Overview

The Pillar 3 Disclosure for financial year ended 31 December 2014 for Bank Islam ("the Bank") and its subsidiaries ("the Group") complies with Bank Negara Malaysia's ("BNM") "Capital Adequacy Framework for Islamic Banks ("CAFIB") – Disclosure Requirements ("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.

CAFIB consists of 3 Pillars:

(a) Pillar 1 sets minimum regulatory capital to cover credit, market and operational risk;

(b) Pillar 2 aims to ensure that Islamic banking institutions have adequate capital to support their operations at all times; and

(c) Pillar 3 aims to enhance transparency by setting the minimum requirements for market disclosures of information on the risk management practices and capital adequacy of Islamic banks.

The Group has adopted the Standardised Approach in determining the capital requirements for credit and market risk and has applied the Basic Indicator Approach ("BIA") for operational risk under Pillar 1 since January 2008. Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposures in credit and market risk whilst the capital required for operational risk under the Basic Indicator Approach is computed based on a fixed percentage over the Group's average gross income for a fixed number of quarterly periods.

In compliance with the Pillar 3 Guideline, the Pillar 3 report for the Group is being regularly prepared for two periods: 30 June and 31 December. The Group's Pillar 3 report will be made available under the Corporate Info section of the Bank's website at **www.bankislam.com.my**, attached to its annual and the half-yearly financial reports after the notes to the financial statements.

The Group has also developed an Internal Capital Adequacy Assessment Process ("ICAAP") framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group's current and projected demand for capital under expected and stressed conditions. The ICAAP was adopted in 2012 and has been fully implemented in year 2013.

The Group's main activity is Islamic banking business which focuses on retail banking and financing operations. The following tables show the minimum regulatory capital requirement to support the Group's and the Bank's risk weighted assets.

Overview (continued)

Group	31.12.2014 RISK-WEIGHTED ASSETS RM'000	31.12.2014 MINIMUM CAPITAL REQUIREMENT AT 8% RM'000	31.12.2013 RISK-WEIGHTED ASSETS RM'000	31.12.2013 MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Credit risk	**26,947,994**	**2,155,839**	22,252,433	1,780,195
Market risk	**542,910**	**43,432**	761,777	60,942
Operational risk	**2,724,074**	**217,926**	2,457,803	196,624
Total	**30,214,978**	**2,417,197**	25,472,013	2,037,761

Bank	31.12.2014 RISK-WEIGHTED ASSETS RM'000	31.12.2014 MINIMUM CAPITAL REQUIREMENT AT 8% RM'000	31.12.2013 RISK-WEIGHTED ASSETS RM'000	31.12.2013 MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Credit risk	**26,945,514**	**2,155,641**	22,249,166	1,779,933
Market risk	**542,910**	**43,432**	761,777	60,942
Operational risk	**2,705,152**	**216,412**	2,437,809	195,025
Total	**30,193,576**	**2,415,485**	25,448,752	2,035,900

The Group does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's CAFIB.

1. Scope of Application

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank (including the offshore banking operations in the Federal Territory of Labuan) and its' subsidiaries.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group. There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

2. Capital Adequacy

Capital Management

In view of the immateriality of the subsidiaries' capital, balance sheet exposures and income, the Capital Management is conducted at the Bank level only.

The Bank's primary objective when managing capital is to maintain a strong capital position to support business growth and to maintain investor, depositor, customer and market confidence. In line with this, the Bank manages its capital actively and ensures that the capital adequacy ratios which take into account the risk profile of the Bank, are above the regulatory minimum requirement.

To ensure that the Bank has sufficient capital to support all its business and risk taking activities, the Bank has implemented sound capital management processes in its management systems and processes. A comprehensive capital management framework has been adopted by the Bank as a key enabler for value creation which is important to the long term survival of the Bank. This comprehensive capital management process includes thorough risk assessment and risk management techniques that are embedded within the Bank's risk governance.

The assessment is based on the approved business plan, its estimation of current risks inherent in the Bank and the impact of capital stress tests on the Bank's capital plan. The Bank aims to achieve the following capital management objectives:

- Meeting regulatory capital requirements;
- Sustainable returns to shareholders;
- Maintaining adequate levels and an optimum mix of different sources of capital to support the underlying risks of its business;
- Ensuring adequate capital to withstand shocks and stress;
- Ensuring sufficient capital to expand its business ventures and inorganic growth; and
- Allocating an appropriate amount of capital to business units to optimise return on capital.

The Bank's capital management is guided by the Capital Management Plan, approved by the Board, to ensure management of capital in a consistent and aligned with the Risk Appetite Statement and Internal Capital Adequacy Assessment Process of the Bank.

The Bank's capital management processes comprise:

- Capital Structuring – ensuring that the amount of regulatory and statutory capital available is consistent with the Bank's growth plan, risk appetite, and desired level of capital adequacy. Capital structuring focuses on selecting the appropriate, most cost-effective mix of capital instruments;
- Capital Allocation – ensuring that the capital is employed efficiently across the Bank based on risk-adjusted return on capital;
- Capital Optimisation – seeking an optimal level of capital by facilitating the optimisation of the risk profile of the balance sheet. This will be done through:
    - reshaping of the balance sheet;
    - capital planning, allocation and optimisation; and
    - a sound management of the capital buffer.

As such, the four fundamental components of a sound capital planning process include:

- Internal control and governance;
- Capital policy and risk capture;
- Forward-looking view; and
- Management framework for preserving capital.

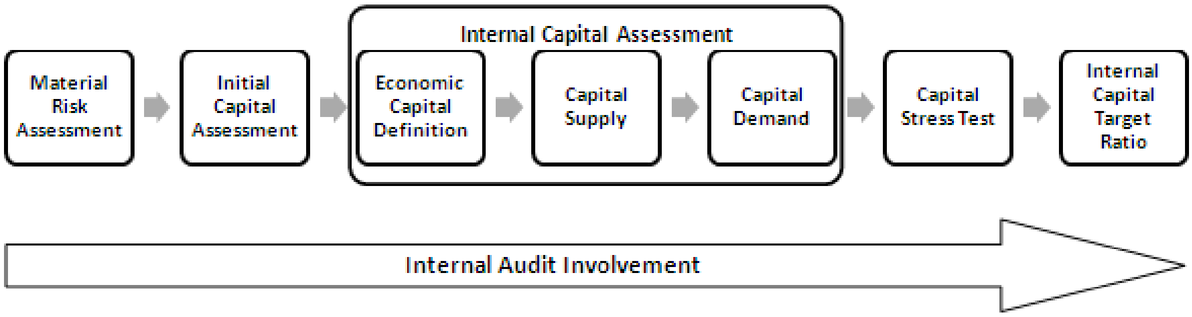
The Bank's Capital Management Plan is updated annually and approved by the Board for implementation at the beginning of each financial year. The capital plan is drawn up to cover at least a three year horizon and takes into account, amongst others, the Bank's strategic objectives and business plans, regulatory capital requirements, capital benchmarking against industry, available supply of capital and capital raising options, performance of business sectors based on a Risk Adjusted Return on Capital ("RAROC") approach as well as ICAAP and stress testing results.

Internal Capital Adequacy Assessment Process ("ICAAP")

The Group has carried out the internal assessment process on capital as prescribed in BNM's CAFIB - ICAAP ("Pillar 2") to complement its current capital management practices. The ICAAP Framework has been formalised and approved by the Board in May 2013. The Group's ICAAP helps to suggest the minimum internal capital requirement for its current and future business strategies and financial plans for the next 3 years via a comprehensive risk assessment process on its portfolio risk exposures, its risk management practices towards its material risks and potential capital planning buffer required in the event of stress.

The Group's ICAAP is conducted on a consolidated basis covering all the Bank's legal entities as suggested by BNM's ICAAP guideline.

The Group's ICAAP methodology can be summarized as follows:



Under ICAAP, the following risk types are identified and measured:

- Risks captured under Pillar 1 (i.e. Credit Risk, Market Risk, and Operational Risk);
- Risk not fully captured under Pillar 1 (e.g. Migration and Residual Risk);
- Risk not covered under Pillar 1 (e.g. Credit Concentration Risk, Profit Rate Risk in the Banking Book, Shariah Compliance Risk, IT Risk, Business and Strategy Risk, and Reputational Risk)

Stress Testing

Regular stress testing is performed to assess the Group's ability to maintain adequate capital under both a normal business cycle and unfavorable economic conditions. The stress testing is embedded within the risk and capital management process of the Group, and is a key function of capital planning and business planning processes.

The Group's objectives of stress testing include:

- To identify the possible events or future changes in the financial and economic conditions of the country that could potentially have unfavorable effects on the Group's exposures;
- To identify the different portfolios response to changes in key economic variables (profit rate, foreign exchange rate, GDP, etc);
- To evaluate the Group's ability to withstand such changes, i.e. its capacity in terms of its capital and earnings, to absorb potentially significant losses;
- To better understand the Group's risk profile, evaluate business risks and thus take appropriate measures accordingly; and
- To analyse the Group's ability to meet the minimum regulatory capital requirement at all times throughout a reasonably severe economic crisis.

Capital Adequacy Ratios

The Group is required to comply with the Common Equity Tier 1 capital ratio and total capital ratio prescribed by BNM. The Group was in compliance with all prescribed capital ratios throughout the period.

The Group's capital adequacy ratios remained strong. The table below shows the composition of the regulatory capital and capital adequacy ratios as of 31 December 2014 determined by the requirements of the CAFIB.

Capital Adequacy (continued)

Capital Adequacy Ratios (continued)

The Risk Weighted Capital Ratio (RWCR) of the Group and Bank are set out below:

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

	GROUP		BANK	
	31.12.2014 RM'000	**31.12.2013 RM'000**	**31.12.2014 RM'000**	**31.12.2013 RM'000**
Common Equity Tier 1 (CET 1) Capital Ratio	**12.24%**	12.96%	**12.20%**	12.88%
Tier 1 Capital Ratio	**12.24%**	12.96%	**12.20%**	12.88%
Risk-Weighted Capital Ratio	**13.36%**	14.06%	**13.32%**	13.97%

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

	31.12.2014	
	Group RM'000	**Bank RM'000**
<u>Tier I capital</u>		
Paid-up share capital	2,319,907	2,319,907
Share Premium	90,981	90,981
Retained earnings	388,923	390,019
Other reserves	929,779	929,721
Less: Deferred tax assets	(31,220)	(31,220)
Less: Investment in subsidiaries	-	(15,525)
Less: Investment in associate company	-	-
Total Common Equity Tier I Capital	**3,698,370**	**3,683,883**
Total Additional Tier I Capital	**-**	**-**
Total Tier I Capital	**3,698,370**	**3,683,883**
Collective assessment allowance ^	336,850	336,819
Total Tier II Capital	**336, 850**	**336,819**
Total Capital	**4,035,220**	**4,020,702**

^ Collective assessment allowance on non-impaired financing subject to maximum of 1.25% of total credit risk-weighted assets.

Capital Adequacy (continued)

(b) CET 1, Tier I and Tier II capital components of the Group and of the Bank (continued):

CAFIB Basel III capital structure with effect from 1 January 2013

	31.12.2013	
	Group RM'000	**Bank RM'000**
Tier I capital		
Paid-up share capital	2,298,165	2,298,165
Share Premium	52,281	52,281
Retained earnings	253,822	256,389
Other reserves	722,567	722,539
Less: Deferred tax assets	(24,613)	(24,613)
Less: Investment in subsidiaries	-	(28,027)
Less: Investment in associate company	-	-
Total Common Equity Tier I Capital	**3,302,222**	**3,276,734**
Total Additional Tier I Capital	**-**	**-**
Total Tier I Capital	**3,302,222**	**3,276,734**
Collective assessment allowance ^	278,155	278,115
Total Tier II Capital	**278,155**	**278,115**
Total Capital	**3,580,377**	**3,554,849**

^ Collective assessment allowance on non-impaired financing subject to maximum of 1.25% of total credit risk-weighted assets.

