

Company No. 818444-T

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2012

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

Company No.818444-T

OCBC AL-AMIN BANK BERHAD

(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
31 DECEMBER 2012**

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in Islamic banking, offering customers a comprehensive range of products and services in accordance with the Islamic Banking Act, 1983 and Shariah principles. There has been no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	2012 RM'000
Profit for the year	<u>46,094</u>

DIVIDENDS

No dividends have been paid or declared by the Bank since the end of the previous financial year. The Directors do not recommend payment of any dividend in respect of the current financial year ended 31 December 2012.

SHARE CAPITAL AND DEBENTURES

The Bank issued 30 million ordinary shares of RM1 each at RM3 each per ordinary share to its holding company, OCBC Bank (Malaysia) Berhad, on 23 July 2012. There were no other changes in the authorised, issued and paid-up share capital of the Bank during the financial year. There were no debentures issued during the financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

BAD AND DOUBTFUL DEBTS AND FINANCING

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for bad and doubtful debts and financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts and financing, or the amount of the allowance for doubtful debts and financing in the financial statements of the Bank, inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Bank had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Bank misleading or inappropriate.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of business.

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

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank, that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

COMPLIANCE WITH BANK NEGARA'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those as set out in the BNM Circular on the Application of MFRS and Revised Financial Reporting Requirements for Islamic Banks and the BNM Guidelines on Classification and Impairment Provisions for Loans/Financing.

FINANCIAL PERFORMANCE

The Bank registered a net profit of RM46.1 million for the financial year ended 31 December 2012 compared to RM21.5 million in the previous year.

Gross financing and advances grew by RM1.1 billion or 34.5% to RM4.4 billion while customer deposits increased by RM33 million or 0.7% to RM4.5 billion. As at 31 December 2012, the quality of the Bank's financing and advances remained strong with a net impaired financing ratio of 0.52%.

Shareholders' funds strengthened to RM471.8 million and the Bank is well capitalised with a core capital ratio after the effects of Profit Sharing Investment Account (PSIA) of 10.74% and risk weighted capital ratio after PSIA of 15.24%.

ACTIVITIES AND ACHIEVEMENTS

OCBC Al-Amin offers Shariah-compliant products and services across all customer segments, covering both wholesale and retail markets. The Bank's growth in 2012 was underpinned by intensive efforts to market Islamic cash management solutions and financing programmes to both corporate and SME customers. Complementing these were aggressive marketing programmes to introduce the Bank's personal financing, secured financing and retail deposit products to individuals.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

ACTIVITIES AND ACHIEVEMENTS (continued)

As part of its distribution strategy, the Bank increased the number of its standalone branches to eight with the opening of three inaugural *Xpres* branches, which are the country's first standalone seven-days-a-week Islamic day-and-night banking branches. Open daily from 10am to 10pm, the three new branches in Bukit Bintang, Balakong and Taman Melawati are part of a larger strategy to expand the Bank's reach and provide convenient touch points closer to where existing and potential customers work and live.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2013

The Malaysian economy is expected to face a challenging 2013, despite the strong domestic performance this year. Fiscal spending is expected to support the economy, driven by the implementation of projects under the Economic Transformation Programme (ETP).

As part of its strategy, the Bank will continue to build its capacity and capability in the Islamic banking wholesale and retail markets. It will also reinforce its existing strong network of distribution channels to acquire new customers and to offer innovative solutions to its existing and potential customers. Two more *Xpres* branches are currently being constructed and scheduled to open during the first quarter of 2013.

The Bank will continue to concentrate on increasing its market share by maximizing its sales distribution efficiency and by opening other new branches to further increase the number of customer touch points. The expansion of OCBC Al-Amin's distribution footprint is a key strategy for the Bank to engage with and be more relevant to its target segment, particularly the younger Bumiputera market.

In addition, through its corporate programmes, the Bank will seek to penetrate the private sector employee market to become a financier of choice. It will also leverage on infrastructure within the OCBC Group and the strong OCBC brand name to broaden its customer base and retain its position as a leading provider of innovative product solutions among the foreign Islamic banks.

RATINGS BY EXTERNAL AGENCIES

No rating has been conducted by external agencies on the Bank.

CORPORATE GOVERNANCE

Board Composition and Independence

The Board comprises ten Directors, of whom five are independent Directors, four non-independent non-executive Directors and an executive Director. The Independent Directors are Tan Sri Dato' Nasruddin Bin Bahari (Chairman of the Bank), Dato' Ooi Sang Kuang, Ms Tan Siok Choo, Dr Raja Lope Bin Raja Shahrome and Mr Lai Teck Poh (with effect from 8 January 2013) while the non-independent non-executive Directors are Mr Samuel N. Tsien, Mr Ching Wei Hong, Mr Chew Sun Teong, Jeffrey and Mr Tan Siew Peng, Darren. Tuan Syed Abdull Aziz Jailani Bin Syed Kechik is an Executive Director and Chief Executive Officer (CEO) of the Bank.

There is a clear separation of roles between the Chairman and the CEO, which is consistent with the principles of corporate governance as set out in the Revised BNM/GP1-i (Guidelines on Corporate Governance for Licensed Islamic Institutions) to institute an appropriate balance of power and authority. The Chairman's role in the Board includes scheduling meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Bank's operations; preparing meeting agenda in consultation with the CEO; exercising control over quality, quantity and timeliness of the flow of information between Management and the Board; and assists in ensuring compliance with guidelines on corporate governance. This is pertaining to only Board proceedings and is not a comprehensive list of the duties and responsibilities of the Chairman.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

Board Composition and Independence

The members of the Board, as a group, provide core competencies to ensure the effectiveness of the Board. The competencies include banking, accounting, finance, legal, strategic ability, business acumen, management experience and depth, understanding of industry and customer, familiarity with regulatory requirements and knowledge of risk analysis and control. Details of the Directors' professional qualifications and background can be found below under "Profile on Board of Directors".

As a principle of good corporate governance, all Directors are subject to re-election at regular intervals. The Bank's Articles of Association also provides for the retirement of Directors by rotation and under Bank Negara Malaysia's guidelines, all appointment and re-appointment of Directors have to be approved by Bank Negara Malaysia.

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

Board Conduct and Responsibilities

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

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

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

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

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

The Directors receive appropriate structured training, which includes introductory information, briefing by senior executives on their respective areas and attending relevant external courses. The Board, as a whole, also receives briefing on relevant new rules, laws and regulations, risk management updates and changes in accounting standards.

Board and Individual Director Performance

The annual performance evaluation process was established to assess the Board as a whole as well as the performance of each individual Director with the endorsement of the Nominating Committee.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

Board Audit Committee

The Board Audit Committee comprises Tan Sri Dato' Nasruddin Bin Bahari (Chairman of the Board Audit Committee), Ms Tan Siok Choo and Mr Lai Teck Poh, all of whom are independent Directors. Mr Lai Teck Poh was re-designated as an Independent Director with effect from 8 January 2013.

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

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

The Bank has in place a whistle blowing policy and the Board Audit Committee reviews concerns, including anonymous complaints, which staff may, in confidence, raise about possible improprieties in matters of financial reporting or other matters, and have the concerns independently investigated and followed-up. It meets at least once a year with the external auditors and internal auditors in separate sessions and without the presence of management to consider any matters which might be raised privately. In addition, the Chairman of the Board Audit Committee meets the internal auditors on a regular basis to discuss the work undertaken, key findings and any other significant matters arising from the Bank's operations. Formal reports are sent to the Board Audit Committee on a regular basis. The Board is updated on these reports. The Board Audit Committee has received the requisite disclosures from the external auditors evidencing the latter's independence. It is satisfied that the financial, professional and business relationships between the Bank and the external auditors are compatible with maintaining the independence of the external auditors.

Internal Audit Function

The Board Audit Committee approves the Audit Charter of Internal Audit and reviews the effectiveness of the internal audit function. In line with leading practice, Internal Audit's mission statement and charter requires it to provide independent and reasonable, but not absolute, assurance that the Bank's system of risk management, control and governance processes, as designed and implemented by senior management, are adequate and effective. Internal Audit reports on the adequacy of the system of internal controls to Board Audit Committee and management, but does not form any part of those systems of control. Internal Audit meets or exceeds the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors and the Syariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia. In addition, the Internal Auditors have acquired the necessary qualifications and training in Islamic Banking.

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

The work undertaken by Internal Audit includes the audit of the Bank's system of internal control over its key operations, review of security and access controls for the Bank's key computer systems, review of control processes within and around new products and system enhancements, and review of controls over the management of market, liquidity and credit risks. Internal Audit also participates in major new systems developments and special projects, to help evaluate risk exposures and ensure that proposed compensating internal controls are adequately evaluated on a timely basis. It also ascertains that the internal controls are adequate to ensure prompt and accurate recording of transactions and proper safekeeping of assets, and that the Bank complies with laws and regulations, adheres to established policies and takes appropriate steps to address control deficiencies.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

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

Internal Controls

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls maintained by the Bank's Management and that was in place throughout the financial year and up to and as of the date of this report, is adequate to meet the needs of the Bank in its current business environment.

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

DISCLOSURE OF SHARIAH COMMITTEE

In accordance with the Shariah Governance Framework, the Shariah Committee ("SC") members are expected to participate and engage themselves actively in deliberating Shariah issues in relation to the Bank's activities and operations and their main duties and responsibilities are as follows:

- a) To be responsible and accountable for all Shariah decisions, opinions and views sought by the Bank;
- b) To advise the Bank's Board of Directors on Shariah related matters in its business operation in order to ensure it complies with Shariah principles at all times;
- c) To endorse the SC's Report on the state of the Shariah compliance of the Bank which will be disclosed in the annual financial statements of the Bank;
- d) To review and endorse Shariah related guidelines;
- e) To validate the relevant documentations in order to ensure that the products of the Bank comply with Shariah principles, the SC must approve:
 - (i) the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
 - (ii) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product;
- f) To provide advice on Shariah matters to the Bank's related parties such as legal counsel, auditors or consultant upon request;

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

DISCLOSURE OF SHARIAH COMMITTEE (continued)

- g) To provide written Shariah opinion in the following circumstances:
- (i) where the Bank makes reference to the Shariah Advisory Council ("SAC") of Bank Negara Malaysia ("BNM") for further deliberations; or
 - (ii) where the Bank submits applications to BNM for new product approvals;
- h) To oversee the computation and distribution of zakat and other funds to be channelled to charity;
- i) To put on record, in written form, any opinion that it gives on Shariah related issues;
- j) To develop a structured process in arriving at Shariah decisions which must be documented, adopted and maintained at all times to ensure the credibility of decision-making; and
- k) SC members shall not act in a manner that would undermine the rulings and decisions made by the SAC or the committee they represent.

SHARIAH ADVISORS' ATTENDANCE AT SHARIAH COMMITTEE MEETINGS IN 2012

Name of Shariah Advisor	Number of Meetings Attended in 2012	
	Held	Attended
Assoc. Prof. Dato' Hj. Mohd Mokhtar Bin Hj. Shafii	8	8
Prof. Dr. Abdullah @ Alwi Bin Hj. Hassan	8	6
Assoc. Prof. Dr. Mahamad Bin Arifin	8	7
Assoc. Prof. Dr. Wan Sabri Bin Wan Yusof	8	8
Asst. Prof. Dr. Muhammad Naim Bin Omar	8	8

MANAGEMENT INFORMATION

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

1. Minutes of meetings of all Board Committees
2. Monthly Performance Report of the Bank
3. At least quarterly Credit Risk Management Report
4. At least quarterly Asset Liability & Market Risk Report
5. At least quarterly Operational Risk Management Report
6. At least quarterly Shariah Risk Management Update
7. At least quarterly Report of Shariah Committee Decisions

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)**CORPORATE GOVERNANCE (continued)****DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS IN 2012**

Name of Director	Number of meetings attended in 2012							
	Board		Board Audit Committee		Nominating Committee		Risk Management Committee	
	Held*	Attended	Held*	Attended	Held*	Attended	Held*	Attended
Tan Sri Dato' Nasruddin Bin Bahari	6	6	6	6	2	2	6	6
Dr Raja Lope Bin Raja Shahrome	6	6	-	-	-	-	6	6
Tan Siok Choo	6	6	6	6	2	2	6	6
Lai Teck Poh	6	6	6	6	2	2	6	6
Ching Wei Hong	6	6	-	-	2	1	6	6
Chew Sun Teong, Jeffrey	6	6	-	-	-	-	6	6
Tuan Syed Abdull Aziz Jailani Bin Syed Kechik	6	6	-	-	-	-	-	-
Dato' Ooi Sang Kuang (appointed on 6 April 2012)	4	4	-	-	-	-	4	4
Tan Siew Peng, Darren (appointed on 6 April 2012)	4	4	-	-	-	-	4	4
Samuel N. Tsien (appointed on 15 April 2012)	4	4	-	-	1	1	4	4
David Conner (resigned on 15 April 2012)	2	2	-	-	1	1	2	2

* Reflects the number of meetings held during the time the Director held office.

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

PROFILE ON BOARD OF DIRECTORS**Tan Sri Dato' Nasruddin Bin Bahari****Chairman**

Tan Sri Dato' Nasruddin was appointed to the Board on 21 May 2008. Tan Sri Dato' Nasruddin holds a Bachelor of Arts with Honours from the University of Malaya and a Master of Public Administration from the University of Pittsburgh, USA. He is also the Chairman of OCBC Bank (Malaysia) Berhad ("OCBCM") since October 1997, Affin Moneybrokers Sdn Bhd, OCBC Credit Berhad, OCBC Advisers (Malaysia) Sdn Bhd and Sumber Petroleum Cemerlang Sdn Bhd and a Director of Great Eastern Life Assurance (Malaysia) Berhad, Lingkar Trans Kota Holdings Bhd, IJM Land Berhad, Great Eastern Takaful Sdn Bhd and I Great Capital Holdings Sdn Bhd.

Dr Raja Lope Bin Raja Shahrome

Dr Raja Lope was appointed to the Board on 1 August 2008. Dr Raja Lope holds an Honours Degree in Economics from the University of Malaya in Singapore, an MA from the University of Pennsylvania and a PhD from the London School of Economics. His working experience was mainly with central and commercial banking except for a few years when he was working in a rating agency. He currently sits on the Board of Directors/Governors of OCBCM, First Nationwide Holdings Sdn Bhd, Pac Lease Berhad, and several other private companies.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

PROFILE ON BOARD OF DIRECTORS (continued)

Ms Tan Siok Choo

Ms Tan was appointed to the Board on 1 August 2008. Ms Tan holds a Bachelor of Law from the University of Bristol, passed her Bar Finals at the College of Law, London and was admitted as a Barrister-at-law in Lincoln's Inn, London and the Malaysian Bar. Currently a visiting fellow at the Institute of Strategic and International Studies (ISIS), she also serves as Chairperson of United Malacca Berhad and as a Director of OCBCM and several other private companies. She has extensive experience in the financial services industry, having worked for almost 10 years in stockbroking and banking as a senior research analyst for Rashid Hussain Securities, senior investment analyst at Morgan Grenfell Asia & Partners' Securities and Head of Corporate Finance at Southern Bank Berhad.

Mr Lai Teck Poh

Mr Lai was appointed to the Board on 7 January 2011. He joined Oversea-Chinese Banking Corporation Limited ("OCBCL") as an Executive Vice President and Head of Corporate Banking in January 1988. During his tenure with OCBCL, he had senior management responsibilities for a wide range of functions, including Corporate Banking, Investment Management, Information Technology and Central Operations, Group Risk Management and Group Audit. He was the Head of Group Audit before his retirement on 14 April 2010. He has over 42 years of banking experience, including about 20 years in Citibank, N.A. Singapore with overseas assignments in Jakarta, New York and London. He is also a Director of OCBCL, OCBCM, WBL Corporation Limited and AVJennings Limited, and a Commissioner of PT Bank OCBC NISP Tbk. Mr Lai holds a Bachelor of Arts with Honours from the University of Singapore.

Mr Ching Wei Hong

Mr Ching Wei Hong was appointed to the Board on 1 August 2008. He was appointed Chief Operating Officer of OCBCL on 15 April 2012. In addition to Global Consumer Financial Services which he has oversight of since May 2010, he is responsible for the Group Operations & Technology, Group Legal & Regulatory Compliance, Group Corporate Communications, Group Customer Experience, Group Quality & Service Excellence and OCBC Property Services functions of the Bank. Mr Ching is also Chairman of Bank of Singapore, OCBC Securities and Lion Global Investors. As Head of Global Consumer Financial Services, he is responsible for building our consumer banking business in our key markets and expanding our wealth management franchise. In his tenure with OCBCL, he has held senior management responsibilities across various roles including Chief Financial Officer, Head of Group Operations and Technology and Head of Transaction Banking. Mr Ching has more than 27 years of experience in regional finance, corporate banking and cash management. Before joining OCBCL, he was Director of Corporate Finance, Philips Electronics Asia Pacific Pte Ltd. He also held senior regional assignments in Bank of America and was Treasurer of Union Carbide Asia Pacific. Mr Ching holds a Bachelor of Business Administration from the National University of Singapore.

