Company No. 818444-T

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

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(Incorporated in Malaysia)

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The Directors hereby submit their report and the audited financial statements of the Bank for the financial year ended 31 December 2017.

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	**2017** **RM'000**
Profit for the year	191,675

SHARE CAPITAL AND DEBENTURES

The share capital of the Bank increased to RM555 million as at 31 December 2017 via transfer of share premium amounting to RM370 million to share capital pursuant to Companies Act 2016.

RESERVES AND PROVISIONS

Pursuant to Bank Negara Malaysia's revised policy document on Capital Funds for Islamic Banks effective from 3 May 2017, the Bank transferred RM185 million from its statutory reserve account to retained earnings. The Bank also transferred RM91 million from retained earnings to regulatory reserve during the year.

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 2017.

FINANCIAL PERFORMANCE

The Bank's net profit after tax increased by 27% or RM40.7 million to RM191.7 million for the financial year ended 31 December 2017. The increase was mainly due to lower allowances of RM69.7 million, lower income attributable to depositors of RM44.0 million, higher income from shareholders fund of RM33.2 million, higher net income from investment account funds of RM11.5 million and lower operating expenses of RM7.4 million partially offset by lower income from investment of depositors' funds and others of RM103.1 million and higher taxes of RM22.0 million.

The Bank registered a decrease in impairment allowances largely due to higher other recoveries of RM69.1 million and net collective impairment allowance written-back of RM38.1 million, partially offset by higher individual impairment allowances of RM37.6 million.

Gross financing and advances increased by RM0.1 billion or 1% against 31 December 2016 mainly from corporate drawdowns funded by Restricted Profit Sharing Investment Accounts ("RPSIA"). Whilst RPSIA grew by RM435 million, deposits from customers decreased by RM70 million mainly from non-bank financial institutions of RM239 million partially offset by higher individual deposits of RM116 million.

Shareholders' funds strengthened by RM205 million to RM1.3 billion. The Bank is well capitalised after taking into account the effects of RPSIA, with Common Equity Tier 1 and Tier 1 ratios of 16.569% and Total Capital Ratio of 19.815%.

MARKET OUTLOOK

Global economic growth is expected to be sustained into 2018, supported by growth in the advanced economies, including the large developing economies. Downside risks include the posibility of a financial market correction, geopolitical tensions as well as extreme weather conditions, all which could derail the global growth.

MARKET OUTLOOK (continued)

On the local front, the recent rate hike has signalled that the strong growth momentum in 2017 is expected to continue into 2018, supported by higher exports and increased domestic demand. Headline inflation is expected to moderate while commodity prices are expected to reflect firm global demand in 2018.

ACTIVITIES AND ACHIEVEMENTS

During the year, we continued to strengthen our services to state governments and agencies to cater to their needs in Shariah cash management and deposit products. The GE Takaful One Plan-i was launched to provide customers with the ability to seek high coverage at a reasonable and affordable regular contribution. We also introduced the tawarruq based OCBC Al-Amin 360 Account-i which is the Shariah-compliant version of the popular high interest-bearing savings account OCBC 360.

In staff development, we collaborated with the Asian Banking School to produce the first batch of OCBC staff to successfully achieve certification in the 12-module first-of-its-kind wealth management training programme.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2018

The Bank will introduce even more wealth products and services and also upgrade our branches, by introducing new Premier Banking centres. Efforts will also focus on our collaboration with Credit Guarantee Corporation ("CGC") to make available our unsecured business financing facilities to SMEs through the SME wholesale guarantee scheme, Wholesale Guarantee-i. New Shariah-compliant products will also be introduced by our treasury business alongside Islamic banking solutions for large corporate entities listed on Bursa Malaysia's Shariah index. On the international front, we will continue to collaborate with overseas OCBC entities, especially in Indonesia, to tap latent business opportunities.

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

DIRECTORS OF THE BANK

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

Tan Ngiap Joo (Appointed as Chairman on 30 March 2018), *Independent Non-executive Chairman*
Ng Hon Soon, *Independent Non-executive Director*
Lee Kok Keng, Andrew (Appointed on 15 May 2017), *Non-independent Non-executive Director*
Ismail Bin Alowi (Appointed on 15 May 2017), *Independent Non-executive Director*
Datuk Azizan Bin Haji Abd Rahman (Resigned on 31 December 2017 and Re-appointed on 30 March 2018), *Independent Non-executive Director*
Dato' Ooi Sang Kuang (Resigned on 29 March 2018), *Independent Non-executive Chairman*
Samuel N. Tsien (Resigned on 31 December 2017), *Non-independent Executive Director*
Lai Teck Poh (Resigned on 31 December 2017), *Independent Non-executive Director*
Tong Hon Keong (Resigned on 31 December 2017), *Independent Non-executive Director*

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

In accordance with Article 110 of the Bank's Constitution (Articles of Association), Encik Ismail Bin Alowi, Mr Lee Kok Keng, Andrew and Datuk Azizan Bin Haji Abd Rahman shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

PROFILE OF THE BOARD OF DIRECTORS

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

Mr Ng Hon Soon
Mr Ng Hon Soon was appointed to the Board as non-independent non-executive Director on 16 July 2014 and was later redesignated as 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 Great Eastern Life Assurance (Malaysia) Berhad, Great Eastern General Insurance (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.

Encik Ismail Bin Alowi
Encik Ismail Alowi was appointed to the Board as an Independent Non-executive Director on 15 May 2017. He started his illustrious career in Bank Negara Malaysia in 1976, occupying various positions in the areas of public finance, balance of payments, monetary and exchange rate policies, macroeconomic management, regional and international co-operation and regional and multilateral trade negotiations. He has extensive experience in policy making and implementation. In 2002, he was seconded to International Monetary Fund (IMF) as an Alternate Executive Director in the IMF Executive Board for the period from November 2002 to October 2004. After the completion of his secondment to IMF, he returned to Bank Negara Malaysia in November 2004, and was posted as the Director of International Department until his retirement in 2009. Encik Ismail graduated with a Bachelor of Economics (Hons) degree from University of Malaya and he holds Master of Arts (Development Finance) from Boston University, USA and Master's degree in Public Administration from Harvard University, USA.

Mr Lee Kok Keng, Andrew
Mr Andrew Lee was appointed to the Board as Non-independent Non-executive Director on 15 May 2017. He has over 37 years of regional and country banking and insurance experiences. He served as Senior Executive Vice President in OCBC Bank in charge of the regional consumer banking business. Mr Andrew Lee was previously the Executive Chairman of the Banking Clearing System Information System Pte Ltd, which was charged with the function of supporting Singapore's cheque clearing. He also spent 20 years in Standard Chartered Bank in various regional and country positions. In Great Eastern, Mr Andrew Lee also served as a President Commissioner of Great Eastern Life Indonesia, past Chairman of Great Eastern Vietnam and Group Chief Marketing Officer of Great Eastern Life Assurance Co. Ltd., Singapore until his retirement on 28 February 2017. Mr Andrew Lee graduated with a Bachelor of Social Science (Hons in Economics) degree from University of Singapore and he attended the Stanford Executive Program from Stanford University.

Datuk Azizan Bin Haji Abd Rahman
Datuk Azizan bin Haji Abd Rahman was appointed to the Board on 3 June 2016 as an independent non-executive Director and resigned on 31 December 2017. Subsequently, he was re-appointed as an independent non-executive Director on 30 March 2018. 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 2017		Acquired/ Awarded	Disposed	At 31 December 2017
Ordinary Shares					
Tan Ngiap Joo	1,336,498		57,415	(100,000)	1,293,913
Lee Kok Keng, Andrew	18,939	^	-	(10,000)	8,939
Dato' Ooi Sang Kuang (resigned on 29 March 2018)	26,366		6,000	-	32,366

OCBC Deferred Share Plan	At 1 January 2017		Awarded/ Granted	Exercised/ Forfeited/ Lapsed	At 31 December 2017
Ordinary Shares					
Lee Kok Keng, Andrew	23,063	^	770	-	23,833

Unexercised share options available to the Directors under the OCBC Share Option Scheme 2001	Date options expire	At 1 January 2017		Awarded/ Granted	Exercised/ Forfeited/ Lapsed	At 31 December 2017
Ordinary Shares						
Tan Ngiap Joo		51,415		-	(51,415)	-
Lee Kok Keng, Andrew	13/3/2018 to 15/3/2026	524,082	^	-	-	524,082

^ As at date of appointment on 15 May 2017

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 Note 27 to the financial statements or the fixed salary of a full time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, 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 five Directors, all of whom are non-executive Directors. The independent non-executive Directors are Mr Tan Ngiap Joo (Appointed as Chairman of the Board on 30 March 2018), Mr Ng Hon Soon, Encik Ismail Bin Alowi (appointed on 15 May 2017) and Datuk Azizan Bin Haji Abd Rahman (Re-appointed on 30 March 2018) while the non-independent non-executive Director is Mr Lee Kok Keng, Andrew (appointed on 15 May 2017). The two affiliated Directors are Mr Tan Ngiap Joo and Datuk Azizan Bin Haji Abd Rahman. The Board and Board Committees of OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad had been reconstituted with effect from 1 January 2018 to comply with BNM's Policy on Corporate Governance.

CORPORATE GOVERNANCE (continued)

Board Composition and Independence (continued)

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

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

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

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

Board Conduct and Responsibilities

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

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

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

The Board and the Board Audit Committee have separate and independent access to the internal auditors, 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.

CORPORATE GOVERNANCE (continued)

Board Conduct and Responsibilities (continued)

Training and development is provided to the Directors on a continuing basis, to develop and refresh their skills and knowledge to enable them to effectively perform their roles on the Board and its Committees. This, among others, includes updates on regulatory developments, new business and products, accounting and finance, corporate governance 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 Datuk Azizan Bin Haji Abd Rahman (Appointed as BAC Chairman on 30 March 2018), Mr Ng Hon Soon and Encik Ismail Bin Alowi (appointed on 1 January 2018), all of whom are independent Directors. Mr Tong Hon Keong stepped down from the Committee following his resignation on 31 December 2017 while Mr Tan Ngiap Joo stepped down as BAC Chairman on 29 March 2018, to comply with BNM's Policy on Corporate Governance.

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

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

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

CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

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, without assuming management responsibility, on the development of new businesses as well as system developments and enhancements where the objective is to add value and improve governance, risk management and controls.

The BAC is responsible for the adequacy of the internal audit function, its resources and its standing, and ensures that processes are in place for recommendations raised in Internal Audit reports to be dealt with in a timely manner and outstanding exceptions or recommendations are closely monitored. Internal Audit reports functionally to the BAC and administratively to the CEO, and has unfettered access to the BAC, the Board and senior management, as well as the right to seek information and explanations. The division is organised into departments that are aligned with the structure of the Bank. The BAC approves the appointment 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 to help strengthen the control culture of the Bank. The policy outlines the key control objectives that are essential for internal control activities to remain focused. The policy is reviewed at least annually or as when required.

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

Based on the internal controls established and maintained by the Bank, work performed by the internal auditors and external auditors, and reviews performed by management and various Board Committees, the Board, with the concurrence of the Board Audit Committee and the 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 2017, 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.

