OCBC AL-AMIN BANK BERHAD
Registration No. 200801017151 (818444-T)
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

The Directors hereby submit their report and the audited financial statements of the Bank for the financial year ended 31 December 2021.

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 during the financial year and until the date of this report.

FINANCIAL RESULTS	**2021**
	RM'000
Profit for the year	89,993

SHARE CAPITAL AND DEBENTURES

There were no changes in the issued and paid-up share capital nor debentures issued by the Bank during the financial year.

RESERVES AND PROVISIONS

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

DIVIDENDS

No dividends have been paid or declared by the Bank since the end of the previous financial year. The Directors do not recommend payment of any dividend in respect of the current financial year ended 31 December 2021.

FINANCIAL PERFORMANCE

The Bank posted profit after tax of RM90 million for the financial year ended 31 December 2021, an increase of RM18.2 million mainly due to lower income distributable to depositors of RM83.7 million, lower operating expenses of RM17.3 million and higher income from shareholder's fund of RM5.0 million partly offset by lower income derived from investment of depositors' funds and others of RM57.7 million, higher impairment allowances of RM20.8 million and lower net income from investment account funds of RM0.5 million and higher income tax expense of RM8.8 million.

Allowances increased by RM20.8 million mainly due to higher Stage 3 expected credit losses ("ECL") on credit impaired financial assets and commitment & contingencies of RM70.3 million and lower impaired financing recoveries of RM4.7 million partly offset by lower Stage 1 & 2 ECL of RM54.2 million.

Gross financing and advances increased by RM1.3 billion or 11% as at 31 December 2021 mainly from higher financing to the transport, storage & communication, manufacturing, finance, insurance and business services sectors partly offset by lower financing to wholesale & retail trade. Customer deposits also saw an increase of RM1.5 billion mainly from corporates, non-bank financial institutions and individuals partly offset by government & statutory bodies.

Shareholder's funds strengthened by RM36.5 million to RM1.8 billion. The Bank is well capitalised, after taking into account the effects of RPSIA, with Common Equity Tier 1 / Tier 1 capital ratios of 18.179% and Total capital ratio of 20.782%.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (continued)

MARKET OUTLOOK

Malaysia's Gross Domestic Product ("GDP") recorded annual growth of 3.1% in 2021, supported by an increase in economic activities following the progressive relaxation of COVID-19 containment measures since July 2021 and strong external demand supporting export growth.

BNM expects Malaysia's GDP growth for 2022 to range between 5.3% and 6.3%, supported by resumption of economic activities, improvements in the labour market, continued policy support and expansion in external demand. The progress and efficacy of vaccinations, compliance to Standard Operating Procedures as well as ability to contain outbreaks from COVID-19 variants of concern will be key to the expected economic recovery. Malaysia's financial system is expected to remain healthy with banks well capitalised to withstand potential stress and to support credit growth in the economy.

The Bank continues to support and assist customers during these challenging times through flexible repayment packages, the most recent being the Financial Management and Resilience programme ("URUS") announced by the Government on 13 October 2021, designed to help eligible B50 customers alleviate the financial difficulties caused by the COVID-19 pandemic whereby the Bank offered option of a 3-month profit waiver and/or reduced instalments to vulnerable B50 customers, and remains committed to assisting affected customers as the economy gradually recovers.

ACTIVITIES AND ACHIEVEMENTS 2021

OCBC Al-Amin's efforts during the year centred on helping consumers, small and medium enterprises ("SME") and corporate clients overcome the ongoing challenges brought about by the pandemic. We did so by setting up dedicated teams, channels and programmes for those facing financial difficulties. The programmes, which were aligned to the blueprints laid out by the Government and Bank Negara Malaysia, included moratoriums and payment and restructuring exercises.

Among corporate and commercial banking customers, we continued to focus on deepening existing relationships with government-linked companies and Bursa Malaysia's Shariah Index companies and catering to the growing demand for Islamic banking products and services. We made inroads into focus growth areas such as renewable energy, healthcare, advanced manufacturing and electronics, and logistics. Despite the challenges brought about by the pandemic, we continued to provide dynamic financial solutions to support our customers' ambitions in capital expansion, privatisation and mergers and acquisitions, amongst others.

We also drove numerous sustainability initiatives via innovative Shariah-compliant financing structures and active engagement with the regulators, industry players and media to support and promote the adoption of ESG best practices amongst public listed companies ("PLC") and to showcase our capability as a significant force in sustainable finance.

During the year, we won several Islamic banking awards from various renowned industry publications, including three awards for sustainability-linked Shariah facilities: "Green and Sustainable Finance Deal of the Year and Service Awards" from Islamic Finance News, "Best ESG Green Financing In Southeast Asia: Malaysia" from The Alpha Southeast Asia Best Deal and Solution Awards, and "Green Project" at the Islamic Finance News Awards.

In consumer banking, we strengthened our wealth products proposition with the addition of new Shariah-compliant unit trust funds as well as new takaful products. We continued to enhance our remote capabilities by enabling non-face-to-face wealth trades and banking transactions, and worked with our parent bank to introduce OCBC RM Chat, the country's first secure chat service that enables Premier Banking and Premier Private Client customers to communicate and place daily banking instructions securely with their Relationship Managers (RM) via Internet and mobile banking. On the sustainability front, we introduced several new sustainability-linked unit trusts, in line with our customers' growing environmental, social and governance ("ESG") consciousness.

ACTIVITIES AND ACHIEVEMENTS 2021 (continued)

These sustainability initiatives are part of our wider commitment to supporting the Value Based Intermediation ("VBI") efforts led by the Islamic banking industry and Bank Negara Malaysia.

Our corporate social responsibility ("CSR") efforts continued unabated through our corporate and branch-level initiatives that continued, for a second year, to centre on communities that were significantly affected by the pandemic and the effects of the movement control orders. Our focus remained on reducing the burden of needy communities. These included partnerships with Zoo Negara Malaysia for tapir conservation, helping autistic children, and industry-level joint programmes to help the needy. We also partnered with our parent bank on other CSR initiatives.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2022

Moving into 2022, despite the continued challenges brought about by the pandemic, OCBC Al-Amin will continue to uphold its position as one of the leading foreign Islamic banks in Malaysia underpinned by the strength of our parent bank’s franchise as well as by managing risks, maximising collaboration within business units. For customers, we will grow our wealth products platform and expand our relationship with top-tier corporates including government-linked companies and Bursa Malaysia’s Shariah Index companies alongside supporting local and regional business development ambitions.

We will focus on sustainable financing opportunities as part of our long-term growth strategy within the responsible financing framework that we have established. We are also actively exploring strategic collaborations in support of the sustainability and VBI agenda amidst the realities brought about by the pandemic.

Our staff development efforts, like that of our parent bank, will continue to revolve around developing programmes to support sustainability, making our HR in Your Pocket ("HIP") app become even more of a digital enabler to employees, and supporting strategic workforce planning through a more unified structure for roles and career progression. We will also drive a more autonomous and sustainable learning culture based on the OCBC learning philosophy and learning blueprint.

On the CSR front, we will continue to ride on the momentum created by our various corporate and branch 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.

DIRECTORS OF THE BANK

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

Tan Ngiap Joo, *Independent Non-executive Chairman*
Ng Hon Soon, *Independent Non-executive Director*
Lee Kok Keng, Andrew, *Independent Non-executive Director*
Ismail Bin Alowi, *Independent Non-executive Director*
Datuk Azizan Bin Haji Abd Rahman, *Independent Non-executive Director* (Resigned on 31 March 2022)

In accordance with clauses 112 and 113 of the Bank's Constitution, Mr Tan Ngiap Joo and Mr Ng Hon Soon shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

PROFILE OF THE BOARD OF DIRECTORS ("The Board")

Mr Tan Ngiap Joo

Mr Tan Ngiap Joo was appointed to the Board on 1 October 2015 and appointed Chairman on 30 March 2018. 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 Australia 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 OCBC Bank (Malaysia) Berhad and Investment Committee for MASCOT Private Trust, as well as a Director of OCBC, OCBC Management Services Pte Ltd and Gemstone Asset Holdings Pte 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 on 16 July 2014 as a Non-independent Non-executive Director and later redesignated as an Independent Non-executive Director on 1 November 2014.

He worked at Bank Negara Malaysia for 10 years before becoming part of the research team of Nomura Advisory Services in 1994. He joined Pacific Bank Berhad in 1995 where he held several key positions, and was later appointed to head PacificMas Berhad (renamed from Pacific Bank Berhad, following the sale of its banking business) as its General Manager in 2001. He was seconded by PacificMas Berhad to Pacific Insurance Berhad as its Chief Executive Officer (CEO) from 2002 to 2003, and later appointed CEO of PacificMas Berhad in 2004, a position he held until 2012.

Mr Ng is currently also a Director of Great Eastern Life Assurance (Malaysia) Berhad, Pac Lease Berhad, and Bond Pricing Agency Malaysia Sdn. Bhd. Mr Ng holds a Bachelor of Applied Science (Computer Technology) from Universiti Sains Malaysia and a Master in Public Administration from Harvard University.

Mr Lee Kok Keng, Andrew

Mr Andrew Lee Kok Keng was appointed to the Board as a Non-independent Non-executive Director on 15 May 2017, and later redesignated as an Independent Non-executive Director on 1 May 2019. On 18 February 2022, he was appointed as Director of Oversea-Chinese Banking Corporation Limited (OCBC Bank) as well. He has over 38 years of regional and country experience in the banking and insurance industries. Mr Lee served in OCBC Bank from 1999 to 2010 as Senior Executive Vice President with responsibility for its global consumer banking business. He then served as Executive Chairman of Banking Clearing System Information System Pte Ltd from 2010 to 2011. Subsequently, Mr Lee served at Great Eastern Life Assurance Co Ltd as Group Chief Marketing and Distribution Officer, and was also concurrently the President Commissioner of Great Eastern Life Indonesia and Chairman of Great Eastern Vietnam. He is currently an Independent Director of Nordic Group Ltd, a listed company in Singapore. Mr Lee graduated with a Bachelor of Social Science (Honours in Economics) degree from University of Singapore and has also attended the Stanford Executive Program at Stanford University.

Encik Ismail Bin Alowi

Encik Ismail Alowi was appointed to the Board on 15 May 2017. He started his career in Bank Negara Malaysia (BNM) in 1976, where he held various positions in roles involving public finance, balance of payments, monetary and exchange rate policies, macroeconomic management, regional and international co-operation, and regional and multilateral trade negotiations. During this time, he acquired extensive experience in policy making and implementation. In November 2002, he was seconded to the International Monetary Fund (IMF) as an Alternate Executive Director in the IMF Executive Board until October 2004 when he returned to BNM where he served as Director of the International Department until his retirement in 2009. Encik Ismail graduated with a Bachelor of Economics with Honours from University of Malaya and holds a Master of Arts in Development Economics from Boston University, and a Master’s degree in Public Administration from Harvard University.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (continued)

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

The interest and deemed interests in the shares of the Bank and its related corporations 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 2021	Acquired/ Awarded	Disposed	At 31 December 2021
Ordinary Shares				
Tan Ngiap Joo	1,400,251	24,742	-	1,424,993
Lee Kok Keng, Andrew	155,078	12,832	-	167,910

Unexercised share options available to the Directors under the OCBC Share Option Scheme 2001	Exercise period	At 1 January 2021	Awarded/ Granted	Exercised/ Forfeited/ Lapsed	At 31 December 2021
Ordinary Shares					
Lee Kok Keng, Andrew	14/3/2020 to 15/3/2026	410,969	-	(10,624)	400,345

Other than the above, no other Director in office during the financial year held any interest in shares and options 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 28 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 the Bank or any other body corporate except for the share options granted to executives of the 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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (continued)

CORPORATE GOVERNANCE

Board Composition and Independence

The Board comprises four Directors, all of whom are Independent Non-executive Directors. The independent Non-executive Directors are Mr Tan Ngiap Joo (Chairman of the Board), Mr Ng Hon Soon, Encik Ismail Bin Alowi and Mr Lee Kok Keng, Andrew. The only affiliated Director is Mr Tan Ngiap Joo. Datuk Azizan Bin Haji Abd Rahman resigned as an Independent Director with effect from 31 March 2022.

The Bank has set the policy on the tenure limit at 9 continuous years for independent Directors. The Nominating & Remuneration Committee shall assess the independence of the 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 Chief Executive Officer ("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 and technology.

As a principle of good corporate governance, all Directors are subject to re-election/re-appointment (by rotation) pursuant to the Bank’s Constitution 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:

- To be responsible for the overall oversight function and the effective functioning of the Shariah governance structure;
- 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;
- Providing oversight in ensuring that the Bank's risk appetite and activities are consistent with the strategic intent, operating environment, effective internal controls, capital sufficiency and regulatory standards; and
- Promoting sustainability through appropriate environmental, social and governance considerations in the Bank’s business strategies.

CORPORATE GOVERNANCE (continued)

Board Conduct and Responsibilities (continued)

Prior to each meeting, members are provided with timely and adequate information to enable them to fulfil their responsibilities. Information provided includes background information on matters to be addressed by the Board, copies of disclosure documents, 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.

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, risk management, cybersecurity and technology 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 ("BAC")

The BAC comprises Mr Lee Kok Keng, Andrew (BAC Chairman with effect from 31 March 2022), Mr Ng Hon Soon and Encik Ismail Bin Alowi, all of whom are independent Directors. Datuk Azizan Bin Haji Abd Rahman stepped down as the BAC Chairman with effect from 31 March 2022 following his resignation from the Board.

The Board approved the terms of reference of the BAC that describe the responsibilities of its members. The BAC meets regularly, preferably not less than once in every three months or more often, as necessary. It has full access to and co-operation from management, and has the discretion to invite any Director and/or 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, with the external auditors and internal auditors, the adequacy of the system of internal controls including financial, operational and compliance controls. It reviews the audit scope and audit reports, assesses the effectiveness of external audit and internal audit functions as well as ensures 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 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. 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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (continued)

CORPORATE GOVERNANCE (continued)

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 objective assessments to help improve the quality and effectiveness of governance, risk management and internal control processes, and enable the Bank to accomplish its strategic objectives, using a risk-based, systematic and disciplined audit approach.

