Company No. 818444-T

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2013

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

Company No.818444-T

OCBC AL-AMIN BANK BERHAD
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REPORTS AND FINANCIAL STATEMENTS
31 DECEMBER 2013

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS	2013 RM'000
Profit for the year	107,493

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 2013.

SHARE CAPITAL AND DEBENTURES

The Bank issued 10 million ordinary shares of RM1 each at RM3 per ordinary share to its holding company, OCBC Bank (Malaysia) Berhad, on 30 July 2013. There were no other changes in the authorised, issued and paid-up share capital of the Bank during the financial year. There were no debentures issued during the financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review 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 impairment 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 the value of any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business, as shown in the accounting records of the Bank had been written down to an amount which they might be expected to realise.

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

VALUATION METHODS

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

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 which 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 ("BNM") expectations on financial reporting have been complied with, including those as set out in the BNM Guidelines on Financial Reporting for Islamic Banking Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

FINANCIAL PERFORMANCE

The Bank registered a net profit of RM107.5 million for the financial year ended 31 December 2013 compared to RM46.1 million in the previous year. The strong growth was largely due to higher financing income from gross financing and advances which grew by RM2.5 billion or 57% to RM6.9 billion while customer deposits increased by RM2.2 billion or 49% to RM6.7 billion. As at 31 December 2013, the quality of the Bank's financing and advances remained strong with a net impaired financing ratio of 0.91%.

Shareholders' funds strengthened to RM595.2 million and the Bank is well capitalised with a core capital ratio after the effects of Profit Sharing Investment Account ("PSIA") of 10.549% and risk weighted capital ratio after PSIA of 14.125%.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (continued)

ACTIVITIES AND ACHIEVEMENTS

The Bank's growth in 2013 was underpinned by intensive efforts to market Islamic financing and cash management solutions to corporates, small medium enterprises ("SMEs") and consumers. Unsecured term financing, large corporate deals and consumer mortgages contributed significantly to the growth. Our unsecured term financing, introduced in the fourth quarter of 2012, continued to make significant progress with SMEs and small businesses, serving their capital needs. We also expanded our foreign currency financing offering in support of the country's global Islamic Banking positioning under Malaysia International Islamic Financial Centre ("MIFC") and was appointed as a Joint Lead Arranger for a GBP225 million financing facility for a government linked entity for its landmark property investment in the United Kingdom. We also expanded our capability in Islamic Treasury with hedging and structured investment solutions for our wholesale customers.

With the opening of two new OCBC Al-Amin Xpres branches during the year, we now have ten standalone Islamic branches, of which five are Xpres branches. The five Xpres branches are the country's first standalone seven-days-a-week Islamic day-and-night banking branches. Open daily from 10am to 10pm, these branches are located in Bukit Bintang, Balakong, Taman Melawati, Masjid Jamek and Ampang Park as part of our strategy to expand our reach and provide convenient touch points closer to where existing and potential customers work and live.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2014

Moving into 2014, we will continue to build our capacity in the Islamic Banking wholesale and retail segments. We will also reinforce our existing strong network of distribution channels to acquire new customers and to offer innovative solutions to existing and potential customers. We will continue to focus on increasing our market share by maximizing our sales distribution efficiency and opening new branches to further increase customer touch points. The expansion of OCBC Al Amin's distribution footprint is a key strategy for the Bank to engage with and be more relevant to our target segment, particularly the urban young and Bumiputra segments. Through our corporate programmes, the Bank seeks to penetrate the private sector employee market to become a financier of choice. We will also leverage on infrastructure within the OCBC Group and the strong OCBC brand name to broaden our customer base and retain our position as a leading provider of innovative product solutions among the foreign Islamic banks.

RATINGS BY EXTERNAL AGENCIES

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

CORPORATE GOVERNANCE

Board Composition and Independence

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

The roles of the Chairman and the CEO are separated, which is consistent with the principles of corporate governance as set out in BNM Guidelines on Corporate Governance for Licensed Islamic Institutions to institute an appropriate balance of power and authority. The Chairman's responsibilities, to name a few, include leading the Board to ensure its effectiveness on all aspects of its role; setting its meeting agenda in consultation with the CEO; ensuring that Directors receive accurate, timely and clear information; encouraging constructive relations between the Board and management; facilitating the effective contribution of non-executive Directors; ensuring constructive relations between the executive Director and non-executive Directors; and promoting high standards of corporate governance. This is pertaining to only Board proceedings and is not a comprehensive list of the duties and responsibilities of the Chairman.

CORPORATE GOVERNANCE (continued)

Board Composition and Independence (continued)

The members of the Board, as a group, provide skills and competencies to ensure the effectiveness of the Board. These include banking, accounting, finance, legal, strategy formulation, business acumen, management experience, understanding of industry and customers, familiarity with regulatory requirements and knowledge of risk management. 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 provide for the retirement of Directors by rotation. All appointments and re-appointments of Directors have to be approved by BNM.

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

Board Conduct and Responsibilities

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

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

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

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

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

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.

CORPORATE GOVERNANCE (continued)

Board Audit Committee

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

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

In addition to the review of the Bank's financial statements, the Board Audit Committee reviews and evaluates with the external and internal auditors, the adequacy and effectiveness of the system of internal controls including financial, operational, compliance and information technology controls; and risk management policies and systems. It reviews the scope and results of the audits, the cost effectiveness of the audits, and the independence and objectivity of the external auditors. When the external auditors provide non-audit services to the Bank, the 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 judgments to ensure the integrity of the financial statements, and announcements relating to financial performance.

The Bank has in place a whistle blowing policy and the Board Audit Committee reviews any concerns, including anonymous complaints, which staff may, in confidence, raise about possible improprieties in matters of financial reporting or other matters, and have the concerns independently investigated and followed-up. It meets at least once a year with the external and internal auditors in separate sessions and without the presence of management to consider any matters which might be raised privately. 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 require it to provide independent and reasonable, but not absolute assurance that the Bank's system of risk management, control and governance processes, as designed and implemented by senior management, are adequate and effective. Internal Audit reports on the adequacy of the system of internal controls to the Board Audit Committee and management, but does not form any part of the system of internal controls. Internal Audit meets or exceeds the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors and the Shariah Governance Framework for Islamic Financial Institutions issued by BNM. In addition, the Internal Auditors have acquired the necessary qualifications and training in Islamic Banking.

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

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

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 organised into departments that are aligned with the structure of the Bank. The Board Audit Committee approves the appointment and removal of the Head of Internal Audit.

Internal Controls

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

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

DISCLOSURE OF SHARIAH COMMITTEE

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

(a) To be responsible and accountable for all Shariah decisions, opinions and views sought by the Bank;

(b) To advise the Board on Shariah related matters and to ensure that the Bank complies with Shariah principles at all times;

(c) To endorse the SC's Report on the state of the Shariah compliance of the Bank disclosed in the annual financial statements of the Bank;

(d) To review and endorse Shariah related guidelines;

(e) To validate the relevant documentations in order to ensure that the Bank's Islamic Banking products comply with Shariah principles, the SC must approve:

   (i) the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and

   (ii) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product;

(f) To provide advice on Shariah matters to the Bank's related parties such as legal counsel, auditors or consultants upon request;

DIRECTORS’ REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (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 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 2013

Name of Shariah Advisor	Scheduled Meetings	
	Held	Attended
Assoc. Prof. Dato' Hj. Mohd Mokhtar Bin Hj. Shafii*	6	6
Prof. Dr Abdullah @ Alwi Bin Hj. Hassan^	9	9
Assoc. Prof. Dr Mahamad Bin Arifin	9	9
Assoc. Prof. Dr Wan Sabri Bin Wan Yusof	9	8
Asst. Prof. Dr Muhammad Naim Bin Omar	9	9

* Assoc. Prof. Dato' Hj. Mohd Mokhtar Bin Hj. Shafii resigned as the SC Chairman on 18 September 2013.
^ Prof. Dr Abdullah @ Alwi Bin Hj. Hassan was appointed as the SC Chairman on 27 September 2013.

MANAGEMENT INFORMATION

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

- Minutes of meetings of all Board Committees
- Monthly Performance Report of the Bank
- At least quarterly Credit Risk Management Report
- At least quarterly Asset Liability & Market Risk Report
- At least quarterly Operational Risk Management Report
- At least quarterly Shariah Risk Management Update
- At least quarterly Report of Shariah Committee Decisions

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (continued)

CORPORATE GOVERNANCE (continued)

DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS IN 2013

Name of Director	Scheduled meetings							
	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	3	3	6	6
Dato' Ooi Sang Kuang **	6	6	-	-	-	-	6	6
Tuan Syed Abdull Aziz Jailani Bin Syed Kechik	6	6	-	-	-	-	-	-
Chew Sun Teong, Jeffrey	6	6	-	-	-	-	6	6
Samuel N. Tsien	6	6	-	-	3	3	6	6
Ching Wei Hong	6	6	-	-	3	2	6	6
Tan Siok Choo	6	6	6	6	3	3	6	6
Dr Raja Lope Bin Raja Shahrome	6	5	-	-	-	-	6	5
Lai Teck Poh	6	6	6	6	3	3	6	6
Tan Siew Peng, Darren	6	6	-	-	-	-	6	6

* Retiring on 29 March 2014
** To be appointed as Chairman with effect from 30 March 2014

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

PROFILE ON BOARD OF DIRECTORS

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

Dato' Ooi Sang Kuang
Dato' Ooi was appointed to the Board on 6 April 2012. He was Special Advisor in Bank Negara Malaysia ("BNM") until he retired on 31 December 2011. Prior to this, he was Deputy Governor and Member of the Board of Directors of BNM, from 2002 to 2010. Dato' Ooi is presently the Chairman of Cagamas Berhad (the national mortgage corporation in Malaysia) and its subsidiaries, Malaysian Electronic Clearing Corporation Sendirian Berhad (subsidiary of BNM), Xeraya Capital Sdn Bhd, Xeraya Capital Labuan Ltd and Deputy Chairman of OCBC Malaysia since 27 November 2012 as well as a Director of Oversea-Chinese Banking Corporation Limited ("OCBC Bank"). Dato' Ooi will be appointed as Chairman of OCBC Al-Amin Bank Berhad ("OCBC Al-Amin) and OCBC Malaysia on 30 March 2014. Dato' Ooi holds a Bachelor of Economics with Honours from the University of Malaya and a Master of Arts (Development Finance) from Boston University, USA, and is a Fellow Member of the Institute of Bankers Malaysia.