2. Capital Adequacy (continued)

Capital Adequacy Ratios (continued)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows:

(i) Group

31 DECEMBER 2014 EXPOSURE CLASS	**GROSS EXPOSURE RM'000**	**NET EXPOSURE RM'000**	**RISK-WEIGHTED ASSET RM'000**	**MINIMUM CAPITAL REQUIREMENT AT 8% RM'000**
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	3,888,002	3,888,002	-	-
Public Sector Entities	992,097	990,893	339,408	27,153
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	1,220,439	1,220,439	143,066	11,445
Corporate	13,867,576	13,709,836	6,761,506	540,920
Regulatory Retail	12,942,334	12,835,414	11,553,620	924,290
Residential Mortgages	8,945,396	8,942,143	5,578,925	446,314
Higher Risk Assets	19,951	19,951	29,927	2,394
Other Assets	2,496,244	2,496,244	437,200	34,976
Defaulted Exposures	495,794	481,745	660,901	52,872
Total for On-Balance Sheet Exposures	44,867,833	44,584,667	25,504,553	2,040,364
Off-Balance Sheet Exposures				
Credit-related Exposures	1,590,551	1,590,551	1,375,137	110,011
Derivative Financial Instruments	105,264	105,264	56,781	4,542
Defaulted Exposures	7,717	7,717	11,523	922
Total for Off-Balance Sheet Exposures	1,703,532	1,703,532	1,443,441	115,475
Total On and Off-Balance Sheet Exposures	46,571,365	46,288,199	26,947,994	2,155,839

	Long position	Short Position			
Market Risk					
Benchmark Rate Risk	994,991	(4,532,410)	(3,537,419)	153,889	12,311
Foreign Exchange Risk	25,896	(386,305)	(360,409)	386,305	30,904
Inventory Risk	-	-	2,716	2,716	217
Total Market Risk	1,020,887	(4,918,715)	(3,895,112)	542,910	43,432
Operational Risk				2,724,074	217,926
Total RWA and Capital Requirements				**30,214,978**	**2,417,197**

Note: As at 31st Dec 2014, the Group did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account ("PSIA"), nor exposures under securitisation.

2. Capital Adequacy (continued)

Capital Adequacy Ratios (continued)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows (continued):

(i) Group(continued)

31 DECEMBER 2013 EXPOSURE CLASS		**GROSS EXPOSURE RM'000**	**NET EXPOSURE RM'000**	**RISK-WEIGHTED ASSET RM'000**	**MINIMUM CAPITAL REQUIREMENT AT 8% RM'000**
Credit Risk					
On-Balance Sheet Exposures					
Sovereign/Central Banks		4,808,880	4,808,880	-	-
Public Sector Entities		699,354	699,354	253,647	20,292
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")		909,903	909,903	188,052	15,044
Corporate		14,816,786	14,705,515	5,660,109	452,809
Regulatory Retail		11,412,447	11,311,373	9,950,827	796,066
Residential Mortgages		6,527,539	6,525,795	3,971,215	317,697
Higher Risk Assets		22,034	22,034	33,050	2,644
Other Assets		2,169,818	2,169,818	334,184	26,735
Defaulted Exposures		418,363	408,829	584,256	46,740
Total for On-Balance Sheet Exposures		41,785,124	41,561,501	20,975,340	1,678,027
Off-Balance Sheet Exposures					
Credit-related Exposures		1,421,531	1,421,531	1,237,498	99,000
Derivative Financial Instruments		72,296	72,296	36,220	2,898
Defaulted Exposures		2,256	2,256	3,375	270
Total for Off-Balance Sheet Exposures		1,496,083	1,496,083	1,277,093	102,168
Total On and Off-Balance Sheet Exposures		43,281,207	43,057,584	22,252,433	1,780,195
	Long position	Short Position			
Market Risk					
Benchmark Rate Risk	773,841	(913,005)	(139,164)	355,225	28,418
Foreign Exchange Risk	26,300	(403,396)	(377,096)	403,396	32,272
Inventory Risk	-	-	3,156	3,156	252
Total Market Risk	800,141	(1,316,401)	(513,104)	761,777	60,942
Operational Risk				2,457,803	196,624
Total RWA and Capital Requirements				**25,472,013**	**2,037,761**

Note: As at 31st Dec 2013, the Group did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account ("PSIA"), nor exposures under securitisation.

2. Capital Adequacy (continued)

Capital Adequacy Ratios (continued)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows (continued):

(ii) Bank

31 DECEMBER 2014 **EXPOSURE CLASS**	**GROSS EXPOSURE** **RM'000**	**NET EXPOSURE** **RM'000**	**RISK-WEIGHTED ASSET** **RM'000**	**MINIMUM CAPITAL REQUIREMENT AT 8%** **RM'000**
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	3,888,002	3,888,002	-	-
Public Sector Entities	992,097	990,893	339,408	27,153
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	1,220,213	1,220,213	143,021	11,442
Corporate	13,867,576	13,709,836	6,761,506	540,920
Regulatory Retail	12,942,334	12,835,414	11,553,620	924,290
Residential Mortgages	8,945,396	8,942,143	5,578,925	446,314
Higher Risk Assets	19,951	19,951	29,927	2,394
Other Assets	2,494,640	2,494,640	434,765	34,781
Defaulted Exposures	495,794	481,745	660,901	52,872
Total for On-Balance Sheet Exposures	44,866,003	44,582,837	25,502,073	2,040,166
Off-Balance Sheet Exposures				
Credit-related Exposures	1,590,551	1,590,551	1,375,137	110,011
Derivative Financial Instruments	105,264	105,264	56,781	4,542
Defaulted Exposures	7,717	7,717	11,523	922
Total for Off-Balance Sheet Exposures	1,703,532	1,703,532	1,443,441	115,475
Total On and Off-Balance Sheet Exposures	46,569,535	46,286,369	26,945,514	2,155,641

	Long position	Short Position			
Market Risk					
Benchmark Rate Risk	994,991	(4,532,410)	(3,537,419)	153,889	12,311
Foreign Exchange Risk	25,896	(386,305)	(360,409)	386,305	30,904
Inventory Risk	-	-	2,716	2,716	217
Total Market Risk	1,020,887	(4,918,715)	(3,895,112)	542,910	43,432
Operational Risk				2,705,152	216,412
Total RWA and Capital Requirements				**30,193,576**	**2,415,485**

Note: As at 31 December 2014, the Bank did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account ("PSIA"), nor exposures under securitisation.

2. Capital Adequacy (continued)

Capital Adequacy Ratios (continued)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows (continued):

(ii) Bank (continued)

31 DECEMBER 2013 EXPOSURE CLASS	**GROSS EXPOSURE RM'000**	**NET EXPOSURE RM'000**	**RISK-WEIGHTED ASSET RM'000**	**MINIMUM CAPITAL REQUIREMENT AT 8% RM'000**
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	4,808,880	4,808,880	-	-
Public Sector Entities	699,354	699,354	253,647	20,292
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	907,638	907,638	187,599	15,007
Corporate	14,816,786	14,705,515	5,660,109	452,809
Regulatory Retail	11,412,447	11,311,373	9,950,827	796,066
Residential Mortgages	6,527,539	6,525,795	3,971,215	317,697
Higher Risk Assets	22,034	22,034	33,050	2,644
Other Assets	2,169,216	2,169,216	331,370	26,510
Defaulted Exposures	418,363	408,829	584,256	46,740
Total for On-Balance Sheet Exposures	41,782,257	41,558,634	20,972,073	1,677,765
Off-Balance Sheet Exposures				
Credit-related Exposures	1,421,531	1,421,531	1,237,498	99,000
Derivative Financial Instruments	72,296	72,296	36,220	2,898
Defaulted Exposures	2,256	2,256	3,375	270
Total for Off-Balance Sheet Exposures	1,496,083	1,496,083	1,277,093	102,168
Total On and Off-Balance Sheet Exposures	43,278,340	43,054,717	22,249,166	1,779,933

	Long position	Short Position			
Market Risk					
Benchmark Rate Risk	773,841	(913,005)	(139,164)	355,225	28,418
Foreign Exchange Risk	26,300	(403,396)	(377,096)	403,396	32,272
Inventory Risk	-	-	3,156	3,156	252
Total Market Risk	800,141	(1,316,401)	(513,104)	761,777	60,942
Operational Risk				2,437,809	195,025
Total RWA and Capital Requirements				**25,448,752**	**2,035,900**

Note: As at 31 December 2013, the Bank did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account ("PSIA"), nor exposures under securitisation.

3. Risk Management

The Group's mission with respect to risk management is to advance its risk management capabilities, culture and practices so as to be in line with internationally accepted standards and practices.

In that regard, the objectives of managing risk are to:

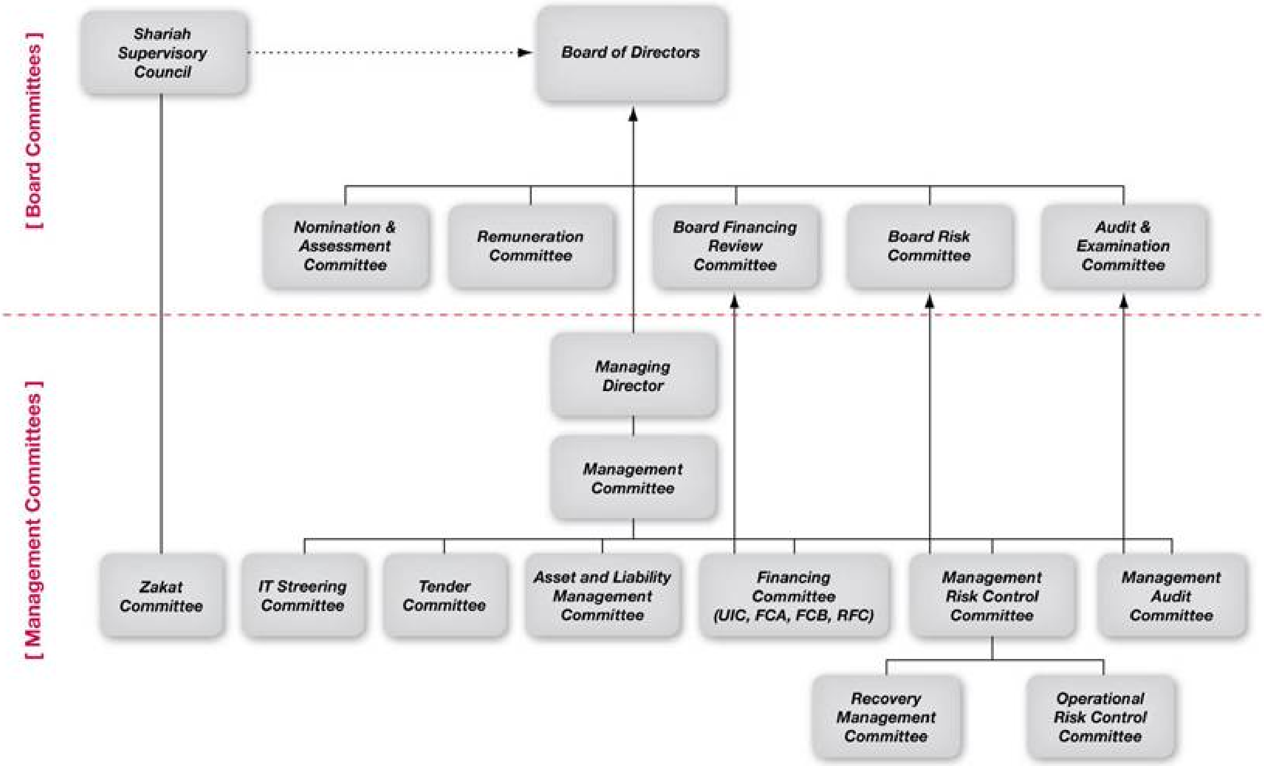
- Inculcate a risk-awareness culture throughout the Group;
- Establish a standard approach and methodology in managing credit, market, liquidity, operational and business risks across the Group;
- Clarify functional structures including objectives, roles and responsibilities;
- Implement and use a risk management information system that meets international standards on confidentiality, integrity and its availability;
- Develop and use tools, such as economic capital, value at risk, scoring models and stress testing to support the measurement of risks and enhance risk-based decisions;
- Ensure that risk policies and overall risk appetite are in line with business targets; and
- Ensure that the Group's capital can support current and planned business needs in terms of risk exposures.