CORPORATE GOVERNANCE (continued)

Nominating & Remuneration Committee

The Nominating & Remuneration Committee ("NRC") was newly established on 1 January 2018. It comprises Mr Ng Hon Soon (appointed as NRC Chairman on 30 March 2018), Mr Lee Kok Keng, Andrew and Mr. Tan Ngiap Joo (he stepped down as NRC Chairman with effect from 29 March 2018 and continued to be NRC member; to comply with BNM's Policy on Corporate Governance), all of whom are independent Directors except for Mr Lee Kok Keng, Andrew who is a non-independent non-executive Director. Dato' Ooi Sang Kuang stepped down as NRC member with effect from 29 March 2018 following his resignation as Chairman of the Board.

The Board approved the terms of reference of the NRC. 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.

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 68 of the Islamic Financial Services Act, 2013. The annual performance evaluation process of the Board as a whole, and the Board Committees as well as the performance of individual directors was established with the endorsement of the Committee. The Committee will oversee the appointment, management succession planning and performance evaluation of key senior management officers, including recommending to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities.

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

Remuneration Policy

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

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

- Operating efficiency measures which include revenue, direct and allocated costs and operating profits, net profits as well as efficiency indicators such as unit costs.
- Economic efficiency measures such as cost of capital. Capital is attributed to each business based on the amount of risk-weighted assets used and the return on capital.
- Liquidity is factored into the performance measurement of each business through the application of liquidity premiums charged or credited according to the behavioural maturity of each type of asset and liability booked.

CORPORATE GOVERNANCE (continued)

Remuneration Policy (continued)

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

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

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 Vice President 1 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 senior executives who are classified as Material Risk Takers, to have at least 40% of their total variable compensation deferred as long term incentive. For FY2017, if the total variable compensation meets a minimum threshold of S$70,000, of the 40% deferred variable compensation, 30% will be in OCBC Bank deferred shares and 10% will be in OCBC Bank share options. This minimum threshold of S$70,000 has been revised to RM200,000 for FY2018 and the deferred shares and share options remain unchanged at 30% and 10% respectively. Share awards under the OCBC Deferred Share Plan (“the Plan”) are also granted annually to other eligible executives who are paid variable performance bonuses of S$70,000 and above in FY2017. The share awards form 20% to 40% of their total variable performance bonus for the year. For FY2018, the threshold of S$70,000 is also revised to RM200,000 and the share awards form 20% of their total variable performance bonus for the year. For executives who are paid performance bonuses of RM400,000 and above, the executive will be classified as Material Risk Takers and will have 40% of their total variable compensation deferred as long term incentive as mentioned above.

Under the OCBC Deferred Share Plan, 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 Bank Remuneration Committee on the date of the grant of the respective options.

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

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

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

Risk Management Committee

The Risk Management Committee (“RMC”) comprises Mr Ng Hon Soon (appointed RMC Chairman on 1 January 2018), Mr Tan Ngiap Joo, Encik Ismail Bin Alowi, Mr Lee Kok Keng, Andrew and Datuk Azizan Bin Haji Abd Rahman (appointed on 30 March 2018); all of whom are independent Directors except for Mr Lee Kok Keng, Andrew who is a non-independent non-executive Director. Mr Samuel N. Tsien, Mr Lai Teck Poh and Mr Tong Hon Keong stepped down from the Committee on 31 December 2017 following their resignation on 31 December 2017 to comply with BNM's Policy on Corporate Governance. Dato' Ooi Sang Kuang stepped down as RMC member with effect from 29 March 2018 following his resignation as Chairman of the Board.

CORPORATE GOVERNANCE (continued)

Risk Management Committee (continued)

BNM had on 2 July 2009, aproved 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, policies and tolerance.

Disclosure of Shariah Committee

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

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

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

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

(d) To review and endorse Shariah related guidelines;

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

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

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

(f) To provide advice on Shariah matters to relevant parties in the Bank;

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

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

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

(h) To oversee the computation and distribution of zakat and other funds to be channelled to charity;

(i) To put on record, in written form, any opinion that it gives on Shariah related issues;

(j) To develop a structured process in arriving at Shariah decisions which must be documented, adopted and maintained at all times to ensure the credibility of decision-making; and

CORPORATE GOVERNANCE (continued)

Disclosure of Shariah Committee (continued)

(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 2017

Name of Shariah Committee Member	Schedule of Meetings	
	Held +	Attended
Asst. Prof. Dr Muhammad Naim bin Omar	7	7
Assoc. Prof. Dr Mohamad Asmadi bin Haji Abdullah	7	7
Prof. Dr Abdullah @ Alwi bin Hj. Hassan	7	7
Prof. Dato' Dr Wan Sabri bin Wan Yusof	7	6
Assoc. Prof. Dr Suhaimi bin Ab Rahman	7	7

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

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 and to be briefed properly, where necessary, before the meeting. The Bank will provide information on business, financials and risks to the Directors on a regular basis as well as on an ad-hoc basis.

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

- Minutes of meeting of all Board and Board Committees;
- Monthly Performance Report of the Bank;
- At least quarterly Credit Risk Management Report;
- At least quarterly Asset Liability & Market Risk Report;
- At least quarterly Operational Risk Management Report;
- At least quarterly Shariah Risk Management Update; and
- 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 2017 (continued)

CORPORATE GOVERNANCE (continued)

Directors' Attendance At Board and Board Committee Meetings in 2017

Name of Director	Schedule of Meetings Attended			
	Board	Board Audit Committee	Nominating Committee*	Risk Management Committee
Tan Ngiap Joo	9 of 9	6 of 6	7 of 7	6 of 6
Ng Hon Soon	9 of 9	6 of 6	7 of 7	6 of 6
Ismail bin Alowi (appointed on 15 May 2017)	6 of 6			
Lee Kok Keng, Andrew (appointed on 15 May 2017)	5 of 6			
Datuk Azizan Bin Haji Abd Rahman (resigned on 31 December 2017 and re-appointed on 30 March 2018)	9 of 9	6 of 6		6 of 6
Dato' Ooi Sang Kuang (resigned on 29 March 2018)	9 of 9		7 of 7	6 of 6
Samuel N. Tsien (resigned on 31 December 2017)	9 of 9		7 of 7	6 of 6
Lai Teck Poh (resigned on 31 December 2017)	9 of 9		7 of 7	6 of 6
Tong Hon Keong (resigned on 31 December 2017)	9 of 9	6 of 6		6 of 6

* Nominating Committee had been replaced by the Nominating & Remuneration Committee on 1 January 2018.

The Bank's Constitution (formerly 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 2017. 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 RM8,105.

OTHER STATUTORY INFORMATION

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

- all known bad debts and financing have been written off and adequate impairment allowance made for doubtful debts and financing, and
- any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected to realise.

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

- that would render the amount written off for bad debts and financing or the amount of the impairment allowance for doubtful debts and financing in the Bank inadequate to any substantial extent, or
- that would render the value attributed to the current assets in the financial statements of the Bank misleading, or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Bank misleading, or inappropriate, or
- not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Bank misleading.

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

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

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

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2017 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

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

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

TAN NGIAP JOO
Chairman

NG HON SOON
Director

Kuala Lumpur, Malaysia

18 April 2018

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 98 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and of its financial performance and cash flows for the financial year then ended.

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

TAN NGIAP JOO
Chairman

NG HON SOON
Director

Kuala Lumpur, Malaysia

18 April 2018

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

Subscribed and solemnly declared by the abovenamed, Yuen Sook Cheng, at Kuala Lumpur in Malaysia on 18 April 2018.

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

Commissioner for Oaths

SHARIAH COMMITTEE'S REPORT

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

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

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

In carrying out the roles and responsibilities of the Bank's Shariah Committee as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, we hereby submit the following report for the financial year ended 31 December 2017:

We have reviewed the principles and contracts relating to the transactions and applications undertaken by the Bank during the financial year ended 31 December 2017. 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 2017, 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, there were 3 occurrences of Shariah non-compliant events which had immaterial financial loss. 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) Relating to the financial year 2016, the Bank made 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 Pusat Pungutan Zakat Universiti Putra Malaysia (UPM), International Islamic University Malaysia (IIUM) Endowment Fund, Tabung Amanah Zakat Universiti Kebangsaan Malaysia (UKM) and Universiti Teknologi Mara (UiTM) Zakat Centre.

SHARIAH COMMITTEE'S REPORT (continued)

We, the members of the Shariah Committee of OCBC Al-Amin Bank Berhad, do hereby confirm that the operations of the Bank for the year ended 31 December 2017 have been conducted in conformity with the Shariah principles.

ASST. PROF. DR MUHAMMAD NAIM BIN OMAR
Chairman of the Shariah Committee

ASSOC. PROF. DR MOHAMAD ASMADI BIN HAJI ABDULLAH
Member of Shariah Committee

PROF. DR ABDULLAH @ ALWI BIN HJ. HASSAN
Member of Shariah Committee

PROF. DATO' DR WAN SABRI BIN WAN YUSOF
Member of Shariah Committee

ASSOC. PROF. DR SUHAIMI BIN AB RAHMAN
Member of Shariah Committee

Kuala Lumpur, Malaysia
Date: 18 April 2018

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 2017 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 98.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Other Matter

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

KPMG PLT
LLP0010081-LCA & AF 0758
Chartered Accountants

Khaw Hock Hoe
Approval Number: 02229/04/2020 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 18 April 2018

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
ASSETS			
Cash and cash equivalents	3	957,860	1,960,773
Financial investments available-for-sale	4	4,795,143	3,244,999
Financing and advances	5	9,718,087	9,621,734
Derivative financial assets	7	362	75
Other assets	8	65,401	73,419
Tax recoverable		-	8,079
Statutory deposits with Bank Negara Malaysia	9	325,500	327,000
Property and equipment	10	9,325	13,416
Deferred tax assets	11	1,666	5,135
Total assets		15,873,344	15,254,630
LIABILITIES			
Islamic deposits from customers	12	11,251,184	11,320,720
Investment accounts due to designated financial institution	13	1,801,572	1,367,037
Deposits and placements of banks and other financial institutions	14	923,900	1,022,718
Bills and acceptances payable		20,757	30,483
Derivative financial liabilities	7	589	410
Other liabilities	15	332,201	182,322
Subordinated sukuk	16	200,000	200,000
Current tax liabilities		7,203	-
Zakat payable		50	45
Total liabilities		14,537,456	14,123,735
EQUITY			
Share capital	17	555,000	185,000
Reserves	18	780,888	945,895
Total equity		1,335,888	1,130,895
Total liabilities and equity		15,873,344	15,254,630
Commitments and contingencies	31	2,981,214	2,806,487

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds and others	19	609,611	712,695
Income derived from investment of investment account funds	20	82,506	44,216
Income derived from investment of shareholder's funds	21	141,161	107,948
Impairment writeback/(allowance) on financing and advances	22	4,185	(65,467)
Total distributable income		837,463	799,392
Income attributable to depositors	23	(338,897)	(382,860)
Income attributable to investment account holder	24	(57,760)	(30,980)
Total net income		440,806	385,552
Operating expenses	26	(187,561)	(194,946)
Profit before zakat and taxation		253,245	190,606
Income tax expense	28	(61,520)	(39,569)
Zakat	29	(50)	(45)
Profit for the year		191,675	150,992
Other comprehensive income/(expense), net of income tax			
Items that may be reclassified subsequently to profit or loss when specific conditions are met			
Fair value (available-for-sale) reserve:			
- Change in fair value		17,924	(12,101)
- Transferred to profit or loss		(390)	4,153
- Income tax effect		(4,216)	1,870
Other comprehensive income/(expense) for the year, net of income tax		13,318	(6,078)
Total comprehensive income for the year		204,993	144,914
Profit attributable to the owner of the Bank		191,675	150,992
Total comprehensive income attributable to the owner of the Bank		204,993	144,914
Basic earnings per ordinary share (sen)	30	103.61	81.62