The scope of work of Internal Audit is to provide reasonable, but not absolute, assurance to the BAC and Senior Management that the Bank's governance, risk management and internal control processes, as designed and implemented by senior management, are adequate and effective.

Internal Audit also provides consulting or advisory services where the objective is to add value and improve an organisation's governance, risk management and control processes without Internal Audit assuming management responsibility.

Internal Audit also performs investigations into alleged staff misconduct or suspected internal frauds (involving staff), that may arise from a whistle-blow complaint or referred by Business Units. The primary objectives of the investigation are to conduct fact finding, review and assess the facts, gather evidence to substantiate an individual's involvement in an allegation, and identify root causes, so as to facilitate decision making and remedial actions by the necessary stakeholders to protect the interest of the Bank.

Internal Audit will meet or exceed the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors including the Code of Ethics as well as applicable local regulatory requirements for 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 ("RMC") 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 BAC and the RMC, 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, 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 ("NRC")

The NRC comprises Mr Lee Kok Keng, Andrew (NRC Chairman), Mr Tan Ngiap Joo and Mr Ng Hon Soon; all of whom are independent Directors.

The Board approved the terms of reference of the NRC. 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 membership and for the CEO position, 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 of the individual Directors was established with the endorsement of the Committee. The Committee oversees 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 CEO, 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 RMC. In addition, the Committee shall make recommendations to the Board on the remuneration, fee and benefits of the 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 Personnel.

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 and deferred share awards for eligible executives, as well as benefits. Compensation is significantly differentiated between performance levels. Executives are remunerated based on the achievements of their own performance measures, and the demonstration of core values and competencies, while taking into account market compensation data for their respective job roles. Compensation packages are linked to personal performance, the performance of organisational 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 and adherence to core values. Where relevant, financial measurements adjusted as appropriate for the various types of risk (such as market, credit and operational risks), and include:

- 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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (continued)

CORPORATE GOVERNANCE (continued)

Remuneration Policy (continued)

Each business unit has its own performance measures that match its 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. For senior management and officers entrusted with the effective implementation of Shariah governance in the business and operations of OCBC Al-Amin Bank Berhad, the Bank shall also take into account the reinforcement of a risk culture that is in line with Shariah governance objectives.

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 Personnel") comprises certain members of senior management, employees of Senior Vice President rank and above, senior control staff and employees who had been awarded high variable performance bonuses.

The Bank's remuneration policy requires Material Risk Personnel to have 40% of their total variable compensation deferred as long term incentive, if the total variable compensation meets a minimum threshold. The long term incentive will be in the form of OCBC Ltd deferred shares. Share awards under the OCBC Ltd Deferred Share Plan ("the Plan") are also granted annually to other eligible executives who are paid high variable performance bonuses. The share awards form 20% to 40% of their total variable performance bonus for the year.

Under the Plan, 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year 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.

Quantitative disclosure of the Bank's key management and other Material Risk Personnel remuneration is disclosed in Note 28 to the financial statements.

All variable cash compensation of Material Risk Personnel 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 and/or the employee has committed a gross misconduct, fraud or breach of trust in relation to the Bank or OCBC Group.

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 ("RMC")

The RMC comprises Mr Ng Hon Soon (RMC Chairman), Mr Tan Ngiap Joo, Encik Ismail Bin Alowi and Mr Lee Kok Keng, Andrew; all of whom are independent Non-executive Directors. Datuk Azizan Bin Haji Abd Rahman stepped down as the RMC member with effect from 31 March 2022 following his resignation from the Board.

BNM had, on 2 July 2009, approved the delegation of approving authority of the Board of Directors pertaining to risk management matters to the RMC. 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 including environmental, social and governance risks, technology and cybersecurity risks. 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.

CORPORATE GOVERNANCE (continued)

<u>Disclosure of Shariah Committee</u>

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 provide objective and sound Shariah advice to the Bank to ensure that its aims and operations, business, affairs and activities are in compliance with Shariah. This includes:

   (i) providing decision or advice to the Bank on the application of any rulings of the Shariah Advisory Council ("SAC") of BNM or standards on Shariah matters that are applicable to the operations, business, affairs and activities of the bank;

   (ii) reviewing and endorsing new product or its variation and any Islamic financial instruments such as Sukuk including relevant documentation, product manual or policy, process flow and marketing collaterals;

   (iii) reviewing and endorsing Shariah related guidelines issued from time to time. This also includes approving bank's internal standard operating procedures or manuals which govern the functioning of Shariah Secretariat;

   (iv) providing decision or opinion on matters which require a reference to be made to the SAC of BNM;

   (v) providing a decision or advice on the operations, business, affairs and activities of the Bank which may trigger a Shariah non-compliance event;

   (vi) deliberating and affirming a Shariah non-compliance finding by any relevant functions; and

   (vii) endorsing a rectification measure to address a Shariah non-compliance event.

(b) To develop a structured and robust methodology to guide its decision-making process which must be documented, adopted and maintained at all times to ensure the credibility of decision-making;

(c) To review and confirm the accuracy of minutes of SC meetings to record the decisions or advice of the SC, including the key deliberations, rationale for each decision made by each SC member, and any significant concerns and dissenting views;

(d) To immediately update the Board in the event the SC has reason to believe that any Shariah issues or matter may affect the safety and soundness of the Bank;

(e) To devote sufficient time to prepare for and attend SC meetings;

(f) To disclose the nature and extent of interest that constitutes or gives rise to a conflict or potential conflict of interest upon the appointment, reappointment or as soon as there is any changes in his circumstances that may affect his status;

(g) To oversee the computation and distribution of Zakat and other funds to be channeled to Zakat institution or charity;

(h) To endorse the following SC's report:

   (i) report on the state of the Shariah compliance of the Bank which will be disclosed in the annual financial statement of the Bank; and

   (ii) report to the Board on SC's decisions at least three times a year which essentially contains at minimum, product development, key Shariah related issues and revision of bank's internal Shariah standard operating procedures or manuals which govern the functioning of Shariah Secretariat.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (continued)

CORPORATE GOVERNANCE (continued)

Disclosure of Shariah Committee (continued)

(i) To continuously develop a reasonable understanding of the business and operations of the Bank and keep abreast with relevant market and regulatory developments; and

(j) SC members shall not act in a manner that would undermine the rulings and decisions made by the SAC of BNM or the committee they represent.

Members' Attendance at Shariah Committee ("SC") Meetings in 2021

Name of Shariah Committee Member	Attendance of Meetings Held
Assoc. Prof. Dr Mohamad Asmadi Bin Haji Abdullah	12 of 12
Asst. Prof. Dr Muhammad Naim Bin Omar	12 of 12
Prof. Dato' Dr Wan Sabri Bin Wan Yusof	12 of 12
Dr Abdul Rahman Bin A. Shukor	12 of 12
Hj. Faizal Bin Jaafar	12 of 12
Dr Khairul Anuar Bin Ahmad*	10 of 10

* Dr Khairul Anuar Bin Ahmad was appointed as a Shariah Committee Member effective on 1 April 2021 and as Chairman effective on 1 Jan 2022.

Management Information

All Directors review the 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 and Board Committee reports include, amongst others, the following:

- Minutes of meeting of all Board and Board Committees;
- Performance Report of the Bank;
- Credit Risk Management Report;
- Asset Liability & Market Risk Report;
- Operational Risk Management Report;
- Shariah Risk Management Update; and
- 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 2021 (continued)

CORPORATE GOVERNANCE (continued)

Management Information (continued)

Directors' Attendance At Board and Board Committee Meetings in 2021

Name of Director	Attendance of Meetings Held			
	Board	Board Audit Committee	Nominating & Remuneration Committee	Risk Management Committee
Tan Ngiap Joo	11 of 11		2 of 2	10 of 10
Ng Hon Soon	11 of 11	7 of 7	2 of 2	10 of 10
Lee Kok Keng, Andrew	11 of 11		2 of 2	10 of 10
Ismail Bin Alowi	11 of 11	7 of 7		10 of 10
Datuk Azizan Bin Haji Abd Rahman (Resigned on 31 March 2022)	11 of 11	7 of 7		10 of 10

The Bank's Constitution provides for the Directors to participate in the 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, 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 2021. 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 RM6,569 (2020: RM7,244).

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 are 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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (continued)

OTHER STATUTORY INFORMATION (continued)

- 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 2021 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, PricewaterhouseCoopers PLT, has indicated its willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 27 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
15 April 2022

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 22 to 110 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 2021 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
15 April 2022

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 22 to 110 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.

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

Subscribed and solemnly declared by the above named Yuen Sook Cheng at Kuala Lumpur in Malaysia on 15 April 2022, 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 Policy Document issued by Bank Negara Malaysia, we hereby submit the following report for the financial year ended 31 December 2021:

We have reviewed the principles and contracts relating to the transactions and applications undertaken by the Bank during the financial year ended 31 December 2021. 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, the members of the Shariah Committee of OCBC Al-Amin Bank Berhad, do hereby confirm that:

(a) The overall operations, business, affairs and activities of the Bank are in compliance with Shariah principles except as disclosed in the paragraph below on Shariah non-compliant event; and

(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.

During the financial year, one material Shariah non-compliant event ("SNCE") was reported, arising from the delay and non-execution of Commodity Murabahah ("CM") transaction for several financing accounts. The Shariah Committee has reviewed and deliberated the matter and endorsed the rectification plan. The Bank has taken the necessary steps to rectify the SNCE and mitigate the Shariah non-compliance risk by strengthening internal processes and controls. The Shariah non-compliant income and distribution is disclosed in Note 37 in the financial statements.

In respect of the financial year 2020, the Shariah Committee has endorsed the Zakat computation on Bank's business based on the growth capital method. The Bank has allocated and made Zakat contribution to Lembaga Zakat Selangor.

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 2021 have been conducted in conformity with the Shariah principles.

DR KHAIRUL ANUAR BIN AHMAD	**ASSOC. PROF. DR MOHAMAD ASMADI BIN HAJI ABDULLAH**
Chairman	Member

Kuala Lumpur, Malaysia
Date: 15 April 2022

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF OCBC AL-AMIN BANK BERHAD
(Incorporated in Malaysia)
(Registration No. 200801017151 (818444-T))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of OCBC Al-Amin Bank Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 22 to 110.

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 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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("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 Directors' Report and Shariah Committee's Report, but does not include the financial statements of the Bank and our auditors' report thereon.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Our opinion on the financial statements of the Bank does not cover the other information 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 other information and, in doing so, consider whether the other information 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 this other information, 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 the 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 Bank's ability 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.

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:

(a) 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,

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

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.

(b) 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 Bank's internal control.

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

(d) 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 Bank's ability 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.

(e) 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 achieves fair presentation.

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF OCBC AL-AMIN BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Registration No. 200801017151 (818444-T))

OTHER MATTERS

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.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

NG YEE LING
03032/01/2023 J
Chartered Accountant

Kuala Lumpur
15 April 2022

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	2021 RM'000	2020 RM'000
ASSETS			
Cash and cash equivalents	3	2,180,400	285,723
Financial assets at fair value through profit or loss ("FVTPL")	4	10,090	10,155
Financial investments at fair value through other comprehensive income ("FVOCI")	5	3,518,894	4,204,551
Financing and advances	6	12,436,450	11,244,993
Derivative financial assets	8	13,110	25,948
Other assets	9	32,558	101,361
Tax recoverable		15,575	10,868
Property and equipment	10	4,375	5,439
Right-of-use ("ROU") assets	11	2,796	4,493
Deferred tax assets	12	41,558	8,018
Total assets		18,255,806	15,901,549
LIABILITIES			
Deposits from customers	13	12,947,257	11,495,918
Investment accounts due to designated financial institution	14	2,571,103	1,480,245
Deposits and placements of banks and other financial institutions	15	518,377	775,572
Bills and acceptances payable		12,330	15,064
Derivative financial liabilities	8	13,484	27,253
Other liabilities	16	202,046	155,429
Provision for taxation and zakat		2,644	50
Subordinated sukuk	17	200,000	200,000
Total liabilities		16,467,241	14,149,531
EQUITY			
Share capital	18	555,000	555,000
Reserves	19	1,233,565	1,197,018
Total equity		1,788,565	1,752,018
Total liabilities and equity		18,255,806	15,901,549
Commitments and contingencies	32	4,108,808	3,654,590

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Note	2021 RM'000	2020 RM'000
Income derived from investment of depositors' funds and others	20	496,610	554,283
Income derived from investment of investment account funds	21	50,670	53,021
Income derived from investment of shareholder's funds	22	142,449	137,501
Impairment allowance and provisions	23	(183,681)	(162,896)
Total distributable income		506,048	581,909
Income attributable to depositors	24	(192,137)	(275,832)
Income attributable to investment account holder	25	(35,775)	(37,617)
Total net income		278,136	268,460
Operating expenses	27	(168,277)	(185,625)
Profit before income tax and zakat		109,859	82,835
Income tax expense	29	(19,816)	(10,992)
Zakat	30	(50)	(50)
Profit for the year		89,993	71,793
Items that may be subsequently reclassified to profit or loss			
Fair value reserve (debt instruments)			
- Change in fair value		(52,638)	50,408
- Transferred to profit or loss		(17,641)	(18,623)
- Related tax		16,869	(7,623)
Change in expected credit loss ("ECL") reserve on debt instruments at FVOCI		(36)	(63)
Other comprehensive (expense)/income for the year, net of income tax		(53,446)	24,099
Total comprehensive income for the year		36,547	95,892
Profit attributable to the owner of the Bank		89,993	71,793
Total comprehensive income attributable to the owner of the Bank		36,547	95,892
Basic earnings per ordinary share (sen)	31	48.64	38.81

