

Company No. 818444-T

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

Domiciled in Malaysia
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50050 Kuala Lumpur

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**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2018

		30 September 2018	31 December 2017
ASSETS	Note	RM'000	RM'000
Cash and cash equivalents	8	540,471	957,860
Financial assets at fair value through profit or loss	9	9,978	-
Financial investments at fair value through other comprehensive income	10	4,405,174	4,795,143
Financing and advances	11	9,803,615	9,718,087
Derivative financial assets	13	2,331	362
Other assets	14	43,560	65,401
Statutory deposits with Bank Negara Malaysia		336,200	325,500
Property and equipment		10,487	9,325
Deferred tax assets		3,050	1,666
Total assets		<u>15,154,866</u>	<u>15,873,344</u>
 LIABILITIES			
Deposits from customers	15	10,622,271	11,251,184
Investment accounts due to designated financial institution	16	1,752,465	1,801,572
Deposits and placements of banks and other financial institutions	17	868,264	923,900
Bills and acceptances payable		14,624	20,757
Derivative financial liabilities	13	2,341	589
Other liabilities	18	266,550	332,201
Tax payable and zakat		2,743	7,253
Subordinated sukuk	19	200,000	200,000
Total liabilities		<u>13,729,258</u>	<u>14,537,456</u>
 EQUITY			
Share capital		555,000	555,000
Reserves		870,608	780,888
Total equity		<u>1,425,608</u>	<u>1,335,888</u>
 Total liabilities and equity		 <u>15,154,866</u>	 <u>15,873,344</u>
 Commitments and contingencies	 29	 <u>5,914,556</u>	 <u>2,981,045</u>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes to the unaudited condensed interim financial statements.

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018**

	Note	Quarter Ended		Year-To-Date Ended	
		30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Income derived from investment of depositors' funds and others	20	151,642	147,432	452,666	458,241
Income derived from investment of investment account funds	21	13,710	21,286	45,568	64,075
Income derived from investment of shareholder's funds	22	33,142	32,382	112,467	97,702
Impairment (allowance)/write back	23	(72,870)	30,312	(61,112)	15,571
Total distributable income		125,624	231,412	549,589	635,589
Income attributable to depositors	24	(85,283)	(80,966)	(261,445)	(250,822)
Income attributable to investment account holder	25	(10,912)	(14,900)	(33,212)	(44,858)
Total net income		29,429	135,546	254,932	339,909
Operating expenses	26	(49,934)	(47,094)	(144,593)	(140,459)
Profit before taxation and zakat		(20,505)	88,452	110,339	199,450
Income tax expense	27	5,859	(23,175)	(26,202)	(48,408)
Zakat		-	(13)	-	(38)
Profit for the period		(14,646)	65,264	84,137	151,004
Other comprehensive income/(expense), net of income tax					
<i>Items that are or may be reclassified subsequently to profit or loss</i>					
Movement in fair value reserve (debt instruments)					
- Change in fair value		6,998	5,093	(2,662)	21,740
- Transferred to profit or loss		349	394	618	13
- Related tax		(1,767)	(1,319)	638	(5,227)
Change in expected credit loss reserve on debt instruments at fair value through other comprehensive income		39	-	(2,383)	-
Other comprehensive income/(expense) for the period, net of income tax		5,619	4,168	(3,789)	16,526
Total comprehensive (expense)/income for the period		(9,027)	69,432	80,348	167,530
Profit attributable to owner of the Bank		(14,646)	65,264	84,137	151,004
Total comprehensive (expense)/income attributable to the owner of the Bank		(9,027)	69,432	80,348	167,530
Basic earnings per ordinary share (sen)		(7.92)	35.27	45.48	81.62

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes to the unaudited condensed interim financial statements.

OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018**

	<i>Non-distributable</i>				<i>Distributable</i>			Total Equity
	Share Capital	Share Premium	Statutory Reserve*	Regulatory Reserve**	Expected Credit Loss Reserve	Fair Value Reserve	Retained Earnings	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018								
At 1 January 2018 (as previously reported)	555,000	-	-	91,000	-	4,473	685,415	1,335,888
Effect of adopting MFRS 9	-	-	-	-	2,646	(617)	7,343	9,372
Restated at 1 January 2018	555,000	-	-	91,000	2,646	3,856	692,758	1,345,260
Fair value reserve								
- Change in fair value	-	-	-	-	-	(2,662)	-	(2,662)
- Transferred to profit or loss	-	-	-	-	-	618	-	618
- Related tax	-	-	-	-	-	638	-	638
Expected credit loss reserve								
- Change in expected credit loss	-	-	-	-	(2,383)	-	-	(2,383)
Total other comprehensive expense for the period	-	-	-	-	(2,383)	(1,406)	-	(3,789)
Profit for the period	-	-	-	-	-	-	84,137	84,137
Total comprehensive (expense)/income for the period	-	-	-	-	(2,383)	(1,406)	84,137	80,348
At 30 September 2018	555,000	-	-	91,000	263	2,450	776,895	1,425,608
2017								
At 1 January 2017	185,000	370,000	185,000	-	-	(8,845)	399,740	1,130,895
Fair value reserve								
- Change in fair value	-	-	-	-	-	21,740	-	21,740
- Transferred to profit or loss	-	-	-	-	-	13	-	13
- Related tax	-	-	-	-	-	(5,227)	-	(5,227)
Total other comprehensive income for the period	-	-	-	-	-	16,526	-	16,526
Profit for the period	-	-	-	-	-	-	151,004	151,004
Total comprehensive income for the period	-	-	-	-	-	16,526	151,004	167,530
Transfer pursuant to Companies Act 2016 under no par regime	370,000	(370,000)	-	-	-	-	-	-
Transfer (to)/from retained earnings	-	-	(185,000)	56,000	-	-	129,000	-
At 30 September 2017	555,000	-	-	56,000	-	7,681	679,744	1,298,425

* During the financial period ended 30 September 2017, the Bank transferred RM185 million from its statutory reserve account to retained earnings pursuant to Bank Negara Malaysia's (BNM) revised policy document on Capital Funds for Islamic Banks which is effective from 3 May 2017.