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 2017

	Non-distributable					*Distributable*	
2017	**Share Capital RM'000**	**Share Premium RM'000**	**Statutory Reserve* RM'000**	**Regulatory Reserve** RM'000**	**Fair Value Reserve RM'000**	**Retained Earnings RM'000**	**Total Equity RM'000**
At 1 January 2017	185,000	370,000	185,000	-	(8,845)	399,740	1,130,895
Fair value (available-for-sale) reserve							
- Change in fair value	-	-	-	-	17,924	-	17,924
- Transferred to profit or loss	-	-	-	-	(390)	-	(390)
- Income tax effect	-	-	-	-	(4,216)	-	(4,216)
Total other comprehensive income for the year	-	-	-	-	13,318	-	13,318
Profit for the year	-	-	-	-	-	191,675	191,675
Total comprehensive income for the year	-	-	-	-	13,318	191,675	204,993
Transfer pursuant to Companies Act 2016 (Note 1 (c))	370,000	(370,000)	-	-	-	-	-
Transfer (to)/from retained earnings	-	-	(185,000)	91,000	-	94,000	-
At 31 December 2017	555,000	-	-	91,000	4,473	685,415	1,335,888
2016							
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

* During the financial year, the Bank transferred RM185 million from its statutory reserve account to retained earnings pursuant to Bank Negara Malaysia's revised policy document on Capital Funds which is effective from 3 May 2017.

** The Bank transferred RM91 million from retained earnings to regulatory reserve during the financial year (Note18).

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

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before income tax expense and zakat	253,245	190,606
Adjustments for:		
Net (gain)/loss from disposal of:		
- Financial investments available-for-sale	(390)	4,153
- Property and equipment	9	589
Depreciation of property and equipment	4,502	5,224
(Writeback)/impairment allowance on financing and advances	(4,185)	65,467
Share-based expenses	288	286
Unrealised (gain)/loss on revaluation of derivatives	(106)	162
Operating profit before changes in working capital	253,363	266,487
Changes in operating assets and operating liabilities:		
Financing and advances	(151,986)	200,591
Derivative financial assets	(287)	545
Other assets	8,135	(32,323)
Statutory deposits with Bank Negara Malaysia	1,500	79,100
Islamic deposits from customers	(69,536)	1,142,972
Investment accounts due to designated financial institution	494,353	317,974
Deposits and placements of banks and other financial institutions	(98,818)	(987,094)
Bills and acceptances payable	(9,726)	11,813
Derivative financial liabilities	179	(380)
Other liabilities	149,591	13,005
Cash generated from operations	576,768	1,012,690
Income tax and zakat paid	(47,030)	(44,017)
Net cash generated from operating activities	529,738	968,673
Cash flows from investing activities		
Acquisition of financial investments available-for-sale	(7,815,000)	(4,675,122)
Proceeds from disposal of financial investments available-for-sale	6,282,780	4,541,213
Acquisition of property and equipment	(442)	(5,005)
Proceeds from disposal of property and equipment	11	2
Net cash used in investing activities	(1,532,651)	(138,912)
Cash flows from financing activities		
Proceeds from issuance of subordinated sukuk	-	200,000
Redemption of subordinated sukuk	-	(200,000)
Net cash generated from financing activities	-	-
Net (decrease)/increase in cash and cash equivalents	(1,002,913)	829,761
Cash and cash equivalents at 1 January	1,960,773	1,131,012
Cash and cash equivalents at 31 December (Note 3)	957,860	1,960,773

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017

GENERAL INFORMATION

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

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

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

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

The financial statements were approved and authorised for issue by the Board of Directors on 18 April 2018.

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 Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the Companies Act 2016 in Malaysia and Bank Negara Malaysia's ("BNM") requirements on Shariah related disclosures.

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

<u>Effective for financial periods commencing on or after 1 January 2018</u>

- 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*

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

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

The Bank plans to apply the abovementioned 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* replaces MFRS 139, *Financial Instruments: Recognition and Measurement.* Retrospective application is required but restatement of 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.

1 BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

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 only 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 the recognition of operating lease commitments on right of use assets in the statement of financial position.

The initial financial impact from the adoption from MFRS 9 and MFRS 15 is disclosed in Note 44 while the Bank is currently assessing the financial impact of adopting 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.

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.

1 BASIS OF PREPARATION (continued)

(b) Use of estimates and judgements (continued)

(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.

(c) Companies Act 2016

The financial statements of the Bank are prepared in accordance with Companies Act 2016 which replaced the Companies Act, 1965. The key changes introduced which affected the financial statements of the Bank are:

(i) the removal of the authorised share capital;
(ii) the ordinary shares of the Bank will cease to have par or nominal value; and
(iii) the Bank's share premium will become part of the share capital.

Pursuant to the Companies Act 2016, the Bank no longer maintains a share premium account which balance was transferred to share capital during the year.

(d) Revised Policy Document on Capital Funds for Islamic Banks issued by BNM

On 3 May 2017, BNM issued a revised Policy Document on Capital Funds for Islamic Banks ("Revised Policy Document"). The key changes are:

(i) the removal of the requirement on maintenance of a statutory reserve fund; and
(ii) the removal of share premium and reserve fund as a component of capital funds.

Pursuant to the revised policy document, the Bank transferred the balance of its statutory reserve fund to retained earnings during the year.

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.

(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.

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 (continued)

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), lease-based contracts (Ijarah Thumma Al-Bai, Ijarah and Ijarah Muntahiah Bi Al-Tamlik), equity based contracts (Musharakah Mutanaqisah) and other contracts (Wakalah and Qard). The Bank's core business is in providing financing to customers and not into leasing business. As a result, we have recognised all lease-based contracts as forms of financing and recognised them accordingly as a financial instrument under MFRS 139. The assets funded under the lease-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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Property and equipment (continued)

(a) Recognition and measurement (continued)

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

(b) Subsequent costs

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

(c) Depreciation

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

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).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(i) Held-to-maturity investments

When there is objective evidence of impairment, impairment allowance 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 allowance 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 future cash flows discounted at the current market rate of return for a similar financial asset.

For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. Impairment allowance recognised in profit or loss for an investment in an equity instrument 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 allowance was recognised in profit or loss, the impairment allowance is reversed, to the extent that the asset’s carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(iii) Financing and receivables

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 asset (continued)

(iii) Financing and receivables (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 unit is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a pro rata basis.

Impairment 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Equity Instruments

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

Ordinary shares are classified as equity.

Interim dividends on ordinary shares are recorded in the financial year in which they are declared payable by the Board of Directors. Final dividends are recorded in the financial year when the dividends are approved by the Board of Directors 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

H Employee benefits (continued)

(b) Share-based payment transactions (continued)

(iii) OCBC Employee Share Purchase Plan

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

J Income and expenses (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	2017 RM'000	2016 RM'000
Cash and balances with banks and other financial institutions	141,604	26,978
Deposits and placements with BNM	816,256	1,933,795
	957,860	1,960,773

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

	2017 RM'000	2016 RM'000
Malaysia	841,316	1,955,769
Singapore	23,225	1,219
Other ASEAN countries	304	97
Rest of the world	93,015	3,688
	957,860	1,960,773

4 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2017 RM'000	2016 RM'000
At fair value		
Malaysian Government Investment Issues	2,154,016	1,728,949
Malaysian Government Sukuk	95,188	92,778
Malaysian Government Islamic Treasury Bills	49,881	49,871
Islamic Corporate Sukuk	645,373	430,869
Islamic Negotiable Instruments of Deposit	1,563,487	698,689
Cagamas Sukuk	85,201	10,123
Foreign Government Sukuk	201,997	233,720
	4,795,143	3,244,999

5 FINANCING AND ADVANCES

(i) By type and Shariah contract

2017	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	54,009	11,508	-	-	-	-	235,901	-	-	792	302,210
Term financing											
- House financing	-	11,766	-	-	-	-	-	1,895,330	92,738	-	1,999,834
- Syndicated term financing	-	-	50,048	-	-	-	-	292,131	-	-	342,179
- Hire purchase receivables	-	-	-	-	-	255,683	-	170,301	-	-	425,984
- Other term financing	639,315	121,208	284,789	-	-	-	-	2,137,173	120,913	-	3,303,398
Bills receivable	-	-	-	-	20,403	-	-	-	-	-	20,403
Trust receipts	-	-	-	118	-	-	-	-	-	-	118
Revolving credit	-	-	3,015,080	-	-	-	-	-	-	-	3,015,080
Claims on customers under acceptance credits	-	-	-	366,386	95,241	-	-	-	-	-	461,627
Other financing	-	-	104,670	13,819	-	-	-	-	-	-	118,489
Gross financing and advances	693,324	144,482	3,454,587	380,323	115,644	255,683	235,901	4,494,935	213,651	792	9,989,322
Allowance for financing and advances											
- Individual impairment											(125,877)
- Collective impairment											(145,358)
Net financing and advances											9,718,087

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

As at 31 December 2017, the gross exposure relating to RPSIA financing is RM1,867 million and the associated individual and collective allowances amounted to RM59.8 million and RM8.6 million respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

5 FINANCING AND ADVANCES (continued)

(i) By type and Shariah contract (continued)

	Sale based contracts					Lease based contracts			Equity based contracts		
2016	**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

As at 31 December 2016, the gross exposure relating to RPSIA financing is RM1,333 million and collective allowances amounted to RM10.8 million. There was no individual impairment provided for these RPSIA finanicng.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

5 FINANCING AND ADVANCES (continued)

	2017 RM'000	2016 RM'000
(ii) By type of customer		
Domestic non-bank financial institutions	53,002	49,867
Domestic business enterprises		
- Small and medium enterprises	1,981,414	2,444,209
- Others	4,134,011	4,102,921
Individuals	2,511,671	2,764,562
Foreign entities	1,309,224	527,197
	9,989,322	9,888,756

	2017 RM'000	2016 RM'000
(iii) By profit rate sensitivity		
Fixed rate		
- House financing	20,583	23,120
- Hire purchase receivables	256,952	375,310
- Other fixed rate financing	1,826,506	2,461,961
Variable rate		
- Base rate/base financing rate plus	3,551,704	3,668,566
- Cost plus	4,333,577	3,359,799
	9,989,322	9,888,756

	2017 RM'000	2016 RM'000
(iv) By sector		
Agriculture, hunting, forestry and fishing	1,392,683	1,150,070
Mining and quarrying	260,208	301,638
Manufacturing	1,410,896	1,760,308
Electricity, gas and water	53,965	61,218
Construction	449,102	448,263
Real estate	555,595	586,417
Wholesale & retail trade and restaurants & hotels	1,005,363	1,200,474
Transport, storage and communication	174,277	240,846
Finance, insurance and business services	247,134	323,396
Community, social and personal services	608,545	523,126
Household		
- Purchase of residential properties	2,039,830	2,070,568
- Purchase of non-residential properties	42,629	45,001
- Others	549,309	757,580
Others	1,199,786	419,851
	9,989,322	9,888,756

