OCBC AL-AMIN BANK BERHAD
Company No. 200801017151 (818444-T)
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Directors hereby submit their report and the audited financial statements of the Bank for the financial year ended 31 December 2019.

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.

IMMEDIATE 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 during the financial year and until the date of this report.

FINANCIAL RESULTS	**2019** **RM'000**
Profit for the year	164,474

SHARE CAPITAL AND DEBENTURES

There were no changes in the issued and paid-up share capital nor debentures issued by the Bank 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 2019.

FINANCIAL PERFORMANCE

The Bank recorded higher net profit after tax of RM35.5 million mainly due to lower impairment allowances of RM41.8 million, higher income derived from investment of depositors' funds and others of RM17.5 million, and better net income from investment account funds of RM10.1 million, partly offset by higher income distributable to depositors of RM23.5 million and, higher operating expenses and income tax expense of RM4.0 million and RM6.9 million respectively.

Allowances decreased by RM41.8 million mainly due to higher impaired financing recoveries, including from Restricted Profit Sharing Investment Account ("RPSIA") holder, of RM39.2 million and lower Stage 3 expected credit losses ("ECL") of RM21.7 million, partly offset by higher Stage 1 and 2 ECL on non credit-impaired financial assets of RM17.1 million.

Gross financing and advances grew by RM1.5 billion or 14% as at 31 December 2019 mainly from financing to the finance, insurance and business services sector, funded largely from deposits from individuals which grew by RM0.9 billion during the financial year.

Shareholder's funds strengthened by RM186 million to RM1.7 billion. The Bank is well capitalised, after taking into account the effects of RPSIA, with Common Equity Tier 1 and Tier 1 Capital Ratios of 16.704% and Total Capital Ratio of 19.425%.

MARKET OUTLOOK

Due to significant worsening of the macroeconomic outlook as a result of COVID-19 both domestically and globally, Bank Negara Malaysia has projected Malaysia's GDP growth to be between -2.0% to 0.5% in 2020. The Malaysian Government introduced large countercyclical policy measures to mitigate the economic impact of the pandemic; offering economic stimulus packages to provide immediate relief to affected households and businesses, continued progress of public projects and higher public sector expenditure, complemented by Overnight Policy Rate ("OPR") reductions and measures to provide additional liquidity in the banking system such as reduction in statutory reserves requirement for banks, 6 months automatic loan moratorium and deferment of tax payments for individuals and Small and Medium Enterprises ("SMEs").

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

MARKET OUTLOOK (continued)

The unprecedented nature and scale of fiscal and monetary policy intervention across economies is expected to cushion the economic disruptions caused by COVID-19 and to support a gradual normalisation in economic activities upon the successful containment of the pandemic. The Malaysian economy is expected to rebound in 2021, in line with the projected global recovery.

ACTIVITIES AND ACHIEVEMENTS

We continued to focus on further penetration into the business banking and retail segments by deepening relationships with government-linked companies and KLSE's Shariah Index companies and catering to the growing demand for Islamic banking products and services.

For the retail business, we strengthened our wealth products proposition with the addition of several new Shariah-compliant Unit Trust funds.

As part of our commitment to support Value Based Intermediation ("VBI") initiatives, we created new benchmarks in the Sukuk market by successfully pricing Malaysia's First ASEAN Sustainability SRI ("Sustainable and Responsible Investment") Sukuk of RM245 million on 30 September 2019.

Our corporate social responsibility ("CSR") efforts continued to gain momentum through our corporate and branch-level initiatives. The efforts were centred on strengthening family ties, promoting education, protecting the environment, promoting engagement with the community (including cycling events) and humanitarian work.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2020

Moving into 2020, despite the challenges brought about by the Covid-19 pandemic, OCBC Al-Amin will continue to uphold its position as one of the top two foreign Islamic banks in Malaysia underpinned by the strength of its parent bank's franchise as well as by managing risks, maximising collaboration within business units and growing our wealth products platform.

In consumer banking, we will build our Shariah-compliant wealth management and Premier and Private Client services through collaborations within the OCBC Group network and referral intermediaries. Together with our parent bank, OCBC Al-Amin will invest in digital capabilities to widen our offerings and improve customer experience, and introduce fresh initiatives to support customer acquisition. We will endeavour to improve sales staff productivity and expand our telemarketing and secured financing sales force.

Our corporate and commercial banking efforts will continue to focus on supporting our customers' local and regional business ambitions by matching their business expansion requirements with OCBC Group's strong integrated network of regional capabilities, delivering a seamless cross-border experience in business banking. We will assist with banking solutions for those businesses facing Covid-19 related short term financial difficulties. We will also continue to support the VBI, an initiative of Bank Negara Malaysia, through which OCBC Al-Amin will focus on sustainable financing as part of our long-term growth strategy.

OCBC Al-Amin will continue to expand its financing book for SMEs and collaborate with related government agencies, including Credit Guarantee Corporation ("CGC").

The focus of our Islamic treasury business moving forward will include initiating collaborations with new external customers and partners, along with introducing Shariah-compliant innovative investment products in the face of a lower-for-longer profit rate regime that is expected to prevail.

On the CSR front, we will continue to ride on the momentum created by our various corporate and branch efforts of the last few years to fulfil the social needs of the communities in which we operate, maintaining our position as a Bank that cares beyond business.

DIRECTORS OF THE BANK

Directors who served during the financial year until the date of this report are:

Tan Ngiap Joo, *Independent Non-executive Chairman*
Ng Hon Soon, *Independent Non-executive Director*
Lee Kok Keng, Andrew, *Independent Non-executive Director effective from 1 May 2019*
Ismail Bin Alowi, *Independent Non-executive Director*
Datuk Azizan Bin Haji Abd Rahman, *Independent Non-executive Director*

In accordance with Articles 106 and 107 of the Bank's Constitution (Articles of Association), Mr Ng Hon Soon and Mr Lee Kok Keng, Andrew shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

PROFILE OF THE BOARD OF DIRECTORS ("The Board")

Mr Tan Ngiap Joo

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

Mr Ng Hon Soon

Mr Ng Hon Soon was appointed to the Board as non-independent Non-executive Director on 16 July 2014 and later redesignated as independent Non-executive Director on 1 November 2014. He was previously attached to Bank Negara Malaysia ("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 ("CEO") from 2002 to 2003 and was appointed the CEO of PacificMas Berhad in 2004 until 2012, following the voluntary winding-up of the company. Mr Ng is currently also a Director of Great Eastern Life Assurance (Malaysia) Berhad, RAM Rating Services Berhad and Pac Lease Berhad. Mr Ng holds a Bachelor of Applied Science with Honours from Universiti Sains Malaysia and a Master in Public Administration from Harvard University.

Mr Lee Kok Keng, Andrew

Mr Andrew Lee was appointed to the Board as a non-independent Non-executive Director on 15 May 2017, and later redesignated as an independent Non-executive Director on 1 May 2019. He has over 38 years of regional and country experiences in the banking and insurance industries. He served as Senior Executive Vice President in OCBC Bank in charge of its global consumer banking business, and was also the Executive Chairman of the Banking Clearing System Information System Pte Ltd. Mr Andrew Lee also served in Great Eastern Life Assurance Co Ltd as the Group Chief Marketing and Distribution, and was also President Commissioner of Great Eastern Life Indonesia, Chairman of Great Eastern Vietnam. Mr Andrew Lee is also currently a Director of Nordic Group Ltd, a listed company in Singapore. Mr Andrew Lee graduated with a Bachelor of Social Science (Honours in Economics) degree from University of Singapore, and has also attended the Stanford Executive Program at Stanford University.

Encik Ismail Bin Alowi

Encik Ismail Alowi was appointed to the Board as an independent Non-executive Director on 15 May 2017. He started his illustrious career in BNM in 1976, where he held various positions in the areas of public finance, balance of payments, monetary and exchange rate policies, macroeconomic management, regional and international co-operation, regional and multilateral trade negotiations, and acquired extensive experience in policy making and implementation. In November 2002, he was seconded to the International Monetary Fund ("IMF") as an Alternate Executive Director in the IMF Executive Board until October 2004 when he returned to BNM where he served as the Director of International Department until his retirement in 2009. Encik Ismail graduated with a Bachelor of Economics with Honours degree from University of Malaya and holds a Master of Arts in Development Economics from Boston University, and a Master’s degree in Public Administration from Harvard University.

Datuk Azizan Bin Haji Abd Rahman

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

The interest and deemed interests in the shares of the Bank and its related corporations 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 1 January 2019**	**Acquired/ Awarded**	**Disposed**	**At 31 December 2019**
Ordinary Shares				
Tan Ngiap Joo	1,325,528	40,784	-	1,366,312
Lee Kok Keng, Andrew	83,405	16,298	-	99,703

OCBC Deferred Share Plan	**At 1 January 2019**	**Awarded/ Granted**	**Exercised/ Forfeited/ Lapsed**	**At 31 December 2019**
Ordinary Shares				
Lee Kok Keng, Andrew	13,118	178	(9,479)	3,817

Unexercised share options available to the Directors under the OCBC Share Option Scheme 2001	**Exercise period**	**At 1 January 2019**	**Awarded/ Granted**	**Exercised/ Forfeited/ Lapsed**	**At 31 December 2019**
Ordinary Shares					
Lee Kok Keng, Andrew	14/3/2020 to 15/3/2026	462,384	-	-	462,384

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than the benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in Note 29 to the financial statements or the fixed salary of a full time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

CORPORATE GOVERNANCE

Board Composition and Independence

The Board comprises five Directors, all of whom are Non-executive Directors. The independent Non-executive Directors are Mr Tan Ngiap Joo (Chairman of the Board), Mr Ng Hon Soon, Encik Ismail Bin Alowi, Datuk Azizan Bin Haji Abd Rahman and Mr Lee Kok Keng, Andrew. The two affiliated Directors are Mr Tan Ngiap Joo and Datuk Azizan Bin Haji Abd Rahman.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

CORPORATE GOVERNANCE (continued)

Board Composition and Independence (continued)

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

The roles of the Chairman and the CEO are separated, which is consistent with the principles of corporate governance as set out in BNM's Policy on Corporate Governance, to institute an appropriate balance of power and authority. The Chairman's responsibilities, to name a few, include leading the Board to ensure its effectiveness on all aspects of its role; setting its meeting agendas; ensuring that 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 and technology.

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

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

Board Conduct and Responsibilities

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

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

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

CORPORATE GOVERNANCE (continued)

Board Conduct and Responsibilities (continued)

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.

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

Board Audit Committee ("BAC")

The BAC comprises Datuk Azizan Bin Haji Abd Rahman (BAC Chairman), Mr Ng Hon Soon and Encik Ismail Bin Alowi, all of whom are independent Directors.

The Board approved the terms of reference of the BAC that describe the responsibilities of its members. The BAC may meet at any time. It has full access to and co-operation from management, and has the discretion to invite any Director and/or 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 auditors and internal auditors, the adequacy and effectiveness of the system of internal controls including financial, operational, compliance and information technology controls, and risk management policies and systems. It reviews the scope and results of the audits, the cost effectiveness of the audits, and the independence and objectivity of the external auditors and internal auditors. When the external auditors provide non-audit services to the Bank, the BAC keeps the nature, extent and costs of such services under review. This is to balance the objectivity of the external auditors against their ability to provide value-for-money services. The BAC also reviews significant financial reporting issues and judgements to ensure the integrity of the financial statements.

The Bank has in place a whistle blowing policy and the BAC reviews concerns, including anonymous complaints, which staff may, in confidence, raise about possible improprieties in matters of financial reporting or other matters, and have the concerns independently investigated and followed-up. If fraud is determined, appropriate remedial action will be taken by the management and the BAC is updated regularly on its status. The BAC Chairman shall be the designated Non-executive Director responsible to review and evaluate the effectiveness of the whistle blowing policy. The whistle-blower’s interest will be safeguarded at all times, including the right to appeal to the BAC if reprisals are taken against him.

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

Internal Audit Function

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

CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

Internal Audit reports on the adequacy and effectiveness 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 International 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 adopts a risk-based audit approach whereby audit work is prioritised and scoped according to an assessment of current and emerging risks, including financial, operational, technology, compliance and strategic risks.

The work undertaken by Internal Audit involves the assessment of the adequacy and effectiveness of the Bank’s governance, risk management and internal control processes in meeting its strategic objectives and operating within the risk appetite established. In addition, Internal Audit provides an independent assessment of the Bank’s credit portfolio quality and credit risk management process. Reviews conducted by Internal Audit also focus on the Bank’s compliance with relevant laws and regulations, adherence to established policies and whether management has taken appropriate measures to address control deficiencies. Internal Audit provides advice, without assuming management responsibility, on the development of new businesses as well as system developments and enhancements where the objective is to add value and improve governance, risk management and controls.

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

Internal Controls

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

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

Based on the internal controls established and maintained by the Bank, work performed by the internal auditors and external auditors, and reviews performed by management and various Board Committees, the Board, with the concurrence of the BAC and the RMC, is of the opinion that the system of internal controls, including financial, operational, compliance and information technology controls, and risk management systems, were adequate and effective as at 31 December 2019, to address the risks which the Bank considers relevant and material to its operations.

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

CORPORATE GOVERNANCE (continued)

Nominating & Remuneration Committee ("NRC")

The NRC comprises Mr Lee Kok Keng, Andrew (appointed as Chairman of the NRC effective from 1 May 2019), Mr Tan Ngiap Joo and Mr Ng Hon Soon; all of whom are independent Directors.

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

The Committee shall assess and recommend nominees for directorship, Board Committee membership and for the CEO position, including reappointment of Directors before an application is submitted to BNM for approval. The actual decision as to who shall be nominated shall be the responsibility of the full Board. The Committee shall oversee the annual review of the overall composition of the Board and Board balance, Directors' independence, competency and skills as well as the assessment to ensure that the Directors and key senior management officers are not disqualified under Section 68 of the Islamic Financial Services Act 2013. The annual performance evaluation process of the Board as a whole, and the Board Committees as well as of the individual Directors was established with the endorsement of the Committee. The Committee oversees the appointment, management succession planning and performance evaluation of key senior management officers, including recommending to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities.

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

Remuneration Policy

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

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

- Operating efficiency measures which include revenue, direct and allocated costs and operating profits, net profits as well as efficiency indicators such as unit costs.

- Economic efficiency measures such as cost of capital. Capital is attributed to each business based on the amount of risk-weighted assets used and the return on capital.

- Liquidity is factored into the performance measurement of each business through the application of liquidity premiums charged or credited according to the behavioural maturity of each type of asset and liability booked.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

CORPORATE GOVERNANCE (continued)

Remuneration Policy (continued)

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

In determining the composition of compensation packages, the Bank takes into account the time horizon of risk and includes, in the total compensation for executives, a portion of deferred payment in the form of deferred shares.

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

The Bank's remuneration policy requires Material Risk Takers to have 40% of their total variable compensation deferred as long term incentive, if the total variable compensation meets a minimum threshold. The long term incentive will be in the form of OCBC Bank deferred shares. Share awards under the OCBC Bank Deferred Share Plan ("the Plan") are also granted annually to other eligible executives who are paid high variable performance bonuses. The share awards form 20% to 40% of their total variable performance bonus for the year.

Under the Plan, 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares.

Quantitative disclosure of the Bank's key management and other Material Risk Takers remuneration is disclosed in Note 29 to the financial statements.

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

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

Risk Management Committee ("RMC")

The RMC comprises Mr Ng Hon Soon (RMC Chairman), Mr Tan Ngiap Joo, Encik Ismail Bin Alowi, Mr Lee Kok Keng, Andrew and Datuk Azizan Bin Haji Abd Rahman; all of whom are independent Non-executive Directors.

BNM had, on 2 July 2009, approved the delegation of approving authority of the Board of Directors pertaining to risk management matters to the RMC. The Board approved the terms of reference of the RMC. The Committee shall meet at least once every quarter. The Committee shall be entitled to secure the attendance of any person with relevant experience and expertise at committee meetings if the Committee considers this appropriate.

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

CORPORATE GOVERNANCE (continued)

Disclosure of Shariah Committee

The Shariah Governance Framework requires the Shariah Committee ("SC") members 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 relevant parties in the Bank;

(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;

(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.

Members' Attendance at Shariah Committee ("SC") Meetings in 2019

Name of Shariah Committee Member	Attendance of Meetings Held
Assoc. Prof. Dr Suhaimi bin Ab Rahman (appointed as SC Chairman with effect from 1 April 2019)	11 of 11
Assoc. Prof. Dr Mohamad Asmadi bin Haji Abdullah	11 of 11
Asst. Prof. Dr Muhammad Naim bin Omar (resigned as SC Chairman with effect from 1 April 2019)	11 of 11
Prof. Dato' Dr Wan Sabri bin Wan Yusof	11 of 11
Prof. Dr Abdullah @ Alwi bin Hj. Hassan*	9 of 9

* Passed away on 24 November 2019.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

CORPORATE GOVERNANCE (continued)

Management Information

All Directors review the Board and Board Committee reports prior to the Board and Board Committee meetings. Information and materials, duly endorsed by the CEO and the relevant functional heads, that are important to the Directors' understanding of the agenda items and related topics are distributed in advance of the meeting. These are issued in sufficient time to enable the Directors to obtain further explanations and to be briefed properly, where necessary, 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 and Board Committee reports include, amongst others, the following:

- Minutes of meeting of all Board and Board Committees;
- Performance Report of the Bank;
- Credit Risk Management Report;
- Asset Liability & Market Risk Report;
- Operational Risk Management Report;
- Shariah Risk Management Update; and
- 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' Attendance At Board and Board Committee Meetings in 2019

Name of Director	Attendance of Meetings Held			
	Board	Board Audit Committee	Nominating & Remuneration Committee	Risk Management Committee
Tan Ngiap Joo	8 of 8		3 of 3	6 of 6
Ng Hon Soon	8 of 8	8 of 8	3 of 3	6 of 6
Lee Kok Keng, Andrew	8 of 8		3 of 3	6 of 6
Ismail bin Alowi	8 of 8	8 of 8		6 of 6
Datuk Azizan Bin Haji Abd Rahman	8 of 8	8 of 8		6 of 6

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

COMPLIANCE WITH BNM'S EXPECTATIONS ON FINANCIAL REPORTING

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

DIRECTORS' INDEMNITY

A Directors' and Officers' Liability Insurance has been entered into by the Bank for the financial year ended 31 December 2019. The policy provides appropriate cover for legal action brought against its Directors in accordance with qualifying third party indemnity provisions (as defined by Section 289 of the Companies Act 2016). During the financial year, the cost of this insurance effected for the Directors and Officers of the Bank amounted to RM8,254 (2018: RM7,456).

