

Company No. 818444-T

**OCBC AL-AMIN BANK BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

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

Company No.818444-T

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(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2015.

### **PRINCIPAL ACTIVITIES**

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

### **FINANCIAL RESULTS**

	<b>2015 RM'000</b>
Profit for the year	<u>137,642</u>

### **SHARE CAPITAL AND DEBENTURES**

The Bank issued 20 million ordinary shares of RM1 each at RM3 per ordinary share for a cash consideration of RM60 million to its immediate holding company, OCBC Bank (Malaysia) Berhad, on 18 June 2015. There were no other issuances, cancellations, repurchases, resale or repayment of debt and equity securities 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 and provisions during the financial year under review other than those disclosed in the financial statements.

### **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 2015.

### **FINANCIAL PERFORMANCE**

The Bank registered net profit after tax of RM137.6 million for the financial year ended 31 December 2015. The 95% or RM67.1 million increase against the previous year was attributable to better total income by 15% and lower impairment allowances by 21% whilst operating overheads were contained at a slower pace of 8%.

Total income improved by RM65.3 million or 15% mainly due to continuous strong growth in net finance income of RM62.7 million or 16% on the back of 8% growth in gross financing and advances.

The Bank registered lower impairment allowances largely due to lower collective impairment allowance (-RM57.0 million), partially offset by higher individual impairment allowances (+RM28.3 million). In 2014, collective impairment allowance was impacted by model parameter refinements.

Of the RM0.8 billion or 8% increase in gross financing and advances, house financing was the main financing growth driver with an increase of RM0.5 billion, followed by syndicated financing of RM0.2 billion.

Shareholders' funds strengthened by RM197.2 million to RM986.0 million and the Bank is well capitalised after the effects of Profit Sharing Investment Account ("PSIA"), with Common Equity Tier 1 and Tier 1 ratios of 12.746% and Total Capital Ratio of 14.749%.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)**

### **ACTIVITIES AND ACHIEVEMENTS**

During the year, we enlarged our suite of financial solutions to better serve our customers. This included the addition of iQ channel to current account-i and a new Shariah fund for unit trust to avail a wider range of Islamic investments for retail customers.

OCBC Al-Amin opened 3 new branches in 2015, including its first Islamic premier banking centre at its new branch in Kota Kemuning, Shah Alam in October 2015. The subsequent opening of the Sibu and Sandakan branches in December 2015 marked the establishment of our Islamic banking branch network in East Malaysia. The Bank now has 13 full-fledged Islamic branches nationwide.

During the year, OCBC Al-Amin received the "Top Small and Medium Enterprises ("SME") Supporter Award 2014" from Credit Guarantee Corporation Malaysia ("CGC"), for its continued support of the growth of SMEs in Malaysia.

### **MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2016**

In the retail banking sphere, we will introduce more wealth management products, particularly in investment and protection products to cater to the premier and mass affluent segment via the opening of new branches and new premier centers in 2016.

For corporate and commercial banking, we will continue to focus on customer acquisition via customer financing and cash management products with a greater emphasis on local councils, government agencies and SMEs. OCBC Al-Amin will continue to leverage on our collaboration with CGC to make available our unsecured business financing facility through the country's only SME wholesale guarantee scheme, *Wholesale Guarantee-i*. The Bank will also intensify its efforts to increase its presence both domestically and regionally, in collaboration with relevant stakeholders in OCBC Group including Pac Lease and Great Eastern Takaful, to invest in expanding and re-positioning our OCBC Al-Amin branches and introduce additional Shariah-compliant products for our treasury and wealth management businesses to become even more comprehensive and far-reaching, in line with Malaysia's status as a global Islamic financial hub.

### **RATINGS BY EXTERNAL AGENCIES**

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

### **DIRECTORS OF THE BANK**

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

Dato' Ooi Sang Kuang - Chairman

Samuel N. Tsien

Lai Teck Poh

Ng Hon Soon

Tong Hon Keong

Tan Ngiap Joo (appointed on 1 October 2015)

Ching Wei Hong (retired on 20 June 2015)

Tuan Syed Abdull Aziz Jailani Bin Syed Kechik (retired as Director on 22 November 2015)

Dr Raja Lope Bin Raja Shahrome (retired on 10 March 2016)

Tan Siew Peng, Darren (resigned on 5 April 2016)

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

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## DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)

### DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS

In accordance with Article 110 of the Bank's Articles of Association, Mr Tan Ngiap Joo shall retire at the forthcoming Annual General Meeting and being eligible, offer himself for re-election.

In accordance with Section 129(6) of the Companies Act, 1965, Mr Lai Teck Poh and Mr Tan Ngiap Joo, who have attained 70 years of age, offer themselves for re-appointment at the forthcoming Annual General Meeting.

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

#### Oversea-Chinese Banking Corporation Limited

	Shareholdings registered in the name of Directors or in which Directors have a direct interest			
	At			At
	1 January 2015	Acquired	Disposed	31 December 2015
<u>Ordinary Shares</u>				
Dato' Ooi Sang Kuang	13,033	6,760	-	19,793
Samuel N. Tsien	315,460	156,843	-	472,303
Lai Teck Poh	790,694	245,126	-	1,035,820
Tan Ngiap Joo	1,239,780*	-	-	1,239,780
Dr Raja Lope Bin Raja Shahrome (retired on 10 March 2016)	2,079	118	-	2,197
Tan Siew Peng, Darren (resigned on 5 April 2016)	326,416	136,469	(42,100)	420,785

\* As at date of appointment on 1 October 2015

	OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan			
	At	Acquired/	Exercised/	At
	1 January 2015	Awarded/ Granted	Forfeited/ Lapsed	31 December 2015
Samuel N. Tsien	533,142	274,982	(138,788)	669,336
Tan Siew Peng, Darren (resigned on 5 April 2016)	217,060	93,163	(93,455)	216,768

	Date options expire	Unexercised share options available to Directors under the OCBC Share Option Scheme 2001			
		At	Exercised/	At	
		1 January 2015	Granted	Forfeited/ Lapsed	31 December 2015
Samuel N. Tsien	15/3/2019-15/3/2025	2,545,137	744,867	-	3,290,004
Lai Teck Poh	Not applicable	200,518	-	(200,518)	-
Tan Ngiap Joo	13/3/2016-13/3/2017	113,113*	-	-	113,113
Tan Siew Peng, Darren (resigned on 5 April 2016)	13/3/2022-15/3/2025	500,021	247,042	(26,957)	720,106

\* As at date of appointment on 1 October 2015

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.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)**

### **DIRECTORS' BENEFITS**

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

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

### **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.

### **CORPORATE GOVERNANCE**

#### **Board Composition and Independence**

The Board comprises six Directors, all of whom are non-executive Directors. The independent non-executive Directors are Dato' Ooi Sang Kuang (Chairman of the Board), Mr Lai Teck Poh, Mr Ng Hon Soon, Mr Tong Hon Keong and Mr Tan Ngiap Joo (appointed on 1 October 2015), while the non-independent non-executive Director is Mr Samuel N. Tsien.

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

The members of the Board, as a group, provide skills and competencies to ensure the effectiveness of the Board. These include banking, accounting, Shariah principles and Islamic Finance, legal, strategy formulation, business acumen, management experience, familiarity with regulatory requirements and knowledge of risk management. Details of the Directors' professional qualifications and background are outlined in "Profile of the Board of Directors".

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

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

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)**

**CORPORATE GOVERNANCE (continued)**

**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 other stakeholders.

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

- i) Reviewing and approving overall business strategy developed and recommended by management;
- ii) Ensuring that decisions and investments are consistent with long-term strategic goals;
- iii) Ensuring that the Bank is operated to preserve its financial integrity and in accordance with policies approved by the Board;
- iv) 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;
- v) Reviewing any transaction for the acquisition or disposal of assets that is material to the Bank; and
- vi) Providing oversight in ensuring that the Bank's risk appetite and activities are consistent with the strategic intent, operating environment, effective internal controls, capital sufficiency and regulatory standards.

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

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

The Directors receive appropriate development, on a continuing basis, to perform their roles on the Board and its Committees. This, among other subjects, includes updates on regulatory developments, new business and products, accounting and finance, corporate governance and risk management, which are provided by subject matter experts from within and outside the Bank. A separate programme is established for new Directors which focuses on introductory information, briefings by senior executives on their respective areas and external courses, where relevant. The Board, as a whole, also receives briefings 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.

**Board Audit Committee**

The Board Audit Committee ("BAC") comprises Mr Tan Ngiap Joo (BAC Chairman - with effect from 10 March 2016), Mr Ng Hon Soon and Mr Tong Hon Keong; all of whom are independent Directors.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)**

**CORPORATE GOVERNANCE (continued)**

**Board Audit Committee (continued)**

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

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

**Internal Audit Function**

The BAC approves the Audit Charter of Internal Audit and reviews the effectiveness of the internal audit function. In line with leading practice, Internal Audit's mission statement and charter require it to provide independent and reasonable, but not absolute assurance that the Bank's 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 the BAC and management, but does not form any part of the system of internal controls. Internal Audit meets or exceeds the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors and the Shariah Governance Framework for Islamic Financial Institutions issued by BNM. In addition, the Internal Auditors have acquired the necessary qualifications and training in Islamic Banking.

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

The work undertaken by Internal Audit includes the audit of the Bank's system of internal controls 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 monitoring of market, liquidity and credit risks. Internal Audit also participates in major new system developments and special projects, to help evaluate risk exposures and to help 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 2015 (continued)**

**CORPORATE GOVERNANCE (continued)**

**Internal Audit Function (continued)**

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

**Internal Controls**

The 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 judgment 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. 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 Board on Shariah related matters and to ensure that the Bank complies with Shariah principles at all times;
- (c) To endorse the SC's Report on the state of the Shariah compliance of the Bank 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 Bank's Islamic Banking products 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 consultants upon request;
- (g) To provide written Shariah opinion in the following circumstances:
  - (i) where the Bank makes reference to the Shariah Advisory Council ("SAC") of BNM for further deliberations; or
  - (ii) where the Bank submits applications to BNM for new product approvals;

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)**

**CORPORATE GOVERNANCE (continued)**

**Disclosure of Shariah Committee (continued)**

- (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 2015**

Name of Shariah Advisor	Schedule of Meetings	
	Held	Attended
Prof. Dr Abdullah @ Alwi Bin Hj. Hassan	8	8
Prof. Dato' Dr Wan Sabri Bin Wan Yusof	8	8
Asst. Prof. Dr Muhammad Naim Bin Omar	8	7
Asst. Prof. Dr Mohamad Asmadi Bin Haji Abdullah	8	7
Assoc. Prof. Dr Mahamad Bin Arifin*	8	8

\* Assoc. Prof. Dr Mahamad Bin Arifin passed away on 18 January 2016.

**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, financials and risks to the Directors on a regular basis as well as on an ad-hoc basis. The Board reports include, amongst others, the following:

- i) Minutes of meeting of all Board Committees;
- ii) Monthly Performance Report of the Bank;
- iii) At least quarterly Credit Risk Management Report;
- iv) At least quarterly Asset Liability & Market Risk Report;
- v) At least quarterly Operational Risk Management Report;
- vi) At least quarterly Shariah Risk Management Update; and
- vii) At least quarterly Report of Shariah Committee Decisions.

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

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)****CORPORATE GOVERNANCE (continued)****Directors' Attendance At Board and Board Committee Meetings in 2015**

Name of Director	Schedule of Meetings							
	Board		Board Audit Committee		Nominating Committee		Risk Management Committee	
	Held+	Attended	Held+	Attended	Held+	Attended	Held+	Attended
Dato' Ooi Sang Kuang	8	8	6	6	3	3	6	6
Samuel N. Tsien	8	8	-	-	3	3	6	6
Lai Teck Poh	8	8	6	6	3	3	6	6
Ng Hon Soon	8	8	6	6	3	3	6	6
Tong Hon Keong	8	8	6	6	-	-	6	6
Tan Ngiap Joo (appointed on 1 October 2015)	2	2	2	2	1	1	2	2
Ching Wei Hong (retired on 20 June 2015)	5	3 <sup>^</sup>	-	-	1	1	3	3
Syed Abdull Aziz Jailani Bin Syed Kechik (retired as Director on 22 November 2015)	7	6 <sup>^</sup>	-	-	-	-	-	-
Dr Raja Lope Bin Raja Shahrome (retired on 10 March 2016)	8	8	-	-	-	-	6	6
Tan Siew Peng, Darren (resigned on 5 April 2016)	8	6 <sup>^</sup>	-	-	-	-	6	6

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

<sup>^</sup> Tuan Syed Abdull Aziz Jailani Bin Syed Kechik, Mr Ching Wei Hong and Mr Tan Siew Peng, Darren abstained themselves from attending the Special Board Meeting on 26 February 2015 by virtue that they have deemed interest in the subject matter being discussed.

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

**Profile of the Board of Directors****Dato' Ooi Sang Kuang, Chairman**

Dato' Ooi Sang Kuang was appointed to the Board on 6 April 2012, and later as Deputy Chairman of the Board on 27 November 2012 and then Chairman of the Board on 30 March 2014. He was a Special Advisor in 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 Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), OCBC Bank (Malaysia) Berhad ("OCBC Malaysia"), Cagamas Berhad (the national mortgage corporation in Malaysia) and its subsidiaries, Xeraya Capital Sdn Bhd and Xeraya Capital Labuan Ltd as well as a director of OCBC Wing Hang Bank Limited and OCBC Management Services Pte Ltd. 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 Asian Institute of Chartered Bankers and a Council Member of the Financial Services Talent Council.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)**

**CORPORATE GOVERNANCE (continued)**

**Profile of the Board of Directors (continued)**

**Mr Samuel N. Tsien**

Mr Samuel Tsien was appointed to the Board on 15 April 2012. He was appointed to the Board of Oversea-Chinese Banking Corporation Limited ("OCBC Bank") on 13 February 2014 and as Group Chief Executive Officer on 15 April 2012. Mr Tsien joined OCBC Bank 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, Global Corporate Bank with added responsibilities of overseeing the financial institution and transaction banking businesses. He has 38 years of banking experience. Prior to joining OCBC Bank, he was the President and Chief Executive Officer of China Construction Bank (Asia) when China Construction Bank 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. Mr Tsien is presently Chairman of OCBC Bank (China) Ltd and a Commissioner of PT Bank OCBC NISP Tbk. He also serves on the boards of major OCBC Group companies, including Great Eastern Holdings Ltd, Bank of Singapore Ltd and OCBC Wing Hang Bank Ltd. He is concurrently a council member of the Association of Banks in Singapore, and the Singapore Business Federation, a member of the Financial Sector Tripartite Committee and MAS Financial Centre Advisory Panel, and a Director of Mapletree Investments Pte Ltd. Mr Tsien holds a Bachelor of Arts with Honours in Economics from the University of California, Los Angeles ("UCLA").