CORPORATE GOVERNANCE (continued)

PROFILE ON BOARD OF DIRECTORS (continued)

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

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

Mr Samuel N. Tsien
Mr Samuel Tsien was appointed to the Board on 15 April 2012. He was appointed as the Group Chief Executive Officer of OCBC Bank on 15 April 2012. Mr Tsien joined OCBC Bank in July 2007 as Senior Executive Vice President, managing the Group's corporate and commercial banking business. In 2008, he assumed the position as Global Head of Global Corporate Bank with added responsibilities of overseeing the financial institution and transaction banking businesses. He has 36 years of banking experience. Prior to joining OCBC Bank, he was the President and Chief Executive Officer of China Construction Bank (Asia) when it acquired Bank of America (Asia). From 1995 to 2006, he was President and Chief Executive Officer of Bank of America (Asia), and Asia Consumer and Commercial Banking Group Executive of Bank of America Corporation. Mr Tsien is presently Chairman of OCBC Bank (China) Ltd, and a Commissioner of PT Bank OCBC NISP Tbk. He also serves on the boards of major OCBC Group companies, including Great Eastern Holdings Ltd, OCBC Malaysia and Bank of Singapore. He is Chairman of the Association of Banks in Singapore since June 2013 and is also a director of Mapletree Commercial Trust. Mr Tsien holds a Bachelor of Arts with Honours in Economics from the University of California, Los Angeles ("UCLA").

Mr Ching Wei Hong
Mr Ching Wei Hong was appointed to the Board on 1 August 2008. He was appointed Chief Operating Officer of OCBC Bank on 15 April 2012. In addition to Global Consumer Financial Services which he has oversight of since May 2010, he is responsible for the Group Operations & Technology, Group Corporate Communications, Group Quality & Service Excellence and OCBC Property Services functions of OCBC Bank. Mr Ching is also Chairman of Bank of Singapore, OCBC Securities and Lion Global Investors Limited. As Head of Global Consumer Financial Services, he is responsible for building the OCBC Group's consumer banking business in key markets and expanding its wealth management franchise. In his tenure with OCBC Bank, he has held senior management responsibilities across various roles including Chief Financial Officer, Head of Group Operations and Technology and Head of Transaction Banking. Mr Ching has more than 28 years of experience in regional finance, corporate banking and cash management. Before joining OCBC Bank, he was Director of Corporate Finance, Philips Electronics Asia Pacific Pte Ltd. He also held senior regional assignments in Bank of America and was Treasurer of Union Carbide Asia Pacific. Mr Ching holds a Bachelor of Business Administration from the National University of Singapore.

CORPORATE GOVERNANCE (continued)

PROFILE ON BOARD OF DIRECTORS (continued)

Ms Tan Siok Choo
Ms Tan Siok Choo was appointed to the Board on 1 August 2008. Ms Tan holds a Bachelor of Law from the University of Bristol, passed her Bar Finals at the College of Law, London and was admitted as a Barrister-at-law in Lincoln's Inn, London and the Malaysian Bar. Currently a visiting fellow at the Institute of Strategic and International Studies, she also serves as Chairperson of United Malacca Berhad and as a Director of OCBC Malaysia 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. She is also a newspaper columnist for The Sun.

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 OCBC Malaysia, First Nationwide Holdings Sdn Bhd, Pac Lease Berhad, and several other private companies.

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

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

CORPORATE GOVERNANCE (continued)

DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS

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

Tan Sri Dato' Nasruddin Bin Bahari - Chairman
Dato' Ooi Sang Kuang
Tuan Syed Abdull Aziz Jailani Bin Syed Kechik
Chew Sun Teong, Jeffrey
Samuel N. Tsien
Ching Wei Hong
Tan Siok Choo
Dr Raja Lope Bin Raja Shahrome
Lai Teck Poh
Tan Siew Peng, Darren

In accordance with Articles 106 and 107 of the Bank's Articles of Association, Mr Chew Sun Teong, Jeffrey, Tuan Syed Abdull Aziz Jailani Bin Syed Kechik and Mr Lai Teck Poh 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, Dr Raja Lope Bin Raja Shahrome, who has attained 70 years of age, offers himself for re-appointment at the forthcoming Annual General Meeting.

Tan Sri Dato' Nasruddin Bin Bahari has indicated his desire to retire as Chairman of the Bank on 29 March 2014.

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

	Shareholdings registered in the name of Directors or in which Directors have a direct interest			
Ordinary Shares	As at 1.1.2013	Acquired	Disposed	As at 31.12.2013
Tan Sri Dato' Nasruddin Bin Bahari	20,285	-	-	20,285
Dato' Ooi Sang Kuang	-	5,163	-	5,163
Tuan Syed Abdull Aziz Jailani Bin Syed Kechik	-	17,577	(17,577)	-
Chew Sun Teong, Jeffrey	108	132,383	(129,784)	2,707
Samuel N. Tsien	121,555	311,474	(250,000)	183,029
Ching Wei Hong	136,562	119,022	(130,000)	125,584
Tan Siok Choo	48,893	-	-	48,893
Dr Raja Lope Bin Raja Shahrome	2,000	-	-	2,000
Lai Teck Poh	554,824	94,442	(50,000)	599,266
Tan Siew Peng, Darren	89,699	141,017	(38,000)	192,716

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (continued)

CORPORATE GOVERNANCE (continued)

DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS (continued)

Oversea-Chinese Banking Corporation Limited (continued)

	Shareholdings registered in the name of Directors or in which Directors have a direct interest			
	As at 1.1.2013	Acquired	Disposed	As at 31.12.2013
Class G Preference Shares				
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)	-
Tan Siew Peng, Darren	2,000	-	(2,000)	-

	Shareholdings in which Directors have deemed interest			
	As at 1.1.2013	Acquired/ Awarded/ Granted	Disposed/ Exercised/ Withdrawn	As at 31.12.2013
Ordinary shares				
Tan Siok Choo	3,553,453	-	-	3,553,453
Class G Preference Shares				
Tan Siok Choo	656,152	-	-	656,152
OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan				
Tuan Syed Abdull Aziz Jailani Bin Syed Kechik	10,487	4,068	-	14,555
Chew Sun Teong, Jeffrey	89,041	36,156	(30,474)	94,723
Samuel N. Tsien	222,139	183,562	(61,474)	344,227
Ching Wei Hong	162,193	68,532	(59,022)	171,703
Lai Teck Poh	14,442	-	(14,442)	-
Tan Siew Peng, Darren	265,763	79,664	(130,967)	214,460

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (continued)

CORPORATE GOVERNANCE (continued)

DIRECTORS AND THEIR INTERESTS IN SHARES AND OPTIONS (continued)

Oversea-Chinese Banking Corporation Limited (continued)

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

	Number of share options held by Directors in their own name				
	As at 1.1.2013	Offered	Exercised/ Lapsed	As at 31.12.2013	Date options expire
Tuan Syed Abdull Aziz Jailani Bin Syed Kechik	26,149	22,965	(17,577)	31,537	15/3/2021-13/3/2023
Chew Sun Teong, Jeffrey	234,098	132,806	(100,784)	266,120	13/3/2021-13/3/2023
Samuel N. Tsien	1,125,538	951,663	(250,000)	1,827,201	13/3/2018-13/3/2023
Ching Wei Hong	613,732	150,675	(60,000)	704,407	13/3/2016-13/3/2023
Lai Teck Poh	341,000	-	(74,000)	267,000	14/3/2014-15/3/2019
Tan Siew Peng, Darren	155,589	150,675	(10,050)	296,214	15/3/2019-13/3/2023

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 benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 24 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 OCBC Bank pursuant to the OCBC Share Option Scheme 2001, shares granted under the OCBC Deferred Share Plan which will vest three years from the grant date and will lapse when the Director ceases employment during the vesting period and acquisition rights under the OCBC Employee Share Purchase Plan.

HOLDING AND ULTIMATE HOLDING COMPANY

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (continued)

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 20 March 2014.

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 19 to 76 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2013 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 20 March 2014.

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

TUAN SYED ABDULL AZIZ JAILANI BIN SYED KECHIK
DIRECTOR

Kuala Lumpur

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

I, Yuen Sook Cheng, the officer primarily responsible for the financial management of OCBC Al-Amin Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 19 to 76 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 20 March 2014	)	YUEN SOOK CHENG

Before me,

COMMISSIONER FOR OATHS

SHARIAH COMMITTEE'S REPORT

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

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

We have reviewed the principles and contracts relating to the transactions and applications undertaken by the Bank during the financial year ended 31 December 2013. 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 2013, that we have reviewed are in compliance with the Shariah principles except as disclosed in (c);

(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) During the financial year, the Bank received RM121,657 as Shariah non-compliant income from Shariah non-compliant events and as a result of commission received from conventional insurers. There were fourteen (14) occurrences of Shariah non-compliant events identified during the year. In general, the Shariah non-compliant events were due to people and process factors such as failure to adhere to procedures/guidelines and improper execution of documentation and contracts according to the Shariah requirements. The Bank has taken the necessary steps to rectify the breaches. The Bank has also implemented several preventive measures to avoid similar occurrences such as revising the process flow for documentation execution, tightening the controls in the products' process flows and organising training sessions to create strong Shariah awareness and understanding amongst the Bank's staff. The distribution of the Shariah non-compliant income is disclosed in Note 32; and

(d) In the financial year, the Bank has fulfilled its obligation to pay zakat on its business to state zakat authorities and the zakat is computed using the growth capital method.

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 2013 have been conducted in conformity with the Shariah principles.

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

ASSOC. PROF. DR MAHAMAD BIN ARIFIN
Member of Committee

Kuala Lumpur, Malaysia
Date: 20 March 2014

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

Company No.818444-T
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of OCBC Al-Amin Bank Berhad, which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 19 to 76.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of these financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are responsible for such internal controls as the Directors 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 give a true and fair view of the financial position of the Bank as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Ow Peng Li
Approval Number: 2666/09/15(J)
Chartered Accountant

Petaling Jaya, Selangor
Date: 20 March 2014

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
ASSETS			
Cash and cash equivalents	3	963,230	23,687
Financial investments available-for-sale	4	2,061,763	2,315,277
Financing and advances	5	6,762,954	4,295,722
Derivative financial assets	7	44	5,592
Other assets	8	54,716	94,596
Current tax assets		1,682	443
Statutory deposits with Bank Negara Malaysia	9	270,800	214,500
Property, plant and equipment	10	8,049	8,025
Deferred tax assets	11	2,446	1,435
Total assets		10,125,684	6,959,277
LIABILITIES			
Deposits from customers	12	6,675,588	4,479,842
Deposits and placements of banks and other financial institutions	13	2,555,128	1,693,882
Bills and acceptances payable		13,679	14,795
Subordinated bond	14	200,000	200,000
Derivative financial liabilities	7	36	5,543
Other liabilities	15	86,056	93,439
Zakat		30	25
Total liabilities		9,530,517	6,487,526
EQUITY			
Share capital	16	125,000	115,000
Reserves	17	470,167	356,751
Total equity		595,167	471,751
Total liabilities and equity		10,125,684	6,959,277
Commitments and contingencies	29	1,549,635	2,971,121

