Company No. 818444-T

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

Company No. 818444-T

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OCBC AL-AMIN BANK BERHAD
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The Directors hereby submit their report and the audited financial statements of the Bank for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

IMMEDIATE AND ULTIMATE HOLDING COMPANY

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

FINANCIAL RESULTS	2016 RM'000
Profit for the year	150,992

SHARE CAPITAL AND DEBENTURES

There were no 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.

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 2016.

FINANCIAL PERFORMANCE

The Bank increased its net profit after tax by 10% to RM151.0 million for the financial year ended 31 December 2016. The increase was mainly due to lower impairment allowances by 49% or RM62.3 million partially offset by higher income attributable to depositors by RM31.0 million and lower non finance income by RM10.4 million.

The Bank registered a decrease in impairment allowances largely due to lower collective impairment allowance by RM40.2 million arising from lower financing growth and lower individual impairment allowances by RM17.2 million on a maturing unsecured financing portfolio.

The decrease in gross financing and advances by RM0.3 billion or 3% against 31 December 2015 was mainly attributable to lower small and medium enterprise financing, in particular to manufacturing sector (-RM0.3 billion), wholesale & retail trade (-RM0.3 billion) and unsecured household (-RM0.2 billion), partially offset by higher financing to agriculture (+RM0.4 billion) and residential properties (+RM0.1 billion) sectors.

Customer deposits grew by RM1.1 billion or 11% against previous year to RM11.3 billion, garnered mainly from individuals (+RM0.7 billion) and business enterprises (+RM0.4 billion), and largely in the form of savings and demand deposits which grew by RM0.7 billion.

Shareholders' funds strengthened by RM144.9 million to RM1.1 billion. The Bank is well capitalised after taking into account the effects of Profit Sharing Investment Account ("PSIA"), with Common Equity Tier 1 and Tier 1 ratios of 15.342% and Total Capital Ratio of 18.425%.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)

ACTIVITIES AND ACHIEVEMENTS

During the year, we continued to enhance the distribution of our wealth advisory solutions to better serve our customers. New Shariah funds were added to our unit trust offerings for retail customers. At the same time, we boosted our reach to affluent customers through the new Premier Banking centres in Kota Kemuning and Sibu.

We continue to improve customer experience in our branches; this year we implemented a capability that simplifies deposit account opening in branches. The end to end experience enables our customers to choose and apply the type of deposit account that suits them seamlessly. We have also progressively simplified product documents with clearer layout so that customers spend less time in form filling. Through process improvements, we also reduced customer wait time in branch banking hall and Premier Banking centres especially during peak hours.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2017

In the retail banking sphere, the Bank will continue to build deposits and will introduce more wealth advisory services and investment solutions to cater to both the premier and affluent segments that will be expanded through the upgraded branches and new Premier Banking centres.

For corporate and commercial banking, we plan to deepen our penetration of government (which includes state agencies, federal and local councils as well as statutory bodies) and listed companies on Bursa Malaysia's Syariah Index by focusing on capital market and syndicated financing, and mid to small size deposits through our expanded branch network. OCBC Al-Amin Bank Berhad will continue to leverage on our collaboration with Credit Guarantee Corporation Malaysia Berhad ("CGC") to make available our unsecured business financing facility through the country's first small medium enterprises ("SME") wholesale guarantee scheme, *Wholesale Guarantee-i*. We will also introduce new Shariah-compliant products for our treasury business and develop Islamic banking solutions especially for large corporate entities listed on Bursa Malaysia's Shariah index. On the international front, we will continue to collaborate with other overseas OCBC entities, especially in Indonesia, to tap latent business opportunities.

We will continue to invest in expanding and re-positioning our branches to better serve our customers and increase revenue contribution from our relocated and upgraded branches. The exercise to relocate the Bank's Xpres branches to fully-fledged branches has begun with three of the relocation exercises, to be completed by end of 2017 to growth markets in the Klang Valley.

RATINGS BY EXTERNAL AGENCIES

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

DIRECTORS OF THE BANK

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

Dato' Ooi Sang Kuang, *Independent Non-executive Chairman*
Samuel N. Tsien, *Non-independent Executive Director*
Lai Teck Poh, *Independent Non-executive Director*
Ng Hon Soon, *Independent Non-executive Director*
Tong Hon Keong, *Independent Non-executive Director*
Tan Ngiap Joo, *Independent Non-executive Director*
Datuk Azizan Bin Haji Abd Rahman (Appointed on 3 June 2016), *Independent Non-executive Director*

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

In accordance with Article 110 of the Bank's Constitution (Articles of Association), Datuk Azizan Bin Haji Abd Rahman shall retire at the forthcoming Annual General Meeting and being eligible, offer himself for re-election.

Profile of the Board of Directors

Dato’ Ooi Sang Kuang, Chairman
Dato’ Ooi Sang Kuang was appointed to the Board on 6 April 2012, and later as Chairman of the Board on 30 March 2014. He was a 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 Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), OCBC Bank (Malaysia) Berhad ("OCBC Malaysia"), Cagamas Berhad (the national mortgage corporation in Malaysia) and its subsidiaries, Xeraya Capital Sdn Bhd and Xeraya Capital Labuan Ltd as well as a director of OCBC Wing Hang Bank Limited and OCBC Management Services Pte Ltd. Dato’ Ooi holds a Bachelor of Economics with Honours from the University of Malaya and a Master of Arts (Development Finance) from Boston University, USA. He is a Fellow Member of the Asian Institute of Chartered Bankers and a Council Member of the Financial Services Talent Council.

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

Mr Lai Teck Poh
Mr Lai Teck Poh was appointed to the Board on 7 January 2011. He joined OCBC Bank as an Executive Vice President and Head of Corporate Banking in January 1988. During his tenure with OCBC Bank, he had senior management responsibilities for a wide range of functions, including Corporate Banking, Investment Management, Information Technology and Central Operations, Group Risk Management and Group Audit. He was the Head of Group Audit before his retirement on 14 April 2010. He has over 48 years of banking experience, including about 20 years in Citibank, N.A. Singapore with overseas assignments in Jakarta, New York and London. He is also a Director of OCBC Bank, OCBC Malaysia and AVJennings Limited, and a Commissioner of PT Bank OCBC NISP Tbk. Mr Lai holds a Bachelor of Arts with Honours from the University of Singapore.

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)

Profile of the Board of Directors (continued)

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

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

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

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

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

Oversea-Chinese Banking Corporation Limited

Shareholdings registered in the name of Directors or in which Directors have a direct interest	**At 1 January 2016**	**Acquired/ Awarded**	**Disposed**	**At 31 December 2016**
Ordinary Shares				
Dato' Ooi Sang Kuang	19,793	6,573	-	26,366
Samuel N. Tsien	472,303	290,168	-	762,471
Lai Teck Poh	1,035,820	29,124	-	1,064,944
Tan Ngiap Joo	1,239,780	96,718	-	1,336,498

OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan	**At 1 January 2016**	**Awarded/ Granted**	**Exercised/ Forfeited/ Lapsed**	**At 31 December 2016**
Ordinary Shares				
Samuel N. Tsien	669,336	353,937	(277,474)	745,799

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)

DIRECTORS' 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	Exercise period	At 1 January 2016	Awarded/ Granted	Exercised/ Forfeited/ Lapsed	At 31 December 2016
Ordinary Shares					
Samuel N. Tsien	15/3/2019 - 15/3/2026	3,290,004	1,024,798	-	4,314,802
Tan Ngiap Joo	13/3/2017	113,113	-	(61,698)	51,415

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

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

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

CORPORATE GOVERNANCE

Board Composition and Independence

The Board comprises seven Directors, all of whom are non-executive Directors except for one non-independent executive Director. The independent non-executive Directors are Dato' Ooi Sang Kuang (Chairman of the Board), Mr Lai Teck Poh, Mr Ng Hon Soon, Mr Tong Hon Keong, Mr Tan Ngiap Joo and Datuk Azizan bin Haji Abd Rahman (appointed on 3 June 2016) while the non-independent executive Director is Mr Samuel N. Tsien. The Board and Board Committees of OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad will be reconstituted with effect from 1 January 2018 to comply with BNM's Policy on Corporate Governance.

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

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

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

CORPORATE GOVERNANCE (continued)

Board Composition and Independence (continued)

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

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

Board Conduct and Responsibilities

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

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

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

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

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

The Directors receive appropriate development, on a continuing basis, to perform their roles on the Board and its Committees. This, among others, 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 Audit Committee

The Board Audit Committee ("BAC") comprises Mr Tan Ngiap Joo (BAC Chairman appointed on 10 March 2016), Mr Ng Hon Soon, Mr Tong Hon Keong and Datuk Azizan Bin Haji Abd Rahman (appointed on 3 June 2016); all of whom are independent Directors. Mr Lai Teck Poh stepped down as Chairman and member of the BAC with effect from 10 March 2016.

CORPORATE GOVERNANCE (continued)

Board Audit Committee (continued)

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

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

The Bank has in place a whistle blowing policy and the BAC reviews concerns, including anonymous complaints, which staff may, in confidence, raise about possible improprieties in matters of financial reporting or other matters, and have the concerns independently investigated and followed-up. If fraud is determined, appropriate remedial action will be taken by the management and the BAC is updated regularly on its status. The BAC Chairman shall be the designated non-executive director responsible to review and evaluate the effectiveness of whistle blowing policy. The communication of whistle blowing policy had also been enhanced to cover third parties such as contractors, consultants and interns to allow them to report their concerns. The whistle-blower's interest will be safeguarded at all times, including the right to appeal to the BAC if reprisals are taken against him.

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

Internal Audit Function

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

Internal Audit reports on the adequacy of the system of internal controls to the BAC and management, but does not form any part of the system of internal controls. Internal Audit meets or exceeds the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors and the Shariah Governance Framework for Islamic Financial Institutions issued by BNM. In addition, the Internal Auditors have acquired the necessary qualifications and training in Islamic Banking.

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

The work undertaken by Internal Audit involves the assessment of the adequacy and effectiveness of the Bank's risk management and internal control environment, including ascertaining if the internal controls are sufficient in ensuring prompt and accurate recording of transactions and the adequate safeguarding of assets. In addition, Internal Audit provides an independent assessment of the Bank's credit portfolio quality and credit risk management process. Reviews conducted by Internal Audit also focus on the Bank's compliance with relevant laws and regulations, adherence to established policies and whether management has taken appropriate measures to address control deficiencies. Internal Audit provides advice on the development of new businesses as well as system developments and enhancements where the objective is to add value and improve governance, risk management and controls, without assuming management responsibility.

CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

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

Internal Controls

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

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

Based on the internal controls established and maintained by the Bank, work performed by the internal auditors and external auditors, and reviews performed by management and various Board Committees, the Board, with the concurrence of the Board Audit Committee and Risk Management Committee, is of the opinion that the system of internal controls, including financial, operational, compliance and information technology controls, and risk management systems, were adequate and effective as at 31 December 2016, to address the risks which the Bank considers relevant and material to its operations.

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

Nominating Committee

The Nominating Committee ("NC") comprises Dato' Ooi Sang Kuang (NC Chairman), Mr Samuel N. Tsien, Mr Lai Teck Poh, Mr Ng Hon Soon and Mr Tan Ngiap Joo; all of whom are independent Directors except for Mr Samuel N. Tsien who is a non-independent executive Director. NC will be reconstituted with effect from 1 January 2018 to comply with BNM's Policy on Corporate Governance, with the proposed establishment of a combined Nominations and Remuneration Committee. In the interim, the remuneration and appraisal policies and any other issues required to be decided by OCBC Malaysia's Remuneration Committee but determined at the parent bank level, will be undertaken by the full Board pursuant to the exemption granted by BNM on 28 April 2006 in relation to the formation of Remuneration Committee.

The Board approved the terms of reference of the NC. The Committee may meet at least once a year. The Committee shall be entitled to secure the attendance of any person with relevant experience and expertise at committee meetings if the committee considers this appropriate.

Nominating Committee (continued)

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

Risk Management Committee

The Risk Management Committee ("RMC") comprises Mr Lai Teck Poh (RMC Chairman with effect from 10 March 2016), Dato' Ooi Sang Kuang, Mr Samuel N. Tsien, Mr Tan Ngiap Joo, Mr Ng Hon Soon, Mr Tong Hon Keong and Datuk Azizan bin Haji Abd Rahman; all of whom are independent Directors except for Mr Samuel N. Tsien who is a non-independent executive Director. The RMC will be reconstituted with effect from 1 January 2018 to comply with BNM's Policy on Corporate Governance.