** During the financial period ended 30 September 2017, the Bank transferred RM56 million from retained earnings to regulatory reserve.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes to the unaudited condensed interim financial statements.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

	30 September 2018 RM'000	30 September 2017 RM'000
Cash flows from operating activities		
Profit before income tax expense and zakat	110,339	199,450
<i>Adjustments for:</i>		
Net (gain)/loss from disposal of:		
- Financial assets at fair value through profit or loss	(493)	-
- Financial investments at fair value through other comprehensive income	618	13
- Property and equipment	1	8
Depreciation of property and equipment	3,457	3,419
Impairment allowance	61,112	(15,571)
Share-based expenses	179	196
Unrealised loss/(gain) on:		
- Financial assets at fair value through profit or loss	466	-
- Derivatives	(219)	(498)
Operating profit before changes in working capital	<u>175,460</u>	<u>187,017</u>
<i>Changes in operating assets and operating liabilities:</i>		
Financial assets at fair value through profit or loss	122,766	-
Financing and advances	(134,611)	(157,407)
Derivative financial assets	(1,969)	(241)
Other assets	21,529	12,707
Statutory deposits with Bank Negara Malaysia	(10,700)	2,500
Deferred tax assets	195	-
Deposits from customers	(628,913)	(782,375)
Investment accounts due to designated financial institution	(49,107)	880,127
Deposits and placements of banks and other financial institutions	(55,636)	(209,479)
Bills and acceptances payable	(6,133)	(10,448)
Derivative financial liabilities	1,752	(260)
Other liabilities	(65,830)	(1,333)
Cash used in operations	<u>(631,197)</u>	<u>(79,192)</u>
Income tax and zakat paid	<u>(33,777)</u>	<u>(24,235)</u>
Net cash used in operating activities	<u>(664,974)</u>	<u>(103,427)</u>
Cash flows from investing activities		
Acquisition of financial investments at fair value through other comprehensive income	(5,973,117)	(5,900,000)
Proceeds from disposal of financial investments at fair value through other comprehensive income	6,225,324	5,293,766
Acquisition of property and equipment	(4,621)	(325)
Proceeds from disposal of property and equipment	-	3
Net cash generated from/(used in) investing activities	<u>247,586</u>	<u>(606,556)</u>
Net decrease in cash and cash equivalents	(417,388)	(709,983)
Cash and cash equivalents at 1 January	<u>957,860</u>	<u>1,960,773</u>
Cash and cash equivalents at 30 September	<u>540,472</u>	<u>1,250,790</u>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes to the unaudited condensed interim financial statements.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018

GENERAL INFORMATION

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

PERFORMANCE REVIEW

The Bank recorded profit after tax of RM84.1 million for the financial period ended 30 September 2018, a drop of 44% or RM66.9 million against the corresponding period last year. The decrease was mainly due to higher impairment allowances of RM76.7 million, higher income attributable to depositors of RM10.6 million, lower net income from investment account funds of RM6.9 million, lower income from investment of depositors' funds and others of RM5.6 million and higher overheads of RM4.1 million partly offset by lower tax of RM22.2 million and higher income from shareholder's funds of RM14.8 million.

Allowances increased by RM76.7 million mainly due to higher Stage 3 expected credit loss ("ECL") of RM33.8 million, lower net write back of Stage 1 and Stage 2 ECL of RM31.8 million and lower recoveries from restricted profit sharing investment account holder of RM10.9 million.

The increase in income from investment of shareholder's funds by 15% was mainly from higher commission income of RM7.5 million and finance income from financing and advances and investment securities of RM3.5 million respectively.

Overheads increased by 3% mainly from higher shared service fees of RM8.1 million and personnel costs of RM1.4 million partially offset by lower fees to Credit Guarantee Corporation (CGC) of RM3.2 million.

Gross financing and advances increased by RM51.7 million or 1% mainly from corporate drawdowns whilst customer deposits decreased by RM629 million or 6% over the same period, mainly from business enterprises of RM567 million.

The Bank remains well capitalised with Common Equity Tier 1 Capital Ratio and Total Capital Ratio of 15.344% and 18.201% respectively.

ECONOMIC PERFORMANCE AND PROSPECTS

The global economy showed signs of slow down with the growth of advanced economies weaker than expected, even as some emerging markets recorded stronger growth in the first half of 2018. Escalating trade protectionism and sharp capital outflows from emerging economies with weaker fundamentals were among the key downside risks attributed to the slowdown. Financial conditions were seen as tightening in emerging and developing economies in response to the faster-than-expected monetary policy normalisation in the US.

In Malaysia, the state of the economy is reflective of the challenging global economic environment. Growth will continue to be under pressure, contributed by the postponement or cancellation of several large infrastructure projects, which translate into lower public investments and easing of exports growth. However, stronger private domestic consumption is forecasted to remain supportive of the economy.

Although the risk scales have tipped on the weaker side, OCBC Al-Amin will continue to build its presence in Malaysia by financing to growth sectors, and expanding its consumer financial services including wealth management. However, the Bank will continue to remain cautious of current market conditions with a view to preserving its asset quality and ensuring healthy capital and liquidity positions.