	2017 RM'000	2016 RM'000
(v) By geographical distribution		
Malaysia	8,872,089	9,576,389
Singapore	650,635	53,753
Other ASEAN countries	227,090	2,826
Rest of the world	239,508	255,788
	9,989,322	9,888,756

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

	2017 RM'000	2016 RM'000
(vi) By residual contractual maturity		
Within one year	4,131,977	3,044,307
One year to less than three years	746,454	1,295,556
Three years to less than five years	939,000	733,563
Over five years	4,171,891	4,815,330
	9,989,322	9,888,756

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

6 IMPAIRED FINANCING AND ADVANCES

(a) Movements in impaired financing and advances

	2017 RM'000	2016 RM'000
At 1 January	297,552	285,424
Impaired during the year	406,233	322,408
Reclassified as unimpaired	(101,860)	(60,439)
Amount recovered	(129,692)	(163,270)
Amount written off	(79,583)	(90,350)
Effect of foreign exchange difference	(9,078)	3,779
At 31 December	383,572	297,552
Individual impairment allowance	(125,877)	(80,043)
Collective impairment allowance	(5,913)	(4,146)
Net impaired financing and advances	251,782	213,363

Included in the impaired 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 Bank (Malaysia) Berhad. The immediate holding company, being the RPSIA holder, is exposed to the risks and rewards of the business venture and accounts for the individual impairment allowance arising thereon. As at 31 December 2017, the gross exposures relating to RPSIA financing are RM116 million (2016: nil) and the associated individual allowances amounted to RM60 million (2016: nil) respectively.

(i) By sector

	2017 RM'000	2016 RM'000
Agriculture, hunting, forestry and fishing	435	529
Mining and quarrying	-	180
Manufacturing	26,319	38,394
Construction	4,159	2,977
Real estate	5,295	8,244
Wholesale & retail trade and restaurants & hotels	44,933	38,638
Transport, storage and communication	4,539	7,096
Finance, insurance and business services	10,899	6,352
Community, social and personal services	1,370	2,784
Household		
- Purchase of residential properties	60,604	55,374
- Purchase of non-residential properties	262	252
- Others	32,827	44,535
Others	191,930	92,197
	383,572	297,552

(ii) By geographical distribution

	2017 RM'000	2016 RM'000
Malaysia	383,572	297,552

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

(iii) By period overdue

	2017 RM'000	2016 RM'000
Less than 3 months	61,807	91,663
3 months to less than 6 months	47,168	58,263
6 months to less than 9 months	132,766	104,226
Over 9 months	141,831	43,400
	383,572	297,552

6 IMPAIRED FINANCING AND ADVANCES (continued)

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

(iv) By collateral type

	2017 RM'000	2016 RM'000
Property	94,107	84,736
Machinery	997	3,202
Secured - others	216,166	115,660
Unsecured - corporate and other guarantees	471	8
Unsecured - clean	71,831	93,946
	383,572	297,552

(b) Movements in allowance for financing and advances

	2017 RM'000	2016 RM'000
Individual impairment allowance		
At 1 January	80,043	82,433
Made during the year	196,732	154,465
Written back	(70,311)	(65,613)
Written off	(79,583)	(90,350)
Financing income earned on impaired financing	(1,004)	(892)
At 31 December	125,877	80,043
Collective impairment allowance		
At 1 January	186,979	190,479
Made during the year	3,500	-
Written back	(45,121)	(3,500)
At 31 December	145,358	186,979

(i) By sector

2017	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	211	280	37	20,521
Mining and quarrying	-	-	154	3,834
Manufacturing	3,855	6,211	3,327	20,736
Electricity, gas and water	-	-	-	795
Construction	965	1,631	1,325	6,604
Real estate	2,703	39	-	8,147
Wholesale & retail trade and restaurants & hotels	12,102	17,038	13,249	14,638
Transport, storage and communication	998	1,868	1,487	2,554
Finance, insurance and business services	2,170	5,946	3,094	3,610
Community, social and personal services	338	1,096	1,431	8,963
Household				
- Purchase of residential properties	11,583	10,243	1,359	29,890
- Purchase of non-residential properties	49	50	-	628
- Others	31,085	81,195	42,802	7,637
Others	59,818	71,135	11,318	16,801
	125,877	196,732	79,583	145,358

* Collective impairment allowance for financing and advances

6 IMPAIRED FINANCING AND ADVANCES (continued)

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

(i) By sector (continued)

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

* Collective impairment allowance for financing and advances

(ii) By geographical distribution

	2017 RM'000	2016 RM'000
Individual impairment allowance		
Malaysia	125,877	80,043
Collective impairment allowance		
Malaysia	128,893	181,024
Singapore	9,588	1,025
Other ASEAN countries	3,347	54
Rest of the world	3,530	4,876
	145,358	186,979

7 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	2017			2016		
	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	63,844	362	589	67,266	75	410
Of which related to immediate holding company	30,544	19	143	43,813	38	2

8 OTHER ASSETS

	2017 RM'000	2016 RM'000
Profit receivable	28,707	25,817
Other receivables, deposits and prepayments	6,750	3,451
Amount due from immediate holding company	21,654	44,145
Amount due from ultimate holding company	8,153	6
Amount due from related companies	137	-
	65,401	73,419

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

2017	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Renovation RM'000	Total RM'000
Cost				
At 1 January	8,477	16,667	10,956	36,100
Additions/Transfers in	292	127	41	460
Disposals/Transfers to	(58)	(269)	(11)	(338)
At 31 December	8,711	16,525	10,986	36,222

10 PROPERTY AND EQUIPMENT (continued)

2017 (continued)	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Renovation RM'000	Total RM'000
Accumulated depreciation				
At 1 January	(3,237)	(12,134)	(7,313)	(22,684)
Depreciation for the year	(861)	(1,640)	(2,001)	(4,502)
Disposals/Transfers in/to	32	246	11	289
At 31 December	(4,066)	(13,528)	(9,303)	(26,897)
Carrying amount				
At 1 January	5,240	4,533	3,643	13,416
At 31 December	4,645	2,997	1,683	9,325
2016				
Cost				
At 1 January	6,802	15,839	10,300	32,941
Additions/Transfers in	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
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

11 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Change in fair value of financial instruments	-	2,791	(1,425)	-	(1,425)	2,791
Excess of capital allowances over depreciation	-	-	(1,132)	(1,410)	(1,132)	(1,410)
Other temporary differences	4,223	3,754	-	-	4,223	3,754
Tax assets/(liabilities)	4,223	6,545	(2,557)	(1,410)	1,666	5,135
Set off of tax	(2,557)	(1,410)	2,557	1,410	-	-
Net tax assets	1,666	5,135	-	-	1,666	5,135

11 DEFERRED TAX ASSETS (continued)

(i) Movement in deferred tax during the financial year

2017	At 1 January RM'000	Recognised in profit or loss (Note 28) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
Change in fair value of financial instruments	2,791	-	(4,216)	(1,425)
Excess of capital allowances over depreciation	(1,410)	278	-	(1,132)
Other temporary differences	3,754	469	-	4,223
Total	5,135	747	(4,216)	1,666
2016				
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

12 ISLAMIC DEPOSITS FROM CUSTOMERS

	2017 RM'000	2016 RM'000
a) By type of deposit		
Savings deposits		
- Wadiah	-	257,886
- Tawarruq	208,680	176,509
- Qard	275,652	824
Demand deposits		
- Wadiah	-	3,558,672
- Tawarruq	21,770	6,069
- Qard	3,709,810	182
Term Deposits		
- Commodity Murabahah	6,533,850	6,821,131
- Qard	78,164	53,562
Negotiable instruments of deposit		
- Bai' Bithaman Ajil	71,143	68,149
Short-term deposits		
- Tawarruq	352,012	377,592
General investment deposits		
- Mudharabah	103	144
	11,251,184	11,320,720

Included in the above are negotiable instruments of deposit issued to its immediate holding company amounting to RM71 million (2016: RM68 million), which are unsecured and profit bearing.

12 ISLAMIC DEPOSITS FROM CUSTOMERS (continued)

	2017 RM'000	2016 RM'000
b) By type of customer		
Government and statutory bodies	1,346,287	1,408,402
Non-bank financial institutions	720,886	960,027
Business enterprises	5,725,498	5,648,386
Individuals	3,214,938	3,098,872
Foreign entities	102,959	81,777
Others	140,616	123,256
	11,251,184	11,320,720

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

	2017 RM'000	2016 RM'000
Within six months	4,816,251	5,160,684
Six months to one year	1,981,575	2,018,533
One year to three years	236,935	72,912
Three years to five years	511	68,449
	7,035,272	7,320,578

13 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTION

	2017 RM'000	2016 RM'000
Mudharabah restricted profit sharing investment account ("RPSIA")		
Licensed bank	1,861,390	1,367,037
Amount receivable from immediate holding company under RPSIA	(59,818)	-
	1,801,572	1,367,037

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

	2017 RM'000	2016 RM'000
Non-Mudharabah		
Licensed banks	922,004	1,020,173
Other financial institutions	1,896	2,545
	923,900	1,022,718

Included in the above are deposits and placements of its immediate holding company of RM482 million (2016: RM538 million), which are unsecured and profit bearing.

15 OTHER LIABILITIES

		2017 RM'000	2016 RM'000
Profit payable		75,884	98,905
Other payables and accruals		78,191	74,779
Amount due to immediate holding company	(a)	177,430	7,931
Equity compensation benefits	(b)	696	707
		332,201	182,322

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

15 OTHER LIABILITIES (continued)

(b) Equity Compensation Benefits

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

(i) OCBC Deferred Share Plan

Under the OCBC Deferred Share Plan ("the Plan"), shares of the ultimate holding company of the Bank are awarded to 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 Nominating & Remuneration Committee, in which case the OCBC Bank Nominating & 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 Nominating & 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 Nominating & Remuneration Committee, in which case the Nominating & 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 17,925 (2016: 22,674) options 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$13,673 (2016: S$29,649). Significant inputs to the valuation model are set out below:

	2017	**2016**
Acquisition price (S$)	9.60	8.81
Average share price from grant date to acceptance date (S$)	9.64	8.95
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	14.73	20.08
Risk-free rate based on SGD bond yield at acceptance date (%)	2.11	1.83
Expected dividend yield (%)	4.27	4.02
Exercise multiple (times)	1.74	1.78
Option life (expected weighted average life)	10	10

15 OTHER LIABILITIES (continued)

(b) Equity Compensation Benefits (continued)

(ii) OCBC Share Option Scheme 2001 (continued)

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

	2017		2016	
	Number of share options	Weighted average acquisition price (S$)	Number of share options	Weighted average acquisition price (S$)
At 1 January	75,159	9.503	52,485	9.800
Granted	17,925	9.598	22,674	8.814
Exercised	(42,015)	9.378	-	-
At 31 December	51,069	9.639	75,159	9.503
Exercisable on 31 December	11,848	10.378	35,204	9.697
Weighted average share price underlying the options exercised (S$)		10.712		-