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

OTHER STATUTORY INFORMATION

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

- all known bad debts and financing have been written off and adequate impairment allowance made for doubtful debts and financing, and
- any current assets which are 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:

- 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
- that would render the value attributed to the current assets in the financial statements of the Bank misleading, or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Bank misleading, or inappropriate, or
- not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Bank misleading.

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

- 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
- 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 its 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 2019 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

PricewaterhouseCoopers PLT has expressed its willingness to accept appointment as auditors, and will be nominated for appointment as the external auditors of the Bank in place of the retiring auditors, KPMG PLT, at the forthcoming Annual General Meeting.

The auditors' remuneration is disclosed in Note 28 to the financial statements.

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

TAN NGIAP JOO
Chairman

DATUK AZIZAN BIN HAJI ABD RAHMAN
Director

Kuala Lumpur, Malaysia
12 May 2020

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

In the opinion of the Directors, the financial statements set out on pages 20 to 104 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2019 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:

TAN NGIAP JOO
Chairman

DATUK AZIZAN BIN HAJI ABD RAHMAN
Director

Kuala Lumpur, Malaysia
12 May 2020

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

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 20 to 104 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, at Kuala Lumpur in Malaysia on 12 May 2020.

YUEN SOOK CHENG
Malaysian Institute of Accountants No: 29942
Chartered Accountant

Before me:

Commissioner for Oaths

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 2019:

We have reviewed the principles and contracts relating to the transactions and applications undertaken by the Bank during the financial year ended 31 December 2019. 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 2019, that we have reviewed are in compliance with the Shariah principles except as disclosed in the paragraph below on Shariah non-compliant event; and

(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.

During the financial year, one Shariah non-compliant event was reported, arising from non-adherence to Policy Document on Tawarruq. The Shariah Committee has reviewed and deliberated the matter and endorsed the rectification plan. The Bank is taking the necessary steps to rectify and mitigate the breach by strengthening internal processes and operations. The Shariah non-compliant income and distribution is disclosed in Note 39 to the financial statements.

In respect of the financial year 2018, the Bank made zakat payment on its business, computed using the growth capital method, to Lembaga Zakat Selangor.

SHARIAH COMMITTEE'S REPORT (continued)

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 2019 have been conducted in conformity with the Shariah principles.

ASSOC. PROF. DR SUHAIMI BIN AB RAHMAN
Chairman

ASSOC. PROF. DR MOHAMAD ASMADI BIN HAJI ABDULLAH
Member

Kuala Lumpur, Malaysia
Date: 12 May 2020

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

Company No. 200801017151 (818444-T)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OCBC Al-Amin Bank Berhad, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 20 to 104.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, 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 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

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

Other Matter

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

KPMG PLT
LLP0010081-LCA & AF 0758
Chartered Accountants

Khaw Hock Hoe
Approval Number: 02229/04/2022 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 12 May 2020

OCBC AL-AMIN BANK BERHAD
Company No. 200801017151 (818444-T)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 RM'000	2018 RM'000
ASSETS			
Cash and cash equivalents	3	958,140	959,600
Financial assets at fair value through profit or loss ("FVTPL")	4	16,330	9,980
Financial investments at fair value through other comprehensive income ("FVOCI")	5	4,206,452	4,290,701
Financing and advances	6	11,805,289	10,319,599
Derivative financial assets	8	12,289	2,218
Other assets	9	70,569	74,178
Tax recoverable		5,726	9,088
Statutory deposits with BNM	10	309,300	351,200
Property and Equipment	11	7,421	9,884
Right-of-use ("ROU") assets	12	3,017	-
Deferred tax assets	13	2,586	8,078
Total assets		17,397,119	16,034,526
LIABILITIES			
Deposits from customers	14	12,591,597	11,802,860
Investment accounts due to designated financial institution	15	1,986,054	1,322,168
Deposits and placements of banks and other financial institutions	16	763,189	1,073,057
Bills and acceptances payable		17,535	14,549
Derivative financial liabilities	8	12,442	3,789
Other liabilities	17	170,126	147,473
Provision for taxation and zakat		50	50
Subordinated sukuk	18	200,000	200,000
Total liabilities		15,740,993	14,563,946
EQUITY			
Share capital	19	555,000	555,000
Reserves	20	1,101,126	915,580
Total equity		1,656,126	1,470,580
Total liabilities and equity		17,397,119	16,034,526
Commitments and contingencies	33	4,140,499	4,713,286

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds and others	21	631,740	614,260
Income derived from investment of investment account funds	22	78,315	56,521
Income derived from investment of shareholder's funds	23	143,909	143,254
Impairment allowance and provisions	24	(23,134)	(64,896)
Total distributable income		830,830	749,139
Income attributable to depositors	25	(376,022)	(352,483)
Income attributable to investment account holder	26	(56,307)	(44,570)
Total net income		398,501	352,086
Operating expenses	28	(196,671)	(192,688)
Profit before taxation and zakat		201,830	159,398
Income tax expense	30	(37,306)	(30,385)
Zakat	31	(50)	(50)
Profit for the year		164,474	128,963
Other comprehensive income/(expense), net of income tax			
Items that may be subsequently reclassified to profit or loss			
Fair value reserve (debt instruments)			
- Change in fair value		37,982	(2,126)
- Transferred (to)/from profit or loss		(10,125)	285
- Related tax		(6,689)	595
Change in expected credit loss ("ECL") reserve on debt instruments at FVOCI		(96)	(2,397)
Other comprehensive income/(expense) for the year, net of income tax		21,072	(3,643)
Total comprehensive income for the year		185,546	125,320
Profit attributable to the owner of the Bank		164,474	128,963
Total comprehensive income attributable to the owner of the Bank		185,546	125,320
Basic earnings per ordinary share (sen)	32	88.90	69.71

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Non-distributable				*Distributable*	
2019	**Share Capital RM'000**	**Regulatory Reserve RM'000**	**ECL Reserve RM'000**	**Fair Value Reserve RM'000**	**Retained Earnings RM'000**	**Total Equity RM'000**
At 1 January 2019	555,000	91,000	249	2,610	821,721	1,470,580
Fair value reserve						
- Change in fair value	-	-	-	37,982	-	37,982
- Transferred to profit or loss	-	-	-	(10,125)	-	(10,125)
- Related tax	-	-	-	(6,689)	-	(6,689)
Change in ECL reserve	-	-	(96)	-	-	(96)
Total other comprehensive (expense)/income for the year	-	-	(96)	21,168	-	21,072
Profit for the year	-	-	-	-	164,474	164,474
Total comprehensive (expense)/income for the year	-	-	(96)	21,168	164,474	185,546
At 31 December 2019	555,000	91,000	153	23,778	986,195	1,656,126
			Note 5			
2018						
At 1 January 2018 (as previously reported)	555,000	91,000	-	4,473	685,415	1,335,888
Effect of adopting MFRS 9	-	-	2,646	(617)	7,343	9,372
Restated at 1 January 2018	555,000	91,000	2,646	3,856	692,758	1,345,260
Fair value reserve						
- Change in fair value	-	-	-	(2,126)	-	(2,126)
- Transferred to profit or loss	-	-	-	285	-	285
- Related tax	-	-	-	595	-	595
Change in ECL reserve	-	-	(2,397)	-	-	(2,397)
Total other comprehensive expense for the year	-	-	(2,397)	(1,246)	-	(3,643)
Profit for the year	-	-	-	-	128,963	128,963
Total comprehensive (expense)/income for the year	-	-	(2,397)	(1,246)	128,963	125,320
At 31 December 2018	555,000	91,000	249	2,610	821,721	1,470,580
			Note 5			

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	2019 RM'000	2018 RM'000
Cash flows from operating activities		
Profit before income tax expense and zakat	201,830	159,398
Adjustments for:		
Net (gain)/loss from disposal of:		
- Financial assets at FVTPL	-	(493)
- Financial investments at FVOCI	(10,125)	285
- Property and equipment	41	1
Depreciation of equipment	2,723	4,407
Depreciation of ROU assets	2,447	-
Impairment allowance and provisions	23,134	64,896
Finance cost	105	-
Share-based costs	445	275
Unrealised (gain)/loss on:		
- Financial assets at FVTPL	(176)	465
- Derivatives	(1,420)	1,128
Property and equipment written off	41	-
Operating profit before changes in working capital	219,045	230,362
Changes in operating assets and operating liabilities:		
Financial assets at FVTPL	(6,174)	122,765
Financing and advances	(1,538,618)	(654,379)
Derivative financial assets	(10,071)	(1,856)
Other assets	5,029	(10,439)
Statutory deposits with BNM	41,901	(25,700)
Deposits from customers	788,737	551,676
Investment accounts due to designated financial institution	693,680	(479,404)
Deposits and placements of banks and other financial institutions	(309,868)	149,157
Bills and acceptances payable	2,986	(6,208)
Derivative financial liabilities	8,653	3,200
Other liabilities	19,161	(184,808)
Cash used in operations	(85,539)	(305,634)
Income tax and zakat paid	(35,191)	(54,861)
Net cash used in operating activities	(120,730)	(360,495)
Cash flows from investing activities		
Acquisition of financial investments at FVOCI	(6,830,000)	(7,363,117)
Proceeds from disposal of financial investments at FVOCI	6,952,135	7,730,319
Acquisition of equipment	(344)	(4,968)
Proceeds from disposal of equipment	2	1
Net cash generated from investing activities	121,793	362,235
Cash flows from financing activity		
Payment of lease liabilities	(2,522)	-
Net cash used in financing activity	(2,522)	-
Net (decrease)/increase in cash and cash equivalents	(1,459)	1,740
Cash and cash equivalents at 1 January	959,600	957,860
Cash and cash equivalents at 31 December (Note 3)	958,141	959,600

Change in liabilities arising from financing activity

	2019 RM'000
Adjustment on initial application of MFRS 16 at 1 January 2019	4,283
Payment of lease liabilities	(2,522)
Acquisition of new leases	1,181
Finance cost	105
At 31 December 2019	3,047

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

GENERAL INFORMATION

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

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

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 companies of the Bank are OCBC Bank (Malaysia) Berhad ("OCBC Malaysia"), incorporated in Malaysia and Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), incorporated in Singapore, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 12 May 2020.

1 BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention except for the assets and liabilities which are stated at fair value as disclosed in the notes to the financial statements: financial assets at FVTPL, financial investments at FVOCI and derivative financial instruments. 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, the requirements of Companies Act 2016 in Malaysia and Bank Negara Malaysia's Shariah requirements.

The following accounting standards, interpretations and amendments have been adopted by the Bank during the financial year:

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

The initial application of the above mentioned accounting standards, interpretation and amendments do not have any material impact to the financial statements of the Bank except as disclosed in Note 46 on the adoption of MFRS 16, *Leases* ("MFRS 16").

MFRS 16 which came into effect on 1 January 2019 introduces a single, on-balance sheet lease accounting model for leases. A lessee recognises a lease liability to make lease payments and an asset representing the right-of-use (“ROU”) of the underlying asset during the lease term. The ROU asset is depreciated in accordance with the principle in MFRS 116, *Property, Plant and Equipment* and the lease liability is accreted over time with finance expense recognised in the profit or loss. Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117, *Leases* whereby lessors will continue to classify leases as either finance or operating leases.

The Bank applied MFRS 16 initially using the modified retrospective approach whereby the cumulative effect if any of adopting MFRS 16 is recognised to the opening balance of retained earnings as at 1 January 2019, with no restatement of comparative information. The Bank elected to apply the practical expedient to grandfather the assessment of contracts that were previously identified as leases under MFRS 117. This means that the lease definition under MFRS 16 was applied only to new or changed contracts entered on or after 1 January 2019.

In implementing MFRS 16 on 1 January 2019, the Bank recognised an additional RM4.3 million of ROU assets and RM4.3 million of lease liabilities. There was no impact on retained earnings as at 1 January 2019 arising from the adoption of MFRS16.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

1 BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

The Bank has not adopted the following amendments to accounting standards issued by the Malaysian Accounting Standards Board ("MASB") as they are not yet effective:

Effective for annual periods commencing on or after 1 January 2020

- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors*
- Interest Rate Benchmark Reform (Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures)*

The Bank plans to apply the above mentioned amendment to accounting standards when it becomes effective. The initial application of the above mentioned amendments are not expected to have any material impact to the financial statements of the Bank.

(b) Use of estimates and judgements

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

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

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

(i) Fair value estimation for financial assets at fair value through profit or loss ("FVTPL") (Note 4), financial investments at fair value through other comprehensive income ("FVOCI") (Note 5) and derivative financial assets and liabilities (Note 8). Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For financial instruments which are not traded in an active market (for example, over-the-counter derivatives), the fair value is determined using valuation techniques, which include the use of mathematical models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Where possible, assumptions and inputs used on valuation techniques include observable data such as risk-free and benchmark discount rates and credit spreads.

Where observable market data 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 at FVOCI 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) Impairment of financial assets

In determining whether the credit risk of the Bank's financial exposures has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is readily available without undue cost or effort. This includes both quantitative and qualitative information such as the Bank’s historical credit assessment experience and available forward-looking information. Expected credit loss ("ECL") estimates are produced for all relevant instruments based on probability-weighted forward-looking economic scenarios. The measurement of ECL is primarily calculated based on the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). These are parameters derived from internal rating models after adjusting them to be unbiased and forward-looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

1 BASIS OF PREPARATION (continued)

(b) Use of estimates and judgements (continued)

(ii) Impairment of financial assets (continued)

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. The underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to continuous review and refinement. The assumptions and judgements used by management may affect impairment allowances computed.

(iii) Management judgement is required for assessing the business model within which the financial assets are held and whether the contractual terms of the financial assets are solely payments of principal and profit on the principal amount outstanding for classification of financial assets.

(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 by the Bank to the periods presented in these financial statements, except as disclosed in Note 2D and Note 46 to the financial statements pertaining to adoption of MFRS 16 effective on 1 January 2019.

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 equity instruments at FVOCI or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

B Financial instruments

(a) Recognition and initial 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 initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issuance.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments (continued)

(a) Recognition and initial measurement (continued)

The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of MFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(b) Financial instrument categories and subsequent measurement

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Financial assets

The categories of financial assets are as follows:

(i) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and which contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding, are not designated as FVTPL. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment allowances, if any. Profit income, foreign exchange gains and losses and impairment allowances are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Profit income is recognised by applying effective profit rate to the gross carrying amount except for credit-impaired financial assets (see note 2F(a)) where the effective profit rate is applied to the amortised cost.

Financing and advances consist of sales based contracts (Bai' Inah, Bai' Bithaman Ajil, Tawarruq, Murabahah and Bai' Dayn), lease-based contracts (Ijarah Thumma Al-Bai, Ijarah and Ijarah Muntahiah Bi Al-Tamlik), equity based contracts (Musharakah Mutanaqisah) and other contracts (Wakalah and Qard). The Bank's core business is in providing financing to customers and not into leasing business. As a result, the Bank recognises all lease-based contracts as forms of financing and hence, as financial instruments under MFRS 9. Except for Ijarah financing, assets funded under Ijarah Thumma Al-Bai and Ijarah Muntahiah Bi Al-Tamlik contracts are owned by the Bank throughout the tenor of the financing and ownership of the assets will be transferred to the customer at the end of the financing.

(ii) Fair value through other comprehensive income ("FVOCI")

Debt investments

FVOCI category comprises debt investments that are held within a business model which objective is achieved by both collecting contractual cash flows and selling debt investments, and which contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding, and are not designated as FVTPL. Profit income calculated using the effective profit method, foreign exchange gains and losses and impairment allowances are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments (continued)

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

Financial assets (continued)

(ii) Fair value through other comprehensive income ("FVOCI") (continued)

Debt investments (continued)

Profit income is recognised by applying effective profit rate to the gross carrying amount except for credit-impaired financial assets (see note 2F(a)) where the effective profit rate is applied to the amortised cost.

Equity investments

This category comprises investments in equity that are not held for trading, and the Bank irrevocably elects to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

(iii) Fair value through profit or loss ("FVTPL")

All financial assets not measured at amortised cost or FVOCI as described above are measured at FVTPL. These include derivative financial assets (except for derivatives that are designated and effective hedging instruments). On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as FVTPL are subsequently measured at their fair value. Net gains or losses, including any profit or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at FVTPL and equity investments measured at FVOCI, are subject to impairment assessment (see note 2F(a)).

Financial liabilities

At the end of the reporting period, there were no non-derivative financial liabilities categorised as FVTPL.

Financial liabilities are subsequently measured at amortised cost, other than those categorised as FVTPL.

FVTPL category comprises financial liabilities that are derivatives (except for derivatives that are financial guarantee contracts or designated as effective hedging instruments) 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 which fair values cannot otherwise be reliably measured are measured at cost.

