

Company No. 295400-W

**OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES**
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

Domiciled in Malaysia
Registered office:
19th Floor Menara OCBC
18 Jalan Tun Perak
50050 Kuala Lumpur

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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OCBC BANK (MALAYSIA) BERHAD
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The Directors hereby submit their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in banking and related financial services. There has been no significant change in the nature of these activities during the financial year.

IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Directors regard Oversea-Chinese Banking Corporation Limited, a licensed commercial bank incorporated in Singapore, as the immediate and ultimate holding company of the Bank during the financial year and until the date of this report.

SUBSIDIARIES

The details of the Bank's subsidiaries are disclosed in Note 12 to the financial statements.

FINANCIAL RESULTS

	Group 2017 RM'000	Bank 2017 RM'000
Profit for the year attributable to:		
Owner of the Bank	949,136	757,233
Non-controlling interest	98	-
	<u>949,234</u>	<u>757,233</u>

SHARE CAPITAL AND DEBENTURES

The share capital of the Bank increased to RM754 million as at 31 December 2017 via transfer of share premium and capital redemption reserve amounting to RM462.5 million and RM4.0 million respectively to share capital pursuant to Companies Act 2016.

RESERVES AND PROVISIONS

Pursuant to Bank Negara Malaysia's revised policy document on Capital Funds which is effective from 3 May 2017, the Group and the Bank transferred RM507 million and RM322 million respectively from statutory reserve account to retained earnings. The Group and the Bank also transferred RM111 million and RM20 million respectively from retained earnings to regulatory reserve during the year.

DIVIDENDS

Since the end of the previous financial year, the Bank paid:

- i) a final dividend of 136.7 sen per ordinary share, on 11 August 2017, totalling RM393.1 million in respect of the previous financial year ended 31 December 2016 as reported in the Directors' Report of that year; and
- ii) an interim dividend of 45.2 sen per ordinary share, on 27 September 2017, totalling RM130 million in respect of the financial year ended 31 December 2017.

The Directors recommend a final dividend of 52.2 sen per ordinary share in respect of the current financial year amounting to RM150 million. This dividend will be accounted for in shareholder's equity as an appropriation of retained earnings in the subsequent financial period upon approval by the Board of Directors and shareholder of the Bank.

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FINANCIAL PERFORMANCE

The Group achieved net profit after tax of RM949 million for the year; a growth of RM141 million or 17.4%. Net interest income increased to RM1.4 billion; a RM96 million or 7.4% growth against last year mainly due to lower interest expense on customer deposits of RM86 million offset by lower loans, advances and financing interest income of RM69 million following the drop in Bank Negara Malaysia's Overnight Policy Rate by 25 basis point in July 2016. Income from Islamic banking operations reduced to RM450 million; a RM21 million or 4.4% decrease against last year mainly due to derisking. Net fee and commission income rose by RM73 million or 25% driven by better unit trust sales and referral fees. Impairment allowances and provisions reduced by RM110 million or 54% mainly from higher collective impairment allowance written-back of RM143 million partially reduced by higher net individual impairment allowance of RM28 million. We continued to maintain a disciplined approach to cost management with costs contained at 3% growth whilst still investing in our branches and infrastructure to serve our customers better.

Total assets stood at RM92 billion and 2.6% lower than the previous year mainly due to lower cash holdings and placements with banks and other financial institutions (-RM3.5 billion) and derivative assets (-RM1.2 billion), as funds were redeployed to purchase financial investments available-for-sale (+RM2.2 billion) and to reduce local interbank borrowings.

The Group and the Bank remained well capitalized after taking into consideration the proposed dividend, with Common Equity Tier 1 capital ratios of 13.436% and 13.024%, Tier 1 capital ratios of 15.283% and 15.224% and total capital ratios of 18.068% and 17.621%, respectively.

MARKET OUTLOOK

Global economic growth is expected to be sustained into 2018, supported by growth in the advanced economies, including the large developing economies. Downside risks include the possibility of a financial market correction, geopolitical tensions as well as extreme weather conditions, all which could derail the global growth.

On the local front, the recent rate hike has signalled that the strong growth momentum in 2017 is expected to continue into 2018, supported by higher exports and increased domestic demand. Headline inflation is expected to moderate while commodity prices are expected to reflect firm global demand in 2018.

ACTIVITIES AND ACHIEVEMENTS

During the period under review, OCBC Bank (Malaysia) Berhad ("OCBC Malaysia") won several awards, including the Aon Best Employers Award for Malaysia from Aon Hewitt for the second consecutive year, and the Top Direct Debit Acquirer from Malaysian Electronic Clearing Corporation ("MyClear").

We introduced AutoROME, a paperless deposit account opening system to improve customers' experience of our services; and invested in other digital capabilities as well. These included Financial Vital Scan, a financial health check tool to help customers assess their financial standing and needs; and the Wealth Insights App that provides our Premier Relationship Managers with easier access to market insights to better serve our customers.

For small-to-medium enterprises ("SME"), we leveraged on our collaboration with Credit Guarantee Corporation Malaysia ("CGC") to make available our financing facilities, strengthening our foothold in the business community through Cash Management and Foreign Exchange solutions.

We also introduced a business banking mobile app that uses biometric authentication, the first for corporates in the country.

The controls and practices for our treasury investment products were honed to align with industry best practices. This effort included a Strategic Funding Initiative to develop a pool of accretive fund providers, initiating the first Commercial Papers issuance from an approved Government Guaranteed Sukuk programme and expanding coverage of international papers for the retail bond franchise.

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ACTIVITIES AND ACHIEVEMENTS (continued)

On the Islamic banking front, we continued to strengthen our services to state governments and agencies to cater to their needs in Shariah cash management and deposit products. The GE Takaful One Plan-i was launched to provide customers with the ability to seek high coverage at a reasonable and affordable regular contribution. We also introduced the tawarruq based OCBC Al-Amin 360 Account-i which is the Shariah-compliant version of the popular high interest-bearing savings account OCBC 360.

In staff development, we collaborated with the Asian Banking School ("ABS") to produce the first batch of OCBC staff to successfully achieve certification in the 12-module first-of-its-kind wealth management training programme. Keeping with our Best Employer status, we introduced the "We See You" brand proposition in Malaysia in order to define and deliver on three underlying propositions: to be an employer that is caring, progressive and delivers a difference. Notably, when major flooding devastated Penang, the company and staff raised a significant amount to support colleagues who were affected.

Our corporate social responsibility ("CSR") efforts continued to gain momentum with our division and branch-level initiatives benefitting almost 18,000 people through the collective efforts of 1,900 staff. The efforts centred on families, promoting education, protecting the environment, promoting engagement with the community (including cycling), and humanitarian work. Alongside this, our cycling platform, OCBC Cycle, continued to offer an avenue for the public to stay healthy through efforts such as the twice-monthly OCBC KL Car Free Morning ("OKLCFM") and the annual OCBC Cycle Kuala Lumpur ("OCKL"). OKLCFM saw a total of almost 80,000 people thronging the streets of Kuala Lumpur in the name of sports during the year while OCKL attracted 2,200 cycling enthusiasts.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2018

Moving into 2018, OCBC Malaysia will continue to uphold its position as a banker of choice and among the very top foreign banks in the country with the combined strength of our conventional and Islamic banking franchise as well as in the areas of managing risks, maximising collaboration within business units and growing our wealth products platform.

In consumer banking, we will build our Premier Private Client services for our high net worth clients and continue to invest in our digital capabilities. For corporate and commercial banking customers, we will intensify our deposit-building strategies via all channels in business banking, particularly for the small to mid-medium-sized market and emerging business segment.

For the Treasury business, we aim to widen the reach of our investment product offerings whilst tightening our adoption of industry best practices and controls alongside a heightened transacting experience.

In Islamic banking, we will introduce even more wealth products and services and also upgrade our branches, by introducing new Premier Banking centres. Efforts will also focus on our collaboration with CGC to make available our unsecured business financing facilities to SMEs through the SME wholesale guarantee scheme, Wholesale Guarantee-i. New Shariah-compliant products will also be introduced for our treasury business alongside Islamic banking solutions for large corporate entities listed on Bursa Malaysia's Shariah index. On the international front, we will continue to collaborate with overseas OCBC entities, especially in Indonesia, to tap latent business opportunities.

Our staff development efforts will continue to revolve round the "We See You" platform with a renewed drive to ensure our employees develop into what they wish to become, that the work environment is conducive to making this happen, that leaders are always supportive, and that people are being prepared now for what they will become tomorrow. We are also creating a path for recognition and achievement so that the company is indeed making a difference in our employees' lives.

On the CSR front, we will ride on the momentum created by our various division and branches' efforts of the last few years to fulfil the social needs of the communities in which we operate, maintaining our position as a bank that cares beyond business. Our initiatives will continue to centre on families, promoting education, protecting the environment, promoting engagement with the community (including cycling), and humanitarian work. A key area of emphasis will be on providing an environment for every employee to volunteer in one way or another.

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RATINGS BY EXTERNAL AGENCY

RAM Rating Services Berhad ("RAM") has reaffirmed OCBC Bank (Malaysia) Berhad's long term and short term financial institution rating on 18 July 2017 at AAA and P1 respectively with stable outlook, reflecting the Group's robust asset quality and strong financial standing.

DIRECTORS OF THE BANK

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

Tan Ngiap Joo (Appointed as Chairman on 30 March 2018), *Independent Non-executive Chairman*
Samuel N. Tsien, *Non-independent Executive Director*
Lai Teck Poh, *Independent Non-executive Director*
Tong Hon Keong, *Independent Non-executive Director*
Datuk Azizan Bin Haji Abd Rahman, *Independent Non-executive Director*
Dato' Ooi Sang Kuang (Resigned on 29 March 2018), *Independent Non-executive Chairman*
Ng Hon Soon (Resigned on 31 December 2017), *Independent Non-executive Director*

In accordance with Articles 106 and 107 of the Bank's Constitution (Articles of Association), Mr Samuel N. Tsien and Mr Tong Hon Keong shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

PROFILE OF THE BOARD OF DIRECTORS

Mr Tan Ngiap Joo

Mr Tan Ngiap Joo was appointed to the Board on 1 October 2015 and on 30 March 2018, he was appointed as Chairman of the Board. He spent 20 years in Citibank NA serving in various capacities, including Senior Risk Manager of Citibank Australia covering both Australia and New Zealand and postings overseas prior to joining Oversea-Chinese Banking Corporation Limited ("OCBC Bank") in August 1990 where he held senior positions over the years, including Chief Executive of OCBC's Australian operations and Head of Group Business Banking. He was appointed Deputy President in December 2001 and retired in December 2007. He is also a Chairman of Mapletree India China Fund Ltd (Investment Committee) and OCBC Al-Amin Bank Berhad on 30 March 2018. He is also a Director of OCBC Bank, China Fishery Group Ltd, and Mapletree Logistics Trust Management Ltd. Mr Tan holds a Bachelor of Arts from University of Western Australia.

Mr Samuel N. Tsien

Mr Samuel Tsien was appointed to the Board on 15 April 2012. He was appointed to the Board of OCBC Bank on 13 February 2014 and as Group Chief Executive Officer ("CEO") on 15 April 2012. Prior to these appointments, he was the Senior Executive Vice President and Global Head, Global Corporate Bank overseeing the corporate and commercial banking business at OCBC Bank. He has more than 38 years of banking experience in the industry. Prior to joining OCBC Bank, he was the President and CEO of China Construction Bank (Asia) when China Construction Bank acquired Bank of America (Asia). From 1995 to 2006, he was President and CEO of Bank of America (Asia), and Asia Consumer and Commercial Banking Group Executive of Bank of America Corporation. Mr Tsien is also Chairman of OCBC Wing Hang Bank (China) Ltd and a Commissioner of PT Bank OCBC NISP Tbk. He also serves on the boards of major OCBC Group companies, including Great Eastern Holdings Ltd, Bank of Singapore Ltd and OCBC Wing Hang Bank Limited. He is a Council member of the Association of Banks in Singapore, a member of the Monetary Authority of Singapore ("MAS")'s Financial Centre Advisory Panel (FCAP), MAS Payments Council and a Director of Mapletree Investments Pte Ltd. Mr Tsien holds a Bachelor of Arts with Honours in Economics from the University of California, Los Angeles ("UCLA").

Mr Lai Teck Poh

Mr Lai Teck Poh was appointed to the Board on 7 January 2011. He joined OCBC Bank as an Executive Vice President and Head of Corporate Banking in January 1988. During his tenure with OCBC Bank, he had senior management responsibilities for a wide range of functions, including Corporate Banking, Investment Management, Information Technology and Central Operations, Group Risk Management and Group Audit. He was the Head of Group Audit before his retirement on 14 April 2010. He has over 48 years of banking experience, including about 20 years in Citibank, N.A. Singapore with overseas assignments in Jakarta, New York and London. He is also a Director of OCBC Bank and AVJennings Limited, and a Board Commissioner of PT Bank OCBC NISP Tbk. Mr Lai holds a Bachelor of Arts with Honours from the University of Singapore.

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PROFILE OF THE BOARD OF DIRECTORS (continued)

Mr Tong Hon Keong

Mr Tong Hon Keong was appointed to the Board on 21 July 2015. He had an illustrious career in Maybank spanning over 30 years. He gained wide ranging experience in various functional responsibilities covering Planning, Information Systems, Central Operations and Management Information Services. Mr Tong holds a Bachelor of Economics (Hons.) from University of Malaya.

Datuk Azizan Bin Haji Abd Rahman

Datuk Azizan bin Haji Abd Rahman was appointed to the Board on 3 June 2016 as an independent non-executive Director. He has more than 30 years of experience in the financial industry. He began his career in BNM in 1979 where he held several positions in the areas of finance, examination and supervision, and was also the Director of the Banking Supervision Department. While in BNM, Datuk Azizan was a board member of Kumpulan Wang Amanah Pecen and ERF Sdn Bhd, and also an Advisor to the Malaysian Accounting Standards Board. Datuk Azizan was the former Director-General of Labuan Financial Services Authority ("Labuan FSA") where he served for more than six years until his retirement in 2011. While serving in Labuan FSA, Datuk Azizan was a member of several boards including Labuan Corporation and Financial Park (Labuan) Sdn Bhd, as well as an executive committee member of the Malaysian Islamic Finance Committee.

Datuk Azizan is the Chairman of the Board of Directors of Malaysian Rating Corporation Berhad, Kensington Trust Labuan Ltd, Kensington Trust Malaysia Bhd and MIDF Amanah Investment Bank Bhd. Datuk Azizan is also a board member of Malaysian Industrial Development Finance (MIDF) Bhd, Barakah Offshore Petroleum Berhad, Cagamas Holdings Bhd, Cagamas SRP Bhd and several private limited companies. Datuk Azizan holds a Bachelor's degree in Accounting from University Malaya and a Masters in Business Administration from University of Queensland, Australia. He is a fellow member of CPA Australia and a Chartered Accountant of the Malaysian Institute of Accountants.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

The interest and deemed interest in the shares of the Bank and its related corporations (other than wholly owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Registrar of Directors' Shareholding are as follows:

Oversea-Chinese Banking Corporation Limited

Shareholdings registered in the name of Directors or in which Directors have a direct interest

Ordinary Shares

	At 1 January 2017	Acquired/ Awarded	Disposed	At 31 December 2017
Tan Ngiap Joo	1,336,498	57,415	(100,000)	1,293,913
Samuel N. Tsien	762,471	738,125	(462,735)	1,037,861
Lai Teck Poh	1,064,944	6,000	(150,000)	920,944
Dato' Ooi Sang Kuang (resigned on 29 March 2018)	26,366	6,000	-	32,366

OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan

Ordinary Shares

	At 1 January 2017	Awarded/ Granted	Exercised/ Forfeited/ Lapsed	At 31 December 2017
Samuel N. Tsien	745,799	246,336	(275,390)	716,745

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DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)

Unexercised share options available to the Directors under the OCBC Share Option Scheme 2001	Date options expire	At	Awarded/ Granted	Exercised/ Forfeited/ Lapsed	At
		1 January 2017		31 December 2017	
<u>Ordinary Shares</u>					
Tan Ngiap Joo		51,415	-	(51,415)	-
Samuel N. Tsien	15/03/2019 - 22/03/2027	4,314,802	772,350	(462,735)	4,624,417

Other than the above, no other Directors in office during the financial year held any interest in shares, options over shares and debentures of the Bank and its related corporations.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than the benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in Note 28 to the financial statements or the fixed salary of a full time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate except for the share options granted to executives of OCBC Bank pursuant to the OCBC Share Option Scheme 2001, shares granted under the OCBC Deferred Share Plan which will vest three years from the grant date and will lapse when the Director ceases employment during the vesting period and acquisition rights under the OCBC Employee Share Purchase Plan.

CORPORATE GOVERNANCE

Board Composition and Independence

The Board comprises five Directors, all of whom are non-executive Directors except for one non-independent executive Director. The independent non-executive Directors are Mr. Tan Ngiap Joo (appointed as Chairman of the Board on 30 March 2018), Mr Lai Teck Poh, Mr Tong Hon Keong and Datuk Azizan Bin Haji Abd Rahman while the non-independent executive Director is Mr Samuel N. Tsien. The Board and Board Committees of OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad have been reconstituted with effect from 1 January 2018 to comply with BNM's Policy on Corporate Governance.

The Bank has set the policy on the tenure limit at continuous 9 years for independent directors. The Nominating & Remuneration Committee shall assess the independence of independent directors who have served the Bank continuously for 9 years or more. The Committee can invite the independent director to serve beyond his or her tenure or beyond 9 years if the Committee is satisfied, after the assessment, that the relevant director's independence is not compromised and it is in the interest of the Bank to retain the service of the relevant director in the same capacity.

The roles of the Chairman and the CEO are separated, which is consistent with the principles of corporate governance as set out in BNM's Policy on Corporate Governance, to institute an appropriate balance of power and authority. The Chairman's responsibilities, to name a few, include leading the Board to ensure its effectiveness on all aspects of its role; setting its meeting agendas; ensuring that Directors receive accurate, timely and clear information; encouraging constructive relations between the Board and management; facilitating the effective contribution of non-executive Directors; and promoting high standards of corporate governance.

The members of the Board, as a group, provide skills and competencies to ensure the effectiveness of the Board. These include banking, accounting, finance, legal, strategy formulation, business acumen, management experience, familiarity with regulatory requirements and knowledge of risk management.

As a principle of good corporate governance, all Directors are subject to re-election/re-appointment (by rotation) pursuant to the Bank's Constitution (formerly the Articles of Association) and BNM's approval.

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CORPORATE GOVERNANCE (continued)

Board Composition and Independence (continued)

Some of the Directors are also members of the Board Audit Committee, the Nominating & Remuneration Committee and the Risk Management Committee. The Board is satisfied that the Directors have been able to devote adequate time and attention to fulfil their duties as Directors of the Bank, in addition to their representation at Board Committees.

Board Conduct and Responsibilities

The Board is elected by the shareholder to supervise the management of business and affairs of the Bank. The prime stewardship responsibility of the Board is to ensure the viability of the Bank and to ensure that it is managed in the best interests of the shareholder and other stakeholders.

Broadly, the responsibilities of the Board include, but are not limited, to the following:

- Reviewing and approving overall business strategy developed and recommended by management;
- Ensuring that decisions and investments are consistent with long-term strategic goals;
- Ensuring that the Bank is operated to preserve its financial integrity and in accordance with policies approved by the Board;
- Overseeing, through the Board Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure controls and procedures and internal controls; and through the Risk Management Committee, the quality of the risk management processes and systems;
- Reviewing any transaction for the acquisition or disposal of assets that is material to the Bank; and
- Providing oversight in ensuring that the Bank's risk appetite and activities are consistent with the strategic intent, operating environment, effective internal controls, capital sufficiency and regulatory standards.

Prior to each meeting, members are provided with timely and adequate information to enable them to fulfil their responsibilities. Information provided includes background information on matters to be addressed by the Board, copies of disclosure documents, periodic internal financial reports, risk management reports, budgets, forecasts and reports of variance from budgets and forecasts.

The Board and the Board Audit Committee have separate and independent access to the internal auditors, external auditors, the Bank's senior management and the Bank's Company Secretary. The Directors may, in addition, seek independent professional advice at the Bank's expense as may be deemed appropriate.

Training and development is provided to the Directors, on a continuing basis, to develop and refresh their skills and knowledge to enable them to effectively perform their roles on the Board and its Committees. This, among others, includes updates on regulatory developments, new business and products, accounting and finance, corporate governance and risk management, which are provided by subject matter experts from within and outside the Bank. A separate programme is established for new Directors which focuses on introductory information, briefings by senior executives on their respective areas and external courses, where relevant.

Board Audit Committee

The Board Audit Committee ("BAC") comprises Datuk Azizan Bin Haji Abd Rahman (appointed as BAC Chairman on 30 March 2018), Mr Tong Hon Keong and Mr. Lai Teck Poh (appointed as BAC member on 30 March 2018); all of whom are independent Directors. Mr Ng Hon Soon stepped down from the Committee following his resignation on 31 December 2017 while Mr Tan Ngiap Joo stepped down as BAC Chairman on 29 March 2018, to comply with BNM's Policy on Corporate Governance.

The Board approved the terms of reference of the BAC that describe the responsibilities of its members. The BAC may meet at any time but no less than six times a year. It has full access to and co-operation from management, and has the discretion to invite any Director and executive officer to attend its meetings. It has explicit authority to investigate any matter within its terms of reference.

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CORPORATE GOVERNANCE (continued)

Board Audit Committee (continued)

In addition to the review of the Group's and the Bank's financial statements, the BAC reviews and evaluates, with the external auditors and internal auditors, the adequacy and effectiveness of the system of internal controls including financial, operational, compliance and information technology controls, and risk management policies and systems. It reviews the scope and results of the audits, the cost-effectiveness of the audits, and the independence and objectivity of the external auditors and internal auditors. When the external auditors provide non-audit services to the Bank, the BAC keeps the nature, extent and costs of such services under review. This is to balance the objectivity of the external auditors against their ability to provide value-for-money services. The BAC also reviews significant financial reporting issues and judgements to ensure the integrity of the financial statements.

The Bank has in place a whistle blowing policy and the BAC reviews concerns, including anonymous complaints, which staff may, in confidence, raise about possible improprieties in matters of financial reporting or other matters, and have the concerns independently investigated and followed-up. If fraud is determined, appropriate remedial action will be taken by the management and the BAC is updated regularly on its status. The BAC Chairman shall be the designated non-executive director responsible to review and evaluate the effectiveness of whistle blowing policy. The communication of whistle blowing policy has also been enhanced to cover third parties such as contractors, consultants and interns to allow them to report their concerns. The whistle-blower's interest will be safeguarded at all times, including the right to appeal to the BAC if reprisals are taken against him.

The BAC meets at least once a year with the external auditors and internal auditors in separate sessions and without the presence of management to consider any matters which might be raised privately. Formal reports are sent to the BAC on a regular basis. The Board is updated on these reports. The BAC has received the requisite disclosures from the external auditors evidencing the latter's independence. It is satisfied that the financial, professional and business relationships between the Bank and the external auditors are compatible with maintaining the independence of the external auditors.

Internal Audit Function

The BAC approves the Audit Charter of Internal Audit and reviews the effectiveness of the internal audit function. In line with leading practice, Internal Audit's mission statement and charter require it to provide independent and reasonable, but not absolute, assurance that the Bank's governance, risk management and internal control processes, as designed and implemented by senior management, are adequate and effective.

Internal Audit reports on the adequacy of the system of internal controls to the BAC and management, but does not form any part of the system of internal controls. Internal Audit meets or exceeds the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors and the Shariah Governance Framework for Islamic Financial Institutions issued by BNM. In addition, the Internal Auditors have acquired the necessary qualifications and training in Islamic Banking.

Internal Audit has implemented risk-based audit approach. Audit work is prioritised and scoped according to an assessment of risk exposures, including not only financial risks but operational, technology, compliance and strategic risks as well.

The work undertaken by Internal Audit involves the assessment of the adequacy and effectiveness of the Bank's risk management and internal control environment, including ascertaining if the internal controls are sufficient in ensuring prompt and accurate recording of transactions and the adequate safeguarding of assets. In addition, Internal Audit provides an independent assessment of the Bank's credit portfolio quality and credit risk management process. Reviews conducted by Internal Audit also focus on the Bank's compliance with relevant laws and regulations, adherence to established policies and whether management has taken appropriate measures to address control deficiencies. Internal Audit provides advice, without assuming management responsibility, on the development of new businesses as well as system developments and enhancements where the objective is to add value and improve governance, risk management and controls.

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CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

The BAC is responsible for the adequacy of the internal audit function, its resources and its standing, and ensures that processes are in place for recommendations raised in Internal Audit reports to be dealt with in a timely manner and outstanding exceptions or recommendations are closely monitored. Internal Audit reports functionally to the BAC and administratively to the CEO, and has unfettered access to the BAC, the Board and senior management, as well as the right to seek information and explanations. The division is organised into departments that are aligned with the structure of the Bank. The BAC approves the appointment and removal of the Head of Internal Audit.

Internal Controls

The Bank has established an internal control policy to provide a solid foundation for building an effective internal control system and to help strengthen the control culture of the Bank. The policy outlines the key control objectives that are essential for internal control activities to remain focused. The policy is reviewed at least annually or as when required.

The Bank also has in place self-assessment processes for all business units to assess and manage the adequacy and effectiveness of their internal controls, and their level of compliance with applicable rules and regulations. Senior management attests annually to the CEO and Risk Management Committee on the adequacy and effectiveness of the internal control system, as well as report key control deficiencies and accompanying remedial plans.

Based on the internal controls established and maintained by the Bank, work performed by the internal auditors and external auditors, and reviews performed by management and various Board Committees, the Board, with the concurrence of the Board Audit Committee and Risk Management Committee, is of the opinion that the system of internal controls, including financial, operational, compliance and information technology controls, and risk management systems, were adequate and effective as at 31 December 2017, to address the risks which the Bank considers relevant and material to its operations.

The system of internal controls provides reasonable, but not absolute, assurance that the Bank will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal controls can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

Nominating & Remuneration Committee

The Nominating & Remuneration Committee ("NRC") was newly established on 1 January 2018. It comprises Mr Lai Teck Poh (NRC Chairman), Mr Tan Ngiap Joo and Datuk Azizan Bin Haji Abd Rahman (appointed as Member on 30 March 2018); all of whom are independent Directors. Dato' Ooi Sang Kuang stepped down as NRC member with effect from 29 March 2018 following his resignation as Chairman of the Board.

The Board approved the terms of reference of the NRC. The Committee may meet at least once a year. The Committee shall be entitled to secure the attendance of any person with relevant experience and expertise at committee meetings if the committee considers this appropriate.

The Committee shall assess and recommend nominees for directorship, board committee members and nominees for the CEO, including reappointment of directors before an application is submitted to BNM for approval. The actual decision as to who shall be nominated shall be the responsibility of the full Board. The Committee shall oversee the annual review of the overall composition of the Board and Board balance, Directors' independence, competency and skills as well as the assessment to ensure that the Directors and key senior management officers are not disqualified under Section 59 of the Financial Services Act, 2013. The annual performance evaluation process of the Board as a whole, the Board Committees as well as the performance of individual directors was established with the endorsement of the Committee. The Committee will oversee the appointment, management succession planning and performance evaluation of key senior management officers, including recommending to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities.

OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

CORPORATE GOVERNANCE (continued)

Nominating & Remuneration Committee (continued)

The Committee may review the human resource management policies and make recommendations to the Board on policies governing the remuneration of the executive directors, including the Chief Executive Officer, and the non-executive directors. In considering its recommendations to the Board on the remuneration policies, the committee shall take into consideration the feedback and inputs from the Risk Management Committee. In addition, the Committee shall make recommendations to the Board on the remuneration, fee and benefits of the directors and non-executive directors as well as the compensation of the CEO. The Committee shall review and approve the compensation of executive officers of the Bank of any rank as may be delegated by the Board, including key senior management officers and Material Risk Takers.

Remuneration Policy

The objective of the Group's and the Bank's remuneration policy is to attract, motivate, reward and retain quality staff. The Board ensures that the remuneration policies are in line with the strategic objectives and corporate values of the Group and the Bank, and do not give rise to conflicts between the objectives of the Group and the Bank and the interests of individual Directors and key executives.

The total compensation packages for employees comprise basic salary, variable performance bonus, allowances, deferred share awards and share options for eligible executives, as well as benefits. Compensation is significantly differentiated between performance levels. Compensation is reviewed each year based on information from market surveys provided by reputable management consultants. Compensation packages are linked to personal performance, the performance of organizational function as a whole and the overall performance of the Group and the Bank. Compensation is tied to the achievement of business and performance objectives based on a balanced scorecard approach. Where relevant, financial measurements, adjusted for the various types of risk (such as market, credit and operational risks), include, if appropriate:

- Operating efficiency measures which include revenue, direct and allocated costs and operating profits, net profits as well as efficiency indicators such as unit costs.
- Economic efficiency measures such as cost of capital. Capital is attributed to each business based on the amount of risk-weighted assets used and the return on capital.
- Liquidity is factored into the performance measurement of each business through the application of liquidity premiums charged or credited according to the behavioural maturity of each type of asset and liability booked.

Each business unit has its own performance measures that match their functions and objectives that are consistent with the Group's and the Bank's risk appetite. In the determination of remuneration of senior executives, risk and control indicators as well as audit findings and compliance issues are taken into account when assessing business performance. The performance of risk and compliance functions is measured independently of the businesses they oversee. Employees in these functions are assessed based on the achievement related to their respective performance measures.

In determining the composition of compensation packages, the Group and the Bank take into account the time horizon of risk and includes, in the total compensation for executives, a portion of deferred payment in the form of deferred shares and/or share options.

The Group and the Bank have identified a group of senior executives whose authorities and actions are deemed to have a major influence on the long term performance of the Group and the Bank. This group ("Material Risk Takers") comprises senior management (the CEO and his direct reports of Vice President 1 rank and above), employees of Senior Vice President rank and above, key personnel at business units, senior control staff and employees who had been awarded significant variable performance bonuses.

The Group's and the Bank's remuneration policy require senior executives who are classified as Material Risk Takers, to have at least 40% of their total variable compensation deferred as long term incentive. For FY2017, if the total variable compensation meets a minimum threshold of S\$70,000, of the 40% deferred variable compensation, 30% will be in OCBC Bank deferred shares and 10% will be in OCBC Bank share options. This minimum threshold of S\$70,000 has been revised to RM200,000 for FY2018 and the deferred shares and share options remain unchanged at 30% and 10% respectively.

OCBC BANK (MALAYSIA) BERHAD
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

CORPORATE GOVERNANCE (continued)

Remuneration Policy (continued)

Share awards under the OCBC Deferred Share Plan (“the Plan”) are also granted annually to other eligible executives who are paid variable performance bonuses of S\$70,000 and above in FY2017. The share awards form 20% to 40% of their total variable performance bonus for the year. For FY2018, the threshold of S\$70,000 is also revised to RM200,000 and the share awards form 20% of their total variable performance bonus for the year. For executives who are paid performance bonuses of RM400,000 and above, the executive will be classified as Material Risk Takers and will have 40% of their total variable compensation deferred as long term incentive as mentioned above.

Under the OCBC Deferred Share Plan, 50% of the share awards will vest after two years with the remaining 50% vesting at the end of three years in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares. Share options granted to senior executives are exercisable for up to 10 years. The options may be exercised after the first anniversary of the date of the grant, in accordance with a vesting schedule to be determined by the OCBC Bank Remuneration Committee on the date of the grant of the respective options.

Quantitative disclosure of the Group's and the Bank's key management and other material risk takers remuneration is disclosed in Note 28.

All variable cash compensation of senior executives and share grants are subject to cancellation and clawback if it is determined that they were made on the basis of materially inaccurate financial statements and/or the employee has engaged in conduct that results in financial loss, reputational harm, restatement of financial results and/or adverse changes of the Group's and the Bank's risk profile/rating.

The Group's and the Bank's compensation practices are reviewed annually by an independent party to ensure that it meets the Financial Stability Forum (“FSF”) principles and implementation standards for Sound Compensation Practices, as well as regulatory requirements.

Risk Management Committee

The Risk Management Committee (“RMC”) comprises Mr Lai Teck Poh (RMC Chairman), Mr Tan Ngiap Joo, Mr Tong Hon Keong and Datuk Azizan Bin Haji Abd Rahman; all of whom are independent Directors. Mr Samuel N. Tsien and Mr Ng Hon Soon stepped down from the Committee on 31 December 2017 to comply with BNM's Policy on Corporate Governance. Dato' Ooi Sang Kuang stepped down as RMC member with effect from 29 March 2018 following his resignation as Chairman of the Board.

BNM had, on 8 February 2007, approved the delegation of approving authority of the Board of Directors to the RMC pertaining to risk management matters. The Board approved the terms of reference of RMC. The Committee shall meet at least once every quarter. The Committee shall be entitled to secure the attendance of any person with relevant experience and expertise at committee meetings if the committee considers this appropriate.

The Committee shall review and approve risk management strategies, policies and risk tolerance; review and assess the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk. The Committee shall ensure the infrastructure, resources and systems are in place for risk management; review management's periodic reports on risk exposure, risk portfolio composition and risk management activities; the Committee shall ensure compliance with OCBC Group's risk management strategies, policies and tolerance.

Management Information

All Directors review Board and Board Committee reports prior to the Board and Board Committee meetings. Information and materials, duly endorsed by the CEO and the relevant functional heads, that are important to the Directors' understanding of the agenda items and related topics are distributed in advance of the meeting. These are issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting. The Bank will provide information on business, financials and risks to the Directors on a regular basis as well as on an ad-hoc basis.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)**CORPORATE GOVERNANCE (continued)****Management Information (continued)**

The Board and Board Committee reports include, amongst others, the following:

- Minutes of meetings of all Board and Board Committees;
- Monthly Performance Report;
- At least quarterly Credit Risk Management Report;
- At least quarterly Asset Liability & Market Risk Report; and
- At least quarterly Operational Risk Management Report.