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

OCBC AL-AMIN BANK BERHAD
Registration No. 200801017151 (818444-T)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Non-distributable				*Distributable*	
2021	**Share Capital RM'000**	**Regulatory Reserve RM'000**	**ECL Reserve RM'000**	**Fair Value Reserve RM'000**	**Retained Earnings RM'000**	**Total Equity RM'000**
At 1 January 2021	555,000	91,000	90	47,940	1,057,988	1,752,018
Fair value reserve						
- Change in fair value	-	-	-	(52,638)	-	(52,638)
- Transferred to profit or loss	-	-	-	(17,641)	-	(17,641)
- Related tax	-	-	-	16,869	-	16,869
Change in ECL reserve	-	-	(36)	-	-	(36)
Total other comprehensive expense for the year	-	-	(36)	(53,410)	-	(53,446)
Profit for the year	-	-	-	-	89,993	89,993
Total comprehensive (expense)/income for the year	-	-	(36)	(53,410)	89,993	36,547
At 31 December 2021	555,000	91,000	54	(5,470)	1,147,981	1,788,565
			Note 5			
2020						
At 1 January 2020	555,000	91,000	153	23,778	986,195	1,656,126
Fair value reserve						
- Change in fair value	-	-	-	50,408	-	50,408
- Transferred to profit or loss	-	-	-	(18,623)	-	(18,623)
- Related tax	-	-	-	(7,623)	-	(7,623)
Change in ECL reserve	-	-	(63)	-	-	(63)
Total other comprehensive (expense)/income for the year	-	-	(63)	24,162	-	24,099
Profit for the year	-	-	-	-	71,793	71,793
Total comprehensive (expense)/income for the year	-	-	(63)	24,162	71,793	95,892
At 31 December 2020	555,000	91,000	90	47,940	1,057,988	1,752,018
			Note 5			

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	2021 RM'000	2020 RM'000
Cash flows from operating activities		
Profit before income tax and zakat	109,859	82,835
Adjustments for:		
Net (gain)/loss from disposal of:		
- Financial assets at FVTPL	-	96
- Financial investments at FVOCI	(17,641)	(18,623)
- Property and equipment	47	62
Depreciation of equipment	1,594	2,225
Depreciation of ROU assets	1,824	2,100
Impairment allowance and provisions	201,687	185,596
Finance expense on lease liabilities	79	82
Share-based costs	343	378
Unrealised loss/(gain) on:		
- Financial assets at FVTPL	65	1
- Derivatives	(907)	1,162
Other non-cash items	-	7,975
Operating profit before changes in working capital	296,950	263,889
Changes in operating assets and operating liabilities:		
Financial assets at FVTPL	-	6,078
Financing and advances	(1,393,144)	366,725
Derivative financial assets	13,745	(13,659)
Other assets	68,804	(31,954)
Statutory deposits with BNM	-	309,300
Deposits from customers	1,451,339	(1,095,679)
Investment accounts due to designated financial institution	1,090,858	(505,809)
Deposits and placements of banks and other financial institutions	(257,195)	12,383
Bills and acceptances payable	(2,734)	(2,471)
Derivative financial liabilities	(13,769)	14,811
Other liabilities	47,948	(16,550)
Cash generated from/(used in) operations	1,302,802	(692,936)
Income tax and zakat paid	(38,650)	(29,240)
Net cash generated from/(used in) operating activities	1,264,152	(722,176)
Cash flows from investing activities		
Acquisition of financial investments at FVOCI	(8,626,000)	(10,425,000)
Proceeds from disposal of financial investments at FVOCI	9,258,983	10,477,246
Acquisition of equipment	(630)	(306)
Proceeds from disposal of equipment	52	-
Net cash generated from investing activities	632,405	51,940
Cash flows from financing activity		
Payment of lease liabilities	(1,880)	(2,182)
Net cash used in financing activity	(1,880)	(2,182)
Net increase/(decrease) in cash and cash equivalents	1,894,677	(672,418)
Cash and cash equivalents at 1 January	285,723	958,141
Cash and cash equivalents at 31 December (Note 3)	2,180,400	285,723

Change in liabilities arising from financing activity

	2021 RM'000	2020 RM'000
At 1 January	4,523	3,047
Payment of lease liabilities	(1,880)	(2,182)
Acquisition of new leases and changes in lease terms	127	3,576
Finance expense on lease liabilities	79	82
At 31 December	2,849	4,523

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021

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 Ltd"), incorporated in Singapore, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 15 April 2022.

1 BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention except for the assets and liabilities which are stated at fair value as disclosed in the notes to the financial statements: financial assets at FVTPL, financial investments at FVOCI and derivative financial instruments. The financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency. All financial information presented in RM have been rounded to the nearest thousand, unless otherwise stated.

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the requirements of the Companies Act 2016 in Malaysia and BNM's Shariah requirements.

The following amendments to accounting standards have been adopted by the Bank during the financial year:

- Amendments to MFRS 16, *Leases - Covid-19-Related Rent Concessions beyond 30 June 2021*
- Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16, *Interest Rate Benchmark Reform-Phase 2*

The adoption of the abovementioned amendments to accounting standards did not have any material impact on the financial statements of the Bank except for Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 - *Interest Rate Benchmark Reform - Phase 2* set out below.

<u>Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 - *Interest Rate Benchmark Reform - Phase 2*</u>

(i) Change in basis for determining cash flows

The Bank has adopted the Phase 2 amendments and applied the practical expedient to update the effective interest rate to account for the changes in contractual cash flows that is a direct consequence of interbank offered rate (‘IBOR’) reform. As a result, no immediate gain or loss is recognised. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

1 BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

<u>Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 - *Interest Rate Benchmark Reform - Phase 2 (continued)*</u>

(ii) Hedge accounting

The amendments also provide reliefs that enable and require the Bank to continue the MFRS 9 hedge accounting in circumstances when the Bank updates the hedge documentation to reflect changes in hedged items and hedging instruments which are required by IBOR reform.

However, the Bank did not have any hedging during the financial year.

(iii) Disclosure

The amendments requires the Banks to disclose additional information about the Bank's exposure to risks arising from profit rate benchmark reform and related risk management activities (see Note 44).

The Bank has not adopted the following amendments to accounting standards issued by the Malaysian Accounting Standards Board ("MASB") as they are not yet effective:

<u>Effective for annual periods commencing on or after 1 January 2022</u>

- Amendments to MFRS 116, *Property, Plant and Equipment - Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contract - Cost of Fulfilling a Contract*
- *Annual Improvements to MFRS Standards 2018-2020*

<u>Effective for annual periods commencing on or after 1 January 2023</u>

- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS Practice Statement 2, *Making Materiality Judgements - Disclosure of Accounting Policies*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates*
- Amendments to MFRS 112, *Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The Bank plans to apply the abovementioned amendments to accounting standards when they become effective in the respective financial periods. The initial application of the abovementioned amendments to accounting standards are not expected to have any material impact to the financial statements of the Bank.

(b) Use of estimates and judgements

The preparation of the 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.

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:

1 BASIS OF PREPARATION (continued)

(b) Use of estimates and judgements (continued)

(i) Fair value estimation for financial assets at fair value through profit or loss ("FVTPL") (Note 4), financial investments at fair value through other comprehensive income ("FVOCI") (Note 5) and derivative financial assets and liabilities (Note 8). Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For financial instruments which are not traded in an active market (for example, over-the-counter derivatives), the fair value is determined using valuation techniques, which include the use of mathematical models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Where possible, assumptions and inputs used on valuation techniques include observable data such as risk-free and benchmark discount rates and credit spreads.

Where observable market data 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 at FVOCI 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) Impairment of financial assets

In determining whether the credit risk of the Bank's financial exposures has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is readily available without undue cost or effort. This includes both quantitative and qualitative information such as the Bank’s historical credit assessment experience and available forward-looking information. Expected credit loss ("ECL") estimates are produced for all relevant instruments based on probability-weighted forward-looking economic scenarios. The measurement of ECL is primarily calculated based on the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). These are parameters 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.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. The underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to continuous review and refinement. The assumptions and judgements used by management may affect impairment allowances computed.

COVID-19 pandemic

The COVID-19 pandemic and the effects on the global economy are unprecedented in its scale and impact. These have increased the estimated uncertainty in the preparation of the audited financial statements. Sources of estimation uncertainty include how the pandemic will continue to evolve, the corresponding impact on the duration and extent of disruption to businesses, individuals and the wider economy (including macroeconomic forecasts, credit, liquidity and market conditions) as well as the effectiveness of government support measures in softening the impact of the crisis.

The significant accounting estimates impacted by these uncertainties relate mainly to impairment of financial assets, as discussed below:

<u>Allowances for non-credit impaired financing to customers</u>

The forward-looking scenarios used in the ECL model have been updated to reflect the latest available macroeconomic view of slower growth in 2021 before recovery in 2022 onwards. Due to the unprecedented nature of the COVID-19 crisis, post-model adjustments continue to be made to account for the estimated impact of continued economic uncertainties not reflected in the modelled outcome.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

1 BASIS OF PREPARATION (continued)

(b) Use of estimates and judgements (continued)

(ii) Impairment of financial assets (continued)

Allowances for non-credit impaired financing to customers (continued)

Another key element in determining ECL is the assessment of whether or not a significant increase in credit risk ("SICR") has occurred and hence whether a lifetime, rather than 12-month, ECL is required. During the year, various financing reliefs, such as repayment assistance packages and moratoriums, have been offered to affected customers as part of a broader set of COVID-19 support measures. Deferral of payments by customers in hardship arrangements is generally treated as an indication of a SICR. However, in line with regulatory guidance, the Bank has determined that the extension of such reliefs are not automatically considered to indicate SICR, but considers it within a broader set of indicators to assess and grade customer facilities as necessary.

Allowances for credit-impaired financing to customers

In respect of credit impaired exposures, management judgement and estimation are applied in, amongst others, identifying impaired exposures, estimating the related recoverable cash flows and where applicable, determining collateral values and timing of realisation. Judgements and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

The Bank's allowances for financial assets are disclosed in Note 7 and Note 23.

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

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 equity instruments at FVOCI or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments

(a) Recognition and initial 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 initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issuance.

The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of MFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(b) Financial instrument categories and subsequent measurement

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Financial assets

The categories of financial assets are as follows:

(i) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and which contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding, are not designated as FVTPL. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment allowances, if any. Profit income, foreign exchange gains and losses and impairment allowances are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Profit income is recognised by applying effective profit rate to the gross carrying amount except for credit-impaired financial assets (see note 2F(a)) where the effective profit rate is applied to the amortised cost.

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 Mudharabah) 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, the Bank recognises all lease-based contracts as forms of financing and hence, as financial instruments under MFRS 9. Except for Ijarah financing, assets funded under Ijarah Thumma Al-Bai and Ijarah Muntahiah Bi Al-Tamlik contracts are owned by the Bank throughout the tenor of the financing and ownership of the assets will be transferred to the customer at the end of the financing.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments (continued)

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

Financial assets (continued)

(ii) Fair value through other comprehensive income ("FVOCI")

Debt investments

FVOCI category comprises debt investments that are held within a business model which objective is achieved by both collecting contractual cash flows and selling debt investments, and which contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding, and are not designated as FVTPL. Profit income calculated using the effective profit method, foreign exchange gains and losses and impairment allowances are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Debt instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and profit.

Profit income is recognised by applying effective profit rate to the gross carrying amount except for credit-impaired financial assets (see note 2F(a)) where the effective profit rate is applied to the amortised cost.

Equity investments

This category comprises investments in equity that are not held for trading, and the Bank irrevocably elects to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

(iii) Fair value through profit or loss ("FVTPL")

All financial assets not measured at amortised cost or FVOCI as described above are measured at FVTPL. These include derivative financial assets (except for derivatives that are designated and effective hedging instruments). On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as FVTPL are subsequently measured at their fair value. Net gains or losses, including any profit or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at FVTPL and equity investments measured at FVOCI, are subject to impairment assessment (see note 2F(a)).

Financial liabilities

At the end of the reporting period, there were no non-derivative financial liabilities categorised as FVTPL.

Financial liabilities are subsequently measured at amortised cost, other than those categorised as FVTPL.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments (continued)

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

Financial liabilities (continued)

FVTPL category comprises financial liabilities that are derivatives (except for derivatives that are financial guarantee contracts or designated as effective hedging instruments) 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 which fair values cannot otherwise be reliably measured are measured at cost.

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 and the host contract at amortised cost (in Other Liabilities) 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.

Financial liabilities categorised as FVTPL are measured at their fair values with the gain or loss recognised in 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 specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument.

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

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at the higher of:

- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers.*

Liabilities arising from financial guarantees are presented together with other provisions.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

B Financial instruments (continued)

(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 at fair value, 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.

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 are transferred, or control of the financial asset is not retained or substantially all of the risks and rewards of ownership of 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) Modification

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual cash flows of the financial asset. Financial assets that are renegotiated or otherwise modified will be accounted based on the nature and extent of changes that is expected to arise as a result of the modification or renegotiation.

(h) 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Property and equipment (continued)

(a) Recognition and measurement (continued)

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

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

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

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

(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:

- Office equipment and furniture — 3 - 5 years
- Computer equipment/software — 3 - 8 years
- Renovation — 8 years or remaining lease term whichever is shorter

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

D Leases

(a) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D Leases (continued)

(a) Definition of a lease (continued)

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset, i.e. when the Bank has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties for which the Bank is a lessee, the Bank will account for the lease and non-lease components as a single lease component.

(b) Recognition and initial measurement

(i) As a lessee

The Bank recognises a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Bank is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The Bank has elected not to recognise ROU assets and lease liabilities for certain short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D Leases (continued)

(b) Recognition and initial measurement (continued)

(ii) As a lessor (continued)

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sublease as an operating lease.

(c) Subsequent measurement

(i) As a lessee

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective profit rate method. It is remeasured when there is a change in future lease payments arising from a change in the index or rate, if there is a revision of in-substance fixed lease payments, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

Lease payments are allocated between principal and finance cost. The finance cost is charged in profit or loss over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period.

(ii) As a lessor

The Bank recognises lease payments under operating leases as income on a straight-line basis over the lease term as part of "revenue".

Amendments to MFRS 16, *Leases - Covid-19-Related Rent Concessions beyond 30 June 2021*

During the financial year, the Bank apply practical expedient to account for a COVID-19-related rent concession that meets all of the following conditions in the same way as they would if they were not lease modification:

(i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(ii) any reduction in lease payments affects only payments due on or before 30 June 2021; and
(iii) there is no substantive change to other terms and conditions of the lease.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D Leases (continued)

Amendments to MFRS 16, *Leases - Covid-19-Related Rent Concessions beyond 30 June 2021 (continued)*

The Bank accounts for COVID-19 related rent concession as a variable lease payment in the period in which the event or condition that triggers the reduced payment occurs. Impacts of rent concessions are presented within operating expenses.