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
Income derived from investment of depositors' funds and others	18	449,068	336,934
Income derived from investment of shareholder's funds	19	74,510	52,949
Impairment allowance on financing and advances	20	(56,054)	(40,268)
Total distributable income		467,524	349,615
Income attributable to depositors	21	(193,644)	(165,928)
Total net income		273,880	183,687
Operating expenses	23	(137,583)	(124,726)
Profit before income tax expense and zakat		136,297	58,961
Income tax expense	27	(28,774)	(12,842)
Zakat		(30)	(25)
Profit for the year		107,493	46,094
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss			
Fair value (available-for-sale) reserve:			
- Change in fair value		(12,669)	6,492
- Amount transferred to profit or loss		(6,100)	(672)
Income tax expense relating to components of other comprehensive income		4,692	(1,455)
Other comprehensive (loss)/income for the year, net of tax		(14,077)	4,365
Total comprehensive income for the year		93,416	50,459
Profit attributable to shareholder of the Bank		107,493	46,094
Total comprehensive income attributable to shareholder of the Bank		93,416	50,459
Basic earnings per ordinary share (sen)	28	90.14	46.90

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Non-distributable				*Distributable*	
	Share Capital	**Share Premium**	**Statutory Reserve**	**Fair Value Reserve**	**Retained Earnings**	**Total Equity**
2013	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Balance at 1 January 2013	115,000	230,000	53,643	8,667	64,441	471,751
Fair value (available-for-sale) reserve						
- Change in fair value	-	-	-	(12,669)	-	(12,669)
- Amount transferred to profit or loss	-	-	-	(6,100)	-	(6,100)
Income tax expense relating to components of other comprehensive income	-	-	-	4,692	-	4,692
Other comprehensive loss for the year	-	-	-	(14,077)	-	(14,077)
Profit for the year	-	-	-	-	107,493	107,493
Total comprehensive (loss)/income for the year	-	-	-	(14,077)	107,493	93,416
Contributions by and distributions to owners of the Bank						
Issue of ordinary shares	10,000	20,000	-	-	-	30,000
Transfer to statutory reserve	-	-	53,746	-	(53,746)	-
Balance at 31 December 2013	125,000	250,000	107,389	(5,410)	118,188	595,167
2012						
Balance at 1 January 2012	85,000	170,000	30,596	4,302	41,394	331,292
Fair value (available-for-sale) reserve						
- Change in fair value	-	-	-	6,492	-	6,492
- Amount transferred to profit or loss	-	-	-	(672)	-	(672)
Income tax expense relating to components of other comprehensive income	-	-	-	(1,455)	-	(1,455)
Other comprehensive income for the year	-	-	-	4,365	-	4,365
Profit for the year	-	-	-	-	46,094	46,094
Total comprehensive income for the year	-	-	-	4,365	46,094	50,459
Contributions by and distributions to owners of the Bank						
Issue of ordinary shares	30,000	60,000	-	-	-	90,000
Transfer to statutory reserve	-	-	23,047	-	(23,047)	-
Balance at 31 December 2012	115,000	230,000	53,643	8,667	64,441	471,751

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

Company No.818444-T

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax expense and zakat		136,297	58,961
Adjustments for:			
Net (gain)/loss from disposal of:			
- Financial investments available-for-sale		(6,100)	(672)
- Property, plant and equipment		27	16
Depreciation of property, plant and equipment		3,447	2,005
Impairment allowance on financing and advances		56,054	40,268
Unrealised losses on revaluation of derivatives		41	865
Operating profit before changes in working capital		189,766	101,443
(Increase)/Decrease in Operating Assets:			
Financing and advances		(2,523,286)	(1,146,677)
Derivative financial assets		5,548	7,858
Other assets		39,839	(48,842)
Statutory deposits with Bank Negara Malaysia		(56,300)	(55,100)
Increase/(Decrease) in Operating Liabilities:			
Deposits from customers		2,195,746	32,746
Deposits and placements of banks and other financial institutions		861,246	1,087,231
Bills and acceptances payable		(1,116)	(21,755)
Derivative financial liabilities		(5,507)	(7,887)
Other liabilities		(7,374)	5,781
CASH GENERATED FROM/(USED IN) OPERATIONS		698,562	(45,202)
Income tax and zakat paid		(26,357)	(13,802)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		672,205	(59,004)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of financial investments available-for-sale		2,873,252	4,272,114
Acquisition of financial investments available-for-sale		(2,632,407)	(4,688,208)
Proceeds from disposal of property, plant and equipment		1,059	4
Acquisition of property, plant and equipment		(4,566)	(3,958)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		237,338	(420,048)
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from issuance of ordinary shares		30,000	90,000
NET CASH GENERATED FROM FINANCING ACTIVITY		30,000	90,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		939,543	(389,052)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		23,687	412,739
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	963,230	23,687

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of preparation of the financial statements

The financial statements of the Bank for the financial year ended 31 December 2013 have been prepared under the historical cost convention (except as disclosed in the notes to the financial statements), in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 1965 in Malaysia 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 accounting policies applied by the Bank in the annual financial statements are consistent with those applied in the previous year, except for the adoption of the following MFRSs and Amendments to MFRSs that have been adopted during the current year:

MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
MFRS 10 Consolidated Financial Statements
MFRS 11 Joint Arrangements
MFRS 12 Disclosure of Interest in Other Entities
MFRS 13 Fair Value Measurement
MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)
MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as amended by IASB in December 2003)
MFRS 128 Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)
Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards - Government Loans
Amendments to MFRS 7, Financial Instruments: Disclosure - Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 1, MFRS 101, MFRS 116, MFRS 132 and MFRS 134 contained in the documents entitled "Annual Improvements 2009 - 2011 Cycle"
Amendments to MFRS 10, MFRS 11 and MFRS 12, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

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

The adoption of the above MFRSs, Issue Committee ("IC") Interpretation and Amendments to MFRSs did not have any impact on the financial statements as they mainly help to clarify the requirements of or provide further explanations to existing MFRSs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Bank has not applied the following MFRSs, Amendments to MFRSs and IC Interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") as they are not yet effective.

Effective for annual periods commencing on or after 1 January 2014
Amendments to MFRS 10, Consolidated Financial Statements: Investment Entities
Amendments to MFRS 12, Disclosure of Interests in Other Entities: Investment Entities
Amendments to MFRS 127, Separate Financial Statements (2011): Investment Entities
Amendments to MFRS 132, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136, Impairment of Assets, Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139, Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21 Levies

Effective for annual periods commencing on or after 1 July 2014
Amendments to MFRS 1, MFRS 3, MFRS 13 and MFRS 140 contained in the documents entitled "Annual Improvements 2011 - 2013 Cycle"
Amendments to MFRS 2, MFRS 3, MFRS 8, MFRS13, MFRS 116, MFRS 124 and MFRS 138 contained in the documents entitled "Annual improvements 2010 - 2012 Cycle"
Amendments to MFRS 119, Employee Benefits - Defined Benefit Plans: Employee Contributions

Effective for annual periods commencing on a date yet to be confirmed
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)
MFRS 9 Financial Instruments - Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139
Amendments to MFRS 7, Financial Instruments: Disclosures - Mandatory Effective Date of MFRS 9 and Transition Disclosures

The initial application of the above MFRSs and Amendments to MFRSs is not expected to have any material impact to the financial statements upon their first time adoption except for those discussed below.

IC Interpretation 21 Levies is not applicable to the Bank as it is not relevant to the business of the Bank.

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 9.

B. Financial Instruments

(i) Initial recognition and measurement

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

(i) Initial recognition and measurement (continued)

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

(ii) Financial instrument categories and subsequent measurement

The Bank categorises financial instruments as follows:

Financial assets

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

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

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

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

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

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

Financial assets (continued)

(c) Financing and receivables (continued)

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

(d) Financial investments available-for-sale

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

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

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

Financial liabilities

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

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

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

(iii) Financial guarantee contracts (continued)

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

(iv) Regular way purchase or sale of financial assets

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

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

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

(v) Derivatives

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

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

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

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

(vi) Derecognition

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial Instruments (continued)

(vi) Derecognition (continued)

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

(vii) Offsetting

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

C. Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Property, plant and equipment (continued)

(iii) Depreciation (continued)

Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives are:

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

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

D. Operating Lease

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

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

E. Cash and cash equivalents

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

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

F. Impairment on financial assets

(i) Held-to-maturity investments

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

(ii) Financial investments available-for-sale

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Impairment on financial assets (continued)

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

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

(iii) Financing and advances

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

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

Individual impairment allowance

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

Collective impairment allowance

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

Impaired financing and advances written off

Uncollectible 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 judgment of the management, there is no prospect of recovery.

G. Impairment of other assets

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Impairment of other assets (continued)

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

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

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

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

H. Equity instruments

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

Ordinary shares are classified as equity.

Interim dividend 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 the shareholder at the annual general meeting.

I. Employee Benefits

(i) Short-term employee benefits

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

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

(ii) Employee leave entitlements

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

(iii) Share-based payment transactions

(a) OCBC Deferred Share Plan

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Employee Benefits (continued)

(iii) Share-based payment transactions (continued)

(b) OCBC Share Option Scheme 2001

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

(c) OCBC Employee Share Purchase Plan

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

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

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

J. Provisions

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

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

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

(i) Contingent liabilities

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

(ii) Contingent assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Revenue and expenses

(i) Finance income and expenses

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

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

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

(ii) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets, trading derivatives, 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) Other income

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

(v) Dividend income

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

L. Foreign currency transactions

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Income tax

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

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous financial 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 assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

N. Zakat contribution

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

O. Earnings per ordinary share

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

P. Restricted profit sharing investment accounts ("RPSIA")

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

Q. Profit Equalisation Reserve

In managing the Bank's Displaced Commercial Risk, the Bank uses two techniques prescribed in BNM Guidelines on Profit Equalisation Reserve that require either foregoing the Bank's share of the profit or transferring from its retained earnings to the investment account holder.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Significant accounting judgements and estimation

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

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

(i) Fair value estimation for financial investments available-for-sale (Note 4) and derivative financial assets and liabilities (Note 7). Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For financial instruments which are not traded in an active market (e.g. over-the-counter derivatives), the fair value is determined using valuation techniques, which include the use of mathematical models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Where possible, assumptions and inputs used on valuation techniques include observable data such as risk-free and benchmark discount rates and credit spreads. Where observable market data is not available, judgment is required in the determination of model input, which normally incorporates assumptions that other market participants would use in their valuations, including assumptions about profit rate yield curves, exchange rates, volatilities and prepayment and default rates. Judgment is also required in assessing the impairment of financial investments available-for-sale as the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flows.

(ii) For impaired financing and advances which are individually assessed and collectively assessed, judgment 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, judgments are made on the realisable value of collateral pledged and the borrower's financial position. These estimations are based on assumptions and the actual results may differ.

