

OCBC AL-AMIN BANK BERHAD

**(Company No:818444-T)
(Incorporated in Malaysia)**

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2011

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

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OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the Islamic banking business and offers customers a comprehensive range of products and services in accordance with the Islamic Banking Act, 1983 and Shariah principles.

There has been no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

2011
RM'000

Profit for the year

20,028

DIVIDENDS

No dividends have been paid or declared by the Bank since the end of the previous financial year. The Directors do not recommend payment of any dividend in respect of the current financial year ended 31 December 2011.

SHARE CAPITAL

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

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL DEBTS AND FINANCING

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

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

CURRENT ASSETS

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

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

COMPLIANCE WITH BANK NEGARA'S EXPECTATIONS ON FINANCIAL REPORTING

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

FINANCIAL PERFORMANCE

The Bank registered a net profit of RM20.0 million for the financial year ended 31 December 2011 compared to RM23.8 million in the previous year.

Gross financing and advances grew by RM694 million or 27.2% to RM3.2 billion while customer deposits increased by RM1.5 billion or 52.3% to RM4.4 billion. As at 31 December 2011, the quality of the Bank's financing and advances remained strong with a net impaired financing ratio of 0.58%.

Shareholders' funds strengthened to RM318.7 million and the Bank is well capitalised with a core capital ratio of 8.88% and risk weighted capital ratio of 13.51%.

OCBC AL-AMIN BANK BERHAD
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

ACTIVITIES AND ACHIEVEMENTS

The Bank continues to provide Shariah-compliant products and services across all customer segments, covering both wholesale and retail markets. Growth in 2011 was boosted by intensive efforts in building momentum in Islamic cash management solutions and innovative financing packages for SMEs. In investment banking, we completed several noteworthy sukuk and syndication deals. Consumer banking continued to build strong momentum especially through the Bank's personal financing facility, Cash-i. In addition, the Bank's wealth management business strengthened with the introduction of several innovative marketing campaigns coupled with the start of its collaboration with Great Eastern Takaful to penetrate the BancaTakaful business in Malaysia. The Bank also embarked on foreign currency financing in view of the growing opportunities in Malaysia and in the region. The Bank continued to collaborate with the International Centre for Education in Islamic Finance (INCEIF) in research and development, training and education and the development of human capital. This saw workshops and seminars being rolled out during the year to educate customers and staff on the principles of Islamic banking and its product offerings.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2012

The Malaysian economy is expected to face a challenging 2012, despite its strong domestic performance this year. However, fiscal spending is expected to support the economy, driven by the implementation of projects under the Economic Transformation Programme (ETP).

2011 marked a turnaround year for personal financing to consumers with the Bank's ability to leverage on greater efficiencies in sales and distribution. For 2012, the Bank will concentrate on increasing its market share by expanding its sales distribution force and plans to open five new branches in 2012.

Building on its strong momentum in the consumer segment in 2011 and focus on SMEs, the Bank expects moderate growth in its financing and advances, and wealth management products and services across all business and consumer segments.

As part of its strategy, OCBC Al-Amin will continue to reinforce its existing strong network of distribution channels to acquire new customers and to offer innovative solutions to its existing clientele. Through its corporate programmes, the Bank will continue to penetrate into the private sector employee market to become the financier of choice for employees. It is expected to leverage on infrastructure within OCBC Group and the strong OCBC brand name to broaden its customer base and retain its position as a leading provider of innovative products among foreign Islamic banks.

RATINGS BY EXTERNAL AGENCIES

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

CORPORATE GOVERNANCE

Board Composition and Independence

The Board comprises eight Directors, of whom three are independent Directors, four non-independent non-executive Directors and an executive Director. The Independent Directors are Tan Sri Dato' Nasruddin Bin Bahari (Chairman of the Bank), Ms Tan Siok Choo and Dr Raja Lope Bin Raja Shahrome while the non-independent non-executive Directors are Mr David Conner, Mr Ching Wei Hong, Mr Chew Sun Teong, Jeffrey and Mr Lai Teck Poh. Tuan Syed Abdull Aziz Jailani Bin Syed Kechik is an Executive Director and Chief Executive Officer (CEO) of the Bank.

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

CORPORATE GOVERNANCE (continued)

Board Composition and Independence (continued)

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

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

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

Board Conduct and Responsibilities

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

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

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

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

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

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

Board and Individual Director Performance

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

CORPORATE GOVERNANCE (continued)

Board Audit Committee

The Board Audit Committee comprises Tan Sri Dato' Nasruddin Bin Bahari (Chairman of the Board Audit Committee) and Ms Tan Siok Choo, both of whom are independent Directors, and Mr Lai Teck Poh, a non-independent non-executive Director.

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

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

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

Internal Audit Function

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

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

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

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

Internal Controls

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

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

DISCLOSURE OF SHARIAH COMMITTEE

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

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

CORPORATE GOVERNANCE (continued)

DISCLOSURE OF SHARIAH COMMITTEE (continued)

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

SHARIAH ADVISORS' ATTENDANCE AT SHARIAH COMMITTEE MEETINGS IN 2011

Name of Shariah Advisor	Number of Meetings Attended in 2011	
	Held	Attended
Assoc. Prof. Dato' Hj. Mohd Mokhtar Bin Hj. Shafii	11	11
Prof. Dr. Abdullah @ Alwi Bin Hj. Hassan	11	10
Assoc. Prof. Dr. Mahamad Bin Arifin	11	11
Assoc. Prof. Dr. Wan Sabri Bin Wan Yusof (appointed on 1 June 2011)	5	5
Asst. Prof. Dr. Muhammad Naim Bin Omar (appointed on 1 June 2011)	5	5

MANAGEMENT INFORMATION

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

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

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

CORPORATE GOVERNANCE (continued)

DIRECTORS' ATTENDANCE AT BOARD MEETINGS IN 2011

Name of Director	Number of meetings attended in 2011							
	Board		Board Audit Committee		Nominating Committee		Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Tan Sri Dato' Nasruddin Bin Bahari	6	6	6	6	2	2	6	6
David Conner	6	6	-	-	2	2	6	6
Ching Wei Hong	6	6	-	-	-	-	6	6
Tan Siok Choo	6	6	6	6	2	2	6	6
Dr Raja Lope Bin Raja Shahrome	6	6	-	-	-	-	6	6
Chew Sun Teong, Jeffrey	6	6	-	-	-	-	6	6
Tuan Syed Abdull Aziz Jailani Bin Syed Kechik	6	6	-	-	-	-	6	6
Lai Teck Poh (appointed on 7 January 2011)	6	6	6	6	2	2	6	6
David Wong Cheong Fook (resigned on 30 March 2011)	2	2	2	2	1	1	2	2
Soon Tit Koon (resigned on 5 December 2011)	6	6	-	-	2	2	6	6

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

PROFILE ON BOARD OF DIRECTORS

Tan Sri Dato' Nasruddin Bin Bahari, Chairman

Tan Sri Dato' Nasruddin was appointed as First Director as named in the Articles of Association on 21 May 2008 (date of incorporation). Tan Sri Dato' Nasruddin holds a Bachelor of Arts with Honours from the University of Malaya and a Master of Public Administration from the University of Pittsburgh, USA. Apart from being Chairman of the Bank, he is also Chairman of OCBC Bank (Malaysia) Berhad ("OCBCM") since October 1997, Affin Moneybrokers Sendirian Berhad, PacificMas Berhad, OCBC Credit Berhad, OCBC Advisers (Malaysia) Sdn Bhd and Sumber Petroleum Cemerlang (SPC) Sendirian Berhad and a Director of Great Eastern Life Assurance (Malaysia) Berhad, Lingkaran Transkota Holdings Berhad ("LITRAK"), IJM Land Berhad, Great Eastern Takaful Sdn Bhd and I Great Capital Holdings Sdn Bhd.

Mr David Conner

Mr Conner was appointed to the Board on 1 August 2008. He has extensive banking experience in the Asia Pacific region, having worked for over 25 years with Citibank, N.A. where he served as Managing Director and Market Manager for Citibank Japan from 1999. He was also Chief Executive Officer of Citibank India from 1996 to 1999 and, prior to that, was Country Corporate Officer for Citibank's Singapore operations. He joined Oversea-Chinese Banking Corporation Limited ("OCBCL") in April 2002 as a Director and Group Chief Executive Officer and is presently Chairman of Bank of Singapore Ltd, Singapore Island Bank Ltd and Lion Global Investors Ltd, a member of the Corporate Governance Council of the Monetary Authority of Singapore, and serves as a Director of several companies, including Great Eastern Holdings Ltd, OCBCM as well as a Commissioner of PT Bank OCBC NISP Tbk. Mr Conner holds a Bachelor of Arts from Washington University in St Louis and a Master of Business Administration from Columbia University.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

CORPORATE GOVERNANCE (continued)

PROFILE ON BOARD OF DIRECTORS (continued)

Mr Ching Wei Hong

Mr Ching was appointed to the Board on 1 August 2008. He is also the Senior Executive Vice President of OCBC and is presently the Head of Global Consumer Financial Services. Prior to that, he previously held the position of Chief Financial Officer with responsibilities including capital management, financial and management accounting, legal and regulatory compliance and investor relations, Head of Group Finance overseeing the Group's finance function and Head of Group Operations and Technology, overseeing the Group's transaction processing and technology operations. Mr Ching has more than 25 years of experience in regional finance, corporate banking and cash management. Before joining the Group, he was a Director of Corporate Finance, Philips Electronics Asia Pacific Pte Ltd. He also held senior regional assignments in Bank of America and was Treasurer of Union Carbide Asia Pacific. Mr Ching holds a Bachelor of Business Administration from the National University of Singapore. He is also presently the Chairman of Network for Electronic Transfers (S) Pte Ltd (NETS), a Director of OCBCM, OCBC Securities Pte Ltd, OCBC Investment Research Pte Ltd, Lion Global Investors Limited, Bank of Singapore Limited and KTB Limited.

Ms Tan Siok Choo

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

Dr Raja Lope Bin Raja Shahrome

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

Mr Chew Sun Teong, Jeffrey

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

Tuan Syed Abdull Aziz Jailani Bin Syed Kechik

Tuan Syed Aziz was appointed a Director and Chief Executive Officer of the Bank on 24 November 2008. He began his career in banking in 1990 as a Risk Management Officer in Corporate Banking Group of Citibank Malaysia Berhad ("Citibank"). During his 12 years there, he was involved in various business and risk management functions within the wholesale banking division. Prior to joining the Bank, he was the Chief Operating Officer and Head of Corporate and Investment Banking of Bank Muamalat Malaysia Berhad. Tuan Syed Aziz holds a Bachelor of Science degree in Business Administration (majoring in Accounting and Management Information Systems) from Boston University, Massachusetts, USA.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

CORPORATE GOVERNANCE (continued)

PROFILE ON BOARD OF DIRECTORS (continued)

Mr Lai Teck Poh

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

DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS

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

Tan Sri Dato' Nasruddin Bin Bahari (Chairman)

David Conner

Ching Wei Hong

Tan Siok Choo

Dr Raja Lope Bin Raja Shahrome

Chew Sun Teong, Jeffrey

Syed Abdull Aziz Jailani Bin Syed Kechik

Lai Teck Poh (appointed on 7 January 2011)

David Wong Cheong Fook (resigned on 30 March 2011)

Soon Tit Koon (resigned on 5 December 2011)

In accordance with Articles 106 and 107 of the Bank's Articles of Association, Mr Chew Sun Teong, Jeffrey and Tuan Syed Abdull Aziz Jailani Bin Syed Kechik shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

CORPORATE GOVERNANCE (continued)

DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS (continued)

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

Oversea-Chinese Banking Corporation Limited ("OCBCL")

<u>Ordinary Shares</u>	Shareholdings registered in the name of Directors or in which Directors have a direct interest			
	<u>As at 1.1.2011</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2011</u>
Tan Sri Dato' Nasruddin Bin Bahari	19,566 *	719	-	20,285
David Conner	1,580,281	300,030	-	1,880,311
Ching Wei Hong	51,480	29,777	-	81,257
Tan Siok Choo	48,000	-	-	48,000
Lai Teck Poh	392,511 †	24,192	-	416,703
Chew Sun Teong, Jeffrey	755	23,159	5,000	18,914

Class G Preference Shares

David Conner	50,000	-	-	50,000
Tan Siok Choo	9,600	-	-	9,600

Class B Preference Shares

Ching Wei Hong	2,500	-	-	2,500
Lai Teck Poh	2,500 †	-	-	2,500

* The brought forward balance should be read as 19,566 instead of 19,200 as previously declared.