**Mr Lai Teck Poh**

Mr Lai Teck Poh was appointed to the Board on 7 January 2011. He joined OCBC Bank as an Executive Vice President and Head of Corporate Banking in January 1988. During his tenure with OCBC Bank, he had senior management responsibilities for a wide range of functions, including Corporate Banking, Investment Management, Information Technology and Central Operations, Group Risk Management and Group Audit. He was the Head of Group Audit before his retirement on 14 April 2010. He has over 45 years of banking experience, including about 20 years in Citibank, N.A. Singapore with overseas assignments in Jakarta, New York and London. He is also a Director of OCBC Bank, OCBC Malaysia 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 Ng Hon Soon**

Mr Ng Hon Soon was appointed to the Board on 16 July 2014 as a non-independent non-executive Director and was later redesignated as an independent non-executive Director on 1 November 2014. He was previously attached to BNM from 1984 to 1994 before joining the research team of Nomura Advisory Services (M) Sdn Bhd in 1994. He then joined The Pacific Bank Berhad in 1995 overseeing, amongst others, corporate planning and risk management functions. In 2001, he was appointed to head PacificMas Berhad (renamed from The Pacific Bank Berhad following the sale of its banking business) as its General Manager. He was seconded by PacificMas Berhad to The Pacific Insurance Berhad as its Chief Executive Officer from 2002 to 2003 and was appointed the Chief Executive Officer of PacificMas Berhad in 2004 until 2012, following the commencement of the voluntary winding-up of the company. Mr Ng is currently a Director of OCBC Malaysia, Great Eastern Life Assurance (Malaysia) Berhad, Overseas Assurance Corporation (Malaysia) Berhad, RAM Rating Services Berhad and Pac Lease Berhad. Mr Ng holds a Bachelor of Applied Science (Hons.) from Universiti Sains Malaysia and a Master in Public Administration from Harvard University.

**Mr Tong Hon Keong**

Mr Tong Hon Keong was appointed to the Board on 21 July 2014. He had an illustrious career in Maybank spanning over 30 years. He gained wide ranging experience in various functional responsibilities, covering Planning, Information Systems, Central Operations and Management Information Services. He is a Director of OCBC Malaysia. Mr Tong holds a Bachelor of Economics (Hons.) from University of Malaya.

**Mr Tan Ngiap Joo**

Mr Tan Ngiap Joo was appointed to the Board on 1 October 2015. He spent 20 years in Citibank NA serving in various capacities, including Senior Risk Manager of Citibank Australia covering both Australia and New Zealand, and postings overseas prior to joining OCBC Group in August 1990, where he held senior positions over the years, including Chief Executive of OCBC's Australian operations, and Head, Group Business Banking. He was appointed Deputy President in December 2001 and retired in December 2007. He is also a Chairman of United Engineers Ltd, Banking Computer Services Pte Ltd and Mapletree India China Fund Ltd, Investment Committee and a Director of OCBC Malaysia, Banking Computer Services Information Systems Pte Ltd, China Fishery Group Ltd, and Mapletree Logistics Trust Management Ltd. Mr Tan holds a Bachelor of Arts from University of Western Australia.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)**

**CORPORATE GOVERNANCE (continued)**

**COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING**

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

**OTHER STATUTORY INFORMATION**

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

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

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

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

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

- i) any charge on the assets of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) 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 banking business.

No contingent liability 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 their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2015 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Company No.818444-T

OCBC AL-AMIN BANK BERHAD  
(Incorporated in Malaysia)

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (continued)**

**AUDITORS**

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

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

**DATO' OOI SANG KUANG**  
Chairman

**NG HON SOON**  
Director

Kuala Lumpur, Malaysia

12 April 2016

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 17 to 82 are 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 2015 and of its financial performance and cash flows for the financial year then ended.

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

**DATO' OOI SANG KUANG**  
Chairman

**NG HON SOON**  
Director

Kuala Lumpur, Malaysia

12 April 2016

**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 17 to 82 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 Malaysia on 12 April 2016

**YUEN SOOK CHENG**

Before me:

Commissioner for Oaths

OCBC AL-AMIN BANK BERHAD  
(Incorporated in Malaysia)

### **SHARIAH COMMITTEE'S REPORT**

To the shareholders, depositors and customers of OCBC Al-Amin Bank Berhad;

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.

In carrying out the roles and responsibilities of the Bank's Shariah Committee as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, we hereby submit the following report for the financial year ended 31 December 2015:

We have reviewed the principles and contracts relating to the transactions and applications undertaken by the Bank during the financial year ended 31 December 2015. 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 2015, that we have reviewed are in compliance with the Shariah principles except as disclosed in (c);
- (b) The overall operation, 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) During the financial year, the Bank received RM2,631 as Shariah non-compliant income for commission received from conventional insurers. There were 3 occurrences of Shariah non-compliant events identified for year 2015. The Shariah non-compliant events were due to non adherence to procedures/guidelines and improper execution of contracts according to the Shariah requirements. The Bank has taken the necessary steps to rectify the breaches. The distribution of the Shariah non-compliant income is disclosed in Note 34; and
- (d) In the financial year, the Bank has fulfilled its obligation to pay zakat on its business to state zakat authorities and the zakat is computed using the growth capital method. The beneficiaries of the zakat fund were Pusat Pungutan Zakat Wilayah Persekutuan, Lembaga Zakat Selangor, Universiti Teknologi Mara ("UiTM") Zakat Centre and International Islamic University Malaysia ("IIUM") Endowment Fund.

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 2015 have been conducted in conformity with the Shariah principles.

**PROF. DR ABDULLAH @ ALWI BIN HJ. HASSAN**  
Chairman of the Shariah Committee

**ASST. PROF. DR MUHAMMAD NAIM BIN OMAR**  
Member of Shariah Committee

Kuala Lumpur, Malaysia  
Date: 12 April 2016



## **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 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 82.

#### *Directors' Responsibility for the Financial Statements*

The Directors of the Bank are responsible for the preparation of financial statements so as to 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 also responsible for such internal controls as the Directors determine 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 judgement, 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 give a true and fair view of the financial position of the Bank as of 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

### **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: 2666/09/17(J)  
Chartered Accountant

Petaling Jaya, Selangor  
Date: 12 April 2016

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015**

	Note	2015 RM'000	2014 RM'000
<b>ASSETS</b>			
Cash and cash equivalents	3	1,131,012	1,179,551
Financial investments available-for-sale	4	3,123,191	2,843,810
Financing and advances	5	9,887,792	9,168,014
Derivative financial assets	7	620	4,102
Other assets	8	41,258	75,988
Current tax assets		4,765	9,678
Statutory deposits with Bank Negara Malaysia	9	406,100	379,800
Property and equipment	10	14,226	5,482
Deferred tax assets	11	2,171	1,966
<b>Total assets</b>		<u>14,611,135</u>	<u>13,668,391</u>
<b>LIABILITIES</b>			
Deposits from customers	12	10,177,748	10,014,608
Deposits and placements of banks and other financial institutions	13	3,058,875	2,521,511
Bills and acceptances payable		18,670	20,644
Subordinated bond	14	200,000	200,000
Derivative financial liabilities	7	790	4,136
Other liabilities	15	169,031	118,693
Zakat		40	35
<b>Total liabilities</b>		<u>13,625,154</u>	<u>12,879,627</u>
<b>EQUITY</b>			
Share capital	16	185,000	165,000
Reserves	17	800,981	623,764
<b>Total equity</b>		<u>985,981</u>	<u>788,764</u>
<b>Total liabilities and equity</b>		<u>14,611,135</u>	<u>13,668,391</u>
<b>Commitments and contingencies</b>	28	<u>3,479,220</u>	<u>1,883,263</u>

The accompanying notes form an integral part of the 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 2015**

	Note	2015 RM'000	2014 RM'000
Income derived from investment of depositors' funds and others	18	775,891	638,511
Income derived from investment of shareholder's funds	19	106,825	88,952
Impairment allowance on financing and advances	20	<u>(127,738)</u>	<u>(161,329)</u>
Total distributable income		754,978	566,134
Income attributable to depositors	21	<u>(386,836)</u>	<u>(296,862)</u>
Total net income		368,142	269,272
Operating expenses	23	<u>(195,749)</u>	<u>(181,925)</u>
<b>Profit before income tax and zakat</b>		172,393	87,347
Income tax expense	26	(34,711)	(16,783)
Zakat		<u>(40)</u>	<u>(35)</u>
<b>Profit for the year</b>		<u>137,642</u>	<u>70,529</u>
<b>Other comprehensive (expenses)/income, net of income tax</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Fair value (available-for-sale) reserve:			
- Change in fair value		(86)	5,375
- Amount transferred to profit or loss		(479)	(1,285)
Income tax credit/(expense) relating to components of other comprehensive income		140	(1,022)
<b>Other comprehensive (expenses)/income for the year, net of income tax</b>		<u>(425)</u>	<u>3,068</u>
<b>Total comprehensive income for the year</b>		<u>137,217</u>	<u>73,597</u>
Profit attributable to owner of the Bank		<u>137,642</u>	<u>70,529</u>
Total comprehensive income attributable to owner of the Bank		<u>137,217</u>	<u>73,597</u>
<b>Basic earnings per ordinary share (sen)</b>	27	<u>78.30</u>	<u>47.93</u>

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

**STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

	<i>Non-distributable</i>			<i>Distributable</i>		<b>Total Equity</b>
	<b>Share Capital</b>	<b>Share Premium</b>	<b>Statutory Reserve</b>	<b>Fair Value Reserve</b>	<b>Retained Earnings</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>						
At 1 January 2015	165,000	330,000	142,653	(2,342)	153,453	788,764
Fair value (available-for-sale) reserve						
- Change in fair value	-	-	-	(86)	-	(86)
- Amount transferred to profit or loss	-	-	-	(479)	-	(479)
Income tax credit relating to components of other comprehensive income	-	-	-	140	-	140
<b>Total other comprehensive expense for the year</b>	-	-	-	(425)	-	(425)
Profit for the year	-	-	-	-	137,642	137,642
<b>Total comprehensive (expense)/income for the year</b>	-	-	-	(425)	137,642	137,217
<b>Contributions by and distributions to owner of the Bank</b>						
Issue of ordinary shares	20,000	40,000	-	-	-	60,000
Transfer to statutory reserve	-	-	42,347	-	(42,347)	-
At 31 December 2015	185,000	370,000	185,000	(2,767)	248,748	985,981
<b>2014</b>						
At 1 January 2014	125,000	250,000	107,389	(5,410)	118,188	595,167
Fair value (available-for-sale) reserve						
- Change in fair value	-	-	-	5,375	-	5,375
- Amount transferred to profit or loss	-	-	-	(1,285)	-	(1,285)
Income tax expense relating to components of other comprehensive income	-	-	-	(1,022)	-	(1,022)
<b>Total other comprehensive income for the year</b>	-	-	-	3,068	-	3,068
Profit for the year	-	-	-	-	70,529	70,529
<b>Total comprehensive income for the year</b>	-	-	-	3,068	70,529	73,597
<b>Contributions by and distributions to owner of the Bank</b>						
Issue of ordinary shares	40,000	80,000	-	-	-	120,000
Transfer to statutory reserve	-	-	35,264	-	(35,264)	-
At 31 December 2014	165,000	330,000	142,653	(2,342)	153,453	788,764

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 2015**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flows from operating activities</b>		
Profit before income tax expense and zakat	172,393	87,347
<i>Adjustments for:</i>		
Net (gain)/loss from disposal of:		
- Financial investments available-for-sale	(479)	(1,285)
- Property and equipment	131	21
Depreciation of property and equipment	2,277	2,755
Impairment allowance on financing and advances	127,738	161,329
Share-based expenses	283	220
Unrealised loss on revaluation of derivatives	140	42
Operating profit before changes in working capital	<u>302,483</u>	<u>250,429</u>
<i>Changes in operating assets and operating liabilities:</i>		
Financing and advances	(847,516)	(2,566,389)
Derivative financial assets	3,482	(4,058)
Other assets	34,590	(21,314)
Statutory deposits with Bank Negara Malaysia	(26,300)	(109,000)
Deposits from customers	163,140	3,339,020
Deposits and placements of banks and other financial institutions	537,364	(33,617)
Bills and acceptances payable	(1,974)	6,965
Derivative financial liabilities	(3,346)	4,100
Other liabilities	50,055	32,437
<b>Cash generated from operations</b>	<u>211,978</u>	<u>898,573</u>
Income tax and zakat paid	<u>(29,898)</u>	<u>(25,351)</u>
<b>Net cash generated from operating activities</b>	<u>182,080</u>	<u>873,222</u>
<b>Cash flows from investing activities</b>		
Acquisition of financial investments available-for-sale	(5,432,541)	(3,507,020)
Proceeds from disposal of financial investments available-for-sale	5,153,074	2,730,348
Acquisition of property and equipment	(11,336)	(301)
Proceeds from disposal of property and equipment	184	72
<b>Net cash used in investing activities</b>	<u>(290,619)</u>	<u>(776,901)</u>
<b>Cash flows from financing activity</b>		
Proceeds from issuance of ordinary shares	60,000	120,000
<b>Net cash generated from financing activity</b>	<u>60,000</u>	<u>120,000</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(48,539)	216,321
<b>Cash and cash equivalents at 1 January</b>	<u>1,179,551</u>	<u>963,230</u>
<b>Cash and cash equivalents at 31 December (Note 3)</b>	<u>1,131,012</u>	<u>1,179,551</u>

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

OCBC AL-AMIN BANK BERHAD  
(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

### GENERAL INFORMATION

The Bank is a licensed Islamic Bank 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 ("OCBC Malaysia"), incorporated in Malaysia and Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), 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.

