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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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

Company No. 295400-W

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Directors hereby submit their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

IMMEDIATE AND ULTIMATE HOLDING COMPANY

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

SUBSIDIARY COMPANIES

The details of the Bank's subsidiary companies are disclosed in Note 13 to the financial statements.

FINANCIAL RESULTS

	Group 2018 RM'000	Bank 2018 RM'000
Profit for the year attributable to:		
Owner of the Bank	814,430	700,049
Non-controlling interest	(134)	-
	814,296	700,049

SHARE CAPITAL AND DEBENTURES

There were no changes in the issued and paid-up share capital of the Bank during the financial year. There were no debentures issued during the financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in Note 22 to the financial statements.

DIVIDENDS

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

i) a final dividend of 52.2 sen per ordinary share totalling RM150 million in respect of the previous financial year ended 31 December 2017 as reported in the Directors' Report of that year, on 27 April 2018; and

ii) an interim dividend of 48 sen per ordinary share totalling RM138 million in respect of the financial year ended 31 December 2018, on 27 September 2018.

The Directors recommend a final dividend of 48 sen per ordinary share in respect of the current financial year amounting to RM138 million. This dividend will be accounted for in shareholders’ equity as an appropriation of retained earnings in the subsequent financial period upon approval by the shareholder of the Bank.

FINANCIAL PERFORMANCE

The Group recorded lower net profit after tax, from RM949 million last year to RM814 million in the current financial year, mainly from higher impairment allowances amounting to RM125 million and 5% increase in operating expenses.

Although the Group’s total income remained flat at RM2.46 billion, net interest income grew RM100 million or 7% to RM1.5 billion. This was, however, neutralised by a drop in net fees and commissions, net trading income and Islamic banking income. The Group continued to invest in capability building and digital initiatives, which contributed to the increase in operating expenses.

With the implementation of MFRS 9, RM36 million allowance was made for non credit-impaired assets this year compared to a writeback of RM146 million in collective impairment allowance last year. However, on the positive side, allowances for credit impaired assets reduced by RM58 million.

Total assets for the Group expanded by RM4.9 billion to RM96.9 billion, mainly from an increase in financial investments at fair value through other comprehensive income/financial investments available-for-sale of RM4.3 billion on deployment of surplus funds raised partly to pre-fund expected drawdowns and partly to build up the Group's liquid asset holdings under favourable market conditions. Gross loans grew RM1 billion or 2% to RM 69.5 billion in 2018, mainly in the construction and real estate sectors.

After deducting proposed dividends, the Group and the Bank remained well capitalised at Common Equity Tier 1 capital ratios of 13.226% and 12.774%, Tier 1 capital ratios of 14.783% and 14.673% and total capital ratios of 17.414% and 17.267%, respectively.

MARKET OUTLOOK

The Malaysian economy is forecast to grow between 4-5% in 2019 supported by domestic demand. Private investment is expected to expand with capital outlays in the manufacturing and services sectors to cushion the lower public sector spending.

There are, however, certain downside risks impacting the growth coming from the escalation of global trade tensions, volatile oil prices, higher yields in the US and geopolitical conflicts.

Advancements in digital technology are expected to create further challenges. The accelerated pace of development could bring more challenges for businesses as they seek to embrace digital transformation whilst creating more opportunities for investments in technological convergence and megatrends such as Artificial Intelligence ("AI"), Robotic Process Automation ("RPA"), Internet of Things ("IoT"), Big Data Analytics ("BDA") and cloud computing.

ACTIVITIES AND ACHIEVEMENTS

During the period under review, OCBC Bank (Malaysia) Berhad ("OCBC Malaysia") and its subsidiaries won several awards, including Oil and Gas Deal of the Year and Best Islamic Deal from The Asset Magazine, and Best Small Business Bank from The Asian Banker.

We opened a new OCBC Bank branch in Rawang and also successfully relocated our OCBC Al-Amin Bank Berhad ("OCBC Al-Amin") Ampang Park branch to Bandar Botanic, Klang. These initiatives marked a significant milestone in our journey towards providing the increasingly affluent communities in the Klang Valley with greater sophistication in banking. Both branches come complete with a Premier Banking Centre. In tandem with our efforts, our overall affluent customer base continued to experience strong growth.

OCBC Malaysia’s FinTech initiatives under the "The Open Vault", commenced operations in Malaysia as part of our digital journey in the era of FinTech. We quickly embarked on partnerships with two US-based FinTech companies to explore innovative approaches to tackling long-standing banking challenges. We also embarked on a regulatory sandbox testing of a secure chat banking mobile application following approval to do so from Bank Negara Malaysia ("BNM") under the Financial Technology Regulatory Sandbox Framework. If successful, the OCBC Secure Chat Banking Mobile App will become the country’s first banking solution to enable Premier Banking customers to communicate with, and give financial transaction instructions to, their relationship managers securely via a mobile app.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

ACTIVITIES AND ACHIEVEMENTS (continued)

To enhance our retail deposits proposition, we introduced the OCBC Bank and OCBC Al-Amin Booster/Booster-i and Premier Booster/Premier Booster-i savings accounts which allow customers to enjoy competitive interest/profit rates without any lock-in period and yet, to retain flexibility over their funds.

We also introduced a new study loan for students with effective interest rates starting from as low as 6.14% per annum as the key driver of study loans among commercial banks in Malaysia, and the only foreign financial institution to offer such a facility. The OCBC Education Loan offers students up to RM250,000 in financing, allowing them to liberally supplement the maximum amount offered through the government-backed Perbadanan Tabung Pendidikan Nasional ("PTPTN") loan scheme and minimise the use of EPF savings for the purpose.

We rolled out OCBC Life Goals, a methodical approach to set Malaysians on the path to achieving their top two financial goals: child education and retirement. The tool allows any member of the public to perform a 5-minute self-assessment that ends with a summary of where the individual stands in relation to the stated goal, either child education or retirement, and suggests customisable solutions on how to move forward. We also introduced an equivalent platform for Premier Banking customers, called Premier Life Goals.

For customers with assets under management ("AUM") of RM3 million and above, we introduced a distinct high net worth individual ("HNWI") category to our Premier Banking platform with the launch of OCBC Premier Private Client ("PPC"). PPC, which sits within the broader OCBC Premier Banking framework, rides on the momentum generated in the preceding four years when we doubled both our Premier Banking and HNWI customer base.

In our quest to make banking even simpler, faster and more convenient for our corporate customers, we enhanced our banking mobile app for corporates to now allow them to make payments and grant authorisations while on the go.

We continued to partner Credit Guarantee Corporation Malaysia ("CGC") to make financing facilities more accessible to SMEs. It remains our goal to strengthen our foothold in the business community through cash management and foreign exchange solutions.

For our treasury business, we enhanced our processes to ensure a more cohesive and seamless workflow in order to improve operational productivity and customer experience. Alongside this, we continued to place emphasis on proactive risk management measures to deal with risks and opportunities in the financial markets.

On the Islamic banking front, we continued to focus on penetrating deeper into the business banking and retail segments. This meant deepening relationships with government-linked companies ("GLC") and KLSE’s Shariah Index companies by catering to their growing need for Islamic banking products and services, including Shariah-compliant cash management and deposit products.

For the retail business, alongside growing the mortgage segment, we strengthened our wealth products proposition with the addition of several new Shariah-compliant Unit Trust ("UT") funds which are available at all OCBC Al-Amin branches.

For staff development, we launched the OCBC Future-Smart programme to empower our employees for the future. This is a digital training programme to ensure all our employees are equipped with the digital competencies needed in the new market environment. The Future Smart skills framework covers seven pillars for a solid digital foundation: digital business models and ecosystems, tech and data, new risks, customer centricity, marketing and communications, the way we work and leadership in the future world. A new digital learning platform – LinkedIn Learning – and a Future Smart mobile application have been developed especially to facilitate employees’ transition into a whole new approach to seeing, doing and thinking.

Our corporate social responsibility ("CSR") efforts continued to gain momentum with our division and branch-level initiatives benefitting over 40,000 people through the collective efforts of more than 2,300 staff. The efforts centered on families, promoting education, protecting the environment, promoting engagement with the community (including cycling events), and humanitarian work. Alongside this, our cycling platform, OCBC Cycle, continued to offer an avenue for the public to stay healthy through efforts such as the twice-monthly OCBC KL Car Free Morning ("OKLCFM") and the annual OCBC Cycle Kuala Lumpur ("OCKL"). OKLCFM saw a total of almost 90,000 people thronging the streets of Kuala Lumpur during the year while OCKL attracted more than 2,000 cycling enthusiasts.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2019

Moving into 2019, OCBC Malaysia will continue to uphold its position as a banker of choice and among the very top foreign banks in the country with the combined strength of our conventional and Islamic banking franchise as well as in the areas of managing risks, maximising collaboration within business units and growing our wealth products platform.

In consumer banking, we will build our wealth management and Premier and Private Client services for our high net worth clients through collaborations within the OCBC Group network and referral intermediaries. We will also invest in our digital capabilities and introduce fresh initiatives to support customer acquisition. With this, we will endeavour to improve sales staff productivity, and expand our telemarketing and secured loans sales forces.

For corporate and commercial banking customers, we will intensify our deposit-building strategies via all channels in business banking, particularly for the small to mid-medium-sized market and emerging business segment.

In Islamic banking, OCBC Al-Amin will continue to focus on growing its financing and wealth management products and proposition. Our financing portfolio will continue to be driven by the SME, corporate, commercial and investment banking segments, which make up the bulk of the bank’s total portfolio. We also plan to embark on business initiatives aligned to Value-Based Intermediation ("VBI") which aims to strengthen the impact and roles of Islamic banking institutions. In wealth management, OCBC Al-Amin will upgrade its existing branches and expand the number of Premier Banking centres. To augment our Shariah risk and compliance measures, we will continue to focus on comprehensive and pre-emptive measures. There will be several new initiatives introduced including the production of a handbook on Islamic banking principles pertaining to the bank’s core products for easy reference, especially for front-liners and marketers.

For our treasury business, we will focus on increasing the penetration into businesses through active cross-selling of products and solutions. We will also transition treasury sales staff into an advisory role centered on treasury solutions, especially in light of the upcoming rollout of our online FX platform, allowing for more targeted customer segmentation and coverage. Alongside these, we will continue with our proactive risk management of the trading and non-trading portfolios as rates and economic cycle opportunities develop with greater vigilance on credit.

Our staff development efforts will continue to revolve round the “We See You” platform with a renewed drive to ensure our employees develop into what they wish to become, that the work environment is conducive to making this happen, that leaders are always supportive, and that people are being prepared now for what they will become tomorrow. Toward this end, we will step-up the momentum of Future Smart Initiatives by engaging all colleagues and continue to work with both internal and external partners and stakeholders to deliver a seamless learning experience.

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

RATINGS BY EXTERNAL AGENCY

RAM Rating Services Berhad (“RAM”) has reaffirmed OCBC Bank (Malaysia) Berhad’s long term and short term financial institution rating on 28 August 2018 at AAA and P1 respectively with stable outlook, reflecting the Group's healthy credit metrics and established franchise.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

DIRECTORS OF THE BANK

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

Tan Ngiap Joo (Appointed as Chairman on 30 March 2018), *Independent Non-executive Chairman*
Samuel N. Tsien, *Non-independent Executive Director*
Lai Teck Poh, *Independent Non-executive Director*
Tong Hon Keong, *Independent Non-executive Director*
Datuk Azizan Bin Haji Abd Rahman, *Independent Non-executive Director*
Yap Seong Yong, Janet (Appointed on 1 April 2019), *Independent Non-executive Director*
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)

In accordance with Articles 106 and 107 of the Bank’s Constitution (Articles of Association), Mr Lai Teck Poh and Mr Tan Ngiap Joo shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

In accordance with Articles 110 of the Bank’s Constitution (Articles of Association), Ms Yap Seong Yong, Janet shall retire at the forthcoming Annual General Meeting and being eligible, offer herself 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 Mapletree India China Fund Ltd (Investment Committee) and OCBC Al-Amin Bank Berhad on 30 March 2018. He is also a Director of OCBC Bank and China Fishery Group Ltd. Mr Tan holds a Bachelor of Arts from University of Western Australia.

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

Mr Lai Teck Poh
Mr Lai Teck Poh was appointed to the Board on 7 January 2011. He joined OCBC Bank as an Executive Vice President and Head of Corporate Banking in January 1988. During his tenure with OCBC Bank, he had senior management responsibilities for a wide range of functions, including Corporate Banking, Investment Management, Information Technology and Central Operations, Group Risk Management and Group Audit. He was the Head of Group Audit before his retirement on 14 April 2010. He has about 50 years of banking experience, including about 20 years in Citibank, N.A. Singapore with overseas assignments in Jakarta, New York and London. He is also a Director of OCBC Bank and AVJennings Limited, and a Board Commissioner of PT Bank OCBC NISP Tbk. Mr Lai holds a Bachelor of Arts with Honours from the University of Singapore.

PROFILE OF THE BOARD OF DIRECTORS (continued)

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

Datuk Azizan Bin Haji Abd Rahman
Datuk Azizan bin Haji Abd Rahman was appointed to the Board on 3 June 2016 as an independent non-executive Director. He has more than 30 years of experience in the financial industry. He began his career in BNM in 1979 where he held several positions in the areas of finance, examination and supervision, and was also the Director of the Banking Supervision Department. While in BNM, Datuk Azizan was a board member of Kumpulan Wang Amanah 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.

Ms Yap Seong Yong, Janet
Ms Yap Seong Yong, Janet was appointed to the Board on 1 April 2019 as an independent non-executive Director. She is currently the Technology Managing Director and Corporate Social Responsibility Lead of Accenture Malaysia with more than 32 years of experience in technology and management information consultancy covering various industries and geographies including Malaysia, Hong Kong, China, Thailand, Indonesia and Singapore, of which 30 years was with Accenture building a career in systems implementation and SAP consulting. She is presently a Board of Governor of the American Malaysia Chamber of Commerce (AMCHAM) and a member of the Board of Trustees of World Vision Malaysia Berhad. Ms Yap Seong Yong, Janet holds a Bachelor of Arts with Honours and Double Majors in Computing & Information Science and Economics from University of Guelph, Ontario, Canada.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

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

Oversea-Chinese Banking Corporation Limited

Shareholdings registered in the name of Directors or in which Directors have a direct interest	**At 1 January 2018**	**Acquired/ Awarded**	**Disposed**	**At 31 December 2018**
Ordinary Shares				
Tan Ngiap Joo	1,293,913	31,615	-	1,325,528
Samuel N. Tsien	1,037,861	340,814	-	1,378,675
Lai Teck Poh	920,944	24,265	-	945,209

OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan	**At 1 January 2018**	**Awarded/ Granted**	**Exercised/ Forfeited/ Lapsed**	**At 31 December 2018**
Ordinary Shares				
Samuel N. Tsien	716,745	212,738	(314,172)	615,311

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)

Unexercised share options available to the Directors under the OCBC Share Option Scheme 2001	**Date options expire**	**At 1 January 2018**	**Awarded/ Granted**	**Exercised/ Forfeited/ Lapsed**	**At 31 December 2018**
Ordinary Shares					
Samuel N. Tsien	13/03/2021 - 21/03/2028	4,624,417	409,643	-	5,034,060

Other than the above, no other Directors in office during the financial year held any interest in shares and options over shares 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 six Directors, all of whom are non-executive Directors except for one non-independent executive Director. The independent non-executive Directors are Mr. Tan Ngiap Joo (appointed as Chairman of the Board on 30 March 2018), Mr Lai Teck Poh, Mr Tong Hon Keong, Datuk Azizan Bin Haji Abd Rahman and Ms Yap Seong Yong, Janet (appointed on 1 April 2019) while the non-independent executive Director is Mr Samuel N. Tsien. The Board and Board Committees of OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad was reconstituted with effect from 1 January 2018 to comply with BNM's Policy on Corporate Governance.

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

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

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

CORPORATE GOVERNANCE (continued)

Board Composition and Independence (continued)

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

Board Conduct and Responsibilities

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

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

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

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

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

Training and development is provided to the Directors, on a continuing basis, to develop and refresh their skills and knowledge to enable them to effectively perform their roles on the Board and its Committees. This, among others, includes updates on regulatory developments, new business and products, accounting and finance, corporate governance, 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

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

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

CORPORATE GOVERNANCE (continued)

Board Audit Committee (continued)

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

The Bank has in place a whistle blowing policy and the BAC reviews concerns, including anonymous complaints, which staff may, in confidence, raise about possible improprieties in matters of financial reporting or other matters, and have the concerns independently investigated and followed-up. If fraud is determined, appropriate remedial action will be taken by the management and the BAC is updated regularly on its status. The BAC Chairman shall be the designated non-executive director responsible to review and evaluate the effectiveness of whistle blowing policy. The 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.

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, evaluation and remuneration of the Head of Internal Audit and is also notified of the resignation of the Head of Internal Audit.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

CORPORATE GOVERNANCE (continued)

Internal Controls

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

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

Based on the internal controls established and maintained by the Bank, work performed by the internal auditors and external auditors, and reviews performed by management and various Board Committees, the Board, with the concurrence of the Board Audit Committee and Risk Management Committee, is of the opinion that the system of internal controls, including financial, operational, compliance and information technology controls, and risk management systems, were adequate and effective as at 31 December 2018, to address the risks which the Bank considers relevant and material to its operations.

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

Nominating & Remuneration Committee

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

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

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 Risk Management Committee. In addition, the Committee shall make recommendations to the Board on the remuneration, fee and benefits of the directors and non-executive directors as well as the compensation of the CEO. The Committee shall review and approve the compensation of executive officers of the Bank of any rank as may be delegated by the Board, including key senior management officers and Material Risk Takers.

CORPORATE GOVERNANCE (continued)

Remuneration Policy

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

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

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

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

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

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

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

The Group and the Bank have identified a group of senior executives whose authorities and actions are deemed to have a major influence on the long term performance of the Group and the Bank. This group ("Material Risk Takers") comprises 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 Group's and 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 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 Group's and 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 Group's and the Bank's risk profile/rating.

CORPORATE GOVERNANCE (continued)

Remuneration Policy (continued)

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

Risk Management Committee

The Risk Management Committee ("RMC") comprises Mr Lai Teck Poh (RMC Chairman), Mr Tan Ngiap Joo, Mr Tong Hon Keong, Datuk Azizan Bin Haji Abd Rahman and Ms Yap Seong Yong, Janet (appointed as RMC member with effect from 1 April 2019); all of whom are independent Directors. Dato' Ooi Sang Kuang stepped down as RMC member with effect from 29 March 2018.

BNM had, on 8 February 2007, 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 RMC. The Committee shall meet at least once every quarter. The Committee shall be entitled to secure the attendance of any person with relevant experience and expertise at committee meetings if the committee considers this appropriate.

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

Management Information

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

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

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

CORPORATE GOVERNANCE (continued)

Directors' Attendance At Board And Board Committee Meetings in 2018

	Attendance of Meetings Held			
Name of Director	**Board**	**Board Audit Committee**	**Nominating & Remuneration Committee**	**Risk Management Committee**
Tan Ngiap Joo	8 of 8	1 of 1	5 of 5	7 of 7
Samuel N. Tsien	8 of 8			
Lai Teck Poh	8 of 8	6 of 6	5 of 5	7 of 7
Tong Hon Keong	8 of 8	7 of 7		7 of 7
Datuk Azizan Bin Haji Abd Rahman	6 of 8	7 of 7	3 of 3	6 of 7
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	2 of 2		2 of 2	2 of 2

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

COMPLIANCE WITH BNM'S EXPECTATIONS ON FINANCIAL REPORTING

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

DIRECTORS' INDEMNITY

A Directors’ and Officers’ Liability Insurance has been entered into by the Group and the Bank for the financial year ended 31 December 2018. The policy provides appropriate cover for legal action brought against its Directors in accordance with qualifying third party indemnity provisions (as defined by Section 289 of the Companies Act 2016). During the financial year, the cost of this insurance effected for the Directors and Officers of the Group and the Bank amounted to RM108,226 and RM100,770 (2017: RM105,999 and RM97,895) respectively.

OTHER STATUTORY INFORMATION

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

- all known bad debts and financing have been written off and adequate impairment allowance made for doubtful debts and financing, and

- any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected to realise.

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

- that would render the amount written off for bad debts and financing or the amount of the impairment allowance for doubtful debts and financing in the Group and in the Bank inadequate to any substantial extent, or

- that would render the value attributed to the current assets in the financial statements of the Group and of the Bank misleading, or

- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate, or

- not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Bank misleading.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

OTHER STATUTORY INFORMATION (continued)

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Bank for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occured in the interval between the end of that financial year and the date of this report.

AUDITORS

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

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
Date: 23 April 2019

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

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

In the opinion of the Directors, the financial statements set out on pages 22 to 167 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018 and of their financial performance and cash flows for the financial year then ended.

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

TAN NGIAP JOO
Chairman

DATUK AZIZAN BIN HAJI ABD RAHMAN
Director

Kuala Lumpur, Malaysia
Date: 23 April 2019

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

I, Teoh Yin Meng, the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 22 to 167 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 provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, Teoh Yin Meng, at Kuala Lumpur in Malaysia on 23 April 2019.

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

Before me,

Commissioner for Oaths

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OCBC Bank (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 22 to 167.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Company No. 295400-W

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements of the Group and of the Bank, the Directors are responsible for assessing the ability of the Group and of the Bank to continue as 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 Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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: 02229/04/2020 J
Chartered Accountant

Petaling Jaya, Selangor

23 April 2019

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

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and cash equivalents	3	4,897,506	6,158,261	4,347,492	5,571,918
Deposits and placements with banks and other financial institutions	4	399,956	71,835	980,299	182,518
Investment account placements	5	-	-	1,318,776	1,793,011
Financial assets at fair value through profit or loss	6	1,873,515	-	1,863,535	-
Financial assets held-for-trading	6	-	1,690,763	-	1,690,763
Financial investments at fair value through other comprehensive income	7	17,802,426	-	13,586,543	-
Financial investments available-for-sale	7	-	13,501,159	-	8,778,279
Loans, advances and financing	8	68,581,496	67,452,350	58,265,289	57,742,824
Derivative financial assets	10	760,761	835,825	762,277	835,625
Other assets	11	418,998	370,277	599,461	709,911
Statutory deposits with Bank Negara Malaysia	12	1,913,172	1,752,717	1,561,972	1,427,217
Investments in subsidiaries	13	-	-	557,051	558,492
Property and equipment	14	164,368	162,596	154,484	153,271
Prepaid lease payments	15	712	748	712	748
Tax recoverable		9,436	535	-	-
Deferred tax assets	16	60,135	26,957	51,925	25,022
Total assets		96,882,481	92,024,023	84,049,816	79,469,599
LIABILITIES					
Deposits from customers	17	75,851,221	73,652,739	64,124,328	62,490,422
Deposits and placements of banks and other financial institutions	18	7,070,077	4,388,137	6,986,949	3,946,437
Bills and acceptances payable		92,841	166,104	78,292	145,347
Recourse obligation on loans sold to Cagamas Berhad		700,000	1,419,252	700,000	1,419,252
Derivative financial liabilities	10	716,168	1,080,854	716,113	1,080,427
Other liabilities	19	3,045,533	2,543,806	2,953,139	2,417,222
Tax payable and zakat		50,019	22,793	49,969	15,540
Subordinated bonds	20	1,893,169	1,870,932	1,893,169	1,870,932
Total liabilities		89,419,028	85,144,617	77,501,959	73,385,579
EQUITY					
Share capital	21	754,000	754,000	754,000	754,000
Reserves	22	6,709,453	6,123,912	5,793,857	5,330,020
Non-controlling interest		-	1,494	-	-
Total equity		7,463,453	6,879,406	6,547,857	6,084,020
Total liabilities and equity		96,882,481	92,024,023	84,049,816	79,469,599
Commitments and contingencies	34	93,074,549	91,839,022	88,855,432	88,919,066

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

Company No. 295400-W

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
Interest income	23	3,723,754	3,501,371	3,797,214	3,579,978
Interest expense	23	(2,218,022)	(2,095,922)	(2,262,592)	(2,153,682)
Net interest income	23	1,505,732	1,405,449	1,534,622	1,426,296
Income from Islamic banking operations	24	436,409	449,523	-	-
Net fee and commission income	25	318,973	364,937	317,199	363,240
Net trading income	26	167,600	205,403	166,952	205,403
Other operating income	27	33,299	36,615	156,188	134,536
Operating income		2,462,013	2,461,927	2,174,961	2,129,475
Operating expenses	28	(1,146,385)	(1,094,303)	(1,069,022)	(1,011,340)
Operating profit before impairment allowance and provision		1,315,628	1,367,624	1,105,939	1,118,135
Impairment allowance	30	(218,604)	(93,840)	(153,709)	(98,025)
Provision for commitments and contingencies		(83)	-	(83)	-
Profit before income tax and zakat		1,096,941	1,273,784	952,147	1,020,110
Income tax expense	31	(282,595)	(324,500)	(252,098)	(262,877)
Zakat		(50)	(50)	-	-
Profit for the year		814,296	949,234	700,049	757,233
Other comprehensive income/(expense), net of income tax					
Items that will not be reclassified to profit or loss					
Movement in fair value reserve (equity instruments)					
- Change in fair value		5,863	-	5,863	-
Items that are or may be reclassified subsequently to profit or loss					
Movement in fair value reserve (debt instruments)					
- Change in fair value		(11,434)	50,907	(9,878)	33,231
- Transferred to profit or loss		(7,714)	(12,806)	(7,999)	(12,416)
- Related tax	16(i)	4,747	(9,152)	4,289	(4,996)
Change in expected credit loss reserve on debt instruments at fair value through other comprehensive income		(10,224)	-	(7,827)	-
Other comprehensive (expense)/income for the year, net of income tax		(18,762)	28,949	(15,552)	15,819
Total comprehensive income for the year		795,534	978,183	684,497	773,052