The Board provides input on the Bank's policies from the country perspective in line with the prevailing regulatory framework, economic and business environment.

Directors' Attendance At Board And Board Committee Meetings in 2017

Name of Director	Schedule of Meetings Attended			
	Board	Board Audit Committee	Nominating Committee*	Risk Management Committee
Tan Ngiap Joo	9 of 9	6 of 6	8 of 8	6 of 6
Samuel N. Tsien	9 of 9		8 of 8	6 of 6
Lai Teck Poh	9 of 9		8 of 8	6 of 6
Tong Hon Keong	9 of 9	6 of 6		6 of 6
Datuk Azizan Bin Haji Abd Rahman	9 of 9	6 of 6		6 of 6
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	9 of 9		8 of 8	6 of 6
Ng Hon Soon (Resigned on 31 December 2017)	9 of 9	6 of 6	8 of 8	6 of 6

* The Nominating Committee had been replaced by the Nominating & Remuneration Committee on 1 January 2018.

The Bank's Constitution (formerly Articles of Association) provide for Directors to participate in Board and Board Committee meetings by means of telephone conferencing, video conferencing or audio visual equipment.

COMPLIANCE WITH BNM'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that BNM's expectations on financial reporting have been complied with, including those as set out in BNM's Guidelines and Policies on Financial Reporting, Classification and Impairment Provisions for Loans/Financing, Capital Funds and Corporate Governance.

DIRECTORS' INDEMNITY

A Directors' and Officers' Liability Insurance has been entered into by the Group and the Bank for the financial year ended 31 December 2017. The policy provides appropriate cover for legal action brought against its Directors in accordance with qualifying third party indemnity provisions (as defined by Section 289 of the Companies Act 2016). During the financial year, the cost of this insurance effected for the Directors and Officers of the Group and the Bank amounted to RM105,999 and RM97,895 (2016: RM105,998 and RM97,153) respectively.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that:

- all known bad debts and financing have been written off and adequate impairment allowance made for doubtful debts and financing, and
- any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected to realise.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

OTHER STATUTORY INFORMATION (continued)

At the date of this report, the Directors are not aware of any circumstances:

- that would render the amount written off for bad debts and financing or the amount of the impairment allowance for doubtful debts and financing in the Group and in the Bank inadequate to any substantial extent, or
- that would render the value attributed to the current assets in the financial statements of the Group and of the Bank misleading, or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate, or
- not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Bank misleading.

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

- any charge on the assets of the Group or of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year, other than in the ordinary course of banking business.

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

In the opinion of the Directors, the financial performance of the Group and of the Bank for the financial year ended 31 December 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, Messrs KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 27 to the financial statements.

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

TAN NGIAP JOO
Chairman

DATUK AZIZAN BIN HAJI ABD RAHMAN
Director

Kuala Lumpur, Malaysia
Date: 18 April 2018

OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

In the opinion of the Directors, the financial statements set out on pages 21 to 144 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

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

TAN NGIAP JOO
Chairman

DATUK AZIZAN BIN HAJI ABD RAHMAN
Director

Kuala Lumpur, Malaysia
Date: 18 April 2018

STATUTORY DECLARATION PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT 2016

I, Teoh Yin Meng, the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 21 to 144 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, Teoh Yin Meng at Kuala Lumpur in Malaysia on 18 April 2018.

TEOH YIN MENG
Malaysian Institute of Accountants No: 11978
Chartered Accountant
Before me:

Commissioner for Oaths

OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

Independent Auditors' Report to the member of OCBC Bank (Malaysia) Berhad and its subsidiary companies

(Company No. 295400-W)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OCBC Bank (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 144.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Bank.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Bank to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as going concerns.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Company No. 295400-W

OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

Company No. 295400-W

Other Matter

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
LLP0010081-LCA & AF 0758
Chartered Accountants

Khaw Hock Hoe
Approval Number: 02229/04/2020 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 18 April 2018

Company No. 295400-W

OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

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OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	Group		Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
ASSETS					
Cash and cash equivalents	3	6,158,261	8,293,096	6,437,013	7,669,764
Deposits and placements with banks and other financial institutions	4	71,835	1,447,920	1,110,434	2,015,307
Financial assets held-for-trading	5	1,690,763	1,528,361	1,690,763	1,528,361
Financial investments available-for-sale	6	13,501,159	11,253,505	8,778,279	8,077,528
Loans, advances and financing	7	67,452,350	67,421,623	57,742,824	57,799,889
Derivative financial assets	9	835,825	1,995,516	835,625	1,995,481
Other assets	10	370,277	280,597	709,911	464,465
Statutory deposits with Bank Negara Malaysia	11	1,752,717	2,000,966	1,427,217	1,673,966
Investments in subsidiaries	12	-	-	558,492	558,492
Property and equipment	13	162,596	188,201	153,271	174,785
Prepaid lease payments	14	748	784	748	784
Tax recoverable		535	8,867	-	-
Deferred tax assets	15	26,957	28,321	25,022	22,977
Total assets		92,024,023	94,447,757	79,469,599	81,981,799
LIABILITIES					
Deposits from customers	16	73,652,739	70,934,813	62,490,422	59,700,547
Deposits and placements of banks and other financial institutions	17	4,388,137	9,462,112	3,946,437	8,977,185
Bills and acceptances payable		166,104	153,888	145,347	123,405
Recourse obligation on loans sold to Cagamas Berhad		1,419,252	1,328,516	1,419,252	1,328,516
Derivative financial liabilities	9	1,080,854	1,820,414	1,080,427	1,820,044
Other liabilities	19	2,543,806	2,236,749	2,417,222	2,111,137
Tax payable and zakat		22,793	11,090	15,540	11,045
Subordinated bonds	18	1,870,932	2,075,852	1,870,932	2,075,852
Total liabilities		85,144,617	88,023,434	73,385,579	76,147,731
EQUITY					
Share capital	20	754,000	287,500	754,000	287,500
Reserves	21	6,123,912	6,135,427	5,330,020	5,546,568
Non-controlling interest		1,494	1,396	-	-
Total equity		6,879,406	6,424,323	6,084,020	5,834,068
Total liabilities and equity		92,024,023	94,447,757	79,469,599	81,981,799
Commitments and contingencies	34	91,839,022	99,396,990	88,919,066	96,678,130

The accompanying notes form an integral part of the financial statements.

OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Note	Group		Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income	22	3,501,371	3,479,919	3,579,978	3,537,580
Interest expense	22	(2,095,922)	(2,170,928)	(2,153,682)	(2,201,908)
Net interest income	22	1,405,449	1,308,991	1,426,296	1,335,672
Income from Islamic banking operations	23	449,523	470,115	-	-
Net fee and commission income	24	364,937	292,329	363,240	288,993
Net trading income	25	205,403	221,627	205,403	221,627
Other operating income	26	36,615	45,824	134,536	147,022
Operating income		2,461,927	2,338,886	2,129,475	1,993,314
Operating expenses	27	(1,094,303)	(1,065,703)	(1,011,340)	(978,801)
Operating profit before impairment allowance and provision		1,367,624	1,273,183	1,118,135	1,014,513
Impairment allowance on loans, advances and financing	29	(93,790)	(210,345)	(29,596)	(144,878)
Impairment allowance on Restricted Profit Sharing Investment Accounts ("RPSIA")	30	-	-	(68,379)	-
Write back of provision for commitments and contingencies		-	6,526	-	6,526
Impairment allowance on other receivables	10(c)	(50)	(288)	(50)	(288)
Profit before income tax and zakat		1,273,784	1,069,076	1,020,110	875,873
Income tax expense	31	(324,500)	(260,794)	(262,877)	(220,601)
Zakat		(50)	(45)	-	-
Profit for the year		949,234	808,237	757,233	655,272
Other comprehensive income/(expense), net of income tax					
<i>Items that will be reclassified subsequently to profit or loss when specific conditions are met</i>					
Fair value (available-for-sale) reserve					
- Change in fair value		50,907	(9,685)	33,231	2,629
- Amount transferred to profit or loss		(12,806)	(15,078)	(12,416)	(19,231)
- Income tax effect	15(i)	(9,152)	7,356	(4,996)	5,441
Other comprehensive income/(expense) for the year, net of income tax		28,949	(17,407)	15,819	(11,161)
Total comprehensive income for the year		978,183	790,830	773,052	644,111
Profit attributable to:					
Owner of the Bank		949,136	807,645	757,233	655,272
Non-controlling interest		98	592	-	-
		949,234	808,237	757,233	655,272
Total comprehensive income attributable to:					
Owner of the Bank		978,085	790,238	773,052	644,111
Non-controlling interest		98	592	-	-
		978,183	790,830	773,052	644,111
Basic earnings per ordinary share (sen)	32	330.1	280.9	263.4	227.9

The accompanying notes form an integral part of the financial statements.

OCBC BANK (MALAYSIA) BERHAD
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(Incorporated in Malaysia)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

<u>Group</u>	<i>Non-distributable</i>					<i>Distributable</i>				Total equity RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserve* RM'000	Regulatory reserve** RM'000	Capital redemption reserve RM'000	Capital reserve RM'000	Fair value reserve RM'000	Retained earnings RM'000	Non-controlling interest RM'000	
At 1 January 2017	287,500	462,500	507,000	375,000	4,000	56,619	79,050	4,651,258	1,396	6,424,323
Fair value (available-for-sale) reserve										
- Change in fair value	-	-	-	-	-	-	50,907	-	-	50,907
- Transferred to profit or loss	-	-	-	-	-	-	(12,806)	-	-	(12,806)
- Income tax effect	-	-	-	-	-	-	(9,152)	-	-	(9,152)
Total other comprehensive income for the year	-	-	-	-	-	-	28,949	-	-	28,949
Profit for the year	-	-	-	-	-	-	-	949,136	98	949,234
Total comprehensive income for the year	-	-	-	-	-	-	28,949	949,136	98	978,183
Transfer pursuant to Companies Act 2016 (Note 1(c))	466,500	(462,500)	-	-	(4,000)	-	-	-	-	-
Transfer pursuant to BNM's policy document on Capital Funds (Note 1(d))	-	-	(507,000)	-	-	-	-	507,000	-	-
Transfer from retained earnings	-	-	-	111,000	-	-	-	(111,000)	-	-
<i>Contributions by and distributions to owner of the Bank</i>										
Dividends paid										
- Final 2016 ordinary	-	-	-	-	-	-	-	(393,100)	-	(393,100)
- Interim 2017 ordinary	-	-	-	-	-	-	-	(130,000)	-	(130,000)
At 31 December 2017	754,000	-	-	486,000	-	56,619	107,999	5,473,294	1,494	6,879,406

* During the financial year, the Group transferred RM507 million from statutory reserve account to retained earnings pursuant to Bank Negara Malaysia's (BNM) revised policy document on Capital Funds which is effective from 3 May 2017.

** The Group maintains a regulatory reserve to meet local regulatory requirements, which restricts the amount of reserves that can be distributed to the shareholder.

The accompanying notes form an integral part of the financial statements.

OCBC BANK (MALAYSIA) BERHAD
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)**

<u>Group</u>	<i>Non-distributable</i>					<i>Distributable</i>				Total equity RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve* RM'000	Capital redemption reserve RM'000	Capital reserve RM'000	Fair value reserve RM'000	Retained earnings RM'000	Non-controlling interest RM'000	
At 1 January 2016	287,500	462,500	507,000	155,000	4,000	56,619	96,457	4,501,313	-	6,070,389
Fair value (available-for-sale) reserve										
- Change in fair value	-	-	-	-	-	-	(9,685)	-	-	(9,685)
- Transferred to profit or loss	-	-	-	-	-	-	(15,078)	-	-	(15,078)
Income tax effect	-	-	-	-	-	-	7,356	-	-	7,356
Total other comprehensive expense for the year	-	-	-	-	-	-	(17,407)	-	-	(17,407)
Profit for the year	-	-	-	-	-	-	-	807,645	592	808,237
Total comprehensive (expense)/ income for the year	-	-	-	-	-	-	(17,407)	807,645	592	790,830
Transfer to regulatory reserve	-	-	-	220,000	-	-	-	(220,000)	-	-
Acquisition by non-controlling interest	-	-	-	-	-	-	-	-	804	804
<i>Contributions by and distributions to owner of the Bank</i>										
Dividend paid										
- Final 2015 ordinary	-	-	-	-	-	-	-	(437,700)	-	(437,700)
At 31 December 2016	<u>287,500</u>	<u>462,500</u>	<u>507,000</u>	<u>375,000</u>	<u>4,000</u>	<u>56,619</u>	<u>79,050</u>	<u>4,651,258</u>	<u>1,396</u>	<u>6,424,323</u>

* The Group maintains a regulatory reserve to meet local regulatory requirements, which restricts the amount of reserves that can be distributed to the shareholder.

The accompanying notes form an integral part of the financial statements.

OCBC BANK (MALAYSIA) BERHAD
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**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<i>Non-distributable</i>				<i>Distributable</i>		Total equity RM'000	
	Share capital RM'000	Share premium RM'000	Statutory reserve* RM'000	Regulatory reserve** RM'000	Capital redemption reserve RM'000	Fair value reserve RM'000		Retained earnings RM'000
Bank								
At 1 January 2017	287,500	462,500	322,000	375,000	4,000	88,558	4,294,510	5,834,068
Fair value (available-for-sale) reserve								
- Change in fair value	-	-	-	-	-	33,231	-	33,231
- Transferred to profit or loss	-	-	-	-	-	(12,416)	-	(12,416)
Income tax effect	-	-	-	-	-	(4,996)	-	(4,996)
Total other comprehensive income for the year	-	-	-	-	-	15,819	-	15,819
Profit for the year	-	-	-	-	-	-	757,233	757,233
Total comprehensive income for the year	-	-	-	-	-	15,819	757,233	773,052
Transfer pursuant to Companies Act 2016 (Note 1(c))	466,500	(462,500)	-	-	(4,000)	-	-	-
Transfer pursuant to BNM's policy document on Capital Funds (Note 1(d))	-	-	(322,000)	-	-	-	322,000	-
Transfer to regulatory reserve	-	-	-	20,000	-	-	(20,000)	-
<i>Contributions by and distributions to owner of the Bank</i>								
Dividends paid								
- Final 2016 ordinary	-	-	-	-	-	-	(393,100)	(393,100)
- Interim 2017 ordinary	-	-	-	-	-	-	(130,000)	(130,000)
At 31 December 2017	754,000	-	-	395,000	-	104,377	4,830,643	6,084,020

* During the financial year, the Bank transferred RM322 million from statutory reserve account to retained earnings pursuant to BNM's revised policy document on Capital Funds which is effective from 3 May 2017.

** The Bank maintains a regulatory reserve to meet local regulatory requirements, which restricts the amount of reserves that can be distributed to the shareholder.

The accompanying notes form an integral part of the financial statements.

OCBC BANK (MALAYSIA) BERHAD
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**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)**

	<i>Non-distributable</i>				<i>Distributable</i>		Total equity RM'000	
	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve* RM'000	Capital redemption reserve RM'000	Fair value reserve RM'000		Retained earnings RM'000
Bank								
At 1 January 2016	287,500	462,500	322,000	155,000	4,000	99,719	4,296,938	5,627,657
Fair value (available-for-sale) reserve								
- Change in fair value	-	-	-	-	-	2,629	-	2,629
- Amount transferred to profit or loss	-	-	-	-	-	(19,231)	-	(19,231)
Income tax effect	-	-	-	-	-	5,441	-	5,441
Total other comprehensive expense for the year	-	-	-	-	-	(11,161)	-	(11,161)
Profit for the year	-	-	-	-	-	-	655,272	655,272
Total comprehensive (expense)/income for the year	-	-	-	-	-	(11,161)	655,272	644,111
Transfer to regulatory reserve	-	-	-	220,000	-	-	(220,000)	-
<i>Contributions by and distributions to owners of the Bank</i>								
Dividend paid								
- Final 2015 ordinary	-	-	-	-	-	-	(437,700)	(437,700)
At 31 December 2016	<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>375,000</u>	<u>4,000</u>	<u>88,558</u>	<u>4,294,510</u>	<u>5,834,068</u>

* The Bank maintains a regulatory reserve to meet local regulatory requirements, which restricts the amount of reserves that can be distributed to the shareholder.

The accompanying notes form an integral part of the financial statements.

OCBC BANK (MALAYSIA) BERHAD
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STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from operating activities				
Profit before income tax and zakat	1,273,784	1,069,076	1,020,110	875,873
<i>Adjustments for:</i>				
Amortisation of prepaid lease payments	36	36	36	36
Depreciation of property and equipment	32,920	39,470	28,418	34,246
Dividends received from financial assets held-for-trading	-	(999)	-	(999)
Dividends received from financial investments available-for-sale	(902)	(809)	(902)	(809)
Impairment allowance/(writeback of provision) on:				
- Loans, advances and financing	93,790	210,345	29,596	144,878
- Restricted Profit Sharing Investment Accounts	-	-	68,379	-
- Other receivables	50	288	50	288
- Commitments and contingencies	-	(6,526)	-	(6,526)
Net (gain)/loss on disposal of:				
- Financial investments available-for-sale	(12,806)	(15,078)	(12,416)	(19,231)
- Non-current assets held for sale	-	(478)	-	(478)
- Property and equipment	266	244	257	(345)
Share-based expenses	5,834	6,573	5,546	6,287
Unrealised (gain)/loss on:				
- Financial assets held-for-trading	(601)	5,385	(601)	5,385
- Hedging derivatives	273	(670)	273	(670)
- Trading derivatives	527,188	(305,550)	527,188	(305,712)
- Subordinated bonds	(105,492)	46,753	(105,492)	46,753
Operating profit before changes in working capital	1,814,340	1,048,060	1,560,442	778,976
<i>Changes in operating assets and operating liabilities:</i>				
Deposits and placements with banks and other financial institutions	1,376,085	(1,447,920)	840,579	(938,900)
Financial assets held for trading	(161,801)	12,998	(161,801)	12,998
Loans, advances and financing	(124,517)	836,207	27,469	635,616
Other assets	(89,731)	37,606	(245,497)	30,980
Statutory deposits with Bank Negara Malaysia	248,249	385,346	246,749	306,246
Derivative financial assets and liabilities	(105,498)	259,208	(105,390)	259,205
Deposits from customers	2,717,926	(1,242,910)	2,789,875	(2,378,434)
Deposits and placements of banks and other financial institutions	(5,073,975)	1,363,601	(5,030,748)	2,311,293
Bills and acceptances payable	12,216	6,994	21,942	(4,819)
Other liabilities	301,269	(84,922)	300,583	(60,165)
Cash generated from operations	914,563	1,174,268	244,203	952,996
Income tax and zakat paid	(312,304)	(281,094)	(265,422)	(236,496)
Net cash generated from/(used in) operating activities	602,259	893,174	(21,219)	716,500

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STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from investing activities				
Acquisition of financial investments available-for-sale	(14,631,827)	(11,943,143)	(6,816,827)	(7,268,021)
Acquisition of property and equipment	(7,729)	(13,265)	(7,310)	(8,260)
Dividends received from financial investments available-for-sale	902	809	902	809
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(345)	-	(1,875)
Proceeds from disposal of financial investments available-for-sale	12,433,776	14,367,621	6,148,003	9,823,531
Proceeds from disposal of non-current assets held for sale	-	2,073	-	2,073
Proceeds from disposal of property and equipment	148	863	149	861
Net cash (used in)/generated from investing activities	(2,204,730)	2,414,613	(675,083)	2,549,118
Cash flows from financing activities				
Dividends paid to owner of the Bank	(523,100)	(437,700)	(523,100)	(437,700)
Redemption of subordinated bonds	(600,000)	(200,000)	(600,000)	(200,000)
Proceeds from issuance of subordinated bonds	500,000	-	500,000	-
Recourse obligation on loans sold to Cagamas Berhad	90,736	179,619	90,736	179,619
Net cash used in financing activities	(532,364)	(458,081)	(532,364)	(458,081)
Net (decrease)/increase in cash and cash equivalents	(2,134,835)	2,849,706	(1,228,666)	2,807,537
Cash and cash equivalents at 1 January	8,293,096	5,443,390	7,669,764	4,862,227
Cash and cash equivalents at 31 December	6,158,261	8,293,096	6,441,098	7,669,764

Details of cash and cash equivalents are disclosed in Note 3 to the financial statements.

Reconciliation of liabilities arising from financing activities

	1 January 2017 RM'000	Cash flows RM'000	Non-cash changes		31 December 2017 RM'000
			Foreign exchange movement RM'000	Fair value changes RM'000	
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	90,736	-	-	1,419,252
Subordinated bonds	2,075,852	(100,000)	(105,492)	572	1,870,932
Total liabilities from financing activities	3,404,368	(9,264)	(105,492)	572	3,290,184

The accompanying notes form an integral part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017

GENERAL INFORMATION

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

The principal place of business and registered office of the Bank is located at 19th Floor, Menara OCBC, 18 Jalan Tun Perak, 50050 Kuala Lumpur.

The consolidated financial statements of the Bank as at and for the financial year ended 31 December 2017 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities").

The Bank is principally engaged in banking and related financial services, whilst the subsidiaries are principally engaged in the businesses of Islamic Banking, corporate finance and related advisory services and the provision of nominee services. There has been no significant change in the nature of these activities during the financial year.

The immediate and ultimate holding companies of the Bank are Oversea-Chinese Banking Corporation Limited, a licensed commercial bank incorporated in Singapore.

The financial statements were approved and authorised for issue by the Board of Directors on 18 April 2018.

1 BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis, except as disclosed in the notes to the financial statements. The financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency. All financial information presented in RM have been rounded to the nearest thousand, unless otherwise stated.

(a) Statement of compliance

The financial statements of the Group and the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the Companies Act 2016 in Malaysia and Shariah requirements (operations of Islamic Banking).

The financial statements incorporate all activities relating to Islamic Banking which have been undertaken by the Group in compliance with Shariah principles. Islamic Banking refers generally to the acceptance of deposits and granting of financing under Shariah principles.

The following are accounting standards and amendments that have been issued by the Malaysian Accounting Standards Board ("MASB") which are applicable but have not been adopted by the Group and the Bank:

Effective for financial periods commencing on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 2, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*

Effective for financial periods commencing on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to MFRS 128, *Long-term Interests in Associates and Joint Ventures*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Tax (Annual Improvements 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits (Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements 2015-2017 Cycle)*

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

1 BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Effective date to be announced by the MASB

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Bank plan to apply the abovementioned accounting standards and amendments when they become effective in the respective financial periods. The initial application of the abovementioned accounting standards and amendments are not expected to have any material impact to the financial statements of the Group and the Bank except as described below:

MFRS 9, *Financial Instruments*

MFRS 9, *Financial Instruments* replaces MFRS 139, *Financial Instruments: Recognition and Measurement*. Retrospective application is required but restatement of comparative information is not compulsory. MFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*. Under MFRS 15, revenue is recognised only when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good and service.

MFRS 16, *Leases*

MFRS 16 requires the recognition of operating lease commitments on right of use assets in the statement of financial position.

The initial financial impact from the adoption of MFRS 9 and MFRS 15 is disclosed in Note 49 while the Group and the Bank are currently assessing the financial impact of adopting MFRS 16.

(b) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements used in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than the following:

- (i) Fair value estimation for financial assets held-for-trading (Note 5), financial investments available-for-sale (Note 6) and derivative financial assets and liabilities (Note 9). Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For financial instruments which are not traded in an active market (for example, over-the-counter derivatives), the fair value is determined using valuation techniques, which include the use of mathematical models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Where possible, assumptions and inputs used on valuation techniques include observable data such as risk-free and benchmark discount rates and credit spreads.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

1 BASIS OF PREPARATION (continued)

(b) Use of estimates and judgements (continued)

(i) (continued)

Where observable market data is not available, judgement is required in the determination of model input, which normally incorporates assumptions that other market participants would use in their valuations, including assumptions about interest/profit rate yield curves, exchange rates, volatilities and prepayment and default rates. Judgement is also required in assessing the impairment of financial investments available-for-sale as the Group and the Bank evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flows.

(ii) For impaired loans, advances and financing which are individually and collectively assessed, management judgement is required in the estimation of the amount and timing of future cash flows in determining recoverable amount. In estimating these cash flows, judgements are made on the realisable value of collateral pledged and the borrower's financial position. These estimations are based on assumptions and the actual results may differ.

(iii) Assessment of impairment of financial investments available-for-sale (Note 6) is made when the investment is impaired. Management judgement is required to evaluate the duration and extent of fair value loss for financial investments available-for-sale in order to determine if impaired.

(iv) Management judgement is required for estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome is not determined until a later date, whereas for deferred tax, management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

(v) Management judgement is required for estimating the collective impairment allowance on Restricted Profit Sharing Investment Accounts ("RPSIA") based on expected losses borne by the Bank on the RPSIA-funded financing.

(c) Companies Act 2016

The financial statements of the Group and the Bank are prepared in accordance with the Companies Act 2016 ("the new Act") which replaced the Companies Act, 1965. The key changes introduced which affected the financial statements of the Group and the Bank are:

- (i) the removal of the authorised share capital;
- (ii) the ordinary shares of the Bank will cease to have par or nominal value;
- (iii) the Bank's share premium will become part of the share capital; and
- (iv) the removal of the requirement to maintain a capital redemption reserve.

Pursuant to the Companies Act 2016, the Group and the Bank no longer maintain a share premium account and capital redemption reserve which balances have been transferred to share capital during the year.

(d) Revised Policy Documents on Capital Funds issued by BNM

On 3 May 2017, BNM revised its policy documents on Capital Funds and Capital Funds for Islamic Banks ("revised policy documents"). The key changes are:

- (i) the removal of the requirement to maintain a statutory reserve fund; and
- (ii) the removal of share premium and reserve fund as a component of capital funds.

Pursuant to BNM's revised policy documents, the Group and the Bank have transferred the balances of the statutory reserve fund to retained earnings during the year.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by the Group and the Bank, unless otherwise stated.

A Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment allowances, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(b) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the difference above is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(c) Acquisitions of non-controlling interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

A Basis of consolidation (continued)

(d) Acquisitions of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognised at the carrying amount recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any resulting gain/loss is recognised directly in equity.

(e) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity accounted investee or as a financial investment available-for-sale depending on the level of influence retained.

(f) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

B Foreign currency transactions

Transactions in foreign currencies are translated to RM, which is the functional currency of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the Foreign Currency Translation Reserve ("FCTR") in equity.

C Financial instruments

(a) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(a) Initial recognition and measurement (continued)

A financial instrument is recognised initially at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(b) Financial instrument categories and subsequent measurement

The Group and the Bank categorise financial instruments as follows:

Financial assets

(i) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held-for-trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets categorised as fair value through profit or loss are measured at their fair values with the gain or loss recognised in profit or loss as net trading income. Contractual interest/finance income received is recognised in profit or loss as interest/finance income.

At the end of the reporting period, financial assets at fair value through profit or loss of the Group and the Bank are financial assets held-for-trading and trading derivatives. Financial assets held-for-trading are financial assets acquired and held with the intention of resale in the short term.

(ii) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Bank has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are measured at amortised cost using the effective interest/profit rate method.

At the end of the reporting period, there are no financial assets of the Group and the Bank that are categorised as held-to-maturity investments.

(iii) Financial investments available-for-sale

Financial investments available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(iii) Financial investments available-for-sale (continued)

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment allowances, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest/finance income on debt instruments are calculated using the effective interest/profit rate method and recognised in profit or loss.

(iv) Loans/Financing and receivables

Loans/Financing and receivables category comprises debt instruments that are not quoted in an active market, cash and cash equivalents, deposits and placements with banks and other financial institutions and loans, advances and financing.

Financial assets categorised as loans/financing and receivables are measured at amortised cost using the effective interest/profit method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest/profit rate. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest/profit rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Interest/finance income is recognised in profit or loss using the effective interest/profit rate method.

Financing and advances consist of sales based contracts (Bai' Inah, Bai' Bithaman Ajil, Tawarruq, Murabahah and Bai' Dayn), leased based contracts (Ijarah Thumma Al-Bai, Ijarah and Ijarah Muntahiah Bi Al-Tamlik), equity based contracts (Musharakah Mutanaqisah) and other contracts (Wakalah and Qard). The Group's core business is in providing financing to customers and not into leasing business. As a result, we have recognised all lease-based contracts as forms of financing and recognised them accordingly as a financial instrument under MFRS 139. The assets funded under the lease-based contracts are owned by the Group.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(I)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial liabilities (continued)

Financial liabilities categorised as fair value through profit or loss are measured at their fair values with the gain or loss recognised in profit or loss.

At the end of the reporting period, there are no non-derivative financial liabilities categorised as fair value through profit or loss.

(c) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Fair value arising from financial guarantee contracts are classified as deferred income and is amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

In the ordinary course of business, the Group and the Bank give financial guarantees consisting of letters of credit, guarantees and acceptances.

(d) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using settlement date accounting. Settlement date accounting refers to:

- the recognition of an asset to be received and the liability to pay for it on the settlement date; and
- the derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for a payment on the settlement date.

(e) Hedge accounting

(i) Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognised in profit or loss. The gain or loss on the hedged item, except for hedge item categorised as available-for-sale, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognised in profit or loss. For a hedge item categorised as available-for-sale, the fair value gain or loss attributable to the hedge risk is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(e) Hedge accounting (continued)

(i) Fair value hedge (continued)

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

(ii) Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In cash flow hedge, the portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

(f) Derivatives

Derivatives are categorised as trading unless they are designated as hedging instruments.

Financial derivatives include forward contracts for the purchase and sale of foreign currencies, interest/profit rate and currency swaps, financial futures and option contracts. These instruments allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest/profit rate risks.

All derivative financial instruments are recognised at inception on the statement of financial position (including transaction costs), which are normally zero or negligible at inception, and subsequent changes in fair value as a result of fluctuation in market interest/profit rates or foreign exchange rates are recorded as assets when fair value is positive and as liabilities when fair value is negative.

Where derivatives are embedded in the host contract (e.g. structured investments), the embedded derivatives are required to be separated and accounted as a derivative if the economic risks and characteristics of the embedded derivatives are not closely related to the economic risks and characteristics of the host contract. Separate accounting is not required if the combined instrument is fair valued with changes in fair value recognised in profit or loss.

When the Group or the Bank enters into derivatives for trading purposes, realised and unrealised gains and losses are recognised in trading income. Observable market data are used to determine the fair values of derivatives held-for-trading. Valuations are either based on quoted price or valuation technique. Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all long positions are marked to bid prices and short positions to offer prices.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(g) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the financial asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(h) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and the intention to settle on a net basis or realise the asset and settle the liability simultaneously. Income and expense are presented on a net basis only when permitted by the accounting standards.

D Property and equipment

(a) Recognition and measurement

Items of property and equipment are measured at cost less any accumulated depreciation and any accumulated impairment allowance.

Costs include expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other operating income" in profit or loss.

(b) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D Property and equipment (continued)

(c) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings on freehold land 50 years
- Computer equipment/software 3-8 years
- Leasehold land and building on leasehold land 50 years or remaining life of the lease whichever is shorter
- Motor vehicles 5 years
- Office equipment and furniture 10 years
- Renovation 3-5 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted as appropriate.

E Leased assets

(a) Finance lease

Leases, where the Group or the Bank assumes substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the leased adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

(b) Operating lease

Leases, where the Group or the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and are not recognised on the statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

F Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and central banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of one month or less.

Cash and cash equivalents are categorised and measured as loans/financing and receivables in accordance with Note 2(C)(b)(iv).

G Impairment

(a) *Financial assets*

All financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the financial asset. Losses expected as a result of future events, no matter how likely, are not recognised.

(i) **Held-to-maturity investments**

When there is objective evidence of impairment, impairment allowance is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest/profit rate. The carrying amount of the asset is reduced through the use of an allowance account.

(ii) **Financial investments available-for-sale**

Impairment allowance is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment allowance previously recognised. Where a decline in fair value of a financial investment available-for-sale has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

Impairment allowance in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. Impairment allowance recognised in profit or loss for an investment in an equity instrument is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment allowance was recognised in profit or loss, the impairment allowance is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(iii) **Loans/Financing and receivables**

The Group and the Bank assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired subject to the BNM's Policy on Classification and Impairment Provisions for Loans/Financing where loans, advances and financing that are past due for more than 90 days or 3 months are deemed impaired.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment (continued)

(a) Financial assets (continued)

(iii) Loans/Financing and receivables (continued)

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an "incurred loss event") and that loss event (or events) has an impact on the present value of estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest/profit or principal payments, that it is possible that they will enter bankruptcy or other financial reorganisation and that there are observable data indicating a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with potential default.

Individual impairment allowance is provided if the recoverable amount is lower than the net carrying amount of the loans, advances and financing. Recoverable amount refers to the present value of estimated future cash flows discounted at original effective interest/profit rate. If a loan/financing has a variable interest/profit rate, the discount rate for measuring any impairment allowance is the current effective interest/profit rate.

Collective impairment allowance is provided in accordance with the requirements of MFRS 139, *Financial Instruments: Recognition and Measurement* on collective impairment allowance. Under MFRS 139, financial assets that have not been individually assessed are grouped together according to their credit risk characteristics and collectively assessed for impairment allowance.