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S$)	2017 Outstanding	2017 Exercisable
2015	16/03/2015	16/3/2016 - 15/3/2025	10.378	17,952	11,848
2016	16/03/2016	16/3/2017 - 15/3/2026	8.814	15,192	-
2017	23/03/2017	23/3/2018 - 22/3/2027	9.598	17,925	-
				51,069	11,848

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 - 15/3/2025	10.378	17,952	5,924
2016	16/03/2016	16/3/2017 - 15/3/2026	8.814	22,674	-
				75,159	35,204

(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)

(b) Equity Compensation Benefits (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 2017, OCBC Bank launched its twelfth offering of ESP Plan for OCBC employees, which commenced on 1 July 2017 and expires on 30 June 2019. Under the offering, the Bank granted 6,204 (2016: 10,921) rights to acquire ordinary shares in OCBC Bank. The fair value of rights for the Bank, determined using the binomial valuation model were S$4,522 (2016: S$9,447). Significant inputs to the valuation model are set out below:

	2017	**2016**
Acquisition price (S$)	10.77	8.45
Closing share price at valuation date (S$)	10.72	8.45
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	13.06	20.66
Risk-free rate based on 2-year swap rate (%)	1.26	0.99
Expected dividend yield (%)	3.36	4.26

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

	2017		**2016**	
	Number of share options	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	15,578	9.040	10,690	9.859
Acquired	6,204	10.770	10,921	8.450
Forfeited/Lapsed	(4,152)	9.645	(6,033)	9.423
Exercised and converted upon expiry	(3,916)	9.801	-	-
At 31 December	13,714	9.422	15,578	9.040
Average share price underlying acquisition rights exercised/converted (S$)		10.992		-

16 SUBORDINATED SUKUK

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

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

17 SHARE CAPITAL

	2017 RM'000	2016 RM'000
Issued and fully paid		
Ordinary shares		
At 1 January	185,000	185,000
Transferred pursuant to Companies Act 2016	370,000	-
At 31 December	555,000	185,000

The share capital of the Bank increased to RM555 million via transfer of share premium amounting to RM370 million to share capital pursuant to Companies Act 2016.

18 RESERVES

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

Pursuant to the Companies Act 2016, the Bank no longer maintains a share premium account which balance has been transferred to share capital during the year.

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

Regulatory reserve is maintained in compliance with the requirements under BNM's Policy on Classification and Impairment Provision for Loans/Financing to maintain, in aggregate, collective impairment allowance and regulatory reserve of no less than 1.2% of total outstanding loans/financing, net of individual impairment allowance. During the financial year, the Bank transferred RM91 million from retained earnings to regulatory reserve.

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

Income derived from investment of:	2017 RM'000	2016 RM'000
(i) Term deposits/general investment deposits	343,796	408,455
(ii) Other deposits	265,815	304,240
	609,611	712,695

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

	2017 RM'000	2016 RM'000
(i) Income derived from investment of term deposits/general investment deposits		
Finance income and hibah		
Unimpaired financing and advances	253,106	321,062
Impaired financing and advances	509	475
Financial investments available-for-sale	69,727	65,266
Deposits and placements with banks and other financial institutions	19,808	23,886
	343,150	410,689
Other operating income		
Net gain/(loss) from sale of financial investments available-for-sale	191	(2,146)
Others	455	(88)
	343,796	408,455
(ii) Income derived from investment of other deposits		
Finance income and hibah		
Unimpaired financing and advances	195,461	239,535
Impaired financing and advances	398	347
Financial investments available-for-sale	54,367	48,457
Deposits and placements with banks and other financial institutions	15,075	17,603
	265,301	305,942
Other operating income		
Net gain/(loss) from sale of financial investments available-for-sale	162	(1,672)
Others	352	(30)
	265,815	304,240

20 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS

	2017 RM'000	2016 RM'000
Finance income and hibah		
Unimpaired financing and advances	81,746	41,008
Deposits and placements with banks and other financial institutions	760	3,208
	82,506	44,216

21 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2017 RM'000	2016 RM'000
Finance income and hibah		
Unimpaired financing and advances	47,953	47,942
Impaired financing and advances	97	70
Financial investments available-for-sale	13,357	9,753
Deposits and placements with banks and other financial institutions	3,666	3,577
	65,073	61,342
Other operating income		
Commission	33,680	14,142
Service charges and fees	27,823	18,226
Net gain/(loss) from sale of financial investments available-for-sale	37	(335)
Others	86	(10)
	61,626	32,023

21 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS (continued)

	2017 RM'000	2016 RM'000
Other trading income		
Net trading gain/(loss)		
- Foreign currency	1,905	(201)
- Trading derivatives	12,451	14,946
- Revaluation of derivatives	106	(162)
	14,462	14,583
	141,161	107,948

22 IMPAIRMENT WRITEBACK/(ALLOWANCE) ON FINANCING AND ADVANCES

	2017 RM'000	2016 RM'000
Individual impairment allowance		
- Made during the year	(196,732)	(154,465)
- Written back	70,311	65,613
	(126,421)	(88,852)
Collective impairment allowance		
- Made during the year	(3,500)	-
- Written back	45,121	3,500
	41,621	3,500
Impaired financing written off	(6)	(4)
Impaired financing recovered	29,173	19,889
Recovery from RPSIA holder*	59,818	-
	88,985	19,885
	4,185	(65,467)

* The RPSIA holder is the Bank's immediate holding company (Note 13).

23 INCOME ATTRIBUTABLE TO DEPOSITORS

	2017 RM'000	2016 RM'000
Deposits from customers		
- Non-Mudharabah	316,807	352,059
- Mudharabah	4	5
	316,811	352,064
Deposits and placements of banks and other financial institutions		
- Non-Mudharabah	12,486	19,837
Subordinated sukuk	9,600	10,959
	338,897	382,860

24 INCOME ATTRIBUTABLE TO INVESTMENT ACCOUNT HOLDER

	2017 RM'000	2016 RM'000
Investment accounts due to designated financial institution (Note 34)		
- Mudharabah	57,760	30,980

25 FINANCE INCOME AND EXPENSE ANALYSED BY CATEGORY OF FINANCIAL INSTRUMENTS

	2017 RM'000	2016 RM'000
Finance income		
Financing and advances	579,270	650,439
Financial investments available-for-sale	137,451	123,476
Deposits and placements with banks and other financial institutions	39,309	48,274
	756,030	822,189
Finance expense		
Liabilities at amortised cost	396,657	413,840

26 OPERATING EXPENSES

	2017 RM'000	2016 RM'000
Personnel expenses		
Wages, salaries and bonus	22,531	25,736
Employees Provident Fund contributions	3,439	3,966
Share-based expenses	288	286
Others	2,453	2,693
	28,711	32,681
Establishment expenses		
Depreciation of property and equipment	4,502	5,224
Rental of premises	2,896	2,907
Repair and maintenance	793	671
Information technology costs	85	486
Others	2,411	2,711
	10,687	11,999
Marketing expenses		
Advertisement and business promotion	517	776
Transport and travelling	350	515
Others	48	151
	915	1,442
General administrative expenses		
Shared service fees to immediate holding company (Note 34)	97,808	101,099
Transaction processing fees to related companies (Note 34)	25,361	24,415
Auditors' remuneration		
- Statutory audit	89	85
- Audit related fees	121	84
- Other services	1	30
Shariah Committee remuneration	336	261
Others	23,532	22,850
	147,248	148,824
Total operating expenses	187,561	194,946

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

26 OPERATING EXPENSES (continued)

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

	Remuneration RM'000	Allowance RM'000	Total RM'000
2017			
Asst. Prof. Dr Muhammad Naim bin Omar	60	15	75
Assoc. Prof. Dr Mohamad Asmadi bin Haji Abdullah	54	12	66
Prof. Dr Abdullah @ Alwi bin Hj. Hassan	54	11	65
Prof. Dato' Dr Wan Sabri bin Wan Yusof	54	11	65
Assoc. Prof. Dr Suhaimi bin Ab Rahman	54	11	65
	276	60	336
2016			
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

27 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION

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

	2017						2016					
	Unrestricted				*Deferred*		*Unrestricted*				*Deferred*	
	Salaries and fees RM'000	**Variable bonuses RM'000**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options^ RM'000**	**Total RM'000**	**Salaries and fees RM'000**	**Variable bonuses RM'000**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options^ RM'000**	**Total RM'000**
CEO												
Syed Abdull Aziz Jailani bin Syed Kechik	897	396	6	207	264	1,770	889	312	10	192	208	1,611
Non Executive Directors												
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	67	-	-	-	-	67	50	-	-	-	-	50
Lai Teck Poh (Resigned on 31 December 2017)	53	-	-	-	-	53	50	-	-	-	-	50
Ng Hon Soon	67	-	-	-	-	67	60	-	-	-	-	60
Tong Hon Keong (Resigned on 31 December 2017)	53	-	-	-	-	53	50	-	-	-	-	50
Tan Ngiap Joo	67	-	-	-	-	67	58	-	-	-	-	58
Datuk Azizan bin Haji Abd Rahman (Resigned on 31 December 2017)	53	-	-	-	-	53	29	-	-	-	-	29
Dr. Raja Lope bin Raja Shahrome (Retired on 10 March 2016)	-	-	-	-	-	-	10	-	-	-	-	10
Lee Kok Keng, Andrew (Appointed on 15 May 2017)	67	-	-	-	-	67	-	-	-	-	-	-
Ismail bin Alowi (Appointed on 15 May 2017)	67	-	-	-	-	67	-	-	-	-	-	-
	1,391	396	6	207	264	2,264	1,196	312	10	192	208	1,918

^ 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 (Resigned on 31 December 2017) did not receive any remuneration from the Bank during the year (2016: 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:

	2017				2016			
	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	3,133	-	3,133		3,022	-	3,022	
Others	17	-	17		14	-	14	
	3,150	-	3,150		3,036	-	3,036	
Variable remuneration								
Cash based	1,296	-	1,296	6	1,185	-	1,185	6
Shares and share options	-	369	369	2	-	307	307	2
	1,296	369	1,665		1,185	307	1,492	
Total	4,446	369	4,815		4,221	307	4,528	

The material risk takers are also part of the Bank's senior management. Other than the above, no senior management nor other material risk taker received nor was awarded any guaranteed bonus, sign-on award or severance payment.

(c) Outstanding deferred remuneration

	2017 RM'000	2016 RM'000
Share and share options		
Exposed to ex-post explicit and implicit adjustments	1,668	1,220
Deferred remuneration paid out during the year	313	266
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 INCOME TAX EXPENSE

	2017 RM'000	2016 RM'000
Malaysian income tax		
- Current year	62,273	40,132
- Prior years	(6)	531
	62,267	40,663
Deferred tax		
- Origination and reversal of temporary differences	(838)	(604)
- Prior years	91	(490)
	(747)	(1,094)
	61,520	39,569

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

	2017 %	2016 %
Malaysian tax rate at 24%	24.0	24.0
Tax effect of:		
Expenses not deductible for tax purposes	0.3	0.4
Income not subject to tax	-	(3.7)
Average effective tax rate	24.3	20.7

29 ZAKAT

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

30 BASIC EARNINGS PER ORDINARY SHARE

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

	2017	2016
Net profit for the year (RM'000)	191,675	150,992
Weighted average number of ordinary shares in issue ('000)	185,000	185,000
Basic earnings per share (sen)	103.61	81.62

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 BNM's Capital Adequacy Framework for Islamic Banks (CAFIB Basel II) - Disclosure Requirements (Pillar 3).

