

Company No. 295400-W

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

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

Company No. 295400-W

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AND ITS SUBSIDIARY COMPANIES
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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2018

	Note	Group		Bank	
		30 September 2018 RM'000	31 December 2017 RM'000	30 September 2018 RM'000	31 December 2017 RM'000
ASSETS					
Cash and cash equivalents	9	5,731,366	6,158,261	5,441,562	5,571,918
Deposits and placements with banks and other financial institutions	10	176,587	71,835	767,697	182,518
Investment account placement	11	-	-	1,748,539	1,793,011
Reverse repurchase agreement		187,650	-	187,650	-
Financial assets at fair value through profit or loss	12	1,478,962	1,690,763	1,468,984	1,690,763
Financial investments at fair value through other comprehensive income	13	14,978,196	13,501,159	10,647,085	8,778,279
Loans, advances and financing	14	68,515,769	67,452,350	58,716,080	57,742,824
Derivative financial assets	16	958,836	835,825	958,416	835,625
Other assets	17	409,913	370,277	670,637	709,911
Statutory deposits with Bank Negara Malaysia		1,876,782	1,752,717	1,540,582	1,427,217
Investments in subsidiaries		-	-	556,901	558,492
Property and equipment		161,776	162,596	151,289	153,271
Prepaid lease payments		721	748	721	748
Tax recoverable		471	535	-	-
Deferred tax assets		40,597	26,957	37,294	25,022
Total assets		94,517,626	92,024,023	82,893,437	79,469,599
LIABILITIES					
Deposits from customers	18	73,641,544	73,652,739	63,094,140	62,490,422
Deposits and placements of banks and other financial institutions	19	6,368,985	4,388,137	6,342,498	3,946,437
Bills and acceptances payable		88,444	166,104	73,820	145,347
Recourse obligation on loans sold to Cagamas Berhad		1,174,781	1,419,252	1,174,781	1,419,252
Derivative financial liabilities	16	766,306	1,080,854	765,876	1,080,427
Other liabilities	20	3,225,488	2,543,806	3,063,036	2,417,222
Tax payable and zakat		95,706	22,793	92,963	15,540
Subordinated bonds	21	1,892,670	1,870,932	1,892,670	1,870,932
Total liabilities		87,253,924	85,144,617	76,499,784	73,385,579
EQUITY					
Share capital		754,000	754,000	754,000	754,000
Reserves		6,508,363	6,123,912	5,639,653	5,330,020
Non-controlling interest		1,339	1,494	-	-
Total equity		7,263,702	6,879,406	6,393,653	6,084,020
Total liabilities and equity		94,517,626	92,024,023	82,893,437	79,469,599
Commitments and contingencies	30	98,785,426	91,839,022	93,246,305	88,919,066

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes to the unaudited condensed interim financial statements.

OCBC BANK (MALAYSIA) BERHAD
AND ITS SUBSIDIARY COMPANIES
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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

Group	Note	Quarter ended		Year to date ended	
		30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Interest income	22	958,764	892,455	2,744,798	2,618,690
Interest expense	22	(569,925)	(537,615)	(1,621,442)	(1,572,916)
Net interest income	22	388,839	354,840	1,123,356	1,045,774
Income from Islamic banking operations	23	107,317	108,459	327,996	333,794
Net fee and commission income	24	88,837	79,906	263,895	255,887
Net trading income	25	55,720	41,093	162,329	141,872
Other operating income	26	11,840	7,005	17,927	22,091
Operating income		652,553	591,303	1,895,503	1,799,418
Operating expenses	27	(288,506)	(280,175)	(858,651)	(820,226)
Operating profit before impairment allowance and provision		364,047	311,128	1,036,852	979,192
(Charge)/write back of impairment allowance on loans, advances and financing	28	(103,498)	24,026	(184,943)	(32,419)
(Charge)/Write back of impairment allowance on other receivables		515	(9)	10,504	(38)
Provision for commitments and contingencies		(83)	-	(83)	-
Profit before income tax and zakat		260,981	335,145	862,330	946,735
Income tax expense	29	(87,241)	(89,567)	(237,117)	(239,668)
Zakat		-	(13)	-	(38)
Profit for the period		173,740	245,565	625,213	707,029
Other comprehensive income/(expense), net of income tax					
<i>Items that will not be reclassified to profit or loss</i>					
Movement in fair value reserve (equity instruments)					
- Change in fair value		2,908	-	5,863	-
<i>Items that are or may be reclassified subsequently to profit or loss</i>					
Movement in fair value reserve (debt instruments)					
- Change in fair value		26,564	17,260	(34,747)	68,091
- Transferred to profit or loss		(5,197)	(1,474)	1,421	(4,564)
- Related tax		(5,167)	(3,791)	8,107	(15,254)
Change in expected credit loss reserve on debt instruments at fair value through other comprehensive income		(130)	-	(10,224)	-
Other comprehensive income/(expense) for the period		18,978	11,995	(29,580)	48,273
Total comprehensive income for the period		192,718	257,560	595,633	755,302

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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018 (continued)

Group	Quarter ended		Year to date ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Profit attributable to:				
Owner of the Bank	173,804	245,560	625,319	707,124
Non-controlling interest	(64)	5	(106)	(95)
	<u>173,740</u>	<u>245,565</u>	<u>625,213</u>	<u>707,029</u>
Total comprehensive income attributable to:				
Owner of the Bank	192,782	257,555	595,739	755,397
Non-controlling interest	(64)	5	(106)	(95)
	<u>192,718</u>	<u>257,560</u>	<u>595,633</u>	<u>755,302</u>
Basic earnings per ordinary share (sen)	<u>60.5</u>	<u>85.4</u>	<u>217.5</u>	<u>245.9</u>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes to the unaudited condensed interim financial statements.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

Bank	Note	Quarter ended		Year to date ended	
		30 September 2018	30 September 2017	30 September 2018	30 September 2017
		RM'000	RM'000	RM'000	RM'000
Interest income	22	977,000	912,520	2,796,622	2,678,907
Interest expense	22	(580,836)	(552,515)	(1,654,653)	(1,617,774)
Net interest income	22	396,164	360,005	1,141,969	1,061,133
Net fee and commission income	24	88,837	79,596	263,311	255,326
Net trading income	25	55,720	41,093	162,316	141,872
Other operating income	26	39,627	31,393	113,364	94,395
Operating income		580,348	512,087	1,680,960	1,552,726
Operating expenses	27	(268,389)	(259,122)	(800,045)	(756,997)
Operating profit before impairment allowance and provision		311,959	252,965	880,915	795,729
Impairment allowance on loans, advances and financing	28	(30,570)	(6,286)	(125,523)	(5,156)
(Charge)/Write back of impairment allowance on Restricted Profit Sharing Investment Accounts		(97)	-	4,635	(42,834)
(Charge)/Write back of impairment allowance on other receivables		554	(9)	7,561	(38)
Provision for commitments and contingencies		(83)	-	(83)	-
Profit before income tax and zakat		281,763	246,670	767,505	747,701
Income tax expense	29	(93,163)	(66,387)	(211,022)	(191,360)
Profit for the period		188,600	180,283	556,483	556,341
Other comprehensive income/(expense), net of income tax					
<i>Items that will not be reclassified to profit or loss</i>					
Movement in fair value reserve (equity instruments)					
- Change in fair value		2,908	-	5,863	-
<i>Items that are or may be reclassified subsequently to profit or loss</i>					
Movement in fair value reserve (debt instruments)					
- Change in fair value		19,545	11,402	(32,610)	46,687
- Transferred to profit or loss		(5,546)	(1,106)	803	(4,577)
- Related tax		(3,395)	(2,472)	7,595	(10,108)
Change in expected credit loss reserve on debt instruments at fair value through other comprehensive income		(169)	-	(7,841)	-
Other comprehensive income/(expense) for the period, net of income tax		13,343	7,824	(26,190)	32,002
Total comprehensive income for the period		201,943	188,107	530,293	588,343

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018 (continued)**

	<u>Quarter ended</u>		<u>Year to date ended</u>	
	<u>30 September</u> <u>2018</u> <u>RM'000</u>	<u>30 September</u> <u>2017</u> <u>RM'000</u>	<u>30 September</u> <u>2018</u> <u>RM'000</u>	<u>30 September</u> <u>2017</u> <u>RM'000</u>
<u>Bank</u>				
Profit attributable to owner of the Bank	<u>188,600</u>	<u>180,283</u>	<u>556,483</u>	<u>556,341</u>
Total comprehensive income attributable to owner of the Bank	<u>201,943</u>	<u>188,107</u>	<u>530,293</u>	<u>588,343</u>
Basic earnings per ordinary share (sen)	<u>65.6</u>	<u>62.7</u>	<u>193.6</u>	<u>193.5</u>

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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

<u>Group</u>	<i>Non-distributable</i>				<i>Distributable</i>		Total equity RM'000	
	Share capital RM'000	Regulatory reserve* RM'000	Capital reserve RM'000	Expected credit loss reserve RM'000	Fair value reserve RM'000	Retained earnings RM'000		Non-controlling interest RM'000
At 1 January 2018 (as previously reported)	754,000	486,000	56,619	-	107,999	5,473,294	1,494	6,879,406
Effect of adopting MFRS 9	-	-	-	11,629	(15,811)	80,894	-	76,712
Restated at 1 January 2018	<u>754,000</u>	<u>486,000</u>	<u>56,619</u>	<u>11,629</u>	<u>92,188</u>	<u>5,554,188</u>	<u>1,494</u>	<u>6,956,118</u>
Fair value reserve								
- Change in fair value	-	-	-	-	(28,884)	-	-	(28,884)
- Transferred to profit or loss	-	-	-	-	1,421	-	-	1,421
- Related tax	-	-	-	-	8,107	-	-	8,107
Expected credit loss reserve								
- Change in expected credit loss	-	-	-	(10,224)	-	-	-	(10,224)
Total other comprehensive expense for the period	-	-	-	(10,224)	(19,356)	-	-	(29,580)
Profit for the period	-	-	-	-	-	625,319	(106)	625,213
Total comprehensive (expense)/income for the period	-	-	-	(10,224)	(19,356)	625,319	(106)	595,633
Transfer to regulatory reserve	-	114,000	-	-	-	(114,000)	-	-
<i>Contributions by and distributions to owner of the Bank</i>								
Dividend paid								
- Final 2017 ordinary	-	-	-	-	-	(150,000)	-	(150,000)
- Interim 2018 ordinary	-	-	-	-	-	(138,000)	(49)	(138,049)
At 30 September 2018	<u>754,000</u>	<u>600,000</u>	<u>56,619</u>	<u>1,405</u>	<u>72,832</u>	<u>5,777,507</u>	<u>1,339</u>	<u>7,263,702</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.

