchored on the three lines of defence concept which are as follows:

- The businesses, as the first line of defence are responsible for establishing a robust control environment as part of their operations. Each Line of Business is also responsible for implementing the operational risk framework and policies, embedding appropriate internal controls into processes and maintaining business resilience for key activities.
- Operational Risk Management as the second line of defence is responsible for risk oversight and exercising governance over operational risk through providing relevant framework, policies, tools and system to manage the operational risk, quality assurance of internal controls, operational risk measurement, monitoring and reporting of operational risk issues to senior management, relevant management committees and Board of Directors
- Internal Audit acts as the third line of defence by providing an independent and objective assurance on the overall effectiveness of the risk governance framework, and internal control effectiveness through periodic audit programme.

A key component of the operational risk management framework is risk identification and control self-assessments. This is achieved through the bank-wide implementation of a set of operational risk tools. Several risk mitigation policies and programmes are in place to maintain a sound operating environment.

The Bank has a business continuity and crisis management programme in place to ensure prompt recovery of critical business functions should there be unforeseen events. Senior management provides an annual attestation to the Board on the state of business continuity readiness of the Bank.

A technology risk management framework has been established, enabling the Bank to manage technology risks in a systematic and consistent manner.

Regulatory compliance risk refers to the risk of non-compliance with laws, regulations, rules, standards and codes of conduct. This risk is identified, monitored and managed through a structured framework of policies, procedures and guidelines maintained by the Bank. The framework also manages the risk of breaches and sanctions relating to Anti-Money Laundering and Countering the Financing of Terrorism.

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The Bank actively manages fraud and bribery risks. Tools and policies, including a whistle-blowing programme, a material risk notification protocol and a fraud risk awareness training programme, have been developed to manage such risks. All employees are guided by a Code of Conduct, which includes anti-bribery and corruption provisions.

Reputation risk is the risk of adverse impact on earnings, liquidity or capital arising from negative stakeholder perception or opinion of the bank's business practices, activities and financial condition. The Bank recognises the impact of reputation risk and a framework has been developed to identify and manage the risk across the Bank.

To mitigate operational losses resulting from significant risk events, a Bank insurance programme covering crime, fraud, civil liability, property damage, public liability, as well as directors' and officers' liability has been put in place.

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**EQUITIES ( Disclosures for Banking Book position)**

The Bank holds equities in its Banking Book mainly for the purpose of Investment in Associated Companies and for other long term investment purpose.

Investment in Associated Companies are accounted for using the equity method of accounting. Other equities classified under available-for-sale ("AFS") are measured at fair value.

<b>Type of Equities</b>	<b>Exposures</b>	<b>Bank</b>		<b>Bank</b>	
		<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RWA</b>	<b>Exposures</b>	<b>RWA</b>	<b>RM'000</b>
Publicly Traded Equity Exposures * mainly acquired via loan restructuring activities	6,136	18,409	3,937	11,810	
All Other Equity Exposures	107,193	428,772	29,635	118,540	
Investment in Associated Companies	99,973	^	119,728	^	
	<b>213,302</b>	<b>447,181</b>	<b>153,300</b>	<b>130,350</b>	

^ Investment in associated company is eligible for capital deduction, in accordance with Basel III, effective Jan 2013.

	<b>Bank</b>	<b>Bank</b>
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Realised gains/(losses) arising from sales and liquidation	1,435	40,919
Unrealised gains/(losses) included in fair value reserve	5,870	21,034

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**DISCLOSURE FOR INTEREST RATE RISK / RATE OF RETURN RISK IN THE BANKING BOOK (IRR / RORBB)**

**DISCLOSURE FOR INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (IR/RORBB)**

**Interest Rate Risk in Banking Book**

The ALCO, under delegated authority from the Board, oversees the management of balance sheet risk exposure. RMD supports the ALCO in monitoring the interest rate risk profile of the banking book. At a tactical level, the Bank's Global Markets (GM) Division is responsible for the effective management of balance sheet risk in accordance with approved balance sheet risk management policies.

The primary objective of interest rate risk management is to protect and enhance capital or economic net worth through adequate, stable and reliable growth in net interest earnings under a broad range of possible economic conditions.

Banking book interest rate risk exposure is quantified on a monthly basis using a combination of static analysis tools and dynamic simulation techniques. Static analysis tools include repricing schedules and sensitivity analysis. They provide indications of the potential impact of interest rate changes on interest income and price value through the analysis of the sensitivity of assets and liabilities to changes in interest rates. Interest rate sensitivity varies with different repricing periods, currencies and embedded optionality, where applicable. Mismatches in the longer tenor will experience greater change in the price-value of interest rate positions than similar positions in the shorter tenor.

In the dynamic simulation process, both the Net Interest Income (NII) and Economic Value of Equity (EVE) approaches are applied to assess interest rate risk. The potential effects of interest rate change on NII are estimated by simulating the possible future course of interest rates, expected changes in business activities over time. Changes in interest rates are simulated using different interest rate scenarios such as changes in the shape of the yield curve, including high and low rates, as well as positive and negative tilt scenarios. NII simulation is performed to quantify a forward looking impact on NII for the next 12 months under various interest rate scenarios to assess the impact of interest rate movements on income.

In EVE sensitivity simulations, the present values for repricing cash flows are computed, with the focus on changes in EVE under different interest rate scenarios. This economic perspective measures interest rate risks across the full maturity profile of the balance sheet, including off-balance sheet items.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating the proactive management of interest rate risks in an environment of rapid financial market changes.