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Profit/(Loss) attributable to:					
Owner of the Bank		814,430	949,136	700,049	757,233
Non-controlling interest		(134)	98	-	-
		814,296	949,234	700,049	757,233
Total comprehensive income/(expense) attributable to:					
Owner of the Bank		795,668	978,085	684,497	773,052
Non-controlling interest		(134)	98	-	-
		795,534	978,183	684,497	773,052
Basic earnings per ordinary share (sen)	32	283.3	330.1	243.5	263.4

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

Company No. 295400-W

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Non-distributable				*Distributable*		
Group	**Share capital RM'000**	**Regulatory reserve RM'000**	**Capital reserve RM'000**	**Expected credit loss reserve RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Non-controlling interest RM'000**	**Total equity RM'000**
At 1 January 2018 (as previously reported)	754,000	486,000	56,619	-	107,999	5,473,294	1,494	6,879,406
Effect of adopting MFRS 9	-	-	-	11,629	(15,811)	80,894	-	76,712
Restated at 1 January 2018	754,000	486,000	56,619	11,629	92,188	5,554,188	1,494	6,956,118
Fair value reserve								
- Change in fair value	-	-	-	-	(5,571)	-	-	(5,571)
- Transferred to profit or loss	-	-	-	-	(7,714)	-	-	(7,714)
- Related tax	-	-	-	-	4,747	-	-	4,747
Expected credit loss reserve								
- Change in expected credit loss	-	-	-	(10,224)	-	-	-	(10,224)
Total other comprehensive expense for the year	-	-	-	(10,224)	(8,538)	-	-	(18,762)
Profit/(Loss) for the year	-	-	-	-	-	814,430	(134)	814,296
Total comprehensive (expense)/income for the year	-	-	-	(10,224)	(8,538)	814,430	(134)	795,534
Changes in ownership interest in a subsidiary	-	-	-	-	-	1,161	(1,311)	(150)
Transfer to regulatory reserve	-	114,000	-	-	-	(114,000)	-	-
Contributions by and distributions to owner of the Bank								
Dividends paid								
- Final 2017 ordinary	-	-	-	-	-	(150,000)	-	(150,000)
- Interim 2018 ordinary	-	-	-	-	-	(138,000)	(49)	(138,049)
At 31 December 2018	754,000	600,000	56,619	1,405	83,650	5,967,779	-	7,463,453
				Note 7				

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

Company No. 295400-W

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

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

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

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

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Non-distributable			*Distributable*	
Bank	**Share capital RM'000**	**Regulatory reserve RM'000**	**Expected credit loss reserve RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2018 (as previously reported)	754,000	395,000	-	104,377	4,830,643	6,084,020
Effect of adopting MFRS 9	-	-	8,983	(15,194)	73,551	67,340
Restated at 1 January 2018	754,000	395,000	8,983	89,183	4,904,194	6,151,360
Fair value reserve						
- Change in fair value	-	-	-	(4,015)	-	(4,015)
- Transferred to profit or loss	-	-	-	(7,999)	-	(7,999)
- Related tax	-	-	-	4,289	-	4,289
Expected credit loss reserve						
- Change in expected credit loss	-	-	(7,827)	-	-	(7,827)
Total other comprehensive expense for the year	-	-	(7,827)	(7,725)	-	(15,552)
Profit for the year	-	-		-	700,049	700,049
Total comprehensive (expense)/income for the year	-	-	(7,827)	(7,725)	700,049	684,497
Transfer to regulatory reserve	-	114,000	-	-	(114,000)	-
Contributions by and distributions to owner of the Bank						
Dividends paid						
- Final 2017 ordinary	-	-	-	-	(150,000)	(150,000)
- Interim 2018 ordinary	-	-	-	-	(138,000)	(138,000)
At 31 December 2018	754,000	509,000	1,156	81,458	5,202,243	6,547,857
			Note 7			

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

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

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

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

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

Company No. 295400-W

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

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities				
Profit before income tax and zakat	1,096,941	1,273,784	952,147	1,020,110
Adjustments for:				
Amortisation of prepaid lease payments	36	36	36	36
Depreciation of property and equipment	28,713	32,920	24,306	28,418
Dividends received from financial investments at fair value through other comprehensive income	(722)	(902)	(722)	(902)
Dividend received from subsidiary	-	-	(2,800)	-
Surplus assets received from winding-up of a subsidiary	-	-	(12,262)	-
Impairment allowance	218,604	93,840	153,709	98,025
Provision for commitments and contingencies	83	-	83	-
Net (gain)/loss on disposal of:				
- Financial investments at fair value through other comprehensive income/available-for-sale	(7,714)	(12,806)	(7,999)	(12,416)
- Property and equipment	(87)	266	(88)	257
Equity settled share-based payment transactions	6,808	5,834	6,533	5,546
Unrealised (gain)/loss on:				
- Financial assets at fair value through profit or loss/ held-for-trading	(5,839)	(601)	(6,304)	(601)
- Hedging derivatives	1	273	1	273
- Trading derivatives	(308,085)	527,188	(309,213)	527,188
- Subordinated bonds	22,237	(105,492)	22,237	(105,492)
Operating profit before changes in working capital	1,050,976	1,814,340	819,664	1,560,442
Changes in operating assets and operating liabilities:				
Deposits and placements with banks and other financial institutions	(328,164)	1,376,085	(797,824)	1,415,403
Investment account placements	-	-	479,404	(494,353)
Financial assets at fair value through profit or loss/ held-for-trading	(44,010)	(161,801)	(166,282)	(161,801)
Loans, advances and financing	(1,239,932)	(124,517)	(582,624)	27,469
Other assets	(48,755)	(89,731)	110,427	(245,497)
Statutory deposits with Bank Negara Malaysia	(160,455)	248,249	(134,755)	246,749
Derivative financial assets and liabilities	19,790	(105,498)	19,574	(105,390)
Deposits from customers	2,198,482	2,717,926	1,633,906	2,789,875
Deposits and placements of banks and other financial institutions	2,681,940	(5,073,975)	3,040,512	(5,030,748)
Bills and acceptances payable	(73,263)	12,216	(67,055)	21,942
Other liabilities	494,184	301,269	528,604	300,583
Cash generated from operations	4,550,793	914,563	4,883,551	324,674
Income tax and zakat paid	(316,980)	(312,304)	(262,194)	(265,422)
Net cash generated from operating activities	4,233,813	602,259	4,621,357	59,252

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from investing activities				
Acquisition of financial investments at fair value through other comprehensive income/available-for-sale	(22,169,372)	(14,631,827)	(14,806,255)	(6,816,827)
Acquisition of property and equipment	(30,583)	(7,729)	(25,626)	(7,310)
Dividends received from financial investments at fair value through other comprehensive income/available-for-sale	722	902	722	902
Dividends received from subsidiary	-	-	2,800	-
Increase in investment in subsidiary	-	-	(150)	-
Final distribution of surplus assets received on completion of winding-up of a subsidiary	-	-	13,853	-
Proceeds from disposal of financial investments at fair value through other comprehensive income/available-for-sale	17,713,121	12,433,776	9,977,280	6,148,003
Proceeds from disposal of property and equipment	190	148	190	149
Net cash used in investing activities	(4,485,922)	(2,204,730)	(4,837,186)	(675,083)
Cash flows from financing activities				
Dividends paid to owner of the Bank	(288,000)	(523,100)	(288,000)	(523,100)
Dividends paid to non-controlling interest	(49)	-	-	-
Redemption of subordinated bonds	-	(600,000)	-	(600,000)
Proceeds from issuance of subordinated bonds	-	500,000	-	500,000
Recourse obligation on loans sold to Cagamas Berhad	(719,252)	90,736	(719,252)	90,736
Net cash used in financing activities	(1,007,301)	(532,364)	(1,007,252)	(532,364)
Net decrease in cash and cash equivalents	(1,259,410)	(2,134,835)	(1,223,081)	(1,148,195)
Cash and cash equivalents at 1 January	6,158,261	8,293,096	5,571,918	6,720,113
Cash and cash equivalents at 31 December	4,898,851	6,158,261	4,348,837	5,571,918

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

Reconciliation of liabilities arising from financing activities

			Non-cash changes		
	At 1 January 2018	**Cash flows**	**Foreign exchange movement**	**Fair value changes**	**At 31 December 2018**
Group and Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	(719,252)	-	-	700,000
Subordinated bonds	1,870,932	-	22,237	-	1,893,169
Total liabilities from financing activities	3,290,184	(719,252)	22,237	-	2,593,169

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018

GENERAL INFORMATION

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

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

The consolidated financial statements of the Bank as at and for the financial year ended 31 December 2018 comprise the Bank and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”).

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

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

The financial statements were approved and authorised for issue by the Board of Directors on 23 April 2019.

1 BASIS OF PREPARATION

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

(a) Statement of compliance

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

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

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

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 2, *Classification and Measurement of Share-based Payment Transactions*

Other than as disclosed in Note 2C, Note 2G and Note 49 on adoption of MFRS 9, *Financial Instruments* ("MFRS 9"), the adoption of the other accounting standards, interpretations and amendments did not have any significant impact on the Group and the Bank. MFRS 9 came into effect on 1 January 2018. As allowed under MFRS 9, the Group and the Bank have not restated the comparative information and the transition impact arising from the adoption of MFRS 9 is recognised in the opening Retained Earnings as at 1 January 2018. The impact on classification and measurement of the Group's and the Bank's financial assets is disclosed in Note 49 of the financial statements.

1 BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

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

<u>Effective for financial periods commencing on or after 1 January 2019</u>

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- 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)*
- Amendments to MFRS 128, *Investment in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures*

<u>Effective for annual periods commencing on or after 1 January 2020</u>

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

<u>Effective for annual periods commencing on or after 1 January 2021</u>

- MFRS 17, *Insurance Contracts*

<u>Effective date to be announced by MASB</u>

- Amendments to MFRS 10 and MFRS 128, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

MFRS 16, *Leases*

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

Based on assessments undertaken to date, the Group and the Bank do not anticipate any material impact on the financial statements of the Group and the Bank upon adoption.

1 BASIS OF PREPARATION (continued)

(b) Use of estimates and judgements

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

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

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

(i) Fair value estimation for financial assets at fair value through profit or loss ("FVTPL") (Note 6), financial investments at fair value through other comprehensive income ("FVOCI") (Note 7) and derivative financial assets and liabilities (Note 10). 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 interest/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 Group and the Bank evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flows.

(ii) Impairment of financial assets

Current financial year

In determining whether the credit risk of the Group's and the Bank's financial exposures have increased significantly since initial recognition, the Group and 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 Group's and 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.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. Given that MFRS 9 requirements have only just been applied, 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

1 BASIS OF PREPARATION (continued)

(b) Use of estimates and judgements (continued)

(ii) Impairment of financial assets (continued)

Previous financial year

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

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

Assessment of impairment of financial investments available-for-sale (Note 7) is made when the investment is impaired. Management judgement is required to evaluate the duration and extent of fair value loss for financial investments available-for-sale in order to determine if impaired.

(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 interest 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

A Basis of consolidation

The accounting policies set out below have been applied consistently by the Group and the Bank to the periods presented in these financial statements, except as disclosed in Note 2C, Note 2G and Note 49 of the financial statements.

(a) Subsidiaries

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

A Basis of consolidation (continued)

(b) Business combinations

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

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

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

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

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

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

(c) Acquisitions of non-controlling interests

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

(d) Acquisitions of entities under common control

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

(e) Loss of control

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

(f) Transactions eliminated on consolidation

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments at fair value through other comprehensive income or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

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

C Financial instruments

(a) Recognition and initial measurement

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

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.

Current financial year

The Group and the Bank account 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.

Previous financial year

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement

Current financial year

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or 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 its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as FVTPL. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment allowances, if any. Interest 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.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit-impaired financial assets (see Note 2K(a)) where the effective interest 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), leased based contracts (Ijarah Thumma Al-Bai, Ijarah and Ijarah Muntahiah Bi Al-Tamlik), equity based contracts (Musharakah Mutanaqisah) and other contracts (Wakalah and Qard). The Group entity's core business is in providing financing to customers and not into leasing business. As a result, we have recognised all lease-based contracts as forms of financing and recognised them accordingly as a financial instrument under MFRS 9. Except for Ijarah financing, assets funded under Ijarah Thumma Al-Bai and Ijarah Muntahiah Bi Al-Tamlik contracts are owned by the Group throughout the tenure 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

Debt investments

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

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

Current financial year (continued)

Financial assets (continued)

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

Equity investments

This category comprises investment in equity that is not held for trading, and the Group and the Bank irrevocably elect to present subsequent changes in the investment's FVOCI. 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

All financial assets not measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes derivative financial assets (except for a derivative that is designated an effective hedging instrument). On initial recognition, the Group or 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 interest 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 2G(a)).

Previous financial year

The Group and the Bank categorise financial instruments as follows:

Financial assets

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

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

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

Financial assets categorised as FVTPL were measured at their fair values with the gain or loss recognised in profit or loss as net trading income. Contractual interest/finance income received was recognised in profit or loss as interest/finance income.

At the end of the reporting period, financial assets at FVTPL of the Group and the Bank were financial assets held-for-trading and trading derivatives. Financial assets held-for-trading were financial assets acquired and held with the intention of resale in the short term.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

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

Previous financial year (continued)

Financial assets (continued)

(ii) Held-to-maturity investments

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

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

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

(iii) Financial investments available-for-sale

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

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

(iv) Loans/Financing and receivables

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

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

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

All financial assets, except for those measured at FVTPL, were subject to review for impairment (see Note 2(G)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

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

Financial liabilities

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

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

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

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

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

(c) Financial guarantee contracts

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

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

Current financial year

Financial guarantees issued are intially measured at fair value. Subsequently, they are measured at 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.

Previous financial year

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(d) Regular way purchase or sale of financial assets

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

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

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

(e) Hedge accounting

At inception of a designated hedging relationship, the Group and the Bank document the risk management objective and strategy for undertaking the hedge. The Group and the Bank also document the economic relationship between the hedged item and the hedging instrument including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

(i) Fair value hedge

Current financial year

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

In a fair value hedge, the gain or loss on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument which the Group or the Bank has elected to present the subsequent changes in fair value of the investment in equity in other comprehensive income).

The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and be recognised in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at FVOCI, the hedging gain or loss on the hedged item shall be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in FVOCI, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

Previous financial year

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(e) Hedge accounting (continued)

(i) Fair value hedge (continued)

Previous financial year (continued)

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

(ii) Cash flow hedge

Current financial year

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In cash flow hedge, the portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in equity and the ineffective portion is recognised in profit or loss. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

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

The Group or the Bank designates only the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ("forward points") and/or the foreign currency basis spread are separately accounted for as cost of hedging and recognised in a cost of hedging reserve within equity.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Previous financial year

The accounting policy was the same as the current year except that the cost of hedging was expensed to profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(f) Derivatives

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

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

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

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

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

(g) Derecognition

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

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

(h) Offsetting

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

D Property and equipment

(a) Recognition and measurement

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D Property and equipment (continued)

(a) Recognition and measurement (continued)

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

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

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

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

(b) Subsequent costs

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

(c) Depreciation

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

E Leased assets

(a) Finance lease

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

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

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

(b) Operating lease

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

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

F Cash and cash equivalents

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

Cash and cash equivalents are categorised and measured as amortised cost in accordance with Note 2(C)(b)(i). In previous financial year, cash and cash equivalents were categorised and measured as loans/financing and receivables.

G Impairment

(a) Financial assets

Current financial year

The Group and the Bank recognise impairment allowances for ECL on financial assets measured at amortised cost, 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).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment (continued)

(a) Financial assets (continued)

Current financial year (continued)

(i) ECL impairment model (continued)

- 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 2G(a)(iii).
- Stage 3: When a financial asset exhibits objective evidence of impairment and is considered to be credit-impaired, a loss allowance will be the full lifetime ECL (credit-impaired).

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

(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: as 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 Group and the Bank expect to receive;
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group and the Bank if the commitment is drawn down and the cash flows that the Group and the Bank expect to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group and the Bank expect to recover.

The Group and the Bank use 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, which the Group and the Bank take into account other factors including forward looking scenarios and market conditions.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment (continued)

(a) Financial assets (continued)

Current financial year (continued)

(iii) Movement between stages (continued)

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 Group and the Bank are also guided by BNM's policy document on Financial Reporting 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 Group's and 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.

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 as described in Note 42 of the financial statements.

(iv) Regulatory framework

Under the revised BNM Guideline on Financial Reporting, the Group and 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.

Previous financial year

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

(i) Held-to-maturity investments

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

(ii) Financial investments available-for-sale

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment (continued)

(a) Financial assets (continued)

Previous financial year (continued)

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

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

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

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

(iii) Loans/Financing and receivables

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment (continued)

(b) Other assets

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

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

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

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

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

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

H Equity instruments

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

Ordinary shares are classified as equity.

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

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

I Employee benefits

(a) Short-term employee benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

I Employee benefits (continued)

(a) Short-term employee benefits (continued)

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

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

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

(b) Share-based payment transactions

(i) OCBC Deferred Share Plan

Under the OCBC Deferred Share Plan, shares of the immediate and ultimate holding company of the Bank, Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), are awarded to eligible executives. 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 immediate and ultimate holding company of the Bank are offered to executives of the rank of Manager and above, including executive Directors. Options granted are exercisable for a period commencing after the 1st anniversary and expiring on the 10th anniversary of the respective dates of grant except for options granted to non-executive Directors which are exercisable up to 5 years. One-third of the share options granted will vest each financial year after the 1st anniversary of the respective dates of grant and fully vested after the 3rd anniversary.

(iii) OCBC Employee Share Purchase Plan

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

J Provisions

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

K Income and expenses

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

Current financial year

Interest/Finance income or expense is recognised using the effective interest/profit method.

The effective interest/finance 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 interest/finance income and expense, the effective interest/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, interest/finance income is calculated by applying the effective interest/profit rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income/profit 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.

Previous financial year

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

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

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

Both financial years

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

K Income and expenses (continued)

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

Both financial years (continued)

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

(b) Fee and commission income

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

(c) Net trading income

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

(d) Dividend income

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

(e) Rental income

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

(f) Other income

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

L Income tax

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

(a) Current tax

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

(b) Deferred tax

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

L Income tax (continued)

(b) Deferred tax (continued)

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

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

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

M Earnings per ordinary share

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

N 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 Group entity as mudarib and losses borne by depositors.

O Operating segments

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

P Contingencies

(a) Contingent liabilities

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

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

(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 Group and 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Q Fair value measurements

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

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

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

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

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

Level 3: unobservable inputs for the asset or liability.

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

R Recourse obligation on loans sold to Cagamas Berhad

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

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

S Zakat contribution

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

3 CASH AND CASH EQUIVALENTS

	Group		Bank	
	2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000 Restated
Cash and balances with banks and other financial institutions	361,561	493,106	307,702	351,502
Money at call and deposit placements with financial institutions maturing within one month	593,549	1,198,899	1,003,135	1,570,416
Deposit placements with Bank Negara Malaysia	3,943,741	4,466,256	3,038,000	3,650,000
	4,898,851	6,158,261	4,348,837	5,571,918
Stage 1 12-months ECL	(1,345)	-	(1,345)	-
	4,897,506	6,158,261	4,347,492	5,571,918

(a) By geographical distribution

	Group 2018 RM'000	Group 2017 RM'000 Restated	Bank 2018 RM'000	Bank 2017 RM'000 Restated
Malaysia	4,771,543	5,798,943	4,243,691	5,329,143
Singapore	59,490	184,748	41,230	161,523
Other ASEAN countries	2,866	6,178	2,112	5,875
Rest of the world	64,952	168,392	61,804	75,377
	4,898,851	6,158,261	4,348,837	5,571,918

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

Included in the Bank's cash and cash equivalents are deposits and placements with OCBC Al-Amin of RM410 million (31 December 2017: RM372 million), which are unsecured and profit bearing.

The comparative figures in the statement of financial position and this note have been restated to conform with current year presentation which presents RPSIA as a separate line item pursuant to BNM's policy on Financial Reporting issued on 2 February 2018. Previously, RPSIA was included in cash and cash equivalents and deposits and placements with banks and other financial institutions based on the maturity. See details in Note 5 to the financial statements.

Movements in ECL are as follows:

Group	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Total ECL non credit impaired RM'000
At 1 January 2018, under MFRS 139	-	-	-
Effect of adopting MFRS 9	170	45	215
At 1 January 2018, restated under MFRS 9	170	45	215
Net remeasurement during the year	1,087	(45)	1,042
Other movements	88	-	88
At 31 December 2018	1,345	-	1,345
Bank			
At 1 January 2018, under MFRS 139	-	-	-
Effect of adopting MFRS 9	142	45	187
At 1 January 2018, restated under MFRS 9	142	45	187
Net remeasurement during the year	1,115	(45)	1,070
Other movements	88	-	88
At 31 December 2018	1,345	-	1,345

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000 Restated
Licensed banks	400,000	71,835	980,343	182,518
Stage 1 12-months ECL	(44)	-	(44)	-
	399,956	71,835	980,299	182,518
(a) By geographical distribution				
Malaysia	400,000	-	980,343	110,683
Other ASEAN countries	-	71,835	-	71,835
	400,000	71,835	980,343	182,518

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

(b) By residual contractual maturity

	Group 2018 RM'000	Group 2017 RM'000 Restated	Bank 2018 RM'000	Bank 2017 RM'000 Restated
Maturity within one year	400,000	71,835	980,343	182,518

Included in the Bank's deposits and placements with licensed banks are deposits and placements with OCBC Al-Amin of RM580 million (31 December 2017: RM110 million), which are unsecured and profit bearing.

The comparative figures in the statement of financial position and this note have been restated to conform with current year presentation which presents RPSIA as a separate line item pursuant to BNM's policy on Financial Reporting issued on 2 February 2018. Previously, RPSIA was included in cash and cash equivalents and deposits and placements with banks and other financial institutions based on the maturity. See details in Note 5 to the financial statements.

Movements in ECL are as follows:

Group and Bank	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Total ECL non credit impaired RM'000
At 1 January 2018, under MFRS 139	-	-	-
Effect of adopting MFRS 9	17	15	32
At 1 January 2018, restated under MFRS 9	17	15	32
New financial assets originated or purchased	35	-	35
Net remeasurement during the year	(8)	(15)	(23)
At 31 December 2018	44	-	44

5 INVESTMENT ACCOUNT PLACEMENT

	Bank	
	2018 RM'000	2017 RM'000 Restated
Restricted Profit Sharing Investment Accounts	1,379,286	1,861,390
Expected credit loss/ Impairment allowance	(60,510)	(68,379)
	1,318,776	1,793,011

5 INVESTMENT ACCOUNT PLACEMENT (continued)

	Bank 2018 RM'000	Bank 2017 RM'000 Restated
(a) By geographical distribution		
Malaysia	823,672	1,275,651
Singapore	555,614	585,739
	1,379,286	1,861,390

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

	Bank 2018 RM'000	Bank 2017 RM'000 Restated
(b) By residual contractual maturity		
Within one year	1,263,316	1,745,420
Over five years	115,970	115,970
	1,379,286	1,861,390

The exposures to Restricted Profit Sharing Investment Accounts ("RPSIA") is an arrangement with its subsidiary, OCBC Al-Amin Bank Berhad ("OCBC Al-Amin"), which the contract is based on Mudharabah principle to fund a specific business venture where the Bank solely provides capital and the business venture is managed solely by OCBC Al-Amin. The profit of the business venture arrangement is shared with the Bank as mudarib based on a pre-agreed ratio, and losses borne by the Bank.

Except for an exposure to a specific RPSIA funded financing of RM116 million (2017: RM116 million) for which the Bank has provided for Stage 3 ECL allowance as at 31 December 2018, the rest of the RPSIA exposures are categorised as Pass according to the Bank's classification grade.