† As at 7 January 2011 (date of appointment)

<u>Ordinary shares</u>	Shareholdings in which Directors have deemed interest			
	<u>As at 1.1.2011</u>	<u>Acquired/ Awarded/ Granted</u>	<u>Disposed/ Exercised</u>	<u>As at 31.12.2011</u>
Tan Siok Choo	3,427,761	125,692	-	3,553,453

Class G Preference Shares

Tan Siok Choo	656,152	-	-	656,152
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**OCBC Deferred Share Plan
and OCBC Employee
Share Purchase Plan**

David Conner	1,530,811	457,027	233,614	1,754,224
Ching Wei Hong	118,713 #	55,188	28,359	145,542
Lai Teck Poh	44,244 †	1,277	9,451	36,070
Chew Sun Teong, Jeffrey	81,758	33,712	22,407	93,063
Syed Abdull Aziz Jailani Bin Syed Kechik	3,761	2,972	-	6,733

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)
DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)
CORPORATE GOVERNANCE (continued)
DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS (continued)
Oversea-Chinese Banking Corporation Limited ("OCBCL") (continued)

The unexercised share options available to the Directors under the OCBC Executives' Share Option Scheme are as follows:

Number of share options held by Directors in their own name					
	As at 1.1.2011	Offered	Exercised	As at 31.12.2011	Date options expire
David Conner	2,333,000	-	-	2,333,000	13/3/2015 - 13/3/2018
Ching Wei Hong	411,280	122,363	-	533,643	13/3/2015 - 13/3/2021
Chew Sun Teong, Jeffrey	167,000	80,964	-	247,964	13/3/2017 - 13/3/2021
Lai Teck Poh	481,000 †	-	-	481,000	8/4/2012 - 15/3/2019
Syed Abdull Aziz Jailani Bin Syed Kechik	10,000	6,818	-	16,818	14/3/2020 - 13/3/2021

The brought forward balance should be read as 118,713 instead of 125,266 as previously declared.

† As at 7 January 2011 (date of appointment)

PacificMas Berhad
**Shareholdings registered in the name of Directors or in which
Directors have a direct interest**

As at 1.1.2011	Acquired	Disposed	As at 31.12.2011
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Ordinary Shares

Dr Raja Lope Bin Raja Shahrome	10,000	-	-	10,000
Tan Siok Choo	15,800	-	-	15,800

Shareholdings in which Directors have deemed interest

As at 1.1.2011	Acquired	Disposed	As at 31.12.2011
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Dr Raja Lope Bin Raja Shahrome	2,000	-	-	2,000
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Other than the above, no other Directors in office during the financial year held any interest in shares, options and debentures of the Bank and its related corporations.

DIRECTORS' BENEFITS

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

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

HOLDING AND ULTIMATE HOLDING COMPANY

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 19 March 2012.

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

TUAN SYED ABDULL AZIZ JAILANI BIN SYED KECHIK
DIRECTOR

Kuala Lumpur

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 18 to 77 are drawn up in accordance with the provisions of the Companies Act, 1965, and Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as at 31 December 2011 and of its financial performance and cash flows for the year ended on that date.

In accordance with a resolution of the Board of Directors dated 19 March 2012.

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

TUAN SYED ABDULL AZIZ JAILANI BIN SYED KECHIK
DIRECTOR

Kuala Lumpur

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

I, Yuen Sook Cheng, the officer primarily responsible for the financial management of OCBC Al-Amin Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 18 to 77 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at)	
Kuala Lumpur in Wilayah Persekutuan)	
On 19 March 2012)	YUEN SOOK CHENG

Before me,

TAN BOON CHUA
COMMISSIONER FOR OATHS

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT

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

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

We have reviewed the principles and contracts relating to the transactions and applications undertaken by the Bank during the financial year ended 31 December 2011. We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rules and relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies.

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

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

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

We are of the opinion that:

- (a) The contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2011, that we have reviewed are in compliance with the Shariah principles;
- (b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
- (c) All earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; and
- (d) The calculation of zakat is in compliance with Shariah principles.

We, the members of the Shariah Committee of OCBC Al-Amin Bank Berhad, do hereby confirm that the operations of the Bank for the year ended 31 December 2011 have been conducted in conformity with the Shariah principles.

Assoc. Prof. Dato' Hj. Mohd Mokhtar Bin Hj. Shafii
Chairman of the Committee

Prof. Dr. Abdullah @ Alwi Bin Hj. Hassan
Member of Committee

Kuala Lumpur, Malaysia
Date: 19 March 2012

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

Company No. 818444-T

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

Reports on the Financial Statements

We have audited the financial statements of OCBC Al-Amin Bank Berhad, which comprise the statement of financial position as at 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 18 to 77.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as of 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

KPMG

Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong

Approval Number: 2613/12/12(J)
Chartered Accountant

Petaling Jaya, Selangor
Date: 19 March 2012

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
ASSETS			
Cash and cash equivalents	3	412,739	604,280
Deposits and placements with banks and other financial institutions	4	-	4,624
Financial assets available-for-sale	5	1,892,691	1,111,552
Financing and advances	6	3,172,564	2,486,706
Derivative assets	8	13,450	7,640
Other assets	9	46,619	45,833
Current tax assets		3,858	-
Statutory deposits with Bank Negara Malaysia	10	159,400	26,750
Property, plant and equipment	11	6,092	7,822
Deferred tax assets	12	2,723	10,171
Total assets		5,710,136	4,305,378
LIABILITIES			
Deposits from customers	13	4,447,096	2,920,890
Deposits and placements of banks and other financial institutions	14	606,651	799,846
Bills and acceptances payable		36,550	11,107
Subordinated bond	15	200,000	200,000
Derivative liabilities	8	13,430	7,628
Other liabilities	16	87,658	69,505
Current tax liabilities and zakat		20	1,898
Total liabilities		5,391,405	4,010,874
EQUITY			
Share capital	17	85,000	85,000
Reserves	18	233,731	209,504
Total equity		318,731	294,504
Total liabilities and equity		5,710,136	4,305,378
Commitments and contingencies	30	1,892,647	1,061,806

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
Income derived from investment of depositors' funds	19	231,686	180,304
Allowance for impairment loss on financing and advances	20	(27,661)	(10,045)
Transfer from profit equalisation reserve (net)	16	-	8,073
Total attributable income		204,025	178,332
Income attributable to depositors	21	(105,402)	(90,423)
Income attributable to shareholder		98,623	87,909
Income derived from the investment of shareholder's funds	22	38,664	34,951
Total net income		137,287	122,860
Personnel and operating expenses	24	(113,516)	(90,872)
Profit before income tax expense and zakat		23,771	31,988
Income tax expense	28	(3,723)	(8,129)
Zakat		(20)	(15)
Profit for the year		20,028	23,844
Profit attributable to:			
Owner of the Bank		20,028	23,844
Basic earnings per ordinary share (sen)	29	23.6	33.9

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	2011	2010
	RM'000	RM'000
Profit for the year	20,028	23,844
Fair value of financial assets available-for-sale:		
- change in fair value	8,702	1,637
- amount transferred to profit or loss on disposal	(3,103)	(1,140)
Income tax relating to components of other comprehensive income	<u>(1,400)</u>	<u>(124)</u>
Other comprehensive income for the year, net of tax	<u>4,199</u>	<u>373</u>
Total comprehensive income for the year	<u>24,227</u>	<u>24,217</u>
Total comprehensive income attributable to:		
Owner of the Bank	<u>24,227</u>	<u>24,217</u>

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	<i>Non-distributable</i>			<i>Distributable</i>	
	Share Capital	Share Premium	Statutory Reserve	Fair value Reserve	Retained Earnings
	RM'000	RM'000	RM'000	RM'000	RM'000
2011					
Balance at 1 January 2011	85,000	170,000	20,582	103	18,819
Profit for the year	-	-	-	-	20,028
Net gain on revaluation of financial assets available-for-sale	-	-	-	5,599	-
Income tax relating to components of other comprehensive income	-	-	-	(1,400)	-
Total comprehensive income for the year	-	-	-	4,199	20,028
Transfer to statutory reserve	-	-	10,014	-	(10,014)
Balance at 31 December 2011	85,000	170,000	30,596	4,302	28,833

	<i>Non-distributable</i>			<i>Distributable</i>	
	Share Capital	Share Premium	Statutory Reserve	Fair value Reserve	Retained Earnings
	RM'000	RM'000	RM'000	RM'000	RM'000
2010					
Balance at 1 January 2010	65,000	130,000	8,660	(270)	6,897
Profit for the year	-	-	-	-	23,844
Net gain on revaluation of financial assets available-for-sale	-	-	-	497	-
Income tax relating to components of other comprehensive income	-	-	-	(124)	-
Total comprehensive income for the year	-	-	-	373	23,844
Issue of ordinary shares	20,000	40,000	-	-	-
Transfer to statutory reserve	-	-	11,922	-	(11,922)
Balance at 31 December 2010	85,000	170,000	20,582	103	18,819

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax expense and zakat		23,771	31,988
Adjustments for:			
Net gains from disposal of:			
- financial assets available-for-sale		(3,103)	(1,140)
- property, plant and equipment		(1)	-
Depreciation of property, plant and equipment		2,544	2,433
Impairment allowance on financing and advances		27,661	10,045
Profit equalisation reserve		-	(8,073)
Unrealised (gains)/losses on revaluation of derivatives		82	(562)
Operating profit before changes in working capital		50,954	34,691
(Increase)/Decrease in Operating Assets:			
Deposits and placements with banks and other financial institutions		4,624	(4,624)
Financing and advances		(713,519)	(384,614)
Derivative assets		(5,810)	(3,657)
Other assets		(868)	183,851
Statutory deposits with Bank Negara Malaysia		(132,650)	(3,250)
Increase/(Decrease) in Operating Liabilities:			
Deposits from customers		1,526,206	(801,058)
Deposits and placements of banks and other financial institutions		(193,195)	240,294
Bills and acceptances payable		25,443	(8,567)
Derivative liabilities		5,802	3,307
Other liabilities		18,153	(78,830)
CASH GENERATED FROM/(USED IN) OPERATIONS		585,140	(822,457)
Income tax and zakat paid		(3,431)	(5,112)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		581,709	(827,569)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from financial assets available-for-sale (net)		(772,437)	30,638
Proceeds from disposal of property, plant and equipment		8	-
Acquisition of property, plant and equipment (net)		(821)	(3,712)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(773,250)	26,926
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from issuance of ordinary shares		-	60,000
NET CASH GENERATED FROM FINANCING ACTIVITY		-	60,000
NET DECREASE IN CASH AND CASH EQUIVALENTS		(191,541)	(740,643)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		604,280	1,344,923
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	412,739	604,280

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of preparation of the financial statements

The financial statements of the Bank have been prepared in accordance with the provisions of the Companies Act, 1965, generally accepted accounting principles and Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia ("BNM") Guidelines and Shariah requirements.