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (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 specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument.

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

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at the higher of:

- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers.*

Liabilities arising from financial guarantees are presented together with other provisions.

(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 2019 (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 are transferred, or control of the financial asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

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

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

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

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

(b) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Property and equipment (continued)

(c) Depreciation (continued)

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:

• Office equipment and furniture	10 years
• Computer equipment/software	3 - 8 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 Leases

Current financial year

(a) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset, i.e. when the Bank has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties for which the Bank is a lessee, the Bank will account for the lease and non-lease components as a single lease component.

(b) Recognition and initial measurement

(i) As a lessee

The Bank recognises a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Bank's incremental borrowing rate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D Leases (continued)

Current financial year (continued)

(b) Recognition and initial measurement (continued)

(i) As a lessee (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Bank is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The Bank has elected not to recognise ROU assets and lease liabilities for certain short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sublease as an operating lease.

(c) Subsequent measurement

(i) As a lessee

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective profit rate method. It is remeasured when there is a change in future lease payments arising from a change in the index or rate, if there is a revision of in-substance fixed lease payments, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D Leases (continued)

Current financial year (continued)

(c) Subsequent measurement (continued)

(ii) As a lessor

The Bank recognises lease payments under operating leases as income on a straight-line basis over the lease term as part of "revenue".

Previous financial year

Operating lease

Leases, where the Bank did not assume substantially all the risks and rewards of ownership were classified as operating leases and were not recognised on the statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals were charged to profit or loss in the reporting period in which they were 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 at amortised cost in accordance with Note 2B(b)(i).

F Impairment

(a) Financial assets

The Bank recognises impairment allowances for ECL on financial assets measured at amortised cost and financial investments measured at FVOCI and certain off-statement of financial position commitments and financial guarantees which were previously provided for under MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets*.

(i) ECL impairment model

Under MFRS 9, impairment allowances on the aforesaid financial assets are measured on each reporting date according to a three-stage ECL impairment model:

- Stage 1: On initial recognition, ECL will be that resulting from default events that are possible over the next 12 months (12-month ECL).

- Stage 2: Following a significant increase in credit risk of the financial assets since its initial recognition, the credit loss allowance will be that which results from all possible default events over the expected life of the asset (Lifetime ECL non credit-impaired). See details in Note 2F(a)(iii).

- Stage 3: When a financial asset exhibits objective evidence of impairment and is considered to be credit-impaired, its loss allowance will be the full lifetime ECL (credit-impaired).

Financing is written off against impairment allowances when all feasible recovery actions have been exhausted or when the recovery prospects are considered remote.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

F Impairment (continued)

(a) Financial assets (continued)

(ii) Measurement

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are non credit-impaired at the reporting date: At the present value of all cash shortfalls, being the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- Financial assets that are credit-impaired at the reporting date: At the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitments: At the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: The expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank uses three forecast economic scenarios to calculate an unbiased Stage 1 and Stage 2 ECL. They represent a “most likely” Base scenario, and two other less likely “Upside” and “Downside” scenarios. These scenarios are probability-weighted and underlying key macro-economic assumptions are based on independent external and in-house views. The assumptions are subject to regular management reviews to constantly reflect current and economic situations. Stage 3 ECL is quantified based on the recovery strategy adopted, where the Bank takes into account other factors including forward looking scenarios, market conditions and credit risk mitigants.

(iii) Movement between stages

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

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

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

- The Bank has established thresholds for significant increases in credit risk based on both relative and absolute changes in lifetime probability of default ("PD") relative to initial recognition.
- The Bank conducts qualitative assessment to ascertain if there has been significant increase in credit risk.
- The Bank uses 30 days/one month past due as an indication of significant increase in credit risk.

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

The Bank is also guided by the policy document on Financial Reporting for Islamic Banking Institutions issued by Bank Negara Malaysia ("BNM"), whereby a credit facility is classified as credit-impaired if it is past due for more than 3 months, or where the amount is past due for less than 3 months but exhibits weakness in accordance with the Bank's internal credit risk assessment. In addition, where repayments are scheduled on intervals of 3 months or longer, the credit facility is classified as credit-impaired as soon as default occurs.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

F Impairment (continued)

(a) Financial assets (continued)

(iii) Movement between stages (continued)

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

For credit-impaired portfolio, Stage 3 ECL is assessed individually and measured based on lifetime ECL as described in Note 39 to the financial statements.

(iv) Regulatory reserve

Under BNM's policy document on Financial Reporting for Islamic Banking Institutions, the Bank must maintain, in aggregate, impairment allowance for non credit-impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of impairment allowance for credit-impaired exposures.

(b) Other assets

The carrying amounts of other assets (except for deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Interim dividends on ordinary 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 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.

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, Oversea-Chinese Banking Corporation Limited (“OCBC Bank”), are awarded to eligible executives where share awards form 20% to 40% of their total variable performance bonus for the year. A trust is set up to administer the shares purchased under the Plan. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares.

The awards will lapse immediately on the termination of employment, except in the event of retirement, redundancy, death, or where approved by the relevant approving authorities at OCBC Bank whom may allow the awards to be retained and vested within the relevant vesting periods or such periods as may be determined.

(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 and expire 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 options granted fully vested after the 3rd anniversary.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

H Employee benefits (continued)

(b) Share-based payment transactions (continued)

(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 OCBC Bank 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 Note 17(b) to the financial statements.

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 or expense is recognised using the effective profit rate method.

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or amortised cost of the financial liability.

In calculating the finance income and expense, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, finance income is calculated by applying the effective profit rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of finance income reverts to the gross basis. The gross carrying amount of a financial asset refers to amortised cost of a financial asset before adjusting for any ECL.

Finance income for sale-based contracts (Bai' Inah, Bai' Bithaman Ajil, Tawarruq, Murabahah and Bai' Dayn) is 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) is recognised on effective profit rate basis over the lease term.

Finance income for equity-based contracts (Musharakah Mutanaqisah) is 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

J Income and expenses (continued)

(c) Net trading income

Net trading income comprises gains and losses from changes in financial assets at FVTPL and trading derivatives, gains and losses on foreign exchange trading and other trading activities.

(d) Dividend income

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

(e) Other income

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

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 they relate 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

M Restricted profit sharing investment accounts ("RPSIA")

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

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.

(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.

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 Committee. 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 2019 (continued)

3 CASH AND CASH EQUIVALENTS

	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	110,496	53,859
Deposits and placements with Bank Negara Malaysia	847,645	905,741
	958,141	959,600
Stage 1 ECL allowance	(1)	-
	958,140	959,600

(a) By geographical distribution determined based on where the credit risk resides

	2019 RM'000	2018 RM'000
Malaysia	898,474	937,438
Singapore	17,308	18,260
Other ASEAN countries	753	754
Rest of the world	41,605	3,148
	958,140	959,600

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

	2019 RM'000	2018 RM'000
At fair value		
Islamic Corporate Sukuk	16,330	9,980

5 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	2019 RM'000	2018 RM'000
At fair value		
Malaysian Government Investment Issues	2,261,060	2,322,794
Malaysian Government Sukuk	94,846	244,573
Islamic Corporate Sukuk	389,940	350,805
Islamic Negotiable Instruments of Deposit	1,374,877	1,146,898
Cagamas Sukuk	60,842	55,279
Foreign Government Sukuk	24,887	170,352
	4,206,452	4,290,701

ECL allowance for financial investments at FVOCI is recognised in the ECL reserve.

	2019			2018		
	Stage 1 12 Months ECL RM'000	Stage 2 Lifetime ECL RM'000	Total ECL non credit-impaired RM'000	Stage 1 12 Months ECL RM'000	Stage 2 Lifetime ECL RM'000	Total ECL non credit-impaired RM'000
At 31 December, under MFRS 139	-	-	-	-	-	-
Effect of adopting MFRS 9	-	-	-	1,916	730	2,646
At 1 January/As restated under MFRS 9	199	50	249	1,916	730	2,646
Transferred to Stage 1	-	-	-	18	(18)	-
Transferred to Stage 2	-	-	-	(8)	8	-
New financial assets originated or purchased	205	-	205	486	-	486
Financial assets derecognised	(66)	(41)	(107)	(1,053)	-	(1,053)
Net remeasurement during the year	(185)	(9)	(194)	(1,161)	(669)	(1,830)
Other movements	-	-	-	1	(1)	-
At 31 December	153	-	153	199	50	249

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

6 FINANCING AND ADVANCES

(i) By type and Shariah contract

	Sale based contracts					*Lease based contracts*			*Equity based contracts*		
2019	**Bai' Inah RM'000**	**Bai' Bithaman Ajil RM'000**	**Tawarruq RM'000**	**Murabahah RM'000**	**Bai' Dayn RM'000**	**Ijarah Thumma Al-Bai RM'000**	**Ijarah RM'000**	**Ijarah Muntahiah Bi Al-Tamlik RM'000**	**Musharakah Mutanaqisah RM'000**	**Others RM'000**	**Total RM'000**
At amortised cost and net of unearned income											
Cash line financing	10,059	8,631	-	-	-	-	432,413	-	-	2,507	453,610
Term financing											
- House financing	-	8,095	-	-	-	-	-	1,858,021	76,302	-	1,942,418
- Syndicated term financing	-	-	460,608	-	-	-	-	167,195	-	-	627,803
- Hire purchase receivables	-	-	-	-	-	165,094	-	179,681	-	-	344,775
- Other term financing	216,361	30,253	2,388,283	-	-	-	-	1,419,122	96,927	-	4,150,946
Bills receivable	-	-	-	16,801	35,930	-	-	-	-	-	52,731
Trust receipts	-	-	-	135	-	-	-	-	-	-	135
Revolving credit	-	-	3,905,317	-	-	-	-	-	-	-	3,905,317
Claims on customers under acceptance credits	-	-	-	346,543	73,757	-	-	-	-	-	420,300
Other financing	-	-	129,602	-	-	-	-	-	-	-	129,602
Gross financing and advances	226,420	46,979	6,883,810	363,479	109,687	165,094	432,413	3,624,019	173,229	2,507	12,027,637
ECL allowance											(222,348)
Net financing and advances											11,805,289

Included in financing and advances are specific business ventures funded by the Restricted Profit Sharing Investment Account ("RPSIA") arrangements between the Bank and its immediate holding company, OCBC Bank (Malaysia) Berhad (Note 15). The immediate holding company, being the RPSIA investor, is exposed to the risks and rewards of the business venture and accounts for the impairment allowances arising thereon.

As at 31 December 2019, the gross exposure and ECL relating to RPSIA financing amounted to RM2,022 million (2018: RM1,384 million) and RM61 million (2018: RM60 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

6 FINANCING AND ADVANCES (continued)

(i) By type and Shariah contract (continued)

	Sale based contracts					*Lease based contracts*			*Equity based contracts*		
2018	**Bai' Inah RM'000**	**Bai' Bithaman Ajil RM'000**	**Tawarruq RM'000**	**Murabahah RM'000**	**Bai' Dayn RM'000**	**Ijarah Thumma Al-Bai RM'000**	**Ijarah RM'000**	**Ijarah Muntahiah Bi Al-Tamlik RM'000**	**Musharakah Mutanaqisah RM'000**	**Others RM'000**	**Total RM'000**
At amortised cost and net of unearned income											
Cash line financing	22,684	10,304	-	-	-	-	318,483	-	-	1,276	352,747
Term financing											
- House financing	-	9,607	-	-	-	-	-	1,864,017	84,113	-	1,957,737
- Syndicated term financing	-	-	458,982	-	-	-	-	235,389	-	-	694,371
- Hire purchase receivables	-	-	-	-	-	184,956	-	191,530	-	-	376,486
- Other term financing	344,587	20,541	1,124,155	-	-	-	-	1,838,937	111,960	-	3,440,180
Bills receivable	-	-	-	-	17,506	-	-	-	-	-	17,506
Revolving credit	-	-	3,112,097	-	-	-	-	-	-	-	3,112,097
Claims on customers under acceptance credits	-	-	-	350,325	106,235	-	-	-	-	-	456,560
Other financing	-	-	148,235	-	-	-	-	-	-	-	148,235
Gross financing and advances	367,271	40,452	4,843,469	350,325	123,741	184,956	318,483	4,129,873	196,073	1,276	10,555,919
ECL allowance											(236,320)
Net financing and advances											10,319,599

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

6 FINANCING AND ADVANCES (continued)

	2019 RM'000	**2018 RM'000**
(ii) By type of customer		
Domestic non-bank financial institutions	1,027,120	54,321
Domestic business enterprises		
- Small and medium enterprises	2,056,745	2,026,792
- Others	5,610,952	5,047,692
Individuals	2,212,138	2,303,919
Foreign entities	1,120,682	1,123,195
	12,027,637	10,555,919

	2019 RM'000	**2018 RM'000**
(iii) By profit rate sensitivity		
Fixed rate		
- House financing	47,513	9,607
- Hire purchase receivables	165,095	185,320
- Other fixed rate financing	1,550,059	1,740,698
Variable rate		
- Base rate/Base financing rate plus	4,141,835	3,790,274
- Cost plus	6,079,866	4,824,493
- Other variable rates	43,269	5,527
	12,027,637	10,555,919

	2019 RM'000	**2018 RM'000**
(iv) By sector		
Agriculture, hunting, forestry and fishing	1,666,299	1,559,605
Mining and quarrying	300,835	117,728
Manufacturing	1,503,469	1,510,859
Electricity, gas and water	30,509	37,606
Construction	761,864	792,340
Real estate	1,212,724	961,780
Wholesale & retail trade and restaurants & hotels	1,242,882	1,033,566
Transport, storage and communication	195,592	202,391
Finance, insurance and business services	1,214,855	207,626
Community, social and personal services	565,211	703,996
Household		
- Purchase of residential properties	1,952,047	1,968,855
- Purchase of non-residential properties	46,360	40,093
- Others	332,265	418,830
Others	1,002,725	1,000,644
	12,027,637	10,555,919

	2019 RM'000	**2018 RM'000**
(v) By geographical distribution determined based on where the credit risk resides		
Malaysia	10,966,315	9,563,513
Singapore	579,932	631,827
Other ASEAN countries	162,160	194,521
Rest of the world	319,230	166,058
	12,027,637	10,555,919

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

6 FINANCING AND ADVANCES (continued)

(vi) By residual contractual maturity

	2019 RM'000	2018 RM'000
Up to one year	4,910,823	4,169,816
Over one year to three years	819,478	642,487
Over three years to five years	1,425,582	1,142,855
Over five years	4,871,754	4,600,761
	12,027,637	10,555,919

7 IMPAIRED FINANCING AND ADVANCES

(a) Movements in credit-impaired financing and advances

	2019 RM'000	2018 RM'000
At 1 January	375,100	383,572
Impaired during the year	378,458	293,527
Reclassified as non credit-impaired	(142,180)	(90,471)
Amount recovered	(169,849)	(99,614)
Amount written off	(96,120)	(113,770)
Effect of foreign exchange difference	283	1,856
At 31 December	345,692	375,100
Stage 3 ECL allowance	(109,208)	(120,198)
Net impaired financing and advances	236,484	254,902

Included in the credit-impaired financing and advances are specific business ventures funded by the RPSIA arrangements between the Bank and its immediate holding company, OCBC Bank (Malaysia) Berhad. The immediate holding company, as the RPSIA holder, is exposed to the risks and rewards of the business venture and accounts for the Stage 3 ECL arising thereon. As at 31 December 2019, the credit-impaired RPSIA funded gross exposures and Stage 3 ECL recoverable from the RPSIA holder amounted to RM59 million (2018: RM116 million) and RM33 million (2018: RM57 million) respectively.

(i) By sector

	2019 RM'000	2018 RM'000
Agriculture, hunting, forestry and fishing	3,635	2,281
Manufacturing	36,228	25,113
Construction	41,916	9,104
Real estate	666	6,967
Wholesale & retail trade and restaurants & hotels	104,506	102,609
Transport, storage and communication	3,468	5,598
Finance, insurance and business services	7,612	9,763
Community, social and personal services	733	1,391
Household		
- Purchase of residential properties	65,633	60,136
- Purchase of non-residential properties	761	746
- Others	22,007	21,223
Others	58,527	130,169
	345,692	375,100

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

7 IMPAIRED FINANCING AND ADVANCES (continued)

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

	2019 RM'000	2018 RM'000
(ii) By geographical distribution determined based on where the credit risk resides		
Malaysia	341,775	366,925
Singapore	3,899	8,154
Other ASEAN country	18	21
	345,692	375,100
(iii) By period overdue		
Up to 3 months	63,873	118,233
Over 3 months to 6 months	30,492	29,013
Over 6 months to 9 months	109,806	14,700
Over 9 months	141,521	213,154
	345,692	375,100
(iv) By collateral type		
Property	93,486	97,031
Term deposits	1,280	-
Stocks and shares	5,780	5,270
Machinery	4,019	487
Secured - others	45,549	76,132
Unsecured - corporate and other guarantees	59,443	29,396
Unsecured - clean	136,135	166,784
	345,692	375,100

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

7 IMPAIRED FINANCING AND ADVANCES (continued)

(b) Movements in ECL allowance for financing and advances

	Non credit-impaired		*Credit-impaired*	**2019**	*Non credit-impaired*		*Credit-impaired*	**2018**
	Stage 1 ECL RM'000	**Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**	**Stage 1 ECL RM'000**	**Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**
At 31 December, under MFRS 139	-	-	-	-	-	-	-	-
Effect of adopting MFRS 9	-	-	-	-	35,854	97,447	125,877	259,178
At 1 January/As restated under MFRS 9	58,957	57,165	120,198	236,320	35,854	97,447	125,877	259,178
Transferred to Stage 1	64,823	(56,128)	(8,695)	-	140,788	(113,483)	(27,305)	-
Transferred to Stage 2	(18,523)	26,608	(8,085)	-	(22,221)	29,790	(7,569)	-
Transferred to Stage 3	(1,953)	(58,309)	60,262	-	(1,165)	(63,276)	64,441	-
New financial assets originated or purchased	31,681	8,072	-	39,753	51,175	10,434	-	61,609
Financial assets derecognised	(24,198)	(14,370)	(11,171)	(49,739)	(22,863)	(17,067)	(5,406)	(45,336)
Net remeasurement during the year	(50,925)	90,391	59,215	98,681	(122,102)	112,961	89,028	79,887
Written-off	-	-	(96,120)	(96,120)	-	-	(113,770)	(113,770)
Other movements	(156)	5	(6,396)	(6,547)	(509)	359	(5,098)	(5,248)
At 31 December	59,706	53,434	109,208	222,348	58,957	57,165	120,198	236,320
At 1 January								
- Financing and advances	55,816	56,927	120,198	232,941	32,598	96,136	125,877	254,611
- Financing related commitments and financial guarantees	3,141	238	-	3,379	3,256	1,311	-	4,567
	58,957	57,165	120,198	236,320	35,854	97,447	125,877	259,178
At 31 December								
- Financing and advances	56,055	46,736	109,208	211,999	55,816	56,927	120,198	232,941
- Financing related commitments and financial guarantees	3,651	6,698	-	10,349	3,141	238	-	3,379
	59,706	53,434	109,208	222,348	58,957	57,165	120,198	236,320

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

7 IMPAIRED FINANCING AND ADVANCES (continued)

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

Impact of movements in gross carrying amount on ECL allowance

Stage 1 ECL allowance increased by RM0.7 million during the financial year mainly due to financing and advances migrated to Stage 1 from improvements in credit quality and newly originated financing and advances partially offset by remeasurement and repayments.