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

Movements in ECL are as follows:

Bank	**Stage 1 12 months ECL RM'000**	**Stage 3 Lifetime ECL credit impaired RM'000**	**Total ECL RM'000**
At 1 January 2018, under MFRS 139	-	-	-
Effect of adopting MFRS 9	8,561	59,818	68,379
At 1 January 2018, restated under MFRS 9	8,561	59,818	68,379
New financial assets originated or purchased	478	-	478
Financial assets derecognised	(819)	-	(819)
Net remeasurement during the year	(4,828)	-	(4,828)
Other movements	-	(2,700)	(2,700)
At 31 December 2018	3,392	57,118	60,510

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")/FINANCIAL ASSETS HELD-FOR-TRADING

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At fair value				
Malaysian Government Investment Issues	500,813	269,493	500,813	269,493
Malaysian Government Securities	261,220	252,505	261,220	252,505
Malaysian Government Treasury Bills	377,339	-	377,339	-
Bank Negara Malaysia Monetary Notes	75,221	-	75,221	-
Corporate Bonds and Sukuk	658,736	1,168,765	648,756	1,168,765
Debentures	186	-	186	-
	1,873,515	1,690,763	1,863,535	1,690,763

7 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")/ FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At fair value				
Malaysian Government Investment Issues	5,433,495	4,824,454	3,110,701	2,670,438
Malaysian Government Securities	3,213,339	2,272,777	3,213,339	2,272,777
Malaysian Treasury Bills and Islamic Treasury Bills	-	248,701	-	198,820
Malaysian Government Debt Securities and Sukuk	357,061	172,070	112,488	76,882
Bank Negara Malaysia Monetary Notes	445,470	-	445,470	-
Foreign Government Debt Securities	614,177	596,729	443,825	394,732
Negotiable Instruments of Deposit and Islamic Negotiable Instruments of Deposit	2,992,396	1,653,492	1,920,316	162,268
Corporate and Islamic Corporate Bonds, Sukuk and Sanadat Mudharabah Cagamas	4,647,270	3,624,212	4,241,186	2,893,638
Unquoted shares in Malaysia	99,218	-	99,218	-
Debentures	-	190	-	190
	17,802,426	13,392,625	13,586,543	8,669,745
At cost				
Unquoted shares in Malaysia*	-	108,546	-	108,546
	17,802,426	13,501,171	13,586,543	8,778,291
Impairment allowance				
- Debentures	-	(12)	-	(12)
	17,802,426	13,501,159	13,586,543	8,778,279

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

7 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")/ FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (continued)

Group	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Total ECL RM'000	Total impairment allowance RM'000
At 1 January 2018, under MFRS 139	-	-	-	12
Effect of adopting MFRS 9	8,380	3,249	11,629	(12)
At 1 January 2018, restated under MFRS 9	8,380	3,249	11,629	-
Transferred to Stage 1	32	(32)	-	-
Transferred to Stage 2	(12)	12	-	-
New financial assets originated or purchased	2,728	-	2,728	-
Financial assets derecognised	(1,805)	-	(1,805)	-
Net remeasurement during the year	(7,978)	(3,178)	(11,156)	-
Other movements	10	(1)	9	-
At 31 December 2018	1,355	50	1,405	-

Bank	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Total ECL RM'000	Total impairment allowance RM'000
At 1 January 2018, under MFRS 139	-	-	-	12
Effect of adopting MFRS 9	6,464	2,519	8,983	(12)
At 1 January 2018, restated under MFRS 9	6,464	2,519	8,983	-
Transferred to Stage 1	14	(14)	-	-
Transferred to Stage 2	(4)	4	-	-
New financial assets originated or purchased	2,242	-	2,242	-
Financial assets derecognised	(752)	-	(752)	-
Net remeasurement during the year	(6,817)	(2,509)	(9,326)	-
Other movements	9	-	9	-
At 31 December 2018	1,156	-	1,156	-

8 LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At amortised cost				
Overdrafts	3,031,000	2,938,259	3,031,000	2,938,259
Term loans/financing:				
- Housing loans/financing	25,592,189	27,115,889	23,629,878	25,109,866
- Syndicated term loans/financing	3,495,338	2,667,458	2,741,928	2,307,642
- Hire purchase receivables	393,155	447,683	10	10
- Other term loans/financing	22,049,075	22,383,800	18,340,739	18,823,707
Credit cards	619,195	561,471	619,195	561,471
Bills receivable	208,252	506,083	190,746	485,680
Trust receipts	32,800	36,343	32,800	36,225
Claims on customers under acceptance credits	3,308,240	3,108,578	2,849,402	2,646,951
Revolving credit	8,759,195	7,098,771	5,647,098	4,083,691
Staff loans/financing	53,935	62,702	53,935	62,702
Other loans/financing	1,912,691	1,515,508	1,762,415	1,397,019
	69,455,065	68,442,545	58,899,146	58,453,223
At fair value				
Other term loans/financing	24,836	-	24,836	-
Gross loans, advances and financing	69,479,901	68,442,545	58,923,982	58,453,223
Expected credit loss	(898,405)	-	(658,693)	-
Individual impairment allowance	-	(389,432)	-	(263,555)
Collective impairment allowance	-	(600,763)	-	(446,844)
Net loans, advances and financing	68,581,496	67,452,350	58,265,289	57,742,824

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

8 LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
a) By type of customer				
Domestic banking institutions	28,477	435	28,477	435
Domestic non-bank financial institutions	1,548,954	1,439,704	1,494,633	1,386,702
Domestic business enterprises				
- Small and medium enterprises	12,911,253	12,936,680	10,884,461	10,955,266
- Others	22,674,910	19,708,247	17,627,218	15,574,236
Individuals	28,727,164	30,615,975	26,423,245	28,104,304
Foreign entities	3,589,143	3,741,504	2,465,948	2,432,280
	69,479,901	68,442,545	58,923,982	58,453,223
b) By interest/profit rate sensitivity				
Fixed rate				
- Housing loans/financing	19,531	90,160	9,924	69,577
- Hire purchase receivables	185,330	256,962	10	10
- Other fixed rate loans/financing	6,893,475	6,642,975	5,152,777	4,816,469
Variable rate				
- Base rate/Base lending rate/Base financing rate plus	41,602,867	43,698,917	37,812,593	40,147,213
- Cost plus	20,169,093	17,352,150	15,344,600	13,018,573
- Other variable rates	609,605	401,381	604,078	401,381
	69,479,901	68,442,545	58,923,982	58,453,223
c) By sector				
Agriculture, hunting, forestry and fishing	3,511,185	2,955,717	1,951,580	1,563,034
Mining and quarrying	478,479	602,558	360,751	342,350
Manufacturing	7,937,725	7,518,600	6,426,866	6,107,704
Electricity, gas and water	483,927	304,729	446,321	250,764
Construction	2,969,574	2,260,653	2,177,234	1,811,551
Real estate	7,691,493	6,892,385	6,729,713	6,336,790
Wholesale & retail trade and restaurants & hotels	7,718,554	7,032,064	6,684,988	6,026,701
Transport, storage and communication	1,138,770	2,160,818	936,379	1,986,541
Finance, insurance and business services	2,375,844	2,485,452	2,168,218	2,238,318
Community, social and personal services	2,591,561	2,047,320	1,887,565	1,438,775
Household				
- Purchase of residential properties	26,636,501	28,226,634	24,667,646	26,186,804
- Purchase of non-residential properties	1,008,631	1,119,879	968,538	1,077,250
- Others	2,897,614	3,039,009	2,478,784	2,489,700
Others	2,040,043	1,796,727	1,039,399	596,941
	69,479,901	68,442,545	58,923,982	58,453,223
d) By geographical distribution				
Malaysia	66,023,847	64,934,877	56,460,334	56,062,788
Singapore	1,785,469	1,698,228	1,153,642	1,047,593
Other ASEAN countries	562,584	597,615	368,063	370,525
Rest of the world	1,108,001	1,211,825	941,943	972,317
	69,479,901	68,442,545	58,923,982	58,453,223

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

8 LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
e) By residual contractual maturity				
Within one year	20,198,290	18,572,772	16,028,474	14,440,795
One year to less than three years	4,426,273	4,260,464	3,783,786	3,514,010
Three years to less than five years	5,160,252	4,265,238	4,017,397	3,326,238
Over five years	39,695,086	41,344,071	35,094,325	37,172,180
	69,479,901	68,442,545	58,923,982	58,453,223

9 IMPAIRED LOANS, ADVANCES AND FINANCING

(i) Movements in credit-impaired loans, advances and financing

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
At 1 January	1,430,623	1,485,727	1,047,051	1,188,175
Impaired during the year	997,132	1,142,847	703,604	736,614
Reclassified as unimpaired	(524,576)	(555,977)	(434,105)	(454,117)
Amount recovered	(332,646)	(370,909)	(233,032)	(241,217)
Amount written off	(239,897)	(251,858)	(126,127)	(172,275)
Effect of foreign exchange difference	2,405	(19,207)	550	(10,129)
At 31 December	1,333,041	1,430,623	957,941	1,047,051
Stage 3 ECL	(368,702)	-	(248,504)	-
Individually assessed impairment allowance	-	(389,432)	-	(263,555)
Collectively assessed impairment allowance	-	(9,653)	-	(6,017)
Net impaired loans, advances and financing	964,339	1,031,538	709,437	777,479

a) By sector

Agriculture, hunting, forestry and fishing	8,050	6,742	5,769	6,307
Mining and quarrying	20,788	89,569	20,788	89,569
Manufacturing	206,423	233,978	181,310	207,659
Construction	19,102	15,933	9,998	11,774
Real estate	76,524	21,394	69,557	16,099
Wholesale & retail trade and restaurants & hotels	215,284	181,977	112,675	137,044
Transport, storage and communication	64,468	70,470	58,870	65,931
Finance, insurance and business services	20,179	18,827	10,416	7,928
Community, social and personal services	6,008	7,031	4,617	5,661
Household				
- Purchase of residential properties	455,136	465,784	395,000	405,180
- Purchase of non-residential properties	32,913	30,066	32,167	29,804
- Others	77,513	96,365	56,290	63,538
Others	130,653	192,487	484	557
	1,333,041	1,430,623	957,941	1,047,051

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
b) By geographical distribution				
Malaysia	1,304,041	1,411,431	928,941	1,027,859
Singapore	15,335	15,371	15,335	15,371
Rest of the world	13,665	3,821	13,665	3,821
	1,333,041	1,430,623	957,941	1,047,051

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

	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
c) By period overdue				
Less than 3 months	264,524	253,737	146,291	191,930
3 months to less than 6 months	169,634	190,256	140,621	143,088
6 months to less than 9 months	132,172	212,882	117,472	80,116
Over 9 months	766,711	773,748	553,557	631,917
	1,333,041	1,430,623	957,941	1,047,051
d) By collateral type				
Property	738,856	748,235	641,825	654,128
Fixed deposits	665	345	665	345
Stock and shares	5,314	47	44	47
Machinery	487	997	-	-
Secured - others	93,537	334,864	17,405	118,698
Unsecured - corporate and other guarantees	198,061	137,992	168,665	137,521
Unsecured - clean	296,121	208,143	129,337	136,312
	1,333,041	1,430,623	957,941	1,047,051

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

	Group				Bank			
2018	**Stage 1 12 months ECL RM'000**	**Stage 2 Lifetime ECL non credit impaired RM'000**	**Stage 3 Lifetime ECL credit impaired RM'000**	**Total ECL RM'000**	**Stage 1 12 months ECL RM'000**	**Stage 2 Lifetime ECL non credit impaired RM'000**	**Stage 3 Lifetime ECL credit impaired RM'000**	**Total ECL RM'000**
At 1 January	-	-	-	-	-	-	-	-
Effect of adopting MFRS 9*	182,120	301,558	389,432	873,110	137,705	204,111	263,555	605,371
At 1 January, as restated under MFRS 9	182,120	301,558	389,432	873,110	137,705	204,111	263,555	605,371
Transferred to/(from) Stage 1	434,605	(378,042)	(56,563)	-	264,941	(235,683)	(29,258)	-
Transferred (from)/to Stage 2	(62,394)	88,759	(26,365)	-	(40,173)	58,969	(18,796)	-
Transferred (from)/to Stage 3	(1,776)	(134,817)	136,593	-	(611)	(71,541)	72,152	-
New financial assets originated or purchased	217,977	53,838	-	271,815	166,324	43,404	-	209,728
Financial assets derecognised	(133,696)	(75,932)	(16,197)	(225,825)	(110,014)	(58,865)	(10,791)	(179,670)
Net remeasurement during the year	(393,686)	432,466	199,337	238,117	(237,880)	290,629	110,309	163,058
Written off	-	-	(239,897)	(239,897)	-	-	(126,127)	(126,127)
Other movements	(1,952)	675	(17,638)	(18,915)	(1,443)	316	(12,540)	(13,667)
At 31 December	241,198	288,505	368,702	898,405	178,849	231,340	248,504	658,693
At 1 January, as restated under MFRS 9								
- Loans, advances and financing	170,197	297,300	389,432	856,929	129,038	201,164	263,555	593,757
- Credit commitments and financial guarantees	11,923	4,258	-	16,181	8,667	2,947	-	11,614
	182,120	301,558	389,432	873,110	137,705	204,111	263,555	605,371
At 31 December								
- Loans, advances and financing	228,310	274,791	368,702	871,803	169,102	217,864	248,504	635,470
- Credit commitments and financial guarantees	12,888	13,714	-	26,602	9,747	13,476	-	23,223
	241,198	288,505	368,702	898,405	178,849	231,340	248,504	658,693

* The remeasured amount under Stage 1 and Stage 2 ECL as at 1 January 2018 reduced by RM117 million and RM105 million, respectively, for the Group and the Bank as disclosed in Note 49 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

	Group			Bank		
	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Total impairment allowance RM'000	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Total impairment allowance RM'000
At 1 January 2017, under MFRS 139	747,243	352,074	1,099,317	560,264	272,031	832,295
Made during the year	-	477,552	477,552	-	280,820	280,820
Written back	(146,480)	(182,077)	(328,557)	(113,420)	(111,766)	(225,186)
Written off	-	(251,858)	(251,858)	-	(172,275)	(172,275)
Discount unwind and financing income earned on impaired financing	-	(6,259)	(6,259)	-	(5,255)	(5,255)
At 31 December 2017, under MFRS 139	600,763	389,432	990,195	446,844	263,555	710,399
Effect of adopting MFRS 9	(600,763)	(389,432)	(990,195)	(446,844)	(263,555)	(710,399)
At 1 January 2018, under MFRS 9	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

(a) By sector

	Group				Bank			
			Stage 3 ECL				Stage 3 ECL	
2018	**Stage 1 and Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Made during the year (Note 30) RM'000**	**Written off RM'000**	**Stage 1 and Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Made during the year (Note 30) RM'000**	**Written off RM'000**
Agriculture, hunting, forestry and fishing	36,089	2	57	66	30,836	-	25	25
Mining and quarrying	6,877	-	133,140	132,865	4,242	-	67,029	66,758
Manufacturing	70,032	61,288	13,543	5,503	52,572	59,941	10,478	2,978
Electricity, gas and water	13,150	-	-	-	13,013	-	-	-
Construction	79,116	8,402	12,148	2,777	65,320	2,095	4,499	1,853
Real estate	27,384	12,018	8,620	6	19,339	9,472	8,561	6
Wholesale & retail trade and restaurants & hotels	70,123	62,777	71,820	21,945	55,607	43,226	46,297	13,385
Transport, storage and communication	2,604	29,014	7,144	3,950	516	27,501	4,272	2,660
Finance, insurance and business services	19,314	4,125	4,579	2,625	18,632	2,661	2,093	998
Community, social and personal services	5,049	997	1,902	1,785	426	882	1,312	1,294
Household								
- Purchase of residential properties	54,431	91,367	105,878	19,346	48,304	79,825	91,953	16,992
- Purchase of non-residential properties	4,620	3,407	3,469	3,261	4,168	3,375	3,375	3,169
- Others	114,457	38,187	93,642	45,768	81,439	19,526	42,586	16,009
Others	26,457	57,118	-	-	15,775	-	-	-
	529,703	368,702	455,942	239,897	410,189	248,504	282,480	126,127

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

(a) By sector (continued)

	Group				Bank			
			Individual impairment allowance				Individual impairment allowance	
2017	**Collective impairment allowance RM'000**	**Individual impairment allowance RM'000**	**Made during the year (Note 30) RM'000**	**Written off RM'000**	**Collective impairment allowance RM'000**	**Individual impairment allowance RM'000**	**Made during the year (Note 30) RM'000**	**Written off RM'000**
Agriculture, hunting, forestry and fishing	36,257	211	305	137	12,003	-	25	100
Mining and quarrying	6,460	442	20,893	20,584	2,626	442	20,893	20,430
Manufacturing	67,717	83,476	76,381	104,746	46,290	79,621	70,170	101,419
Electricity, gas and water	2,721	-	-	-	1,926	-	-	-
Construction	20,496	3,500	6,683	4,378	13,892	2,535	5,052	3,053
Real estate	56,784	5,776	469	-	48,637	3,073	430	-
Wholesale & retail trade and restaurants & hotels	60,653	46,542	45,080	22,715	46,015	34,440	28,042	9,466
Transport, storage and communication	17,581	30,629	29,214	2,250	15,027	29,631	27,346	763
Finance, insurance and business services	20,778	4,777	9,982	3,621	17,168	2,607	4,036	527
Community, social and personal services	19,998	2,109	3,089	1,796	11,035	1,771	1,993	365
Household								
- Purchase of residential properties	230,335	95,745	89,173	19,940	200,445	84,162	78,930	18,581
- Purchase of non-residential properties	8,873	3,585	2,008	26	8,245	3,536	1,958	26
- Others	26,589	52,822	123,140	60,347	18,952	21,737	41,945	17,545
Others	25,521	59,818	71,135	11,318	4,583	-	-	-
	600,763	389,432	477,552	251,858	446,844	263,555	280,820	172,275

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

(b) By geographical distribution

	Group			Bank		
2018	**Stage 1 and Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**	**Stage 1 and Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**
Malaysia	494,707	339,702	834,409	386,677	219,504	606,181
Singapore	6,027	15,335	21,362	4,377	15,335	19,712
Other ASEAN countries	13,325	-	13,325	13,240	-	13,240
Rest of the world	15,644	13,665	29,309	5,895	13,665	19,560
	529,703	368,702	898,405	410,189	248,504	658,693

	Group			Bank		
2017	**Collective impairment allowance RM'000**	**Individual impairment allowance RM'000**	**Total impairment allowance RM'000**	**Collective impairment allowance RM'000**	**Individual impairment allowance RM'000**	**Total impairment allowance RM'000**
Malaysia	562,507	387,402	949,909	428,502	261,525	690,027
Singapore	20,314	1,708	22,022	8,031	1,708	9,739
Other ASEAN countries	6,946	-	6,946	2,845	-	2,845
Rest of the world	10,996	322	11,318	7,466	322	7,788
	600,763	389,432	990,195	446,844	263,555	710,399

10 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

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

	2018			2017		
	Contract or underlying principal	Fair value		Contract or underlying principal	Fair value	
Group	**amount RM'000**	**Assets RM'000**	**Liabilities RM'000**	**amount RM'000**	**Assets RM'000**	**Liabilities RM'000**
Trading						
Foreign exchange derivatives						
- Forwards	3,797,284	35,951	13,089	3,292,964	23,417	103,020
- Swaps	13,811,028	529,082	496,040	14,598,777	646,655	784,967
- Options	866,437	5,990	2,116	353,697	2,119	988
Interest/Profit rate derivatives						
- Swaps	41,248,610	104,588	114,755	44,389,512	138,134	162,926
- Options	180,000	56	312	180,000	442	1,074
- Futures	333,719	142	1,081	80,911	-	16
Equity and other derivatives						
- Swaps	217,800	11,699	11,699	132,500	7,271	7,271
- Options	-	-	-	3,780	-	-
- Commodity futures	42,091	166	3,702	161,498	2,567	3,758
- Credit linked notes	1,241,549	72,971	72,971	474,416	15,220	15,220
	61,738,518	760,645	715,765	63,668,055	835,825	1,079,240
Hedging						
Interest rate derivatives						
- Swaps	116,211	116	403	114,729	-	1,614
	61,854,729	760,761	716,168	63,782,784	835,825	1,080,854

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

10 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

	2018			2017		
	Contract or underlying principal	Fair value		Contract or underlying principal	Fair value	
Bank	**amount RM'000**	**Assets RM'000**	**Liabilities RM'000**	**amount RM'000**	**Assets RM'000**	**Liabilities RM'000**
Trading						
Foreign exchange derivatives						
- Forwards	3,808,900	35,958	13,034	3,290,208	23,217	102,593
- Swaps	13,842,531	530,373	496,040	14,598,777	646,655	784,967
- Options	866,437	5,990	2,116	353,697	2,119	988
Interest rate derivatives						
- Swaps	41,248,610	104,806	114,755	44,389,512	138,134	162,926
- Options	180,000	56	312	180,000	442	1,074
- Futures	333,719	142	1,081	80,911	-	16
Equity and other derivatives						
- Swaps	217,800	11,699	11,699	132,500	7,271	7,271
- Options	-	-	-	3,780	-	-
- Commodity futures	42,091	166	3,702	161,498	2,567	3,758
- Credit linked notes	1,241,549	72,971	72,971	474,416	15,220	15,220
	61,781,637	762,161	715,710	63,665,299	835,625	1,078,813
Hedging						
Interest rate derivatives						
- Swaps	116,211	116	403	114,729	-	1,614
	61,897,848	762,277	716,113	63,780,028	835,625	1,080,427
Of which related to wholly-owned subsidiary	243,109	3,731	3	30,544	143	19

11 OTHER ASSETS

		Group		Bank	
	Note	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Amount due from subsidiaries	(a)	-	-	10,034	177,436
Interest/Profit receivable		188,515	134,749	164,453	113,005
Unquoted redeemable Islamic subordinated sukuk of a subsidiary	(b)	-	-	200,000	200,000
Other receivables, deposits and prepayments	(c)	230,483	237,900	224,974	221,842
ECL/Impairment allowance on other receivables	(d)	-	(2,372)	-	(2,372)
		418,998	370,277	599,461	709,911

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

(b) On 24 November 2016, the Bank subscribed for RM200 million redeemable 10 years non-callable 5 years subordinated 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.

(c) Included in other receivables is an impaired exposure of RM12 million.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

11 OTHER ASSETS (continued)

(d) Movements in impairment allowance on other receivables

	2018			
Group	**Stage 1 12 months ECL RM'000**	**Stage 2 Lifetime ECL non credit impaired RM'000**	**Stage 3 Lifetime ECL credit impaired RM'000**	**Total ECL RM'000**
At 1 January, under MFRS 139	-	-	-	-
Effect of adopting MFRS 9	469	623	2,372	3,464
At 1 January, as restated under MFRS 9	469	623	2,372	3,464
Net remeasurement during the year	(469)	(623)	27	(1,065)
Written off	-	-	(2,399)	(2,399)
At 31 December	-	-	-	-
Bank				
At 1 January, under MFRS 139	-	-	-	-
Effect of adopting MFRS 9	301	258	2,372	2,931
At 1 January, as restated under MFRS 9	301	258	2,372	2,931
Net remeasurement during the year	(301)	(258)	27	(532)
Written off	-	-	(2,399)	(2,399)
At 31 December	-	-	-	-

Group and Bank	**2017 Individual impairment allowance RM'000**
At 1 January	2,609
Made during the year	50
Amount written off	(50)
Currency translation adjustment	(237)
At 31 December	2,372

12 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

13 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2018	**2017**
	RM'000	**RM'000**
Unquoted shares in Malaysia, at cost	557,051	558,492

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

Name	**Note**	**Principal activities**	**Effective ownership and voting interest**	
			2018	**2017**
OCBC Al-Amin Bank Berhad		Islamic banking	100%	100%
OCBC Credit Berhad	(a)	Wound-up during the year	0%	100%
Malaysia Nominees (Tempatan) Sdn Bhd		Nominee services	100%	100%
Malaysia Nominees (Asing) Sdn Bhd		Nominee services	100%	100%
OCBC Advisers (Malaysia) Sdn Bhd	(b)	Corporate finance and related advisory services	100%	70%

(a) On 31 May 2018, the member's voluntary winding-up of OCBC Credit Berhad, a wholly-owned subsidiary of the Bank was completed upon which, OCBC Credit Berhad ceased to be a subsidiary of the Bank. The final distribution upon winding-up received by the Bank amounted to RM13.9 million with a gain of RM12.3 million as disclosed in Note 27 to the financial statements.

(b) On 30 October 2018, the Bank acquired 150,000 Class B ordinary shares of RM150,000, representing the remaining 30% of the issued and paid-up share capital in OCBC Advisers (Malaysia) Sdn Bhd ("OCBC Advisers") for a total consideration of RM150,000 from the non-controlling interest. Post-acquisition, OCBC Advisers became a wholly-owned subsidiary company of the Bank.

The following summarises the effect of changes in the equity interest in OCBC Advisers that is attributable to the Bank:

	RM'000
Equity interest at 1 January 2018	3,484
Effect of increase in Bank's ownership interest	1,444
Dividend received during the year	(2,800)
Share of comprehensive income	337
Equity interest at 31 December 2018	2,465

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

14 PROPERTY AND EQUIPMENT

		Leasehold land	Buildings on leasehold land							
Group	**Freehold land and buildings*** **RM'000**	**50 years or more** **RM'000**	**Less than 50 years** **RM'000**	**50 years or more** **RM'000**	**Office equipment and furniture** **RM'000**	**Computer equipment/ software** **RM'000**	**Motor vehicles** **RM'000**	**Renovation** **RM'000**	**Work in progress** **RM'000**	**Total** **RM'000**
2018										
Cost										
At 1 January	124,076	3,745	3,607	7,018	137,164	262,483	905	87,711	3,929	630,638
Additions	-	-	-	-	5,530	4,634	-	3,277	17,142	30,583
Disposals/Written off	-	-	-	-	(138)	(92)	(387)	-	-	(617)
Transfer from related parties	-	-	-	-	86	31	-	-	-	117
Reclassification	-	-	-	-	-	17,826	-	1,144	(18,970)	-
At 31 December	124,076	3,745	3,607	7,018	142,642	284,882	518	92,132	2,101	660,721
Accumulated depreciation										
At 1 January	(36,608)	(550)	(1,528)	(2,467)	(108,995)	(230,138)	(653)	(82,445)	-	(463,384)
Depreciation for the year	(2,055)	(36)	(53)	(89)	(6,383)	(15,688)	(123)	(4,286)	-	(28,713)
Disposals/Written off	-	-	-	-	120	84	310	-	-	514
Transfer from related parties	-	-	-	-	(81)	(31)	-	-	-	(112)
At 31 December	(38,663)	(586)	(1,581)	(2,556)	(115,339)	(245,773)	(466)	(86,731)	-	(491,695)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	85,845	3,145	994	2,651	28,169	32,345	252	5,266	3,929	162,596
At 31 December	83,790	3,109	941	2,562	27,303	39,109	52	5,401	2,101	164,368

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2017: RM105 million) and accumulated depreciation of RM39 million (2017: RM37 million).