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

The Bank has not applied the following accounting standards, amendments, and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the Bank:

	Effective for annual periods	Date of adoption by the Bank
IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments	On or after 1 July 2011	1 January 2012
Amendments to IC Interpretation 14, Prepayments of a Minimum Funding Requirement	On or after 1 July 2011	1 January 2012
FRS 124, Related Party Disclosures (revised)	On or after 1 January 2012	1 January 2012
Amendments to FRS 1, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	On or after 1 January 2012	1 January 2012
Amendments to FRS 7, Disclosures - Transfers of Financial Assets	On or after 1 January 2012	1 January 2012
Amendments to FRS 112, Deferred Tax: Recovery of Underlying Assets	On or after 1 January 2012	1 January 2012
Amendments to FRS 101, Presentation of Items of Other Comprehensive Income	On or after 1 July 2012	1 January 2013
FRS 13, Fair Value Measurement	On or after 1 January 2013	1 January 2013
FRS 119, Employee Benefits (2011)	On or after 1 January 2013	1 January 2013
FRS 127, Separate Financial Statements (2011)	On or after 1 January 2013	1 January 2013
Amendments to FRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	On or after 1 January 2013	1 January 2013
Amendments to FRS 7, Financial Instruments: Disclosures – Mandatory Date of FRS 9 and Transition Disclosures	On or after 1 January 2013	1 January 2013
Amendments to FRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	On or after 1 January 2014	1 January 2014
FRS 9, Financial Instruments (2009)	On or after 1 January 2015	1 January 2015
FRS 9, Financial Instruments (2010)	On or after 1 January 2015	1 January 2015

The initial application of the abovementioned applicable standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Bank upon first adoption.

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

MASB has on 19 November 2011 issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework). The issuance is made to converge with International Financial Reporting Standards (IFRS) in 2012. The MFRS Framework comprises Standards issued by the International Accounting Standards Board (IASB) that are effective on or after 1 January 2012.

B. Financial Instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Bank categorises financial instruments into the following categories:

Financial assets

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

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

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

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

As at 31 December 2011, financial assets at fair value through profit or loss of the Bank are trading derivatives. There are no financial assets that are specifically designated into this category upon initial recognition.

(b) Held-to-maturity investments

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

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

As at 31 December 2011, there are no financial assets of the Bank that are categorised as held-to-maturity investments.

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

Financial assets (continued)

(c) Financing and receivables

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

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

(d) Financial assets available-for-sale

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

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

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

Financial liabilities

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

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

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

(iii) Financial guarantee contracts

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

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

(iv) Regular way purchase or sale of financial assets

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

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

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

(v) Derivatives

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

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

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

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

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

(vi) Derecognition

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

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

(vii) Offsetting

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

C. Property, plant and equipment

(i) Recognition and measurement

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other operating income" and "operating expenses" respectively in the income statement.

(ii) Subsequent costs

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

OCBC AL-AMIN BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Property, plant and equipment (continued)

(iii) Depreciation

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

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

The principal annual rates are:

Renovations	33.33%
Office equipment, furniture and fittings	10%
Computer equipment and software	20% - 33.33%

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

D. Operating Leases

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

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

E. Cash and cash equivalents

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

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

F. Impairment on financial assets

(i) Held-to-maturity investments

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

(ii) Financial assets available-for-sale

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

OCBC AL-AMIN BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Impairment on financial assets (continued)

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

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

Impairment loss recognised in income statement for investment in an equity instruments classified as available-for-sale is not reversed through the income statement.

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

(iii) Financing and advances

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

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

Individually assessed impairment allowance

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

Collectively assessed impairment allowance

The Bank maintains a collectively assessed impairment allowance of at least 1.5% of total outstanding financing and advances, net of individually assessed impairment allowance as at the reporting date based on the transitional provision pursuant to BNM's guidelines on "Classification and Impairment Provisions for Loans/Financing".

With effect from 1 January 2012, the Bank will cease to adopt the transitional provision and adopt MFRS 139, *Financial Instruments: Recognition and Measurement* on collectively assessed impairment loss. Financial assets that have not been individually assessed are grouped together according to their credit risk characteristics and collectively assessed for impairment allowance.

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Impairment on financial assets (continued)

(iii) Financing and advances (continued)

Impaired financing and advances written off

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

G. Impairment of other assets

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

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

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

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

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

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

H. Equity instruments

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

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Employee Benefits

(i) Short term employee benefits

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

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

(ii) Employee leave entitlements

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

(iii) Share-based payment transactions

(a) OCBC Deferred Share Plan

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

(b) OCBC Share Option Scheme

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

(c) Employee Share Purchase Plan

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

Equity instruments granted are recognised as expense in the income statements 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 balance sheet date, the Group revises the estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in the income statement over the remaining vesting period, with recognition of a corresponding liability payable to the ultimate holding company of the Bank. The liability is remeasured at each end of the reporting period up to the settlement date, with changes in fair value recognised in the income statement.

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Provisions

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

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

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

(i) Contingent liabilities

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

K. Revenue and expenses

(i) Finance income and expenses

Finance income and expense is recognised in the income statement using the effective profit rate method.

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

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

(ii) Net trading income

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

(iii) Fees and commission income

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

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

(iv) Dividend income

Dividends are recognised when the Bank's right to receive payment is established. Usually this is the ex-dividend date for equity securities.

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Foreign currency transactions

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

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

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value, 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 the income statement, except for differences arising on the retranslation of financial assets available-for-sale or equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

M. Income tax

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

O. Earnings per ordinary share

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

P. Profit equalisation reserve (PER)

PER is a mechanism to reduce the fluctuations in the profit rates payable to the depositors under Islamic Banking operations. It is provided based on the Framework of the Rate of Return issued by Bank Negara Malaysia. The amount of PER is appropriated from and written back to the total gross income. PER is reflected under 'Other Liabilities' of the Bank.

Q. Restricted profit sharing investment accounts (RPSIA)

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Significant accounting judgements and estimation

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

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

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)
3. CASH AND CASH EQUIVALENTS

	2011	2010
	RM'000	RM'000
Cash and balances with banks and other financial institutions	27,739	14,250
Money at call and deposit placements with financial institutions maturing within one month	385,000	590,030
	<u>412,739</u>	<u>604,280</u>
i) By geographical distribution		
Malaysia	406,183	600,263
Singapore	553	123
Other ASEAN	149	179
Rest of the world	5,854	3,715
	<u>412,739</u>	<u>604,280</u>

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

ii) By residual contractual maturity

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

	2011	2010
	RM'000	RM'000
Licensed banks	<u>-</u>	<u>4,624</u>
i) By geographical distribution		
Malaysia	<u>-</u>	<u>4,624</u>

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

ii) By residual contractual maturity

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

	2011	2010
	RM'000	RM'000
<u>At fair value</u>		
Malaysian Government Investment Issues	1,016,684	297,129
Bank Negara Malaysia Islamic Bonds	-	33,255
Bank Negara Malaysia Monetary Notes	99,876	255,527
Islamic Private Debt Securities	433,092	323,547
Islamic Negotiable Instruments of Deposit	343,039	202,094
	<u>1,892,691</u>	<u>1,111,552</u>

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

6. FINANCING AND ADVANCES

<u>At amortised cost</u>	2011	2010
i) By type	RM'000	RM'000
Cash financing	866,761	441,564
Term financing:		
- House financing	162,431	146,830
- Syndicated term financing	201,402	246,813
- Hire purchase receivables	624,848	558,445
- Other term financing	920,621	625,756
Bills receivables	30,503	11,944
Revolving credits	593,888	539,186
Claims on customer under acceptance credits	203,725	203,469
Other financing	29,610	45,060
Less : Unearned income	(384,101)	(263,334)
Gross financing and advances	3,249,688	2,555,733
Impairment Allowance:		
- Individually assessed	(28,811)	(31,088)
- Collectively assessed	(48,313)	(37,939)
Net financing and advances	3,172,564	2,486,706

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

As at 31 December 2011, the gross exposure relating to RPSIA financing is RM276 million (2010: RM205 million) and the collective impairment relating to this RPSIA of RM4.1 million (2010: RM3.1 million) is recognised in the income statement of the Bank.

	2011	2010
ii) By concept	RM'000	RM'000
Ijarah Thumma Al Bai	567,789	506,125
Bai' Bithaman Ajil	909,782	717,586
Bai' Inah	643,302	331,865
Murabahah	256,403	347,794
Ijarah Muntahiah Bi Al-Tamlik	572,301	483,287
Musharakah	173,314	94,365
Other principles	126,797	74,711
	3,249,688	2,555,733

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

6. FINANCING AND ADVANCES (continued)

	2011	2010
	RM'000	RM'000
iii) By type of customer		
Domestic business enterprises		
- Small and medium enterprises	579,072	391,833
- Others	1,853,036	1,642,764
Individuals	800,760	456,652
Foreign entities	16,820	64,484
	<u>3,249,688</u>	<u>2,555,733</u>
iv) By profit rate sensitivity		
	2011	2010
	RM'000	RM'000
Fixed rate		
- House financing	37,647	46,866
- Hire purchase receivables	567,789	506,125
- Other fixed rate financing	1,292,623	907,365
Variable rate		
- BFR plus	173,314	72,904
- Cost plus	1,178,315	1,022,473
	<u>3,249,688</u>	<u>2,555,733</u>
v) By sector		
	2011	2010
	RM'000	RM'000
Agriculture	364,130	461,853
Mining and quarrying	294,597	269,689
Manufacturing	845,094	631,389
Electricity, gas and water	100,317	100,116
Construction	99,276	76,959
Real estate	251,133	80,310
Wholesale & retail trade and restaurants & hotels	205,292	200,770
Transport, storage and communication	181,447	152,264
Finance, insurance and business services	58,739	32,129
Community, social and personal services	46,341	29,348
Household, of which:		
- Purchase of residential properties	142,884	116,614
- Purchase of non-residential properties	5,326	2,754
- Others	655,079	339,163
Others	33	62,375
	<u>3,249,688</u>	<u>2,555,733</u>

OCBC AL-AMIN BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

6. FINANCING AND ADVANCES (continued)

(vi) By geographical distribution	2011	2010
	RM'000	RM'000
Malaysia	3,235,397	2,493,976
Singapore	-	61,757
Other ASEAN	14,291	-
	<u>3,249,688</u>	<u>2,555,733</u>

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

(vii) By residual contractual maturity	2011	2010
	RM'000	RM'000
Maturity within one year	1,612,560	1,366,241
One to five years	1,091,422	835,019
Over five years	545,706	354,473
	<u>3,249,688</u>	<u>2,555,733</u>

7. IMPAIRED FINANCING AND ADVANCES

(a) Movements in impaired financing and advances

	2011	2010
	RM'000	RM'000
Balance at 1 January	45,444	53,598
Classified as impaired	49,985	46,054
Reclassified as performing	(8,353)	(11,938)
Amount recovered	(13,582)	(18,759)
Amount written off	<u>(26,010)</u>	<u>(23,511)</u>
Balance at 31 December	47,484	45,444
Individually assessed impairment allowance	<u>(28,811)</u>	<u>(31,088)</u>
Net impaired financing and advances	<u>18,673</u>	<u>14,356</u>

OCBC AL-AMIN BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

7. IMPAIRED FINANCING AND ADVANCES (continued)

(i) Impaired financing and advances analysed by sector

	2011	2010
	RM'000	RM'000
Agriculture	126	520
Manufacturing	21,386	24,016
Construction	4,468	4,127
Real estate	-	7
Wholesale & retail trade and restaurants & hotels	4,955	3,458
Transport, storage and communication	353	508
Finance, insurance and business services	1,641	987
Community, social and personal services	1,033	149
Household, of which:		
- Purchase of residential properties	2,087	3,312
- Others	11,435	8,360
	47,484	45,444

(ii) Impaired financing and advances by geographical distribution

Malaysia	47,484	45,444
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- (iii) Included in the impaired financing and advances above is an amount of RM1.4 million (2010: RM0.6 million) of impaired financing and advances without individually assessed impairment allowance as the individual financing's recoverable amount exceeds the carrying amount.