The financial were approved and authorised for issue by the Board of Directors on 12 April 2016.

### 1. BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis (except as disclosed in the notes to the financial statements).

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

#### (a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia and Shariah requirements.

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

#### Effective for annual periods commencing on or after 1 January 2016

- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS12, *Disclosures of Interest in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to MFRS 101, *Presentation of Financial Statements - Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture - Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements - Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

#### Effective for annual periods commencing on or after 1 January 2018

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

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 1. BASIS OF PREPARATION (continued)

#### (a) Statement of Compliance (continued)

##### Effective date yet to be announced by MASB

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

The Bank plans to apply the above accounting standards and amendments when they become effective in the respective financial periods.

The initial application of the abovementioned accounting standards and amendments are not expected to have any material impact to the financial statements of the Bank except as described below:

#### **MFRS 9, *Financial Instruments***

MASB issued MFRS 9, *Financial Instruments* effective for annual periods beginning or after 1 January 2018 which replaces MFRS 139 *Financial Instruments: Recognition and Measurement*. Retrospective application is required but comparative information is not compulsory.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with a irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 requires an expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

#### **MFRS 15, *Revenue from Contracts with Customers***

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

The adoption of MFRS 9 and MFRS 15 will result in a change in accounting policy. The Bank is currently assessing the financial impact of adopting MFRS 9 and MFRS 15.

#### (b) Use of estimates and judgements

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

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



## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 1. BASIS OF PREPARATION (continued)

#### (b) Use of estimates and judgements (continued)

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

- (i) Fair value estimation for financial investments available-for-sale (Note 4) and derivative financial assets and liabilities (Note 7). 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 is not available, judgement is required in the determination of model input, which normally incorporates assumptions that other market participants would use in their valuations, including assumptions about 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 flows.

- (ii) For impaired financing and advances which are individually and collectively assessed, management judgement is required in the estimation of the amount and timing of future cash flows in determining recoverable amount. In estimating these cash flows, judgements are made on the realisable value of collateral pledged and the borrower's financial position. These estimations are based on assumptions and the actual results may differ.
- (iii) Assessment of impairment of financial investments available-for-sale (Note 4) is made when the investment is impaired. Management judgement is required to evaluate the duration and extent of fair value loss for financial investments available-for-sale in order to determine if impaired.
- (iv) Management judgement is required for estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome is not determined until a later date. Whereas, for deferred tax, management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### A Foreign currency transactions

Transactions in foreign currencies are translated to 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 end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

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

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B Financial instruments**

**(a) Initial recognition and measurement**

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the 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.

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

The Bank categorises financial instruments as follows:

***Financial assets***

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

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

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

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

At the end of the reporting period, financial assets at fair value through profit or loss of the Bank are trading derivatives.

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B Financial instruments (continued)**

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

***Financial assets (continued)***

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

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

**(iv) Financing and receivables**

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

Financial assets categorised as financing and receivables are 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.

Financing and advances consist of sales based contracts (Bai' Inah, Bai' Bithaman Ajil, Tawarruq, Murabahah and Bai' Dayn), leased based contracts (Ijarah Thumma Al-Bai, Ijarah and Ijarah Muntahiah Bi Al-Tamlik), equity based contracts (Musharakah Mutanaqisah) and other contracts (Wakalah and Qard).

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B Financial instruments (continued)

##### (c) Financial guarantee contracts

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

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

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

##### (d) Regular way purchase or sale of financial assets

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

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

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

##### (e) 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 2015 (continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B Financial instruments (continued)**

**(f) Derecognition**

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

A financial liability or part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or 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.

**(g) 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 and equipment**

**(a) Recognition and measurement**

Items of property and equipment are measured at cost less any accumulated depreciation and any accumulated 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. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

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

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

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

**(b) Subsequent costs**

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

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C Property and equipment (continued)

##### (c) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment from the date that they are available for use. Property and equipment under construction are not depreciated until the assets are ready for their intended use.

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

- |                                  |             |
|----------------------------------|-------------|
| • Computer equipment             | 3 - 8 years |
| • Office equipment and furniture | 10 years    |
| • Renovation                     | 3 - 5 years |

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

#### D Operating lease

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

#### E Cash and Cash Equivalents

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

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

#### F Impairment

##### (a) *Financial assets*

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F Impairment (continued)**

**(a) Financial assets (continued)**

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

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

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

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

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment losses was recognised in profit or loss, the impairment losses 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 the BNM Guidelines on Classification and Impairment Provisions for Financing where financing and advances that are past due for more than 90 days or 3 months are 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 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 allowance is the current effective profit rate.

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

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

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### F Impairment (continued)

##### (b) Other assets

The carrying amounts of other assets (except for deferred tax assets, assets arising from employees 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. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

An impairment 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 is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (groups of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

Impairment losses recognised in prior periods is assessed at the end of each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment losses 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 losses had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

#### G Equity Instruments

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

Ordinary shares are classified as equity.

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

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

#### H Employee benefits

##### (a) Short-term employee benefits

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



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**H Employee benefits (continued)**

**(a) Short-term employee benefits (continued)**

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

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

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

**(b) Share-based payment transactions**

**(i) OCBC Deferred Share Plan**

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

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

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

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

The Employee Share Purchase Plan ("ESP Plan") is a savings-based share ownership plan that allows eligible employees to participate in shares of the ultimate holding company of the Bank by making monthly contributions to the ESP Plan Account and interest accrued at a preferential rate determined by the 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 Bank 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. The Bank accrues for profit on the monthly contributions made by employees to the savings-based ESP Plan.

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 2015 (continued)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### I Provisions

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

#### J Income and expenses

##### (a) Finance income and finance expense

Finance income and finance expense 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, a profit-bearing financial investment 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 or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective 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 allowance, finance income is recognised using the profit rate used to discount the future cash flows for the purpose of measuring the impairment allowance.

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

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

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

##### (b) Fee and commission income

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

##### (c) Net trading income

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

##### (d) Other income

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

##### (e) Dividend income

Dividend income is 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.

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### K Income Tax

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

##### (a) Current tax

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

##### (b) Deferred tax

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

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

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

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

#### L Earnings per ordinary share

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

#### M Restricted profit sharing investment accounts ("RPSIA")

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

#### N Contingencies

##### (a) Contingent liabilities

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

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**N Contingencies (continued)**

**(b) Contingent assets**

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

**O Fair value measurements**

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

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

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

Level 1 : quoted prices (unadjusted) in active markets for identical assets and liabilities that the Bank can assess at the measurement date.

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

Level 3 : unobservable inputs for the asset or liability.

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

**P 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 shareholder.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****3. CASH AND CASH EQUIVALENTS**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and balances with banks and other financial institutions	33,011	21,149
Deposits and placements with Bank Negara Malaysia	1,098,001	1,158,402
	<u>1,131,012</u>	<u>1,179,551</u>

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

Malaysia	1,125,088	1,171,761
Singapore	713	3,538
Other ASEAN	355	910
Rest of the world	4,856	3,342
	<u>1,131,012</u>	<u>1,179,551</u>

**4. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value</b>		
Malaysian Government Investment Issues	1,865,605	1,100,972
Malaysian Government Sukuk	130,024	173,140
Malaysian Government Islamic Treasury Bills	230,005	8,873
Bank Negara Malaysia Monetary Notes	99,760	772,441
Islamic Private Debt Securities	423,709	358,955
Islamic Negotiable Instruments of Deposit	149,654	299,457
Sanadat Mudharabah Cagamas	4,962	4,965
Foreign Government Debt Securities	219,472	125,007
	<u>3,123,191</u>	<u>2,843,810</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****5. FINANCING AND ADVANCES**

(i) By type and Shariah contracts

	Sale based contracts				Lease based contracts			Equity based contracts		Total RM'000	
	Bai'		Tawarruq RM'000	Murabahah RM'000	Bai' Dayn RM'000	Ijarah		Musharakah Mutanaqisah RM'000	Others RM'000		
	Bai' Inah RM'000	Bithaman Ajil RM'000				Thumma Al- Bai RM'000	Ijarah Bi Al-Tamlik RM'000				
<b>2015</b>											
<b>At amortised cost</b>											
Term Financing											
- Cash line financing	61,410	44,149	-	-	-	-	128,019	-	-	435	234,013
- House financing	-	16,931	-	-	-	-	-	1,746,928	113,957	-	1,877,816
- Syndicated term financing	-	-	-	-	-	-	-	394,311	-	-	394,311
- Hire purchase receivables	-	-	-	-	-	554,944	-	283,213	-	-	838,157
- Other term financing	1,655,677	189,394	389,729	-	-	-	-	2,247,040	161,669	-	4,643,509
Bills receivable	-	-	-	-	14,344	-	-	-	-	-	14,344
Trust receipts	-	-	-	210	-	-	-	-	-	-	210
Revolving credit	-	-	1,664,040	-	-	-	-	-	-	-	1,664,040
Claims on customers under acceptance credits	-	-	-	324,128	64,311	-	-	-	-	-	388,439
Other financing	-	-	-	105,865	-	-	-	-	-	-	105,865
<b>Gross financing and advances</b>	<b>1,717,087</b>	<b>250,474</b>	<b>2,053,769</b>	<b>430,203</b>	<b>78,655</b>	<b>554,944</b>	<b>128,019</b>	<b>4,671,492</b>	<b>275,626</b>	<b>435</b>	<b>10,160,704</b>
Allowance for financing and advances											
- Individual impairment											(82,433)
- Collective impairment											(190,479)
<b>Net financing and advances</b>											<b>9,887,792</b>

Included in financing and advances are specific business ventures funded by the Restricted Profit Sharing Investment Accounts ("RPSIA"), arrangements between the Bank and its immediate holding company, OCBC Malaysia. The immediate holding company, being the RPSIA depositor, is exposed to the 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 2015, the gross exposure relating to RPSIA financing is RM948 million (2014: RM1,122 million) and the collective impairment relating to this RPSIA of RM17.9 million (2014: RM18.5 million). There was no individual impairment provided for this RPSIA financing.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****5. FINANCING AND ADVANCES (continued)**

(i) By type and Shariah contracts (continued)

	Sale based contracts					Lease based contracts			Equity based contracts		Total RM'000
	Bai'		Tawarruq RM'000	Murabahah RM'000	Bai' Dayn RM'000	Ijarah Thumma Al- Bai RM'000	Ijarah		Musharakah Mutanaqisah RM'000	Others RM'000	
	Bai' Inah RM'000	Bithaman Ajil RM'000					Bi Al-Tamlik RM'000				
<b>2014</b>											
<b>At amortised cost</b>											
Term Financing											
- Cash line financing	57,616	51,177	-	-	-	-	55,567	-	-	238	164,598
- House financing	-	20,184	-	-	-	-	-	1,233,772	122,476	-	1,376,432
- Syndicated term financing	-	-	-	-	-	-	-	165,709	-	-	165,709
- Hire purchase receivables	-	-	-	-	-	674,585	-	228,946	-	-	903,531
- Other term financing	2,012,286	253,147	294,059	-	-	-	-	2,140,189	160,653	-	4,860,334
Bills receivable	-	-	-	-	13,007	-	-	-	-	-	13,007
Trust receipts	-	-	-	247	-	-	-	-	-	-	247
Revolving credit	9,144	-	1,641,478	-	-	-	-	-	-	-	1,650,622
Claims on customers under acceptance credits	-	-	-	168,122	60,025	-	-	-	-	-	228,147
Other financing	-	-	-	21,594	-	-	-	-	-	1	21,595
Gross financing and advances	<u>2,079,046</u>	<u>324,508</u>	<u>1,935,537</u>	<u>189,963</u>	<u>73,032</u>	<u>674,585</u>	<u>55,567</u>	<u>3,768,616</u>	<u>283,129</u>	<u>239</u>	<u>9,384,222</u>
Allowance for financing and advances											
- Individual impairment											(62,398)
- Collective impairment											(153,810)
Net financing and advances											<u>9,168,014</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****5. FINANCING AND ADVANCES (continued)**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
(ii) By type of customer		
Domestic non-bank financial institutions	168,126	42,250
Domestic business enterprises		
- Small and medium enterprises	2,897,665	2,920,762
- Others	3,679,719	2,946,306
Individuals	2,836,833	2,325,249
Foreign entities	578,361	1,149,655
	<u>10,160,704</u>	<u>9,384,222</u>
(iii) By profit rate sensitivity		
Fixed rate		
- House financing	25,618	24,820
- Hire purchase receivables	566,487	690,384
- Other fixed rate financing	2,879,833	2,964,577
Variable rate		
- BFR plus	2,406,165	1,863,893
- Cost plus	4,171,087	3,840,548
- Other variable rates	111,514	-
	<u>10,160,704</u>	<u>9,384,222</u>
(iv) By sector		
Agriculture, hunting, forestry and fishing	756,239	250,740
Mining and quarrying	217,929	92,844
Manufacturing	2,072,886	1,799,120
Electricity, gas and water	74,973	240,636
Construction	342,060	323,238
Real estate	441,279	611,980
Wholesale & retail trade and restaurants & hotels	1,491,032	1,515,393
Transport, storage and communication	320,103	353,918
Finance, insurance and business services	518,480	378,546
Community, social and personal services	509,106	341,178
Household		
- Purchase of residential properties	1,921,028	1,409,024
- Purchase of non-residential properties	44,513	44,079
- Others	962,928	937,388
Others	488,148	1,086,138
	<u>10,160,704</u>	<u>9,384,222</u>
(v) By geographical distribution		
Malaysia	9,933,624	8,550,832
Singapore	14,448	11,875
Rest of the world	212,632	821,515
	<u>10,160,704</u>	<u>9,384,222</u>
The analysis by geography which is determined based on where the credit risk resides.		
(vi) By residual contractual maturity		
Within one year	2,512,175	2,136,309
One year to five years	2,744,786	3,269,819
Over five years	4,903,743	3,978,094
	<u>10,160,704</u>	<u>9,384,222</u>



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****6. IMPAIRED FINANCING AND ADVANCES**

## (a) Movements in impaired financing and advances

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	196,682	107,359
Impaired during the year	430,924	302,466
Reclassified as unimpaired	(46,667)	(26,032)
Amount recovered	(227,433)	(127,100)
Amount written off	(85,582)	(60,011)
Effect of foreign exchange difference	17,500	-
At 31 December	<u>285,424</u>	<u>196,682</u>
Individual impairment allowance	(82,433)	(62,398)
Collective impairment allowance	(3,837)	(2,216)
Net impaired financing and advances	<u>199,154</u>	<u>132,068</u>

## (i) By sector

Agriculture, hunting, forestry and fishing	1,622	655
Mining and quarrying	92,662	87
Manufacturing	45,475	53,233
Electricity, gas and water	61	-
Construction	4,556	1,367
Real estate	23,197	71,270
Wholesale & retail trade and restaurants & hotels	33,974	18,005
Transport, storage and communication	8,242	6,876
Finance, insurance and business services	7,572	6,255
Community, social and personal services	3,007	2,118
Household		
- Purchase of residential properties	25,348	8,472
- Purchase of non-residential properties	430	192
- Others	38,621	27,489
Others	657	663
	<u>285,424</u>	<u>196,682</u>

## (ii) By geographical distribution

Malaysia	<u>285,424</u>	<u>196,682</u>
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The analysis by geography is determined based on where the credit risk resides.