The Bank will continue to expand its network and customer reach by building even more robust capabilities and introducing a higher level of digitalisation to meet customers' needs. FinTechs are part of this journey and the Bank believes they remain a key component in embracing the future of banking.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018

1 BASIS OF PREPARATION

The accounting policies set out below have been applied consistently to the periods presented in the unaudited condensed interim financial statements by the Bank, except as disclosed in Note 1(a) and Note 32.

The unaudited condensed interim 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 unaudited condensed interim financial statements of the Bank have been prepared under the historical cost convention (except as disclosed in the notes to the unaudited condensed interim financial statements), in accordance with Malaysian Financial Reporting Standard ("MFRS") 134, International Accounting Standard 34 and the requirements of the Companies Act 2016 in Malaysia and Shariah requirements.

The following accounting standards, interpretations and amendments have been adopted by the Bank during the current period:

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

Other than as disclosed in Note 32 on adoption of MFRS 9, the adoption of the other accounting standards, interpretations and amendments did not have any significant impact on the Bank. MFRS9, *Financial Instruments* ("MFRS 9") came into effect on 1 January 2018. As allowed under MFRS 9, the Bank has not restated its comparative information and the transition impact arising from the adoption of MFRS 9 is recognised in the opening Retained Earnings. The impact on classification and measurement of the Bank's financial assets is disclosed in Note 32 of the interim financial statements.

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

Effective for financial periods commencing on or after 1 January 2019

- 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 Benefits (Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

Effective for annual periods commencing on or after 1 January 2020

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

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018

1 BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

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 abovementioned accounting standards and amendments are not expected to have any material impact to the financial statements of the Bank except as described below:

MFRS 16, Leases

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

The Bank is currently assessing the financial impact of adopting MFRS 16.

(b) Use of estimates and judgements

The preparation of the unaudited condensed interim financial statements in conformity with MFRS, 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.

In preparing these unaudited condensed interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited financial statements as at and for the financial year ended 31 December 2017, except as disclosed in Note 32 on adoption of MFRS 9.

2 AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the audited financial statements for the financial year ended 31 December 2017 was not subject to any qualification.

3 SEASONALITY OF OPERATIONS

The business operations of the Bank are not materially affected by any seasonal factors.

4 SHARE CAPITAL

There were no changes to the share capital of the Bank during the financial period ended 30 September 2018.

5 DIVIDEND

No dividend was paid in respect of the financial period ended 30 September 2018.

6 SIGNIFICANT AND SUBSEQUENT EVENTS

There were no material events subsequent to the end of the reporting period that require disclosure or adjustments to the unaudited condensed interim financial statements.

7 UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There was no unusual item affecting the assets, liabilities, equity and net income or cash flows of the Bank for the financial period ended 30 September 2018.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**8 CASH AND CASH EQUIVALENTS**

	30 September 2018 RM'000	31 December 2017 RM'000
Cash and balances with banks and other financial institutions	119,225	141,604
Deposit placements with BNM	421,247	816,256
Stage 1 (12 months) expected credit loss	(1)	-
	<u>540,471</u>	<u>957,860</u>

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	30 September 2018 RM'000	31 December 2017 RM'000
At fair value		
Islamic Corporate Sukuk	9,978	-
	<u>9,978</u>	<u>-</u>

10 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	30 September 2018 RM'000	31 December 2017 RM'000
At fair value		
Malaysian Government Investment Issues	2,422,865	2,154,016
Malaysian Government Sukuk	144,693	95,188
Malaysian Government Islamic Treasury Bills	-	49,881
Islamic Corporate Sukuk	315,858	645,373
Islamic Negotiable Instruments of Deposit	1,241,901	1,563,487
Cagamas Sukuk	60,373	85,201
Foreign Government Sukuk	219,484	201,997
	<u>4,405,174</u>	<u>4,795,143</u>

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

	Stage 1 12 Months ECL RM'000	Stage 2 Lifetime ECL non-credit impaired RM'000	Total RM'000
At 1 January 2018	-	-	-
Effect of adopting MFRS 9	1,916	730	2,646
As restated 1 January 2018	1,916	730	2,646
Written back	(1,653)	(730)	(2,383)
At 30 September 2018	<u>263</u>	<u>-</u>	<u>263</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018

11 FINANCING AND ADVANCES

(i) By type and Shariah contract

	Sale based contracts				Lease based contracts			Equity based contracts		Total RM'000	
	Bai'		Tawarruq RM'000	Murabahah RM'000	Bai' Dayn RM'000	Ijarah		Musharakah Mutanaqisah RM'000	Others RM'000		
	Bai' Inah RM'000	Bithaman Ajil RM'000				Thumma Al- Bai RM'000	Ijarah Bi Al-Tamlik RM'000				
30 September 2018											
At amortised cost and net of unearned income											
Cash line financing	26,362	9,185	-	-	-	-	277,906	-	-	1,605	315,058
Term Financing											
- House financing	-	9,984	-	-	-	-	-	1,864,497	86,335	-	1,960,816
- Syndicated term financing	-	-	308,128	-	-	-	-	249,869	-	-	557,997
- Hire purchase receivables	-	-	-	-	-	188,466	-	177,912	-	-	366,378
- Other term financing	400,607	22,496	799,976	-	-	-	-	1,891,068	114,357	-	3,228,504
Bills receivable	-	-	-	-	35,493	-	-	-	-	-	35,493
Trust receipts	-	-	-	3,871	-	-	-	-	-	-	3,871
Revolving credit	-	-	3,016,068	-	-	-	-	-	-	-	3,016,068
Claims on customers under acceptance credits	-	-	-	315,787	94,017	-	-	-	-	-	409,804
Other financing	-	-	147,063	-	-	-	-	-	-	-	147,063
Gross financing and advances	426,969	41,665	4,271,235	319,658	129,510	188,466	277,906	4,183,346	200,692	1,605	10,041,052
Expected credit loss											(237,437)
Net financing and advances											9,803,615

Included in financing and advances are specific business ventures funded by the Restricted Profit Sharing Investment Account ("RPSIA") arrangements between the Bank and its immediate holding company, OCBC Bank (Malaysia) Berhad (Note 16). The immediate holding company, being the RPSIA depositor, is exposed to the risks and rewards of the business venture and accounts for the collective and individual impairment allowances arising thereon.