Mr Chew Sun Teong, Jeffrey

Mr Jeffrey Chew was appointed to the Board on 17 September 2008. He is the Chairman of Pac Lease Berhad and E2 Power Sdn Bhd, as well as a Director and Chief Executive Officer of OCBCM and a Director of SME Credit Bureau (M) Sdn Bhd. He is a Council Member of The Association of Banks in Malaysia and Institut Bank-Bank Malaysia. He started his career with PriceWaterhouseCoopers in 1987 and was involved in corporate audit and taxation for 4 years prior to joining Citibank Malaysia. During his 12-year career with Citibank, he held various positions in the areas of customer relationship in the corporate, commercial and SMEs segment, international offshore banking and risk management. Prior to joining OCBCM in April 2003, his last held position was General Manager of Citibank Malaysia's Commercial/SME banking business and Director of Citicorp Capital Sdn Bhd. Mr Jeffrey Chew is a qualified accountant and a Fellow of the Association of Chartered Certified Accountants, UK.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

PROFILE ON BOARD OF DIRECTORS (continued)

Tuan Syed Abdull Aziz Jailani Bin Syed Kechik
Director & Chief Executive Officer, OCBC Al-Amin

Tuan Syed Abdull Aziz was appointed a Director and Chief Executive Officer of OCBC Al-Amin on 24 November 2008. He graduated from Boston University, Massachusetts, USA, and began his career in banking in 1990 as a Risk Management Officer in Corporate Banking Group of Citibank Malaysia Berhad ("Citibank"). During his 12 years in Citibank, he was involved in various business and risk management functions within the Corporate and Institutional Banking wholesale banking division. Prior to joining OCBC Al-Amin, he was the Chief Operating Officer and Head of Corporate and Investment Banking of Bank Muamalat Malaysia Berhad. He is also a member of the Association of Certified Islamic Finance Professional.

Dato' Ooi Sang Kuang

Dato' Ooi was appointed to the Board on 6 April 2012. He was Special Advisor in Bank Negara Malaysia (BNM) until he retired on 31 December 2011. Prior to this, he was Deputy Governor and Member of the Board of Directors of BNM, from 2002 to 2010. Dato' Ooi is presently the Chairman of Cagamas Berhad (the national mortgage corporation in Malaysia) and its subsidiaries, and Malaysian Electronic Clearing Corporation Sendirian Berhad (subsidiary of BNM), and Deputy Chairman of OCBCM since 27 November 2012 as well as a Director of OCBC, Great Eastern Life Assurance (Malaysia) Berhad, Overseas Assurance Corporation (Malaysia) Berhad and Great Eastern Capital (Malaysia) Sdn Bhd. Dato' Ooi holds a Bachelor of Economics with Honours from the University of Malaya and a Master of Arts (Development Finance) from Boston University, USA, and is a Fellow Member of the Institute of Bankers Malaysia.

Mr Tan Siew Peng, Darren

Mr Darren Tan was appointed to the Board on 6 April 2012. He is also the Executive Vice President and the Chief Financial Officer (CFO) of OCBC, overseeing financial, regulatory and management accounting, capital management, corporate development and investor relations. He joined OCBC in March 2007 as Head of Asset Liability Management in Global Treasury and assumed the role of Deputy CFO in May 2011 prior to being appointed as the OCBC Group CFO in December 2011. Prior to joining OCBC, he worked for 13 years in the Government of Singapore Investment Corporation ("GIC") with his last position in GIC as Head of Money Markets. He is also a Director of OCBC Overseas Investments Pte Ltd, OCBC Sigma Investment Private Limited, Singapore Island Bank Limited, Lion Global Investors Limited, OCBC Bank (China) Ltd and OCBCM. Mr Darren Tan graduated with First Class Honours in Accountancy from Nanyang Technological University and is a Chartered Financial Analyst.

Mr Samuel N. Tsien

Mr Samuel N. Tsien was appointed to the Board on 15 April 2012. He was appointed Group Chief Executive Officer of OCBC on 15 April 2012. He joined OCBC in July 2007 as Senior Executive Vice President, managing the Group's corporate and commercial banking business. In 2008, he assumed the position as Global Head of Global Corporate Bank with added responsibilities of overseeing the financial institution and transaction banking businesses. He has 35 years of banking experience. In 2006, he became the President and Chief Executive Officer of China Construction Bank (Asia) when it acquired Bank of America (Asia). From 1995 to 2006, he was President and Chief Executive Officer of Bank of America (Asia), and Asia Consumer and Commercial Banking Group Executive of Bank of America Corporation. He served as Bank of America's Head of Asia Credit Risk Management for the commercial and retail banking group before that. Mr Tsien is presently the Chairman of OCBC Bank (China) Ltd and Singapore Island Bank Ltd, and a Commissioner of PT Bank OCBC NISP Tbk. He serves as a Director of several companies in the OCBC Group, including Great Eastern Holdings Ltd, OCBCM and Bank of Singapore. Mr Tsien holds a Bachelor of Arts with Honors in Economics from the University of California, Los Angeles (UCLA).

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS

The Directors of the Bank in office during this period since the date of the last report are as follows:

Tan Sri Dato' Nasruddin Bin Bahari (Chairman)

Dr Raja Lope Bin Raja Shahrome

Tan Siok Choo

Lai Teck Poh

Ching Wei Hong

Chew Sun Teong, Jeffrey

Tuan Syed Abdull Aziz Jailani Bin Syed Kechik

Dato' Ooi Sang Kuang (appointed on 6 April 2012)

Tan Siew Peng, Darren (appointed on 6 April 2012)

Samuel N. Tsien (appointed on 15 April 2012)

David Conner (resigned on 15 April 2012)

In accordance with Articles 106 and 107 of the Bank's Articles of Association, Ms Tan Siok Choo and Mr Ching Wei Hong shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

In accordance with Section 129(6) of the Companies Act, 1965, Tan Sri Dato' Nasruddin Bin Bahari and Dr Raja Lope Bin Raja Shahrome who have attained 70 years of age, offer themselves for re-appointment at the forthcoming Annual General Meeting.

In accordance with Article 110 of the Bank's Articles of Association, Dato' Ooi Sang Kuang, Mr Tan Siew Peng, Darren and Mr Samuel N. Tsien shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

According to the register of Directors' shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, the Directors' beneficial interests at the end of the financial year in the shares of the Bank and its related corporations were as follows:

Oversea-Chinese Banking Corporation Limited ("OCBCL")

<u>Ordinary Shares</u>	<u>Shareholdings registered in the name of Directors or in which Directors have a direct interest</u>			
	<u>As at 1.1.2012</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2012</u>
Tan Sri Dato' Nasruddin Bin Bahari	20,285	-	-	20,285
Dr Raja Lope Bin Raja Shahrome	-	2,000	-	2,000
Tan Siok Choo	48,000	893	-	48,893
Lai Teck Poh	416,703	168,121	30,000	554,824
Ching Wei Hong	81,257	111,585	56,280	136,562
Chew Sun Teong, Jeffrey	18,914	137,734	156,540	108
Tan Siew Peng, Darren	85,585 †	4,114	-	89,699
Samuel N. Tsien	121,555 *	-	-	121,555

† As at 6 April 2012 (date of appointment)

* As at 15 April 2012 (date of appointment)

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)**CORPORATE GOVERNANCE (continued)****DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS (continued)**Oversea-Chinese Banking Corporation Limited ("OCBCL") (continued)

	Shareholdings registered in the name of Directors or in which Directors have a direct interest			As at 31.12.2012
	As at 1.1.2012	Acquired	Disposed	
<u>Class G Preference Shares</u>				
Tan Siok Choo	9,600	-	-	9,600
<u>Class B Preference Shares</u>				
Lai Teck Poh	2,500	-	-	2,500
Ching Wei Hong	2,500	-	-	2,500
Tan Siew Peng, Darren	2,000 †	-	-	2,000

	Shareholdings in which Directors have deemed interest			As at 31.12.2012
	As at 1.1.2012	Acquired/ Awarded/ Granted	Disposed/ Exercised	
<u>Ordinary shares</u>				
Tan Siok Choo	3,553,453	-	-	3,553,453
<u>Class G Preference Shares</u>				
Tan Siok Choo	656,152	-	-	656,152

OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan

	Shareholdings in which Directors have deemed interest			As at 31.12.2012
	As at 1.1.2012	Acquired/ Awarded/ Granted	Disposed/ Exercised	
Lai Teck Poh	36,070	493	22,121	14,442
Ching Wei Hong	145,542	76,070	59,419	162,193
Chew Sun Teong, Jeffrey	93,063	41,712	45,734	89,041
Tuan Syed Abdull Aziz Jailani				
Bin Syed Kechik	6,968 #	3,519	-	10,487
Tan Siew Peng, Darren	256,936 †	12,941	4,114	265,763
Samuel N. Tsien	214,802 *	11,451	4,114	222,139

† As at 6 April 2012 (date of appointment)

The brought forward balance should be read as 6,968 instead of 6,733 as previously declared.

* As at 15 April 2012 (date of appointment)

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS (continued)

Oversea-Chinese Banking Corporation Limited ("OCBCL") (continued)

Unexercised share options available to the Directors under the OCBC Share Option Scheme 2001

	Number of share options held by Directors in their own name				
	As at 1.1.2012	Offered	Exercised	As at 31.12.2012	Date options expire
Lai Teck Poh	481,000	-	140,000	341,000	26/3/2013-15/3/2019
Ching Wei Hong	533,643	136,369	56,280	613,732	13/3/2016-13/3/2022
Chew Sun Teong, Jeffrey	247,964	78,134	92,000	234,098	14/3/2020-13/3/2022
Tuan Syed Abdull Aziz Jailani Bin Syed Kechik	16,818	9,331	-	26,149	14/3/2020-13/3/2022
Tan Siew Peng, Darren	155,589 †	-	-	155,589	15/3/2019-13/3/2022
Samuel N. Tsien	1,125,538 *	-	-	1,125,538	13/3/2018-13/3/2022

† As at 6 April 2012 (date of appointment)

* As at 15 April 2012 (date of appointment)

PacificMas Berhad
(Under Members' Voluntary Winding Up)

	Shareholdings registered in the name of Directors or in which Directors have a direct interest			
	As at 1.1.2012	Acquired	Disposed	As at 31.12.2012
<u>Ordinary Shares</u>				
Dr Raja Lope Bin Raja Shahrome	10,000	-	10,000	-
Tan Siok Choo	15,800	-	15,800	-
	Shareholdings in which Directors have deemed interest			
	As at 1.1.2012	Acquired	Disposed	As at 31.12.2012
Dr Raja Lope Bin Raja Shahrome	2,000	-	2,000	-

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

DIRECTORS' BENEFITS

During and at the end of the financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 25 to the financial statements, or the fixed salary of full-time employees of the Bank or related companies) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (continued)

CORPORATE GOVERNANCE (continued)

DIRECTORS' BENEFITS (continued)

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate except for the share options granted to executives of OCBCCL pursuant to the OCBC Share Option Scheme 2001, shares granted under the OCBC Deferred Share Plan which will vest three years from the grant date and will lapse when the Director ceases employment during the vesting period and acquisition rights under the OCBC Employee Share Purchase Plan.

HOLDING AND ULTIMATE HOLDING COMPANY

The Bank is a wholly-owned subsidiary of OCBC Bank (Malaysia) Berhad and the Directors regard Oversea-Chinese Banking Corporation Limited, a licensed commercial bank incorporated in Singapore, as the ultimate holding company of the Bank.

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 18 March 2013.

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

TUAN SYED ABDULL AZIZ JAILANI BIN SYED KECHIK
DIRECTOR

Kuala Lumpur

Company No.818444-T

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

In the opinion of the Directors, the financial statements set out on pages 19 to 85 are drawn up in accordance with the provisions of the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2012 and of its financial performance and cash flows for the year ended on that date.

In accordance with a resolution of the Board of Directors dated 18 March 2013.

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

TUAN SYED ABDULL AZIZ JAILANI BIN SYED KECHIK
DIRECTOR

Kuala Lumpur

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Yuen Sook Cheng, the officer primarily responsible for the financial management of OCBC Al-Amin Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 19 to 85 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at)
Kuala Lumpur in Wilayah Persekutuan)
On 18 March 2013) YUEN SOOK CHENG

Before me,

COMMISSIONER FOR OATHS

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the most Beneficent, the most Merciful.

Praise to Allah, the Lord of the Worlds and peace and blessings be upon our Prophet Muhammad, and on his family and companions.

We have reviewed the principles and contracts relating to the transactions and applications undertaken by the Bank during the financial year ended 31 December 2012. We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rules and relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and requirements. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and, to report to you.

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated the Shariah principles.

We are of the opinion that:

- (a) The contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2012, that we have reviewed are in compliance with the Shariah principles except as disclosed in Note 33.
- (b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
- (c) All earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; and
- (d) The calculation of zakat is in compliance with Shariah principles.

We, the members of the Shariah Committee of OCBC Al-Amin Bank Berhad, do hereby confirm that the operations of the Bank for the year ended 31 December 2012 have been conducted in conformity with the Shariah principles.

**ASSOC. PROF. DATO' HJ. MOHD MOKHTAR
BIN HJ. SHAFII**
Chairman of the Committee

PROF. DR. ABDULLAH @ ALWI BIN HJ. HASSAN
Member of Committee

Kuala Lumpur, Malaysia
Date: 18 March 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OCBC AL-AMIN BANK BERHAD

Company No.818444-T
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of OCBC Al-Amin Bank Berhad, which comprise the statement of financial position as at 31 December 2012, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 19 to 85.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of these financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are responsible for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2012 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Company No.818444-T

Other Matters

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

Firm Number: AF 0758
Chartered Accountants

Ow Peng Li

Approval Number: 2666/09/13(J)
Chartered Accountant

Petaling Jaya, Selangor
Date: 18 March 2013

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

		31 December 2012	31 December 2011	1 January 2011
	Note	RM'000	RM'000	RM'000
ASSETS				
Cash and cash equivalents	3	23,687	412,739	604,280
Deposits and placements with banks and other financial institutions	4	-	-	4,624
Financial investments available-for-sale	5	2,315,277	1,892,691	1,111,552
Financing and advances	6	4,295,722	3,189,313	2,499,904
Derivative financial assets	8	5,592	13,450	7,640
Other assets	9	94,596	46,619	45,833
Current tax assets		443	558	1,360
Statutory deposits with Bank Negara Malaysia	10	214,500	159,400	26,750
Property, plant and equipment	11	8,025	6,092	7,822
Deferred tax assets	12	1,435	1,835	4,790
Total assets		<u>6,959,277</u>	<u>5,722,697</u>	<u>4,314,555</u>
LIABILITIES				
Deposits from customers	13	4,479,842	4,447,096	2,920,890
Deposits and placements of banks and other financial institutions	14	1,693,882	606,651	799,846
Bills and acceptances payable		14,795	36,550	11,107
Subordinated bond	15	200,000	200,000	200,000
Derivative financial liabilities	8	5,543	13,430	7,628
Other liabilities	16	93,439	87,658	69,505
Current tax liabilities and zakat		25	20	-
Total liabilities		<u>6,487,526</u>	<u>5,391,405</u>	<u>4,008,976</u>
EQUITY				
Share capital	17	115,000	85,000	85,000
Reserves	18	356,751	246,292	220,579
Total equity		<u>471,751</u>	<u>331,292</u>	<u>305,579</u>
Total liabilities and equity		<u>6,959,277</u>	<u>5,722,697</u>	<u>4,314,555</u>
Commitments and contingencies	30	<u>2,971,121</u>	<u>1,892,647</u>	<u>1,061,806</u>

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012**

	Note	2012 RM'000	2011 RM'000
Income derived from investment of depositors' funds and others	19	336,934	231,686
Income derived from the investment of shareholder's funds	20	52,949	38,664
Impairment allowance on financing and advances	21	<u>(40,268)</u>	<u>(24,110)</u>
Total distributable income		349,615	246,240
Income attributable to depositors	22	<u>(165,928)</u>	<u>(105,402)</u>
Total net income		183,687	140,838
Personnel and other operating expenses	24	<u>(124,726)</u>	<u>(113,516)</u>
Profit before income tax expense and zakat		58,961	27,322
Income tax expense	28	(12,842)	(5,788)
Zakat		<u>(25)</u>	<u>(20)</u>
Profit for the year		<u>46,094</u>	<u>21,514</u>
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss			
Fair value (available-for-sale) reserve:			
- Change in fair value		6,492	8,702
- Amount transferred to profit or loss		(672)	(3,103)
Income tax relating to components of other comprehensive income		<u>(1,455)</u>	<u>(1,400)</u>
Other comprehensive income for the year, net of tax		<u>4,365</u>	<u>4,199</u>
Total comprehensive income for the year		<u>50,459</u>	<u>25,713</u>
Profit attributable to shareholder of the Bank		<u>46,094</u>	<u>21,514</u>
Total comprehensive income attributable to shareholder of the Bank		<u>50,459</u>	<u>25,713</u>
Basic earnings per ordinary share (sen)	29	<u>46.90</u>	<u>25.31</u>

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	<i>Non-distributable</i>			<i>Distributable</i>		Total Equity
	Share Capital	Share Premium	Statutory Reserve	Fair Value Reserve	Retained Earnings	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012						
Balance at 1 January 2012	85,000	170,000	30,596	4,302	41,394	331,292
Fair value (available-for-sale) reserve						
- Change in fair value	-	-	-	6,492	-	6,492
- Amount transferred to profit or loss	-	-	-	(672)	-	(672)
Income tax relating to components of other comprehensive income	-	-	-	(1,455)	-	(1,455)
Other comprehensive income for the year	-	-	-	4,365	-	4,365
Profit for the year	-	-	-	-	46,094	46,094
Total comprehensive income for the year	-	-	-	4,365	46,094	50,459
Contributions by and distributions to owners of the Bank						
Issue of ordinary shares	30,000	60,000	-	-	-	90,000
Transfer to statutory reserve	-	-	23,047	-	(23,047)	-
Balance at 31 December 2012	115,000	230,000	53,643	8,667	64,441	471,751
2011						
Balance at 1 January 2011	85,000	170,000	20,582	103	29,894	305,579
Fair value (available-for-sale) reserve						
- Change in fair value	-	-	-	8,702	-	8,702
- Amount transferred to profit or loss	-	-	-	(3,103)	-	(3,103)
Income tax relating to components of other comprehensive income	-	-	-	(1,400)	-	(1,400)
Other comprehensive income for the year	-	-	-	4,199	-	4,199
Profit for the year	-	-	-	-	21,514	21,514
Total comprehensive income for the year	-	-	-	4,199	21,514	25,713
Contributions by and distributions to owners of the Bank						
Transfer to statutory reserve	-	-	10,014	-	(10,014)	-
Balance at 31 December 2011	85,000	170,000	30,596	4,302	41,394	331,292