Uncollectible loans, advances and financing or portion of loans, advances and financing classified as impaired are written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

(b) Other assets

The carrying amounts of other assets (except for deferred tax assets, assets arising from employee benefits, investment property measured at fair value and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment allowance is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment allowance is recognised in profit or loss. Impairment allowance recognised in respect of cash-generating units is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment (continued)

(b) Other assets (continued)

Impairment allowance recognised in prior periods is assessed at the end of each reporting date for any indications that the loss has decreased or no longer exists. An impairment allowance is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment allowance was recognised. An impairment allowance is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment allowance had been recognised. Reversals of impairment allowance are credited to profit or loss in the financial year in which the reversals are recognised.

H Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently. Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

Ordinary shares are classified as equity.

Preference share capital is classified as equity if it is non-redeemable, or is redeemable but only at the Bank's option, and any dividend is discretionary. Dividend is recognised as distributions within equity.

Interim dividend on ordinary shares and dividend on preference shares are recorded in the financial year in which they are declared payable by the Board of Directors. Final dividends are recorded in the financial year when the dividends are approved by the Board of Directors and shareholder at the annual general meeting.

I Employee benefits

(a) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, paid annual leave and sick leave, variable cash performance bonus and non-monetary benefits are measured on an undiscounted basis and expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group or the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group or the Bank expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

The Group's and the Bank's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once contributions have been paid, the Group and the Bank have no further payment obligations.

(b) Share-based payment transactions

(i) OCBC Deferred Share Plan

Under the OCBC Deferred Share Plan ("the Plan"), shares of the ultimate holding company of the Bank are awarded to executives of the rank of Assistant Manager and above. A trust is set up to administer the shares purchased under the Plan. Shares granted under the Plan will vest three years from the grant date and will lapse when the staff ceases employment during the vesting period.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

I Employee benefits (continued)

(b) Share-based payment transactions (continued)

(ii) OCBC Share Option Scheme 2001

Under the OCBC Share Option Scheme 2001, shares of the ultimate holding company of the Bank are offered to executives of the rank of Manager and above, including executive Directors and non-executive Directors. Options granted are exercisable for a period commencing after the 1st anniversary of the respective dates of grant and expiring on the 10th anniversary of the respective dates of grant except for options granted to non-executive Directors which are exercisable up to 5 years. One-third of the share options granted will vest each financial year after the 1st anniversary of the respective dates of grant and fully vested after the 3rd anniversary.

(iii) OCBC Employee Share Purchase Plan

The Employee Share Purchase Plan ("ESP Plan") is a savings-based share ownership plan that allows eligible employees to participate in shares of the ultimate holding company of the Bank by making monthly contributions to the ESP Plan Account and interest accrued at a preferential rate determined by the Nominating & Remuneration Committee. The Committee will fix the offering period and acquisition price for the new ordinary shares to be issued under the ESP Plan.

Equity instruments granted are recognised as expense in profit or loss based on the fair value of the equity instrument at the date of the grant. The expense is recognised over the vesting period of the grant, with corresponding entries to the equity. At each reporting date, the Group and the Bank revise the estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with recognition of a corresponding liability payable to the ultimate holding company of the Bank. The Group and the Bank accrue for interest/profit on the monthly contributions made by employees to the savings-based ESP Plan. Further details of the equity compensation benefits are disclosed in Note 19(b) to the financial statements.

J Provisions

A provision is recognised if, as a result of past event, the Group or the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

K Income and expenses

(a) Interest/Finance income and interest/finance expense

Interest/Finance income and interest/finance expense are recognised in profit or loss using the effective interest/profit rate method.

The effective interest/profit rate method is a method of calculating the amortised cost of a financial asset, a interest/profit-bearing financial investment available-for-sale or a financial liability and of allocating the interest/finance income or interest/finance expense over the relevant period. The effective interest/profit rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest/profit rate, the Group and the Bank estimate cash flows considering all contractual terms of the financial instruments but do not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest/profit rate, transaction costs and all other premiums or discounts.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

K Income and expenses (continued)

(a) Interest/Finance income and interest/finance expense (continued)

Once a financial asset or group of similar financial assets has been written down as a result of an impairment allowance, interest/finance income is recognised using the interest/profit rate used to discount the future cash flows for the purpose of measuring the impairment allowance.

Finance income for sale-based contracts (Bai' Inah, Bai' Bithaman Ajil, Tawarruq, Murabahah and Bai' Dayn) are recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Finance income for lease-based contracts (Ijarah Thumma Al-Bai, Ijarah and Ijarah Muntahiah Bi Al-Tamlik) are recognised on effective profit rate basis over the lease term.

Finance income for equity-based contracts (Musharakah Mutanaqisah) are recognised on the basis of the reducing balance on a time-apportioned basis that reflects the effective yield on the asset.

(b) Fee and commission income

Processing fees from loans, advances and financing and commissions are recognised on an accrual basis when all conditions precedent are fulfilled. Commitment fees and guarantee fees which are material are recognised as operating income based on time apportionment.

(c) Net trading income

Net trading income comprises gains and losses from changes in fair value of financial assets held-for-trading and trading derivatives, gains and losses on foreign exchange trading and other trading activities.

(d) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Bank's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(e) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(f) Other income

Pursuant to the BNM Guidelines on Late Payment Charges for Islamic Banking Institutions, the Group recognises all late penalty income as 'Non Finance Income' in profit or loss.

L Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

(a) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

L Income tax (continued)

(b) Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by end of the reporting period.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

M Earnings per ordinary share

Basic earnings per ordinary share is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Bank less preference shares dividend by the weighted average number of ordinary shares outstanding during the period.

N RPSIA

The RPSIA used to fund specific financing follow the principle of Mudharabah which states that profits will be shared with the Group as mudarib and losses borne by depositors.

O Operating segments

An operating segment is a component of the Group or the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's or the Bank's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group and the Bank, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

P Contingencies

(a) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statement of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

P Contingencies (continued)

(b) Contingent assets

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not being wholly within the control of the Bank, the asset is not recognised in the statement of financial position but is disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

Q Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group and the Bank use observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group and the Bank recognise transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

R Recourse obligation on loans sold to Cagamas Berhad

In the normal course of banking operations, the Group and the Bank sell loans to Cagamas Berhad. The Group and the Bank are liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Group and the Bank undertake to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the statement of financial position.

Loans sold to Cagamas Berhad are recognised initially, at its fair value plus transaction costs that are directly attributable to the loans sold to Cagamas Berhad and subsequently measured at amortised cost using effective interest method.

S Zakat contribution

Zakat represents business zakat payable by the Group to comply with the principles of Shariah and as approved by the Shariah Supervisory Council. The Group only pays zakat on its business and does not pay zakat on behalf of depositors or shareholder.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**3 CASH AND CASH EQUIVALENTS**

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	493,106	487,786	351,502	460,808
Money at call and deposit placements with financial institutions maturing within one month	1,198,899	2,259,015	2,439,596	3,596,456
Deposit placements with Bank Negara Malaysia	4,466,256	5,546,295	3,650,000	3,612,500
	<u>6,158,261</u>	<u>8,293,096</u>	<u>6,441,098</u>	<u>7,669,764</u>
Collective impairment allowance for Restricted Profit Sharing Investment Accounts	-	-	(4,085)	-
	<u>6,158,261</u>	<u>8,293,096</u>	<u>6,437,013</u>	<u>7,669,764</u>

(a) By geographical distribution

Malaysia	5,798,943	7,733,877	6,198,324	7,115,549
Singapore	184,748	362,417	161,523	361,198
Other ASEAN	6,178	6,501	5,874	6,404
Rest of the world	168,392	190,301	75,377	186,613
	<u>6,158,261</u>	<u>8,293,096</u>	<u>6,441,098</u>	<u>7,669,764</u>

The analysis by geography is determined based on where the credit risk resides.

(b) Included in the Bank's cash and cash equivalents are:

- (i) exposures to Restricted Profit Sharing Investment Accounts ("RPSIA") as part of an arrangement with OCBC Al-Amin Bank Berhad ("OCBC Al-Amin"). The RPSIA is a contract based on Mudharabah principle to fund a specific business venture where the Bank solely provides capital and the business venture is managed solely by OCBC Al-Amin. The profit of the business venture arrangement is shared with the Bank as mudarib based on a pre-agreed ratio, and losses borne by the Bank. As at 31 December 2017, collective impairment allowance of RM4 million (2016: Nil) was provided on the RPSIA placements amounting to approximately RM869 million (2016: RM950 million).
- (ii) deposit placements with OCBC Al-Amin of RM372 million (2016: RM388 million), which are unsecured and profit bearing.

(c) The RPSIA exposures are categorised as Pass according to the Bank's classification grade.

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Licensed banks	71,835	1,447,920	1,174,728	2,015,307
Allowance for RPSIA				
- Individual impairment	-	-	(59,818)	-
- Collective impairment	-	-	(4,476)	-
	<u>71,835</u>	<u>1,447,920</u>	<u>1,110,434</u>	<u>2,015,307</u>

(a) By geographical distribution

Malaysia	-	1,447,920	1,102,893	2,015,307
Other ASEAN	71,835	-	71,835	-
	<u>71,835</u>	<u>1,447,920</u>	<u>1,174,728</u>	<u>2,015,307</u>

The analysis by geography is determined based on where the credit risk resides.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)**

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
(b) By residual contractual maturity				
Maturity within one year	71,835	1,447,920	1,058,757	1,965,307
One year to five years	-	-	-	50,000
Over five years	-	-	115,971	-
	71,835	1,447,920	1,174,728	2,015,307

(c) Included in the Bank's deposits and placements with licensed banks are:

- (i) gross exposures to RPSIA as part of an arrangement with OCBC Al-Amin amounting to RM992 million (2016: RM417 million), against which impairment allowances amounting to approximately RM64 million (2016: Nil) has been provided.
- (ii) deposit placements with OCBC Al-Amin of RM110 million (2016: RM150 million), which are unsecured and profit bearing.

(d) Movements in impairment allowance on RPSIA

	Bank	
	2017	2016
	RM'000	RM'000
Individual impairment allowance		
At 1 January	-	-
Made during the year	59,818	-
At 31 December	59,818	-
Collective impairment allowance		
At 1 January	-	-
Made during the year	8,561	-
At 31 December	8,561	-
	68,379	-

(e) Credit quality of RPSIA

Except for an exposure to a specific RPSIA funded financing for which the Bank has provided individual impairment allowance as at 31 December 2017, the rest of the RPSIA exposures are categorised as Pass according to the Bank's classification grade.

5 FINANCIAL ASSETS HELD-FOR-TRADING

	Group and Bank	
	2017	2016
	RM'000	RM'000
At fair value		
Malaysian Government Investment Issues	269,493	318,634
Malaysian Government Securities	252,505	40,013
Malaysian Government Treasury Bills	-	153,437
Corporate Bonds and Sukuk	1,168,765	1,016,277
	1,690,763	1,528,361

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

6 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At fair value				
Malaysian Government Investment Issues	4,824,454	3,359,455	2,670,438	1,630,506
Malaysian Government Securities	2,272,777	2,894,073	2,272,777	2,894,073
Malaysian Treasury Bills and Islamic Treasury Bills	248,701	274,404	198,820	224,533
Malaysian Government Debt Securities and Sukuk	172,070	156,533	76,882	63,755
Foreign Government Debt Securities	596,729	299,295	394,732	65,575
Negotiable Instruments of Deposit and Islamic				
Negotiable Instruments of Deposit	1,653,492	698,689	162,268	69,022
Corporate and Islamic Corporate Bonds, Sukuk and				
Sanadat Mudharabah Cagamas	3,624,212	3,462,036	2,893,638	3,021,044
Quoted shares in Malaysia	-	296	-	296
Debentures	190	190	190	190
	<u>13,392,625</u>	<u>11,144,971</u>	<u>8,669,745</u>	<u>7,968,994</u>
At cost				
Unquoted shares in Malaysia*	108,546	108,546	108,546	108,546
	<u>13,501,171</u>	<u>11,253,517</u>	<u>8,778,291</u>	<u>8,077,540</u>
Impairment allowance				
- Debentures	(12)	(12)	(12)	(12)
	<u>13,501,159</u>	<u>11,253,505</u>	<u>8,778,279</u>	<u>8,077,528</u>

* Stated at cost due to the lack of quoted prices in an active market and/or the fair value of the investments cannot be reliably measured with undue cost and effort.

7 LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At amortised cost				
Overdrafts	2,938,259	2,970,107	2,938,259	2,970,107
Term loans/financing:				
- Housing loans/financing	27,115,889	27,947,751	25,109,866	25,912,204
- Syndicated term loans/financing	2,667,458	3,016,198	2,307,642	2,598,221
- Hire purchase receivables	447,683	625,141	10	10
- Other term loans/financing	22,383,800	23,830,021	18,823,707	19,675,264
Credit cards	561,471	549,295	561,471	549,295
Bills receivable	506,083	231,171	485,680	208,925
Trust receipts	36,343	31,387	36,225	31,208
Claims on customers under acceptance credits	3,108,578	2,806,992	2,646,951	2,406,286
Revolving credit	7,098,771	5,010,338	4,083,691	2,972,243
Staff loans/financing	62,702	71,747	62,702	71,747
Other loans/financing	1,515,508	1,430,792	1,397,019	1,236,674
Gross loans, advances and financing	<u>68,442,545</u>	<u>68,520,940</u>	<u>58,453,223</u>	<u>58,632,184</u>
Allowance for loans, advances and financing				
- Individual impairment	(389,432)	(352,074)	(263,555)	(272,031)
- Collective impairment	(600,763)	(747,243)	(446,844)	(560,264)
Net loans, advances and financing	<u>67,452,350</u>	<u>67,421,623</u>	<u>57,742,824</u>	<u>57,799,889</u>

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7 LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
a) By type of customer				
Domestic banking institutions	435	19,935	435	19,935
Domestic non-bank financial institutions	1,439,704	1,024,234	1,386,702	974,367
Domestic business enterprises				
- Small and medium enterprises	12,936,680	13,372,591	10,955,266	10,928,382
- Others	19,708,247	19,345,643	15,574,236	15,242,722
Individuals	30,615,975	32,227,873	28,104,304	29,463,311
Foreign entities	3,741,504	2,530,664	2,432,280	2,003,467
	68,442,545	68,520,940	58,453,223	58,632,184
b) By interest/profit rate sensitivity				
Fixed rate				
- Housing loans/financing	90,160	111,939	69,577	88,819
- Hire purchase receivables	256,962	375,320	10	10
- Other fixed rate loans/financing	6,642,975	6,934,981	4,816,469	4,473,020
Variable rate				
- Base rate/base lending rate/base financing rate plus	43,698,917	45,625,252	40,147,213	41,956,686
- Cost plus	17,352,150	14,986,653	13,018,573	11,626,854
- Other variable rates	401,381	486,795	401,381	486,795
	68,442,545	68,520,940	58,453,223	58,632,184
c) By sector				
Agriculture, hunting, forestry and fishing	2,955,717	2,951,479	1,563,034	1,801,409
Mining and quarrying	602,558	466,247	342,350	164,609
Manufacturing	7,518,600	8,052,298	6,107,704	6,291,990
Electricity, gas and water	304,729	326,346	250,764	265,128
Construction	2,260,653	2,006,565	1,811,551	1,558,302
Real estate	6,892,385	7,169,048	6,336,790	6,582,631
Wholesale & retail trade and restaurants & hotels	7,032,064	7,392,696	6,026,701	6,192,222
Transport, storage and communication	2,160,818	1,470,462	1,986,541	1,229,616
Finance, insurance and business services	2,485,452	1,996,285	2,238,318	1,672,889
Community, social and personal services	2,047,320	1,957,433	1,438,775	1,434,307
Household				
- Purchase of residential properties	28,226,634	29,073,277	26,186,804	27,002,709
- Purchase of non-residential properties	1,119,879	1,240,879	1,077,250	1,195,878
- Others	3,039,009	3,356,246	2,489,700	2,598,666
Others	1,796,727	1,061,679	596,941	641,828
	68,442,545	68,520,940	58,453,223	58,632,184
d) By geographical distribution				
Malaysia	64,934,877	66,241,758	56,062,788	56,618,931
Singapore	1,698,228	824,722	1,047,593	769,941
Other ASEAN countries	597,615	440,078	370,525	437,252
Rest of the world	1,211,825	1,014,382	972,317	806,060
	68,442,545	68,520,940	58,453,223	58,632,184

The analysis by geography is determined based on where the credit risk resides.

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7 LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
e) By residual contractual maturity				
Within one year	18,572,772	14,951,475	14,440,795	11,907,168
One year to less than three years	4,260,464	3,711,830	3,514,010	2,416,274
Three years to less than five years	4,265,238	5,071,453	3,326,238	4,337,890
Over five years	41,344,071	44,786,182	37,172,180	39,970,852
	<u>68,442,545</u>	<u>68,520,940</u>	<u>58,453,223</u>	<u>58,632,184</u>

8 IMPAIRED LOANS, ADVANCES AND FINANCING

(i) Movements in impaired loans, advances and financing

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	1,485,727	1,434,370	1,188,175	1,148,946
Impaired during the year	1,142,847	1,213,897	736,614	891,489
Reclassified as unimpaired	(555,977)	(391,656)	(454,117)	(331,217)
Amount recovered	(370,909)	(456,119)	(241,217)	(292,849)
Amount written off	(251,858)	(316,844)	(172,275)	(226,494)
Effect of foreign exchange difference	(19,207)	2,080	(10,129)	(1,699)
At 31 December	<u>1,430,623</u>	<u>1,485,728</u>	<u>1,047,051</u>	<u>1,188,176</u>
Individual impairment allowance	(389,432)	(352,074)	(263,555)	(272,031)
Collective impairment allowance	(9,653)	(12,941)	(6,017)	(8,795)
Net impaired loans, advances and financing	<u>1,031,538</u>	<u>1,120,713</u>	<u>777,479</u>	<u>907,350</u>

a) By sector

Agriculture, hunting, forestry and fishing	6,742	7,238	6,307	6,709
Mining and quarrying	89,569	98,384	89,569	98,204
Manufacturing	233,978	336,139	207,659	297,745
Construction	15,933	32,071	11,774	29,094
Real estate	21,394	33,689	16,099	25,445
Wholesale & retail trade and restaurants & hotels	181,977	198,105	137,044	159,467
Transport, storage and communication	70,470	31,752	65,931	24,656
Finance, insurance and business services	18,827	12,787	7,928	6,435
Community, social and personal services	7,031	11,453	5,661	8,669
Household				
- Purchase of residential properties	465,784	488,707	405,180	433,333
- Purchase of non-residential properties	30,066	29,863	29,804	29,611
- Others	96,365	112,794	63,538	68,259
Others	192,487	92,746	557	549
	<u>1,430,623</u>	<u>1,485,728</u>	<u>1,047,051</u>	<u>1,188,176</u>

b) By geographical distribution

Malaysia	1,411,431	1,472,156	1,027,859	1,174,604
Singapore	15,371	8,222	15,371	8,222
Rest of the world	3,821	5,350	3,821	5,350
	<u>1,430,623</u>	<u>1,485,728</u>	<u>1,047,051</u>	<u>1,188,176</u>

The analysis by geography is determined based on where the credit risk resides.

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8 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

(i) Movements in impaired loans, advances and financing (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
c) By period overdue				
Less than 3 months	253,737	346,691	191,930	255,028
3 months to less than 6 months	190,256	218,690	143,088	160,427
6 months to less than 9 months	212,882	395,852	80,116	291,626
Over 9 months	773,748	524,495	631,917	481,095
	<u>1,430,623</u>	<u>1,485,728</u>	<u>1,047,051</u>	<u>1,188,176</u>
d) By collateral type				
Property	748,235	863,739	654,128	779,003
Fixed deposits	345	296	345	296
Stock and shares	47	17,023	47	17,023
Machinery	997	3,202	-	-
Secured - others	334,864	240,935	118,698	125,275
Unsecured - corporate and other guarantees	137,992	8,263	137,521	8,255
Unsecured - clean	208,143	352,270	136,312	258,324
	<u>1,430,623</u>	<u>1,485,728</u>	<u>1,047,051</u>	<u>1,188,176</u>

(ii) Movements in allowance for loans, advances and financing

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Individual impairment allowance				
At 1 January	352,074	408,850	272,031	326,417
Made during the year	477,552	409,503	280,820	255,038
Written back	(182,077)	(141,675)	(111,766)	(76,062)
Written off	(251,858)	(316,844)	(172,275)	(226,494)
Discount unwind and financing income earned on impaired financing	(6,259)	(6,223)	(5,255)	(5,331)
Effect of foreign exchange difference	-	(1,537)	-	(1,537)
At 31 December	<u>389,432</u>	<u>352,074</u>	<u>263,555</u>	<u>272,031</u>
Collective impairment allowance				
At 1 January	747,243	750,743	560,264	560,264
Written back during the year, net	(146,480)	(3,500)	(113,420)	-
At 31 December	<u>600,763</u>	<u>747,243</u>	<u>446,844</u>	<u>560,264</u>

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8 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

(ii) Movements in allowance for loans, advances and financing (continued)

a) By sector

<u>Group</u>	Individual impairment allowance		Individual impairment allowance made during the year		Individual impairment allowance written off		Collective impairment allowance *	
	2017	2016	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	211	107	305	223	137	455	36,257	39,216
Mining and quarrying	442	180	20,893	235	20,584	-	6,460	7,326
Manufacturing	83,476	120,456	76,381	103,336	104,746	150,271	67,717	92,760
Electricity, gas and water	-	-	-	-	-	-	2,721	3,712
Construction	3,500	4,779	6,683	5,485	4,378	3,529	20,496	23,450
Real estate	5,776	6,548	469	1,989	-	20	56,784	74,284
Wholesale & retail trade and restaurants & hotels	46,542	45,186	45,080	51,598	22,715	50,036	60,653	81,768
Transport, storage and communication	30,629	8,411	29,214	7,307	2,250	18,610	17,581	16,297
Finance, insurance and business services	4,777	3,539	9,982	8,519	3,621	7,061	20,778	22,165
Community, social and personal services	2,109	3,394	3,089	4,021	1,796	3,500	19,998	19,241
Household								
- Purchase of residential properties	95,745	92,054	89,173	77,314	19,940	6,355	230,335	297,724
- Purchase of non-residential properties	3,585	2,317	2,008	1,106	26	1,927	8,873	12,316
- Others	52,822	65,049	123,140	148,347	60,347	75,080	26,589	38,362
Others	59,818	54	71,135	23	11,318	-	25,521	18,622
	389,432	352,074	477,552	409,503	251,858	316,844	600,763	747,243

* Collective impairment allowance for loans, advances and financing

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8 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

(ii) Movements in allowance for loans, advances and financing (continued)

a) By sector (continued)

	Individual impairment allowance		Individual impairment allowance made during the year		Individual impairment allowance written off		Collective impairment allowance *	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Bank								
Agriculture, hunting, forestry and fishing	-	75	25	105	100	30	12,003	17,293
Mining and quarrying	442	-	20,893	-	20,430	-	2,626	1,580
Manufacturing	79,621	115,897	70,170	99,188	101,419	145,316	46,290	59,291
Electricity, gas and water	-	-	-	-	-	-	1,926	2,545
Construction	2,535	3,774	5,052	3,670	3,053	1,939	13,892	14,924
Real estate	3,073	3,868	430	1,691	-	20	48,637	63,157
Wholesale & retail trade and restaurants & hotels	34,440	31,635	28,042	29,717	9,466	32,115	46,015	59,142
Transport, storage and communication	29,631	6,593	27,346	4,072	763	16,429	15,027	11,741
Finance, insurance and business services	2,607	808	4,036	1,849	527	1,633	17,168	16,052
Community, social and personal services	1,771	2,225	1,993	2,215	365	1,307	11,035	9,291
Household								
- Purchase of residential properties	84,162	82,369	78,930	67,659	18,581	6,008	200,445	258,438
- Purchase of non-residential properties	3,536	2,301	1,958	1,105	26	1,927	8,245	11,458
- Others	21,737	22,486	41,945	43,767	17,545	19,770	18,952	24,732
Others	-	-	-	-	-	-	4,583	10,620
	263,555	272,031	280,820	255,038	172,275	226,494	446,844	560,264

* Collective impairment allowance for loans, advances and financing

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8 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

(ii) Movements in allowance for loans, advances and financing (continued)

b) By geographical distribution

	Group				Bank			
	Individual impairment allowance		Collective impairment allowance		Individual impairment allowance		Collective impairment allowance *	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Malaysia	387,402	349,568	562,507	722,905	261,525	269,525	428,502	540,960
Singapore	1,708	2,173	20,314	8,396	1,708	2,173	8,031	7,371
Other ASEAN countries	-	-	6,946	4,252	-	-	2,845	4,198
Rest of the world	322	333	10,996	11,690	322	333	7,466	7,735
	389,432	352,074	600,763	747,243	263,555	272,031	446,844	560,264

* Collective impairment allowance for loans, advances and financing

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9 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Financial derivatives are instruments which values change in response to the change in one or more "underlying" such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In the normal course of business, the Group and the Bank customise derivatives to meet the specific needs of their customers. The Group and the Bank also transact in these derivatives for proprietary trading purposes as well as to manage its assets/liabilities and structural positions. While the Group and the Bank also enter into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases, these other contracts are not designated as hedge relationships and are measured at fair value through profit or loss.

The tables below analyse the principal amounts and the positive (assets) and negative (liabilities) fair values of the Group's and the Bank's financial derivatives. The notional amounts of these instruments indicate the volume of transactions outstanding at the reporting date for both trading and hedging instruments. They do not necessarily indicate the amount of future cash flows or the fair value of the derivatives and therefore, do not represent total amount of risk. The positive (assets) and negative (liabilities) fair values represent the favourable and unfavourable fair value respectively of hedging and trading derivatives as a result of fluctuations in the value of the underlying relative to their contractual terms as at reporting date.

	2017			2016		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Group						
Trading						
Foreign exchange derivatives						
- Forwards	3,292,964	23,417	103,020	4,678,567	156,938	51,988
- Swaps	14,598,777	646,655	784,967	20,154,764	1,641,525	1,556,905
- Options	353,697	2,119	988	908,827	27,221	6,169
Interest rate derivatives						
- Swaps	44,389,512	138,134	162,926	42,931,058	154,410	182,040
- Options	180,000	442	1,074	230,000	947	2,079
- Futures	80,911	-	16	251,166	-	368
Equity and other derivatives						
- Swaps	132,500	7,271	7,271	178,580	2,857	2,857
- Options	3,780	-	-	-	-	-
- Commodity futures	161,498	2,567	3,758	103,151	1,007	1,007
- Credit linked notes	474,416	15,220	15,220	990,100	10,215	10,215
	63,668,055	835,825	1,079,240	70,426,213	1,995,120	1,813,628
Hedging						
Interest rate derivatives						
- Swaps	114,729	-	1,614	963,806	396	6,786
	63,782,784	835,825	1,080,854	71,390,019	1,995,516	1,820,414

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9 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Bank	2017			2016		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Trading						
Foreign exchange derivatives						
- Forwards	3,290,208	23,217	102,593	4,698,927	156,903	51,618
- Swaps	14,598,777	646,655	784,967	20,154,764	1,641,525	1,556,905
- Options	353,697	2,119	988	908,827	27,221	6,169
Interest rate derivatives						
- Swaps	44,389,512	138,134	162,926	42,931,058	154,410	182,040
- Options	180,000	442	1,074	230,000	947	2,079
- Futures	80,911	-	16	251,166	-	368
Equity and other derivatives						
- Swaps	132,500	7,271	7,271	178,580	2,857	2,857
- Options	3,780	-	-	-	-	-
- Commodity futures	161,498	2,567	3,758	103,151	1,007	1,007
- Credit linked notes	474,416	15,220	15,220	990,100	10,215	10,215
	63,665,299	835,625	1,078,813	70,446,573	1,995,085	1,813,258
Hedging						
Interest rate derivatives						
- Swaps	114,729	-	1,614	963,806	396	6,786
	63,780,028	835,625	1,080,427	71,410,379	1,995,481	1,820,044
Of which related to wholly-owned subsidiary	30,544	143	19	43,813	2	38

10 OTHER ASSETS

	Note	Group		Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Amount due from subsidiaries	(a)	-	-	177,436	7,936
Interest/Profit receivable		134,749	114,735	113,005	94,125
Unquoted Islamic subordinated bonds of subsidiary					
- Redeemable subordinated bond	(b)	-	-	200,000	200,000
Other receivables, deposits and prepayments		237,900	168,471	221,842	165,013
Impairment allowance on other receivables	(c)	(2,372)	(2,609)	(2,372)	(2,609)
		370,277	280,597	709,911	464,465

(a) The amount due from subsidiaries are unsecured, interest/profit free and repayable on demand.

(b) On 24 November 2016, the Bank subscribed for RM200 million redeemable 10 years non-callable 5 years subordinated bond under the principle of Murabahah at a profit rate of 4.80% per annum payable semi-annually in arrears from the issue date with the last Periodic Profit Payment to be made up to (but excluding) the maturity date or early redemption of the Murabahah subordinated bond, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**10 OTHER ASSETS (continued)**

(c) Impairment allowance on other receivables

	Group and Bank	
	2017	2016
	RM'000	RM'000
At 1 January	2,609	2,862
Made during the year	50	2,609
Amount written back	-	(2,321)
Amount written off	(50)	(541)
Currency translation adjustment	(237)	-
At 31 December	<u>2,372</u>	<u>2,609</u>

11 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act 2009, the amounts of which are determined as set percentages of total eligible liabilities.

12 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2017	2016
	RM'000	RM'000
Unquoted shares in Malaysia, at cost	<u>558,492</u>	<u>558,492</u>

Details of the subsidiaries of the Bank, all of which are incorporated in Malaysia, are as follows:

Name	Principal activities	Effective ownership and voting interest	
		2017	2016
OCBC Al-Amin Bank Berhad	Islamic banking	100%	100%
OCBC Credit Berhad	In members' voluntary winding-up	100%	100%
Malaysia Nominees (Tempatan) Sdn Bhd	Nominee services	100%	100%
Malaysia Nominees (Asing) Sdn Bhd	Nominee services	100%	100%
OCBC Advisers Sdn Bhd	Corporate finance and related advisory services	70%	70%

The Bank acquired 350,000 ordinary shares of RM1.00 each, representing 70% of the issued and paid-up ordinary share capital in OCBC Advisers Sdn Bhd for a total consideration of RM1,875,225 from Overseas-Chinese Banking Corporation Limited on 31 May 2016.