As at 30 September 2018, the gross exposure and expected credit loss relating to RPSIA financing amounted to RM1,404 million (31 December 2017: RM1,867 million) and RM61.9 million respectively. As at 31 December 2017, individually assessed and collectively assessed impairment allowances amounted to RM59.8 million and RM8.6 million respectively.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018

11 FINANCING AND ADVANCES (continued)

(i) By type and Shariah contract (continued)

	Sale based contracts				Lease based contracts			Equity based contracts		Total RM'000	
	Bai'		Tawarruq RM'000	Murabahah RM'000	Bai' Dayn RM'000	Ijarah Thumma	Ijarah Muntahiah	Musharakah Mutanaqisah RM'000	Others RM'000		
	Bai' Inah RM'000	Bithaman Ajil RM'000				Al- Bai RM'000	Ijarah RM'000				Bi Al-Tamlik RM'000
31 December 2017											
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
Impairment allowances											
- Individually assessed											(125,877)
- Collectively assessed											(145,358)
Net financing and advances											9,718,087

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**11 FINANCING AND ADVANCES (continued)**

	30 September 2018 RM'000	31 December 2017 RM'000
(ii) By type of customer		
Domestic non-bank financial institutions	54,289	53,002
Domestic business enterprises		
- Small and medium enterprises	1,934,101	1,981,414
- Others	4,476,403	4,134,011
Individuals	2,343,875	2,511,671
Foreign entities	1,232,384	1,309,224
	<u>10,041,052</u>	<u>9,989,322</u>
(iii) By profit rate sensitivity		
Fixed rate		
- House financing	9,984	20,583
- Hire purchase receivables	188,936	256,952
- Other fixed rate financing	1,641,918	1,826,506
Variable rate		
- Base rate/Base financing rate plus	3,737,238	3,551,704
- Cost plus	4,453,942	4,333,577
- Other variable rate	9,034	-
	<u>10,041,052</u>	<u>9,989,322</u>
(iv) By sector		
Agriculture, hunting, forestry and fishing	1,347,774	1,392,683
Mining and quarrying	222,910	260,208
Manufacturing	1,367,561	1,410,896
Electricity, gas and water	42,211	53,965
Construction	671,598	449,102
Real estate	779,731	555,595
Wholesale & retail trade and restaurants & hotels	930,166	1,005,363
Transport, storage and communication	159,601	174,277
Finance, insurance and business services	217,225	247,134
Community, social and personal services	724,058	608,545
Household		
- Purchase of residential properties	1,997,556	2,039,830
- Purchase of non-residential properties	40,838	42,629
- Others	426,957	549,309
Others	1,112,866	1,199,786
	<u>10,041,052</u>	<u>9,989,322</u>
(v) By geographical distribution		
Malaysia	8,938,209	8,872,089
Singapore	642,461	650,635
Other ASEAN countries	196,131	227,090
Rest of the world	264,251	239,508
	<u>10,041,052</u>	<u>9,989,322</u>

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

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**11 FINANCING AND ADVANCES (continued)**

	30 September 2018 RM'000	31 December 2017 RM'000
(vi) By residual contractual maturity		
Within one year	4,023,719	4,131,977
One year to less than three years	672,672	746,454
Three years to less than five years	980,671	939,000
Over five years	4,363,990	4,171,891
	<u>10,041,052</u>	<u>9,989,322</u>

12 IMPAIRED FINANCING AND ADVANCES

(a) Movements in impaired financing and advances

	30 September 2018 RM'000	31 December 2017 RM'000
At 1 January 2018 / 2017	383,572	297,552
Impaired during the period / year	166,163	406,233
Reclassified as unimpaired	(68,273)	(101,860)
Amount recovered	(72,660)	(129,692)
Amount written off	(103,749)	(79,583)
Effect of foreign exchange difference	1,856	(9,078)
At 30 September / 31 December	<u>306,909</u>	<u>383,572</u>
Stage 3 ECL	(107,884)	-
Individually assessed impairment allowance	-	(125,877)
Collectively assessed impairment allowance	-	(3,636)
Net impaired financing and advances	<u>199,025</u>	<u>254,059</u>

Included in impaired financing and advances are specific business ventures funded by the Restricted Profit Sharing Investment Account ("RPSIA") arrangements between the Bank and its immediate holding company, OCBC Bank (Malaysia) Berhad. The immediate holding company, as the RPSIA holder, is exposed to the risks and rewards of the business venture and accounts for the Stage 3 ECL arising thereon. As at 30 September 2018, the RPSIA-funded gross exposures and Stage 3 ECL recoverable from the RPSIA holder amounted to RM116 million (31 December 2017: RM116 million) and RM58 million (31 December 2017: RM60 million) respectively.