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	2012 RM'000	2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax expense and zakat	58,961	27,322
<i>Adjustments for:</i>		
Net (gains)/losses from disposal of:		
- Financial investments available-for-sale	(672)	(3,103)
- Property, plant and equipment	16	(1)
Depreciation of property, plant and equipment	2,005	2,544
Impairment allowance on financing and advances	40,268	24,110
Unrealised losses on revaluation of derivatives	865	82
Operating profit before changes in working capital	<u>101,443</u>	<u>50,954</u>
<i>(Increase)/Decrease in Operating Assets:</i>		
Deposits and placements with banks and other financial institutions	-	4,624
Financing and advances	(1,146,677)	(713,519)
Derivative financial assets	7,858	(5,810)
Other assets	(48,842)	(868)
Statutory deposits with Bank Negara Malaysia	(55,100)	(132,650)
<i>Increase/(Decrease) in Operating Liabilities:</i>		
Deposits from customers	32,746	1,526,206
Deposits and placements of banks and other financial institutions	1,087,231	(193,195)
Bills and acceptances payable	(21,755)	25,443
Derivative financial liabilities	(7,887)	5,802
Other liabilities	5,781	18,153
CASH (USED IN)/GENERATED FROM OPERATIONS	<u>(45,202)</u>	<u>585,140</u>
Income tax and zakat paid	(13,802)	(3,431)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	<u>(59,004)</u>	<u>581,709</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial investments available-for-sale	4,272,114	3,004,082
Acquisition of financial investments available-for-sale	(4,688,208)	(3,776,519)
Proceeds from disposal of property, plant and equipment	4	8
Acquisition of property, plant and equipment	(3,958)	(821)
NET CASH USED IN INVESTING ACTIVITIES	<u>(420,048)</u>	<u>(773,250)</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from issuance of ordinary shares	90,000	-
NET CASH GENERATED FROM FINANCING ACTIVITY	<u>90,000</u>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(389,052)	(191,541)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>412,739</u>	<u>604,280</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3 <u>23,687</u>	<u>412,739</u>

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

1. GENERAL INFORMATION

The Bank is principally engaged in Islamic Banking and related financial services. There were no significant changes in these activities during the financial year.

The immediate and ultimate holding company of the Bank is OCBC Bank (Malaysia) Berhad ("OCBCM"), incorporated in Malaysia and Oversea-Chinese Banking Corporation Limited ("OCBCL"), incorporated in Singapore, respectively.

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

The address of the registered office of the Bank is 19th Floor, Menara OCBC, 18 Jalan Tun Perak, 50050 Kuala Lumpur, and the address of the principal place of business is 25th Floor, Wisma Lee Rubber, 1, Jalan Melaka, 50100, Kuala Lumpur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and in preparing the opening Malaysian Financial Reporting Standards ("MFRS") statement of financial position of the Bank at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

A. Basis of preparation of the financial statements

The financial statements of the Bank for the financial year ended 31 December 2012 have been prepared under the historical cost convention (except as disclosed in the notes to the financial statements), comply with the MFRS, International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia and Shariah requirements. These are the Bank's first annual audited financial statements prepared in accordance with MFRS and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied.

Since the previous annual audited financial statements as at 31 December 2011 were issued, the Bank has adopted the MFRS framework issued by the Malaysian Accounting Standards Board ("MASB") with effect from 1 January 2012 in preparing these financial statements. The MFRS framework was introduced by the MASB in order to fully converge Malaysia's existing Financial Reporting Standards ("FRS") framework with the IFRS framework issued by the International Accounting Standards Board ("IASB"). Whilst all FRS issued under the previous FRS framework were equivalent to the MFRS issued under the MFRS framework, there are some differences in relation to the transitional provisions and effective dates contained in certain FRS. An explanation of the impact of the transition to MFRS on the financial position, financial performance and cash flows of the Bank is provided in Note 41.

The financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency. All financial information presented in RM have been rounded to the nearest thousand, unless otherwise stated.

The following MFRS, IC Interpretation and Amendments to MFRS have been adopted by the Bank during the current period:

IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to MFRS 1)
Disclosures - Transfers of Financial Assets (Amendments to MFRS 7)
Deferred tax: Recovery of Underlying Assets (Amendments to MFRS 112)

The Bank has early adopted the Amendments to MFRS 101, *Presentation of Financial Statements* which is originally effective for the annual periods beginning on or after 1 July 2012.

The early adoption of the Amendments to MFRS 101 above did not have any impact on the audited financial statements other than the presentation format of the statement of profit or loss and other comprehensive income.

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of preparation of the financial statements (continued)

Except as described below, the accounting policies applied by the Bank in these financial statements are the same as those applied by the Bank in its annual financial statements as at and for the year ended 31 December 2011.

Impairment of financing and advances

With effect from 1 January 2012, the Bank has ceased to maintain collective impairment allowance of at least 1.5% of total outstanding financing and advances, net of individual impairment allowance in line with the transitional provision pursuant to Bank Negara Malaysia ("BNM") guidelines on Classification and Impairment Provisions for Loans/Financing.

With effect from 1 January 2012, the Bank has adopted MFRS 139, *Financial Instruments: Recognition and Measurement* on collective impairment allowance. Under MFRS 139, financial assets that have not been individually assessed are grouped together and collectively assessed for impairment allowance. These financing and advances are grouped according to their credit risk characteristics for purposes of calculating an estimated collective allowance. This change in accounting policy has been accounted for retrospectively as disclosed in Note 41.

Profit Equalisation Reserve (PER)

The Bank has discontinued the usage of PER to manage the Bank's Displaced Commercial Risk (DCR) with effect from 1 January 2012. Presently, the Bank uses two other techniques prescribed in BNM's revised Guidelines on Profit Equalisation Reserve that require either foregoing the Bank's share of the profit or transferring from its retained earnings to the investment account holder.

The Bank has not applied the following MFRS, Amendments to MFRS and IC Interpretations that have been issued by the MASB as they are not yet effective:

	Effective for annual periods	Date of adoption by the Bank
MFRS 10 Consolidated Financial Statements	On or after 1 January 2013	1 January 2013
MFRS 11 Joint Arrangements	On or after 1 January 2013	1 January 2013
MFRS 12 Disclosure of Interests in Other Entities	On or after 1 January 2013	1 January 2013
MFRS 13 Fair Value Measurement	On or after 1 January 2013	1 January 2013
MFRS 119 Employee Benefits (as amended by IASB in June 2011)	On or after 1 January 2013	1 January 2013
MFRS 127 Separate Financial Statements (as amended by IASB in May 2011)	On or after 1 January 2013	1 January 2013
MFRS 128 Investments in Associates and Joint Ventures (as amended by IASB in May 2011)	On or after 1 January 2013	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	On or after 1 January 2013	1 January 2013
Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards - Government Loans	On or after 1 January 2013	1 January 2013
Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments in MFRS 7)	On or after 1 January 2013	1 January 2013
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	On or after 1 January 2013	1 January 2013
Amendments to MFRS contained in the documents entitled "Annual Improvements in 2009 - 2011 Cycle"	On or after 1 January 2013	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****A. Basis of preparation of the financial statements (continued)**

The Bank has not applied the following MFRS, Amendments to MFRS and IC Interpretations that have been issued by the MASB as they are not yet effective: (continued)

	Effective for annual periods	Date of adoption by the Bank
Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to MFRS 10, MFRS 11 and MFRS 12)	On or after 1 January 2013	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 Consolidated and Separate Financial Statements revised by IASB in December 2003)	On or after 1 January 2013	1 January 2013
Consolidated Financial Statements: Investment Entities (Amendments to MFRS 10)	On or after 1 January 2014	1 January 2014
Disclosure of Interests in Other Entities: Investment Entities (Amendments to MFRS 12)	On or after 1 January 2014	1 January 2014
Separate Financial Statements (2011): Investment Entities (Amendments to MFRS 127)	On or after 1 January 2014	1 January 2014
Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)	On or after 1 January 2014	1 January 2014
Amendments to MFRS 7, Financial Instruments: Disclosures - Mandatory Date of MFRS 9 and Transition Disclosures	On or after 1 January 2015	1 January 2015
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	On or after 1 January 2015	1 January 2015
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	On or after 1 January 2015	1 January 2015

IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine is not applicable to the Bank as it is not relevant to the business of the Bank.

The financial effects of the above MFRS and Amendments to MFRS are still being assessed due to the complexity of these new MFRS and Amendments to MFRS, and their proposed changes.

Material impacts of initial application of a standard, an amendment or an interpretation are discussed below:

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost. It is expected that the Bank's investments in unquoted shares will be measured at fair value through other comprehensive income.

The adoption of MFRS 9 will result in a change in accounting policy. The Bank is currently assessing the financial impact of adopting MFRS 9.

MFRS 13, Fair Value Measurement

MFRS 13, *Fair Value Measurement* establishes the principles for fair value measurement and replaces the existing guidance in different MFRS.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Bank categorises financial instruments as follows:

Financial assets

(a) Financial assets held at fair value through profit or loss

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

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

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised as net trading income in profit or loss. Contractual finance income on financial instruments held at fair value through profit or loss is recognised as finance income in profit or loss.

As at 31 December 2012, financial assets at fair value through profit or loss of the Bank are trading derivatives. There are no financial assets that are specifically designated into this category upon initial recognition.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments i.e. debt instruments that are quoted in an active market and the Bank has the positive intention and ability to hold to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective profit rate method less allowance for impairment loss.

As at 31 December 2012, there are no financial assets of the Bank that are categorised as held-to-maturity investments.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

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

(c) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments i.e. debt instruments that are not quoted in an active market, deposits and placements with banks and other financial institutions, financing and advances and cash and cash equivalents.

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

(d) Financial investments available-for-sale

Financial investments available-for-sale are non-derivative financial assets, comprising investment in equity and debt securities instruments, that are not held for trading and are acquired/held for yield or capital growth or to meet minimum liquid assets requirement pursuant to the New Liquidity Framework and are usually held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in market conditions.

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

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

Financial liabilities

All financial liabilities, except for derivative liabilities (other than a derivative that is a financial guarantee contract or a designated and effective hedging instrument) are subsequently measured at amortised cost using the effective profit rate method.

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

The Bank does not have any non-derivative financial liabilities designated at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

(iii) Financial guarantee contracts

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

(iv) Regular way purchase or sale of financial assets

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

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

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

(v) Derivatives

Derivatives are categorised as trading unless they are designated as hedging instruments. Financial derivatives include forward contracts for the purchase and sale of foreign currencies, profit rate and currency swaps, financial futures and option contracts. These instruments allow the Bank and its customers to transfer, modify or reduce their foreign exchange and profit rate risks.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

(vi) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially transfers all risks and rewards of the asset. On derecognition of a financial assets, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

(vii) Offsetting

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

C. Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less any accumulated depreciation and any impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(ii) Subsequent costs

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the asset when it is probable that the future economic benefits, in excess of the standard performance of the asset before the expenditure was made, will flow to the Bank and the cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful life of the assets concerned.

The estimated useful lives are:

Office equipment and furniture	10 years
Computer equipment	3 - 5 years
Renovation	3 - 5 years

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

D. Operating Lease

Leases where the Bank does not assume substantially all the risks and rewards of ownership, are classified as operating leases. The leased assets are not recognised on the Bank's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are intended.

E. Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and short-term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Cash and cash equivalents are categorised and measured as financing and receivables in accordance with Note 2B(ii)(c).

F. Impairment on financial assets

(i) Held-to-maturity investments

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

(ii) Financial investments available-for-sale

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Impairment on financial assets (continued)

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

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

Impairment loss recognised in profit or loss for investment in an equity instrument is not reversed through profit or loss.

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

(iii) Financing and advances

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired subject to BNM guidelines on "Classification and Impairment Provisions for Loans/Financing" where financing and advances that is past due for more than 90 days or 3 months is deemed impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an "incurred loss event") and that loss event (or events) has an impact on the present value of estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

Individual impairment allowance

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

Collective impairment allowance

With effect from 1 January 2012, the Bank has ceased to maintain collective impairment allowance of at least 1.5% of total outstanding financing and advances, net of individual impairment allowance in line with the transitional provision pursuant to BNM guidelines on Classification and Impairment Provisions for Loans/Financing.

With effect from 1 January 2012, the Bank has adopted MFRS 139, *Financial Instruments: Recognition and Measurement* on collective impairment allowance. Under MFRS 139, financial assets that have not been individually assessed are grouped together and collectively assessed for impairment allowance. These financial assets are grouped according to their credit risk characteristics and collectively assessed for impairment allowance.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Impairment on financial assets (continued)

(iii) Financing and advances (continued)

Impaired financing and advances written off

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

G. Impairment of other assets

The carrying amounts of other assets (except for deferred tax assets, assets arising from employee benefits and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

When indication of impairment exists for other assets, the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

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

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

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

H. Equity instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Employee Benefits

(i) Short term employee benefits

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

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

(ii) Employee leave entitlements

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

(iii) Share-based payment transactions

(a) OCBC Deferred Share Plan

The OCBC Deferred Share Plan (the Plan) was implemented with effect from 2003. Under the Plan, shares of the ultimate holding company of the Bank are awarded to executives of the rank of Assistant Manager and above. A trust is set up to administer the shares purchased under the Plan. Shares granted under the Plan will vest three years from the grant date and will lapse when the staff ceases employment during the vesting period.

(b) OCBC Share Option Scheme 2001

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

(c) OCBC Employee Share Purchase Plan

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

Equity instruments granted are recognised as expense in profit or loss based on the fair value of the equity instrument at the date of the grant. The expense is recognised over the vesting period of the grant, with corresponding entries to the equity. At each reporting date, the Group revises the estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with recognition of a corresponding liability payable to the ultimate holding company of the Bank.

Further details of the equity compensation benefits are disclosed in the financial statements of the immediate holding company.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Provisions

Provisions are recognised when all of the following conditions have been met:

- (a) the Bank has a present legal or constructive obligation as a result of past events;
- (b) it is probable that an outflow of resources will be required to settle the obligation; and
- (c) a reliable estimate of the amount can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Contingent assets

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank. The Bank does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

K. Revenue and expenses

(i) Finance income and expenses

Finance income and expenses are recognised in profit or loss using the effective profit rate method.

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

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

(ii) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held-for-trading. Gains and losses on foreign exchange trading and other transactions are also reported under "other trading income".

(iii) Fees and commission income

Processing fees from financing and commissions are recognised on an accrual basis when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Revenue and expenses (continued)

(iv) Other income

Pursuant to BNM Guidelines on "Late Payment Charges for Islamic Banking Institutions", which is effective from 1 January 2012, the Bank has reclassified all late penalty income which were previously recognised as part of finance income as 'Non Finance Income' in profit or loss.

(v) Dividend income

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

L. Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia (RM), which is the functional currency of the Bank at exchange rates at the dates of the transactions.

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

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

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

M. Income tax

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

(i) Current tax

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

(ii) Deferred tax

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, under the same taxability entity and tax authority.

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Zakat contribution

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

O. Earnings per ordinary share

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

P. Restricted profit sharing investment accounts (RPSIA)

These deposits are used to fund specific financing and follow the principle of Mudharabah which state that profits will be shared with the Bank as mudarib and losses borne by depositors.