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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018 (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 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	-	-	-	-	-	-	68,091	-	-	68,091
- Transferred to profit or loss	-	-	-	-	-	-	(4,564)	-	-	(4,564)
- Related tax	-	-	-	-	-	-	(15,254)	-	-	(15,254)
Total other comprehensive income for the period	-	-	-	-	-	-	48,273	-	-	48,273
Profit for the period	-	-	-	-	-	-	-	707,124	(95)	707,029
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	48,273	707,124	(95)	755,302
Transfer pursuant to Companies Act 2016	466,500	(462,500)	-	-	(4,000)	-	-	-	-	-
Transfer pursuant to BNM's policy document on Capital Funds	-	-	(507,000)	-	-	-	-	507,000	-	-
Transfer from retained earnings	-	-	-	56,000	-	-	-	(56,000)	-	-
<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 30 September 2017	754,000	-	-	431,000	-	56,619	127,323	5,286,282	1,301	6,656,525

* During the financial period ended 30 September 2017, the Bank transferred RM322 million from statutory reserve account to retained earnings pursuant to BNM's revised policy document on Capital Funds which was 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.

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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

	<i>Non-distributable</i>			<i>Distributable</i>		Total equity RM'000
	Share capital RM'000	Regulatory reserve* RM'000	Expected credit loss reserve RM'000	Fair value reserve RM'000	Retained earnings RM'000	
Bank						
At 1 January 2018 (as previously reported)	754,000	395,000	-	104,377	4,830,643	6,084,020
Effect of adopting MFRS 9	-	-	8,983	(15,194)	73,551	67,340
Restated at 1 January 2018	<u>754,000</u>	<u>395,000</u>	<u>8,983</u>	<u>89,183</u>	<u>4,904,194</u>	<u>6,151,360</u>
Fair value reserve						
- Change in fair value	-	-	-	(26,747)	-	(26,747)
- Transferred to profit or loss	-	-	-	803	-	803
- Related tax	-	-	-	7,595	-	7,595
Expected credit loss reserve						
- Change in expected credit loss	-	-	(7,841)	-	-	(7,841)
Total other comprehensive expense for the period	-	-	(7,841)	(18,349)	-	(26,190)
Profit for the year	-	-	-	-	556,483	556,483
Total comprehensive (expense)/income for the period	-	-	(7,841)	(18,349)	556,483	530,293
Transfer to regulatory reserve	-	114,000	-	-	(114,000)	-
<i>Contributions by and distributions to owner of the Bank</i>						
Dividends paid						
- Final 2017 ordinary	-	-	-	-	(150,000)	(150,000)
- Interim 2018 ordinary	-	-	-	-	(138,000)	(138,000)
At 30 September 2018	<u>754,000</u>	<u>509,000</u>	<u>1,142</u>	<u>70,834</u>	<u>5,058,677</u>	<u>6,393,653</u>

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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018 (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 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	-	-	-	-	-	46,687	-	46,687
- Transferred to profit or loss	-	-	-	-	-	(4,577)	-	(4,577)
- Related tax	-	-	-	-	-	(10,108)	-	(10,108)
Total other comprehensive income for the period	-	-	-	-	-	32,002	-	32,002
Profit for the period	-	-	-	-	-	-	556,341	556,341
Total comprehensive income for the period	-	-	-	-	-	32,002	556,341	588,343
Transfer pursuant to Companies Act 2016	466,500	(462,500)	-	-	(4,000)	-	-	-
Transfer pursuant to BNM's policy document on Capital Funds	-	-	(322,000)	-	-	-	322,000	-
<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 30 September 2017	754,000	-	-	375,000	-	120,560	4,649,751	5,899,311

* During the financial period ended 30 September 2017, 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.

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OCBC BANK (MALAYSIA) BERHAD
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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

	Group		Bank	
	Year to date ended		Year to date ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Cash flows from operating activities				
Profit before income tax and zakat	862,330	946,735	767,505	747,701
<i>Adjustments for:</i>				
Amortisation of prepaid lease payments	27	27	27	27
Depreciation of property and equipment	21,031	25,390	17,574	21,971
Dividends received from financial investments at fair value through other comprehensive income	(572)	(752)	(572)	(752)
Dividends received from subsidiary	-	-	(2,800)	-
Surplus assets received from winding-up of a subsidiary	-	-	(12,262)	-
Impairment/(Write back of) allowance on:				
- Loans, advances and financing	184,943	32,419	125,523	5,156
- Restricted Profit Sharing Investment Accounts	-	-	(4,635)	42,834
- Other receivables	(10,504)	38	(7,561)	38
Net loss/(gain) on disposal of:				
- Financial investments at fair value through other comprehensive income	1,421	(4,564)	803	(4,577)
- Property and equipment	(88)	269	(89)	261
Share-based expenses	4,738	4,122	4,559	3,926
Unrealised (gain)/loss on:				
- Financial assets at fair value through profit or loss	(2,603)	(977)	(3,069)	(977)
- Hedging derivatives	(25)	226	(25)	226
- Trading derivatives	(459,846)	189,874	(459,627)	189,874
- Subordinated bonds	21,738	(62,962)	21,738	(62,962)
Operating profit before changes in working capital	622,590	1,129,845	447,089	942,746
<i>Changes in operating assets and operating liabilities:</i>				
Deposits and placements with banks and other financial institutions	(105,788)	1,447,920	(586,215)	1,476,806
Investment account placement	-	-	49,107	(880,125)
Reverse repurchase agreements	(187,650)	-	(187,650)	-
Financial assets at fair value through profit or loss	347,307	(26,187)	225,034	(26,187)
Loans, advances and financing	(1,130,397)	(606,408)	(992,871)	(449,001)
Other assets	(39,664)	(66,698)	39,255	(64,072)
Statutory deposits with Bank Negara Malaysia	(124,065)	161,222	(113,365)	158,722
Derivative financial assets and liabilities	24,671	(43,489)	24,669	(42,988)
Deposits from customers	(11,195)	213,399	603,718	1,047,497
Deposits and placements of banks and other financial institutions	1,980,848	(2,608,510)	2,396,061	(2,512,545)
Bills and acceptances payable	(77,660)	(38,685)	(71,527)	(28,237)
Other liabilities	676,442	1,743,449	640,558	1,730,117
Cash generated from operations	1,975,439	1,305,858	2,473,863	1,352,733
Income tax and zakat paid	(193,902)	(174,926)	(160,186)	(150,839)
Net cash generated from operating activities	1,781,537	1,130,932	2,313,677	1,201,894

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018 (continued)

	Group		Bank	
	Year to date ended		Year to date ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Cash flows from investing activities				
Acquisition of financial investments at fair value through other comprehensive income	(14,235,864)	(11,636,981)	(8,262,747)	(5,736,981)
Acquisition of property and equipment	(20,294)	(4,105)	(15,683)	(3,795)
Dividends received from financial investments at fair value through other comprehensive income	572	752	572	752
Dividends received from subsidiary	-	-	2,800	-
Final distribution of surplus assets received on completion of winding-up of a subsidiary	-	-	13,853	-
Proceeds from disposal of financial investments at fair value through other comprehensive income	12,579,499	8,328,084	6,349,467	2,982,168
Proceeds from disposal of property and equipment	176	175	176	176
Net cash used in investing activities	(1,675,911)	(3,312,075)	(1,911,562)	(2,757,680)
Cash flows from financing activities				
Dividends paid to owner of the Bank	(288,000)	(523,100)	(288,000)	(523,100)
Dividends paid to non-controlling interest	(49)	-	-	-
Redemption of subordinated bonds	-	(600,000)	-	(600,000)
Proceeds from issuance of subordinated bonds	-	500,000	-	500,000
Recourse obligation on loans sold to Cagamas Berhad	(244,471)	96,476	(244,471)	96,476
Net cash used in financing activities	(532,520)	(526,624)	(532,471)	(526,624)
Net decrease in cash and cash equivalents	(426,894)	(2,707,767)	(130,356)	(2,082,410)
Cash and cash equivalents at 1 January	6,158,261	8,293,096	5,571,918	6,720,113
Cash and cash equivalents at 30 September	5,731,367	5,585,329	5,441,562	4,637,703

Details of cash and cash equivalents are disclosed in Note 9 to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes to the unaudited condensed interim financial statements.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018

GENERAL INFORMATION

The unaudited condensed consolidated interim financial statements of the Bank as at and for the financial period ended 30 September 2018 comprise the Bank and its subsidiaries (collectively 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 period.

FINANCIAL PERFORMANCE

The Group recorded net profit of RM625 million for the first 9 months of 2018: a decline of RM82 million or 12% compared to the corresponding period last year. The decline was mainly due to higher allowances attributable to a few large corporate accounts mainly from oil and gas sector.

Operating profit grew by RM58 million or 6% to RM1,037 million on the back of a 7% increase in net interest income mainly due to improved net interest margin of 15 bps following the increase in BNM’s Overnight Policy Rate by 25 bps in February 2018, coupled with better liability management.

Total assets expanded to RM95 billion, 2.6% higher than December last year mainly from increased financial investments at fair value through other comprehensive income by RM1.5 billion and higher loans, advances and financing by RM1.1 billion.

Overheads grew by a modest 5% even as the Group continues to invest in building its capabilities.

The Group and the Bank remained well capitalised with Common Equity Tier 1 (CET 1) capital ratios of 12.906% and 12.336%, Tier 1 capital ratios of 14.474% and 14.234%, and total capital ratios of 17.118% and 16.825% respectively, well above regulatory requirements.

ECONOMIC PERFORMANCE AND PROSPECTS

The global economy showed signs of slow down with the growth of advanced economies weaker than expected, even as some emerging markets recorded stronger growth in the first half of 2018. Escalating trade protectionism and sharp capital outflows from emerging economies with weaker fundamentals were among the key downside risks attributed to the slowdown. Financial conditions were seen as tightening in emerging and developing economies in response to the faster-than-expected monetary policy normalisation in the US.