The reported figures are based on the upward and downward parallel movement of the yield curve. The repricing profile of loans is generally based on the earliest possible repricing dates, taking into account the notice period to be served to the customers. Loan prepayment is estimated based on past statistics and trends where possible and material. Behavioural assumptions based on historical trends are applied where appropriate, for deposits that do not have maturity dates.

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**Interest Rate Sensitivity Analysis - Banking Book**

Currency	Increase/(Decrease) in basis		Sensitivity of equity		RM'million	Increase/(Decrease) in basis		Sensitivity of equity		RM'million
	points	2014	points	2014		points	2014	points	2014	
<b>Total</b>	<b>+ 200/(200)</b>		<b>188.2 / (157.6)</b>			<b>+ 100/(100)</b>		<b>93.6 / (81.9)</b>		
MYR	+ 200/(200)		160.3 / (153.7)			+ 100/(100)		79.6 / (78.0)		
USD	+ 200/(200)		27.9 / (3.9)			+ 100/(100)		14.0 / (3.9)		

Currency	Increase/(Decrease) in basis		Sensitivity of equity		RM'million	Increase/(Decrease) in basis		Sensitivity of equity		RM'million
	points	2013	points	2013		points	2013	points	2013	
<b>Total</b>	<b>+ 200/(200)</b>		<b>50.0 / (23.5)</b>			<b>+ 100/(100)</b>		<b>23.0 / (15.4)</b>		
MYR	+ 200/(200)		40.5 / (21.7)			+ 100/(100)		18.3 / (13.6)		
USD	+ 200/(200)		9.6 / (1.8)			+ 100/(100)		4.8 / (1.8)		

The economic value of equity (EVE) sensitivity at 100 and 200 basis points parallel interest rate shocks were negative RM82 million and RM158 million (2013: negative RM15 million and RM24 million)

**Net Interest Income (NII)**

Currency	Increase/(Decrease) in basis		Sensitivity of NII		RM'million	Increase/(Decrease) in basis		Sensitivity of NII		RM'million
	points	2014	points	2014		points	2014	points	2014	
<b>Total</b>	<b>+ 200/(200)</b>		<b>398.9 / (373.2)</b>			<b>+ 100/(100)</b>		<b>160.1 / (152.4)</b>		
MYR	+ 200/(200)		379.4 / (371.2)			+ 100/(100)		150.3 / (150.3)		
USD	+ 200/(200)		19.5 / (2.1)			+ 100/(100)		9.8 / (2.1)		

Currency	Increase/(Decrease) in basis		Sensitivity of NII		RM'million	Increase/(Decrease) in basis		Sensitivity of NII		RM'million
	points	2013	points	2013		points	2013	points	2013	
<b>Total</b>	<b>+ 200/(200)</b>		<b>331.1 / (321.2)</b>			<b>+ 100/(100)</b>		<b>128.0 / (123.6)</b>		
MYR	+ 200/(200)		320.7 / (320.3)			+ 100/(100)		122.8 / (122.8)		
USD	+ 200/(200)		10.4 / (0.9)			+ 100/(100)		5.2 / (0.9)		

The Net Interest Income (NII) sensitivity at 100 and 200 basis points parallel interest rate shocks were RM160 million and RM399 million (2013: RM128 million and RM331 million) respectively.

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**DISCLOSURE FOR INTEREST RATE RISK / RATE OF RETURN RISK IN THE  
BANKING BOOK (Cont'd)**

**Liquidity Risk**

The Bank maintains sufficient liquidity to fund its day-to-day operations, meet deposit withdrawals and loan disbursements, participate in new investments, and repay borrowings. Hence, liquidity is managed in a manner to address known as well as unanticipated cash funding needs.

Liquidity risk is managed in accordance with a framework of policies, controls and limits which are also adequate to meet the requirements under BNM's New Liquidity Framework. These policies, controls and limits enable the Bank to monitor and manage liquidity risk to ensure that sufficient sources of funds are available over a range of market conditions. These include minimising excessive funding concentrations by diversifying the sources and terms of funding as well as maintaining a portfolio of high quality and marketable liquid assets.

The Bank takes a conservative stance in its liquidity management by continuing to gather core deposits, ensuring that liquidity limits are strictly adhered to and that there are adequate liquid assets and borrowing capacity to meet cash shortfalls.

The distribution of deposits is managed actively to ensure a balance between cost effectiveness, continued accessibility to funds, and diversification of funding sources. Important factors in ensuring liquidity are competitive pricing, proactive management of the Bank's core deposits and the maintenance of customer confidence.

Liquidity risk is aligned with the regulatory liquidity risk management framework, and is measured and managed on a projected cash flow basis. The Bank's liquidity is monitored under various scenarios and subjected to various time band limits. Cash flow mismatch limits are established to limit the Bank's liquidity exposure. The Bank also employs liquidity early warning indicators and trigger points to signal possible contingency situations.

Contingency funding plans are in place to identify liquidity crises using a series of warning indicators. Crisis escalation processes and various strategies including funding and communication have been developed to minimise the impact of any liquidity crunch.

The policy of the Bank is to be self-sufficient in its funding capabilities, although it has the support of Group's Head Office in Singapore.

The table in Note 38 to the financial statements on page 119 - Bank presents the maturity mismatch analysis of the Bank's near and long-term time bands relating to the cash inflows and outflows based on contractual maturity arising from the Bank's activities. Behavioral adjustments were made on significant balance sheet items that had actual maturity dates that differed substantially from the Bank's contractual profile.