Stage 2 ECL allowance decreased by RM3.7 million mainly due to migration of financing and advances to Stage 1 and Stage 3 and repayments partially offset by higher remeasurement due to increased credit risk and moderated macro economic outlook.

Stage 3 ECL allowance decreased by RM11.0 million mainly due to the write-off of financing and advances with gross carrying amount of RM96.1 million partially offset by higher remeasurement due to increased credit risk and moderated macro economic outlook.

(i) By sector

	Non credit-impaired	*Credit-impaired*	**Stage 3 ECL**	
	Stage 1 and 2 ECL RM'000	**Stage 3 ECL RM'000**	**Made during the period RM'000**	**Written off RM'000**
2019				
Agriculture, hunting, forestry and fishing	7,910	298	417	-
Mining and quarrying	1,653	-	-	-
Manufacturing	17,288	8,723	16,971	8,157
Electricity, gas and water	93	-	-	-
Construction	19,183	14,667	15,322	525
Real estate	7,911	-	292	184
Wholesale & retail trade and restaurants & hotels	12,994	16,953	11,908	4,715
Transport, storage and communication	1,364	508	1,108	1,313
Finance, insurance and business services	822	1,596	1,374	498
Community, social and personal services	4,577	230	570	199
Household				
- Purchase of residential properties	5,316	14,084	13,830	3,396
- Purchase of non-residential properties	325	267	262	-
- Others	19,198	19,113	40,990	22,990
Others	14,506	32,769	29,794	54,143
	113,140	109,208	132,838	96,120

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

7 IMPAIRED FINANCING AND ADVANCES (continued)

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

(i) By sector (continued)

	Non credit-impaired	*Credit-impaired*	**Stage 3 ECL**	
	Stage 1 and 2 ECL RM'000	**Stage 3 ECL RM'000**	**Made during the year RM'000**	**Written off RM'000**
2018				
Agriculture, hunting, forestry and fishing	2,974	2	32	41
Mining and quarrying	2,635	-	46	42
Manufacturing	17,460	1,347	3,065	2,525
Electricity, gas and water	137	-	-	-
Construction	13,796	6,307	7,649	924
Real estate	8,045	2,546	59	-
Wholesale & retail trade and restaurants & hotels	14,516	19,551	25,523	8,560
Transport, storage and communication	2,088	1,513	2,872	1,290
Finance, insurance and business services	682	1,464	2,486	1,627
Community, social and personal services	4,623	115	590	491
Household				
- Purchase of residential properties	6,127	11,542	13,925	2,354
- Purchase of non-residential properties	452	32	94	92
- Others	33,018	18,661	51,056	29,759
Others	9,569	57,118	66,065	66,065
	116,122	120,198	173,462	113,770

(ii) By geographical distribution

	Non credit-impaired	*Credit-impaired*	**2019**	*Non credit-impaired*	*Credit-impaired*	**2018**
	Stage 1 and 2 ECL RM'000	**Stage 3 ECL RM'000**	**Total ECL RM'000**	**Stage 1 and 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**
Malaysia	98,424	109,208	207,632	105,845	120,198	226,043
Singapore	361	-	361	442	-	442
Other ASEAN countries	8	-	8	85	-	85
Rest of the world	14,347	-	14,347	9,750	-	9,750
	113,140	109,208	222,348	116,122	120,198	236,320

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

8 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Financial derivatives are instruments which values change in response to the change in one or more "underlying" such as foreign exchange rate and profit rate. They include forwards and swaps. In the normal course of business, the Bank customise derivatives to meet the specific needs of their customers.

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

	2019			2018		
	Contract or underlying principal	Fair value		Contract or underlying principal	Fair value	
	amount RM'000	Assets RM'000	Liabilities RM'000	amount RM'000	Assets RM'000	Liabilities RM'000
Trading						
Foreign exchange derivatives						
- Forwards	68,693	392	152	51,596	82	144
- Swaps	80,175	552	556	31,503	-	1,291
Profit rate derivatives						
- Swaps	360,000	11,345	11,734	360,000	2,136	2,354
	508,868	12,289	12,442	443,099	2,218	3,789
Of which related to immediate holding company	250,365	6	12,381	243,109	3	3,731

9 OTHER ASSETS

	2019 RM'000	2018 RM'000
Profit receivable	31,047	32,640
Other receivables, deposits and prepayments	7,255	3,819
Amount due from immediate holding company	31,955	36,850
Amount due from ultimate holding company	309	869
Amount due from related company	3	-
	70,569	74,178

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

10 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

11 PROPERTY AND EQUIPMENT

	2019				2018			
	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Renovation RM'000	Total RM'000	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Renovation RM'000	Total RM'000
Cost								
At 1 January	10,790	17,566	12,823	41,179	8,711	16,525	10,986	36,222
Additions	153	182	6	341	2,086	1,033	1,837	4,956
Disposals/Written off	(138)	(404)	(41)	(583)	(10)	(7)	-	(17)
Transfer from related parties	6	5	-	11	12	16	-	28
Transfer to related parties	(60)	-	-	(60)	(9)	(1)	-	(10)
At 31 December	10,751	17,349	12,788	40,888	10,790	17,566	12,823	41,179
Accumulated depreciation								
At 1 January	(5,069)	(15,057)	(11,169)	(31,295)	(4,066)	(13,528)	(9,303)	(26,897)
Depreciation for the year	(979)	(1,323)	(421)	(2,723)	(1,011)	(1,530)	(1,866)	(4,407)
Disposals	97	404	-	501	9	7	-	16
Transfer from related parties	(5)	(3)	-	(8)	(9)	(7)	-	(16)
Transfer to related parties	58	-	-	58	8	1	-	9
At 31 December	(5,898)	(15,979)	(11,590)	(33,467)	(5,069)	(15,057)	(11,169)	(31,295)
Carrying amount								
At 1 January	5,721	2,509	1,654	9,884	4,645	2,997	1,683	9,325
At 31 December	4,853	1,370	1,198	7,421	5,721	2,509	1,654	9,884

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

12 RIGHT-OF-USE ("ROU") ASSETS

2019	Properties RM'000
At 1 January	4,283
Additions	1,181
Depreciation for the year	(2,447)
At 31 December	3,017

The remeasured amount under ROU assets as at 1 January 2019 was approximately RM4.3 million as disclosed in Note 46 to the financial statements.

13 DEFERRED TAX ASSETS

	Assets		Liabilities		Net	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Change in fair value of financial instruments	-	-	(7,519)	(830)	(7,519)	(830)
Stage 1 and 2 ECL allowance	5,714	5,089	-	-	5,714	5,089
Excess of capital allowances over depreciation	-	-	(597)	(864)	(597)	(864)
Provision for expenses	2,231	1,886	-	-	2,231	1,886
Other temporary differences	2,757	2,797	-	-	2,757	2,797
Tax assets/(liabilities)	10,702	9,772	(8,116)	(1,694)	2,586	8,078
Set off of tax	(8,116)	(1,694)	8,116	1,694	-	-
Net tax assets	2,586	8,078	-	-	2,586	8,078

(i) Movement in deferred tax during the financial year

	At 1 January RM'000	Recognised in profit or loss (Note 30) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
2019				
Change in fair value of financial instruments	(830)	-	(6,689)	(7,519)
Stage 1 and 2 ECL allowance	5,089	625	-	5,714
Excess of capital allowances over depreciation	(864)	267	-	(597)
Provision for expenses	1,886	345	-	2,231
Other temporary differences	2,797	(40)	-	2,757
	8,078	1,197	(6,689)	2,586
2018				
Change in fair value of financial instruments	(1,425)	-	595	(830)
Stage 1 and 2 ECL allowance	-	5,089	-	5,089
Excess of capital allowances over depreciation	(1,132)	268	-	(864)
Provision for expenses	1,837	49	-	1,886
Other temporary differences	2,386	411	-	2,797
	1,666	5,817	595	8,078

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

14 DEPOSITS FROM CUSTOMERS

	2019 RM'000	**2018 RM'000**
(a) By type of deposit		
Savings deposits		
- Tawarruq	510,986	320,117
- Qard	183,948	198,718
Demand deposits		
- Tawarruq	543,334	279,644
- Qard	3,669,057	3,672,992
Term Deposits		
- Commodity Murabahah	6,622,560	6,056,503
- Qard	7,754	2,289
Negotiable instruments of deposit		
- Bai Bithaman Ajil	77,532	74,269
- Bai Inah	600,000	-
Short-term deposits		
- Tawarruq	376,426	1,198,312
General investment deposits		
- Mudharabah	-	16
	12,591,597	11,802,860

Included in the above are negotiable instruments of deposit issued to its immediate holding company amounting to RM78 million (2018: RM74 million), which are unsecured and profit bearing.

(b) By type of customer

	2019 RM'000	2018 RM'000
Government and statutory bodies	768,322	1,699,447
Non-bank financial institutions	1,770,716	1,521,931
Business enterprises	5,813,790	5,329,983
Individuals	3,873,230	3,010,715
Foreign entities	147,170	112,348
Others	218,369	128,436
	12,591,597	11,802,860

(c) By maturity structure of term/general investment deposits, negotiable instruments of deposit and short-term deposits

	2019 RM'000	2018 RM'000
Up to six months	6,105,962	5,300,290
Over six months to one year	1,565,368	1,939,961
Over one year to three years	12,942	91,128
Over three years to five years	-	10
	7,684,272	7,331,389

15 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTION

	2019 RM'000	2018 RM'000
Mudharabah RPSIA		
Licensed bank	2,018,823	1,379,286
Amount receivable from immediate holding company under RPSIA	(32,769)	(57,118)
	1,986,054	1,322,168

The placements are from its immediate holding company, OCBC Bank (Malaysia) Berhad and are used to fund specific financing (Note 6 and Note 45). These deposits follow the principle of Mudharabah which states that profits will be shared with the Bank as mudarib and losses borne by depositors.

16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 RM'000	2018 RM'000
Non-Mudharabah		
Licensed banks	758,235	1,066,131
Other financial institutions	4,954	6,926
	763,189	1,073,057

Included in the above are deposits and placements of its immediate holding company of RM720 million (2018: RM990 million), which are unsecured and profit bearing.

17 OTHER LIABILITIES

		2019 RM'000	2018 RM'000
Profit payable		79,323	78,705
Other payables and accruals		72,391	58,064
Amount due to immediate holding company	(a)	12,218	10,028
Amount due to related company	(a)	245	-
Amount due to ultimate holding company	(a)	176	-
Equity compensation benefits	(b)	692	676
Lease liabilities		3,047	-
Provision for commitments and contingencies		2,034	-
		170,126	147,473

(a) The amount due to ultimate and immediate holding companies and related company are unsecured, profit free and repayable on demand.

(b) Equity compensation benefits

Equity compensation benefits refer to the fair value for all goods and services received in respect of cash-settled share-based payment transactions recognised under MFRS 2, *Share-based Payment*. Included in equity compensation benefits are:

(i) OCBC Deferred Share Plan

Under the OCBC Deferred Share Plan ("the Plan"), shares of the ultimate holding company of the Bank are awarded to eligible executives where share awards form 20% to 40% of their total variable performance bonus for the year. A trust is set up to administer the shares purchased under the Plan. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares.

The awards will lapse immediately on the termination of employment, except in the event of retirement, redundancy, death, or where approved by the relevant approving authorities at OCBC Bank whom may allow the awards to be retained and vested within the relevant vesting periods or such periods as may be determined.

17 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(ii) OCBC Share Option Scheme 2001

Under the OCBC Share Option Scheme 2001, shares of the ultimate holding company of the Bank are offered to executives of the rank of Manager and above, including Directors. Options granted are exercisable for a period commencing after the 1st anniversary and expire 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 options granted fully vested after the 3rd anniversary.

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

There were no options granted under OCBC Share Option Scheme 2001 in 2019. In 2018, the Bank granted 10,847 options to acquire ordinary shares in its ultimate holding company, OCBC Bank. The fair value of options granted to the employees of the Bank, determined using the binomial valuation model was S$26,741 in 2018. Significant inputs to the valuation model are set out below:

	2018
Acquisition price (S$)	13.34
Average share price from grant date to acceptance date (S$)	13.73
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	17.29
Risk-free rate based on SGD bond yield at acceptance date (%)	2.54
Expected dividend yield (%)	2.62
Exercise multiple (times)	1.52
Option life (expected weighted average life)	10

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

	2019		**2018**	
	Number of share options	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	61,916	10.287	51,069	9.639
Granted	-	-	10,847	13.340
Exercised	(27,022)	9.157	-	-
At 31 December	34,894	11.163	61,916	10.287
Exercisable on 31 December	21,531	10.870	31,349	9.858
Weighted average share price underlying the options exercised (S$)		11.344		-

17 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(ii) OCBC Share Option Scheme 2001 (continued)

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S$)	2019 Outstanding	2019 Exercisable
2015	16/03/2015	16/3/2016 - 15/3/2025	10.378	17,952	17,952
2017	23/03/2017	23/3/2018 - 22/3/2027	9.598	6,095	-
2018	22/03/2018	22/3/2019 - 21/3/2028	13.340	10,847	3,579
				34,894	21,531

Grant year	Grant date	Exercise period	Acquisition price (S$)	2018 Outstanding	2018 Exercisable
2015	16/03/2015	16/3/2016 - 15/3/2025	10.378	17,952	17,952
2016	16/03/2016	16/3/2017 - 15/3/2026	8.814	15,192	7,482
2017	23/03/2017	23/3/2018 - 22/3/2027	9.598	17,925	5,915
2018	22/03/2018	22/3/2019 - 21/3/2028	13.340	10,847	-
				61,916	31,349

(iii) OCBC Employee Share Purchase Plan

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

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

In June 2019, OCBC Bank launched its 14th offering of ESP Plan for OCBC Bank's employees, which commenced on 1 July 2019 and expires on 30 June 2021. Under the offering, the Bank granted 10,959 (2018: 7,083) rights to acquire ordinary shares in OCBC Bank. The fair value of rights for the Bank, determined using the binomial valuation model were S$9,129 (2018: S$10,699). Significant inputs to the valuation model are set out below:

	2019	2018
Acquisition price (S$)	11.32	11.60
Closing share price at valuation date (S$)	10.78	12.13
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	17.57	18.45
Risk-free rate based on 2-year swap rate (%)	1.72	1.96
Expected dividend yield (%)	3.62	2.97

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

17 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(iii) OCBC Employee Share Purchase Plan (continued)

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

	2019		2018	
	Number of share options	Weighted average acquisition price (S$)	Number of share options	Weighted average acquisition price (S$)
At 1 January	10,056	11.212	13,714	9.422
Acquired	10,959	11.320	7,083	11.600
Forfeited/Lapsed	(3,524)	11.227	(3,892)	10.281
Exercised and converted upon expiry	(3,574)	10.770	(6,849)	8.558
At 31 December	13,917	11.407	10,056	11.212
Average share price underlying acquisition rights exercised/converted (S$)		11.539		11.568

18 SUBORDINATED SUKUK

On 24 November 2016, the Bank issued to its immediate holding company, OCBC Bank (Malaysia) Berhad, a RM200 million Basel III-compliant redeemable 10 years non-callable 5 years subordinated sukuk under the principle of Murabahah at a profit rate of 4.80% per annum payable semi-annually in arrears from the issue date with the last periodic profit payment to be made up to (but excluding) the maturity date or early redemption of the Murabahah subordinated sukuk, whichever is earlier. The Bank may, at its option and subject to the prior approval of BNM, exercise its call option and may redeem in whole or in part, whichever is earlier, the Murabahah subordinated sukuk on 24 November 2021 and any coupon payment date thereafter. In addition to the first call in 2021, the Murabahah subordinated sukuk may also be redeemed if a qualifying tax event or a change of qualification event occurs. The Murabahah subordinated sukuk can be written off, in whole or in part, if the Bank is determined by BNM and/or Malaysia Deposit Insurance Corporation to be non-viable.