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 at amortised cost in accordance with Note 2B(b)(i).

F Impairment

(a) Financial assets

The Bank recognises impairment allowances for ECL on financial assets measured at amortised cost and financial investments measured at FVOCI and certain off-statement of financial position commitments and financial guarantees which were previously provided for under MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets*.

(i) ECL impairment model

Under MFRS 9, impairment allowances on the aforesaid financial assets are measured on each reporting date according to a three-stage ECL impairment model:

- Stage 1: On initial recognition, ECL will be that resulting from default events that are possible over the next 12 months (12-month ECL).
- Stage 2: Following a significant increase in credit risk of the financial assets since its initial recognition, the credit loss allowance will be that which results from all possible default events over the expected life of the asset (Lifetime ECL non credit-impaired). See details in Note 2F(a)(iii).
- Stage 3: When a financial asset exhibits objective evidence of impairment and is considered to be credit-impaired, its loss allowance will be the full lifetime ECL (credit-impaired).

Financing is written off against impairment allowances when all feasible recovery actions have been exhausted or when the recovery prospects are considered remote.

(ii) Measurement

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are non credit-impaired at the reporting date: At the present value of all cash shortfalls, being the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- Financial assets that are credit-impaired at the reporting date: At the difference between the gross carrying amount and the present value of estimated future cash flows;

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

F Impairment (continued)

(a) Financial assets (continued)

(ii) Measurement (continued)

- Undrawn financing commitments: At the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: The expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank uses three forecast economic scenarios to calculate an unbiased Stage 1 and Stage 2 ECL. They represent a “most likely” Base scenario, and two other less likely “Upside” and “Downside” scenarios. These scenarios are probability-weighted and underlying key macro-economic assumptions are based on independent external and in-house views. The assumptions are subject to regular management reviews to constantly reflect current and economic situations. Stage 3 ECL is quantified based on the recovery strategy adopted, where the Bank takes into account other factors including forward looking scenarios, market conditions and credit risk mitigants.

(iii) Movement between stages

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

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

The Bank considers both qualitative and quantitative parameters in the assessment of significant increase in credit risk. These include the following:

- The Bank has established thresholds for significant increases in credit risk based on both relative and absolute changes in lifetime probability of default ("PD") relative to initial recognition.
- The Bank conducts qualitative assessment to ascertain if there has been significant increase in credit risk.
- The Bank uses 30 days/one month past due as an indication of significant increase in credit risk.

Movements between Stage 2 and Stage 3 classification 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.

The Bank is also guided by the policy document on Financial Reporting for Islamic Banking Institutions issued by Bank Negara Malaysia ("BNM"), whereby a credit facility is classified as credit-impaired if it is past due for more than 3 months, or where the amount is past due for less than 3 months but exhibits weakness in accordance with the Bank's internal credit risk assessment. In addition, where repayments are scheduled on intervals of 3 months or longer, the credit facility is classified as credit-impaired as soon as default occurs.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

F Impairment (continued)

(a) Financial assets (continued)

(iii) Movement between stages (continued)

For credit-impaired portfolio, Stage 3 ECL is assessed individually and measured based on lifetime ECL as described in Note 37 to the financial statements.

(iv) Regulatory reserve

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

(b) Other assets

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

G Equity Instruments

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

Ordinary shares are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Equity Instruments (continued)

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 at the annual general meeting. Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period. Distributions to holders of an equity instrument is recognised directly in equity.

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, Oversea-Chinese Banking Corporation Limited (“OCBC Ltd”), are awarded to eligible executives where share awards form 20% to 40% of their total variable performance bonus for the year. A trust is set up to administer the shares purchased under the Plan. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year 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. The awards will lapse immediately on the termination of employment, except in the event of retirement, redundancy, death, or where approved by the relevant approving authorities at OCBC Ltd may allow the awards to be retained and vested within the relevant vesting periods or such periods as may be determined.

(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 eligible executives who are of Manager rank and above and Non-executive Directors. Options granted are exercisable for a period commencing after the 1st anniversary and expire 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 options granted fully vested after the 3rd anniversary. OCBC Ltd has ceased granting share options under the OCBC Share Option Scheme 2001 effective from financial year 2018 remuneration. Share options granted in prior years continue to be outstanding until the options lapse or are exercised by recipients.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

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 OCBC Ltd 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, based on the recharge by the ultimate holding company. 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. A liability is recognised based on the recharge by the ultimate holding company of the Bank over the vesting period. Further details of the equity compensation benefits are disclosed in Note 16(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.

Where the Bank expects a provision to be reimbursed by another party, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually clean.

J Income and expenses

(a) Finance income and finance expense

Finance income or expense is recognised using the effective profit rate method.

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or amortised cost of the financial liability.

In calculating the finance income and expense, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, finance income is calculated by applying the effective profit rate to the amortised cost of the financial asset, net of ECL. If the asset is no longer credit-impaired, then the calculation of finance income reverts to the gross basis. The gross carrying amount of a financial asset refers to amortised cost of a financial asset before adjusting for any ECL.

Finance income for sale-based contracts (Bai' Inah, Bai' Bithaman Ajil, Tawarruq, Murabahah and Bai' Dayn) is 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) is recognised on effective profit rate basis over the lease term.

Finance income for equity-based contracts (Musharakah Mutanaqisah and Mudharabah) is 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

The Bank earns fees and commissions from a range of services rendered to its customers. Fees and commissions are recognised when the Bank has satisfied its performance obligations in providing the services to the customer. Transaction based fees and commissions are generally recognised upon the completion of a transaction. For services provided over a period of time or credit risk undertaken, fees and commissions are amortised over the relevant period. Expenses are offset against gross fees and commissions in the income statement only when they are directly related.

(c) Net trading income

Net trading income comprises gains and losses from changes in financial assets at FVTPL 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 BNM's 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 they relate 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

K Income tax (continued)

(b) Deferred tax (continued)

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

L Earnings per ordinary share

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

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 investors.

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.

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 2021 (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 Committee. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholder.

3 CASH AND CASH EQUIVALENTS

	2021 RM'000	2020 RM'000
Cash and balances with banks and other financial institutions	91,971	82,779
Deposits and placements with BNM	2,088,429	202,944
	2,180,400	285,723
By geographical distribution determined based on where the credit risk resides		
Malaysia	2,117,097	230,157
Singapore	31,306	29,078
Other ASEAN countries	928	2,574
Rest of the world	31,069	23,914
	2,180,400	285,723

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

	2021 RM'000	2020 RM'000
At fair value		
Islamic Corporate Sukuk	10,090	10,155

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

	2021 RM'000	2020 RM'000
At fair value		
Malaysian Government Investment Issues	2,078,601	2,476,270
Malaysian Government Sukuk	-	73,817
Malaysian Government Islamic Treasury Bills	546,419	218,821
Islamic Corporate Sukuk	329,410	376,159
Islamic Negotiable Instruments of Deposit	549,495	999,225
Cagamas Sukuk	14,969	36,019
Foreign Government Sukuk	-	24,240
	3,518,894	4,204,551

ECL allowance for financial investments at FVOCI is recognised in the ECL reserve.

	2021			2020		
	Stage 1 12 Months ECL RM'000	**Stage 2 Lifetime ECL RM'000**	**Total ECL non credit-impaired RM'000**	**Stage 1 12 Months ECL RM'000**	**Stage 2 Lifetime ECL RM'000**	**Total ECL non credit-impaired RM'000**
At 1 January	90	-	90	153	-	153
Transferred to Stage 2	(7)	7	-	-	-	-
New financial assets originated or purchased	181	-	181	268	-	268
Financial assets derecognised	(103)	(6)	(109)	(212)	-	(212)
Net remeasurement during the year	(107)	(1)	(108)	(119)	-	(119)
At 31 December	54	-	54	90	-	90

OCBC AL-AMIN BANK BERHAD
Registration No. 200801017151 (818444-T)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

6 FINANCING AND ADVANCES

(i) By type and Shariah contract

	Sale based contracts					*Lease based contracts*			*Equity based contracts*			
2021	**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**	**Mudharabah RM'000**	**Others RM'000**	**Total RM'000**
At amortised cost and net of unearned income												
Cash line financing	8,204	6,575	-	-	-	-	420,011	-	-	-	5,265	440,055
Term Financing												
- House financing	-	5,932	-	-	-	-	-	1,727,134	63,462	-	-	1,796,528
- Syndicated term financing	-	-	2,002,574	-	-	-	-	85,067	-	100,133	-	2,187,774
- Hire purchase receivables	-	-	-	-	-	157,958	-	95,924	-	-	-	253,882
- Other term financing	92,253	20,872	3,476,226	-	-	-	-	1,070,251	84,456	-	-	4,744,058
Bills receivable	-	-	-	15,398	17,278	-	-	-	-	-	-	32,676
Revolving credit	-	-	2,977,897	-	-	-	-	-	-	-	-	2,977,897
Claims on customers under acceptance credits	-	-	-	283,773	59,250	-	-	-	-	-	-	343,023
Other financing	-	-	131,177	-	-	-	-	-	-	-	-	131,177
Gross financing and advances	100,457	33,379	8,587,874	299,171	76,528	157,958	420,011	2,978,376	147,918	100,133	5,265	12,907,070
ECL allowance												(470,620)
Net financing and advances												12,436,450

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 14). The immediate holding company, being the RPSIA investor, is exposed to the risks and rewards of the business venture and accounts for the impairment allowances arising thereon.

As at 31 December 2021, the gross exposure and ECL relating to RPSIA financing amounted to RM2,314 million (2020: RM1,438 million) and RM36 million (2020: RM35 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

6 FINANCING AND ADVANCES (continued)

(i) By type and Shariah contract (continued)

	Sale based contracts					*Lease based contracts*			*Equity based contracts*			
2020	**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**	**Mudharabah RM'000**	**Others RM'000**	**Total RM'000**
At amortised cost and net of unearned income												
Cash line financing	8,326	6,843	-	-	-	-	461,662	-	-	-	10,091	486,922
Term Financing												
- House financing	-	7,308	-	-	-	-	-	1,822,382	70,340	-	-	1,900,030
- Syndicated term financing	-	-	784,585	-	-	-	-	136,093	-	-	-	920,678
- Hire purchase receivables	-	-	-	-	-	167,197	-	146,583	-	-	-	313,780
- Other term financing	173,367	24,262	2,942,423	-	-	-	-	1,226,327	89,314	-	-	4,455,693
Bills receivable	-	-	-	16,357	38,906	-	-	-	-	-	-	55,263
Trust receipts	-	-	-	421	-	-	-	-	-	-	-	421
Revolving credit	-	-	3,024,425	-	-	-	-	-	-	-	-	3,024,425
Claims on customers under acceptance credits	-	-	-	246,974	110,652	-	-	-	-	-	-	357,626
Other financing	-	-	88,028	-	-	-	-	-	-	-	-	88,028
Gross financing and advances	181,693	38,413	6,839,461	263,752	149,558	167,197	461,662	3,331,385	159,654	-	10,091	11,602,866
ECL allowance												(357,873)
Net financing and advances												11,244,993

In 2020, the Bank incurred a net modification loss of RM8 million from affected financing and advances (before modification) totalling RM394 million.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

6 FINANCING AND ADVANCES (continued)

	2021 RM'000	2020 RM'000
(ii) By type of customer		
Domestic non-bank financial institutions	1,308,700	1,018,402
Domestic business enterprises		
- Small and medium enterprises	2,400,908	2,484,518
- Others	6,769,937	5,399,924
Individuals	1,990,147	2,142,907
Foreign entities	437,378	557,115
	12,907,070	11,602,866
(iii) By profit rate sensitivity		
Fixed rate		
- House financing	89,219	39,209
- Hire purchase receivables	157,958	167,197
- Other fixed rate financing	1,120,979	1,500,783
Variable rate		
- Base rate/Base financing rate plus	3,911,844	4,241,457
- Cost plus	7,596,997	5,604,723
- Other variable rates	30,073	49,497
	12,907,070	11,602,866
(iv) By sector		
Agriculture, hunting, forestry and fishing	1,368,474	1,428,375
Mining and quarrying	262,199	277,889
Manufacturing	1,950,547	1,496,359
Electricity, gas and water	46,139	49,300
Construction	1,031,750	1,003,443
Real estate	1,145,036	1,200,401
Wholesale & retail trade and restaurants & hotels	1,126,089	1,575,443
Transport, storage and communication	1,167,601	363,922
Finance, insurance and business services	1,636,226	1,197,142
Community, social and personal services	1,075,563	749,230
Household		
- Purchase of residential properties	1,805,343	1,909,243
- Purchase of non-residential properties	51,201	48,315
- Others	238,904	301,755
Others	1,998	2,049
	12,907,070	11,602,866
(v) By geographical distribution determined based on where the credit risk resides		
Malaysia	12,537,604	11,090,861
Singapore	68,629	78,956
Other ASEAN countries	56,312	114,774
Rest of the world	244,525	318,275
	12,907,070	11,602,866

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

6 FINANCING AND ADVANCES (continued)

(vi) By residual contractual maturity

	2021 RM'000	2020 RM'000
Up to one year	4,349,965	3,880,731
Over one year to three years	1,114,481	1,068,952
Over three years to five years	2,746,991	1,593,017
Over five years	4,695,633	5,060,166
	12,907,070	11,602,866

7 IMPAIRED FINANCING AND ADVANCES

(a) Movements in credit-impaired financing and advances

	2021 RM'000	2020 RM'000
At 1 January	615,091	345,692
Impaired during the year	255,823	449,776
Reclassified as non credit-impaired	(24,220)	(29,492)
Amount recovered	(232,996)	(109,453)
Amount written off	(69,146)	(41,432)
At 31 December	544,552	615,091
Stage 3 ECL allowance	(220,895)	(149,315)
Net impaired financing and advances	323,657	465,776

Included in the credit-impaired financing and advances are specific business ventures funded by the 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 31 December 2021, the credit-impaired RPSIA funded gross exposures and Stage 3 ECL recoverable from the RPSIA holder amounted to RM38 million (2020: RM227 million) and RM33 million (2020: RM33 million) respectively.