Risk Management Functional and Governance Structure

The Group has realigned its risk organisational responsibilities with the objective of ensuring a common view of risks across the Group. As a matter of good business practice and prudence, the Group's core risk management functions, which report to the Board Risk Committee ("BRC"), are independent and clearly segregated from the business divisions and centralized at head office.

3. Risk Management (continued)

The following illustrates the Group's governance structure:



***Capital Management Committee is part of Management Committee**

The Group recognises the fact that the essence of banking and financial services is centered on risk taking. The Group therefore:

- Recognises that it has to manage risks effectively to achieve its business targets;
- Reach an optimum level of risk-return in order to maximise stakeholders' value; and
- Ensure effective and integrated risk management processes that are commensurate with the size and complexity of the current and future operations of the Bank within its risk appetite and tolerance.

The Group has established a Risk Appetite Framework that forms an integral part of the Group's strategy and business plans. Risk appetite is an expression of the maximum level of risk that the Group is prepared to accept in support of a stated strategy, impacting all businesses from a credit, market and operational risk viewpoint.

4. Credit Risk

Credit risk arises from all transactions that could lead to actual, contingent or potential claims against any party, borrower or obligor. The types of credit risks that the Bank considers to be material include: Default Risk, Counterparty Risk, Pre-Settlement Risk, Credit Concentration Risk, Residual/Credit Mitigation Risk, and Migration Risk.

Credit risk governance

The management of credit risk is principally carried out by using sets of policies and guidelines approved by the Board Risk Committee ("BRC"), guided by the Board of Directors' approved Risk Appetite Statement.

The Management Risk Control Committee ("MRCC") is responsible under the authority delegated by the BRC for managing credit risk at strategic level. The MRCC reviews the Bank's credit risk frameworks and guidelines, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance levels.

The Group's credit risk management governance includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's financing standards, discretionary powers for financing approval, credit risk ratings methodologies and models, acceptable collaterals and valuation, and the review, rehabilitation and restructuring of problematic and delinquent financing.

Management of Credit Risk

The management of credit risk is being performed by two distinct departments within the Risk Management Division ("RMD"), i.e. Credit Analysis and Credit Risk Control and two departments outside of the RMD domain, namely, Credit Administration and Credit Recovery. The combined objectives are, amongst others:

- To build a high quality credit portfolio in line with the Group's overall strategy and risk appetite;
- To ensure that the Bank is compensated for the risk taken, balancing/optimizing the risk /return relationship;
- To develop an increasing ability to recognise, measure and avoid or mitigate potential credit risk problem areas; and
- To conform with statutory, regulatory and internal credit requirements.

The Group monitors its credit exposures either on a portfolio basis or individual basis through annual reviews. Credit risk is proactively monitored through a set of early warning signals that could trigger immediate reviews of (a certain part of) the portfolio. The affected portfolio or financing is placed on a watch list to enforce close monitoring and prevent financing from turning impaired and to increase chances of full recovery.

A comprehensive limit structure is in place to ensure that risks taken are within the risk appetite as set by the Board and to avoid credit risk contagion to a single customer, sector, product, Shariah contract, etc.

Credit risk arising from dealing and investing activities are managed by the establishment of limits which include counter parties limits and permissible acquisition of private entities' instruments, subject to a specified minimum rating threshold. Furthermore, the dealing and investing activities are monitored by an independent middle office unit.

Capital Treatment for Credit Risk

The Bank adopts the Standardized Approach to compute the credit risk capital requirement under BNM's Capital Adequacy Framework for Islamic Banks (CAFIB).

Credit Risk (continued)

4.1 Credit Quality of Gross Financing and Advances

The table below present the Group's and the Bank's gross financing and advances analysed by credit quality:

	GROUP		BANK	
	31.12.2014 RM'000	**31.12.2013 RM'000**	**31.12.2014 RM'000**	**31.12.2013 RM'000**
Neither past due nor impaired	**29,346,053**	23,527,458	**29,346,053**	23,527,458
Past due but not impaired	**421,120**	429,760	**421,120**	429,760
Impaired	**344,539**	285,302	**344,539**	285,302
	30,111,712	24,242,520	**30,111,712**	24,242,520
Gross impaired financing as a percentage of gross financing and advances	**1.14%**	1.18%	**1.14%**	1.18%

(a) Neither Past Due Nor Impaired

Financings classified as neither Past Due nor Impaired are financings for which the borrower has not missed a contractual payment (profit or principal) when contractually due and is not impaired as there is no objective evidence of impairment of the financing. In other words these financings are performing.

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

	GROUP		BANK	
	31.12.2014 RM'000	**31.12.2013 RM'000**	**31.12.2014 RM'000**	**31.12.2013 RM'000**
Excellent to good	**23,196,518**	18,909,824	**23,196,518**	18,909,824
Satisfactory	**5,741,808**	4,249,300	**5,741,808**	4,249,300
Fair	**407,727**	368,334	**407,727**	368,334
	29,346,053	23,527,458	**29,346,053**	23,527,458

Internal rating definition:-
Excellent to Good: Sound financial position of the obligor with no difficulty in meeting its obligations.
Satisfactory: Adequate safety of the obligor meeting its current obligations but more time is required to meet the entire obligations in full.
Fair: High risks on payment obligations. Financial performance may continue to deteriorate.

4. Credit Risk (continued)

4.1 Credit Quality of Gross Financing and Advances (continued)

(b) Past Due But Not Impaired

Financings classified as Past Due but Not Impaired are financings on which its contractual profit or principal payments are past due, but the Group and the Bank believe that impairment is not appropriate on the basis of the level of collateral available and/or the stage of collection amounts owed to the Group and the Bank.

Analysis of the past due but not impaired financing and advances by aging analysis:

	GROUP AND BANK	
	31.12.2014	**31.12.2013**
By ageing	**RM'000**	**RM'000**
Month-in-arrears 1	**274,624**	294,267
Month-in-arrears 2	**146,496**	135,493
	421,120	429,760

Analysis of the past due but not impaired financing and advances by sector:

	GROUP AND BANK	
	31.12.2014	**31.12.2013**
	RM'000	**RM'000**
Primary agriculture	**-**	2,543
Mining and quarrying	**-**	-
Manufacturing (including agro-based)	**2,753**	21,158
Electricity, gas and water	**-**	-
Wholesale & retail trade, and hotels & restaurants	**5,393**	6,526
Construction	**23,002**	20,206
Real estate	**12,864**	24,660
Transport, storage and communications	**7,420**	271
Finance, insurance and business activities	**1,163**	5,854
Education, health and others	**430**	2,613
Household sectors	**368,095**	345,610
Other sectors	**-**	319
	421,120	429,760

4. Credit Risk (continued)

4.1 Credit Quality of Gross Financing and Advances (continued)

(c) Impaired financing and advances

A financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, but the financing exhibits indications of significant credit weakness.

The financing or group of financings is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the financing (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financing or group of financings that can be reliably estimated.

The Group and the Bank first assess individually whether the objective evidence of impairment exists individually for financings which are individually significant, and collectively for financings which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financings with similar credit risk characteristic and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows. 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 income statement.

Impaired financing by assessment type:

	GROUP AND BANK	
	31.12.2014 RM'000	**31.12.2013 RM'000**
Individually assessed	**215,552**	162,492
of which:		
Month-in-arrears 0	***95,853***	*74,049*
Month-in-arrears 1	***1,705***	*4,322*
Month-in-arrears 2	***6,847***	*1,295*
Month-in-arrears 3 and above	***111,147***	*82,826*
Collectively assessed	**128,987**	122,810
	344,539	285,302

4. Credit Risk (continued)

4.1 Credit Quality of Gross Financing and Advances (continued)

(c) Impaired financing and advances (continued)

		INDIVIDUAL ASSESSMENT ALLOWANCE					
31 DECEMBER 2014 RM '000	**IMPAIRED FINANCING AT 31.12.2014**	**INDIVIDUAL ASSESSMENT AS AT 1.01.2014**	**NET CHARGE FOR THE FINANCIAL YEAR**	**AMOUNTS WRITTEN OFF/OTHER MOVEMENTS**	**INDIVIDUAL ASSESSMENT AS AT 31.12.2014**	**COLLECTIVE ASSESSMENT ALLOWANCE AT 31.12.2014**	**TOTAL IMPAIRMENT ALLOWANCES FOR FINANCING AT 31.12.2014**
Primary Agriculture	1,854	-	954	-	954	5,869	6,823
Mining and quarrying	-	-	-	-	-	274	274
Manufacturing (including agro-based)	7,669	29,180	987	(28,573)	1,594	22,605	24,199
Electricity, gas and water	54	-	-	-	-	9,495	9,495
Wholesale & retail trade and restaurants & hotels	14,732	6,212	(35)	-	6,177	27,171	33,348
Construction	72,192	18,681	21,218	-	39,899	24,626	64,525
Real estate	-	-	-	-	-	7,932	7,932
Transport, storage and communication	42,689	30,725	2,885	-	33,610	16,172	49,782
Finance, insurance and business services	60,258	50,597	2,599	1,074	54,270	24,431	78,701
Education, health and others	590	-	-	-	-	12,973	12,973
Household sectors	144,501	802	5,447	-	6,249	292,840	299,089
Other Sectors	-	-	-	-	-	-	-
Total	**344,539**	**136,197**	**34,055**	**(27,499)**	**142,753**	**444,388**	**587,141**

4. Credit Risk (continued)

4.1 Credit Quality of Gross Financing and Advances (continued)

(c) Impaired financing and advances (continued)

31 DECEMBER 2013 RM '000	IMPAIRED FINANCING AT 31.12.2013	INDIVIDUAL ASSESSMENT ALLOWANCE: INDIVIDUAL ASSESSMENT AS AT 1.01.2013	INDIVIDUAL ASSESSMENT ALLOWANCE: NET CHARGE FOR THE FINANCIAL YEAR	INDIVIDUAL ASSESSMENT ALLOWANCE: AMOUNTS WRITTEN OFF/OTHER MOVEMENTS	INDIVIDUAL ASSESSMENT ALLOWANCE: INDIVIDUAL ASSESSMENT AS AT 31.12.2013	COLLECTIVE ASSESSMENT ALLOWANCE AT 31.12.2013	TOTAL IMPAIRMENT ALLOWANCES FOR FINANCING AT 31.12.2013
Primary Agriculture	-	-	-	-	-	4,245	4,245
Mining and quarrying	-	-	-	-	-	76	76
Manufacturing (including agro-based)	32,302	43,835	2,271	(16,926)	29,180	19,700	48,880
Electricity, gas and water	108	-	-	-	-	7,732	7,732
Wholesale & retail trade and restaurants & hotels	15,525	7,421	(156)	(1,053)	6,212	29,527	35,739
Construction	21,601	70,161	442	(51,922)	18,681	27,179	45,860
Real estate	-	-	-	-	-	8,963	8,963
Transport, storage and communication	33,117	-	30,725	-	30,725	7,733	38,458
Finance, insurance and business services	61,393	4,551	46,039	7	50,597	20,527	71,124
Education, health and others	-	-	-	-	-	11,460	11,460
Household sectors	121,226	1,020	(218)	-	802	228,078	228,880
Other Sectors	30	-	-	-	-	155	155
Total	**285,302**	**126,988**	**79,103**	**(69,894)**	**136,197**	**365,375**	**501,572**