Q. Significant accounting judgements and estimation

In the preparation of the financial statements in conformity with MFRS, management has been required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect in determining the amounts recognised in the financial statements include the following:

- (i) Fair value estimation for financial investments available-for-sale (Note 5) and derivative financial assets and liabilities (Note 8) - Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For financial instruments which are not traded in an active market (for example, over-the-counter derivatives), the fair value is determined using valuation techniques, which include the use of mathematical models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Where possible, assumptions and inputs used on valuation techniques include observable data such as risk-free and benchmark discount rates and credit spreads. Where observable market data are not available, judgement is required in the determination of model inputs, which normally incorporate assumptions that other market participants would use in their valuations, including assumptions about profit rate yield curves, exchange rates, volatilities and prepayment and default rates. Judgement is also required in assessing the impairment of financial investments available-for-sale as the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flow.
- (ii) For impaired financing and advances which are individually assessed, judgement by management is required in the estimation of the amount and timing of future cash flows in determining recoverable amount. In estimating these cash flows, judgements are made about the realisable value of collateral pledged and the borrower's financial position. These estimations are based on assumptions and the actual results may differ.
- (iii) Impairment of assets – assessment of impairment of financial investments available-for-sale (Note 5) is made when the investment is impaired. Management judgement is required to evaluate the duration and extent of fair value loss for available-for-sale financial instruments in order to determine if impaired.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

3. CASH AND CASH EQUIVALENTS

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Cash and balances with banks and other financial institutions	23,687	27,739	14,250
Money at call and deposit placements with financial institutions maturing within one month	-	385,000	590,030
	<u>23,687</u>	<u>412,739</u>	<u>604,280</u>
i) By geographical distribution			
Malaysia	19,667	406,183	600,263
Singapore	1,106	553	123
Other ASEAN	293	149	179
Rest of the world	2,621	5,854	3,715
	<u>23,687</u>	<u>412,739</u>	<u>604,280</u>

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

ii) By residual contractual maturity

Maturity within one month	<u>23,687</u>	<u>412,739</u>	<u>604,280</u>
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4. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Licensed banks	-	-	4,624
	<u>-</u>	<u>-</u>	<u>4,624</u>
i) By geographical distribution			
Malaysia	-	-	4,624
	<u>-</u>	<u>-</u>	<u>4,624</u>

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

ii) By residual contractual maturity

Maturity within one month	<u>-</u>	<u>-</u>	<u>4,624</u>
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5. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
<u>At fair value</u>			
Malaysian Government Investment Issues	1,559,531	1,016,684	297,129
Malaysian Government Debt Securities	112,078	90,277	19,137
Foreign Government Debt Securities	49,643	21,387	39,928
Bank Negara Malaysia Islamic Bonds	-	-	33,255
Bank Negara Malaysia Monetary Notes	49,824	99,876	255,527
Islamic Private Debt Securities	375,311	321,428	264,482
Islamic Negotiable Instruments of Deposit	163,893	343,039	202,094
Sanadat Mudharabah Cagamas	4,997	-	-
	<u>2,315,277</u>	<u>1,892,691</u>	<u>1,111,552</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**6. FINANCING AND ADVANCES**

<u>At amortised cost</u>	31 December 2012	31 December 2011	1 January 2011
i) By type	RM'000	RM'000	RM'000
Cash financing	925,933	866,761	441,564
Term financing:			
- House financing	220,494	162,431	146,830
- Syndicated term financing	40,006	201,402	246,813
- Hire purchase receivables	653,077	624,848	558,445
- Other term financing	1,818,627	920,621	625,756
Bills receivable	51,823	30,503	11,944
Revolving credits	915,648	593,888	539,186
Claims on customer under acceptance credits	226,072	203,725	203,469
Other financing	8,011	29,610	45,060
Less : Unearned income	(490,445)	(384,101)	(263,334)
Gross financing and advances	<u>4,369,246</u>	<u>3,249,688</u>	<u>2,555,733</u>
Allowance for financing and advances			
- Individual impairment	(32,333)	(28,811)	(31,088)
- Collective impairment	(41,191)	(31,564)	(24,741)
Net financing and advances	<u>4,295,722</u>	<u>3,189,313</u>	<u>2,499,904</u>

Included in financing and advances is the specific business venture funded by the Restricted Profit Sharing Investment Accounts ("RPSIA") arrangement between the Bank and its parent bank, OCBCM. The parent bank, being the RPSIA depositor, is exposed to risks and rewards of the business venture and will account for all the individual impairment allowance arising thereon whereas the collective impairment allowance is borne by the Bank.

As at 31 December 2012, the gross exposure relating to RPSIA financing is RM318 million (2011: RM276 million; 1 January 2011: RM205 million) and the collective impairment relating to this RPSIA of RM3.0 million (2011: RM2.7 million; 1 January 2011: RM3.1 million) is recognised in profit or loss.

ii) By concept	31 December 2012	31 December 2011	1 January 2011
	RM'000	RM'000	RM'000
Ijarah Thumma Al Bai	581,420	567,789	506,125
Bai' Bithaman Ajil	1,082,145	909,782	717,586
Bai' Inah	679,481	643,302	331,865
Murabahah	621,637	256,403	347,794
Ijarah Muntahiah Bi Al-Tamlik	976,952	572,301	483,287
Musharakah	259,301	173,314	94,365
Other principles	168,310	126,797	74,711
	<u>4,369,246</u>	<u>3,249,688</u>	<u>2,555,733</u>
iii) By type of customer			
Domestic business enterprises			
- Small and medium enterprises	1,102,112	579,072	391,833
- Others	2,296,061	1,853,036	1,642,764
Individuals	935,176	800,760	456,652
Foreign entities	35,897	16,820	64,484
	<u>4,369,246</u>	<u>3,249,688</u>	<u>2,555,733</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**6. FINANCING AND ADVANCES (continued)**

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
iv) By profit rate sensitivity			
Fixed rate			
- House financing	29,695	37,647	46,866
- Hire purchase receivables	581,420	567,789	506,125
- Other fixed rate financing	1,576,156	1,292,623	907,365
Variable rate			
- BFR plus	313,986	173,314	72,904
- Cost plus	1,867,989	1,178,315	1,022,473
	<u>4,369,246</u>	<u>3,249,688</u>	<u>2,555,733</u>
v) By sector			
Agriculture	291,934	364,130	461,853
Mining and quarrying	205,707	294,597	269,689
Manufacturing	983,050	845,094	631,389
Electricity, gas and water	71,723	100,317	100,116
Construction	128,037	99,276	76,959
Real estate	890,045	251,133	80,310
Wholesale & retail trade and restaurants & hotels	421,720	205,292	200,770
Transport, storage and communication	148,964	181,447	152,264
Finance, insurance and business services	117,086	58,739	32,129
Community, social and personal services	110,647	46,341	29,348
Household, of which:			
- Purchase of residential properties	217,189	142,884	116,614
- Purchase of non-residential properties	12,577	5,326	2,754
- Others	711,234	655,079	339,163
Others	59,333	33	62,375
	<u>4,369,246</u>	<u>3,249,688</u>	<u>2,555,733</u>
vi) By geographical distribution			
Malaysia	4,337,570	3,235,397	2,493,976
Singapore	1,451	-	61,757
Other ASEAN	30,073	14,291	-
Rest of the World	152	-	-
	<u>4,369,246</u>	<u>3,249,688</u>	<u>2,555,733</u>
The analysis by geography is determined based on where the credit risk resides.			
vii) By period overdue			
Maturity within one year	1,338,966	947,066	913,241
One to five years	1,572,074	1,498,498	991,355
Over five years	1,458,206	804,124	651,137
	<u>4,369,246</u>	<u>3,249,688</u>	<u>2,555,733</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**7. IMPAIRED FINANCING AND ADVANCES**

(a) Movements in impaired financing and advances

	2012	2011
	RM'000	RM'000
Balance at 1 January	47,484	45,444
Classified as impaired during the year	76,755	49,985
Reclassified as performing	(13,021)	(8,353)
Amount recovered	(19,807)	(13,582)
Amount written off	(36,473)	(26,010)
Balance at 31 December	<u>54,938</u>	<u>47,484</u>
Individual impairment allowance	(32,333)	(28,811)
Collective impairment allowance	(215)	(183)
Net impaired financing and advances	<u>22,390</u>	<u>18,490</u>

i) By sector

	31 December	31 December	1 January
	2012	2011	2011
	RM'000	RM'000	RM'000
Agriculture	597	126	520
Manufacturing	16,470	21,386	24,016
Construction	3,158	4,468	4,127
Real estate	-	-	7
Wholesale & retail trade and restaurants & hotels	9,520	4,955	3,458
Transport, storage and communication	1,265	353	508
Finance, insurance and business services	2,457	1,641	987
Community, social and personal services	672	1,033	149
Household, of which:			
- Purchase of residential properties	2,507	2,087	3,312
- Others	18,050	11,435	8,360
Others	242	-	-
	<u>54,938</u>	<u>47,484</u>	<u>45,444</u>

ii) By geographical distribution

Malaysia	<u>54,938</u>	<u>47,484</u>	<u>45,444</u>
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iii) Included in the impaired financing and advances above is an amount of RM7.0 million (2011: RM9.5 million) of impaired financing and advances without individual impairment allowance as the financing recoverable amount exceeds the carrying amount.

iv) By period overdue

	31 December	31 December	1 January
	2012	2011	2011
	RM'000	RM'000	RM'000
Up to 90 days	11,362	13,398	7,860
Over 90 days to 180 days	22,607	11,401	8,474
Over 180 days to 270 days	1,768	2,346	2,109
Over 270 days	19,201	20,339	27,001
	<u>54,938</u>	<u>47,484</u>	<u>45,444</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**7. IMPAIRED FINANCING AND ADVANCES (continued)**

(a) Movements in impaired financing and advances (continued)

v) By collateral type

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Property	9,668	2,558	3,244
Deposits	-	412	-
Machinery	2,307	18,197	21,672
Secured - others	9,545	9,368	6,025
Unsecured - corporate and other guarantees	14,401	2,656	3,099
Unsecured - clean	19,017	14,293	11,404
	54,938	47,484	45,444

(b) Movements in allowance for impaired financing and advances

	2012 RM'000	2011 RM'000
<u>Individual impairment allowance</u>		
Balance at 1 January	28,811	31,088
Made during the year	59,244	37,580
Amount written back	(20,294)	(13,801)
Amount written off	(35,428)	(26,010)
Profit income recognised on impaired financing	-	(46)
Balance at 31 December	32,333	28,811
	2012 RM'000	2011 RM'000
<u>Collective impairment allowance</u>		
Balance at 1 January	31,564	24,741
Made during the year	9,627	6,823
Balance at 31 December	41,191	31,564
As % of gross financing and advances less individual impairment allowance	0.95%	0.98%

(c) Impairment allowances by sector

31 December 2012	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Individual impairment allowance charged RM'000	Individual impairment allowance written off RM'000
Agriculture	2,771	183	145	86
Mining and quarrying	1,954	-	-	-
Manufacturing	9,275	6,522	5,780	9,214
Electricity, gas and water	681	-	-	-
Construction	1,206	1,065	336	33
Real estate	8,453	-	1	1
Wholesale & retail trade and restaurants & hotels	3,972	3,552	3,196	133
Transport, storage and communication	1,408	701	778	-
Finance, insurance and business services	1,107	551	385	220
Community, social and personal services	1,050	77	73	13
Household, of which:				
- Purchase of residential properties	2,056	679	429	106
- Purchase of non-residential properties	119	-	-	-
- Others	6,578	18,672	47,807	25,622
Others	561	331	314	-
	41,191	32,333	59,244	35,428

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**7. IMPAIRED FINANCING AND ADVANCES (continued)**

(c) Impairment allowances by sector (continued)

	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Individual impairment allowance charged RM'000	Individual impairment allowance written off RM'000
31 December 2011				
Agriculture	3,567	126	52	50
Mining and quarrying	2,887	-	-	-
Manufacturing	8,155	12,958	4,391	7,400
Electricity, gas and water	983	-	-	-
Construction	960	1,364	1,244	948
Real estate	2,461	-	1	-
Wholesale & retail trade and restaurants & hotels	2,004	831	352	47
Transport, storage and communication	1,777	113	65	304
Finance, insurance and business services	571	469	157	-
Community, social and personal services	448	640	858	-
Household, of which:				
- Purchase of residential properties	1,393	705	616	473
- Purchase of non-residential properties	52	-	-	-
- Others	6,306	11,605	29,844	16,788
	<u>31,564</u>	<u>28,811</u>	<u>37,580</u>	<u>26,010</u>
1 January 2011				
Agriculture	4,524	200	74	-
Mining and quarrying	2,643	-	-	-
Manufacturing	6,007	18,427	7,345	3,204
Electricity, gas and water	981	-	-	-
Construction	740	1,475	867	2,591
Real estate	787	7	1	84
Wholesale & retail trade and restaurants & hotels	1,961	650	563	2,106
Transport, storage and communication	1,487	508	1	-
Finance, insurance and business services	312	318	317	-
Community, social and personal services	287	69	54	177
Household, of which:				
- Purchase of residential properties	1,134	928	306	161
- Purchase of non-residential properties	27	-	23	27
- Others	3,242	8,360	24,571	15,154
Others	609	146	4,792	7
	<u>24,741</u>	<u>31,088</u>	<u>38,914</u>	<u>23,511</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**7. IMPAIRED FINANCING AND ADVANCES (continued)**

(d) Impairment allowances by geographical distribution

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
<u>Individual impairment allowance</u>			
Malaysia	32,333	28,811	31,088
<u>Collective impairment allowance</u>			
Malaysia	40,890	31,424	24,136
Singapore	14	-	605
Other ASEAN	286	140	-
Rest of the World	1	-	-
	41,191	31,564	24,741

8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000
31 December 2012			
<u>Trading</u>			
Foreign exchange derivatives			
- forward	611,834	3,741	3,693
- swaps	1,354,131	1,851	1,850
	1,965,965	5,592	5,543
31 December 2011			
<u>Trading</u>			
Foreign exchange derivatives			
- forward	1,005,936	12,217	12,203
- swaps	59	3	-
- options	88,363	1,230	1,227
	1,094,358	13,450	13,430
1 January 2011			
<u>Trading</u>			
Foreign exchange derivatives			
- forward	157,483	271	5,772
- swaps	113,402	5,513	-
- options	87,258	1,856	1,856
	358,143	7,640	7,628

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

9. OTHER ASSETS

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Profit receivable	20,056	13,315	9,432
Other receivables, deposits and prepayments	1,968	5,590	5,689
Shared services fee receivable from holding company (Note 27)	139	110	112
Amount due from holding company (Note 27)	72,433	27,604	30,600
	<u>94,596</u>	<u>46,619</u>	<u>45,833</u>

The amount due from holding company is unsecured, profit-free and repayable on demand.

10. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (Revised - 1994), the amounts of which are determined as set percentages of total eligible liabilities.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**11. PROPERTY, PLANT AND EQUIPMENT**

2012	Office equipment and furniture RM'000	Computer equipment RM'000	Renovation RM'000	Total RM'000
<u>Cost</u>				
At 1 January	3,531	4,554	4,924	13,009
Additions	725	1,990	1,243	3,958
Disposals/Write-offs	(25)	(15)	-	(40)
At 31 December	<u>4,231</u>	<u>6,529</u>	<u>6,167</u>	<u>16,927</u>
<u>Accumulated depreciation</u>				
At 1 January	974	2,425	3,518	6,917
Depreciation charge for the year	393	1,191	421	2,005
Disposals/Write-offs	(8)	(12)	-	(20)
At 31 December	<u>1,359</u>	<u>3,604</u>	<u>3,939</u>	<u>8,902</u>
Carrying amount as at 31 December	<u>2,872</u>	<u>2,925</u>	<u>2,228</u>	<u>8,025</u>
2011				
<u>Cost</u>				
At 1 January	3,312	4,083	4,288	11,683
Additions	39	344	438	821
Disposals/Write-offs	-	(11)	-	(11)
Reinstatement *	180	138	198	516
At 31 December	<u>3,531</u>	<u>4,554</u>	<u>4,924</u>	<u>13,009</u>
<u>Accumulated depreciation</u>				
At 1 January	445	1,316	2,100	3,861
Depreciation charge for the year	349	975	1,220	2,544
Disposals/Write-offs	-	(4)	-	(4)
Reinstatement *	180	138	198	516
At 31 December	<u>974</u>	<u>2,425</u>	<u>3,518</u>	<u>6,917</u>
Carrying amount as at 31 December	<u>2,557</u>	<u>2,129</u>	<u>1,406</u>	<u>6,092</u>

* This refers to the reinstatement of costs and accumulated depreciation on assets previously purchased from the holding company at net book value.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**12. DEFERRED TAX ASSETS**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	Assets			Liabilities			Net		
	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Excess of capital allowance over depreciation	-	-	-	(1,017)	(840)	(1,010)	(1,017)	(840)	(1,010)
Collective impairment allowance on financing and advances	2,406	1,706	-	-	-	-	2,406	1,706	-
Change in fair value of financial instruments	(2,889)	(1,434)	(34)	-	-	-	(2,889)	(1,434)	(34)
Other temporary differences	2,935	2,403	5,834	-	-	-	2,935	2,403	5,834
Net tax assets/ (liabilities)	2,452	2,675	5,800	(1,017)	(840)	(1,010)	1,435	1,835	4,790

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**12. DEFERRED TAX ASSETS (continued)**

	At 1 January RM'000	Recognised in profit or loss (Note 28) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
2012				
Excess of capital allowance over depreciation	(840)	(177)	-	(1,017)
Collective impairment allowance on financing and advances	1,706	700	-	2,406
Change in fair value of financial instruments	(1,434)	-	(1,455)	(2,889)
Other temporary differences	2,403	532	-	2,935
	<u>1,835</u>	<u>1,055</u>	<u>(1,455)</u>	<u>1,435</u>
2011				
Excess of capital allowance over depreciation	(1,010)	170	-	(840)
Collective impairment allowance on financing and advances	-	1,706	-	1,706
Change in fair value of financial instruments	(34)	-	(1,400)	(1,434)
Other temporary differences	5,834	(3,431)	-	2,403
	<u>4,790</u>	<u>(1,555)</u>	<u>(1,400)</u>	<u>1,835</u>

13. DEPOSITS FROM CUSTOMERS

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
i) By type of deposit			
<u>Non-Mudharabah Fund</u>			
Demand deposits	1,753,980	1,352,875	1,066,695
Savings deposits	325,877	328,745	331,220
General investment deposits	7,123	7,224	100
Negotiable instruments of deposit	71,001	68,546	120,044
Structured investments	41,126	47,228	47,862
Wakalah short term deposits	153,646	145,712	-
	<u>2,352,753</u>	<u>1,950,330</u>	<u>1,565,921</u>
<u>Mudharabah Fund</u>			
General investment deposits	2,127,089	2,358,312	975,904
Islamic short term Mudharabah investments	-	138,454	379,065
	<u>2,127,089</u>	<u>2,496,766</u>	<u>1,354,969</u>
	<u>4,479,842</u>	<u>4,447,096</u>	<u>2,920,890</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

13. DEPOSITS FROM CUSTOMERS (continued)

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
ii) By type of customers			
Government and statutory bodies	14,332	784,332	412,004
Business enterprises	2,556,394	2,709,068	1,568,276
Individuals	1,290,437	553,041	449,759
Foreign entities	20,852	11,585	10,465
Others	597,827	389,070	480,386
	<u>4,479,842</u>	<u>4,447,096</u>	<u>2,920,890</u>
iii) By maturity structure			
Maturity within six months	3,968,677	3,653,106	2,776,828
Six months to one year	411,246	696,812	41,906
One year to three years	42,469	42,059	7,988
Three years to five years	76	166	41,378
Over 5 years	57,374	54,953	52,790
	<u>4,479,842</u>	<u>4,447,096</u>	<u>2,920,890</u>

14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
<u>Non-Mudharabah Fund</u>			
Licensed banks	1,122,783	330,536	595,240
<u>Mudharabah Fund</u>			
Licensed banks	571,099	276,115	204,606
	<u>1,693,882</u>	<u>606,651</u>	<u>799,846</u>

Included in the deposits and placements of banks and other financial institutions are the Restricted Profit Sharing Investment Accounts ('RPSIA') placed by OCBCM amounting to RM318 million (2011: RM276 million; 1 January 2011: RM205 million) at profit rates ranging from 1.92% to 4.31% (2011: 2.08% to 5.03%; 1 January 2011: 1.87% to 4.31%) per annum. The RPSIA is a contract based on the Mudharabah principle to finance a specific business venture where the investor solely provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture is shared based on a pre-agreed ratio and losses shall be borne by the depositors.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

15. SUBORDINATED BOND

On 1 December 2008, the Bank issued a RM200 million non-tradeable non-transferable redeemable Islamic subordinated bond due in 2021 and non-callable until 2016 under the principle of Mudharabah (profit sharing contract) at a projected constant rate of 5.45% per annum for the period from the issue date up to 23 November 2016 and a step up of 100 basis points commencing from 24 November 2016 and ending on the date of full redemption of the subordinated bond, subject to the availability of profits and the investors' entitlement under the profit sharing ratio. Unless the call option is exercised by the Bank, the subordinated bond shall be redeemed in full by five equal and consecutive annual payments. The call option, subject to prior approval from Bank Negara Malaysia and Monetary Authority of Singapore (MAS), is redeemable in whole but not in part on 24 November 2016 and on every Profit Payment Date thereafter. The subordinated bond was fully subscribed by its holding company, OCBCM.