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

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

Disclosure of Shariah Committee

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

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

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

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

(d) To review and endorse Shariah related guidelines;

CORPORATE GOVERNANCE (continued)

Disclosure of Shariah Committee (continued)

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

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

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

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

(g) To provide written Shariah opinion in the following circumstances:

(i) where the Bank makes reference to the Shariah Advisory Council ("SAC") of BNM for further deliberations; or

(ii) where the Bank submits applications to BNM for new product approvals;

(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 Committee Members' Attendance at Shariah Committee Meetings in 2016

Name of Shariah Committee Member	**Schedule of Meetings**	
	Held +	**Attended**
Asst. Prof. Dr Muhammad Naim bin Omar	10	10
Assoc. Prof. Dr Mohamad Asmadi bin Haji Abdullah	10	10
Prof. Dr Abdullah @ Alwi bin Hj. Hassan	10	10
Prof. Dato' Dr Wan Sabri bin Wan Yusof	10	10
Assoc. Prof. Dr Suhaimi bin Ab Rahman*	5	5
Assoc. Prof. Dr Mahamad bin Arifin**	1	1

* Assoc. Prof. Dr Suhaimi bin Ab Rahman was appointed as Shariah Committee member effective from 1 September 2016.

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

\+ Reflects the number of meetings held during the time the Shariah Committee member held office.

Remuneration Policy

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

CORPORATE GOVERNANCE (continued)

Remuneration Policy (continued)

The total compensation packages for employees comprise basic salary, fixed bonus, variable performance bonus, allowances, deferred share awards and share options for eligible executives, as well as benefits. Compensation packages are linked to personal performance, achievement of business and performance objectives based on a balanced scorecard approach. Where relevant, financial measurements, adjusted for the various types of risk (such as market, credit and operational risks), include, if appropriate:

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

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

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

Each business unit has its own performance measures that match their functions and objectives and these objectives are consistent with the Bank’s risk appetite. In the determination of remuneration of senior executives, risk and control indicators are taken into account when assessing business performance. The performance of risk and compliance functions is measured independently of the businesses they oversee. Employees in these functions are assessed based on the achievement related to their respective performance measures. Market compensation data on risk and compliance functions is also taken into account for remuneration. Compensation is also reviewed each year based on information from market surveys provided by reputable management consultants.

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

As a consequence of the last financial crisis, the Financial Stability Forum (“FSF”) developed principles and implementation standards for Sound Compensation Practices for significant financial institutions. The ultimate holding company, Oversea-Chinese Banking Corporation Limited Remuneration Committee ("OCBC Ltd Remuneration Committee") made changes to the Bank’s compensation structure to increase the proportion of the deferred remuneration component for senior executives. The Bank’s compensation practices are reviewed annually by an independent party and confirmed to have met the FSF principles and implementation standards.

The Bank has identified a group of senior executives whose authorities and actions are deemed to have a major influence on the long term performance of the Bank. This group (“Material Risk Takers”) comprises “senior management” (the CEO and his direct reports of VP1 rank and above), employees of Senior Vice President rank and above, key personnel at business units, senior control staff and employees who had been awarded significant variable performance bonuses.

The Bank’s remuneration policy requires at least 40% of senior executives' total variable compensation should be deferred as long term incentive. If the total variable compensation meets a minimum threshold of S$70,000, of the 40% deferred variable compensation, 30% will be in Oversea-Chinese Banking Corporation Limited (“OCBC Ltd”) deferred shares and 10% will be in the OCBC Ltd share options. Share awards under the OCBC Deferred Share Plan (“the Plan”) is also granted annually to eligible executives who are paid variable performance bonuses of S$70,000 and above. The share awards form 20% to 40% of their total variable performance bonus for the year. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of three years in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares. Share options granted to Senior Executives are exercisable for up to 10 years. The options may be exercised after the first anniversary of the date of the grant, in accordance with a vesting schedule to be determined by the OCBC Ltd Remuneration Committee on the date of the grant of the respective options.

CORPORATE GOVERNANCE (continued)

Remuneration Policy (continued)

Quantitative disclosure of the Bank's key management and other material risk takers remuneration is disclosed in Note 27 of the financial statements.

All grants are subject to cancellation and clawback if it is determined that they were made on the basis of materially inaccurate financial statements and/or the employee has engaged in conduct that results in financial loss, reputational harm, restatement of financial results and/or adverse changes of the Bank’s risk profile/rating.

Management Information

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

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)

CORPORATE GOVERNANCE (continued)

Directors' Attendance At Board and Board Committee Meetings in 2016

Name of Director	Schedule of Meetings							
	Board		Board Audit Committee		Nominating Committee		Risk Management Committee	
	Held+	Attended	Held+	Attended	Held+	Attended	Held+	Attended
Dato' Ooi Sang Kuang	7	7			5	5	6	6
Samuel N. Tsien	7	7			5	5	6	6
Lai Teck Poh	7	7	1	1	5	5	6	6
Ng Hon Soon	7	7	6	6	5	5	6	6
Tong Hon Keong	7	7	6	6			6	6
Tan Ngiap Joo	7	7	5	5	5	5	6	6
Datuk Azizan bin Haji Abd Rahman (appointed on 3 June 2016)	4	4	3	3			3	3
Dr Raja Lope bin Raja Shahrome (retired on 10 March 2016)	2	1					1	1
Tan Siew Peng, Darren (resigned on 5 April 2016)	3	2^					2	2

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

^ Mr Tan Siew Peng, Darren abstained himself from attending the Special Board Meeting on 25 February 2016 by virtue that he is deemed interested in the subject matter being discussed.

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

COMPLIANCE WITH BNM'S EXPECTATIONS ON FINANCIAL REPORTING

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

DIRECTORS' INDEMNITY

A Directors’ and Officers’ Liability Insurance has been entered into by the Bank for the financial year ended 31 December 2016. The policy provides appropriate cover for legal action brought against its Directors in accordance with qualifying third party indemnity provisions (as defined by Section 289 of the Companies Act 2016). During the financial year, the cost of this insurance effected for the Directors and officers of the Bank amounted to RM8,845.

OTHER STATUTORY INFORMATION

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

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)

OTHER STATUTORY INFORMATION (continued)

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

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

ii) that would render the value attributed to the current assets in the financial statements of the Bank misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Bank misleading, or inappropriate, or

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

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

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

ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year, other than in the ordinary course of banking business.

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

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, Messrs KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016) have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 26 of the financial statements.

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

DATO' OOI SANG KUANG
Chairman

NG HON SOON
Director

Kuala Lumpur, Malaysia

9 May 2017

Company No. 818444-T

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 21 to 93 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 2016 and of its financial performance and cash flows for the financial year then ended.

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

DATO' OOI SANG KUANG
Chairman

NG HON SOON
Director

Kuala Lumpur, Malaysia

9 May 2017

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

I, Yuen Sook Cheng, the officer primarily responsible for the financial management of OCBC Al-Amin Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 21 to 93 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, Yuen Sook Cheng at Kuala Lumpur in Malaysia on 9 May 2017.

YUEN SOOK CHENG

Before me:

Commissioner for Oaths

SHARIAH COMMITTEE'S REPORT

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

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

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

In carrying out the roles and responsibilities of the Bank's Shariah Committee as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, we hereby submit the following report for the financial year ended 31 December 2016:

We have reviewed the principles and contracts relating to the transactions and applications undertaken by the Bank during the financial year ended 31 December 2016. 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 2016, that we have reviewed are in compliance with the Shariah principles except as disclosed in (c);

(b) The overall operation, allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;

(c) During the financial year, the Bank received RM1,700 as Shariah non-compliant income for commission received from conventional insurers. There were 6 occurrences of Shariah non-compliant events identified for year 2016. The Shariah non-compliant events were due to non adherance to procedures/guidelines and improper execution of contracts according to the Shariah requirements. The Bank has taken the necessary steps to rectify the breaches. The distribution of the Shariah non-compliant income is disclosed in Note 37; and

(d) In the financial year, the Bank has made a zakat payment on its business to state zakat authorities and the zakat is computed using the growth capital method. The beneficiaries of the zakat fund were Lembaga Zakat Selangor, International Islamic University Malaysia (IIUM) Endowment Fund, Lembaga Zakat Kedah, Universiti Teknologi Mara (UiTM) Zakat Centre and Pertubuhan Kebajikan Islam Malaysia (PERKIM).

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 2016 have been conducted in conformity with the Shariah principles.

ASST. PROF. DR MUHAMMAD NAIM BIN OMAR	**ASSOC. PROF. DR MOHAMAD ASMADI BIN HAJI ABDULLAH**
Chairman of the Shariah Committee	Member of Shariah Committee

Kuala Lumpur, Malaysia
Date: 9 May 2017

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

Company No. 818444-T
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OCBC Al-Amin Bank Berhad, which comprise the statement of financial position as at 31 December 2016 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 93.

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

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Report on the Audit of the Financial Statements (continued)

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

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

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

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

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

Report on the Audit of the Financial Statements (continued)

Other Matter

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

KPMG PLT
LLP0010081-LCA & AF 0758
Chartered Accountants

Ow Peng Li
Approval Number: 2666/09/2017(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 9 May 2017

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Cash and cash equivalents	3	1,960,773	1,131,012
Financial investments available-for-sale	4	3,244,999	3,123,191
Financing and advances	5	9,621,734	9,887,792
Derivative financial assets	7	75	620
Other assets	8	73,419	41,258
Tax recoverable		8,079	4,765
Statutory deposits with Bank Negara Malaysia	9	327,000	406,100
Property and equipment	10	13,416	14,226
Deferred tax assets	11	5,135	2,171
Total assets		15,254,630	14,611,135
LIABILITIES			
Islamic deposits from customers	12	11,320,720	10,177,748
Investment accounts due to designated financial institution	13	1,367,037	1,049,063
Deposits and placements of banks and other financial institutions	14	1,022,718	2,009,812
Bills and acceptances payable		30,483	18,670
Derivative financial liabilities	7	410	790
Other liabilities	15	182,322	169,031
Subordinated sukuk	16	200,000	200,000
Zakat payable		45	40
Total liabilities		14,123,735	13,625,154
EQUITY			
Share capital	17	185,000	185,000
Reserves	18	945,895	800,981
Total equity		1,130,895	985,981
Total liabilities and equity		15,254,630	14,611,135
Commitments and contingencies	31	2,806,487	3,479,220

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

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000
Income derived from investment of depositors' funds and others	19	712,695	727,884
Income derived from investment of investment account funds	20	44,216	48,007
Income derived from investment of shareholder's funds	21	107,948	106,825
Impairment allowance on financing and advances	22	(65,467)	(127,738)
Total distributable income		799,392	754,978
Income attributable to depositors	23	(382,860)	(351,844)
Income attributable to investment account holder	24	(30,980)	(34,992)
Total net income		385,552	368,142
Operating expenses	26	(194,946)	(195,749)
Profit before zakat and taxation		190,606	172,393
Zakat	28	(45)	(40)
Income tax expense	29	(39,569)	(34,711)
Profit for the year		150,992	137,642
Other comprehensive (expense)/income, net of income tax			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Fair value (available-for-sale) reserve:			
- Change in fair value		(12,101)	(86)
- Transferred to profit or loss		4,153	(479)
Income tax effect		1,870	140
Other comprehensive expense for the year net of income tax		(6,078)	(425)
Total comprehensive income for the year		144,914	137,217
Profit attributable to the owner of the Bank		150,992	137,642
Total comprehensive income attributable to the owner of the Bank		144,914	137,217
Basic earnings per ordinary share (sen)	30	81.62	78.30