14 PROPERTY AND EQUIPMENT (continued)

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

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2017: RM105 million) and accumulated depreciation of RM39 million (2017: RM37 million).

14 PROPERTY AND EQUIPMENT (continued)

Bank	Freehold land and buildings* RM'000	Leasehold land 50 years or more RM'000	Building on leasehold land Less than 50 years RM'000	Building on leasehold land 50 years or more RM'000	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Motor vehicles RM'000	Renovation RM'000	Work in progress RM'000	Total RM'000
2018										
Cost										
At 1 January	123,944	3,745	3,607	7,018	128,270	245,753	816	76,643	3,929	593,725
Additions	-	-	-	-	3,443	3,600	-	1,441	17,142	25,626
Disposals/Written off	-	-	-	-	(128)	(85)	(387)	-	-	(600)
Transfer from related parties	-	-	-	-	85	16	-	-	-	101
Reclassification	-	-	-	-	-	17,826	-	1,144	(18,970)	-
At 31 December	123,944	3,745	3,607	7,018	131,670	267,110	429	79,228	2,101	618,852
Accumulated depreciation										
At 1 January	(36,571)	(550)	(1,528)	(2,467)	(104,748)	(216,401)	(564)	(72,967)	-	(435,796)
Depreciation for the year	(2,055)	(36)	(53)	(89)	(5,372)	(14,158)	(123)	(2,420)	-	(24,306)
Disposals/Written off	-	-	-	-	111	77	310	-	-	498
Transfer from related parties	-	-	-	-	(82)	(24)	-	-	-	(106)
At 31 December	(38,626)	(586)	(1,581)	(2,556)	(110,091)	(230,506)	(377)	(75,387)	-	(459,710)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	85,750	3,145	994	2,651	23,522	29,352	252	3,676	3,929	153,271
At 31 December	83,695	3,109	941	2,562	21,579	36,604	52	3,841	2,101	154,484

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2017: RM105 million) and accumulated depreciation of RM39 million (2017: RM37 million).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

14 PROPERTY AND EQUIPMENT (continued)

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

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2017: RM105 million) and accumulated depreciation of RM39 million (2017: RM37 million).

15 PREPAID LEASE PAYMENTS

	Group and Bank	
	Leasehold land	
	Unexpired period less than 50 years	
	2018 RM'000	2017 RM'000
Cost		
At 1 January and 31 December	3,047	3,047
Accumulated amortisation		
At 1 January	(745)	(709)
Amortisation for the year	(36)	(36)
At 31 December	(781)	(745)
Impairment allowance		
At 1 January and 31 December	(1,554)	(1,554)
Carrying amount		
At 1 January	748	784
At 31 December	712	748

16 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Change in fair value of financial instruments	-	-	703	(4,044)	703	(4,044)
Excess of capital allowance over depreciation	-	-	(3,855)	(9,546)	(3,855)	(9,546)
Stage 1 and 2 ECL	15,599	-	-	-	15,599	-
Impairment allowance on financial investments at FVOCI	-	3	-	-	-	3
Other temporary differences	47,688	40,544	-	-	47,688	40,544
Tax assets/(liabilities)	63,287	40,547	(3,152)	(13,590)	60,135	26,957
Set off of tax	(3,152)	(13,590)	3,152	13,590	-	-
Net tax assets	60,135	26,957	-	-	60,135	26,957
Bank						
Change in fair value of financial instruments	1,399	-	-	(2,890)	1,399	(2,890)
Excess of capital allowance over depreciation	-	-	(2,991)	(8,414)	(2,991)	(8,414)
Stage 1 and 2 ECL	10,510	-	-	-	10,510	-
Impairment allowance on financial investments at FVOCI	-	3	-	-	-	3
Other temporary differences	43,007	36,323	-	-	43,007	36,323
Tax assets/(liabilities)	54,916	36,326	(2,991)	(11,304)	51,925	25,022
Set off of tax	(2,991)	(11,304)	2,991	11,304	-	-
Net tax assets	51,925	25,022	-	-	51,925	25,022

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

16 DEFERRED TAX ASSETS (continued)

(i) Movement in deferred tax during the financial year

Group	At 1 January RM'000	Recognised in profit or loss (Note 31) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
2018				
Change in fair value of financial instruments	(4,044)	-	4,747	703
Excess of capital allowance over depreciation	(9,546)	5,691	-	(3,855)
Stage 1 and 2 ECL	-	15,599	-	15,599
Impairment allowance on financial investments at FVOCI	3	(3)	-	-
Other temporary differences	40,544	7,144	-	47,688
	26,957	28,431	4,747	60,135
2017				
Change in fair value of financial instruments	5,108	-	(9,152)	(4,044)
Excess of capital allowance over depreciation	(12,657)	3,111	-	(9,546)
Impairment allowance on financial investments at FVOCI	3	-	-	3
Other temporary differences	35,867	4,677	-	40,544
	28,321	7,788	(9,152)	26,957
Bank				
2018				
Change in fair value of financial instruments	(2,890)	-	4,289	1,399
Excess of capital allowance over depreciation	(8,414)	5,423	-	(2,991)
Stage 1 and 2 ECL	-	10,510	-	10,510
Impairment allowance on financial investments at FVOCI	3	(3)	-	-
Other temporary differences	36,323	6,684	-	43,007
	25,022	22,614	4,289	51,925
2017				
Change in fair value of financial instruments	2,106	-	(4,996)	(2,890)
Excess of capital allowance over depreciation	(11,247)	2,833	-	(8,414)
Impairment allowance on financial investments at FVOCI	3	-	-	3
Other temporary differences	32,115	4,208	-	36,323
	22,977	7,041	(4,996)	25,022

17 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
a) By type of deposit				
Demand deposits	15,947,506	14,959,903	11,996,549	11,246,027
Fixed/General investment deposits	43,985,063	43,103,460	37,926,275	36,491,363
Saving deposits	8,663,523	7,441,043	8,144,688	6,956,711
Negotiable instruments of deposit	4,238,206	5,104,660	4,238,205	5,104,660
Short-term money market deposits	3,016,923	3,043,673	1,818,611	2,691,661
	75,851,221	73,652,739	64,124,328	62,490,422

17 DEPOSITS FROM CUSTOMERS (continued)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
b) By type of customer				
Government and statutory bodies	1,845,890	1,427,339	146,443	81,052
Non-bank financial institutions	3,662,170	3,021,481	2,141,938	2,318,319
Business enterprises	28,498,385	27,959,118	23,168,402	22,233,620
Individuals	34,266,213	32,642,260	31,255,498	29,427,322
Foreign entities	6,869,564	7,571,149	6,757,216	7,468,190
Others	708,999	1,031,392	654,831	961,919
	75,851,221	73,652,739	64,124,328	62,490,422
c) By maturity structure for fixed/term/general investment deposits, negotiable instruments of deposit and short-term money market deposits				
Within six months	36,768,412	38,077,174	31,468,142	33,260,943
Six months to one year	14,143,387	12,418,069	12,203,426	10,436,494
One year to three years	324,817	747,784	307,957	581,992
Three years to five years	3,576	8,766	3,566	8,255
	51,240,192	51,251,793	43,983,091	44,287,684

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Licensed banks and other financial institutions	7,070,077	4,388,137	6,986,949	3,946,437

19 OTHER LIABILITIES

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Amount due to subsidiaries	(a)	-	-	36,850	21,654
Equity compensation benefits	(b)	12,650	12,476	11,974	11,780
Interest/Profit payable		680,419	528,833	610,292	459,912
Structured investments		1,924,791	1,610,026	1,924,791	1,610,026
Other payables and accruals		427,590	392,471	369,149	313,850
Provision for commitments and contingencies	(c)	83	-	83	-
		3,045,533	2,543,806	2,953,139	2,417,222

(a) The amount due to subsidiaries is unsecured, interest/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:

19 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(i) OCBC Deferred Share Plan

Under the OCBC Deferred Share Plan ("the Plan"), shares of the immediate and 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.

(ii) OCBC Share Option Scheme 2001

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

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 Ltd, in which case the relevant approving authoritues may allow the options to be retained and exercisable within the relevant option periods or such option periods as may be determined.

During the financial year, the Group and the Bank granted 128,638 options (2017: 172,422) and 117,791 options (2017: 154,497) to acquire ordinary shares in the immediate and ultimate holding company, OCBC Bank pursuant to OCBC Share Option Scheme 2001. The fair value of options granted to the employees of the Group and the Bank, determined using the binomial valuation model, were S$317,133 (2017: S$131,518) and S$290,392 (2017: S$117,845) respectively. Significant inputs to the valuation model are set out below:

	2018	2017
Acquisition price (S$)	13.34	9.60
Average share price from grant date to acceptance date (S$)	13.73	9.64
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	17.29	14.73
Risk-free rate based on SGD bond yield at acceptance date (%)	2.54	2.11
Expected dividend yield (%)	2.62	4.27
Exercise multiple (times)	1.52	1.74
Option life (expected weighted average life)	10	10

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

19 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(ii) OCBC Share Option Scheme 2001 (continued)

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

	2018		2017	
Group	**Number of share options**	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	573,714	9.059	1,059,393	8.936
Granted	128,638	13.340	172,422	9.598
Exercised	(128,513)	8.692	(651,418)	9.009
Forfeited/Lapsed	(3,615)	13.340	(6,683)	8.354
At 31 December	570,224	10.080	573,714	9.059
Exercisable at 31 December	268,517	9.058	232,183	8.509
Weighted average share price underlying the options exercised (S$)		12.956		10.712

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S$)	2018 Outstanding	2018 Exercisable
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	24,233	24,233
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	34,576	34,576
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	22,608	22,608
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	10,079	10,079
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	41,263	41,263
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	2,853	2,853
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	72,236	72,236
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	90,920	29,763
2017	23/03/2017	23/03/2018 to 22/03/2027	9.598	146,433	30,906
2018	22/03/2018	22/03/2019 to 21/03/2028	13.340	125,023	-
				570,224	268,517

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

19 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(ii) OCBC Share Option Scheme 2001 (continued)

Bank	2018 Number of share options	2018 Weighted average acquisition price (S$)	2017 Number of share options	2017 Weighted average acquisition price (S$)
At 1 January	522,645	9.002	984,234	8.893
Granted	117,791	13.340	154,497	9.598
Exercised	(128,513)	8.692	(609,403)	8.984
Forfeited/Lapsed	(3,615)	13.340	(6,683)	8.354
At 31 December	508,308	10.055	522,645	9.002
Exercisable at 31 December	237,168	8.952	220,335	8.408
Weighted average share price underlying the options exercised (S$)		12.956		10.712

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S$)	2018 Outstanding	2018 Exercisable
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	24,233	24,233
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	34,576	34,576
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	22,608	22,608
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	10,079	10,079
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	41,263	41,263
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	2,853	2,853
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	54,284	54,284
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	75,728	22,281
2017	23/03/2017	23/03/2018 to 22/03/2027	9.598	128,508	24,991
2018	22/03/2018	22/03/2019 to 21/03/2028	13.340	114,176	-
				508,308	237,168

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

19 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(iii) OCBC Employee Share Purchase Plan

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

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

In June 2018, OCBC Bank launched its thirteenth offering of ESP Plan for OCBC Bank's employees, which commenced on 1 July 2018 and expires on 30 June 2020. Under the offering, the Group and the Bank granted 824,245 (2017: 703,917) and 817,162 (2017: 697,713) rights to acquire ordinary shares in OCBC Bank. The fair value of rights for the Group and the Bank, determined using the binomial valuation model were S$1,244,940 (2017: S$513,155) and S$1,234,241 (2017: S$508,633) respectively. Significant inputs to the valuation model are set out below:

	2018	**2017**
Acquisition price (S$)	11.60	10.77
Closing share price at valuation date (S$)	12.13	10.72
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	18.45	13.06
Risk-free rate based on 2-year swap rate (%)	1.96	1.26
Expected dividend yield (%)	2.97	3.36

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

	2018		**2017**	
Group	**Number of share options**	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	1,443,583	9.500	1,623,734	9.115
Acquired	824,245	11.600	703,917	10.770
Forfeited/Lapsed	(178,579)	10.612	(335,025)	9.635
Exercised and converted upon expiry	(794,075)	8.573	(549,043)	9.907
At 31 December	1,295,174	11.251	1,443,583	9.500
Average share price underlying acquisition rights exercised/converted (S$)		11.568		10.992

19 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(iii) OCBC Employee Share Purchase Plan (continued)

	2018		**2017**	
Bank	**Number of share options**	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	1,429,869	9.502	1,608,156	9.117
Acquired	817,162	11.600	697,713	10.770
Forfeited/Lapsed	(174,687)	10.620	(330,873)	9.635
Exercised and converted upon expiry	(787,226)	8.573	(545,127)	9.908
At 31 December	1,285,118	11.253	1,429,869	9.502
Average share price underlying acquisition rights exercised/converted (S$)		11.568		10.992

(c) Provision for commitments and contingencies

	Group and Bank	
	2018 RM'000	**2017 RM'000**
At 1 January	-	-
Made during the year	83	-
At 31 December	83	-

The provision made during the year was for the Group's and the Bank's commitments and contingencies incurred in the normal course of business.

20 SUBORDINATED BONDS

		Group and Bank	
	Note	**2018 RM'000**	**2017 RM'000**
RM400 million Innovative Tier 1 Capital Securities	(a)	400,000	400,000
USD110 million Additional Tier 1 Capital Securities	(b)	455,202	445,010
USD130 million Redeemable Subordinated Bonds 2015/2025	(c)	537,967	525,922
RM390 million Redeemable Subordinated Bonds 2017/2027	(d)	390,000	390,000
RM110 million Redeemable Subordinated Bonds 2017/2027	(d)	110,000	110,000
		1,893,169	1,870,932

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

The IT1 Capital Securities, rated AA2 on 28 August 2018 by RAM, qualify as Tier 1 capital subject to a gradual phase out as required under the BNM Capital Adequacy Framework (Capital Components).

20 SUBORDINATED BONDS (continued)

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

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

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

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

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

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

21 SHARE CAPITAL

	Group and Bank			
	2018		2017	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid				
Ordinary shares				
At 1 January	287,500	754,000	287,500	287,500
Transfer from share premium	-	-	-	462,500
Transfer from capital redemption reserve	-	-	-	4,000
At 31 December	287,500	754,000	287,500	754,000

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

22 RESERVES

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

Regulatory reserve is maintained in compliance with the requirements under BNM's policy document on Financial Reporting to maintain, in aggregate, impairment allowance for non credit-impaired exposures (Stage 1 and Stage 2 ECL) and regulatory reserves of no less than 1% of total credit exposures, net of impairment allowance for credit-impaired exposures. During the financial year, the Group and the Bank transferred RM114 million from retained earnings to regulatory reserve.

ECL reserve comprises impairment allowance for financial investments at FVOCI. The impairment 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 FVOCI 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.

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

23 NET INTEREST INCOME

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest income				
Loans, advances and financing				
- Interest income other than recoveries	2,928,622	2,780,685	2,928,622	2,780,685
- Recoveries from impaired loans, advances and financing	59,536	58,691	59,536	58,691
- Discount unwind from impaired loans, advances and financing	15,240	5,255	12,540	5,255
Money at call and deposit placements with banks and other financial institutions	167,932	166,320	228,666	232,061
Financial assets at FVTPL/ held-for-trading	69,734	67,801	69,734	67,801
Financial investments at FVOCI/ available-for-sale	385,151	334,467	388,277	337,733
Unquoted Islamic subordinated sukuk of subsidiary	-	-	9,600	9,600
Others	97,539	88,152	100,239	88,152
	3,723,754	3,501,371	3,797,214	3,579,978
Interest expense				
Deposits from customers	(1,817,809)	(1,694,245)	(1,817,809)	(1,694,245)
Deposits and placements of banks and other financial institutions	(66,071)	(58,388)	(110,641)	(116,148)
Recourse obligation on loans sold to Cagamas Berhad	(55,180)	(53,539)	(55,180)	(53,539)
Subordinated bonds	(91,974)	(94,093)	(91,974)	(94,093)
Others	(186,988)	(195,657)	(186,988)	(195,657)
	(2,218,022)	(2,095,922)	(2,262,592)	(2,153,682)
Net interest income	1,505,732	1,405,449	1,534,622	1,426,296

23 NET INTEREST INCOME (continued)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(a) By category of financial instruments				
Interest income				
- Financial assets at FVTPL	69,734	67,801	69,734	67,801
- Loans/Financing and receivables at amortised cost	3,268,778	3,099,103	3,339,112	3,174,444
- Loans/Financing at FVTPL	91	-	91	-
- Financial investments at FVOCI	385,151	334,467	388,277	337,733
	3,723,754	3,501,371	3,797,214	3,579,978
Interest expense				
- Liabilities at amortised cost	(2,218,022)	(2,095,922)	(2,262,592)	(2,153,682)
	1,505,732	1,405,449	1,534,622	1,426,296

24 INCOME FROM ISLAMIC BANKING OPERATIONS

	Group	
	2018 RM'000	2017 RM'000
Income derived from investment of depositors' funds and others	614,260	609,612
Income derived from investment of specific investment account funds	56,521	82,506
Income derived from investment of shareholder's funds	133,791	133,216
Income attributable to depositors	(323,593)	(318,051)
Income attributable to investment account holder	(44,570)	(57,760)
	436,409	449,523

25 NET FEE AND COMMISSION INCOME

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Commission	138,985	193,262	137,211	191,565
Service charges and fees	155,329	125,273	155,329	125,273
Guarantee fees	14,966	36,749	14,966	36,749
Other fee income	9,693	9,653	9,693	9,653
	318,973	364,937	317,199	363,240

Included in the Group's and the Bank's commission income is fee expense on loans, advances and financing from a related company amounting to RM13 million (2017: fee income of RM25 million).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

26 NET TRADING INCOME

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Foreign exchange (loss)/gain	(120,714)	456,999	(120,714)	456,999
Unrealised (loss)/gain on subordinated bonds	(22,237)	105,492	(22,237)	105,492
Realised gain on financial assets at FVTPL	20,700	29,403	20,700	29,403
Realised (loss)/gain on trading derivatives	(25,666)	140,096	(26,314)	140,096
Unrealised gain on financial assets at FVTPL	6,304	601	6,304	601
Unrealised gain/(loss) on trading derivatives	309,213	(527,188)	309,213	(527,188)
	167,600	205,403	166,952	205,403

27 OTHER OPERATING INCOME

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Gain/(Loss) on disposal:				
- Financial investments at FVOCI	7,999	12,416	7,999	12,416
- Property and equipment	88	(257)	88	(257)
Gross dividends from financial investments at FVOCI, in Malaysia	722	902	722	902
Gross dividend from a subsidiary	-	-	2,800	-
Rental of premises	4,189	4,424	4,400	4,474
Rental of safe deposit boxes	6,403	6,421	6,403	6,421
Shared services fee income received from subsidiaries (Note 38)	-	-	107,617	97,872
Shared services fee income received from related company (Note 38)	13,241	12,513	13,241	12,513
Unrealised loss on hedging derivatives	(1)	(273)	(1)	(273)
Surplus assets received from winding-up of a subsidiary (Note 13(b))	-	-	12,262	-
Others	658	469	657	468
	33,299	36,615	156,188	134,536

28 OPERATING EXPENSES

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Personnel expenses				
Wages, salaries and bonus	456,016	412,679	431,506	389,200
Employees Provident Fund contributions	70,490	63,248	66,681	59,658
Equity settled share-based payment transactions	6,808	5,834	6,533	5,546
Others	53,243	40,569	48,723	38,043
	586,557	522,330	553,443	492,447

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

28 OPERATING EXPENSES (continued)

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Establishment expenses				
Depreciation of property and equipment	28,713	32,920	24,306	28,418
Rental of premises	18,700	18,845	15,993	15,999
Repair and maintenance	12,133	10,618	11,300	9,825
Information technology costs	33,989	18,928	33,154	18,843
Hire of equipment	941	1,233	788	1,070
Amortisation of prepaid lease payments	36	36	36	36
Others	18,338	17,029	15,596	14,781
	112,850	99,609	101,173	88,972
Marketing expenses				
Advertisement and business promotion	16,673	16,592	16,309	16,072
Transport and travelling	4,438	3,826	4,119	3,470
Others	2,461	2,538	2,385	2,490
	23,572	22,956	22,813	22,032
General administrative expenses				
Auditors' remuneration				
- Statutory audit fees	687	520	540	420
- Audit related fees	582	347	442	226
- Other services	1	5	-	4
Transaction processing fees (Note 38)	310,718	315,136	287,359	289,775
Others	111,418	133,400	103,252	117,464
	423,406	449,408	391,593	407,889
Total operating expenses	1,146,385	1,094,303	1,069,022	1,011,340

29 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION

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

	2018						2017					
	Unrestricted				*Deferred*		*Unrestricted*				*Deferred*	
Group	**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 of the Bank												
Ong Eng Bin	1,058	960	75	323	640	3,056	1,058	768	50	292	512	2,680
CEO of the Islamic banking subsidiary												
Syed Abdull Aziz Jailani bin Syed Kechik	897	408	11	208	272	1,796	897	396	6	207	264	1,770
Non Executive Directors												
Tan Ngiap Joo	479	-	-	-	-	479	267	-	-	-	-	267
Lai Teck Poh	195	-	-	-	-	195	222	-	-	-	-	222
Ng Hon Soon	194	-	-	-	-	194	255	-	-	-	-	255
Tong Hon Keong	168	-	-	-	-	168	218	-	-	-	-	218
Datuk Azizan bin Haji Abd Rahman	255	-	-	-	-	255	218	-	-	-	-	218
Lee Kok Keng, Andrew	151	-	-	-	-	151	67	-	-	-	-	67
Ismail bin Alowi	168	-	-	-	-	168	67	-	-	-	-	67
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	130	-	8	-	-	138	444	-	31	-	-	475
	3,695	1,368	94	531	912	6,600	3,713	1,164	87	499	776	6,239

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

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

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

	2018						2017					
	Unrestricted				*Deferred*		*Unrestricted*				*Deferred*	
	Salaries and fees RM'000	**Variable bonuses RM'000**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options* RM'000**	**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**
Bank												
CEO												
Ong Eng Bin	1,058	960	75	323	640	3,056	1,058	768	50	292	512	2,680
Non Executive Directors												
Tan Ngiap Joo	327	-	-	-	-	327	200	-	-	-	-	200
Lai Teck Poh	195	-	-	-	-	195	169	-	-	-	-	169
Ng Hon Soon (Resigned on 31 December 2017)	-	-	-	-	-	-	188	-	-	-	-	188
Tong Hon Keong	168	-	-	-	-	168	165	-	-	-	-	165
Datuk Azizan bin Haji Abd Rahman	182	-	-	-	-	182	165	-	-	-	-	165
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	90	-	8	-	-	98	377	-	31	-	-	408
	2,020	960	83	323	640	4,026	2,322	768	81	292	512	3,975

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

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

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

	2018				**2017**			
Group	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**
Senior Management								
Fixed remuneration								
Cash-based								
Guaranteed bonus	-	-	-		130	-	130	1
Sign-on awards	-	-	-		276	-	276	1
Others	16,373	-	16,373		15,218	-	15,218	
Others	684	-	684		557	-	557	
	17,057	-	17,057		16,181	-	16,181	
Variable remuneration								
Cash-based								
Others	7,935	-	7,935	27	6,378	-	6,378	21
Shares and share options	-	3,847	3,847	15	-	3,036	3,036	14
	7,935	3,847	11,782		6,378	3,036	9,414	
Other material risk takers								
Fixed remuneration								
Cash-based	9,936	-	9,936		3,911	-	3,911	
Others	196	-	196		93	-	93	
	10,132	-	10,132		4,004	-	4,004	
Variable remuneration								
Cash-based	4,205	-	4,205	18	958	-	958	6
Shares and share options	-	1,764	1,764	10	-	200	200	1
	4,205	1,764	5,969		958	200	1,158	

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

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

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

	2018				2017			
Bank	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**
Senior Management								
Fixed remuneration								
Cash-based								
Guaranteed bonus	-	-	-		130	-	130	1
Sign-on awards	-	-	-		276	-	276	1
Others	12,890	-	12,890		12,085	-	12,085	
Others	617	-	617		540	-	540	
	13,507	-	13,507		13,031	-	13,031	
Variable remuneration								
Cash-based								
Others	6,680	-	6,680	19	5,082	-	5,082	15
Shares and share options	-	3,401	3,401	13	-	2,667	2,667	12
	6,680	3,401	10,081		5,082	2,667	7,749	
Other material risk takers								
Fixed remuneration								
Cash-based	9,936	-	9,936		3,911	-	3,911	
Others	196	-	196		93	-	93	
	10,132	-	10,132		4,004	-	4,004	
Variable remuneration								
Cash-based	4,205	-	4,205	18	958	-	958	6
Shares and share options	-	1,764	1,764	10	-	200	200	1
	4,205	1,764	5,969		958	200	1,158	

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

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

(c) Outstanding deferred remuneration

	2018			2017		
	Senior management	Other material risk takers	Total	Senior management	Other material risk takers	Total
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Share and share options						
Exposed to ex-post explicit and implicit adjustments	10,904	3,853	14,757	11,754	609	12,363
Deferred remuneration paid out during the year	11,072	2,920	13,992	2,702	236	2,938
Reduction during the year due to:						
(i) Ex-post explicit adjustments (such as malus, clawbacks or similar reversals of downward revaluations of awards)	-	-	-	-	-	-
(ii) Ex-post implicit adjustments (such as fluctuations in the value of shares or performance units)	1,917	-	1,917	-	-	-
Bank						
Share and share options						
Exposed to ex-post explicit and implicit adjustments	9,469	3,853	13,322	10,123	609	10,732
Deferred remuneration paid out during the year	3,207	963	4,170	2,389	236	2,625
Reduction during the year due to:						
(i) Ex-post explicit adjustments (such as malus, clawbacks or similar reversals of downward revaluations of awards)	-	-	-	-	-	-
(ii) Ex-post implicit adjustments (such as fluctuations in the value of shares or performance units)	1,609	-	1,609	-	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