## (iii) By period overdue

Less than 3 months	198,188	136,978
3 months to less than 6 months	44,003	33,128
6 months to less than 9 months	14,459	7,575
Over 9 months	28,774	19,001
	<u>285,424</u>	<u>196,682</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****6. IMPAIRED FINANCING AND ADVANCES (continued)**

(a) Movements in impaired financing and advances (continued)	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
(iv) By collateral type		
Property	69,740	90,986
Machinery	3,312	6,932
Secured - others	109,890	8,625
Unsecured - corporate and other guarantees	8	9,832
Unsecured - clean	102,474	80,307
	<u>285,424</u>	<u>196,682</u>

## (b) Movements in allowance for financing and advances

**Individual impairment allowance**

At 1 January	62,398	44,846
Made during the year	155,222	115,007
Amount written back	(49,199)	(37,331)
Amount written off	(85,582)	(60,011)
Financing income earned on impaired financing	(406)	(113)
At 31 December	<u>82,433</u>	<u>62,398</u>

**Collective impairment allowance**

At 1 January	153,810	60,151
Made during the year	36,669	93,659
At 31 December	<u>190,479</u>	<u>153,810</u>

## (i) By sector

<b>2015</b>	<b>Individual impairment allowance RM'000</b>	<b>Individual impairment made during the year RM'000</b>	<b>Individual impairment allowance written off RM'000</b>	<b>Collective impairment allowance RM'000</b>
Agriculture, hunting, forestry and fishing	447	732	393	14,284
Mining and quarrying	206	223	57	4,115
Manufacturing	6,949	7,503	12,389	39,046
Electricity, gas and water	62	136	-	1,416
Construction	1,036	2,348	1,787	6,445
Real estate	5,501	5,265	-	8,236
Wholesale & retail trade and restaurants & hotels	14,851	25,377	17,289	27,900
Transport, storage and communication	3,521	4,485	3,419	5,983
Finance, insurance and business services	3,611	4,741	3,770	9,731
Community, social and personal services	2,201	3,236	2,163	9,581
Household				
- Purchase of residential properties	6,132	8,002	-	36,192
- Purchase of non-residential properties	15	24	-	841
- Others	37,673	92,930	44,315	17,487
Others	228	220	-	9,222
	<u>82,433</u>	<u>155,222</u>	<u>85,582</u>	<u>190,479</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****6. IMPAIRED FINANCING AND ADVANCES (continued)**

(b) Movements in allowance for financing and advances (continued)

(i) By sector (continued)

2014	Individual	Individual	Individual	Collective
	impairment allowance RM'000	impairment allowance made during the year RM'000	impairment allowance written off RM'000	impairment allowance RM'000
Agriculture, forestry and fishing	236	185	103	4,133
Mining and quarrying	87	87	-	1,531
Manufacturing	11,992	9,932	4,456	29,488
Electricity, gas and water	-	-	-	3,971
Construction	698	1,100	1,106	5,322
Real estate	288	-	-	10,093
Wholesale & retail trade and restaurants & hotels	11,550	17,923	11,714	24,813
Transport, storage and communication	3,481	3,788	1,070	5,782
Finance, insurance and business services	3,890	5,016	1,689	6,182
Community, social and personal services	1,662	2,609	1,277	5,602
Household				
- Purchase of residential properties	1,130	1,028	83	23,230
- Purchase of non-residential properties	-	-	-	727
- Others	27,316	73,284	38,513	15,016
Others	68	55	-	17,920
	<u>62,398</u>	<u>115,007</u>	<u>60,011</u>	<u>153,810</u>

(ii) By geographical distribution

	2015 RM'000	2014 RM'000
<b>Individual impairment allowance</b>		
Malaysia	<u>82,433</u>	<u>62,398</u>
<b>Collective impairment allowance</b>		
Malaysia	186,187	140,059
Singapore	273	196
Rest of the world	4,019	13,555
	<u>190,479</u>	<u>153,810</u>

**7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES**

	2015			2014		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b>Trading</b>						
Foreign exchange derivatives						
- Forwards	69,135	432	790	51,426	32	69
- Swaps	6,095	188	-	219,697	4,070	4,067
	<u>75,230</u>	<u>620</u>	<u>790</u>	<u>271,123</u>	<u>4,102</u>	<u>4,136</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****8. OTHER ASSETS**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit receivable	25,679	18,490
Other receivables, deposits and prepayments	10,936	1,577
Shared services fee receivable from immediate holding company (Note 31)	617	-
Amount due from ultimate holding company (Note 31)	6	-
Amount due from related companies (Note 31)	39	-
Amount due from immediate holding company (Note 31)	3,981	55,921
	<u>41,258</u>	<u>75,988</u>

The amounts due from ultimate and immediate holding companies and related companies are unsecured, profit-free and repayable on demand.

**9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA**

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

**10. PROPERTY AND EQUIPMENT**

<b>2015</b>	<b>Office equipment and furniture RM'000</b>	<b>Computer equipment RM'000</b>	<b>Renovation RM'000</b>	<b>Total RM'000</b>
<b>Cost</b>				
At 1 January	4,504	13,682	6,199	24,385
Additions	2,321	4,914	4,101	11,336
Disposals/Transfer to immediate holding company	(23)	(2,757)	-	(2,780)
At 31 December	<u>6,802</u>	<u>15,839</u>	<u>10,300</u>	<u>32,941</u>
<b>Accumulated depreciation</b>				
At 1 January	(1,999)	(11,806)	(5,098)	(18,903)
Depreciation for the year	(512)	(1,339)	(426)	(2,277)
Disposals/Transfer to immediate holding company	15	2,450	-	2,465
At 31 December	<u>(2,496)</u>	<u>(10,695)</u>	<u>(5,524)</u>	<u>(18,715)</u>
<b>Carrying amount</b>				
At 1 January	2,505	1,876	1,101	5,482
At 31 December	<u>4,306</u>	<u>5,144</u>	<u>4,776</u>	<u>14,226</u>
<b>2014</b>				
<b>Cost</b>				
At 1 January	4,401	13,631	6,260	24,292
Additions/Transfer from immediate holding company	174	104	23	301
Disposals/Written off/Transfer to immediate holding company	(111)	(53)	(44)	(208)
Reclassification	40	-	(40)	-
At 31 December	<u>4,504</u>	<u>13,682</u>	<u>6,199</u>	<u>24,385</u>
<b>Accumulated depreciation</b>				
At 1 January	(1,612)	(10,255)	(4,376)	(16,243)
Depreciation for the year	(449)	(1,580)	(726)	(2,755)
Disposals/Written off/Transfer to immediate holding company	62	29	4	95
At 31 December	<u>(1,999)</u>	<u>(11,806)</u>	<u>(5,098)</u>	<u>(18,903)</u>
<b>Carrying amount</b>				
At 1 January	2,789	3,376	1,884	8,049
At 31 December	<u>2,505</u>	<u>1,876</u>	<u>1,101</u>	<u>5,482</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****11. DEFERRED TAX ASSETS**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Change in fair value of financial instruments	921	781	-	-	921	781
Excess of capital allowances over depreciation	-	-	(731)	(756)	(731)	(756)
Other temporary differences	1,981	1,941	-	-	1,981	1,941
Tax assets/(liabilities)	2,902	2,722	(731)	(756)	2,171	1,966
Set off of tax	(731)	(756)	731	756	-	-
Net tax assets	2,171	1,966	-	-	2,171	1,966

2015	At 1 January RM'000	Recognised in profit or loss (Note 26) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
Excess of capital allowances over depreciation	(756)	25	-	(731)
Other temporary differences	1,941	40	-	1,981
Total	1,966	65	140	2,171

2014	At 1 January RM'000	Recognised in profit or loss (Note 26) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
Excess of capital allowances over depreciation	(1,150)	394	-	(756)
Other temporary differences	1,793	148	-	1,941
Total	2,446	542	(1,022)	1,966

**12. DEPOSITS FROM CUSTOMERS**

a) By type of deposit	2015 RM'000	2014 RM'000
<b>Non-Mudharabah</b>		
Demand deposits (Wadiah)	2,998,319	2,781,807
Savings deposits (Wadiah)	266,153	305,379
Savings deposits (Tawarruq)	1,465	-
General investment deposits (Commodity Murabahah)	6,288,858	5,647,115
Negotiable instruments of deposit (Bai' Bithaman Ajil)	164,975	67,874
Wakalah short term deposits	-	1,176,935
Tawarruq short term deposits	457,792	-
	10,177,562	9,979,110
<b>Mudharabah</b>		
General investment deposits	186	35,498
	10,177,748	10,014,608

OCBC AL-AMIN BANK BERHAD  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****12. DEPOSITS FROM CUSTOMERS (continued)**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
b) By type of customer		
Government and statutory bodies	1,158,643	249,476
Non-bank financial institutions	1,083,979	2,208,538
Business enterprises	5,276,209	4,997,013
Individuals	2,376,161	2,319,206
Foreign entities	72,684	102,211
Others	210,072	138,164
	<u>10,177,748</u>	<u>10,014,608</u>
c) By maturity structure		
Within six months	8,880,561	8,735,905
Six months to one year	1,224,726	1,213,265
One year to three years	6,788	2,812
Three years to five years	65,673	100
Over five years	-	62,526
	<u>10,177,748</u>	<u>10,014,608</u>

**13. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-Mudharabah</b>		
Licensed banks	2,009,812	1,201,475
<b>Mudharabah</b>		
Licensed banks (Note 40)	<u>1,049,063</u>	<u>1,320,036</u>
	<u>3,058,875</u>	<u>2,521,511</u>

Included in the deposits and placements of banks and other financial institutions are the Restricted Profit Sharing Investment Accounts ("RPSIA") placed by its immediate holding company, OCBC Malaysia, amounting to RM1,049 million (2014: RM1,320 million) at profit rates ranging from 1.67% to 4.55% (2014: 1.56% to 5.67%) per annum.

**14. 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, 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 immediate holding company, OCBC Malaysia.

The unrestricted subordinated bond qualifies as Tier 2 capital subject to gradual phase out as required under the BNM Capital Adequacy Framework for Islamic Banks (Capital Component).

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****15. OTHER LIABILITIES**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit payable	88,263	69,269
Other accruals and charges	71,423	49,243
Amount due to immediate holding company (Note 31)	439	-
Shared services fee payable to immediate holding company (Note 31)	8,906	-
Shared services fee payable to related company (Note 31)	-	181
	<u>169,031</u>	<u>118,693</u>

The amount due to immediate holding company is unsecured, profit free and repayable on demand.

**16. SHARE CAPITAL**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Authorised:</b>		
Ordinary shares of RM1 each	<u>500,000</u>	<u>500,000</u>
<b>Issued and fully paid:</b>		
Ordinary shares of RM1 each		
At 1 January	165,000	125,000
Issued to immediate holding company	<u>20,000</u>	<u>40,000</u>
At 31 December	<u>185,000</u>	<u>165,000</u>

In June 2015, the Bank increased its share capital via the issuance of 20 million ordinary shares of RM1 each at RM3 per ordinary share for cash to its immediate holding company, OCBC Malaysia.

**17. RESERVES**

The detailed breakdown of the reserves are shown in the Statement of Changes in Equity.

Share premium comprises the premium paid on subscription of shares in the Bank over and above the par values of the shares.