(i) By sector

	2021 RM'000	2020 RM'000
Agriculture, hunting, forestry and fishing	2,962	195,204
Manufacturing	31,768	29,274
Construction	61,405	98,855
Real estate	5,631	6,176
Wholesale & retail trade and restaurants & hotels	196,769	92,948
Transport, storage and communication	43,413	48,479
Finance, insurance and business services	16,404	11,217
Community, social and personal services	8,226	606
Household		
- Purchase of residential properties	146,915	107,603
- Purchase of non-residential properties	1,137	-
- Others	29,922	24,729
	544,552	615,091

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

7 IMPAIRED FINANCING AND ADVANCES (continued)

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

	2021 RM'000	2020 RM'000
(ii) By geographical distribution determined based on where the credit risk resides		
Malaysia	538,373	610,451
Singapore	6,128	4,592
Other ASEAN country	51	48
	544,552	615,091
(iii) By period overdue		
Less than 3 months	217,245	333,069
3 months to less than 6 months	19,986	21,112
6 months to less than 9 months	16,437	5,063
9 months and above	290,884	255,847
	544,552	615,091
(iv) By collateral type		
Property	272,995	125,016
Stocks and shares	36,328	40,748
Machinery	2,211	-
Secured - others	32,739	39,305
Unsecured - corporate and other guarantees	80,116	296,356
Unsecured - clean	120,163	113,666
	544,552	615,091

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

7 IMPAIRED FINANCING AND ADVANCES (continued)

(b) Movements in ECL allowance for financing and advances

	Non credit-impaired		*Credit-impaired*	**2021**	*Non credit-impaired*		*Credit-impaired*	**2020**
	Stage 1 ECL RM'000	**Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**	**Stage 1 ECL RM'000**	**Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**
At 1 January	66,433	142,125	149,315	357,873	59,706	53,434	109,208	222,348
Transferred to Stage 1	61,447	(58,885)	(2,562)	-	87,406	(76,993)	(10,413)	-
Transferred to Stage 2	(37,805)	39,861	(2,056)	-	(47,085)	49,367	(2,282)	-
Transferred to Stage 3	(792)	(52,559)	53,351	-	(2,975)	(57,767)	60,742	-
New financial assets originated or purchased	21,960	41,134	-	63,094	23,318	37,655	-	60,973
Financial assets derecognised	(13,070)	(44,519)	(7,416)	(65,005)	(18,690)	(39,326)	(5,652)	(63,668)
Net remeasurement during the year	(67,581)	151,005	106,494	189,918	(34,873)	176,602	47,847	189,576
Written-off	-	-	(69,146)	(69,146)	-	-	(41,432)	(41,432)
Other movements	658	313	(7,085)	(6,114)	(374)	(847)	(8,703)	(9,924)
At 31 December	31,250	218,475	220,895	470,620	66,433	142,125	149,315	357,873
At 1 January								
- Financing and advances	60,564	116,381	149,315	326,260	56,055	46,736	109,208	211,999
- Financing related commitments and financial guarantees	5,869	25,744	-	31,613	9,088	11,078	-	20,166
	66,433	142,125	149,315	357,873	65,143	57,814	109,208	232,165
At 31 December								
- Financing and advances	28,077	187,302	220,895	436,274	60,564	116,381	149,315	326,260
- Financing related commitments and financial guarantees	3,173	31,173	-	34,346	5,869	25,744	-	31,613
	31,250	218,475	220,895	470,620	66,433	142,125	149,315	357,873

7 IMPAIRED FINANCING AND ADVANCES (continued)

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

Impact of movements in gross carrying amount on ECL allowance

Stage 1 ECL allowance decreased by RM35.2 million during the financial year mainly due to lower remeasurement, financing and advances migrated to Stage 2 from deterioration in credit quality and partially offset by transfers-in to Stage 1 from improvements in credit quality and newly originated financing and advances.

Stage 2 ECL allowance increased by RM76.4 million mainly due to higher net remeasurement from management overlays as the Bank took pre-emptive increased provisioning on certain exposures under the targeted repayment assistance segment and vulnerable sectors which are deemed of higher risk.

Stage 3 ECL allowance increased by RM71.6 million mainly due higher net remeasurement, increase in credit-impaired financing migrated from Stage 2 to Stage 3 partially offset by more write-offs during the financial year.

(i) By sector

	Non credit-impaired	*Credit-impaired*	**Stage 3 ECL**	
	Stage 1 and 2 ECL RM'000	**Stage 3 ECL RM'000**	**Made during the period RM'000**	**Written off RM'000**
2021				
Agriculture, hunting, forestry and fishing	4,326	142	245	41
Mining and quarrying	3,335	-	-	-
Manufacturing	40,028	9,334	5,362	1,708
Electricity, gas and water	784	-	-	-
Construction	46,658	51,219	86,974	34,816
Real estate	10,730	-	-	-
Wholesale & retail trade and restaurants & hotels	32,964	58,004	26,127	5,404
Transport, storage and communication	8,020	33,579	2,468	1,412
Finance, insurance and business services	10,523	1,788	7,591	2,562
Community, social and personal services	4,822	152	12	10
Household				
- Purchase of residential properties	38,046	43,031	33,099	8,313
- Purchase of non-residential properties	1,337	37	46	-
- Others	24,488	23,609	22,829	14,880
Others	23,664	-	-	-
	249,725	220,895	184,753	69,146

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

7 IMPAIRED FINANCING AND ADVANCES (continued)

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

(i) By sector (continued)

	Non credit-impaired	*Credit-impaired*	Stage 3 ECL	
	Stage 1 and 2 ECL RM'000	**Stage 3 ECL RM'000**	**Made during the year RM'000**	**Written off RM'000**
2020				
Agriculture, hunting, forestry and fishing	7,795	104	70	133
Mining and quarrying	4,072	-	-	-
Manufacturing	39,031	6,686	10,559	5,441
Electricity, gas and water	1,135	-	-	-
Construction	32,784	8,903	4,701	6,006
Real estate	7,493	72	103	-
Wholesale & retail trade and restaurants & hotels	49,813	42,838	39,100	5,921
Transport, storage and communication	3,611	33,532	595	267
Finance, insurance and business services	1,665	2,162	1,460	270
Community, social and personal services	9,764	150	66	112
Household				
- Purchase of residential properties	13,118	32,681	60,737	10,444
- Purchase of non-residential properties	1,234	-	498	765
- Others	21,740	22,187	21,926	12,073
Others	15,303	-	-	-
	208,558	149,315	139,815	41,432

(ii) By geographical distribution

	Non credit-impaired	*Credit-impaired*	2021	*Non credit-impaired*	*Credit-impaired*	2020
	Stage 1 and 2 ECL RM'000	**Stage 3 ECL RM'000**	**Total ECL RM'000**	**Stage 1 and 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**
Malaysia	221,839	219,433	441,272	192,293	147,890	340,183
Singapore	1,273	1,411	2,684	362	1,377	1,739
Other ASEAN countries	724	51	775	264	48	312
Rest of the world	25,889	-	25,889	15,639	-	15,639
	249,725	220,895	470,620	208,558	149,315	357,873

8 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Financial derivatives are instruments which values change in response to the change in one or more "underlying" such as foreign exchange rate and profit rate. They include forwards and swaps. In the normal course of business, the Bank customise derivatives to meet the specific needs of their customers.

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

8 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

	2021			2020		
	Contract or underlying principal amount	Fair value Assets	Fair value Liabilities	Contract or underlying principal amount	Fair value Assets	Fair value Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trading						
Foreign exchange derivatives						
- Forwards	229,582	485	78	42,448	256	48
- Swaps	189,321	412	633	64,493	1,713	1,721
Profit rate derivatives						
- Swaps	422,913	12,213	12,773	425,400	23,979	25,484
	841,816	13,110	13,484	532,341	25,948	27,253
Of which related to immediate holding company	470,979	482	13,367	268,405	55	27,234

9 OTHER ASSETS

	2021 RM'000	2020 RM'000
Profit receivable	22,960	28,019
Other receivables, deposits and prepayments	7,830	4,266
Amount due from immediate holding company	1,751	69,065
Amount due from ultimate holding company	7	10
Amount due from related company	10	1
	32,558	101,361

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

10 PROPERTY AND EQUIPMENT

	2021				2020			
	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Renovation RM'000	Total RM'000	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Renovation RM'000	Total RM'000
Cost								
At 1 January	10,612	17,483	12,524	40,619	10,751	17,349	12,788	40,888
Additions	114	516	-	630	118	181	7	306
Disposals/Written off	(502)	(572)	(677)	(1,751)	(255)	(44)	(271)	(570)
Transfer from related parties	-	4	-	4	-	-	-	-
Transfer to related parties	(119)	(120)	-	(239)	(2)	(3)	-	(5)
At 31 December	10,105	17,311	11,847	39,263	10,612	17,483	12,524	40,619
Accumulated depreciation								
At 1 January	(6,520)	(16,968)	(11,692)	(35,180)	(5,898)	(15,979)	(11,590)	(33,467)
Depreciation for the year	(781)	(443)	(370)	(1,594)	(816)	(1,036)	(373)	(2,225)
Disposals	455	570	677	1,702	192	44	271	507
Transfer from related parties	-	(4)	-	(4)	-	-	-	-
Transfer to related parties	73	115	-	188	2	3	-	5
At 31 December	(6,773)	(16,730)	(11,385)	(34,888)	(6,520)	(16,968)	(11,692)	(35,180)
Carrying amount								
At 1 January	4,092	515	832	5,439	4,853	1,370	1,198	7,421
At 31 December	3,332	581	462	4,375	4,092	515	832	5,439

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

11 RIGHT-OF-USE ("ROU") ASSETS

	2021 RM'000	2020 RM'000
Properties		
Cost		
At 1 January	8,352	5,464
Additions	127	3,576
Derecognition during the year	-	(688)
At 31 December	8,479	8,352
Accumulated depreciation		
At 1 January	(3,859)	(2,447)
Depreciation for the year	(1,824)	(2,100)
Derecognition during the year	-	688
At 31 December	(5,683)	(3,859)
Carrying amount		
At 1 January	4,493	3,017
At 31 December	2,796	4,493

12 DEFERRED TAX ASSETS

	Assets		Liabilities		Net	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Change in fair value of financial instruments	1,727	-	-	(15,142)	1,727	(15,142)
Stage 1 and 2 ECL allowance	33,037	18,812	-	-	33,037	18,812
Excess of capital allowances over depreciation	-	-	(603)	(455)	(603)	(455)
Provision for expenses	2,715	2,412	-	-	2,715	2,412
Other temporary differences	4,682	2,391	-	-	4,682	2,391
Tax assets/(liabilities)	42,161	23,615	(603)	(15,597)	41,558	8,018
Set off of tax	(603)	(15,597)	603	15,597	-	-
Net tax assets	41,558	8,018	-	-	41,558	8,018

(i) Movement in deferred tax during the financial year

2021	At 1 January RM'000	Recognised in profit or loss (Note 29) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
Change in fair value of financial instruments	(15,142)	-	16,869	1,727
Stage 1 and 2 ECL allowance	18,812	14,225	-	33,037
Excess of capital allowances over depreciation	(455)	(148)	-	(603)
Provision for expenses	2,412	303	-	2,715
Other temporary differences	2,391	2,291	-	4,682
	8,018	16,671	16,869	41,558

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

12 DEFERRED TAX ASSETS (continued)

(i) Movement in deferred tax during the financial year (continued)

2020	At 1 January RM'000	Recognised in profit or loss (Note 29) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
Change in fair value of financial instruments	(7,519)	-	(7,623)	(15,142)
Stage 1 and 2 ECL allowance	5,714	13,098	-	18,812
Excess of capital allowances over depreciation	(597)	142	-	(455)
Provision for expenses	2,231	181	-	2,412
Other temporary differences	2,757	(366)	-	2,391
	2,586	13,055	(7,623)	8,018

13 DEPOSITS FROM CUSTOMERS

	2021 RM'000	2020 RM'000
(a) By type of deposit		
Savings deposits		
- Tawarruq	657,831	613,063
- Qard	247,485	212,557
Demand deposits		
- Tawarruq	1,244,828	707,734
- Qard	4,746,350	3,998,492
Term Deposits		
- Tawarruq	5,106,494	5,181,896
- Qard	2,614	7,311
Short-term deposits		
- Tawarruq	941,655	774,865
	12,947,257	11,495,918

(b) By type of customer

	2021 RM'000	2020 RM'000
Government and statutory bodies	164,344	324,831
Non-bank financial institutions	1,854,337	1,300,503
Business enterprises	6,260,133	5,478,370
Individuals	4,289,423	4,078,151
Foreign entities	264,812	183,166
Others	114,208	130,897
	12,947,257	11,495,918

(c) By maturity structure of term deposits and short-term deposits

	2021 RM'000	2020 RM'000
Up to six months	5,317,638	5,417,120
Over six months to one year	728,232	543,233
Over one year to three years	4,730	3,406
Over three years to five years	163	313
	6,050,763	5,964,072

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

14 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTION

	2021 RM'000	2020 RM'000
Mudharabah RPSIA		
Licensed bank	2,603,872	1,513,014
Amount receivable from immediate holding company under RPSIA	(32,769)	(32,769)
	2,571,103	1,480,245

The placements are from its immediate holding company, OCBC Bank (Malaysia) Berhad and are used to fund specific financing (Note 6 and Note 43). These deposits follow the principle of Mudharabah which states that profits will be shared with the Bank as mudarib and losses borne by depositors.

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2021 RM'000	2020 RM'000
Non-Mudharabah		
Licensed banks	512,743	770,767
Other financial institutions	5,634	4,805
	518,377	775,572

Included in the above are deposits and placements of its immediate holding company of RM490 million (2020: RM737 million), which are unsecured and profit bearing.

16 OTHER LIABILITIES

		2021 RM'000	2020 RM'000
Profit payable		33,284	51,807
Other payables and accruals		63,885	78,527
Amount due to immediate holding company	(a)	85,739	17,136
Amount due to related company	(a)	-	167
Amount due to ultimate holding company	(a)	669	464
Equity compensation benefits	(b)	841	771
Lease liabilities		2,849	4,523
Provision for commitments and contingencies		14,779	2,034
		202,046	155,429

(a) The amount due to ultimate and immediate holding companies and related company are unsecured, profit free and repayable on demand.