This Murabahah subordinated sukuk qualifies in full as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

19 SHARE CAPITAL

	2019 RM'000	2018 RM'000
Issued and fully paid		
Ordinary shares	555,000	555,000

20 RESERVES

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

Regulatory reserve is maintained in compliance with the requirements under BNM's policy document on Financial Reporting for Islamic Banking Institutions to maintain, in aggregate, loss allowance for non credit-impaired exposures (Stage 1 and Stage 2 ECL) and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures (Stage 3 ECL).

20 RESERVES (continued)

ECL reserve comprises ECL allowance for financial investments at fair value through other comprehensive income. The ECL allowance will be reversed to profit or loss upon disposal or derecognition of the financial instruments.

Fair value reserve comprises the fair value of financial investments at fair value through other comprehensive income 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 financial instruments.

21 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2019 RM'000	2018 RM'000
Income derived from investment of:		
(i) Term deposits/General investment deposits	331,457	323,116
(ii) Other deposits	300,283	291,144
	631,740	614,260

(i) Income derived from investment of term/general investment deposits

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advance		
- Finance income earned other than recoveries	243,280	233,700
- Recoveries from credit-impaired financing	2,742	2,679
- Discount unwind from credit-impaired financing	2,975	2,338
Financial assets at FVTPL	297	275
Financial investments at FVOCI	67,145	72,512
Deposits and placements with banks and other financial institutions	9,198	11,319
	325,637	322,823
Other trading income		
Net gain from sale of financial assets at FVTPL	-	252
Unrealised gain/(loss) on financial assets at FVTPL	87	(237)
Other operating income		
Net gain/(loss) from sale of financial investments at FVOCI	4,863	(158)
Others	870	436
	331,457	323,116

(ii) Income derived from investment of other deposits

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advance		
- Finance income earned other than recoveries	220,522	211,667
- Recoveries from credit-impaired financing	2,537	2,175
- Discount unwind from credit-impaired financing	2,733	2,220
Financial assets at FVTPL	271	246
Financial investments at FVOCI	61,003	64,890
Deposits and placements with banks and other financial institutions	8,200	9,628
	295,266	290,826
Other trading income		
Net gain from sale of financial assets at FVTPL	-	191
Unrealised gain/(loss) on financial assets at FVTPL	69	(181)
Other operating income		
Net gain/(loss) from sale of financial investments at FVOCI	4,162	(94)
Others	786	402
	300,283	291,144

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

22 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advance		
- Finance income earned other than recoveries	74,316	56,136
- Recoveries from credit-impaired financing	3,999	2,400
- Discount unwind from credit-impaired financing	-	(2,700)
Deposits and placements with banks and other financial institutions	-	685
	78,315	56,521

23 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advance		
- Finance income earned other than recoveries	56,600	52,836
- Recoveries from credit-impaired financing	648	587
- Discount unwind from credit-impaired financing	689	541
Financial assets at FVTPL	70	60
Financial investments at FVOCI	15,666	16,319
Deposits and placements with banks and other financial institutions	2,119	2,447
	75,792	72,790
Other trading income		
Net gain from sale of financial assets at FVTPL	-	50
Unrealised gain/(loss) on financial assets at FVTPL	20	(47)
Other operating income		
Commission	23,735	27,603
Service charges and fees	25,479	25,164
Net gain/(loss) from sale of financial investments at FVOCI	1,100	(33)
Others	204	99
Other trading income		
Net trading (loss)/gain		
- Foreign currency	(171)	1,596
- Trading derivatives	16,330	17,160
- Revaluation of derivatives	1,420	(1,128)
	143,909	143,254

24 IMPAIRMENT ALLOWANCE AND PROVISIONS

	2019 RM'000	2018 RM'000
Financing and advances		
Stage 1 and Stage 2 ECL write back during the year	(2,982)	(17,179)
Stage 3 ECL		
- Made during the year	132,838	173,462
- Written back	(41,311)	(60,273)
Credit-impaired financing recovered	(37,555)	(28,157)
Recovery from RPSIA holder*	(29,794)	-
Financial investments at FVOCI		
Stage 1 and Stage 2 ECL write back during the year	(96)	(2,397)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

24 IMPAIRMENT ALLOWANCE AND PROVISIONS (continued)

	2019 RM'000	2018 RM'000
Other assets		
Stage 1 and Stage 2 ECL write back during the year	-	(560)
Commitments and contingencies		
Net charge during the year	2,034	-
	23,134	64,896

* The RPSIA holder is the Bank's immediate holding company (Note 15).

25 INCOME ATTRIBUTABLE TO DEPOSITORS

	2019 RM'000	2018 RM'000
Deposits from customers		
- Non-Mudharabah	345,498	325,076
- Mudharabah	-	1
Deposits and placements of banks and other financial institutions		
- Non-Mudharabah	20,819	17,806
Subordinated sukuk	9,600	9,600
Lease liabilities	105	-
	376,022	352,483

26 INCOME ATTRIBUTABLE TO INVESTMENT ACCOUNT HOLDER

	2019 RM'000	2018 RM'000
Investment accounts due to designated financial institution (Note 36)		
- Mudharabah	56,307	44,570

27 FINANCE INCOME AND EXPENSE ANALYSED BY CATEGORY OF FINANCIAL INSTRUMENTS

	2019 RM'000	2018 RM'000
Finance income		
Financing and advances at amortised cost	611,041	564,579
Financial assets at FVTPL	638	581
Financial investments at FVOCI	143,814	153,721
Deposits and placements with banks and other financial institutions at amortised cost	19,517	24,079
	775,010	742,960
Finance expense		
Liabilities at amortised cost	432,329	397,053

28 OPERATING EXPENSES

	2019 RM'000	2018 RM'000
Personnel expenses		
Wages, salaries and bonus	25,697	23,467
Employees Provident Fund contributions	3,923	3,642
Share-based costs	445	275
Others	3,211	4,500
	33,276	31,884

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

28 OPERATING EXPENSES (continued)

		2019 RM'000	2018 RM'000
Establishment expenses			
Depreciation of equipment		2,723	4,407
Depreciation of ROU assets		2,447	-
Rental of premises	(a)	10	2,918
Repair and maintenance		1,073	833
Information technology costs		813	835
Hire of equipment	(a)	130	153
Others		2,879	2,742
		10,075	11,888
Marketing expenses			
Advertising and business promotion		547	358
Transport and travelling		313	312
Others		78	76
		938	746
General administrative expenses			
Shared service fees to immediate holding company (Note 36)		112,486	107,552
IT and transaction processing fees to related companies (Note 36)		27,847	23,359
Auditors' remuneration			
- Statutory audit		147	135
- Audit related fees		99	140
- Other services		-	1
Shariah Committee remuneration	(b)	388	373
Others		11,415	16,610
		152,382	148,170
Total operating expenses		196,671	192,688

(a) These expenses are in respect of short-term and/or leases of low-value items which the Bank has elected not to recognise as ROU assets and lease liabilities under MFRS 16.

(b) The total remuneration of the Shariah Committee members of the Bank are as follows:

	Remuneration RM'000	Allowance RM'000	Total RM'000
2019			
Asst. Prof. Dr Muhammad Naim bin Omar	60	19	79
Assoc. Prof. Dr Mohamad Asmadi bin Haji Abdullah	58	19	77
Prof. Dr Abdullah @ Alwi bin Hj. Hassan	58	18	76
Prof. Dato' Dr Wan Sabri bin Wan Yusof	58	16	74
Assoc. Prof. Dr Suhaimi bin Ab Rahman	61	21	82
	295	93	388
2018			
Asst. Prof. Dr Muhammad Naim bin Omar	60	24	84
Assoc. Prof. Dr Mohamad Asmadi bin Haji Abdullah	54	21	75
Prof. Dr Abdullah @ Alwi bin Hj. Hassan	54	20	74
Prof. Dato' Dr Wan Sabri bin Wan Yusof	54	17	71
Assoc. Prof. Dr Suhaimi bin Ab Rahman	54	15	69
	276	97	373

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

29 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION

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

	Unrestricted				*Deferred*	**2019**	*Unrestricted*				*Deferred*	**2018**
	Salaries and fees RM'000	**Variable bonuses RM'000**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options^ RM'000**	**Total RM'000**	**Salaries and fees RM'000**	**Variable bonuses RM'000**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options^ RM'000**	**Total RM'000**
CEO												
Syed Abdull Aziz Jailani bin Syed Kechik	914	393	15	209	262	1,793	897	408	11	208	272	1,796
Non Executive Directors												
Tan Ngiap Joo	161	-	-	-	-	161	152	-	-	-	-	152
Ng Hon Soon	190	-	-	-	-	190	194	-	-	-	-	194
Datuk Azizan bin Haji Abd Rahman	96		-	-	-	96	73	-	-	-	-	73
Lee Kok Keng, Andrew	153	-	-	-	-	153	151	-	-	-	-	151
Ismail bin Alowi	168	-	-	-	-	168	168	-	-	-	-	168
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	-	-	-	-	-	-	40	-	-	-	-	40
	1,682	393	15	209	262	2,561	1,675	408	11	208	272	2,574

^ Deferred shares and share options are awarded/granted under the OCBC Deferred Share Plan, OCBC Share Option Scheme 2001 and OCBC Employee Share Purchase Plan as disclosed in Note 17(b) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

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

(b) Remuneration awarded to senior management (including the CEO) and other Material Risk Takers are as follows:

	2019				2018			
	Unrestricted RM'000	**Deferred RM'000**	**Total RM'000**	**Number of officers**	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**
Fixed remuneration								
Cash based	2,696	-	2,696		3,483	-	3,483	
Others	19	-	19		67	-	67	
	2,715	-	2,715		3,550	-	3,550	
Variable remuneration								
Cash based	929	-	929	6	1,255	-	1,255	8
Shares and share options	-	262	262	1	-	446	446	2
	929	262	1,191		1,255	446	1,701	
Total	3,644	262	3,906		4,805	446	5,251	

There were no other Material Risk Takers other than from senior management. Other than the above, no senior management received or was awarded any guaranteed bonus, sign-on award or severance payment.

(c) Outstanding deferred remuneration

	2019 RM'000	**2018 RM'000**
Share and share options		
Exposed to ex-post explicit and implicit adjustments	885	1,436
Deferred remuneration paid out during the year	223	444
Reduction during the year due to:		
(i) Ex-post explicit adjustments (such as malus, clawbacks or similar reversals of downward revaluations of awards)	-	-
(ii) Ex-post implicit adjustments (such as fluctuations in the value of shares or performance of units)	366	308

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

30 INCOME TAX EXPENSE

	2019 RM'000	2018 RM'000
Malaysian income tax		
- Current year	37,518	37,726
- Prior years	985	(1,524)
	38,503	36,202
Deferred tax		
- Origination and reversal of temporary differences	(746)	(5,801)
- Prior years	(451)	(16)
	(1,197)	(5,817)
	37,306	30,385

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

	2019 %	2018 %
Malaysian tax rate at 24%	24.0	24.0
Tax effect of:		
Expenses not deductible for tax purposes	0.2	0.7
Income not subject to tax	(6.0)	(4.8)
Under/(Over) provision in prior years:		
- income tax	0.5	(1.0)
- deferred tax	(0.2)	-
Average effective tax rate	18.5	18.9

31 ZAKAT

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

32 BASIC EARNINGS PER ORDINARY SHARE

The basic earnings per ordinary share of the Bank was calculated based on the net profit attributable to the ordinary shareholder and the 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.

	2019	2018
Net profit for the year (RM'000)	164,474	128,963
Number of ordinary shares in issue ('000)	185,000	185,000
Basic earnings per share (sen)	88.90	69.71

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

33 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 by BNM for regulatory capital adequacy purposes.

	2019			2018		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	97,036	97,036	93,643	108,967	108,967	92,241
Transaction-related contingent items	374,020	190,518	130,795	392,465	198,492	144,226
Short-term self-liquidating trade-related contingencies	17,580	6,477	3,802	37,147	8,435	5,626
Foreign exchange related contracts						
- Less than one year	68,693	795	791	83,099	739	196
- One year to five years	80,175	10,974	4,008	-	-	-
Profit rate related contracts						
- Five years and above	360,000	40,683	30,416	360,000	34,754	23,033
Formal standby facilities and credit lines						
- Original maturity exceeding one year	422,525	334,720	267,231	991,141	756,472	799,448
Other unconditionally cancellable commitments	2,720,470	126,687	20,308	2,740,467	82,305	12,442
	4,140,499	807,890	550,994	4,713,286	1,190,164	1,077,212

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

34 CAPITAL COMMITMENTS

	2019 RM'000	2018 RM'000
Capital commitments in respect of property and equipment		
- Contracted but not provided for	47	104

35 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises and office equipments which are classified as operating leases. A summary of the non-cancellable long-term commitments as at 31 December 2018 was as follows:

	2018 RM'000
Up to one year	2,632
Over one to five years	2,039
	4,671

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

For the purpose 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; or
- where the Bank and the party are subject to common control or common significant influence.

Related parties may be individuals or other entities. Related parties 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 entities that provide key management personnel services to the Bank. The key management personnel include all Directors and 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 personnel and entities that are controlled or jointly controlled by them.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Significant transactions and outstanding balances with related parties

	2019				2018			
	Ultimate Holding Company RM'000	Immediate Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000	Ultimate Holding Company RM'000	Immediate Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000
Income								
Profit income on financing and advances	-	-	-	2	-	-	-	5
Profit income on derivatives	-	-	-	-	-	67	-	-
Shared service fees	112	7,068	-	-	74	8,815	-	-
Fee and commission income	7,702	320	2,324	-	4,558	910	892	-
	7,814	7,388	2,324	2	4,632	9,792	892	5
Impairement allowance and provisions								
Recovery from RPSIA holder (Note 24)	-	29,794	-	-	-	-	-	-
Expenditure								
Profit expense on term deposits	-	-	-	7	-	-	-	19
Profit expense on other deposits	-	-	10,676	-	-	-	10,067	-
Profit expense on derivatives	-	-	-	-	-	281	-	-
Profit expense on negotiable instruments of deposit	-	3,263	-	-	-	3,126	-	-
Profit expense on investment accounts (Note 26)	-	56,307	-	-	-	44,570	-	-
Profit expense on deposits and placements	1	20,817	-	-	1,360	16,164	-	-
Profit expense on subordinated sukuk	-	9,600	-	-	-	9,600	-	-
Profit expense on ROU asset	-	1	-	-	-	-	-	-
Shared service fees (Note 28)	-	112,486	-	-	-	107,552	-	-
Transaction processing fees (Note 28)	-	-	27,847	-	-	-	23,359	-
Rental expenses	-	51	-	-	-	55	-	-
Other expenses	180	8	696	-	-	156	1,047	-
	181	202,533	39,219	7	1,360	181,504	34,473	19

	2019			2018		
Intercompany charges from related parties	Malaysia RM'000	Singapore RM'000	Total RM'000	Malaysia RM'000	Singapore RM'000	Total RM'000
- Shared service fees	112,486	-	112,486	107,552	-	107,552
- IT and transaction processing fees	25,789	2,058	27,847	21,781	1,578	23,359
- Insurance expenses	696	-	696	747	-	747
- Management fee	-	-	-	454	-	454
- Rental	51	-	51	55	-	55
- Others	8	180	188	2	-	2
	139,030	2,238	141,268	130,591	1,578	132,169

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2019				2018			
	Ultimate Holding Company RM'000	Immediate Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000	Ultimate Holding Company RM'000	Immediate Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000
Amount due from								
Cash and cash equivalents	17,869	-	192	-	18,832	-	183	-
Financing and advances	-	-	-	3	-	-	-	34
Derivative financial assets	-	6	1	-	-	3	3	-
Other assets	309	31,328	3	-	869	36,161	-	-
Shared service fee receivable	-	671	-	-	-	689	-	-
	18,178	32,005	196	3	19,701	36,853	186	34
Amount due to								
Demand deposits and term deposits	-	-	73,364	226	-	-	72,775	153
Other deposits	-	-	203,210	254	-	-	796,210	235
Negotiable instruments of deposit	-	77,532	-	-	-	74,269	-	-
Investment accounts	-	1,986,054	-	-	-	1,322,168	-	-
Deposits and placements of banks and other financial institutions	-	720,495	-	-	-	989,929	-	-
Profit payable	-	4,704	28	4	-	8,578	863	2
Derivative financial liabilities	-	12,381	-	-	-	3,731	1	-
Other liabilities	249	837	245	-	99	10,028	-	-
Shared service fee payable	-	11,423	-	-	-	-	-	-
Subordinated sukuk (Note 18)	-	200,000	-	-	-	200,000	-	-
	249	3,013,426	276,847	484	99	2,608,703	869,849	390
Commitments								
Foreign exchange derivatives	-	70,365	739	-	-	63,109	2,055	-
Profit rate derivatives	-	180,000	-	-	-	180,000	-	-
	-	250,365	739	-	-	243,109	2,055	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Credit exposure arising from credit transactions with connected parties

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

	2019 RM'000	2018 RM'000
Aggregate value of outstanding credit exposure with connected parties^		
Credit facility and leasing (except guarantee)	103,555	101,519
Commitments and contingencies*	31,610	31,537
	135,165	133,056
Impaired or in default	-	-
Outstanding credit exposures to connected parties		
As a proportion of total credit exposures	1.02%	1.08%

^ Comprises total outstanding balances and unutilised limits.
* Commitments and contingencies transactions that give rise to credit and/or counterparty risk.

(c) Key management personnel remuneration is disclosed in Note 29 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

37 FINANCIAL INSTRUMENTS

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

(a) Fair value through profit or loss ("FVTPL");
(b) Amortised cost ("AC"); and
(c) Fair value through other comprehensive income ("FVOCI").