(iv) Impaired financing and advances by period overdue

	2011	2010
	RM'000	RM'000
Up to 90 days	13,398	7,860
Over 90 days to 180 days	11,401	8,474
Over 180 days to 270 days	2,346	2,109
Over 270 days	20,339	27,001
	47,484	45,444

(v) Impaired financing and advances by collateral type

	2011	2010
	RM'000	RM'000
Property	2,558	3,244
Deposits	412	-
Machinery	18,197	21,672
Secured - others	9,368	6,025
Unsecured - corporate and other guarantees	2,656	3,099
Unsecured - clean	14,293	11,404
	47,484	45,444

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

7. IMPAIRED FINANCING AND ADVANCES (continued)

(b) Movements in allowance for impaired financing and advances

	2011	2010
	RM'000	RM'000
<u>Individually assessed impairment allowance</u>		
Balance at 1 January	31,088	39,252
Made during the year	37,580	38,914
Amount written back	(13,801)	(23,351)
Amount written off	(26,010)	(23,511)
Profit income recognised on impaired financing	(46)	(216)
Balance at 31 December	<u>28,811</u>	<u>31,088</u>
	2011	2010
	RM'000	RM'000
<u>Collectively assessed impairment allowance</u>		
Balance at 1 January	37,939	38,715
Made/(written back) during the year	10,374	(776)
Balance at 31 December	<u>48,313</u>	<u>37,939</u>
As % of gross financing and advances less individually assessed impairment allowance	<u>1.50%</u>	<u>1.50%</u>

(c) Collectively assessed and individually assessed impairment allowance by sector

	Collectively assessed impairment allowance	Individually assessed impairment allowance	Individually assessed allowance charged	Individually assessed allowance written-off
2011	RM'000	RM'000	RM'000	RM'000
Agriculture	5,460	126	52	50
Mining and quarrying	4,419	-	-	-
Manufacturing	12,482	12,958	4,391	7,400
Electricity, gas and water	1,505	-	-	-
Construction	1,469	1,364	1,244	948
Real estate	3,767	-	1	-
Wholesale & retail trade and restaurants & hotels	3,067	831	352	47
Transport, storage and communication	2,720	113	65	304
Finance, insurance and business services	874	469	157	-
Community, social and personal services	686	640	858	-
Household, of which:				
- Purchase of residential properties	2,133	705	616	473
- Purchase of non-residential properties	80	-	-	-
- Others	9,651	11,605	29,844	16,788
	<u>48,313</u>	<u>28,811</u>	<u>37,580</u>	<u>26,010</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

7. IMPAIRED FINANCING AND ADVANCES (continued)

(c) Collectively assessed and individually assessed impairment allowance by sector (continued)

2010	Collectively assessed impairment allowance RM'000	Individually assessed impairment allowance RM'000	Individually assessed allowance charged RM'000	Individually assessed allowance written-off RM'000
Agriculture	6,937	200	74	-
Mining and quarrying	4,053	-	-	-
Manufacturing	9,211	18,427	7,345	3,204
Electricity, gas and water	1,504	-	-	-
Construction	1,134	1,475	867	2,591
Real estate	1,207	7	1	84
Wholesale & retail trade and restaurants & hotels	3,007	650	563	2,106
Transport, storage and communication	2,281	508	1	-
Finance, insurance and business services	478	318	317	-
Community, social and personal services	440	69	54	177
Household, of which:				
- Purchase of residential properties	1,738	928	306	161
- Purchase of non-residential properties	41	-	23	27
- Others	4,971	8,360	24,571	15,154
Others	937	146	4,792	7
	37,939	31,088	38,914	23,511

(d) Individually assessed and collectively assessed impairment allowance by geographical distribution

	2011 RM'000	2010 RM'000
<u>Individually assessed</u>		
Malaysia	28,811	31,088
<u>Collectively assessed</u>		
Malaysia	48,099	37,011
Singapore	-	928
Other ASEAN	214	-
	48,313	37,939

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

8. DERIVATIVE ASSETS AND LIABILITIES

	2011			2010		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Trading:						
Foreign exchange derivatives						
- forward	1,005,936	12,217	12,203	157,483	271	5,772
- swaps	59	3	-	113,402	5,513	-
- options	88,363	1,230	1,227	87,258	1,856	1,856
	<u>1,094,358</u>	<u>13,450</u>	<u>13,430</u>	<u>358,143</u>	<u>7,640</u>	<u>7,628</u>

9. OTHER ASSETS

	2011 RM'000	2010 RM'000
Profit receivable	13,315	9,432
Other receivables, deposits and prepayments	5,590	5,689
Shared services fee receivable from holding company (Note 27)	110	112
Amount due from holding company (Note 27)	<u>27,604</u>	<u>30,600</u>
	<u>46,619</u>	<u>45,833</u>

10. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

OCBC AL-AMIN BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

11. PROPERTY, PLANT AND EQUIPMENT

2011	Note	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Total RM'000
<u>Cost</u>					
At 1 January		4,288	3,312	4,083	11,683
Additions		438	39	344	821
Disposals		-	-	(11)	(11)
Reinstatement *		198	180	138	516
At 31 December		<u>4,924</u>	<u>3,531</u>	<u>4,554</u>	<u>13,009</u>
<u>Accumulated depreciation</u>					
At 1 January		2,100	445	1,316	3,861
Depreciation charge for the year	24	1,220	349	975	2,544
Disposals		-	-	(4)	(4)
Reinstatement *		198	180	138	516
At 31 December		<u>3,518</u>	<u>974</u>	<u>2,425</u>	<u>6,917</u>
Carrying amounts as at 31 December		<u>1,406</u>	<u>2,557</u>	<u>2,129</u>	<u>6,092</u>

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

2010	Note	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Total RM'000
<u>Cost</u>					
At 1 January		3,031	1,880	3,060	7,971
Additions		1,214	1,286	980	3,480
Purchase from holding company		43	146	43	232
At 31 December		<u>4,288</u>	<u>3,312</u>	<u>4,083</u>	<u>11,683</u>
<u>Accumulated depreciation</u>					
At 1 January		844	136	448	1,428
Depreciation charge for the year	24	1,256	309	868	2,433
At 31 December		<u>2,100</u>	<u>445</u>	<u>1,316</u>	<u>3,861</u>
Carrying amounts as at 31 December		<u>2,188</u>	<u>2,867</u>	<u>2,767</u>	<u>7,822</u>

OCBC AL-AMIN BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)
12. DEFERRED TAX ASSETS

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

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Excess of capital allowance over depreciation	-	-	(840)	(1,008)	(840)	(1,008)
Collectively assessed impairment allowance on financing and advances	2,594	9,485	-	-	2,594	9,485
Change in fair value of financial instruments	(1,434)	(34)	-	-	(1,434)	(34)
Other temporary differences	2,403	1,728	-	-	2,403	1,728
Net tax assets/(liabilities)	<u>3,563</u>	<u>11,179</u>	<u>(840)</u>	<u>(1,008)</u>	<u>2,723</u>	<u>10,171</u>

	At 1 January 2011 RM'000	Recognised in income statement (Note 28) RM'000	Recognised in other comprehensive income RM'000	At 31 December 2011 RM'000
2011				
Excess of capital allowance over depreciation	(1,008)	168	-	(840)
Collectively assessed impairment allowance on financing and advances	9,485	(6,891)	-	2,594
Change in fair value of financial instruments	(34)	-	(1,400)	(1,434)
Other temporary differences	1,728	675	-	2,403
Total	<u>10,171</u>	<u>(6,048)</u>	<u>(1,400)</u>	<u>2,723</u>

	At 1 January 2010 RM'000	Recognised in income statement (Note 28) RM'000	Recognised in other comprehensive income RM'000	At 31 December 2010 RM'000
2010				
Excess of capital allowance over depreciation	(777)	(231)	-	(1,008)
Collectively assessed impairment allowance on financing and advances	9,679	(194)	-	9,485
Change in fair value of financial instruments	90	-	(124)	(34)
Other temporary differences	2,304	(576)	-	1,728
Total	<u>11,296</u>	<u>(1,001)</u>	<u>(124)</u>	<u>10,171</u>

13. DEPOSITS FROM CUSTOMERS

	2011 RM'000	2010 RM'000
i) By type of deposit		
Non-Mudharabah Fund:		
Demand deposits	1,352,875	1,066,695
Savings deposits	328,745	331,220
General investment deposits	7,224	100
Negotiable instruments of deposit	68,546	120,044
Structured investments	47,228	47,862
Wakalah short term investments	145,712	-
	<u>1,950,330</u>	<u>1,565,921</u>
Mudharabah Fund:		
General investment deposits	2,358,312	975,904
Islamic short term Mudharabah investments	138,454	379,065
	<u>2,496,766</u>	<u>1,354,969</u>
Total deposits from customers	<u>4,447,096</u>	<u>2,920,890</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

13. DEPOSITS FROM CUSTOMERS (continued)

	2011	2010
	RM'000	RM'000
ii) By type of customers		
Government and statutory bodies	784,332	412,004
Business enterprises	2,709,068	1,568,276
Individuals	553,041	449,759
Foreign entities	11,585	10,465
Others	389,070	480,386
	<u>4,447,096</u>	<u>2,920,890</u>
iii) By maturity structure		
Within 6 months	3,653,106	2,776,828
6 months to 1 year	696,812	41,906
1 to 3 years	42,059	7,988
3 to 5 years	166	41,378
More than 5 years	54,953	52,790
	<u>4,447,096</u>	<u>2,920,890</u>

14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011	2010
	RM'000	RM'000
Non-Mudharabah Fund:		
Licensed banks	330,536	595,240
Mudharabah Fund:		
Licensed banks	276,115	204,606
Total deposits and placements of banks and other financial institutions	<u>606,651</u>	<u>799,846</u>

Included in the deposits and placements of banks and other financial institutions are the Restricted Profit Sharing Investment Accounts ('RPSIA') placed by OCBCM amounting to RM276 million (2010: RM205 million) at profit rates ranging from 2.08% to 5.03% (2010: 1.87% to 4.31%) per annum. The RPSIA is a contract based on the Mudharabah principle to finance a specific business venture where the investor solely provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture is shared based on a pre-agreed ratio and losses shall be borne by the depositors.

15. SUBORDINATED BOND

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

16. OTHER LIABILITIES	2011 RM'000	2010 RM'000
Profit payable	18,465	9,738
Other accruals and charges*	64,272	55,787
Shared services fee payable to holding company (Note 27)	4,921	3,980
	<u>87,658</u>	<u>69,505</u>

* Include accruals for personnel costs.