	2017					2016				
	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	99,291			99,291	89,356	84,883			84,883	54,263
Transaction-related contingent items	400,522			201,991	157,885	321,947			164,357	126,990
Short-term self-liquidating trade-related contingencies	76,207			16,423	10,239	22,781			4,556	2,876
Foreign exchange related contracts										
- Less than one year	64,013	362	589	586	313	67,266	75	410	364	229
Formal standby facilities and credit lines										
- Maturity exceeding one year	362,715			292,428	215,284	263,145			231,541	57,790
Other unconditionally cancellable commitments	1,978,466			61,413	8,514	2,046,465			43,629	7,530
	2,981,214	362	589	672,132	481,591	2,806,487	75	410	529,330	249,678

32 CAPITAL COMMITMENTS

	2017 RM'000	2016 RM'000
Capital commitments in respect of property and equipment		
- Contracted but not provided for	3,642	91

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:

	2017 RM'000	2016 RM'000
Less than one year	2,858	2,460
Between one to five years	3,997	1,357
	6,855	3,817

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.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Significant transactions and outstanding balances with related parties

	2017				2016			
	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	-	-	-	20	-	-	-	22
Shared service fees	53	7,945	-	-	68	7,585	-	-
Fee and commission income	9,143	-	676	-	-	-	709	-
Rental income	-	-	6	-	-	-	-	-
	9,196	7,945	682	20	68	7,585	709	22
Expenditure								
Profit expense on term deposits	-	-	-	26	-	-	-	22
Profit expense on other deposits	-	-	4,753	-	-	-	6,795	-
Profit expense on negotiable instruments of deposit	-	3,266	-	-	-	2,876	-	-
Profit expense on investment accounts (Note 24)	-	57,760	-	-	-	30,980	-	-
Profit expense on deposits and placements	4,505	7,981	-	-	4,415	12,846	-	-
Profit expense on subordinated sukuk	-	9,600	-	-	-	10,959	-	-
Shared service fees (Note 26)	-	97,808	-	-	-	101,099	-	-
Transaction processing fees (Note 26)	-	-	25,361	-	-	-	24,415	-
Rental expenses	-	48	-	-	-	61	-	-
Other expenses	-	2	437	-	-	2	365	-
	4,505	176,465	30,551	26	4,415	158,823	31,575	22

34 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2017				2016			
	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	23,407	-	122	-	1,264	-	52	-
Financing and advances	-	-	-	338	-	-	-	356
Derivative financial assets	-	19	-	-	-	38	4	-
Other assets (Note 8)	8,153	21,654	137	-	6	44,145	-	-
	31,560	21,673	259	338	1,270	44,183	56	356
Amount due to								
Demand deposits and term deposits	-	-	2,666	964	-	-	3,594	574
Other deposits	-	-	178,680	116	-	-	241,035	12
Negotiable instruments of deposit	-	71,143	-	-	-	68,149	-	-
Investment accounts	-	1,801,572	-	-	-	1,367,037	-	-
Deposits and placements of banks and other financial institutions	409,850	482,200	-	-	436,437	537,790	-	-
Profit payable	775	6,963	53	9	187	5,209	124	5
Derivative financial liabilities	-	143	-	-	-	2	6	-
Other liabilities (Note 15)	94	177,430	-	-	97	7,931	-	-
Subordinated sukuk (Note 16)	-	200,000	-	-	-	200,000	-	-
	410,719	2,739,451	181,399	1,089	436,721	2,186,118	244,759	591
Commitments								
Foreign exchange derivatives	-	30,544	-	-	-	43,813	4,880	-

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 BNM's Guidelines on Credit Transactions and Exposures with Connected Parties:

	2017 RM'000	2016 RM'000
Aggregate value of outstanding credit exposure with connected parties^		
Credit facility and leasing (except guarantee)	8,353	6,454
Commitments and contingencies*	31,477	32,261
	39,830	38,715
Impaired or in default	-	-
Outstanding credit exposures to connected parties		
As a proportion of total credit exposures	0.35%	0.35%

^ 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.

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").

	2017				2016			
	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	-	957,860	-	957,860	-	1,960,773	-	1,960,773
Financial investments available-for-sale	-	-	4,795,143	4,795,143	-	-	3,244,999	3,244,999
Financing and advances	-	9,718,087	-	9,718,087	-	9,621,734	-	9,621,734
Derivative financial assets	362	-	-	362	75	-	-	75
Other assets	-	65,401	-	65,401	-	73,419	-	73,419
Statutory deposits with Bank Negara Malaysia	-	325,500	-	325,500	-	327,000	-	327,000
	362	11,066,848	4,795,143	15,862,353	75	11,982,926	3,244,999	15,228,000
Financial liabilities								
Islamic deposits from customers	-	11,251,184	-	11,251,184	-	11,320,720	-	11,320,720
Investment accounts due to designated financial institution	-	1,801,572	-	1,801,572	-	1,367,037	-	1,367,037
Deposits and placements of banks and other financial institutions	-	923,900	-	923,900	-	1,022,718	-	1,022,718
Bills and acceptances payable	-	20,757	-	20,757	-	30,483	-	30,483
Derivative financial liabilities	589	-	-	589	410	-	-	410
Other liabilities	-	332,201	-	332,201	-	182,322	-	182,322
Subordinated sukuk	-	200,000	-	200,000	-	200,000	-	200,000
	589	14,529,614	-	14,530,203	410	14,123,280	-	14,123,690

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 provide the right of set-off of recognised amounts that is only enforceable in event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. Malaysia was not a clear netting jurisdiction previously and hence the Bank was not able to enforce set-off in the event of default. The Netting of Financial Agreement Act (“the Act”) which came into force in 2015, provides assurance that the close-out netting mechanism for financial transactions is enforceable under the law.

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

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Carrying amount in the statement of financial position**	**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**
2017						
Derivative financial assets	362	362	-	-	-	-
Derivative financial liabilities	589	589	-	-	-	-
2016						
Derivative financial assets	75	75	-	-	-	-
Derivative financial liabilities	410	410	-	-	-	-

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 are 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) Islamic 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 31.

(B) Fair value hierarchy of financial instruments

The Bank measures the fair value of financial assets and liabilities using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, are set out below:

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

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

(i) Financial instruments carried at fair value

2017	Level 1 RM'000	Level 2 RM'000	Total RM'000
Financial assets at fair value			
Available-for-sale	2,154,016	2,641,127	4,795,143
Derivative financial assets	33	329	362
	2,154,049	2,641,456	4,795,505
Financial liabilities at fair value			
Derivative financial liabilities	151	438	589
2016			
Financial assets at fair value			
Available-for-sale	2,055,447	1,189,552	3,244,999
Derivative financial assets	51	24	75
	2,055,498	1,189,576	3,245,074
Financial liabilities at fair value			
Derivative financial liabilities	21	389	410

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

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

Financial investments available-for-sale with carrying amounts of RM297,184,710 (2016: Nil) were transferred from Level 1 to Level 2 fair values due to unavailability of active market while there were no transfers from Level 2 to Level 1 in 2017 (2016: RM240,408,000).

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

	Level 2 RM'000	Level 3 RM'000	Total fair values RM'000	Carrying amount RM'000
2017				
Financial assets				
Financing and advances	-	9,722,161	9,722,161	9,718,087
Financial liabilities				
Islamic deposits from customers	11,252,507	-	11,252,507	11,251,184
Investment accounts due to designated financial institution	1,801,572	-	1,801,572	1,801,572
Deposits and placements of banks and other financial institutions	923,900	-	923,900	923,900
Subordinated sukuk	220,888	-	220,888	200,000
	14,198,867	-	14,198,867	14,176,656
2016				
Financial assets				
Financing and advances	-	9,626,160	9,626,160	9,621,734
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
Subordinated sukuk	225,254	-	225,254	200,000
	13,938,323	-	13,938,323	13,910,475

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 ensures that all risks are managed in alignment with the risk appetite. Risk-taking decisions must be consistent with strategic business goals and returns commensurate with the risks taken.

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

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

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

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

Risk Governance and Organisation

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Governance and Organisation (continued)

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

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

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

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

Credit Risk Management

Credit risk arises from the risk of loss of principal or income on the failure of an obligor or counterparty to meet its contractual obligations. As our primary business is commercial banking, the Bank is exposed to credit risks from 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 transactions, the total credit exposure is quantified by the transaction's current positive mark-to-market value plus an appropriate add-on factor for potential future exposure.

Credit Risk Management Oversight and Organisation

The 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, processes, infrastructures, methodologies and systems. The CRMC reviews the credit profile of material portfolios to ensure that credit risk taking is aligned with business strategy and risk appetite. The CRMC also recommends and monitors risk limits, as well as highlights any material risk to the CEO and the RMC.

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, the RMC and the Board to adverse credit trends early, so that timely corrective actions can be taken. To further strengthen the Bank's risk analytics capability to deliver better holistic insights, we organised the various risk analytics and reporting teams into a single function reporting directly to the Country Chief Risk Officer ("CCRO").

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

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.

The Bank seeks to take only credit risks that meet its target market and risk acceptance criteria, lending rules and risk return expectations in order to add shareholder value. As Fair Dealing is a core corporate value, any complex product sales are made only after applicable suitability and appropriateness tests are met. In addition to effective risk management practices, the judgement of our experienced credit officers is also key to our successful risk management.

Financing to Consumer and Small Businesses

Credit risks for the consumer and small business sectors are managed on a portfolio basis under credit programmes such as mortgages, unsecured financing, commercial property financing and business term financing. Financing made under these programmes should fall within the defined target markets, meet the stipulated financing criteria and comply with the applicable financing advance ratio. Systems and processes such as source of identification of credit origination and independent verification of documentation are in place to prevent fraud. The portfolios are closely monitored monthly using MIS analytics. Application models are also used in the credit decision process for most products to enable objective, consistent and fast decisions. Behavioural models are used to identify potentially problematic financing early.

Financing to Corporate and Institutional Customers

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

Credit Risk from Investment or Trading Activities

Counterparty credit risks from the Bank's trading, derivative and debt securities activities are actively managed to protect against potential losses in replacing a contract if a counterparty defaults. Counterparty credit limits are established for each counterparty based on our assessment of the counterparty's creditworthiness, the suitability and appropriateness of the product offered and alignment with approved trading mandates and strategies. Credit exposures are also controlled through independent monitoring where breaches against approved limits or products are promptly escalated to senior management and highlighted to an independent Control Assurance Unit.

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 and internal assessment of the capital adequacy and provisions.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Internal Credit Rating Models (continued)

Model risk is managed under an internal model risk management framework, including an internal ratings framework, to govern the development, validation, application and performance monitoring of these models. Approval for material models use and annual validation results rests with the RMC. The models are developed with the active participation of credit experts from risk taking and risk control units and subject to independent validation before implementation to ensure that all aspects of the model development process have met internal standards. 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 against internal and regulatory requirements, which are also subject to independent review by Group Audit and approval by regulators.

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

Advance Internal Ratings Based (A-IRB) for Major Retail Portfolios

The Group has adopted the A-IRB approach for major retail portfolios, including residential mortgages and small business financing. Internal rating models, developed from internal data, are used to estimate PD, LGD, and EAD parameters for each of these portfolios. Application and Behaviour scorecards are used as key inputs for several retail PD models. Product, collateral, and geographical characteristics are major factors used in the LGD and EAD models.