(b) Equity compensation benefits

Equity compensation benefits which are granted by the ultimate holding company refer to the fair value for all goods and services received in respect of equity-settled share-based payment transactions recognised under MFRS 2, *Share-based Payment*. The liability recognised is based on the amount recharged by the ultimate holding company of the Bank over the vesting period. The 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 eligible executives where share awards form 20% to 40% of their total variable performance bonus for the year. A trust is set up to administer the shares purchased under the Plan. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year 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.

The awards will lapse immediately on the termination of employment, except in the event of retirement, redundancy, death, or where approved by the relevant approving authorities at OCBC Ltd whom may allow the awards to be retained and vested within the relevant vesting periods or such periods as may be determined.

16 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(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 eligible executives who are of Manager rank and above, and Non-executive Directors. Options granted are exercisable for a period commencing after the 1st anniversary and expire 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 options granted fully vested after the 3rd anniversary. OCBC Ltd has ceased granting share options under the OCBC Share Option Scheme 2001 effective from financial year 2018 remuneration. Share options granted in prior years continue to be outstanding until the options lapse or are exercised by recipients.

Movements in the number options and weighted average exercise prices, denominated in Singapore dollars (S$), are as follows:

	2021		2020	
	Number of share options	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	34,894	11.163	34,894	11.163
Granted	-	-	-	-
Exercised	(24,047)	10.180	-	-
At 31 December	10,847	13.340	34,894	11.163
Exercisable on 31 December	10,847	13.340	31,205	10.905
Weighted average share price underlying the options exercised (S$)		11.841		9.936

Details of the options outstanding are as follows:

Grant year	**Grant date**	**Exercise period**	**Acquisition price (S$)**	**2021 Outstanding**	**2021 Exercisable**
2018	22/03/2018	22/3/2019 - 21/3/2028	13.340	10,847	10,847
				10,847	10,847

Grant year	**Grant date**	**Exercise period**	**Acquisition price (S$)**	**2020 Outstanding**	**2020 Exercisable**
2015	16/03/2015	16/3/2016 - 15/3/2025	10.378	17,952	17,952
2017	23/03/2017	23/3/2018 - 22/3/2027	9.598	6,095	6,095
2018	22/03/2018	22/3/2019 - 21/3/2028	13.340	10,847	7,158
				34,894	31,205

16 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

(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 Bank 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, interest is given on the amounts saved at a preferential interest rate.

The duration of each offering period is 24 months and the share acquisition price is determined at the start of the offering period based on the average of the last traded prices over the five consecutive trading days immediately preceding the start of the offering period.

In July 2021, OCBC Ltd launched its 16th offering of ESP Plan for its employees, which commenced on 1 September 2021 and expires on 31 August 2023. Under the offering, OCBC Ltd granted 10,703 (2020: 16,774) rights to acquire ordinary shares in OCBC Ltd. The fair value of rights for OCBC Ltd determined using the binomial valuation model were S$13,703 (2020: S$18,057). Significant inputs to the valuation model are set out below:

	2021	**2020**
Acquisition price (S$)	11.58	8.98
Closing share price at valuation date (S$)	12.42	9.24
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	17.11	24.62
Risk-free rate based on 2-year swap rate (%)	0.35	0.31
Expected dividend yield (%)	4.00	5.19

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

	2021		**2020**	
	Number of share options	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	24,006	9.713	13,917	11.407
Acquired	10,703	11.580	16,774	8.980
Forfeited/Lapsed	(6,505)	10.483	(6,685)	11.400
Exercised and converted upon expiry	(7,231)	10.869	-	-
At 31 December	20,973	10.028	24,006	9.713
Average share price underlying acquisition rights exercised/converted (S$)		12.041		9.571

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

17 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 4.80% Subordinated Sukuk may, subject to BNM approval, be redeemed in whole or in part, at the option of the Bank on or after 24 November 2021 (First Call Date). 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.

18 SHARE CAPITAL

	2021 RM'000	2020 RM'000
Issued and fully paid		
Ordinary shares	555,000	555,000

Pursuant to Companies Act 2016 which came into force on 31 January 2017, the share capital cease to have par or nominal value and share premium becomes part of the share capital.

19 RESERVES

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

Regulatory reserve is maintained in compliance with the requirements under BNM's policy document on Financial Reporting for Islamic Banking Institutions to maintain, in aggregate, loss allowance for non credit-impaired exposures (Stage 1 and Stage 2 ECL) and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures (Stage 3 ECL).

ECL reserve comprises ECL allowance for financial investments at fair value through other comprehensive income. The ECL allowance will be reversed to profit or loss upon disposal or derecognition of the financial instruments.

Fair value reserve comprises fair value of financial investments at FVOCI. The cumulative fair value adjustments for financial investments at FVOCI will be reversed to profit or loss upon disposal or derecognition except for equity instruments which will be reversed from this reserves to retained earnings upon disposal or derecognition.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

20 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2021 RM'000	2020 RM'000
Income derived from investment of:		
(i) Term deposits	193,084	266,482
(ii) Other deposits	303,526	287,801
	496,610	554,283

(i) Income derived from investment of term deposits

	2021	2020
Finance income and hibah		
Financing and advance		
- Finance income earned other than recoveries	135,908	193,477
- Recoveries from credit-impaired financing	2,576	2,340
- Discount unwind from credit-impaired financing	2,451	3,707
Financial assets at FVTPL	153	250
Financial investments at FVOCI	34,959	53,958
Deposits and placements with banks and other financial institutions	10,174	7,450
	186,221	261,182
Other trading income		
Net loss from sale of financial assets at FVTPL	-	(39)
Unrealised loss on financial assets at FVTPL	(20)	(4)
Other operating income		
Net gain from sale of financial investments at FVOCI	6,115	8,049
Others	768	(2,706)
	193,084	266,482

(ii) Income derived from investment of other deposits

	2021	2020
Finance income and hibah		
Financing and advance		
- Finance income earned other than recoveries	213,739	208,618
- Recoveries from credit-impaired financing	4,073	2,571
- Discount unwind from credit-impaired financing	3,822	3,979
Financial assets at FVTPL	241	267
Financial investments at FVOCI	54,885	58,439
Deposits and placements with banks and other financial institutions	16,057	7,908
	292,817	281,782
Other trading income		
Net loss from sale of financial assets at FVTPL	-	(46)
Unrealised (loss)/gain on financial assets at FVTPL	(36)	2
Other operating income		
Net gain from sale of financial investments at FVOCI	9,531	8,433
Others	1,214	(2,370)
	303,526	287,801

21 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS

	2021 RM'000	2020 RM'000
Finance income and hibah		
Financing and advance		
- Finance income earned other than recoveries	43,020	45,667
- Recoveries from credit-impaired financing	6,927	7,248
Deposits and placements with banks and other financial institutions	723	106
	50,670	53,021

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

22 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2021 RM'000	2020 RM'000
Finance income and hibah		
Financing and advance		
- Finance income earned other than recoveries	45,153	53,302
- Recoveries from credit-impaired financing	859	653
- Discount unwind from credit-impaired financing	812	1,017
Financial assets at FVTPL	51	68
Financial investments at FVOCI	11,585	14,909
Deposits and placements with banks and other financial institutions	3,384	2,032
	61,844	71,981
Other trading income		
Net loss from sale of financial assets at FVTPL	-	(11)
Unrealised (loss)/gain on financial assets at FVTPL	(9)	1
Other operating income		
Commission	35,093	25,612
Service charges and fees	23,505	21,368
Net gain from sale of financial investments at FVOCI	1,995	2,141
Others	256	(652)
Other trading income		
Net trading gain/(loss)		
- Foreign currency	1,411	(636)
- Trading derivatives	17,447	18,859
- Revaluation of derivatives	907	(1,162)
	142,449	137,501

23 IMPAIRMENT ALLOWANCE AND PROVISIONS

	2021 RM'000	2020 RM'000
Financing and advances		
Stage 1 and Stage 2 ECL net charge during the year	41,167	95,418
Stage 3 ECL		
- Made during the year	184,753	139,815
- Written back	(36,942)	(49,573)
Credit-impaired financing recovered	(18,006)	(22,700)
Financial investments at FVOCI		
Stage 1 and Stage 2 ECL net write back during the year	(36)	(63)
Other assets		
Stage 1 and Stage 2 ECL net write back during the year	-	(1)
Commitments and contingencies		
Net charge during the year	12,745	-
	183,681	162,896

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

24 INCOME ATTRIBUTABLE TO DEPOSITORS

	2021 RM'000	2020 RM'000
Deposits from customers		
- Non-Mudharabah	176,979	255,801
Deposits and placements of banks and other financial institutions		
- Non-Mudharabah	5,479	10,323
Subordinated sukuk	9,600	9,626
Lease liabilities	79	82
	192,137	275,832

25 INCOME ATTRIBUTABLE TO INVESTMENT ACCOUNT HOLDER

	2021 RM'000	2020 RM'000
Investment accounts due to designated financial institution (Note 34)		
- Mudharabah	35,775	37,617

26 FINANCE INCOME AND EXPENSE ANALYSED BY CATEGORY OF FINANCIAL INSTRUMENTS

	2021 RM'000	2020 RM'000
Finance income		
Financing and advances at amortised cost	459,340	522,579
Financial assets at FVTPL	445	585
Financial investments at FVOCI	101,429	127,306
Deposits and placements with banks and other financial institutions at amortised cost	30,338	17,496
	591,552	667,966
Finance expense		
Liabilities at amortised cost	227,912	313,449

27 OPERATING EXPENSES

		2021 RM'000	2020 RM'000
Personnel expenses			
Wages, salaries and bonus		19,457	23,391
Employees Provident Fund contributions		3,193	3,578
Share-based costs		343	378
Others		2,876	3,077
		25,869	30,424
Establishment expenses			
Depreciation of equipment		1,594	2,225
Depreciation of ROU assets		1,824	2,100
Rental of premises	(a)	10	(4)
Repair and maintenance		689	950
Information technology costs		664	672
Hire of equipment	(a)	106	124
Others		2,242	2,675
		7,129	8,742

27 OPERATING EXPENSES (continued)

		2021 RM'000	2020 RM'000
Marketing expenses			
Advertising and business promotion		252	176
Transport and travelling		57	106
Others		1	28
		310	310
General administrative expenses			
Shared service fees to immediate holding company (Note 34)		102,360	108,961
IT and transaction processing fees to related companies (Note 34)		21,526	27,049
Auditors' remuneration			
- Statutory audit		139	139
- Audit related fees		52	52
- Non-audit related		131	62
Shariah Committee remuneration	(b)	446	399
Others		10,315	9,487
		134,969	146,149
Total operating expenses		168,277	185,625

(a) These expenses are in respect of short-term and/or leases of low-value items which the Bank has elected not to recognise as ROU assets and lease liabilities under MFRS 16.

(b) The total remuneration of the Shariah Committee members of the Bank are as follows:

	Remuneration RM'000	Allowance RM'000	Total RM'000
2021			
Asst. Prof. Dr Muhammad Naim Bin Omar	60	14	74
Assoc. Prof. Dr Mohamad Asmadi Bin Haji Abdullah	72	18	90
Prof. Dato' Dr Wan Sabri Bin Wan Yusof	60	14	74
Dr. Abdul Rahman Bin A. Shukor	60	14	74
Hj. Faizal Bin Jaafar	60	14	74
Dr Khairul Anuar Bin Ahmad*	50	10	60
	362	84	446

* Dr Khairul Anuar Bin Ahmad was appointed as a Shariah Committee Member effective on 1 April 2021 and as Chairman effective on 1 Jan 2022.

2020			
Asst. Prof. Dr Muhammad Naim Bin Omar	60	18	78
Assoc. Prof. Dr Mohamad Asmadi Bin Haji Abdullah	63	19	82
Prof. Dato' Dr Wan Sabri Bin Wan Yusof	60	18	78
Dr. Abdul Rahman Bin A. Shukor	35	12	47
Hj. Faizal Bin Jaafar	35	12	47
Assoc. Prof. Dr Suhaimi Bin Ab Rahman^	54	13	67
	307	92	399

^ Assoc. Prof. Dr Suhaimi Bin Ab Rahman ended his term on 1 September 2020.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

28 KEY MANAGEMENT AND OTHER MATERIAL RISK PERSONNEL REMUNERATION

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

	Unrestricted				*Deferred*	2021	*Unrestricted*				*Deferred*	2020
	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	920	378	13	208	252	1,771	920	330	10	200	220	1,680
Non Executive Directors												
Tan Ngiap Joo	180	-	-	-	-	180	166	-	-	-	-	166
Ng Hon Soon	205	-	-	-	-	205	193	-	-	-	-	193
Datuk Azizan Bin Haji Abd Rahman	112	-	-	-	-	112	98	-	-	-	-	98
Lee Kok Keng, Andrew	179	-	-	-	-	179	165	-	-	-	-	165
Ismail Bin Alowi	185	-	-	-	-	185	172	-	-	-	-	172
	1,781	378	13	208	252	2,632	1,714	330	10	200	220	2,474

* Excluding Sales Tax and Services Tax.
^ 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 16(b) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

28 KEY MANAGEMENT AND OTHER MATERIAL RISK PERSONNEL REMUNERATION (continued)

(b) Remuneration awarded to senior management (including the CEO) and other Material Risk Personnel are as follows:

	2021				2020			
	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	2,116	-	2,116		2,814	-	2,814	
Others	21	-	21		21	-	21	
	2,137	-	2,137		2,835	-	2,835	
Variable remuneration								
Cash based	798	-	798	5	730	-	730	6
Shares and share options	-	252	252	1	-	220	220	1
	798	252	1,050		730	220	950	
Total	2,935	252	3,187		3,565	220	3,785	

There were no other Material Risk Personnel other than from senior management. Other than the above, no senior management received or was awarded any guaranteed bonus, sign-on award or severance payment.