The restricted subordinated bond qualifies as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank up to a maximum of 50% of total Tier 1 capital.

16. OTHER LIABILITIES

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Profit payable	42,120	18,465	9,738
Other accruals and charges	45,178	64,272	55,787
Shared services fee payable to holding company (Note 27)	6,141	4,921	3,980
	<u>93,439</u>	<u>87,658</u>	<u>69,505</u>

17. SHARE CAPITAL

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
<u>Authorised</u> Ordinary shares of RM1 each	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
<u>Issued and fully paid</u> Balance at 1 January	85,000	85,000	85,000
Issued to holding company	30,000	-	-
Balance at 31 December	<u>115,000</u>	<u>85,000</u>	<u>85,000</u>

18. RESERVES

Detailed breakdown of the reserves are shown in the Statement of Changes in Equity.

The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act, 1983 and is not distributable as cash dividends.

Fair value reserve captures the fair value adjustment on financial investments which are classified as available-for-sale and its corresponding effect on deferred tax. The reserve is non-distributable and cumulative fair value adjustments will be reversed to profit or loss upon disposal of the assets.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

19. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2012	2011
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	145,489	108,446
(ii) Other funds	191,445	123,240
	<u>336,934</u>	<u>231,686</u>
(i) Income derived from investment of general investment deposits		
<u>Finance income and hibah</u>		
Financing and advances	105,888	78,537
Financial investments available-for-sale	32,669	20,986
Deposits and placements with banks and other financial institutions	6,551	7,273
	<u>145,108</u>	<u>106,796</u>
<u>Other operating income</u>		
Net gain from sale of financial investments available-for-sale	304	1,366
Others	77	284
	<u>145,489</u>	<u>108,446</u>
Of which:		
Financing income earned on impaired financing	-	20
(ii) Income derived from investment of other funds		
<u>Finance income and hibah</u>		
Financing and advances	140,580	89,249
Financial investments available-for-sale	42,943	23,850
Deposits and placements with banks and other financial institutions	7,481	8,265
	<u>191,004</u>	<u>121,364</u>
<u>Other operating income</u>		
Net gain from sale of financial investments available-for-sale	332	1,553
Others	109	323
	<u>191,445</u>	<u>123,240</u>
Of which:		
Financing income earned on impaired financing	-	23

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**20. INCOME DERIVED FROM THE INVESTMENT OF SHAREHOLDER'S FUNDS**

	2012	2011
	RM'000	RM'000
<u>Finance income and hibah</u>		
Financing and advances	16,377	10,583
Financial investments available-for-sale	5,012	2,828
Deposits and placements with banks and other financial institutions	829	980
	<u>22,218</u>	<u>14,391</u>
<u>Other operating income</u>		
Net gain from sale of financial investments available-for-sale	36	184
Others	12	38
<u>Other trading income</u>		
Net gain/(loss) on instruments held-for-trading		
- Foreign currency	1,699	7,820
- Trading derivatives	6,808	(2,419)
- Revaluation of derivatives	(865)	(82)
<u>Fee and commission income</u>		
Commission	12,969	10,162
Service charges and fees	10,072	8,570
	<u>52,949</u>	<u>38,664</u>
Of which:		
Financing income earned on impaired financing	<u>-</u>	<u>3</u>

21. IMPAIRMENT ALLOWANCE ON FINANCING AND ADVANCES

	2012	2011
	RM'000	RM'000
Individual impairment allowance		
- Made during the financial year	59,244	37,580
- Written back	(20,294)	(13,801)
Collective impairment allowance		
- Made during the financial year	9,627	6,823
Impaired financing recovered	(8,309)	(6,492)
	<u>40,268</u>	<u>24,110</u>

22. INCOME ATTRIBUTABLE TO DEPOSITORS

	2012	2011
	RM'000	RM'000
Deposits from customers		
- Mudharabah Fund	112,031	66,747
- Non-Mudharabah Fund	32,885	24,540
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	13,917	8,040
- Non-Mudharabah Fund	7,095	6,075
	<u>165,928</u>	<u>105,402</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**23. FINANCE INCOME AND EXPENSE ANALYSED BY CATEGORY OF FINANCIAL INSTRUMENTS**

	2012	2011
	RM'000	RM'000
<u>Finance income</u>		
Financing and advances	262,845	178,369
Financial investments available-for-sale	80,624	47,664
Deposits and placements with banks and other financial institutions	14,861	16,518
	<u>358,330</u>	<u>242,551</u>
<u>Finance expense</u>		
Liabilities at amortised cost	165,928	105,402

24. PERSONNEL AND OTHER OPERATING EXPENSES

	2012	2011
	RM'000	RM'000
Personnel expenses (i)	34,842	36,751
Establishment expenses (ii)	7,885	6,328
Marketing expenses (iii)	3,003	1,945
Administrative and general expenses (iv)	78,996	68,492
	<u>124,726</u>	<u>113,516</u>

The above expenditure includes the following statutory disclosures:

Auditors' remuneration:

- Statutory audit	70	70
- Other services	25	40
Depreciation of property, plant and equipment	2,005	2,544
Directors' remuneration [^] (Note 25)	1,170	1,143
Rental of premises	1,776	1,651

[^] Excluding benefits-in-kind

(i) Personnel expenses

Wages, salaries and bonus	27,218	28,943
Defined contribution plan (EPF)	4,711	4,368
Equity compensation benefits	227	207
Other personnel costs	2,686	3,233
	<u>34,842</u>	<u>36,751</u>

(ii) Establishment expenses

Rental of premises	1,776	1,651
Depreciation of property, plant and equipment	2,005	2,544
Repair and maintenance	390	280
Others	3,714	1,853
	<u>7,885</u>	<u>6,328</u>

(iii) Marketing expenses

Transport and travelling	547	490
Advertising and business promotion	2,382	1,364
Others	74	91
	<u>3,003</u>	<u>1,945</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**24. PERSONNEL AND OTHER OPERATING EXPENSES (continued)**

	2012	2011
	RM'000	RM'000
(iv) <u>Administrative and general expenses</u>		
Printing and stationery	748	613
Postage and courier	567	451
Telephone, telex and fax	793	174
Legal and consultancy fees	436	499
Shared service fees to holding company (Note 27)	59,645	51,277
Transaction processing fees* (Note 27)	15,225	14,715
Other administrative and general expenses	1,582	763
	<u>78,996</u>	<u>68,492</u>
Total overhead expenses	<u>124,726</u>	<u>113,516</u>

* Transaction processing fees were incurred for transactions processed by e2 Power Sdn Bhd, a related company.

25. DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

Forms of remuneration in aggregate for all Directors and members of Shariah Committee charged to profit or loss for the financial year are as follows:

			2012			2011
			RM'000			RM'000
Shariah Committee			<u>182</u>			<u>142</u>
	Salaries & bonuses	Fees		Other employee benefits	Benefits-in-kind	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012						
<u>Executive Director (CEO)</u>						
Syed Abdull Aziz Jailani Bin Syed Kechik	768	-	123	119	5	1,015
<u>Non-Executive Directors</u>						
Tan Sri Dato' Nasruddin bin Bahari	-	40	-	-	-	40
Dato' Ooi Sang Kuang	-	16	-	-	-	16
Tan Siok Choo	-	40	-	-	-	40
Dr. Raja Lope Bin Raja Shahrome	-	24	-	-	-	24
Lai Teck Poh	-	40	-	-	-	40
	<u>768</u>	<u>160</u>	<u>123</u>	<u>119</u>	<u>5</u>	<u>1,175</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**25. DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION (continued)**

	Salaries & bonuses	Fees	EPF	Other employee benefits	Benefits- in-kind	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011						
<u>Executive Director (CEO)</u>						
Syed Abdull Aziz Jailani Bin Syed Kechik	791	-	127	77	5	1,000
<u>Non-Executive Directors</u>						
Tan Sri Dato' Nasruddin bin Bahari	-	40	-	-	-	40
Tan Siok Choo	-	40	-	-	-	40
David Wong Cheong Fook	-	14	-	-	-	14
Dr. Raja Lope Bin Raja Shahrome	-	24	-	-	-	24
Lai Teck Poh	-	30	-	-	-	30
	791	148	127	77	5	1,148

26. ZAKAT

The Bank only pays zakat on its business. The Bank does not pay zakat on behalf of depositors or shareholders.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

For the purposes of these financial statements, parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties of the Bank are as follows:

- Ultimate holding company, Oversea-Chinese Banking Corporation Limited;
- Holding company, OCBC Bank (Malaysia) Berhad;
- Other related companies within the Oversea-Chinese Banking Corporation Limited Group; and
- Key management (including Directors) of the Bank (including their immediate family members) and entities in which they have control, joint control or significant influence.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

- (i) The significant related party transactions of the Bank during the financial year and balances at reporting date are as follows:

	Ultimate Holding Company	Holding Company	Other Related Companies	Key Management
	RM'000	RM'000	RM'000	RM'000
2012				
<u>Income</u>				
Profit income on financing and advances	-	-	-	44
Shared service fees	-	1,487	-	-
Other fee and commission	-	-	1,008	-
	<u>-</u>	<u>1,487</u>	<u>1,008</u>	<u>44</u>
<u>Expenditure</u>				
Profit expense on general investment deposits	-	-	10	173
Profit expense on other deposits	-	-	3,541	-
Profit expense on negotiable instruments of deposit	-	2,421	-	-
Profit expense on deposits and placements	175	15,690	-	-
Profit expense on subordinated bond	-	10,900	-	-
Shared service fees (Note 24)	-	59,645	-	-
Transaction processing fees (Note 24)	-	-	15,225	-
Rental expenses	-	45	-	-
Personnel and other expenses	-	-	225	-
	<u>175</u>	<u>88,701</u>	<u>19,001</u>	<u>173</u>
2011				
<u>Income</u>				
Profit income on financing and advances	-	-	-	39
Shared service fees received/receivable	-	1,386	-	-
Other fee and commission	-	-	2,538	-
	<u>-</u>	<u>1,386</u>	<u>2,538</u>	<u>39</u>
<u>Expenditure</u>				
Profit expense on general investment deposits	-	-	1	93
Profit expense on other deposits	-	-	2,494	1
Profit expense on negotiable instruments of deposit	-	2,929	-	-
Profit expense on deposits and placements	104	9,833	-	-
Profit expense on subordinated bond	-	10,900	-	-
Shared service fees (Note 24)	-	51,277	-	-
Transaction processing fees (Note 24)	-	-	14,715	-
Rental expenses	-	53	-	-
Personnel and other expenses	-	-	74	-
	<u>104</u>	<u>74,992</u>	<u>17,284</u>	<u>94</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

- (i) The significant related party transactions of the Bank during the financial year and balances at reporting date are as follows (continued):

	Ultimate Holding Company	Holding Company	Other Related Companies	Key Management
	RM'000	RM'000	RM'000	RM'000
31 December 2012				
<u>Amount due from</u>				
Deposits and placements with banks and other financial institutions	1,378	-	21	-
Shared service fees receivable (Note 9)	-	139	-	-
Financing and advances	-	-	-	715
Advances (Note 9)	-	72,433	-	-
	<u>1,378</u>	<u>72,572</u>	<u>21</u>	<u>715</u>
<u>Amount due to</u>				
Demand deposits and general investment deposits	-	-	5,004	5,516
Other deposits	-	-	62,394	67
Negotiable instruments of deposit	-	57,374	-	-
Deposits and placements of banks and other financial institutions	58,617	1,292,561	-	-
Subordinated bond (Note 15)	-	200,000	-	-
Profit payable	-	3,420	45	86
Shared service fees payable (Note 16)	-	6,141	-	-
Other payables	25	-	-	-
	<u>58,642</u>	<u>1,559,496</u>	<u>67,443</u>	<u>5,669</u>
<u>Commitments</u>				
Foreign exchange derivatives	-	980,840	422	-
31 December 2011				
<u>Amount due from</u>				
Deposits and placements with banks and other financial institutions	680	-	22	-
Shared service fees receivable (Note 9)	-	110	-	-
Financing and advances	-	-	-	852
Advances (Note 9)	-	27,604	9	-
	<u>680</u>	<u>27,714</u>	<u>31</u>	<u>852</u>
<u>Amount due to</u>				
Demand deposits and general investment deposits	-	-	1,533	2,950
Other deposits	-	-	35,550	14
Negotiable instruments of deposit	-	54,952	-	-
Deposits and placements of banks and other financial institutions	24,550	518,608	-	-
Subordinated bond (Note 15)	-	200,000	-	-
Profit payable	-	1,258	-	8
Shared service fees payable (Note 16)	-	4,921	-	-
Transaction processing fees payable	-	-	46	-
	<u>24,550</u>	<u>779,739</u>	<u>37,129</u>	<u>2,972</u>
<u>Commitments</u>				
Foreign exchange derivatives	-	497,123	604	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

- (i) The significant related party transactions of the Bank during the financial year and balances at reporting date are as follows (continued):

	Ultimate Holding Company	Holding Company	Other Related Companies	Key Management
	RM'000	RM'000	RM'000	RM'000
1 January 2011				
<u>Amount due from</u>				
Deposits and placements with banks and other financial institutions	282	-	21	-
Shared service fees receivable (Note 9)	-	112	-	-
Financing and advances	-	-	-	224
Advances (Note 9)	-	30,600	-	-
	<u>282</u>	<u>30,712</u>	<u>21</u>	<u>224</u>
<u>Amount due to</u>				
Demand deposits and general investment deposits	212	-	8,709	3,088
Other deposits	-	-	-	104
Negotiable instruments of deposit	-	52,789	-	-
Deposits and placements of banks and other financial institutions	23,964	520,883	-	-
Subordinated bond (Note 15)	-	200,000	-	-
Profit payable	-	2,005	-	9
Shared service fees payable (Note 16)	-	3,980	-	-
Transaction processing fees payable	-	-	769	-
	<u>24,176</u>	<u>779,657</u>	<u>9,478</u>	<u>3,201</u>
<u>Commitments</u>				
Foreign exchange derivatives	-	141,503	2,992	-

- ii) Credit exposure arising from credit transactions with connected parties

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

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Aggregate value of outstanding credit exposures with connected parties[^]			
Credit facility and leasing (except guarantee)	2,188	611	743
Commitments and contingencies*	2,504	2,392	4,784
Total credit exposures	<u>4,692</u>	<u>3,003</u>	<u>5,527</u>
Percentage of outstanding credit exposures to connected parties			
- As a proportion of total credit exposures	<u>0.09%</u>	<u>0.08%</u>	<u>0.22%</u>
- Impaired or in default	<u>-</u>	<u>-</u>	<u>-</u>

[^] Comprises total outstanding balance and unutilised limit

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

iii) Key management personnel compensation

	2012	2011
	RM'000	RM'000
Short-term employee benefits	3,332	3,089
Fees and meeting allowances	160	148
Share-based benefits	192	145
	<u>3,684</u>	<u>3,382</u>

Key management personnel comprises persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly, including Directors of the Bank.