(iii) Assessment of impairment of financial investments available-for-sale (Note 4) is made when the investment is impaired. Management judgment is required to evaluate the duration and extent of fair value loss for financial investments available-for-sale in order to determine if impaired.

S. Fair value measurements

From 1 January 2013, the Bank adopted MFRS 13, Fair Value Measurement which prescribes that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

In accordance with the transitional provision of MFRS 13, the Bank applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Bank's assets or liabilities other than additional disclosures.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

3. CASH AND CASH EQUIVALENTS

	2013 RM'000	2012 RM'000
Cash and balances with banks and other financial institutions	55,580	23,687
Money at call and deposit placements with financial institutions maturing within one month	907,650	-
	963,230	23,687
(i) By geographical distribution		
Malaysia	928,372	19,667
Singapore	4,738	1,106
Other ASEAN	956	293
Rest of the world	29,164	2,621
	963,230	23,687

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

(ii) By residual contractual maturity

	2013 RM'000	2012 RM'000
Maturity within one month	963,230	23,687

4. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2013 RM'000	2012 RM'000
At fair value		
Malaysian Government Investment Issues	1,250,238	1,559,531
Malaysian Government Debt Securities	115,819	112,078
Foreign Government Debt Securities	49,638	49,643
Bank Negara Malaysia Monetary Notes	-	49,824
Islamic Private Debt Securities	407,114	375,311
Islamic Negotiable Instruments of Deposit	173,985	163,893
Sanadat Mudharabah Cagamas	64,969	4,997
	2,061,763	2,315,277

5. FINANCING AND ADVANCES

	2013 RM'000	2012 RM'000
At amortised cost		
Term financing:		
- House financing	675,699	220,494
- Syndicated term financing	-	40,006
- Hire purchase receivables	825,039	653,077
- Other term financing	4,231,027	2,744,560
Bills receivable	42,332	51,823
Trust receipts	10,557	-
Revolving credit	1,629,669	915,648
Claims on customers under acceptance credits	191,210	226,072
Other financing	23,735	8,011
Less: Unearned income	(761,317)	(490,445)
Gross financing and advances	6,867,951	4,369,246
Allowance for financing and advances		
- Individual impairment	(44,846)	(32,333)
- Collective impairment	(60,151)	(41,191)
Net financing and advances	6,762,954	4,295,722

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

As at 31 December 2013, the gross exposure relating to RPSIA financing is RM649 million (2012: RM318 million) and the collective impairment relating to this RPSIA of RM5.7 million (2012: RM3.0 million) is recognised in profit or loss.

(i) By concept	2013 RM'000	2012 RM'000
Ijarah Thumma Al Bai	632,403	581,420
Bai' Bithaman Ajil	451,365	979,064
Bai' Inah	1,626,760	840,177
Murabahah	1,800,696	621,637
Ijarah Muntahiah Bi Al-Tamlik	1,986,879	976,952
Musharakah	283,605	259,301
Ijarah	3,997	-
Other principles	82,246	110,695
	6,867,951	4,369,246

(ii) By type of customer	2013 RM'000	2012 RM'000
Domestic banking institutions	30,589	-
Domestic non-bank financial institutions		
- Others	130,208	-
Domestic business enterprises		
- Small medium enterprises	2,261,736	1,102,112
- Others	3,052,939	2,296,061
Individuals	1,352,278	935,176
Foreign entities	40,201	35,897
	6,867,951	4,369,246

5. FINANCING AND ADVANCES (continued)

(iii) By profit rate sensitivity	**2013 RM'000**	**2012 RM'000**
Fixed rate		
- House financing	34,643	29,695
- Hire purchase receivables	632,403	581,420
- Other fixed rate financing	2,279,353	1,576,156
Variable rate		
- BFR plus	924,681	313,986
- Cost plus	2,996,871	1,867,989
	6,867,951	4,369,246

(iv) By sector

Agriculture	216,921	291,934
Mining and quarrying	178,872	205,707
Manufacturing	1,309,598	983,050
Electricity, gas and water	71,540	71,723
Construction	215,064	128,037
Real estate	1,475,133	890,045
Wholesale & retail trade and restaurants & hotels	1,050,877	421,720
Transport, storage and communication	234,930	148,964
Finance, insurance and business services	399,239	117,086
Community, social and personal services	262,370	110,647
Household		
- Purchase of residential properties	678,393	217,189
- Purchase of non-residential properties	31,380	12,577
- Others	682,706	711,234
Others	60,928	59,333
	6,867,951	4,369,246

(v) By geographical distribution

Malaysia	6,045,469	3,959,786
Singapore	5,337	1,451
Other ASEAN	-	30,184
Rest of the world	817,145	377,825
	6,867,951	4,369,246

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

(vi) By residual contractual maturity

Within one year	2,077,386	1,338,966
One year to five years	2,656,952	1,572,074
Over five years	2,133,613	1,458,206
	6,867,951	4,369,246

6. IMPAIRED FINANCING AND ADVANCES

(a) Movements in impaired financing and advances

	2013 RM'000	2012 RM'000
Balance at 1 January	54,938	47,484
Impaired during the year	170,811	76,755
Reclassified as unimpaired	(18,322)	(13,021)
Amount recovered	(66,671)	(19,807)
Amount written off	(33,397)	(36,473)
Balance at 31 December	107,359	54,938
Individual impairment allowance	(44,846)	(32,333)
Collective impairment allowance	(551)	(215)
Net impaired financing and advances	61,962	22,390

(i) By sector

	2013 RM'000	2012 RM'000
Agriculture	524	597
Manufacturing	54,932	16,466
Construction	1,949	3,160
Real estate	1,340	-
Wholesale & retail trade and restaurants & hotels	14,474	9,521
Transport, storage and communication	2,269	1,266
Finance, insurance and business services	2,814	2,456
Community, social and personal services	1,350	673
Household		
- Purchase of residential properties	2,289	3,152
- Purchase of non-residential properties	74	-
- Others	24,694	17,405
Others	650	242
	107,359	54,938

(ii) By geographical distribution

	2013 RM'000	2012 RM'000
Malaysia	107,359	54,938

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

(iii) By period overdue

	2013 RM'000	2012 RM'000
Less than 3 months	63,245	11,362
3 months to less than 6 months	20,701	22,607
6 months to less than 9 months	3,297	1,768
Over 9 months	20,116	19,201
	107,359	54,938

(iv) By collateral type

	2013 RM'000	2012 RM'000
Property	8,987	9,434
Fixed deposits	143	-
Machinery	6,441	1,491
Secured - others	7,793	7,988
Unsecured - corporate and other guarantees	3,210	14,401
Unsecured - clean	80,785	21,624
	107,359	54,938

6. IMPAIRED FINANCING AND ADVANCES (continued)

(b) Movements in allowance for impaired financing and advances

	2013 RM'000	2012 RM'000
Individual impairment allowance		
Balance at 1 January	32,333	28,811
Made during the year	74,672	59,244
Amount written back	(28,650)	(20,294)
Amount written off	(33,371)	(35,428)
Financing income earned on impaired financing	(138)	-
Balance at 31 December	44,846	32,333
Collective impairment allowance		
Balance at 1 January	41,191	31,564
Made during the year	18,960	9,627
Balance at 31 December	60,151	41,191
As % of gross financing and advances less individual impairment allowance	0.88%	0.95%

(c) Impairment allowance by sector

2013	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Individual impairment allowance charged to profit or loss RM'000	Individual impairment allowance written off RM'000
Agriculture	1,911	180	7	5
Mining and quarrying	1,577	-	-	-
Manufacturing	11,482	7,158	2,245	1,007
Electricity, gas and water	631	-	-	-
Construction	1,889	773	909	243
Real estate	13,001	394	411	-
Wholesale & retail trade and restaurants & hotels	9,193	8,085	6,894	2,547
Transport, storage and communication	2,060	1,304	995	9
Finance, insurance and business services	3,509	1,181	1,437	500
Community, social and personal services	2,307	689	672	97
Household				
- Purchase of residential properties	5,975	643	234	161
- Purchase of non- residential properties	277	-	-	-
- Others	5,803	24,389	60,798	28,557
Others	536	50	70	245
	60,151	44,846	74,672	33,371

6. IMPAIRED FINANCING AND ADVANCES (continued)

(c) Impairment allowance by sector (continued)

2012	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Individual impairment allowance charged to profit or loss RM'000	Individual impairment allowance written off RM'000
Agriculture	2,771	184	145	86
Mining and quarrying	1,954	-	-	-
Manufacturing	9,275	6,522	5,780	9,214
Electricity, gas and water	681	-	-	-
Construction	1,206	1,065	336	33
Real estate	8,453	-	1	1
Wholesale & retail trade and restaurants & hotels	3,961	4,708	3,397	133
Transport, storage and communication	1,408	701	778	-
Finance, insurance and business services	1,107	551	385	220
Community, social and personal services	1,049	165	144	13
Household				
- Purchase of residential properties	2,055	789	622	168
- Purchase of non- residential properties	119	-	-	-
- Others	6,590	17,405	47,413	25,560
Others	562	243	243	-
	41,191	32,333	59,244	35,428

(d) Impairment allowances by geographical distribution

	2013 RM'000	2012 RM'000
Individual impairment allowance		
Malaysia	44,846	32,333
Collective impairment allowance		
Malaysia	52,900	37,302
Singapore	47	14
Other ASEAN	-	287
Rest of the World	7,204	3,588
	60,151	41,191

7. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	2013			2012		
	Contract or underlying principal amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000	Contract or underlying principal amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000
Trading						
Foreign exchange derivatives						
- Forward	10,358	16	36	611,834	3,741	3,693
- Swaps	815	28	-	1,354,131	1,851	1,850
	11,173	44	36	1,965,965	5,592	5,543

8. OTHER ASSETS

	2013 RM'000	2012 RM'000
Profit receivable	18,417	20,056
Other receivables, deposits and prepayments	1,160	1,968
Shared services fee receivable from holding company (Note 26)	372	139
Amount due from holding company (Note 26)	34,767	72,433
	54,716	94,596

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

9. 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.