In Malaysia, the state of the economy is reflective of the challenging global economic environment. Growth will continue to be under pressure, contributed by the postponement or cancellation of several large infrastructure projects, which translate into lower public investments and easing of exports growth. However, stronger private domestic consumption is forecasted to remain supportive of the economy.

Although the risk scales have tipped on the weaker side, the Group will continue to build its presence in Malaysia by lending to growth sectors, and expanding its consumer financial service business including wealth management. However, the Group will continue to remain cautious of current market conditions with a view to preserving its asset quality and ensuring healthy capital and liquidity positions.

The Group will continue to expand its network and customer reach by building even more robust capabilities and introducing a higher level of digitalisation to meet customers’ needs. FinTechs are part of this journey and the Group believes they remain a key component in embracing the future of banking.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

1 BASIS OF PREPARATION

The accounting policies set out below have been applied consistently to the periods presented in these unaudited condensed interim financial statements and have been applied consistently by Group entities, except as disclosed in Note 1(a) and Note 35.

The unaudited condensed interim 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 unaudited condensed interim financial statements of the Group and the Bank have been prepared under the historical cost convention (except as disclosed in the notes to the unaudited condensed interim financial statements), in accordance with Malaysian Financial Reporting Standard ("MFRS") 134, International Accounting Standards 34, the requirements of the Companies Act 2016 in Malaysia and Shariah requirements (operations of Islamic Banking).

The unaudited condensed interim 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 accounting standards, interpretations and amendments have been adopted by the Group and the Bank during the current period:

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *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*

Other than as disclosed in Note 35 on adoption of MFRS 9, the adoption of the other accounting standards, interpretations and amendments did not have any significant impact on the Group and the Bank.

MFRS 9 came into effect on 1 January 2018. As allowed under MFRS 9, the Group and the Bank had not restated its comparative information and the transition impact arising from the adoption of MFRS 9 is recognised in the opening Retained Earnings. The impact on classification and measurement of the Group's and the Bank's financial assets is disclosed in Note 35 of the interim financial statements.

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 annual 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 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Tax (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits (Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

1 BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Effective for annual periods commencing on or after 1 January 2020

- Amendments to MFRS 2, *Share-Based Payment*
- Amendments to MFRS 3, *Business Combinations*
- Amendments to MFRS 101, *Presentation of Financial Statements*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to MFRS 134, *Interim Financial Reporting*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets*
- Amendments to IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

Effective date to be announced by MASB

- Amendments to MFRS 10 and MFRS 128, *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 above mentioned 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 16, Leases

MFRS 16 requires a lessee to recognise a right-of-use of the underlying asset and a lease liability reflecting future lease payments for most leases. For lessors, the accounting treatment under MFRS 16 remains similar to MFRS 117 whereby leases continue to be classified as finance or operating lease.

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 unaudited condensed interim financial statements in conformity with MFRS 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.

In preparing these unaudited condensed interim financial statements, the significant judgements made by management in applying the Group's and the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited financial statements as at and for the financial year ended 31 December 2017, except as disclosed in Note 35 on adoption of MFRS 9.

2 AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the audited financial statements for the financial year ended 31 December 2017 was not subject to any qualification.

3 SEASONALITY OF OPERATIONS

The business operations of the Group and the Bank are not materially affected by any seasonal factors.

4 SHARE CAPITAL

There were no changes in the share capital of the Bank during the financial period.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**5 CHANGES IN COMPOSITION OF THE GROUP**

During the financial period ended 30 September 2018, the members' voluntary winding-up of OCBC Credit Berhad was completed on 31 May 2018 upon which, OCBC Credit Berhad ceased to be a subsidiary of the Group.

On 28 November 2017, the Bank approved the proposed acquisition of 150,000 Class B ordinary shares amounting to 30% of the remaining shareholding in OCBC Advisers (Malaysia) Sdn. Bhd. at RM1.00 each for a total consideration of RM150,000. After the acquisition, OCBC Advisers (Malaysia) Sdn. Bhd. will be a 100% wholly-owned subsidiary of the Bank. Approval from Bank Negara Malaysia was obtained on 20 August 2018.

The proposed acquisition has not yet been completed. As such, the recognised amounts of assets acquired and liabilities assumed at the acquisition date cannot yet be determined.

6 DIVIDENDS

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

- i) a final dividend of 52.2 sen per ordinary share totalling RM150 million in respect of the previous financial year on 27 April 2018; and
- ii) an interim dividend of 48 sen per ordinary share totalling RM138 million in respect of the financial period ended 30 June 2018 on 27 September 2018.

7 SIGNIFICANT AND SUBSEQUENT EVENTS

There was no material event subsequent to the end of the reporting period that requires disclosure or adjustments to the unaudited condensed interim financial statements.

8 UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There was no unusual item affecting the assets, liabilities, equity, net income or cash flows of the Group and the Bank for the financial period ended 30 September 2018.

9 CASH AND CASH EQUIVALENTS

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	464,123	493,106	344,898	351,502
Money at call and deposit placements with financial institutions maturing within one month	285,997	1,198,899	536,664	1,570,416
Deposit placements with Bank Negara Malaysia	4,981,247	4,466,256	4,560,000	3,650,000
	5,731,367	6,158,261	5,441,562	5,571,918
Stage 1 12-months expected credit loss	(1)	-	-	-
	5,731,366	6,158,261	5,441,562	5,571,918

Included in the Bank's cash and cash equivalents are deposits and placements with OCBC Al-Amin of RM251 million (31 December 2017: RM372 million), which are unsecured and profit bearing.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**10 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Licensed banks	177,624	71,835	768,734	182,518
Stage 1 12-months expected credit loss	(1,037)	-	(1,037)	-
	176,587	71,835	767,697	182,518

Included in the Bank's deposits and placements with licensed banks are deposits and placements with OCBC Al-Amin of RM591 million (31 December 2017: RM110 million), which are unsecured and profit bearing.

Movements in expected credit loss ("ECL") are as follows:

Group and Bank	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL non credit impaired RM'000
At 1 January 2018	-	-	-	-
Effect of adopting MFRS 9	17	15	-	32
At 1 January 2018, as restated	17	15	-	32
Charge/(Written back)	1,020	(15)	-	1,005
At 30 September 2018	1,037	-	-	1,037

11 INVESTMENT ACCOUNT PLACEMENT

	Bank	
	30 September 2018	31 December 2017
	RM'000	RM'000
Restricted Profit Sharing Investment Accounts	1,810,406	1,861,390
Expected credit loss	(61,867)	(68,379)
	1,748,539	1,793,011

The exposures to Restricted Profit Sharing Investment Accounts ("RPSIA") is an arrangement with its subsidiary, OCBC Al-Amin Bank Berhad ("OCBC Al-Amin"), which the contract is 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.

Except for an exposure to a specific RPSIA funded financing for which the Bank has provided for Stage 3 ECL allowance as at 30 September 2018, the rest of the RPSIA exposures are categorised as Pass according to the Bank's classification grade.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**11 INVESTMENT ACCOUNT PLACEMENT (continued)**

The comparative figures have been restated to conform with current year presentation which presents RPSIA as a separate line item in the statement of financial position pursuant to BNM's policy on Financial Reporting issued on 2 February 2018. Previously, RPSIA was included in cash and cash equivalents and deposits and placements with banks and other financial institutions based on the maturity.

Movements in ECL are as follows:

Bank	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January 2018	8,561	-	59,818	68,379
Written back	(4,635)	-	-	(4,635)
Discount unwind	-	-	(1,877)	(1,877)
At 30 September 2018	<u>3,926</u>	<u>-</u>	<u>57,941</u>	<u>61,867</u>

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	Group		Bank	
	30 September 2018 RM'000	31 December 2017 RM'000	30 September 2018 RM'000	31 December 2017 RM'000
At fair value				
Malaysian Government Investment Issues	160,904	269,493	160,904	269,493
Malaysian Government Securities	359,097	252,505	359,097	252,505
Malaysian Government Treasury Bills	247,416	-	247,416	-
Corporate Bonds and Sukuk	711,359	1,168,765	701,381	1,168,765
Debentures	186	-	186	-
	<u>1,478,962</u>	<u>1,690,763</u>	<u>1,468,984</u>	<u>1,690,763</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**13 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")**

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
At fair value				
Malaysian Government Investment Issues	4,680,870	4,824,454	2,258,005	2,670,438
Malaysian Government Securities	2,710,216	2,272,777	2,710,216	2,272,777
Malaysian Treasury Bills and Islamic Treasury Bills	-	248,701	-	198,820
Malaysian Government Debt Securities and Sukuk	252,856	172,070	108,163	76,882
Bank Negara Malaysia Monetary Notes	441,678	-	441,678	-
Foreign Government Debt Securities	725,128	596,729	505,644	394,732
Negotiable Instruments of Deposit and Islamic				
Negotiable Instruments of Deposit	1,241,901	1,653,492	74,063	162,268
Corporate and Islamic Corporate Bonds, Sukuk and				
Sanadat Mudharabah Cagamas	4,826,329	3,624,212	4,450,098	2,893,638
Unquoted shares in Malaysia	99,218	-	99,218	-
Debentures	-	190	-	190
	14,978,196	13,392,625	10,647,085	8,669,745
At cost				
Unquoted shares in Malaysia*	-	108,546	-	108,546
	14,978,196	13,501,171	10,647,085	8,778,291
Impairment allowance				
- Debentures	-	(12)	-	(12)
	14,978,196	13,501,159	10,647,085	8,778,279

* 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.

Upon adoption of MFRS 9 commencing 1 January 2018, ECL for financial investments at FVOCI is recognised in the ECL reserve.