30 IMPAIRMENT ALLOWANCE

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Loans, advances and financing				
Stage 3 ECL/ Individually assessed allowance				
- Made during the year	455,942	477,552	282,480	280,820
- Written back	(219,137)	(182,077)	(158,864)	(111,766)
Stage 1 and 2 ECL/ Collectively assessed allowance				
- Made/ (Written back) during the year	46,025	(146,481)	68,373	(113,421)
Impaired loans, advances and financing				
- Written off	-	6	-	-
- Recovered during the year	(54,079)	(55,210)	(25,922)	(26,037)
Investment account placements				
Stage 3 ECL/ Individually assessed allowance				
- Made during the year	-	-	-	59,818
Stage 1 and 2 ECL/ Collectively assessed allowance				
- (Written back)/ Made during the year	-	-	(5,169)	8,561
Financial investments at FVOCI				
Stage 1 and 2 ECL/ Collectively assessed allowance				
- Written back during the year	(10,224)	-	(7,827)	-
Other financial assets				
Stage 3 ECL/ Individually assessed allowance				
- Made during the year	27	50	27	50
Stage 1 and 2 ECL/ Collectively assessed allowance				
- Made during the year	50	-	611	-
	218,604	93,840	153,709	98,025

31 INCOME TAX EXPENSE

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Malaysian income tax				
- Current year	288,068	322,799	250,233	260,423
- Prior years	22,958	9,489	24,479	9,495
	311,026	332,288	274,712	269,918
Deferred tax (Note 16)				
- Origination and reversal of temporary differences	(27,073)	(8,807)	(21,272)	(7,969)
- Prior years	(1,358)	1,019	(1,342)	928
	(28,431)	(7,788)	(22,614)	(7,041)
	282,595	324,500	252,098	262,877

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

31 INCOME TAX EXPENSE (continued)

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

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	%	**%**	**%**	**%**
Malaysian tax rate of 24%	24.00	24.00	24.00	24.00
Tax effect of:				
Expenses not (taxable)/deductible for tax purposes	(0.31)	0.59	(0.46)	0.67
Income not subject to tax	(1.01)	(0.01)	(0.40)	(0.02)
Under/(Over) provision in prior years:				
- Income tax	2.00	0.75	2.49	0.93
- Deferred tax	(0.03)	0.08	(0.04)	0.09
Average effective tax rate	24.65	25.41	25.59	25.67

32 BASIC EARNINGS PER ORDINARY SHARE

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

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Profit attributable to ordinary equity holders of the Group and the Bank (RM'000)	814,430	949,136	700,049	757,233
Number of ordinary shares in issue ('000)	287,500	287,500	287,500	287,500
Basic earnings per share (sen)	283.3	330.1	243.5	263.4

33 DIVIDENDS

	Sen per share	Total amount RM'000	Date of payment
2018			
Final 2017 ordinary	52.20	150,000	27/04/2018
Interim 2018 ordinary	48.00	138,000	27/09/2018
		288,000	
2017			
Final 2016 ordinary	136.73	393,100	11/08/2017
Interim 2017 ordinary	45.20	130,000	27/09/2017 and 29/09/2017
		523,100	

The Directors recommend a final dividend of 48 sen per ordinary share in respect of the current financial year amounting to RM138 million. This dividend will be accounted for in shareholders' equity as an appropriation of retained earnings in the subsequent financial period upon approval by the shareholder of the Bank.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

34 COMMITMENTS AND CONTINGENCIES

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

The credit equivalent and risk weighted amounts were computed using the credit conversion factors and risk weights as defined by BNM for regulatory capital adequacy purposes.

Group	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
2018			
Direct credit substitutes	741,125	741,125	571,536
Transaction-related contingent items	2,930,357	1,493,568	944,101
Short-term self-liquidating trade-related contingencies	303,719	68,274	39,282
Forward asset purchases	29,687	29,687	-
Foreign exchange related contracts			
- Less than one year	13,173,634	226,291	46,669
- One year to less than five years	2,858,788	778,909	155,566
- Five years and above	2,442,327	208,443	61,178
Interest rate related contracts			
- Less than one year	11,541,401	1,076	142
- One year to less than five years	24,466,718	320,082	69,005
- Five years and above	5,870,421	103,382	80,358
Equity and commodity related contracts	259,891	17,212	3,311
Credit derivative contracts	1,241,549	59,105	15,260
Formal standby facilities and credit lines			
- Maturity exceeding one year	5,074,481	4,259,104	2,441,626
Other unconditionally cancellable commitments	22,140,451	2,063,219	334,384
Total	93,074,549	10,369,477	4,762,418
2017			
Direct credit substitutes	708,889	708,889	567,710
Transaction-related contingent items	2,967,486	1,511,669	966,490
Short-term self-liquidating trade-related contingencies	331,117	76,260	41,336
Foreign exchange related contracts			
- Less than one year	11,559,312	378,272	93,704
- One year to less than five years	3,624,026	616,852	155,531
- Five years and above	3,062,100	651,427	476,499
Interest rate related contracts			
- Less than one year	12,826,019	29,360	3,604
- One year to less than five years	23,059,678	679,489	197,032
- Five years and above	8,879,455	251,267	121,689
Equity and commodity related contracts	297,778	25,435	7,557
Credit derivative contracts	474,416	23,756	6,465
Formal standby facilities and credit lines			
- Maturity exceeding one year	3,874,769	3,486,128	1,443,989
Other unconditionally cancellable commitments	20,173,977	2,061,763	317,621
Total	91,839,022	10,500,567	4,399,227

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

34 COMMITMENTS AND CONTINGENCIES (continued)

Bank	**Principal amount RM'000**	**Credit equivalent amount RM'000**	**Risk weighted amount RM'000**
2018			
Direct credit substitutes	632,158	632,158	479,295
Transaction-related contingent items	2,537,891	1,295,076	800,326
Short-term self-liquidating trade-related contingencies	274,523	61,429	33,777
Forward asset purchases	29,687	29,687	-
Foreign exchange related contracts			
- Less than one year	13,216,753	227,897	46,550
- One year to less than five years	2,858,788	778,909	155,566
- Five years and above	2,442,327	208,443	61,178
Interest rate related contracts			
- Less than one year	11,541,401	1,076	142
- One year to less than five years	24,466,718	320,082	69,005
- Five years and above	5,870,421	103,382	66,322
Equity and commodity related contracts	259,891	17,212	3,311
Credit derivative contracts	1,241,549	59,105	15,260
Formal standby facilities and credit lines			
- Maturity exceeding one year	4,083,340	3,502,632	1,641,569
Other unconditionally cancellable commitments	19,399,985	1,980,914	321,632
Total	88,855,432	9,218,002	3,693,933
2017			
Direct credit substitutes	609,598	609,598	478,355
Transaction-related contingent items	2,566,965	1,309,678	809,751
Short-term self-liquidating trade-related contingencies	254,910	59,836	31,097
Foreign exchange related contracts			
- Less than one year	11,556,556	377,848	93,396
- One year to less than five years	3,624,026	616,852	155,531
- Five years and above	3,062,100	651,427	476,499
Interest rate related contracts			
- Less than one year	12,826,019	29,360	3,604
- One year to less than five years	23,059,678	679,489	197,032
- Five years and above	8,879,455	251,267	121,689
Equity and commodity related contracts	297,778	25,435	7,557
Credit derivative contracts	474,416	23,756	6,465
Formal standby facilities and credit lines			
- Maturity exceeding one year	3,512,054	3,193,700	1,228,705
Other unconditionally cancellable commitments	18,195,511	2,000,350	309,107
Total	88,919,066	9,828,596	3,918,788

35 CAPITAL COMMITMENTS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Capital expenditure commitments in respect of property and equipment contracted but not provided for	4,023	10,802	3,919	7,160

36 LEASE COMMITMENTS

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

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Less than one year	19,071	16,359	16,439	13,501
Between one to five years	13,303	18,632	11,264	14,635
	32,374	34,991	27,703	28,136

37 MINIMUM LEASE RENTAL RECEIVABLE

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

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Less than one year	3,189	3,327	3,233	3,373
Between one to five years	120	-	120	-
	3,309	3,327	3,353	3,373

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

The Group has related party relationship with the following:

- Holding company, Oversea-Chinese Banking Corporation Limited;
- Subsidiaries of the Bank as disclosed in Note 13 to the financial statements;
- Other related companies within the Oversea-Chinese Banking Corporation Limited Group; and
- Key management personnel, including close family members of key management personnel and entities that are controlled or jointly controlled by them.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Significant transactions and outstanding balances with related parties

	2018			2017		
	Holding Company	Other Related Companies	Key Management Personnel	Holding Company	Other Related Companies	Key Management Personnel
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Income						
Interest on deposits and placements with banks and other financial institutions	389	-	-	1,287	-	-
Interest on loans, advances and financing	-	8,143	69	-	5,970	93
Shared services fee income	2,900	10,415	-	2,402	10,164	-
Fee and commission income	4,558	9,167	-	34,138	11,785	-
Rental income	-	4,231	-	-	4,326	-
Other income	-	239	-	-	189	-
	7,847	32,195	69	37,827	32,434	93
Expenditure						
Interest on deposits from customers	93,363	13,472	718	18,243	23,123	26
Interest on deposits and placements of banks and other financial institutions	92,766	594	-	102,575	-	516
Interest/Profit on subordinated bonds	64,973	-	-	52,189	-	-
Fee and commission expense	13,959	-	-	-	-	-
IT and transaction processing fees	-	310,718	-	-	315,136	-
Rental expenses	-	993	-	-	1,019	-
Insurance expenses	-	13,209	-	-	7,035	-
Other expenses	-	-	-	3	41	-
	265,061	338,986	718	173,010	346,354	542

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Group (continued)	2018 Malaysia RM'000	2018 Singapore RM'000	2018 Total RM'000	2017 Malaysia RM'000	2017 Singapore RM'000	2017 Total RM'000
Intercompany charges paid/payable to related parties						
IT and transaction processing fees	237,165	73,553	310,718	231,355	83,781	315,136
Rental expenses	839	154	993	830	189	1,019
Insurance expenses	13,209	-	13,209	7,035	-	7,035
Others	-	-	-	41	3	44
	251,213	73,707	324,920	239,261	83,973	323,234

	2018 Holding Company RM'000	2018 Other Related Companies RM'000	2018 Key Management Personnel RM'000	2017 Holding Company RM'000	2017 Other Related Companies RM'000	2017 Key Management Personnel RM'000
Amount due from						
Cash and cash equivalents	43,132	258	-	84,346	262	-
Deposits and placements with banks and other financial institutions	19,991	183	-	118,671	122	-
Interest receivable	116	537	-	172	650	-
Loans, advances and financing	-	250,500	1,359	-	243,700	990
Shared service fee receivable	109	208	-	64	1,235	-
Derivative financial assets	42,933	5,861	-	30,475	33,592	-
Other assets	3,264	21,985	-	34,184	8,324	-
	109,545	279,532	1,359	267,912	287,885	990
Amount due to						
Deposits from customers	4,138,205	1,160,227	21,781	4,854,660	604,838	19,540
Deposits and placements of banks and other financial institutions	6,527,269	-	-	3,738,660	-	-
Other liabilities	2,970	15,363	-	2,609	697	-
Interest payable	71,427	946	2	43,046	173	9
Derivative financial liabilities	43,788	277	-	33,832	-	-
Subordinated bonds	1,493,169	-	-	1,470,932	-	-
	12,276,828	1,176,813	21,783	10,143,739	605,708	19,549

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Group (continued)	2018 Holding Company RM'000	2018 Other Related Companies RM'000	2018 Key Management Personnel RM'000	2017 Holding Company RM'000	2017 Other Related Companies RM'000	2017 Key Management Personnel RM'000
Commitments						
Foreign exchange derivatives	1,427,120	2,058	-	1,212,770	62,023	-
Interest rate derivatives	5,429,478	600,000	-	5,700,998	750,000	-
Transaction related contingent items	34,867	124,146	-	79,271	125,612	-
	6,891,465	726,204	-	6,993,039	937,635	-

Bank	2018 Holding Company RM'000	2018 Subsidiary Companies RM'000	2018 Other Related Companies RM'000	2018 Key Management Personnel RM'000	2017 Holding Company RM'000	2017 Subsidiary Companies RM'000	2017 Other Related Companies RM'000	2017 Key Management Personnel RM'000
Income								
Interest on investment account placements	-	44,570	-	-	-	57,760	-	-
Interest on deposits and placements with banks and other financial institutions	389	16,164	-	-	1,287	7,981	-	-
Interest on financial investments at FVOCI	-	3,126	-	-	-	3,266	-	-
Interest on loans, advances and financing	-	-	8,143	64	-	-	5,970	73
Interest/Profit on derivatives	-	281	-	-	-	-	-	-
Interest/Profit on unquoted Islamic subordinated bond	-	9,600	-	-	-	9,600	-	-
Shared services fee income	2,826	107,617	10,415	-	2,349	97,872	10,164	-
Fee and commission income	-	-	8,275	-	24,995	-	11,109	-
Rental income	-	55	4,231	-	-	48	4,320	-
Other income	-	156	239	-	-	2	189	-
	3,215	181,569	31,303	64	28,631	176,529	31,752	73

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2018				2017			
Bank (continued)	**Holding Company RM'000**	**Subsidiary Companies RM'000**	**Other Related Companies RM'000**	**Key Management Personnel RM'000**	**Holding Company RM'000**	**Subsidiary Companies RM'000**	**Other Related Companies RM'000**	**Key Management Personnel RM'000**
Expenditure								
Interest on deposits from customers	93,363	-	3,405	699	18,243	-	18,370	516
Interest on deposits and placements of banks and other financial institutions	91,406	-	594	-	98,070	-	-	-
Interest/Profit on derivatives	-	67	-	-	-	-	-	-
Interest/Profit on subordinated bond	64,973	-	-	-	52,189	-	-	-
Fee and commission expense	13,959	2,571	-	-	-	1,206	-	-
Shared service fees	-	8,815	-	-	-	7,945	-	-
IT and transaction processing fees	-	-	287,359	-	-	-	289,775	-
Rental expenses	-	-	993	-	-	-	1,019	-
Insurance expenses	-	-	12,162	-	-	-	6,598	-
Other expenses	-	-	-	-	3	-	41	-
	263,701	11,453	304,513	699	168,505	9,151	315,803	516

	2018			2017		
	Malaysia RM'000	**Singapore RM'000**	**Total RM'000**	**Malaysia RM'000**	**Singapore RM'000**	**Total RM'000**
Intercompany charges paid/payable to related parties						
Shared service fees	8,815	-	8,815	7,945	-	7,945
IT and transaction processing fees	215,384	71,975	287,359	220,172	69,603	289,775
Rental expenses	839	154	993	830	189	1,019
Insurance expenses	12,162	-	12,162	6,598	-	6,598
Others	-	-	-	41	3	44
	237,200	72,129	309,329	235,586	69,795	305,381

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2018				2017			
	Holding Company	Subsidiary Companies	Other Related Companies	Key Management Personnel	Holding Company	Subsidiary Companies	Other Related Companies	Key Management Personnel
Bank (continued)	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Amount due from								
Cash and cash equivalents	43,132	409,586	258	-	84,346	371,516	262	-
Deposits and placements with banks and other financial institutions	1,159	580,343	-	-	95,264	110,684	-	-
Investment account placements	-	1,322,168	-	-	-	1,801,572	-	-
Financial investments at FVOCI	-	74,818	-	-	-	72,263	-	-
Interest receivable	116	8,578	537	-	172	6,963	650	-
Subordinated bond	-	200,000	-	-	-	200,000	-	-
Loans, advances and financing	-	-	250,500	1,325	-	-	243,700	652
Shared services fee receivable	109	9,319	208	-	64	8,590	1,235	-
Derivative financial assets	42,933	3,731	5,858	-	30,475	143	33,592	-
Other assets	2,395	715	21,985	-	26,031	168,846	8,187	-
	89,844	2,609,258	279,346	1,325	236,352	2,740,577	287,626	652
Amount due to								
Deposits from customers	4,138,205	1,699	291,242	21,393	4,854,660	17,724	423,492	18,460
Deposits and placements of banks and other financial institutions	6,527,269	-	-	-	3,328,810	-	-	-
Other liabilities	2,871	36,161	15,363	-	2,515	20,966	697	-
Interest payable	71,427	-	83	-	42,271	-	120	-
Derivative financial liabilities	43,788	3	276	-	33,832	19	-	-
Subordinated bonds	1,493,169	-	-	-	1,470,932	-	-	-
Shared services fee payable	-	689	-	-	-	688	-	-
	12,276,729	38,552	306,964	21,393	9,733,020	39,397	424,309	18,460
Commitments								
Foreign exchange derivatives	1,427,120	63,109	3	-	1,212,770	30,544	62,023	-
Interest rate derivatives	5,429,478	180,000	600,000	-	5,700,998	-	750,000	-
Transaction related contingent items	34,867	-	124,146	-	79,271	-	125,612	-
	6,891,465	243,109	724,149	-	6,993,039	30,544	937,635	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Aggregate value of outstanding credit exposure with connected parties^:				
Credit facility and leasing (except guarantee)	706,854	393,743	699,944	637,805
Commitments and contingencies*	523,161	391,249	522,858	390,946
	1,230,015	784,992	1,222,802	1,028,751
Impaired or in default	-	-	-	-
Outstanding credit exposures to connected parties				
As a proportion of total credit exposures	1.44%	0.93%	1.67%	1.42%

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

(c) Key management personnel remuneration of the Group and the Bank are disclosed in Note 29 of the financial statements.

39 FINANCIAL INSTRUMENTS

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

Current financial year
(a) Fair assets at fair value through profit or loss ("FVTPL");
(b) Amortised cost ("AC");
(c) Financial investments at fair value through other comprehensive income ("FVOCI"); and
(d) Derivatives used for hedging.

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

39 FINANCIAL INSTRUMENTS (continued)

Group	FVTPL RM'000	AC RM'000	FVOCI RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
2018					
Financial assets					
Cash and cash equivalents	-	4,897,506	-	-	4,897,506
Deposits and placements with banks and other financial institutions	-	399,956	-	-	399,956
Financial assets at FVTPL	1,873,515	-	-	-	1,873,515
Financial investments at FVOCI	-	-	17,802,426	-	17,802,426
- Debt instruments	-	-	17,703,208	-	17,703,208
- Equity instruments	-	-	99,218	-	99,218
Loans, advances and financing	24,836	68,556,660	-	-	68,581,496
Derivative financial assets	760,645	-	-	116	760,761
Other assets	-	418,998	-	-	418,998
Statutory deposits with Bank Negara Malaysia	-	1,913,172	-	-	1,913,172
	2,658,996	76,186,292	17,802,426	116	96,647,830
Financial liabilities					
Deposits from customers	-	75,851,221	-	-	75,851,221
Deposits and placements of banks and other financial institutions	-	7,070,077	-	-	7,070,077
Bills and acceptances payable	-	92,841	-	-	92,841
Recourse obligation on loans sold to Cagamas Berhad	-	700,000	-	-	700,000
Derivative financial liabilities	715,765	-	-	403	716,168
Other liabilities	-	3,045,533	-	-	3,045,533
Subordinated bonds	-	1,893,169	-	-	1,893,169
	715,765	88,652,841	-	403	89,369,009

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

39 FINANCIAL INSTRUMENTS (continued)

Group (continued)	**FVTPL-HFT RM'000**	**L&R/F&R/FL RM'000**	**AFS RM'000**	**Derivatives used for hedging RM'000**	**Carrying amount RM'000**
2017 (continued)					
Financial liabilities					
Deposits from customers	-	73,652,739	-	-	73,652,739
Deposits and placements of banks and other financial institutions	-	4,388,137	-	-	4,388,137
Bills and acceptances payable	-	166,104	-	-	166,104
Recourse obligation on loans sold to Cagamas Berhad	-	1,419,252	-	-	1,419,252
Derivative financial liabilities	1,079,240	-	-	1,614	1,080,854
Other liabilities	-	2,543,806	-	-	2,543,806
Subordinated bonds	-	1,870,932	-	-	1,870,932
	1,079,240	84,040,970	-	1,614	85,121,824

Bank	**FVTPL RM'000**	**AC RM'000**	**FVOCI RM'000**	**Derivatives used for hedging RM'000**	**Carrying amount RM'000**
2018					
Financial assets					
Cash and cash equivalents	-	4,347,492	-	-	4,347,492
Deposits and placements with banks and other financial institutions	-	980,299	-	-	980,299
Investment account placements	-	1,318,776	-	-	1,318,776
Financial assets at FVTPL	1,863,535	-	-	-	1,863,535
Financial investments at FVOCI	-	-	13,586,543	-	13,586,543
- Debt instruments	-	-	13,487,325	-	13,487,325
- Equity instruments	-	-	99,218	-	99,218
Loans, advances and financing	24,836	58,240,453	-	-	58,265,289
Derivative financial assets	762,161	-	-	116	762,277
Other assets	-	599,461	-	-	599,461
Statutory deposits with Bank Negara Malaysia	-	1,561,972	-	-	1,561,972
Investment in subsidiary companies	-	557,051	-	-	557,051
	2,650,532	67,605,504	13,586,543	116	83,842,695
Financial liabilities					
Deposits from customers	-	64,124,328	-	-	64,124,328
Deposits and placements of banks and other financial institutions	-	6,986,949	-	-	6,986,949
Bills and acceptances payable	-	78,292	-	-	78,292
Recourse obligation on loans sold to Cagamas Berhad	-	700,000	-	-	700,000
Derivative financial liabilities	715,710	-	-	403	716,113
Other liabilities	-	2,953,139	-	-	2,953,139
Subordinated bonds	-	1,893,169	-	-	1,893,169
	715,710	76,735,877	-	403	77,451,990

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

39 FINANCIAL INSTRUMENTS (continued)

<u>Bank</u>	FVTPL-HFT RM'000	L&R/F&R/FL RM'000	AFS RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
2017					
Financial assets					
Cash and cash equivalents	-	5,571,918	-	-	5,571,918
Deposits and placements with banks and other financial institutions	-	182,518	-	-	182,518
Investment account placements	-	1,793,011	-	-	1,793,011
Financial assets held-for-trading	1,690,763	-	-	-	1,690,763
Financial investments available-for-sale	-	-	8,778,279	-	8,778,279
Loans, advances and financing	-	57,742,824	-	-	57,742,824
Derivative financial assets	835,625	-	-	-	835,625
Other assets	-	709,911	-	-	709,911
Statutory deposits with Bank Negara Malaysia	-	1,427,217	-	-	1,427,217
	2,526,388	67,427,399	8,778,279	-	78,732,066
Financial liabilities					
Deposits from customers	-	62,490,422	-	-	62,490,422
Deposits and placements of banks and other financial institutions	-	3,946,437	-	-	3,946,437
Bills and acceptances payable	-	145,347	-	-	145,347
Recourse obligation on loans sold to Cagamas Berhad	-	1,419,252	-	-	1,419,252
Derivative financial liabilities	1,078,813	-	-	1,614	1,080,427
Other liabilities	-	2,417,222	-	-	2,417,222
Subordinated bonds	-	1,870,932	-	-	1,870,932
	1,078,813	72,289,612	-	1,614	73,370,039

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

39 FINANCIAL INSTRUMENTS (continued)

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Types of financial assets/liabilities	Carrying amount in the statement of financial position	Financial instruments not in scope of offsetting disclosures	Gross recognised financial instruments in scope	Related amount not offset in the statements of financial position: Financial instruments	Related amount not offset in the statements of financial position: Cash collateral received/ pledged	Net amount in scope
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
2018						
Derivative financial assets	760,761	(204,135)	556,626	(101,330)	(359,964)	95,332
Derivative financial liabilities	716,168	(77,218)	638,950	(101,330)	(293,549)	244,071
2017						
Derivative financial assets	835,825	(118,668)	717,157	(202,642)	(371,314)	143,201
Derivative financial liabilities	1,080,854	(86,513)	994,341	(202,642)	(311,834)	479,865
Bank						
2018						
Derivative financial assets	762,277	(202,006)	560,271	(101,330)	(359,964)	98,977
Derivative financial liabilities	716,113	(77,163)	638,950	(101,330)	(293,549)	244,071
2017						
Derivative financial assets	835,625	(118,468)	717,157	(202,642)	(371,314)	143,201
Derivative financial liabilities	1,080,427	(86,086)	994,341	(202,642)	(311,834)	479,865

40 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of MFRS 9 which requires fair value information to be disclosed. These include property and equipment, prepaid lease payments, investments in subsidiaries, tax recoverable and deferred tax assets.

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

(A) Fair value measurement

(i) Financial assets and financial liabilities

(a) Short term financial instruments

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

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

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

(c) Financial assets 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.

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(A) Fair value measurement (continued)

(i) Financial assets and financial liabilities (continued)

(d) Loans, advances and financing

The fair values of variable rate loans, advances and financing are carried approximately to their carrying amounts. For fixed rate loan, advances and financing, the fair values are valued based on the expected future discounted cash flows using market rates of loan, advances and financing of similar credit risks and maturity. For impaired loans, financing and advances, the fair values are carried at amortised cost net of ECL (2017: individual and collective impairment allowance).