(a) Profit equalisation reserve	2011 RM'000	2010 RM'000
Balance at 1 January	-	8,073
Amount written back during the year	-	(8,073)
Balance at 31 December	<u>-</u>	<u>-</u>

17. SHARE CAPITAL	2011 RM'000	2010 RM'000
Authorised:		
Ordinary shares of RM1 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
Balance at 1 January	85,000	65,000
Additional shares issued to OCBCM	-	20,000
Balance at 31 December	<u>85,000</u>	<u>85,000</u>

18. RESERVES

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

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

Fair value reserve captures fair value adjustment on financial assets which are classified as available-for-sale under the Revised BNM/GP8 and its corresponding effect on deferred tax. The reserve is non-distributable and cumulative fair value adjustments will be reversed to the income statement upon disposal of the assets.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

19. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2011 RM'000	2010 RM'000
Income derived from investment of:		
(i) General investment deposits	108,446	47,297
(ii) Other funds	123,240	133,007
	<u>231,686</u>	<u>180,304</u>

(i) Income derived from investment of General investment deposits

	2011 RM'000	2010 RM'000
<u>Finance income and hibah</u>		
Financing and advances	78,821	33,753
Financial assets available-for-sale	20,986	7,482
Money at call and deposits with banks and other financial institutions	7,273	5,785
	<u>107,080</u>	<u>47,020</u>
<u>Other operating income</u>		
Net gain from sale of financial assets available-for-sale	1,366	277
	<u>108,446</u>	<u>47,297</u>
Of which:		
Financing income earned on impaired financing	<u>20</u>	<u>53</u>

(ii) Income derived from investment of other funds

	2011 RM'000	2010 RM'000
<u>Finance income and hibah</u>		
Financing and advances	89,572	94,918
Financial assets available-for-sale	23,850	21,041
Money at call and deposits with banks and other financial institutions	8,265	16,269
	<u>121,687</u>	<u>132,228</u>
<u>Other operating income</u>		
Net gain from sale of financial assets available-for-sale	1,553	779
	<u>123,240</u>	<u>133,007</u>
Of which:		
Financing income earned on impaired financing	<u>23</u>	<u>147</u>

20. ALLOWANCE FOR IMPAIRMENT LOSS ON FINANCING AND ADVANCES

	2011 RM'000	2010 RM'000
Individually assessed impairment allowance		
- Made during the financial year	37,580	38,914
- Written back	(13,801)	(23,351)
Collectively assessed impairment allowance		
- Made/(written back) during the financial year	10,374	(776)
Impaired financing recovered	(6,492)	(4,742)
	<u>27,661</u>	<u>10,045</u>

OCBC AL-AMIN BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

21. INCOME ATTRIBUTABLE TO DEPOSITORS

	2011	2010
	RM'000	RM'000
Deposits from customers		
- Mudharabah Fund	66,747	42,748
- Non-Mudharabah Fund	24,540	26,426
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	8,040	13,626
- Non-Mudharabah Fund	6,075	7,623
	<u>105,402</u>	<u>90,423</u>

22. INCOME DERIVED FROM THE INVESTMENT OF SHAREHOLDER'S FUNDS

	2011	2010
	RM'000	RM'000
<u>Finance income and hibah</u>		
Financing and advances	10,621	10,185
Financial assets available-for-sale	2,828	2,258
Money at call and deposits with financial institutions	980	1,746
	<u>14,429</u>	<u>14,189</u>
<u>Other operating income</u>		
Net gain from sale of financial assets available-for-sale	184	84
<u>Other trading income</u>		
Net gain/(loss) on instruments held-for-trading		
- foreign currency	7,820	3,870
- trading derivatives	(2,419)	(344)
- revaluation of derivatives	(82)	562
<u>Fee and commission income</u>		
Commission	10,162	9,334
Service charges and fees	8,570	7,256
	<u>38,664</u>	<u>34,951</u>
Of which:		
Financing income earned on impaired financing	<u>3</u>	<u>16</u>

23. FINANCE INCOME AND EXPENSE ANALYSED BY CATEGORY OF FINANCIAL INSTRUMENTS

	2011	2010
	RM'000	RM'000
<u>Finance income</u>		
- financing and receivables	195,532	162,656
- financial assets available-for-sale	47,664	30,781
	<u>243,196</u>	<u>193,437</u>
<u>Finance expense</u>		
- liabilities at amortised cost	<u>105,402</u>	<u>90,423</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

24. PERSONNEL AND OPERATING EXPENSES

	2011	2010
	RM'000	RM'000
Personnel expenses	36,603	23,598
Establishment expenses	5,749	4,938
Marketing expenses	1,945	848
Administrative and general expenses	69,219	61,488
	<u>113,516</u>	<u>90,872</u>

The above expenditure includes the following statutory disclosures:

Auditors' remuneration:

- Statutory audit	70	65
- Other services	40	25
Depreciation of property, plant and equipment	2,544	2,433
Directors' remuneration^ (Note 25)	1,143	1,056
Rental of premises	<u>1,651</u>	<u>1,615</u>

^ Excluding benefits-in-kind

	2011	2010
	RM'000	RM'000
(i) Personnel expenses	36,603	23,598
Wages, salaries and bonus	28,943	18,842
Defined contribution plan (EPF)	4,368	2,914
Equity compensation benefit	207	193
Other personnel costs	3,085	1,649
(ii) Establishment expenses	5,749	4,938
Rental of premises	1,651	1,615
Depreciation of property, plant and equipment	2,544	2,433
Repair and maintenance	280	149
Others	1,274	741
(iii) Marketing expenses	1,945	848
Transport and travelling	490	385
Advertising and business promotion	1,364	411
Others	91	52
(iv) Administrative and general expenses	69,219	61,488
Printing and stationery	613	624
Postage and courier	451	329
Telephone, telex and fax	174	445
Legal and consultancy fees	499	345
Shared services fees paid/payable to OCBCM (Note 27)	51,277	46,461
Transaction processing fees* (Note 27)	14,715	11,522
Other administrative and general expenses	1,490	1,762
Total overhead expenses	<u>113,516</u>	<u>90,872</u>

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)
25. DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

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

					2011 RM'000	2010 RM'000
Shariah Committee					142	95
	Salaries & bonuses RM'000	Fees RM'000	EPF RM'000	Other employee benefits RM'000	Benefits- in-kind RM'000	Total RM'000
2011						
Executive Director (CEO):						
Syed Abdull Aziz Jailani Bin Syed Kechik	791	-	127	77	5	1,000
Non-Executive Director						
Tan Sri Dato Nasruddin bin Bahari	-	40	-	-	-	40
Tan Siok Choo	-	40	-	-	-	40
David Wong Cheong Fook	-	14	-	-	-	14
Dr. Raja Lope Bin Raja Shahrome	-	24	-	-	-	24
Lai Teck Poh	-	30	-	-	-	30
Subtotal	-	148	-	-	-	148
Total Directors' Remuneration	791	148	127	77	5	1,148
2010						
Executive Director (CEO):						
Syed Abdull Aziz Jailani Bin Syed Kechik	802	-	128	42	4	976
Non-Executive Director						
Tan Sri Dato Nasruddin bin Bahari	-	24	-	-	-	24
Tan Siok Choo	-	24	-	-	-	24
David Wong Cheong Fook	-	24	-	-	-	24
Dr. Raja Lope Bin Raja Shahrome	-	12	-	-	-	12
Subtotal	-	84	-	-	-	84
Total Directors' Remuneration	802	84	128	42	4	1,060

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

26. ZAKAT

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

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

Related parties of the Bank are as follows:

- (a) Ultimate holding company is Oversea-Chinese Banking Corporation Limited;
 - (b) Holding company is OCBC Bank (Malaysia) Berhad;
 - (c) Other related companies within the Oversea-Chinese Banking Corporation Limited Group; and
 - (d) Key management (including Directors) of the Bank (including their immediate family members) and entities in which they have control, joint control or significant influence.
- (i) The significant related party transactions of the Bank during the financial year and balances at reporting date are as follows:

	Ultimate Holding Company	Holding Company	Other Related Companies	Key Management
	RM'000	RM'000	RM'000	RM'000
2011				
Income:				
Profit income on financing & advances	-	-	-	39
Shared services fee received/receivable	-	1,386	-	-
Other fee and commission	-	-	2,538	-
	<u>-</u>	<u>1,386</u>	<u>2,538</u>	<u>39</u>
Expenditure:				
Profit expense on General investment deposits	-	-	1	93
Profit expense on other deposits	-	-	2,494	1
Profit expense on Negotiable instrument of deposits	-	2,929	-	-
Profit expense on deposits and placements	104	9,833	-	-
Profit expense on subordinated bonds	-	10,900	-	-
Shared services fee (Note 24)	-	51,277	-	-
Transaction processing fees (Note 24)	-	-	14,715	-
Rental expenses	-	53	-	-
Personnel and other expenses	-	-	74	-
	<u>104</u>	<u>74,992</u>	<u>17,284</u>	<u>94</u>
Amount due from:				
Deposits and placements	680	-	22	-
Shared services fee receivable (Note 9)	-	110	-	-
Financing and advances	-	-	-	852
Advances (Note 9)	-	27,604	9	-
	<u>680</u>	<u>27,714</u>	<u>31</u>	<u>852</u>

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27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	Ultimate Holding Company	Holding Company	Other Related Companies	Key Management
	RM'000	RM'000	RM'000	RM'000
2011				
Amount due to:				
Demand deposits and General investment deposits	-	-	1,533	2,950
Other deposits	-	-	35,550	14
Negotiable instrument of deposits	-	54,952	-	-
Deposits and placements	24,550	518,608	-	-
Subordinated bond (Note 15)	-	200,000	-	-
Profit payable	-	1,258	-	8
Shared services fee payable (Note 16)	-	4,921	-	-
Transaction processing fees payable	-	-	46	-
	<u>24,550</u>	<u>779,739</u>	<u>37,129</u>	<u>2,972</u>
Commitments:				
Foreign exchange derivatives	-	497,123	604	-
	<u>-</u>	<u>497,123</u>	<u>604</u>	<u>-</u>
	Ultimate Holding Company	Holding Company	Other Related Companies	Key Management
	RM'000	RM'000	RM'000	RM'000
2010				
Income:				
Profit income on financing & advances	-	-	-	32
Profit income on deposits and placements	2	-	-	-
Shared services fee received/receivable	-	1,297	-	-
Other fee and commission	-	-	2,241	-
	<u>2</u>	<u>1,297</u>	<u>2,241</u>	<u>32</u>
Expenditure:				
Profit expense on General investment deposits	-	-	378	56
Profit expense on other deposits	-	-	-	3
Profit expense on Negotiable instrument of deposits	-	766	-	-
Profit expense on deposits and placements	38	14,709	-	-
Profit expense on subordinated bonds	-	10,900	-	-
Shared services fee (Note 24)	-	46,461	-	-
Transaction processing fees (Note 24)	-	-	11,522	-
Rental expenses	-	128	-	-
	<u>38</u>	<u>72,964</u>	<u>11,900</u>	<u>59</u>
Amount due from:				
Deposits and placements	282	-	21	-
Shared services fee receivable (Note 9)	-	112	-	-
Financing and advances	-	-	-	224
Advances (Note 9)	-	30,600	-	-
	<u>282</u>	<u>30,712</u>	<u>21</u>	<u>224</u>