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 2016

	Non-distributable				*Distributable*	
	Share Capital	**Share Premium**	**Statutory Reserve**	**Fair Value Reserve**	**Retained Earnings**	**Total Equity**
2016	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2016	185,000	370,000	185,000	(2,767)	248,748	985,981
Fair value (available-for-sale) reserve						
- Change in fair value	-	-	-	(12,101)	-	(12,101)
- Transferred to profit or loss	-	-	-	4,153	-	4,153
Income tax effect	-	-	-	1,870	-	1,870
Total other comprehensive expense for the year	-	-	-	(6,078)	-	(6,078)
Profit for the year	-	-	-	-	150,992	150,992
Total comprehensive (expense)/income for the year	-	-	-	(6,078)	150,992	144,914
At 31 December 2016	185,000	370,000	185,000	(8,845)	399,740	1,130,895
2015						
At 1 January 2015	165,000	330,000	142,653	(2,342)	153,453	788,764
Fair value (available-for-sale) reserve						
- Change in fair value	-	-	-	(86)	-	(86)
- Transferred to profit or loss	-	-	-	(479)	-	(479)
Income tax effect	-	-	-	140	-	140
Total other comprehensive expense for the year	-	-	-	(425)	-	(425)
Profit for the year	-	-	-	-	137,642	137,642
Total comprehensive (expense)/income for the year	-	-	-	(425)	137,642	137,217
Contributions by and distributions to the owner of the Bank						
Issue of ordinary shares	20,000	40,000	-	-	-	60,000
Transfer to statutory reserve	-	-	42,347	-	(42,347)	-
At 31 December 2015	185,000	370,000	185,000	(2,767)	248,748	985,981

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	2016 RM'000	2015 RM'000
Cash flows from operating activities		
Profit before income tax expense and zakat	190,606	172,393
Adjustments for:		
Net loss/(gain) from disposal of:		
- Financial investments available-for-sale	4,153	(479)
- Property and equipment	589	131
Depreciation of property and equipment	5,224	2,277
Impairment allowance on financing and advances	65,467	127,738
Share-based expenses	286	283
Unrealised loss on revaluation of derivatives	162	140
Operating profit before changes in working capital	266,487	302,483
Changes in operating assets and operating liabilities:		
Financing and advances	200,591	(847,516)
Derivative financial assets	545	3,482
Other assets	(32,323)	34,590
Statutory deposits with Bank Negara Malaysia	79,100	(26,300)
Islamic deposits from customers	1,142,972	163,140
Investment accounts due to designated financial institution	317,974	808,337
Deposits and placements of banks and other financial institutions	(987,094)	(270,973)
Bills and acceptances payable	11,813	(1,974)
Derivative financial liabilities	(380)	(3,346)
Other liabilities	13,005	50,055
Cash generated from operations	1,012,690	211,978
Income tax and zakat paid	(44,017)	(29,898)
Net cash generated from operating activities	968,673	182,080
Cash flows from investing activities		
Acquisition of financial investments available-for-sale	(4,675,122)	(5,432,541)
Proceeds from disposal of financial investments available-for-sale	4,541,213	5,153,074
Acquisition of property and equipment	(5,005)	(11,336)
Proceeds from disposal of property and equipment	2	184
Net cash used in investing activities	(138,912)	(290,619)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	-	60,000
Proceeds from issuance of subordinated sukuk	200,000	-
Redemption of subordinated sukuk	(200,000)	-
Net cash generated from financing activities	-	60,000
Net increase/(decrease) in cash and cash equivalents	829,761	(48,539)
Cash and cash equivalents at 1 January	1,131,012	1,179,551
Cash and cash equivalents at 31 December (Note 3)	1,960,773	1,131,012

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

GENERAL INFORMATION

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

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

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

The immediate and ultimate holding 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 financial statements were approved and authorised for issue by the Board of Directors on 9 May 2017.

1 BASIS OF PREPARATION

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

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

(a) Statement of compliance

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

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

Effective for financial periods commencing on or after 1 January 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities*
- Amendments to MFRS 107, *Statement of Cashflows - Disclosure Initiative*
- Amendments to MFRS 112, *Recognition of Deferred Tax Assets for Unrealised Losses*

Effective for financial periods commencing on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 2, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures*
- Amendments to MFRS 140, *Transfers of Investment Property*

Effective for financial periods commencing on or after 1 January 2019

- MFRS 16, *Leases*

Effective date yet to be announced by the MASB

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

1 BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

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

MFRS 9, *Financial Instruments*

MFRS 9, *Financial Instruments* will replace MFRS 139, *Financial Instruments: Recognition and Measurement.* Retrospective application is required but comparative information is not compulsory. MFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

MFRS 15*, Revenue from Contracts with Customers*

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

MFRS 16*, Leases*

MFRS 16 requires recognition of operating lease commitments on balance sheet together with a right of use asset.

The Bank is currently assessing the financial impact of adopting MFRS 9, MFRS 15 and MFRS 16.

(b) Use of estimates and judgements

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

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

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

(i) Fair value estimation for financial investments available-for-sale (Note 4) and derivative financial assets and liabilities (Note 7). Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For financial instruments which are not traded in an active market (for example, over-the-counter derivatives), the fair value is determined using valuation techniques, which include the use of mathematical models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Where possible, assumptions and inputs used on valuation techniques include observable data such as risk-free and benchmark discount rates and credit spreads.

1 BASIS OF PREPARATION (continued)

(b) Use of estimates and judgements (continued)

Where observable market data is not available, judgement is required in the determination of model input, which normally incorporates assumptions that other market participants would use in their valuations, including assumptions about profit rate yield curves, exchange rates, volatilities and prepayment and default rates. Judgement is also required in assessing the impairment of financial investments available-for-sale as the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flows.

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

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

(iv) Management judgement is required for estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome is not determined until a later date, whereas for deferred tax, management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

2 SIGNIFICANT ACCOUNTING POLICIES

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

A Foreign currency transactions

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments

(a) Initial recognition and measurement

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

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

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

(b) Financial instrument categories and subsequent measurement

The Bank categorises financial instruments as follows:

Financial assets

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

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

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

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

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

(ii) Held-to-maturity investments

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments (continued)

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

Financial assets (continued)

(iii) Financial investments available-for-sale

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

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

(iv) Financing and receivables

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

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

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

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

Financial liabilities

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments (continued)

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

Financial liabilities (continued)

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

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

(c) Financial guarantee contracts

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

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

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

(d) Regular way purchase or sale of financial assets

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

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

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

(e) Derivatives

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments (continued)

(e) Derivatives (continued)

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.

(f) Derecognition

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

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

(g) Offsetting

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

C Property and equipment

(a) Recognition and measurement

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Property and equipment (continued)

(b) Subsequent costs

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

(c) Depreciation

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

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

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

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

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

D Operating lease

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

E Cash and cash equivalents

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

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

F Impairment

(a) *Financial assets*

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

F Impairment (continued)

(a) *Financial assets (continued)*

(i) Held-to-maturity investments

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

(ii) Financial investments available-for-sale

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

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

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

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment losses were recognised in profit or loss, the impairment losses are 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's Policy on Classification and Impairment Provisions for Financing where financing and advances that are past due for more than 90 days or 3 months are deemed impaired.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

F Impairment (continued)

(a) *Financial assets (continued)*

(iii) Financing and advances (continued)

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

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

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

(b) *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. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

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

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

G Equity Instruments

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

Ordinary shares are classified as equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Equity Instruments (continued)

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

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

H Employee benefits

(a) Short-term employee benefits

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

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

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

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

(b) Share-based payment transactions

(i) OCBC Deferred Share Plan

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

(ii) OCBC Share Option Scheme 2001

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

(iii) OCBC Employee Share Purchase Plan

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

H Employee benefits (continued)

(b) Share-based payment transactions (continued)

Equity instruments granted are recognised as expense in profit or loss based on the fair value of the equity instrument at the date of the grant. The expense is recognised over the vesting period of the grant, with corresponding entries to the equity. At each reporting date, the Bank revises the estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with recognition of a corresponding liability payable to the ultimate holding company of the Bank. The Bank accrues for profit on the monthly contributions made by employees to the savings-based ESP Plan. Further details of the equity compensation benefits are disclosed in Note 15(b) to the financial statements.

I Provisions

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

J Income and expenses

(a) Finance income and finance expense

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

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

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

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

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

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

(b) Fee and commission income

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

J Income and expenses (continued)

(c) Net trading income

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

(d) Dividend income

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

(e) Other income

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

K Income Tax

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

(a) Current tax

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

(b) Deferred tax

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

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

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

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

L Earnings per ordinary share

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

M Restricted profit sharing investment accounts ("RPSIA")

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

N Contingencies

(a) Contingent liabilities

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

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

(b) Contingent assets

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

O Fair value measurements

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

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

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

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

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

Level 3 : unobservable inputs for the asset or liability.

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

P Zakat contribution

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

3 CASH AND CASH EQUIVALENTS

	2016 RM'000	2015 RM'000
Cash and balances with banks and other financial institutions	26,978	33,011
Deposits and placements with Bank Negara Malaysia	1,933,795	1,098,001
	1,960,773	1,131,012

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

	2016 RM'000	2015 RM'000
Malaysia	1,955,769	1,125,088
Singapore	1,219	713
Other ASEAN	97	355
Rest of the world	3,688	4,856
	1,960,773	1,131,012

4 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2016 RM'000	2015 RM'000
At fair value		
Malaysian Government Investment Issues	1,728,949	1,865,605
Malaysian Government Sukuk	92,778	130,024
Malaysian Government Islamic Treasury Bills	49,871	230,005
Bank Negara Malaysia Monetary Notes	-	99,760
Islamic Corporate Sukuk	430,869	423,709
Islamic Negotiable Instruments of Deposit	698,689	149,654
Sanadat Mudharabah Cagamas	10,123	4,962
Foreign Government Sukuk	233,720	219,472
	3,244,999	3,123,191

5 FINANCING AND ADVANCES

(i) By type and Shariah contract

2016	Sale based contracts					Lease based contracts			Equity based contracts		
	Bai' Inah RM'000	**Bai' Bithaman Ajil RM'000**	**Tawarruq RM'000**	**Murabahah RM'000**	**Bai' Dayn RM'000**	**Ijarah Thumma Al- Bai RM'000**	**Ijarah RM'000**	**Ijarah Muntahiah Bi Al-Tamlik RM'000**	**Musharakah Mutanaqisah RM'000**	**Others RM'000**	**Total RM'000**
At amortised cost and net of unearned income											
Cash line financing	61,670	40,256	-	-	-	-	205,741	-	-	864	308,531
Term financing											
- House financing	-	14,164	-	-	-	-	-	1,912,250	101,204	-	2,027,618
- Syndicated term financing	-	-	50,040	-	-	-	-	347,351	-	-	397,391
- Hire purchase receivables	-	-	-	-	-	369,168	-	223,374	-	-	592,542
- Other term financing	1,111,865	153,253	355,985	-	-	-	-	2,148,866	137,361	-	3,907,330
Bills receivable	-	-	-	-	22,246	-	-	-	-	-	22,246
Trust receipts	-	-	-	179	-	-	-	-	-	-	179
Revolving credit	-	-	2,038,095	-	-	-	-	-	-	-	2,038,095
Claims on customers under acceptance credits	-	-	-	333,614	67,092	-	-	-	-	-	400,706
Other financing	-	-	-	194,118	-	-	-	-	-	-	194,118
Gross financing and advances	1,173,535	207,673	2,444,120	527,911	89,338	369,168	205,741	4,631,841	238,565	864	9,888,756
Allowance for financing and advances											
- Individual impairment											(80,043)
- Collective impairment											(186,979)
Net financing and advances											9,621,734

Included in financing and advances are specific business ventures funded by the Restricted Profit Sharing Investment Accounts ("RPSIA"), arrangements between the Bank and its immediate holding company, OCBC Malaysia (Note 13). The immediate holding company, being the RPSIA depositor, is exposed to the risks and rewards of the business venture and will account for all the individual impairment allowance arising thereon whereas the collective impairment allowance is borne by the Bank.

As at 31 December 2016, the gross exposure relating to RPSIA financing is RM1,328 million (2015: RM948 million) and the collective impairment relating to these PSIA of RM10.8 million (2015: RM6.4 million). There was no individual impairment provided for these RPSIA financing.