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

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

**18. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Income derived from investment of:		
(i) General investment deposits	414,190	282,983
(ii) Other deposits	<u>361,701</u>	<u>355,528</u>
	<u>775,891</u>	<u>638,511</u>

(i) Income derived from investment of general investment deposits

**Finance income and hibah**

Unimpaired financing and advances	338,569	232,322
Impaired financing and advances	211	47
Financial investments available-for-sale	56,349	32,815
Deposits and placements with banks and other financial institutions	<u>18,268</u>	<u>17,043</u>
	<u>413,397</u>	<u>282,227</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****18. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (continued)**

(i) Income derived from investment of general investment deposits (continued)

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Other operating income</b>		
Net gain from disposal of financial assets-held-for-trading	-	1
Net gain from disposal of financial investments available-for-sale	524	558
Others	269	197
	<u>414,190</u>	<u>282,983</u>

(ii) Income derived from investment of other deposits

<b>Finance income and hibah</b>		
Unimpaired financing and advances	297,192	292,160
Impaired financing and advances	165	60
Financial investments available-for-sale	42,825	41,246
Deposits and placements with banks and other financial institutions	21,350	21,160
	<u>361,532</u>	<u>354,626</u>
<b>Other operating income</b>		
Net gain from disposal of financial assets held-for-trading	-	2
Net (loss)/gain from disposal of financial investments available-for-sale	(36)	651
Others	205	249
	<u>361,701</u>	<u>355,528</u>

**19. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Unimpaired financing and advances	44,832	33,038
Impaired financing and advances	30	6
Financial investments available-for-sale	7,471	4,660
Deposits and placements with banks and other financial institutions	2,343	2,396
	<u>54,676</u>	<u>40,100</u>
<b>Other operating income</b>		
Net (loss)/gain from disposal of financial investments available-for-sale	(9)	76
Others	35	28
<b>Other trading income</b>		
Net trading gain/(loss)		
- Foreign currency	1,088	(1,241)
- Trading derivatives	12,328	11,768
- Revaluation of derivatives	(140)	(42)
<b>Fee and commission income</b>		
Commission	15,386	17,601
Service charges and fees	23,461	20,662
	<u>106,825</u>	<u>88,952</u>

**20. IMPAIRMENT ALLOWANCE ON FINANCING AND ADVANCES**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Individual impairment allowance		
- Made during the year	155,222	115,007
- Written back	(49,199)	(37,331)
	<u>106,023</u>	<u>77,676</u>



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****20. IMPAIRMENT ALLOWANCE ON FINANCING AND ADVANCES (continued)**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Collective impairment allowance		
- Made during the year	36,669	93,659
Impaired financing written off	5	-
Impaired financing recovered	<u>(14,959)</u>	<u>(10,006)</u>
	<u>127,738</u>	<u>161,329</u>

**21. INCOME ATTRIBUTABLE TO DEPOSITORS**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Deposits from customers		
- Mudharabah	90	8,629
- Non-Mudharabah	<u>327,298</u>	<u>226,094</u>
	327,388	234,723
Deposits and placements of banks and other financial institutions		
- Mudharabah	34,992	23,502
- Non-Mudharabah	<u>13,556</u>	<u>27,737</u>
	48,548	51,239
Subordinated bond	<u>10,900</u>	<u>10,900</u>
	<u>386,836</u>	<u>296,862</u>

**22. FINANCE INCOME AND EXPENSE ANALYSED BY CATEGORY OF FINANCIAL INSTRUMENTS**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income</b>		
Financing and advances	680,999	557,633
Financial investments available-for-sale	106,645	78,721
Deposits and placements with banks and other financial institutions	<u>41,961</u>	<u>40,599</u>
	<u>829,605</u>	<u>676,953</u>
<b>Finance expense</b>		
Liabilities at amortised cost	<u>386,836</u>	<u>296,862</u>

**23. OPERATING EXPENSES**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Personnel expenses</b>		
Wages, salaries and bonus	25,704	27,519
Employee Provident Fund contributions	3,933	4,373
Share-based expenses	283	220
Others	<u>2,818</u>	<u>2,400</u>
	<u>32,738</u>	<u>34,512</u>
<b>Establishment expenses</b>		
Depreciation of property and equipment	2,277	2,755
Rental of premises	2,738	2,328
Repair and maintenance	572	422
Information technology costs	258	94
Loss on disposal of property and equipment	131	21
Others	<u>2,430</u>	<u>2,226</u>
	<u>8,406</u>	<u>7,846</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****23. OPERATING EXPENSES (continued)**

	2015 RM'000	2014 RM'000
<b>Marketing expenses</b>		
Advertisement and business promotion	2,526	2,846
Transport and travelling	723	899
Others	170	178
	<u>3,419</u>	<u>3,923</u>
<b>General administrative expenses</b>		
Shared service fees to immediate holding company (Note 31)	105,565	106,428
Transaction processing fees* (Note 31)	22,407	22,698
Auditors' remuneration		
- Statutory audit	78	74
- Other services	84	80
Others	23,052	6,364
	<u>151,186</u>	<u>135,644</u>
<b>Total operating expenses</b>	<u>195,749</u>	<u>181,925</u>

\* Transaction processing fees were incurred for transactions processed by a related company.

**24. CHIEF EXECUTIVE OFFICER ("CEO"), DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION**

The remuneration of the CEO and Directors charged to profit or loss for the financial year are as follows:

	Salaries and bonuses	Fees	Other accrued employee benefits	Employees Provident Fund	Benefits- in-kind	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>						
<b>CEO</b>						
Syed Abdul Aziz Jailani Bin Syed Kechik	1,141	-	231	183	29	1,584
<b>Non Executive Directors</b>						
Dato' Ooi Sang Kuang	-	53	-	-	-	53
Dr. Raja Lope Bin Raja Shahrome (Retired)	-	31	-	-	-	31
Lai Teck Poh	-	53	-	-	-	53
Ng Hon Soon	-	53	-	-	-	53
Tong Hon Keong	-	45	-	-	-	45
Tan Ngiap Joo	-	17	-	-	-	17
	<u>1,141</u>	<u>252</u>	<u>231</u>	<u>183</u>	<u>29</u>	<u>1,836</u>
<b>2014</b>						
<b>Executive Director and CEO</b>						
Syed Abdul Aziz Jailani Bin Syed Kechik	910	-	158	145	5	1,218
<b>Non Executive Directors</b>						
Dato' Ooi Sang Kuang	-	42	-	-	-	42
Dr. Raja Lope Bin Raja Shahrome	-	29	-	-	-	29
Lai Teck Poh	-	50	-	-	-	50
Ng Hon Soon	-	24	-	-	-	24
Tong Hon Keong	-	19	-	-	-	19
Tan Sri Dato' Nasruddin Bin Bahari (Retired)	-	16	-	-	-	16
Tan Siok Choo (Retired)	-	22	-	-	-	22
	<u>910</u>	<u>202</u>	<u>158</u>	<u>145</u>	<u>5</u>	<u>1,420</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****24. CHIEF EXECUTIVE OFFICER ("CEO"), DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION (continued)**

The remuneration of the members of the Shariah Committee charged to profit or loss during the financial year are as follows:

	<b>2015</b> <b>RM'000</b>	<b>2014</b> <b>RM'000</b>
Shariah Committee	<u>218</u>	<u>205</u>

**25. ZAKAT**

The Bank only pays zakat on its business. The Bank does not pay zakat on behalf of its depositors nor shareholder.

**26. INCOME TAX EXPENSE**

	<b>2015</b> <b>RM'000</b>	<b>2014</b> <b>RM'000</b>
Malaysian income tax		
- Current year	35,132	17,474
- Prior years	(356)	(149)
	<u>34,776</u>	<u>17,325</u>
Deferred tax (Note 11)		
- Origination and reversal of temporary differences	(79)	(555)
- Prior years	14	13
	<u>(65)</u>	<u>(542)</u>
	<u>34,711</u>	<u>16,783</u>

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

	<b>2015</b> <b>%</b>	<b>2014</b> <b>%</b>
Malaysian tax rate at 25%	25.0	25.0
Tax effect of:		
Expenses not deductible for tax purposes	0.7	0.4
Income not subject to tax	(5.4)	(6.0)
Over provision in prior years	(0.2)	(0.2)
Average effective tax rate	<u>20.1</u>	<u>19.2</u>

**27. BASIC EARNINGS PER ORDINARY SHARE**

The 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 financial year. The Bank has no dilution in its earnings per ordinary share as there are no dilutive potential ordinary shares.

	<b>2015</b>	<b>2014</b>
Net profit for the year (RM'000)	<u>137,642</u>	<u>70,529</u>
Weighted average number of ordinary shares in issue ('000)	<u>175,795</u>	<u>147,137</u>
Basic earnings per share (sen)	<u>78.30</u>	<u>47.93</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****28. 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 (CAFIB Basel II) - Disclosure Requirements (Pillar 3).

	Principal Amount	Positive Fair Value of Derivative Contracts	Negative Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Amount
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>					
Direct credit substitutes	69,573			69,573	51,197
Transaction-related contingent items	264,386			135,765	116,602
Short-term self-liquidating trade-related contingencies	40,412			9,339	3,987
Foreign exchange related contracts					
- Less than one year	75,230	620	790	912	429
Formal standby facilities and credit lines					
- Maturity not exceeding one year	1,880			376	224
- Maturity exceeding one year	476,002			420,914	182,569
Other unconditionally cancellable commitments	2,551,737			39,341	11,556
	<u>3,479,220</u>	<u>620</u>	<u>790</u>	<u>676,220</u>	<u>366,564</u>
<b>2014</b>					
Direct credit substitutes	20,833			20,833	13,599
Transaction-related contingent items	211,647			110,445	82,202
Short-term self-liquidating trade-related contingencies	34,793			9,485	3,461
Foreign exchange related contracts					
- Less than one year	271,123	4,102	4,136	7,416	1,199
Formal standby facilities and credit lines					
- Maturity not exceeding one year	1,283			1,045	670
- Maturity exceeding one year	540,259			456,852	109,822
Other unconditionally cancellable commitments	803,325			3,436	1,107
	<u>1,883,263</u>	<u>4,102</u>	<u>4,136</u>	<u>609,512</u>	<u>212,060</u>

**29. CAPITAL COMMITMENTS**

	2015 RM'000	2014 RM'000
Capital commitments in respect of property and equipment		
- Contracted but not provided for	<u>3,926</u>	<u>3,418</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****30. LEASE COMMITMENTS**

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

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Less than one year	2,728	2,353
Between one to five years	2,232	3,098
	<u>4,960</u>	<u>5,451</u>

**31. 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. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly and entity that provides key management personnel services to the Bank. The key management personnel include all the Directors of the Bank, and certain members of senior management of the Bank.

The Bank has related party relationship with the following:

- Ultimate holding company, Oversea-Chinese Banking Corporation Limited;
- Immediate holding company, OCBC Bank (Malaysia) Berhad;
- Other related companies within the Oversea-Chinese Banking Corporation Limited Group; and
- Key management personnel, including close family members of key management and personnel.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)****(a) Significant related party transactions**

The significant transactions and outstanding balances with related parties are as follows:

	<b>Ultimate Holding Company</b>	<b>Immediate Holding Company</b>	<b>Other Related Companies</b>	<b>Key Management Personnel</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>				
<b>Income</b>				
Profit income on financing and advances	-	-	-	37
Shared service fees	74	5,115	-	-
Fee and commission income	-	-	1,298	-
	<b>74</b>	<b>5,115</b>	<b>1,298</b>	<b>37</b>
<b>Expenditure</b>				
Profit expense on general investment deposits	-	-	-	31
Profit expense on other deposits	-	-	7,312	-
Profit expense on negotiable instruments of deposit	-	2,747	-	-
Profit expense on deposits and placements	2,963	44,312	-	-
Profit expense on subordinated bond	-	10,900	-	-
Shared service fees (Note 23)	-	105,565	-	-
Transaction processing fees (Note 23)	-	-	22,407	-
Rental expenses	-	76	-	-
Personnel and other expenses	-	336	1,312	-
	<b>2,963</b>	<b>163,936</b>	<b>31,031</b>	<b>31</b>
<b>2014</b>				
<b>Income</b>				
Profit income on financing and advances	-	-	-	38
Shared service fees	-	4,001	-	-
Fee and commission income	-	-	2,889	-
	<b>-</b>	<b>4,001</b>	<b>2,889</b>	<b>38</b>
<b>Expenditure</b>				
Profit expense on general investment deposits	-	-	-	9
Profit expense on other deposits	-	-	4,218	-
Profit expense on negotiable instruments of deposit	-	2,793	-	-
Profit expense on deposits and placements	1,546	49,540	-	-
Profit expense on subordinated bond	-	10,900	-	-
Shared service fees (Note 23)	-	106,428	-	-
Transaction processing fees (Note 23)	-	-	22,698	-
Rental expenses	-	65	-	-
Personnel and other expenses	-	83	1,491	-
	<b>1,546</b>	<b>169,809</b>	<b>28,407</b>	<b>9</b>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)****(a) Significant related party transactions (continued)**

	<b>Ultimate Holding Company</b>	<b>Immediate Holding Company</b>	<b>Other Related Companies</b>	<b>Key Management Personnel</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>				
<b>Amount due from</b>				
Deposits and placements with banks and other financial institutions	989	-	80	-
Financing and advances	-	-	-	816
Shared service fees receivable (Note 8)	-	617	-	-
Other assets (Note 8)	6	3,981	39	-
	<b>995</b>	<b>4,598</b>	<b>119</b>	<b>816</b>
<b>Amount due to</b>				
Demand deposits and general investment deposits	-	-	3,012	929
Other deposits	-	-	219,130	6
Negotiable instruments of deposit	-	65,273	-	-
Deposits and placements of banks and other financial institutions	875,797	1,626,256	-	-
Subordinated bond (Note 14)	-	200,000	-	-
Profit payable	413	5,212	55	14
Shared service fees payable (Note 15)	-	8,906	-	-
Other liabilities	79	439	403	-
	<b>876,289</b>	<b>1,906,086</b>	<b>222,600</b>	<b>949</b>
<b>Commitments</b>				
Foreign exchange derivatives	-	39,392	2,063	-
<b>2014</b>				
<b>Amount due from</b>				
Deposits and placements with banks and other financial institutions	4,269	-	179	-
Financing and advances	-	-	-	838
Other assets (Note 8)	-	55,921	-	-
	<b>4,269</b>	<b>55,921</b>	<b>179</b>	<b>838</b>
<b>Amount due to</b>				
Demand deposits and general investment deposits	-	-	12,834	284
Other deposits	-	-	224,560	4
Negotiable instruments of deposit	-	62,526	-	-
Deposits and placements of banks and other financial institutions	762,428	1,706,560	-	-
Subordinated bond (Note 14)	-	200,000	-	-
Profit payable	232	8,969	92	3
Shared service fees payable (Note 15)	-	-	181	-
Other liabilities	80	-	25	-
	<b>762,740</b>	<b>1,978,055</b>	<b>237,692</b>	<b>291</b>
<b>Commitments</b>				
Foreign exchange derivatives	-	153,963	200	-

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)****(b) Credit exposure arising from credit transactions with connected parties**

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

	2015 RM'000	2014 RM'000
<b>Aggregate value of outstanding credit exposure with connected parties^:</b>		
Credit facility and leasing (except guarantee)	6,722	2,066
Commitments and contingencies*	31,572	44,240
	<u>38,294</u>	<u>46,306</u>

^ Comprises total outstanding balance and unutilised limit.

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

**Percentage of outstanding credit exposures to connected parties :**

- As a proportion of total credit exposures	0.33%	0.41%
- As a proportion of impaired or in default	<u>-</u>	<u>-</u>

**(c) Key management personnel compensation**

	2015 RM'000	2014 RM'000
Short-term employee benefits	4,220	4,152
Share-based benefits	331	220
	<u>4,551</u>	<u>4,372</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.

**32. FINANCIAL INSTRUMENTS**

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

- (a) Fair value through profit or loss - held for trading ("FVTPL-HFT");  
(b) Financing and receivables ("F&R");  
(c) Financial investments available-for-sale ("AFS"); and  
(d) Financial liabilities measured at amortised cost ("FL").