In the seven months to 31 December 2016, OCBC Advisers contributed total income and net profit of RM3,536,252 and RM1,972,797 respectively. If the acquisition had occurred on 1 January 2016, the subsidiary would have contributed total income and net profit of RM3,436,252 and RM1,413,917 respectively, to the Group.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

12 INVESTMENTS IN SUBSIDIARIES (continued)

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	2016 RM'000
Fair value of consideration transferred	
Cash and cash equivalents	<u>1,875</u>
Identifiable assets acquired and liabilities assumed	
Other assets	1,530
Deferred tax assets	123
Current tax assets	358
Other liabilities	<u>(136)</u>
Total identifiable net assets	<u>1,875</u>
Net cash outflow arising from acquisition of subsidiary	
Cash and cash equivalents acquired	<u>1,530</u>
Cash outflow in acquisition	<u>1,530</u>

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13 PROPERTY AND EQUIPMENT

Group	Freehold	Leasehold	Buildings on		Office	Computer	Motor	Renovation	Work in	Total
	land and	land	Less than	50 years						
	buildings*	50 years	50 years	or more	and furniture	software				
	RM'000	or more	50 years	or more	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017										
Cost										
At 1 January	124,076	3,745	3,607	7,018	136,448	261,609	905	89,409	680	627,497
Additions	-	-	-	-	1,958	2,374	-	148	3,249	7,729
Disposals/Written off	-	-	-	-	(1,242)	(1,500)	-	(1,846)	-	(4,588)
At 31 December	124,076	3,745	3,607	7,018	137,164	262,483	905	87,711	3,929	630,638
Accumulated depreciation										
At 1 January	(34,553)	(514)	(1,475)	(2,378)	(103,596)	(215,301)	(499)	(76,322)	-	(434,638)
Depreciation for the year	(2,055)	(36)	(53)	(89)	(6,343)	(16,309)	(154)	(7,881)	-	(32,920)
Disposals/Written off	-	-	-	-	944	1,472	-	1,758	-	4,174
At 31 December	(36,608)	(550)	(1,528)	(2,467)	(108,995)	(230,138)	(653)	(82,445)	-	(463,384)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	87,900	3,181	1,047	2,740	32,852	46,308	406	13,087	680	188,201
At 31 December	85,845	3,145	994	2,651	28,169	32,345	252	5,266	3,929	162,596

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2016: RM105 million) and accumulated depreciation of RM37 million (2016: RM35 million).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

13 PROPERTY AND EQUIPMENT (continued)

Group	Freehold	Leasehold	Buildings on		Office	Computer	Motor	Renovation	Work in	Total
	land and	land	leasehold land							
	buildings	50 years	Less than	50 years	equipment	equipment/	vehicles		progress	
	RM'000	or more	50 years	or more	and furniture	software	RM'000	RM'000	RM'000	RM'000
2016										
Cost										
At 1 January	121,195	3,745	3,607	7,018	133,026	265,318	1,446	87,430	48	622,833
Additions	-	-	-	-	4,097	4,935	-	3,601	632	13,265
Disposals/Written off	-	-	-	-	(842)	(8,644)	(541)	(1,455)	-	(11,482)
Reclassification	-	-	-	-	167	-	-	(167)	-	-
Reclassified from investment properties	2,881	-	-	-	-	-	-	-	-	2,881
At 31 December	124,076	3,745	3,607	7,018	136,448	261,609	905	89,409	680	627,497
Accumulated depreciation										
At 1 January	(32,045)	(477)	(1,424)	(2,288)	(97,419)	(203,237)	(885)	(67,315)	-	(405,090)
Depreciation for the year	(2,055)	(37)	(51)	(90)	(6,599)	(20,560)	(155)	(9,923)	-	(39,470)
Disposals/Written off	-	-	-	-	422	8,496	541	916	-	10,375
Reclassified from investment properties	(453)	-	-	-	-	-	-	-	-	(453)
At 31 December	(34,553)	(514)	(1,475)	(2,378)	(103,596)	(215,301)	(499)	(76,322)	-	(434,638)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	87,527	3,218	1,098	2,830	35,607	62,081	561	20,115	48	213,085
At 31 December	87,900	3,181	1,047	2,740	32,852	46,308	406	13,087	680	188,201

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13 PROPERTY AND EQUIPMENT (continued)

<u>Bank</u>	Freehold	Leasehold	Building on		Office	Computer	Motor	Renovation	Work in	Total
	land and	land	leasehold land							
	buildings*	50 years	Less than	50 years	and furniture	software				
	RM'000	or more	50 years	or more	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017										
Cost										
At 1 January	123,944	3,745	3,607	7,018	127,802	244,720	816	78,371	680	590,703
Additions	-	-	-	-	1,686	2,268	-	107	3,249	7,310
Disposals/Written off	-	-	-	-	(1,218)	(1,235)	-	(1,835)	-	(4,288)
At 31 December	123,944	3,745	3,607	7,018	128,270	245,753	816	76,643	3,929	593,725
Accumulated depreciation										
At 1 January	(34,516)	(514)	(1,475)	(2,378)	(100,193)	(202,941)	(410)	(68,833)	-	(411,260)
Depreciation for the year	(2,055)	(36)	(53)	(89)	(5,481)	(14,669)	(154)	(5,881)	-	(28,418)
Disposals/Written off	-	-	-	-	926	1,209	-	1,747	-	3,882
At 31 December	(36,571)	(550)	(1,528)	(2,467)	(104,748)	(216,401)	(564)	(72,967)	-	(435,796)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	87,805	3,181	1,047	2,740	27,609	41,779	406	9,538	680	174,785
At 31 December	85,750	3,145	994	2,651	23,522	29,352	252	3,676	3,929	153,271

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2016: RM105 million) and accumulated depreciation of RM37 million (2016: RM35 million).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

13 PROPERTY AND EQUIPMENT (continued)

<u>Bank</u>	Freehold	Leasehold	Building on		Office	Computer	Motor	Renovation	Work in	Total
	land and	land	leasehold land							
	buildings	50 years	Less than	50 years	and furniture	software				
	RM'000	or more	50 years	or more	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016										
Cost										
At 1 January	121,063	3,745	3,607	7,018	126,056	249,256	1,357	77,048	48	589,198
Additions	-	-	-	-	2,205	3,699	-	1,724	632	8,260
Disposals/Written off	-	-	-	-	(459)	(8,235)	(541)	(401)	-	(9,636)
Reclassified from investment properties	2,881	-	-	-	-	-	-	-	-	2,881
At 31 December	123,944	3,745	3,607	7,018	127,802	244,720	816	78,371	680	590,703
Accumulated depreciation										
At 1 January	(32,008)	(477)	(1,424)	(2,288)	(94,757)	(192,316)	(796)	(61,615)	-	(385,681)
Depreciation for the year	(2,055)	(37)	(51)	(90)	(5,704)	(18,731)	(155)	(7,423)	-	(34,246)
Disposals/Written off	-	-	-	-	268	8,106	541	205	-	9,120
Reclassified from investment properties	(453)	-	-	-	-	-	-	-	-	(453)
At 31 December	(34,516)	(514)	(1,475)	(2,378)	(100,193)	(202,941)	(410)	(68,833)	-	(411,260)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	87,432	3,218	1,098	2,830	31,299	56,940	561	15,433	48	198,859
At 31 December	87,805	3,181	1,047	2,740	27,609	41,779	406	9,538	680	174,785

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

14 PREPAID LEASE PAYMENTS

	<u>Group and Bank</u>	
	<u>Leasehold land</u>	
	<u>Unexpired period less than 50 years</u>	
	2017	2016
	RM'000	RM'000
Cost		
At 1 January and 31 December	3,047	3,047
Accumulated amortisation		
At 1 January	(709)	(673)
Amortisation for the year	(36)	(36)
At 31 December	(745)	(709)
Impairment allowance		
At 1 January and 31 December	(1,554)	(1,554)
Carrying amount		
At 1 January	784	820
At 31 December	748	784

15 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are attributable to the following:

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	2017	2016	2017	2016	2017	2016
<u>Group</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Change in fair value of financial instruments	-	5,108	(4,044)	-	(4,044)	5,108
Excess of capital allowance over depreciation	-	4,142	(9,546)	(16,799)	(9,546)	(12,657)
Impairment allowance on financial investments available-for-sale	3	3	-	-	3	3
Other temporary differences	40,544	35,867	-	-	40,544	35,867
Tax assets/(liabilities)	40,547	45,120	(13,590)	(16,799)	26,957	28,321
Set off of tax	(13,590)	(16,799)	13,590	16,799	-	-
Net tax assets	26,957	28,321	-	-	26,957	28,321

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15 DEFERRED TAX ASSETS (continued)

	Assets		Liabilities		Net	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Bank						
Change in fair value of financial instruments	-	2,106	(2,890)	-	(2,890)	2,106
Excess of capital allowance over depreciation	-	4,142	(8,414)	(15,389)	(8,414)	(11,247)
Impairment allowance on financial investments available-for-sale	3	3	-	-	3	3
Other temporary differences	36,323	32,115	-	-	36,323	32,115
Tax assets/(liabilities)	36,326	38,366	(11,304)	(15,389)	25,022	22,977
Set off of tax	(11,304)	(15,389)	11,304	15,389	-	-
Net tax assets	25,022	22,977	-	-	25,022	22,977

(i) Movement in deferred tax during the financial year

Group	At	Deferred tax assets	Recognised in profit or loss	Recognised in other comprehensive income	At
	1 January RM'000	acquired on 31 May 2016 RM'000	(Note 31) RM'000	RM'000	31 December RM'000
2017					
Change in fair value of financial instruments	5,108	-	-	(9,152)	(4,044)
Excess of capital allowance over depreciation	(12,657)	-	3,111	-	(9,546)
Impairment allowance on financial investments available-for-sale	3	-	-	-	3
Other temporary differences	35,867	-	4,677	-	40,544
	28,321	-	7,788	(9,152)	26,957
2016					
Change in fair value of financial instruments	(2,248)	-	-	7,356	5,108
Excess of capital allowance over depreciation	(15,782)	-	3,125	-	(12,657)
Impairment allowance on financial investments available-for-sale	3	-	-	-	3
Other temporary differences	32,519	174	3,174	-	35,867
	14,492	174	6,299	7,356	28,321

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15 DEFERRED TAX ASSETS (continued)

(i) Movement in deferred tax during the financial year (continued)

<u>Bank</u>	At 1 January RM'000	Recognised in profit or loss (Note 31) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
2017				
Change in fair value of financial instruments	2,106	-	(4,996)	(2,890)
Excess of capital allowance over depreciation	(11,247)	2,833	-	(8,414)
Impairment allowance on financial investments available-for-sale	3	-	-	3
Other temporary differences	32,115	4,208	-	36,323
	<u>22,977</u>	<u>7,041</u>	<u>(4,996)</u>	<u>25,022</u>
2016				
Change in fair value of financial instruments	(3,335)	-	5,441	2,106
Excess of capital allowance over depreciation	(15,051)	3,804	-	(11,247)
Impairment allowance on financial investments available-for-sale	3	-	-	3
Other temporary differences	30,539	1,576	-	32,115
	<u>12,156</u>	<u>5,380</u>	<u>5,441</u>	<u>22,977</u>

16 DEPOSITS FROM CUSTOMERS

	<u>Group</u>		<u>Bank</u>	
	2017 RM'000	2016 RM'000 Restated	2017 RM'000	2016 RM'000 Restated
a) By type of deposit				
Demand deposits	14,959,903	16,132,182	11,246,027	12,585,544
Fixed/General investment deposits	43,103,460	44,674,058	36,491,363	37,799,241
Saving deposits	7,441,043	7,761,006	6,956,711	7,325,787
Negotiable instruments of deposit	5,104,660	-	5,104,660	-
Short-term money market deposits	3,043,673	2,367,567	2,691,661	1,989,975
	<u>73,652,739</u>	<u>70,934,813</u>	<u>62,490,422</u>	<u>59,700,547</u>

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16 DEPOSITS FROM CUSTOMERS (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000 Restated	2017 RM'000	2016 RM'000 Restated
b) By type of customer				
Government and statutory bodies	1,427,339	1,433,303	81,052	24,901
Non-bank financial institutions	3,021,481	4,356,308	2,318,319	3,414,586
Business enterprises	27,959,118	28,223,974	22,233,620	22,575,588
Individuals	32,642,260	32,794,918	29,427,322	29,696,046
Foreign entities	7,571,149	3,305,490	7,468,190	3,223,713
Others	1,031,392	820,820	961,919	765,713
	<u>73,652,739</u>	<u>70,934,813</u>	<u>62,490,422</u>	<u>59,700,547</u>
c) By maturity structure for fixed/term/general investment deposits, negotiable instruments of deposit and short-term money market deposits				
Within six months	38,077,174	34,700,437	33,260,943	29,539,773
Six months to one year	12,418,069	11,572,471	10,436,494	9,553,938
One year to three years	747,784	747,601	581,992	674,688
Three years to five years	8,766	21,116	8,255	20,817
	<u>51,251,793</u>	<u>47,041,625</u>	<u>44,287,684</u>	<u>39,789,216</u>

The comparative figures have been restated to conform with current year presentation which excludes structured investments pursuant to BNM's circular issued on 21 June 2017 on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013.

17 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Licensed banks and other financial institutions	4,388,137	9,457,112	3,946,437	8,972,185
Bank Negara Malaysia	-	5,000	-	5,000
	<u>4,388,137</u>	<u>9,462,112</u>	<u>3,946,437</u>	<u>8,977,185</u>

18 SUBORDINATED BONDS

	Note	Group and Bank	
		2017 RM'000	2016 RM'000
RM400 million Innovative Tier 1 Capital Securities	(a)	400,000	400,000
RM600 million Redeemable Subordinated Bonds 2012/2022	(b)	-	599,428
USD110 million Additional Tier 1 Capital Securities	(c)	445,010	493,361
USD130 million Redeemable Subordinated Bonds 2015/2025	(d)	525,922	583,063
RM390 million Redeemable Subordinated Bonds 2017/2027	(e)	390,000	-
RM110 million Redeemable Subordinated Bonds 2017/2027	(e)	110,000	-
		<u>1,870,932</u>	<u>2,075,852</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

18 SUBORDINATED BONDS (continued)

- (a) On 17 April 2009, the Bank issued RM400 million Innovative Tier 1 ("IT1") Capital Securities with permanent tenure but redeemable at the Bank's option (subject to prior approval of BNM and the Monetary Authority of Singapore ("MAS")), 10 years after the issue date or on each coupon payment date thereafter or upon occurrence of tax or regulatory events. In addition, if the IT1 Capital Securities are still outstanding after 30 years from issue date, the Bank shall (subject to prior approval of BNM and MAS) issue sufficient number of non-cumulative, non-convertible preference shares; the proceeds of which shall be utilised to redeem the IT1 Capital Securities. The IT1 Capital Securities bear an initial coupon rate of 6.75% per annum, payable semi-annually for the first 10 years and, thereafter, at a rate per annum equal to the 6-month KLIBOR plus 3.32% with effect from (and including) the 10th anniversary date onward.

The IT1 Capital Securities, rated AA2 on 18 July 2017 by RAM, qualify as Tier 1 capital subject to a gradual phase out as required under the BNM Capital Adequacy Framework (Capital Components).

- (b) On 15 August 2012, the Bank issued RM600 million redeemable 10 years non-callable 5 years subordinated bonds at a coupon rate of 4.00% per annum payable semi-annually up to (but excluding) the date of early redemption or the maturity date of the subordinated bonds, whichever is earlier. The Bank may, at its option and subject to the prior approval of BNM and MAS, exercise its call option and may redeem in whole, but not in part, the subordinated bonds on the 5th anniversary date from the issue date and on every coupon payment date thereafter. The Bank had entered into interest rate swaps to manage the risk of the subordinated bonds and the cumulative fair value change of the risk hedged is included in the carrying amount of the subordinated bonds. The redeemable subordinated bonds, rated AA1 on 18 July 2017 by RAM, were redeemed in full on 15 August 2017.

- (c) On 18 September 2015, the Bank issued USD110 million Basel III-compliant Additional Tier 1 ("AT1") Capital Securities with perpetual non-callable five year tenure at a fixed coupon rate of 5.00% per annum payable semi-annually from and including 18 September 2015 (the Issue Date). The Bank may, subject to prior approval of BNM, at its option redeem in whole or in part, on 18 March 2021 and every coupon payment date thereafter. In addition to the first call in 2021, AT1 Capital Securities may also be redeemed if a qualifying tax event or a change of qualification event occurs. AT1 Capital Securities can be written off in whole or in part if the Bank is determined by BNM and/or Malaysia Deposit Insurance Corporation ("PIDM") to be non-viable.

The AT1 Capital Securities are subscribed by OCBC Ltd and qualify as Additional Tier 1 capital for the purpose of determining the capital adequacy ratio of the Bank.

- (d) On 4 November 2015, the Bank issued USD130 million Basel III-compliant redeemable 10 years non-callable 5 years subordinated bonds at a coupon rate of 3.65% per annum payable semi-annually from and including 4 November 2015 (the Issue Date) up to (but excluding) the maturity date or the date of early redemption of the subordinated bonds, whichever is earlier. The Bank may, at its option and subject to the prior approval of BNM, exercise its call option and may redeem in whole or in part, the subordinated bonds on the 4 November 2020 and any coupon payment date thereafter. In addition to the first call in 2020, the subordinated bonds may also be redeemed if a qualifying tax event or a change of qualification event occurs. The subordinated bonds can be written off in whole or in part if the Bank is determined by BNM and/or PIDM to be non-viable.

The subordinated bonds are subscribed by OCBC Ltd and qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

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18 SUBORDINATED BONDS (continued)

- (e) On 15 August 2017 and 30 September 2017 (the Issue Date), the Bank issued RM390 million and RM110 million Basel III-compliant redeemable 10 years non-callable 5 years subordinated bonds respectively, at a coupon rate of 4.65% per annum payable semi-annually from and including the Issue Date up to (but excluding) the maturity date or the date of early redemption of the subordinated bonds, whichever is earlier. The Bank may, at its option and subject to the prior approval of BNM, exercise its call option and may redeem in whole or in part, the subordinated bonds on 15 August 2022 and 30 September 2022 respectively, and any coupon payment dates thereafter. In addition to the first call in 2022, the subordinated bonds may also be redeemed if a qualifying tax event or a change of qualification event occurs. The subordinated bonds can be written off in whole or in part if the Bank is determined by BNM and/or PIDM to be non-viable.

The subordinated bonds are subscribed by OCBC Ltd and qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

19 OTHER LIABILITIES

	Note	Group		Bank	
		2017 RM'000	2016 RM'000 Restated	2017 RM'000	2016 RM'000 Restated
Amount due to subsidiaries	(a)	-	-	21,654	44,145
Equity compensation benefits	(b)	12,476	13,761	11,780	13,054
Interest/Profit payable		528,833	571,432	459,912	477,734
Structured investments		1,610,026	1,287,911	1,610,026	1,287,911
Other payables and accruals		392,471	363,645	313,850	288,293
		<u>2,543,806</u>	<u>2,236,749</u>	<u>2,417,222</u>	<u>2,111,137</u>

The comparative figures have been restated to conform with current year presentation which includes structured investments pursuant to BNM's circular issued on 21 June 2017 on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013. Structured investments were previously reported as part of deposits from customers.

- (a) The amount due to subsidiaries is unsecured, interest/profit free and repayable on demand.
- (b) Equity compensation benefits refer to the fair value for all goods and services received in respect of cash-settled share-based payment transactions recognised under MFRS 2 Share-based Payment. Included in equity compensation benefits are:
- (i) **OCBC Deferred Share Plan**

Under the OCBC Deferred Share Plan ("the Plan"), shares of the ultimate holding company of the Bank are awarded to executives of the rank of Assistant Manager and above. A trust is set up to administer the shares purchased under the Plan. Shares granted under the Plan will vest three years from the grant date and will lapse when the staff ceases employment during the vesting period.

The deferred share awards are as follows:

- (a) Share awards granted annually to eligible executives who are paid variable performance bonus of S\$70,000 and above. The share awards form 20% to 40% of their total variable performance bonus for the year. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of three years in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**19 OTHER LIABILITIES (continued)**

(b) Equity compensation benefits (continued)

(i) **OCBC Deferred Share Plan (continued)**

(b) In addition to the above, senior executives are also granted deferred share awards as part of their long term incentive compensation. These share awards are not deducted from their variable performance bonus and the whole award vests after three years. The awards will lapse immediately on the termination of employment and appointment, except in the event of retirement, redundancy, death, or where approved by the OCBC Bank Remuneration Committee, in which case the OCBC Bank Remuneration Committee may allow the awards to be retained and vested within the relevant vesting periods or such periods as may be determined by the OCBC Bank Remuneration Committee.

(ii) **OCBC Share Option Scheme 2001**

Under the OCBC Share Option Scheme 2001, shares of the ultimate holding company of the Bank are offered to executives of the rank of Manager and above, including executive Directors. Options granted are exercisable for a period commencing after the 1st anniversary of the respective dates of grant. One-third of the share options granted will vest each financial year after the 1st anniversary of the respective dates of grant and fully vested after the 3rd anniversary.

The options will lapse immediately on the termination of employment, except in the event of retirement, redundancy, death, or where approved by the Remuneration Committee, in which case the Remuneration Committee may allow the options to be retained and exercisable within the relevant option periods or such option periods as may be determined by the Remuneration Committee.

During the financial year, the Group and the Bank granted 172,422 (2016: 204,026) options and 154,497 (2016: 181,352) options to acquire ordinary shares in the ultimate holding company, Oversea-Chinese Banking Corporation Limited ("OCBC Bank") pursuant to OCBC Share Option Scheme 2001. The fair value of options granted to the employees of the Group and the Bank, determined using the binomial valuation model, were S\$131,518 (2016: S\$266,792) and S\$117,845 (2016: S\$237,143) respectively. Significant inputs to the valuation model are set out below:

	<u>2017</u>	<u>2016</u>
Acquisition price (S\$)	9.60	8.81
Average share price from grant date to acceptance date (S\$)	9.64	8.95
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	14.73	20.08
Risk-free rate based on SGD bond yield at acceptance date (%)	2.11	1.83
Expected dividend yield (%)	4.27	4.02
Exercise multiple (times)	1.74	1.78
Option life (expected weighted average life)	10	10

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19 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(ii) OCBC Share Option Scheme 2001 (continued)

Movements in the number of options and weighted average exercise prices are as follows:

<u>Group</u>	2017		2016	
	Number of share options	Weighted average acquisition price (S\$)	Number of share options	Weighted average acquisition price (S\$)
At 1 January	1,059,393	8.936	1,146,549	8.895
Granted	172,422	9.598	204,026	8.814
Exercised	(651,418)	9.009	(108,191)	7.166
Forfeited/Lapsed	(6,683)	8.354	(182,991)	9.588
At 31 December	<u>573,714</u>	<u>9.059</u>	<u>1,059,393</u>	<u>8.936</u>
Exercisable at 31 December	<u>232,183</u>	<u>8.509</u>	<u>734,869</u>	<u>8.763</u>
Weighted average share price underlying the options exercised (S\$)		<u>10.712</u>		<u>8.690</u>

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2017	
				Outstanding	Exercisable
2008	14/03/2008	15/03/2009 to 13/03/2018	7.313	34,322	34,322
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	28,998	28,998
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	40,155	40,155
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	22,608	22,608
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	10,079	10,079
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	47,863	47,863
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	2,853	2,853
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	92,700	44,096
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	121,714	1,209
2017	23/03/2017	23/03/2018 to 22/03/2027	9.598	172,422	-
				<u>573,714</u>	<u>232,183</u>

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2016	
				Outstanding	Exercisable
2007	14/03/2007	15/03/2008 to 13/03/2017	8.354	89,535	89,535
2008	14/03/2008	15/03/2009 to 13/03/2018	7.313	121,631	121,631
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	29,998	29,998
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	46,678	46,678
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	29,808	29,808
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	72,494	72,494
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	205,780	205,780
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	140,686	91,782
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	142,930	47,163
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	179,853	-
				<u>1,059,393</u>	<u>734,869</u>

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19 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(ii) OCBC Share Option Scheme 2001 (continued)

<u>Bank</u>	2017		2016	
	Number of share options	Weighted average acquisition price (S\$)	Number of share options	Weighted average acquisition price (S\$)
At 1 January	984,234	8.893	1,094,064	8.852
Granted	154,497	9.598	181,352	8.814
Exercised	(609,403)	8.984	(108,191)	7.166
Forfeited/Lapsed	(6,683)	8.354	(182,991)	9.588
At 31 December	<u>522,645</u>	<u>9.002</u>	<u>984,234</u>	<u>8.893</u>
Exercisable at 31 December	<u>220,335</u>	<u>8.408</u>	<u>699,665</u>	<u>8.716</u>
Weighted average share price underlying the options exercised (S\$)		<u>10.712</u>		<u>8.690</u>

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2017	
				Outstanding	Exercisable
2008	14/03/2008	15/03/2009 to 13/03/2018	7.313	34,322	34,322
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	28,998	28,998
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	40,155	40,155
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	22,608	22,608
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	10,079	10,079
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	47,863	47,863
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	2,853	2,853
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	74,748	32,248
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	106,522	1,209
2017	23/03/2017	23/03/2018 to 22/03/2027	9.598	154,497	-
				<u>522,645</u>	<u>220,335</u>

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2016	
				Outstanding	Exercisable
2007	14/03/2007	15/03/2008 to 13/03/2017	8.354	89,535	89,535
2008	14/03/2008	15/03/2009 to 13/03/2018	7.313	121,631	121,631
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	29,998	29,998
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	46,678	46,678
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	29,808	29,808
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	69,232	69,232
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	189,958	189,958
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	125,237	81,586
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	124,978	41,239
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	157,179	-
				<u>984,234</u>	<u>699,665</u>

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19 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(iii) **OCBC Employee Share Purchase Plan**

The OCBC Employee Share Purchase Plan ("ESP Plan") is a savings-based share ownership plan to help employees of the Group and the Bank own ordinary shares in the ultimate holding company through their monthly contributions via deductions from payroll. The employees have the option to convert the contributions to ordinary shares after one year or withdraw the contributions. As a further incentive to employees to enrol in the ESP Plan, the Group and the Bank pay interest on the amounts saved at a preferential interest rate.

The duration of offering period is 24 months and the share acquisition price is fixed before the offering period based on average of the last traded prices over five consecutive trading days immediately preceding the price fixing date.

In June 2017, OCBC Bank launched its twelfth offering of ESP Plan for OCBC Bank's employees, which commenced on 1 July 2017 and expires on 30 June 2019. Under the offering, the Group and the Bank granted 703,917 (2016: 1,103,755) and 697,713 (2016: 1,092,834) rights to acquire ordinary shares in OCBC Bank. The fair value of rights for the Group and the Bank, determined using the binomial valuation model were S\$513,155 (2016: S\$954,858) and S\$508,633 (2016: S\$945,411) respectively. Significant inputs to the valuation model are set out below:

	<u>2017</u>	<u>2016</u>
Acquisition price (S\$)	10.77	8.45
Closing share price at valuation date (S\$)	10.72	8.45
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	13.06	20.66
Risk-free rate based on 2-year swap rate (%)	1.26	0.99
Expected dividend yield (%)	<u>3.36</u>	<u>4.26</u>

Movements in the number of acquisition rights of the ESP Plan are as follows:

	<u>2017</u>		<u>2016</u>	
	Number of share options	Weighted average acquisition price (S\$)	Number of share options	Weighted average acquisition price (S\$)
<u>Group</u>				
At 1 January	1,623,734	9.115	1,540,273	9.792
Acquired	703,917	10.770	1,103,755	8.450
Forfeited/Lapsed	(335,025)	9.635	(1,003,054)	9.419
Exercised and converted upon expiry	<u>(549,043)</u>	9.907	<u>(17,240)</u>	9.320
At 31 December	<u>1,443,583</u>	<u>9.500</u>	<u>1,623,734</u>	<u>9.115</u>
Average share price underlying acquisition rights exercised/converted (S\$)		<u>10.992</u>		<u>8.876</u>
<u>Bank</u>				
At 1 January	1,608,156	9.117	1,529,583	9.793
Acquired	697,713	10.770	1,092,834	8.450
Forfeited/Lapsed	(330,873)	9.635	(997,021)	9.419
Exercised and converted upon expiry	<u>(545,127)</u>	9.908	<u>(17,240)</u>	9.320
At 31 December	<u>1,429,869</u>	<u>9.502</u>	<u>1,608,156</u>	<u>9.117</u>
Average share price underlying acquisition rights exercised/converted (S\$)		<u>10.992</u>		<u>8.876</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**20 SHARE CAPITAL**

	Group and Bank			
	2017		2016	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid				
Ordinary shares				
At 1 January	287,500	287,500	287,500	287,500
Transfer from share premium	-	462,500	-	-
Transfer from capital redemption reserve	-	4,000	-	-
At 31 December	287,500	754,000	287,500	287,500

The ordinary shareholders are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank.

21 RESERVES

The detailed breakdown of the reserves are shown in the Consolidated Statement of Changes in Equity and Statement of Changes in Equity for the Group and Bank respectively.

Pursuant to the Companies Act 2016 requirements, the Group and the Bank no longer maintain a share premium account which balances have been transferred to share capital during the year.

Statutory reserve is maintained in compliance with Section 12 and Section 47(2)(f) of the Financial Services Act, 2013, and Section 12 and Section 57(2)(f) of the Islamic Financial Services Act, 2013.

Regulatory reserve is maintained in compliance with the requirements under BNM's Policy on Classification and Impairment Provision for Loans/Financing to maintain, in aggregate, collective impairment allowance and regulatory reserve of no less than 1.2% of total outstanding loans/financing, net of individual impairment allowance. During the financial year, the Group and the Bank transferred RM111 million and RM20 million respectively from retained earnings to regulatory reserve.

Fair value reserve comprises the fair value of financial investments available-for-sale and its corresponding effect on the deferred tax. The cumulative fair value adjustments will be reversed to profit or loss upon disposal or derecognition of the instruments.

Capital reserve is the portion of profits capitalised prior to the local incorporation (pre-acquisition profits) arising from consolidation.

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22 NET INTEREST INCOME

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income				
Loans, advances and financing				
- Interest income other than recoveries	2,780,685	2,843,125	2,780,685	2,843,125
- Recoveries from impaired loans, advances and financing	58,691	64,853	58,691	64,853
- Discount unwind from impaired loans, advances and financing	5,255	5,331	5,255	5,331
Money at call and deposit placements with banks and other financial institutions	166,320	140,410	232,061	184,236
Financial assets held-for-trading	67,801	47,215	67,801	47,215
Financial investments available-for-sale	334,467	323,455	337,733	326,331
Unquoted Islamic subordinated bond of subsidiary	-	-	9,600	10,959
Others	88,152	55,530	88,152	55,530
	<u>3,501,371</u>	<u>3,479,919</u>	<u>3,579,978</u>	<u>3,537,580</u>
Interest expense				
Deposits from customers	(1,694,245)	(1,780,732)	(1,694,245)	(1,780,732)
Deposits and placements of banks and other financial institutions	(58,388)	(47,693)	(116,148)	(78,673)
Recourse obligation on loans sold to Cagamas Berhad	(53,539)	(51,804)	(53,539)	(51,804)
Subordinated bonds	(94,093)	(103,575)	(94,093)	(103,575)
Others	(195,657)	(187,124)	(195,657)	(187,124)
	<u>(2,095,922)</u>	<u>(2,170,928)</u>	<u>(2,153,682)</u>	<u>(2,201,908)</u>
Net interest income	<u>1,405,449</u>	<u>1,308,991</u>	<u>1,426,296</u>	<u>1,335,672</u>

(a) By category of financial instruments

Interest income				
- Financial assets at fair value through profit or loss	67,801	47,215	67,801	47,215
- Loans/Financing and receivables	3,099,103	3,109,249	3,174,444	3,164,034
- Financial investments available-for-sale	334,467	323,455	337,733	326,331
	<u>3,501,371</u>	<u>3,479,919</u>	<u>3,579,978</u>	<u>3,537,580</u>
Interest expense				
- Liabilities at amortised cost	<u>(2,095,922)</u>	<u>(2,170,928)</u>	<u>(2,153,682)</u>	<u>(2,201,908)</u>
	<u>1,405,449</u>	<u>1,308,991</u>	<u>1,426,296</u>	<u>1,335,672</u>

23 INCOME FROM ISLAMIC BANKING OPERATIONS

	Group	
	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds and others	609,612	712,695
Income derived from investment of specific investment account funds	82,506	44,216
Income derived from investment of shareholder's funds	133,216	100,363
Income attributable to depositors	(318,051)	(356,179)
Income attributable to investment account holder	<u>(57,760)</u>	<u>(30,980)</u>
	<u>449,523</u>	<u>470,115</u>

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24 NET FEE AND COMMISSION INCOME

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Commission	193,262	120,797	191,565	117,460
Service charges and fees	125,273	127,811	125,273	127,811
Guarantee fees	36,749	34,488	36,749	34,488
Other fee income	9,653	9,233	9,653	9,234
	364,937	292,329	363,240	288,993

Included in the Group's and the Bank's commission income is fee income on loans, advances and financing from a related company amounting to RM25 million (2016: Nil).

25 NET TRADING INCOME

	Group and Bank	
	2017 RM'000	2016 RM'000
Foreign exchange gain/(loss)	562,491	(169,485)
Realised gain on financial assets held-for-trading	29,403	19,038
Realised gain on trading derivatives	140,096	71,747
Unrealised gain/(loss) on financial assets held-for-trading	601	(5,385)
Unrealised (loss)/gain on trading derivatives	(527,188)	305,712
	205,403	221,627

26 OTHER OPERATING INCOME

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Gain/(Loss) on disposal:				
- Financial investments available-for-sale	12,416	19,231	12,416	19,231
- Non-current assets held for sale	-	478	-	478
- Property and equipment	(257)	345	(257)	345
Gross dividends from financial investments available-for-sale in Malaysia	902	809	902	809
Gross dividends from financial assets held-for-trading in Malaysia	-	999	-	999
Rental of premises	4,424	4,346	4,474	4,409
Rental of safe deposit boxes	6,421	6,329	6,421	6,329
Shared services income received from subsidiaries (Note 38)	-	-	97,872	101,902
Shared services income received from related company (Note 38)	12,513	11,979	12,513	11,212
Unrealised (loss)/gain on hedging derivatives	(273)	670	(273)	670
Others	469	638	468	638
	36,615	45,824	134,536	147,022

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27 OPERATING EXPENSES

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Personnel expenses				
Wages, salaries and bonus	412,679	406,938	389,200	380,648
Employees Provident Fund contributions	63,248	62,206	59,658	58,152
Share-based expenses	5,834	6,573	5,546	6,287
Others	40,569	36,301	38,043	33,564
	522,330	512,018	492,447	478,651
Establishment expenses				
Depreciation of property and equipment	32,920	39,470	28,418	34,246
Rental of premises	18,845	18,912	15,999	16,068
Repair and maintenance	10,618	12,553	9,825	11,882
Information technology costs	18,928	8,615	18,843	8,129
Hire of equipment	1,233	1,265	1,070	1,148
Amortisation of prepaid lease payments	36	36	36	36
Others	17,029	18,138	14,781	15,544
	99,609	98,989	88,972	87,053
Marketing expenses				
Advertisement and business promotion	16,592	20,825	16,072	20,049
Transport and travelling	3,826	4,009	3,470	3,488
Others	2,538	3,390	2,490	3,235
	22,956	28,224	22,032	26,772
General administrative expenses				
Auditors' remuneration				
- Statutory audit fees	520	475	420	390
- Audit related fees	347	321	226	237
- Other services	5	138	4	108
Transaction processing fees (Note 38)	314,538	311,163	289,177	286,748
Others	133,998	114,375	118,062	98,842
	449,408	426,472	407,889	386,325
Total operating expenses	1,094,303	1,065,703	1,011,340	978,801

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28 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION

(a) The remuneration of the CEO and the Directors during the year are as follows:

Group	2017						2016					
	Unrestricted					Deferred Shares and share options*	Unrestricted					Deferred
	Salaries and fees RM'000	Variable bonuses RM'000	Benefits- in-kind RM'000	Employees Provident Fund RM'000	Total RM'000		Salaries and fees RM'000	Variable bonuses RM'000	Benefits-in- kind RM'000	Employees Provident Fund RM'000	Shares and share options* RM'000	
CEO of the Bank												
Ong Eng Bin	1,058	768	50	292	512	2,680	1,049	660	33	274	440	2,456
CEO of the Islamic banking subsidiary												
Syed Abdull Aziz Jailani bin Syed Kechik	897	396	6	207	264	1,770	889	312	10	192	208	1,611
Non Executive Directors												
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	444	-	31	-	-	475	412	-	31	-	-	443
Lai Teck Poh	222	-	-	-	-	222	217	-	-	-	-	217
Ng Hon Soon (Resigned on 31 December 2017)	255	-	-	-	-	255	236	-	-	-	-	236
Tong Hon Keong	218	-	-	-	-	218	210	-	-	-	-	210
Tan Ngiap Joo	267	-	-	-	-	267	239	-	-	-	-	239
Datuk Azizan bin Haji Abd Rahman	218	-	-	-	-	218	122	-	-	-	-	122
Dr. Raja Lope bin Raja Shahrome (Retired on 10 March 2016)	-	-	-	-	-	-	41	-	-	-	-	41
Lee Kok Keng, Andrew (Appointed on 15 May 2017)	67	-	-	-	-	67	-	-	-	-	-	-
Ismail bin Alowi (Appointed on 15 May 2017)	67	-	-	-	-	67	-	-	-	-	-	-
	3,713	1,164	87	499	776	6,239	3,415	972	74	466	648	5,575

* Deferred shares and share options are awarded/granted under the OCBC Deferred Share Plan, OCBC Share Option Scheme 2001 and OCBC Employee Share Purchase Plan as disclosed in Note 19(b) of the financial statements.