5 FINANCING AND ADVANCES (continued)

(i) By type and Shariah contract (continued)

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

5 FINANCING AND ADVANCES (continued)

	2016 RM'000	2015 RM'000
(ii) By type of customer		
Domestic non-bank financial institutions	49,867	168,126
Domestic business enterprises		
- Small and medium enterprises	2,444,209	2,897,665
- Others	4,102,921	3,679,719
Individuals	2,764,562	2,836,833
Foreign entities	527,197	578,361
	9,888,756	10,160,704

	2016 RM'000	2015 RM'000
(iii) By profit rate sensitivity		
Fixed rate		
- House financing	23,120	25,618
- Hire purchase receivables	375,310	566,487
- Other fixed rate financing	2,461,961	2,946,942
Variable rate		
- Base financing rate plus	3,407,135	3,470,410
- Cost plus	3,359,799	3,040,227
- Other variable rates	261,431	111,020
	9,888,756	10,160,704

	2016 RM'000	2015 RM'000
(iv) By sector		
Agriculture, hunting, forestry and fishing	1,150,070	756,239
Mining and quarrying	301,638	217,929
Manufacturing	1,760,308	2,072,886
Electricity, gas and water	61,218	74,973
Construction	448,263	342,060
Real estate	586,417	441,279
Wholesale & retail trade and restaurants & hotels	1,200,474	1,491,032
Transport, storage and communication	240,846	320,103
Finance, insurance and business services	323,396	518,480
Community, social and personal services	523,126	509,106
Household		
- Purchase of residential properties	2,070,568	1,921,028
- Purchase of non-residential properties	45,001	44,513
- Others	757,580	962,928
Others	419,851	488,148
	9,888,756	10,160,704

	2016 RM'000	2015 RM'000
(v) By geographical distribution		
Malaysia	9,624,679	9,882,207
Singapore	53,753	41,835
Other ASEAN	2,826	2,962
Rest of the world	207,498	233,700
	9,888,756	10,160,704

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

5 FINANCING AND ADVANCES (continued)

(vi) By residual contractual maturity

	2016 RM'000	2015 RM'000
Within one year	3,044,307	2,512,175
One year to less than three years	1,295,556	1,410,102
Three years to less than five years	733,563	1,334,684
Over five years	4,815,330	4,903,743
	9,888,756	10,160,704

6 IMPAIRED FINANCING AND ADVANCES

(a) Movements in impaired financing and advances

	2016 RM'000	2015 RM'000
At 1 January	285,424	196,682
Impaired during the year	322,408	430,924
Reclassified as unimpaired	(60,439)	(46,667)
Amount recovered	(163,270)	(227,433)
Amount written off	(90,350)	(85,582)
Effect of foreign exchange difference	3,779	17,500
At 31 December	297,552	285,424
Individual impairment allowance	(80,043)	(82,433)
Collective impairment allowance	(4,146)	(3,837)
Net impaired financing and advances	213,363	199,154

(i) By sector

	2016 RM'000	2015 RM'000
Agriculture, hunting, forestry and fishing	529	1,622
Mining and quarrying	91,796	92,662
Manufacturing	38,394	45,475
Electricity, gas and water	-	61
Construction	2,977	4,556
Real estate	8,244	23,197
Wholesale & retail trade and restaurants & hotels	38,638	33,974
Transport, storage and communication	7,096	8,242
Finance, insurance and business services	6,352	7,572
Community, social and personal services	2,784	3,007
Household		
- Purchase of residential properties	55,374	25,348
- Purchase of non-residential properties	252	430
- Others	44,535	38,621
Others	581	657
	297,552	285,424

(ii) By geographical distribution

	2016 RM'000	2015 RM'000
Malaysia	297,552	285,424

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

(iii) By period overdue

	2016 RM'000	2015 RM'000
Less than 3 months	91,663	198,188
3 months to less than 6 months	58,263	44,003
6 months to less than 9 months	104,226	14,459
Over 9 months	43,400	28,774
	297,552	285,424

6 IMPAIRED FINANCING AND ADVANCES (continued)

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

(iv) By collateral type

	2016 RM'000	2015 RM'000
Property	84,736	69,740
Machinery	3,202	3,312
Secured - others	115,660	109,890
Unsecured - corporate and other guarantees	8	8
Unsecured - clean	93,946	102,474
	297,552	285,424

(b) Movements in allowance for financing and advances

	2016 RM'000	2015 RM'000
Individual impairment allowance		
At 1 January	82,433	62,398
Made during the year	154,465	155,222
Written back	(65,613)	(49,199)
Written off	(90,350)	(85,582)
Financing income earned on impaired financing	(892)	(406)
At 31 December	80,043	82,433
Collective impairment allowance		
At 1 January	190,479	153,810
(Written back)/Made during the year	(3,500)	36,669
At 31 December	186,979	190,479

(i) By sector

2016	**Individual impairment allowance RM'000**	**Individual impairment allowance made during the year RM'000**	**Individual impairment allowance written off RM'000**	**Collective impairment allowance RM'000**
Agriculture, hunting, forestry and fishing	32	118	425	21,923
Mining and quarrying	180	235	-	5,746
Manufacturing	4,559	4,148	4,955	33,469
Electricity, gas and water	-	-	-	1,167
Construction	1,005	1,815	1,590	8,526
Real estate	2,680	298	-	11,127
Wholesale & retail trade and restaurants & hotels	13,551	21,881	17,921	22,626
Transport, storage and communication	1,818	3,235	2,181	4,556
Finance, insurance and business services	2,731	6,670	5,428	6,113
Community, social and personal services	1,169	1,806	2,193	9,950
Household				
- Purchase of residential properties	9,685	9,655	347	39,286
- Purchase of non-residential properties	16	1	-	858
- Others	42,563	104,580	55,310	13,630
Others	54	23	-	8,002
	80,043	154,465	90,350	186,979

6 IMPAIRED FINANCING AND ADVANCES (continued)

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

(i) By sector (continued)

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

(ii) By geographical distribution

	2016 RM'000	2015 RM'000
Individual impairment allowance		
Malaysia	80,043	82,433
Collective impairment allowance		
Malaysia	181,945	185,215
Singapore	1,025	791
Other ASEAN	54	56
Rest of the world	3,955	4,417
	186,979	190,479

7 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Financial derivatives are instruments whose values change in response to the change in one or more "underlying" such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In the normal course of business, the Bank customises derivatives to meet the specific needs of their customers. While the Bank also enters into other foreign exchange forward contracts with the intention to reduce the foreign echange risk of expected sales and purchases, these other contracts are not designated as hedge relationships and are measured at fair value through profit or loss.

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

7 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

	2016			2015		
	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						
- Forwards	67,266	75	410	69,135	432	790
- Swaps	-	-	-	6,095	188	-
	67,266	75	410	75,230	620	790
Of which related to immediate holding company	43,813	38	2	39,392	190	24

8 OTHER ASSETS

	2016 RM'000	2015 RM'000
Profit receivable	25,817	25,679
Other receivables, deposits and prepayments	3,451	10,936
Amount due from immediate holding company	44,145	4,598
Amount due from ultimate holding company	6	6
Amount due from related companies	-	39
	73,419	41,258

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

9 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

10 PROPERTY AND EQUIPMENT

2016	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Renovation RM'000	Total RM'000
Cost				
At 1 January	6,802	15,839	10,300	32,941
Additions	1,892	1,236	1,877	5,005
Disposals	(384)	(408)	(1,054)	(1,846)
Reclassification	167	-	(167)	-
At 31 December	8,477	16,667	10,956	36,100

10 PROPERTY AND EQUIPMENT (continued)

2016	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Renovation RM'000	Total RM'000
Accumulated depreciation				
At 1 January	(2,496)	(10,695)	(5,524)	(18,715)
Depreciation for the year	(895)	(1,829)	(2,500)	(5,224)
Disposals	154	390	711	1,255
At 31 December	(3,237)	(12,134)	(7,313)	(22,684)
Carrying amount				
At 1 January	4,306	5,144	4,776	14,226
At 31 December	5,240	4,533	3,643	13,416
2015				
Cost				
At 1 January	4,504	13,682	6,199	24,385
Additions	2,321	4,914	4,101	11,336
Disposals/Transfer to immediate holding company	(23)	(2,757)	-	(2,780)
At 31 December	6,802	15,839	10,300	32,941
Accumulated depreciation				
At 1 January	(1,999)	(11,806)	(5,098)	(18,903)
Depreciation for the year	(512)	(1,339)	(426)	(2,277)
Disposals/Transfer to immediate holding company	15	2,450	-	2,465
At 31 December	(2,496)	(10,695)	(5,524)	(18,715)
Carrying amount				
At 1 January	2,505	1,876	1,101	5,482
At 31 December	4,306	5,144	4,776	14,226

11 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Change in fair value of financial instruments	2,791	921	-	-	2,791	921
Excess of capital allowances over depreciation	-	-	(1,410)	(731)	(1,410)	(731)
Other temporary differences	3,754	1,981	-	-	3,754	1,981
Tax assets/(liabilities)	6,545	2,902	(1,410)	(731)	5,135	2,171
Set off of tax	(1,410)	(731)	1,410	731	-	-
Net tax assets	5,135	2,171	-	-	5,135	2,171

11 DEFERRED TAX ASSETS (continued)

(i) Movement in deferred tax during the financial year

2016	At 1 January RM'000	Recognised in profit or loss (Note 29) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
Change in fair value of financial instruments	921	-	1,870	2,791
Excess of capital allowances over depreciation	(731)	(679)	-	(1,410)
Other temporary differences	1,981	1,773	-	3,754
Total	2,171	1,094	1,870	5,135
2015				
Change in fair value of financial instruments	781	-	140	921
Excess of capital allowances over depreciation	(756)	25	-	(731)
Other temporary differences	1,941	40	-	1,981
Total	1,966	65	140	2,171

12 ISLAMIC DEPOSITS FROM CUSTOMERS

	2016 RM'000	2015 RM'000
a) By type of deposit		
Savings deposits		
- Wadiah	257,886	266,153
- Tawarruq	176,509	1,465
- Qard	824	-
Demand deposits		
- Wadiah	3,558,672	2,998,319
- Tawarruq	6,069	-
- Qard	182	-
Term Deposits		
- Commodity Murabahah	6,821,131	6,288,858
- Qard	53,562	-
Negotiable instruments of deposits		
- Bai Bithaman Ajil	68,149	164,975
Short-term deposits		
- Tawarruq	377,592	457,792
General investment deposits		
- Mudharabah	144	186
	11,320,720	10,177,748

Included in the above are negotiable instruments of deposit issued to its immediate holding company amounting to RM68 million (2015: RM65 million), which are unsecured and profit bearing.

12 ISLAMIC DEPOSITS FROM CUSTOMERS (continued)

	2016 RM'000	2015 RM'000
b) By type of customer		
Government and statutory bodies	1,408,402	1,158,643
Non-bank financial institutions	960,027	1,083,979
Business enterprises	5,648,386	5,276,209
Individuals	3,098,872	2,376,161
Foreign entities	81,777	72,684
Others	123,256	210,072
	11,320,720	10,177,748

c) Maturity structure of term/general investment deposits, negotiable instruments of deposits and short-term deposits

	2016 RM'000	2015 RM'000
Within six months	5,160,684	5,614,624
Six months to one year	2,018,533	1,224,726
One year to three years	72,912	6,788
Three years to five years	68,449	65,673
	7,320,578	6,911,811

13 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	2016 RM'000	2015 RM'000
Mudharabah restricted investment accounts		
Licensed bank	1,367,037	1,049,063

The placements are from its immediate holding company, OCBC Bank (Malaysia) Berhad and are used to fund specific financing (Note 5 and Note 43). These deposits follow the principal of Mudharabah which states that profits will be shared with the Bank as mudarib and losses borne by depositors.

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016 RM'000	2015 RM'000
Non-Mudharabah		
Licensed banks	1,020,173	2,006,685
Other financial institutions	2,545	3,127
	1,022,718	2,009,812

Included in the above are deposits and placements of its immediate holding company of RM538 million (2015: RM577 million), which are unsecured and profit bearing.

15 OTHER LIABILITIES

		2016 RM'000	2015 RM'000
Profit payable		98,905	88,263
Other payables and accruals		74,779	70,834
Amount due to immediate holding company	(a)	7,931	9,345
Equity compensation benefits	(b)	707	589
		182,322	169,031

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

15 OTHER LIABILITIES (continued)

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

(i) OCBC Deferred Share Plan

Under the OCBC Deferred Share Plan (“the Plan”), shares of the ultimate holding company of the Bank are awarded to 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.

The deferred share awards are as follows:

(a) Share awards granted annually to eligible executives who are paid variable performance bonus of S$70,000 and above. The share awards form 20% to 40% of their total variable performance bonus for the year. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of three years in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares.