Group	Stage 1	Stage 2	Stage 3	Total ECL
	12 months	Lifetime	Lifetime	
	ECL	ECL	ECL	
	RM'000	non credit	credit	RM'000
		impaired	impaired	
		RM'000	RM'000	
At 1 January 2018	-	-	(12)	(12)
Effect of adopting MFRS 9	8,380	3,249	12	11,641
At 1 January 2018, as restated	8,380	3,249	-	11,629
Written back	(6,989)	(3,235)	-	(10,224)
At 30 September 2018	1,391	14	-	1,405
Bank				
At 1 January 2018	-	-	(12)	(12)
Effect of adopting MFRS 9	6,464	2,519	12	8,995
At 1 January 2018, as restated	6,464	2,519	-	8,983
Written back	(5,336)	(2,505)	-	(7,841)
At 30 September 2018	1,128	14	-	1,142

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

14 LOANS, ADVANCES AND FINANCING

	Group		Bank	
	30 September 2018 RM'000	31 December 2017 RM'000	30 September 2018 RM'000	31 December 2017 RM'000
At amortised cost				
Overdrafts	2,960,593	2,938,259	2,960,593	2,938,259
Term loans/financing:				
- Housing loans/financing	25,977,460	27,115,889	24,011,883	25,109,866
- Syndicated term loans/financing	3,410,815	2,667,458	2,812,749	2,307,642
- Hire purchase receivables	381,779	447,683	10	10
- Other term loans/financing	21,950,196	22,383,800	18,471,369	18,823,707
Credit cards	574,628	561,471	574,628	561,471
Bills receivable	172,695	506,083	137,202	485,680
Trust receipts	36,460	36,343	32,577	36,225
Claims on customers under acceptance credits	3,294,810	3,108,578	2,882,816	2,646,951
Revolving credit	8,601,789	7,098,771	5,585,721	4,083,691
Staff loans/financing	55,001	62,702	55,001	62,702
Other loans/financing	1,946,766	1,515,508	1,797,391	1,397,019
	<u>69,362,992</u>	<u>68,442,545</u>	<u>59,321,940</u>	<u>58,453,223</u>
At fair value				
Other term loans/financing	23,365	-	23,365	-
Gross loans, advances and financing	<u>69,386,357</u>	<u>68,442,545</u>	<u>59,345,305</u>	<u>58,453,223</u>
Expected credit loss	<u>(870,588)</u>	<u>(990,195)</u>	<u>(629,225)</u>	<u>(710,399)</u>
Net loans, advances and financing	<u>68,515,769</u>	<u>67,452,350</u>	<u>58,716,080</u>	<u>57,742,824</u>
a) By type of customer				
Domestic banking institutions	2,032	435	2,032	435
Domestic non-bank financial institutions	1,513,460	1,439,704	1,459,171	1,386,702
Domestic business enterprises				
- Small and medium enterprises	12,588,853	12,936,680	10,654,752	10,955,266
- Others	22,385,939	19,708,247	17,909,536	15,574,236
Individuals	29,181,216	30,615,975	26,837,341	28,104,304
Foreign entities	3,714,857	3,741,504	2,482,473	2,432,280
	<u>69,386,357</u>	<u>68,442,545</u>	<u>59,345,305</u>	<u>58,453,223</u>
b) By interest/profit rate sensitivity				
Fixed rate				
- Housing loans/financing	23,540	90,160	13,556	69,577
- Hire purchase receivables	188,946	256,962	10	10
- Other fixed rate loans/financing	6,842,952	6,642,975	5,201,034	4,816,469
Variable rate				
- Base rate/Base lending rate/Base financing rate plus	41,960,456	43,698,917	38,223,218	40,147,213
- Cost plus	19,782,205	17,352,150	15,328,263	13,018,573
- Other variable rates	588,258	401,381	579,224	401,381
	<u>69,386,357</u>	<u>68,442,545</u>	<u>59,345,305</u>	<u>58,453,223</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

14 LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	30 September 2018 RM'000	31 December 2017 RM'000	30 September 2018 RM'000	31 December 2017 RM'000
c) By sector				
Agriculture, hunting, forestry and fishing	3,229,961	2,955,717	1,882,187	1,563,034
Mining and quarrying	548,878	602,558	325,968	342,350
Manufacturing	7,869,413	7,518,600	6,501,852	6,107,704
Electricity, gas and water	491,393	304,729	449,182	250,764
Construction	2,866,790	2,260,653	2,195,192	1,811,551
Real estate	7,341,509	6,892,385	6,561,778	6,336,790
Wholesale & retail trade and restaurants & hotels	8,005,076	7,032,064	7,074,910	6,026,701
Transport, storage and communication	1,120,858	2,160,818	961,257	1,986,541
Finance, insurance and business services	2,297,697	2,485,452	2,080,472	2,238,318
Community, social and personal services	2,542,460	2,047,320	1,818,402	1,438,775
Household				
- Purchase of residential properties	27,074,379	28,226,634	25,076,823	26,186,804
- Purchase of non-residential properties	1,035,763	1,119,879	994,925	1,077,250
- Others	2,902,649	3,039,009	2,475,692	2,489,700
Others	2,059,531	1,796,727	946,665	596,941
	<u>69,386,357</u>	<u>68,442,545</u>	<u>59,345,305</u>	<u>58,453,223</u>
d) By geographical distribution				
Malaysia	65,800,696	64,934,877	56,862,487	56,062,788
Singapore	1,811,854	1,698,228	1,169,393	1,047,593
Other ASEAN	567,737	597,615	371,606	370,525
Rest of the world	1,206,070	1,211,825	941,819	972,317
	<u>69,386,357</u>	<u>68,442,545</u>	<u>59,345,305</u>	<u>58,453,223</u>
The analysis by geography is determined based on where the credit risk resides.				
e) By residual contractual maturity				
Within one year	19,456,661	18,572,772	15,432,942	14,440,795
One year to less than three years	5,144,468	4,260,464	4,471,796	3,514,010
Three years to less than five years	4,312,963	4,265,238	3,332,292	3,326,238
Over five years	40,472,265	41,344,071	36,108,275	37,172,180
	<u>69,386,357</u>	<u>68,442,545</u>	<u>59,345,305</u>	<u>58,453,223</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**15 IMPAIRED LOANS, ADVANCES AND FINANCING**

(i) Movements in impaired loans, advances and financing

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
At 1 January	1,430,623	1,485,727	1,047,051	1,188,175
Impaired during the period/year	705,765	1,142,847	539,602	736,614
Reclassified as unimpaired	(404,580)	(555,977)	(336,307)	(454,117)
Amount recovered	(254,915)	(370,909)	(182,255)	(241,217)
Amount written off	(216,139)	(251,858)	(112,390)	(172,275)
Effect of foreign exchange difference	2,392	(19,207)	536	(10,129)
At 30 September/31 December	1,263,146	1,430,623	956,237	1,047,051
Expected credit loss	(354,448)	-	(246,564)	-
Individually assessed impairment allowance	-	(389,432)	-	(263,555)
Collectively assessed impairment allowance	-	(9,653)	-	(6,017)
Net impaired loans, advances and financing	908,698	1,031,538	709,673	777,479

a) By sector

Agriculture, hunting, forestry and fishing	8,474	6,742	6,074	6,307
Mining and quarrying	20,309	89,569	20,267	89,569
Manufacturing	208,557	233,978	183,196	207,659
Construction	16,365	15,933	11,323	11,774
Real estate	72,137	21,394	66,922	16,099
Wholesale & retail trade and restaurants & hotels	153,371	181,977	117,778	137,044
Transport, storage and communication	65,164	70,470	60,228	65,931
Finance, insurance and business services	18,536	18,827	8,948	7,928
Community, social and personal services	4,839	7,031	3,767	5,661
Household				
- Purchase of residential properties	462,742	465,784	397,319	405,180
- Purchase of non-residential properties	23,103	30,066	23,103	29,804
- Others	79,522	96,365	56,755	63,538
Others	130,027	192,487	557	557
	1,263,146	1,430,623	956,237	1,047,051

b) By geographical distribution

Malaysia	1,236,319	1,411,431	929,410	1,027,859
Singapore	13,128	15,371	13,128	15,371
Rest of the world	13,699	3,821	13,699	3,821
	1,263,146	1,430,623	956,237	1,047,051

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

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

15 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

(ii) Movements in impairment allowance/ECL on loans, advances and financing

	30 September 2018			31 December 2017
	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Total ECL non credit impaired RM'000	Collective impairment allowance RM'000
Group				
At 1 January, under MFRS 139	-	-	-	747,243
Effect of adopting MFRS 9	182,120	301,558	483,678	-
At 1 January, as restated under MFRS 9	182,120	301,558	483,678	747,243
Made/(written back) during the period/year	44,602	(12,140)	32,462	(146,480)
At 30 September 2018/31 December 2017	226,722	289,418	516,140	600,763

Bank

At 1 January, under MFRS 139	-	-	-	560,264
Effect of adopting MFRS 9	137,705	204,111	341,816	-
At 1 January, as restated under MFRS 9	137,705	204,111	341,816	560,264
Made/(written back) during the period/year	35,245	5,600	40,845	(113,420)
At 30 September 2018/31 December 2017	172,950	209,711	382,661	446,844

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	Stage 3 Lifetime ECL credit impaired RM'000	Individual impairment allowance RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Individual impairment allowance RM'000
At 1 January	389,432	352,074	263,555	272,031
Made during the period/year	372,163	477,552	233,963	280,820
Written back	(178,493)	(182,077)	(129,121)	(111,766)
Written off	(216,139)	(251,858)	(112,390)	(172,275)
Discount unwind and financing income earned on impaired financing	(12,515)	(6,259)	(9,443)	(5,255)
At 30 September 2018/31 December 2017	354,448	389,432	246,564	263,555
Total expected credit loss/impairment allowances	870,588	990,195	629,225	710,399

The classification and measurement of the Group's and the Bank's financial assets and impairment allowance under MFRS 9 with effect from 1 January 2018 is disclosed in Note 35.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**16 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.