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28 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION (continued)

(a) The remuneration of the CEO and the Directors during the year are as follows: (continued)

	2017					Total RM'000	2016					Total RM'000
	Unrestricted				Deferred		Unrestricted				Deferred	
	Salaries and fees RM'000	Variable bonuses RM'000	Benefits- in-kind RM'000	Employees Provident Fund RM'000	Shares and share options* RM'000		Salaries and fees RM'000	Variable bonuses RM'000	Benefits-in- kind RM'000	Employees Provident Fund RM'000	Shares and share options* RM'000	
Bank												
CEO												
Ong Eng Bin	1,058	768	50	292	512	2,680	1,049	660	33	274	440	2,456
Non Executive Directors												
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	377	-	31	-	-	408	362	-	31	-	-	393
Lai Teck Poh	169	-	-	-	-	169	167	-	-	-	-	167
Ng Hon Soon (Resigned on 31 December 2017)	188	-	-	-	-	188	176	-	-	-	-	176
Tong Hon Keong	165	-	-	-	-	165	160	-	-	-	-	160
Tan Ngiap Joo	200	-	-	-	-	200	181	-	-	-	-	181
Datuk Azizan bin Haji Abd Rahman	165	-	-	-	-	165	93	-	-	-	-	93
Dr. Raja Lope bin Raja Shahrome (Retired on 10 March 2016)	-	-	-	-	-	-	31	-	-	-	-	31
	2,322	768	81	292	512	3,975	2,219	660	64	274	440	3,657

* Deferred shares and share options are awarded/granted under the OCBC Deferred Share Plan, OCBC Share Option Scheme 2001 and OCBC Employee Share Purchase Plan as disclosed in Note 19(b) of the financial statements.

Mr Samuel N. Tsien did not receive any remuneration from the Group nor the Bank during the year (2016: nil).

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28 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION (continued)

(b) The remuneration of senior management (including the CEO of the Bank and the CEO of the Islamic Banking subsidiary) and other material risk takers are as follows:

<u>Group</u>	2017			Number of officers	2016			Number of officers
	Unrestricted RM'000	Deferred RM'000	Total RM'000		Unrestricted RM'000	Deferred RM'000	Total RM'000	
Senior Management								
<i>Fixed remuneration</i>								
Cash-based								
Guaranteed bonus	130	-	130	1	-	-	-	
Sign-on awards	276	-	276	1	-	-	-	
Other	15,218	-	15,218		15,172	-	15,172	
Other	557	-	557		404	-	404	
	<u>16,181</u>	<u>-</u>	<u>16,181</u>		<u>15,576</u>	<u>-</u>	<u>15,576</u>	
<i>Variable remuneration</i>								
Cash-based								
Other	6,378	-	6,378	21	5,582	-	5,582	19
Shares and share options	-	3,036	3,036	14	-	2,450	2,450	11
	<u>6,378</u>	<u>3,036</u>	<u>9,414</u>		<u>5,582</u>	<u>2,450</u>	<u>8,032</u>	
Other material risk takers								
<i>Fixed remuneration</i>								
Cash-based								
Other	3,911	-	3,911		5,454	-	5,454	
Other	93	-	93		143	-	143	
	<u>4,004</u>	<u>-</u>	<u>4,004</u>		<u>5,597</u>	<u>-</u>	<u>5,597</u>	
<i>Variable remuneration</i>								
Cash-based								
Other	958	-	958	6	1,258	142	1,400	8
Shares and share options	-	200	200	1	-	312	312	2
	<u>958</u>	<u>200</u>	<u>1,158</u>		<u>1,258</u>	<u>454</u>	<u>1,712</u>	

Other than the above, no senior management nor other material risk taker received any guaranteed bonuses, sign-on awards and severance payments.

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28 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION (continued)

(b) The remuneration of senior management (including the CEO of the Bank) and other material risk takers are as follows: (continued)

<u>Bank</u>	2017				2016			
	Unrestricted RM'000	Deferred RM'000	Total RM'000	Number of officers	Unrestricted RM'000	Deferred RM'000	Total RM'000	Number of officers
Senior Management								
<i>Fixed remuneration</i>								
Cash-based								
Guaranteed bonus	130	-	130	1	-	-	-	
Sign-on awards	276	-	276	1	-	-	-	
Other	12,085	-	12,085		12,150	-	12,150	
Other	540	-	540		390	-	390	
	<u>13,031</u>	<u>-</u>	<u>13,031</u>		<u>12,540</u>	<u>-</u>	<u>12,540</u>	
<i>Variable remuneration</i>								
Cash-based								
Other	5,082	-	5,082	15	4,397	-	4,397	13
Shares and share options	-	2,667	2,667	12	-	2,143	2,143	9
	<u>5,082</u>	<u>2,667</u>	<u>7,749</u>		<u>4,397</u>	<u>2,143</u>	<u>6,540</u>	
Other material risk takers								
<i>Fixed remuneration</i>								
Cash-based								
Other	3,911	-	3,911		5,454	-	5,454	
Other	93	-	93		143	-	143	
	<u>4,004</u>	<u>-</u>	<u>4,004</u>		<u>5,597</u>	<u>-</u>	<u>5,597</u>	
<i>Variable remuneration</i>								
Cash-based								
Other	958	-	958	6	1,258	142	1,400	8
Shares and share options	-	200	200	1	-	312	312	2
	<u>958</u>	<u>200</u>	<u>1,158</u>		<u>1,258</u>	<u>454</u>	<u>1,712</u>	

Other than the above, no senior management nor other material risk taker received any guaranteed bonuses, sign-on awards and severance payments.

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28 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION (continued)

(c) Outstanding deferred remuneration

<u>Group</u>	2017			2016		
	Senior management RM'000	Other material risk takers RM'000	Total RM'000	Senior management RM'000	Other material risk takers RM'000	Total RM'000
Share and share options Exposed to ex-post explicit and implicit adjustments	11,754	609	12,363	9,290	1,020	10,310
Deferred remuneration paid out during the year	2,702	236	2,938	2,335	127	2,462
Reduction during the year due to:						
(i) Ex-post explicit adjustments (such as malus, clawbacks or similar reversals of downward revaluations of awards)	-	-	-	-	-	-
(ii) Ex-post implicit adjustments (such as fluctuations in the value of shares or performance units)	-	-	-	-	-	-
<u>Bank</u>						
Share and share options Exposed to ex-post explicit and implicit adjustments	10,123	609	10,732	8,070	1,020	9,090
Deferred remuneration paid out during the year	2,389	236	2,625	2,068	127	2,195
Reduction during the year due to:						
(i) Ex-post explicit adjustments (such as malus, clawbacks or similar reversals of downward revaluations of awards)	-	-	-	-	-	-
(ii) Ex-post implicit adjustments (such as fluctuations in the value of shares or performance units)	-	-	-	-	-	-

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29 IMPAIRMENT ALLOWANCE ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Individual impairment allowance				
- Made during the year	477,552	409,503	280,820	255,038
- Written back	(182,077)	(141,675)	(111,766)	(76,062)
Collective impairment allowance				
- Written back during the year	(146,481)	(3,500)	(113,421)	-
Impaired loans, advances and financing				
- Written off	6	172	-	168
- Recovered during the year	(55,210)	(54,155)	(26,037)	(34,266)
	<u>93,790</u>	<u>210,345</u>	<u>29,596</u>	<u>144,878</u>

30 IMPAIRMENT ALLOWANCE ON RPSIA

	Bank	
	2017 RM'000	2016 RM'000
Individual impairment allowance		
- Made during the year	59,818	-
Collective impairment allowance		
- Made during the year	8,561	-
	<u>68,379</u>	<u>-</u>

31 INCOME TAX EXPENSE

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Malaysian income tax				
- Current year	322,799	259,944	260,423	219,364
- Prior years	9,489	7,149	9,495	6,617
	<u>332,288</u>	<u>267,093</u>	<u>269,918</u>	<u>225,981</u>
Deferred tax (Note 15)				
- Origination and reversal of temporary differences	(8,807)	(1,540)	(7,969)	(1,111)
- Prior years	1,019	(4,759)	928	(4,269)
	<u>(7,788)</u>	<u>(6,299)</u>	<u>(7,041)</u>	<u>(5,380)</u>
	<u>324,500</u>	<u>260,794</u>	<u>262,877</u>	<u>220,601</u>

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31 INCOME TAX EXPENSE (continued)

The reconciliation between the average effective tax rate and the applicable tax rate is as follows:

	Group		Bank	
	2017	2016	2017	2016
	%	%	%	%
Malaysian tax rate of 24%	24.00	24.00	24.00	24.00
Tax effect of:				
Expenses not deductible for tax purposes	0.59	0.92	0.67	1.01
Income not subject to tax	(0.01)	(0.71)	(0.02)	(0.07)
Under/(Over) provision in prior years:				
- Income tax	0.75	0.67	0.93	0.76
- Deferred tax	0.08	(0.45)	0.09	(0.49)
Average effective tax rate	<u>25.41</u>	<u>24.43</u>	<u>25.67</u>	<u>25.21</u>

32 BASIC EARNINGS PER ORDINARY SHARE

The basic earnings per ordinary share of the Group and the Bank were calculated by dividing profit attributable to ordinary equity holders of the Group and the Bank by the weighted average number of ordinary shares in issue during the financial year. The Group and the Bank have no dilution in their earnings per ordinary share as there are no dilutive potential ordinary shares.

	Group		Bank	
	2017	2016	2017	2016
Profit attributable to ordinary equity holders of the Group and the Bank (RM'000)	<u>949,136</u>	<u>807,645</u>	<u>757,233</u>	<u>655,272</u>
Weighted average number of ordinary shares in issue ('000)	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>
Basic earnings per share (sen)	<u>330.1</u>	<u>280.9</u>	<u>263.4</u>	<u>227.9</u>

33 DIVIDENDS

	Sen per share	Total amount RM'000	Date of payment
2017			
Final 2016 ordinary	136.73	393,100	11/08/2017
Interim 2017 ordinary	45.20	130,000	27/09/2017 and 29/09/2017
		<u>523,100</u>	
2016			
Final 2015 ordinary	152.24	<u>437,700</u>	20/04/2016

The Directors recommend a final dividend of 52.2 sen per ordinary share in respect of the current financial year amounting to RM150 million. This dividend will be accounted for in shareholder's equity as an appropriation of retained earnings in the subsequent financial period upon approval by the Board of Directors and shareholder of the Bank.

34 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The credit equivalent and risk weighted amounts were computed using the credit conversion factors and risk weights as defined in BNM's Capital Adequacy Framework (Basel II) - Internal Ratings Approach.

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34 COMMITMENTS AND CONTINGENCIES (continued)

<u>Group</u>	<u>Principal amount</u>	<u>Positive fair value of derivative contracts</u>	<u>Negative fair value of derivative contracts</u>	<u>Credit equivalent amount</u>	<u>Risk weighted amount</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
Direct credit substitutes	708,889			708,889	567,710
Transaction-related contingent items	2,967,486			1,511,669	966,490
Short-term self-liquidating trade-related contingencies	331,117			76,260	41,336
Foreign exchange related contracts					
- Less than one year	11,559,312	194,667	412,831	378,272	93,704
- One year to less than five years	3,624,026	179,622	253,951	616,852	155,531
- Five years and above	3,062,100	297,902	222,193	651,427	476,499
Interest rate related contracts					
- Less than one year	12,826,019	8,161	16,912	29,360	3,604
- One year to less than five years	23,059,678	57,362	76,025	679,489	197,032
- Five years and above	8,879,455	73,053	72,693	251,267	121,689
Equity and commodity related contracts	297,778	9,838	11,029	25,435	7,557
Credit derivative contracts	474,416	15,220	15,220	23,756	6,465
Formal standby facilities and credit lines					
- Maturity exceeding one year	3,874,769			3,486,128	1,443,989
Other unconditionally cancellable commitments	20,173,977			2,061,763	317,621
Total	91,839,022	835,825	1,080,854	10,500,567	4,399,227
2016					
Direct credit substitutes	536,337			536,337	384,295
Transaction-related contingent items	3,028,739			1,544,199	925,445
Short-term self-liquidating trade-related contingencies	348,532			75,793	46,309
Foreign exchange related contracts					
- Less than one year	16,678,507	937,006	335,589	1,203,769	243,598
- One year to less than five years	5,650,775	437,885	802,961	1,039,912	295,025
- Five years and above	3,412,876	450,793	476,512	920,662	681,144
Interest rate related contracts					
- Less than one year	11,511,700	12,117	8,210	33,214	4,894
- One year to less than five years	23,638,845	56,406	85,600	675,480	175,354
- Five years and above	9,225,485	87,230	97,463	326,847	202,746
Equity and commodity related contracts	281,731	3,864	3,864	18,179	4,996
Credit derivative contracts	990,100	10,215	10,215	35,395	7,498
Formal standby facilities and credit lines					
- Maturity exceeding one year	5,301,396			4,724,610	1,374,061
Other unconditionally cancellable commitments	18,791,967			2,036,334	342,547
Total	99,396,990	1,995,516	1,820,414	13,170,731	4,687,912

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34 COMMITMENTS AND CONTINGENCIES (continued)

<u>Bank</u>	<u>Principal amount</u> RM'000	<u>Positive fair value of derivative contracts</u> RM'000	<u>Negative fair value of derivative contracts</u> RM'000	<u>Credit equivalent amount</u> RM'000	<u>Risk weighted amount</u> RM'000
2017					
Direct credit substitutes	609,598			609,598	478,355
Transaction-related contingent items	2,566,965			1,309,678	809,751
Short-term self-liquidating trade-related contingencies	254,910			59,836	31,097
Foreign exchange related contracts					
- Less than one year	11,556,556	194,467	412,404	377,848	93,396
- One year to less than five years	3,624,026	179,622	253,951	616,852	155,531
- Five years and above	3,062,100	297,902	222,193	651,427	476,499
Interest rate related contracts					
- Less than one year	12,826,019	8,161	16,912	29,360	3,604
- One year to less than five years	23,059,678	57,362	76,025	679,489	197,032
- Five years and above	8,879,455	73,053	72,693	251,267	121,689
Equity and commodity related contracts	297,778	9,838	11,029	25,435	7,557
Credit derivative contracts	474,416	15,220	15,220	23,756	6,465
Formal standby facilities and credit lines					
- Maturity exceeding one year	3,512,054			3,193,700	1,228,705
Other unconditionally cancellable commitments	18,195,511			2,000,350	309,107
Total	88,919,066	835,625	1,080,427	9,828,596	3,918,788
2016					
Direct credit substitutes	451,454			451,454	330,032
Transaction-related contingent items	2,706,792			1,379,843	799,869
Short-term self-liquidating trade-related contingencies	325,751			71,237	43,433
Foreign exchange related contracts					
- Less than one year	16,698,867	936,971	335,219	1,203,407	243,369
- One year to less than five years	5,650,775	437,885	802,961	1,039,912	295,025
- Five years and above	3,412,876	450,793	476,512	920,662	681,144
Interest rate related contracts					
- Less than one year	11,511,700	12,117	8,210	33,214	4,894
- One year to less than five years	23,638,845	56,406	85,600	675,480	175,354
- Five years and above	9,225,485	87,230	97,463	326,847	202,746
Equity and commodity related contracts	281,731	3,864	3,864	18,179	4,996
Credit derivative contracts	990,100	10,215	10,215	35,395	7,498
Formal standby facilities and credit lines					
- Maturity exceeding one year	5,038,252			4,493,069	1,316,710
Other unconditionally cancellable commitments	16,745,502			1,992,705	335,017
Total	96,678,130	1,995,481	1,820,044	12,641,404	4,440,087

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35 CAPITAL COMMITMENTS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Capital expenditure commitments in respect of property and equipment contracted but not provided for	10,802	1,948	7,160	1,857

36 LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises and equipment on hire, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Less than one year	16,359	12,891	13,501	10,431
Between one to five years	18,632	7,143	14,635	5,786
	34,991	20,034	28,136	16,217

37 MINIMUM LEASE RENTAL RECEIVABLE

The future minimum lease rental receivable under non-cancellable operating leases by remaining period to lease expiry is as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Less than one year	3,327	4,474	3,373	4,524
Between one to five years	-	16	-	16
	3,327	4,490	3,373	4,540

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

For the purposes of these financial statements, parties are considered to be related to the Group and the Bank if:

- the Group or the Bank has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions or vice versa; or
- where the Group or the Bank and the party are subject to common control or common significant influence.

Related parties may be individuals or other entities. Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly and entities that provide key management personnel services to the Group or the Bank. The key management personnel include all Directors and senior management of the Group and the Bank.

The Group has related party relationship with the following:

- Holding company, Oversea-Chinese Banking Corporation Limited;
- Subsidiaries of the Bank as disclosed in Note 12 to the financial statements;
- Other related companies within the Oversea-Chinese Banking Corporation Limited Group; and
- Key management personnel, including close family members of key management personnel and entities that are controlled or jointly controlled by them.

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38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Significant transactions and outstanding balances with related parties

<u>Group</u>	2017			2016		
	Holding Company	Other Related Companies	Key Management Personnel	Holding Company	Other Related Companies	Key Management Personnel
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Income						
Interest on deposits and placements with banks and other financial institutions	1,287	-	-	962	-	-
Interest on loans, advances and financing	-	5,970	93	-	8,874	145
Shared service fees	2,402	10,164	-	1,706	10,360	-
Fee and commission income	34,138	11,785	-	3,731	15,904	-
Rental income	-	4,326	-	4	4,238	-
Other income	-	189	-	-	117	-
	37,827	32,434	93	6,403	39,493	145
Expenditure						
Interest on deposits from customers	18,243	23,123	26	-	14,197	1,031
Interest on deposits and placements of banks and other financial institutions	102,575	-	516	60,034	1	-
Interest/Profit on unquoted Islamic subordinated bonds	52,189	-	-	42,595	-	-
Transaction processing fees	-	314,538	-	-	311,163	-
Rental expenses	-	1,019	-	-	1,048	-
Other expenses	3	7,076	-	7	3,315	-
	173,010	345,756	542	102,636	329,724	1,031

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38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Significant transactions and outstanding balances with related parties (continued)

	2017			2016		
	Holding Company	Other Related Companies	Key Management Personnel	Holding Company	Other Related Companies	Key Management Personnel
<u>Group (continued)</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Amount due from						
Cash and cash equivalents	84,346	262	-	65,674	1,559	-
Deposits and placements with banks and other financial institutions	118,671	122	-	301,510	52	-
Interest receivable	172	650	-	237	128	-
Loans, advances and financing	-	243,700	990	-	122,500	4,379
Shared service fee receivable	64	1,235	-	123	637	-
Derivative financial assets	30,475	33,592	-	41,837	43,084	-
Other assets	34,184	8,324	-	6	16,696	-
	267,912	287,885	990	409,387	184,656	4,379
Amount due to						
Deposits from customers	4,854,660	604,838	19,540	-	1,368,927	55,707
Deposits and placements of banks and other financial institutions	3,738,660	-	-	7,909,275	-	-
Other liabilities	2,609	697	-	2,740	2	-
Interest payable	43,046	173	9	17,755	443	5
Derivative financial liabilities	33,832	-	-	95,970	6	-
Subordinated bonds	1,470,932	-	-	1,076,424	-	-
	10,143,739	605,708	19,549	9,102,164	1,369,378	55,712
Commitments						
Foreign exchange derivatives	1,212,770	62,023	-	1,337,567	245,696	-
Interest rate derivatives	5,700,998	750,000	-	4,207,750	1,080,000	-
Transaction related contingent items	79,271	125,612	-	126,658	141,900	-
	6,993,039	937,635	-	5,671,975	1,467,596	-

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38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Significant transactions and outstanding balances with related parties (continued)

	2017				2016			
	Holding Company	Subsidiary Companies	Other Related Companies	Key Management Personnel	Holding Company	Subsidiary Companies	Other Related Companies	Key Management Personnel
<u>Bank</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Income								
Interest on deposits and placements with banks and other financial institutions	1,287	65,741	-	-	962	43,826	-	-
Interest on financial investments available-for-sale	-	3,266	-	-	-	2,876	-	-
Fee and commission income	24,995	-	11,109	-	3,731	-	15,195	-
Interest on loans, advances and financing	-	-	5,970	73	-	-	8,874	123
Interest/Profit on unquoted Islamic subordinated bonds	-	9,600	-	-	-	10,959	-	-
Shared services fee income	2,349	97,872	10,164	-	1,638	101,135	10,360	-
Rental income	-	48	4,320	-	4	61	4,238	-
Other income	-	2	189	-	-	2	117	-
	28,631	176,529	31,752	73	6,335	158,859	38,784	123
Expenditure								
Interest on deposits from customers	18,243	-	18,370	516	-	-	7,403	1,009
Interest on deposits and placements of banks and other financial institutions	98,070	-	-	-	55,619	-	-	-
Fee and commission expense	-	1,206	-	-	-	3,336	-	-
Interest/Profit on unquoted Islamic subordinated bonds	52,189	-	-	-	42,595	-	-	-
Shared service fees	-	7,945	-	-	-	7,585	-	-
Transaction processing fees	-	-	289,177	-	-	-	286,748	-
Rental expenses	-	-	1,019	-	-	-	1,048	-
Other expenses	3	-	6,639	-	7	-	2,950	-
	168,505	9,151	315,205	516	98,221	10,921	298,149	1,009

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38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Significant transactions and outstanding balances with related parties (continued)

	2017				2016			
	Holding Company	Subsidiary Companies	Other Related Companies	Key Management Personnel	Holding Company	Subsidiary Companies	Other Related Companies	Key Management Personnel
Bank (continued)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Amount due from								
Cash and cash equivalents	84,346	1,240,697	262	-	65,674	1,117,264	1,559	-
Deposits and placements with banks and other financial institutions	95,264	1,034,514	-	-	300,246	787,563	-	-
Financial investments available-for-sale	-	72,263	-	-	-	69,022	-	-
Interest receivable	172	6,963	650	-	237	5,209	128	-
Subordinated bonds	-	200,000	-	-	-	200,000	-	-
Loans, advances and financing	-	-	243,700	652	-	-	122,500	4,023
Shared services fee receivable	64	8,590	1,235	-	123	7,890	637	-
Derivative financial assets	30,475	143	33,592	-	41,837	2	43,080	-
Other assets	26,031	168,846	8,187	-	-	46	16,696	-
	236,352	2,732,016	287,626	652	408,117	2,186,996	184,600	4,023
Amount due to								
Deposits from customers	4,854,660	17,724	423,492	18,460	-	18,304	1,124,298	55,121
Deposits and placements of banks and other financial institutions	3,328,810	-	-	-	7,472,838	-	-	-
Other liabilities	2,515	20,966	697	-	2,643	43,582	2	-
Interest payable	42,271	-	120	-	17,568	-	319	-
Derivative financial liabilities	33,832	19	-	-	95,970	38	-	-
Subordinated bonds	1,470,932	-	-	-	1,076,424	-	-	-
Shared services fee payable	-	688	-	-	-	563	-	-
	9,733,020	39,397	424,309	18,460	8,665,443	62,487	1,124,619	55,121
Commitments								
Foreign exchange derivatives	1,212,770	30,544	62,023	-	2,003,421	43,813	62,023	-
Interest rate derivatives	5,700,998	-	750,000	-	4,368,040	-	341,000	-
Transaction related contingent items	79,271	-	125,612	-	100,553	-	144,082	-
	6,993,039	30,544	937,635	-	6,472,014	43,813	547,105	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)****(b) Credit exposure arising from credit transactions with connected parties**

The following disclosure is made pursuant to the BNM Guidelines on Credit Transactions and Exposures with Connected Parties:

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Aggregate value of outstanding credit exposure with connected parties[^]:				
Credit facility and leasing (except guarantee)	393,743	375,311	637,805	798,167
Commitments and contingencies*	391,249	383,595	390,946	383,258
	784,992	758,906	1,028,751	1,181,425
Outstanding credit exposures to connected parties				
As a proportion of total credit exposures	0.93%	0.88%	1.42%	1.56%

[^] Comprises total outstanding balances and unutilised limits

* Commitment and contingencies transactions that give rise to credit and/or counterparty risk.

(c) Key management personnel remuneration of the Group and the Bank are disclosed in Note 28 of the financial statements.

39 FINANCIAL INSTRUMENTS

The table below provides an analysis of financial instruments categorised as follows:

- Fair value through profit or loss - held-for-trading ("FVTPL-HFT");
- Loans/Financing and receivables ("L&R/F&R");
- Financial investments available-for-sale ("AFS");
- Financial liabilities measured at amortised cost ("FL"); and
- Derivatives used for hedging.

Group	FVTPL-HFT	L&R/F&R/FL	AFS	Derivatives used for hedging	Carrying amount
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
Financial assets					
Cash and cash equivalents	-	6,158,261	-	-	6,158,261
Deposits and placements with banks and other financial institutions	-	71,835	-	-	71,835
Financial assets held-for-trading	1,690,763	-	-	-	1,690,763
Financial investments available-for-sale	-	-	13,501,159	-	13,501,159
Loans, advances and financing	-	67,452,350	-	-	67,452,350
Derivative financial assets	835,825	-	-	-	835,825
Other assets	-	370,277	-	-	370,277
Statutory deposits with Bank Negara Malaysia	-	1,752,717	-	-	1,752,717
	2,526,588	75,805,440	13,501,159	-	91,833,187

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39 FINANCIAL INSTRUMENTS (continued)

<u>Group (continued)</u>	<u>FVTPL-HFT</u> <u>RM'000</u>	<u>L&R/F&R/FL</u> <u>RM'000</u>	<u>AFS</u> <u>RM'000</u>	<u>Derivatives</u> <u>used for</u> <u>hedging</u> <u>RM'000</u>	<u>Carrying</u> <u>amount</u> <u>RM'000</u>
2017					
Financial liabilities					
Deposits from customers	-	73,652,739	-	-	73,652,739
Deposits and placements of banks and other financial institutions	-	4,388,137	-	-	4,388,137
Bills and acceptances payable	-	166,104	-	-	166,104
Recourse obligation on loans sold to Cagamas Berhad	-	1,419,252	-	-	1,419,252
Derivative financial liabilities	1,079,240	-	-	1,614	1,080,854
Other liabilities	-	2,543,806	-	-	2,543,806
Subordinated bonds	-	1,870,932	-	-	1,870,932
	<u>1,079,240</u>	<u>84,040,970</u>	<u>-</u>	<u>1,614</u>	<u>85,121,824</u>
2016					
Financial assets					
Cash and cash equivalents	-	8,293,096	-	-	8,293,096
Deposits and placements with banks and other financial institutions	-	1,447,920	-	-	1,447,920
Financial assets held-for-trading	1,528,361	-	-	-	1,528,361
Financial investments available-for-sale	-	-	11,253,505	-	11,253,505
Loans, advances and financing	-	67,421,623	-	-	67,421,623
Derivative financial assets	1,995,120	-	-	396	1,995,516
Other assets	-	280,597	-	-	280,597
Statutory deposits with Bank Negara Malaysia	-	2,000,966	-	-	2,000,966
	<u>3,523,481</u>	<u>79,444,202</u>	<u>11,253,505</u>	<u>396</u>	<u>94,221,584</u>
Financial liabilities					
Deposits from customers	-	70,934,813	-	-	70,934,813
Deposits and placements of banks and other financial institutions	-	9,462,112	-	-	9,462,112
Bills and acceptances payable	-	153,888	-	-	153,888
Recourse obligation on loans sold to Cagamas Berhad	-	1,328,516	-	-	1,328,516
Derivative financial liabilities	1,813,628	-	-	6,786	1,820,414
Other liabilities	-	2,236,749	-	-	2,236,749
Subordinated bonds	-	2,075,852	-	-	2,075,852
	<u>1,813,628</u>	<u>86,191,930</u>	<u>-</u>	<u>6,786</u>	<u>88,012,344</u>

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39 FINANCIAL INSTRUMENTS (continued)

<u>Bank</u>	FVTPL-HFT RM'000	L&R/F&R/FL RM'000	AFS RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
2017					
Financial assets					
Cash and cash equivalents	-	6,437,013	-	-	6,437,013
Deposits and placements with banks and other financial institutions	-	1,110,434	-	-	1,110,434
Financial assets held-for-trading	1,690,763	-	-	-	1,690,763
Financial investments available-for-sale	-	-	8,778,279	-	8,778,279
Loans, advances and financing	-	57,742,824	-	-	57,742,824
Derivative financial assets	835,625	-	-	-	835,625
Other assets	-	709,911	-	-	709,911
Statutory deposits with Bank Negara Malaysia	-	1,427,217	-	-	1,427,217
	2,526,388	67,427,399	8,778,279	-	78,732,066
Financial liabilities					
Deposits from customers	-	62,490,422	-	-	62,490,422
Deposits and placements of banks and other financial institutions	-	3,946,437	-	-	3,946,437
Bills and acceptances payable	-	145,347	-	-	145,347
Recourse obligation on loans sold to Cagamas Berhad	-	1,419,252	-	-	1,419,252
Derivative financial liabilities	1,078,813	-	-	1,614	1,080,427
Other liabilities	-	2,417,222	-	-	2,417,222
Subordinated bonds	-	1,870,932	-	-	1,870,932
	1,078,813	72,289,612	-	1,614	73,370,039
2016					
Financial assets					
Cash and cash equivalents	-	7,669,764	-	-	7,669,764
Deposits and placements with banks and other financial institutions	-	2,015,307	-	-	2,015,307
Financial assets held-for-trading	1,528,361	-	-	-	1,528,361
Financial investments available-for-sale	-	-	8,077,528	-	8,077,528
Loans, advances and financing	-	57,799,889	-	-	57,799,889
Derivative financial assets	1,995,085	-	-	396	1,995,481
Other assets	-	464,465	-	-	464,465
Statutory deposits with Bank Negara Malaysia	-	1,673,966	-	-	1,673,966
	3,523,446	69,623,391	8,077,528	396	81,224,761
Financial liabilities					
Deposits from customers	-	59,700,547	-	-	59,700,547
Deposits and placements of banks and other financial institutions	-	8,977,185	-	-	8,977,185
Bills and acceptances payable	-	123,405	-	-	123,405
Recourse obligation on loans sold to Cagamas Berhad	-	1,328,516	-	-	1,328,516
Derivative financial liabilities	1,813,258	-	-	6,786	1,820,044
Other liabilities	-	2,111,137	-	-	2,111,137
Subordinated bonds	-	2,075,852	-	-	2,075,852
	1,813,258	74,316,642	-	6,786	76,136,686

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39 FINANCIAL INSTRUMENTS (continued)

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below set out carrying amounts of recognised financial assets and financial liabilities that are subject to International Swaps and Derivatives Association ("ISDA") and/or similar master netting arrangements but do not meet the criteria for offsetting in the statements of financial position. This is because the parties to the ISDA agreement provide the right of set-off of recognised amounts that is only enforceable in event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. Malaysia was not a clear netting jurisdiction previously and hence the Group was not able to enforce set-off in the event of default. The Netting of Financial Agreement Act ("the Act") which came into force in 2015 provides assurance that the close-out netting mechanism for financial transactions is enforceable under the law.

The related financial instruments not offset pertain to financial assets and financial liabilities that are not presented net in the Group's and the Bank's statements of financial position but are subject to enforceable master netting agreement or similar arrangement that covers similar financial instruments. The disclosures enable the evaluation on the potential effect of netting arrangements as well as provide additional information on how such credit risk is mitigated.

Types of financial assets/liabilities	Carrying amount in the statement of financial position	Financial instruments not in scope of offsetting disclosures	Gross recognised financial instruments in scope	Related amount not offset in the statements of financial position		
				Financial instruments	Cash collateral received/pledged	Net amount in scope
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
2017						
Derivative financial assets	835,825	(118,668)	717,157	(202,642)	(371,314)	143,201
Derivative financial liabilities	1,080,854	(86,513)	994,341	(202,642)	(311,834)	479,864
2016						
Derivative financial assets	1,995,516	(267,162)	1,728,354	(532,748)	(905,926)	289,680
Derivative financial liabilities	1,820,414	(155,564)	1,664,850	(532,748)	(267,034)	865,067
Bank						
2017						
Derivative financial assets	835,625	(118,468)	717,157	(202,642)	(371,314)	143,201
Derivative financial liabilities	1,080,427	(86,086)	994,341	(202,642)	(311,834)	479,864
2016						
Derivative financial assets	1,995,481	(267,127)	1,728,354	(532,748)	(905,926)	289,680
Derivative financial liabilities	1,820,044	(155,194)	1,664,850	(532,748)	(267,034)	865,068

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40 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-statement of financial position financial instruments. The fair value of a financial instrument is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, such market prices do not exist as there is currently no ready market wherein exchanges between willing parties occur.