(b) In addition to the above, senior executives are also granted deferred share awards as part of their long term incentive compensation. These share awards are not deducted from their variable performance bonus and the whole award vests after three years. The awards will lapse immediately on the termination of employment and appointment, except in the event of retirement, redundancy, death, or where approved by the OCBC Bank Remuneration Committee, in which case the OCBC Bank Remuneration Committee may allow the awards to be retained and vested within the relevant vesting periods or such periods as may be determined by the OCBC Bank Remuneration Committee.

(ii) OCBC Share Option Scheme 2001

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

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

During the financial year, the Bank granted 22,674 options (2015: 17,952) to acquire ordinary shares in the ultimate holding company, Oversea-Chinese Banking Corporation Limited (“OCBC Bank”) pursuant to OCBC Share Option Scheme 2001. The fair value of options granted to the employees of the Bank, determined using the binomial valuation model, were S$29,649 (2015: S$18,128). Significant inputs to the valuation model are set out below:

	2016	**2015**
Acquisition price (S$)	8.81	10.38
Average share price from grant date to acceptance date (S$)	8.95	10.55
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	20.08	13.10
Risk-free rate based on SGD bond yield at acceptance date (%)	1.83	2.01
Expected dividend yield (%)	4.02	3.41
Exercise multiple (times)	1.78	1.57

15 OTHER LIABILITIES (continued)

(ii) OCBC Share Option Scheme 2001 (continued)

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

	2016		2015	
	Number of share options	Weighted average acquisition price (S$)	Number of share options	Weighted average acquisition price (S$)
At 1 January	52,485	9.800	34,533	9.500
Granted	22,674	8.814	17,952	10.378
At 31 December	75,159	9.503	52,485	9.800
Exercisable on 31 December	35,204	9.697	16,152	9.455
Weighted average share price underlying the options exercised (S$)		-		-

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S$)	2016 Outstanding	2016 Exercisable
2012	14/03/2012	15/3/2013 - 13/3/2022	8.556	3,262	3,262
2013	14/03/2013	15/3/2014 - 13/3/2023	10.018	15,822	15,822
2014	14/03/2014	15/3/2015 - 13/3/2024	9.169	15,449	10,196
2015	16/03/2015	16/3/2016 - 13/3/2025	10.378	17,952	5,924
2016	16/03/2016	16/3/2017 - 13/3/2026	8.814	22,674	-
				75,159	35,204

Grant year	Grant date	Exercise period	Acquisition price (S$)	2015 Outstanding	2015 Exercisable
2012	14/03/2012	15/3/2013 - 13/3/2022	8.556	3,262	3,262
2013	14/03/2013	15/3/2014 - 13/3/2023	10.018	15,822	7,792
2014	14/03/2014	15/3/2015 - 13/3/2024	9.169	15,449	5,098
2015	16/03/2015	16/3/2016 - 13/3/2025	10.378	17,952	-
				52,485	16,152

(iii) OCBC Employee Share Purchase Plan

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

15 OTHER LIABILITIES (continued)

(iii) OCBC Employee Share Purchase Plan (continued)

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

In June 2016, OCBC Bank launched its eleventh offering of ESP Plan for OCBC employees, which commenced on 1 July 2016 and expires on 30 June 2018. Under the offering, the Bank granted 10,921 (2015: 7,419) rights to acquire ordinary shares in OCBC Bank. The fair value of rights for the Bank, determined using the binomial valuation model were S$9,447 (2015: S$5,472). Significant inputs to the valuation model are set out below:

	2016	**2015**
Acquisition price (S$)	8.45	10.24
Closing share price at valuation date (S$)	8.45	10.13
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	20.66	13.57
Risk-free rate based on 2-year swap rate (%)	0.99	0.93
Expected dividend yield (%)	4.26	2.84

	2016		**2015**	
	Number of share options	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	10,690	9.859	7,075	9.410
Acquired	10,921	8.450	7,419	10.240
Forfeited/Lapsed	(6,033)	9.423	(2,383)	9.838
Exercised and converted upon expiry	-	-	(1,421)	9.650
At 31 December	15,578	9.040	10,690	9.859
Average share price underlying acquisition rights exercised/converted (S$)		-		9.650

16 SUBORDINATED SUKUK

On 1 December 2008, the Bank issued a RM200 million non-tradeable non-transferable redeemable Islamic subordinated sukuk 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. The subordinated sukuk was fully subscribed by its immediate holding company, OCBC Malaysia. The unrestricted subordinated sukuk qualified as Tier 2 capital subject to gradual phase out as required under the BNM Capital Adequacy Framework for Islamic Banks (Capital Component). This Mudharabah subordinated sukuk was redeemed in full on 24 November 2016.

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

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

17 SHARE CAPITAL

	2016 RM'000	2015 RM'000
Authorised		
Ordinary shares of RM1 each	500,000	500,000
Issued and fully paid		
Ordinary shares of RM1 each		
At 1 January	185,000	165,000
Issued to immediate holding company	-	20,000
At 31 December	185,000	185,000

18 RESERVES

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

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

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

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

19 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2016 RM'000	2015 RM'000
Income derived from investment of:		
(i) General investment deposits	408,455	414,190
(ii) Other deposits	304,240	313,694
	712,695	727,884

19 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (continued)

	2016 RM'000	2015 RM'000
(i) Income derived from investment of general investment deposits		
Finance income and hibah		
Unimpaired financing and advances	321,062	338,569
Impaired financing and advances	475	211
Financial investments available-for-sale	65,266	56,349
Deposits and placements with banks and other financial institutions	23,886	18,268
	410,689	413,397
Other operating income		
Net (loss)/gain from disposal of financial investments available-for-sale	(2,146)	524
Others	(88)	269
	408,455	414,190
(ii) Income derived from investment of other deposits		
Finance income and hibah		
Unimpaired financing and advances	239,535	257,118
Impaired financing and advances	347	165
Financial investments available-for-sale	48,457	42,825
Deposits and placements with banks and other financial institutions	17,603	13,417
	305,942	313,525
Other operating income		
Net loss from disposal of financial investments available-for-sale	(1,672)	(36)
Others	(30)	205
	304,240	313,694

20 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS

	2016 RM'000	2015 RM'000
Finance income and hibah		
Unimpaired financing and advances	41,008	40,074
Deposits and placements with banks and other financial institutions	3,208	7,933
	44,216	48,007

21 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2016 RM'000	2015 RM'000
Finance income and hibah		
Unimpaired financing and advances	47,942	44,832
Impaired financing and advances	70	30
Financial investments available-for-sale	9,753	7,471
Deposits and placements with banks and other financial institutions	3,577	2,343
	61,342	54,676
Other operating income		
Commission	14,142	15,386
Service charges and fees	18,226	23,461
Net loss from disposal of financial investments available-for-sale	(335)	(9)
Others	(10)	35
Other trading income		
Net trading (loss)/gain		
- Foreign currency	(201)	1,088
- Trading derivatives	14,946	12,328
- Revaluation of derivatives	(162)	(140)
	107,948	106,825

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

22 IMPAIRMENT ALLOWANCE ON FINANCING AND ADVANCES

	2016 RM'000	2015 RM'000
Individual impairment allowance		
- Made during the year	154,465	155,222
- Written back	(65,613)	(49,199)
	88,852	106,023
Collective impairment allowance		
- (Written back)/Made during the year	(3,500)	36,669
Impaired financing written off	4	5
Impaired financing recovered	(19,889)	(14,959)
	65,467	127,738

23 INCOME ATTRIBUTABLE TO DEPOSITORS

	2016 RM'000	2015 RM'000
Deposits from customers		
- Non-Mudharabah	352,059	327,298
- Mudharabah	5	90
	352,064	327,388
Deposits and placements of banks and other financial institutions		
- Non-Mudharabah	19,837	13,556
Subordinated sukuk	10,959	10,900
	382,860	351,844

24 INCOME ATTRIBUTABLE TO INVESTMENT ACCOUNT HOLDER

	2016 RM'000	2015 RM'000
Investment accounts due to designated financial institution (Note 34)		
- Mudharabah	30,980	34,992

25 FINANCE INCOME AND EXPENSE ANALYSED BY CATEGORY OF FINANCIAL INSTRUMENTS

	2016 RM'000	2015 RM'000
Finance income		
Financing and advances	650,439	680,999
Financial investments available-for-sale	123,476	106,645
Deposits and placements with banks and other financial institutions	48,274	41,961
	822,189	829,605
Finance expense		
Liabilities at amortised cost	413,840	386,836

26 OPERATING EXPENSES

	2016 RM'000	2015 RM'000
Personnel expenses		
Wages, salaries and bonus	25,736	25,704
Employees Provident Fund contributions	3,966	3,933
Share-based expenses	286	283
Others	2,693	2,818
	32,681	32,738
Establishment expenses		
Depreciation of property and equipment	5,224	2,277
Rental of premises	2,907	2,738
Repair and maintenance	671	572
Information technology costs	486	258
Others	2,711	2,561
	11,999	8,406
Marketing expenses		
Advertisement and business promotion	776	2,526
Transport and travelling	515	723
Others	151	170
	1,442	3,419
General administrative expenses		
Shared service fees to immediate holding company (Note 34)	101,099	105,565
Transaction processing fees to related companies (Note 34)	24,415	22,407
Auditors' remuneration		
- Statutory audit	85	78
- Audit related fees	84	84
- Other services	30	-
Shariah Committee remuneration	261	218
Others	22,850	22,834
	148,824	151,186
Total operating expenses	194,946	195,749

The total remuneration of the Shariah committee members of the Bank are as follows:

2016	Remuneration RM'000	Allowance RM'000	Total RM'000
Asst. Prof. Dr Muhammad Naim bin Omar	52	11	63
Assoc. Prof. Dr Mohamad Asmadi bin Haji Abdullah	48	9	57
Prof. Dr Abdullah @ Alwi bin Hj. Hassan	49	11	60
Prof. Dato' Dr Wan Sabri bin Wan Yusof	48	9	57
Assoc. Prof. Dr Suhaimi bin Ab Rahman	14	4	18
Assoc. Prof. Dr Mahamad bin Arifin	6	-	6
	217	44	261
2015			
Asst. Prof. Dr Muhammad Naim bin Omar	36	6	42
Assoc. Prof. Dr Mohamad Asmadi bin Haji Abdullah	36	7	43
Prof. Dr Abdullah @ Alwi bin Hj. Hassan	40	9	49
Prof. Dato' Dr Wan Sabri bin Wan Yusof	36	6	42
Assoc. Prof. Dr Mahamad bin Arifin	36	6	42
	184	34	218

27 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION

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

	2016						2015					
	Unrestricted				*Deferred*		*Unrestricted*				*Deferred*	
	Salaries and fees RM'000	**Variable bonuses RM'000**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options^**	**Total RM'000**	**Salaries and fees RM'000**	**Variable bonuses**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options^**	**Total RM'000**
CEO												
Syed Abdull Aziz Jailani bin Syed Kechik	889	312	10	192	208	1,611	811	363	29	188	242	1,633
Non Executive Directors												
Dato' Ooi Sang Kuang	50	-	-	-	-	50	53	-	-	-	-	53
Lai Teck Poh	50	-	-	-	-	50	53	-	-	-	-	53
Ng Hon Soon	60	-	-	-	-	60	53	-	-	-	-	53
Tong Hon Keong	50	-	-	-	-	50	45	-	-	-	-	45
Tan Ngiap Joo	58	-	-	-	-	58	17	-	-	-	-	17
Datuk Azizan bin Haji Abd Rahman (Appointed on 3 June 2016)	29	-	-	-	-	29	-	-	-	-	-	-
Dr. Raja Lope bin Raja Shahrome (Retired on 10 March 2016)	10	-	-	-	-	10	31	-	-	-	-	31
	1,196	312	10	192	208	1,918	1,063	363	29	188	242	1,885

^ Deferred shares and share options are awarded/granted under the OCBC Deferred Share Plan, OCBC Share Option Scheme 2001 and OCBC Employee Share Purchase Plan as disclosed in Note 15(b) of the financial statements.

Mr Samuel N. Tsien did not receive any remuneration from the Bank during the year (2015: nil).