	30 September 2018			31 December 2017		
	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	4,750,181	66,915	41,099	3,292,964	23,417	103,020
- Swaps	14,850,443	687,655	525,211	14,598,777	646,655	784,967
- Options	1,298,185	7,337	2,654	353,697	2,119	988
Interest rate derivatives						
- Swaps	43,374,297	154,810	152,993	44,389,512	138,134	162,926
- Options	180,000	185	516	180,000	442	1,074
- Futures	838,407	552	423	80,911	-	16
Equity and other derivatives						
- Swaps	165,800	8,924	8,924	132,500	7,271	7,271
- Options	-	-	-	3,780	-	-
- Commodity futures	61,789	530	3,328	161,498	2,567	3,758
- Credit linked notes	1,081,377	30,808	30,808	474,416	15,220	15,220
	<u>66,600,479</u>	<u>957,716</u>	<u>765,956</u>	<u>63,668,055</u>	<u>835,825</u>	<u>1,079,240</u>
Hedging						
Interest rate derivatives						
- Swaps	116,178	1,120	350	114,729	-	1,614
	<u>66,716,657</u>	<u>958,836</u>	<u>766,306</u>	<u>63,782,784</u>	<u>835,825</u>	<u>1,080,854</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

16 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

	30 September 2018			31 December 2017		
	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
Bank						
Trading						
Foreign exchange derivatives						
- Forwards	4,728,315	66,495	40,669	3,290,208	23,217	102,593
- Swaps	14,850,443	687,655	525,211	14,598,777	646,655	784,967
- Options	1,298,185	7,337	2,654	353,697	2,119	988
Interest rate derivatives						
- Swaps	43,374,297	154,810	152,993	44,389,512	138,134	162,926
- Options	180,000	185	516	180,000	442	1,074
- Futures	838,407	552	423	80,911	-	16
Equity and other derivatives						
- Swaps	165,800	8,924	8,924	132,500	7,271	7,271
- Options	-	-	-	3,780	-	-
- Commodity futures	61,789	530	3,328	161,498	2,567	3,758
- Credit linked notes	1,081,377	30,808	30,808	474,416	15,220	15,220
	<u>66,578,613</u>	<u>957,296</u>	<u>765,526</u>	<u>63,665,299</u>	<u>835,625</u>	<u>1,078,813</u>
Hedging						
Interest rate derivatives						
- Swaps	116,178	1,120	350	114,729	-	1,614
	<u>66,694,791</u>	<u>958,416</u>	<u>765,876</u>	<u>63,780,028</u>	<u>835,625</u>	<u>1,080,427</u>

17 OTHER ASSETS

	Note	Group		Bank	
		30 September 2018 RM'000	31 December 2017 RM'000	30 September 2018 RM'000	31 December 2017 RM'000
Amount due from subsidiary	(a)	-	-	93,887	177,436
Interest/Profit receivable		147,555	134,749	125,271	113,005
Unquoted redeemable Islamic subordinated bonds of subsidiary	(b)	-	-	200,000	200,000
Other receivables, deposits and prepayments	(c)	262,358	237,900	251,479	221,842
Expected credit loss on other receivables	(d)	-	(2,372)	-	(2,372)
		<u>409,913</u>	<u>370,277</u>	<u>670,637</u>	<u>709,911</u>

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

(b) The Bank subscribed for RM200 million redeemable 10 years non-callable 5 years subordinated bond issued by OCBC Al-Amin 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.

(c) Included in other receivables is an impaired exposure of RM12 million with Nil expected credit loss (31 December 2017: Nil).

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

17 OTHER ASSETS (continued)

(d) Movements in ECL are as follows:

Group	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January 2018	-	-	2,372	2,372
Effect of adopting MFRS 9	469	623	-	1,092
At 1 January 2018, as restated	469	623	2,372	3,464
Written back	(469)	(623)	-	(1,092)
Written off	-	-	(2,372)	(2,372)
At 30 September 2018	-	-	-	-
Bank				
At 1 January 2018	-	-	2,372	2,372
Effect of adopting MFRS 9	301	258	-	559
At 1 January 2018, as restated	301	258	2,372	2,931
Written back	(301)	(258)	-	(559)
Written off	-	-	(2,372)	(2,372)
At 30 September 2018	-	-	-	-

18 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	30 September 2018 RM'000	31 December 2017 RM'000	30 September 2018 RM'000	31 December 2017 RM'000
a) By type of deposit				
Demand deposits	15,700,409	14,959,903	12,175,830	11,246,027
Fixed/General investment deposits	42,570,576	43,103,460	36,521,949	36,491,363
Saving deposits	8,358,527	7,441,043	7,835,303	6,956,711
Negotiable instruments of deposit	4,136,125	5,104,660	4,136,125	5,104,660
Short-term money market deposits	2,875,907	3,043,673	2,424,933	2,691,661
	73,641,544	73,652,739	63,094,140	62,490,422
b) By type of customer				
Government and statutory bodies	1,303,336	1,427,339	120,528	81,052
Non-bank financial institutions	3,657,521	3,021,481	2,785,050	2,318,319
Business enterprises	27,860,415	27,959,118	22,701,528	22,233,620
Individuals	33,428,115	32,642,260	30,255,166	29,427,322
Foreign entities	6,704,524	7,571,149	6,599,996	7,468,190
Others	687,633	1,031,392	631,872	961,919
	73,641,544	73,652,739	63,094,140	62,490,422

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

18 DEPOSITS FROM CUSTOMERS (continued)

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
c) By maturity structure for fixed/term/general investment deposits, negotiable instruments of deposit and short-term money market deposits				
Within six months	36,170,662	38,077,174	31,157,981	33,260,943
Six months to one year	12,902,647	12,418,069	11,452,250	10,436,494
One year to three years	505,522	747,784	469,065	581,992
Three years to five years	3,777	8,766	3,711	8,255
	<u>49,582,608</u>	<u>51,251,793</u>	<u>43,083,007</u>	<u>44,287,684</u>

19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Licensed banks and other financial institutions	<u>6,368,985</u>	<u>4,388,137</u>	<u>6,342,498</u>	<u>3,946,437</u>

20 OTHER LIABILITIES

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Amount due to subsidiary	-	-	904	21,654
Equity compensation benefits	10,344	12,476	9,765	11,780
Interest/Profit payable	618,361	528,833	543,209	459,912
Structured investments	2,011,932	1,610,026	2,011,932	1,610,026
Other payables and accruals	584,768	392,471	497,143	313,850
Provision for commitments and contingencies	83	-	83	-
	<u>3,225,488</u>	<u>2,543,806</u>	<u>3,063,036</u>	<u>2,417,222</u>

The amount due to subsidiary is unsecured, interest/profit free and repayable on demand.

21 SUBORDINATED BONDS

	Group and Bank	
	30 September 2018	31 December 2017
	RM'000	RM'000
RM400 million Innovative Tier 1 Capital Securities	400,000	400,000
USD110 million Additional Tier 1 Capital Securities	454,974	445,010
USD130 million Redeemable Subordinated Bonds 2015/2025	537,696	525,922
RM390 million Redeemable Subordinated Bonds 2017/2027	390,000	390,000
RM110 million Redeemable Subordinated Bonds 2017/2027	110,000	110,000
	<u>1,892,670</u>	<u>1,870,932</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

22 NET INTEREST INCOME

<u>Group</u>	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	RM'000	RM'000	RM'000	RM'000
Interest income				
Loans, advances and financing				
- Interest income other than recoveries	746,658	702,299	2,172,326	2,077,229
- Recoveries from impaired loans, advances and financing	15,476	15,176	45,370	44,202
- Discount unwind from impaired loans, advances and financing	4,300	825	11,320	3,464
Money at call and deposit placements with banks and other financial institutions	36,885	47,141	118,429	133,557
Financial assets at FVTPL	18,995	15,150	55,369	49,057
Financial investments at FVOCI	107,408	90,333	276,568	241,748
Others	29,042	21,531	65,416	69,433
	<u>958,764</u>	<u>892,455</u>	<u>2,744,798</u>	<u>2,618,690</u>
Interest expense				
Deposits from customers	(457,880)	(434,737)	(1,338,724)	(1,258,266)
Deposits and placements of banks and other financial institutions	(23,530)	(17,232)	(37,467)	(52,740)
Recourse obligation on loans sold to Cagamas Berhad	(13,451)	(13,637)	(44,733)	(39,919)
Subordinated bonds	(23,319)	(23,105)	(68,409)	(70,622)
Others	(51,745)	(48,904)	(132,109)	(151,369)
	<u>(569,925)</u>	<u>(537,615)</u>	<u>(1,621,442)</u>	<u>(1,572,916)</u>
Net interest income	<u>388,839</u>	<u>354,840</u>	<u>1,123,356</u>	<u>1,045,774</u>
<u>Bank</u>				
Interest income				
Loans, advances and financing				
- Interest income other than recoveries	746,658	702,299	2,172,326	2,077,229
- Recoveries from impaired loans, advances and financing	15,476	15,176	45,370	44,202
- Discount unwind from impaired loans, advances and financing	3,489	825	9,443	3,464
Money at call and deposit placements with banks and other financial institutions	51,908	63,834	160,747	184,172
Financial assets at FVTPL	18,995	15,150	55,369	49,057
Financial investments at FVOCI	108,200	91,285	278,893	244,170
Unquoted Islamic subordinated bond of subsidiary	2,419	2,420	7,180	7,180
Others	29,855	21,531	67,294	69,433
	<u>977,000</u>	<u>912,520</u>	<u>2,796,622</u>	<u>2,678,907</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

22 NET INTEREST INCOME (continued)

	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	RM'000	RM'000	RM'000	RM'000
Bank				
Interest expense				
Deposits from customers	(457,880)	(434,737)	(1,338,724)	(1,258,266)
Deposits and placements of banks and other financial institutions	(34,441)	(32,132)	(70,678)	(97,598)
Recourse obligation on loans sold to Cagamas Berhad	(13,451)	(13,637)	(44,733)	(39,919)
Subordinated bonds	(23,319)	(23,105)	(68,409)	(70,622)
Others	(51,745)	(48,904)	(132,109)	(151,369)
	<u>(580,836)</u>	<u>(552,515)</u>	<u>(1,654,653)</u>	<u>(1,617,774)</u>
Net interest income	396,164	360,005	1,141,969	1,061,133

23 INCOME FROM ISLAMIC BANKING OPERATIONS

	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	RM'000	RM'000	RM'000	RM'000
Group				
Income derived from investment of depositors' funds and others	151,643	147,432	452,667	458,242
Income derived from investment of specific investment account funds	13,710	21,286	45,568	64,075
Income derived from investment of shareholder's funds	30,834	30,442	105,805	91,799
Income attributable to depositors	(77,959)	(75,797)	(242,832)	(235,460)
Income attributable to investment account holder	(10,911)	(14,904)	(33,212)	(44,862)
	<u>107,317</u>	<u>108,459</u>	<u>327,996</u>	<u>333,794</u>