28. INCOME TAX EXPENSE

	2012	2011
	RM'000	RM'000
Malaysian income tax		
- Current year	15,369	4,233
- Over provision in prior years	(1,472)	-
Deferred tax		
- Relating to origination and reversal of temporary differences	(2,745)	1,555
- Under provision in prior years	1,690	-
Recognised in profit or loss (Note 12)	<u>(1,055)</u>	<u>1,555</u>
	<u>12,842</u>	<u>5,788</u>

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

	2012	2011
	%	%
Malaysian tax rate at 25%	25.0	25.0
Tax effects of:		
Expenses not deductible for tax purposes	0.3	1.6
Income not subject to tax	(3.9)	(6.0)
(Over)/Under provision in prior years		
- Income tax	(4.0)	(27.6)
- Deferred tax	4.4	22.7
Average effective tax rate	<u>21.8</u>	<u>15.7</u>

29. BASIC EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share of the Bank were calculated based on the net profit attributable to the ordinary shareholder and the weighted average number of ordinary shares in issue during the year.

	2012	2011
Net profit for the year (RM'000)	<u>46,094</u>	<u>21,514</u>
Weighted average number of ordinary shares in issue ('000)	<u>98,279</u>	<u>85,000</u>
Basic earnings per share (sen)	<u>46.90</u>	<u>25.31</u>

There were no dilutive potential ordinary shares during the year.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**30. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. There were no material losses 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 Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (Basel II) - Internal Ratings Approach.

	Principal Amount RM'000	Positive Fair Value Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Amount RM'000
31 December 2012				
Direct credit substitutes	12,424		12,424	22,502
Transaction-related contingent items	77,841		38,921	39,932
Short-term self-liquidating trade-related contingencies	43,590		8,718	5,957
Foreign exchange related contracts				
- Less than one year	1,966,377	5,515	13,998	3,239
Formal standby facilities and credit lines				
- Maturity not exceeding one year	3,550		3,292	1,600
- Maturity exceeding one year	155,688		120,684	37,355
Other unconditionally cancellable commitments	711,651		3,732	1,713
	2,971,121	5,515	201,769	112,298
31 December 2011				
Direct credit substitutes	-		-	-
Transaction-related contingent items	100,171		50,086	38,660
Short-term self-liquidating trade-related contingencies	29,245		5,849	3,263
Forward asset purchases	30,000		30,000	27,887
Foreign exchange related contracts				
- Less than one year	1,050,322	17,255	29,334	9,951
- One year to less than five years	3,806	2,579	2,921	2,922
Formal standby facilities and credit lines				
- Maturity not exceeding one year	1,894		1,894	984
- Maturity exceeding one year	27,099		27,099	7,360
Other unconditionally cancellable commitments	650,110		13,693	6,869
	1,892,647	19,834	160,876	97,896
1 January 2011				
Direct credit substitutes	4,353		4,353	4,340
Transaction-related contingent items	81,288		40,644	30,570
Short-term self-liquidating trade-related contingencies	29,218		5,844	6,229
Foreign exchange related contracts				
- Less than one year	261,246	5,775	9,810	8,611
- One year to less than five years	47,501	5,728	8,258	1,088
Formal standby facilities and credit lines				
- Maturity not exceeding one year	2,210		442	331
- Maturity exceeding one year	8,372		6,969	2,377
Other unconditionally cancellable commitments	627,618		-	-
	1,061,806	11,503	76,320	53,546

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**31. LEASE COMMITMENTS**

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

	31 December 2012 RM'000	31 December 2011 RM'000
Less than one year	2,013	1,445
One to five years	1,613	1,691
	<u>3,626</u>	<u>3,136</u>

32. CAPITAL COMMITMENTS

	31 December 2012 RM'000	31 December 2011 RM'000
Capital expenditure in respect of property, plant and equipment		
- Authorised and contracted for	2,875	1,091
- Authorised but not contracted for	10,834	11,240
	<u>13,709</u>	<u>12,331</u>

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The risk management framework and the policies used are in respect of those used by the holding company.

Credit Risk Management

Credit risk arises from the risk of loss of principal or income on the failure of an obligor or counterparty to meet their contractual obligations. Such risk arises from financing, underwriting, trading, investment and other activities undertaken by the Bank. Through the Group's risk management structure established at the Bank's holding company ("OCBCM"), the Bank shares the services of OCBCM's Credit Risk Management function to monitor credit risk and this includes credit approval, credit reviews, impaired asset management, portfolio reviews and credit policy development.

A delegated credit approval authority limit structure, approved by the Board of Directors, is in place, whereby all credit extensions are jointly approved by authorised officers from line management as well as credit risk management. This "co-grantor" approach encompasses target market definition and risk acceptance criteria, credit risk grading, product programs and detailed financial analysis of the customer.

Credit exposures of various risk dimensions including impaired financing and advances are reported to the Board of Directors. These include exposures by industry, risk grade, business segment, financing maturity, secured/unsecured position and product. Prudential limits are placed on exposures to cross-border transfer risk and single customer groups.

Corporate and large impaired financing and advances are centrally managed by the Special Asset Management Department whilst retail and consumer impaired financing and advances are overseen by the Collections Department. The Bank shares the services of these departments provided by OCBCM through a shared service agreement.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management

Market risk is the risk of loss of income or market value due to fluctuations in market factors. The Bank is exposed to market risks from its trading activities. The Asset Liability Management Committee is the senior management committee that establishes market risk management objectives, framework, and policies governing prudent market risk taking, which are backed by risk methodologies measurement systems and internal controls. Business units are responsible for undertaking proactive risk management along with their pursued trading strategies, while the Market Risk Management Department acts as the independent monitoring unit that ensures sound governance practices.

Risk identification is addressed via the Group's new product approval process at product inception. Several market risk measurements are also utilised regularly to quantify and assess potential losses. These include Value-at-risk ("VaR"), Present Value of a Basis Point ("PV01"), Greeks and stress testing with scenario analysis.

Only authorised trading activities may be undertaken by the various business units within the allocated limits. Trading positions are monitored daily and limit breaches are promptly reported to senior management for appropriate rectification. Valuation and risk models are deployed and verified for pricing of financial instruments and VaR calculation respectively. Valuation reserves and other operational controls are also imposed to strengthen overall general and model risk management. To ensure the continued integrity of the VaR model, the Group conducts back-testing to confirm the consistency of actual daily trading profits and losses ("P&L"), as well as theoretical P&L against the model's statistical assumptions.

Asset Liability Management

Asset liability management is the strategic management of the balance sheet structure and liquidity needs, covering structural profit rate management and funding liquidity risk management. The Asset Liability Management Committee ("ALCO") is the senior management committee that oversees the Bank's liquidity and balance sheet risks. ALCO is supported by the Market Risk Management Department within Group Risk Management Division.

Structural Profit Rate Risk

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates. Limits and policies to manage profit rate exposures are established in line with the Group's strategy and risk appetite, appropriately approved and reviewed regularly to ensure they remain relevant to the external environment. Control systems are established to monitor the profile against the approved risk thresholds.

Liquidity Risk

The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory financial obligations as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing and establishing contingency funding plans.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and management, or from external events. Operational risk includes legal risk and reputation risk.

The Bank's operational risk management aims to minimise unexpected and catastrophic losses and to manage expected losses. This enables new business opportunities to be pursued in a risk-conscious and controlled manner. The Bank is on the Basic Indicator Approach.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Operational Risk Management Oversight and Organisation

The Operational Risk Management and Information Security Committee (“ORISC”) is the senior management committee that oversees the execution of the Bank’s Operational Risk Management, Information Security and Technology Risk practices, and ensures that the respective risk management programmes are appropriate, effective, and support the Bank’s business strategy. ORISC also has oversight over the management of the Bank’s fiduciary, reputational and legal risks.

The Operational Risk Management (“ORM”) department of Group Risk Management Division has established the ORM framework, including policies and methodologies. The ORM department also provides independent oversight of operational risk monitoring and control. The ORM programmes are actively implemented through the respective operational risk co-ordinators or managers in the business units.

Operational Risk Management Approach

The Bank manages operational risk through a framework that ensures operational risk is properly identified, managed, monitored, mitigated, and reported in a structured and consistent manner. The framework is underpinned by an internal control system that reinforces the Bank’s control culture by establishing clear roles and responsibilities for staff and preserving their rights in executing their control functions without fear of intimidation or reprisal. The Bank recognises the importance of establishing a risk-awareness culture in the managing of operational risk through embedding risk management in the Bank’s core processes. The Bank started the roll-out of an Enterprise Operational Risk Management System that will provide the Bank with a web-based integrated operational risk management system that brings together qualitative and quantitative tools.

Each business unit undertakes regular self-assessment of the risk and control environment to identify, assess, and measure its operational risk, which include regulatory and legal risks. Performance metrics are also used to detect early warning signals and drive appropriate management actions before risks materialise into material losses.

Senior management also attests annually to the CEO and Risk Management Committee on the adequacy and effectiveness of the internal control system, as well as report key control deficiencies and appropriate remedial plans. Operational risk losses and incidents are used as information for reporting and for providing risk profiling information to senior management and the Risk Management Committee.

For information security, the Bank protects and ensures the confidentiality, integrity, and availability of its information assets through implementing appropriate security controls to protect against the misuse or compromise of information assets. New and appropriate security technologies are regularly identified and implemented as part of the Bank’s technology risk management strategy to mitigate any possible threats to the Bank’s information technology environment.

To mitigate the impact of unforeseen operational risk events, the Bank has implemented business continuity management and crisis management programmes to ensure the uninterrupted availability of all business resources to support essential business activities. On an annual basis, senior management provides an attestation to the Risk Management Committee on the state of business continuity management including the internally developed business continuity management maturity scorecard, extent of alignment to BNM guidelines and declaration of residual risk. The Bank also monitors the health and security environment of the locations of the Bank’s key operations to assess possible threats that may adversely affect the Bank and its employees.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Operational Risk Management Approach (continued)

The Bank's Fraud Risk Management ("FRM") and whistle-blowing programmes help prevent and detect fraud or misconduct, as well as enable rapid and co-ordinated incident responses, including establishing the cause, remedial actions, and damage control procedures. The Bank is proactively strengthening its FRM infrastructure to manage emerging threats through new programmes and initiatives.

Reputation Risk Management

Reputation risk is the current or prospective risk to earnings and capital arising from adverse perception of the image of the Bank on the part of customers, counterparties, shareholders, investors and regulators. The Bank has a reputation risk management programme to manage any such potential, current, or future adverse impact on earnings and continued access to sources of funding. The programme focuses on understanding and managing the Bank's responsibilities towards its stakeholders, and protecting the Bank's reputation. A key emphasis of the programme is effective information sharing and engagement with stakeholders.

Fiduciary Risk Management

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

Regulatory and Legal Risks

Each business unit is responsible for the adequacy and effectiveness of controls in managing both regulatory and legal risks. An annual Regulatory Compliance Certification is provided by senior management to the CEO and the Board on the state of regulatory compliance.

Shariah Governance

The Bank is governed by the Shariah Governance Framework ("SGF" or the "framework") which is designed to meet the following purposes:

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

The SGF stipulates that all new products, services and collateral are to be endorsed by the Shariah Committee ("SC"). All product approvals must be backed by adequate research to ensure that the appropriate Shariah concepts are applied in the product structuring and design. In order to ensure a robust and comprehensive Shariah governance process throughout the Bank, at the post product launch, Shariah Review assesses the level of compliance of the activities and operations to Shariah requirements. Any non-Shariah compliant findings resulting from the review will be rectified, monitored and tracked until closure. Audit Department will also conduct Shariah Audit to provide an independent assessment and objective assurance designed to add value and improve the Bank's Shariah compliance with the main objective in ensuring a sound and effective internal control system for Shariah compliance.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Shariah Governance (continued)***Shariah Risk*

Shariah risk arises from the Bank's failure to comply with the Shariah rules and principles as determined by its SC and Bank Negara Malaysia's Shariah Advisory Council. The SGF provides the necessary structure and process to mitigate any Shariah risk arising from its activities and operations.

During the financial year ended 31 December 2012, the Bank had received non-Shariah compliant income. The non-Shariah compliant income will be channelled to charitable organisations as determined by the Bank's SC. Details of the non-Shariah compliant income are as follows:

	2012
	RM'000
Sources and uses of charity funds	
<u>Sources of charity funds</u>	
Non-shariah compliant income	15
<u>Uses of charity funds</u>	
Total uses of funds during the year	-
Undistributed charity funds as at 31 December	<u>15</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**34. PROFIT RATE RISK**

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing level of market profit rates on the financial position and cashflows. The following tables summarises the Bank's exposure to profit rate risk. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing and maturity dates.

31 December 2012	Non Trading Book						Trading Book	Total	Average profit rate %
	Up to 3 months	>3-12 months	>1-3 years	>3-5 years	Over 5 years	Non-profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Assets									
Cash and cash equivalents	-	-	-	-	-	23,687	-	23,687	-
Financial investments									
available-for-sale	223,720	210,344	730,403	852,393	298,417	-	-	2,315,277	3.33%
Financing and advances									
- Unimpaired	2,397,702	117,181	513,365	753,804	532,256	(40,976)	-	4,273,332	6.91%
- Impaired	-	-	-	-	-	22,390	-	22,390	-
Derivative financial assets	-	-	-	-	-	-	5,592	5,592	-
Other assets	-	-	-	-	-	94,596	-	94,596	-
Current tax assets	-	-	-	-	-	443	-	443	-
Statutory deposits with									
Bank Negara Malaysia	-	-	-	-	-	214,500	-	214,500	-
Property, plant & equipment	-	-	-	-	-	8,025	-	8,025	-
Deferred tax assets	-	-	-	-	-	1,435	-	1,435	-
Total assets	2,621,422	327,525	1,243,768	1,606,197	830,673	324,100	5,592	6,959,277	
Liabilities									
Deposits from customers	3,002,330	650,103	42,469	76	57,374	727,490	-	4,479,842	2.48%
Deposits and placements of banks and other financial institutions	1,527,354	85,906	456	-	-	80,166	-	1,693,882	2.11%
Bills and acceptances payable	-	-	-	-	-	14,795	-	14,795	-
Subordinated bond	-	-	-	200,000	-	-	-	200,000	5.45%
Derivative financial liabilities	-	-	-	-	-	-	5,543	5,543	-
Other liabilities	-	-	-	-	-	93,439	-	93,439	-
Current tax liabilities and zakat	-	-	-	-	-	25	-	25	-
Total liabilities	4,529,684	736,009	42,925	200,076	57,374	915,915	5,543	6,487,526	
On-balance sheet									
profit sensitivity gap	(1,908,262)	(408,484)	1,200,843	1,406,121	773,299	(591,815)	49	471,751	
Off-balance sheet									
profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(1,908,262)	(408,484)	1,200,843	1,406,121	773,299	(591,815)	49	471,751	

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

34. PROFIT RATE RISK (continued)

31 December 2011	Non Trading Book						Non-profit sensitive RM'000	Trading Book RM'000	Total RM'000	Average profit rate %
	Up to 3 months RM'000	>3-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000					
Assets										
Cash and cash equivalents	385,000	-	-	-	-	27,739	-	412,739	2.91%	
Financial investments										
available-for-sale	447,923	125,898	635,800	510,995	172,075	-	-	1,892,691	3.32%	
Financing and advances										
- Unimpaired	1,549,566	93,823	498,065	620,137	440,613	(31,381)	-	3,170,823	6.44%	
- Impaired	-	-	-	-	-	18,490	-	18,490	-	
Derivative financial assets	-	-	-	-	-	-	13,450	13,450	-	
Other assets	-	-	-	-	-	46,619	-	46,619	-	
Current tax assets	-	-	-	-	-	558	-	558	-	
Statutory deposits with										
Bank Negara Malaysia	-	-	-	-	-	159,400	-	159,400	-	
Property, plant & equipment	-	-	-	-	-	6,092	-	6,092	-	
Deferred tax assets	-	-	-	-	-	1,835	-	1,835	-	
Total assets	2,382,489	219,721	1,133,865	1,131,132	612,688	229,352	13,450	5,722,697		
Liabilities										
Deposits from customers	2,323,286	1,398,251	42,059	166	54,953	628,381	-	4,447,096	2.50%	
Deposits and placements of banks										
and other financial institutions	325,925	47,676	40,509	129,477	-	63,064	-	606,651	1.84%	
Bills and acceptances payable	-	-	-	-	-	36,550	-	36,550	-	
Subordinated bond	-	-	-	200,000	-	-	-	200,000	5.45%	
Derivative financial liabilities	-	-	-	-	-	-	13,430	13,430	-	
Other liabilities	-	-	-	-	-	87,658	-	87,658	-	
Current tax liabilities and zakat	-	-	-	-	-	20	-	20	-	
Total liabilities	2,649,211	1,445,927	82,568	329,643	54,953	815,673	13,430	5,391,405		
On-balance sheet										
profit sensitivity gap	(266,722)	(1,226,206)	1,051,297	801,489	557,735	(586,321)	20	331,292		
Off-balance sheet										
profit sensitivity gap	-	-	-	-	-	-	-	-		
Total profit sensitivity gap	(266,722)	(1,226,206)	1,051,297	801,489	557,735	(586,321)	20	331,292		

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

34. PROFIT RATE RISK (continued)

1 January 2011	Non Trading Book						Non-profit sensitive	Trading Book	Total	Average profit rate %
	Up to 3 months	>3-12 months	>1-3 years	>3-5 years	Over 5 years	RM'000				
Assets										
Cash and cash equivalents	590,030	-	-	-	-	14,250	-	604,280	2.76%	
Deposits and placements with banks and other financial institutions	4,624	-	-	-	-	-	-	4,624	0.56%	
Financial investments available-for-sale	490,876	15,210	270,864	330,605	3,997	-	-	1,111,552	3.28%	
Financing and advances										
- Unimpaired	1,349,193	79,733	387,474	387,095	306,794	(24,600)	-	2,485,689	6.19%	
- Impaired	-	-	-	-	-	14,215	-	14,215	-	
Derivative financial assets	-	-	-	-	-	-	7,640	7,640	-	
Other assets	-	-	-	-	-	45,833	-	45,833	-	
Current tax assets	-	-	-	-	-	1,360	-	1,360	-	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	26,750	-	26,750	-	
Property, plant & equipment	-	-	-	-	-	7,822	-	7,822	-	
Deferred tax assets	-	-	-	-	-	4,790	-	4,790	-	
Total assets	2,434,723	94,943	658,338	717,700	310,791	90,420	7,640	4,314,555		
Liabilities										
Deposits from customers	2,383,112	293,334	7,988	41,378	52,790	142,288	-	2,920,890	2.65%	
Deposits and placements of banks and other financial institutions	503,916	37	40,559	98,645	65,961	90,728	-	799,846	2.13%	
Bills and acceptances payable	-	-	-	-	-	11,107	-	11,107	-	
Subordinated bond	-	-	-	-	200,000	-	-	200,000	5.45%	
Derivative financial liabilities	-	-	-	-	-	-	7,628	7,628	-	
Other liabilities	-	-	-	-	-	69,505	-	69,505	-	
Total liabilities	2,887,028	293,371	48,547	140,023	318,751	313,628	7,628	4,008,976		
On-balance sheet profit sensitivity gap	(452,305)	(198,428)	609,791	577,677	(7,960)	(223,208)	12	305,579		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-		
Total profit sensitivity gap	(452,305)	(198,428)	609,791	577,677	(7,960)	(223,208)	12	305,579		

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

	2012 RM'000	2011 RM'000
+ 50bps	220,375	194,832
- 50bps	224,848	196,887

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**35. LIQUIDITY RISK**

The tables below show the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities. Information on cash outflow of gross financing commitments is set in Note 30. The expected cash flows of these liabilities could vary significantly from what is shown in the table.