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

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

Standardised Approach for Other Portfolios

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Control

Credit Risk Mitigation

Transactions are entered into primarily on the strength of a customer's creditworthiness and debt servicing ability. To manage credit risk, the Bank accepts collateral and credit protection as credit risk mitigants, subject to meeting the eligibility criteria. Collateral includes both physical and financial assets. The value of collateral is prudently assessed on a regular basis, and valuations are performed by independent qualified appraisers. Appropriate haircuts are applied to the market value of collateral, reflecting the underlying nature of the collateral, quality, liquidity and volatility. The financing-to-value ratio is a major factor in secured financing decisioning. The Bank also accepts guarantees from individuals, corporates, and institutions as a form of support.

Managing Credit Risk Concentration

Credit risk concentrations may arise from financing to single customer groups, customers who are in similar activities, or diverse groups of customers being affected by similar economic or market conditions. To manage such concentrations, limits are established for single customer 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.

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

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

Remedial Management

The Bank constantly reviews and assesses its portfolios of credits to detect potential problems at an early stage. As we value customer relationships, we will work closely with customers facing financial distress. We recognise the opportunity to promote customer loyalty and retention in such instances, even as we enforce strict discipline and priority on remedial management to minimise credit loss.

Financing and advances are categorised as "Pass" or "Special Mention", while impaired financing ("IFs") are categorised as "Substandard", "Doubtful" or "Loss".

Credit facilities are classified as restructured assets when the Bank has granted concessions or restructured payment terms to borrowers who are facing difficulties in meeting the original repayment schedules. Such restructured assets are classified in the appropriate impaired financing grades and will not be restored to performing financing status until the borrowers have demonstrated sustained ability to meet all future obligations under the restructured terms.

The Bank leverages on the Group's dedicated specialist workout teams to manage problem exposures. Time and risk-based event specific triggers are used to develop collection and asset recovery strategies. The Bank uses analytical data such as delinquency buckets and adverse status tags for delinquent consumer finanicng to constantly fine-tune and prioritise its collection efforts.

Impairment Allowances for Financing and Advances

The Bank maintains financing allowances that are sufficient to absorb credit losses inherent in its financing portfolio. Total financing loss allowance comprises individual impairment allowances for impaired financing and collective impairment allowance for all performing financing and advances to cover expected losses that are not yet evident.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Control (continued)

Impairment Allowances for Financing and Advances (continued)

Individual impairment allowances for credit losses are evaluated either individually or collectively for a portfolio. The amount of individual impairment allowance for an individual credit exposure is determined by ascertaining the difference between the present value of future recoverable cash flows of the impaired financing and the carrying value of the financing. For homogenous unsecured retail financing, individual impairment allowances are collectively assessed, taking into account the homogenous characteristics and historical loss experience of such financing.

Collective impairment allowance is provided based on the Bank's credit experience, historical loss rates and judgement for estimated inherent losses that may exist but may not been identified for any specific financial asset.

The Bank's policy on classification and provisioning for financing and advances is guided by Malaysian Financial Reporting Standards 139 ("MFRS 139") and BNM's Policy on Classification and Impairment Provisions for Loans/Financing. The Bank will implement MFRS 9 which replaces MFRS 139 with effect from 1 January 2018.

Write-Offs

Financing and advances are written off against impairment after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

Ceasing of Profit Accrual on Financing and Advances

When a financing is classified as impaired, finance income ceases to be recognised in the statement of profit or loss on an accrual basis. However, this non-accrual of finance income does not preclude the Bank's entitlement to the finance income as it merely reflects the uncertainty in the collection of such finance income. Once a financing 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.

Collateral Held Against Impaired Financing

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

Responsible Financing

The Bank recognises that promoting long-term sustainable development is fundamental to its continuing success. In this regard, the Bank is committed to advancing environmental and social progress and to conduct its business in a responsible manner. In addition to including Environment, Social and Governance ("ESG") assessment in its credit policy and implemented this as part of routine credit evaluation, the OCBC Group has in addition rolled out the new Responsible Financing Framework. This Framework aims to fully integrate ESG considerations into our credit evaluation and risk decisioning process in a more structured and systematic manner, including reputational risk assessment.

Relevant supporting policy and ESG risk assessment tools are in place for progressive rollout and implementation within the Bank in 2017.

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.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

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 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.

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

The Bank also performs stress testing and scenario 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.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset Liability Management

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

Asset Liability Management Oversight and Organisation

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

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

Asset Liability Management Approach

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

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.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management

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

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

Operational Risk Management Oversight and Organisation

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

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

Operational Risk Management Approach

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

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

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

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

Operational Risk Scenario Analysis

The Bank performs impact analysis on severe operational risk scenarios for the purpose of assessing the adequacy of operational risk capital requirements. The analysis forms part of the annual Group Internal Capital Adequacy Assessment Process ("ICAAP").

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Outsourcing Risk Management

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

Physical and People Security Risk Management

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

Business Continuity Risk Management

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

Fraud Risk Management

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

Reputational Risk Management

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

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.

Legal and Regulatory Risk Management

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Technology, Information and Cyber Risk Management

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

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

Shariah Governance

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

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

(ii) Provides comprehensive guidance to the Board, the Management and the Shariah Committee ("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.

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

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

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Shariah Governance (continued)

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

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

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

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

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

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

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

During the financial year ended 31 December 2017, the Bank received immaterial Shariah non-compliant income. Shariah non-compliant income are channelled to charitable organisations as determined by the Bank's Shariah Committee. Details of the income and uses of charity funds are as follows:

	2017 RM'000	2016 RM'000
Sources and Uses of charity funds		
At 1 January	8	7
<u>Sources of charity funds</u>		
Shariah non-compliant income	-	1
<u>Uses of charity funds</u>		
Contribution to non-profit organisations	(5)	-
At 31 December	3	8

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.

		2017 RM'000	2016 RM'000
Cash and cash equivalents		957,860	1,960,773
Financial investments available-for-sale	(a)	4,795,143	3,244,999
Financing and advances	(b)	9,989,322	9,888,756
Derivative financial assets	(c)	362	75
Other assets		65,401	73,419
Contingent liabilities and credit commitments	(d)	2,917,201	2,739,221
		18,725,289	17,907,243

(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.

	2017 RM'000	2016 RM'000
(i) By issuer		
Government and Central Bank	2,299,085	1,871,598
Foreign government	201,997	233,720
Public sector	367,042	34,658
Banking institutions	1,563,487	698,689
Non-bank financial institutions	115,258	50,190
Business enterprises	248,274	356,144
	4,795,143	3,244,999
(ii) By geography		
Malaysia	4,593,146	3,011,279
Other ASEAN countries	103,820	126,664
Rest of the world	98,177	107,056
	4,795,143	3,244,999
(iii) By credit rating		
Government and Central Bank (unrated)	1,332,530	1,036,700
Government (AAA to A)	966,555	834,898
Foreign government (unrated)	22,282	23,040
Foreign government (AAA to BBB)	179,715	210,680
Investment grade (AAA to BBB)	240,782	231,316
Unrated	2,053,279	908,365
	4,795,143	3,244,999
(iv) By sector		
Agriculture, hunting, forestry and fishing	29,990	29,341
Electricity, gas and water	90,846	115,330
Transport, storage and communication	44,901	34,658
Finance, insurance and business services	1,801,495	935,382
Others	2,827,911	2,130,288
	4,795,143	3,244,999

38 CREDIT RISK (continued)

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

	2017 RM'000	2016 RM'000
(v) By residual contractual maturity		
Within one year	2,647,948	1,513,601
One to five years	1,958,788	1,340,417
Over five years	188,407	390,981
	4,795,143	3,244,999

(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 past due one or more days after the contractual due date but less than 90 days.

	2017 RM'000	2016 RM'000
Neither past due nor impaired	9,484,953	9,430,850
Past due financing	463,656	392,501
- Unimpaired	120,797	160,354
- Impaired	342,859	232,147
Impaired but not past due	40,713	65,405
Gross financing and advances	9,989,322	9,888,756

Neither past due nor impaired

	2017 RM'000	2016 RM'000
(i) By internal grading		
Pass	8,921,846	8,889,850
Special mention	563,107	541,000
	9,484,953	9,430,850

Past due but not impaired

	2017 RM'000	2016 RM'000
(i) By period overdue		
Less than 2 months	101,950	135,167
2 months to less than 3 months	18,847	25,187
	120,797	160,354
(ii) By geographical distribution		
Malaysia	120,797	160,354

38 CREDIT RISK (continued)

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

(iii) By sector

	2017 RM'000	2016 RM'000
Agriculture, hunting, forestry and fishing	358	783
Mining and quarrying	161	-
Manufacturing	14,896	14,194
Construction	4,039	2,234
Wholesale & retail trade and restaurants & hotels	24,426	34,233
Transport, storage and communication	3,426	3,326
Finance, insurance and business services	6,295	9,533
Community, social and personal services	1,500	2,675
Household		
- Purchase of residential properties	41,180	49,746
- Others	24,516	43,630
	120,797	160,354

The analysis of impaired financing and advances are disclosed in Note 6(a) 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 2017 and 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) The quantification of the extent to which collateral and other credit enhancements mitigate credit risk and that best represents the maximum exposure to credit risk for impaired financing.

	2017 RM'000	2016 RM'000
Fair value of collateral held against the covered portion of financing and advances	494,371	485,843
Covered portion of financing and advances	311,270	203,598
Uncovered portion of financing and advances	72,302	93,954
	383,572	297,552

(c) Credit quality of derivative assets

(i) By counterparty

	2017 RM'000	2016 RM'000
Banking institutions	19	38
Non-bank financial institutions	6	9
Business enterprises	337	28
	362	75

38 CREDIT RISK (continued)

(c) Credit quality of derivative assets (continued)

	2017 RM'000	2016 RM'000
(ii) By geographical distribution		
Malaysia	362	71
Singapore	-	4
	362	75
(iii) By sector		
Manufacturing	244	10
Construction	-	1
Wholesale & retail trade and restaurants & hotels	17	15
Transport, storage and communication	1	-
Finance, insurance and business services	100	49
	362	75
(iv) By residual contractual maturity		
Within one year	362	75

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

	2017 RM'000	2016 RM'000
(i) By counterparty		
Banking institutions	109,938	150,236
Non-bank financial institutions	4,521	2,052
Business enterprises	2,718,942	2,427,308
Individuals	83,800	159,625
	2,917,201	2,739,221
(ii) By geographical distribution		
Malaysia	2,904,672	2,671,944
Other ASEAN countries	9,653	67,277
Others	2,876	-
	2,917,201	2,739,221
(iii) By sector		
Agriculture, hunting, forestry and fishing	94,529	125,805
Mining and quarrying	118,357	121,694
Manufacturing	669,814	669,435
Electricity, gas and water	24,000	42,230
Construction	913,399	883,215
Real estate	115,669	16,358
Wholesale & retail trade and restaurants & hotels	206,902	162,788
Transport, storage and communication	85,113	204,128
Finance, insurance and business services	347,150	183,381
Community, social and personal services	225,295	144,368
Household	83,770	159,625
Others	33,203	26,194
	2,917,201	2,739,221
(iv) By residual contractual maturity		
Within one year	225,502	171,318
One year to five years	2,139,647	2,169,837
Over five years	552,052	398,066
	2,917,201	2,739,221