4. Credit Risk (continued)

4.1 Credit Quality of Gross Financing and Advances (continued)

(d) Gross financing and advances – Exposures by Geographical Areas

31 DECEMBER 2014 RM '000	GROSS FINANCING	*OF WHICH:* PAST DUE BUT NOT IMPAIRED FINANCING	*OF WHICH:* IMPAIRED FINANCING	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES
Central Region	13,567,565	198,827	148,240	70,871	223,471
Eastern Region	5,037,536	69,944	44,509	7,229	56,817
Northern Region	4,722,950	67,384	30,618	-	75,827
Southern Region	4,411,954	57,876	13,307	-	48,786
East Malaysia Region	2,371,707	27,089	107,865	64,653	39,487
Grand Total	**30,111,712**	**421,120**	**344,539**	**142,753**	**444,388**

31 DECEMBER 2013 RM '000	GROSS FINANCING	*OF WHICH:* PAST DUE BUT NOT IMPAIRED FINANCING	*OF WHICH:* IMPAIRED FINANCING	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES
Central Region	10,699,889	194,827	129,930	66,503	190,678
Eastern Region	4,455,488	65,001	28,106	3,032	47,916
Northern Region	3,928,233	73,732	52,873	21,335	55,185
Southern Region	3,191,397	50,216	13,702	-	33,715
East Malaysia Region	1,967,513	45,984	60,691	45,327	37,881
Grand Total	**24,242,520**	**429,760**	**285,302**	**136,197**	**365,375**

4. Credit Risk (continued)

4.2 Gross Credit Exposures

(a) Geographic distribution of credit exposures

(i) Group

31-Dec-2014 Exposure Class	**Central Region RM'000**	**Eastern Region RM'000**	**Northern Region RM'000**	**Southern Region RM'000**	**East Malaysia Region RM '000**	**Total RM '000**
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	3,888,002	-	-	-	-	3,888,002
Public Sector Entities	692,883	138,817	26,184	134,132	81	992,097
Banks, Developments Financial Institutions and Multilateral Development Banks	1,217,088	-	-	-	3,351	1,220,439
Corporate	11,638,007	532,749	703,059	651,976	383,483	13,909,274
Regulatory Retail	4,777,135	2,707,908	2,230,151	2,118,692	1,323,281	13,157,167
Residential Mortgages	3,664,498	1,652,072	1,756,258	1,508,466	602,355	9,183,649
Higher Risk Assets	5,741	3,238	5,874	2,187	3,921	20,961
Other Assets	2,495,953	-	-	-	291	2,496,244
Total for On-Balance Sheet Exposures	28,379,307	5,034,784	4,721,526	4,415,453	2,316,763	44,867,833
Off-Balance Sheet Exposures						
Credit-related Exposures	1,594,154	-	-	-	4,114	1,598,268
Derivative Financial Instruments	105,264	-	-	-	-	105,264
Total for Off-Balance Sheet Exposures	1,699,418	-	-	-	4,114	1,703,532
Total On and Off-Balance Sheet Exposures	**30,078,725**	**5,034,784**	**4,721,526**	**4,415,453**	**2,320,877**	**46,571,365**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(a) Geographic distribution of credit exposures (continued)

(i) Group(continued)

31-Dec-2013 **Exposure Class**	**Central Region** **RM'000**	**Eastern Region** **RM'000**	**Northern Region** **RM'000**	**Southern Region** **RM'000**	**East Malaysia Region** **RM '000**	**Total** **RM '000**
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	4,808,880	-	-	-	-	4,808,880
Public Sector Entities	490,022	112,481	28,891	67,839	121	699,354
Banks, Developments Financial Institutions and Multilateral Development Banks	903,903	-	-	-	6,000	909,903
Corporate	13,120,240	490,459	530,971	220,152	434,292	14,796,114
Regulatory Retail	4,082,044	2,653,793	1,981,086	1,816,313	1,079,702	11,612,938
Residential Mortgages	2,710,656	1,197,203	1,358,151	1,088,249	410,016	6,764,275
Higher Risk Assets	7,541	3,957	6,724	1,115	4,505	23,842
Other Assets	2,169,467	-	-	-	351	2,169,818
Total for On-Balance Sheet Exposures	28,292,753	4,457,893	3,905,823	3,193,668	1,934,987	41,785,124
Off-Balance Sheet Exposures						
Credit-related Exposures	1,413,954	-	-	-	9,833	1,423,787
Derivative Financial Instruments	72,296	-	-	-	-	72,296
Total for Off-Balance Sheet Exposures	1,486,250	-	-	-	9,833	1,496,083
Total On and Off-Balance Sheet Exposures	**29,779,003**	**4,457,893**	**3,905,823**	**3,193,668**	**1,944,820**	**43,281,207**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(a) Geographic distribution of credit exposures (continued)

(ii) Bank

31-Dec-2014 Exposure Class	**Central Region RM'000**	**Eastern Region RM'000**	**Northern Region RM'000**	**Southern Region RM'000**	**East Malaysia Region RM '000**	**Total RM '000**
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	3,888,002	-	-	-	-	3,888,002
Public Sector Entities	692,883	138,817	26,184	134,132	81	992,097
Banks, Developments Financial Institutions and Multilateral Development Banks	1,216,862	-	-	-	3,351	1,220,213
Corporate	11,638,007	532,749	703,059	651,976	383,483	13,909,274
Regulatory Retail	4,777,135	2,707,908	2,230,151	2,118,692	1,323,281	13,157,167
Residential Mortgages	3,664,498	1,652,072	1,756,258	1,508,466	602,355	9,183,649
Higher Risk Assets	5,741	3,238	5,874	2,187	3,921	20,961
Other Assets	2,494,349	-	-	-	291	2,494,640
Total for On-Balance Sheet Exposures	28,377,477	5,034,784	4,721,526	4,415,453	2,316,763	44,866,003
Off-Balance Sheet Exposures						
Credit-related Exposures	1,594,154	-	-	-	4,114	1,598,268
Derivative Financial Instruments	105,264	-	-	-	-	105,264
Total for Off-Balance Sheet Exposures	1,699,418	-	-	-	4,114	1,703,532
Total On and Off-Balance Sheet Exposures	**30,076,895**	**5,034,784**	**4,721,526**	**4,415,453**	**2,320,877**	**46,569,535**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(a) Geographic distribution of credit exposures (continued)

(ii) Bank (continued)

31-Dec-2013 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM '000	Total RM '000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	4,808,880	-	-	-	-	4,808,880
Public Sector Entities	490,022	112,481	28,891	67,839	121	699,354
Banks, Developments Financial Institutions and Multilateral Development Banks	901,638	-	-	-	6,000	907,638
Corporate	13,120,240	490,459	530,971	220,152	434,292	14,796,114
Regulatory Retail	4,082,044	2,653,793	1,981,086	1,816,313	1,079,702	11,612,938
Residential Mortgages	2,710,656	1,197,203	1,358,151	1,088,249	410,016	6,764,275
Higher Risk Assets	7,541	3,957	6,724	1,115	4,505	23,842
Other Assets	2,168,865	-	-	-	351	2,169,216
Total for On-Balance Sheet Exposures	28,289,886	4,457,893	3,905,823	3,193,668	1,934,987	41,782,257
Off-Balance Sheet Exposures						
Credit-related Exposures	1,413,954	-	-	-	9,833	1,423,787
Derivative Financial Instruments	72,296	-	-	-	-	72,296
Total for Off-Balance Sheet Exposures	1,486,250	-	-	-	9,833	1,496,083
Total On and Off-Balance Sheet Exposures	**29,776,136**	**4,457,893**	**3,905,823**	**3,193,668**	**1,944,820**	**43,278,340**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(b) Distribution of credit exposures by sector

(i) Group

31-Dec-2014 Exposure Class	**Primary Agriculture**	**Mining and quarrying**	**Manufacturing**	**Electricity, gas and water**	**Wholesale & retail trade and restaurant & hotels**	**Construction**	**Real Estate**	**Transport, storage & communica tion**	**Finance, insurance and business services**	**Education, health and others**	**Household Sector**	**Other Sectors**	**Total**
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	3,888,002	-	-	-	3,888,002
Public Sector Entities	-	-	-	-	-	-	-	354,487	313,440	324,089	81	-	992,097
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	1,171,816	-		48,623	1,220,439
Corporate	365,319	18,177	1,045,912	3,499,186	800,515	2,966,028	892,936	1,616,369	2,512,571	127,455	64,134	672	13,909,274
Regulatory Retail	9,151	2,294	36,987	1,836	80,568	80,147	21,458	23,271	60,157	31,809	12,809,401	88	13,157,167
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	9,183,649	-	9,183,649
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	20,961	-	20,961
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,496,244	2,496,244
Total for On-Balance Sheet Exposures	374,470	20,471	1,082,899	3,501,022	881,083	3,046,175	914,394	1,994,127	7,945,986	483,353	22,078,226	2,545,627	44,867,833
Off-Balance Sheet Exposures													
Credit-related Exposures	45,611	38,867	76,055	133,776	140,356	215,154	55,777	57,843	200,557	77,138	552,867	4,267	1,598,268
Derivative Financial Instruments	-	-	3,658	-	2,562	-	12,997	-	36,262	1	-	49,784	105,264
Total for Off-Balance Sheet Exposures	45,611	38,867	79,713	133,776	142,918	215,154	68,774	57,843	236,819	77,139	552,867	54,051	1,703,532
Total On and Off-Balance Sheet Exposures	**420,081**	**59,338**	**1,162,612**	**3,634,798**	**1,024,001**	**3,261,329**	**983,168**	**2,051,970**	**8,182,805**	**560,492**	**22,631,093**	**2,599,678**	**46,571,365**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(b) Distribution of credit exposures by sector (continued)

(i) Group (continued)

31-Dec-2013 **Exposure Class**	**Primary Agriculture**	**Mining and quarrying**	**Manufacturing**	**Electricity, gas and water**	**Wholesale & retail trade and restaurant & hotels**	**Construction**	**Real Estate**	**Transport, storage & communica tion**	**Finance, insurance and business services**	**Education, health and others**	**Household Sector**	**Other Sectors**	**Total**
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	4,808,880	-	-	-	4,808,880
Public Sector Entities	664	-	-	-	-	430	60,201	244,276	254,414	139,238	131	-	699,354
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	867,937	-	-	41,966	909,903
Corporate	338,728	6,685	840,973	4,425,104	640,166	2,831,299	765,902	1,782,560	2,992,449	107,733	54,462	10,053	14,796,114
Regulatory Retail	10,767	1,429	44,946	3,550	79,064	69,735	17,258	18,031	49,392	26,018	11,292,589	159	11,612,938
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	6,764,275	-	6,764,275
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	23,842	-	23,842
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,169,818	2,169,818
Total for On-Balance Sheet Exposures	350,159	8,114	885,919	4,428,654	719,230	2,901,464	843,361	2,044,867	8,973,072	272,989	18,135,299	2,221,996	41,785,124
Off-Balance Sheet Exposures													
Credit-related Exposures	58,540	31,153	43,775	172,706	123,971	203,675	51,617	44,081	122,178	61,853	495,843	14,395	1,423,787
Derivative Financial Instruments	-	-	2,490	-	650	9	15,660	-	2,172	3,124	-	48,191	72,296
Total for Off-Balance Sheet Exposures	58,540	31,153	46,265	172,706	124,621	203,684	67,277	44,081	124,350	64,977	495,843	62,586	1,496,083
Total On and Off-Balance Sheet Exposures	**408,699**	**39,267**	**932,184**	**4,601,360**	**843,851**	**3,105,148**	**910,638**	**2,088,948**	**9,097,422**	**337,966**	**18,631,142**	**2,284,582**	**43,281,207**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(b) Distribution of credit exposures by sector (continued)