(c) Outstanding deferred remuneration

	2021 RM'000	2020 RM'000
Share and share options		
Exposed to ex-post explicit and implicit adjustments	977	892
Deferred remuneration paid out during the year	286	135
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)	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

29 INCOME TAX EXPENSE

	2021 RM'000	2020 RM'000
Malaysian income tax		
- Current year charge	36,467	23,685
- Prior years charge	20	362
Deferred tax		
- Origination and reversal of temporary differences	(9,811)	(12,004)
- Change in tax rate*	(6,867)	-
- Prior years	7	(1,051)
	19,816	10,992

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

	2021 %	2020 %
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	-	(10.3)
Change in tax rate*	(6.2)	-
Under/(Over) provision in prior years:		
- income tax	-	0.4
- deferred tax	-	(1.3)
Average effective tax rate	18.1	13.2

*Deferred tax asset was recognised on temporary differences expected to be reversed in 2022 at the prevailing Cukai Makmur (Prosperity Tax) rate applicable in that year. Cukai Makmur will be imposed on non-micro, small and medium enterprise companies which generate high profits during the period of the pandemic. Chargeable income in excess of RM100 million will be charged an income tax rate of 33% for 2022.

30 ZAKAT

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

31 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 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.

	2021	2020
Net profit for the year (RM'000)	89,993	71,793
Number of ordinary shares in issue ('000)	185,000	185,000
Basic earnings per share (sen)	48.64	38.81

32 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 by BNM for regulatory capital adequacy purposes.

	2021			2020		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	45,544	45,544	48,007	79,229	76,229	85,163
Transaction-related contingent items	365,589	186,069	123,248	383,512	196,318	122,719
Short-term self-liquidating trade-related contingencies	50,783	10,386	6,243	31,402	6,714	3,735
Foreign exchange related contracts						
- Up to one year	373,353	1,885	729	42,448	441	322
- Over one year to five years	45,550	4,157	1,423	64,493	8,815	4,196
Profit rate related contracts						
- Five years and above	422,913	42,616	35,303	425,400	60,027	52,194
Formal standby facilities and credit lines						
- Original maturity up to one year	3,000	2,250	1,983	40,000	30,000	13,203
- Original maturity exceeding one year	600,269	473,790	361,156	494,136	392,293	328,065
Other unconditionally cancellable commitments	2,201,807	173,996	31,304	2,093,970	175,240	31,864
	4,108,808	940,693	609,396	3,654,590	946,077	641,461

Note: The fair value of derivatives have been recognised as derivative financial assets and liabilities in Note 8.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

33 CAPITAL COMMITMENTS

	2021 RM'000	2020 RM'000
Capital commitments in respect of property and equipment		
- Contracted but not provided for	189	45

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

	2021				2020			
	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								
Shared service fees	115	6,017	-	-	118	6,718	-	-
Fee and commission income	12,351	-	2,207	-	10,716	1,410	1,296	-
	12,466	6,017	2,207	-	10,834	8,128	1,296	-
Expenditure								
Profit expense on term deposits	-	-	-	7	-	-	-	6
Profit expense on other deposits	-	-	6,085	-	-	-	4,625	-
Profit expense on negotiable instruments of deposit	-	-	-	-	-	2,468	-	-
Profit expense on investment accounts (Note 25)	-	35,775	-	-	-	37,617	-	-
Profit expense on deposits and placements	-	5,470	-	-	-	10,321	-	-
Profit expense on subordinated sukuk	-	9,600	-	-	-	9,626	-	-
Profit expense on ROU asset		1		-	-	1	-	-
Shared service fees (Note 27)	-	102,360	-	-	-	108,961	-	-
IT and transaction processing fees (Note 27)	-	-	21,526	-	-	-	27,049	-
Rental expenses	-	51	-	-	-	51	-	-
Other expenses	199	8	861	-	293	8	897	-
	199	153,265	28,472	7	293	169,053	32,571	6

	2021			2020		
Intercompany charges from related parties	**Malaysia RM'000**	**Singapore RM'000**	**Total RM'000**	**Malaysia RM'000**	**Singapore RM'000**	**Total RM'000**
- Shared service fees	102,360	-	102,360	108,961	-	108,961
- IT and transaction processing fees	19,126	2,400	21,526	23,956	3,093	27,049
- Insurance expenses	861	-	861	897	-	897
- Rental	51	-	51	51	-	51
- Others	8	199	207	8	293	301
	122,406	2,599	125,005	133,873	3,386	137,259

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

34 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2021				2020			
	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								
Cash and cash equivalents	32,022	-	211	-	30,398	-	194	-
Derivative financial assets	-	482	5	-	-	55	3	-
Other assets	7	1,343	10	-	10	68,610	1	-
Shared service fee receivable	-	452	-	-	-	500	-	-
	32,029	2,277	226	-	30,408	69,165	198	-
Amount due to								
Demand deposits and term deposits	-	-	197,834	598	-	-	121,755	123
Other deposits	-	-	359,015	232	-	-	417,880	276
Investment accounts	-	2,571,103	-	-	-	1,480,245	-	-
Deposits and placements of banks and other financial institutions	-	489,642	-	-	-	737,180	-	-
Profit payable	-	3,998	278	-	-	3,077	56	-
Derivative financial liabilities	-	13,367	-	-	-	27,234	-	-
Other liabilities	698	79,345	-	-	517	8,434	167	-
Shared service fee payable	-	6,436		-	-	8,747	-	-
Subordinated sukuk (Note 17)	-	200,000	-	-	-	200,000	-	-
	698	3,363,891	557,127	830	517	2,464,917	539,858	399
Commitments								
Foreign exchange derivatives	-	259,522	2,406	-	-	55,705	997	-
Profit rate derivatives	-	211,457	-	-	-	212,700	-	-
	-	470,979	2,406	-	-	268,405	997	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

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:

	2021 RM'000	2020 RM'000
Aggregate value of outstanding credit exposure with connected parties^		
Credit facility and leasing (except guarantee)	103,466	103,915
Commitments and contingencies*	195,784	92,276
	299,250	196,191
Impaired or in default	-	-
Outstanding credit exposures to connected parties		
As a proportion of total credit exposures	2.18%	1.54%

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

(c) Key management personnel remuneration is disclosed in Note 28 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

35 FINANCIAL INSTRUMENTS

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. 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 RM'000**	**Financial instruments not in scope for offsetting disclosures RM'000**	**Gross recognised financial instruments in scope RM'000**	**Financial instruments RM'000**	**Cash collateral received/ pledged RM'000**	**Net amount in scope RM'000**
2021						
Derivative financial assets	13,110	(13,110)	-	-	-	-
Derivative financial liabilities	13,484	(13,484)	-	-	-	-
2020						
Derivative financial assets	25,948	(25,948)	-	-	-	-
Derivative financial liabilities	27,253	(27,253)	-	-	-	-

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 9 which requires fair value information to be disclosed. These include property and equipment, tax recoverable and deferred tax assets.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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. The carrying amounts and fair values of financial instruments of the Bank are described below:

(A) 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 at FVTPL and financial investments at FVOCI

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 FVOCI 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 credit-impaired financing and advances, the fair values are carried at amortised cost net of ECL.

(e) Derivative financial assets and liabilities

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

(f) Deposits from customers

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

(g) Bills and acceptances payable

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

(h) Subordinated sukuk

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(A) Financial assets and financial liabilities (continued)

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 32 to the financial statements.

(B) Fair value hierarchy of financial instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

(i) Financial instruments carried at fair value

2021	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets at fair value				
Financial assets at FVTPL	10,090	-	-	10,090
Financial investments at FVOCI	2,969,399	549,495	-	3,518,894
Derivative financial assets	82	12,992	36	13,110
	2,979,571	562,487	36	3,542,094
Financial liabilities at fair value				
Derivative financial liabilities	17	13,466	1	13,484
2020				
Financial assets at fair value				
Financial assets at FVTPL	10,155	-	-	10,155
Financial investments at FVOCI	3,205,326	999,225	-	4,204,551
Derivative financial assets	69	25,878	1	25,948
	3,215,550	1,025,103	1	4,240,654
Financial liabilities at fair value				
Derivative financial liabilities	30	27,219	4	27,253

Movements in the Bank's Level 3 financial assets and liabilities are as follows:

	2021 RM'000	2020 RM'000
Financial assets at fair value		
At 1 January	1	-
Unrealised gain recognised in profit or loss	35	1
At 31 December	36	1
Financial liabilities at fair value		
At 1 January	4	-
Unrealised loss recognised in profit or loss	(3)	4
At 31 December	1	4

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

(i) Financial instruments carried at fair value (continued)

Policy on transfer between levels

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

Transfer between Level 1 and 2 fair values

There were no transfers between levels for both financial assets at FVTPL (2020: Nil) and financial investments at FVOCI in 2021 (2020: Nil).

The following table shows the valuation techniques used in the determination of fair value within Level 3, as well as the unobservable inputs used in the valuation model:

Bank	2021 Fair value RM'000	2020 Fair value RM'000	Classification	Valuation technique	Unobservable input
Asset					
Derivative financial assets	36	1	Hedge for trading	Option pricing model	Standard deviation
Liability					
Derivative financial liabilities	1	4	Hedge for trading	Option pricing model	Standard deviation

The Bank considers that any reasonably possible changes to the unobservable input will not result in a significant financial impact.

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 & Advisory – 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

(i) Financial instruments carried at fair value (continued)

Valuation control framework (continued)

Valuation related policies are reviewed annually by Group Finance Division. Any material change to the framework is recommended by Asset Liability Management Committee ("ALCO") for the approval of the Risk Management Committee. Group Internal Audit provide independent assurance on the respective divisions' compliance with the policies.

(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
2021				
Financial assets not carried at fair value				
Financing and advances	-	12,444,010	12,444,010	12,436,450
Financial liabilities not carried at fair value				
Deposits from customers	12,950,763	-	12,950,763	12,947,257
Investment accounts due to designated financial institution	2,571,103	-	2,571,103	2,571,103
Deposits and placements of banks and other financial institutions	518,377	-	518,377	518,377
Subordinated sukuk	204,800	-	204,800	200,000
	16,245,043	-	16,245,043	16,236,737
2020				
Financial assets not carried at fair value				
Financing and advances	-	11,260,297	11,260,297	11,244,993
Financial liabilities not carried at fair value				
Deposits from customers	11,501,855	-	11,501,855	11,495,918
Investment accounts due to designated financial institution	1,480,245	-	1,480,245	1,480,245
Deposits and placements of banks and other financial institutions	775,572	-	775,572	775,572
Subordinated sukuk	207,166	-	207,166	200,000
	13,964,838	-	13,964,838	13,951,735

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's risk management framework encompasses good governance, sound policies, robust lines of defence, right expertise and continuous investment in human resources, technology and digital capabilities. The framework is underpinned by a strong corporate culture that demands accountability, ownership and ethical standards to ensure that the risks we take are:

- consistent with our corporate strategy and within established risk appetite;
- adequately compensated and meets our risk-return expectations;
- well-understood, evaluated and supported by robust quantitative analyses and stress testing;
- managed holistically by evaluating risk interactions across the different risk types;
- efficiently and comprehensively captured, aggregated and reported;
- reviewed by an independent risk function with adequate resources, authority and expertise; and
- accompanied by contingency plans to ensure resilience against potential crises or unexpected events.

Risk ownership is a shared responsibility between the business, risk and compliance functions as elaborated in the Risk Governance and Organisation section.

While the categorisation of risks can be complex and interrelated, we generally categorise the principal risks we take into the following types:

(i) Credit risk is the risk of loss of principal and/or income arising from the failure of an obligor or counterparty to meet its financial or contractual obligations or an adverse change in the credit profile of the obligor or counterparty.

(ii) Market risk is the risk of loss of income and/or market value due to fluctuations in risk factors such as profit rates, foreign exchange rates or changes in volatility or correlations between risk factors.

(iii) Liquidity risk is the risk arising from the inability to meet financial obligations as they fall due without incurring unacceptable costs or losses from funding capital and asset liquidation.

(iv) Profit rate risk in the banking book is the risk to the bank's earnings arising from adverse changes in profit rates that affect Banking Book positions.

(v) Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and management or from external events. This includes pandemic risk, compliance risk, reputational risk, fiduciary risk, physical and people security risk, business continuity risk, third-party risk, fraud risk, legal and regulatory risk, anti-money laundering/countering the financing of terrorism and sanctions risk, technology and information risk, as well as cyber risk.

We adopt a disciplined risk management approach to identify, assess, measure, control, monitor and report our risk positions at granular and aggregate levels. We regularly assess the potential shifts in risk drivers and the impact on various risk types and take appropriate risk mitigation actions where necessary. There are multiple risk drivers which emanate from factors such as the economic, business and physical environment, geopolitical shifts, regulatory and social changes, pandemic risk, cyber threats, data loss, fraud and human error. These drivers impinge on one or more of the risk types mentioned above with consequential impact to earnings and asset quality as well as to reputation, customer franchise, and ability to do business.

Risk Governance and Organisation

The Board of Directors has the ultimate responsibility for the effective management of risk and establishes the Bank's corporate strategy. It establishes the corporate strategy and and approves its risk appetite within which senior management should execute the strategy. The Group's Risk Management Committee ("RMC") is the designated board committee that ensures the Bank's overall risk management philosophy are aligned with the corporate strategy and within the approved risk appetite. It also ensures that the overall risk management organisation is implemented and effective. Based on the approved risk appetite, RMC approves various quantitative guidance and qualitative expectations and these are cascaded to major business units and risk functions to guide risk-taking. Risk drivers, risk profiles across major lines of business and risk types, as well as major risk policies and compliance matters are regularly reviewed by the senior management, risk committees, Country Chief Executive Officer (Country CEO) and RMC. These matters are reviewed and discussed in greater detail at the dedicated risk committees for major risk types.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Governance and Organisation (continued)

Group Risk Management ("GRM") has the functional responsibility for providing independent risk control and managing credit, market, liquidity and operational risks. It provides regular risk reports and updates on material risk issues to senior management, risk committees, RMC and the Board Risk management staff work closely with the business and other support units to ensure that risks are well managed. In addition to the above, GRM oversees the New Product Approval Process ("NPAP") to ensure that all inherent risks associated with new products and services are comprehensively identified, managed and mitigated. Compliance with regulatory requirements and adequacy of resources to support the new products and services are also addressed through the NPAP.

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.