The Group and the Bank use various methodologies to estimate the fair values of such instruments. These methodologies involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimated future cash flows, future expected loss experience and other factors. Changes in the uncertainties and assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and the Bank could realise in a sales transaction at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as going concerns.

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of MFRS 132 which requires fair value information to be disclosed. These include property and equipment, investment properties, prepaid lease payments and investments in subsidiaries.

For financial assets and liabilities not carried at fair value on the statements of financial position, the Group and the Bank have determined that their fair values were not materially different from the carrying amount at the reporting date.

(A) Fair value measurement

(i) Financial assets and financial liabilities

(a) Short term financial instruments

The carrying amounts approximate the fair values of cash and cash equivalents, deposits and placements with/of banks and other financial institutions with maturity less than one year, interest/profit and other short-term receivables due to their short tenor or frequent re-pricing.

(b) Deposits and placements with/of banks and other financial institutions

For deposits and placements with maturity of one year or more, the fair value is estimated based on discounted cash flows using prevailing money market interest/profit rates for deposits and placements with similar remaining period to maturity.

(c) Financial assets held-for-trading and financial investments available-for-sale

The fair value of financial assets that are actively traded is determined by quoted bid prices. For non-actively traded financial investments, independent broker quotations are obtained or valuation techniques are used to fair value the financial investments. The fair value of unquoted equity instruments classified under available-for-sale portfolio is estimated using internal valuation techniques.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(A) Fair value measurement (continued)

(i) Financial assets and financial liabilities (continued)

(d) Derivative financial assets and liabilities

Observable market data are used to determine the fair values of derivatives held-for-trading. Valuations are either based on quoted price or valuation technique. Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all long positions are marked to bid prices and short positions to offer prices.

(e) Loans, advances and financing

The fair values of variable rate loans, advances and financing are carried approximately to their carrying amounts. For fixed rate loan, advances and financing, the fair values are valued based on the expected future discounted cash flows using market rates of loan, advances and financing of similar credit risks and maturity. For impaired loans, advances and financing, the fair values are carried at amortised cost net of individual and collective impairment allowance.

(f) Deposits from customers

For deposits with maturity of less than one year, the carrying amount is a reasonable estimate of the fair value. For deposits with maturity of one year or more, the fair value is estimated using discounted cash flows based on market rates for similar products and maturity.

(g) Bills and acceptances payable

Bills and acceptances payable are substantially with maturity of less than one year. The carrying amount of bills and acceptances payable is a reasonable estimate of the fair value.

(h) Subordinated bonds

Fair value for the subordinated bonds is determined using quoted market prices where available, or by reference to quoted market prices of similar instruments.

(i) Recourse obligation on loans sold to Cagamas Berhad

For floating rate contracts, the carrying amount is generally a reasonable estimate of the fair value. The fair value of fixed rate contracts is estimated based on discounted cash flows using prevailing rates offered by Cagamas Berhad for similar products and remaining period to maturity.

(ii) Off-statement of financial position financial instruments

The fair value of off-statement of financial position financial instruments is the estimated amount the Group or the Bank would receive or pay to terminate the contracts at the reporting date. The fair value of the off-statements of financial position financial instruments are disclosed in Note 34.

(B) Fair value hierarchy of financial instruments

The Group and the Bank measure the fair value of financial assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)****(B) Fair value hierarchy of financial instruments (continued)**

The valuation hierarchy and the types of instruments classified into each level within that hierarchy, are set out below:

	Level 1	Level 2	Level 3
Fair value determined	Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets and financial liabilities that the entity can access at the measurement date.	Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets and liabilities, either directly or indirectly.	Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.
Type of financial assets	Actively traded government and government agency securities Actively traded quoted equity securities of corporations	Corporate and other government bonds/ sukuk and loans Over-the counter ("OTC") derivatives Deposits and placements with banks and other financial institutions	Private debt equity investments Corporate bonds/sukuk with illiquid markets Loans, advances and financing
Type of financial liabilities		OTC derivatives Deposits from customer Deposits and placement of banks and other financial institutions Subordinated bonds/sukuk Recourse obligation on loans sold to Cagamas Berhad	

(i) Fair value hierarchy of financial instruments carried at fair value

Group	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
2017				
Financial assets at fair value				
Held-for-trading	521,998	1,168,765	-	1,690,763
Available-for-sale	7,097,231	6,295,382	-	13,392,613
Derivative assets	851	819,312	15,662	835,825
	7,620,080	8,283,459	15,662	15,919,201
Financial liabilities at fair value				
Derivative liabilities	1,160	1,063,400	16,294	1,080,854

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(B) Fair value hierarchy of financial instruments (continued)

(i) Fair value hierarchy of financial instruments carried at fair value (continued)

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Group				
2016				
Financial assets at fair value				
Held-for-trading	358,647	1,169,714	-	1,528,361
Available-for-sale	5,765,683	5,379,276	-	11,144,959
Derivative assets	830	1,983,524	11,162	1,995,516
	<u>6,125,160</u>	<u>8,532,514</u>	<u>11,162</u>	<u>14,668,836</u>
Financial liabilities at fair value				
Derivative liabilities	524	1,807,596	12,294	1,820,414
Bank				
2017				
Financial assets at fair value				
Held-for-trading	521,998	1,168,765	-	1,690,763
Available-for-sale	4,943,215	3,726,518	-	8,669,733
Derivative assets	980	818,983	15,662	835,625
	<u>5,466,193</u>	<u>5,714,266</u>	<u>15,662</u>	<u>11,196,121</u>
Financial liabilities at fair value				
Derivative liabilities	1,171	1,062,962	16,294	1,080,427
2016				
Financial assets at fair value				
Held-for-trading	358,647	1,169,714	-	1,528,361
Available-for-sale	4,217,072	3,751,910	-	7,968,982
Derivative assets	819	1,983,500	11,162	1,995,481
	<u>4,576,538</u>	<u>6,905,124</u>	<u>11,162</u>	<u>11,492,824</u>
Financial liabilities at fair value				
Derivative liabilities	543	1,807,207	12,294	1,820,044

Movements in the Group's and the Bank's Level 3 financial assets and liabilities are as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
Financial assets at fair value		
At 1 January	11,162	13,996
Purchased	-	670
Settled	(300)	(31)
Recognised in profit or loss		
- Realised loss	-	(2,812)
- Unrealised gain/(loss)	4,800	(661)
At 31 December	<u>15,662</u>	<u>11,162</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)****(B) Fair value hierarchy of financial instruments (continued)****(i) Fair value hierarchy of financial instruments carried at fair value (continued)**

	Group and Bank	
	2017	2016
	RM'000	RM'000
Financial liabilities at fair value		
At 1 January	12,294	18,880
Issued	-	-
Settled	-	(4,760)
Recognised in profit or loss		
- Realised gain	-	(1,667)
- Unrealised loss/(gain)	4,000	(159)
At 31 December	<u>16,294</u>	<u>12,294</u>

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Transfer between Level 1 and 2 fair values

During the financial year, financial investments available-for-sale of the Group and the Bank with a carrying amount of RM297,184,710 and nil respectively (2016: both RM291,254,400) were transferred from Level 1 to Level 2 because market for such debt securities were inactive, and financial investments available-for-sale of the Group and the Bank with a carrying amount of RM307,300,050 (2016: RM240,408,000 and nil respectively) were transferred from Level 2 to Level 1 upon availability of active market.

The following table shows the valuation techniques used in the determination of fair value within Level 3, as well as the unobservable inputs used in the valuation model:

Group and Bank	2017	2016	Classification	Valuation technique	Unobservable input
	Fair value	Fair value			
	RM'000	RM'000			
Assets					
Derivative assets	15,662	11,162	Hedge for trading	Option pricing model	Standard deviation
Liabilities					
Derivative liabilities	16,294	12,294	Hedge for trading	Option pricing model	Standard deviation

The Group and the Bank consider that any reasonably possible changes to the unobservable input will not result in a significant financial impact.

Valuation control framework

The Group has an established control framework with respect to the measurement of fair values, which includes formalised processes for the review and validation of fair values independent of the businesses entering into the transactions.

The Market Risk Management ("MRM") functions within the Risk Management Division and with support from Group Risk Management Division, is responsible for market data validation, assessment of model validation and ongoing performance monitoring.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)****(B) Fair value hierarchy of financial instruments (continued)****(i) Fair value hierarchy of financial instruments carried at fair value (continued)**

The Treasury Financial Control - Valuation Control function within the Finance Division is responsible for the establishment of the overall valuation control framework. This includes, but is not limited to, reviewing and recommending appropriate valuation reserves, methodologies and adjustments, independent price testing, and identifying valuation gaps.

Valuation related policies are reviewed annually by the Market Risk Management Department ("MRM") and the Finance Division. Any material change to the framework requires the approval of the Chief Executive Officer and concurrence from the Board Risk Management Committee. Internal Audit provides independent assurance on the respective divisions' compliance with the policy.

(ii) Fair value hierarchy of financial instruments not carried at fair value

The table below is a comparison of the carrying amounts and fair values of those financial instruments of the Group and the Bank which are not measured at fair value. It does not include those short term financial assets and financial liabilities where their fair values were not materially different from the carrying amounts.

<u>Group</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Carrying</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>fair value</u>	<u>amount</u>
			<u>RM'000</u>	<u>RM'000</u>
2017				
Financial assets not carried at fair value				
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	67,455,510	67,455,510	67,452,350
	-	67,564,056	67,564,056	67,560,896
Financial liabilities not carried at fair value				
Deposits from customers	73,734,185	-	73,734,185	73,652,739
Deposits and placements of banks and other financial institutions	4,404,398	-	4,404,398	4,388,137
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	1,419,252	1,419,252
Subordinated bonds	1,918,809	-	1,918,809	1,870,932
	81,476,644	-	81,476,644	81,331,060
2016				
Financial assets not carried at fair value				
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	67,418,836	67,418,836	67,421,623
	-	67,527,382	67,527,382	67,530,169
Financial liabilities not carried at fair value				
Deposits from customers	72,227,685	-	72,227,685	70,934,813
Deposits and placements of banks and other financial institutions	9,479,768	-	9,479,768	9,462,112
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	-	1,328,516	1,328,516
Subordinated bonds	2,127,277	-	2,127,277	2,075,852
	85,163,246	-	85,163,246	83,801,293

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(ii) Fair value hierarchy of financial instruments not carried at fair value (continued)

<u>Bank</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Carrying</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>fair value</u>	<u>amount</u>
			<u>RM'000</u>	<u>RM'000</u>
2017				
Financial assets not carried at fair value				
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	57,741,910	57,741,910	57,742,824
	<u>-</u>	<u>57,850,456</u>	<u>57,850,456</u>	<u>57,851,370</u>
Financial liabilities not carried at fair value				
Deposits from customers	62,570,545	-	62,570,545	62,490,422
Deposits and placements of banks and other financial institutions	3,954,102	-	3,954,102	3,946,437
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	1,419,252	1,419,252
Subordinated bonds	1,897,921	-	1,897,921	1,870,932
	<u>69,841,820</u>	<u>-</u>	<u>69,841,820</u>	<u>69,727,043</u>
2016				
Financial assets not carried at fair value				
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	57,792,676	57,792,676	57,799,889
	<u>-</u>	<u>57,901,222</u>	<u>57,901,222</u>	<u>57,908,435</u>
Financial liabilities not carried at fair value				
Deposits from customers	60,992,220	-	60,992,220	59,700,547
Deposits and placements of banks and other financial institutions	8,984,850	-	8,984,850	8,977,185
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	-	1,328,516	1,328,516
Subordinated bonds	2,102,023	-	2,102,023	2,075,852
	<u>73,407,609</u>	<u>-</u>	<u>73,407,609</u>	<u>72,082,100</u>

41 HEDGING ACTIVITIES

Fair value hedge

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

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

	<u>Group and Bank</u>	
	<u>2017</u>	<u>2016</u>
	<u>RM'000</u>	<u>RM'000</u>
Gains on hedging instruments	1,559	3,673
Losses on the hedged items attributable to the hedged risk	(1,831)	(3,003)
	<u>(272)</u>	<u>670</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Bank have exposure to credit risk, liquidity risk and market risk from the use of financial instruments, and exposure to operational risk. The Group's and the Bank's overall risk management framework, including the risk governance and risk management process are set out as follows:

The Group and the Bank believe that sound risk management is paramount to the success of its risk-taking activities. The Group's philosophy is to ensure that risks and returns remain consistent with our risk appetite. To achieve this, the Group identifies emerging portfolio threats and credit concentrations at an early stage in order to develop timely risk-response strategies.

The key elements of the Group's enterprise-wide risk management strategy are:

- (i) Risk appetite – The Board of Directors approves the Group's risk appetite, and that all risks are managed in alignment with the risk appetite. Risk-taking decisions must be consistent with strategic business goals and returns commensurate with the risks taken.
- (ii) Risk frameworks – The Group's risk management frameworks for all risk types are effective, comprehensive, and consistent.
- (iii) Holistic risk management – Risks are managed holistically, with a view to understand the potential interactions among risk types.
- (iv) Qualitative and quantitative evaluations – Risks are evaluated both qualitatively and with appropriate quantitative analyses and robust stress testing. Risk models in use are regularly reviewed and independently validated to ensure that they are fit-for-use.

The Group and the Bank believe that effective risk management starts with well-considered risk-taking strategies, and further supported by a robust and proactive risk management process. This is reinforced with competent risk management staff, on-going investments in risk infrastructure and systems, regular review and enhancement of risk management policies and procedures. Cultivating a strong risk culture and robust internal control environment throughout the Group and the Bank are also paramount to sound risk management. Accountability for managing risks is jointly owned among customer-facing and product business units, dedicated and independent functional risk management units, as well as other support units such as Operations and Technology. Group Audit also provides independent assurance that the Group's and the Bank's risk management system, control and governance processes are in compliance with internal rules and standards and are effective. Rigorous portfolio management tools such as stress testing and scenario analyses are used to identify possible events or market conditions that could adversely affect the Group's and the Bank's portfolios. These results are taken into account during the formulation of the Group's and the Bank's business strategy, capital adequacy assessment and the setting of risk limits.

Risk Governance and Organisation

The Board of Directors establishes the Group's and the Bank's risk appetite and risk principles. The Group's Risk Management Committee ("RMC") is the principal Board committee that oversees the Bank's risk management. It sets the Group's and the Bank's overall risk management philosophy and approves risk management frameworks, major risk policies, and risk models. The RMC also oversees the establishment and operation of the risk management systems, and receives regular reviews as to their effectiveness. The Group's and the Bank's various risk exposures, risk profiles, risk concentrations, and trends are regularly reported to the Board of Directors, RMC and senior management for review and action.

The RMC is supported by Group Risk Management Division ("GRM"), headed by the Country Chief Risk Officer ("CCRO"). GRM has functional responsibility on a day-to-day basis for providing independent risk control and managing credit, market, operational, liquidity, and other key risks. Dedicated GRM officers establish Group-wide policies and procedures, risk measurement and methodology. They also monitor the Group's and the Bank's risk profiles and portfolio concentrations. The Group's and the Bank's risk management and reporting systems are designed to ensure that risks are comprehensively identified and evaluated to support risk decisions. Compensation of risk officers is determined independently of other business areas and is reviewed regularly to ensure compensation remains market competitive.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Governance and Organisation (continued)

Senior management actively manages risks through the various risk management committees such as the Credit Risk Management Committee, the Operational Risk Management Committee as well as the Asset Liability Management Committee. Both risk-taking and risk control units are represented in these committees, emphasising shared risk management responsibilities.

Credit officers' approval authority limits are set in accordance to their relevant experience and qualifications. GRM officers also provide expertise during the design and approval of new products to ensure existing systems and processes are able to adequately manage any new product risks.

The Group and the Bank perform an Internal Capital Adequacy Assessment Process ("ICAAP") assessment annually to ensure the Group and the Bank are able to maintain sound capital levels after considering business plans and material risks under both normal and severe stress scenarios. Combined with the Board approved Risk Appetite Statement, the ICAAP process provides a high-level of assurance that the Group and the Bank will remain financially sound and prudently managed at all times.

Credit Risk Management

Credit risk arises from the risk of loss of principal or income on the failure of an obligor or counterparty to meet its contractual obligations. As our primary business is commercial banking, the Group and the Bank are exposed to credit risks from financing to consumer, corporate, and institutional customers. Trading and investment banking activities, such as trading of derivatives, debt securities, foreign exchange, commodities, securities underwriting, and settlement of transactions, also expose the Group and the Bank to counterparty and issuer credit risks. For derivative transactions, the total credit exposure is quantified by the transaction's current positive mark-to-market value plus an appropriate add-on factor for potential future exposure.

Credit Risk Management Oversight and Organisation

The Credit Risk Management Committee ("CRMC") is the senior management group that supports the CEO and the RMC in proactively managing credit risk, including reshaping the credit portfolios. It oversees the execution of the Group's and the Bank's credit risk management, framework and policies, processes, infrastructures, methodologies and systems. The CRMC reviews the credit profile of material portfolios to ensure that credit risk taking is aligned with business strategy and risk appetite. The CRMC also recommends and monitors risk limits, as well as highlights any material risk to the CEO and RMC.

The Credit Risk Management ("CRM") departments manage credit risk within pre-determined risk appetite, customer targets, limits and established risk standards. Dedicated risk functions are responsible for risk portfolio monitoring, risk measurement methodology, risk reporting, and remedial management of loans, financing and advances.

Regular risk reports are provided to the Board of Directors, the RMC and the CRMC in a timely, objective and transparent manner. These reports include detailed profiles on portfolio quality, credit migration, expected losses, and concentration risk exposures by business portfolio. Such reporting alerts senior management, the RMC and the Board to adverse credit trends early, so that timely corrective actions can be taken. To further strengthen the Group and the Bank's risk analytics capability to deliver better holistic insights, we organised various risk analytics and reporting teams into a single function reporting directly to the CCRO.

Credit Risk Management Approach

The Group's and the Bank's credit risk management framework covers the entire credit risk cycle, underpinned by comprehensive credit risk processes, as well as using models to efficiently quantify and manage risks in a consistent manner.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Management Approach (continued)

The Group and the Bank seek to take only credit risks that meet its target market and risk acceptance criteria, lending rules and risk return expectations in order to add shareholder value. As Fair Dealing is a core corporate value, any complex product sales are made only after applicable suitability and appropriateness tests are met. In addition to effective risk management practices, the judgement of our experienced credit officers is also key to our successful risk management.

Loans/Financing to Consumer and Small Businesses

Credit risks for the consumer and small business sectors are managed on a portfolio basis under credit programmes such as mortgages, credit cards, unsecured loans/financing, commercial property loans/financing and business term loans/financing. Loans/financing made under these programmes should fall within the defined target markets, meet the stipulated lending criteria and comply with the applicable loan advance ratio. Systems and processes such as source of identification of credit origination and independent verification of documentation are in place to prevent fraud. The portfolios are closely monitored monthly using MIS analytics. Application models are also used in the credit decision process for most products to enable objective, consistent and fast decisions. Behavioural models are used to identify potentially problematic loans/financing early.

Loans/Financing to Corporate and Institutional Customers

Loans/Financing to corporate and institutional customers are individually assessed, risk rated and approved by experienced risk officers. The officers identify and assess the credit risks of these customers, including any customer group's interdependencies, and take into consideration management quality, business, financial and competitive profiles against industry and economic threats. Collaterals or other credit support are also used to mitigate credit risk. Credit extensions are guided by pre-defined target market and risk acceptance criteria. To ensure objectivity in credit extension, co-grantor approvals and shared risk ownership are required from both the business and credit risk units.

Credit Risk from Investment or Trading Activities

Counterparty credit risks from the Group's and the Bank's trading, derivative and debt securities activities are actively managed to protect against potential losses in replacing a contract if a counterparty defaults. Counterparty credit limits are established for each counterparty based on our assessment of the counterparty's creditworthiness, the suitability and appropriateness of the product offered and alignment with approved trading mandates and strategies. Credit exposures are also controlled through independent monitoring where breaches against approved limits or products are promptly escalated to senior management and highlighted to an independent Control Assurance Unit.

Internal Credit Rating Models

Internal credit rating models are an integral part of the Group's and the Bank's credit risk management, decision-making process, and capital assessment. These internal rating models and the parameters – probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") – are factors used in limit setting and limit utilisation monitoring, credit approval, reporting, remedial management, stress testing and internal assessment of the capital adequacy and provisions.

Model risk is managed under an internal model risk management framework, including an internal ratings framework, to govern the development, validation, application and performance monitoring of these models. Approval for material models use and annual validation results rests with the RMC. The models are developed with the active participation of credit experts from risk taking and risk control units and subject to independent validation before implementation to ensure that all aspects of the model development process have met internal standards. In addition, the models are subject to annual review (or more frequently, where necessary) and independent validation to ensure the models are performing as expected, and that the assumptions used in model development remain appropriate. All rating models are assessed against internal and regulatory requirements, which are also subject to independent review by Internal Audit and approval by regulators.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Internal Credit Rating Models (continued)

The Group's and the Bank's internal risk grades are not explicitly mapped to external credit ratings. Nevertheless, our internal risk grades may correlate to external credit ratings in terms of the probability of default ranges as factors used to rate obligors would be similar; an obligor rated poorly by an external rating agency is likely to have a weaker internal risk rating.

Advance Internal Ratings Based ("A-IRB") for Major Retail Portfolios

The Group and the Bank have adopted the A-IRB approach for major retail portfolios, including residential mortgages, credit cards and small business lending. Internal rating models, developed from internal data, are used to estimate PD, LGD, and EAD parameters for each of these portfolios. Application and Behaviour scorecards are used as key inputs for several retail PD models. Product, collateral, and geographical characteristics are major factors used in the LGD and EAD models.

Foundation Internal Ratings Based ("F-IRB") for Major Non-Retail Portfolios

The Group's and the Bank's major non-retail portfolios, including income-producing real estate ("IPRE") specialised lending are on the F-IRB approach. Under this approach, internal models are used to estimate the PD for each obligor, while LGD and EAD parameters are prescribed by BNM. These PD models are statistically-based or expert judgement models that use both quantitative and qualitative factors to assess an obligor's repayment capacity and are calibrated to expected long-term average one-year default rate over an economic cycle. Expert judgement models are typically used for portfolios with low defaults following inputs from internal credit experts. The models also comply with the regulatory criteria for parameterisation. For other specialised lending portfolios namely Project Finance, Object Finance and Commodities Finance, risk grades derived from internal models are mapped to the five supervisory slotting categories as prescribed in BNM RWCAF. The risk weights prescribed for these slotting categories are used to determine the regulatory capital requirements.

Standardised Approach for Other Portfolios

Other credit portfolios, such as exposures to sovereigns and Islamic personal financing are under the Standardised Approach. These portfolios will be assessed for progressive migration to the internal ratings-based approaches. Regulatory prescribed risk weights based on asset class and external ratings from approved credit rating agencies, where available, are used to determine regulatory capital. Approved external rating agencies include Standard & Poor's, Moody's, Fitch, RAM Rating Services Berhad ("RAM") and Malaysian Rating Corporation Berhad ("MARC").

Credit Risk Control

Credit Risk Mitigation

Transactions are entered into primarily on the strength of a customer's creditworthiness and debt servicing ability. To manage credit risk, the Group and the Bank accept collateral and credit protection as credit risk mitigants, subject to meeting the eligibility criteria. Collateral includes both physical and financial assets. The value of collateral is prudently assessed on a regular basis, and valuations are performed by independent qualified appraisers. Appropriate haircuts are applied to the market value of collateral, reflecting the underlying nature of the collateral, quality, liquidity and volatility. The loan-to-value ratio is a major factor in secured lending decisioning. The Group and the Bank also accept guarantees from individuals, corporates, and institutions as a form of support.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Control (continued)

Managing Credit Risk Concentration

Credit risk concentrations may arise from financing to single customer groups, customers who are in similar activities, or diverse groups of customers being affected by similar economic or market conditions. To manage such concentrations, limits are established for single customer groups, products, portfolio, and industry segments. These limits are aligned with the Group's and the Bank's business strategy, capacity and expertise. Impact on earnings and capital are also considered during the setting of limits.

Although the Group and the Bank are steadily diversifying its exposure, it has significant exposure to the real estate market in Malaysia. Dedicated specialist real estate teams manage this risk with focus on client selection, project viability, collateral quality, and real estate cycle trends. Regular stress tests are also made to identify potential vulnerabilities on the real estate portfolio.

The Group and the Bank are in compliance with BNM's Circular on Guidelines on Lending to the Broad Property Sector ("BPS") and Lending for the Purchase of Shares and Units of Unit Trust Funds dated 29 March 1997, which limits BPS exposure to not more than 20% and shares and unit trust funds exposure to not more than 15% of the total outstanding loans, advances and financing.

Remedial Management

The Group and the Bank constantly review and assess our portfolios of credits to detect potential problems at an early stage. As we value customer relationships, we will work with customers facing financial distress and work closely with them. We recognise the opportunity to promote customer loyalty and retention in such instances, even as we enforce strict discipline and priority on remedial management to minimise credit loss.

Loans, advances and financing are categorised as "Pass" or "Special Mention", while impaired loans ("ILs") are categorised as "Substandard", "Doubtful" or "Loss".

Credit facilities are classified as restructured assets when the Bank has granted concessions or restructured payment terms to customers who are facing difficulties in meeting the original payment schedules. Such restructured assets are classified in the appropriate impaired loans grades and will not be restored to performing loan status until the borrowers have demonstrated sustained ability to meet all future obligations under the restructured terms.

The Group and the Bank have dedicated specialist workout teams to manage problem exposures. Time and risk-based event specific triggers are used to develop collection and asset recovery strategies. The Group and the Bank uses analytical data such as delinquency buckets and adverse status tags for delinquent consumer financing to constantly fine-tune and prioritise its collection efforts.

Impairment Allowances for Loans, Advances and Financing

The Group and the Bank maintain loan allowances that are sufficient to absorb credit losses inherent in its loans, advances and financing portfolio. Total loan loss allowance comprises of individual impairment allowances for impaired loans and collective impairment allowance for all performing loans, advances and financing to cover expected losses that are not yet evident.

Individual impairment allowances for credit losses are evaluated either individually or collectively for a portfolio. The amount of individual impairment allowance for an individual credit exposure is determined by ascertaining the difference between the present value of future recoverable cash flows of the impaired loan and the carrying value of the loan. For homogenous unsecured retail loans such as credit card receivables, individual impairment allowances are collectively assessed, taking into account the homogenous characteristics and historical loss experience of such loans.

Collective impairment allowance is provided based on the Group's and the Bank's credit experience, historical loss rates and judgement for estimated inherent losses that may exist but may not been identified for any specific financial asset.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Impairment Allowances for Loans, Advances and Financing (continued)

The Group's policy on classification and provisioning for loans, advances and financing is guided by Malaysian Financial Reporting Standard 139 ("MFRS139") and BNM's Policy on Classification and Impairment Provisions for Loans/Financing. The Group is working towards implementing Malaysian Financial Reporting Standards 9 ("MFRS 9") which replaces MFRS139 with effect from 1 January 2018.

Write-Offs

Loans/financing are written off against impairment after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

Ceasing of Interest Accrual on Loans, Advances and Financing

When a loan/financing is classified as impaired, interest income ceases to be recognised in the statement of profit or loss on an accrual basis. However, this non-accrual of interest does not preclude the Group's and the Bank's entitlement to the interest income as it merely reflects the uncertainty in the collection of such interest income. Once a loan/financing has been written down as a result of an impairment allowance, interest/finance income is recognised using the interest/profit rate used to discount the future cash flows for the purpose of measuring the impairment allowance.

Collateral Held Against Impaired Loans/Financing

The Group's and the Bank's impaired loans/financing are largely secured by real estate in Malaysia. The realisable value of the collateral is used to determine the adequacy of the collateral coverage. Cross collateralisation will only apply when exposures are supported by proper legal documentation.

Responsible Financing

The Group and the Bank recognise that promoting long-term sustainable development is fundamental to its continuing success. In this regard, the Group and the Bank are committed to advancing environmental and social progress and to conduct its business in a responsible manner. In addition to including Environment, Social and Governance ("ESG") assessment in its credit policy and implemented this as part of routine credit evaluation, the OCBC Group has in addition rolled out the new Responsible Financing Framework. This Framework aims to fully integrate ESG considerations into our credit evaluation and risk decisioning process in a more structured and systematic manner, including reputational risk assessment.

Relevant supporting policy and ESG risk assessment tools are in place for progressive rollout and implementation within the Group and the Bank in 2017.

Market Risk Management

Market risk is the risk of loss of income or market value due to fluctuations in factors such as profit rates, foreign exchange rates, equity and commodity prices, or changes in volatility or correlations of such factors. The Group and the Bank are exposed to market risks from its trading and balance sheet management activities.

The Group's and the Bank's market risk management strategy and market risk limits are established within the Group's and the Bank's risk appetite and business strategies, taking into account macroeconomic and market conditions. Market risk limits are subject to regular review.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

Market Risk Management Oversight and Organisation

The Asset Liability Management Committee (“ALCO”) is the senior management group that supports the RMC and the CEO in managing market risk. The ALCO establishes the market risk management objectives, framework, and policies governing prudent market risk taking, which are backed by risk methodologies, measurement systems, and internal controls.

The ALCO is supported at the working level by Market Risk Management (“MRM”) within GRM and Corporate Treasury within the Group Finance Division. MRM is the independent risk control unit responsible for operationalising the market risk management framework to support business growth while ensuring adequate risk control and oversight.

Market Risk Management Approach

Market risk management is a shared responsibility. Business units are responsible for undertaking proactive risk management within their approved trading strategies and investment mandates, whilst MRM acts as the independent monitoring unit to ensure sound governance. Key risk management activities of identification, measurement, monitoring, control, and reporting are regularly reviewed to ensure effective risk management.

Market Risk Identification

Risk identification is addressed via the Group's and the Bank's new product approval process at product inception. Market risks are also identified by our risk managers from their on-going interactions with the business units.

Several market risk measurements are also utilised regularly to quantify and assess potential losses. These include Value-at-Risk (“VAR”), Present Value of Basis Point (“PV01”), Credit Sensitivity of a Basis Point (“CS01”), FX Basis Sensitivity of a Basis Point (“FXBasis01”), FX Net Open Position (“FX NOP”) and derivative greeks.

The Group and the Bank also perform stress testing and scenario analyses to better quantify and assess potential losses arising from low probability but plausible extreme market conditions. The stress scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Group's and the Bank's trading activities, risk profile, and prevailing and forecast economic conditions. These analyses determine if potential losses from such extreme market conditions are within the Group's and the Bank's risk tolerance.

Risk Monitoring and Control

Only authorised trading activities for approved products may be undertaken by the various trading units. All trading risk positions are monitored on a daily basis against approved and allocated limits by independent support units. Limits are approved to reflect available and anticipated trading opportunities, with clearly defined exception escalation procedures. Exceptions, including any temporary breaches, are promptly reported and escalated to senior management for resolution. Multiple risk limits (VAR and risk sensitivities), profit/loss, and other measures allow for more holistic analysis and management of market risk exposures.

Model validation is also an integral part of the Group's and the Bank's risk control process. Risk models are used to price financial instruments and to calculate VAR. The models used are verified and assessed to ensure that they are fit for their intended purpose. Market rates used for risk measurements and valuation are sourced independently, thereby adding further to the integrity of the trading profits and losses (“P&L”), risk and limit control measurements.

To ensure the continued integrity of the VAR model, back-testing is conducted to confirm the consistency of actual daily trading P&L and theoretical P&L against the model's statistical assumptions.

Asset Liability Management

Asset liability management is the strategic management of the statement of financial position structure and liquidity needs, covering liquidity sourcing and diversification, and interest/profit rate management.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset Liability Management (continued)

Asset Liability Management Oversight and Organisation

The ALCO is the senior management group that is responsible for the management of the Group's and the Bank's statement of financial position and liquidity risks. The ALCO is chaired by the CEO and includes senior management from the business, risk and support units.

The ALCO is supported by the Corporate Treasury Department within the Finance Division and MRM within GRM.

Asset Liability Management Approach

The asset liability management framework comprises liquidity risk management and profit rate risk mismatch management.

Liquidity Risk

The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory financial obligations and to undertake new transactions.

The Group's and the Bank's liquidity management process involve establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and refining contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

Liquidity monitoring is performed daily within a framework for projecting cash flows on a contractual and behavioural basis. Simulations of liquidity exposures under stressed market scenarios are performed and the results are taken into account in the risk management processes. Indicators such as liquidity and deposit concentration ratios are employed to maintain an optimal funding mix and asset composition. Funding strategies are in place to provide effective diversification and stability in funding sources across tenors and products. In addition, liquid assets in excess of regulatory requirements are maintained for contingent use in the event of a liquidity crisis. These liquid assets comprise statutory reserve, eligible securities as well as marketable shares and debt securities.

Interest/Profit Rate Risk

The primary goal of interest/profit rate risk management is to ensure that interest/profit rate risk exposures are maintained within defined risk tolerances.

Interest/Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in interest/profit rates. The material sources of interest/profit rate risk are repricing risk, yield curve risk, basis risk and optionality risk. A range of techniques are employed to measure these risks from an earnings and economic value perspective. One method involves the simulation of the impact of a variety of interest/profit rate scenarios on the net profit income and the economic value of the Group's and the Bank's equity. Other measures include interest/profit rate sensitivity measures such as PV01 as well as repricing gap profile analysis.

Limits and policies to manage interest/profit rate exposures are established in line with the Group's and the Bank's strategy and risk appetite. Thresholds and policies are appropriately approved, and reviewed regularly to ensure they remain relevant against the external environment. Control systems are in place to monitor the risk profile against the approved risk thresholds.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and management, or from external events. Operational risk management also covers fiduciary, legal and reputational risks and Shariah compliance risks.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

The Group's and the Bank's operational risk management aim to manage both expected and unexpected losses, including those caused by catastrophic events. The twin goals enable new business opportunities to be pursued in a risk-conscious and controlled manner.