24 NET FEE AND COMMISSION INCOME

	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	RM'000	RM'000	RM'000	RM'000
Group				
Commission	46,887	44,190	133,059	130,971
Service charges and fees	38,321	23,123	107,901	90,949
Guarantee fees	1,409	10,476	15,702	27,566
Other fee income	2,220	2,117	7,233	6,401
	<u>88,837</u>	<u>79,906</u>	<u>263,895</u>	<u>255,887</u>
Bank				
Commission	46,887	43,880	132,475	130,410
Service charges and fees	38,321	23,123	107,901	90,949
Guarantee fees	1,409	10,476	15,702	27,566
Other fee income	2,220	2,117	7,233	6,401
	<u>88,837</u>	<u>79,596</u>	<u>263,311</u>	<u>255,326</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

25 NET TRADING INCOME

<u>Group</u>	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	RM'000	RM'000	RM'000	RM'000
Foreign exchange (loss)/gain	(116,780)	93,647	(153,998)	364,576
Realised gain on financial assets at FVTPL	7,470	6,318	15,391	22,665
Realised gain/(loss) on trading derivatives	47,855	(59,251)	(161,760)	(56,472)
Unrealised gain on financial assets at FVTPL	1,341	292	3,069	977
Unrealised gain/(loss) on trading derivatives	115,834	87	459,627	(189,874)
	<u>55,720</u>	<u>41,093</u>	<u>162,329</u>	<u>141,872</u>
Bank				
Foreign exchange (loss)/gain	(116,780)	93,647	(153,998)	364,576
Realised gain on financial assets at FVTPL	7,470	6,318	15,391	22,665
Realised gain/(loss) on trading derivatives	47,855	(59,251)	(161,773)	(56,472)
Unrealised gain on financial assets at FVTPL	1,341	292	3,069	977
Unrealised gain/(loss) on trading derivatives	115,834	87	459,627	(189,874)
	<u>55,720</u>	<u>41,093</u>	<u>162,316</u>	<u>141,872</u>

26 OTHER OPERATING INCOME

<u>Group</u>	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	RM'000	RM'000	RM'000	RM'000
Gain/(loss) on disposal:				
- Financial investments at FVOCI	5,546	1,106	(803)	4,577
- Property and equipment	87	(2)	89	(261)
Gross dividends from financial investments at FVOCI, in Malaysia	122	-	572	752
Rental of premises	1,084	1,089	3,252	3,305
Rental of safe deposit boxes	1,379	1,383	4,707	4,718
Shared services income received from related company	3,515	3,230	9,746	8,871
Unrealised (loss)/gain on hedging derivatives	(5)	62	25	(226)
Others	112	137	339	355
	<u>11,840</u>	<u>7,005</u>	<u>17,927</u>	<u>22,091</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

26 OTHER OPERATING INCOME (continued)

	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Bank	RM'000	RM'000	RM'000	RM'000
Gain/(loss) on disposal:				
- Financial investments at FVOCI	5,546	1,106	(803)	4,577
- Property and equipment	87	(2)	89	(261)
Gross dividends from financial investments at FVOCI, in Malaysia	122	-	572	752
Gross dividends from subsidiary	-	-	2,800	-
Rental of premises	1,098	1,103	3,297	3,341
Rental of safe deposit boxes	1,379	1,383	4,707	4,718
Shared services income received from subsidiary	27,772	24,570	80,330	72,797
Shared services income received from related company	3,515	3,034	9,746	8,342
Unrealised (loss)/gain on hedging derivatives	(5)	62	25	(226)
Surplus assets received from winding-up of a subsidiary	-	-	12,262	-
Others	113	137	339	355
	39,627	31,393	113,364	94,395

27 OPERATING EXPENSES

	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Group	RM'000	RM'000	RM'000	RM'000
Personnel expenses				
Wages, salaries and bonus	114,378	105,256	341,161	305,143
Employees Provident Fund contributions	17,438	15,922	52,865	46,796
Share-based expenses	1,650	1,610	4,738	4,122
Others	13,067	11,851	40,013	31,795
	146,533	134,639	438,777	387,856
Establishment expenses				
Depreciation of property and equipment	7,099	8,138	21,031	25,390
Rental of premises	4,742	4,737	14,073	14,153
Repair and maintenance	2,998	2,482	8,559	7,798
Information technology costs	8,171	4,569	23,806	11,331
Hire of equipment	583	233	1,073	932
Amortisation of prepaid lease payments	9	9	27	27
Others	4,601	3,844	12,971	12,910
	28,203	24,012	81,540	72,541
Marketing expenses				
Advertisement and business promotion	4,466	4,662	12,016	13,384
Transport and travelling	1,054	1,012	3,040	2,789
Others	896	891	1,662	2,005
	6,416	6,565	16,718	18,178

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

27 OPERATING EXPENSES (continued)

<u>Group</u>	<u>Quarter ended</u>		<u>Year to date ended</u>	
	<u>30 September 2018</u>	<u>30 September 2017</u>	<u>30 September 2018</u>	<u>30 September 2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
General administrative expenses				
Transaction processing fees	81,010	78,715	236,876	240,442
Others	26,344	36,244	84,740	101,209
	<u>107,354</u>	<u>114,959</u>	<u>321,616</u>	<u>341,651</u>
Total other operating expenses	<u>288,506</u>	<u>280,175</u>	<u>858,651</u>	<u>820,226</u>
Bank				
Personnel expenses				
Wages, salaries and bonus	107,584	99,114	323,425	287,408
Employees Provident Fund contributions	16,421	15,040	50,082	44,057
Share-based expenses	1,646	1,519	4,559	3,926
Others	11,723	11,069	36,369	29,601
	<u>137,374</u>	<u>126,742</u>	<u>414,435</u>	<u>364,992</u>
Establishment expenses				
Depreciation of property and equipment	5,887	7,035	17,574	21,971
Rental of premises	4,018	3,969	11,897	11,975
Repair and maintenance	2,792	2,340	7,924	7,279
Information technology costs	8,381	4,508	23,161	11,144
Hire of equipment	196	208	615	811
Amortisation of prepaid lease payments	9	9	27	27
Others	4,136	3,343	11,364	11,223
	<u>25,419</u>	<u>21,412</u>	<u>72,562</u>	<u>64,430</u>
Marketing expenses				
Advertisement and business promotion	4,283	4,521	11,690	13,042
Transport and travelling	968	922	2,818	2,513
Others	847	872	1,599	1,959
	<u>6,098</u>	<u>6,315</u>	<u>16,107</u>	<u>17,514</u>
General administrative expenses				
Transaction processing fees	74,504	72,422	219,133	221,437
Others	24,994	32,231	77,808	88,624
	<u>99,498</u>	<u>104,653</u>	<u>296,941</u>	<u>310,061</u>
Total other operating expenses	<u>268,389</u>	<u>259,122</u>	<u>800,045</u>	<u>756,997</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**28 IMPAIRMENT ALLOWANCE ON LOANS, ADVANCES AND FINANCING**

Group	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	RM'000	RM'000	RM'000	RM'000
Stage 3 ECL/Individually assessed allowance				
- Made during the period	146,376	73,820	372,163	242,608
- Written back	(48,975)	(49,579)	(178,493)	(129,227)
Stage 1 and 2 ECL/Collectively assessed allowance				
- Charge/(Written back) during the period	18,987	(31,955)	32,462	(38,455)
Impaired loans, advances and financing				
- Recovered during the period	(12,890)	(16,312)	(41,189)	(42,507)
	<u>103,498</u>	<u>(24,026)</u>	<u>184,943</u>	<u>32,419</u>
Bank				
Stage 3 ECL/Individually assessed allowance				
- Made during the period	60,297	45,747	233,963	135,320
- Written back	(35,038)	(30,513)	(129,121)	(76,958)
Stage 1 and 2 ECL/Collectively assessed allowance				
- Charge/(Written back) during the period	11,803	-	40,845	(31,955)
Impaired loans, advances and financing				
- Recovered during the period	(6,492)	(8,948)	(20,164)	(21,251)
	<u>30,570</u>	<u>6,286</u>	<u>125,523</u>	<u>5,156</u>

29 INCOME TAX EXPENSE

Group	Quarter ended		Year to date ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax				
- Current period	73,160	93,959	218,906	240,751
- Prior years	22,743	9,873	22,743	9,867
Expenses not deductible for tax purposes				
- Origination and reversal of temporary differences	(8,646)	(14,265)	(4,516)	(10,950)
- Prior years overprovision of deferred tax	(16)	-	(16)	-
	<u>87,241</u>	<u>89,567</u>	<u>237,117</u>	<u>239,668</u>
Bank				
Malaysian income tax				
- Current period	77,144	72,253	190,627	194,273
- Prior years	24,071	7,282	24,071	7,282
Expenses not deductible for tax purposes				
- Origination and reversal of temporary differences	(8,052)	(13,148)	(3,676)	(10,195)
	<u>93,163</u>	<u>66,387</u>	<u>211,022</u>	<u>191,360</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**30 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. Apart from the provision for commitments and contingencies already made in the condensed interim financial statements, 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.