2015	FVTPL-HFT RM'000	F&R/FL RM'000	AFS RM'000	Carrying amount RM'000
<b>Financial assets</b>				
Cash and cash equivalents	-	1,131,012	-	1,131,012
Financial investment available-for-sale	-	-	3,123,191	3,123,191
Financing and advances	-	9,887,792	-	9,887,792
Derivative financial assets	620	-	-	620
Other assets	-	41,258	-	41,258
Statutory deposits with Bank Negara Malaysia	-	406,100	-	406,100
	<u>620</u>	<u>11,466,162</u>	<u>3,123,191</u>	<u>14,589,973</u>
Non-financial assets	-	21,162	-	21,162
<b>Total assets</b>	<u>620</u>	<u>11,487,324</u>	<u>3,123,191</u>	<u>14,611,135</u>
<b>Financial liabilities</b>				
Deposits from customers	-	10,177,748	-	10,177,748
Deposits and placements of banks and other financial institutions	-	3,058,875	-	3,058,875
Bills and acceptances payable	-	18,670	-	18,670
Subordinated bond	-	200,000	-	200,000
Derivative financial liabilities	790	-	-	790
Other liabilities	-	169,031	-	169,031
	<u>790</u>	<u>13,624,324</u>	<u>-</u>	<u>13,625,114</u>
Non-financial liabilities	-	40	-	40
<b>Total liabilities</b>	<u>790</u>	<u>13,624,364</u>	<u>-</u>	<u>13,625,154</u>



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****32. FINANCIAL INSTRUMENTS (continued)**

2014	FVTPL-HFT RM'000	F&R/FL RM'000	AFS RM'000	Carrying amount RM'000
<b>Financial assets</b>				
Cash and cash equivalents	-	1,179,551	-	1,179,551
Financial investment available-for-sale	-	-	2,843,810	2,843,810
Financing and advances	-	9,168,014	-	9,168,014
Derivative financial assets	4,102	-	-	4,102
Other assets	-	75,988	-	75,988
Statutory deposits with Bank Negara Malaysia	-	379,800	-	379,800
	4,102	10,803,353	2,843,810	13,651,265
Non-financial assets	-	17,126	-	17,126
<b>Total assets</b>	<b>4,102</b>	<b>10,820,479</b>	<b>2,843,810</b>	<b>13,668,391</b>
<b>Financial liabilities</b>				
Deposits from customers	-	10,014,608	-	10,014,608
Deposits and placements of banks and other financial institutions	-	2,521,511	-	2,521,511
Bills and acceptances payable	-	20,644	-	20,644
Subordinated bond	-	200,000	-	200,000
Derivative financial liabilities	4,136	-	-	4,136
Other liabilities	-	118,693	-	118,693
	4,136	12,875,456	-	12,879,592
Non-financial liabilities	-	35	-	35
<b>Total liabilities</b>	<b>4,136</b>	<b>12,875,491</b>	<b>-</b>	<b>12,879,627</b>

**OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The tables below set out carrying amounts of recognised financial assets and financial liabilities that are subject to International Swaps and Derivatives Association ("ISDA") and, or similar master netting arrangements but do not meet the criteria for offsetting in the statements of financial position. This is because the parties to the ISDA agreement provides the right of set-off of recognised amounts that is only enforceable in event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. Malaysia was not a clear netting jurisdiction previously and hence the Bank was not able to enforce set-off in the event of default. The Netting of Financial Agreement Act ("the Act") which came into force on 30 March 2015, provides assurance that the close-out netting mechanism for financial transactions is enforceable under the law.

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

Types of financial assets/liabilities	Carrying amount in the statement of financial position RM'000	Financial instruments not in scope of offsetting disclosures RM'000	Gross recognised financial instruments in scope RM'000	Related amounts not offset in the statement of financial position		Net amount in scope RM'000
				Financial instruments RM'000	Cash collateral received/ pledged RM'000	
<b>2015</b>						
Derivative financial assets	620	620	-	-	-	-
Derivative financial liabilities	790	790	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****32. FINANCIAL INSTRUMENTS (continued)****OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

Types of financial assets/liabilities	Carrying amount in the statement of financial position RM'000	Financial instruments not in scope of offsetting disclosures RM'000	Gross recognised financial instruments in scope RM'000	Related amounts not offset in the statement of financial position		
				Financial instruments RM'000	Cash collateral received/pledged RM'000	Net amount in scope RM'000
<b>2014</b>						
Derivative financial assets	4,102	4,102	-	-	-	-
Derivative financial liabilities	4,136	4,136	-	-	-	-

**33. 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 determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the 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 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 and equipment.

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**

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**33. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**(A) Fair value measurement (continued)**

**(i) Financial assets and financial liabilities (continued)**

(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 periods to maturity.

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

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

(d) Financing and advances

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

(e) Derivative financial assets and liabilities

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

(f) Deposits from customers

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

(g) Bills and acceptances payable

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

(h) Subordinated bond

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****33. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****(A) Fair value measurement (continued)****(ii) Off-statement of financial position financial instruments**

The fair value of off-statement of financial position financial instruments is the estimated amount the Bank would receive or pay to terminate the contracts at the reporting date. The fair value of the off-statement of financial position financial instruments are disclosed in Note 7.

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

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

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Fair value determined	Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets and financial liabilities that the entity can access at the measurement date.	Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets and liabilities, either directly or indirectly.	Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.
Type of financial assets	Actively traded government and agency securities	Corporate and other government bonds  Over-the counter ("OTC") derivatives  Cash and cash equivalents  Deposits and placements with banks and other financial institutions  Other assets	Corporate bonds with illiquid markets  Financing and advances
Type of financial liabilities		OTC derivatives  Deposits from customers  Deposits and placement of banks and other financial institutions  Other liabilities  Subordinated bond	

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****33. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****(B) Fair value hierarchy of financial instruments (continued)****(i) Financial instruments carried at fair value**

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>			
<b>Financial assets at fair value</b>			
Available-for-sale	1,743,769	1,379,422	3,123,191
Derivative financial assets	8	612	620
	<u>1,743,777</u>	<u>1,380,034</u>	<u>3,123,811</u>
<b>Financial liabilities at fair value</b>			
Derivative financial liabilities	28	762	790
	<u>28</u>	<u>762</u>	<u>790</u>
<b>2014</b>			
<b>Financial assets at fair value</b>			
Available-for-sale	2,163,011	680,799	2,843,810
Derivative financial assets	11	4,091	4,102
	<u>2,163,022</u>	<u>684,890</u>	<u>2,847,912</u>
<b>Financial liabilities at fair value</b>			
Derivative financial liabilities	53	4,083	4,136
	<u>53</u>	<u>4,083</u>	<u>4,136</u>

There are no financial instruments carried at fair value within Level 3.

**Policy on transfer between levels**

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

**Transfer between Level 1 and 2 fair values**

During the financial year, financial investments available-for-sale with a carrying amount of RM429,564,539 (2014: RM356,747,156) were transferred from Level 1 to Level 2 because quoted prices in the market for such debt securities became no longer regularly available.

**Valuation control framework**

The OCBC Malaysia Group (hereafter referred to as the "Group") has an established control framework with respect to the measurement of fair values, which includes formalised processes for the review and validation of fair values independent of the businesses entering into the transactions and this is applied to the Bank as well.

The Market Risk Management ("MRM") function within the Group Risk Management Division is responsible for market data validation, initial model validation and ongoing performance monitoring.

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

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****33. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****(ii) Fair value of financial instruments not carried at fair value**

The table below is a comparison of the carrying amounts and fair values of the financial assets and liabilities of the Bank which are not measured at fair value.

	Level 2 RM'000	Level 3 RM'000	Total fair values RM'000	Carrying amount RM'000
<b>2015</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1,131,012	-	1,131,012	1,131,012
Financing and advances	-	10,095,711	10,095,711	9,887,792
Other assets	41,258	-	41,258	41,258
Statutory deposits with Bank Negara Malaysia	406,100	-	406,100	406,100
	<u>1,578,370</u>	<u>10,095,711</u>	<u>11,674,081</u>	<u>11,466,162</u>
<b>Financial liabilities</b>				
Deposits from customers	10,178,945	-	10,178,945	10,177,748
Deposits and placements of banks and other financial institutions	3,065,367	-	3,065,367	3,058,875
Bills and acceptance payable	18,670	-	18,670	18,670
Subordinated bonds	203,080	-	203,080	200,000
Other liabilities	169,031	-	169,031	169,031
	<u>13,635,093</u>	<u>-</u>	<u>13,635,093</u>	<u>13,624,324</u>
<b>2014</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1,179,551	-	1,179,551	1,179,551
Financing and advances	-	9,365,309	9,365,309	9,168,014
Other assets	75,988	-	75,988	75,988
Statutory deposits with Bank Negara Malaysia	379,800	-	379,800	379,800
	<u>1,635,339</u>	<u>9,365,309</u>	<u>11,000,648</u>	<u>10,803,353</u>
<b>Financial liabilities</b>				
Deposits from customers	10,015,307	-	10,015,307	10,014,608
Deposits and placements of banks and other financial institutions	2,530,829	-	2,530,829	2,521,511
Bills and acceptance payable	20,644	-	20,644	20,644
Subordinated bonds	205,420	-	205,420	200,000
Other liabilities	118,693	-	118,693	118,693
	<u>12,890,893</u>	<u>-</u>	<u>12,890,893</u>	<u>12,875,456</u>

There is no financial instruments not carried at fair value within Level 1.

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Bank believes that sound risk management is paramount to the success of its risk-taking activities. Through the Group's risk management structure established at the Bank's immediate holding company ("OCBC Malaysia"), the Bank shares the services of the Group's risk management functions in Credit Risk Management, Market Risk Management and Operational Risk Management. The Group's philosophy is to ensure that risks and returns remain consistent with our risk appetite. To achieve this, the Group identifies emerging portfolio threats and credit concentrations at an early stage in order to develop timely risk-response strategies.

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

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

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

#### **Risk Governance and organisation**

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

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

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Risk Governance and organisation (continued)**

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

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

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

#### **Credit Risk Management**

Credit risk arises from the risk of loss of principal or income on the failure of an obligor or counterparty to meet its contractual obligations. As our primary business is commercial banking, the Bank is exposed to credit risks from financing to consumer, corporate, and institutional customers. Trading and investment banking activities, such as trading of derivatives, debt securities, foreign exchange, commodities, securities underwriting, and settlement of transactions, also exposes the Bank to counterparty and issuer credit risks. For derivative contracts, the total credit exposure of the contract is the sum of the mark-to-market value and the estimate of the potential credit exposure over the remaining term of the contract. The Bank calculates such exposures and uses statistical modelling and historical data to estimate the potential worst-case risk scenario.

##### *Credit Risk Management Oversight and Organisation*

The Group's Credit Risk Management Committee ("CRMC") is the senior management group that supports Group CEO and the RMC in proactively managing credit risk, including reshaping the credit portfolios. It oversees the execution of the Bank's credit risk management, framework and policies, and reviews the credit profile of material portfolios to ensure that credit risk taking is aligned with business strategy and risk appetite. In addition, the CRMC recommends credit approval authority limits and highlights any concentration concerns to higher management.

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

Regular risk reports are provided to the Board of Directors, RMC and the CRMC in a timely, objective, and transparent manner. These reports include detailed profiles on portfolio quality, credit migration, expected losses, and concentration risk exposures by business portfolio. Such reporting alerts senior management to adverse credit trends early, so that timely corrective actions can be taken.

##### *Credit Risk Management Approach*

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

The Bank seeks to take only credit risks that meet its underwriting standards, and risks that commensurate with returns to enhance shareholder value. As Fair Dealing remains an integral part of OCBC's core corporate values, credit extensions are only offered after a comprehensive assessment of the borrower's creditworthiness, suitability and appropriateness of the product offering. In addition, the key to the Bank's risk management success lies in the sound judgement of experienced credit officers whose appointments are regularly reviewed.



## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Credit Risk Management (continued)**

##### *Credit Risk Management Approach*

Credit risks for the consumer and small business sectors are managed on a portfolio basis with product or credit programmes for mortgages, unsecured financing, commercial property financing and business term financing. Financing are underwritten that conform to clearly defined target markets, terms of financing and maximum size of financing. Credit origination source analysis and independent verification of documents are in place to prevent fraud. The portfolios are closely monitored monthly using MIS analytics. Scoring models are also used in the credit decision process for most products to enable objective, consistent decisions and efficient processing. Behavioural scores are used to identify potential problem credits early.

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

Counterparty credit risks from the Bank's trading, derivative, and debt securities activities are closely monitored and actively managed to protect against potential losses in replacing a contract if a counterparty defaults. Counterparty credit limits are established for each counterparty following an assessment of the counterparty's creditworthiness in accordance with internal policies, as well as the suitability and appropriateness of the product offering. Credit exposures are also controlled through independent monitoring and prompt reporting of excesses and breaches against approved limits and risk mitigation thresholds.

##### ***Internal Credit Rating Models***

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

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

##### ***Credit Risk Control***

Transactions are entered into primarily on the strength of a borrower's creditworthiness and ability to repay. To manage credit risk, the Bank accepts collateral and credit protection as credit risk mitigants, subject to the Bank's policies on their eligibility.

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

The Bank constantly strives to anticipate early problem credits and to proactively manage such credits and dedicated specialist workout teams to manage problem exposures. Time, risk-based event specific triggers, as well as discounted cash flow approaches are used to develop collection and asset recovery strategies. The team uses information and analytical data such as delinquency buckets and adverse status tags for delinquent consumer financing, to constantly fine-tune collection efforts.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**34. 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 factors such as profit rates, foreign exchange rates, equity and commodity prices, or changes in volatility or correlations of such factors. The Bank is exposed to market risks from its trading and balance sheet management activities.

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

*Market Risk Management Oversight and Organisation*

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

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

*Market Risk Management Approach*

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

*Market Risk Identification*

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

Several market risk measurements are also utilised regularly to quantify and assess potential losses. These include Value-at-Risk ("VAR"), Present Value of Basis Point ("PVO1"), One Basis Point More Credit Spreads ("CSO1") and derivative greeks.