	Carrying Value RM'000	Up to 3 months RM'000	> 3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
31 December 2012								
Non-derivative financial liabilities								
Deposits from customers	4,479,842	3,770,418	244,820	425,740	42,532	85	80,000	4,563,595
Deposits and placements of banks and other financial institutions	1,693,882	1,614,682	269	55,768	33,322	-	-	1,704,041
Bills and acceptances payable	14,795	14,795	-	-	-	-	-	14,795
Subordinated bond	200,000	-	5,211	5,495	21,800	210,900	-	243,406
Other liabilities	93,439	22,694	2,388	4,037	20,214	-	-	49,333
Current tax liabilities and zakat	25	-	-	25	-	-	-	25
Derivative financial liabilities								
<u>Gross settled derivatives</u>								
<i>Trading:</i>								
Foreign exchange derivatives								
- Forward and swap	5,543							
- Outflow		980,376	4,606	-	-	-	-	984,982
- Inflow		(974,908)	(4,531)	-	-	-	-	(979,439)
	6,487,526	5,428,057	252,763	491,065	117,868	210,985	80,000	6,580,738
31 December 2011								
Non-derivative financial liabilities								
Deposits from customers	4,447,096	2,963,532	715,766	720,246	45,486	188	80,000	4,525,218
Deposits and placements of banks and other financial institutions	606,651	343,726	13,656	27,357	181,743	64,228	-	630,710
Bills and acceptances payable	36,550	36,550	-	-	-	-	-	36,550
Subordinated bond	200,000	-	5,230	5,480	21,800	221,800	-	254,310
Other liabilities	87,658	41,267	1,937	2,826	20,860	-	-	66,890
Current tax liabilities and zakat	20	-	-	20	-	-	-	20
Derivatives financial liabilities								
<u>Net settled derivatives</u>								
<i>Trading:</i>								
Foreign exchange derivatives								
- Currency option	1,227	1,089	-	138	-	-	-	1,227
<u>Gross settled derivatives</u>								
<i>Trading:</i>								
Foreign exchange derivatives								
- Forward and swap	12,203							
- Outflow		317,573	192,125	-	-	-	-	509,698
- Inflow		(314,635)	(182,767)	-	-	-	-	(497,402)
	5,391,405	3,389,102	745,947	756,067	269,889	286,216	80,000	5,527,221

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**35. LIQUIDITY RISK (continued)**

1 January 2011	Carrying Value RM'000	Up to 3 months RM'000	> 3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative financial liabilities								
Deposits from customers	2,920,890	2,532,820	254,953	43,152	8,339	43,591	80,000	2,962,855
Deposits and placements of banks and other financial institutions	799,846	596,749	442	894	47,021	98,645	65,961	809,712
Bills and acceptances payable	11,107	11,107	-	-	-	-	-	11,107
Subordinated bond	200,000	-	5,450	5,465	21,800	21,800	210,691	265,206
Other liabilities	69,505	32,481	1,950	3,476	19,092	-	-	56,999
Derivatives financial liabilities								
<u>Net settled derivatives</u>								
<i>Trading:</i>								
Foreign exchange derivatives								
- Currency option	1,856	-	-	-	1,856	-	-	1,856
<u>Gross settled derivatives</u>								
<i>Trading:</i>								
Foreign exchange derivatives								
- Forward and swap	5,772							
- Outflow		122,710	13,015	3,930	-	-	-	139,655
- Inflow		(117,129)	(12,891)	(3,853)	-	-	-	(133,873)
	4,008,976	3,178,738	262,919	53,064	98,108	164,036	356,652	4,113,517

36. CURRENCY RISK

31 December 2012

	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets					
Cash and cash equivalents	19,667	1,734	1,106	1,180	23,687
Financial investments available-for-sale	2,069,564	187,371	58,342	-	2,315,277
Financing and advances	3,741,283	180,271	-	374,168	4,295,722
Derivative financial assets	5,592	-	-	-	5,592
Other assets	90,201	2,465	1,359	571	94,596
Current tax assets	443	-	-	-	443
Statutory deposits with Bank Negara Malaysia	214,500	-	-	-	214,500
	6,141,250	371,841	60,807	375,919	6,949,817
Financial liabilities					
Deposits from customers	4,467,656	11,456	730	-	4,479,842
Deposits and placements of banks and other financial institutions	910,736	351,976	58,590	372,580	1,693,882
Bills and acceptances payable	14,795	-	-	-	14,795
Subordinated bond	200,000	-	-	-	200,000
Derivative financial liabilities	5,543	-	-	-	5,543
Other liabilities	91,981	83	52	1,323	93,439
Current tax liabilities and zakat	25	-	-	-	25
	5,690,736	363,515	59,372	373,903	6,487,526
Net financial assets exposure	450,514	8,326	1,435	2,016	462,291

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**36. CURRENCY RISK (continued)**

31 December 2011

	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets					
Cash and cash equivalents	406,183	4,164	553	1,839	412,739
Financial investments available-for-sale	1,740,122	128,182	24,387	-	1,892,691
Financing and advances	2,963,923	225,390	-	-	3,189,313
Derivative assets	13,450	-	-	-	13,450
Other assets	44,665	1,704	250	-	46,619
Current tax assets	558	-	-	-	558
Statutory deposits with Bank Negara Malaysia	159,400	-	-	-	159,400
	5,328,301	359,440	25,190	1,839	5,714,770
Financial liabilities					
Deposits from customers	4,447,068	28	-	-	4,447,096
Deposits and placements of banks and other financial institutions	228,408	352,915	25,267	61	606,651
Bills and acceptances payable	36,550	-	-	-	36,550
Subordinated bond	200,000	-	-	-	200,000
Derivative liabilities	13,430	-	-	-	13,430
Other liabilities	87,488	154	16	-	87,658
Current tax liabilities and zakat	20	-	-	-	20
	5,012,964	353,097	25,283	61	5,391,405
Net financial assets exposure	315,337	6,343	(93)	1,778	323,365

1 January 2011

Financial assets					
Cash and cash equivalents	600,263	2,707	123	1,187	604,280
Deposits and placements with banks and other financial institutions	-	4,624	-	-	4,624
Financial investments available-for-sale	1,003,422	84,754	23,376	-	1,111,552
Financing and advances	2,254,473	245,431	-	-	2,499,904
Derivative assets	7,640	-	-	-	7,640
Other assets	44,565	1,023	245	-	45,833
Current tax assets	1,360	-	-	-	1,360
Statutory deposits with Bank Negara Malaysia	26,750	-	-	-	26,750
	3,938,473	338,539	23,744	1,187	4,301,943
Financial liabilities					
Deposits from customers	2,920,890	-	-	-	2,920,890
Deposits and placements of banks and other financial institutions	447,086	328,596	24,164	-	799,846
Bills and acceptances payable	11,107	-	-	-	11,107
Subordinated bond	200,000	-	-	-	200,000
Derivative liabilities	7,628	-	-	-	7,628
Other liabilities	69,313	180	12	-	69,505
	3,656,024	328,776	24,176	-	4,008,976
Net financial assets exposure	282,449	9,763	(432)	1,187	292,967

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**37. CREDIT RISK**

Credit risk management policies are disclosed in Note 33. Credit risk is the risk of a financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank's maximum credit exposure of the financial assets, without taking into account any collateral held or other credit enhancements equals their carrying amount as reported in the statement of financial position. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

Collateral

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

- For personal house financing, mortgages over residential properties;
- For commercial property financing, charges over properties being financed; and
- For other financing, charges over business assets such as premises, inventories, trade receivables or deposits.

As at 31 December 2012, there were no assets repossessed by the Bank as a result of taking possession of collateral held as security, or by calling upon other credit enhancements.

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

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Fair value of collateral held against the covered portion of financing and advances	23,690	40,583	25,791
Covered portion of financing and advances	18,915	21,787	22,842
Uncovered portion of financing and advances	36,023	25,697	22,602
	<u>54,938</u>	<u>47,484</u>	<u>45,444</u>

Credit quality

Financing and advances are categorised according to the Bank's customer classification grades as Passed, Special Mention, Substandard, Doubtful and Bad.

Financing and advances classified as Passed and Special Mention are neither past due nor impaired whereas Substandard, Doubtful and Bad are impaired financing and advances.

Past due but not impaired financing and advances are financing where the customer has failed to make a principal or profit payment when contractually due, and includes financing which are due one or more days after the contractual due date but less than three (3) months.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**37. CREDIT RISK (continued)****Credit quality (continued)****(a) Credit quality of financing and advances**

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Neither past due nor impaired	4,243,495	3,183,045	2,343,812
Past due financing	117,017	59,714	207,112
- Unimpaired	70,813	19,159	166,477
- Impaired	46,204	40,555	40,635
Impaired but not past due	8,734	6,929	4,809
Gross financing and advances	4,369,246	3,249,688	2,555,733
<u>Neither past due nor impaired</u>			
By the Bank's internal grading system			
Passed	4,182,277	3,142,468	2,245,952
Special mention	61,218	40,577	97,860
	4,243,495	3,183,045	2,343,812
<u>Past due but not impaired</u>			
i) By period overdue			
Over 30 days to 60 days	49,456	14,787	163,534
Over 60 days to less than 90 days	21,357	4,372	2,943
	70,813	19,159	166,477
ii) By sector			
Agriculture	421	32	138,001
Mining and quarrying	710	-	169
Manufacturing	27,686	1,890	14,122
Construction	902	721	426
Wholesale & retail trade and restaurants & hotels	6,328	1,642	1,135
Transport, storage and communication	5,024	1,163	494
Finance, insurance and business services	1,599	356	79
Community, social and personal services	-	-	604
Household, of which:			
- Purchase of residential properties	2,633	3,296	3,315
- Purchase of non-residential properties	-	-	53
- Others	25,510	10,059	8,079
	70,813	19,159	166,477
iii) By geographical distribution			
Malaysia	70,813	19,159	166,477

The analysis of impaired financing and advances are detailed in Note 7.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**37. CREDIT RISK (continued)****Credit quality (continued)****(b) Credit quality of financial investments available-for-sale**

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

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
i) By issuer			
Government and Central Bank	1,721,433	1,206,837	605,048
Foreign government	49,643	21,387	39,928
Banks	178,905	358,077	217,153
Corporates	365,296	306,390	249,423
	<u>2,315,277</u>	<u>1,892,691</u>	<u>1,111,552</u>
ii) By geographical distribution			
Malaysia	2,265,634	1,864,787	1,071,624
Other ASEAN	49,643	21,387	39,928
Rest of the World	-	6,517	-
	<u>2,315,277</u>	<u>1,892,691</u>	<u>1,111,552</u>
iii) By credit rating			
Government and Central Bank securities	1,721,433	1,206,837	605,048
Foreign government securities	49,643	21,387	39,928
Investment grade (AAA to BBB)	299,759	240,739	183,918
Unrated	244,442	423,728	282,658
	<u>2,315,277</u>	<u>1,892,691</u>	<u>1,111,552</u>
iv) By industry			
Manufacturing	70,491	70,616	70,511
Building and construction	30,385	29,532	45,379
General commerce	24,885	65,928	-
Transport, storage and communication	10,058	15,077	15,063
Financial institutions, investment and holding companies	202,125	450,081	236,290
Others	1,977,333	1,261,457	744,309
	<u>2,315,277</u>	<u>1,892,691</u>	<u>1,111,552</u>
v) By residual contractual maturity			
Within one year	434,064	573,821	506,086
One to five years	1,582,796	1,146,795	601,469
More than five years	298,417	172,075	3,997
	<u>2,315,277</u>	<u>1,892,691</u>	<u>1,111,552</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

37. CREDIT RISK (continued)

Credit quality (continued)

(c) Credit quality of derivative assets

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
i) By counterparty			
Banks	5,465	13,368	7,562
Other financial institutions	1	1	3
Corporates	126	81	75
	<u>5,592</u>	<u>13,450</u>	<u>7,640</u>
ii) By geographical distribution			
Malaysia	822	217	5,782
Singapore	1	1	3
Other ASEAN countries	4,769	12,002	-
Rest of the World	-	1,230	1,855
	<u>5,592</u>	<u>13,450</u>	<u>7,640</u>
The analysis by geography is determined based on where the credit risk resides.			
iii) By industry			
Agriculture	-	47	-
Manufacturing	116	3	71
Construction	-	-	4
Wholesale & retail trade and restaurants & hotels	10	-	-
Finance, insurance, real estate and business services	5,466	13,400	7,565
	<u>5,592</u>	<u>13,450</u>	<u>7,640</u>
iv) By residual contractual maturity			
Within one year	5,592	13,450	5,785
One to five years	-	-	1,855
	<u>5,592</u>	<u>13,450</u>	<u>7,640</u>

(d) Credit quality of contingent liabilities and credit commitments

i) By counterparty			
Other financial institutions	3,398	247	1,291
Corporates	247,526	178,331	118,927
Individuals	42,169	9,795	5,184
Others	-	36	39
	<u>293,093</u>	<u>188,409</u>	<u>125,441</u>
ii) By geographical distribution			
Malaysia	<u>293,093</u>	<u>188,409</u>	<u>125,441</u>

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

37. CREDIT RISK (continued)

Credit quality (continued)

(d) Credit quality of contingent liabilities and credit commitments (continued)

	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
iii) By industry			
Agriculture	448	2,061	1,109
Mining and quarrying	1,072	463	1,200
Manufacturing	57,542	26,575	26,660
Electricity, gas and water	-	79,074	-
Construction	85,533	40,698	75,418
Wholesale & retail trade and restaurants & hotels	17,391	10,244	2,997
Transport, storage and communication	237	4,721	8,590
Finance, insurance, real estate and business services	15,705	2,085	2,320
Community, social and personal services	287	-	-
Household, of which:			
- Purchase of residential properties	34,908	8,900	-
- Others	358	-	-
Others	79,612	13,588	7,147
	<u>293,093</u>	<u>188,409</u>	<u>125,441</u>
iv) By residual contractual maturity			
Within one year	134,362	101,858	72,729
One to five years	71,076	34,281	44,789
Over five years	87,655	52,270	7,923
	<u>293,093</u>	<u>188,409</u>	<u>125,441</u>

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-statement of financial position financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction.

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

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

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of MFRS 132 which requires fair value information to be disclosed. These include property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

For financial assets and liabilities not carried at fair value on the financial statements, the Bank has determined that their fair values were not materially different from the carrying amounts at the reporting date.

A) Fair value measurement

(i) Financial assets and financial liabilities

(a) Short term financial instruments

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

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

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

(c) Financial investments available-for-sale

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

(d) Financing and advances

Financing and advances are carried at amortised cost on the statement of financial position, net of individual and collective impairment allowances. The Bank deems the fair value of financing and advances to approximate the carrying amount as substantially the financing and advances are subject to frequent re-pricing.

(e) Deposits from customers

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

(f) Bills & acceptances payable and other short term payables

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

(g) Subordinated bond

The subordinated bond is carried at face value.

(ii) Financial derivatives

Fair value of financial derivatives is the estimated amount which the Bank would receive or pay to terminate the contracts at the reporting date. The fair value of the financial derivatives are disclosed in Note 8.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

B) Fair value hierarchy

The Bank determines the fair values 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) for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable market data either directly (i.e. as prices) or indirectly (i.e. derived from observable market data); and
- Level 3 - inputs for the valuation that are not based on observable market data.