10. PROPERTY, PLANT AND EQUIPMENT

2013	**Office equipment and furniture RM'000**	**Computer equipment RM'000**	**Renovation RM'000**	**Total RM'000**
Cost				
At 1 January	4,231	6,529	6,167	16,927
Additions/transfer from holding company	309	7,510	1,086	8,905
Disposals/Written off/transfer to holding company	(416)	(408)	(716)	(1,540)
Reclassification	277	-	(277)	-
At 31 December	4,401	13,631	6,260	24,292
Accumulated depreciation				
At 1 January	1,359	3,604	3,939	8,902
Transfer from holding company	2	4,337	-	4,339
Depreciation charge for the year	442	2,521	484	3,447
Disposals/Written off/transfer to holding company	(191)	(207)	(47)	(445)
At 31 December	1,612	10,255	4,376	16,243
Carrying amount as at 31 December	2,789	3,376	1,884	8,049
2012				
Cost				
At 1 January	3,531	4,554	4,924	13,009
Additions	725	1,990	1,243	3,958
Disposals/Written off/transfer to holding company	(25)	(15)	-	(40)
At 31 December	4,231	6,529	6,167	16,927
Accumulated depreciation				
At 1 January	974	2,425	3,518	6,917
Depreciation charge for the year	393	1,191	421	2,005
Disposals/Written off/transfer to holding company	(8)	(12)	-	(20)
At 31 December	1,359	3,604	3,939	8,902
Carrying amount as at 31 December	2,872	2,925	2,228	8,025

11. 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**	
	2013 RM'000	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**
Excess of capital allowance over depreciation	-	-	(1,150)	(1,017)	(1,150)	(1,017)
Collective impairment allowance on financing and advances	-	2,406	-	-	-	2,406
Change in fair value of financial instruments	1,803	(2,889)	-	-	1,803	(2,889)
Other temporary differences	1,793	2,935	-	-	1,793	2,935
Net tax assets/(liabilities)	3,596	2,452	(1,150)	(1,017)	2,446	1,435

2013	**At 1 January RM'000**	**Recognised in statement of profit or loss (Note 27) RM'000**	**Recognised in other comprehensive income RM'000**	**At 31 December RM'000**
Excess of capital allowances over depreciation	(1,017)	(133)	-	(1,150)
Collective impairment allowance on financing and advances	2,406	(2,406)	-	-
Change in fair value of financial instruments	(2,889)	-	4,692	1,803
Other temporary differences	2,935	(1,142)	-	1,793
Total	1,435	(3,681)	4,692	2,446

2012	**At 1 January RM'000**	**Recognised in statement of profit or loss (Note 27) RM'000**	**Recognised in other comprehensive income RM'000**	**At 31 December RM'000**
Excess of capital allowances over depreciation	(840)	(177)	-	(1,017)
Collective impairment allowance on financing and advances	1,706	700	-	2,406
Change in fair value of financial instruments	(1,434)	-	(1,455)	(2,889)
Other temporary differences	2,403	532	-	2,935
Total	1,835	1,055	(1,455)	1,435

12. DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	2013 RM'000	2012 RM'000
Non-Mudharabah Fund		
Demand deposits (Wadiah)	2,229,073	1,753,980
Savings deposits (Wadiah)	314,132	325,877
General investment deposits (Commodity Murabahah)	2,795,065	7,123
Negotiable instruments of deposit (Bai' Inah)	89,527	71,001
Structured investments (Wakalah)	-	41,126
Wakalah short term deposits	716,976	153,646
	6,144,773	2,352,753
Mudharabah Fund		
General investment deposits	530,815	2,127,089
	6,675,588	4,479,842

(ii) By type of customer

	2013 RM'000	2012 RM'000
Government and statutory bodies	9,642	14,332
Business enterprises	3,390,844	2,556,394
Individuals	1,081,941	1,290,437
Foreign entities	33,992	20,852
Others	2,159,169	597,827
	6,675,588	4,479,842

(iii) By maturity structure

	2013 RM'000	2012 RM'000
Within six months	5,789,788	3,968,677
Six months to one year	824,025	411,246
One year to three years	1,876	42,469
Three years to five years	4	76
Over five years	59,895	57,374
	6,675,588	4,479,842

13. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013 RM'000	2012 RM'000
Non-Mudharabah		
Licensed banks	1,905,966	1,122,783
Mudharabah Fund		
Licensed banks	649,162	571,099
	2,555,128	1,693,882

Included in the deposits and placements of banks and other financial institutions are the Restricted Profit Sharing Investment Accounts ("RPSIA") placed by its holding company, OCBC Malaysia amounting to RM649 million (2012: RM318 million) at profit rates ranging from 1.51% to 4.68% (2012: 1.92% to 4.31%) per annum.

14. SUBORDINATED BOND

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

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

15. OTHER LIABILITIES

	2013 RM'000	2012 RM'000
Profit payable	36,979	42,120
Other accruals and charges	43,668	45,178
Shared services fee payable to holding company (Note 26)	5,409	6,141
	86,056	93,439

16. SHARE CAPITAL

	2013 RM'000	2012 RM'000
Authorised		
Ordinary shares of RM1 each	500,000	500,000
Issued and fully paid		
Ordinary shares of RM1 each		
Balance at 1 January	115,000	85,000
Issued to holding company	10,000	30,000
Balance at 31 December	125,000	115,000

17. RESERVES

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

The statutory reserve is maintained in compliance with Section 12 and 57(2)(f) of the Islamic Financial Services Act, 2013 and BNM Guidelines on Capital Funds for Islamic Banks and is not distributable as cash dividends.

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

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

	2013 RM'000	2012 RM'000
Income derived from investment of:		
(i) General investment deposits	147,324	145,489
(ii) Other deposits	301,744	191,445
	449,068	336,934

(i) Income derived from investment of general investment deposits

Finance income and hibah		
Financing and advances	116,392	105,888
Financing income earned on impaired financing	42	-
Financial investments available-for-sale	22,105	32,669
Deposits and placements with banks and other financial institutions	6,826	6,551
	145,365	145,108
Other operating income		
Net gain from sale of financial investments available-for-sale	1,849	304
Others	110	77
	147,324	145,489

(ii) Income derived from investment of other deposits

Finance income and hibah		
Financing and advances	238,153	140,580
Financing income earned on impaired financing	87	-
Financial investments available-for-sale	45,416	42,943
Deposits and placements with banks and other financial institutions	14,013	7,481
	297,669	191,004
Other operating income		
Net gain from sale of financial investments available-for-sale	3,854	332
Others	221	109
	301,744	191,445

19. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2013 RM'000	2012 RM'000
Finance income and hibah		
Financing and advances	24,045	16,377
Financing income earned on impaired financing	9	-
Financial investments available-for-sale	4,595	5,012
Deposits and placements with banks and other financial institutions	1,404	829
	30,053	22,218
Other operating income		
Net gain from sale of financial investments available-for-sale	397	36
Others	22	12
Other trading income		
Net trading gain/(loss)		
- Foreign exchange currency	567	1,699
- Derivatives	8,890	6,808
- Revaluation of derivatives	(41)	(865)
Fee and commission income		
Commission	18,051	12,969
Service charges and fees	16,571	10,072
	74,510	52,949

20. IMPAIRMENT ALLOWANCE ON FINANCING AND ADVANCES

	2013 RM'000	2012 RM'000
Individual impairment allowance		
- Made during the year	74,672	59,244
- Written back	(28,650)	(20,294)
	46,022	38,950
Collective impairment allowance		
- Made during the year	18,960	9,627
Impaired financing recovered	(8,928)	(8,309)
	56,054	40,268

21. INCOME ATTRIBUTABLE TO DEPOSITORS

	2013 RM'000	2012 RM'000
Deposits from customers		
- Mudharabah Fund	48,785	101,131
- Non-Mudharabah Fund	92,568	32,885
	141,353	134,016
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	12,208	13,917
- Non-Mudharabah Fund	29,183	7,095
	41,391	21,012
Subordinated bond	10,900	10,900
	193,644	165,928

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

	2013 RM'000	2012 RM'000
Finance income		
Financing and advances	378,728	262,845
Financial investments available-for-sale	72,116	80,624
Deposits and placements with banks and other financial institutions	22,243	14,861
	473,087	358,330
Finance expense		
Liabilities at amortised cost	193,644	165,928

23. OPERATING EXPENSES

	2013 RM'000	2012 RM'000
Personnel expenses	30,967	34,842
Establishment expenses	8,579	6,303
Marketing expenses	2,367	3,003
General administrative expenses	95,670	80,578
	137,583	124,726

The above expenditure includes the following statutory disclosures:

	2013 RM'000	2012 RM'000
Directors' remuneration^ (Note 24)	1,297	1,169

^ Excluding benefits-in-kind

	2013 RM'000	2012 RM'000
(i) Personnel expenses		
Wages, salaries and bonus	24,792	27,218
Employees Provident Fund contributions	3,789	4,711
Equity compensation benefits	165	227
Other personnel costs	2,221	2,686
	30,967	34,842
(ii) Establishment expenses		
Rental of premises	2,775	1,776
Depreciation of property, plant and equipment	3,447	2,005
Repair and maintenance	431	390
Information technology costs	9	47
Others	1,917	2,085
	8,579	6,303
(iii) Marketing expenses		
Transport and travelling	679	547
Advertising and business promotion	1,577	2,382
Others	111	74
	2,367	3,003
(iv) General administrative expenses		
Shared service fees to holding company (Note 26)	71,224	59,645
Transaction processing fees* (Note 26)	19,744	16,807
Auditors' remuneration		
- Statutory audit	74	70
- Other services	45	25
Others	4,583	4,031
	95,670	80,578
Total operating expenses	137,583	124,726

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

24. DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

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

	2013 RM'000	2012 RM'000
Shariah Committee	183	182

2013	Salaries & bonuses RM'000	Fees RM'000	Employees Provident Fund RM'000	Other accrued employee benefits RM'000	Benefits-in-kind RM'000	Total RM'000
Executive Director (CEO)						
Syed Abdull Aziz Jailani Bin Syed Kechik	852	-	136	139	5	1,132
Non-Executive Directors						
Tan Sri Dato' Nasruddin bin Bahari	-	42	-	-	-	42
Dato' Ooi Sang Kuang	-	24	-	-	-	24
Tan Siok Choo	-	42	-	-	-	42
Dr. Raja Lope Bin Raja Shahrome	-	20	-	-	-	20
Lai Teck Poh	-	42	-	-	-	42
	852	170	136	139	5	1,302

2012	Salaries & bonuses RM'000	Fees RM'000	Employees Provident Fund RM'000	Other accrued employee benefits RM'000	Benefits-in-kind RM'000	Total RM'000
Executive Director (CEO)						
Syed Abdull Aziz Jailani Bin Syed Kechik	768	-	123	118	5	1,014
Non-Executive Directors						
Tan Sri Dato' Nasruddin bin Bahari	-	40	-	-	-	40
Dato' Ooi Sang Kuang	-	16	-	-	-	16
Tan Siok Choo	-	40	-	-	-	40
Dr. Raja Lope Bin Raja Shahrome	-	24	-	-	-	24
Lai Teck Poh	-	40	-	-	-	40
	768	160	123	118	5	1,174

25. ZAKAT

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

26. 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, Oversea-Chinese Banking Corporation Limited;
(b) Holding company, 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 transactions and outstanding balances of the Bank with related parties are as follows:

2013	**Ultimate Holding Company RM'000**	**Holding Company RM'000**	**Other Related Companies RM'000**	**Key Management RM'000**
Income				
Profit income on financing and advances	-	-	-	39
Shared service fees	-	2,344	-	-
Other fee and commission	-	-	2,003	-
	-	2,344	2,003	39
Expenditure				
Profit expense on general investment deposits	-	-	8	176
Profit expense on other deposits	-	-	3,157	-
Profit expense on negotiable instruments of deposit	-	2,955	-	-
Profit expense on deposits and placements	779	38,413	-	-
Profit expense on subordinated bond	-	10,900	-	-
Shared service fees (Note 23)	-	71,224	-	-
Transaction processing fees (Note 23)	-	-	19,744	-
Rental expenses	-	43	-	-
Personnel and other expenses	-	-	185	-
	779	123,535	23,094	176

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

26. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(i) The significant transactions and outstanding balances of the Bank with related parties are as follows: (continued)

2012	Ultimate Holding Company RM'000	Holding Company RM'000	Other Related Companies RM'000	Key Management RM'000
Income				
Profit income on financing and advances	-	-	-	44
Shared service fees	-	1,487	-	-
Other fee and commission	-	-	1,008	-
	-	1,487	1,008	44
Expenditure				
Profit expense on general investment deposits	-	-	10	173
Profit expense on other deposits	-	-	3,541	-
Profit expense on negotiable instruments of deposit	-	2,421	-	-
Profit expense on deposits and placements	175	15,690	-	-
Profit expense on subordinated bond	-	10,900	-	-
Shared service fees (Note 23)	-	59,645	-	-
Transaction processing fees (Note 23)	-	-	16,807	-
Rental expenses	-	45	-	-
Personnel and other expenses	-	-	225	-
	175	88,701	20,583	173

2013	Ultimate Holding Company RM'000	Holding Company RM'000	Other Related Companies RM'000	Key Management RM'000
Amount due from				
Deposits and placements with banks and other financial institutions	5,509	-	184	-
Shared service fees receivable (Note 8)	-	372	-	-
Financing and advances	-	-	-	887
Other assets (Note 8)	-	34,767	-	-
	5,509	35,139	184	887
Amount due to				
Demand deposits and general investment deposits	-	-	7,901	5,448
Other deposits	-	-	127,208	68
Negotiable instruments of deposit	-	71,375	-	-
Deposits and placements of banks and other financial institutions	473,495	2,015,160	-	-
Subordinated bond (Note 14)	-	200,000	-	-
Profit payable	76	10,899	54	89
Shared service fees payable (Note 15)	-	5,409	-	-
Other liabilities	73	-	-	-
	473,644	2,302,843	135,163	5,605
Commitments				
Foreign exchange derivatives	-	5,090	2,000	-

26. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(i) The significant transactions and outstanding balances of the Bank with related parties are as follows: (continued)

	Ultimate Holding Company RM'000	Holding Company RM'000	Other Related Companies RM'000	Key Management RM'000
2012				
Amount due from				
Deposits and placements with banks and other financial institutions	1,378	-	21	-
Shared service fees receivable (Note 8)	-	139	-	-
Financing and advances	-	-	-	715
Other assets (Note 8)	-	72,433	-	-
	1,378	72,572	21	715
Amount due to				
Demand deposits and general investment deposits	-	-	5,004	5,516
Other deposits	-	-	62,394	67
Negotiable instruments of deposit	-	57,374	-	-
Deposits and placements of banks and other financial institutions	58,590	1,292,561	-	-
Subordinated bond (Note 14)	-	200,000	-	-
Profit payable	27	3,420	45	86
Shared service fees payable (Note 15)	-	6,141	-	-
Other liabilities	25	-	-	-
	58,642	1,559,496	67,443	5,669
Commitments				
Foreign exchange derivatives	-	980,840	422	-

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

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

	2013 RM'000	2012 RM'000
Aggregate value of outstanding credit exposures with connected parties		
Credit facility and leasing (except guarantee)	4,439	2,188
Commitments and contingencies	4,074	2,504
	8,513	4,692
Percentage of outstanding credit exposures to connected parties		
- As a proportion of total credit exposures	0.11%	0.09%
- As a proportion of impaired or in default	-	-

26. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(iii) Key management personnel compensation

	2013 RM'000	2012 RM'000
Short-term employee benefits	4,143	3,332
Fees and meeting allowances	170	160
Share-based benefits	181	192
	4,494	3,684

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.

27. INCOME TAX EXPENSE

	2013 RM'000	2012 RM'000
Malaysian income tax		
- Current year	28,504	15,369
- Over provision in prior years	(3,411)	(1,472)
	25,093	13,897
Deferred tax (Note 11)		
- Origination and reversal of temporary differences	1,177	(2,745)
- Under provision in prior years	2,504	1,690
	3,681	(1,055)
	28,774	12,842

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

	2013 %	2012 %
Malaysian tax rate at 25%	25.0	25.0
Tax effects of:		
Expenses not deductible for tax purposes	0.2	0.3
Income not subject to tax	(3.4)	(3.9)
Under/(Over) provision in prior years		
- Income tax	(2.5)	(4.0)
- Deferred tax	1.8	4.4
Average effective tax rate	21.1	21.8

28. BASIC EARNINGS PER ORDINARY SHARE

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

	2013	2012
Net profit for the year (RM'000)	107,493	46,094
Weighted average number of ordinary shares in issue ('000)	119,247	98,279
Basic earnings per share (sen)	90.14	46.90

There were no dilutive potential ordinary shares during the financial year.

29. COMMITMENTS AND CONTINGENCIES

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

The credit equivalent and risk weighted amounts were computed using the credit conversion factors and risk weights as defined in Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB Basel II) - Disclosure Requirements (Pillar 3).

2013	**Principal Amount RM'000**	**Positive Fair Value of Derivative Contracts RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Amount RM'000**
Direct credit substitutes	44,485		44,485	47,783
Transaction-related contingent items	190,666		95,333	76,996
Short-term self-liquidating trade-related contingencies	59,166		11,833	6,214
Foreign exchange related contracts				
- Less than one year	11,160	44	74	11
Formal standby facilities and credit lines				
- Maturity not exceeding one year	1,920		1,920	1,036
- Maturity exceeding one year	383,432		326,611	88,239
Other unconditionally cancellable commitments	858,806		2,908	1,523
	1,549,635	44	483,164	221,802
2012				
Direct credit substitutes	12,424		12,424	22,502
Transaction-related contingent items	77,841		38,921	39,932
Short-term self-liquidating trade-related contingencies	43,590		8,718	5,957
Foreign exchange related contracts				
- Less than one year	1,966,377	5,515	13,998	3,239
Formal standby facilities and credit lines				
- Maturity not exceeding one year	3,550		3,292	1,600
- Maturity exceeding one year	155,688		120,684	37,355
Other unconditionally cancellable commitments	711,651		3,732	1,713
	2,971,121	5,515	201,769	112,298

30. 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:

	2013 RM'000	**2012 RM'000**
Within one year	1,683	2,013
One to five years	879	1,613
	2,562	3,626

31. CAPITAL COMMITMENTS

	2013 RM'000	2012 RM'000
Capital expenditure in respect of property, plant and equipment		
- Authorised and contracted for	708	2,875
- Authorised but not contracted for	8,990	10,834
	9,698	13,709

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The risk management framework and policies adopted to manage the risks that arise are as follows:

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 ("OCBC Malaysia"), the Bank shares the services of OCBC Malaysia's Credit Risk Management function to monitor credit risk and this includes credit approval, credit reviews, impaired asset management, portfolio reviews and credit policy development.

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

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

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

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 ("ALCO") is the senior management committee that supports the Risk Management Committee and the CEO in market risk oversight. ALCO establishes market risk management objectives, framework, and policies governing prudent market risk taking, which are backed by risk methodologies, measurement systems, and internal controls. ALCO is supported at the working level by Market Risk Management (“MRM”) Department. Business units are responsible for undertaking proactive risk management along with their pursued trading strategies, while MRM acts as the independent monitoring unit that ensures sound governance practices.

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

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. ALCO is the senior management committee that oversees the Bank's liquidity and balance sheet risks. The ALCO is chaired by OCBC Malaysia's CEO and includes senior management from the business, risk and support units. The ALCO is supported by the Market Risk Management Department within Group Risk Management Division.

Structural Profit Rate Risk

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

Liquidity Risk

The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory financial obligations as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

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, reputation risk and Shariah compliance risk.

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

Operational Risk Management Oversight and Organisation

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

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Operational Risk Management Approach

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

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

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

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

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

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

Reputation Risk Management

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fiduciary Risk Management

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

Regulatory and Legal Risks

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

Shariah Governance

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

(i) Defines Shariah governance structures, policies and processes to ensure that all its operations and business activities are in accordance with Shariah principles;

(ii) Provides comprehensive guidance to the Board, management and the Shariah Committee of the Bank in discharging their respective duties in matters relating to Shariah; and

(iii) Outlines the functions relating to Shariah Review, Shariah Audit, Shariah Research and Secretariat and Shariah Risk Management.

The SGF stipulates that all new products, services and collateral are to be endorsed by the Shariah Committee ("SC"). All product approvals must be backed by adequate research to ensure that the appropriate Shariah concepts are applied in the product structuring and design. In order to ensure a robust and comprehensive Shariah governance process throughout the Bank, at the post product launch, Shariah Review assesses the level of compliance of the activities and operations to Shariah requirements. Any non-Shariah compliant findings resulting from the review will be rectified, monitored and tracked until closure. Audit Division 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 SC and Bank Negara Malaysia's Shariah Advisory Council. The SGF provides the necessary structure and process to mitigate any Shariah risk arising from its activities and operations.