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27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	Ultimate Holding Company	Holding Company	Other Related Companies	Key Management
	RM'000	RM'000	RM'000	RM'000
Amount due to:				
Demand deposits and General investment deposits	212	-	8,709	3,088
Other deposits	-	-	-	104
Negotiable instrument of deposits	-	52,789	-	-
Deposits and placements	23,964	520,883	-	-
Subordinated bond (Note 15)	-	200,000	-	-
Profit payable	-	2,005	-	9
Shared services fee payable (Note 16)	-	3,980	-	-
Transaction processing fees payable	-	-	769	-
	<u>24,176</u>	<u>779,657</u>	<u>9,478</u>	<u>3,201</u>
Commitments:				
Foreign exchange derivatives	-	141,503	2,992	-

ii) Credit exposure arising from credit transactions with connected parties

The following disclosure information are made pursuant to the revised BNM/GP6 on "Guidelines on Credit Transactions and Exposures with Connected Parties":

	2011 RM'000	2010 RM'000
Aggregate value of outstanding credit exposure with connected parties: [^]		
Credit facility and leasing (except guarantee)	611	743
Commitments and contingencies*	<u>2,392</u>	<u>4,784</u>
Total credit exposures	<u>3,003</u>	<u>5,527</u>
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	<u>0.08%</u>	<u>0.22%</u>
- which is impaired or in default	<u>-</u>	<u>-</u>

[^] Comprises total outstanding balance and unutilised limit

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

iii) Key management personnel compensation

	2011 RM'000	2010 RM'000
Short-term employee benefits (inclusive of benefits-in-kind)	3,068	2,509
Fees and meeting allowances	148	84
Share-based payments	<u>145</u>	<u>112</u>
	<u>3,361</u>	<u>2,705</u>

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

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28. INCOME TAX EXPENSE

	2011 RM'000	2010 RM'000
Malaysian income tax		
- current year	4,233	6,558
- (over)/under provision in prior years	(6,558)	570
Deferred tax:		
- relating to origination and reversal of temporary differences	667	1,880
- under/(over) provision in prior years	5,381	(879)
Total debited to income statement (Note 12)	6,048	1,001
	<u>3,723</u>	<u>8,129</u>

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

	2011 %	2010 %
Malaysian tax rate	25.0	25.0
Tax effects of:		
Expenses not deductible for tax purposes	1.6	1.4
Income not subject to tax	(6.0)	-
Under/(Over) provision in prior years:		
- income tax	(27.6)	1.8
- deferred tax	22.7	(2.8)
Average effective tax rate	<u>15.7</u>	<u>25.4</u>

The computation of deferred tax assets and liabilities is based on a tax rate of 25%.

29. BASIC EARNINGS PER SHARE

The basic earnings per ordinary share of the Bank has been calculated based on the net profit attributable to shareholders for the year by the weighted average number of ordinary shares in issue during the financial year.

	2011	2010
Net profit for the year (RM'000)	<u>20,028</u>	<u>23,844</u>
Weighted average number of ordinary shares in issue ('000)	<u>85,000</u>	<u>70,260</u>
Basic earnings per share (sen)	<u>23.6</u>	<u>33.9</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

30. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. There were no material losses anticipated as a result of these transactions.

	2011				2010			
	Principal	Positive	Credit	Risk	Principal	Positive	Credit	Risk
	Amount	Fair Value of	Equivalent	Weighted	Amount	Fair Value of	Equivalent	Weighted
	RM'000	Derivative	Amount	Amount	RM'000	Derivative	Amount	Amount
		Contracts	RM'000	RM'000		Contracts	RM'000	RM'000
		RM'000				RM'000		
Direct credit substitutes	-		-	-	4,353		4,353	4,340
Transaction-related contingent items	100,171		50,086	38,660	81,288		40,644	30,570
Short-term self-liquidating trade-related contingencies	29,245		5,849	3,263	29,218		5,844	6,229
Forward asset purchases	30,000		30,000	27,887	-		-	-
Foreign exchange related contracts								
- less than one year	1,050,322	17,255	29,334	9,951	261,246	5,775	9,810	8,611
- one year or less than five years	3,806	2,579	2,921	2,922	47,501	5,728	8,258	1,088
Formal standby facilities and credit lines								
- maturity not exceeding one year	1,894		1,894	984	2,210		442	331
- maturity exceeding one year	27,099		27,099	7,360	8,372		6,969	2,377
Other unconditionally cancellable commitments	650,110		13,693	6,869	627,618		-	-
	1,892,647	19,834	160,876	97,896	1,061,806	11,503	76,320	53,546

The credit equivalent and risk weighted amounts were computed using the credit conversion factors and risk weights as defined in Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (Basel II) - Internal Ratings Approach.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

31. LEASE COMMITMENTS

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

	2011 RM'000	2010 RM'000
Less than one year	1,445	884
One to five years	1,691	222
	3,136	1,106

32. CAPITAL COMMITMENTS

	2011 RM'000	2010 RM'000
Capital expenditure in respect of property, plant and equipment:		
- authorised and contracted for	1,091	1,216
- authorised but not contracted for	11,240	18,240
	12,331	19,456

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit Risk Management

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management

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

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

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

ASSET LIABILITY MANAGEMENT

Asset liability management is the strategic management of the balance sheet structure and liquidity needs, covering structural profit rate management and funding liquidity risk management. The Asset Liability Management Committee ("ALCO") is the senior management committee that oversees the Bank's liquidity and balance sheet risks. Under the Group's risk management structure established at the Bank's holding company ("OCBCM"), the Bank shares the services of OCBCM's Market Risk Management Department in supporting ALCO.

Structural Profit Rate Risk

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

Liquidity Risk

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

OPERATIONAL RISK MANAGEMENT

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

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

Operational Risk Management Oversight and Organisation

The Operational Risk Management and Information Security Committee ("ORISC") is the senior management committee that establishes the Bank's operational risk management and information security frameworks and policies, and ensures that sound methodologies, risk measurements, and systems are implemented. ORISC also oversees the management of the Bank's technology risk, fiduciary risk and information security risk.

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

Operational Risk Management Approach

The Bank manages operational risk through a framework that ensures operational risk is properly identified, managed, monitored, mitigated and reported in a structured and consistent manner. The framework is underpinned by an internal control system that reinforces the Bank's control culture by establishing clear roles and responsibilities for staff and preserving their rights in executing their control functions without fear of intimidation or reprisal. The Bank recognises the importance of establishing a risk-awareness culture in the managing of operational risk through embedding risk management in the Bank's core processes.

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

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

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

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

OPERATIONAL RISK MANAGEMENT (continued)

Operational Risk Management Approach (continued)

To mitigate the impact of unforeseen operational risk events, the Bank has business continuity management and crisis management programmes to ensure the uninterrupted availability of all business resources to support essential business activities. On an annual basis, senior management provides an attestation to the Board of Directors on the state of business continuity management including the internally developed business continuity management maturity scorecard, extent of alignment to BNM guidelines and declaration of residual risk.

Reputation Risk Management

Reputation risk exposure is the current and future adverse impact on earnings and capital arising from negative public opinion or adverse regulatory actions, which would unfavourably affect new and existing relationships. The Bank leverages on the Group's Reputation Risk Management Programme which focuses on understanding and managing the Bank's responsibilities toward its stakeholders and protecting the Bank's reputation. A key emphasis of the programme is effective information sharing and engagement with stakeholders.

Fiduciary Risk Management

Fiduciary risk is the possibility that the Bank may, in the course of managing funds or providing other services, exercise discretion, make decisions, or take actions that fail to satisfy the applicable standard of conduct appropriate for a trust relationship. The Bank leverages on the Group's Fiduciary Risk Management Programme that focuses on compliance with applicable corporate standards with regular identification, assessment, mitigation and monitoring of fiduciary risk exposures.

Regulatory and Legal Risks

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

SHARIAH GOVERNANCE

The Bank has drawn up the Shariah Governance Framework ("SGF" or the "framework") which is designed to meet the following purpose:

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

SHARIAH GOVERNANCE (continued)

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

Shariah Risk

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

34. PROFIT RATE RISK

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

As at 31 December 2011	<----- Non Trading Book ----->						Trading Book	Total	Average profit rate
	Up to 3 month	>3-12 months	>1-3 years	>3-5 years	Over 5 years	Non-profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets									
Cash and cash equivalents	385,000	-	-	-	-	27,739	-	412,739	2.91%
Financial assets									
available-for-sale	447,923	125,898	635,800	506,815	172,075	4,180	-	1,892,691	3.32%
Financing and advances									
- performing	1,549,566	93,823	498,065	620,137	440,613	(48,313) *	-	3,153,891	6.44%
- non-performing	-	-	-	-	-	18,673 ^	-	18,673	-
Derivative assets	-	-	-	-	-	-	13,450	13,450	-
Other assets	-	-	-	-	-	46,619	-	46,619	-
Current tax assets	-	-	-	-	-	3,858	-	3,858	-
Statutory deposits with									
Bank Negara Malaysia	-	-	-	-	-	159,400	-	159,400	-
Property, plant & equipment	-	-	-	-	-	6,092	-	6,092	-
Deferred tax assets	-	-	-	-	-	2,723	-	2,723	-
Total assets	2,382,489	219,721	1,133,865	1,126,952	612,688	220,971	13,450	5,710,136	
Liabilities									
Deposits from customers	2,323,286	1,398,251	42,059	166	54,953	628,381	-	4,447,096	2.50%
Deposits and placements of banks and other financial institutions	325,925	47,676	40,509	129,477	-	63,064	-	606,651	1.84%
Bills and acceptances payable	-	-	-	-	-	36,550	-	36,550	-
Subordinated bond	-	-	-	200,000	-	-	-	200,000	5.45%
Derivative liabilities	-	-	-	-	-	-	13,430	13,430	-
Other liabilities	-	-	-	-	-	87,658	-	87,658	-
Current tax liabilities and zakat	-	-	-	-	-	20	-	20	-
Total liabilities	2,649,211	1,445,927	82,568	329,643	54,953	815,673	13,430	5,391,405	
On-balance sheet profit sensitivity gap	(266,722)	(1,226,206)	1,051,297	797,309	557,735	(594,702)	20	318,731	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(266,722)	(1,226,206)	1,051,297	797,309	557,735	(594,702)	20	318,731	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)
34. PROFIT RATE RISK (continued)

As at 31 December 2010	Non Trading Book						Trading Book	Total	Average profit rate
	Up to 3 months	>3-12 months	>1-3 years	>3-5 years	Over 5 years	Non-profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets									
Cash and cash equivalents	590,030	-	-	-	-	14,250	-	604,280	2.76%
Deposits and placements with banks and other financial institutions	4,624	-	-	-	-	-	-	4,624	0.56%
Financial assets available-for-sale	490,876	15,210	270,864	330,605	-	3,997	-	1,111,552	3.28%
Financing and advances									
- performing	725,522	142,275	386,448	604,907	651,137	(37,939) *	-	2,472,350	6.19%
- non-performing	-	-	-	-	-	14,356 ^	-	14,356	-
Derivative assets	-	-	-	-	-	-	7,640	7,640	-
Other assets	-	-	-	-	-	45,833	-	45,833	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	26,750	-	26,750	-
Property, plant & equipment	-	-	-	-	-	7,822	-	7,822	-
Deferred tax assets	-	-	-	-	-	10,171	-	10,171	-
Total assets	1,811,052	157,485	657,312	935,512	651,137	85,240	7,640	4,305,378	
Liabilities									
Deposits from customers	2,383,112	293,334	7,988	41,378	52,790	142,288	-	2,920,890	2.65%
Deposits and placements of banks and other financial institutions	503,916	37	40,559	98,645	65,961	90,728	-	799,846	2.13%
Bills and acceptances payable	-	-	-	-	-	11,107	-	11,107	-
Subordinated bond	-	-	-	-	200,000	-	-	200,000	5.45%
Derivative liabilities	-	-	-	-	-	-	7,628	7,628	-
Other liabilities	-	-	-	-	-	69,505	-	69,505	-
Current tax liabilities and zakat	-	-	-	-	-	1,898	-	1,898	-
Total liabilities	2,887,028	293,371	48,547	140,023	318,751	315,526	7,628	4,010,874	
On-balance sheet profit sensitivity gap	(1,075,976)	(135,886)	608,765	795,489	332,386	(230,286)	12	294,504	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,075,976)	(135,886)	608,765	795,489	332,386	(230,286)	12	294,504	

* This amount relates to the collectively assessed impairment allowance for financing and advances.