(e) Derivative financial assets and liabilities

Observable market data are used to determine the fair values of derivatives at FVTPL. 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 bonds/sukuk

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

(i) Recourse obligation on loans sold to Cagamas Berhad

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

(ii) Off-statement of financial position financial instruments

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

(B) Fair value hierarchy of financial instruments

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

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

Group	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
2018				
Financial assets at fair value				
Financial assets at FVTPL	762,033	1,111,482	-	1,873,515
Financial investments at FVOCI	8,646,834	9,056,374	99,218	17,802,426
Loans, advances and financing	-	-	24,836	24,836
Derivative financial assets	2,241	685,493	73,027	760,761
	9,411,108	10,853,349	197,081	20,461,538
Financial liabilities at fair value				
Derivative financial liabilities	2,077	640,808	73,283	716,168

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Group				
2017				
Financial assets at fair value				
Held-for-trading	521,998	1,168,765	-	1,690,763
Available-for-sale	7,097,231	6,295,382	-	13,392,613
Derivative financial assets	851	819,312	15,662	835,825
	7,620,080	8,283,459	15,662	15,919,201
Financial liabilities at fair value				
Derivative financial liabilities	1,160	1,063,400	16,294	1,080,854
Bank				
2018				
Financial assets at fair value				
Financial assets at FVTPL	762,033	1,101,502	-	1,863,535
Financial investments at FVOCI	6,324,040	7,163,285	99,218	13,586,543
Loans, advances and financing	-	-	24,836	24,836
Derivative financial assets	2,309	686,941	73,027	762,277
	7,088,382	8,951,728	197,081	16,237,191
Financial liabilities at fair value				
Derivative financial liabilities	2,080	640,750	73,283	716,113
2017				
Financial assets at fair value				
Held-for-trading	521,998	1,168,765	-	1,690,763
Available-for-sale	4,943,215	3,726,518	-	8,669,733
Derivative financial assets	980	818,983	15,662	835,625
	5,466,193	5,714,266	15,662	11,196,121
Financial liabilities at fair value				
Derivative financial liabilities	1,171	1,062,962	16,294	1,080,427

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

	Group and Bank	
	2018 RM'000	2017 RM'000
Financial assets at fair value		
At 1 January	15,662	11,162
Effect of adoption of MFRS 9	165,043	-
Settled/disposed	(34,686)	(300)
Recognised in profit or loss/other comprehensive income		
- Realised loss	(4,267)	-
- Unrealised gain	55,329	4,800
At 31 December	197,081	15,662

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

	Group and Bank	
	2018 RM'000	**2017 RM'000**
Financial liabilities at fair value		
At 1 January	16,294	12,294
Recognised in profit or loss		
- Realised gain	(4,267)	-
- Unrealised loss	61,256	4,000
At 31 December	73,283	16,294

Policy on transfer between levels

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

Transfer between Level 1 and 2 fair values

During the financial year, there were no transfers between levels of financial investments at FVOCI of the Group and the Bank. In 2017, financial investments available-for-sale of the Group and the Bank with a carrying amount of RM297,184,710 were transferred from Level 1 to Level 2 because market for such debt securities became inactive, and financial investments available-for-sale of the Group and the Bank with a carrying amount of RM307,300,050 were transferred from Level 2 to Level 1 upon availability of active market.

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

Group and Bank	2018 Fair value RM'000	2017 Fair value RM'000	Classification	Valuation technique	Unobservable input
Assets					
Financial investments at FVOCI	99,218	-	FVOCI	Net asset value approach	Net asset value
Loans, advances and financing	24,836	-	FVTPL	Discounted cash flow analysis and market approach	Implied equity value, incentive fee and discount factor
Derivative financial assets	73,027	15,662	Hedge for trading	Option pricing model	Standard deviation
	197,081	15,662			
Liabilities					
Derivative financial liabilities	73,283	16,294	Hedge for trading	Option pricing model	Standard deviation

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

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

Valuation control framework

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

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

The 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.

Valuation related policies are reviewed annually by Finance division. Any material change to the framework and policies requires the approval from Group Risk Management Committee and Group Asset and Liability Committee respectively. Group Internal Audit provide independent assurance on the respective divisions' compliance with the policies.

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

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

Group	Level 2	Level 3	Total fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000
2018				
Financial assets not carried at fair value				
Deposits and placements with banks and other financial institutions	399,956	-	399,956	399,956
Loans, advances and financing	-	68,527,274	68,527,274	68,556,660
	399,956	68,527,274	68,927,230	68,956,616
Financial liabilities not carried at fair value				
Deposits from customers	75,867,076	-	75,867,076	75,851,221
Deposits and placements of banks and other financial institutions	7,070,077	-	7,070,077	7,070,077
Recourse obligation on loans sold to Cagamas Berhad	670,410	-	670,410	700,000
Subordinated bonds	1,927,884	-	1,927,884	1,893,169
	85,535,447	-	85,535,447	85,514,467
2017				
Financial assets not carried at fair value				
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	67,455,510	67,455,510	67,452,350
	-	67,564,056	67,564,056	67,560,896

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

Group (continued)	Level 2	Level 3	Total fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000
2017 (continued)				
Financial liabilities not carried at fair value				
Deposits from customers	73,734,185	-	73,734,185	73,652,739
Deposits and placements of banks and other financial institutions	4,404,398	-	4,404,398	4,388,137
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	1,419,252	1,419,252
Subordinated bonds	1,918,809	-	1,918,809	1,870,932
	81,476,644	-	81,476,644	81,331,060

Bank	Level 2	Level 3	Total fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000
2018				
Financial assets not carried at fair value				
Deposits and placements with banks and other financial institutions	980,299	-	980,299	980,299
Investment account placements	1,318,776	-	1,318,776	1,318,776
Loans, advances and financing	-	58,211,317	58,211,317	58,240,453
Other assets - unquoted redeemable Islamic subordinated sukuk of a subsidiary	216,418	-	216,418	200,000
	2,515,493	58,211,317	60,726,810	60,739,528
Financial liabilities not carried at fair value				
Deposits from customers	64,014,605	-	64,014,605	64,124,328
Deposits and placements of banks and other financial institutions	6,986,949	-	6,986,949	6,986,949
Recourse obligation on loans sold to Cagamas Berhad	670,410	-	670,410	700,000
Subordinated bonds	1,911,466	-	1,911,466	1,893,169
	73,583,430	-	73,583,430	73,704,446
2017				
Financial assets not carried at fair value				
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	57,741,910	57,741,910	57,742,824
Other assets - unquoted redeemable Islamic subordinated sukuk of a subsidiary	220,888	-	220,888	200,000
	220,888	57,850,456	58,071,344	58,051,370
Financial liabilities not carried at fair value				
Deposits from customers	62,570,545	-	62,570,545	62,490,422
Deposits and placements of banks and other financial institutions	3,954,102	-	3,954,102	3,946,437
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	1,419,252	1,419,252
Subordinated bonds	1,897,921	-	1,897,921	1,870,932
	69,841,820	-	69,841,820	69,727,043

41 HEDGING ACTIVITIES

Fair value hedge

The Group and the Bank use fair value hedges to protect the Group and the Bank against the changes in fair value of fixed-rate long-term financial instruments due to movements in the market interest rates. The Group and the Bank primarily use interest rate swaps as hedges of interest rate risk.

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

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Gains on hedging instruments	1,327	1,559
Losses on the hedged items attributable to the hedged risk	(1,328)	(1,831)
	(1)	(272)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

(i) Risk appetite – The Board of Directors approves the Group's risk appetite, and that all risks are managed in alignment with the risk appetite. Risk-taking decisions must be consistent with strategic business goals and returns commensurate with the risks taken.

(ii) Risk frameworks – The Group's risk management frameworks for all risk types are effective, comprehensive, and consistent.

(iii) Holistic risk management – Risks are managed holistically, with a view to understand the potential interactions among risk types.

(iv) Qualitative and quantitative evaluations – Risks are evaluated both qualitatively and with appropriate quantitative analyses and robust stress testing. Risk models in use are regularly reviewed and independently validated to ensure that they are fit-for-use.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Risk Governance and Organisation

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

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

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

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management

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

Credit Risk Management Oversight and Organisation

The Credit Risk Management Committee (“CRMC”) is the senior management group that supports the RMC and CEO in managing credit risk, including reshaping the credit portfolios. It reviews the credit profile of material portfolios by business segments to ensure that credit risk taking is aligned with the respective business strategy and consistent with our risk appetite. The CRMC also recommends and monitors exposure undertaken against risk limits and highlights any material risk to the RMC and CEO. It also oversees compliance with the risk management framework and policies and the effectiveness of intrastructure, methodologies and systems.

The Credit Risk Management (“CRM”) departments ensure the execution of the credit risk management framework, policies and procedures. These departments also independently manage credit risk to ensure adequacy of risk-returns within our risk appetite, customer targets, limits and established risk standards. Dedicated risk functions 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 Board of Directors in a timely, objective and transparent manner for review. These reports include detailed credit exposures, credit migration, expected losses, and risk concentrations by business portfolio. 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 (where appropriate). The results of the stress tests and portfolio reviews are factored as necessary into the adjustment and refinement of risk-taking strategies and credit limits to remain within our risk appetite.

Credit Risk Management Approach

The Group's and the Bank’s credit risk management 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 Group and the Bank seek to undertake credit risks that meet its target market and risk acceptance criteria, lending parameters and risk-return expectations for sustainable performance. As Fair Dealing underpins our commitment to building long-term relationships with our customers, complex product are sold to them only after clearing suitability and appropriateness assessments. In addition to effective risk management practices, the sound judgement of our experienced credit officers is also key to our successful risk management.

The Group recognises the importance in promoting long-term sustainable development and is committed to advancing environmental and social progress and to conduct its business in a responsible manner. The Group has currently put in place a Responsible Financing Framework that sets out its overall approach towards the management of Environmental, Social and Governance (“ESG”) risks in our lending activities. It is supported by our Responsible Financing Policy and relevant sectorial policies that outline the criteria and guidelines for the ESG assessment of clients and transactions. We have integrated ESG considerations into our credit and risk evaluation process for all new and existing corporate and institutional borrowers. Transactions with high ESG or reputational risk are escalated to the Reputational Risk Review Group for review and clearance.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Loans/Financing to Consumer and Small Businesses

Credit risks for consumer and small businesses are managed on a portfolio basis under credit programmes such as mortgages, credit cards, unsecured loans/financing, commercial property loans/financing and business term loans/financing. Credit extended under these programmes should fall within the portfolio and transaction limits, defined target markets, stipulated lending criteria and acceptable collateral as well as advance ratios. Systems and processes such as source of identification of credit origination and independent verification of documentation are in place to prevent fraud. The performance of the portfolios is closely monitored monthly using management information system ("MIS") analytics. Application models are also used in the credit decision process for most products to enable objective, consistent and fast decisions. Behavioural models are used for early identification of potential problem loans/financing.

Loans/Financing to Corporate and Institutional Customers

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

Credit Risk from Investment or Trading Activities

Counterparty credit risks arising from the Group's and 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 independently managed through daily limit monitoring, excesses escalation and approval, and timely risk reporting. We also have an established policy and process to manage wrong-way risk which can occur when the credit exposure to a counterparty is adversely correlated with the credit quality of the counterparty.

Internal Credit Rating Models

Internal credit rating models are an integral part of the Group's and the Bank’s credit risk management, credit decision-making process, and capital assessment. These internal rating models and the parameters – PD, LGD and EAD – are factors used in limit setting, credit approval, portfolio monitoring and reporting, remedial management, stress testing and 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.

On an on-going basis, the models are subject to annual review (or more frequently, where necessary) and independent validation to ensure the models are performing as expected, and that the assumptions used in model development remain appropriate. 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.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Internal Credit Rating Models (continued)

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

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

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

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

The Group’s and the Bank's major wholesale portfolios, namely bank, non-bank financial institution, corporate real estate (including income-producing real estate specialised lending) 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 lending portfolios namely Project Finance, Object Finance and Commodities Finance, risk grades derived from internal models are mapped to the five supervisory slotting categories as prescribed in BNM RWCAF. The risk weights prescribed for these slotting categories are used to determine the regulatory capital requirements.

Standardised Approach for Other Portfolios

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

Credit Risk Control

Credit Risk Mitigation

Credit risk assessments are based on the credit worthiness of the customer, source of repayment and debt servicing ability. To manage credit risk, the Group and the Bank accept collateral and credit protection as cash, real estate, marketable securities, inventories and trade receivables and standby letters of credit. We have policies in place to set out the criteria for collateral to be recognised as eligible credit risk mitigants including legal certainty, priority, correlation, marketability, liquidity and counterparty risk of the protection provider. The value of collateral is prudently assessed on a regular basis, and valuations are performed by independent qualified appraisers. Appropriate haircuts are applied to the market value of collateral, reflecting the underlying nature of the quality, liquidity and volatility of the collateral. The Group and the Bank also accept guarantees from individuals, corporates, and institutions as a form of support.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Control (continued)

Credit Risk Mitigation (continued)

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 to the extent that if an event of default occurs, all amounts with the counterparty are settled in 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 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 Group's and the Bank’s risk appetite, business strategy, capacity and expertise. Impact on earnings and capital are also considered during the setting of limits.

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

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

Remedial Management

The Group and the Bank have an established process to constantly assess our portfolios to detect potential problem credits at an early stage. As we value customer relationships, we understand that some customers face temporary financial distress and prefer to work closely with them at the onset of their difficulties. We recognise 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 Group and the Bank classify its loans, advances and financing accordingly to the customers' ability to repay their financial obligations on time and in full from their normal sources of income. Non credit-impaired exposures are categorised as “Pass” or “Special Mention”, while impaired loans (“ILs”) are categorised as “Substandard”, “Doubtful” or “Loss” in accordance with BNM Guideline on Financial Reporting and BNM Guideline on Credit Risk. Upgrading of ILs to performing loan 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 Group and the Bank have granted concessions or restructured payment terms to customers who are facing difficulties in meeting the original payment schedules. A restructured credit exposure is classified into impaired loans 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 loan status in accordance with BNM Guideline on Financial Reporting and BNM Guideline on Credit Risk.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Remedial Management (continued)

The Group and the Bank have dedicated remedial management units to manage these problem credits for the wholesale portfolios. For the consumer portfolios, appropriate risk-based and time-based collection strategies are developed to maximise recoveries. The Group and the Bank also use analytical data such as delinquency buckets and adverse status tags for delinquent consumer financing to constantly fine-tune and prioritise its collection efforts.

ECL/Impairment Allowances for Loans, Advances and Financing

The Group and the Bank maintain impairment allowances that are sufficient to absorb credit losses inherent in its loans, advances and financing portfolio. Impairment allowances will be guided by MFRS 9 with effect from 1 January 2018. MFRS 9 replaced the MFRS 139 loan impairment allowance requirements with a forward-looking expected credit loss model.

The Group and 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. 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 and measured based on lifetime ECL. Stage 3 ECL is based on a reasonable and well documented estimate of the net present value of the future cash flows that the Group and the Bank determine to be recoverable from the borrower. The date of the projected recovery of the cash flows is used to determine the “Lifetime” of the ECL. Loans/Financing are written off against impairment after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

For non credit-impaired portfolio, the Stage 1 and 2 ECL are assessed collectively 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.

Ceasing of Interest/Profit Accrual on Loans, Advances and Financing

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

Collateral Held Against Credit-Impaired Loans/Financing

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

Market Risk Management

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

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

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

Market Risk Management Oversight and Organisation

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

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

Market Risk Management Approach

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

Market Risk Identification

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

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

The Group and the Bank also perform stress testing and scenario 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 Group's and the Bank's trading activities, risk profile, and prevailing and forecast economic conditions. These analysis determine if potential losses from such extreme market conditions are within the Group's and the Bank's risk tolerance.

Risk Monitoring and Control

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

Model validation is also an integral part of the Group's and the Bank's risk control process. 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 rates used for risk measurements and valuation are sourced independently, thereby adding further to the integrity of the trading profits and losses ("P&L"), risk and limit control measurements.

To ensure the continued integrity of the VAR computation, back-testing is conducted to confirm the consistency of actual daily trading 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 interest/profit rate management.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset Liability Management (continued)

Asset Liability Management Oversight and Organisation

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

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

Asset Liability Management Approach

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

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

Interest/Profit Rate Risk

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

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

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

Operational Risk Management

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

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

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

Operational Risk Management Oversight and Organisation

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

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

Operational Risk Management Approach

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

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

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

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

Operational Risk Scenario Analysis

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

Outsourcing Risk Management

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

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Physical and People Security Risk Management

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

Business Continuity Risk Management

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

Fraud Risk Management

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

Reputational Risk Management

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

Fiduciary Risk Management

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

Legal and Regulatory Risk Management

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

Technology, Information and Cyber Risk Management

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

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

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Shariah Governance

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

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

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

Shariah Non-Compliance Risk

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

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

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

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

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

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

(iii) Mitigation/Control/Awareness – Shariah Non-Compliance Risk are mitigated by implementing and putting in place appropriate control measures, such as policies, guidelines and procedures on Shariah requirements. OCBC Al-Amin's Shariah Review team will periodically review the operations and processes of the Bank's activities and will escalate any potential non-compliance events to the Shariah Committee for decision. Training programs are also being offered to all personnel that are involved in the Shariah Banking activities and operations.

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

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

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Shariah Governance (continued)

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:

	Group	
Sources and Uses of charity funds	**2018 RM'000**	**2017 RM'000**
At 1 January	3	8
Uses of charity funds		
Contribution to non-profit organisations	(3)	(5)
At 31 December	-	3

43 CREDIT RISK

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

		Group		Bank	
	Note	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000 Restated**
Cash and cash equivalents*	3	4,898,851	6,158,261	4,348,837	5,571,918
Deposits and placements with banks and other financial institutions*	4	400,000	71,835	980,343	182,518
Investment account placements*	5	-	-	1,379,286	1,861,390
Financial assets at FVTPL		1,873,515	-	1,863,535	-
Financial assets held-for-trading		-	1,690,763	-	1,690,763
Financial investments at FVOCI		17,802,426	-	13,586,543	-
Financial investments available-for-sale		-	13,501,171	-	8,778,291
Loans, advances and financing*		69,479,901	68,442,545	58,923,982	58,453,223
Derivative financial assets		760,761	835,825	762,277	835,625
Other assets*		418,998	372,649	599,461	712,283
Contingent liabilities and commitments		31,219,820	28,056,238	26,957,584	25,139,038
		126,854,272	119,129,287	109,401,848	103,225,049

* Stated at gross before ECL/impairment allowance

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

43 CREDIT RISK (continued)

(a) Credit quality of financial assets

	2018					2017				
Group	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitment RM'000**	**Financial assets held-for-trading RM'000**	**Financial investments available-for-sale RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
i) By issuer/counterparty										
Government and central bank	1,214,592	9,449,365	-	-	-	521,998	7,518,002	-	-	-
Foreign government	-	614,177	-	-	-	-	596,729	-	-	-
Public sector	508,942	1,111,749	-	-	-	425,380	600,113	-	-	-
Banks	24	3,140,274	-	538,362	148,794	77,716	2,388,497	-	618,171	164,171
Non-bank financial institutions	139,665	1,603,527	-	31,273	47,087	436,656	1,189,331	-	37,876	26,015
Business enterprise	10,106	1,883,334	54,853	108,547	20,714,831	229,013	1,208,309	55,100	144,056	17,100,057
Small and medium enterprises	-	-	139,324	-	5,774,244	-	-	111,720	-	6,000,001
Individuals	-	-	346,919	82,579	4,534,864	-	-	386,196	35,722	4,765,994
Others	186	-	-	-	-	-	190	-	-	-
	1,873,515	17,802,426	541,096	760,761	31,219,820	1,690,763	13,501,171	553,016	835,825	28,056,238
ii) By geographical distribution										
Malaysia	1,873,355	15,830,214	523,657	656,792	29,674,087	1,673,702	12,101,539	538,855	714,936	26,731,412
Singapore	1	103,517	12,381	43,091	62,538	1	101,272	5,979	30,488	32,563
Other ASEAN countries	-	404,117	-	-	960,603	-	131,552	-	-	978,538
Rest of the world	159	1,464,578	5,058	60,878	522,592	17,060	1,166,808	8,182	90,401	313,725
	1,873,515	17,802,426	541,096	760,761	31,219,820	1,690,763	13,501,171	553,016	835,825	28,056,238

* Past due but not impaired. The analysis of loans, advances and financing are detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

43 CREDIT RISK (continued)

(a) Credit quality of financial assets (continued)

	2018					2017				
Group (continued)	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitment RM'000**	**Financial assets held-for-trading RM'000**	**Financial investments available-for-sale RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
iii) By sector										
Agriculture, hunting, forestry and fishing	-	115,415	413	420	1,597,066	-	88,746	989	75	1,678,033
Mining and quarrying	-	206,119	-	67,593	422,212	-	133,241	161	102,735	364,178
Manufacturing	-	88,949	32,501	7,341	6,702,398	7	66,219	33,509	15,852	5,679,328
Electricity, gas and water	-	273,898	-	-	126,024	-	150,720	-	842	99,002
Construction	-	34,642	15,252	7,956	6,147,527	391,313	129,795	11,941	428	4,890,915
Real estate	123	24,181	42,973	1,161	2,457,704	-	-	15,723	2,176	2,614,079
Wholesale & retail trade and restaurants & hotels	-	477,171	71,818	4,617	4,146,227	-	139,534	72,305	8,701	3,780,074
Transport, storage and communication	1	503,597	11,403	36	647,892	54,014	119,440	10,885	249	681,096
Finance, insurance and business services	214,911	5,300,054	13,832	588,972	7,257,353	634,360	3,884,168	16,720	669,034	6,522,354
Community, social and personal services	-	-	5,985	88	1,519,482	-	-	3,277	11	1,527,934
Household										
- Purchase of residential properties	-	-	285,523	-	-	-	-	332,010	-	-
- Purchase of non-residential properties	-	-	8,347	-	-	-	-	6,203	-	-
- Others	-	-	53,049	82,577	190,064	-	-	49,293	35,722	186,042
Others	1,658,480	10,778,400	-	-	5,871	611,069	8,789,308	-	-	33,203
	1,873,515	17,802,426	541,096	760,761	31,219,820	1,690,763	13,501,171	553,016	835,825	28,056,238

* Past due but not impaired. The analysis of loans, advances and financing are detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

43 CREDIT RISK (continued)

(a) Credit quality of financial assets (continued)

	2018					2017				
Group (continued)	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitment RM'000**	**Financial assets held-for-trading RM'000**	**Financial investments available-for-sale RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
iv) By residual contractual maturity										
Within one year	1,141,187	6,741,836	14,260	193,810	19,506,935	1,070,042	4,774,929	12,882	205,241	17,661,792
One to five years	445,376	8,190,662	38,786	318,846	3,823,426	374,909	6,510,599	56,355	348,003	2,287,884
Over five years	286,952	2,869,928	488,050	248,105	7,889,459	245,812	2,215,643	483,779	282,581	8,106,562
	1,873,515	17,802,426	541,096	760,761	31,219,820	1,690,763	13,501,171	553,016	835,825	28,056,238

Bank

	2018					2017				
i) By issuer/counterparty										
Government and central bank	1,214,592	6,881,998	-	-	-	521,998	5,218,917	-	-	-
Foreign government	-	443,825	-	-	-	-	394,732	-	-	-
Public sector	508,942	881,515	-	-	-	425,380	233,071	-	-	-
Banks	24	2,068,194	-	539,957	65,704	77,716	897,273	-	618,314	54,233
Non-bank financial institutions	139,665	1,518,241	-	31,262	44,246	436,656	1,074,073	-	37,870	21,494
Business enterprise	126	1,792,770	-	108,479	16,621,424	229,013	960,035	-	143,719	14,381,115
Small and medium enterprises	-	-	139,324	-	5,774,244	-	-	111,720	-	6,000,001
Individuals	-	-	292,366	82,579	4,451,966	-	-	320,499	35,722	4,682,195
Others	186	-	-	-	-	-	190	-	-	-
	1,863,535	13,586,543	431,690	762,277	26,957,584	1,690,763	8,778,291	432,219	835,625	25,139,038

	2018					2017				
ii) By geographical distribution										
Malaysia	1,863,375	11,784,683	414,251	658,311	25,552,519	1,673,702	7,580,656	418,058	714,736	23,826,740
Singapore	1	103,517	12,381	43,088	62,538	1	101,272	5,979	30,488	32,563
Other ASEAN countries	-	338,745	-	-	949,399	-	27,732	-	-	968,886
Rest of the world	159	1,359,598	5,058	60,878	393,128	17,060	1,068,631	8,182	90,401	310,849
	1,863,535	13,586,543	431,690	762,277	26,957,584	1,690,763	8,778,291	432,219	835,625	25,139,038

* Past due but not impaired. The analysis of loans, advances and financing are detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

43 CREDIT RISK (continued)

(a) Credit quality of financial assets (continued)