During the financial year ended 31 December 2013, the Bank had received Shariah non-compliant income. The Shariah non-compliant income will be channelled to charitable organisations as determined by the Bank's SC. Details of the income is as follows:

Sources and uses of charity funds	**2013 RM'000**	**2012 RM'000**
Balance as at 1 January	15	-
Sources of charity funds		
Shariah non-compliant income	122	15
Uses of charity funds		
Contribution to non-profit organisations	(15)	-
Undistributed charity funds as at 31 December	122	15

33. PROFIT RATE RISK

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

	<------------------------------------ Non Trading Book ------------------------------------>								
2013	**Up to 3 months RM'000**	**>3-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**	**Average profit rate %**
Assets									
Cash and cash equivalents	907,650	-	-	-	-	55,580	-	963,230	-
Financial investments available-for-sale	238,990	487,126	612,230	593,014	130,403	-	-	2,061,763	3.34
Financing and advances									-
- Unimpaired	4,111,015	119,201	764,714	1,447,447	318,215	(59,600)	-	6,700,992	6.84
- Impaired	-	-	-	-	-	61,962	-	61,962	-
Derivative financial assets	-	-	-	-	-	-	44	44	-
Other assets	-	-	-	-	-	54,716	-	54,716	-
Current tax assets	-	-	-	-	-	1,682	-	1,682	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	270,800	-	270,800	-
Property, plant & equipment	-	-	-	-	-	8,049	-	8,049	-
Deferred tax assets	-	-	-	-	-	2,446	-	2,446	-
Total assets	5,257,655	606,327	1,376,944	2,040,461	448,618	395,635	44	10,125,684	

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

33. PROFIT RATE RISK (continued)

2013	**<------ Non Trading Book**					**------>**			
	Up to 3 months RM'000	**>3-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**	**Average profit rate %**
Liabilities									
Deposits from customers	5,404,559	1,004,078	1,547	-	59,895	205,509	-	6,675,588	2.50
Deposits and placements of banks and other financial institutions	2,230,355	250,018	144	-	-	74,611	-	2,555,128	1.87
Bills and acceptances payable	-	-	-	-	-	13,679	-	13,679	-
Subordinated bond	-	-	200,000	-	-	-	-	200,000	5.45
Derivative financial liabilities	-	-	-	-	-	-	36	36	-
Other liabilities	-	-	-	-	-	86,056	-	86,056	-
Zakat	-	-	-	-	-	30	-	30	-
Total liabilities	7,634,914	1,254,096	201,691	-	59,895	379,885	36	9,530,517	
On-statement of financial position profit sensitivity gap	(2,377,259)	(647,769)	1,175,253	2,040,461	388,723	15,750	8	595,167	
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(2,377,259)	(647,769)	1,175,253	2,040,461	388,723	15,750	8	595,167	

33. PROFIT RATE RISK (continued)

2012	**<------------------------------------ Non Trading Book**					**------------------------------------>**			
	Up to 3 months RM'000	**>3-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**	**Average profit rate %**
Assets									
Cash and cash equivalents	-	-	-	-	-	23,687	-	23,687	-
Financial investments available-for-sale	223,720	210,344	730,403	852,393	298,417	-	-	2,315,277	3.33
Financing and advances									-
- Unimpaired	2,397,702	117,181	513,365	753,804	532,256	(40,976)	-	4,273,332	6.91
- Impaired	-	-	-	-	-	22,390	-	22,390	-
Derivative financial assets	-	-	-	-	-	-	5,592	5,592	-
Other assets	-	-	-	-	-	94,596	-	94,596	-
Current tax assets	-	-	-	-	-	443	-	443	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	214,500	-	214,500	-
Property, plant & equipment	-	-	-	-	-	8,025	-	8,025	-
Deferred tax assets	-	-	-	-	-	1,435	-	1,435	-
Total assets	2,621,422	327,525	1,243,768	1,606,197	830,673	324,100	5,592	6,959,277	

33. PROFIT RATE RISK (continued)

2012	**<---- Non Trading Book ----**					**---->**			
	Up to 3 months RM'000	**>3-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**	**Average profit rate %**
Liabilities									
Deposits from customers	3,639,490	14,362	41,126	-	57,374	727,490	-	4,479,842	2.48
Deposits and placements of banks and other financial institutions	1,527,354	85,906	456	-	-	80,166	-	1,693,882	2.11
Bills and acceptances payable	-	-	-	-	-	14,795	-	14,795	-
Subordinated bond	-	-	-	200,000	-	-	-	200,000	5.45
Derivative financial liabilities	-	-	-	-	-	-	5,543	5,543	-
Other liabilities	-	-	-	-	-	93,439	-	93,439	-
Zakat	-	-	-	-	-	25	-	25	-
Total liabilities	5,166,844	100,268	41,582	200,000	57,374	915,915	5,543	6,487,526	
On-statement of financial position profit sensitivity gap	(2,545,422)	227,257	1,202,186	1,406,197	773,299	(591,815)	49	471,751	
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(2,545,422)	227,257	1,202,186	1,406,197	773,299	(591,815)	49	471,751	

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

	2013 RM'000	**2012 RM'000**
+ 50bps	321,749	220,375
- 50bps	316,666	224,848

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

34. LIQUIDITY RISK

The tables below show the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities. Information on cash outflow of gross financing commitments is set in Note 29. The expected cash flows of these liabilities could vary significantly from what is shown in the table.

2013	**Carrying Value RM'000**	**Up to 3 months RM'000**	**> 3-6 months RM'000**	**>6-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Non-derivative financial liabilities								
Deposits from customers	6,675,588	5,438,867	350,921	824,026	1,876	4	59,894	6,675,588
Deposits and placements of banks and other financial institutions	2,555,128	2,304,966	200,006	50,012	144	-	-	2,555,128
Bills and acceptances payable	13,679	13,679	-	-	-	-	-	13,679
Subordinated bond	200,000	-	-	-	200,000	-	-	200,000
Other liabilities	86,056	55,229	21,938	38,938	44,357	1	20,106	180,569
Zakat	30	-	-	30	-	-	-	30
Derivative financial liabilities								
Gross settled derivatives								
Trading:								
Foreign exchange derivatives								
- Forward and swap	36							
- Outflow		5,254	-	-	-	-	-	5,254
- Inflow		(5,222)	-	-	-	-	-	(5,222)
	9,530,517	7,812,773	572,865	913,006	246,377	5	80,000	9,625,026

34. LIQUIDITY RISK (continued)

2012	Carrying Value RM'000	Up to 3 months RM'000	> 3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative financial liabilities								
Deposits from customers	4,479,842	3,729,820	238,857	411,246	42,469	76	57,374	4,479,842
Deposits and placements of banks and other financial institutions	1,693,882	1,607,520	13	55,315	31,034	-	-	1,693,882
Bills and acceptances payable	14,795	14,795	-	-	-	-	-	14,795
Subordinated bond	200,000	-	-	-	-	200,000	-	200,000
Other liabilities	93,439	70,454	13,819	24,479	44,365	10,908	22,626	186,651
Zakat	25	-	-	25	-	-	-	25
Derivative financial liabilities								
Gross settled derivatives								
Trading:								
Foreign exchange derivatives								
- Forward and swap	5,543							
- Outflow		980,376	4,606	-	-	-	-	984,982
- Inflow		(974,908)	(4,531)	-	-	-	-	(979,439)
	6,487,526	5,428,057	252,764	491,065	117,868	210,984	80,000	6,580,738

35. CURRENCY RISK

2013	MYR RM'000	GBP RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and cash equivalents	780,722	-	176,459	4,738	1,311	963,230
Financial investments available-for-sale	1,765,392	-	208,112	88,259	-	2,061,763
Financing and advances	5,653,485	816,786	285,175	7,508	-	6,762,954
Derivative financial assets	44	-	-	-	-	44
Other assets	50,463	-	3,288	852	113	54,716
Current tax assets	1,682	-	-	-	-	1,682
Statutory deposits with Bank Negara Malaysia	270,800	-	-	-	-	270,800
	8,522,588	816,786	673,034	101,357	1,424	10,115,189
Financial liabilities						
Deposits from customers	6,630,765	-	42,064	2,759	-	6,675,588
Deposits and placements of banks and other financial institutions	1,014,149	812,514	631,258	97,207	-	2,555,128
Bills and acceptances payable	13,679	-	-	-	-	13,679
Subordinated bond	200,000	-	-	-	-	200,000
Derivative financial liabilities	36	-	-	-	-	36
Other liabilities	83,096	2,351	430	179	-	86,056
Zakat	30	-	-	-	-	30
	7,941,755	814,865	673,752	100,145	-	9,530,517
Net financial assets exposure	580,833	1,921	(718)	1,212	1,424	584,672

2012	MYR RM'000	GBP RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and cash equivalents	19,667	-	1,734	1,106	1,180	23,687
Financial investments available-for-sale	2,069,564	-	187,371	58,342	-	2,315,277
Financing and advances	3,741,283	374,168	180,271	-	-	4,295,722
Derivative assets	5,592	-	-	-	-	5,592
Other assets	90,201	-	2,465	1,359	571	94,596
Current tax assets	443	-	-	-	-	443
Statutory deposits with Bank Negara Malaysia	214,500	-	-	-	-	214,500
	6,141,250	374,168	371,841	60,807	1,751	6,949,817
Financial liabilities						
Deposits from customers	4,467,656	-	11,456	730	-	4,479,842
Deposits and placements of banks and other financial institutions	910,736	371,694	351,976	58,590	886	1,693,882
Bills and acceptances payable	14,795	-	-	-	-	14,795
Subordinated bond	200,000	-	-	-	-	200,000
Derivative liabilities	5,543	-	-	-	-	5,543
Other liabilities	91,981	1,323	83	52	-	93,439
Zakat	25	-	-	-	-	25
	5,690,736	373,017	363,515	59,372	886	6,487,526
Net financial assets exposure	450,514	1,151	8,326	1,435	865	462,291

36. CREDIT RISK

The credit risk management policy is disclosed in Note 32. 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.

	2013 RM'000	2012 RM'000
Cash and cash equivalents	963,230	23,687
Financial investments available-for-sale	2,061,763	2,315,277
Financing and advances	6,867,951	4,369,246
Derivative financial assets	44	5,592
Other assets	54,716	94,596
Contingent liabilities and credit commitments	679,669	293,093
	10,627,373	7,101,491

Collateral

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

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

As at 31 December 2013, 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.

	2013 RM'000	2012 RM'000
Fair value of collateral held against the covered portion of financing and advances	29,705	23,690
Covered portion of financing and advances	23,617	18,915
Uncovered portion of financing and advances	83,742	36,023
	107,359	54,938

Credit quality

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

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

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

36. CREDIT RISK (continued)

Credit quality (continued)

(a) Credit quality of financing and advances

	2013 RM'000	2012 RM'000
Neither past due nor impaired	6,704,436	4,282,756
Past due financing	106,870	77,756
- Unimpaired	56,156	31,552
- Impaired	50,714	46,204
Impaired but not past due	56,645	8,734
Gross financing and advances	6,867,951	4,369,246

Neither past due nor impaired

By the Bank's internal grading system

	2013 RM'000	2012 RM'000
Passed	6,466,112	4,221,538
Special mention	238,324	61,218
	6,704,436	4,282,756

Past due but not impaired

(i) By period overdue

	2013 RM'000	2012 RM'000
1 day to less than 1 month	44,547	25,199
1 month to less than 2 months	11,609	6,353
	56,156	31,552

(ii) By sector

	2013 RM'000	2012 RM'000
Mining and quarrying	-	710
Manufacturing	14,734	5,120
Construction	508	59
Wholesale & retail trade and restaurants & hotels	9,086	1,487
Transport, storage and communication	2,482	2,425
Finance, insurance and business services	1,901	1,613
Household		
- Purchase of residential properties	3,936	1,649
- Others	21,871	17,731
Others	1,638	758
	56,156	31,552

(iii) By geographical distribution

	2013 RM'000	2012 RM'000
Malaysia	56,156	31,552

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

36. CREDIT RISK (continued)

Credit quality (continued)