	2019				2018			
	FVTPL RM'000	AC RM'000	FVOCI RM'000	Carrying amount RM'000	FVTPL RM'000	AC RM'000	FVOCI RM'000	Carrying amount RM'000
Financial assets								
Cash and cash equivalents	-	958,140	-	958,140	-	959,600	-	959,600
Financial assets at FVTPL	16,330	-	-	16,330	9,980	-	-	9,980
Financial investment at FVOCI	-	-	4,206,452	4,206,452	-	-	4,290,701	4,290,701
Financing and advances	-	11,805,289	-	11,805,289	-	10,319,599	-	10,319,599
Derivative financial assets	12,289	-	-	12,289	2,218	-	-	2,218
Other assets	-	70,569	-	70,569	-	74,178	-	74,178
Statutory deposits with BNM	-	309,300	-	309,300	-	351,200	-	351,200
	28,619	13,143,298	4,206,452	17,378,369	12,198	11,704,577	4,290,701	16,007,476
Financial liabilities								
Deposits from customers	-	12,591,597	-	12,591,597	-	11,802,860	-	11,802,860
Investment accounts due to designated financial institution	-	1,986,054	-	1,986,054	-	1,322,168	-	1,322,168
Deposits and placements of banks and other financial institutions	-	763,189	-	763,189	-	1,073,057	-	1,073,057
Bills and acceptances payable	-	17,535	-	17,535	-	14,549	-	14,549
Derivative financial liabilities	12,442	-	-	12,442	3,789	-	-	3,789
Other liabilities*	-	167,079	-	167,079	-	147,473	-	147,473
Subordinated sukuk	-	200,000	-	200,000	-	200,000	-	200,000
	12,442	15,725,454	-	15,737,896	3,789	14,560,107	-	14,563,896

* Excludes lease liabilities

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

37 FINANCIAL INSTRUMENTS (continued)

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below set out carrying amounts of recognised financial assets and financial liabilities that are subject to International Swaps and Derivatives Association ("ISDA") and/or similar master netting arrangements but do not meet the criteria for offsetting in the statements of financial position. This is because the parties to the ISDA agreement provide the right of set-off of recognised amounts that is only enforceable in event of default, insolvency or bankruptcy of the 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 in 2015, provides assurance that the close-out netting mechanism for financial transactions is enforceable under the law.

The related financial instruments not offset pertain to financial assets and financial liabilities that are not presented net in the 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.

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Carrying amount in the statement of financial position RM'000**	**Financial instruments not in scope for offsetting disclosures RM'000**	**Gross recognised financial instruments in scope RM'000**	**Financial instruments RM'000**	**Cash collateral received/ pledged RM'000**	**Net amount in scope RM'000**
2019						
Derivative financial assets	12,289	392	11,897	-	-	11,897
Derivative financial liabilities	12,442	152	12,290	-	-	12,290
2018						
Derivative financial assets	2,218	2,218	-	-	-	-
Derivative financial liabilities	3,789	144	3,645	-	-	3,645

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-statement of financial position financial instruments. The fair value of a financial instrument is 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 9 which requires fair value information to be disclosed. These include property and equipment, tax recoverable and deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

For financial assets and liabilities not carried at fair value on the statement of financial position, the Bank has determined that their fair values are not materially different from the carrying amounts at the reporting date. The carrying amounts and fair values of financial instruments of the Bank are described below:

(A) 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.

(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 at FVTPL and financial investments at FVOCI

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 FVOCI 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 credit-impaired financing and advances, the fair values are carried at amortised cost net of ECL.

(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 sukuk

Fair value for the subordinated sukuk is determined using discounted cash flows based on its existing yield.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(A) Financial assets and financial liabilities (continued)

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 33 to the financial statements.

(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:

	Level 1	Level 2	Level 3
Fair value determined as	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.
Types of financial assets	Actively traded government and government agency securities.	Corporate and other governments sukuk.	Private debt equity instruments.
	Actively traded quoted equity securities of corporations.	Over-the counter ("OTC") derivatives.	Corporate sukuk with illiquid markets.
		Deposits and placements with banks and other financial institutions.	Financing and advances.
Types of financial liabilities	-	OTC derivatives.	-
		Deposits from customers.	
		Investment accounts due to designated financial institution.	
		Deposits and placements of banks and other financial institutions.	
		Subordinated sukuk.	

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

(i) Financial instruments carried at fair value

2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets at fair value				
Financial assets at FVTPL	-	16,330	-	16,330
Financial investments at FVOCI	2,261,060	1,945,392	-	4,206,452
Derivative financial assets	14	12,275	-	12,289
	2,261,074	1,973,997	-	4,235,071
Financial liabilities at fair value				
Derivative financial liabilities	91	12,351	-	12,442
2018				
Financial assets at fair value				
Financial assets at FVTPL	-	9,980	-	9,980
Financial investments at FVOCI	2,322,794	1,967,907	-	4,290,701
Derivative financial assets	21	2,197	-	2,218
	2,322,815	1,980,084	-	4,302,899
Financial liabilities at fair value				
Derivative financial liabilities	86	3,703	-	3,789

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

	2019 RM'000	2018 RM'000
Financial assets at fair value		
At 1 January	-	-
Transferred into Level 3	6	-
Settled/Disposed	(6)	-
At 31 December	-	-
Financial liabilities at fair value		
At 1 January	-	-
Transferred into Level 3	5	-
Settled/Disposed	(5)	-
At 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

(i) Financial instruments carried at fair value (continued)

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

There were no transfers between levels for both financial assets at FVTPL (2018: Nil) and financial investments at FVOCI in 2019 (2018: Nil).

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

Bank	2019 Fair value RM'000	2018 Fair value RM'000	Classification	Valuation technique	Unobservable input
Asset					
Derivative financial assets	-	-	Hedge for trading	Option pricing model	Standard deviation
Liability					
Derivative financial liabilities	-	-	Hedge for trading	Option pricing model	Standard deviation

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

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 and with the support from the ultimate holding company's Risk Management Division, is responsible for market data validation, assessment of model validation and ongoing performance monitoring.

The Group's Treasury Financial Control & Advisory – 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

(i) Financial instruments carried at fair value (continued)

Valuation control framework (continued)

Valuation related policies are reviewed annually by Group Finance Division. Any material change to the framework is recommended by Asset Liability Management Committee ("ALCO") for the approval of the Risk Management Committee. Group Internal Audit provide independent assurance on the respective divisions' compliance with the policies.

(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. It does not include those short term financial assets and financial liabilities where their fair values were not materially different from the carrying amounts.

	Level 2 RM'000	Level 3 RM'000	Total fair values RM'000	Carrying amount RM'000
2019				
Financial assets				
Financing and advances	-	11,805,206	11,805,206	11,805,289
Financial liabilities				
Deposits from customers	12,599,245	-	12,599,245	12,591,597
Investment accounts due to designated financial institution	1,986,054	-	1,986,054	1,986,054
Deposits and placements of banks and other financial institutions	763,189	-	763,189	763,189
Subordinated sukuk	211,854	-	211,854	200,000
	15,560,342	-	15,560,342	15,540,840
2018				
Financial assets				
Financing and advances	-	10,319,349	10,319,349	10,319,599
Financial liabilities				
Deposits from customers	11,818,692	-	11,818,692	11,802,860
Investment accounts due to designated financial institution	1,322,168	-	1,322,168	1,322,168
Deposits and placements of banks and other financial institutions	1,073,057	-	1,073,057	1,073,057
Subordinated sukuk	216,418	-	216,418	200,000
	14,430,335	-	14,430,335	14,398,085

39 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 ensures 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, and further supported by a robust and proactive risk management process. This is reinforced with competent risk management staff, on-going investments in risk infrastructure and systems, regular review and enhancement of risk management policies and procedures. Cultivating a strong risk culture and robust internal control environment throughout the Bank are also paramount to sound risk management. Accountability for managing risks is jointly owned among customer-facing and product business units, dedicated and independent functional risk management units, as well as other support units such as Operations and Technology. Group Audit also provides independent assurance that the Bank’s risk management system, control and governance processes are in compliance with internal rules and standards and are effective. Group Audit evaluates the overall risk awareness and control consciousness of the management in discharging its supervisory and oversight responsibilities through a Management Control Oversight Rating. This evaluation is done based on a collective view of awareness, aptitude and attitude factors. 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, the RMC and senior management for review and action.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Governance and Organisation (continued)

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.

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

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

The Bank performs an Internal Capital Adequacy Assessment Process ("ICAAP") assessment annually to ensure that 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 that 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 our financing activities. Trading and investment banking activities also expose the Bank to counterparty and issuer credit risks. For derivative transactions, the total credit exposure is quantified by the transaction's current positive mark-to-market value of the underlying instruments plus an appropriate add-on factor for potential future exposure.

Credit Risk Management Oversight and Organisation

The Group's Credit Risk Management Committee ("CRMC") is the senior management group that supports the RMC and Group CEO. It oversees the execution of the Group's Credit Risk Management ("CRM") framework and policies, including the effectiveness of our risk infrastructure, methodologies and systems in ensuring that credit risk taking is consistent with our risk appetite and aligned with the relevant business strategy. The CRMC also reviews the credit profile of material portfolios, recommends and monitors exposure undertaken against risk limits and highlights any material risk to the CEO and RMC.

The Group's CRM department ensures the execution of the CRM framework, policies and procedures. This department also independently manage credit risk to ensure that risk-returns are within our risk appetite, target markets, limits and risk standards. The Bank also has dedicated risk control functions that are responsible for portfolio risk monitoring, risk measurement methodology, risk reporting and remedial management.

Regular risk reports are provided to the CRMC, CEO, RMC and the Board in a timely, objective and transparent manner for review. These reports include detailed credit exposures, credit migration, expected losses, and risk concentrations by business segment. Regular stress tests and portfolio reviews are conducted to assess the potential impact of emerging risk on our credit exposures, including interactions among credit, market and liquidity events. The results of stress tests and portfolio reviews are factored into the adjustment and refinement of risk-taking strategies as well as credit and concentration limits to remain within our risk appetite.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Management Approach

The Bank's CRM framework encapsulates the complete cycle of credit risk management. It covers the identification, assessment, measurement, monitoring as well as the control and mitigation of credit risks. It also articulates the importance of proactive credit risk management.

The Bank seeks to undertake credit risks that meet its target market and risk acceptance criteria, lending parameters and risk-return expectations for sustainable performance. In addition to effective risk management practices, the sound judgement of our experienced credit officers is also key to our successful risk management.

The Bank has a Responsible Financing framework and policy in place that sets out its overall approach towards the management of Environmental, Social and Governance ("ESG") risks, including the integration of ESG considerations into its credit and risk evaluation process for our lending and capital market activities. The Bank has also developed sector-specific policies for Agriculture, Forestry, Energy, Mining and Metals that set out the criteria and thresholds for transactions involving these elevated ESG risk industries. Transactions with high ESG or reputational risk are escalated to the Reputational Risk Review Group for clearance.

Financing to Consumer and Small Businesses

Credit risks for the consumer and small businesses are managed on a portfolio basis under credit programmes such as mortgages, unsecured financing, commercial property financing and business term financing. Financing extended under these programmes should fall within the portfolio and transaction limits, customer selection criteria and acquisition strategy, product structure, financing criteria as well as acceptable collateral and advance ratio. Apart from bankruptcy and credit bureau checks, systems and processes such as source of identification of credit origination and independent verification of documentation are used to detect fraud. The performance of the portfolio is closely monitored on a monthly basis using management information system ("MIS") analytics. Application models are also used in the credit decision process for most products to enable efficient, objective and consistent risk evaluation and decisions. Behavioural models are used for early identification of potential problem financing.

Financing to Corporate and Institutional Customers

Financing extended to corporate and institutional customers are individually assessed, risk rated and further reviewed and evaluated by experienced credit officers. Credit decisions are made after comprehensive qualitative and quantitative risk assessment, including a thorough understanding of the customer and customer group's interdependencies, and their ability and willingness to meet their financial obligations. Financing extensions are guided by predefined target market and risk acceptance criteria. Collateral and other credit support are also taken into consideration to mitigate credit risk where appropriate. To ensure objectivity in credit extension, co-grantor approvals and shared risk ownership are required from both the business and credit risk units.

Credit Risk from Investment or Trading Activities

Counterparty credit risks arising from the Bank's trading, derivatives and debt securities activities are actively managed to protect against potential losses in replacing a contract if a counterparty fails to meet its obligations. If on a bilateral basis, in most cases, the transactions will be governed under International Swaps and Derivatives Association ("ISDA") agreements as well as Credit Support Annexes ("CSAs") or an equivalent to allow for close-out netting if the counterparty defaults.

Credit limits are established for each counterparty based on our assessment of the counterparty's creditworthiness, the suitability and appropriateness of the product offered and alignment with approved trading mandates and investment strategies. Credit exposures are independent managed through daily limit monitoring, excesses escalation and approval, and timely risk reporting.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Internal Credit Rating Models

Internal credit rating models are an integral part of the Bank’s credit risk management, credit 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, credit approval, portfolio monitoring and reporting, remedial management, stress testing, internal assessment of the capital adequacy and impairment allowances.

Model risk is managed under our Model Risk Management framework and Credit Rating Model framework, to govern the development, validation, application and performance monitoring of rating models. Approval for adoption and continued use of material models rests with the RMC. The models are developed with the active participation of credit experts from risk-taking and risk-control units and subject to independent validation before implementation to ensure that all aspects of the model development process have met internal standards.

The models are subject to annual review (or more frequent, where necessary) and independent validation to ensure that they are performing as expected and that the assumptions used in model development remain appropriate. In addition, Internal Audit conducts an annual independent review of the ratings assignment process, the effectiveness of the independent validation and the accuracy of the rating system operation. All rating models are assessed against internal and regulatory requirements and approved by regulators for use in capital assessment.

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

Advance Internal Ratings Based (A-IRB) for Major Consumer and Small Business Portfolios

The Group has adopted the A-IRB approach for major consumer portfolios, including residential mortgages and small business financing. Internal rating models, developed from internal data, are used to estimate PD, LGD, and EAD parameters for each of these portfolios. Application and Behaviour scores of obligors are key inputs to the PD models. Product and collateral characteristics are major factors used in the LGD and EAD models. The PD models are calibrated to the expected long-term average one-year default rate over an economic cycle, while the LGD models are calibrated to reflect the economic loss under downturn conditions. EAD models are also calibrated to reflect the long-run average or economic downturn conditions where necessary.

Foundation Internal Ratings Based (F-IRB) for Major Wholesale Portfolios

The Bank’s major wholesale portfolios, namely bank, non-bank financial institution, corporate real estate (including income-producing real estate specialised financing) and general corporate are on the F-IRB approach. Under this approach, internal models are used to estimate the PD for each obligor, while LGD and EAD parameters are prescribed by BNM. These PD models are statistically-based or expert judgement models that use both quantitative and qualitative factors to assess an obligor’s repayment capacity and are calibrated to expected long-term average one-year default rate over an economic cycle. Expert judgement models are typically used for portfolios with low defaults following inputs from internal credit experts. The models also comply with the regulatory criteria for parameterisation. For other specialised financing portfolios namely project finance, object finance and commodities finance, risk grades derived from internal models are mapped to the five supervisory slotting categories as prescribed in BNM's Capital Adequacy Framework for Islamic Banks. The risk weights prescribed for these slotting categories are used to determine the regulatory capital requirements.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Standardised Approach for Other Portfolios

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

Credit Risk Control

Credit Risk Mitigation

Credit facility is granted primarily based on the borrower's credit quality and repayment capacity from operating cashflows for corporates and institutions, and personal income or wealth (after assessing the total debts and commitment) for individuals. Where possible, the Bank takes credit risk mitigants as a secondary recourse to mitigate credit risk. The Bank accepts collateral and credit protection such as cash, real estate, marketable securities, trade receivables, standby letters of credit and credit insurances. The Bank has policies in place to set out the criteria for collateral to be recognised as eligible credit risk mitigants. This includes factors such as legal certainty and enforceability, priority, correlation, marketability, liquidity, counterparty risk of the protection provider, as well as collateral-specific minimum operational requirements. Valuations are performed by independent qualified appraisers and the value of collaterals are monitored on a regular basis. The frequency of valuation depends on the type, liquidity and volatility of the collateral. Appropriate haircuts are applied to the market value of collaterals to reflect the underlying nature, quality, liquidity and volatility of the collateral. The Bank also accepts guarantees from individuals, corporates, and institutions mainly as a form of support. Where guarantees are recognised as credit risk mitigants via the PD substitution approach, eligibility criteria and guidelines are in place.

To manage counterparty credit risk, eligible financial collaterals may be taken to partially or fully cover mark-to-market exposures on outstanding positions, with a haircut to cover potential adverse market volatility. Collateral agreements, typically covered under market standard documentation such as ISDA, include a minimum threshold amount where additional collateral is to be posted by either party if the mark-to-market exposures exceed an agreed threshold. The credit risk associated with contractual obligations is reduced by the netting agreements in legally-approved jurisdictions, so that if an event of default occurs, all amounts with the counterparty are settled on a net basis. Agreements may also contain rating triggers where additional collateral posting is required in the event of a rating downgrade.

Managing Credit Risk Concentration

Credit risk concentrations may arise from financing to single customer, a group of connected customers, or diverse groups of customers being affected by similar economic or market conditions. Where appropriate, limits are set and monitored to control concentrations by customer, group of connected customers, product and industry. These limits are aligned with the Bank's risk appetite, business strategy, capacity and expertise. Impact on earnings and capital are also considered in limit-setting.