(ii) Bank

31-Dec-2014 Exposure Class	Primary Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Wholesale & retail trade and restaurant & hotels	Construction	Real Estate	Transport, storage & communication	Finance, insurance and business services	Education, health and others	Household Sector	Other Sectors	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	3,888,002	-	-	-	3,888,002
Public Sector Entities	-	-	-	-	-	-	-	354,487	313,440	324,089	81	-	992,097
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	1,171,816	-		48,397	1,220,213
Corporate	365,319	18,177	1,045,912	3,499,186	800,515	2,966,028	892,936	1,616,369	2,512,571	127,455	64,134	672	13,909,274
Regulatory Retail	9,151	2,294	36,987	1,836	80,568	80,147	21,458	23,271	60,157	31,809	12,809,401	88	13,157,167
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	9,183,649	-	9,183,649
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	20,961	-	20,961
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,494,640	2,494,640
Total for On-Balance Sheet Exposures	374,470	20,471	1,082,899	3,501,022	881,083	3,046,175	914,394	1,994,127	7,945,986	483,353	22,078,226	2,543,797	44,866,003
Off-Balance Sheet Exposures													
Credit-related Exposures	45,611	38,867	76,055	133,776	140,356	215,154	55,777	57,843	200,557	77,138	552,867	4,267	1,598,268
Derivative Financial Instruments	-	-	3,658	-	2,562	-	12,997	-	36,262	1	-	49,784	105,264
Total for Off-Balance Sheet Exposures	45,611	38,867	79,713	133,776	142,918	215,154	68,774	57,843	236,819	77,139	552,867	54,051	1,703,532
Total On and Off-Balance Sheet Exposures	**420,081**	**59,338**	**1,162,612**	**3,634,798**	**1,024,001**	**3,261,329**	**983,168**	**2,051,970**	**8,182,805**	**560,492**	**22,631,093**	**2,597,848**	**46,569,535**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(b) Distribution of credit exposures by sector (continued)

(ii) Bank (continued)

31-Dec-2013 Exposure Class	Primary Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Wholesale & retail trade and restaurant & hotels	Construction	Real Estate	Transport, storage & communication	Finance, insurance and business services	Education, health and others	Household Sector	Other Sectors	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	4,808,880	-	-	-	4,808,880
Public Sector Entities	664	-	-	-	-	430	60,201	244,276	254,414	139,238	131	-	699,354
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	867,937	-	-	39,701	907,638
Corporate	338,728	6,685	840,973	4,425,104	640,166	2,831,299	765,902	1,782,560	2,992,449	107,733	54,462	10,053	14,796,114
Regulatory Retail	10,767	1,429	44,946	3,550	79,064	69,735	17,258	18,031	49,392	26,018	11,292,589	159	11,612,938
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	6,764,275	-	6,764,275
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	23,842	-	23,842
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,169,216	2,169,216
Total for On-Balance Sheet Exposures	350,159	8,114	885,919	4,428,654	719,230	2,901,464	843,361	2,044,867	8,973,072	272,989	18,135,299	2,219,129	41,782,257
Off-Balance Sheet Exposures													
Credit-related Exposures	58,540	31,153	43,775	172,706	123,971	203,675	51,617	44,081	122,178	61,853	495,843	14,395	1,423,787
Derivative Financial Instruments	-	-	2,490	-	650	9	15,660	-	2,172	3,124	-	48,191	72,296
Total for Off-Balance Sheet Exposures	58,540	31,153	46,265	172,706	124,621	203,684	67,277	44,081	124,350	64,977	495,843	62,586	1,496,083
Total On and Off-Balance Sheet Exposures	**408,699**	**39,267**	**932,184**	**4,601,360**	**843,851**	**3,105,148**	**910,638**	**2,088,948**	**9,097,422**	**337,966**	**18,631,142**	**2,281,715**	**43,278,340**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(c) Residual contractual maturity breakdown

(i) Group

31-Dec-2014 Exposure Class	Up to 1 year RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	2,421,391	586,758	879,853	3,888,002
Public Sector Entities	158,295	458,501	375,301	992,097
Banks, Developments Financial Institutions and Multilateral Development Banks	608,391	581,279	30,769	1,220,439
Corporate	3,520,258	4,637,767	5,751,249	13,909,274
Regulatory Retail	60,245	1,821,352	11,275,570	13,157,167
Residential Mortgages	3,998	89,478	9,090,173	9,183,649
Higher Risk Assets	-	403	20,558	20,961
Other Assets	2,100,897	-	395,347	2,496,244
Total for On-Balance Sheet Exposures	8,873,475	8,175,538	27,818,820	44,867,833
Off-Balance Sheet Exposures				
Credit-related Exposures	642,812	483,320	472,136	1,598,268
Derivative Financial Instruments	72,114	20,153	12,997	105,264
Total for Off-Balance Sheet Exposures	714,926	503,473	485,133	1,703,532
Total On and Off-Balance Sheet Exposures	**9,588,401**	**8,679,011**	**28,303,953**	**46,571,365**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(c) Residual contractual maturity breakdown (continued)

(i) Group (continued)

31-Dec-2013 Exposure Class	Up to 1 year RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	3,532,342	396,055	880,483	4,808,880
Public Sector Entities	29,739	412,234	257,381	699,354
Banks, Developments Financial Institutions and Multilateral Development Banks	720,653	158,083	31,167	909,903
Corporate	4,144,424	5,588,149	5,063,541	14,796,114
Regulatory Retail	128,278	1,703,421	9,781,239	11,612,938
Residential Mortgages	3,758	86,446	6,674,071	6,764,275
Higher Risk Assets	90	553	23,199	23,842
Other Assets	1,783,236	-	386,582	2,169,818
Total for On-Balance Sheet Exposures	10,342,520	8,344,941	23,097,663	41,785,124
Off-Balance Sheet Exposures				
Credit-related Exposures	569,098	451,385	403,304	1,423,787
Derivative Financial Instruments	18,796	17,840	35,660	72,296
Total for Off-Balance Sheet Exposures	587,894	469,225	438,964	1,496,083
Total On and Off-Balance Sheet Exposures	**10,930,414**	**8,814,166**	**23,536,627**	**43,281,207**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(c) Residual contractual maturity breakdown (continued)

(ii) Bank

31-Dec-2014 Exposure Class	Up to 1 year RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	2,421,391	586,758	879,853	3,888,002
Public Sector Entities	158,295	458,501	375,301	992,097
Banks, Developments Financial Institutions and Multilateral Development Banks	608,165	581,279	30,769	1,220,213
Corporate	3,520,258	4,637,767	5,751,249	13,909,274
Regulatory Retail	60,245	1,821,352	11,275,570	13,157,167
Residential Mortgages	3,998	89,478	9,090,173	9,183,649
Higher Risk Assets	-	403	20,558	20,961
Other Assets	2,099,293	-	395,347	2,494,640
Total for On-Balance Sheet Exposures	8,871,645	8,175,538	27,818,820	44,866,003
Off-Balance Sheet Exposures				
Credit-related Exposures	642,812	483,320	472,136	1,598,268
Derivative Financial Instruments	72,114	20,153	12,997	105,264
Total for Off-Balance Sheet Exposures	714,926	503,473	485,133	1,703,532
Total On and Off-Balance Sheet Exposures	**9,586,571**	**8,679,011**	**28,303,953**	**46,569,535**

4. Credit Risk (continued)

4.2 Gross Credit Exposures (continued)

(c) Residual contractual maturity breakdown (continued)

(ii) Bank (continued)

31-Dec-2013 Exposure Class	Up to 1 year RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	3,532,342	396,055	880,483	4,808,880
Public Sector Entities	29,739	412,234	257,381	699,354
Banks, Developments Financial Institutions and Multilateral Development Banks	718,388	158,083	31,167	907,638
Corporate	4,144,424	5,588,149	5,063,541	14,796,114
Regulatory Retail	128,278	1,703,421	9,781,239	11,612,938
Residential Mortgages	3,758	86,446	6,674,071	6,764,275
Higher Risk Assets	90	553	23,199	23,842
Other Assets	1,782,634	-	386,582	2,169,216
Total for On-Balance Sheet Exposures	10,339,653	8,344,941	23,097,663	41,782,257
Off-Balance Sheet Exposures				
Credit-related Exposures	569,098	451,385	403,304	1,423,787
Derivative Financial Instruments	18,796	17,840	35,660	72,296
Total for Off-Balance Sheet Exposures	587,894	469,225	438,964	1,496,083
Total On and Off-Balance Sheet Exposures	**10,927,547**	**8,814,166**	**23,536,627**	**43,278,340**

4. Credit Risk (continued)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in the calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions ("ECAI") ratings used by the Group and are recognised by BNM as per the CAFIB Guideline:

(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
As a general rule, 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 nor an 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 Guideline.

Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is 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 below table summarises the rules governing the assignment of risk weights under the Standardised Approach:

Rating Category	S & P	Moody's	Fitch	RAM	MARC
1	AAA TO AA-	Aaa to Aa3	AAA to AA-	AAA TO AA3	AAA to AA-
2	A+ TO A-	A1 to A3	A+ to A-	A1 TO A3	A+ to A-
3	BBB+ TO BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ TO BB-	Ba1 to Ba3	BB+ to BB-	BB1 to BB3	BB+ to BB-
5	B+ TO B-	B1 to B3	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below	C1 and below	C+ and below

4. Credit Risk (continued)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The below table summarises risk weight mapping matrix for each credit quality rating category:

Rating Category	Risk Weights Based on Credit Rating of the Counterparty Exposure Class				
	Sovereign and Central Banks	Corporate	Banking Institutions		
			Maturity > 6 month	Maturity <= 6 month	Maturity <= 3month
1	0%	20%	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%	
Unrated	100%	100%	50%	20%	

Under CAFIB, exposures to and/or guaranteed by the Federal Government of Malaysia and Bank Negara Malaysia are accorded a preferential sovereign risk weight of 0%.

4. Credit Risk (continued)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Group:

(i) As at 31 December 2014

	Exposures after Netting & Credit Risk Mitigation (CRM)									
Risk Weights	Sovereigns / Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs & MDBs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures after Netting & CRM RM'000	Total Risk Weighted Asset RM'000
0%	3,888,002	423,546	505,108	2,715,712	10,336	-	-	2,059,044	9,601,748	-
20%	-	244,381	745,942	4,596,127	9,228	15,563	-	-	5,611,241	1,122,248
35%	-	-	-	-	-	2,691,836	-	-	2,691,836	942,143
50%	-	64,868	44,957	1,051,030	272,025	1,367,512	-	-	2,800,392	1,400,196
75%	-	-	-	499,542	4,790,750	3,997,751	-	-	9,288,043	6,966,032
100%	-	267,852	6,647	5,932,949	8,006,315	1,199,097	-	437,207	15,850,067	15,850,067
150%	-	-	-	11,525	173,037	227,462	32,848	-	444,872	667,308
Total Exposures	3,888,002	1,000,647	1,302,654	14,806,885	13,261,691	9,499,221	32,848	2,496,251	46,288,199	26,947,994
RWA by Exposures	-	349,162	178,314	7,769,633	11,996,791	6,167,615	49,272	437,207	26,947,994	
Average Risk Weight	0.0%	34.9%	13.7%	52.5%	90.5%	64.9%	150%	17.5%	58.2%	
Deduction from Capital Base										

4. Credit Risk (continued)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Group (continued):

(ii) As at 31 December 2013

	Exposures after Netting & Credit Risk Mitigation (CRM)									
Risk Weights	**Sovereigns / Central Banks**	**Public Sector Entities**	**Banks, DFIs & MDBs**	**Corporate**	**Regulatory Retail**	**Residential Mortgages**	**Higher Risk Assets**	**Other Assets**	**Total Exposures after Netting & CRM**	**Total Risk Weighted Asset**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
0%	4,808,880	283,057	-	3,948,784	16,830	-	-	1,835,634	10,893,185	-
20%	-	202,493	930,442	5,978,514	12,717	16,171	-	-	7,140,337	1,428,067
35%	-	-	-	-	-	2,013,232	-	-	2,013,232	704,631
50%	-	1,311	21,725	636,514	244,881	1,195,067	-	-	2,099,498	1,049,749
75%	-	-	-	312,198	5,127,165	2,803,256	-	-	8,242,619	6,181,964
100%	-	216,354	2,120	4,751,496	6,161,950	763,446	-	334,729	12,230,095	12,230,095
150%	-	-	-	26,022	149,173	221,303	42,120	-	438,618	657,927
Total Exposures	4,808,880	703,215	954,287	15,653,528	11,712,716	7,012,475	42,120	2,170,363	43,057,584	22,252,433
RWA by Exposures	-	257,508	199,071	6,538,637	10,356,067	4,503,241	63,180	334,729	22,252,433	
Average Risk Weight	0.0%	36.6%	20.9%	41.8%	88.4%	64.2%	150%	15.4%	51.7%	
Deduction from Capital Base										