The following table summarises the Bank's financial assets and liabilities measured at fair value by level of the fair value hierarchies:

31 December 2012	Level 1	Level 2	Total
	RM'000	RM'000	RM'000
Financial assets			
Available-for-sale	1,721,252	594,025	2,315,277
Derivative assets	10	5,582	5,592
	<u>1,721,262</u>	<u>599,607</u>	<u>2,320,869</u>
Financial liabilities			
Derivative liabilities	12	5,531	5,543
	<u>12</u>	<u>5,531</u>	<u>5,543</u>
31 December 2011			
Financial assets			
Available-for-sale	1,128,348	764,343	1,892,691
Derivative assets	-	13,450	13,450
	<u>1,128,348</u>	<u>777,793</u>	<u>1,906,141</u>
Financial liabilities			
Derivative liabilities	64	13,366	13,430
	<u>64</u>	<u>13,366</u>	<u>13,430</u>
1 January 2011			
Financial assets			
Available-for-sale	356,194	755,358	1,111,552
Derivative assets	123	7,517	7,640
	<u>356,317</u>	<u>762,875</u>	<u>1,119,192</u>
Financial liabilities			
Derivative liabilities	5,655	1,973	7,628
	<u>5,655</u>	<u>1,973</u>	<u>7,628</u>

The Bank did not hold any Level 3 financial assets and liabilities nor was there any transfer to or from Level 3 in the fair value hierarchy.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

39. FINANCIAL ASSETS AND LIABILITIES

	At fair value		At amortised	Total
	Available- for-sale RM'000	Trading RM'000	cost RM'000	
31 December 2012				
Financial assets				
Cash and cash equivalents	-	-	23,687	23,687
Financial investments available-for-sale	2,315,277	-	-	2,315,277
Financing and advances	-	-	4,295,722	4,295,722
Derivative financial assets	-	5,592	-	5,592
Current tax assets	-	-	443	443
Other assets	-	-	94,596	94,596
Statutory deposits with Bank Negara Malaysia	-	-	214,500	214,500
	<u>2,315,277</u>	<u>5,592</u>	<u>4,628,948</u>	<u>6,949,817</u>
Financial liabilities				
Deposits from customers	-	-	4,479,842	4,479,842
Deposits and placements of banks and other financial institutions	-	-	1,693,882	1,693,882
Bills and acceptances payable	-	-	14,795	14,795
Subordinated bond	-	-	200,000	200,000
Derivative financial liabilities	-	5,543	-	5,543
Other liabilities	-	-	93,439	93,439
Current tax liabilities and zakat	-	-	25	25
	<u>-</u>	<u>5,543</u>	<u>6,481,983</u>	<u>6,487,526</u>
31 December 2011				
Financial assets				
Cash and cash equivalents	-	-	412,739	412,739
Financial investments available-for-sale	1,892,691	-	-	1,892,691
Financing and advances	-	-	3,189,313	3,189,313
Derivative financial assets	-	13,450	-	13,450
Other assets	-	-	46,619	46,619
Current tax assets	-	-	558	558
Statutory deposits with Bank Negara Malaysia	-	-	159,400	159,400
	<u>1,892,691</u>	<u>13,450</u>	<u>3,808,629</u>	<u>5,714,770</u>
Financial liabilities				
Deposits from customers	-	-	4,447,096	4,447,096
Deposits and placements of banks and other financial institutions	-	-	606,651	606,651
Bills and acceptances payable	-	-	36,550	36,550
Subordinated bond	-	-	200,000	200,000
Derivative financial liabilities	-	13,430	-	13,430
Other liabilities	-	-	87,658	87,658
Current tax liabilities and zakat	-	-	20	20
	<u>-</u>	<u>13,430</u>	<u>5,377,975</u>	<u>5,391,405</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)

39. FINANCIAL ASSETS AND LIABILITIES (continued)

1 January 2011	At fair value		At amortised cost	
	Available- for-sale RM'000	Trading RM'000	RM'000	Total RM'000
Financial assets				
Cash and cash equivalents	-	-	604,280	604,280
Deposits and placements with banks and other financial institutions	-	-	4,624	4,624
Financial investments available-for-sale	1,111,552	-	-	1,111,552
Financing and advances	-	-	2,499,904	2,499,904
Derivative financial assets	-	7,640	-	7,640
Other assets	-	-	45,833	45,833
Current tax assets	-	-	1,360	1,360
Statutory deposits with Bank Negara Malaysia	-	-	26,750	26,750
	1,111,552	7,640	3,182,751	4,301,943
Financial liabilities				
Deposits from customers	-	-	2,920,890	2,920,890
Deposits and placements of banks and other financial institutions	-	-	799,846	799,846
Bills and acceptances payable	-	-	11,107	11,107
Subordinated bond	-	-	200,000	200,000
Derivative financial liabilities	-	7,628	-	7,628
Other liabilities	-	-	69,505	69,505
	-	7,628	4,001,348	4,008,976

40. CAPITAL ADEQUACY

Capital Management

It is the Bank's objective to maintain a strong capital position, to support business growth, and to maintain investor, depositor, customer and market confidence. In line with this, the Bank manages its capital actively to ensure that its capital adequacy ratios are comfortably above the regulatory minima while balancing shareholders' desire for sustainable returns and high standards of prudence. Presently, the Bank's capital composition mainly consists of paid-up share capital and share premium.

The Bank's capital management process is guided by Oversea-Chinese Banking Corporation Limited Group's risk appetite and strategic business strategy as well as its capital monitoring guidelines which set an internal capital minima which is above the minimum regulatory requirement. This includes an annual capital planning exercise to forecast capital requirements and monthly monitoring of capital adequacy ratios.

Capital Initiatives

Tier 1 Capital

The Bank issued 30 million ordinary shares on 23 July 2012, representing RM90 million in ordinary share capital which was fully subscribed by its immediate holding company, OCBC Bank (Malaysia) Berhad.

Tier 2 Capital

The entire Subordinated Bond qualifies as Tier 2 capital with the increase in Tier 1 capital following the RM90 million proceeds from the share issuance during the year.

Capital Adequacy Ratios

The Bank is required to comply with core capital ratio of 4% and risk-weighted capital ratio of 8% prescribed by BNM. The Bank was in compliance with all prescribed capital ratios throughout the financial year.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**40. CAPITAL ADEQUACY (continued)**

	2012	2011
	RM'000	RM'000
<u>Tier 1 capital</u>		
Paid-up share capital	115,000	85,000
Share premium	230,000	170,000
Retained earnings	64,441	41,394
Other reserves	53,643	30,596
	<u>463,084</u>	<u>326,990</u>
Less: Deferred tax assets	(4,324)	(3,269)
Eligible Tier 1 capital	<u>458,760</u>	<u>323,721</u>
<u>Tier 2 capital</u>		
Collective impairment allowance under Standardised Approach*	7,302	6,687
Subordinated bond	200,000	161,861
Excess of Expected Loss over Eligible Provisions under the IRB Approach	(14,884)	(16,947)
Eligible Tier 2 capital	<u>192,418</u>	<u>151,601</u>
Capital base	<u>651,178</u>	<u>475,322</u>

* Excluding the collective impairment allowance on impaired financing and advances

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

	2012	2011
	RM'000	RM'000
Credit risk	3,946,171	3,229,929
Market risk	8,764	8,498
Operational risk	318,011	254,471
	<u>4,272,946</u>	<u>3,492,898</u>

Capital Ratios before the effects of PSIA

Core capital ratio	10.32%	8.76%
Risk-weighted capital ratio	14.65%	12.86%

Capital Ratios after the effects of PSIA

Core capital ratio	10.74%	9.27%
Risk-weighted capital ratio	15.24%	13.61%

In accordance with BNM Guidelines on the Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent, the credit and market risks of the assets funded by the Restricted Profit Sharing Investment Accounts (RPSIA) which qualify as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 December 2012, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM171 million (2011 : RM204 million).

The capital adequacy ratios are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank (CAFIB-Basel II). The Bank has adopted the Internal Ratings Based Approach for Credit Risk for the major credit portfolios whilst the other credit portfolios are on Standardised Approach. For market and operational risks, the Bank has adopted the Standardised Approach and the Basic Indicator Approach, respectively.

The comparative capital adequacy ratios and components of the capital base have been restated as disclosed in Note 41 for the effects of the change in accounting policy on collective impairment allowance for financing and advances.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**41. TRANSITION TO MFRS**

In preparing its opening MFRS statement of financial position, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with FRS in Malaysia as modified by Bank Negara Malaysia Guidelines. An explanation of the impact of the transition from the previous FRS to the new MFRS on the Bank's financial position, financial performance and cash flows are set out in the following tables and the accompanying notes.

(i) Statement of Financial Position

	Note	1 January 2011			31 December 2011		
		FRS	Effect of	MFRS	FRS	Effect of	MFRS
		RM'000	transition	RM'000	RM'000	transition	RM'000
ASSETS							
Cash and cash equivalents		604,280	-	604,280	412,739	-	412,739
Deposits and placements with banks and other financial institutions		4,624	-	4,624	-	-	-
Financial investments available-for-sale		1,111,552	-	1,111,552	1,892,691	-	1,892,691
Financing and advances	41 (iv)(a)	2,486,706	13,198	2,499,904	3,172,564	16,749	3,189,313
Derivative financial assets		7,640	-	7,640	13,450	-	13,450
Other assets		45,833	-	45,833	46,619	-	46,619
Current tax assets		-	1,360	1,360	3,858	(3,300)	558
Statutory deposits with Bank Negara Malaysia		26,750	-	26,750	159,400	-	159,400
Property, plant and equipment		7,822	-	7,822	6,092	-	6,092
Deferred tax assets	41 (iv)(b)	10,171	(5,381)	4,790	2,723	(888)	1,835
Total assets		4,305,378	9,177	4,314,555	5,710,136	12,561	5,722,697
LIABILITIES							
Deposits from customers		2,920,890	-	2,920,890	4,447,096	-	4,447,096
Deposits and placements of banks and other financial institutions		799,846	-	799,846	606,651	-	606,651
Bills and acceptances payable		11,107	-	11,107	36,550	-	36,550
Subordinated bond		200,000	-	200,000	200,000	-	200,000
Derivative financial liabilities		7,628	-	7,628	13,430	-	13,430
Other liabilities		69,505	-	69,505	87,658	-	87,658
Current tax liabilities and zakat		1,898	(1,898)	-	20	-	20
Total liabilities		4,010,874	(1,898)	4,008,976	5,391,405	-	5,391,405
EQUITY							
Share capital		85,000	-	85,000	85,000	-	85,000
Share premium		170,000	-	170,000	170,000	-	170,000
Statutory reserve		20,582	-	20,582	30,596	-	30,596
Fair value reserve		103	-	103	4,302	-	4,302
Retained earnings	41 (iv)(c)	18,819	11,075	29,894	28,833	12,561	41,394
Total equity		294,504	11,075	305,579	318,731	12,561	331,292
Total liabilities and equity		4,305,378	9,177	4,314,555	5,710,136	12,561	5,722,697

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**41. TRANSITION TO MFRS (continued)**

(ii) Statement of Profit or Loss and Other Comprehensive Income

31 December 2011	Note	FRS RM'000	Effect of transition to MFRS RM'000	MFRS RM'000
Income derived from investment of depositors' funds and others		231,686	-	231,686
Income derived from the investment of shareholder's funds		38,664	-	38,664
Impairment allowance on financing and advances	41 (iv)(d)	(27,661)	3,551	(24,110)
Total distributable income		242,689	3,551	246,240
Income attributable to depositors		(105,402)	-	(105,402)
Total net income		137,287	3,551	140,838
Personnel and other operating expenses		(113,516)	-	(113,516)
Profit before income tax expense and zakat		23,771	3,551	27,322
Income tax expense	41 (iv)(e)	(3,723)	(2,065)	(5,788)
Zakat		(20)	-	(20)
Profit for the year		20,028	1,486	21,514
Other comprehensive income, net of income tax:				
Items that may be reclassified subsequently to profit or loss				
Fair value (available-for-sale) reserve				
- Change in fair value		8,702	-	8,702
- Amount transferred to profit or loss		(3,103)	-	(3,103)
Income tax relating to components of other comprehensive income		(1,400)	-	(1,400)
Other comprehensive income for the year net of income tax		4,199	-	4,199
Total comprehensive income for the year		24,227	1,486	25,713
Profit attributable to shareholder of the Bank		20,028	1,486	21,514
Total comprehensive income attributable to shareholder of the Bank		24,227	1,486	25,713
Basic earnings per ordinary share (sen)		23.56	-	25.31

(iii) There are no material differences between the statement of cash flows presented under MFRS and the statement of cash flows presented under FRS.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**41. TRANSITION TO MFRS (continued)**

(iv) Explanatory Notes

(a) Financing and advances

	1 January 2011			31 December 2011		
	Effect of transition			Effect of transition		
	FRS RM'000	to MFRS RM'000	MFRS RM'000	FRS RM'000	to MFRS RM'000	MFRS RM'000
Gross financing and advances	2,555,733	-	2,555,733	3,249,688	-	3,249,688
Allowance for financing and advances						
- Individual impairment	(31,088)	-	(31,088)	(28,811)	-	(28,811)
- Collective impairment	(37,939)	13,198	(24,741)	(48,313)	16,749	(31,564)
Net financing and advances	<u>2,486,706</u>	<u>13,198</u>	<u>2,499,904</u>	<u>3,172,564</u>	<u>16,749</u>	<u>3,189,313</u>

	31 December 2011		
	FRS RM'000	to MFRS RM'000	MFRS RM'000
<u>Collective impairment allowance</u>			
Balance at 1 January	37,939	(13,198)	24,741
Made/(written back) during the year	10,374	(3,551)	6,823
Balance at 31 December	<u>48,313</u>	<u>(16,749)</u>	<u>31,564</u>

(b) Deferred tax assets

	1 January 2011			31 December 2011		
	Effect of transition			Effect of transition		
	FRS RM'000	to MFRS RM'000	MFRS RM'000	FRS RM'000	to MFRS RM'000	MFRS RM'000
Excess of capital allowance over depreciation	(1,008)	(2)	(1,010)	(840)	-	(840)
Collective impairment allowance on financing and advances	9,485	(9,485)	-	2,594	(888)	1,706
Change in fair value of financial instruments	(34)	-	(34)	(1,434)	-	(1,434)
Other temporary differences	1,728	4,106	5,834	2,403	-	2,403
	<u>10,171</u>	<u>(5,381)</u>	<u>4,790</u>	<u>2,723</u>	<u>(888)</u>	<u>1,835</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (continued)**41. TRANSITION TO MFRS (continued)**

(iv) Explanatory Notes (continued)

(b) Deferred tax assets (continued)

Movements in deferred tax assets

	31 December 2011		
	FRS RM'000	Effect of transition to MFRS RM'000	MFRS RM'000
<u>Collective impairment on financing and advances</u>			
Balance at 1 January	9,485	-	9,485
Recognised in profit or loss	(6,891)	(888)	(7,779)
Balance at 31 December	<u>2,594</u>	<u>(888)</u>	<u>1,706</u>

(c) Retained earnings

	1 January 2011 RM'000	31 December 2011 RM'000
Collective impairment allowance on financing and advances	13,198	16,749
Tax effect of collective impairment allowance on financing and advances	(3,300)	(4,188)
Adjustment of underprovision of deferred tax in prior year provided in 2011	(5,381)	-
Adjustment of overprovision of current tax in prior year provided in 2011	6,558	-
	<u>11,075</u>	<u>12,561</u>

(d) Movements in impairment allowances on financing and advances

	31 December 2011		
	FRS RM'000	Effect of transition to MFRS RM'000	MFRS RM'000
Individual impairment			
- Made during the year	37,580	-	37,580
- Written back	(13,801)	-	(13,801)
Collective impairment			
- Made/(written back) during the year	10,374	(3,551)	6,823
Impaired financing recovered	(6,492)	-	(6,492)
	<u>27,661</u>	<u>(3,551)</u>	<u>24,110</u>

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41. TRANSITION TO MFRS (continued)

(iv) Explanatory Notes (continued)

(e) Income tax expense

	31 December 2011		
	FRS RM'000	Effect of transition to MFRS RM'000	MFRS RM'000
Malaysian income tax			
- Current period	4,233	-	4,233
- Overprovision in prior years	(6,558)	6,558	-
	(2,325)	6,558	4,233
Deferred tax			
- Origination and reversal of temporary differences	667	888	1,555
- Underprovision in prior years	5,381	(5,381)	-
	6,048	(4,493)	1,555
	3,723	2,065	5,788

(f) Capital adequacy

	31 December 2011		
	FRS RM'000	Effect of transition to MFRS RM'000	MFRS RM'000
Tier 1 capital	310,272	13,449	323,721
<u>Tier 2 capital</u>			
Collective impairment allowance under Standardised Approach*	10,236	(3,549)	6,687
Subordinated bond	155,136	6,725	161,861
Excess of Expected Loss over Eligible Provisions under IRB Approach	(3,764)	(13,183)	(16,947)
Eligible Tier-2 capital	161,608	(10,007)	151,601
Capital base	471,880	3,442	475,322

* Excluding collective impairment allowance on impaired financing and advances

Capital Ratios before the effects of PSIA

Core-capital ratio	8.39%	0.37%	8.76%
Risk-weighted capital ratio	12.76%	0.10%	12.86%

Capital Ratios after the effects of PSIA

Core-capital ratio	8.88%	0.39%	9.27%
Risk-weighted capital ratio	13.51%	0.10%	13.61%

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 18 March 2013.