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

The Bank is in compliance with BNM's Guidelines on Lending to Broad Property Sector ("BPS") and Lending for the Purchase of Shares and Unit Trust Funds, which limit BPS financing and advances exposure, and shares and unit trust exposure to not more than 20% of the total outstanding financing and advances each.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Remedial Management

The Bank has an established process to constantly assess the portfolios to detect potential problem credits at an early stage. As the Bank value customer relationships, the Bank understands that some customers may be facing temporary financial distress and prefer to work closely with them at the onset of their difficulties. The Bank recognises the opportunity to promote customer loyalty and retention in such instances, even as we enforce strict discipline and place a priority on remedial management to minimise credit loss.

The Bank classifies its financing and advances accordingly to the customers' ability to pay their financial obligations from their normal sources of income. Non credit-impaired exposures are categorised as “Pass” or “Special Mention”, while credit-impaired financing (“IF”) are categorised as “Substandard”, “Doubtful” or “Loss” in accordance with BNM's policy document on Financial Reporting for Islamic Banking Institutions and BNM's policy document on Credit Risk. Upgrading of IF to performing financing status can only be done when there is established trend of credit improvement. The upgrade needs to be supported by an assessment of the borrower's repayment capability, cash flows and financial position.

Credit exposures are classified as restructured assets when the Bank has granted concessions or restructured repayment terms to customers who are facing difficulties in meeting the original payment schedules. A restructured credit exposure is classified into the appropriate impaired financing grades based on the assessment of the customers' financial condition and ability to repay under the restructured terms. Such a credit exposure must comply fully with the restructured terms before it can be restored to performing financing status in accordance with BNM's policy document on Financial Reporting for Islamic Banking Institutions and BNM's policy document on Credit Risk.

The Bank has dedicated remedial management units to manage the restructuring, work-out and recovery of impaired wholesale portfolios. For the retail portfolios, appropriate risk-based and time-based collection strategies are developed to maximise recoveries. The Bank also uses analytical data such as delinquency buckets and adverse status tags for delinquent retail financing to constantly fine-tune and prioritise its collection efforts.

ECL for Financing and Advances

The Bank maintains ECL allowances that are sufficient to absorb credit losses inherent in its advances and financing portfolio. The Bank shall recognise loss allowance for ECL on credit exposures for both credit-impaired and non credit-impaired in accordance to MFRS 9 and BNM's policy document on Financial Reporting for Islamic Banking Institutions. In principle, ECL should take into account all reasonable and supportable information including historical experience, current and forward looking conditions.

For credit-impaired portfolio, Stage 3 ECL is assessed individually based on a reasonable and well documented estimate of the net present value of the future cash flows that the Bank determines to be recoverable from the borrower. Credit-impaired financing and advances are written off against Stage 3 ECL after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

For non credit-impaired portfolio, the Stage 1 and Stage 2 ECL are assessed and measured based on 12-month ECL if the credit risk of a credit exposure has not increased significantly since initial recognition and lifetime ECL where there is significant increase in credit risk respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

39 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, client servicing 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 ALCO is the senior management group that supports the RMC and the CEO in managing market risk. The ALCO establishes the market risk management objectives, framework, and policies governing prudent market risk taking, which are backed by risk methodologies, measurement systems, and internal controls.

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

Market Risk Management Approach

Market risk management is a shared responsibility. Business units are responsible for proactively managing risk within their approved trading strategies and investment mandates, whilst MRM acts as the independent monitoring unit to ensure sound governance. The 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 ("PV01"), Credit Sensitivity of a Basis Point ("CS01"), FX Basis Sensitivity of a Basis Point ("FXBasis01"), FX Net Open Position ("FX NOP") and derivative greeks.

The Bank also performs stress testing and scenario analysis 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 2019 (continued)

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

Risk Monitoring and Control (continued)

Model validation is also an integral part of the Bank's risk control process. Models are used to price financial instruments and to measure risk. The models used are verified and assessed to ensure that they are fit for their intended purpose. Market data used for risk measurements and valuation are sourced independently.

To ensure the continued integrity of the VAR computation, back-testing is conducted to confirm the consistency of actual daily trading profit or loss ("P&L") and theoretical P&L against VAR'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

The 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 the Group's CEO and includes senior management from the business, risk and support units.

The ALCO is supported by the Corporate Treasury Department with 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 management.

Liquidity Risk

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

The 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset Liability Management (continued)

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, 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 finance 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.

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's operational risk management 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 Management Committee (“ORC”) is the senior management group that oversees the execution of the Bank’s operational risk management, information security and technology risk practices. ORC ensures that the 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.

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

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Operational Risk Management Approach (continued)

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

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

Operational Risk Scenario Analysis

The Bank performs impact analysis on severe operational risk scenarios for the purpose of assessing the adequacy of operational risk capital requirements. The analysis forms part of the annual Group ICAAP.

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 ORC in managing the Bank's outsourcing risk.

Physical and People Security Risk Management

The Bank recognises that its personnel and assets may be exposed to external threats. To address this ever changing threat landscape, the Bank has a programme to ensure that physical and security risks to people and assets are adequately addressed.

Business Continuity Risk Management

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

Fraud Risk Management

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

Reputational Risk Management

Reputational risk is the current or prospective risk to earnings and capital arising from adverse perception of the 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 our different stakeholders, and protecting our reputation. A key emphasis of the programme is effective information sharing and engagement with stakeholders.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

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, monitoring and mitigation of fiduciary risk exposures to ensure the Bank's compliance with applicable corporate standards.

Legal and Regulatory Risk Management

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

Technology, Information and Cyber Risk Management

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

The Bank raises staff vigilance on cyber and information risk through regular awareness advisories, trainings and campaigns that included the use of simulated phishing emails. The Bank collaborates with industry participants and government agencies to share intelligence and counter measures against new forms of cyber attacks.

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, the Management and the Shariah Committee of the Bank in discharging their respective duties in matters relating to Shariah; and

(iii) Outlines the control functions relating to Shariah Review, Shariah Audit, Shariah Advisory and Secretariat, and Shariah 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.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Shariah Governance (continued)

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 BNM's Shariah Advisory Council, Securities Commission's SAC and the Bank's Shariah Committee.

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

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.

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

(i) *Risk Identification* – Identification of the potential Shariah non-compliance events.

(ii) *Risk Assessment/Measurement* – Assessment and measurement of the impact of the potential Shariah Non-Compliance Event. The process takes into account the existing controls that have been put in place and their effectiveness in mitigating the Shariah Non-Compliance Risk.

(iii) *Mitigation/Control/Awareness* – Shariah Non-Compliance Risk are mitigated by implementing and putting in place appropriate control measures, such as policies, guidelines and procedures on Shariah requirements. 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.

(iv) *Monitoring & Reporting* – Establishing early warning, monitoring and reporting mechanism on Shariah Non-Compliance Risk exposures.

All potential Shariah Non-Compliant Events ("SNCEs") are initially assessed by the Qualified Shariah Officer and submitted to the Bank’s Shariah Committee for confirmation and decision in order to determine the status of the events and potential Shariah non-compliant income. All potential and actual SNCEs upon confirmation by Shariah Committee are to be reported to BNM within the required timeframe set by BNM.

Shariah non-compliant income are channelled to charitable organisations as determined by the Bank's Shariah Committee. Details of the income and uses of charity funds are as follows:

	2019 RM'000	2018 RM'000
Sources and Uses of charity funds		
At 1 January	-	3
Uses of charity funds		
Contribution to non-profit organisations	-	(3)
At 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

40 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.

	Note	2019 RM'000	2018 RM'000
Cash and cash equivalents *	*3*	958,141	959,600
Financial assets at FVTPL	*4*	16,330	9,980
Financial investments at FVOCI	*5*	4,206,452	4,290,701
Financing and advances *	*6*	12,027,637	10,555,919
Derivative financial assets	*8*	12,289	2,218
Other assets	*9*	70,569	74,178
Contingent liabilities and credit commitments		3,631,631	4,270,187
		20,923,049	20,162,783

* Stated at gross before ECL allowance

Credit quality analysis

(i) By credit rating/internal grading and ECL stage

	2019				2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and cash equivalents	958,141	-	-	958,141	959,600	-	-	959,600
Financial assets at FVTPL*								
Investment grade (AAA)	-	-	-	10,203	-	-	-	9,980
Unrated	-	-	-	6,127	-	-	-	-
	-	-	-	16,330	-	-	-	9,980

* ECL stage is not applicable for financial assets at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

40 CREDIT RISK (continued)

Credit quality analysis (continued)

(i) By credit rating/internal grading and ECL stage (continued)

	2019				2018			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Financial investments at FVOCI								
Government (AAA to A)	419,809	-	-	419,809	763,272	-	-	763,272
Government and Central Bank (unrated)	1,936,097	-	-	1,936,097	1,804,095	-	-	1,804,095
Foreign government (AAA to BBB)	24,887	-	-	24,887	149,244	-	-	149,244
Foreign government (unrated)	-	-	-	-	21,108	-	-	21,108
Investment grade (AAA to BBB)	133,484	-	-	133,484	145,844	30,006	-	175,850
Unrated	1,692,175	-	-	1,692,175	1,377,132	-	-	1,377,132
	4,206,452	-	-	4,206,452	4,260,695	30,006	-	4,290,701
Contingent liabilities and credit commitments (excluding derivative financial assets)								
Pass	3,132,775	345,029	-	3,477,804	4,006,461	253,176	-	4,259,637
Special mention	-	118,778	-	118,778	-	210	-	210
Credit-impaired	-	-	35,049	35,049	-	-	10,340	10,340
	3,132,775	463,807	35,049	3,631,631	4,006,461	253,386	10,340	4,270,187

40 CREDIT RISK (continued)

Credit quality analysis (continued)

(i) By credit rating/internal grading and ECL stage (continued)

Financing and advances

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 not credit-impaired whereas Substandard, Doubtful and Loss are credit-impaired.

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

Credit quality and ECL stages

	2019				2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Neither past due nor credit-impaired								
(i) By internal grading								
Pass	10,652,163	686,968	-	11,339,131	9,444,398	619,330	-	10,063,728
Special mention	-	267,026	-	267,026	-	9,629	-	9,629
	10,652,163	953,994	-	11,606,157	9,444,398	628,959	-	10,073,357
Past due but not credit-impaired								
(ii) By period overdue								
Less than 2 months	-	62,619	-	62,619	-	80,399	-	80,399
2 months to less than 3 months	-	13,169	-	13,169	-	27,063	-	27,063
	-	75,788	-	75,788	-	107,462	-	107,462
Credit-impaired								
Past due	-	-	296,812	296,812	-	-	272,990	272,990
Not past due	-	-	48,880	48,880	-	-	102,110	102,110
	-	-	345,692	345,692	-	-	375,100	375,100
Total	10,652,163	1,029,782	345,692	12,027,637	9,444,398	736,421	375,100	10,555,919

The past due but not credit-impaired financing are classified as part of Special Mention.
The analysis of impaired financing and advances is detailed in Note 7(a) to the financial statements.

40 CREDIT RISK (continued)

Credit quality analysis (continued)

(i) By credit rating/internal grading and ECL stage (continued)

Financing and advances (continued)

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 2019 and 31 December 2018, 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) The 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 credit-impaired financing is as follows:

	2019 RM'000	**2018 RM'000**
Fair value of collateral held against the covered portion of credit-impaired financing and advances	226,634	230,531
Covered portion of credit-impaired financing and advances	150,114	178,920
Uncovered portion of credit-impaired financing and advances	195,578	196,180
	345,692	375,100

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

40 CREDIT RISK (continued)

Credit quality analysis (continued)

	2019					2018				
	Financial assets at FVTPL RM'000	**Financial investments at FVOCI RM'000**	**Financing and advances* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments** RM'000**	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Financing and advances* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments** RM'000**
(ii) By issuer/counterparty										
Government and Central Bank	-	2,355,906	-	-	-	-	2,567,367	-	-	-
Foreign government	-	24,887	-	-	-	-	170,352	-	-	-
Public sector	-	317,299	-	-	-	-	230,234	-	-	-
Banking institutions	-	1,374,877	-	11,350	139,179	-	1,146,898	-	2,139	91,040
Non-bank financial institutions	-	60,842	-	3	1,583	-	85,286	-	11	2,841
Business enterprises	16,330	72,641	23,151	936	3,388,186	9,980	90,564	52,909	68	4,093,407
Individuals	-	-	52,637	-	102,683	-	-	54,553	-	82,899
	16,330	4,206,452	75,788	12,289	3,631,631	9,980	4,290,701	107,462	2,218	4,270,187
(iii) By geographical distribution										
Malaysia	10,203	4,181,565	72,651	12,288	3,573,696	9,980	4,120,349	107,462	2,215	4,129,518
Other ASEAN countries	6,127	24,887	3,122	1	29,722	-	65,372	-	3	11,205
Rest of the world	-	-	15	-	28,213	-	104,980	-	-	129,464
	16,330	4,206,452	75,788	12,289	3,631,631	9,980	4,290,701	107,462	2,218	4,270,187

* Past due but not credit-impaired. The analysis of financing and advances by geographical distribution is detailed in Note 6(v) to the financial statements.

** Excluding derivative financial assets.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

40 CREDIT RISK (continued)

Credit quality analysis (continued)

	2019					2018				
	Financial assets at FVTPL RM'000	Financial investments at FVOCI RM'000	Financing and advances* RM'000	Derivative financial assets RM'000	Contingent liabilities and credit commitments** RM'000	Financial assets at FVTPL RM'000	Financial investments at FVOCI RM'000	Financing and advances* RM'000	Derivative financial assets RM'000	Contingent liabilities and credit commitments** RM'000
(iv) By sector										
Agriculture, hunting, forestry and fishing	-	31,045	149	-	91,300	-	29,892	294	-	126,058
Mining and quarrying	-	-	248	-	126,517	-	-	-	-	133,825
Manufacturing	-	-	5,682	555	836,278	-	-	12,787	25	1,067,892
Electricity, gas and water	-	97,497	-	-	4,855	-	85,893	-	-	14,170
Construction	-	-	1,274	-	950,216	-	-	1,419	-	1,162,346
Real estate	-	-	3,341	-	369,674	-	-	4,027	-	220,151
Wholesale & retail trade and restaurants & hotels	-	-	7,620	378	364,997	-	-	20,361	22	297,197
Transport, storage and communication	-	45,536	1,872	2	152,416	-	155,030	7,934	10	124,671
Finance, insurance and business service	-	1,435,719	2,262	11,353	615,810	-	1,232,184	5,380	2,161	878,643
Community, social and personal services	-	-	703	1	14,623	-	-	708	-	159,379
Household										
- Purchase of residential properties	-	-	39,661	-	98,424	-	-	30,208	-	79,312
- Others	-	-	12,976	-	4,259	-	-	24,344	-	3,587
Others	16,330	2,596,655	-	-	2,262	9,980	2,787,702	-	-	2,956
	16,330	4,206,452	75,788	12,289	3,631,631	9,980	4,290,701	107,462	2,218	4,270,187
(v) By residual contractual maturity										
Up to one year	6,127	2,147,683	6,660	392	2,709,777	-	2,095,162	11,633	-	2,764,553
Over one year to five years	10,203	1,862,419	12,636	552	431,873	4,983	1,937,118	17,520	82	793,256
Over five years	-	196,350	56,492	11,345	489,981	4,997	258,421	78,309	2,136	712,378
	16,330	4,206,452	75,788	12,289	3,631,631	9,980	4,290,701	107,462	2,218	4,270,187

* Past due but not credit-impaired. The analysis of financing and advances by sector and residual contractual maturity are detailed in Note 6(iv) and Note 6(vi) to the financial statements respectively.

** Excluding derivative financial assets.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

41 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.

	Gross 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
2019								
Cash and cash equivalents	958,140	958,140	-	-	-	-	-	-
Financial assets at FVTPL	16,330	-	-	6,127	5,060	5,143	-	-
Financial investments at FVOCI	4,206,452	1,300,812	439,615	407,256	1,028,568	833,851	196,350	-
Financing and advances *	12,027,637	5,312,161	594,089	619,601	1,508,341	652,103	3,341,342	-
Derivative financial assets	12,289	388	4	-	-	552	11,345	-
Statutory deposits with Bank Negara Malaysia	309,300	-	-	-	-	-	-	309,300
Other balances	89,319	39,476	2,936	11,794	13,537	9,130	1,836	10,610
Total assets	17,619,467	7,610,977	1,036,644	1,044,778	2,555,506	1,500,779	3,550,873	319,910
Deposits from customers	12,591,597	9,242,633	1,770,654	1,565,368	12,942	-	-	-
Investment accounts due to designated financial institution **	2,018,823	1,960,296	-	-	-	-	58,527	-
Deposits and placements of banks and other financial institutions	763,189	758,755	474	723	2,772	465	-	-
Bills and acceptances payable	17,535	17,535	-	-	-	-	-	-
Derivative financial liabilities	12,442	152	-	-	-	556	11,734	-
Other balances	167,129	102,701	33,802	10,781	361	-	-	19,484
Lease liabilities	3,047	566	535	779	1,068	99	-	-
Subordinated sukuk	200,000	-	-	-	200,000	-	-	-
Total liabilities	15,773,762	12,082,638	1,805,465	1,577,651	217,143	1,120	70,261	19,484

* Stated at gross before ECL allowance.
** Stated at gross before amount receivable from immediate holding company.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

41 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
2018								
Cash and cash equivalents	959,600	959,600	-	-	-	-	-	-
Financial assets at FVTPL	9,980	-	-	-	-	4,983	4,997	-
Financial investments at FVOCI	4,290,701	1,246,954	325,245	522,963	1,328,405	608,713	258,421	-
Financing and advances*	10,555,919	4,243,233	648,279	506,001	1,300,974	579,226	3,278,206	-
Derivative financial assets	2,218	72	10	-	-	-	2,136	-
Statutory deposits with Bank Negara Malaysia	351,200	-	-	-	-	-	-	351,200
Other balances	101,228	40,993	2,115	15,420	14,094	6,705	3,939	17,962
Total assets	16,270,846	6,490,852	975,649	1,044,384	2,643,473	1,199,627	3,547,699	369,162
Deposits from customers	11,802,860	8,862,521	909,240	1,939,961	91,128	10	-	-
Investment accounts due to designated financial institution **	1,379,286	1,263,316	-	-	-	-	115,970	-
Deposits and placements of banks and other financial institutions	1,073,057	1,066,606	495	999	3,092	1,865	-	-
Bills and acceptances payable	14,549	14,549	-	-	-	-	-	-
Derivative financial liabilities	3,789	1,435	-	-	-	-	2,354	-
Other balances	147,523	88,926	26,250	13,905	5,940	-	979	11,523
Subordinated sukuk	200,000	-	-	-	200,000	-	-	-
Total liabilities	14,621,064	11,297,353	935,985	1,954,865	300,160	1,875	119,303	11,523

* Stated at gross before ECL allowance.