4. Credit Risk (continued)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Bank:

(i) As at 31 December 2014

	Exposures after Netting & Credit Risk Mitigation (CRM)									
Risk Weights	Sovereigns / Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs & MDBs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures after Netting & CRM RM'000	Total Risk Weighted Asset RM'000
0%	3,888,002	423,546	505,108	2,715,712	10,336	-	-	2,059,875	9,602,579	-
20%	-	244,381	745,716	4,596,127	9,228	15,563	-	-	5,611,015	1,122,203
35%	-	-	-	-	-	2,691,836	-	-	2,691,836	942,143
50%	-	64,868	44,957	1,051,030	272,025	1,367,512	-	-	2,800,392	1,400,196
75%	-	-	-	499,542	4,790,750	3,997,751	-	-	9,288,043	6,966,032
100%	-	267,852	6,647	5,932,949	8,006,315	1,199,097	-	434,772	15,847,632	15,847,632
150%	-	-	-	11,525	173,037	227,462	32,848	-	444,872	667,308
Total Exposures	3,888,002	1,000,647	1,302,428	14,806,885	13,261,691	9,499,221	32,848	2,494,647	46,286,369	26,945,514
RWA by Exposures	-	349,162	178,269	7,769,633	11,996,791	6,167,615	49,272	434,772	26,945,514	
Average Risk Weight	0.0%	34.9%	13.7%	52.5%	90.5%	64.9%	150%	17.4%	58.2%	
Deduction from Capital Base										

4. Credit Risk (continued)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Bank (continued):

(ii) As at 31 December 2013

	Exposures after Netting & Credit Risk Mitigation (CRM)									
Risk Weights	**Sovereigns / Central Banks RM'000**	**Public Sector Entities RM'000**	**Banks, DFIs & MDBs RM'000**	**Corporate RM'000**	**Regulatory Retail RM'000**	**Residential Mortgages RM'000**	**Higher Risk Assets RM'000**	**Other Assets RM'000**	**Total Exposures after Netting & CRM RM'000**	**Total Risk Weighted Asset RM'000**
0%	4,808,880	283,057	-	3,948,784	16,830	-	-	1,837,846	10,895,397	-
20%	-	202,493	928,177	5,978,514	12,717	16,171	-	-	7,138,072	1,427,614
35%	-	-	-	-	-	2,013,232	-	-	2,013,232	704,631
50%	-	1,311	21,725	636,514	244,881	1,195,067	-	-	2,099,498	1,049,749
75%	-	-	-	312,198	5,127,165	2,803,256	-	-	8,242,619	6,181,964
100%	-	216,354	2,120	4,751,496	6,161,950	763,446	-	331,915	12,227,281	12,227,281
150%	-	-	-	26,022	149,173	221,303	42,120	-	438,618	657,927
Total Exposures	4,808,880	703,215	952,022	15,653,528	11,712,716	7,012,475	42,120	2,169,761	43,054,717	22,249,166
RWA by Exposures	-	257,508	198,618	6,538,637	10,356,067	4,503,241	63,180	331,915	22,249,166	
Average Risk Weight	0.0%	36.6%	20.9%	41.8%	88.4%	64.2%	150%	15.3%	51.7%	
Deduction from Capital Base										

4. Credit Risk (continued)

4.3 Disclosures of rated and unrated exposures according to ratings by ECAI

a) Ratings of Sovereigns and Central Banks by Approved ECAIs

		Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
31 DECEMBER 2014	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
Exposure Class	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance-Sheet Credit Exposures							
Sovereign and Central Banks*		-	3,888,002	-	-	-	-
Total		**-**	**3,888,002**	**-**	**-**	**-**	**-**

		Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
31 DECEMBER 2013	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
Exposure Class	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance-Sheet Credit Exposures							
Sovereign and Central Banks*		-	4,808,880	-	-	-	-
Total		**-**	**4,808,880**	**-**	**-**	**-**	**-**

* These exposures refer to exposures to Federal Government of Malaysia and Bank Negara Malaysia which are accorded a preferential sovereign risk weight of 0%.

b) Ratings of Corporate by Approved ECAIs

		Ratings of Corporate by Approved ECAIs				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
31 DECEMBER 2014	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class	RAMs	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Credit Exposures						
Public Sector Entities		35,244	-	-	-	965,404
Insurance Cos, Securities Firms & Fund Manager		-	-	-	-	-
Corporate		4,195,965	94,353	57,757	-	10,458,810
Total		4,231,209	94,353	57,757	-	11,424,214

		Ratings of Corporate by Approved ECAIs				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
31 DECEMBER 2013	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class	RAMs	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Credit Exposures						
Public Sector Entities		-	-	-	-	
Insurance Cos, Securities Firms & Fund Manager		-	-	-	-	
Corporate		5,331,015	97,025	86,814	75	10,138,600
Total		5,331,015	97,025	86,814	75	10,138,600

c) Ratings of Banking Institutions by Approved ECAIs

		Ratings of Banking Institutions by Approved ECAIs					
	Moodys	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
31 DECEMBER 2014	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
Exposure Class	RAMs	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
On and Off Balance-Sheet Credit Exposures							
Banks, MDBs, and DFIs		648,415	60,385	332	-	-	593,294
Total		648,415	60,385	332	-	-	593,294

		Ratings of Banking Institutions by Approved ECAIs					
	Moodys	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
31 DECEMBER 2013	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
Exposure Class	RAMs	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
On and Off Balance-Sheet Credit Exposures							
Banks, MDBs, and DFIs		834,306	50,106	34	-	-	67,575
Total		834,306	50,106	34	-	-	67,575

Note: There are no exposures under Short-term ratings for the period under review.

4. Credit Risk (continued)

4.4 Credit Risk Mitigation (CRM)

As a first way out, the assessment of credit when granting a financing facility is based on a particular customer’s cash flows as the main source of payment and not on the collateral offered. However the acceptance of tangible security as collateral would offer a second way out in the event of business failure thereby improving recovery rates.

The type of collaterals accepted by the Bank has an impact on the calculation of the Bank’s capital adequacy as the quality and type of collateral determine whether the Bank is able to obtain capital relief and the extent of such relief.

The main types of collateral obtained by the Group to mitigate credit risks are as follows:

(a) Cash on lien
(b) Landed property
(c) Shariah compliant quoted shares and unit trusts
(d) Malaysian Federal Government Securities
(e) Rate / Unrated Islamic Securities / Sukuk
(f) Guarantee

The reliance that can be placed on CRM is carefully assessed in light of issues such as compliance with Shariah rules, legal enforceability, market value and counterparty credit risk of the guarantor. Policies and procedures are in place to govern the protection of the Group’s position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the credit risk mitigants.

4. Credit Risk (continued)

4.4 Credit Risk Mitigation (CRM) (continued)

Disclosure of Credit Risk Mitigation (CRM):

31 December 2014 Exposure Class	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial and Non-Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereign/Central Banks	3,888,002	-	-
Public Sector Entities	992,097	-	27,432
Banks, DFIs and MDBs	1,220,213	-	-
Corporates	13,867,576	519,677	774,357
Regulatory Retail	12,942,334	17,579	124,428
Residential Mortgages	8,945,396	12,575	27,723
Higher Risk Assets	19,951		-
Other Assets	2,494,640		-
Defaulted Exposures	495,794	15,977	23,112
Total for On-Balance Sheet Exposures	44,866,003	565,808	977,052
Off-Balance Sheet Exposures			
Credit-related Exposures	1,590,551	2,914	2,283
Derivative Financial Instruments	105,264	-	-
Defaulted Exposures	7,717	-	-
Total for Off-Balance Sheet Exposures	1,703,532	2,914	2,283
Total On and Off-Balance Sheet Exposures	**46,569,535**	**568,722**	**979,335**

4.4 Credit Risk Mitigation (CRM) (continued)

Disclosure of Credit Risk Mitigation (CRM) (continued):

31 December 2013 **Exposure Class**	**Exposures before CRM** **RM'000**	**Exposures covered by Guarantees** **RM'000**	**Exposures covered by Eligible Financial and Non-Financial Collateral** **RM'000**
On-Balance Sheet Exposures			
Sovereign/Central Banks	4,808,880	-	-
Public Sector Entities	699,354	-	-
Banks, DFIs and MDBs	907,638	-	-
Corporates	14,816,786	348,019	240,106
Regulatory Retail	11,412,447	27,295	122,106
Residential Mortgages	6,527,539	13,809	18,411
Higher Risk Assets	22,034	-	-
Other Assets	2,169,216	-	-
Defaulted Exposures	418,363	8,027	15,496
Total for On-Balance Sheet Exposures	41,782,257	397,150	396,119
Off-Balance Sheet Exposures			
Credit-related Exposures	1,421,531	5,796	2,734
Derivative Financial Instruments	72,296	-	-
Defaulted Exposures	2,256	-	-
Total for Off-Balance Sheet Exposures	1,496,083	5,796	2,734
Total On and Off-Balance Sheet Exposures	**43,278,340**	**402,946**	**398,853**

5. Off-Balance Sheet and Counterparties Credit Risk for the Group and the Bank

(i) As at 31 December 2014

Nature of item	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
Credit related exposures				
Direct credit substitutes	360,433		360,433	355,715
Assets sold with recourse	2		2	2
Transaction related contingent items	1,026,265		513,132	451,601
Short term self-liquidating trade related contingencies	236,874		47,375	45,832
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	6,165		1,233	1,215
- exceeding one year	942,851		471,425	378,793
Unutilised credit card lines	1,023,337		204,668	153,502
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	5,404,888		-	-
	9,000,815		1,598,268	1,386,660
Derivative Financial Instruments				
Foreign exchange related contracts				
- less than one year	1,840,778	45,508	65,406	36,492
Profit rate related contracts				
- less than one year	300,000	348	308	62
- one year to less than five years	600,000	12,278	20,153	4,031
- five years and above	287,694	4,392	12,996	12,996
Equity related contracts				
- less than one year	106,680	15	6,401	3,200
- one year to less than five years	-	-	-	-
	3,135,152	62,541	105,264	56,781
Other Treasury related exposures				
Obligations under an on-going underwriting agreement	-		-	-
	-		-	-
Total	12,135,967	62,541	1,703,532	1,443,441

5. The Off-Balance Sheet and Counterparties Credit Risk for the Group and the Bank (continued):

(ii) As at 31 December 2013

Nature of item	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
Credit related exposures				
Direct credit substitutes	319,032		319,032	312,160
Assets sold with recourse	2		2	2
Transaction related contingent items	877,246		438,623	386,730
Short term self-liquidating trade related contingencies	278,297		55,659	54,695
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	1,714		343	327
- exceeding one year	823,818		411,909	338,294
Unutilised credit card lines	991,097		198,219	148,665
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	5,116,604		-	-
	8,407,810		1,423,787	1,240,873
Derivative Financial Instruments				
Foreign exchange related contracts				
- less than one year	1,381,894	8,681	18,546	10,290
Profit rate related contracts				
- less than one year	100,000	695	250	50
- one year to less than five years	500,000	2,705	9,000	1,800
- five years and above	711,481	16,455	35,660	19,660
Equity related contracts				
- less than one year	-	-	-	-
- one year to less than five years	110,495	582	8,840	4,420
	2,803,870	29,118	72,296	36,220
Other Treasury related exposures				
Obligations under an on-going underwriting agreement	-		-	-
	-		-	-
Total	11,211,680	29,118	1,496,083	1,277,093

6. Market Risk

All the Bank's businesses are subject to the risk that market prices and rates will move, resulting in profit or losses to the Bank. Furthermore, significant or sudden movements in rates could affect the Bank's liquidity / funding position. The Bank is exposed to the following main market / liquidity risk factors:

- **Rate of Return or Profit Rate Risk**: the potential impact on the Bank's profitability caused by changes in the market rate of return, either due to general market movements or due to issuer / borrower specific causes;
- **Foreign Exchange Risk**: the impact of exchange rate movements on the Bank's currency positions;
- **Equity Investment Risk**: the profitability impact on the Bank's equity positions or investments caused by changes in equity prices or values;
- **Commodity Inventory Risk**: the risk of loss due to movements in commodity prices;
- **Liquidity Risk**: the potential inability of the Bank to meet its funding requirements at a reasonable cost (funding liquidity risk) or its inability to liquidate positions quickly at a reasonable price (market liquidity risk).