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

(b) Remuneration awarded to senior management (including the CEO) and other material risk takers are as follows:

	2016				2015			
	Unrestricted RM'000	**Deferred RM'000**	**Total RM'000**	**Number of Officers**	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of Officers**
Fixed remuneration								
Cash based	3,022	-	3,022		2,924	-	2,924	
Others	14	-	14		32	-	32	
	3,036	-	3,036		2,956	-	2,956	
Variable remuneration								
Cash based	1,185	-	1,185	6	1,377	-	1,377	7
Shares and share options	-	307	307	2	-	342	342	2
	1,185	307	1,492		1,377	342	1,719	
Total	4,221	307	4,528	6	4,333	342	4,675	7

For the Bank, all material risk takers are also part of senior management. Other than the above, no senior management nor other material risk taker received or were awarded any guaranteed bonus, sign-on awards or severance payments.

(c) Outstanding deferred remuneration

	2016 RM'000	**2015 RM'000**
Share and share options		
Exposed to ex-post explicit and implicit adjustments	1,220	1,071
Deferred remuneration paid out during the year	266	157
Reduction during the year due to:		
(i) Ex-post explicit adjustments (such as malus, clawbacks or similar reversals of downward revaluations of awards)	-	-
(ii) Ex-post implicit adjustments (such as fluctuations in the value of shares or performance of units)	-	-

28 ZAKAT

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

29 INCOME TAX EXPENSE

	2016 RM'000	2015 RM'000
Malaysian income tax		
- Current year	40,132	35,132
- Prior years	531	(356)
	40,663	34,776
Deferred tax		
- Origination and reversal of temporary differences	(604)	(79)
- Prior years	(490)	14
	(1,094)	(65)
	39,569	34,711

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

	2016 %	2015 %
Malaysian tax rate at 24% (2015: 25%)	24.0	25.0
Tax effect of:		
Expenses not deductible for tax purposes	0.4	0.7
Income not subject to tax	(3.7)	(5.4)
Over provision in prior years	-	(0.2)
Average effective tax rate	20.7	20.1

30 BASIC EARNINGS PER ORDINARY SHARE

The basic earnings per ordinary share of the Bank were calculated based on the net profit attributable to the ordinary shareholder and the weighted average number of ordinary shares in issue during the financial year. The Bank has no dilution in its earnings per ordinary share as there are no dilutive potential ordinary shares.

	2016	2015
Net profit for the year (RM'000)	150,992	137,642
Weighted average number of ordinary shares in issue ('000)	185,000	175,795
Basic earnings per share (sen)	81.62	78.30

31 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).

	2016					2015				
	Principal Amount	Positive Fair Value of Derivative Contracts	Negative Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Amount	Principal Amount	Positive Fair Value of Derivative Contracts	Negative Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	84,883			84,883	54,263	69,573			69,573	51,197
Transaction-related contingent items	321,947			164,357	126,990	264,386			135,765	116,602
Short-term self-liquidating trade-related contingencies	22,781			4,556	2,876	40,412			9,339	3,987
Foreign exchange related contracts										
- Less than one year	67,266	75	410	364	229	75,230	620	790	912	429
Formal standby facilities and credit lines										
- Maturity not exceeding one year	-			-	-	1,880			376	224
- Maturity exceeding one year	263,145			231,541	57,790	476,002			420,914	182,569
Other unconditionally cancellable commitments	2,046,465			43,629	7,530	2,551,737			39,341	11,556
	2,806,487	75	410	529,330	249,678	3,479,220	620	790	676,220	366,564

32 CAPITAL COMMITMENTS

	2016 RM'000	2015 RM'000
Capital commitments in respect of property and equipment		
- Contracted but not provided for	91	3,926

33 LEASE COMMITMENTS

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

	2016 RM'000	2015 RM'000
Less than one year	2,460	2,728
Between one to five years	1,357	2,232
	3,817	4,960

34 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

The Bank has related party relationship with the following:

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

34 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Significant transactions and outstanding balances with related parties

	2016				2015			
	Ultimate Holding Company RM'000	**Immediate Holding Company RM'000**	**Other Related Companies RM'000**	**Key Management Personnel RM'000**	**Ultimate Holding Company RM'000**	**Immediate Holding Company RM'000**	**Other Related Companies RM'000**	**Key Management Personnel RM'000**
Income								
Profit income on financing and advances	-	-	-	22	-	-	-	37
Shared service fees	68	7,585	-	-	74	5,115	-	-
Fee and commission income	-	-	709	-	-	-	1,298	-
	68	7,585	709	22	74	5,115	1,298	37
Expenditure								
Profit expense on general investment deposits	-	-	-	22	-	-	-	31
Profit expense on other deposits	-	-	6,795	-	-	-	7,312	-
Profit expense on negotiable instruments of deposit	-	2,876	-	-	-	2,747	-	-
Profit expense on investment accounts (Note 24)	-	30,980	-	-	-	34,992	-	-
Profit expense on deposits and placements	4,415	12,846	-	-	2,963	9,320	-	-
Profit expense on subordinated sukuk	-	10,959	-	-	-	10,900	-	-
Shared service fees (Note 26)	-	101,099	-	-	-	105,565	-	-
Transaction processing fees (Note 26)	-	-	24,415	-	-	-	22,407	-
Rental expenses	-	61	-	-	-	76	-	-
Other expenses	-	2	365	-	-	336	1,308	-
	4,415	158,823	31,575	22	2,963	163,936	31,027	31

34 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2016				2015			
	Ultimate Holding Company RM'000	Immediate Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000	Ultimate Holding Company RM'000	Immediate Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000
Amount due from								
Deposits and placements with banks and other financial institutions	1,264	-	52	-	989	-	80	-
Financing and advances	-	-	-	356	-	-	-	816
Derivative financial assets	-	38	4	-	-	190	1	-
Other assets (Note 8)	6	44,145	-	-	6	4,598	39	-
	1,270	44,183	56	356	995	4,788	120	816
Amount due to								
Demand deposits and general investment deposits	-	-	3,594	574	-	-	3,012	929
Other deposits	-	-	241,035	12	-	-	219,130	6
Negotiable instruments of deposit	-	68,149	-	-	-	65,273	-	-
Investment accounts	-	1,367,037	-	-	-	1,049,063	-	-
Deposits and placements of banks and other financial institutions	436,437	537,790	-	-	875,797	577,193	-	-
Profit payable	187	5,209	124	5	413	5,212	55	14
Derivative financial liabilities	-	2	6	-	-	24	-	-
Other liabilities (Note 15)	97	7,931	-	-	79	9,345	403	-
Subordinated sukuk (Note 16)	-	200,000	-	-	-	200,000	-	-
	436,721	2,186,118	244,759	591	876,289	1,906,110	222,600	949
Commitments								
Foreign exchange derivatives	-	43,813	4,880	-	-	39,392	2,063	-

34 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

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

	2016 RM'000	2015 RM'000
Aggregate value of outstanding credit exposure with connected parties^		
Credit facility and leasing (except guarantee)	6,454	6,722
Commitments and contingencies*	32,261	31,572
	38,715	38,294
Impaired or in default	-	-
Outstanding credit exposures to connected parties		
As a proportion of total credit exposures	0.35%	0.33%

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

(c) Key management remuneration is disclosed in Note 27 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

35 FINANCIAL INSTRUMENTS

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

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

	2016				2015			
	FVTPL-HFT RM'000	F&R/FL RM'000	AFS RM'000	Carrying amount RM'000	FVTPL-HFT RM'000	F&R/FL RM'000	AFS RM'000	Carrying amount RM'000
Financial assets								
Cash and cash equivalents	-	1,960,773	-	1,960,773	-	1,131,012	-	1,131,012
Financial investments available-for-sale	-	-	3,244,999	3,244,999	-	-	3,123,191	3,123,191
Financing and advances	-	9,621,734	-	9,621,734	-	9,887,792	-	9,887,792
Derivative financial assets	75	-	-	75	620	-	-	620
Other assets	-	73,419	-	73,419	-	41,258	-	41,258
Statutory deposits with Bank Negara Malaysia	-	327,000	-	327,000	-	406,100	-	406,100
	75	11,982,926	3,244,999	15,228,000	620	11,466,162	3,123,191	14,589,973
Financial liabilities								
Islamic deposits from customers	-	11,320,720	-	11,320,720	-	10,177,748	-	10,177,748
Investment accounts due to designated financial institutions	-	1,367,037	-	1,367,037	-	1,049,063	-	1,049,063
Deposits and placements of banks and other financial institutions	-	1,022,718	-	1,022,718	-	2,009,812	-	2,009,812
Bills and acceptances payable	-	30,483	-	30,483	-	18,670	-	18,670
Derivative financial liabilities	410	-	-	410	790	-	-	790
Other liabilities	-	182,322	-	182,322	-	169,031	-	169,031
Subordinated sukuk	-	200,000	-	200,000	-	200,000	-	200,000
	410	14,123,280	-	14,123,690	790	13,624,324	-	13,625,114

35 FINANCIAL INSTRUMENTS (continued)

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Carrying amount in the statement of financial position**	**Financial instruments not in scope of offsetting disclosures**	**Gross recognised financial instruments in scope**	**Financial instruments**	**Cash collateral received/ pledged**	**Net amount in scope**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2016						
Derivative financial assets	75	75	-	-	-	-
Derivative financial liabilities	410	410	-	-	-	-
2015						
Derivative financial assets	620	620	-	-	-	-
Derivative financial liabilities	790	790	-	-	-	-

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(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

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

(e) Derivative financial assets and liabilities

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

(f) Deposits from customers

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

(g) Bills and acceptances payable

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

(h) Subordinated sukuk

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

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(A) Fair value measurement (continued)

(ii) Off-statement of financial position financial instruments

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

(B) Fair value hierarchy of financial instruments

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

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

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

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

(i) Financial instruments carried at fair value

	Level 1	Level 2	Total
2016	**RM'000**	**RM'000**	**RM'000**
Financial assets at fair value			
Available-for-sale	1,548,611	1,696,388	3,244,999
Derivative financial assets	51	24	75
	1,548,662	1,696,412	3,245,074
Financial liabilities at fair value			
Derivative financial liabilities	21	389	410
2015			
Financial assets at fair value			
Available-for-sale	1,473,833	1,649,358	3,123,191
Derivative financial assets	8	612	620
	1,473,841	1,649,970	3,123,811
Financial liabilities at fair value			
Derivative financial liabilities	28	762	790

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

Policy on transfer between levels

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

Transfer between Level 1 and 2 fair values

There were no transfers from Level 1 to Level 2 fair values in 2016: nil (2015: RM381,322,500) while financial investments available-for-sale with a carrying amount of RM240,408,000 (2015: nil) were transferred from Level 2 to Level 1 upon availability of active market.

Valuation control framework

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

The Market Risk Management (“MRM”) function within the Group Risk Management Division and with the support from the ultimate holding company's Risk Management Division, is responsible for market data validation, assessment of model validation and ongoing performance monitoring.

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

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

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

	Level 2 RM'000	Level 3 RM'000	Total fair values RM'000	Carrying amount RM'000
2016				
Financial assets				
Cash and cash equivalents	1,960,773	-	1,960,773	1,960,773
Financing and advances	-	9,626,160	9,626,160	9,621,734
Other assets	73,419	-	73,419	73,419
Statutory deposits with Bank Negara Malaysia	327,000	-	327,000	327,000
	2,361,192	9,626,160	11,987,352	11,982,926
Financial liabilities				
Islamic deposits from customers	11,321,919	-	11,321,919	11,320,720
Investment accounts due to designated financial institution	1,367,037	-	1,367,037	1,367,037
Deposits and placements of banks and other financial institutions	1,024,113	-	1,024,113	1,022,718
Bills and acceptances payable	30,483	-	30,483	30,483
Other liabilities	182,322	-	182,322	182,322
Subordinated sukuk	225,254	-	225,254	200,000
	14,151,128	-	14,151,128	14,123,280
2015				
Financial assets				
Cash and cash equivalents	1,131,012	-	1,131,012	1,131,012
Financing and advances	-	10,095,711	10,095,711	9,887,792
Other assets	41,258	-	41,258	41,258
Statutory deposits with Bank Negara Malaysia	406,100	-	406,100	406,100
	1,578,370	10,095,711	11,674,081	11,466,162
Financial liabilities				
Islamic deposits from customers	10,178,945	-	10,178,945	10,177,748
Investment accounts due to designated financial institution	1,049,063	-	1,049,063	1,049,063
Deposits and placements of banks and other financial institutions	2,016,304	-	2,016,304	2,009,812
Bills and acceptances payable	18,670	-	18,670	18,670
Other liabilities	169,031	-	169,031	169,031
Subordinated sukuk	203,080	-	203,080	200,000
	13,635,093	-	13,635,093	13,624,324

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

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

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

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

Risk Governance and organisation

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

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Governance and organisation (continued)

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

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

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

Credit Risk Management

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

Credit Risk Management Oversight and Organisation

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

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

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

Credit Risk Management Approach

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Management Approach (continued)

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

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

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

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

Internal Credit Rating Models

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

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

Credit Risk Control

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Control (continued)

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

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

Post Credit Approval

Post Approval Credit Review Unit provide independent post approval credit review function through a proactive review of the quality of credits approved on an on-going basis, with periodic reports submitted to the Country Chief Risk Officer and the CRMC for oversight on the adequacy of credit risk assessment.