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

*Risk Monitoring and Control*

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Market Risk Management (continued)**

*Risk Monitoring and Control*

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

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

**Asset Liability Management**

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

*Asset Liability Management Oversight and Organisation*

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

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

*Asset Liability Management Approach*

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

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

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

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

*Profit Rate Risk*

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

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Asset Liability Management (continued)**

*Profit Rate Risk (continued)*

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

**Operational Risk Management**

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

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

*Operational Risk Management Oversight and Organisation*

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

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

*Operational Risk Management Approach*

The Bank adopts a framework that ensures operational risks are properly identified, managed, monitored, mitigated, and reported in a structured and consistent manner. The framework is underpinned by an internal control system that reinforces the Bank's control culture by establishing clear roles and responsibilities for staff and preserving their rights in executing control functions without fear of intimidation or reprisal.

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

Senior management attests annually to the CEO, Board Audit Committee and RMC, on the adequacy and effectiveness of the internal control system, as well as report key control deficiencies and accompanying remedial plans. Operational risk losses and incidents data trends are also analysed and regularly reported.

To mitigate operational losses resulting from significant risk events, the Bank has in place an insurance programme which covers crime, civil liability, fraud, property damage, public liability, as well as directors' and officers' liability.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Operational Risk Management (continued)**

*Outsourcing Risk Management*

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

*Physical and People Security Risk Management*

The Bank recognises its personnel and assets may be exposed to external threats. To address this ever changing threat landscape, the Bank has in place a physical and people security programme.

*Business Continuity Risk Management*

The business continuity programme aims to reduce the interruption of essential business activities and services during times of crisis. Review and testing of its business recovery strategies and plans are carried out on an annual basis. Senior management also provides an annual attestation to the RMC. The attestation includes a measurement of the programme’s maturity, extent of alignment to BNM guidelines, and a declaration of acceptable residual risk. It has also enhanced its ability to respond to external calamities and crisis such as Middle East respiratory syndrome coronavirus (MERS-CoV) and terrorism related incident during the year.

*Fraud Risk Management*

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

*Reputational Risk Management*

Reputational risk is the current or prospective risk to earnings and capital arising from adverse perception of the Bank’s image by customers, counterparties, shareholders, investors and regulators. The Bank has a reputational risk management programme which focuses on understanding and managing our responsibilities towards its different stakeholders, and protecting our 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 from managing funds or providing other agency services. The programme provides guidelines on regular identification, assessment, mitigation, and monitoring of fiduciary risk exposures, to ensure the Bank’s compliance with applicable corporate standards.

*Regulatory and Legal Risk Management*

Each business unit is responsible for the adequacy and effectiveness of controls in managing both regulatory and legal risks. Senior management provides the state of regulatory compliance via an annual regulatory compliance certification to the CEO and Board of Directors.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Operational Risk Management (continued)**

*Technology and Information Security Risk Management*

The Bank protects and ensures the confidentiality, integrity, and availability of its information assets by implementing appropriate security controls and backup systems to guard against the misuse or compromise of information assets. In 2015, the Bank further enhanced its operational risk approach by holistically including technology and information security risk as an integral part of the ORM framework. This change provides assurance that technology and information security risks are properly identified, managed, monitored, mitigated and reported in a structured and consistent manner. Senior management attests annually to the CEO and the RMC, on the adequacy and effectiveness of technology controls including any key control deficiencies and remedial plans.

With the rise in cyber threats, the Group has remained an active participant in cyber security initiatives within the banking sector. The Group is a member of the Industry Cyber Working Group ("ICWG") formed by BNM which main objective is to serve as a platform for effective information and intelligence sharing and cooperation on Cyber related matters among Financial institutions ("FIs"), disseminate latest Cyber threats and trend as well as the modus operandi, share remedial measures where appropriate among members to mitigate Cyber risks, assist in Cyber-related initiatives for FIs and facilitate cross-sector collaboration.

**Shariah Governance**

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

- (i) Defines Shariah governance structures, policies and processes to ensure that all its operations and business activities are in accordance with Shariah principles;
- (ii) Provides comprehensive guidance to the Board, Management and Shariah Committee ("SC") 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 Non Compliance Risk Management processes.

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

*Shariah Non-Compliance Risk*

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Shariah Governance (continued)**

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

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

All potential Shariah non-compliance events are submitted to the Bank's Shariah Committee for decision in order to determine the status of the events and income status. Upon confirmation and decision by the Shariah Committee, all Actual and Potential Shariah Non-Compliance Events ("SNCEs") are to be reported to BNM within the required timeframe set by BNM.

During the financial year ended 31 December 2015, the Bank had received Shariah non-compliant income. The Shariah non-compliant income will be channelled to charitable organisations as determined by the Bank's Shariah Committee. Details of the income are as follows:

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Sources and Uses of charity funds</b>		
At 1 January	99	122
<u>Sources of charity funds</u>		
Shariah non-compliant income	3	89
<u>Uses of charity funds</u>		
Contribution to non-profit organisations	(95)	(112)
At 31 December	<u>7</u>	<u>99</u>

**35. CREDIT RISK**

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 on the financial assets without taking into account any collateral held or other credit enhancements of the Bank 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.

	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b>RM'000</b>	<b>RM'000</b>
Cash and cash equivalents		1,131,012	1,179,551
Financial investments available-for-sale	(a)	3,123,191	2,843,810
Financing and advances	(b)	10,160,704	9,384,222
Derivative financial assets	(c)	620	4,102
Other assets		41,258	75,988
Contingent liabilities and credit commitments	(d)	<u>3,403,990</u>	<u>1,612,140</u>
		<u>17,860,775</u>	<u>15,099,813</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**35. CREDIT RISK (continued)**

**(a) 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.

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
(i) By issuer		
Government and Central Bank	2,325,394	2,055,426
Foreign government	219,472	125,007
Public sector	59,963	10,013
Banking institutions	149,654	299,457
Non-bank financial institutions	49,718	29,933
Business enterprises	318,990	323,974
	<u>3,123,191</u>	<u>2,843,810</u>
(ii) By geography		
Malaysia	2,903,719	2,718,803
Other ASEAN	89,211	60,408
Rest of the world	130,261	64,599
	<u>3,123,191</u>	<u>2,843,810</u>
(iii) By credit rating		
Government and Central Bank (unrated)	647,000	849,863
Government (AAA to BBB)	1,678,394	1,205,563
Foreign government (unrated)	26,441	22,514
Foreign government (AAA to BBB)	193,031	102,493
Investment grade (AAA to BBB)	278,405	251,222
Unrated	299,920	412,155
	<u>3,123,191</u>	<u>2,843,810</u>
(iv) By sector		
Agriculture, hunting, forestry and fishing	19,519	36,256
Manufacturing	24,979	14,947
Transport, storage and communication	14,867	-
Finance, insurance and business services	373,901	501,977
Others	2,689,925	2,290,630
	<u>3,123,191</u>	<u>2,843,810</u>
(v) By residual contractual maturity		
Within one year	1,536,610	1,528,597
One to five years	1,368,713	1,037,328
Over five years	217,868	277,885
	<u>3,123,191</u>	<u>2,843,810</u>



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****35. CREDIT RISK (continued)****(b) Credit quality of financing and advances*****Credit quality***

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

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

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Neither past due nor impaired	9,733,775	9,067,514
Past due financing	265,471	188,493
- Unimpaired	141,505	120,026
- Impaired	123,966	68,467
Impaired but not past due	161,458	128,215
Gross financing and advances	10,160,704	9,384,222
<b>Neither past due nor impaired</b>		
(i) By internal grading		
Pass	9,128,152	8,805,457
Special mention	605,623	262,057
	9,733,775	9,067,514
<b>Past due but not impaired</b>		
(i) By period overdue		
Less than 2 months	116,446	93,996
2 months to less than 3 months	25,059	26,030
	141,505	120,026
(ii) By geographical distribution		
Malaysia	141,505	120,026

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**35. CREDIT RISK (continued)**

<b>(b) Credit quality of financing and advances (continued)</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
(iii) By sector		
Agriculture, hunting, forestry and fishing	660	1,428
Mining and quarrying	2,185	1,749
Manufacturing	10,500	19,059
Electricity, gas and water	-	222
Construction	4,966	3,528
Real estate	705	-
Wholesale & retail trade and restaurants & hotels	28,015	21,400
Transport, storage and communication	6,726	4,544
Finance, insurance and business services	6,870	4,218
Community, social and personal services	3,936	6,494
Household		
- Purchase of residential properties	27,406	19,396
- Others	49,536	37,988
	<u>141,505</u>	<u>120,026</u>

The analysis of impaired financing and advances are detailed in Note 6.

***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, equipment or deposits.

As at 31 December 2015, 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.

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Fair value of collateral held against the covered portion of financing and advances	<u>458,414</u>	<u>126,551</u>
Covered portion of financing and advances	182,942	106,543
Uncovered portion of financing and advances	<u>102,482</u>	<u>90,139</u>
	<u>285,424</u>	<u>196,682</u>

**(c) Credit quality of derivative assets**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
(i) By counterparty		
Banking institutions	190	4,080
Non-bank financial institutions	1	-
Business enterprises	<u>429</u>	<u>22</u>
	<u>620</u>	<u>4,102</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)**

**35. CREDIT RISK (continued)**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(c) Credit quality of derivative assets (continued)</b>		
(ii) By geographical distribution		
Malaysia	619	32
Singapore	1	-
Rest of the world	-	4,070
	<u>620</u>	<u>4,102</u>
(iii) By sector		
Manufacturing	397	13
Wholesale & retail trade and restaurants & hotels	31	4
Finance, insurance and business services	192	4,085
	<u>620</u>	<u>4,102</u>
(iv) By residual contractual maturity		
Within one year	<u>620</u>	<u>4,102</u>
<b>(d) Credit quality of contingent liabilities and credit commitments (excluding derivative financial assets)</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
(i) By counterparty		
Banking institutions	34,493	20,510
Non-bank financial institutions	15,000	9,819
Business enterprises	3,106,423	1,208,189
Individuals	248,074	373,622
	<u>3,403,990</u>	<u>1,612,140</u>
(ii) By geographical distribution		
Malaysia	2,922,216	1,611,931
Singapore	2,096	209
Other ASEAN	214,515	-
Rest of the world	265,163	-
	<u>3,403,990</u>	<u>1,612,140</u>
(iii) By sector		
Agriculture, hunting, forestry and fishing	239,458	7,494
Mining and quarrying	41,026	3,452
Manufacturing	840,495	458,160
Electricity, gas and water	110,000	-
Construction	663,457	323,318
Real estate	639,360	14,383
Wholesale & retail trade and restaurants & hotels	200,417	201,183
Transport, storage and communication	45,459	38,675
Finance, insurance and business services	57,835	53,164
Community, social and personal services	191,401	6,082
Household	248,074	373,622
Others	127,008	132,607
	<u>3,403,990</u>	<u>1,612,140</u>
(iv) By residual contractual maturity		
Within one year	153,459	136,250
One year to five years	2,736,090	962,594
Over five years	514,441	513,296
	<u>3,403,990</u>	<u>1,612,140</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****36. LIQUIDITY RISK**

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

	Carrying amount RM'000	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000
<b>2015</b>								
Cash and cash equivalents	1,131,012	1,131,012	-	-	-	-	-	-
Financial investments available-for-sale	3,123,191	709,724	191,008	635,878	859,142	509,571	217,868	-
Financing and advances	9,887,792	2,534,161	487,853	693,630	2,015,119	862,565	3,294,464	-
Derivative financial assets	620	620	-	-	-	-	-	-
Statutory deposits with Bank Negara Malaysia	406,100	-	-	-	-	-	-	406,100
Others	62,420	19,993	4,809	3,968	8,687	4,602	3,436	16,925
<b>Total assets</b>	<b>14,611,135</b>	<b>4,395,510</b>	<b>683,670</b>	<b>1,333,476</b>	<b>2,882,948</b>	<b>1,376,738</b>	<b>3,515,768</b>	<b>423,025</b>
Deposits from customers	10,177,748	7,787,632	1,092,929	1,224,726	6,788	65,673	-	-
Deposits and placements of banks and other financial institutions	3,058,875	2,531,735	29,351	58,705	308,265	93,206	37,613	-
Bills and acceptances payable	18,670	18,670	-	-	-	-	-	-
Subordinated bond	200,000	-	-	200,000	-	-	-	-
Derivative financial liabilities	790	790	-	-	-	-	-	-
Others	169,071	98,648	26,445	15,241	22,055	2	729	5,951
<b>Total liabilities</b>	<b>13,625,154</b>	<b>10,437,475</b>	<b>1,148,725</b>	<b>1,498,672</b>	<b>337,108</b>	<b>158,881</b>	<b>38,342</b>	<b>5,951</b>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****36. LIQUIDITY RISK (continued)**

	Carrying amount RM'000	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000
<b>2014</b>								
Cash and cash equivalents	1,179,551	1,179,551	-	-	-	-	-	-
Financial investments available-for-sale	2,843,810	656,156	351,579	520,862	665,679	371,649	277,885	-
Financing and advances	9,168,014	2,132,344	471,934	726,662	2,228,805	949,072	2,659,197	-
Derivative financial assets	4,102	4,102	-	-	-	-	-	-
Statutory deposits with Bank Negara Malaysia	379,800	-	-	-	-	-	-	379,800
Others	93,114	57,054	9,796	5,188	5,226	4,234	3,322	8,294
<b>Total assets</b>	<b>13,668,391</b>	<b>4,029,207</b>	<b>833,309</b>	<b>1,252,712</b>	<b>2,899,710</b>	<b>1,324,955</b>	<b>2,940,404</b>	<b>388,094</b>
Deposits from customers	10,014,608	7,874,082	861,823	1,213,265	2,812	100	62,526	-
Deposits and placements of banks and other financial institutions	2,521,511	1,991,993	50,019	47,787	280,940	96,568	54,204	-
Bills and acceptances payable	20,644	20,644	-	-	-	-	-	-
Subordinated bond	200,000	-	-	-	200,000	-	-	-
Derivative financial liabilities	4,136	4,136	-	-	-	-	-	-
Others	118,728	60,515	14,010	15,882	25,828	493	-	2,000
<b>Total liabilities</b>	<b>12,879,627</b>	<b>9,951,370</b>	<b>925,852</b>	<b>1,276,934</b>	<b>509,580</b>	<b>97,161</b>	<b>116,730</b>	<b>2,000</b>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****36. LIQUIDITY RISK (continued)**

The tables below show the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities.