Operational Risk Management Oversight and Organisation

The Operational Risk Management Committee ("ORC") is the senior management group that oversees the execution of the Group's and the Bank's operational risk management, information security and technology risk practices. ORC ensures that various risk management programmes that are in place are appropriate, effective, and support the Group's and the Bank's business strategy.

The Operational Risk Management ("ORM") department within GRM establishes the ORM framework, including supporting policies and techniques. The ORM department also provides independent oversight of operational risk monitoring and controls that reside within business, products and process owners. The ORM programmes are actively implemented through the respective Operational Risk Partners or managers in the business units. Operational Risk Partners or managers are put through an accreditation programme to raise competency levels in managing operational risk.

Operational Risk Management Approach

The Group and the Bank adopt a framework that ensures operational risks are properly identified, managed, monitored, mitigated, and reported in a structured and consistent manner. The framework is underpinned by an internal control system that reinforces the Group's and the Bank's control culture.

Each business unit undertakes self-assessment on a regular basis by assessing the robustness of its own risk and control environment, including meeting all legal and regulatory requirements. Self-assessment declarations are subject to risk-based independent reviews. Performance metrics are also used to detect early warning signals and to drive appropriate management actions before risks become material losses. To enhance controls over trading activities and data loss prevention, the Group and the Bank has specific risk units in place to perform surveillance over these areas.

Senior management attests annually to the CEO and the RMC regarding the adequacy and effectiveness of the internal control and risk management systems and also reports on key control deficiencies and accompanying remedial plans. Operational risk data (e.g. operational risk events, self-assessments) are collected and stored in operational risk management systems, analysed and reported regularly.

To mitigate operational losses, insurance programmes are in place to protect the Bank and its employees against adverse events. These programmes cover losses relating to crime, cyber risks, professional indemnity, directors' and officers' liability, property damage and public liability.

Operational Risk Scenario Analysis

The Group and the Bank perform impact analysis on severe operational risk scenarios for the purpose of assessing the adequacy of operational risk capital requirements. The analysis forms part of the annual Group Internal Capital Adequacy Assessment Process ("ICAAP").

Outsourcing Risk Management

The Group and the Bank recognise the risks associated with outsourcing arrangements. The Group and the Bank have in place an outsourcing programme to manage subcontractor risks in a structured, systematic and consistent manner. An Outsourcing Management Control Group ("OMCG"), comprising members from different risk and internal control functions, has been set up to support the ORC in managing the Group's and the Bank's outsourcing risk.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Physical and People Security Risk Management

The Group and the Bank recognise that their personnel and assets may be exposed to external threats. To address this ever changing threat landscape, the Group and the Bank have a programme to ensure that physical and security risk to people and assets is adequately addressed.

Business Continuity Risk Management

The Group and the Bank have a comprehensive and robust business continuity management programme that aims to minimise the interruption to essential business activities and services during times of crisis. This is achieved through the implementation of robust recovery strategies and business recovery plans which are reviewed and tested annually. Senior management also provides an annual attestation to the RMC which includes a measurement of the programme's maturity across the entity, the extent of alignment to regulatory guidelines, and a declaration of acceptable residual risk.

Fraud Risk Management

The Group's and the Bank's fraud risk management and whistle-blowing programmes help prevent and detect fraud or misconduct. Fraud incident reports, including root cause analysis, extent of damage, supporting remedial actions and recovery steps of major incidents, are regularly reported to the ORC and the RMC. Internal Audit independently reviews all fraud and whistle-blowing cases, and reports their finding to the Board Audit Committee.

Reputational Risk Management

Reputational risk is the current or prospective risk to earnings and capital arising from adverse perception of the Group's and the Bank's image by customers, counterparties, shareholders, investors and regulators. The Group and the Bank have a reputational risk management programme which focuses on understanding and managing the Group's and the Bank's responsibilities towards its different stakeholders, and protecting the Group's and the Bank's reputation. A key emphasis of the programme is effective information sharing and engagement with stakeholders.

Fiduciary Risk Management

The Group and the Bank have a fiduciary risk management programme to manage risks associated with fiduciary relationships from managing funds or providing other agency services. The programme provides guidelines on regular identification, assessment, mitigation, and monitoring of fiduciary risk exposures, to ensure the Group's and the Bank's compliance with applicable corporate standards.

Legal and Regulatory Risk Management

The Group and the Bank hold to high standards when conducting our business and at all times observe and comply with applicable laws, rules and standards. The Group and the Bank have in place a compliance risk programme which defines the required environment and organisational components for managing the risk in a structured systematic and consistent manner. Each business unit is responsible for having adequate and effective controls to manage both legal and regulatory risks. Senior management provides the CEO and the RMC with an annual Regulatory Compliance Certification regarding the state of regulatory compliance.

Technology, Information and Cyber Risk Management

Technology, Information and Cyber Risk ("TICR") management is an integral part of the ORM framework. We adopt a holistic approach to ensure that these risks are properly monitored, assessed, mitigated and reported. Appropriate controls are in place to ensure confidentiality, integrity, and availability of our information assets.

We raise our staff vigilance on cyber and information risk through regular awareness advisories, trainings and campaigns that include the use of test emails. The Group and the Bank collaborate with industry participants and government agencies to share intelligence and counter measures against new forms of cyber attacks.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Shariah Governance

Shariah principles are the foundation of the practice of Islamic Finance through the observance of the tenets, conditions and principles espoused by Shariah to ensure all the operations and activities of OCBC Al-Amin Bank Berhad ("OCBC Al-Amin") complies with Shariah rules and principles at all times. OCBC Al-Amin is governed by the Shariah Governance Framework ("SGF") of OCBC Al-Amin which in essence sets out the following:

- (i) Defines Shariah governance structures, policies and processes to ensure that all its operations and business activities are in accordance with Shariah principles;
- (ii) Provides comprehensive guidance to the Board, the Management and the Shariah Committee ("SC") of OCBC Al-Amin in discharging their respective duties in matters relating to Shariah; and
- (iii) Outlines the functions relating to Shariah Review, Shariah Audit, Shariah Research and Secretariat, and Shariah Non-Compliance Risk Management processes.

The SGF is applicable to all employees of OCBC Al-Amin and also extends to all employees of the Group who are involved in the business and operations of OCBC Al-Amin under shared services and other service providers under outsourcing arrangements.

Shariah Non-Compliance Risk

Shariah Non-Compliance Risk Management is a unique feature of the Group's risk management framework. Shariah Non-Compliance Risk arises from Islamic banks' failure to comply with the Shariah rules and principles as determined by BNM's Shariah Advisory Council ("SAC"), Securities Commission's SAC and the Bank's Shariah Committee.

The responsibility for complying with Shariah rules and principles, does not only lie/reside with the Board and the Management; as compliance with all relevant regulations is a key part of our organisational culture, every business division and their staff are also responsible and accountable for any breaches of applicable laws, guidelines, rules and regulations related to Islamic banking and finance.

During the life cycle of the products and services, the Shariah requirements that were embedded in the said products and services must also be strictly adhered to and failing which, the income generated from the Islamic banking business potentially cannot be recognised and will be donated to charities.

The key components of the Group's Shariah Non-Compliance Risk Management process are namely:

- (i) Risk Identification – Identification of the potential Shariah Non-Compliance Events.
- (ii) Risk Assessment/Measurement – Assessment and measurement of the impact of the potential Shariah Non-Compliance Event. The process takes into account the existing controls that have been put in place and their effectiveness in mitigating the Shariah Non-Compliance Risk.
- (iii) Mitigation/Control/Awareness – Shariah Non-Compliance Risk are mitigated by implementing and putting in place appropriate control measures, such as policies, guidelines and procedures on Shariah requirements. OCBC Al-Amin's Shariah Review team will periodically review the operations and processes of the Bank's activities and will escalate any potential non-compliance events to the Shariah Committee for decision. Training programs are also being offered to all personnel that are involved in the Shariah Banking activities and operations.
- (iv) Monitoring & Reporting – Establishing early warning, monitoring and reporting mechanism on Shariah Non-Compliance Risk exposures.

All potential Shariah non-compliant events are initially assessed by the Qualified Shariah Officer and submitted to the OCBC Al-Amin's Shariah Committee for confirmation and decision in order to determine the status of the events and potential Shariah non-compliant income. All Potential and Actual Shariah Non-Compliance Events ("SNCEs") upon confirmation by Shariah Committee are to be reported to BNM within the required timeframe set by BNM.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Shariah Governance (continued)**

During the financial year ended 31 December 2017, OCBC Al-Amin received immaterial Shariah non-compliant income. Shariah non-compliant income are channelled to charitable organisations as determined by OCBC Al-Amin's Shariah Committee. Details of the income and uses of charity funds are as follows:

	Group	
	2017	2016
Sources and Uses of charity funds	RM'000	RM'000
At 1 January	8	7
<u>Sources of charity funds</u>		
Shariah non-compliance income	-	1
<u>Uses of charity funds</u>		
Contribution to non-profit organisations	(5)	-
At 31 December	<u>3</u>	<u>8</u>

43 CREDIT RISK

Credit risk is the risk of a financial loss to the Group and the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's and the Bank's maximum credit exposure on the financial assets without taking into account any collateral held or other credit enhancements of the Group and the Bank equal their carrying amount as reported in the statements of financial position. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	Note	Group		Bank	
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
Cash and cash equivalents	3	6,158,261	8,293,096	6,441,098	7,669,764
Deposits and placements with banks and other financial institutions	4	71,835	1,447,920	1,174,728	2,015,307
Financial assets held-for-trading	(a)	1,690,763	1,528,361	1,690,763	1,528,361
Financial investments available-for-sale	(b)	13,501,171	11,253,517	8,778,291	8,077,540
Loans, advances and financing	(c)	68,442,545	68,520,940	58,453,223	58,632,184
Derivative financial assets	(d)	835,825	1,995,516	835,625	1,995,481
Other assets		372,649	283,206	712,283	467,074
Contingent liabilities and commitments	(e)	28,056,238	28,006,971	25,139,038	25,267,751
		<u>119,129,287</u>	<u>121,329,527</u>	<u>103,225,049</u>	<u>105,653,462</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

43 CREDIT RISK (continued)

(a) Credit quality of financial assets held-for-trading

In view of the following sound credit of rating of counterparties, the Group and the Bank do not expect any counterparty to fail to meet its obligation.

		Group and Bank	
		2017	2016
		RM'000	RM'000
(i)	By issuer		
	Government and Central Bank	521,998	512,084
	Public sector	425,380	49,976
	Banks	77,716	589,734
	Non-bank financial institutions	436,656	150,568
	Business Enterprise	229,013	225,999
		<u>1,690,763</u>	<u>1,528,361</u>
(ii)	By geography		
	Malaysia	1,673,702	1,457,695
	Singapore	1	12
	Rest of the world	17,060	70,654
		<u>1,690,763</u>	<u>1,528,361</u>
(iii)	By credit rating		
	Government and Central Bank (unrated)	119,772	331,959
	Government (AAA to BBB)	402,226	180,125
	Investment grade (AAA to BBB)	822,453	702,143
	Unrated	346,312	314,134
		<u>1,690,763</u>	<u>1,528,361</u>
(iv)	By sector		
	Manufacturing	7	26,142
	Construction	391,313	49,966
	Wholesale & retail trade and restaurants & hotels	-	12
	Transport, storage and communication	54,014	49,976
	Finance, insurance and business services	634,360	890,180
	Others	611,069	512,085
		<u>1,690,763</u>	<u>1,528,361</u>
(v)	By residual contractual maturity		
	Within one year	1,070,042	980,219
	One to five years	374,909	506,889
	Over five years	245,812	41,253
		<u>1,690,763</u>	<u>1,528,361</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

43 CREDIT RISK (continued)

(b) Credit quality of financial investments available-for-sale

In view of the following sound credit of rating of counterparties, the Group and the Bank do not expect any counterparty to fail meeting its obligation except for the impairment allowance recognised in respect of financial investments available-for-sale as disclosed in Note 6.

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
(i) By issuer				
Government and Central Bank	7,518,002	6,684,465	5,218,917	4,812,867
Foreign government	596,729	299,295	394,732	65,575
Public sector	600,113	153,858	233,071	119,200
Banks	2,388,497	1,465,408	897,273	835,741
Non-bank financial institutions	1,189,331	1,013,250	1,074,073	963,060
Business Enterprises	1,208,309	1,637,051	960,035	1,280,907
Others	190	190	190	190
	<u>13,501,171</u>	<u>11,253,517</u>	<u>8,778,291</u>	<u>8,077,540</u>
(ii) By geography				
Malaysia	12,101,539	10,087,992	7,580,656	7,145,735
Singapore	101,272	-	101,272	-
Other ASEAN countries	131,552	190,010	27,732	63,346
Rest of the world	1,166,808	975,515	1,068,631	868,459
	<u>13,501,171</u>	<u>11,253,517</u>	<u>8,778,291</u>	<u>8,077,540</u>
(iii) By credit rating				
Government and Central Bank (unrated)	2,211,723	2,205,475	879,193	1,168,775
Government (A to AAA)	5,306,279	4,478,990	4,339,724	3,644,092
Foreign government (unrated)	22,282	23,040	-	-
Foreign government (AAA to BBB)	574,447	276,255	394,732	65,575
Investment grade (AAA to BBB)	2,855,535	2,601,684	2,614,753	2,370,368
Unrated	2,530,905	1,668,073	549,889	828,730
	<u>13,501,171</u>	<u>11,253,517</u>	<u>8,778,291</u>	<u>8,077,540</u>
(iv) By sector				
Agriculture, hunting, forestry and fishing	88,746	121,323	58,756	91,982
Mining and quarrying	133,241	96,174	133,241	96,174
Manufacturing	66,219	50,301	66,219	50,301
Electricity, gas and water	150,720	219,845	59,874	104,515
Construction	129,795	115,131	129,795	115,131
Wholesale & retail trade and restaurants & hotels	139,534	138,745	139,534	138,745
Transport, storage and communication	119,440	163,871	74,539	129,213
Finance, insurance and business services	3,884,168	3,163,505	2,154,936	2,297,145
Others	8,789,308	7,184,622	5,961,397	5,054,334
	<u>13,501,171</u>	<u>11,253,517</u>	<u>8,778,291</u>	<u>8,077,540</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

43 CREDIT RISK (continued)

(b) Credit quality of financial investments available-for-sale (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(v) By residual contractual maturity				
Within one year	4,774,929	4,042,634	2,126,981	2,529,033
One to five years	6,510,599	6,186,335	4,624,074	4,914,940
Over five years	2,215,643	1,024,548	2,027,236	633,567
	<u>13,501,171</u>	<u>11,253,517</u>	<u>8,778,291</u>	<u>8,077,540</u>

(c) Credit quality of loans, advances and financing

Credit quality

Loans, advances and financing are categorised according to the Group's and the Bank's customer classification grades as Pass, Special Mention, Substandard, Doubtful and Loss.

Loans, advances and financing classified as Pass and Special Mention are neither past due nor impaired whereas Substandard, Doubtful and Loss are impaired loans, advances and financing.

Past due but unimpaired are loans, advances and financing where the customer has failed to make a principal or interest/profit payment when contractually due, and includes financing which are past due one or more days after the contractual due date but less than three (3) months.

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Neither past due nor impaired	66,458,906	66,460,467	56,973,953	57,029,617
Past due loans	1,799,296	1,830,618	1,335,640	1,438,117
- Unimpaired	553,016	574,745	432,219	414,391
- Impaired	1,246,280	1,255,873	903,421	1,023,726
Impaired but not past due	184,343	229,855	143,630	164,450
Gross loans, advances and financing	<u>68,442,545</u>	<u>68,520,940</u>	<u>58,453,223</u>	<u>58,632,184</u>

Neither past due nor impaired

(i) By internal grading

Pass	65,531,152	65,310,145	56,609,306	56,420,295
Special Mention	927,754	1,150,322	364,647	609,322
	<u>66,458,906</u>	<u>66,460,467</u>	<u>56,973,953</u>	<u>57,029,617</u>

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43 CREDIT RISK (continued)

(c) Credit quality of loans, advances and financing (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Past due but unimpaired				
(i) By period overdue				
Less than 2 months	461,698	485,570	359,748	350,403
2 months to less than 3 months	91,318	89,175	72,471	63,988
	<u>553,016</u>	<u>574,745</u>	<u>432,219</u>	<u>414,391</u>
(ii) By geographical distribution				
Malaysia	538,855	564,910	418,058	404,556
Singapore	5,979	5,956	5,979	5,956
Rest of the world	8,182	3,879	8,182	3,879
	<u>553,016</u>	<u>574,745</u>	<u>432,219</u>	<u>414,391</u>
(iii) By sector				
Agriculture, hunting, forestry and fishing	989	783	631	-
Mining and quarrying	161	-	-	-
Manufacturing	33,509	26,883	18,613	12,689
Construction	11,941	11,947	7,902	9,713
Real estate	15,723	15,440	15,723	15,440
Wholesale & retail trade and restaurants & hotels	72,305	80,788	47,879	46,555
Transport, storage and communication	10,885	5,890	7,459	2,564
Finance, insurance and business services	16,720	12,402	10,425	2,869
Community, social and personal services	3,277	3,129	1,777	454
Household				
- Purchase of residential properties	332,010	342,227	290,830	292,481
- Purchase of non-residential properties	6,203	6,006	6,203	6,006
- Others	49,293	69,250	24,777	25,620
	<u>553,016</u>	<u>574,745</u>	<u>432,219</u>	<u>414,391</u>

The analysis of impaired loans, advances and financing are disclosed in Note 8.

Collateral

(i) The main types of collateral obtained by the Group and the Bank are as follows:

- For personal housing loans, mortgages over residential properties;
- For commercial property loans, charges over the properties financed;
- For car loans, charges over the vehicles financed;
- For share margin financing, listed securities of Malaysia; and
- For other loans, charges over business assets such as premises, inventories, trade receivables or deposits.

As at 31 December 2017 and 31 December 2016, there were no assets repossessed by the Group and the Bank as a result of taking possession of collateral held as security, or by calling upon other credit enhancements.

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43 CREDIT RISK (continued)

(c) Credit quality of loans, advances and financing (continued)

Collateral (continued)

- (ii) Quantification of the extent to which collateral and other credit enhancements mitigate credit risk and that best represents the maximum exposure to credit risk for impaired loans, advances and financing.

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Fair value of collateral held against the covered portion of impaired loans, advances and financing	1,778,641	1,988,417	1,284,270	1,502,574
Covered portion of impaired loans, advances and financing	1,084,487	1,125,195	773,217	921,597
Uncovered portion of impaired loans, advances and financing	346,136	360,533	273,834	266,579
	<u>1,430,623</u>	<u>1,485,728</u>	<u>1,047,051</u>	<u>1,188,176</u>

(d) Credit quality of derivative assets

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(i) By counterparty				
Banks	618,171	1,554,933	618,314	1,554,935
Non-bank financial institutions	37,876	121,809	37,870	121,805
Business enterprises	144,056	294,258	143,719	294,225
Individuals	35,722	24,516	35,722	24,516
	<u>835,825</u>	<u>1,995,516</u>	<u>835,625</u>	<u>1,995,481</u>
(ii) By geographical distribution				
Malaysia	714,936	1,931,838	714,736	1,931,807
Singapore	30,488	41,868	30,488	41,864
Other ASEAN countries	-	1,095	-	1,095
Rest of the world	90,401	20,715	90,401	20,715
	<u>835,825</u>	<u>1,995,516</u>	<u>835,625</u>	<u>1,995,481</u>
(iii) By sector				
Agriculture, hunting, forestry and fishing	75	1,997	75	1,997
Mining and quarrying	102,735	191,014	102,735	191,014
Manufacturing	15,852	72,990	15,608	72,980
Electricity, gas and water	842	215	842	215
Construction	428	375	428	374
Real estate	2,176	2,084	2,176	2,084
Wholesale & retail trade and restaurants & hotels	8,701	16,324	8,684	16,309
Transport, storage and communication	249	93	248	93
Finance, insurance and business services	669,034	1,685,872	669,096	1,685,863
Community, social and personal services	11	40	11	40
Household	35,722	24,512	35,722	24,512
	<u>835,825</u>	<u>1,995,516</u>	<u>835,625</u>	<u>1,995,481</u>

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43 CREDIT RISK (continued)

(d) Credit quality of derivative assets (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(iv) By residual contractual maturity				
Within one year	205,241	950,963	205,041	950,928
One to five years	348,003	565,168	348,003	565,168
Over five years	282,581	479,385	282,581	479,385
	<u>835,825</u>	<u>1,995,516</u>	<u>835,625</u>	<u>1,995,481</u>

(e) Credit quality of contingent liabilities and credit commitments (excluding derivative financial assets)

(i) By counterparty				
Government	-	500,000	-	500,000
Banks	164,171	332,964	54,233	182,728
Non-bank financial institutions	26,015	19,657	21,494	17,605
Business enterprises	17,100,057	15,754,922	14,381,115	13,327,614
Small and medium enterprises	6,000,001	5,507,141	6,000,001	5,507,141
Individuals	4,765,994	5,892,287	4,682,195	5,732,663
	<u>28,056,238</u>	<u>28,006,971</u>	<u>25,139,038</u>	<u>25,267,751</u>
(ii) By geographical distribution				
Malaysia	26,731,412	26,230,479	23,826,740	23,558,535
Singapore	32,563	68,783	32,563	68,783
Other ASEAN countries	978,538	1,267,062	968,886	1,199,786
Rest of the world	313,725	440,647	310,849	440,647
	<u>28,056,238</u>	<u>28,006,971</u>	<u>25,139,038</u>	<u>25,267,751</u>
(iii) By sector				
Agriculture, hunting, forestry and fishing	1,678,033	1,813,152	1,583,504	1,687,347
Mining and quarrying	364,178	517,546	245,821	395,852
Manufacturing	5,679,328	5,314,997	5,009,514	4,645,562
Electricity, gas and water	99,002	139,007	75,002	96,777
Construction	4,890,915	3,845,102	3,977,516	2,961,887
Real estate	2,614,079	2,211,951	2,498,410	2,195,593
Wholesale & retail trade and restaurants & hotels	3,780,074	2,828,485	3,573,172	2,665,697
Transport, storage and communication	681,096	865,830	595,983	661,702
Finance, insurance and business services	6,522,354	8,582,192	6,175,204	8,398,811
Community, social and personal services	1,527,934	1,614,725	1,302,639	1,470,357
Household	186,042	247,790	102,273	88,166
Others	33,203	26,194	-	-
	<u>28,056,238</u>	<u>28,006,971</u>	<u>25,139,038</u>	<u>25,267,751</u>
(iv) By residual contractual maturity				
Within one year	713,921	736,331	488,419	565,013
One to five years	13,211,513	13,787,202	11,071,866	11,617,365
Over five years	14,130,804	13,483,438	13,578,753	13,085,373
	<u>28,056,238</u>	<u>28,006,971</u>	<u>25,139,038</u>	<u>25,267,751</u>

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44 LIQUIDITY RISK

The tables below show the Group's and the Bank's maturity analysis of assets and liabilities based on remaining contractual maturities and/or their behavioral profile.

<u>Group</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000
2017								
Assets								
Cash and cash equivalents	6,158,261	6,158,261	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	71,835	71,835	-	-	-	-	-	-
Financial assets held-for-trading	1,690,763	363,914	661,059	45,069	81,867	293,042	245,812	-
Financial investments available-for-sale	13,501,159	1,836,750	791,621	2,146,558	4,382,169	2,128,430	2,107,085	108,546
Loans, advances and financing	67,452,350	17,311,566	3,345,662	2,943,737	7,514,895	4,128,594	32,207,896	-
Derivative financial assets	835,825	33,280	25,094	146,867	202,888	145,115	282,581	-
Statutory deposits with Bank Negara Malaysia	1,752,717	-	-	-	-	-	-	1,752,717
Other balances	561,113	233,521	4,720	17,079	37,325	24,111	40,101	204,256
Total assets	92,024,023	26,009,127	4,828,156	5,299,310	12,219,144	6,719,292	34,883,475	2,065,519
Liabilities								
Deposits from customers	73,652,739	50,523,934	9,954,186	12,418,069	747,784	8,766	-	-
Deposits and placements of banks and other financial institutions	4,388,137	3,172,783	1,213,842	357	1,155	-	-	-
Bills and acceptances payable	166,104	166,104	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	4,012	671,731	479,807	263,702	-	-	-
Derivative financial liabilities	1,080,854	168,107	70,566	193,658	270,935	134,780	242,808	-
Other balances	2,566,599	730,980	151,874	108,693	76,527	1,141,362	300,766	56,397
Subordinated bonds	1,870,932	-	-	-	925,922	945,010	-	-
Total liabilities	85,144,617	54,765,920	12,062,199	13,200,584	2,286,025	2,229,918	543,574	56,397

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44 LIQUIDITY RISK (continued)

<u>Group</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000
2016								
Assets								
Cash and cash equivalents	8,293,096	8,293,096	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	1,447,920	1,447,920	-	-	-	-	-	-
Financial assets held-for-trading	1,528,361	531,021	290,159	159,039	181,321	325,568	41,253	-
Financial investments available-for-sale	11,253,505	1,487,491	280,019	2,275,124	4,055,837	2,130,498	915,694	108,842
Loans, advances and financing	67,421,623	13,626,843	2,157,147	2,301,348	8,648,283	5,491,106	35,196,896	-
Derivative financial assets	1,995,516	317,028	50,861	583,074	290,185	274,983	479,385	-
Statutory deposits with Bank Negara Malaysia	2,000,966	-	-	-	-	-	-	2,000,966
Other balances	506,770	169,219	4,933	24,265	34,033	28,228	17,526	228,566
Total assets	94,447,757	25,872,618	2,783,119	5,342,850	13,209,659	8,250,383	36,650,754	2,338,374
Liabilities								
Deposits from customers	70,934,813	47,607,271	10,986,355	11,572,471	747,600	21,116	-	-
Deposits and placements of banks and other financial institutions	9,462,112	7,889,962	1,569,958	348	1,432	412	-	-
Bills and acceptances payable	153,888	153,888	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	3,763	203,800	7,708	1,113,245	-	-	-
Derivative financial liabilities	1,820,414	111,734	92,171	141,733	702,169	381,655	390,952	-
Other balances	2,247,839	907,136	283,869	116,838	74,919	525,384	302,713	36,980
Subordinated bonds	2,075,852	-	-	599,428	400,000	1,076,424	-	-
Total liabilities	88,023,434	56,673,754	13,136,153	12,438,526	3,039,365	2,004,991	693,665	36,980

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44 LIQUIDITY RISK (continued)

<u>Bank</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000
2017								
Assets								
Cash and cash equivalents	6,437,013	6,437,013	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	1,110,434	1,054,552	-	-	-	-	55,882	-
Financial assets held-for-trading	1,690,763	363,914	661,059	45,069	81,867	293,042	245,812	-
Financial investments available-for-sale	8,778,279	510,722	234,931	1,381,328	2,886,221	1,737,853	1,918,678	108,546
Loans, advances and financing	57,742,824	13,365,447	2,729,104	2,364,021	6,352,076	3,690,132	29,242,044	-
Derivative financial assets	835,625	33,080	25,094	146,867	202,888	145,115	282,581	-
Statutory deposits with Bank Negara Malaysia	1,427,217	-	-	-	-	-	-	1,427,217
Other balances	1,447,444	400,185	4,533	10,087	24,500	218,451	38,200	751,488
Total assets	79,469,599	22,164,913	3,654,721	3,947,372	9,547,552	6,084,593	31,783,197	2,287,251
Liabilities								
Deposits from customers	62,490,422	42,561,274	8,902,407	10,436,494	581,992	8,255	-	-
Deposits and placements of banks and other financial institutions	3,946,437	2,732,772	1,213,665	-	-	-	-	-
Bills and acceptances payable	145,347	145,347	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	4,012	671,731	479,807	263,702	-	-	-
Derivative financial liabilities	1,080,427	167,680	70,566	193,658	270,935	134,780	242,808	-
Other balances	2,432,762	661,745	135,414	86,442	66,461	1,139,837	301,722	41,141
Subordinated bonds	1,870,932	-	-	-	925,922	945,010	-	-
Total liabilities	73,385,579	46,272,830	10,993,783	11,196,401	2,109,012	2,227,882	544,530	41,141

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44 LIQUIDITY RISK (continued)

<u>Bank</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000
2016								
Assets								
Cash and cash equivalents	7,669,764	7,669,764	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	2,015,307	1,865,307	50,000	50,000	50,000	-	-	-
Financial assets held-for-trading	1,528,361	531,021	290,159	159,039	181,321	325,568	41,253	-
Financial investments available-for-sale	8,077,528	738,932	209,839	1,580,262	3,543,372	1,371,568	524,713	108,842
Loans, advances and financing	57,799,889	10,733,755	1,607,121	1,720,598	7,164,545	4,742,845	31,831,025	-
Derivative financial assets	1,995,481	316,993	50,861	583,074	290,185	274,983	479,385	-
Statutory deposits with Bank Negara Malaysia	1,673,966	-	-	-	-	-	-	1,673,966
Other balances	1,221,503	176,862	5,956	10,527	29,571	219,167	11,910	767,510
Total assets	81,981,799	22,032,634	2,213,936	4,103,500	11,258,994	6,934,131	32,888,286	2,550,318
Liabilities								
Deposits from customers	59,700,547	39,706,886	9,744,218	9,553,938	674,688	20,817	-	-
Deposits and placements of banks and other financial institutions	8,977,185	7,407,399	1,569,786	-	-	-	-	-
Bills and acceptances payable	123,405	123,405	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	3,763	203,800	7,708	1,113,245	-	-	-
Derivative financial liabilities	1,820,044	111,364	92,171	141,733	702,169	381,655	390,952	-
Other balances	2,122,182	859,051	253,448	92,585	63,182	522,271	302,640	29,005
Subordinated bonds	2,075,852	-	-	599,428	400,000	1,076,424	-	-
Total liabilities	76,147,731	48,211,868	11,863,423	10,395,392	2,953,284	2,001,167	693,592	29,005

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44 LIQUIDITY RISK (continued)

The tables below show the undiscounted cash outflows of the Group's and the Bank's financial liabilities by remaining contractual maturities. The expected cash flows of these liabilities could vary significantly from what is shown in the table.

<u>Group</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2017								
Non-derivative financial liabilities								
Deposits from customers	73,652,739	50,523,934	9,954,186	12,418,069	747,784	8,766	-	73,652,739
Deposits and placements of banks and other financial institutions	4,388,137	3,172,783	1,213,842	357	1,155	-	-	4,388,137
Bills and acceptances payable	166,104	166,104	-	-	-	-	-	166,104
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	4,012	671,731	479,807	263,702	-	-	1,419,252
Other liabilities	2,543,806	668,516	314,298	511,548	259,702	1,232,069	300,791	3,286,924
Subordinated bonds	1,870,932	-	-	-	925,922	945,010	-	1,870,932
	84,040,970	54,535,349	12,154,057	13,409,781	2,198,265	2,185,845	300,791	84,784,088
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		988	-	-	-	-	-	988
- Interest rate derivatives		11,507	2,774	11,763	26,566	38,746	21,154	112,510
- Equity and other derivatives		2,249	194	144	8,442	15,220	-	26,249
Hedging:								
- Interest rate derivatives		177	789	379	831	271	-	2,447
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		7,149,106	1,679,646	2,786,951	3,510,812	1,369,237	2,301,196	18,796,948
- Inflow		(7,012,773)	(1,604,482)	(2,682,212)	(3,465,671)	(1,388,993)	(2,365,369)	(18,519,500)
		151,254	78,921	117,025	80,980	34,481	(43,019)	419,642

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44 LIQUIDITY RISK (continued)

<u>Group</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2016								
Non-derivative financial liabilities								
Deposits from customers	70,934,813	47,607,271	10,986,355	11,572,471	747,600	21,116	-	-
Deposits and placements of banks and other financial institutions	9,462,112	7,889,962	1,569,958	348	1,432	412	-	9,462,112
Bills and acceptances payable	153,888	153,888	-	-	-	-	-	153,888
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	3,763	203,800	7,708	1,113,245	-	-	1,328,516
Other liabilities	2,236,749	1,007,012	460,900	495,011	273,394	650,253	315,022	3,201,592
Subordinated bonds	2,075,852	-	-	599,428	400,000	1,076,424	-	2,075,852
	86,191,930	56,661,896	13,221,013	12,674,966	2,535,671	1,748,205	315,022	16,221,960
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		6,169	-	-	-	-	-	6,169
- Interest rate derivatives		14,620	20,742	23,372	58,953	65,183	9,977	192,847
- Equity and other derivatives		1,077	571	192	541	11,698	-	14,079
Hedging:								
- Interest rate derivatives		(454)	1,188	855	1,240	582	136	3,547
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		3,471,788	909,189	2,255,056	4,701,535	2,745,144	2,720,188	16,802,900
- Inflow		(3,432,574)	(817,291)	(2,607,041)	(4,299,090)	(2,682,965)	(2,836,172)	(16,675,133)
		60,626	114,399	(327,566)	463,179	139,642	(105,871)	344,409

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44 LIQUIDITY RISK (continued)

<u>Bank</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2017								
Non-derivative financial liabilities								
Deposits from customers	62,490,422	42,561,274	8,902,407	10,436,494	581,992	8,255	-	62,490,422
Deposits and placements of banks and other financial institutions	3,946,437	2,732,772	1,213,665	-	-	-	-	3,946,437
Bills and acceptances payable	145,347	145,347	-	-	-	-	-	145,347
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	4,012	671,731	479,807	263,702	-	-	1,419,252
Other liabilities	2,417,222	758,080	262,616	422,114	234,393	1,198,566	301,722	3,177,491
Subordinated bonds	1,870,932	-	-	-	925,922	945,010	-	1,870,932
	72,289,612	46,201,485	11,050,419	11,338,415	2,006,009	2,151,831	301,722	73,049,881
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		988	-	-	-	-	-	988
- Interest rate derivatives		11,507	2,774	11,763	26,566	38,746	21,154	112,510
- Equity and other derivatives		2,249	194	144	8,442	15,220	-	26,249
Hedging:								
- Interest rate derivatives		177	789	379	831	271	-	2,447
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		7,144,859	1,679,646	2,786,951	3,510,812	1,369,237	2,301,196	18,792,701
- Inflow		(7,008,728)	(1,604,482)	(2,682,212)	(3,465,671)	(1,388,993)	(2,365,369)	(18,515,455)
		151,052	78,921	117,025	80,980	34,481	(43,019)	419,440

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44 LIQUIDITY RISK (continued)

<u>Bank</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2016								
Non-derivative financial liabilities								
Deposits from customers	59,700,547	39,706,886	9,744,218	9,553,938	674,688	20,817	-	59,700,547
Deposits and placements of banks and other financial institutions	8,977,185	7,407,399	1,569,786	-	-	-	-	8,977,185
Bills and acceptances payable	123,405	123,405	-	-	-	-	-	123,405
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	3,763	203,800	7,708	1,113,245	-	-	1,328,516
Other liabilities	2,111,137	947,941	409,393	405,604	239,732	616,750	314,974	2,934,394
Subordinated bonds	2,075,852	-	-	599,428	400,000	1,076,424	-	2,075,852
	74,316,642	48,189,394	11,927,197	10,566,678	2,427,665	1,713,991	314,974	75,139,899
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		6,169	-	-	-	-	-	6,169
- Interest rate derivatives		14,620	20,742	23,372	58,953	65,183	9,977	192,847
- Equity and other derivatives		1,077	571	192	541	11,698	-	14,079
Hedging:								
- Interest rate derivatives		(454)	1,188	855	1,240	582	136	3,547
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		3,480,169	909,189	2,255,056	4,701,535	2,745,144	2,720,188	16,811,281
- Inflow		(3,441,281)	(817,291)	(2,607,041)	(4,299,090)	(2,682,925)	(2,836,172)	(16,683,800)
		60,300	114,399	(327,566)	463,179	139,682	(105,871)	344,123

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45 INTEREST/PROFIT RATE RISK

The Group and the Bank are exposed to various risks associated with the effects of fluctuation in the prevailing level of market interest/profit rate on the financial position and cashflows. The following tables summarise the Group's and the Bank's exposures to interest/profit rate risk. The assets and liabilities at carrying amounts are categorised by the earlier of the next contractual repricing and maturity dates.