Market Risk Management

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

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

Market Risk Management Oversight and Organisation

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

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

Market Risk Management Approach

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

Market Risk Identification

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

Market Risk Identification (continued)

Several market risk measurements are also utilised regularly to quantify and assess potential losses. These include Value-at-Risk (“VAR”), Present Value of Basis Point (“PV01”), One Basis Point More Credit Spreads (“CS01”) and derivative greeks.

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

Risk Monitoring and Control

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

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

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

Asset Liability Management

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

Asset Liability Management Oversight and Organisation

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

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

Asset Liability Management Approach

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

Liquidity Risk

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset Liability Management (continued)

Liquidity Risk (continued)

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

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

Profit Rate Risk

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

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

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

Operational Risk Management

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

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

Operational Risk Management Oversight and Organisation

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

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Operational Risk Management Approach

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

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

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

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

Outsourcing Risk Management

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

Physical and People Security Risk Management

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

Business Continuity Risk Management

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

Fraud Risk Management

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Reputational Risk Management

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

Fiduciary Risk Management

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

Regulatory and Legal Risk Management

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

Technology and Information Security Risk Management

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

Cyber Security Risk Management

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

Shariah Governance

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

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

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

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Shariah Governance (continued)

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

Shariah Non-Compliance Risk

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

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

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

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

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

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

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

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

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

During the financial year ended 31 December 2016, the Bank had received Shariah non-compliant income. The Shariah non-compliant income will be channelled to charitable organisations as determined by the Bank's Shariah Committee. Details of the income are as follows:

	2016 RM'000	2015 RM'000
Sources and Uses of charity funds		
At 1 January	7	99
Sources of charity funds		
Shariah non-compliant income	1	3
Uses of charity funds		
Contribution to non-profit organisations	-	(95)
At 31 December	8	7

38 CREDIT RISK

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

	Note	2016 RM'000	2015 RM'000
Cash and cash equivalents		1,960,773	1,131,012
Financial investments available-for-sale	(a)	3,244,999	3,123,191
Financing and advances	(b)	9,888,756	10,160,704
Derivative financial assets	(c)	75	620
Other assets		73,419	41,258
Contingent liabilities and credit commitments	(d)	2,739,221	3,403,990
		17,907,243	17,860,775

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

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

	2016 RM'000	2015 RM'000
(i) By issuer		
Government and Central Bank	1,871,598	2,325,394
Foreign government	233,720	219,472
Public sector	34,658	59,963
Banking institutions	698,689	149,654
Non-bank financial institutions	50,190	49,718
Business enterprises	356,144	318,990
	3,244,999	3,123,191
(ii) By geography		
Malaysia	3,011,279	2,903,719
Other ASEAN	126,664	89,211
Rest of the world	107,056	130,261
	3,244,999	3,123,191
(iii) By credit rating		
Government and Central Bank (unrated)	1,036,700	647,000
Government (AAA to A)	834,898	1,678,394
Foreign government (unrated)	23,040	26,441
Foreign government (AAA to BBB)	210,680	193,031
Investment grade (AAA to BBB)	231,316	278,405
Unrated	908,365	299,920
	3,244,999	3,123,191
(iv) By sector		
Agriculture, hunting, forestry and fishing	29,341	19,519
Manufacturing	-	24,979
Electricity, gas and water	115,330	145,059
Transport, storage and communication	34,658	14,867
Finance, insurance and business services	935,382	373,901
Others	2,130,288	2,544,866
	3,244,999	3,123,191

38 CREDIT RISK (continued)

(a) Credit quality of financial investments available-for-sale (continued)

	2016 RM'000	2015 RM'000
(v) By residual contractual maturity		
Within one year	1,513,601	1,536,610
One to five years	1,340,417	1,368,713
Over five years	390,981	217,868
	3,244,999	3,123,191

(b) Credit quality of financing and advances

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

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

Past due but not impaired financing and advances are financing where the customer has failed to make a principal or profit payment when contractually due, and includes financing which are due one or more days after the contractual due date but less than 90 days.

	2016 RM'000	2015 RM'000
Neither past due nor impaired	9,430,850	9,733,775
Past due financing	392,501	265,471
- Unimpaired	160,354	141,505
- Impaired	232,147	123,966
Impaired but not past due	65,405	161,458
Gross financing and advances	9,888,756	10,160,704

Neither past due nor impaired

	2016 RM'000	2015 RM'000
(i) By internal grading		
Pass	8,889,850	9,128,152
Special mention	541,000	605,623
	9,430,850	9,733,775

Past due but not impaired

	2016 RM'000	2015 RM'000
(i) By period overdue		
Less than 2 months	135,167	116,446
2 months to less than 3 months	25,187	25,059
	160,354	141,505
(ii) By geographical distribution		
Malaysia	160,354	141,505

38 CREDIT RISK (continued)

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

(iii) By sector	**2016 RM'000**	**2015 RM'000**
Agriculture, hunting, forestry and fishing	783	660
Mining and quarrying	-	2,185
Manufacturing	14,194	10,500
Construction	2,234	4,966
Real estate	-	705
Wholesale & retail trade and restaurants & hotels	34,233	28,015
Transport, storage and communication	3,326	6,726
Finance, insurance and business services	9,533	6,870
Community, social and personal services	2,675	3,936
Household		
- Purchase of residential properties	49,746	27,406
- Others	43,630	49,536
	160,354	141,505

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

Collateral

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

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

As at 31 December 2016, 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.

	2016 RM'000	**2015 RM'000**
Fair value of collateral held against the covered portion of financing and advances	485,843	458,414
Covered portion of financing and advances	203,598	182,942
Uncovered portion of financing and advances	93,954	102,482
	297,552	285,424

(c) Credit quality of derivative assets

(i) By counterparty	**2016 RM'000**	**2015 RM'000**
Banking institutions	38	190
Non-bank financial institutions	9	1
Business enterprises	28	429
	75	620

38 CREDIT RISK (continued)

(c) Credit quality of derivative assets (continued)

	2016 RM'000	2015 RM'000
(ii) By geographical distribution		
Malaysia	71	619
Singapore	4	1
	75	620
(iii) By sector		
Manufacturing	10	397
Construction	1	-
Wholesale & retail trade and restaurants & hotels	15	31
Finance, insurance and business services	49	192
	75	620
(iv) By residual contractual maturity		
Within one year	75	620

(d) Credit quality of contingent liabilities and credit commitments (excluding derivative financial assets)

	2016 RM'000	2015 RM'000
(i) By counterparty		
Banking institutions	150,236	34,493
Non-bank financial institutions	2,052	15,000
Business enterprises	2,427,308	3,106,423
Individuals	159,625	248,074
	2,739,221	3,403,990
(ii) By geographical distribution		
Malaysia	2,671,944	2,922,216
Singapore	-	2,096
Other ASEAN	67,277	214,515
Rest of the world	-	265,163
	2,739,221	3,403,990
(iii) By sector		
Agriculture, hunting, forestry and fishing	125,805	242,569
Mining and quarrying	121,694	41,115
Manufacturing	669,435	854,203
Electricity, gas and water	42,230	110,000
Construction	883,215	665,973
Real estate	16,358	640,224
Wholesale & retail trade and restaurants & hotels	162,788	237,089
Transport, storage and communication	204,128	46,507
Finance, insurance and business services	183,381	93,828
Community, social and personal services	144,368	196,168
Household	159,625	248,074
Others	26,194	28,240
	2,739,221	3,403,990
(iv) By residual contractual maturity		
Within one year	171,318	153,459
One year to five years	2,169,837	2,736,090
Over five years	398,066	514,441
	2,739,221	3,403,990

39 LIQUIDITY RISK

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

	Carrying amount RM'000	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000
2016								
Cash and cash equivalents	1,960,773	1,960,773	-	-	-	-	-	-
Financial investments available-for-sale	3,244,999	748,559	70,180	694,862	512,465	827,952	390,981	-
Financing and advances	9,621,734	2,893,088	550,026	580,750	1,483,738	748,261	3,365,871	-
Derivative financial assets	75	75	-	-	-	-	-	-
Other balances	100,049	47,951	150	13,754	4,966	9,061	5,616	18,551
Statutory deposits with Bank Negara Malaysia	327,000	-	-	-	-	-	-	327,000
Total assets	15,254,630	5,650,446	620,356	1,289,366	2,001,169	1,585,274	3,762,468	345,551
Islamic deposits from customers	11,320,720	7,918,669	1,242,157	2,018,533	72,912	68,449	-	-
Investment accounts due to designated financial institution	1,367,037	1,119,009	29,400	47,675	103,135	59,385	8,433	-
Deposits and placements of banks and other financial institutions	1,022,718	870,353	50,173	50,348	51,432	412	-	-
Bills and acceptances payable	30,483	30,483	-	-	-	-	-	-
Derivative financial liabilities	410	410	-	-	-	-	-	-
Other liabilities	182,367	103,110	31,586	24,269	12,241	3,113	73	7,975
Subordinated sukuk	200,000	-	-	-	-	200,000	-	-
Total liabilities	14,123,735	10,042,034	1,353,316	2,140,825	239,720	331,359	8,506	7,975

39 LIQUIDITY RISK (continued)

	Carrying amount RM'000	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000
2015								
Cash and cash equivalents	1,131,012	1,131,012	-	-	-	-	-	-
Financial investments available-for-sale	3,123,191	709,724	191,008	635,878	859,142	509,571	217,868	-
Financing and advances	9,887,792	2,571,517	478,632	680,520	1,977,033	846,263	3,333,827	-
Derivative financial assets	620	620	-	-	-	-	-	-
Other balances	62,420	19,993	4,809	3,968	8,687	4,602	3,436	16,925
Statutory deposits with Bank Negara Malaysia	406,100	-	-	-	-	-	-	406,100
Total assets	14,611,135	4,432,866	674,449	1,320,366	2,844,862	1,360,436	3,555,131	423,025
Islamic deposits from customers	10,177,748	7,787,632	1,092,929	1,224,726	6,788	65,673	-	-
Investment accounts due to designated financial institution	1,049,063	674,881	29,182	58,365	156,862	92,160	37,613	-
Deposits and placements of banks and other financial institutions	2,009,812	1,856,854	169	340	151,403	1,046	-	-
Bills and acceptances payable	18,670	18,670	-	-	-	-	-	-
Derivative financial liabilities	790	790	-	-	-	-	-	-
Other liabilities	169,071	98,648	26,445	15,241	22,055	2	729	5,951
Subordinated sukuk	200,000	-	-	200,000	-	-	-	-
Total liabilities	13,625,154	10,437,475	1,148,725	1,498,672	337,108	158,881	38,342	5,951

39 LIQUIDITY RISK (continued)

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

2016	**Carrying amount RM'000**	**Up to 3 months RM'000**	**>3-6 months RM'000**	**>6-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Non-derivative financial liabilities								
Islamic deposits from customers	11,320,720	7,918,669	1,242,157	2,018,533	72,912	68,449	-	11,320,720
Investment accounts due to designated financial institution	1,367,037	1,119,009	29,400	47,675	103,135	59,385	8,433	1,367,037
Deposits and placements of banks and other financial institutions	1,022,718	870,353	50,173	50,348	51,432	412	-	1,022,718
Bills and acceptances payable	30,483	30,483	-	-	-	-	-	30,483
Other liabilities	182,322	114,096	52,671	89,423	34,166	33,503	48	323,907
Subordinated sukuk	200,000	-	-	-	-	200,000	-	200,000
	14,123,280	10,052,610	1,374,401	2,205,979	261,645	361,749	8,481	14,264,865
Derivative financial liabilities								
Gross settled derivatives								
Trading:								
Foreign exchange derivatives								
- Forward and swap								
- Outflow		35,437	-	-	-	-	-	35,437
- Inflow		(35,072)	-	-	-	-	-	(35,072)
		365	-	-	-	-	-	365