<u>Group</u>	<u>Principal amount</u> RM'000	<u>Credit equivalent amount</u> RM'000	<u>Risk weighted amount</u> RM'000
30 September 2018			
Direct credit substitutes	786,782	786,782	596,428
Transaction-related contingent items	2,919,728	1,488,547	933,297
Short-term self-liquidating trade-related contingencies	296,129	63,645	32,365
Forward asset purchases	100,000	100,000	33,476
Foreign exchange related contracts			
- Less than one year	14,921,965	547,577	76,961
- One year to less than five years	3,356,096	518,098	144,968
- Five years and above	2,620,748	557,246	409,499
Interest rate related contracts			
- Less than one year	12,097,729	25,487	3,766
- One year to less than five years	25,598,061	624,755	176,275
- Five years and above	6,813,092	346,547	187,057
Equity and commodity related contracts	227,589	17,340	3,936
Credit derivative contracts	1,081,377	50,446	13,355
Formal standby facilities and credit lines			
- Maturity exceeding one year	5,294,979	4,477,348	2,610,424
Other unconditionally cancellable commitments	22,671,151	2,134,824	312,158
Total	98,785,426	11,738,642	5,533,965
31 December 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	378,272	93,704
- One year to less than five years	3,624,026	616,852	155,531
- Five years and above	3,062,100	651,427	476,499
Interest rate related contracts			
- Less than one year	12,826,019	29,360	3,604
- One year to less than five years	23,059,678	679,489	197,032
- Five years and above	8,879,455	251,267	121,689
Equity and commodity related contracts	297,778	25,435	7,557
Credit derivative contracts	474,416	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	10,500,567	4,399,227

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

30 COMMITMENTS AND CONTINGENCIES (continued)

<u>Bank</u>	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
30 September 2018			
Direct credit substitutes	685,419	685,419	503,353
Transaction-related contingent items	2,541,841	1,297,482	786,740
Short-term self-liquidating trade-related contingencies	266,371	57,511	27,876
Forward asset purchases	100,000	100,000	33,476
Foreign exchange related contracts			
- Less than one year	14,900,099	547,210	76,644
- One year to less than five years	3,356,096	518,098	144,968
- Five years and above	2,620,748	557,246	409,499
Interest rate related contracts			
- Less than one year	12,097,729	25,487	3,766
- One year to less than five years	25,598,061	624,755	176,275
- Five years and above	6,813,092	346,547	173,361
Equity and commodity related contracts	227,589	17,340	3,936
Credit derivative contracts	1,081,377	50,446	13,355
Formal standby facilities and credit lines			
- Maturity exceeding one year	4,140,881	3,594,757	1,574,331
Other unconditionally cancellable commitments	18,817,002	2,053,484	299,621
Total	<u>93,246,305</u>	<u>10,475,782</u>	<u>4,227,201</u>
31 December 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	377,848	93,396
- One year to less than five years	3,624,026	616,852	155,531
- Five years and above	3,062,100	651,427	476,499
Interest rate related contracts			
- Less than one year	12,826,019	29,360	3,604
- One year to less than five years	23,059,678	679,489	197,032
- Five years and above	8,879,455	251,267	121,689
Equity and commodity related contracts	297,778	25,435	7,557
Credit derivative contracts	474,416	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	<u>88,919,066</u>	<u>9,828,596</u>	<u>3,918,788</u>

31 CAPITAL COMMITMENTS

	Group		Bank	
	30 September 2018 RM'000	31 December 2017 RM'000	30 September 2018 RM'000	31 December 2017 RM'000
Capital expenditure commitments in respect of property and equipment contracted but not provided for	7,920	10,802	7,811	7,160

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**32 FAIR VALUE OF FINANCIAL INSTRUMENTS****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.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 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.	

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy of financial instruments (continued)

<u>Group</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
30 September 2018				
Financial assets at fair value				
Financial assets at FVTPL	520,001	958,961	-	1,478,962
Financial investments at FVOCI	7,391,086	7,587,110	-	14,978,196
Loans, advances and financing	-	-	23,365	23,365
Derivative financial assets	1,991	925,852	30,993	958,836
	<u>7,913,078</u>	<u>9,471,923</u>	<u>54,358</u>	<u>17,439,359</u>
Financial liabilities at fair value				
Derivative financial liabilities	<u>2,131</u>	<u>732,851</u>	<u>31,324</u>	<u>766,306</u>
31 December 2017				
Financial assets at fair value				
Financial assets held-for-trading	521,998	1,168,765	-	1,690,763
Financial investments available-for-sale	7,097,231	6,295,382	-	13,392,613
Derivative financial assets	851	819,312	15,662	835,825
	<u>7,620,080</u>	<u>8,283,459</u>	<u>15,662</u>	<u>15,919,201</u>
Financial liabilities at fair value				
Derivative financial liabilities	<u>1,160</u>	<u>1,063,400</u>	<u>16,294</u>	<u>1,080,854</u>
Bank				
30 September 2018				
Financial assets at fair value				
Financial assets at FVTPL	520,001	948,983	-	1,468,984
Financial investments at FVOCI	4,968,221	5,678,864	-	10,647,085
Loans, advances and financing	-	-	23,365	23,365
Derivative financial assets	1,979	925,444	30,993	958,416
	<u>5,490,201</u>	<u>7,553,291</u>	<u>54,358</u>	<u>13,097,850</u>
Financial liabilities at fair value				
Derivative financial liabilities	<u>2,133</u>	<u>732,419</u>	<u>31,324</u>	<u>765,876</u>
31 December 2017				
Financial assets at fair value				
Financial assets held-for-trading	521,998	1,168,765	-	1,690,763
Financial investments available-for-sale	4,943,215	3,726,518	-	8,669,733
Derivative financial 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 financial liabilities	<u>1,171</u>	<u>1,062,962</u>	<u>16,294</u>	<u>1,080,427</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy of financial instruments (continued)**

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

	Group and Bank	
	30 September 2018	31 December 2017
	RM'000	RM'000
Financial assets at fair value		
At 1 January	15,662	11,162
Effect of adoption of MFRS 9	56,498	-
Settled/disposed	(34,956)	(300)
Recognised in profit or loss		
- Realised loss	(4,267)	-
- Unrealised gain	21,421	4,800
At 30 September/31 December	<u>54,358</u>	<u>15,662</u>
Financial liabilities at fair value		
At 1 January	16,294	12,294
Recognised in profit or loss		
- Realised loss	(4,267)	-
- Unrealised gain	19,297	4,000
At 30 September/31 December	<u>31,324</u>	<u>16,294</u>

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	30 September 2018	31 December 2017	Classification	Valuation technique	Unobservable input
	Fair value	Fair value			
	RM'000	RM'000			
Assets					
Loans, advances and financing	23,365		Fair value through - profit or loss	Discounted cash flow analysis and market approach	Implied equity value, incentive fee and discount factor
Derivative financial assets	30,993	15,662	Hedge for trading	Option pricing model	Standard deviation
	<u>54,358</u>	<u>15,662</u>			
Liabilities					
Derivative financial liabilities	31,324	16,294	Hedge for trading	Option pricing model	Standard deviation

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

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

33 SEGMENT INFORMATION

Operating Segment

The Group's businesses are organised into four 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, current 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.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

33 SEGMENT INFORMATION (continued)

<u>Group</u>	Business Banking RM'000	Consumer Financial Services RM'000	Global Treasury RM'000	Others RM'000	Total RM'000
30 September 2018					
Net interest/finance income	789,175	359,851	142,288	109,096	1,400,410
Non-interest/finance income	123,088	126,551	210,023	35,431	495,093
Operating income	912,263	486,402	352,311	144,527	1,895,503
Operating expenses	(348,987)	(401,820)	(71,699)	(36,145)	(858,651)
Operating profit before impairment allowance and provision	563,276	84,582	280,612	108,382	1,036,852
Impairment allowances and provision for commitments and contingencies	(154,159)	(35,188)	175	14,650	(174,522)
Profit before income tax and zakat	409,117	49,394	280,787	123,032	862,330
Income tax expense and zakat	(92,646)	(11,855)	(67,389)	(65,227)	(237,117)
Profit for the period	316,471	37,539	213,398	57,805	625,213
Gross loans, advances and financing	40,016,517	29,310,941	-	58,899	69,386,357
Gross impaired loans, advances and financing	729,613	533,533	-	-	1,263,146
Deposits from customers	34,493,143	34,938,808	4,209,593	-	73,641,544
30 September 2017					
Net interest/finance income	756,782	354,918	150,763	73,843	1,336,306
Non-interest/finance income	103,252	141,006	164,283	54,571	463,112
Operating income	860,034	495,924	315,046	128,414	1,799,418
Operating expenses	(316,926)	(392,088)	(77,642)	(33,570)	(820,226)
Operating profit before impairment allowance and provision	543,108	103,836	237,404	94,844	979,192
Impairment allowances and provision for commitments and contingencies	9,371	(9,883)	(7)	(31,938)	(32,457)
Profit before income tax and zakat	552,479	93,953	237,397	62,906	946,735
Income tax expense and zakat	(132,622)	(22,549)	(56,975)	(27,560)	(239,706)
Profit for the period	419,857	71,404	180,422	35,346	707,029
31 December 2017					
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

Geographical Segment

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

There have been no changes in the basis of segmentation or in the basis of measuring of segment profit or loss since the last audited financial statements as at and for the financial year ended 31 December 2017.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**34 CAPITAL ADEQUACY**

The capital ratios are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) whereby recognition of the Group's and the Bank's Additional Tier 1 and Tier 2 capital instruments are subject to a gradual phase out.

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Common Equity Tier 1 ("CET 1") capital				
Paid-up ordinary share capital	754,000	754,000	754,000	754,000
Retained earnings	5,603,457	5,473,295	4,870,077	4,830,643
Other reserves	729,451	650,618	579,834	499,377
Regulatory adjustment for CET 1 capital	(705,771)	(581,016)	(1,165,436)	(930,754)
CET 1 capital	6,381,137	6,296,897	5,038,475	5,153,266
Additional Tier 1 capital				
Innovative Tier 1 capital	320,000	400,000	320,000	400,000
Additional Tier 1 capital	454,974	445,011	454,974	445,011
Tier 1 capital	7,156,111	7,141,908	5,813,449	5,998,277
Tier 2 capital				
Stage 1 and Stage 2 ECL/collective impairment allowance and qualifying regulatory reserves under the Standardised Approach	14,754	13,751	9,874	7,887
Surplus eligible provisions over expected losses	255,063	234,802	210,740	198,587
Subordinated bonds	1,037,696	1,025,922	1,037,696	1,025,922
Regulatory adjustment for Tier 2 capital	-	-	(200,000)	(311,698)
Tier 2 capital	1,307,513	1,274,475	1,058,310	920,698
Capital base	8,463,624	8,416,383	6,871,759	6,918,975
Before deducting proposed dividend				
CET 1 capital ratio	12.906%	13.764%	12.336%	13.415%
Tier 1 capital ratio	14.474%	15.611%	14.234%	15.615%
Total capital ratio	17.118%	18.396%	16.825%	18.011%
After deducting proposed dividend				
CET 1 capital ratio	12.906%	13.436%	12.336%	13.024%
Tier 1 capital ratio	14.474%	15.283%	14.234%	15.224%
Total capital ratio	17.118%	18.068%	16.825%	17.621%

Breakdown of risk-weighted assets ("RWA") in the various categories of risk-weights:

	Group		Bank	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Total RWA for credit risk	43,690,863	40,233,794	35,913,251	33,728,810
Total RWA for market risk	1,062,567	936,873	1,060,913	932,356
Total RWA for operational risk	4,689,335	4,579,962	3,869,209	3,753,494
	49,442,765	45,750,629	40,843,373	38,414,660

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**34 CAPITAL ADEQUACY (continued)**

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:

	30 September 2018	31 December 2017
CET 1 capital ratio	15.344%	16.569%
Tier 1 capital ratio	15.344%	16.569%
Total capital ratio	<u>18.201%</u>	<u>19.815%</u>

35 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9

The Group and the Bank adopted MFRS 9 on 1 January 2018. The key changes thereof to the Group's and the Bank's accounting policies are summarised below.