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

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

	2013 RM'000	2012 RM'000
(i) By issuer		
Government and Central Bank	1,366,057	1,721,433
Foreign government	49,638	49,643
Banks	173,985	178,905
Corporates	472,083	365,296
	2,061,763	2,315,277
(ii) By geographical distribution		
Malaysia	2,012,125	2,265,634
Other ASEAN countries	49,638	49,643
	2,061,763	2,315,277
(iii) By credit rating		
Government and Central Bank securities	1,366,057	1,721,433
Foreign government securities	49,638	49,643
Investment grade (AAA to BBB)	303,643	241,417
Unrated	342,425	302,784
	2,061,763	2,315,277
(iv) By industry		
Agriculture	19,122	-
Manufacturing	70,172	70,491
Construction	-	30,385
Transport, storage and communication	10,009	10,058
Finance, insurance and business services companies	298,765	227,010
Others	1,663,695	1,977,333
	2,061,763	2,315,277
(v) By residual contractual maturity		
Within one year	726,116	434,064
One year to five years	1,205,244	1,582,796
More than five years	130,403	298,417
	2,061,763	2,315,277

36. CREDIT RISK (continued)

Credit quality (continued)

(c) Credit quality of derivative assets

(i) By counterparty	2013 RM'000	2012 RM'000
Banks	28	5,465
Other financial institutions	-	1
Corporates	16	126
	44	5,592

(ii) By geographical distribution	2013 RM'000	2012 RM'000
Malaysia	44	822
Singapore	-	1
Other ASEAN countries	-	4,769
	44	5,592

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

(iii) By industry	2013 RM'000	2012 RM'000
Manufacturing	12	116
Wholesale & retail trade and restaurants & hotels	4	10
Finance, insurance and business services	28	5,466
	44	5,592

(iv) By residual contractual maturity	2013 RM'000	2012 RM'000
Within one year	44	5,592

(d) Credit quality of contingent liabilities and credit commitments

(i) By counterparty	2013 RM'000	2012 RM'000
Banks	12,139	-
Other financial institutions	235	3,398
Corporates	438,483	247,526
Individuals	228,812	42,169
	679,669	293,093

(ii) By geographical distribution	2013 RM'000	2012 RM'000
Malaysia	679,669	293,093

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

36. CREDIT RISK (continued)

Credit quality (continued)

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

(iii) By industry	2013 RM'000	2012 RM'000
Agriculture	4,389	1,077
Mining and quarrying	397	-
Manufacturing	114,121	63,648
Construction	149,865	86,824
Real estate	11,885	14,720
Wholesale & retail trade and restaurants & hotels	83,864	27,726
Transport, storage and communication	8,375	1,791
Finance, insurance and business services	9,780	10,604
Community, social and personal services	3,672	2,380
Household		
- Purchase of residential properties	217,149	33,413
- Others	11,662	8,756
Others	64,510	42,154
	679,669	293,093

(iv) By residual contractual maturity	2013 RM'000	2012 RM'000
Within one year	165,979	71,076
One year to five years	169,943	134,362
Over five years	343,747	87,655
	679,669	293,093

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

A) Fair value measurement

(i) Financial assets and financial liabilities

(a) Short term financial instruments

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

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

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

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

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

(d) Financing and advances

Financing and advances are carried at amortised cost on the statement of financial position, net of individual and collective impairment allowances. The fair values of financing and advances with maturity of less than one year are estimated to approximate their carrying amounts. For financing and advances with maturity of one year or more, the fair values are estimated based on discounted cash flows using market rates of financing and advances of similar credit risks and maturity.

(e) Deposits from customers

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

(f) Bills and acceptances payable

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

(g) Subordinated bond

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

(ii) Off-statement of financial position financial instruments

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

B) Fair value hierarchy

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

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

2013	**Level 1**	**Level 2**	**Total**
	RM'000	**RM'000**	**RM'000**
Financial assets			
Available-for-sale	1,546,610	515,153	2,061,763
Derivative financial assets	4	40	44
	1,546,614	515,193	2,061,807
Financial liabilities			
Derivative financial liabilities	6	30	36
2012			
Financial assets			
Available-for-sale	1,721,252	594,025	2,315,277
Derivative financial assets	10	5,582	5,592
	1,721,262	599,607	2,320,869
Financial liabilities			
Derivative financial liabilities	12	5,531	5,543

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

C) Fair values of financial instruments not carried at fair value

The table below is a comparison of the carrying amounts and fair values of the financial assets and liabilities of the Bank which are not measured at fair value in the financial statements. The table does not include those short term/on demand financial assets and financial liabilities where the carrying amounts reasonably approximate their fair values. It also does not include non-financial assets and liabilities.

	2013		**2012**	
	Carrying Amount RM'000	**Fair Value (Level 3) RM'000**	**Carrying Amount RM'000**	**Fair Value (Level 3) RM'000**
Financial assets				
Financing and advances	6,762,954	6,847,201	4,295,722	4,342,286

The following is the method and assumption used to estimate the fair value of the above category of financial instruments:

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

38. FINANCIAL ASSETS AND LIABILITIES

The table below provides an analysis of financial instruments categorized as follows:
(a) Available-for-Sale financial assets ("AFS")
(b) Fair Value Through Profit or Loss - Held For Trading ("FVTPL-HFT")
(c) Financing and receivables ("F&R")
(d) Financial Liabilities measured at amortised cost ("FL")

2013	**AFS RM'000**	**FVTPL-HFT RM'000**	**F&R / FL RM'000**	**Carrying amount RM'000**
Financial assets				
Cash and cash equivalents	-	-	963,230	963,230
Financial investments available-for-sale	2,061,763	-	-	2,061,763
Financing and advances	-	-	6,762,954	6,762,954
Derivative financial assets	-	44	-	44
Other assets	-	-	54,716	54,716
Current tax assets	-	-	1,682	1,682
Statutory deposits with Bank Negara Malaysia	-	-	270,800	270,800
	2,061,763	44	8,053,382	10,115,189
Financial liabilities				
Deposits from customers	-	-	6,675,588	6,675,588
Deposits and placements of banks and other financial institutions	-	-	2,555,128	2,555,128
Bills and acceptances payable	-	-	13,679	13,679
Subordinated bond	-	-	200,000	200,000
Derivative financial liabilities	-	36	-	36
Other liabilities	-	-	86,056	86,056
Zakat	-	-	30	30
	-	36	9,530,481	9,530,517
2012				
Financial assets				
Cash and cash equivalents	-	-	23,687	23,687
Financial investments available-for-sale	2,315,277	-	-	2,315,277
Financing and advances	-	-	4,295,722	4,295,722
Derivative financial assets	-	5,592	-	5,592
Other assets	-	-	94,596	94,596
Current tax assets	-	-	443	443
Statutory deposits with Bank Negara Malaysia	-	-	214,500	214,500
	2,315,277	5,592	4,628,948	6,949,817
Financial liabilities				
Deposits from customers	-	-	4,479,842	4,479,842
Deposits and placements of banks and other financial institutions	-	-	1,693,882	1,693,882
Bills and acceptances payable	-	-	14,795	14,795
Subordinated bond	-	-	200,000	200,000
Derivative financial liabilities	-	5,543	-	5,543
Other liabilities	-	-	93,439	93,439
Zakat	-	-	25	25
	-	5,543	6,481,983	6,487,526

39. CAPITAL ADEQUACY

Capital Management

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

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

Capital Initiatives

Tier 1 Capital
The Bank issued 10 million ordinary shares on 30 July 2013, representing RM30 million in ordinary share capital which was fully subscribed by its immediate holding company, OCBC Bank (Malaysia) Berhad.

Tier 2 Capital
The entire Subordinated Bond qualifies as Tier 2 capital subject to a gradual phase-out treatment as required by Bank Negara Malaysia's Adequacy Framework for Islamic Banks (Capital Components).

Capital Adequacy Ratios

The Bank is required to comply with Common Equity Tier 1 capital ratio of 3.5%, Tier 1 capital ratio of 4.5% and risk-weighted capital ratio of 8% prescribed by Bank Negara Malaysia. The Bank was in compliance with all prescribed capital ratio requirements throughout the financial year.

39. CAPITAL ADEQUACY (continued)

With effect from 1 January 2013, the capital ratios are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). Comparative figures are computed in accordance with BNM's Guidelines on Capital Adequacy Framework for Islamic Bank (CAFIB-Basel II) and have not been restated.

	Basel III 2013 RM'000
Common Equity Tier 1 (CET1) capital	
Paid-up share capital	125,000
Share premium	250,000
Retained earnings	118,188
Other reserves	107,389
Unrealised loss on financial investments available-for-sale	(5,410)
CET1 capital	595,167
Regulatory adjustments for CET1	(38,768)
Eligible CET1 / Tier 1 capital	556,399
Tier 2 capital	
Collective impairment allowance under Standardised Approach *	8,556
Subordinated bond	180,000
Eligible Tier 2 capital	188,556
Capital base	744,955

* Excluding collective impairment allowance on impaired financing and advances

Before the effects of PSIA	
CET1 / Tier 1 capital ratio	9.977%
Risk-weighted capital ratio	13.358%
After the effects of PSIA	
CET1 / Tier 1 capital ratio	10.549%
Risk-weighted capital ratio	14.125%

In accordance with BNM Guidelines on the Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent, the credit and market risks of the assets funded by the Restricted Profit Sharing Investment Accounts (RPSIA) which qualify as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 December 2013, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM302 million (2012 : RM171 million).

The Bank has adopted the Internal Ratings Based Approach for Credit Risk for the major credit portfolios whilst the other credit portfolios are on Standardised Approach. For market and operational risks, the Bank has adopted the Standardised Approach and the Basic Indicator Approach, respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

39. CAPITAL ADEQUACY (continued)

	Basel II 2012 RM'000
Tier 1 capital	
Paid-up share capital	115,000
Share premium	230,000
Retained earnings	64,441
Other reserves	53,643
	463,084
Deferred tax adjustment	(4,324)
Eligible Tier 1 capital	458,760
Tier 2 capital	
Collective impairment allowance under Standardised Approach *	7,302
Subordinated bond	200,000
Excess of Expected Loss over Eligible Provisions under the Internal Ratings Based approach	(14,884)
Eligible Tier 2 capital	192,418
Capital base	651,178

* Excluding collective impairment allowance on impaired financing and advances

	Basel II 2012
Before the effects of PSIA	
Tier 1 capital ratio	10.324%
Risk-weighted capital ratio	14.654%
After the effects of PSIA	
Tier 1 capital ratio	10.736%
Risk-weighted capital ratio	15.240%

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

	Basel III 2013 RM'000	Basel II 2012 RM'000
Credit risk	4,826,824	3,946,171
Market risk	4,175	8,764
Operational risk	443,178	318,011
	5,274,177	4,272,946

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved for issue by the Board of Directors on 20 March 2014.