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market risk profile consistent with the Bank's approved risk appetite.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions so designated as per the approved Trading Book Policy Statements. Non-trading portfolios primarily arise from the re-pricing mismatches of the Bank's customer driven assets and liabilities and from the Bank's investment of its surplus funds.

Market risk governance

The management of market risk is principally carried out by using risk limits approved by the BRC, guided by the Risk Appetite Statement approved by the Board of Directors.

The Asset and Liability Management Committee ("ALCO") is responsible under the authority delegated by the BRC for managing market risk at strategic level.

The Management of Market Risk

All market risk exposures are managed by Treasury. The aim is to ensure that all market risks are consolidated at Treasury, which has the necessary skills, tools, management and governance to manage such risks professionally. Limits are set for portfolios, products and risk types, with market liquidity and credit quality being the principal factors in determining the level of limits set.

Market Risk Management Department ("MRMD") is the independent risk control function and is responsible for ensuring efficient implementation of market risk management policies. MRMD is also responsible for developing the Bank's market risk management guidelines, measurement techniques, behavioural assumptions and limit setting methodologies. Any excesses against the prescribed limits are reported immediately to the Senior Management. Strict escalation procedures are well documented and approved by the BRC. In addition, the market risk exposures and limits are regularly reported to the ALCO and BRC.

Other controls to ensure that market risk exposures remain within tolerable levels include stress testing, rigorous new product approval procedures and a list of permissible instruments than can be traded. Stress test results are produced monthly to determine the impact of changes in profit rates, foreign exchange rates and other risk factors on the Bank's profitability, capital adequacy and liquidity. The stress test provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

Profit Rate Risk in the Non-Trading Portfolio

Profit rate risk in the non-trading portfolio is managed and controlled using measurement tools known as economic value of equity ("EVE") and earnings-at-risk ("EaR"). EVE and EaR limits are approved by the BRC and independently monitored by MRMD. Exposures and limits are regularly discussed and reported to ALCO and BRC.

The Bank manages market risk in non-trading portfolios by monitoring the sensitivity of projected EaR and EVE under varying profit rate scenarios (simulation modeling). For simulation modeling, a combination of standard scenarios and non-standard scenarios relevant to the local market are used. The standard scenarios monitored monthly include a 100 basis points parallel fall or rise in profit rates and historical simulation of past events. The scenario assumes no management action. Hence, it does not incorporate actions that would be taken by Treasury to mitigate the impact of the profit rate risk. In reality, depending on the view on future market movements, Treasury would proactively seek to change the profit rate exposure profile to minimise losses and to optimise net revenues. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of derivative financial instruments, such as profit rate swaps, to more intricate hedging strategies to address inordinate profit rate risk exposures.

The table below shows the projected Bank's sensitivity to a 100 basis points parallel shift to profit rates across all maturities applied on the Group's and Bank's profit rate sensitivity gap as at reporting date.

	2014		2013 (Reinstate)	
	-100bps	+100bps	-100bps	+100bps
	Increase/ (Decrease)			
	RM million	RM million	RM million	RM million
Bank				
Impact on EaR	(22.45)	22.45	(51.45)	51.45
Impact on EVE	(397.43)	397.43	(521.44)	521.44

Note: EVE & EaR result as at 31 Dec 2013 reinstated in line with the change in methodology from behavioural method to BNM contractual method as approved by Special BRC 01/2014 on 30 June 2014

Other controls to contain profit rate risk in the non-trading portfolio include stress testing and applying sensitivity limits to the available for sale financial assets. Sensitivity is measured by the present value of a 1 basis point change ("PV01") and is independently monitored by MRMD on a daily basis against limits approved by the BRC. PV01 exposures and limits are regularly discussed and reported to ALCO and BRC.

Market Risk in the Trading Portfolio

Market risk in the trading portfolio is monitored and controlled using Value-at-Risk ("VaR"). The VaR limit is approved by the BRC and independently monitored daily by MRMD. Exposures and limits are regularly discussed and reported to ALCO and BRC.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR models used by the Bank are based on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as profit rates and foreign exchange rates. The historical simulation models used by the Bank incorporate the following features:

- potential market movements are calculated with reference to data from the past four years;
- historical market rates and prices are calculated with reference to foreign exchange rates and profit rates; and
- VaR is calculated to a 99 per cent confidence level and for a one-day holding period. The nature of the VaR model means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

Statistically, the Bank would expect to see losses in excess of VaR only 1 per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

A summary of the VaR position of the Bank's trading portfolios at the reporting date is as follows:

	As at 31.12.2014	1.1.2014 to 31.12.2014		
		Average	High	Low
	RM million	RM million	RM million	RM million
Profit Rate Risk	0.67	1.62	2.83	0.63
Foreign exchange risk	0.11	0.22	2.08	0.01
Overall	0.78	1.84	4.71	0.68

	As at 31.12.2013	1.1.2013 to 31.12.2013		
		Average	High	Low
	RM million	RM million	RM million	RM million
Profit Rate Risk	1.48	1.64	3.33	0.43
Foreign exchange risk	0.78	0.26	1.06	0.01
Overall	2.26	1.90	3.64	0.55

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- The use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- The use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect the loss potential on exposures that might arise under significant market movements.

The Bank recognises these limitations by augmenting the VaR limits with other limits such as maximum loss limits, position limits and PV01 limits structures. These limits are approved by the BRC and independently monitored daily by MRMD. Exposures and limits are regularly discussed and reported to ALCO and BRC.

Other controls to contain market risk at an acceptable level are through stress testing, rigorous new product approval processes and a list of permissible instruments to be traded. Stress tests are produced monthly to determine the impact of changes in profit rates, foreign exchange rates and other main economic indicators on the Group and the Bank's profitability, capital adequacy and liquidity. The stress-testing provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

Foreign Exchange Risk

Trading positions

In addition to VaR and stress testing, the Bank controls the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

Overall (trading and non-trading positions)

The Bank controls the overall foreign exchange risk by limiting the open exposure to non-Ringgit positions on an aggregate basis.

Foreign exchange limits are approved by the BRC and independently monitored daily by MRMD. Exposures and limits are regularly discussed and reported to ALCO and BRC.

Sensitivity Analysis

Assuming that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group and Bank as at reporting date is summarized as follows (only exposures in currencies that account for more than 5 percent of the net open positions are shown in its specific currency in the table below. For other currencies, these exposures are grouped as "Others"):

	2014		2013	
	-1% Depreciation	+1% Appreciation	-1% Depreciation	+1% Appreciation
	RM '000	RM '000	RM '000	RM '000
Group				
US Dollar	(4,855)	4,855	8,604	(8,604)
Euro	5,268	(5,268)	6,306	(6,306)
Others	861	(861)	(148)	148
Bank				
US Dollar	(4,855)	4,855	8,604	(8,604)
Euro	5,268	(5,268)	6,306	(6,306)
Others	861	(861)	(148)	148

Liquidity and Funding Risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations when they fall due, or might have to fund these obligations at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms when required.

The Bank maintains a diversified and stable funding base comprising core retail, commercial, corporate customer deposits and institutional balances. This is augmented by wholesale funding and portfolios of highly liquid assets.

The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market access remains accessible and cost effective.

Current accounts and savings deposits payable on demand or at short notice form a significant part of the Bank's funding, and the Bank places considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the Bank and the Bank's capital strength and liquidity, and on competitive and transparent pricing.

The management of liquidity and funding is primarily carried out in accordance with the Bank Negara Malaysia Liquidity Framework and practices and limits and triggers approved by the BRC and ALCO. These limits and triggers vary to take account of the depth and liquidity of the local market in which the Bank operates. The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Bank's liquidity and funding management process include:

- Daily projection of cash flows and ensuring that the Bank has sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- Maintaining liabilities of appropriate term relative to the asset base;
- Maintaining a diverse range of funding sources with adequate back-up facilities;
- Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- Managing the maturities and diversifying funding liabilities across products and counterparties.

Liquidity and Funding Risk Governance

The management of liquidity and funding risk is principally undertaken using risk limit mandates approved by the BRC and management action triggers assigned by the ALCO.

ALCO is responsible under the authority delegated by the BRC for managing liquidity and funding risk at strategic level.

Management of liquidity and funding risk

All liquidity risk exposures are managed by Treasury. The aim is to ensure that liquidity and funding risk are consolidated at Treasury, which has the necessary skills, tools, management and governance to manage such risks professionally. Limits and triggers are set to meet the following objectives:

- Sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Cash flows are relatively diversified across all maturities;
- Deposit base is not overly concentrated to a relatively small number of depositors;
- Sufficient borrowing capacity in the Interbank market and highly liquid financial assets to back it up; and
- Not over-extending financing activities relative to the deposit base.

MRMD is the independent risk control function and is responsible for ensuring efficient implementation of liquidity and funding risk management policies. Another control to ensure that liquidity and funding risk exposures remain within tolerable levels includes stress testing. A final key control feature of the Bank’s liquidity and funding risk management are the approved and documented liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications to the Bank.

Capital Treatment for Market Risk

The Bank adopts the Standardised Approach to compute the market risk capital requirement under BNM’s Capital Adequacy Framework for Islamic Banks (CAFIB).

7. Operational Risk

Operational Risk ("OR") is defined as the ***"risk of loss arising from inadequate or failed internal processes, people and systems and external events, which includes legal risk and shariah compliance risk but excludes strategic and reputational risk".***

It is inherent in all banking products, activities, processes and systems and the effective management of operational risk has always been a fundamental element of a bank's risk management programme.

Operational Risk Governance

Bank Islam's operational risk management ("ORM") is guided by its ORM Framework and Risk Management Policy as well as its Risk Appetite Framework which are designed to provide a sound and well-controlled operational environment within the Bank.

The MRCC, under the authority delegated by the BRC is responsible to perform the oversight functions and to ensure effective management of issues relating to OR at strategic level. The ORCC which is a sub-committee of MRCC is primarily responsible in ensuring the effective implementation and maintenance of policies, processes and systems for managing OR for the Bank.

Notwithstanding the above, the various Business & Support Units ("BU/SU") are responsible for managing OR within their respective domains on a day to day basis and ensuring that their business & operational activities are carried out within the established ORM policies, guidelines, procedures and limits. To reinforce accountability and ownership of risk & control at BU/SU level, a Risk Controller for each BU/SU is appointed to assist in driving the risk & control programme for the Bank.

Ultimately all staff of the Bank are to ensure they properly discharge their day to day responsibilities and are well-equipped with the necessary knowledge including the policies and procedures in executing their job functions. This is in line with our Risk Management Tagline i.e. **"Managing Risk is Everyone's Business"**.

Management of Operational Risk

Bank Islam recognizes the utmost importance of operational risk management ("ORM") and manages this risk through a control-based environment where processes are documented, authorisation is independent, transactions are reconciled and monitored and business activities are carried out within the established OR policies, guidelines, procedures and limits.

The Bank's overall governance approach in managing OR is premised on the **Three Lines of Defence** Approach:

a) **1st line of defence –** the risk owner or risk taking unit i.e. BU/SU is accountable for putting in place a robust control environment within their respective units. They are responsible for the day to day management of OR.

b) **2nd line of defence –** The Operational Risk Management Department ("ORMD") which includes Shariah Risk Management ("SRM") is responsible for establishing and maintaining the ORM framework, developing various ORM tools to facilitate the management of OR, monitoring the effectiveness of ORM, assessing OR issues from the risk owner and escalating OR issues to the relevant governance level with recommendations on appropriate risk mitigation strategies. In creating a strong risk culture, ORMD is also responsible to promote risk awareness across the Bank.