Bank (continued)	**2018** Financial assets at FVTPL RM'000	**2018** Financial investments at FVOCI RM'000	**2018** Loans, advances and financing* RM'000	**2018** Derivative financial assets RM'000	**2018** Contingent liabilities and credit commitment RM'000	**2017** Financial assets held-for-trading RM'000	**2017** Financial investments available-for-sale RM'000	**2017** Loans, advances and financing* RM'000	**2017** Derivative financial assets RM'000	**2017** Contingent liabilities and credit commitments RM'000
iii) By sector										
Agriculture, hunting, forestry and fishing	-	85,523	119	420	1,471,008	-	58,756	631	75	1,583,504
Mining and quarrying	-	206,119	-	67,593	288,387	-	133,241	-	102,735	245,821
Manufacturing	-	88,949	19,714	7,316	5,634,506	7	66,219	18,613	15,608	5,009,514
Electricity, gas and water	-	188,005	-	-	111,854	-	59,874	-	842	75,002
Construction	-	34,642	11,889	7,956	4,985,181	391,313	129,795	7,902	428	3,977,516
Real estate	123	24,181	38,946	1,161	2,237,553	-	-	15,723	2,176	2,498,410
Wholesale & retail trade and restaurants & hotels	-	477,171	51,457	4,595	3,849,030	-	139,534	47,879	8,684	3,573,172
Transport, storage and communication	1	348,567	3,469	26	523,221	54,014	74,539	7,459	248	595,983
Finance, insurance and business services	214,911	4,142,688	8,452	590,545	6,386,660	634,360	2,154,936	10,425	669,096	6,175,204
Community, social and personal services	-	-	5,277	88	1,360,103	-	-	1,777	11	1,302,639
Household										
- Purchase of residential properties	-	-	255,315	-	-	-	-	290,830	-	-
- Purchase of non-residential properties	-	-	8,347	-	-	-	-	6,203	-	-
- Others	-	-	28,705	82,577	110,081	-	-	24,777	35,722	102,273
Others	1,648,500	7,990,698	-	-	-	611,069	5,961,397	-	-	-
	1,863,535	13,586,543	431,690	762,277	26,957,584	1,690,763	8,778,291	432,219	835,625	25,139,038

* Past due but not impaired. The analysis of loans, advances and financing are detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

43 CREDIT RISK (continued)

(a) Credit quality of financial assets (continued)

	2018					2017				
Bank (continued)	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitment RM'000**	**Financial assets held-for-trading RM'000**	**Financial investments available-for-sale RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
iv) By residual contractual maturity										
Within one year	1,141,187	4,646,674	2,627	195,108	16,750,332	1,070,042	2,126,981	1,612	205,041	15,561,445
One to five years	440,393	6,328,362	19,322	318,846	3,030,170	374,909	4,624,074	21,845	348,003	2,023,083
Over five years	281,955	2,611,507	409,741	248,323	7,177,082	245,812	2,027,236	408,762	282,581	7,554,510
	1,863,535	13,586,543	431,690	762,277	26,957,584	1,690,763	8,778,291	432,219	835,625	25,139,038

* Past due but not impaired. The analysis of loans, advances and financing are detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

v) By credit rating/internal grading & ECL stage

	Group					Bank				
	2018				2017	2018				2017
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Total RM'000**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Total RM'000 Restated**
Cash and cash equivalents	4,898,851	-	-	4,898,851	6,158,261	4,348,837	-	-	4,348,837	5,571,918
Deposits and placements with banks and other financial institutions	400,000	-	-	400,000	71,835	980,343	-	-	980,343	182,518
Investment account placements	-	-	-	-	-	1,263,316	-	-	1,263,316	1,745,420

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

43 CREDIT RISK (continued)

(a) Credit quality of financial assets (continued)

v) By credit rating/internal grading & ECL stage (continued)

	Group					Bank				
	2018				2017	2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Financial assets at FVTPL*										
Government and central bank (unrated)	-	-	-	1,054,924	119,772	-	-	-	1,054,924	119,772
Government (AAA to BBB)	-	-	-	159,668	402,226	-	-	-	159,668	402,226
Investment grade (AAA to BBB)	-	-	-	142,762	822,453	-	-	-	132,782	822,453
Unrated	-	-	-	516,161	346,312	-	-	-	516,161	346,312
	-	-	-	1,873,515	1,690,763	-	-	-	1,863,535	1,690,763
Financial investments at FVOCI										
Government (A to AAA)	4,786,636	-	-	4,786,636	5,306,279	4,023,364	-	-	4,023,364	4,339,724
Government and central bank (unrated)	4,662,729	-	-	4,662,729	2,211,723	2,858,634	-	-	2,858,634	879,193
Foreign government (AAA to BBB)	580,567	-	-	580,567	574,447	431,323	-	-	431,323	394,732
Foreign government (unrated)	33,610	-	-	33,610	22,282	12,502	-	-	12,502	-
Investment grade (AAA to BBB)	3,512,732	30,006	-	3,542,738	2,855,535	3,366,888	-	-	3,366,888	2,614,753
Unrated	4,196,146	-	-	4,196,146	2,530,905	2,893,832	-	-	2,893,832	549,889
	17,772,420	30,006	-	17,802,426	13,501,171	13,586,543	-	-	13,586,543	8,778,291

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

43 CREDIT RISK (continued)

(a) Credit quality of financial assets (continued)

v) By credit rating/internal grading & ECL stage (continued)

	Group					Bank				
	2018				2017	2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Contingent liabilities and commitments (excluding derivative assets)										
Pass	30,007,302	895,226	-	30,902,528	27,412,080	26,008,792	642,050	-	26,650,842	24,761,916
Special mention	-	280,802	-	280,802	602,636	-	280,592	-	280,592	349,417
Credit-impaired	-	-	36,490	36,490	41,522	-	-	26,150	26,150	27,705
	30,007,302	1,176,028	36,490	31,219,820	28,056,238	26,008,792	922,642	26,150	26,957,584	25,139,038

(b) Credit quality of loans, advances and financing

Credit quality

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

Loans, advances and financing classified as Pass and Special Mention are not credit-impaired whereas Substandard, Doubtful and Loss are credit-impaired.

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Neither past due nor credit-impaired	67,605,764	66,458,906	57,534,351	56,973,953
Past due loans	1,669,038	1,799,296	1,286,642	1,335,640
- Not credit-impaired	541,096	553,016	431,690	432,219
- Credit-impaired	1,127,942	1,246,280	854,952	903,421
Credit-impaired but not past due	205,099	184,343	102,989	143,630
Gross loans, advances and financing	69,479,901	68,442,545	58,923,982	58,453,223

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

43 CREDIT RISK (continued)

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

Credit quality and ECL stage

	Group					Bank				
	2018				2017	2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Neither past due nor credit-impaired										
(i) By internal grading										
Pass	61,950,075	5,320,988	-	67,271,063	65,531,152	52,505,677	4,811,064	-	57,316,741	56,609,306
Special Mention	-	334,701	-	334,701	927,754	-	217,610	-	217,610	364,647
	61,950,075	5,655,689	-	67,605,764	66,458,906	52,505,677	5,028,674	-	57,534,351	56,973,953
Past due but not credit-impaired										
(i) By period overdue										
Less than 2 months	-	440,442	-	440,442	461,698	-	358,099	-	358,099	359,748
2 months to less than 3 months	-	100,654	-	100,654	91,318	-	73,591	-	73,591	72,471
	-	541,096	-	541,096	553,016	-	431,690	-	431,690	432,219
Credit-impaired	-	-	1,333,041	1,333,041	1,430,623	-	-	957,941	957,941	1,047,051
Total	61,950,075	6,196,785	1,333,041	69,479,901	68,442,545	52,505,677	5,460,364	957,941	58,923,982	58,453,223

All past due but not credit-impaired loans, advances and financing are classified as Special Mention.
The analysis of credit-impaired loans, advances and financing are disclosed in Note 9(a) to the financial statements.

43 CREDIT RISK (continued)

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

Collateral

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

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

As at 31 December 2018 and 31 December 2017, there were no assets repossessed by the Group and the Bank as a result of taking possession of collateral held as security, or by calling upon other credit enhancements.

(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 loans, advances and financing is as follows:

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fair value of collateral held against the covered portion of credit-impaired loans, advances and financing	1,182,363	1,778,641	951,832	1,284,270
Covered portion of credit-impaired loans, advances and financing	838,859	1,084,487	659,939	773,217
Uncovered portion of credit-impaired loans, advances and financing	494,182	346,136	298,002	273,834
	1,333,041	1,430,623	957,941	1,047,051

44 LIQUIDITY RISK

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

Group	Note	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	No specific maturity RM'000
2018									
Assets									
Cash and cash equivalents*	3	4,898,851	4,898,851	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions*	4	400,000	400,000	-	-	-	-	-	-
Financial assets at FVTPL		1,873,515	543,278	50,038	547,872	29,941	415,434	286,952	-
Financial investments at FVOCI		17,802,426	3,061,836	1,145,635	2,534,365	4,322,060	3,868,602	2,770,710	99,218
Loans, advances and financing*	8	69,479,901	20,429,697	2,917,078	3,016,706	7,243,231	4,705,343	31,167,846	-
Derivative financial assets		760,761	110,073	62,746	20,991	161,093	157,753	248,105	-
Statutory deposits with Bank Negara Malaysia		1,913,172	-	-	-	-	-	-	1,913,172
Other balances		653,649	248,150	8,896	26,179	42,015	47,002	41,323	240,084
Total assets		97,782,275	29,691,885	4,184,393	6,146,113	11,798,340	9,194,134	34,514,936	2,252,474
Liabilities									
Deposits from customers		75,851,221	51,252,494	10,126,947	14,143,387	324,817	3,576	-	-
Deposits and placements of banks and other financial institutions		7,070,077	5,822,164	1,241,957	999	3,092	1,865	-	-
Bills and acceptances payable		92,841	92,841	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad		700,000	-	-	-	700,000	-	-	-
Derivative financial liabilities		716,168	37,730	20,775	187,263	118,930	148,613	202,857	-
Other balances		3,095,552	861,284	280,635	185,498	212,321	1,500,022	2,590	53,202
Subordinated bonds		1,893,169	-	400,000	-	993,169	500,000	-	-
Total liabilities		89,419,028	58,066,513	12,070,314	14,517,147	2,352,329	2,154,076	205,447	53,202

* Stated at gross before ECL/impairment allowance

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

44 LIQUIDITY RISK (continued)

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

44 LIQUIDITY RISK (continued)

Bank	Note	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	No specific maturity RM'000
2018									
Assets									
Cash and cash equivalents*	3	4,348,837	4,348,837	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions*	4	980,343	980,343	-	-	-	-	-	-
Investment account placements*	5	1,379,286	1,263,316	-	-	-	-	115,970	-
Financial assets at FVTPL		1,863,535	543,278	50,038	547,871	29,942	410,451	281,955	-
Financial investments at FVOCI		13,586,543	1,814,882	820,390	2,011,402	3,068,473	3,259,889	2,512,289	99,218
Loans, advances and financing*	8	58,923,982	16,186,464	2,268,799	2,510,705	5,942,257	4,126,117	27,889,640	-
Derivative financial assets		762,277	111,381	62,736	20,991	161,093	157,753	248,323	-
Statutory deposits with Bank Negara Malaysia		1,561,972	-	-	-	-	-	-	1,561,972
Other balances		1,363,633	259,820	7,780	10,411	227,921	40,297	38,363	779,041
Total assets		84,770,408	25,508,321	3,209,743	5,101,380	9,429,686	7,994,507	31,086,540	2,440,231
Liabilities									
Deposits from customers		64,124,328	42,391,652	9,217,727	12,203,426	307,957	3,566	-	-
Deposits and placements of banks and other financial institutions		6,986,949	5,745,487	1,241,462	-	-	-	-	-
Bills and acceptances payable		78,292	78,292	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad		700,000	-	-	-	700,000	-	-	-
Derivative financial liabilities		716,113	37,675	20,775	187,263	118,930	148,613	202,857	-
Other balances		3,003,108	826,681	255,445	171,188	205,813	1,500,022	2,590	41,369
Subordinated bonds		1,893,169	-	400,000	-	993,169	500,000	-	-
Total liabilities		77,501,959	49,079,787	11,135,409	12,561,877	2,325,869	2,152,201	205,447	41,369

* Stated at gross before ECL/impairment allowance

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

44 LIQUIDITY RISK (continued)

Bank	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000
2017								
Assets								
Cash and cash equivalents	5,571,918	5,571,918	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	182,518	182,518	-	-	-	-	-	-
Investment account placements	1,793,011	1,737,129	-	-	-	-	55,882	-
Financial assets held-for-trading	1,690,763	363,914	661,059	45,069	81,867	293,042	245,812	-
Financial investments available-for-sale	8,778,279	510,722	234,931	1,381,328	2,886,221	1,737,853	1,918,678	108,546
Loans, advances and financing	57,742,824	13,365,447	2,729,104	2,364,021	6,352,076	3,690,132	29,242,044	-
Derivative financial assets	835,625	33,080	25,094	146,867	202,888	145,115	282,581	-
Statutory deposits with Bank Negara Malaysia	1,427,217	-	-	-	-	-	-	1,427,217
Other balances	1,447,444	400,185	4,533	10,087	24,500	218,451	38,200	751,488
Total assets	79,469,599	22,164,913	3,654,721	3,947,372	9,547,552	6,084,593	31,783,197	2,287,251
Liabilities								
Deposits from customers	62,490,422	42,561,274	8,902,407	10,436,494	581,992	8,255	-	-
Deposits and placements of banks and other financial institutions	3,946,437	2,732,772	1,213,665	-	-	-	-	-
Bills and acceptances payable	145,347	145,347	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	4,012	671,731	479,807	263,702	-	-	-
Derivative financial liabilities	1,080,427	167,680	70,566	193,658	270,935	134,780	242,808	-
Other balances	2,432,762	661,745	135,414	86,442	66,461	1,139,837	301,722	41,141
Subordinated bonds	1,870,932	-	-	-	925,922	945,010	-	-
Total liabilities	73,385,579	46,272,830	10,993,783	11,196,401	2,109,012	2,227,882	544,530	41,141

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

44 LIQUIDITY RISK (continued)

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

Group	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
2018								
Non-derivative financial liabilities								
Deposits from customers	75,851,221	51,252,494	10,126,947	14,143,387	324,817	3,576	-	75,851,221
Deposits and placements of banks and other financial institutions	7,070,077	5,822,164	1,241,957	999	3,092	1,865	-	7,070,077
Bills and acceptances payable	92,841	92,841	-	-	-	-	-	92,841
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	700,000
Other liabilities	3,045,533	987,237	473,772	620,823	383,425	1,539,162	2,590	4,007,008
Subordinated bonds	1,893,169	-	400,000	-	993,169	500,000	-	1,893,169
	88,652,841	58,154,736	12,242,676	14,765,209	2,404,503	2,044,603	2,590	89,614,316
Commitments and contingencies								
Direct credit substitutes		141,100	131,548	108,726	359,486	232	33	741,125
Transaction-related contingent items		297,729	297,594	502,476	860,370	693,318	278,870	2,930,357
Short-term self-liquidating trade-related contingencies		277,650	25,837	232	-	-	-	303,719
Forward asset purchases		-	-	-	-	-	29,687	29,687
Formal standby facilities and credit lines - Maturity exceeding one year		16,572	1,370	20,651	879,991	1,030,029	3,125,868	5,074,481
Other unconditionally cancellable commitments		-	-	17,685,450	-	-	4,455,001	22,140,451
		733,051	456,349	18,317,535	2,099,847	1,723,579	7,889,459	31,219,820

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

44 LIQUIDITY RISK (continued)

Group	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
2018								
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		2,116	-	-	-	-	-	2,116
- Interest rate derivatives		11,585	15,069	18,337	49,746	19,134	6,657	120,528
- Equity and other derivatives		2,063	1,633	7,314	4,479	72,884	-	88,373
		15,764	16,702	25,651	54,225	92,018	6,657	211,017
Hedging:								
- Interest rate derivatives		(302)	457	151	142	44	-	492
		15,462	17,159	25,802	54,367	92,062	6,657	211,509
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		4,507,889	1,581,596	2,328,729	2,295,269	1,529,188	1,746,495	13,989,166
- Inflow		(4,485,433)	(1,612,638)	(2,155,356)	(2,347,402)	(1,535,539)	(1,831,323)	(13,967,691)
		37,918	(13,883)	199,175	2,234	85,711	(78,171)	232,984
2017								
Non-derivative financial liabilities								
Deposits from customers	73,652,739	50,523,934	9,954,186	12,418,069	747,784	8,766	-	73,652,739
Deposits and placements of banks and other financial institutions	4,388,137	3,172,783	1,213,842	357	1,155	-	-	4,388,137
Bills and acceptances payable	166,104	166,104	-	-	-	-	-	166,104
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	4,012	671,731	479,807	263,702	-	-	1,419,252
Other liabilities	2,543,806	668,516	314,298	511,548	259,702	1,232,069	300,791	3,286,924
Subordinated bonds	1,870,932	-	-	-	925,922	945,010	-	1,870,932
	84,040,970	54,535,349	12,154,057	13,409,781	2,198,265	2,185,845	300,791	84,784,088

44 LIQUIDITY RISK (continued)

Group	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2017							
Commitments and contingencies							
Direct credit substitutes	91,810	93,414	140,578	229,086	154,001	-	708,889
Transaction-related contingent items	486,669	224,754	427,162	879,838	360,498	588,565	2,967,486
Short-term self-liquidating trade-related contingencies	296,987	25,815	8,315	-	-	-	331,117
Formal standby facilities and credit lines							
- Maturity exceeding one year	12,961	3,569	24,559	406,018	258,443	3,169,219	3,874,769
Other unconditionally cancellable commitments	-	-	15,825,199	-	-	4,348,778	20,173,977
	888,427	347,552	16,425,813	1,514,942	772,942	8,106,562	28,056,238
Derivative financial liabilities							
Net settled derivatives							
Trading:							
- Foreign exchange derivatives	988	-	-	-	-	-	988
- Interest rate derivatives	11,507	2,774	11,763	26,566	38,746	21,154	112,510
- Equity and other derivatives	2,249	194	144	8,442	15,220	-	26,249
	14,744	2,968	11,907	35,008	53,966	21,154	139,747
Hedging:							
- Interest rate derivatives	177	789	379	831	271	-	2,447
	14,921	3,757	12,286	35,839	54,237	21,154	142,194
Gross settled derivatives							
Trading:							
- Foreign exchange derivatives							
- Outflow	7,149,106	1,679,646	2,786,951	3,510,812	1,369,237	2,301,196	18,796,948
- Inflow	(7,012,773)	(1,604,482)	(2,682,212)	(3,465,671)	(1,388,993)	(2,365,369)	(18,519,500)
	151,254	78,921	117,025	80,980	34,481	(43,019)	419,642

44 LIQUIDITY RISK (continued)

Bank	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
2018								
Non-derivative financial liabilities								
Deposits from customers	64,124,328	42,391,652	9,217,727	12,203,426	307,957	3,566	-	64,124,328
Deposits and placements of banks and other financial institutions	6,986,949	5,745,487	1,241,462	-	-	-	-	6,986,949
Bills and acceptances payable	78,292	78,292	-	-	-	-	-	78,292
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	700,000
Other liabilities	2,953,139	928,129	432,966	540,275	351,864	1,539,160	2,590	3,794,984
Subordinated bonds	1,893,169	-	400,000	-	993,169	500,000	-	1,893,169
	76,735,877	49,143,560	11,292,155	12,743,701	2,352,990	2,042,726	2,590	77,577,722
Commitments and contingencies								
Direct credit substitutes		117,953	131,169	98,726	284,045	232	33	632,158
Transaction-related contingent items		278,128	272,704	465,629	763,044	491,683	266,703	2,537,891
Short-term self-liquidating trade-related contingencies		250,847	23,444	232	-	-	-	274,523
Forward asset purchases		-	-	-	-	-	29,687	29,687
Formal standby facilities and credit lines - Maturity exceeding one year		9,189	1,162	19,321	854,541	636,625	2,562,502	4,083,340
Other unconditionally cancellable commitments		-	-	15,081,828	-	-	4,318,157	19,399,985
		656,117	428,479	15,665,736	1,901,630	1,128,540	7,177,082	26,957,584

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

44 LIQUIDITY RISK (continued)

Bank	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
2018								
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		2,116	-	-	-	-	-	2,116
- Interest rate derivatives		11,585	15,069	18,337	49,746	19,134	6,657	120,528
- Equity and other derivatives		2,063	1,633	7,314	4,479	72,884	-	88,373
		15,764	16,702	25,651	54,225	92,018	6,657	211,017
Hedging:								
- Interest rate derivatives		(302)	457	151	142	44	-	492
		15,462	17,159	25,802	54,367	92,062	6,657	211,509
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		4,503,271	1,581,596	2,328,729	2,295,269	1,529,188	1,746,495	13,984,548
- Inflow		(4,480,874)	(1,612,638)	(2,155,356)	(2,347,402)	(1,535,539)	(1,831,323)	(13,963,132)
		37,859	(13,883)	199,175	2,234	85,711	(78,171)	232,925
2017								
Non-derivative financial liabilities								
Deposits from customers	62,490,422	42,561,274	8,902,407	10,436,494	581,992	8,255	-	62,490,422
Deposits and placements of banks and other financial institutions	3,946,437	2,732,772	1,213,665	-	-	-	-	3,946,437
Bills and acceptances payable	145,347	145,347	-	-	-	-	-	145,347
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	4,012	671,731	479,807	263,702	-	-	1,419,252
Other liabilities	2,417,222	758,080	262,616	422,114	234,393	1,198,566	301,722	3,177,491
Subordinated bonds	1,870,932	-	-	-	925,922	945,010	-	1,870,932
	72,289,612	46,201,485	11,050,419	11,338,415	2,006,009	2,151,831	301,722	73,049,881

44 LIQUIDITY RISK (continued)

Bank	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2017							
Commitments and contingencies							
Direct credit substitutes	74,090	83,414	135,031	163,062	154,001	-	609,598
Transaction-related contingent items	430,250	205,829	401,223	817,111	260,057	452,495	2,566,965
Short-term self-liquidating trade-related contingencies	221,953	24,642	8,315	-	-	-	254,910
Formal standby facilities and credit lines							
- Maturity exceeding one year	3,108	272	22,965	380,920	247,932	2,856,857	3,512,054
Other unconditionally cancellable commitments	-	-	13,950,353	-	-	4,245,158	18,195,511
	729,401	314,157	14,517,887	1,361,093	661,990	7,554,510	25,139,038
Derivative financial liabilities							
Net settled derivatives							
Trading:							
- Foreign exchange derivatives	988	-	-	-	-	-	988
- Interest rate derivatives	11,507	2,774	11,763	26,566	38,746	21,154	112,510
- Equity and other derivatives	2,249	194	144	8,442	15,220	-	26,249
	14,744	2,968	11,907	35,008	53,966	21,154	139,747
Hedging:							
- Interest rate derivatives	177	789	379	831	271	-	2,447
	14,921	3,757	12,286	35,839	54,237	21,154	142,194
Gross settled derivatives							
Trading:							
- Foreign exchange derivatives							
- Outflow	7,144,859	1,679,646	2,786,951	3,510,812	1,369,237	2,301,196	18,792,701
- Inflow	(7,008,728)	(1,604,482)	(2,682,212)	(3,465,671)	(1,388,993)	(2,365,369)	(18,515,455)
	151,052	78,921	117,025	80,980	34,481	(43,019)	419,440

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

45 INTEREST/PROFIT RATE RISK

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

	Non-trading Book							
Group	**Up to 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**Non interest/ profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**
2018								
Assets								
Cash and cash equivalents	4,531,249	-	-	-	-	366,257	-	4,897,506
Deposits and placements with banks and other financial institutions	400,000	-	-	-	-	(44)	-	399,956
Financial assets at FVTPL	-	-	-	-	-	-	1,873,515	1,873,515
Financial investments at FVOCI	3,487,997	3,621,492	4,058,657	3,778,704	2,756,358	99,218	-	17,802,426
Loans, advances and financing								
- Unimpaired	64,109,608	1,506,375	1,084,417	650,107	422,136	(155,486)	-	67,617,157
- Impaired	-	-	-	-	-	964,339	-	964,339
Derivative financial assets	-	-	-	116	-	-	760,645	760,761
Other assets	-	-	-	-	-	418,998	-	418,998
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,913,172	-	1,913,172
Property and equipment	-	-	-	-	-	164,368	-	164,368
Prepaid lease payments	-	-	-	-	-	712	-	712
Tax recoverable	-	-	-	-	-	9,436	-	9,436
Deferred tax assets	-	-	-	-	-	60,135	-	60,135
Total assets	72,528,854	5,127,867	5,143,074	4,428,927	3,178,494	3,841,105	2,634,160	96,882,481

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Group	**Up to 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**Non interest/ profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**
2018								
Liabilities								
Deposits from customers	32,372,392	24,270,326	11,974,111	3,576	-	7,230,816	-	75,851,221
Deposits and placements of banks and other financial institutions	5,694,173	1,246,955	8,643	19,740	-	100,566	-	7,070,077
Bills and acceptances payable	-	-	-	-	-	92,841	-	92,841
Recourse obligation on loans sold to Cagamas Berhad	-	-	700,000	-	-	-	-	700,000
Derivative financial liabilities	-	277	-	125	-	-	715,766	716,168
Other liabilities	142,516	92,920	197,240	1,492,115	-	1,120,742	-	3,045,533
Tax payable and zakat	-	-	-	-	-	50,019	-	50,019
Subordinated bonds	-	400,000	993,169	500,000	-	-	-	1,893,169
Total liabilities	38,209,081	26,010,478	13,873,163	2,015,556	-	8,594,984	715,766	89,419,028
On-statement of financial position interest/profit sensitivity gap	34,319,773	(20,882,611)	(8,730,089)	2,413,371	3,178,494	(4,753,879)	1,918,394	7,463,453
Off-statement of financial position interest/profit sensitivity gap	66,211	-	-	(66,211)	-	-	-	-
Total interest/profit sensitivity gap	34,385,984	(20,882,611)	(8,730,089)	2,347,160	3,178,494	(4,753,879)	1,918,394	7,463,453

45 INTEREST/PROFIT RATE RISK (continued)

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

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45 INTEREST/PROFIT RATE RISK (continued)