(i) By sector

Agriculture, hunting, forestry and fishing	2,400	435
Mining and quarrying	42	-
Manufacturing	25,361	26,319
Construction	5,042	4,159
Real estate	5,215	5,295
Wholesale & retail trade and restaurants & hotels	35,593	44,933
Transport, storage and communication	4,936	4,539
Finance, insurance and business services	9,588	10,899
Community, social and personal services	1,072	1,370
Household		
- Purchase of residential properties	65,423	60,604
- Purchase of non-residential properties	-	262
- Others	22,767	32,827
Others	129,470	191,930
	<u>306,909</u>	<u>383,572</u>

(ii) By geographical distribution

Malaysia	<u>306,909</u>	<u>383,572</u>
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The analysis by geography is determined based on where the credit risk resides.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**12 IMPAIRED FINANCING AND ADVANCES**

(b) Movements in impairment allowance ECL for financing and advances are as follows:

	30 September 2018			31 December 2017
	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL non credit impaired RM'000	Total ECL non credit impaired RM'000	Collective impairment allowance RM'000
At 1 January, under MFRS 139	-	-	-	186,979
Effect of adopting MFRS 9	35,854	97,447	133,301	-
At 1 January, as reinstated under MFRS 9	35,854	97,447	133,301	186,979
Made / (Written back) during the period	13,992	(17,740)	(3,748)	(41,621)
At 30 September 2018 / 31 December 2017	49,846	79,707	129,553	145,358

	30 September 2018	31 December 2017
	Stage 3 Lifetime ECL credit impaired RM'000	Individual impairment allowance RM'000
At 1 January 2018 / 2017	125,877	80,043
Made during the period	138,200	196,732
Written back	(49,372)	(70,311)
Written off	(103,749)	(79,583)
Discount unwind and financing income earned on impaired financing	(3,072)	(1,004)
At 30 September 2018 / 31 December 2017	107,884	125,877

	30 September 2018	31 December 2017
Total expected credit loss / impairment allowances	237,437	271,235

13 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	30 September 2018			31 December 2017		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Trading						
Foreign exchange derivatives						
- Forwards	32,249	429	439	63,844	362	589
Profit rate derivatives						
- Swaps	360,000	1,902	1,902	-	-	-
	392,249	2,331	2,341	63,844	362	589

14 OTHER ASSETS

	30 September 2018	31 December 2017
	RM'000	RM'000
Profit receivable	31,777	28,707
Other receivables, deposits and prepayments	10,021	6,750
Amount due from immediate holding company	904	21,654
Amount due from ultimate holding company	858	8,153
Amount due from related companies	-	137
	43,560	65,401

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

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**15 DEPOSITS FROM CUSTOMERS**

	30 September 2018 RM'000	31 December 2017 RM'000
a) By type of deposit		
Savings deposits		
- Tawarruq	304,183	208,680
- Qard	219,041	275,652
Demand deposits		
- Tawarruq	18,284	21,770
- Qard	3,507,674	3,709,810
Term Deposits		
- Commodity Murabahah	5,963,745	6,533,850
- Qard	84,886	78,164
Negotiable instruments of deposits		
- Bai Bithaman Ajil	73,468	71,143
Short term deposits		
- Tawarruq	450,974	352,012
General investment deposits		
- Mudharabah	16	103
	<u>10,622,271</u>	<u>11,251,184</u>
b) By type of customer		
Government and statutory bodies	1,182,808	1,346,287
Non-bank financial institutions	873,870	720,886
Business enterprises	5,158,887	5,725,498
Individuals	3,172,949	3,214,938
Foreign entities	104,528	102,959
Others	129,229	140,616
	<u>10,622,271</u>	<u>11,251,184</u>
c) Maturity structure of term/general investment deposits, negotiable instruments of deposit and short-term deposits		
Within six months	5,012,701	4,816,251
Six months to one year	1,450,397	1,981,575
One year to three years	109,925	236,935
Three years to five years	66	511
	<u>6,573,089</u>	<u>7,035,272</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**16 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTION**

	30 September 2018 RM'000	31 December 2017 RM'000
Mudharabah RPSIA		
Licensed bank	1,810,406	1,861,390
Amount receivable from immediate holding company under RPSIA	<u>(57,941)</u>	<u>(59,818)</u>
	<u>1,752,465</u>	<u>1,801,572</u>

17 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 September 2018 RM'000	31 December 2017 RM'000
Non-Mudharabah		
Licensed banks	860,980	922,004
Other financial institutions	<u>7,284</u>	<u>1,896</u>
	<u>868,264</u>	<u>923,900</u>

18 OTHER LIABILITIES

	30 September 2018 RM'000	31 December 2017 RM'000
Profit payable	84,645	75,884
Other payables and accruals	77,242	78,191
Amount due to immediate holding company	93,878	177,430
Amount due to related companies	10,206	-
Equity compensation benefits	<u>579</u>	<u>696</u>
	<u>266,550</u>	<u>332,201</u>

The amount due to immediate holding company and related company are unsecured, profit free and repayable on demand.

19 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 as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**20 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS**