^ This amount is arrived at after deducting the individually assessed impairment allowance from the gross impaired financing and advances.

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

	2011 RM'000	2010 RM'000
+ 50bps	194,832	117,719
- 50bps	196,887	120,905

The 50 bps shock impact on the net profit income is based on simplified scenarios, using the Bank's profit risk profile as at the reporting date. It does not take into account actions that would be taken by the Treasury Division or business units to mitigate the impact of the profit rate risk. In reality, Treasury Division seeks to proactively change the profit rate risk profile to minimise losses and maximise net revenues. The projection assumes that profit rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on the net profit 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.

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35. LIQUIDITY RISK

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, financing drawdowns and guarantees, and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank set limits on the minimum level of liquid assets to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below provides an analysis of the financial assets and liabilities of the Bank into relevant maturity tenures based on their remaining contractual profile.

As at 31 December 2011	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
Financial assets							
Cash and cash equivalents	412,739	-	-	-	-	-	412,739
Financial assets							
available-for-sale	447,923	25,353	100,545	635,800	510,995	172,075	1,892,691
Financing and advances	961,177	286,170	336,402	550,467	540,955	497,393	3,172,564
Derivative assets	4,057	9,254	139	-	-	-	13,450
Other assets	32,982	149	1,685	6,083	3,965	1,755	46,619
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	159,400	159,400
Total financial assets	1,858,878	320,926	438,771	1,192,350	1,055,915	830,623	5,697,463
Financial liabilities							
Deposits from customers	2,951,667	701,439	696,812	42,059	166	54,953	4,447,096
Deposits and placements of banks and other financial institutions	388,989	47,650	26	40,509	129,477	-	606,651
Bills and acceptances payable	36,550	-	-	-	-	-	36,550
Subordinated bond	-	-	-	-	-	200,000	200,000
Derivative liabilities	4,041	9,251	138	-	-	-	13,430
Other liabilities	50,785	6,800	5,839	24,234	-	-	87,658
Total financial liabilities	3,432,032	765,140	702,815	106,802	129,643	254,953	5,391,385
Net liquidity gap	(1,573,154)	(444,214)	(264,044)	1,085,548	926,272	575,670	306,078
Financial guarantees							
Guarantees and standby letters of credit	14,742	18,427	38,824	26,098	5,634	-	103,725
Acceptances	35,856	-	-	-	-	-	35,856
	50,598	18,427	38,824	26,098	5,634	-	139,581

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35. LIQUIDITY RISK (continued)

As at 31 December 2010	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
Financial assets							
Cash and cash equivalents	604,280	-	-	-	-	-	604,280
Deposits and placements with banks and other financial institutions	4,624	-	-	-	-	-	4,624
Financial assets available-for-sale	490,876	15,210	-	270,864	330,605	3,997	1,111,552
Financing and advances	880,087	226,865	228,201	405,636	429,383	316,534	2,486,706
Derivative assets	5,582	126	77	1,855	-	-	7,640
Other assets	35,384	88	-	6,591	3,770	-	45,833
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	26,750	26,750
Total financial assets	2,020,833	242,289	228,278	684,946	763,758	347,281	4,287,385
Financial liabilities							
Deposits from customers	2,525,400	251,428	41,906	7,988	41,378	52,790	2,920,890
Deposits and placements of banks and other financial institutions	594,644	12	25	40,559	98,645	65,961	799,846
Bills and acceptances payable	11,107	-	-	-	-	-	11,107
Subordinated bond	-	-	-	-	-	200,000	200,000
Derivative liabilities	5,575	120	77	1,856	-	-	7,628
Other liabilities	40,245	3,937	3,763	19,381	2,179	-	69,505
Total financial liabilities	3,176,971	255,497	45,771	69,784	142,202	318,751	4,008,976
Net liquidity gap	(1,156,138)	(13,208)	182,507	615,162	621,556	28,530	278,409
Financial guarantees							
Guarantees and standby letters of credit	12,656	7,492	17,520	27,766	20,556	-	85,990
Acceptances	28,339	4,169	-	-	-	-	32,508
	40,995	11,661	17,520	27,766	20,556	-	118,498

Contractual maturity of financial liabilities

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

As at 31 December 2011	Up to 3 months RM'000	> 3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative financial liabilities							
Deposits from customers	2,963,532	715,766	720,246	45,486	188	80,000	4,525,218
Deposits and placements of banks and other financial institutions	343,726	13,656	27,357	181,743	64,228	-	630,710
Bills and acceptances payable	36,550	-	-	-	-	-	36,550
Subordinated bond	-	5,230	5,480	21,800	21,800	238,700	293,010
Other liabilities	41,267	1,937	2,826	20,860	-	-	66,890
Derivative financial liabilities							
<u>Net settled derivatives</u>							
<i>Trading:</i>							
Foreign exchange derivatives							
- currency option	1,089	-	138	-	-	-	1,227
<u>Gross settled derivatives</u>							
<i>Trading:</i>							
Foreign exchange derivatives							
- forward and swap							
- Outflow	317,573	192,125	-	-	-	-	509,698
- Inflow	(314,635)	(182,767)	-	-	-	-	(497,402)
	3,389,102	745,947	756,047	269,889	86,216	318,700	5,565,901

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35. LIQUIDITY RISK (continued)
Contractual maturity of financial liabilities (continued)

As at 31 December 2010	Up to 3 months RM'000	> 3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivatives financial liabilities							
Deposits from customers	2,532,820	254,953	43,152	8,339	43,591	80,000	2,962,855
Deposits and placements of banks and other financial institutions	596,749	442	894	47,021	98,645	65,961	809,712
Bills and acceptances payable	11,107	-	-	-	-	-	11,107
Subordinated bond	-	5,450	5,465	21,800	21,800	210,691	265,206
Other liabilities	32,481	1,950	3,476	19,092	-	-	56,999
Derivatives financial liabilities							
<u>Net settled derivatives</u>							
<i>Trading:</i>							
Foreign exchange derivatives							
- currency option	-	-	-	1,856	-	-	1,856
<u>Gross settled derivatives</u>							
<i>Trading:</i>							
Foreign exchange derivatives							
- forward and swap							
- Outflow	122,710	13,015	3,930	-	-	-	139,655
- Inflow	(117,129)	(12,891)	(3,853)	-	-	-	(133,873)
	3,178,738	262,919	53,064	98,108	164,036	356,652	4,113,517

36. CURRENCY RISK

As at 31 December 2011

	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets					
Cash and cash equivalents	406,183	4,164	553	1,839	412,739
Financial assets available-for-sale	1,740,122	128,182	24,387	-	1,892,691
Financing and advances	2,947,174	225,390	-	-	3,172,564
Derivative assets	13,450	-	-	-	13,450
Other assets	44,665	1,704	250	-	46,619
Statutory deposits with Bank Negara Malaysia	159,400	-	-	-	159,400
	5,310,994	359,440	25,190	1,839	5,697,463
Financial liabilities					
Deposits from customers	4,447,068	28	-	-	4,447,096
Deposits and placements of banks and other financial institutions	228,408	352,915	25,267	61	606,651
Bills and acceptances payable	36,550	-	-	-	36,550
Subordinated bond	200,000	-	-	-	200,000
Derivative liabilities	13,430	-	-	-	13,430
Other liabilities	87,488	154	16	-	87,658
	5,012,944	353,097	25,283	61	5,391,385
Net financial assets/(liabilities) exposure	298,050	6,343	(93)	1,778	306,078

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

36. CURRENCY RISK (continued)

As at 31 December 2010

	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets					
Cash and cash equivalents	600,263	2,707	123	1,187	604,280
Deposits and placements with banks and other financial institutions	-	4,624	-	-	4,624
Financial assets available-for-sale	1,003,422	84,754	23,376	-	1,111,552
Financing and advances	2,241,275	245,431	-	-	2,486,706
Derivative assets	7,640	-	-	-	7,640
Other assets	44,565	1,023	245	-	45,833
Statutory deposits with Bank Negara Malaysia	26,750	-	-	-	26,750
	<u>3,923,915</u>	<u>338,539</u>	<u>23,744</u>	<u>1,187</u>	<u>4,287,385</u>
Financial liabilities					
Deposits from customers	2,920,890	-	-	-	2,920,890
Deposits and placements of banks and other financial institutions	447,086	328,596	24,164	-	799,846
Bills and acceptances payable	11,107	-	-	-	11,107
Subordinated bond	200,000	-	-	-	200,000
Derivative liabilities	7,628	-	-	-	7,628
Other liabilities	69,313	180	12	-	69,505
	<u>3,656,024</u>	<u>328,776</u>	<u>24,176</u>	<u>-</u>	<u>4,008,976</u>
Net financial assets/(liabilities) exposure	<u>267,891</u>	<u>9,763</u>	<u>(432)</u>	<u>1,187</u>	<u>278,409</u>

37. CREDIT RISK

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

Collaterals

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

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

As at 31 December 2011, there were no assets repossessed by the Bank as a result of taking possession of collateral held as security, or by calling upon other credit enhancements.

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

	2011 RM'000	2010 RM'000
Fair value of collateral held against the covered portion of financing and advances	<u>40,583</u>	<u>25,791</u>
Covered portion of financing and advances	30,534	30,940
Uncovered portion of financing and advances	<u>16,950</u>	<u>14,504</u>
	<u>47,484</u>	<u>45,444</u>

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37. CREDIT RISK (continued)

Credit quality

(a) Credit quality of financing and advances

Gross financing and advances are analysed as follows:

	2011	2010
	RM'000	RM'000
Neither past due nor impaired	3,183,045	2,343,812
Past due financing:	59,714	207,112
- unimpaired	19,159	166,477
- impaired	40,555	40,635
Impaired but not past due	6,929	4,809
Gross financing and advances	<u>3,249,688</u>	<u>2,555,733</u>

Financing and advances neither past due nor impaired

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

	2011	2010
	RM'000	RM'000
i) By the Bank's internal grading system		
Passed	3,142,468	2,245,952
Special mention	40,577	97,860
	<u>3,183,045</u>	<u>2,343,812</u>
ii) By period overdue		
30 days and less than 60 days	14,787	163,534
60 days and less than 90 days	4,372	2,943
	<u>19,159</u>	<u>166,477</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

37. CREDIT RISK (continued)

Credit quality (continued)

(a) Credit quality of financing and advances (continued)

Financing and advances neither past due nor impaired (continued)

	2011	2010
	RM'000	RM'000
iii) By sector		
Agriculture	32	138,001
Mining and quarrying	-	169
Manufacturing	1,890	14,122
Construction	721	426
Wholesale & retail trade and restaurants & hotels	1,642	1,135
Transport, storage and communication	1,163	494
Finance, insurance and business services	356	79
Community, social and personal services	-	604
Households, of which:		
- Purchase of residential properties	3,296	3,315
- Purchase of non-residential properties	-	53
- Others	10,059	8,079
	<u>19,159</u>	<u>166,477</u>
iv) By geographic distribution		
Malaysia	<u>19,159</u>	<u>166,477</u>

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

(b) Credit quality of financial assets available-for-sale

In view of the following sound credit rating of counterparties, the Bank does not expect any counterparty to fail to meet its obligation except for the allowance for impairment loss recognised in respect of financial assets available-for-sale as disclosed in Note 5.