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

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
2017								
Cash and cash equivalents	957,860	957,860	-	-	-	-	-	-
Financial investments available-for-sale	4,795,143	1,326,028	556,690	765,230	1,568,211	390,577	188,407	-
Financing and advances	9,718,087	3,946,119	616,558	579,716	1,162,819	438,462	2,974,413	-
Derivative financial assets	362	362	-	-	-	-	-	-
Other balances	76,392	36,392	1,187	6,457	12,825	5,660	2,880	10,991
Statutory deposits with Bank Negara Malaysia	325,500	-	-	-	-	-	-	325,500
Total assets	15,873,344	6,266,761	1,174,435	1,351,403	2,743,855	834,699	3,165,700	336,491
Islamic deposits from customers	11,251,184	7,980,364	1,051,799	1,981,575	236,935	511	-	-
Investment accounts due to designated financial institution	1,801,572	1,745,420	-	-	-	-	56,152	-
Deposits and placements of banks and other financial institutions	923,900	922,211	177	357	1,155	-	-	-
Bills and acceptances payable	20,757	20,757	-	-	-	-	-	-
Derivative financial liabilities	589	589	-	-	-	-	-	-
Other balances	339,454	272,895	17,449	22,240	10,066	1,525	23	15,256
Subordinated sukuk	200,000	-	-	-	-	200,000	-	-
Total liabilities	14,537,456	10,942,236	1,069,425	2,004,172	248,156	202,036	56,175	15,256

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

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
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 balances	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)

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

2017	**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	11,251,184	7,980,364	1,051,799	1,981,575	236,935	511	-	11,251,184
Investment accounts due to designated financial institution	1,801,572	1,745,420	-	-	-	-	56,152	1,801,572
Deposits and placements of banks and other financial institutions	923,900	922,211	177	357	1,155	-	-	923,900
Bills and acceptances payable	20,757	20,757	-	-	-	-	-	20,757
Other liabilities	332,201	280,836	31,481	77,683	26,906	18,518	-	435,424
Subordinated sukuk	200,000	-	-	-	-	200,000	-	200,000
	14,529,614	10,949,588	1,083,457	2,059,615	264,996	219,029	56,152	14,632,837
Derivative financial liabilities								
Gross settled derivatives								
Trading:								
Foreign exchange derivatives								
- Forward and swap								
- Outflow		34,955	8,152	-	-	-	-	43,107
- Inflow		(34,589)	(8,091)	-	-	-	-	(42,680)
		366	61	-	-	-	-	427

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

39 LIQUIDITY RISK (continued)

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

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 ---->							
2017	**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	808,000	-	-	-	-	149,860	-	957,860
Financial investments available-for-sale	1,326,028	1,321,920	1,568,211	390,577	188,407	-	-	4,795,143
Financing and advances								
- Unimpaired	7,803,309	615,207	580,051	271,266	305,234	(111,039)	-	9,464,028
- Impaired	-	-	-	-	-	251,782	-	251,782
Derivative financial assets	-	-	-	-	-	-	362	362
Other assets	-	-	-	-	-	401,892	-	401,892
Total assets	9,937,337	1,937,127	2,148,262	661,843	493,641	692,495	362	15,871,067
Liabilities								
Islamic deposits from customers	4,998,297	3,033,339	2,741,945	511	-	477,092	-	11,251,184
Investment accounts due to designated financial institution	1,745,420	-	-	-	-	56,152	-	1,801,572
Deposits and placements of banks and other financial institutions	892,050	-	-	-	-	31,850	-	923,900
Bills and acceptances payable	-	-	-	-	-	20,757	-	20,757
Derivative financial liabilities	-	-	-	-	-	-	589	589
Other balances	-	-	-	-	-	339,454	-	339,454
Subordinated sukuk	-	-	-	200,000	-	-	-	200,000
Total liabilities	7,635,767	3,033,339	2,741,945	200,511	-	925,305	589	14,537,456
On-statement of financial position profit sensitivity gap	2,301,570	(1,096,212)	(593,683)	461,332	493,641	(232,810)	(227)	1,333,611
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	2,301,570	(1,096,212)	(593,683)	461,332	493,641	(232,810)	(227)	1,333,611

40 PROFIT RATE RISK (continued)

	<---------- 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 balances	-	-	-	-	-	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

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

	2017 RM'000	**2016 RM'000**
+ 50bps	18,591	17,286
- 50bps	(19,846)	(17,264)

The 50 bps shock 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 2017 (continued)

41 CURRENCY RISK

2017	**MYR RM'000**	**GBP RM'000**	**USD RM'000**	**SGD RM'000**	**Others RM'000**	**Total RM'000**
Financial assets						
Cash and cash equivalents	841,316	407	92,228	23,225	684	957,860
Financial investments available-for-sale	4,444,504	22,282	205,607	122,750	-	4,795,143
Financing and advances	7,666,236	182,133	1,869,718	-	-	9,718,087
Derivative financial assets	362	-	-	-	-	362
Other assets	31,586	197	31,727	1,759	132	65,401
Statutory deposits with Bank Negara Malaysia	325,500	-	-	-	-	325,500
	13,309,504	205,019	2,199,280	147,734	816	15,862,353
Financial liabilities						
Islamic deposits from customers	10,981,498	418	255,712	13,556	-	11,251,184
Investment accounts due to designated financial institution	346,652	181,437	1,273,483	-	-	1,801,572
Deposits and placements of banks and other financial institutions	91,675	22,339	691,209	118,019	658	923,900
Bills and acceptances payable	20,757	-	-	-	-	20,757
Derivative financial liabilities	589	-	-	-	-	589
Other liabilities	308,978	489	5,555	17,179	-	332,201
Subordinated sukuk	200,000	-	-	-	-	200,000
	11,950,149	204,683	2,225,959	148,754	658	14,530,203
Net financial assets/(liabilities) exposure	1,359,355	336	(26,679)	(1,020)	158	1,332,150

41 CURRENCY RISK (continued)

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.

Value-at-Risk ("VaR")

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

	2017 RM'000	2016 RM'000
VaR		
Profit rate risk	4	6
Foreign exchange risk	6	19
Total	7	18

42 CAPITAL ADEQUACY

Capital Management

The Bank's capital is closely monitored and actively managed to ensure that there is sufficient capital to support business growth and to pursue strategic business that will create value for the stakeholders, while taking into consideration OCBC Malaysia's risk appetite. The Bank's internal capital adequacy assessment process (ICAAP) involves a comprehensive assessment of all material risks that the Bank are exposed to and an evaluation of the adequacy of the Bank's capital in relation to those risks. This includes an annual capital planning exercise to forecast capital demands and assess the Bank's capital adequacy over a 3-year period. This process takes into consideration the Bank's business strategy, operating environment, 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 ("CET") 1, Tier 1 and Total capital adequacy ratios of 4.5%, 6.0% and 8.0% respectively in 2017. 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 requirements was introduced by BNM. The CCB is maintained in the form of CET1 capital starting at 1.25% on 1 January 2017 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 CET1 CAR, Tier 1 CAR and Total CAR minima of 7.0%, 8.5% and 10.5% respectively from 1 January 2019.

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

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

	2017 RM'000	2016 RM'000
Common Equity Tier 1 ("CET 1") capital		
Paid-up ordinary share capital	555,000	185,000
Ordinary share premium	-	370,000
Retained earnings	685,415	399,740
Other reserves	95,473	176,155
CET 1 capital	1,335,888	1,130,895
Regulatory adjustment for CET 1 capital	(97,255)	(7,253)
Eligible CET 1/Tier 1 capital	1,238,633	1,123,642
Tier 2 capital		
Collective impairment allowance under the Standardised Approach*	5,872	9,081
Surplus eligible provisions over expected losses	36,792	16,687
Subordinated sukuk	200,000	200,000
Eligible Tier 2 capital	242,664	225,768
Capital base	1,481,297	1,349,410

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

42 CAPITAL ADEQUACY (continued)

Capital Adequacy Ratios (continued)

	2017	2016
Before the effects of RPSIA		
CET 1/Tier 1 capital ratio	13.358%	12.745%
Total capital ratio	15.975%	15.306%
After the effects of RPSIA		
CET 1/Tier 1 capital ratio	16.569%	15.342%
Total capital ratio	19.815%	18.425%

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 2017, the credit risk relating to RPSIA assets excluded from the total capital ratio calculation amounted to RM1,797 million (2016: RM1,492 million).

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

	2017 RM'000	2016 RM'000
Total RWA for credit risk	6,601,740	6,455,639
Total RWA for market risk	6,787	5,468
Total RWA for operational risk	867,121	862,851
	7,475,648	7,323,958

43 MUDHARABAH RESTRICTED PROFIT SHARING INVESTMENT ACCOUNT

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

	2017 RM'000	2016 RM'000
As at 1 January	1,367,037	1,049,063
Funding inflows/(outflows)		
New placement during the year	2,297,130	581,432
Redemption during the year	(1,725,409)	(277,524)
Effect of foreign exchange difference	(135,128)	(16,914)
Income from investment	82,504	44,216
Bank's share of profit		
Profit distributed to mudarib	(24,744)	(13,236)
Amount receivable from immediate holding company	(59,818)	-
As at 31 December	1,801,572	1,367,037

	2017 RM'000	2016 RM'000
Investment assets		
Financing and advances	1,801,572	1,328,037
Placement with other financial institutions	-	39,000
	1,801,572	1,367,037

43 MUDHARABAH RESTRICTED PROFIT SHARING INVESTMENT ACCOUNT (continued)

(ii) Profit sharing ratio and rate of return

	Average profit sharing ratio (Depositor: Bank)		Average rate of return	
	2017	**2016**	**2017**	**2016**
Up to 1 year	70:30	70:30	2.62%	2.84%
> 1 - 2 years	70:30	70:30	3.45%	3.50%
> 2 - 5 years	70:30	70:30	3.45%	3.49%
Over 5 years	70:30	70:30	3.58%	3.52%

44 INITIAL FINANCIAL IMPACT OF MFRS 9 and MFRS 15

MFRS 9

The Bank will apply MFRS 9 with effect from 1 January 2018. As allowed under MFRS 9, the Bank will not restate its comparative information with respect to the new classification and measurement requirements (including impairment methodology changes). Transition impact on lower allowance for impairment losses arising from the change in accounting standard from MFRS 139 to MFRS 9 will be recognised in the opening Retained Earnings as at 1 January 2018. Based on assessments undertaken to date, the Bank does not anticipate any material impact to its capital position after taking into account the regulatory reserve requirements.

The transition impact is based on best estimates as at the reporting date. The information provided in this note is focused upon material items, it does not represent a complete list of expected adjustments. It is possible that the results for the first quarter of 2018 may reflect further refinements.

MFRS 15

The initial application of MFRS 15 is not expected to have any material impact to the financial statements of the Bank.

45 CONTINGENT LIABILITY

As at the year end date, the Inland Revenue Board ("IRB") had commenced a review on certain of the Bank's transactions for compliance with Income Tax Act 1967 requirements. Pending the completion and finalisation of the aforesaid review by the IRB, additional tax payable, if any cannot be presently determined.