** Stated at gross before amount receivable from immediate holding company.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

41 LIQUIDITY RISK (continued)

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

2019	Gross 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
Non-derivative financial liabilities								
Deposits from customers	12,591,597	9,242,633	1,770,654	1,565,368	12,942	-	-	12,591,597
Investment accounts due to designated financial institution **	2,018,823	1,960,296	-	-	-	-	58,527	2,018,823
Deposits and placements of banks and other financial institutions	763,189	758,755	474	723	2,772	465	-	763,189
Bills and acceptances payable	17,535	17,535	-	-	-	-	-	17,535
Other liabilities	167,079	121,958	57,895	54,614	19,085	-	-	253,552
Lease liabilities	3,047	586	550	807	1,106	100	-	3,149
Subordinated sukuk	200,000	-	-	-	200,000	-	-	200,000
	15,761,270	12,101,763	1,829,573	1,621,512	235,905	565	58,527	15,847,845
Commitments and contingencies								
Direct credit substitutes		10,000	11,181	66,029	9,608	218	-	97,036
Transaction-related contingent items		34,367	16,125	48,542	101,749	171,266	1,971	374,020
Short-term self-liquidating trade-related contingencies		17,580	-	-	-	-	-	17,580
Formal standby facilities and credit lines		4,690	332	325	5,431	143,600	268,147	422,525
Other unconditionally cancellable commitments		-	-	2,500,607	-	-	219,863	2,720,470
		66,637	27,638	2,615,503	116,788	315,084	489,981	3,631,631
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Profit rate derivatives		-	-	-	-	-	11,734	11,734
Gross settled derivatives								
Trading:								
Foreign exchange derivatives								
- Forward and swap								
- Outflow		36,624	-	-	-	-	40,000	76,624
- Inflow		(36,465)	-	-	-	-	(40,175)	(76,640)
		159	-	-	-	-	11,559	11,718

** Stated at gross before amount receivable from immediate holding company.

41 LIQUIDITY RISK (continued)

2018	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
Non-derivative financial liabilities								
Deposits from customers	11,802,860	8,862,521	909,240	1,939,961	91,128	10	-	11,802,860
Investment accounts due to designated financial institution **	1,379,286	1,263,316	-	-	-	-	115,970	1,379,286
Deposits and placements of banks and other financial institutions	1,073,057	1,066,606	495	999	3,092	1,865	-	1,073,057
Bills and acceptances payable	14,549	14,549	-	-	-	-	-	14,549
Other liabilities	147,473	112,219	41,794	80,648	31,561	2	979	267,203
Subordinated sukuk	200,000	-	-	-	200,000	-	-	200,000
	14,617,225	11,319,211	951,529	2,021,608	325,781	1,877	116,949	14,736,955
Commitments and contingencies								
Direct credit substitutes		23,147	379	10,000	75,441	-	-	108,967
Transaction-related contingent items		19,600	24,890	36,847	97,326	201,635	12,167	392,465
Short-term self-liquidating trade-related contingencies		34,754	2,393	-	-	-	-	37,147
Formal standby facilities and credit lines		7,383	208	1,330	25,450	393,404	563,366	991,141
Other unconditionally cancellable commitments		-	-	2,603,622	-	-	136,845	2,740,467
		84,884	27,870	2,651,799	198,217	595,039	712,378	4,270,187
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Profit rate derivatives		-	-	-	-	-	2,354	2,354
Trading:								
Foreign exchange derivatives								
- Forward and swap								
- Outflow		30,578	34,388	4,191	-	-	-	69,157
- Inflow		(30,490)	(33,037)	(4,138)	-	-	-	(67,665)
		88	1,351	53	-	-	2,354	3,846

** Stated at gross before amount receivable from immediate holding company.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

42 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.

	Non Trading Book							
2019	**Up to 3 months RM'000**	**>3-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**
Assets								
Cash and cash equivalents	842,000	-	-	-	-	116,140	-	958,140
Financial assets at FVTPL	-	-	-	-	-	-	16,330	16,330
Financial investments at FVOCI	1,300,812	846,871	1,028,568	833,851	196,350	-	-	4,206,452
Financing and advances								
- Non credit-impaired	10,436,428	154,980	330,241	590,765	136,455	(80,064)	-	11,568,805
- Credit-impaired	-	-	-	-	-	236,484	-	236,484
Derivative financial assets	-	-	-	-	-	-	12,289	12,289
Other assets	-	-	-	-	-	70,569	-	70,569
Tax recoverable	-	-	-	-	-	5,726	-	5,726
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	309,300	-	309,300
Property and equipment	-	-	-	-	-	7,421	-	7,421
ROU assets	-	-	-	-	-	3,017	-	3,017
Deferred tax assets	-	-	-	-	-	2,586	-	2,586
	12,579,240	1,001,851	1,358,809	1,424,616	332,805	671,179	28,619	17,397,119
Liabilities								
Deposits from customers	5,828,629	3,336,022	3,044,836	-	-	382,110	-	12,591,597
Investment accounts due to designated financial institution	1,960,297	-	-	-	-	25,757	-	1,986,054
Deposits and placements of banks and other financial institutions	720,495	-	-	-	-	42,694	-	763,189
Bills and acceptances payable	-	-	-	-	-	17,535	-	17,535
Derivative financial liabilities	-	-	-	-	-	-	12,442	12,442
Other liabilities	-	-	-	-	-	170,126	-	170,126
Tax payable and zakat	-	-	-	-	-	50	-	50
Subordinated sukuk	-	-	200,000	-	-	-	-	200,000
	8,509,421	3,336,022	3,244,836	-	-	638,272	12,442	15,740,993
On-statement of financial position profit sensitivity gap	4,069,819	(2,334,171)	(1,886,027)	1,424,616	332,805	32,907	16,177	1,656,126
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	4,069,819	(2,334,171)	(1,886,027)	1,424,616	332,805	32,907	16,177	1,656,126

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

42 PROFIT RATE RISK (continued)

2018	*Non Trading Book* Up to 3 months RM'000	>3-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading Book RM'000	Total RM'000
Assets								
Cash and cash equivalents	899,700	-	-	-	-	59,900	-	959,600
Financial assets at FVTPL	-	-	-	-	-	-	9,980	9,980
Financial investments at FVOCI	1,246,954	848,208	1,328,405	608,713	258,421	-	-	4,290,701
Financing and advances								
- Non credit-impaired	8,563,486	424,217	435,312	347,264	374,446	(80,028)	-	10,064,697
- Credit-impaired	-	-	-	-	-	254,902	-	254,902
Derivative financial assets	-	-	-	-	-	-	2,218	2,218
Other assets	-	-	-	-	-	74,178	-	74,178
Tax recoverable	-	-	-	-	-	9,088	-	9,088
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	351,200	-	351,200
Property and equipment	-	-	-	-	-	9,884	-	9,884
Deferred tax assets	-	-	-	-	-	8,078	-	8,078
	10,710,140	1,272,425	1,763,717	955,977	632,867	687,202	12,198	16,034,526
Liabilities								
Deposits from customers	5,735,502	2,849,193	2,820,758	10	-	397,397	-	11,802,860
Investment accounts due to designated financial institution	1,263,316	-	-	-	-	58,852	-	1,322,168
Deposits and placements of banks and other financial institutions	989,929	-	-	-	-	83,128	-	1,073,057
Bills and acceptances payable	-	-	-	-	-	14,549	-	14,549
Derivative financial liabilities	-	-	-	-	-	-	3,789	3,789
Other liabilities	-	-	-	-	-	147,473	-	147,473
Tax payable and zakat	-	-	-	-	-	50	-	50
Subordinated sukuk	-	-	200,000	-	-	-	-	200,000
	7,988,747	2,849,193	3,020,758	10	-	701,449	3,789	14,563,946
On-statement of financial position profit sensitivity gap	2,721,393	(1,576,768)	(1,257,041)	955,967	632,867	(14,247)	8,409	1,470,580
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	2,721,393	(1,576,768)	(1,257,041)	955,967	632,867	(14,247)	8,409	1,470,580

The below table sets out the impact on net finance income simulated based on a 50bps parallel shift in profit rates at reporting date, for a period of 12 months:

	2019 RM'000	2018 RM'000
+ 50bps	21,392	18,259
- 50bps	(20,082)	(18,043)

The 50 bps shock on 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 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 2019 (continued)

43 CURRENCY RISK

2019	**MYR RM'000**	**GBP RM'000**	**USD RM'000**	**SGD RM'000**	**Others RM'000**		**Total RM'000**
Financial assets							
Cash and cash equivalents	898,474	933	35,113	17,308	6,312		958,140
Financial assets at FVTPL	10,203	-	-	6,127	-		16,330
Financial investments at FVOCI	4,156,106	-	50,346	-	-		4,206,452
Financing and advances	10,042,146	-	1,763,143	-	-		11,805,289
Derivative financial assets	12,289	-	-	-	-		12,289
Other assets	53,090	-	16,549	1,279	(349)	*	70,569
Statutory deposits with BNM	309,300	-	-	-	-		309,300
	15,481,608	933	1,865,151	24,714	5,963		17,378,369
Financial liabilities							
Deposits from customers	12,362,817	732	203,475	20,719	3,854		12,591,597
Investment accounts due to designated financial institution	1,035,757	-	950,297	-	-		1,986,054
Deposits and placements of banks and other financial institutions	42,694	-	699,988	19,754	753		763,189
Bills and acceptances payable	17,535	-	-	-	-		17,535
Derivative financial liabilities	12,442	-	-	-	-		12,442
Other liabilities	165,707	208	2,620	911	680		170,126
Subordinated sukuk	200,000	-	-	-	-		200,000
	13,836,952	940	1,856,380	41,384	5,287		15,740,943
Net financial assets/(liabilities) exposure	1,644,656	(7)	8,771	(16,670)	676		1,637,426

***** 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 2019 (continued)

43 CURRENCY RISK (continued)

2018	**MYR RM'000**	**GBP RM'000**	**USD RM'000**	**SGD RM'000**	**Others RM'000**	**Total RM'000**
Financial assets						
Cash and cash equivalents	937,438	652	-	18,260	3,250	959,600
Financial assets at FVTPL	9,980	-	-	-	-	9,980
Financial investments at FVOCI	4,094,646	21,108	174,947	-	-	4,290,701
Financing and advances	8,682,215	-	1,637,384	-	-	10,319,599
Derivative financial assets	2,218	-	-	-	-	2,218
Other assets	70,735	189	3,254	-	-	74,178
Statutory deposits with Bank Negara Malaysia	351,200	-	-	-	-	351,200
	14,148,432	21,949	1,815,585	18,260	3,250	16,007,476
Financial liabilities						
Deposits from customers	11,597,388	839	194,881	9,752	-	11,802,860
Investment accounts due to designated financial institution	311,352	-	1,010,816	-	-	1,322,168
Deposits and placements of banks and other financial institutions	370,930	52,505	628,791	19,708	1,123	1,073,057
Bills and acceptances payable	14,549	-	-	-	-	14,549
Derivative financial liabilities	3,789	-	-	-	-	3,789
Other liabilities	138,629	58	7,636	842	308	147,473
Subordinated sukuk	200,000	-	-	-	-	200,000
	12,636,637	53,402	1,842,124	30,302	1,431	14,563,896
Net financial assets/(liabilities) exposure	1,511,795	(31,453)	(26,539)	(12,042)	1,819	1,443,580

Value-at-Risk ("VaR")

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

	2019 RM'000	**2018 RM'000**
VaR By Risk Type		
- Profit rate risk	3	3
- Foreign exchange risk	7	8
- Total	7	8

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 CAPITAL ADEQUACY

Capital Management

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

Capital Adequacy Ratios

The Bank is in compliance with BNM's Capital Adequacy Framework for Islamic Banks which requires banks to meet minimum Common Equity Tier 1, Tier 1 and Total Capital Adequacy Ratio ("CAR") of 7.0%, 8.5% and 10.5% respectively (inclusive of Capital Conservation Buffer of 2.5%) from 1 January 2019.

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

The table below shows the composition of the regulatory capital and capital adequacy ratios based on BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). The Bank's total risk-weighted assets are computed based on the Internal Rating Based Approach for Credit Risk for their major credit portfolio and adopted the Standardised Approach and the Basic Indicator Approach for Market Risk and Operational Risks respectively.

	2019 RM'000	2018 RM'000
Common Equity Tier 1 ("CET 1") capital		
Paid-up ordinary share capital	555,000	555,000
Retained earnings	986,195	821,721
Other reserves	114,778	93,610
Regulatory adjustment	(107,214)	(102,233)
	1,548,759	1,368,098
Tier 2 capital		
Stage 1 and 2 ECL and qualifying regulatory reserves under the Standardised Approach	2,818	4,160
Surplus eligible provisions over expected losses	49,474	47,604
Subordinated sukuk	200,000	200,000
	252,292	251,764
Capital base	1,801,051	1,619,862
Before the effects of PSIA		
CET 1 / Tier 1 capital ratio	14.495%	12.983%
Total capital ratio	16.857%	15.373%
After the effects of PSIA		
CET 1 / Tier 1 capital ratio	16.704%	15.054%
Total capital ratio	19.425%	17.825%

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 CAPITAL ADEQUACY (continued)

In accordance with BNM's Guidelines on the Recognition and Measurement of Profit Sharing Investment Account as Risk Absorbent, the credit and market risks of the assets funded by the RPSIA which qualify as risk absorbent are excluded from the total capital ratio calculation. As at 31 December 2019, the credit risk relating to RPSIA assets excluded from the total capital ratio calculation amounted to RM1,413 million (2018: RM1,450 million).

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

	2019 RM'000	2018 RM'000
Total RWA for credit risk	8,471,121	8,266,772
Total RWA for market risk	9,820	2,616
Total RWA for operational risk	790,685	818,290
	9,271,626	9,087,678

45 MUDHARABAH RESTRICTED PROFIT SHARING INVESTMENT ACCOUNT

(i) Movement in the Mudharabah Restricted Profit Sharing Investment Account

	2019 RM'000	2018 RM'000
As at 1 January	1,322,168	1,801,572
Funding inflows/(outflows)		
New placement during the year	800,000	1,368,115
Redemption during the year	(151,827)	(1,910,505)
Effect of foreign exchange difference	(10,799)	15,716
Income from investment	80,438	63,671
Net write down during the year	(29,794)	-
Bank's share of profit		
Profit distributed to mudarib	(24,132)	(19,101)
Recovery due to immediate holding company	-	2,700
As at 31 December	1,986,054	1,322,168
Investment assets		
Financing and advances	1,986,054	1,322,168

(ii) Profit sharing ratio and rate of return

	Average profit sharing ratio (Depositor: Bank)		Average rate of return	
	2019	2018	2019	2018
Up to 1 year	70:30	70:30	4.11%	2.62%
> 1 - 2 years	70:30	70:30	3.92%	3.66%
> 2 - 5 years	70:30	70:30	3.91%	3.68%
Over 5 years	70:30	70:30	3.90%	3.68%

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

46 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 16

The key changes to the Bank arising from the adoption of MFRS 16 on 1 January 2019 is as follows:

	RM'000
ROU assets	4,283
Lease liabilities	4,283

Operating lease commitments

	RM'000
At 31 December 2018 under MFRS 117	4,671
Discounted using the incremental borrowing rate of 3.54%	4,510
Recognition exemption for leases of low-value assets	(227)
At 1 January 2019 under MFRS 16	4,283

The Bank used a number of practical expedients when applying MFRS 16 to leases previously classified as operating leases under MFRS 117. In particular, the Bank:

- did not recognise ROU assets and liabilities for certain leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise ROU assets and liabilities for leases if low value assets;
- excluded initial direct costs from the measurement of the ROU asset at the date of initial application and;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

47 SUBSEQUENT EVENT

The Covid-19 pandemic that was announced by the World Health Organisation (”WHO”) in March 2020 remains a fluid and challenging situation that is affecting all industries. As the situation is continuously evolving and the effect of the outbreak is subject to significant levels of uncertainty, the Bank considers this as a non-adjusting subsequent event. Given the unprecedented circumstances, it is very difficult to reasonably predict the impact to the overall Malaysian economy and on-going businesses (including customers of the Bank).

Due to the significant worsening of the macroeconomic outlook, both domestically and globally, the Bank expects the current situation to have a negative impact on its earnings for financial year ending 31 December 2020. Based on simulations performed in the first quarter of 2020 on the macroeconomic variables used in the Bank’s ECL model, Stage 1 and Stage 2 ECL amounting to RM113 million as at 31 December 2019 are estimated to increase by approximately 25% to 30%.