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Bank	**Up to 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**Non interest sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**
2018								
Assets								
Cash and cash equivalents	4,041,135	-	-	-	-	306,357	-	4,347,492
Deposits and placements with banks								
and other financial institutions	980,343	-	-	-	-	(44)	-	980,299
Investment account placements	1,263,316	-	-	-	-	55,460	-	1,318,776
Financial assets at FVTPL	-	-	-	-	-	-	1,863,535	1,863,535
Financial investments at FVOCI	2,241,043	2,773,284	2,805,070	3,169,991	2,497,937	99,218	-	13,586,543
Loans, advances and financing								
- Unimpaired	55,546,122	1,082,158	649,105	302,843	47,690	(72,066)	-	57,555,852
- Impaired	-	-	-	-	-	709,437	-	709,437
Derivative financial assets	-	-	-	116	-	-	762,161	762,277
Other assets	-	-	200,000	-	-	399,461	-	599,461
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,561,972	-	1,561,972
Investment in subsidiaries	-	-	-	-	-	557,051	-	557,051
Property and equipment	-	-	-	-	-	154,484	-	154,484
Prepaid lease payments	-	-	-	-	-	712	-	712
Deferred tax assets	-	-	-	-	-	51,925	-	51,925
Total assets	64,071,959	3,855,442	3,654,175	3,472,950	2,545,627	3,823,967	2,625,696	84,049,816

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Bank	**Up to 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**Non interest sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**
2018								
Liabilities								
Deposits from customers	26,636,890	21,421,153	9,227,621	3,566	-	6,835,098	-	64,124,328
Deposits and placements of banks and other financial institutions	5,694,173	1,246,955	8,643	19,740	-	17,438	-	6,986,949
Bills and acceptances payable	-	-	-	-	-	78,292	-	78,292
Recourse obligation on loans sold to Cagamas Berhad	-	-	700,000	-	-	-	-	700,000
Derivative financial liabilities	-	277	-	125	-	-	715,711	716,113
Other liabilities	142,516	92,920	197,240	1,492,115	-	1,028,348	-	2,953,139
Tax payable and zakat	-	-	-	-	-	49,969	-	49,969
Subordinated bonds	-	400,000	993,169	500,000	-	-	-	1,893,169
Total liabilities	32,473,579	23,161,305	11,126,673	2,015,546	-	8,009,145	715,711	77,501,959
On-statement of financial position interest/profit sensitivity gap	31,598,380	(19,305,863)	(7,472,498)	1,457,404	2,545,627	(4,185,178)	1,909,985	6,547,857
Off-statement of financial position interest/profit sensitivity gap	66,211	-	-	(66,211)	-	-	-	-
Total interest/profit sensitivity gap	31,664,591	(19,305,863)	(7,472,498)	1,391,193	2,545,627	(4,185,178)	1,909,985	6,547,857

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45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Bank	**Up to 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**Non interest sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**
2017								
Assets								
Cash and cash equivalents	5,220,415	-	-	-	-	351,503	-	5,571,918
Deposits and placements with banks and other financial institutions	182,518	-	-	-	-	-	-	182,518
Investment account placements	1,741,335	-	-	-	-	51,676	-	1,793,011
Financial assets at FVTPL	-	-	-	-	-	-	1,690,763	1,690,763
Financial investments at FVOCI	1,260,175	1,369,306	2,614,113	1,507,461	1,918,500	108,724	-	8,778,279
Loans, advances and financing								
- Unimpaired	55,448,130	830,825	704,722	67,104	45,478	(130,898)	-	56,965,361
- Impaired	-	-	-	-	-	777,463	-	777,463
Derivative financial assets	-	-	-	-	-	-	835,625	835,625
Other assets	-	-	-	200,000	-	509,911	-	709,911
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,427,217	-	1,427,217
Investment in subsidiaries	-	-	-	-	-	558,492	-	558,492
Property and equipment	-	-	-	-	-	153,271	-	153,271
Prepaid lease payments	-	-	-	-	-	748	-	748
Deferred tax assets	-	-	-	-	-	25,022	-	25,022
Total assets	63,852,573	2,200,131	3,318,835	1,774,565	1,963,978	3,833,129	2,526,388	79,469,599

45 INTEREST/PROFIT RATE RISK (continued)

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

45 INTEREST/PROFIT RATE RISK (continued)

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
+ 50 bps	134,192	132,751	115,933	114,160
- 50 bps	(132,280)	(134,817)	(114,237)	(114,970)

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

46 CURRENCY RISK

Group	MYR RM'000	USD RM'000	AUD RM'000	SGD RM'000	Others RM'000	Total RM'000
2018						
Financial assets						
Cash and cash equivalents	4,508,112	287,863	6,071	52,676	42,784	4,897,506
Deposits and placements with banks and other financial institutions	399,956	-	-	-	-	399,956
Financial assets at FVTPL	1,873,355	114	25	10	11	1,873,515
Financial investments at FVOCI	14,745,966	2,173,017	659,985	-	223,458	17,802,426
Loans, advances and financing	61,228,355	5,390,213	1,335,331	75,247	552,350	68,581,496
Derivative financial assets	261,877	490,498	7,860	12	514	760,761
Other assets	364,607	45,021	6,596	-	2,774	418,998
Statutory deposits with Bank Negara Malaysia	1,913,172	-	-	-	-	1,913,172
	85,295,400	8,386,726	2,015,868	127,945	821,891	96,647,830
Financial liabilities						
Deposits from customers	68,039,188	6,296,604	628,056	399,068	488,305	75,851,221
Deposits and placements of banks and other financial institutions	392,509	4,998,739	1,165,099	5,480	508,250	7,070,077
Bills and acceptances payable	92,722	-	-	-	119	92,841
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	-	700,000
Derivative financial liabilities	212,113	495,276	6,554	2,225	-	716,168
Other liabilities	2,820,440	114,651	67,421	23,681	19,340	3,045,533
Subordinated bonds	900,000	993,169	-	-	-	1,893,169
	73,156,972	12,898,439	1,867,130	430,454	1,016,014	89,369,009
Net financial assets/ (liabilities) exposure	12,138,428	(4,511,713)	148,738	(302,509)	(194,123)	7,278,821

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

46 CURRENCY RISK (continued)

Group (continued)	MYR RM'000	USD RM'000	AUD RM'000	SGD RM'000	Others RM'000	Total RM'000
2017						
Financial assets						
Cash and cash equivalents	5,326,890	560,222	4,274	78,790	188,085	6,158,261
Deposits and placements with banks and other financial institutions	1	-	-	-	71,834	71,835
Financial assets held-for-trading	1,611,957	16,063	997	1	61,745	1,690,763
Financial investments available-for-sale	11,453,342	1,223,816	668,694	122,750	32,557	13,501,159
Loans, advances and financing	59,854,558	6,005,663	933,647	81,653	576,829	67,452,350
Derivative financial assets	247,385	567,409	12,310	8,527	194	835,825
Other assets	307,859	54,559	3,289	1,759	2,811	370,277
Statutory deposits with Bank Negara Malaysia	1,752,717	-	-	-	-	1,752,717
	80,554,709	8,427,732	1,623,211	293,480	934,055	91,833,187
Financial liabilities						
Deposits from customers	64,799,579	7,338,438	519,347	512,048	483,327	73,652,739
Deposits and placements of banks and other financial institutions	393,505	2,590,495	1,010,035	133,526	260,576	4,388,137
Bills and acceptances payable	166,104	-	-	-	-	166,104
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	-	-	-	1,419,252
Derivative financial liabilities	424,892	613,735	6,668	34,824	735	1,080,854
Other liabilities	2,352,298	78,274	60,990	17,389	34,855	2,543,806
Subordinated bonds	900,000	970,932	-	-	-	1,870,932
	70,455,630	11,591,874	1,597,040	697,787	779,493	85,121,824
Net financial assets/ (liabilities) exposure	10,099,079	(3,164,142)	26,171	(404,307)	154,562	6,711,363

Bank	MYR RM'000	USD RM'000	AUD RM'000	SGD RM'000	Others RM'000	Total RM'000
2018						
Financial assets						
Cash and cash equivalents	3,770,674	445,115	5,678	54,124	71,901	4,347,492
Deposits and placements with banks and other financial institutions	499,993	459,340	-	-	20,966	980,299
Investment account placements	307,960	1,010,816	-	-	-	1,318,776
Financial assets at FVTPL	1,863,375	114	25	10	11	1,863,535
Financial investments at FVOCI	10,726,138	1,998,070	659,985	-	202,350	13,586,543
Loans, advances and financing	52,549,532	3,752,829	1,335,331	75,247	552,350	58,265,289
Derivative financial assets	263,393	490,498	7,860	12	514	762,277
Other assets	543,463	46,759	6,596	1	2,642	599,461
Statutory deposits with Bank Negara Malaysia	1,561,972	-	-	-	-	1,561,972
	72,086,500	8,203,541	2,015,475	129,394	850,734	83,285,644

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

46 CURRENCY RISK (continued)

Bank (continued)	**MYR RM'000**	**USD RM'000**	**AUD RM'000**	**SGD RM'000**	**Others RM'000**	**Total RM'000**
2018						
Financial liabilities						
Deposits from customers	56,517,767	6,101,723	628,056	389,316	487,466	64,124,328
Deposits and placements of banks and other financial institutions	321,579	4,986,541	1,165,099	5,480	508,250	6,986,949
Bills and acceptances payable	78,173	-	-	-	119	78,292
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	-	700,000
Derivative financial liabilities	212,058	495,276	6,554	2,225	-	716,113
Other liabilities	2,731,840	112,007	67,421	22,840	19,031	2,953,139
Subordinated bonds	900,000	993,169	-	-	-	1,893,169
	61,461,417	12,688,716	1,867,130	419,861	1,014,866	77,451,990
Net financial assets/ (liabilities) exposure	10,625,083	(4,485,175)	148,345	(290,467)	(164,132)	5,833,654
2017						
Financial assets						
Cash and cash equivalents	4,491,489	831,715	4,274	55,565	188,875	5,571,918
Deposits and placements with banks and other financial institutions	54,086	57,451	-	-	70,981	182,518
Investment account placements	338,091	1,273,483	-	-	181,437	1,793,011
Financial assets held-for-trading	1,611,957	16,063	997	1	61,745	1,690,763
Financial investments available-for-sale	7,081,101	1,018,209	668,694	-	10,275	8,778,279
Loans, advances and financing	52,196,883	4,135,945	933,647	81,653	394,696	57,742,824
Derivative financial assets	247,185	567,409	-	8,527	12,504	835,625
Other assets	642,734	45,158	-	15,761	6,258	709,911
Statutory deposits with Bank Negara Malaysia	1,427,217	-	-	-	-	1,427,217
	68,090,743	7,945,433	1,607,612	161,507	926,771	78,732,066
Financial liabilities						
Deposits from customers	53,906,948	7,082,726	519,347	498,492	482,909	62,490,422
Deposits and placements of banks and other financial institutions	361,830	2,320,458	1,010,035	15,507	238,607	3,946,437
Bills and acceptances payable	145,347	-	-	-	-	145,347
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	-	-	-	1,419,252
Derivative financial liabilities	424,465	613,735	6,668	34,824	735	1,080,427
Other liabilities	2,210,363	95,045	60,990	15,971	34,853	2,417,222
Subordinated bonds	900,000	970,932	-	-	-	1,870,932
	59,368,205	11,082,896	1,597,040	564,794	757,104	73,370,039
Net financial assets/ (liabilities) exposure	8,722,538	(3,137,463)	10,572	(403,287)	169,667	5,362,027

46 CURRENCY RISK (continued)

Value-at-Risk ("VaR")

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

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
VaR Risk Type				
- Interest/Profit rate risk	1,955	1,921	1,955	1,923
- Currency risk	593	400	593	399
- Credit spread risk	23	457	23	457
- Equity and commodity risk	557	643	557	643
- Total	1,877	1,711	1,877	1,709

47 SEGMENT INFORMATION

Operating Segment

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

<u>Business Banking</u>

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

<u>Consumer Financial Services</u>

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

<u>Global Treasury</u>

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

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

<u>Others</u>

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

47 SEGMENT INFORMATION (continued)

Major Customers

No single customer contributed revenue amount greater than 10% of the Group's revenue for the current and preceding financial year.

Geographical Segment

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

<u>Group</u>	Business Banking RM'000	Consumer Financial Services RM'000	Global Treasury RM'000	Others RM'000	Total RM'000
2018					
Net interest/finance income	1,072,230	477,090	195,090	137,078	1,881,488
Non-interest/finance income	128,083	163,520	229,615	59,307	580,525
Operating income	1,200,313	640,610	424,705	196,385	2,462,013
Operating expenses	(465,367)	(535,165)	(95,385)	(50,468)	(1,146,385)
Operating profit before impairment allowance and provision	734,946	105,445	329,320	145,917	1,315,628
(Impairment)/Write-back of allowances and provision for commitments and contingencies	(179,578)	(53,896)	89	14,698	(218,687)
Profit before income tax and zakat	555,368	51,549	329,409	160,615	1,096,941
Income tax expense and zakat	(135,290)	(12,372)	(79,058)	(55,925)	(282,645)
Profit for the year	420,078	39,177	250,351	104,690	814,296
Gross loans, advances and financing	40,526,120	28,894,747	-	59,034	69,479,901
Gross credit-impaired loans, advances and financing	798,153	534,856	-	32	1,333,041
Deposits from customers	35,703,473	35,835,274	4,312,474	-	75,851,221
2017					
Net interest/finance income	1,009,702	478,919	203,885	93,944	1,786,450
Non-interest/finance income	171,115	187,252	235,062	82,048	675,477
Operating income	1,180,817	666,171	438,947	175,992	2,461,927
Operating expenses	(424,832)	(523,351)	(101,276)	(44,844)	(1,094,303)
Operating profit before impairment allowance and provision	755,985	142,820	337,671	131,148	1,367,624
(Impairment)/Write-back of allowances and provision for commitments and contingencies	(145,728)	(21,040)	(19)	72,947	(93,840)
Profit before income tax and zakat	610,257	121,780	337,652	204,095	1,273,784
Income tax expense and zakat	(138,305)	(29,227)	(81,036)	(75,982)	(324,550)
Profit for the year	471,952	92,553	256,616	128,113	949,234
Gross loans, advances and financing	37,839,529	30,539,119	-	63,897	68,442,545
Gross impaired loans, advances and financing	884,064	546,312	-	247	1,430,623
Deposits from customers	34,396,395	34,080,541	5,175,803	-	73,652,739

48 CAPITAL ADEQUACY

Capital Management

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

The Group's and the Bank's capital are closely monitored and actively managed to ensure that there is sufficient capital to support business growth and to pursue strategic business that will create value for the stakeholder, while taking into consideration OCBC Malaysia's risk appetite. The Group's and the Bank's internal capital adequacy assessment process involves a comprehensive assessment of all material risks that the Group and the Bank are exposed to and an evaluation of the adequacy of the Group's and the Bank's capital in relation to those risks. This includes an annual capital planning exercise to forecast capital demands and assess the Group's and the Bank's capital adequacy over a 3-year period. This process takes into consideration the Group's and the Bank's business strategy, operating environment, 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 Group and the Bank can continue to maintain adequate capital under such scenarios.

Capital Adequacy Ratios

The Group and the Bank are required to meet minimum Common Equity Tier 1, Tier 1 and Total Capital Adequacy Ratio ("CAR") of 7.0%, 8.5% and 10.5% respectively (inclusive of Capital Conservation Buffer of 2.5%) from 1 January 2019.

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

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Common Equity Tier 1 ("CET 1") capital				
Paid-up ordinary share capital	754,000	754,000	754,000	754,000
Retained earnings	5,967,780	5,473,295	5,202,242	4,830,643
Other reserves	740,269	650,618	590,458	499,377
Regulatory adjustment for CET 1 capital	(739,071)	(581,016)	(1,193,986)	(930,754)
CET 1 capital	6,722,978	6,296,897	5,352,714	5,153,266
Additional Tier 1 capital				
Innovative Tier 1 capital	320,000	400,000	320,000	400,000
Additional Tier 1 capital	455,203	445,011	455,203	445,011
Tier 1 capital	7,498,181	7,141,908	6,127,917	5,998,277

48 CAPITAL ADEQUACY (continued)

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Tier 2 capital				
Stage 1 and Stage 2 ECL/ Collective impairment allowance and qualifying regulatory reserves under the Standardised Approach	16,635	13,751	12,583	7,887
Surplus eligible provisions over expected losses	255,375	234,802	208,389	198,587
Subordinated bonds	1,037,967	1,025,922	1,037,966	1,025,922
Regulatory adjustment for Tier 2 capital	-	-	(200,000)	(311,698)
Tier 2 capital	1,309,977	1,274,475	1,058,938	920,698
Capital base	8,808,158	8,416,383	7,186,855	6,918,975

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Before deducting proposed dividend				
CET 1 capital ratio	13.503%	13.764%	13.112%	13.415%
Tier 1 capital ratio	15.061%	15.611%	15.011%	15.615%
Total capital ratio	17.692%	18.396%	17.605%	18.011%
After deducting proposed dividend				
CET 1 capital ratio	13.226%	13.436%	12.774%	13.024%
Tier 1 capital ratio	14.783%	15.283%	14.673%	15.224%
Total capital ratio	17.414%	18.068%	17.267%	17.621%

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

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Total RWA for credit risk	43,893,315	40,233,794	35,738,077	33,728,810
Total RWA for market risk	1,235,013	936,873	1,235,744	932,356
Total RWA for operational risk	4,658,703	4,579,962	3,849,013	3,753,494
	49,787,031	45,750,629	40,822,834	38,414,660

The capital adequacy ratios of OCBC Al-Amin Bank Berhad are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). OCBC Al-Amin Bank Berhad adopted the Internal Ratings Based Approach for Credit Risk for its major credit portfolios, whilst the other credit portfolios are on the Standardised Approach. For market and operational risks, OCBC Al-Amin has adopted the Standardised Approach and the Basic Indicator Approach respectively.

The capital adequacy ratios of OCBC Al-Amin Bank Berhad, the banking subsidiary company of the Group, are as follows:

	2018	**2017**
After the effects of RPSIA		
CET 1 capital ratio	15.054%	16.569%
Tier 1 capital ratio	15.054%	16.569%
Total capital ratio	17.825%	19.815%

49 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9

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

Classification and measurement

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

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

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

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

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

		Classification and measurement		Carrying amount	
				31 December 2017	1 January 2018
Group	**Note**	**MFRS 139**	**MFRS 9**	**MFRS 139 RM'000**	**MFRS 9 RM'000**
Financial assets					
Cash and cash equivalents	3	Loans and receivables	Amortised cost	6,158,261	6,158,046
Deposits and placements with banks and other financial institutions	4	Loans and receivables	Amortised cost	71,835	71,803
Financial assets at FVTPL	6	Held-for-trading	FVTPL	-	1,823,666
Financial assets held-for-trading	6	Held-for-trading	-	1,690,763	-
Financial investments at FVOCI	7	Available-for-sale	FVOCI	-	13,353,074
- Debt instruments		Available-for-sale	FVOCI	-	13,259,718
- Equity instruments		Available-for-sale	FVOCI	-	93,356
Financial investments available-for-sale	7	Available-for-sale	-	13,501,159	-
- Debt instruments		Available-for-sale	-	13,392,613	-
- Equity instruments		Available-for-sale	-	108,546	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (continued)

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

Classification and measurement (continued)

Group (continued)	**Note**	**Classification and measurement MFRS 139**	**MFRS 9**	**Carrying amount 31 December 2017 MFRS 139 RM'000**	**Carrying amount 1 January 2018 MFRS 9 RM'000**
Loans, advances and financing	8	Loans and receivables	Amortised cost/FVTPL	67,452,350	67,570,315
		Amortised cost	Amortised cost	67,396,732	67,513,817
		Amortised cost	FVTPL	55,618	56,498
Derivative financial assets	10	Held-for-trading	FVTPL	835,825	835,825
Other assets	11	Loans and receivables	Amortised cost	370,277	369,185
Statutory deposits with BNM		Loans and receivables	Amortised cost	1,752,717	1,752,717
Bank					
Financial assets					
Cash and cash equivalents	3	Loans and receivables	Amortised cost	5,571,918	5,571,731
Deposits and placements with banks and other financial institutions	4	Loans and receivables	Amortised cost	182,518	182,486
Investment account placements	5	Loans and receivables	Amortised cost	1,793,011	1,793,011
Financial assets at FVTPL	6	Held-for-trading	FVTPL	-	1,690,949
Financial assets held-for-trading	6	Held-for-trading	-	1,690,763	-
Financial investments at FVOCI	7	Available-for-sale	FVOCI	-	8,762,911
- Debt instruments		Available-for-sale	FVOCI	-	8,669,555
- Equity instruments		Available-for-sale	FVOCI	-	93,356
Financial investments at available-for-sale	7	Available-for-sale	-	8,778,279	-
- Debt instruments		Available-for-sale	-	8,669,733	-
- Equity instruments		Available-for-sale	-	108,546	-
Loans, advances and financing	8	Loans and receivables	Amortised cost/FVTPL	57,742,824	57,848,732
		Amortised cost	Amortised cost	57,687,206	57,792,234
		Amortised cost	FVTPL	55,618	56,498
Derivative financial assets	10	Held-for-trading	FVTPL	835,625	835,625
Other assets	11	Loans and receivables	Amortised cost	709,911	709,352
Statutory deposits with BNM		Loans and receivables	Amortised cost	1,427,217	1,427,217

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

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

Classification and measurement (continued)

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

	Cash and cash equivalents RM'000	Deposits and placements with banks and other financial institutions RM'000	Loans, advances and financing RM'000	Other assets RM'000
Group				
Amortised cost				
MFRS 139 carrying amount as at 31 December 2017	6,158,261	71,835	67,452,350	370,277
Reclassification from amortised cost to FVTPL	-	-	(55,618)	-
Remeasurement due to ECL	(215)	(32)	117,085	(1,092)
MFRS 9 carrying amount as at 1 January 2018	6,158,046	71,803	67,513,817	369,185

	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	FVOCI Debt instruments RM'000	FVOCI Equity instruments RM'000	FVTPL Loans, advances and financing RM'000	FVTPL Financial assets at FVTPL RM'000
Fair value						
MFRS 139 carrying amount as at 31 December 2017	1,690,763	13,501,159	-	-	-	-
Reclassification from held-for-trading to FVTPL	(1,690,763)	-	-	-	-	1,690,763
Reclassification from AFS to FVOCI - debt instruments	-	(13,259,718)	13,259,718	-	-	-
Reclassification from AFS to FVOCI - equity instruments	-	(108,546)	-	108,546	-	-
Reclassification from AFS to FVTPL	-	(132,895)	-	-	-	132,895
Reclassification from amortised cost to FVTPL	-	-	-	-	55,618	-
Remeasurement of fair value	-	-	-	(15,190)	880	8
MFRS 9 carrying amount as at 1 January 2018	-	-	13,259,718	93,356	56,498	1,823,666

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

Classification and measurement (continued)

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

			FVOCI		FVTPL	
	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Debt instruments RM'000	Equity instruments RM'000	Loans, advances and financing RM'000	Financial assets at FVTPL RM'000
Fair value						
MFRS 139 carrying amount as at 31 December 2017	1,690,763	8,778,279	-	-	-	-
Reclassification from held-for-trading to FVTPL	(1,690,763)	-	-	-	-	1,690,763
Reclassification from AFS to FVOCI - debt instruments	-	(8,669,555)	8,669,555	-	-	-
Reclassification from AFS to FVOCI - equity instruments	-	(108,546)	-	108,546	-	-
Reclassification from AFS to FVTPL	-	(178)	-	-	-	178
Reclassification from amortised cost to FVTPL	-	-	-	-	55,618	-
Remeasurement of fair value	-	-	-	(15,190)	880	8
MFRS 9 carrying amount as at 1 January 2018	-	-	8,669,555	93,356	56,498	1,690,949

Upon adoption of MFRS 9, the ECL movement for financial investments at FVOCI is recognised in the ECL reserve which has been disclosed in Note 7 to the financial statements.

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

Classification and measurement (continued)

Movement in reserves and tax

Group	At 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	Tax impact RM'000	Restated at 1 January 2018 RM'000
Deferred tax assets	26,957	-	-	1,195	28,152
Tax payable	22,793	-	-	25,230	48,023
ECL reserve	-	-	11,629	-	11,629
Fair value reserve	107,999	(621)	(15,190)	-	92,188
Retained earnings	5,473,294	621	104,308	(24,035)	5,554,188
Bank					
Deferred tax assets	25,022	-	-	1,000	26,022
Tax payable	15,540	-	-	22,911	38,451
ECL reserve	-	-	8,983	-	8,983
Fair value reserve	104,377	(4)	(15,190)	-	89,183
Retained earnings	4,830,643	4	95,458	(21,911)	4,904,194

ECL impairment model

Details of the ECL impairment model is disclosed in Note 2G to the financial statements.

Transition

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

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, certain information presented for 2017 does not reflect the requirements of MFRS 9 and therefore is not comparable to the information presented for 2018 under MFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  - The determination of the business model within which a financial asset is held and contractual cash flow characteristics of the financial asset.

  - The designation and revocation of previous designations of certain financial assets.

- If a debt security had low credit risk at the date of initial application of MFRS 9, then the Group and the Bank have assumed that credit risk on the asset had not increased significantly since its initial recognition.

50 SUBSEQUENT EVENT

On 17 April 2019, the Bank has fully redeemed the entire outstanding amount of the Innovative Tier 1 Capital Securities ("IT1 CS") of RM400 million in nominal value. The IT1 CS was issued on 17 April 2009.