	Quarter Ended		Year-To-Date Ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Income derived from investment of:				
(i) Term deposits/General investment deposits	79,826	83,507	247,075	261,588
(ii) Other deposits	71,816	63,925	205,591	196,653
	<u>151,642</u>	<u>147,432</u>	<u>452,666</u>	<u>458,241</u>
(i) Income derived from investment of term/ general investment deposits				
Finance income and hibah				
Unimpaired financing and advances	59,765	62,305	178,834	195,180
Impaired financing and advances	587	90	1,482	330
Financial assets at FVTPL	53	-	199	-
Financial investments at FVOCI	18,393	17,931	56,996	48,575
Deposits and placements with banks and other financial institutions	1,071	3,236	9,542	17,169
	<u>79,869</u>	<u>83,562</u>	<u>247,053</u>	<u>261,254</u>
Other trading income				
Net gain from sale of financial assets at FVTPL	-	-	252	-
Unrealised gain/(loss) on financial assets at FVTPL	1	-	(238)	-
Other operating income				
Net loss from sale of financial investments at FVOCI	(163)	(201)	(299)	(6)
Others	119	146	307	340
	<u>79,826</u>	<u>83,507</u>	<u>247,075</u>	<u>261,588</u>
(ii) Income derived from investment of other deposits				
Finance income and hibah				
Unimpaired financing and advances	53,770	47,695	149,095	146,727
Impaired financing and advances	528	69	1,257	248
Financial assets at FVTPL	47	-	161	-
Financial investments at FVOCI	16,547	13,726	47,433	36,571
Deposits and placements with banks and other financial institutions	964	2,477	7,629	12,855
	<u>71,856</u>	<u>63,967</u>	<u>205,575</u>	<u>196,401</u>
Other trading income				
Net gain from sale of financial assets at FVTPL	-	-	191	-
Unrealised loss on financial assets at FVTPL	-	-	(181)	-
Other operating income				
Net loss from sale of financial investments at FVOCI	(147)	(153)	(252)	(4)
Others	107	111	258	256
	<u>71,816</u>	<u>63,925</u>	<u>205,591</u>	<u>196,653</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**21 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS**

	Quarter Ended		Year-To-Date Ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Finance income and hibah				
Unimpaired financing and advances	15,407	21,286	47,265	63,315
Impaired financing and advances	(1,877)	-	(1,877)	-
Deposits and placements with banks and other financial institutions	180	-	180	760
	<u>13,710</u>	<u>21,286</u>	<u>45,568</u>	<u>64,075</u>

22 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	Quarter Ended		Year-To-Date Ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Finance income and hibah				
Unimpaired financing and advances	14,086	12,582	39,457	36,251
Impaired financing and advances	138	18	333	61
Financial assets at FVTPL	12	-	42	-
Financial investments at FVOCI	4,334	3,621	12,553	9,083
Deposits and placements with banks and other financial institutions	253	654	2,016	3,133
	<u>18,823</u>	<u>16,875</u>	<u>54,401</u>	<u>48,528</u>
Other trading income				
Net gain from sale of financial assets at FVTPL	-	-	50	-
Unrealised loss on financial assets at FVTPL	-	-	(47)	-
Other operating income				
Commission	5,689	6,935	23,679	16,183
Service charges and fees	4,656	4,631	21,324	22,158
Net loss from sale of financial investments at FVOCI	(39)	(40)	(67)	(3)
Others	28	29	68	63
Other trading income				
Net trading gain				
- Foreign currency	468	244	909	623
- Trading derivatives	3,395	3,579	11,931	9,652
- Revaluation of derivatives	122	129	219	498
	<u>33,142</u>	<u>32,382</u>	<u>112,467</u>	<u>97,702</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018

23 IMPAIRMENT ALLOWANCE / (WRITE BACK)

	Quarter Ended		Year-To-Date Ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Financing and advances				
Stage 3 ECL / Individually assessed				
- Made during the period	86,079	28,073	138,200	107,288
- Written back	(13,937)	(19,066)	(49,372)	(52,269)
Stage 1 and Stage 2 ECL / Collectively assessed				
- Made/(Written back) during the period	7,087	(31,955)	(3,748)	(38,455)
Impaired financing written off	-	6	-	6
Impaired financing recovered	(6,398)	(7,370)	(21,025)	(21,262)
Recovery from RPSIA holder*	-	-	-	(10,879)
Other assets				
Stage 1 and Stage 2 ECL / Collectively assessed	39	-	(2,943)	-
	<u>72,870</u>	<u>(30,312)</u>	<u>61,112</u>	<u>(15,571)</u>

* The RPSIA holder is the Bank's immediate holding company.

24 INCOME ATTRIBUTABLE TO DEPOSITORS

	Quarter Ended		Year-To-Date Ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Deposits from customers				
- Non-Mudharabah	78,750	75,654	243,842	234,671
- Mudharabah	-	2	1	4
Deposits and placements of banks and other financial institutions				
- Non-Mudharabah	4,114	2,891	10,422	8,967
Subordinated sukuk	2,419	2,419	7,180	7,180
	<u>85,283</u>	<u>80,966</u>	<u>261,445</u>	<u>250,822</u>

25 INCOME ATTRIBUTABLE TO INVESTMENT ACCOUNT HOLDER

	Quarter Ended		Year-To-Date Ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Investment accounts due to designated financial institution				
- Mudharabah	10,912	14,900	33,212	44,858
	<u>10,912</u>	<u>14,900</u>	<u>33,212</u>	<u>44,858</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**26 OPERATING EXPENSES**

	Quarter Ended		Year-To-Date Ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Personnel expenses				
Wages, salaries and bonus	6,579	5,927	16,908	17,006
Employees Provident Fund contributions	983	847	2,651	2,622
Share-based expenses	4	91	179	196
Others	1,341	767	3,629	2,135
	<u>8,907</u>	<u>7,632</u>	<u>23,367</u>	<u>21,959</u>
Establishment expenses				
Depreciation of property and equipment	1,212	1,103	3,457	3,419
Rental of premises	738	782	2,221	2,214
Repair and maintenance	206	142	635	519
Information technology costs	(210)	61	645	187
Others	852	526	2,065	1,808
	<u>2,798</u>	<u>2,614</u>	<u>9,023</u>	<u>8,147</u>
Marketing expenses				
Advertising and business promotion	180	140	323	341
Transport and travelling	84	90	218	272
Others	49	19	63	46
	<u>313</u>	<u>249</u>	<u>604</u>	<u>659</u>
General administrative expenses				
Shared service fees to immediate holding company	27,757	24,359	80,282	72,220
Transaction processing fees to related companies	6,506	6,293	17,743	19,005
Others	3,653	5,947	13,574	18,469
	<u>37,916</u>	<u>36,599</u>	<u>111,599</u>	<u>109,694</u>
Total operating expenses	<u>49,934</u>	<u>47,094</u>	<u>144,593</u>	<u>140,459</u>