<u>Group</u>	<i>Non-trading Book</i>					Non interest/ profit sensitive RM'000	Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	> 3 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000			
2017								
Assets								
Cash and cash equivalents	5,656,899	-	-	-	-	501,362	-	6,158,261
Deposits and placements with banks and other financial institutions	71,835	-	-	-	-	-	-	71,835
Financial assets held-for-trading	-	-	-	-	-	-	1,690,763	1,690,763
Financial investments available-for-sale	2,586,203	2,691,226	4,110,061	1,898,038	2,106,907	108,724	-	13,501,159
Loans, advances and financing								
- Unimpaired	63,251,439	1,446,032	1,284,773	338,370	350,712	(250,498)	-	66,420,828
- Impaired	-	-	-	-	-	1,031,522	-	1,031,522
Derivative financial assets	-	-	-	-	-	-	835,825	835,825
Other assets	-	-	-	-	-	370,277	-	370,277
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,752,717	-	1,752,717
Property and equipment	-	-	-	-	-	162,596	-	162,596
Prepaid lease payments	-	-	-	-	-	748	-	748
Deferred tax assets	-	-	-	-	-	26,957	-	26,957
Current tax assets	-	-	-	-	-	535	-	535
Total assets	71,566,376	4,137,258	5,394,834	2,236,408	2,457,619	3,704,940	2,526,588	92,024,023

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45 INTEREST/PROFIT RATE RISK (continued)

<u>Group</u>	<i>Non-trading Book</i>						Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	> 3 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Non interest/ profit sensitive RM'000		
2017								
Liabilities								
Deposits from customers	33,088,481	22,366,101	10,862,553	8,766	-	7,326,838	-	73,652,739
Deposits and placements of banks and other financial institutions	2,972,745	1,213,665	-	-	-	201,727	-	4,388,137
Bills and acceptances payable	-	-	-	-	-	166,104	-	166,104
Recourse obligation on loans sold to Cagamas Berhad	1,102,202	317,050	-	-	-	-	-	1,419,252
Derivative financial liabilities	-	-	633	981	-	-	1,079,240	1,080,854
Other liabilities	118,968	-	56,970	1,134,088	300,000	933,780	-	2,543,806
Current tax liabilities and zakat	-	-	-	-	-	22,793	-	22,793
Subordinated bonds	-	-	925,921	945,011	-	-	-	1,870,932
Total liabilities	37,282,396	23,896,816	11,846,077	2,088,846	300,000	8,651,242	1,079,240	85,144,617
On-statement of financial position interest/profit sensitivity gap	34,283,980	(19,759,558)	(6,451,243)	147,562	2,157,619	(4,946,302)	1,447,348	6,879,406
Off-statement of financial position interest/profit sensitivity gap	64,729	50,000	(50,000)	(64,729)	-	-	-	-
Total interest/profit sensitivity gap	34,348,709	(19,709,558)	(6,501,243)	82,833	2,157,619	(4,946,302)	1,447,348	6,879,406

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45 INTEREST/PROFIT RATE RISK (continued)

Non-trading Book

<u>Group</u>	<i>Non-trading Book</i>					Non interest/ profit sensitive RM'000	Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	> 3 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000			
2016								
Assets								
Cash and cash equivalents	7,797,375	-	-	-	-	495,721	-	8,293,096
Deposits and placements with banks and other financial institutions	1,447,920	-	-	-	-	-	-	1,447,920
Financial assets held-for-trading	-	-	-	-	-	-	1,528,361	1,528,361
Financial investments available-for-sale	2,290,373	2,360,128	3,647,988	1,930,478	915,518	109,020	-	11,253,505
Loans, advances and financing								
- Unimpaired	62,504,419	1,210,243	1,801,362	642,836	557,275	(415,225)	-	66,300,910
- Impaired	-	-	-	-	-	1,120,713	-	1,120,713
Derivative financial assets	-	-	-	-	396	-	1,995,120	1,995,516
Other assets	-	-	-	-	-	280,597	-	280,597
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	2,000,966	-	2,000,966
Property and equipment	-	-	-	-	-	188,201	-	188,201
Prepaid lease payments	-	-	-	-	-	784	-	784
Deferred tax assets	-	-	-	-	-	28,321	-	28,321
Tax recoverable	-	-	-	-	-	8,867	-	8,867
Total assets	74,040,087	3,570,371	5,449,350	2,573,314	1,473,189	3,817,965	3,523,481	94,447,757

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45 INTEREST/PROFIT RATE RISK (continued)

<u>Group</u>	<i>Non-trading Book</i>					Non interest/ profit sensitive RM'000	Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	> 3 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000			
2016								
Liabilities								
Deposits from customers	29,029,513	22,558,749	11,552,777	21,116	-	7,772,658	-	70,934,813
Deposits and placements of banks and other financial institutions	7,664,890	1,569,785	-	-	-	227,437	-	9,462,112
Bills and acceptances payable	-	-	-	-	-	153,888	-	153,888
Recourse obligation on loans sold to Cagamas Berhad	1,128,514	200,002	-	-	-	-	-	1,328,516
Derivative financial liabilities	-	-	954	1,688	3,473	-	1,814,299	1,820,414
Other liabilities	355,311	60,000	54,400	518,200	300,000	948,838	-	2,236,749
Current tax liabilities and zakat	-	-	-	-	-	11,090	-	11,090
Subordinated bonds	-	599,428	400,000	1,076,424	-	-	-	2,075,852
Total liabilities	38,178,228	24,987,964	12,008,131	1,617,428	303,473	9,113,911	1,814,299	88,023,434
On-statement of financial position interest/profit sensitivity gap	35,861,859	(21,417,593)	(6,558,781)	955,886	1,169,716	(5,295,946)	1,709,182	6,424,323
Off-statement of financial position interest/profit sensitivity gap	(208,619)	622,425	(50,000)	(139,551)	(224,255)	-	-	-
Total interest/profit sensitivity gap	35,653,240	(20,795,168)	(6,608,781)	816,335	945,461	(5,295,946)	1,709,182	6,424,323

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45 INTEREST/PROFIT RATE RISK (continued)

<u>Bank</u>	<i>Non-trading Book</i>					Non interest sensitive RM'000	Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	> 3 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000			
2017								
Assets								
Cash and cash equivalents	6,085,511	-	-	-	-	351,502	-	6,437,013
Deposits and placements with banks and other financial institutions	1,058,758	-	-	-	-	51,676	-	1,110,434
Financial assets held-for-trading	-	-	-	-	-	-	1,690,763	1,690,763
Financial investments available-for-sale	1,260,175	1,369,306	2,614,113	1,507,461	1,918,500	108,724	-	8,778,279
Loans, advances and financing								
- Unimpaired	55,448,130	830,825	704,722	67,104	45,478	(130,898)	-	56,965,361
- Impaired	-	-	-	-	-	777,463	-	777,463
Derivative financial assets	-	-	-	-	-	-	835,625	835,625
Other assets	-	-	-	200,000	-	509,911	-	709,911
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,427,217	-	1,427,217
Investment in subsidiaries	-	-	-	-	-	558,492	-	558,492
Property and equipment	-	-	-	-	-	153,271	-	153,271
Prepaid lease payments	-	-	-	-	-	748	-	748
Deferred tax assets	-	-	-	-	-	25,022	-	25,022
Total assets	63,852,574	2,200,131	3,318,835	1,774,565	1,963,978	3,833,128	2,526,388	79,469,599

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45 INTEREST/PROFIT RATE RISK (continued)

<u>Bank</u>	<i>Non-trading Book</i>					Non interest sensitive RM'000	Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	> 3 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000			
2017								
Liabilities								
Deposits from customers	28,090,184	19,332,782	8,191,751	8,255	-	6,867,450	-	62,490,422
Deposits and placements of banks and other financial institutions	2,562,895	1,213,665	-	-	-	169,877	-	3,946,437
Bills and acceptances payable	-	-	-	-	-	145,347	-	145,347
Recourse obligation on loans sold to Cagamas Berhad	1,102,202	317,050	-	-	-	-	-	1,419,252
Derivative financial liabilities	-	-	633	981	-	-	1,078,813	1,080,427
Other liabilities	118,968	-	56,970	1,134,088	300,000	807,196	-	2,417,222
Current tax liabilities and zakat	-	-	-	-	-	15,540	-	15,540
Subordinated bonds	-	-	925,921	945,011	-	-	-	1,870,932
Total liabilities	31,874,249	20,863,497	9,175,275	2,088,335	300,000	8,005,410	1,078,813	73,385,579
On-statement of financial position interest sensitivity gap	31,978,325	(18,663,366)	(5,856,440)	(313,770)	1,663,978	(4,172,282)	1,447,575	6,084,020
Off-statement of financial position interest sensitivity gap	(208,619)	622,425	(50,000)	(139,551)	(224,255)	-	-	-
Total interest sensitivity gap	31,769,706	(18,040,941)	(5,906,440)	(453,321)	1,439,723	(4,172,282)	1,447,575	6,084,020

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45 INTEREST/PROFIT RATE RISK (continued)

<u>Bank</u>	<i>Non-trading Book</i>					Non interest sensitive RM'000	Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	> 3 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000			
2016								
Assets								
Cash and cash equivalents	7,208,956	-	-	-	-	460,808	-	7,669,764
Deposits and placements with banks and other financial institutions	1,865,307	100,000	50,000	-	-	-	-	2,015,307
Financial assets held-for-trading	-	-	-	-	-	-	1,528,361	1,528,361
Financial investments available-for-sale	1,541,814	1,595,086	3,135,523	1,171,548	524,537	109,020	-	8,077,528
Loans, advances and financing								
- Unimpaired	55,320,022	811,734	700,977	172,665	138,737	(251,596)	-	56,892,539
- Impaired	-	-	-	-	-	907,350	-	907,350
Derivative financial assets	-	-	-	-	396	-	1,995,085	1,995,481
Other assets	-	-	-	200,000	-	264,465	-	464,465
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,673,966	-	1,673,966
Investment in subsidiaries	-	-	-	-	-	558,492	-	558,492
Property and equipment	-	-	-	-	-	174,785	-	174,785
Prepaid lease payments	-	-	-	-	-	784	-	784
Deferred tax assets	-	-	-	-	-	22,977	-	22,977
Total assets	65,936,099	2,506,820	3,886,500	1,544,213	663,670	3,921,051	3,523,446	81,981,799

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45 INTEREST/PROFIT RATE RISK (continued)

Bank	<i>Non-trading Book</i>					Non interest sensitive RM'000	Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	> 3 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000			
2016								
Liabilities								
Deposits from customers	23,916,417	19,298,156	9,054,685	20,817	-	7,410,472	-	59,700,547
Deposits and placements of banks and other financial institutions	7,231,762	1,569,785	-	-	-	175,638	-	8,977,185
Bills and acceptances payable	-	-	-	-	-	123,405	-	123,405
Recourse obligation on loans sold to Cagamas Berhad	1,128,514	200,002	-	-	-	-	-	1,328,516
Derivative financial liabilities	-	-	954	1,688	3,473	-	1,813,929	1,820,044
Other liabilities	355,311	60,000	54,400	518,200	300,000	823,226	-	2,111,137
Current tax liabilities and zakat	-	-	-	-	-	11,045	-	11,045
Subordinated bonds	-	599,428	400,000	1,076,424	-	-	-	2,075,852
Total liabilities	32,632,004	21,727,371	9,510,039	1,617,129	303,473	8,543,786	1,813,929	76,147,731
On-statement of financial position interest sensitivity gap	33,304,095	(19,220,551)	(5,623,539)	(72,916)	360,197	(4,622,735)	1,709,517	5,834,068
Off-statement of financial position interest sensitivity gap	(208,619)	622,425	(50,000)	(139,551)	(224,255)	-	-	-
Total interest sensitivity gap	33,095,476	(18,598,126)	(5,673,539)	(212,467)	135,942	(4,622,735)	1,709,517	5,834,068

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45 INTEREST/PROFIT RATE RISK (continued)

The impact on the net interest/finance income is simulated under various interest/profit rate assumptions. The following table sets out the impact on the net interest/finance income based on a 50 bps parallel shift in interest/profit rates at the reporting date, for a period of 12 months:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
+ 50 bps	132,751	139,537	114,160	122,250
- 50 bps	(134,817)	(139,122)	(114,970)	(121,858)

The 50 bps shock on the net interest/profit income is based on simplified scenarios, using the Group's and the Bank's interest/profit risk profile as at the reporting date. It does not take into account actions that would be taken by the Treasury Division or business units to mitigate the impact of the interest/profit rate risk. In reality, Treasury Division seeks to proactively change the interest/profit rate risk profile to minimise losses and maximise net revenues. The projection assumes that interest/profit rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on the net interest/finance income of some rates changing while others remain unchanged. The projections also assume a constant statement of financial position and that all positions run to maturity.

46 CURRENCY RISK

Group	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
2017					
Financial assets					
Cash and cash equivalents	5,326,886	560,223	78,791	192,361	6,158,261
Deposits and placements with banks and other financial institutions	-	-	-	71,835	71,835
Financial assets held-for-trading	1,611,957	16,063	1	62,742	1,690,763
Financial investments available-for-sale	11,453,342	1,223,816	122,750	701,251	13,501,159
Loans, advances and financing	59,854,558	6,005,663	81,653	1,510,476	67,452,350
Derivative financial assets	247,385	567,409	8,527	12,504	835,825
Other assets	307,859	54,559	1,759	6,100	370,277
Statutory deposits with Bank Negara Malaysia	1,752,717	-	-	-	1,752,717
	80,554,704	8,427,733	293,481	2,557,269	91,833,187
Financial liabilities					
Deposits from customers	64,799,579	7,338,438	512,048	1,002,674	73,652,739
Deposits and placements of banks and other financial institutions	393,505	2,590,495	133,526	1,270,611	4,388,137
Bills and acceptances payable	166,104	-	-	-	166,104
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	-	-	1,419,252
Derivative financial liabilities	424,892	613,735	34,824	7,403	1,080,854
Other liabilities	2,352,302	78,273	17,388	95,843	2,543,806
Subordinated bonds	900,000	970,932	-	-	1,870,932
	70,455,634	11,591,873	697,786	2,376,531	85,121,824
Net financial assets/(liabilities) exposure	10,099,070	(3,164,140)	(404,305)	180,738	6,711,363

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46 CURRENCY RISK (continued)

<u>Group</u>	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
2016					
Financial assets					
Cash and cash equivalents	5,819,976	2,057,629	267,046	148,445	8,293,096
Deposits and placements with banks and other financial institutions	1,200,000	-	-	247,920	1,447,920
Financial assets held-for-trading	1,412,180	115,522	12	647	1,528,361
Financial investments available-for-sale	9,118,812	910,112	359,952	864,629	11,253,505
Loans, advances and financing	61,527,725	4,395,121	93,906	1,404,871	67,421,623
Derivative financial assets	470,746	1,500,086	14,409	10,275	1,995,516
Other assets	240,262	28,220	6,311	5,804	280,597
Statutory deposits with Bank Negara Malaysia	2,000,966	-	-	-	2,000,966
	<u>81,790,667</u>	<u>9,006,690</u>	<u>741,636</u>	<u>2,682,591</u>	<u>94,221,584</u>
Financial liabilities					
Deposits from customers	64,723,680	4,397,927	543,067	1,270,139	70,934,813
Deposits and placements of banks and other financial institutions	1,310,003	6,757,289	124,046	1,270,774	9,462,112
Bills and acceptances payable	153,253	635	-	-	153,888
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	-	-	-	1,328,516
Derivative financial liabilities	300,274	1,411,373	101,753	7,014	1,820,414
Other liabilities	2,034,379	78,084	34,155	90,131	2,236,749
Subordinated bonds	999,428	1,076,424	-	-	2,075,852
	<u>70,849,533</u>	<u>13,721,732</u>	<u>803,021</u>	<u>2,638,058</u>	<u>88,012,344</u>
Net financial assets/(liabilities) exposure	<u>10,941,134</u>	<u>(4,715,042)</u>	<u>(61,385)</u>	<u>44,533</u>	<u>6,209,240</u>
Bank					
2017					
Financial assets					
Cash and cash equivalents	4,491,485	1,516,227	55,566	373,735	6,437,013
Deposits and placements with banks and other financial institutions	392,176	646,423	-	71,835	1,110,434
Financial assets held-for-trading	1,611,957	16,063	1	62,742	1,690,763
Financial investments available-for-sale	7,081,101	1,018,209	-	678,969	8,778,279
Loans, advances and financing	52,196,883	4,135,945	81,653	1,328,343	57,742,824
Derivative financial assets	247,185	567,409	8,527	12,504	835,625
Other assets	642,734	45,158	15,761	6,258	709,911
Statutory deposits with Bank Negara Malaysia	1,427,217	-	-	-	1,427,217
	<u>68,090,738</u>	<u>7,945,434</u>	<u>161,508</u>	<u>2,534,386</u>	<u>78,732,066</u>

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46 CURRENCY RISK (continued)

<u>Bank</u>	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
2017					
Financial liabilities					
Deposits from customers	53,906,948	7,082,726	498,492	1,002,256	62,490,422
Deposits and placements of banks and other financial institutions	361,830	2,320,458	15,507	1,248,642	3,946,437
Bills and acceptances payable	145,347	-	-	-	145,347
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	-	-	1,419,252
Derivative financial liabilities	424,465	613,735	34,824	7,403	1,080,427
Other liabilities	2,210,367	95,044	15,970	95,841	2,417,222
Subordinated bonds	900,000	970,932	-	-	1,870,932
	<u>59,368,209</u>	<u>11,082,895</u>	<u>564,793</u>	<u>2,354,142</u>	<u>73,370,039</u>
Net financial assets/(liabilities) exposure	<u>8,722,529</u>	<u>(3,137,461)</u>	<u>(403,285)</u>	<u>180,244</u>	<u>5,362,027</u>
2016					
Financial assets					
Cash and cash equivalents	4,137,041	2,932,224	272,029	328,470	7,669,764
Deposits and placements with banks and other financial institutions	1,723,792	43,595	-	247,920	2,015,307
Financial assets held-for-trading	1,412,180	115,522	12	647	1,528,361
Financial investments available-for-sale	6,377,423	638,458	220,058	841,589	8,077,528
Loans, advances and financing	53,121,408	3,363,836	93,906	1,220,739	57,799,889
Derivative financial assets	470,711	1,500,086	14,409	10,275	1,995,481
Other assets	426,247	27,491	4,641	6,086	464,465
Statutory deposits with Bank Negara Malaysia	1,673,966	-	-	-	1,673,966
	<u>69,342,768</u>	<u>8,621,212</u>	<u>605,055</u>	<u>2,655,726</u>	<u>81,224,761</u>
Financial liabilities					
Deposits from customers	53,615,839	4,296,732	519,361	1,268,615	59,700,547
Deposits and placements of banks and other financial institutions	1,258,205	6,470,243	-	1,248,737	8,977,185
Bills and acceptances payable	122,770	635	-	-	123,405
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	-	-	-	1,328,516
Derivative financial liabilities	299,904	1,411,373	101,753	7,014	1,820,044
Other liabilities	1,912,374	79,020	33,042	86,701	2,111,137
Subordinated bonds	999,428	1,076,424	-	-	2,075,852
	<u>59,537,036</u>	<u>13,334,427</u>	<u>654,156</u>	<u>2,611,067</u>	<u>76,136,686</u>
Net financial assets/(liabilities) exposure	<u>9,805,732</u>	<u>(4,713,215)</u>	<u>(49,101)</u>	<u>44,659</u>	<u>5,088,075</u>

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46 CURRENCY RISK (continued)

Value-at-Risk ("VaR")

The usage of market VaR by risk type based on 1-day holding period of the Group's and the Bank's trading exposures are set out below:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
VaR				
Profit rate risk	1,921	2,013	1,923	2,015
Currency risk	400	1,667	399	1,680
Credit spread risk	457	746	457	746
Equity and commodity risk	643	16	643	16
Total	1,711	2,744	1,709	2,739

47 SEGMENT INFORMATION

Operating Segment

The Group's businesses are organised into four key segments based on the types of products and services that it provides. The Board evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, loans and deposits growth and asset quality. Expenses directly associated with each operating segment are included in determining their respective profits. Transactions between operating segments are based on mutually agreed allocation bases. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net interest income. In addition to the operating segments, the segment information disclosed also includes internal service providers (head office) which operate on non-profit basis.

Business Banking

Business Banking has 3 principal customer segments namely, Large Corporate, Commercial Banking and Emerging Business structured along its customer base. Business Banking also serves financial institutions referencing to banks and non-bank financial institutions, including international financial institutions, for which OCBC Malaysia provides correspondent banking services, payments and trade-related services.

Consumer Financial Services

Consumer Financial Services is responsible for individual customers, who are broadly categorised under the mass market, mass affluent and Premier Banking segments. Consumer Financial Services offers an array of consumer products and services, including savings and fixed deposits, checking and savings accounts, consumer loans such as housing loans and other personal loans, unit trusts, bancassurance products, structured investments and credit cards.

Global Treasury

Global Treasury offers treasury financial solutions to customers with products ranging from foreign exchange ("FX") spot and forwards to currency options as well as liabilities hedging tools using interest rate swaps and interest rate options. Global Treasury also offers both conventional and Islamic structured investments, denominated in Ringgit Malaysia as well as foreign currencies that build on, amongst others, interest rates, FX, equities and its indices, and commodities.

Global Treasury manages the gapping and investment book of OCBC Malaysia, execution of Asset Liability Management Committee ("ALCO") decisions, compliance of liquidity requirements and facilitates money market operations.

Others

The other segments include investment banking, property-related activities and income/expenses not attributable to other operating segments.

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47 SEGMENT INFORMATION (continued)

Major Customers

Revenue from no single customer amounted to greater than 10% of the Group's revenue for the current and preceding financial year.

Geographical Segment

The financial information by geographical segment is not presented as the Group's activities are principally conducted in Malaysia.

<u>Group</u>	Business Banking RM'000	Consumer Financial Services RM'000	Global Treasury RM'000	Others RM'000	Total RM'000
2017					
Net interest/finance income	1,030,020	481,225	203,885	71,320	1,786,450
Non-interest/finance income	171,115	187,252	235,062	82,048	675,477
Operating income	1,201,135	668,477	438,947	153,368	2,461,927
Operating expenses	(424,832)	(523,351)	(101,276)	(44,844)	(1,094,303)
Operating profit before impairment allowance and provision	776,303	145,126	337,671	108,524	1,367,624
(Impairment)/Write-back of allowances	(145,729)	(21,040)	(19)	72,948	(93,840)
Profit before income tax and zakat	630,574	124,086	337,652	181,472	1,273,784
Income tax expense and zakat	(143,181)	(29,780)	(81,036)	(70,553)	(324,550)
Profit for the year	487,393	94,306	256,616	110,919	949,234
Gross loans, advances and financing	37,839,529	30,539,119	-	63,897	68,442,545
Gross impaired loans, advances and financing	884,064	546,312	-	247	1,430,623
Deposits from customers	34,396,395	34,080,541	5,175,803	-	73,652,739
2016					
Net interest/finance income	1,036,682	491,034	195,929	20,749	1,744,394
Non-interest/finance income	130,832	140,784	277,882	44,994	594,492
Operating income	1,167,514	631,818	473,811	65,743	2,338,886
Operating expenses	(414,682)	(499,619)	(97,911)	(53,491)	(1,065,703)
Operating profit before impairment allowance and provision	752,832	132,199	375,900	12,252	1,273,183
(Impairment)/Write-back of allowances and provision for commitments and contingencies	(110,104)	(94,074)	(1,089)	1,160	(204,107)
Profit before income tax and zakat	642,728	38,125	374,811	13,412	1,069,076
Income tax expense and zakat	(154,255)	(9,149)	(89,822)	(7,613)	(260,839)
Profit for the year	488,473	28,976	284,989	5,799	808,237
Gross loans, advances and financing	36,826,699	31,622,494	-	71,747	68,520,940
Gross impaired loans, advances and financing	902,369	582,960	-	399	1,485,728
Deposits from customers	36,723,457	34,143,207	68,149	-	70,934,813

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)**48 CAPITAL ADEQUACY****Capital Management**

The key objective of the Group's and the Bank's capital management policy is to maintain a strong capital position to support business growth, and to sustain investor, depositor, customer and market confidence. In line with this, the Bank targets a minimum RAM credit rating of "AA1" to ensure that the Group's and the Bank's capital adequacy ratios are comfortably above the regulatory minimum while balancing shareholder's desire for sustainable returns and high standards of prudence.

The Group's and the Bank's capital are closely monitored and actively managed to ensure that there is sufficient capital to support business growth and to pursue strategic business that will create value for the stakeholders, while taking into consideration OCBC Malaysia's risk appetite. The Group's and the Bank's internal capital adequacy assessment process ("ICAAP") involves a comprehensive assessment of all material risks that the Group and the Bank are exposed to and an evaluation of the adequacy of the Group's and the Bank's capital in relation to those risks. This includes an annual capital planning exercise to forecast capital demands and assess the Group's and the Bank's capital adequacy over a 3-year period. This process takes into consideration the Group's and the Bank's business strategy, operating environment, target capital ratios and composition, as well as expectations of its various stakeholders. In addition, capital stress tests are conducted to understand the sensitivity of the key assumptions in the capital plan to the effects of plausible stress scenarios, and to evaluate how the Group and the Bank can continue to maintain adequate capital under such scenarios.

Capital Adequacy Ratios

The Group and the Bank are required to meet minimum Common Equity Tier 1, Tier 1 and Total Capital Adequacy Ratio ("CAR") of 4.5%, 6.0% and 8.0% respectively in 2017. To ensure that banks build up adequate capital buffer outside period of stress, a Capital Conservation Buffer ("CCB") of 2.5% above the minimum capital adequacy requirements was introduced by BNM. The CCB is maintained in the form of CET1 ("CET") capital at 1.25% on 1 January 2017 and progressively increasing by 0.625% each year to reach 2.5% on 1 January 2019. Including the CCB, the Group and the Bank will be required to meet CET1 CAR, Tier 1 CAR and Total CAR of 7.0%, 8.5% and 10.5% respectively from 1 January 2019.

In addition, the Group and the Bank will be subject to a Countercyclical Buffer requirement if this buffer is applied by regulators in countries which the Group and the Bank have credit exposures to. Generally in the range of 0% to 2.5% of risk-weighted assets, the Countercyclical Buffer is not an ongoing requirement but it may be applied by regulators to limit excessive credit growth in their economy.

The table below shows the composition of the regulatory capital and capital adequacy ratios based on BNM's Capital Adequacy Framework (Capital Components). The Group's and the Bank's total risk-weighted assets are computed based on the Internal Rating Based Approach for Credit Risk for their major credit portfolio and have adopted the Standardised Approach for Market Risk and Operational Risks.

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Common Equity Tier 1 ("CET 1") capital				
Paid-up ordinary share capital	754,000	287,500	754,000	287,500
Ordinary share premium	-	462,500	-	462,500
Retained earnings	5,473,295	4,651,850	4,830,643	4,294,510
Other reserves	650,618	1,021,669	499,377	789,558
CET 1 capital	6,877,913	6,423,519	6,084,020	5,834,068
Regulatory adjustment for CET 1 capital	(581,016)	(464,663)	(930,754)	(792,660)
CET 1 capital	6,296,897	5,958,856	5,153,266	5,041,408
Additional Tier 1 capital				
Innovative Tier 1 capital	400,000	400,000	400,000	400,000
Additional Tier 1 capital	445,011	493,361	445,011	493,361
Tier 1 capital	7,141,908	6,852,217	5,998,277	5,934,769

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48 CAPITAL ADEQUACY (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Tier 2 capital				
Collective impairment allowance under the Standardised Approach*	13,751	17,151	7,887	8,069
Surplus eligible provisions over expected losses	234,802	237,858	198,587	204,217
Subordinated bonds	1,025,922	1,183,063	1,025,922	1,183,063
	1,274,475	1,438,072	1,232,396	1,395,349
Regulatory adjustment for Tier 2 capital	-	-	(311,698)	(423,397)
Tier 2 capital	1,274,475	1,438,072	920,698	971,952
Capital base	8,416,383	8,290,289	6,918,975	6,906,721
	Group		Bank	
	2017	2016	2017	2016
Before deducting proposed dividend				
CET 1 capital ratio	13.764%	12.788%	13.415%	12.775%
Tier 1 capital ratio	15.611%	14.706%	15.615%	15.039%
Total capital ratio	18.396%	17.792%	18.011%	17.502%
After deducting proposed dividend				
CET 1 capital ratio	13.436%	11.945%	13.024%	11.779%
Tier 1 capital ratio	15.283%	13.862%	15.224%	14.043%
Total capital ratio	18.068%	16.948%	17.621%	16.506%

* Excludes the collective impairment allowance made on impaired loans, advances and financing.

Breakdown of risk-weighted assets ("RWA") in the various categories of risk-weights:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total RWA for credit risk	40,233,794	41,015,041	33,728,810	34,681,744
Total RWA for market risk	936,873	1,164,134	932,356	1,159,646
Total RWA for operational risk	4,579,962	4,416,693	3,753,494	3,621,266
	45,750,629	46,595,868	38,414,660	39,462,656

The capital adequacy ratios of OCBC Al-Amin Bank Berhad are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). OCBC Al-Amin Bank Berhad adopted the Internal Ratings Based Approach for Credit Risk for its major credit portfolios, whilst the other credit portfolios are on the Standardised Approach. For market and operational risks, OCBC Al-Amin has adopted the Standardised Approach and the Basic Indicator Approach respectively.

The capital adequacy ratios of OCBC Al-Amin Bank Berhad, the banking subsidiary company of the Group, are as follows:

	2017	2016
CET 1 capital ratio	16.569%	15.342%
Tier 1 capital ratio	16.569%	15.342%
Total capital ratio	19.815%	18.425%

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

49 INITIAL FINANCIAL IMPACT FOR MFRS 9 AND MFRS 15

MFRS 9

The Group and the Bank will apply MFRS 9 with effect from 1 January 2018. As allowed under MFRS 9, the Group and the Bank will not restate comparative information with respect to the new classification and measurement requirements (including impairment methodology changes). Transition impact on lower allowance for impairment losses arising from the change in accounting standard from MFRS 139 to MFRS 9 will be recognised in the opening Retained Earnings as at 1 January 2018. Based on assessments undertaken to date, the Group and the Bank do not anticipate any material impact to the Group's and the Bank's capital position after taking into account the regulatory reserve requirements.

The transitional impact is based on best estimates as at the reporting date. The information provided in this note is focused upon material items; it does not represent a complete list of expected adjustments. It is possible that the results for the first quarter of 2018 may reflect further refinements.

MFRS 15

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

50 CONTINGENT LIABILITY

As at the year end date, the Inland Revenue Board ("IRB") had commenced a review on certain of the Group's and the Bank's transactions for compliance with Income Tax Act 1967 requirements. Pending the completion and finalisation of the aforesaid review by IRB, additional tax payable, if any, cannot be presently determined.