Classification and measurement

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. It replaces the existing MFRS 139 categories of held-to-maturity and available-for-sale.

Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets that are neither held at amortised cost nor at FVOCI will be measured at FVTPL.

Investments in equity instruments are always measured at FVTPL with an irrevocable option at inception to present changes in FVOCI (provided the instrument is not held for trading). Debt instruments such as loans, advances and financing and investment securities are measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For financial liabilities, MFRS 9 retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Bank did not elect fair value option for its financial liabilities.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)**35 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9 (continued)****Classification and measurement (continued)**

The following table summarises the impact on classification and measurement to the Group's and the Bank's financial assets on 1 January 2018:

Financial assets	Note	Classification		Carrying amount	
		MFRS 139	MFRS 9	MFRS 139 RM'000	MFRS 9 RM'000
Group					
Cash and cash equivalents	9	Loans and receivables	Amortised cost	6,158,261	6,158,046
Deposits and placements with banks and other financial institutions	10	Loans and receivables	Amortised cost	71,835	71,803
Financial assets at FVTPL	12	Held-for-trading	FVTPL	1,690,763	1,823,666
Financial investments at FVOCI	13	Available-for-sale	FVOCI	13,501,159	13,353,074
- Debt instruments		Available-for-sale	FVOCI	13,392,613	13,259,718
- Equity instruments		Available-for-sale	FVOCI	108,546	93,356
Loans, advances and financing	14	Loans and receivables	Amortised cost/FVTPL	67,452,350	67,570,315
			Amortised cost	67,396,732	67,513,817
			Amortised cost	55,618	56,498
Derivative financial assets	16	Held-for-trading	FVTPL	835,825	835,825
Other assets	17	Loans and receivables	Amortised cost	370,277	369,185
Statutory deposits with BNM		Loans and receivables	Amortised cost	1,752,717	1,752,717
Bank					
Cash and cash equivalents	9	Loans and receivables	Amortised cost	5,571,918	5,571,731
Deposits and placements with banks and other financial institutions	10	Loans and receivables	Amortised cost	182,518	182,486
Investment account placement	11	Loans and receivables	Amortised cost	1,793,011	1,793,011
Financial assets at FVTPL	12	Held-for-trading	FVTPL	1,690,763	1,690,949
Financial investments at FVOCI	13	Available-for-sale	FVOCI	8,778,279	8,762,911
- Debt instruments		Available-for-sale	FVOCI	8,669,733	8,669,555
- Equity instruments		Available-for-sale	FVOCI	108,546	93,356
Loans, advances and financing	14	Loans and receivables	Amortised cost/FVTPL	57,742,824	57,848,732
			Amortised cost	57,687,206	57,792,234
			Amortised cost	55,618	56,498
Derivative financial assets	16	Held-for-trading	FVTPL	835,625	835,625
Other assets	17	Loans and receivables	Amortised cost	709,911	709,352
Statutory deposits with BNM		Loans and receivables	Amortised cost	1,427,217	1,427,217

There are no changes to the classification and carrying amounts of the financial liabilities subsequent to the measurement categories under MFRS 9.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

35 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9 (continued)

Classification of financial assets (continued)

The following table reconciles the carrying amounts under MFRS 139 in transition to the carrying amounts under MFRS 9 on 1 January 2018:

<u>Group</u>	Cash and cash equivalents RM'000	Deposits and placements with banks and other financial institutions RM'000	Loans, advances and financing RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total amortised cost RM'000
Amortised cost						
MFRS 139 carrying amount as at 31 December 2017	6,158,261	71,835	67,452,350	370,277	1,752,717	75,805,440
Reclassification from amortised cost to FVTPL	-	-	(55,618)	-	-	(55,618)
Remeasurement due to ECL	(215)	(32)	117,085	(1,092)	-	115,746
MFRS 9 carrying amount as at 1 January 2018	<u>6,158,046</u>	<u>71,803</u>	<u>67,513,817</u>	<u>369,185</u>	<u>1,752,717</u>	<u>75,865,568</u>

	<u>FVOCI</u>			<u>FVTPL</u>				
	Financial investments available-for- sale RM'000	Debt instruments RM'000	Equity instruments RM'000	Total FVOCI RM'000	Loans, advances and financing RM'000	Financial assets held-for- trading RM'000	Derivative financial assets RM'000	Total FVTPL RM'000
Fair value								
MFRS 139 carrying amount as at 31 December 2017	13,501,159	-	-	13,501,159	-	1,690,763	835,825	2,526,588
Reclassification from AFS to FVOCI	(13,368,264)	13,259,718	93,356	(15,190)	-	-	-	-
Reclassification from AFS to FVTPL	(132,895)	-	-	(132,895)	-	132,903	-	132,903
Reclassification from amortised cost to FVTPL	-	-	-	-	56,498	-	-	56,498
MFRS 9 carrying amount as at 1 January 2018	<u>-</u>	<u>13,259,718</u>	<u>93,356</u>	<u>13,353,074</u>	<u>56,498</u>	<u>1,823,666</u>	<u>835,825</u>	<u>2,715,989</u>

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

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

35 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9 (continued)

Classification of financial assets (continued)

	Cash and cash equivalents RM'000	Deposits and placements with banks and other financial institutions RM'000	Investment account placement RM'000	Loans, advances and financing RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total amortised cost RM'000
Bank							
Amortised cost							
MFRS 139 carrying amount as at 31 December 2017	5,571,918	182,518	1,793,011	57,742,824	709,911	1,427,217	67,427,399
Reclassification from amortised cost to FVTPL	-	-	-	(55,618)	-	-	(55,618)
Remeasurement due to ECL	(187)	(32)	-	105,028	(559)	-	104,250
MFRS 9 carrying amount as at 1 January 2018	5,571,731	182,486	1,793,011	57,792,234	709,352	1,427,217	67,476,031

	FVOCI			FVTPL				
	Financial investments available-for- sale RM'000	Debt instruments RM'000	Equity instruments RM'000	Total FVOCI RM'000	Loans, advances and financing RM'000	Financial assets held-for- trading RM'000	Derivative financial assets RM'000	Total FVTPL RM'000
Fair value								
MFRS 139 carrying amount as at 31 December 2017	8,778,279	-	-	8,778,279	-	1,690,763	835,625	2,526,388
Reclassification from AFS to FVOCI	(8,778,101)	8,669,555	93,356	(15,190)	-	-	-	-
Reclassification from AFS to FVTPL	(178)	-	-	(178)	-	186	-	186
Reclassification from amortised cost to FVTPL	-	-	-	-	56,498	-	-	56,498
MFRS 9 carrying amount as at 1 January 2018	-	8,669,555	93,356	8,762,911	56,498	1,690,949	835,625	2,583,072

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

35 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9 (continued)

ECL impairment model

Financial assets classified at amortised cost or FVOCI, and certain financing commitments and financial guarantee contracts are subject to MFRS 9 ECL impairment provisioning, unless such exposures are designated at FVTPL under fair value option due to accounting mismatch.

Upon adoption of MFRS 9, financial assets measured at amortised cost or FVOCI are categorised into the following stages for impairment provisioning:

Stage 1: 12-month ECL for performing exposures.

Stage 2: Lifetime ECL for exposures where credit risk has increased significantly since initial inception.

Stage 3: For credit-impaired assets, impairment allowance will be made based on lifetime ECL (similar to existing classification of financial assets that are impaired under MFRS 139).

Measurement

An ECL estimate will be produced for all relevant instruments established on probability-weighted forward-looking economic scenarios. The measurement of ECL will primarily be calculated based on the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). These parameters are derived from internal rating models after adjusting them to be un-biased and forward looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

12-month ECL will be based on maximum of 12-month PD while lifetime ECL will be based on the remaining lifetime of the instrument. LGD reflects the expected loss value given default, after taking into account the effect of collateral. EAD reflects the expected exposure at default, after taking into account of any expected repayments and/or drawdown. 12-month ECL and lifetime ECL will be the respective discounted value (using the effective interest/profit rate) of 12-month PD and lifetime PD, multiplied with LGD and EAD.

Movement between stages

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly since its initial inception.

In accordance with MFRS 9, financial assets are classified in Stage 2 where there is significant increase in credit risk since initial recognition, where loss allowance will be measured using lifetime ECL.

The Group and the Bank have considered both qualitative and quantitative parameters in the assessment of significant increase in credit risk. These include the following:

1. Established thresholds for significant increases in credit risk based on both a relative and absolute change in lifetime PD relative to initial recognition.
2. Conduct qualitative assessment to ascertain if there has been significant increase in credit risk.
3. Adopt 30 days past due as an indication of significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of whether a financial asset is credit-impaired under MFRS 9 will be based on objective evidence of impairment, similar to MFRS 139.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018 (continued)

35 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9 (continued)

Movement between stages (continued)

The assessments for significant increase in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1. Similarly, an asset that is in Stage 3 will move back to Stage 2 if it is no longer considered to be credit-impaired.

Regulatory framework

Under the revised BNM guideline on Financial Reporting, the banks must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit impaired exposures.

Transition

Changes in accounting policies resulting from the adoption of MFRS 9 have been applied prospectively, as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of MFRS 9 and therefore is not comparable to the information presented for 2018 under MFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held and contractual cash flow characteristics of the financial asset.
 - The designation and revocation of previous designations of certain financial assets.
- If a debt security had low credit risk at the date of initial application of MFRS 9, then the Group and the Bank have assumed that credit risk on the asset had not increased significantly since its initial recognition.

36 CONTINGENT LIABILITY

As at 30 September 2018, the Group and the Bank had not taken into account the impact of non tax deduction for Stage 1 and Stage 2 ECL and the forward looking elements contained in Stage 3 ECL as the matter is still under an industry appeal process.