27 INCOME TAX EXPENSE

	Quarter Ended		Year-To-Date Ended	
	30 September 2018 RM'000	30 September 2017 RM'000	30 September 2018 RM'000	30 September 2017 RM'000
Malaysian income tax				
- Current period	(3,984)	21,706	28,279	46,478
- Prior periods	(1,331)	2,591	(1,331)	2,585
Deferred tax				
- Origination and reversal of temporary differences	(528)	(1,122)	(730)	(655)
- Prior periods	(16)	-	(16)	-
	<u>(5,859)</u>	<u>23,175</u>	<u>26,202</u>	<u>48,408</u>

28 CAPITAL COMMITMENTS

	30 September 2018 RM'000	31 December 2017 RM'000
Capital commitment in respect of property and equipment		
- Contracted but not provided for	109	3,642

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**29 COMMITMENTS AND CONTINGENCIES**

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

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

	30 September 2018			31 December 2017		
	Principal	Credit	Risk	Principal	Credit	Risk
	Amount	Equivalent	Weighted	Amount	Equivalent	Weighted
	RM'000	Amount	Amount	RM'000	Amount	Amount
		RM'000	RM'000		RM'000	RM'000
Direct credit substitutes	101,363	101,363	93,075	99,291	99,291	89,356
Transaction-related contingent items	377,887	191,065	147,446	400,522	201,991	157,885
Short-term self-liquidating trade-related contingencies	34,810	7,144	4,565	76,207	16,423	10,239
Foreign exchange related contracts						
- Less than one year	32,249	376	318	63,844	586	313
Profit rate related contracts						
- Five years and above	360,000	34,302	22,575	-	-	-
Formal standby facilities and credit lines						
- Maturity exceeding one year	1,154,098	882,591	1,036,092	362,715	292,428	215,284
Other unconditionally cancellable commitments	3,854,149	81,340	12,537	1,978,466	61,413	8,514
	5,914,556	1,298,181	1,316,608	2,981,045	672,132	481,591

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**30 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Financial instruments carried at fair value**30 September 2018****Financial assets at fair value**

	Level 1	Level 2	Total
	RM'000	RM'000	RM'000
Financial assets at FVTPL	-	9,978	9,978
Financial investments at FVOCI	2,422,865	1,982,309	4,405,174
Derivative financial assets	21	2,310	2,331
	<u>2,422,886</u>	<u>1,994,597</u>	<u>4,417,483</u>

Financial liabilities at fair value

Derivative financial liabilities	7	2,334	2,341
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31 December 2017**Financial assets at fair value**

Financial investments at FVOCI	2,154,016	2,641,127	4,795,143
Derivative financial assets	33	329	362
	<u>2,154,049</u>	<u>2,641,456</u>	<u>4,795,505</u>

Financial liabilities at fair value

Derivative financial liabilities	151	438	589
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There are no financial instruments carried at Level 3 fair value.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 SEPTEMBER 2018**31 CAPITAL ADEQUACY**

The capital ratios are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) whereby recognition of the Bank's Tier 2 capital instruments are subject to a gradual phase-out treatment.

	30 September 2018 RM'000	31 December 2017 RM'000
Common Equity Tier 1 ("CET 1") capital		
Paid-up ordinary share capital	555,000	555,000
Retained earnings	791,541	685,415
Other reserves	93,450	95,473
Regulatory adjustment for CET 1 capital	(97,230)	(97,255)
CET 1 / Tier 1 capital	<u>1,342,761</u>	<u>1,238,633</u>
Tier 2 capital		
Stage 1 and Stage 2 ECL / Collective impairment allowance and qualifying regulatory reserves under the Standardised Approach	4,990	5,872
Surplus eligible provisions over expected losses	45,079	36,792
Subordinated sukuk	200,000	200,000
Tier 2 capital	<u>250,069</u>	<u>242,664</u>
Capital base	<u>1,592,830</u>	<u>1,481,297</u>
Before the effects of PSIA		
CET 1 / Tier 1 capital ratio	13.098%	13.358%
Total capital ratio	<u>15.537%</u>	<u>15.975%</u>
After the effects of PSIA		
CET 1 / Tier 1 capital ratio	15.344%	16.569%
Total capital ratio	<u>18.201%</u>	<u>19.815%</u>

In accordance with BNM's Guidelines on the Recognition and Measurement of Profit Sharing Investment Account ("PSIA") as Risk Absorbent, the credit and market risks of the assets funded by the Restricted Profit Sharing Investment Accounts ("RPSIA") which qualify as risk absorbent are excluded from the total capital ratio calculation. As at 30 September 2018, credit risks related to RPSIA assets excluded from the total capital ratio calculation amounted to RM1,500 million (31 December 2017: RM1,797 million).

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

	30 September 2018 RM'000	31 December 2017 RM'000
Total RWA for credit risk	7,912,377	6,601,740
Total RWA for market risk	3,046	6,787
Total RWA for operational risk	835,732	867,121
	<u>8,751,155</u>	<u>7,475,648</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS - 30 JUNE 2018 (continued)**32 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9**

The Bank adopted MFRS 9 on 1 January 2018. The key changes thereof to the Bank's accounting policies are summarised below.

Classification and measurement

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. It replaces the existing MFRS 139 categories of held-to-maturity and available-for-sale.

Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows that are solely payments of principal and profit. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of the financial assets. Financial assets that are neither held at amortised cost nor at FVOCI will be measured at FVTPL.

Debt instruments such as financing and advances and investment securities are measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and profit.

For financial liabilities, MFRS 9 retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Bank did not elect fair value option for its financial liabilities.

The following table summarises the impact on classification and measurement to the Bank's financial assets on 1 January 2018:

Financial assets	Note	Classification		Carrying amount	Carrying amount
		MFRS 139	MFRS 9	MFRS 139 RM'000	MFRS 9 RM'000
Cash and cash equivalents	8	Financing and receivables	Amortised cost	957,860	957,832
Financial assets at FVTPL	9	Held-for-trading	Financial assets at FVTPL	-	132,717
Financial investments at FVOCI	10	Available-for-sale	Financial investments at FVOCI	4,795,143	4,662,426
Financing and advances	11	Financing and receivables	Amortised cost	9,718,087	9,730,144
Derivative financial assets	13	Held-for-trading	Financial assets at FVTPL	362	362
Other assets	14	Financing and receivables	Amortised cost	65,401	64,868
Statutory deposits with BNM		Financing and receivables	Amortised cost	325,500	325,500

There are no changes to the classification and carrying amounts of the financial liabilities subsequent to the measurement categories under MFRS 9.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**32 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9 (continued)****Classification and measurement (continued)**

The following table reconciles the carrying amounts under MFRS 139 in transition to the carrying amounts under MFRS 9 on 1 January 2018.

	Cash and cash equivalents RM'000	Financing and advances RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total amortised cost RM'000
Amortised cost					
MFRS 139 carrying amount as at 31 December 2017	957,860	9,718,087	65,401	325,500	11,066,848
Remeasurement due to expected credit loss	(28)	12,057	(533)	-	11,496
MFRS 9 carrying amount as at 1 January 2018	957,832	9,730,144	64,868	325,500	11,078,344

	FVOCI			FVTPL		
	Financial investments available-for-sale RM'000	Debt Instruments RM'000	Total FVOCI RM'000	Financial assets at FVTPL RM'000	Derivative financial assets RM'000	Total FVTPL RM'000
Fair value						
MFRS 139 carrying amount as at 31 December 2017	4,795,143	-	4,795,143	-	362	362
Reclassification from AFS to FVOCI	(4,662,426)	4,662,426	-	-	-	-
Reclassification from AFS to FVTPL	(132,717)	-	(132,717)	132,717	-	132,717
MFRS 9 carrying amount as at 1 January 2018	-	4,662,426	4,662,426	132,717	362	133,079

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

32 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9 (continued)

ECL impairment model

Financial assets classified at amortised cost or FVOCI, and certain financing commitments and financial guarantee contracts are subject to MFRS 9 ECL impairment provisioning, unless such exposures are designated at FVTPL under fair value option due to accounting mismatch.

Upon adoption of MFRS 9, financial assets measured at amortised cost or FVOCI are categorised into the following stages for impairment provisioning:

- Stage 1: 12-month ECL for performing exposures.
- Stage 2: Lifetime ECL for exposures where credit risk has increased significantly since initial inception.
- Stage 3: For credit-impaired assets, impairment allowance will be made based on lifetime ECL (similar to existing classification of financial assets that are impaired under MFRS139).

Measurement

An ECL estimate will be produced for all relevant instruments established on probability-weighted forward-looking economic scenarios. The measurement of ECL will primarily be calculated based on the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). These parameters are derived from internal rating models after adjusting them to be unbiased and forward looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

12-month ECL will be based on maximum of 12-month PD while Lifetime ECL will be based on the remaining lifetime of the instrument. LGD reflects the expected loss value given default, after taking into account the effect of collateral. EAD reflects the expected exposure at default after taking into account expected repayments and / or drawdown. 12-month ECL and Lifetime ECL will be the respective discounted value (using the effective profit rate) of 12-month PD and Lifetime PD, multiplied with LGD and EAD.

Movement between stages

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly since its initial inception.

In accordance with MFRS 9, financial assets are classified in Stage 2 where there is significant increase in credit risk since initial recognition, where loss allowance will be measured using lifetime ECL.

The Bank has considered both qualitative and quantitative parameters in the assessment of significant increase in credit risk. They include the following:

1. Established thresholds for significant increases in credit risk based on both a relative and absolute change in lifetime PD relative to initial recognition.
2. Conduct qualitative assessment to ascertain if there has been significant increase in credit risk.
3. Adopt 30 days past due as an indication of significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of whether a financial asset is credit-impaired under MFRS 9 will be based on objective evidence of impairment, similar to MFRS 139.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

32 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 9 (continued)

Movement between stages (continued)

The assessments for significant increase in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1. Similarly, an asset that is in Stage 3 will move back to Stage 2 if it is no longer considered to be credit-impaired.

Regulatory framework

Under the revised BNM guideline on Financial Reporting for Islamic Banking Institutions, the Bank must maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

Transition

Changes in accounting policies resulting from the adoption of MFRS 9 have been applied prospectively, as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of MFRS 9 and therefore is not comparable to the information presented for 2018 under MFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial is held and contractual cash flow characteristics of the financial asset.
 - The designation and revocation of previous designations of certain financial assets.
- If a debt security had low credit risk at the date of initial application of MFRS 9, then the Bank has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

33 CONTINGENT LIABILITY

As at 30 September 2018, the Bank had not taken into account the impact of non tax deduction for Stage 1 and Stage 2 ECL and the forward looking elements contained in Stage 3 ECL as the matter is still under an industry appeal process.