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

39 LIQUIDITY RISK (continued)

2015	**Carrying amount RM'000**	**Up to 3 months RM'000**	**>3-6 months RM'000**	**>6-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Non-derivative financial liabilities								
Islamic deposits from customers	10,177,748	7,787,632	1,092,929	1,224,726	6,788	65,673	-	10,177,748
Investment accounts due to designated financial institution	1,049,063	674,881	29,182	58,365	156,862	92,160	37,613	1,049,063
Deposits and placements of banks and other financial institutions	2,009,812	1,856,854	169	340	151,403	1,046	-	2,009,812
Bills and acceptances payable	18,670	18,670	-	-	-	-	-	18,670
Other liabilities	169,031	119,098	47,779	60,474	26,789	20,789	2,299	277,228
Subordinated sukuk	200,000	-	-	200,000	-	-	-	200,000
	13,624,324	10,457,135	1,170,059	1,543,905	341,842	179,668	39,912	13,732,521
Derivative financial liabilities								
Gross settled derivatives								
Trading:								
Foreign exchange derivatives								
- Forward and swap								
- Outflow		41,133	9,802	-	-	-	-	50,935
- Inflow		(40,612)	(9,641)	-	-	-	-	(50,253)
		521	161	-	-	-	-	682

40 PROFIT RATE RISK

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

	<------------------------------------ Non Trading Book				------------------------------------>			
2016	**Up to 3 months RM'000**	**>3-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**
Assets								
Cash and cash equivalents	1,925,860	-	-	-	-	34,913	-	1,960,773
Financial investments available-for-sale	748,559	765,042	512,465	827,952	390,981	-	-	3,244,999
Financing and advances								
- Unimpaired	7,184,397	398,509	1,100,385	470,171	418,538	(163,629)	-	9,408,371
- Impaired	-	-	-	-	-	213,363	-	213,363
Derivative financial assets	-	-	-	-	-	-	75	75
Other assets	-	-	-	-	-	427,049	-	427,049
Total assets	9,858,816	1,163,551	1,612,850	1,298,123	809,519	511,696	75	15,254,630
Liabilities								
Islamic deposits from customers	5,113,096	3,260,613	2,498,092	68,449	-	380,470	-	11,320,720
Investment accounts due to designated financial institution	1,367,037	-	-	-	-	-	-	1,367,037
Deposits and placements of banks and other financial institutions	820,919	100,000	50,000	-	-	51,799	-	1,022,718
Bills and acceptances payable	-	-	-	-	-	30,483	-	30,483
Derivative financial liabilities	-	-	-	-	-	-	410	410
Other liabilities	-	-	-	-	-	182,367	-	182,367
Subordinated sukuk	-	-	-	200,000	-	-	-	200,000
Total liabilities	7,301,052	3,360,613	2,548,092	268,449	-	645,119	410	14,123,735
On-statement of financial position profit sensitivity gap	2,557,764	(2,197,062)	(935,242)	1,029,674	809,519	(133,423)	(335)	1,130,895
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	2,557,764	(2,197,062)	(935,242)	1,029,674	809,519	(133,423)	(335)	1,130,895

40 PROFIT RATE RISK (continued)

2015	<------ Non Trading Book					------>		
	Up to 3 months RM'000	**>3-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading Book RM'000**	**Total RM'000**
Assets								
Cash and cash equivalents	1,092,480	-	-	-	-	38,532	-	1,131,012
Financial investments available-for-sale	709,724	826,886	859,142	509,571	217,868	-	-	3,123,191
Financing and advances								
- Unimpaired	6,620,606	427,576	1,291,425	1,022,121	504,421	(177,511)	-	9,688,638
- Impaired	-	-	-	-	-	199,154	-	199,154
Derivative financial assets	-	-	-	-	-	-	620	620
Other assets	-	-	-	-	-	468,520	-	468,520
Total assets	8,422,810	1,254,462	2,150,567	1,531,692	722,289	528,695	620	14,611,135
Liabilities								
Islamic deposits from customers	5,484,695	2,317,655	1,961,971	65,673	-	347,754	-	10,177,748
Investment accounts due to designated financial institution	1,049,063	-	-	-	-	-	-	1,049,063
Deposits and placements of banks and other financial institutions	1,802,249	-	150,000	-	-	57,563	-	2,009,812
Bills and acceptances payable	-	-	-	-	-	18,670	-	18,670
Derivative financial liabilities	-	-	-	-	-	-	790	790
Other liabilities	-	-	-	-	-	169,071	-	169,071
Subordinated sukuk	-	200,000	-	-	-	-	-	200,000
Total liabilities	8,336,007	2,517,655	2,111,971	65,673	-	593,058	790	13,625,154
On-statement of financial position profit sensitivity gap	86,803	(1,263,193)	38,596	1,466,019	722,289	(64,363)	(170)	985,981
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	86,803	(1,263,193)	38,596	1,466,019	722,289	(64,363)	(170)	985,981

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

	2016 RM'000	**2015 RM'000**
+ 50bps	399,499	395,768
- 50bps	364,948	378,911

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

41 CURRENCY RISK

2016	MYR RM'000	GBP RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and cash equivalents	1,955,769	2,743	-	1,219	1,042	1,960,773
Financial investments available-for-sale	2,810,411	23,040	271,654	139,894	-	3,244,999
Financing and advances	8,406,317	184,132	1,031,285	-	-	9,621,734
Derivative financial assets	75	-	-	-	-	75
Other assets	69,313	199	2,237	1,670	-	73,419
Statutory deposits with Bank Negara Malaysia	327,000	-	-	-	-	327,000
	13,568,885	210,114	1,305,176	142,783	1,042	15,228,000
Financial liabilities						
Islamic deposits from customers	11,194,295	1,524	101,195	23,706	-	11,320,720
Investment accounts due to designated financial institution	646,625	183,456	536,956	-	-	1,367,037
Deposits and placements of banks and other financial institutions	198,278	22,037	668,307	133,556	540	1,022,718
Bills and acceptances payable	30,483	-	-	-	-	30,483
Derivative financial liabilities	410	-	-	-	-	410
Other liabilities	176,726	3,993	572	1,113	(82) #	182,322
Subordinated sukuk	200,000	-	-	-	-	200,000
	12,446,817	211,010	1,307,030	158,375	458	14,123,690
Net financial assets/(liabilities) exposure	1,122,068	(896)	(1,854)	(15,592)	584	1,104,310

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

41 CURRENCY RISK (continued)

2015	**MYR RM'000**	**GBP RM'000**	**USD RM'000**	**SGD RM'000**	**Others RM'000**	**Total RM'000**
Financial assets						
Cash and cash equivalents	1,125,088	724	2,218	713	2,269	1,131,012
Financial investments available-for-sale	2,717,214	26,441	289,233	90,303	-	3,123,191
Financing and advances	8,960,932	212,632	711,831	2,397	-	9,887,792
Derivative financial assets	620	-	-	-	-	620
Other assets	34,541	229	5,288	1,247	(47) *	41,258
Statutory deposits with Bank Negara Malaysia	406,100	-	-	-	-	406,100
	13,244,495	240,026	1,008,570	94,660	2,222	14,589,973
Financial liabilities						
Islamic deposits from customers	10,089,413	171	72,213	15,951	-	10,177,748
Investment accounts due to designated financial institution	749,963	211,749	87,351	-	-	1,049,063
Deposits and placements of banks and other financial institutions	1,056,163	25,435	843,471	81,342	3,401	2,009,812
Bills and acceptances payable	18,670	-	-	-	-	18,670
Derivative financial liabilities	790	-	-	-	-	790
Other liabilities	166,773	621	674	963	-	169,031
Subordinated sukuk	200,000	-	-	-	-	200,000
	12,281,772	237,976	1,003,709	98,256	3,401	13,625,114
Net financial assets/(liabilities) exposure	962,723	2,050	4,861	(3,596)	(1,179)	964,859

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

42 CAPITAL ADEQUACY

Capital Management

The key objective of the Bank's capital management policy is to maintain a strong capital position to support business growth, and to sustain investor, depositor, customer and market confidence. In line with this, the Bank ensures that its capital adequacy ratios are comfortably above the regulatory minima while balancing shareholder's desire for sustainable returns and high standards of prudence.

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

Capital Adequacy Ratios

The Bank is required to meet minimum Common Equity Tier 1, Tier 1 and Total capital adequacy ratios of 4.5%, 6.0% and 8.0% respectively in 2016. To ensure that banks build up adequate capital buffer outside period of stress, a Capital Conservation Buffer ("CCB") of 2.5% above the minimum capital adequacy was introduced. The CCB is maintained in the form of CET 1 capital, starting at 0.625% on 1 January 2016 and progressively increasing by 0.625% each year to reach 2.5% on 1 January 2019. Including the CCB, the Bank will be required to meet CET 1 CAR, Tier 1 CAR and Total CAR of 7.0%, 8.5% and 10.5% respectively from 1 January 2019.

On 24 November 2016, the Bank issued a RM200 million Basel III-compliant 10 years non-callable 5 years subordinated sukuk under the principle of Murabahah and subsequently redeemed its existing old style RM200 million Mudharabah subordinated sukuk. A description of the key terms of the subordinated sukuk included as Tier 2 capital is provided in Note 16 to the financial statements.

The table below shows the composition of the regulatory capital and capital ratios, determined according to the requirements of BNM's Capital Adequacy Framework for Islamic Banks (Capital Components).

	2016 RM'000	**2015 RM'000**
Common Equity Tier 1 ("CET 1") capital		
Paid-up ordinary share capital	185,000	185,000
Ordinary share premium	370,000	370,000
Retained earnings	399,740	248,748
Other reserves	176,155	182,233
CET 1 capital	1,130,895	985,981
Regulatory adjustment for CET 1 capital	(7,253)	(5,172)
Eligible CET 1/Tier 1 capital	1,123,642	980,809
Tier 2 capital		
Collective impairment allowance under the Standardised Approach*	9,081	11,668
Surplus eligible provisions over expected losses	16,687	2,466
Subordinated sukuk	200,000	140,000
Eligible Tier 2 capital	225,768	154,134
Capital base	1,349,410	1,134,943

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

42 CAPITAL ADEQUACY (continued)

Capital Adequacy Ratios (continued)

	2016	2015
Before the effects of PSIA		
CET 1/Tier 1 capital ratio	12.745%	11.274%
Total capital ratio	15.306%	13.046%
After the effects of PSIA		
CET 1/Tier 1 capital ratio	15.342%	12.746%
Total capital ratio	18.425%	14.749%

In accordance with BNM's Guidelines on the Recognition and Measurement of Profit Sharing Investment Account ("PSIA") as Risk Absorbent, the credit and market risks of the assets funded by the Restricted Profit Sharing Investment Accounts ("RPSIA") which qualify as risk absorbent are excluded from the total capital ratio calculation. As at 31 December 2016, the credit risk relating to RPSIA assets excluded from the total capital ratio calculation amounted to RM1,492 million (2015: RM1,005 million).

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

	2016 RM'000	2015 RM'000
Total RWA for credit risk	6,455,639	6,909,219
Total RWA for market risk	5,468	5,146
Total RWA for operational risk	862,851	780,474
	7,323,958	7,694,839

43 MUDHARABAH RESTRICTED INVESTMENT ACCOUNT

(i) Movement in the Mudharabah Restricted Investment Account

	2016 RM'000	2015 RM'000
As at 1 January	1,049,063	1,320,036
Funding inflows/(outflows)		
New placement during the year	581,432	444,000
Redemption during the year	(277,524)	(889,010)
Effect of foreign exchange difference	(16,914)	139,045
Income from investment	44,216	48,007
Bank's share of profit		
Profit distributed to mudarib	(13,236)	(13,015)
As at 31 December	1,367,037	1,049,063
Investment assets		
Financing and advances	1,328,037	947,814
Placement with other financial institutions	39,000	101,249
	1,367,037	1,049,063

(ii) Profit sharing ratio and rate of return

	Average profit sharing ratio (Depositor : Bank)		Average rate of return	
	2016	2015	2016	2015
Up to 1 year	70:30	70:30	2.84%	3.10%
> 1 - 2 years	70:30	70:30	3.50%	3.51%
> 2 - 5 years	70:30	70:30	3.49%	3.50%
Over 5 years	70:30	70:30	3.52%	3.53%