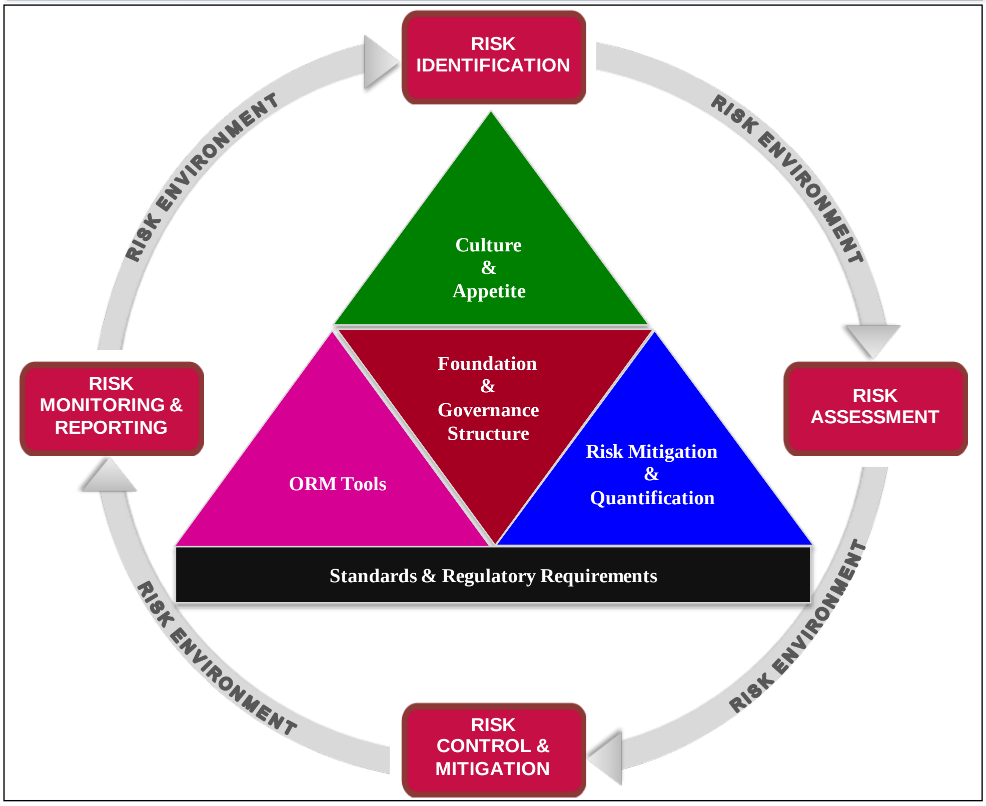
   The Bank's Compliance Division complements the role of ORM as the second line of defence by ensuring effective oversight on compliance-related risks such as regulatory compliance risk, compliance risk as well as money laundering and terrorism financing risks through proper classification of risks and developing, reviewing and enhancing compliance-related training programme as well as conducting training through ongoing awareness creation.

c) **3rd line of defence –** Internal Audit provides independent assurance to the Board and senior management on the effectiveness of the ORM process.

Operational Risk Management Framework

The Bank's ORM is guided by the ORM framework designed to provide a sound and well-controlled operational environment within the Bank. The framework sets out the Bank's approach to identifying, assessing, monitoring and mitigating OR and focuses on the four causal factors of OR i.e. internal processes, people, system and external events. It consists of the following components:

Components of ORM Framework



ORM Tools & Mitigation Strategies

The Bank employs various tools comprising proactive and reactive tools which are in line with the best practices in managing & mitigating its, namely:

Overview of ORM Tools

Proactive Tools			Reactive Tool
Key Risk Indicator	**Risk Control Self Assessment**	**Process Risk Mapping**	**Risk Loss Event Management & Reporting**
• A forward looking tool to identify potential risks and to enable counter measures and risk mitigation actions before an incident occurs (early warning system); • To assist management to focus on high-risk issues.	• To identify and assess operational risks by Risk Owners; • The tool creates ownership & increases operational risk awareness.	• End to end review of critical banking activities to identify potential risks and ensure appropriate controls are in place and are effective.	• Centralised bankwide loss database which provides line of business loss reporting overview, tracks frequency of events and facilitates detailed reviews of the incident and its impact.
Risk Analysis & Reporting			
• Analysis & reporting of qualitative & quantitative results from various ORM tools.			

In addition, a comprehensive Business Continuity Management ("BCM") function has been established within Bank Islam to ensure that in the event of material disruptions from internal or external events, critical business functions can be maintained or restored in a timely manner. This ensures minimal adverse impact on customers, staff and products and services. BCM constitutes an essential component of the Bank's risk management process by providing a controlled response to potential OR that could have a significant impact on the Bank's critical processes and revenue streams.

As part of the risk transfer strategy, the Bank obtains 3rd party takaful coverage to cover for the Bank's high impact loss events.

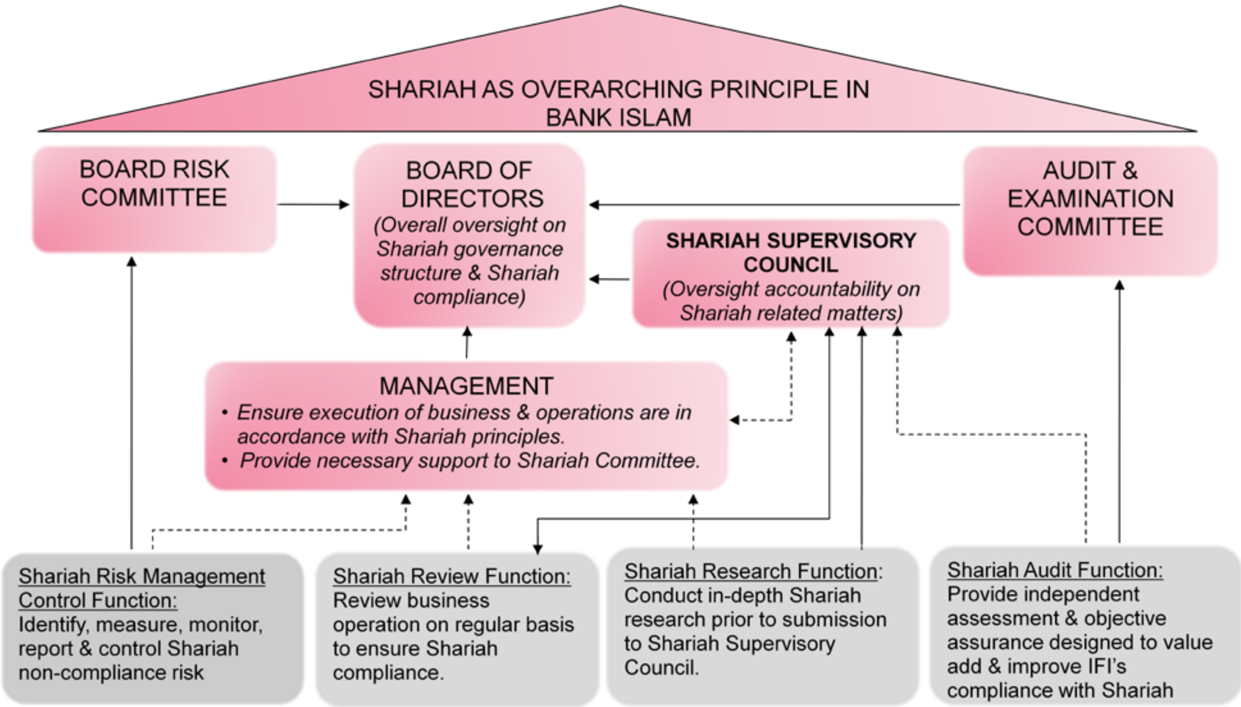
The Bank also ensures that the Bankwide OR awareness programme is conducted on an ongoing basis. This training programme includes emphasis on inculcating an OR culture among staff, effective implementation of ORM tools, fraud awareness, BCM and other aspects of ORM.

Capital Treatment for Operational Risk

Operational Risk capital charge is calculated using the BIA as per BNM's CAFIB Guideline. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Group. The RWA amount is computed by multiplying the minimum capital required with a multiplier of 12.5 (reciprocal of 8%).

8. Shariah Governance

By virtue of Bank Negara Malaysia (BNM)'s Shariah Governance Framework for Islamic Financial Institution ("SGF"), the Bank has established a sound and robust Shariah governance framework with emphasis placed on the roles of its key functionalities, which include having in place an effective and responsible Board and Management and an independent Shariah Supervisory Council that is supported by strong and competent internal Shariah functions. The below diagram depicts Bank Islam's Shariah governance structure:



In ensuring the Bank's compliance with the Shariah, the Bank has in place the Shariah Compliance Policy to communicate its comprehensive Shariah governance framework to ensure the Banks' business activities and behaviors are in compliance with Shariah rules and principles, provisions of the Islamic Financial Services Act ("IFSA") 2013, BNM's SGF and its other rules and regulations, and the resolutions of BNM and Securities Commission ("SC")'s Shariah Advisory Council and the Bank's Shariah Supervisory Council ("SSC").

Shariah Compliance Risk Management

In addition to the Shariah Compliance Policy, the Bank has also established the Shariah Compliance Risk Management ("SCRM") Guideline which sets out the SCRM framework supporting the Shariah Compliance Policy and details out the SCRM processes and tools. The guideline serves to provide a consistent bank-wide framework for managing Shariah compliance risks across the Bank.

In order to ensure that the planning, development, and implementation of the Bank's products are in accordance with the Shariah rules and principles, the Bank has issued Shariah contract guidelines to serve as a standard guide for the Bank's personnel in dealing with products based on the respective Shariah contracts.

In line with the definition of Operational Risk which includes Shariah Compliance Risk ("SCR") as part of Operational Risk, the Shariah risk management embarks on the established Operational Risk Management processes and tools in managing Shariah non-compliance risks bank-wide.

Shariah Non-Compliance Events

A Shariah non-compliance ("SNC") event is a result of the Bank's failure to comply with the Shariah rules and principles determined by the relevant Shariah regulatory councils.

The Bank has established its internal framework of SNC reporting pursuant to the mechanism set out by BNM through its circular on SNC Reporting which was then superseded by BNM's Operational Risk Reporting Requirement – Operational Risk Integrated Online Network ("ORION"). This framework was established to ensure compliance to section 28(3) of the Islamic Financial Services Act ("IFSA") 2013 which requires any SNC event to be immediately reported to BNM. By virtue of the requirement, the Bank is also obliged to report potential SNC events to BNM on monthly basis.

Throughout the year 2014, there were three (3) SNC events reported due to failure to perform aqad execution as per approved product structures by the Bank's SSC. Nevertheless, these events did not result to de-recognition of income as the SNC events occurred in deposit products in which the Bank was not entitled to any profit.

The Bank, from time to time, makes efforts to prevent similar Shariah breaches from recurring by tightening controls such as revising the Shariah compliance checklist, conducting awareness initiatives as well as putting additional controls to ensure compliance with Shariah requirements.

Shariah Non-Compliant Income

31 December 2014	31 December 2013
RM3,360.01	RM50,713.42

The above amount consists of commissions from Shariah non-compliant merchants of card business, interest received from the Bank's nostro account as well as rental purification from the Bank's land that is being used to facilitate bai' inah based transaction. The income was channeled to charitable causes upon approval by the Shariah Supervisory Council.

Managing Director Attestation

In accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank (CAFIB) Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Bank Islam Berhad's Pillar 3 Disclosures report for the financial year ended 31 December 2014 are consistent with the manner in which the Group and the Bank assesses and manages its risk, and are not misleading in any particular way.

Dato' Sri Zukri Samat
Managing Director
Bank Islam Malaysia Berhad