	2011	2010
	RM'000	RM'000
i) <u>By issuer</u>		
Public sector	1,206,837	644,977
Banks	358,077	217,153
Corporations	327,777	249,422
	<u>1,892,691</u>	<u>1,111,552</u>
ii) <u>By geography</u>		
Malaysia	1,864,787	1,071,624
Other ASEAN	21,387	39,928
Rest of the World	6,517	-
	<u>1,892,691</u>	<u>1,111,552</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)
37. CREDIT RISK (continued)
Credit quality (continued)
(b) Credit quality of financial assets available-for-sale (continued)

	2011 RM'000	2010 RM'000
iii) <u>By credit rating</u>		
Malaysian government issues and notes	1,116,560	552,657
Other government securities	21,387	39,928
Investment grade (AAA to BBB)	331,016	203,055
Non-rated	423,728	315,912
	<u>1,892,691</u>	<u>1,111,552</u>
iv) <u>By industry</u>		
Manufacturing	70,616	70,511
Building and construction	29,532	45,379
General commerce	65,928	-
Transport, storage and communication	15,077	15,063
Financial institutions, investment and holding companies	450,081	236,290
Others	1,261,457	744,309
	<u>1,892,691</u>	<u>1,111,552</u>
v) <u>By residual contractual maturity</u>		
Within one year	573,821	506,086
One to five years	1,146,795	601,469
Over five years	172,075	3,997
	<u>1,892,691</u>	<u>1,111,552</u>

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

	2011 RM'000	2010 RM'000
i) <u>By counterparty</u>		
Banks	13,368	7,562
Other financial institutions	1	3
Corporate	81	75
	<u>13,450</u>	<u>7,640</u>
ii) <u>By geography</u>		
Malaysia	217	5,782
Singapore	1	3
Other ASEAN countries	12,002	-
Rest of the World	1,230	1,855
	<u>13,450</u>	<u>7,640</u>

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

iii) <u>By industry</u>		
Agriculture	47	-
Manufacturing	3	71
Construction	-	4
Finance, insurance and business services	13,400	7,565
	<u>13,450</u>	<u>7,640</u>
iv) <u>By residual contractual maturity</u>		
Within one year	13,450	5,785
One to five years	-	1,855
	<u>13,450</u>	<u>7,640</u>

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37. CREDIT RISK (continued)

Credit quality (continued)

(d) Credit quality of contingent liabilities and credit commitments

Analysis of contingent liabilities and commitments	2011 RM'000	2010 RM'000
i) <u>By counterparty</u>		
Other financial institutions	247	1,291
Corporate	178,331	118,927
Individuals	9,795	5,184
Others	36	39
	<u>188,409</u>	<u>125,441</u>
ii) <u>By geography</u>		
Malaysia	<u>188,409</u>	<u>125,441</u>
The analysis by geography is determined based on where the credit risk resides.		
iii) <u>By industry</u>		
Agriculture	2,061	1,109
Mining and quarrying	463	1,200
Manufacturing	26,575	26,660
Electricity, gas and water	79,074	-
Construction	40,698	75,418
Wholesale & retail trade and restaurants & hotels	10,244	2,997
Transport, storage and communication	4,721	8,590
Finance, insurance and business services	2,085	2,320
Others	22,488	7,147
	<u>188,409</u>	<u>125,441</u>
iv) <u>By residual contractual maturity</u>		
Within one year	101,858	72,729
One to five years	34,281	44,789
Over five years	52,270	7,923
	<u>188,409</u>	<u>125,441</u>

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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38. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(i) Fair values

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

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

The following table summarises the fair values of the financial instruments, which were presented at carrying value in the Bank's statement of financial position:

	2011		2010	
	Fair value	Carrying value	Fair value	Carrying value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Assets for which fair value approximates carrying value	412,739	412,739	604,280	604,280
Deposits and placements with banks and other financial institutions	-	-	4,624	4,624
Financial assets available-for-sale	1,892,691	1,892,691	1,111,552	1,111,552
Financing and advances	3,275,160	3,172,564	2,486,706	2,486,706
Derivative assets	13,450	13,450	7,640	7,640
Statutory deposits with Bank Negara Malaysia	159,400	159,400	26,750	26,750
Financial liabilities				
Deposits from customers	4,444,064	4,447,096	2,920,890	2,920,890
Deposits and placements of banks and financial institutions	606,651	606,651	799,846	799,846
Derivative liabilities	13,430	13,430	7,628	7,628
Liabilities for which fair value approximates carrying value	36,550	36,550	11,107	11,107
Subordinated bond	210,900	200,000	207,120	200,000

The fair values are based on the following methodologies and assumptions:

(a) Short term financial instruments

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

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38. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(i) Fair values (continued)

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

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

(c) Financial assets available-for-sale

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

(d) Financing and advances

For variable rate financing, excluding impaired financing, the carrying amount is generally a reasonable estimate of its fair value.

For unimpaired fixed rate financing and advances, fair values have been estimated by discounting the estimated future cash flows using the prevailing market rates of product types with similar credit risks and maturity.

The fair values of impaired financing and advances are represented by their carrying amounts, net of individually assessed impairment allowance being the expected recoverable amount.

(e) Deposits from customers

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

(f) Subordinated bond

Fair values are determined using quoted market prices and where available, by reference to quoted market prices of similar instruments.

(g) Financial derivatives

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

(ii) Fair value hierarchy

The Bank determines the fair values of its financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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

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38. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(ii) Fair value hierarchy (continued)

The following table summarises the Bank's instruments measured at fair value by level of the fair value hierarchies:

2011

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Financial assets:				
Available-for-sale	1,137,947	754,744	-	1,892,691
Derivative assets	-	13,450	-	13,450
Total	1,137,947	768,194	-	1,906,141
Financial liabilities:				
Derivative liabilities	64	13,366	-	13,430
Total	64	13,366	-	13,430

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

2010

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Financial assets:				
Available-for-sale	625,839	485,713	-	1,111,552
Derivative assets	123	7,517	-	7,640
Total	625,962	493,230	-	1,119,192
Financial liabilities:				
Derivative liabilities	5,655	1,973	-	7,628
Total	5,655	1,973	-	7,628

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39. FINANCIAL ASSETS AND LIABILITIES

2011	Financial assets available-for- sale RM'000	Held-for- trading RM'000	At amortised cost RM'000	Total RM'000
Financial assets				
Cash and cash equivalents	-	-	412,739	412,739
Financial assets available-for-sale	1,892,691	-	-	1,892,691
Financing and advances	-	-	3,172,564	3,172,564
Derivative assets	-	13,450	-	13,450
Other assets	-	-	46,619	46,619
Statutory deposits with Bank Negara Malaysia	-	-	159,400	159,400
Total financial assets	1,892,691	13,450	3,791,322	5,697,463
Financial liabilities				
Deposits from customers	-	-	4,447,096	4,447,096
Deposits and placements of banks and other financial institutions	-	-	606,651	606,651
Bills and acceptances payable	-	-	36,550	36,550
Subordinated bond	-	-	200,000	200,000
Derivative liabilities	-	13,430	-	13,430
Other liabilities	-	-	87,658	87,658
Total financial liabilities	-	13,430	5,377,955	5,391,385

2010	Financial assets available-for- sale RM'000	Held-for- trading RM'000	At amortised cost RM'000	Total RM'000
Financial assets				
Cash and cash equivalents	-	-	604,280	604,280
Deposits and placements with banks and other financial institutions	-	-	4,624	4,624
Financial assets available-for-sale	1,111,552	-	-	1,111,552
Financing and advances	-	-	2,486,706	2,486,706
Derivative assets	-	7,640	-	7,640
Other assets	-	-	45,833	45,833
Statutory deposits with Bank Negara Malaysia	-	-	26,750	26,750
Total financial assets	1,111,552	7,640	3,168,193	4,287,385
Financial liabilities				
Deposits from customers	-	-	2,920,890	2,920,890
Deposits and placements of banks and other financial institutions	-	-	799,846	799,846
Bills and acceptances payable	-	-	11,107	11,107
Subordinated bond	-	-	200,000	200,000
Derivative liabilities	-	7,628	-	7,628
Other liabilities	-	-	69,505	69,505
Total financial liabilities	-	7,628	4,001,348	4,008,976

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (continued)

40. CAPITAL ADEQUACY

Capital Management

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

The Bank closely monitors and actively manage capital usage primarily through monthly reviews of capital adequacy ratios and the Bank's annual operational plan. The annual operational plan is reviewed and approved by the Board of the Bank.

Capital Initiatives

No capital initiatives were undertaken during the financial year ended 31 December 2011.

Capital Adequacy Ratios

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

The Bank's capital adequacy ratios remained strong. The table in the next page shows the composition of the regulatory capital and capital adequacy ratios as of 31 December 2011, determined according to the requirements of BNM Guidelines – Capital Adequacy Framework for Islamic Banks (CAFIB-Basel II).

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40. CAPITAL ADEQUACY (continued)

Components of Tier-1 and Tier-2 capital are as follows:

	2011	2010
	RM'000	RM'000
<u>Tier-1 capital</u>		
Paid-up share capital	85,000	85,000
Share premium	170,000	170,000
Retained profit	28,833	18,819
Other reserves	30,596	20,582
	<u>314,429</u>	<u>294,401</u>
Less: Deferred tax assets	(4,157)	(10,205)
Eligible Tier-1 capital	<u>310,272</u>	<u>284,196</u>
<u>Tier-2 capital</u>		
Collectively assessed allowance on impaired financing and advances under standardised approach	10,236	8,013
Subordinated bond	155,136	142,098
Excess of Expected Loss over Eligible Provisions under IRB Approach	(3,764)	-
Excess of Eligible Provisions over Expected Loss under IRB Approach	-	7,811
Eligible Tier-2 capital	<u>161,608</u>	<u>157,922</u>
Capital base	<u>471,880</u>	<u>442,118</u>
<u>Capital Ratios before the effects of PSIA</u>		
Core-capital ratio	8.39%	9.30%
Risk-weighted capital ratio	12.76%	14.47%
<u>Capital Ratios after the effects of PSIA</u>		
Core-capital ratio	8.88%	10.00%
Risk-weighted capital ratio	13.51%	15.55%

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

	2011	2010
	RM'000	RM'000
Credit risk	3,229,929	2,668,660
Market risk	8,498	14,447
Operational risk	254,471	159,246
	<u>3,492,898</u>	<u>2,842,353</u>

In accordance with BNM's "Guidelines on the Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent", the credit and market risks of the assets funded by the Restricted Profit Sharing Investment Accounts (RPSIA) which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 December 2011, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM204 million (2010 : RM213 million).

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

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41. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

Amendments to FRS 7, Improving Disclosures about Financial Instruments

These amendments are intended to enhance disclosures on fair value and liquidity. The amendments require the disclosure of a three-level fair value hierarchy, by class for all financial instruments recognised at fair value and specific disclosures related to transfers between levels in the hierarchy and detailed disclosures on level three of the fair value hierarchy. In addition, certain disclosures on liquidity are also modified. These changes are only presentational in nature and does not have any impact on the financial results of the Bank.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 19 March 2012.