	<b>Carrying amount RM'000</b>	<b>Up to 3 months RM'000</b>	<b>&gt;3-6 months RM'000</b>	<b>&gt;6-12 months RM'000</b>	<b>&gt;1-3 years RM'000</b>	<b>&gt;3-5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Total RM'000</b>
<b>2015</b>								
<b>Non-derivative financial liabilities</b>								
Deposits from customers	10,177,748	7,787,632	1,092,929	1,224,726	6,788	65,673	-	10,177,748
Deposits and placements of banks and other financial institutions	3,058,875	2,531,735	29,351	58,705	308,265	93,206	37,613	3,058,875
Bills and acceptances payable	18,670	18,670	-	-	-	-	-	18,670
Subordinated bond	200,000	-	-	200,000	-	-	-	200,000
Others	169,031	119,098	47,779	60,474	26,789	20,789	2,299	277,228
<b>Derivative financial liabilities</b>								
<b>Gross settled derivatives</b>								
Trading:								
Foreign exchange derivatives								
- Forward and swap								
- Outflow		41,133	9,802	-	-	-	-	50,935
- Inflow		(40,612)	(9,641)	-	-	-	-	(50,253)
	<b>13,624,324</b>	<b>10,457,656</b>	<b>1,170,220</b>	<b>1,543,905</b>	<b>341,842</b>	<b>179,668</b>	<b>39,912</b>	<b>13,733,203</b>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****36. LIQUIDITY RISK (continued)**

	Carrying amount RM'000	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
<b>2014</b>								
<b>Non-derivative financial liabilities</b>								
Deposits from customers	10,014,608	7,874,082	861,823	1,213,265	2,812	100	62,526	10,014,608
Deposits and placements of banks and other financial institutions	2,521,511	1,991,993	50,019	47,787	280,940	96,568	54,204	2,521,511
Bills and acceptances payable	20,644	20,644	-	-	-	-	-	20,644
Subordinated bond	200,000	-	-	-	200,000	-	-	200,000
Others	118,693	82,947	35,020	59,290	64,502	14,439	20,622	276,820
<b>Derivative financial liabilities</b>								
<b>Gross settled derivatives</b>								
Trading:								
Foreign exchange derivatives								
- Forward and swap								
- Outflow		39,823	111,793	-	-	-	-	151,616
- Inflow		(39,759)	(107,903)	-	-	-	-	(147,662)
	<b>12,875,456</b>	<b>9,969,730</b>	<b>950,752</b>	<b>1,320,342</b>	<b>548,254</b>	<b>111,107</b>	<b>137,352</b>	<b>13,037,537</b>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****37. PROFIT RATE RISK**

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

2015	←----- Non Trading Book ----->						Non-profit sensitive RM'000	Trading Book RM'000	Total RM'000
	Up to 3 months RM'000	>3-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000				
<b>Assets</b>									
Cash and cash equivalents	1,092,480	-	-	-	-	38,532	-	1,131,012	
Financial investments available-for-sale	709,724	826,886	859,142	509,571	217,868	-	-	3,123,191	
Financing and advances									
- Unimpaired	6,715,814	427,580	1,196,212	1,022,121	504,422	(177,511)	-	9,688,638	
- Impaired	-	-	-	-	-	199,154	-	199,154	
Derivative financial assets	-	-	-	-	-	-	620	620	
Other assets	-	-	-	-	-	468,520	-	468,520	
<b>Total assets</b>	<b>8,518,018</b>	<b>1,254,466</b>	<b>2,055,354</b>	<b>1,531,692</b>	<b>722,290</b>	<b>528,695</b>	<b>620</b>	<b>14,611,135</b>	
<b>Liabilities</b>									
Deposits from customers	7,439,878	2,317,655	6,788	65,673	-	347,754	-	10,177,748	
Deposits and placements of banks and other financial institutions	2,851,480	510	151,403	1,046	-	54,436	-	3,058,875	
Bills and acceptances payable	-	-	-	-	-	18,670	-	18,670	
Subordinated bond	-	200,000	-	-	-	-	-	200,000	
Derivative financial liabilities	-	-	-	-	-	-	790	790	
Other liabilities	-	-	-	-	-	169,071	-	169,071	
<b>Total liabilities</b>	<b>10,291,358</b>	<b>2,518,165</b>	<b>158,191</b>	<b>66,719</b>	<b>-</b>	<b>589,931</b>	<b>790</b>	<b>13,625,154</b>	
On-statement of financial position profit sensitivity gap	(1,773,340)	(1,263,699)	1,897,163	1,464,973	722,290	(61,236)	(170)	985,981	
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-	
<b>Total profit sensitivity gap</b>	<b>(1,773,340)</b>	<b>(1,263,699)</b>	<b>1,897,163</b>	<b>1,464,973</b>	<b>722,290</b>	<b>(61,236)</b>	<b>(170)</b>	<b>985,981</b>	



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****37. PROFIT RATE RISK (continued)**

2014	Non Trading Book						Trading Book	Total
	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
<b>Assets</b>								
Cash and cash equivalents	1,150,000	-	-	-	-	29,551	-	1,179,551
Financial investments available-for-sale	656,156	872,441	665,679	371,649	277,885	-	-	2,843,810
Financing and advances								
- Unimpaired	5,557,473	376,045	1,054,048	1,713,988	485,749	(151,357)	-	9,035,946
- Impaired	-	-	-	-	-	132,068	-	132,068
Derivative financial assets	-	-	-	-	-	-	4,102	4,102
Other assets	-	-	-	-	-	472,914	-	472,914
<b>Total assets</b>	<b>7,363,629</b>	<b>1,248,486</b>	<b>1,719,727</b>	<b>2,085,637</b>	<b>763,634</b>	<b>483,176</b>	<b>4,102</b>	<b>13,668,391</b>
<b>Liabilities</b>								
Deposits from customers	7,557,863	2,071,326	2,647	100	62,526	320,146	-	10,014,608
Deposits and placements of banks and other financial institutions	2,318,994	18	100,052	50,058	10	52,379	-	2,521,511
Bills and acceptances payable	-	-	-	-	-	20,644	-	20,644
Subordinated bond	-	-	200,000	-	-	-	-	200,000
Derivative financial liabilities	-	-	-	-	-	-	4,136	4,136
Other liabilities	-	-	-	-	-	118,728	-	118,728
<b>Total liabilities</b>	<b>9,876,857</b>	<b>2,071,344</b>	<b>302,699</b>	<b>50,158</b>	<b>62,536</b>	<b>511,897</b>	<b>4,136</b>	<b>12,879,627</b>
On-statement of financial position profit sensitivity gap	(2,513,228)	(822,858)	1,417,028	2,035,479	701,098	(28,721)	(34)	788,764
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(2,513,228)</b>	<b>(822,858)</b>	<b>1,417,028</b>	<b>2,035,479</b>	<b>701,098</b>	<b>(28,721)</b>	<b>(34)</b>	<b>788,764</b>

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:

	2015 RM'000	2014 RM'000
<b>+ 50bps</b>	395,768	402,478
<b>- 50bps</b>	378,911	391,745

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 income. 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 2015 (continued)****38. CURRENCY RISK**

<b>2015</b>	<b>MYR RM'000</b>	<b>GBP RM'000</b>	<b>USD RM'000</b>	<b>SGD RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
<b>Financial assets</b>						
Cash and cash equivalents	1,125,088	724	2,218	713	2,269	1,131,012
Financial investments						
available-for-sale	2,717,214	26,441	289,233	90,303	-	3,123,191
Financing and advances	8,960,932	212,632	711,831	2,397	-	9,887,792
Derivative financial assets	620	-	-	-	-	620
Other assets	34,541	229	5,288	1,247	(47) *	41,258
Statutory deposits with Bank Negara Malaysia	406,100	-	-	-	-	406,100
	<b>13,244,495</b>	<b>240,026</b>	<b>1,008,570</b>	<b>94,660</b>	<b>2,222</b>	<b>14,589,973</b>
<b>Financial liabilities</b>						
Deposits from customers	10,089,413	171	72,213	15,951	-	10,177,748
Deposits and placements of banks and other financial institutions	1,806,126	237,184	930,822	81,342	3,401	3,058,875
Bills and acceptances payable	18,670	-	-	-	-	18,670
Subordinated bond	200,000	-	-	-	-	200,000
Derivative financial liabilities	790	-	-	-	-	790
Other liabilities	166,773	621	674	963	-	169,031
	<b>12,281,772</b>	<b>237,976</b>	<b>1,003,709</b>	<b>98,256</b>	<b>3,401</b>	<b>13,625,114</b>
<b>Net financial assets/(liabilities)     exposure</b>	<b>962,723</b>	<b>2,050</b>	<b>4,861</b>	<b>(3,596)</b>	<b>(1,179)</b>	<b>964,859</b>
<b>2014</b>						
<b>Financial assets</b>						
Cash and cash equivalents	1,171,761	371	2,360	3,538	1,521	1,179,551
Financial investments						
available-for-sale	2,475,273	22,513	243,340	102,684	-	2,843,810
Financing and advances	7,912,350	821,515	429,279	4,870	-	9,168,014
Derivative financial assets	4,102	-	-	-	-	4,102
Other assets	71,179	221	3,247	1,305	36	75,988
Statutory deposits with Bank Negara Malaysia	379,800	-	-	-	-	379,800
	<b>12,014,465</b>	<b>844,620</b>	<b>678,226</b>	<b>112,397</b>	<b>1,557</b>	<b>13,651,265</b>
<b>Financial liabilities</b>						
Deposits from customers	9,959,418	147	50,996	4,047	-	10,014,608
Deposits and placements of banks and other financial institutions	934,616	840,039	636,172	109,824	860	2,521,511
Bills and acceptances payable	20,644	-	-	-	-	20,644
Subordinated bond	200,000	-	-	-	-	200,000
Derivative financial liabilities	4,136	-	-	-	-	4,136
Other liabilities	114,559	2,982	496	656	-	118,693
	<b>11,233,373</b>	<b>843,168</b>	<b>687,664</b>	<b>114,527</b>	<b>860</b>	<b>12,879,592</b>
<b>Net financial assets/(liabilities)     exposure</b>	<b>781,092</b>	<b>1,452</b>	<b>(9,438)</b>	<b>(2,130)</b>	<b>697</b>	<b>771,673</b>

\* Included in other assets are temporary balances in holding accounts which will be settled net with balances in other currencies.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****39. 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 shareholder's desire for sustainable returns and high standards of prudence.

The Bank's capital management process is guided by OCBC Malaysia'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 Adequacy Ratios**

The Bank is required to comply with the Common Equity Tier 1 capital ratio of 4.5%, Tier 1 capital ratio of 6.0% and total capital ratio of 8% prescribed by BNM. The Bank was in compliance with the prescribed capital ratios throughout the financial year.

The table below shows the composition of the regulatory capital and capital ratios, determined according to the requirements of BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). Recognition of the Bank's Tier 2 capital instruments is subject to a gradual phase-out as required by BNM's Capital Adequacy Framework for Islamic Banks (Capital Components).

During the financial year, the Bank issued 20 million ordinary shares on 18 June 2015, at RM3 each totalling RM60 million which was fully subscribed by its immediate holding company, OCBC Malaysia.

A description of the key terms of the subordinated bond capital included as Tier 2 capital is provided in Note 14 to the financial statements.

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Common Equity Tier 1 ("CET 1") capital</b>		
Paid-up ordinary share capital	185,000	165,000
Ordinary share premium	370,000	330,000
Retained earnings	248,748	153,453
Other reserves	182,233	140,311
CET 1 capital	<u>985,981</u>	<u>788,764</u>
Regulatory adjustment for CET 1 capital	(5,172)	(4,232)
Eligible CET 1/Tier 1 capital	<u>980,809</u>	<u>784,532</u>
<b>Tier 2 capital</b>		
Collective impairment allowance under the Standardised Approach*	11,668	11,503
Surplus eligible provisions over expected losses	2,466	5,764
Subordinated bond	140,000	160,000
Eligible Tier 2 capital	<u>154,134</u>	<u>177,267</u>
<b>Capital base</b>	<u>1,134,943</u>	<u>961,799</u>

\* Excludes the collective impairment allowance on impaired financing and advances

	<b>2015</b>	<b>2014</b>
<b>Before the effects of PSIA</b>		
CET 1/Tier 1 capital ratio	11.274%	11.532%
Total capital ratio	<u>13.046%</u>	<u>14.138%</u>
<b>After the effects of PSIA</b>		
CET 1/Tier 1 capital ratio	12.746%	12.609%
Total capital ratio	<u>14.749%</u>	<u>15.458%</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015 (continued)****39. CAPITAL ADEQUACY (continued)**

In accordance with BNM's 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 total capital ratio calculation. As at 31 December 2015, the credit risk relating to RPSIA assets excluded from the total capital ratio calculation amounted to RM1,005 million (2014: RM581 million).

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

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Total RWA for credit risk	6,909,219	5,603,120
Total RWA for market risk	5,146	8,333
Total RWA for operational risk	780,474	610,401
	<u>7,694,839</u>	<u>6,221,854</u>

**40. MUDHARABAH RESTRICTED INVESTMENT ACCOUNT****(i) Movement in the Mudharabah Restricted Investment Account**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
As at 1 January	1,320,036	649,162
<b>Funding inflows/outflows</b>		
New placement during the year	438,000	758,774
Redemption during the year	(743,965)	(111,341)
Income from investment	48,007	30,396
<b>Bank's share of profit</b>		
Profit distributed to mudarib	(13,015)	(6,955)
As at 31 December	<u>1,049,063</u>	<u>1,320,036</u>
<b>Investment assets</b>		
Other term financing	947,814	1,320,036
Placement with other financial institutions	101,249	-
	<u>1,049,063</u>	<u>1,320,036</u>

**(ii) Profit sharing ratio and rate of return**

	<b>Average profit</b>		<b>Average rate of return</b>	
	<b>sharing ratio (Depositor:Bank)</b>			
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Restricted investment accounts				
- Between 1 to 2 years	70:30	70:30	4.21%	4.40%
- Between 2 to 5 years	70:30	70:30	2.53%	2.53%