Three Lines of Defence

All employees are responsible for identifying and managing risk – an accountability that is embedded in our corporate culture and robust internal control environment. This is operationalised through a three-line defence structure with clear delineation of the roles, responsibilities and accountability for risk ownership.

(i) **First Line - Day-to-day Risk Management**

Business and Support Units own and manage risks generated from their business activities on a day-to-day basis. It executes business activities which are consistent with our Group's strategy and risk appetite and operates within the approved boundaries of our policies, limits and ensure compliance with applicable laws and regulations.

(ii) **Second Line - Risk and Control Oversight**

The Risk and Control Function independently and objectively assesses risk-taking activities undertaken by the first line of defence. It establishes relevant risk management frameworks, policies, processes and risk systems, and provides independent identification, assessment, monitoring and reporting of the Group's risk profiles, portfolio concentrations and material risk issues.

(iii) **Third Line - Independent Assurance**

Internal Audit independently provide assurance to the Country CEO, Audit Committee and the Board of the adequacy and effectiveness of our risk management and internal control systems by evaluating the overall risk awareness and control consciousness of the management in discharging its supervisory and oversight responsibilities.

Risk Appetite

The Board sets the Group's risk appetite, which defines the level and nature of risks that we are willing to take on behalf of our shareholders in the conduct of our business, while maintaining our commitments to customers, debt holders, employees, regulators, and other stakeholders. Our intention is to manage risks prudently for the long-term viability of the Group while balancing the interests of all stakeholders.

Our risk appetite takes into account the forward-looking operating environment and any downside risks. Business plans are guided by our risk appetite through policies, limits and processes to ensure that we operate within our available risk capacity.

Senior business and risk managers participate in regular forums to discuss the operating environment and potential "dark clouds" that may have a significant impact on our earnings or solvency. These are quantified via stress tests as well as segment-specific and ad hoc event-specific portfolio reviews to assess the potential impact of alternative scenarios on the Group's earnings and capital.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Appetite (continued)

An annual Internal Capital Adequacy Assessment Process (ICAAP) incorporating the results of stress tests covering various risk types is conducted to evaluate if our business plans allow us to maintain sound capital levels under both forward-looking operating environment and severe stress scenarios. Appropriate risk-mitigating actions are taken to manage downside risks.

Credit Risk Management

Credit risk arises from our financing activities to retail, corporate and institutional customers. It also includes counterparty and issuer credit risks arising from our trading and investment banking activities.

Credit Risk Management Approach

The Bank's Credit Risk Management Framework captures the complete credit risk management cycle. It is operationalized through policies and procedures covering the identification, assessment, measurement, monitoring, as well as control and mitigation of credit risk at the enterprise level.

Responsible Financing is an integral part of our credit risk management. We have a dedicated framework and supporting policies to integrate Environmental, Social and Governance ("ESG") considerations into our credit risk evaluation and approval process, which is in line with Value-Based Intermediation ("VBI") initiative pioneered by BNM. Through the framework, sustainability is integrated across our corporate financing activities from strategic and portfolio to transaction level. Please refer to the OCBC Group’s Sustainability Report for more information on Responsible Financing and Sustainable Financing.

The Bank's credit risk management approach varies depending on the characteristics or nature of the portfolios or customer segments. There are specific policies and procedures for major customer segments.

Credit Risk Management Approach for Major Customer Segments:	
Consumer and Small Business	• Credit risks are managed on portfolio basis. • Bankruptcy, credit bureau checks, along with systems and processes such as source identification of credit origination and independent verification of documentation are used to detect fraud. • Comprehensive risk management information systems (MIS) are used to track and monitor the performance of the portfolios.
Corporate and Institutional customers	• Credits extended are individually assessed and risk rated. • The extensions are guided by predefined target market and risk acceptance criteria. • Credit decisions are made after comprehensive qualitative and quantitative risk assessment, with understanding of the customer and customer group’s interdependencies. • Credits are jointly approved by business and credit risk units to ensure objectivity and shared risk ownership.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Managing Counterparty Credit Risk

Counterparty Credit Risk ("CCR") is the risk that the counterparty may default on its obligations during the term of the financial contract. CCR management covers credit exposures to counterparties which typically arise from our trading and banking activities in derivatives and debt securities. CCR exposures are measured as the sum of current mark-to-market value of the transaction plus an appropriate add-on for potential future exposures in response to market prices changes.

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 investment strategies. Credit risk mitigation tools are also used to manage CCR where appropriate. Please refer to Credit Risk Mitigation Section for details.

Credit exposures are independently managed through daily limit monitoring, excesses escalation and approval, and timely risk reporting.

Credit Portfolio Management

Credit portfolio management focuses on managing the 'collective or aggregate risk' of our credit portfolio, rather than the credit risk to an individual customer. We have developed and implemented a range of capabilities to better understand, measure and monitor credit risk at a portfolio level. These capabilities include:

(i) **Portfolio Segmentation**: This is the process of grouping credit exposures that are similar in nature. It involves the use of attributes that represent common business drivers such as country, industry and product type, as well as common risk drivers such as exposure to material downside risks like a property bubble.

(ii) **Portfolio Modelling**: This includes the use of internal rating models to quantify the exposure risk, default risk and potential losses of our customers. Refer to table below for information on the Bank's internal rating models. We also use stress testing models to simulate the potential increase in our credit losses and credit risk-weighted assets under stressed scenarios.

Internal Rating Models
Internal credit rating models and their parameters – probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") – are used in limit setting, credit approval, portfolio monitoring and reporting, remedial management, stress testing, internal assessment of the capital adequacy and impairment allowances.
The Bank's Model Risk Management Framework and Credit Rating Model Framework are used to govern the development, validation, application and performance monitoring of rating models. Approval for the adoption and continued use of material models rests with the RMC. All rating models are assessed against internal and regulatory requirements and approved by regulators for use in capital assessment. While our internal risk grades are not explicitly mapped to external credit ratings they may correlate to external credit ratings in terms of the PD ranges as factors used to rate obligors would be similar - an obligor rated poorly by an external rating agency is likely to have a weak internal risk rating.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Portfolio Management (continued)

The table below describes the approach used to estimate the key parameters for Advanced Internal Ratings Based ("A-IRB") and Foundation Internal Ratings Based ("F-IRB") credit risk models used to calculate Credit RWA.

Key Components of Internal Ratings Based ("IRB") Models		
IRB Models and Portfolios	**PD**	**LGD and EAD**
A-IRB approach includes major retail portfolios such as residential mortages, and small businesses financing	• Estimated based on the application and behaviour scores of obligors. • The PD models are calibrated to the expected long-term average one-year default rate over an economic cycle.	• Product, collateral and geographical characteristics are major factors. • LGD models are calibrated to reflect the economic loss under downturn conditions. • EAD models are also calibrated to reflect the long-run average or economic downturn conditions, if relevant.
F-IRB (Non-Supervisory Slotting) approach includes major wholesale portfolios such as Bank, Non-Bank Financial Instituitions, Corporate Real Estate (including income Producing Real Estate) and General Corporate	• PD models are statistical based or expert judgement models that use both quantitative and qualitative factors to assess an obligor's payment capacity and are are calibrated to the expected long-term average one-year default rate over an economic cycle. • Expert judgement models based on inputs from internal credit experts are typically used for portfolios with low defaults.	• Estimated based on rules prescribed in BNM Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) ("CAFIB (RWA)").
F-IRB (Supervisory Slotting) approach includes other specialised financing portfolios such as Project Finance, Object Finance and Commodities Finance	• For portfolios on supervisiory slotting, risk grades derived from internal models are mapped to the five supervisory slotting categories prescribed in BNM CAFIB (RWA).	• Estimated based on rules prescribed in BNM CAFIB (RWA).

(iii) Portfolio Reporting: This includes internal and external reporting of portfolio risk information to respective stakeholders. These reports provide a better understanding of how the quality of our credit portfolio is evolving in response to the changing operating environment and downside risks. Regular risk reports covering detailed credit exposures, credit migration, expected losses and risk concentrations by business segment are provided to the Credit Risk Management Committee ("CRMC"), CEO, RMC and the Board for review and make timely, better-informed decisions.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Portfolio Management (continued)

With the insights provided by portfolio modelling and reporting, we allocate appropriate risk and financial resources (such as funding and capital) to support growth opportunities. We also use these insights to set credit concentration limits to manage the potential downside risks from adverse changes in the operating environment. The design of such credit concentration limits takes into consideration direct risk drivers (such as economic sector, industry, geographic location) and indirect risk drivers (such as collateral type or credit protection by a single counterparty) arising from credit risk mitigation.

Credit Risk Control

Credit Risk Mitigation

Credit risk mitigation techniques are used to reduce credit risk. Where possible, the Bank takes collateral from the customer to mitigate credit risk. However, risk mitigation is not a substitute to the proper assessment of the obligor’s ability to pay which remains the primary payment source. The key considerations for eligible credit risk mitigants are set out in the Bank's credit policies. These criteria include legal certainty and enforceability, correlation, liquidity, marketability, counterparty risk of the protection provider and collateral-specific minimum operational requirements. Eligible physical and financial collateral types include cash, real estate, marketable securities, standby letters of credit and credit insurances/takaful.

Appropriate haircuts are applied to the market value of collaterals to reflect the underlying nature, quality, liquidity and volatility. Collateral is independently valued on regular basis while collateral holdings are regularly monitored and concentration avoided via diversification across asset classes and markets. Guarantees from individuals, corporates, and institutions mainly as a form of support. Where guarantees are recognised as credit risk mitigants via the PD substitution approach, eligibility criteria and guidelines are in place.

Netting, collateral arrangements, early termination options and central clearing mechanisms are common risk mitigation tools for managing counterparty credit risk. Netting agreements in netting jurisdictions reduces the credit risk exposure where all amounts with the counterparty are settled on a net basis if a default occurs. Collateral arrangements, typically covered under market standard documentation such as International Swaps and Derivatives Association ("ISDA") and Credit Support Annexes ("CSA") or Global Master Repurchase Agreements ("GMRA"), require additional collateral to be posted if the mark-to-market exposures exceed an agreed threshold. A haircut is applied to the value of the eligible collateral to cover potential adverse market volatility and the agreed threshold amount may be subject to regulatory margin requirements. ISDA agreements with rating triggers allow termination of the transactions or require posting of additional collateral in event of a rating downgrade.

Remedial Management

The Bank safeguards its position through proactive and regular monitoring of our portfolios. We have a robust process to detect vulnerable customers with signs of potential credit deterioration at an early stage. Such customers are reviewed regularly via various internal credit forums or committees.

Credit exposures are categorised into “Pass”, “Special Mention” or “Impaired Financing” ("IFs"). IFs are further categorised into “Substandard”, “Doubtful” or “Loss”. The categorisation of credit exposures is based on our assessment of the customers’ ability to pay their financial obligations. IFs may be upgraded to non-impaired status when there is an established trend of credit improvement, supported by an assessment of the customer’s payment capability, cash flows and financial position.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Remedial Management (continued)

Credit exposures are classified as restructured assets when the Bank grants non-commercial concessions to customers which will result in substantial diminished financial obligation. A restructured credit exposure is classified into the appropriate impaired financing grades based on the assessment of the customers' financial condition and ability to pay under the restructured terms. Such credit exposure must comply fully with the restructured terms before it can be restored to non credit-impaired.

Dedicated remedial management units manage the restructuring and recovery of IFs for wholesale portfolios. The objective is to rehabilitate IFs where possible or maximise recoveries for IFs that are on exit strategy. For the retail portfolios, the Bank develops appropriate risk-based and time-based collection strategies to maximise recoveries. The Bank uses data such as delinquency buckets and adverse status tags for delinquent consumer financing to constantly analyse, fine-tune and prioritise its collection efforts.

Impairment allowances for Financing and Advances

Sufficient impairment allowances are maintained to absorb credit losses inherent in our financing portfolio. Allowance for Expected Credit Losses ("ECL") is recognised for credit impaired and non-credit impaired exposures in accordance with Malaysian Financial Reporting Standard ("MFRS") 9, *Financial Instruments* through a forward looking ECL model. ECL allowances are assessed and measured based on the stages of asset quality.

Stages of Asset Quality and Expected Credit Losses		
Non Credit-Impaired		Credit-Impaired
Stage 1 12-month ECL Non-impaired exposures without significant increase in credit risk since initial recognition.	Stage 2 Lifetime ECL Non-impaired exposures with significant increase in credit risk since initial recognition.	Stage 3 Lifetime ECL Impaired exposures

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 or changes in volatility or correlations of such factors. The Bank is exposed to market risks from its trading, client servicing and balance sheet management activities.

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

Market Risk Management Oversight and Organisation

The 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 proactively managing risk within their approved trading strategies and investment mandates, whilst MRM acts as the independent monitoring unit to ensure sound governance. The 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”), and FX Net Open Position ("FX NOP").

The Bank also performs stress testing and scenario analysis 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. Models are used to price financial instruments and to measure risk. The models used are verified and assessed to ensure that they are fit for their intended purpose. Market data used for risk measurements and valuation are sourced independently.

To ensure the continued integrity of the VAR computation, back-testing is conducted to confirm the consistency of actual daily trading profit or loss ("P&L") and theoretical P&L against VAR’s statistical assumptions.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

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 within the Group Finance Division and MRM within GRM.

Asset Liability Management Approach

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

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. This includes legal risk and reputational risk.

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, including Shariah Non-Compliance Events for the purpose of assessing the adequacy of operational risk capital requirements. The analysis forms part of the annual Group ICAAP.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Third-Party Risk Management

The Bank recognises the risks associated with third-party arrangements. The Bank has in place a Third-Party Risk Management programme to manage subcontractor risks in a structured, systematic and consistent manner. A Third-Party Risk Management Commitee ("TPRC"), comprising members from different risk and internal control functions, has been set up to support the ORC in managing the Bank's third-party 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, monitoring and mitigation 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. The Bank adopts 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.

The Bank raises staff vigilance on cyber and information risk through regular awareness advisories, trainings and campaigns that included the use of simulated phishing 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) Sets out the Shariah governance framework and structures to ensure that all its operations and business activities are in accordance with Shariah;

(ii) Outlines the responsibilities of the Board, Shariah Committee and Management of the Bank in discharging their respective duties in matters relating to Shariah;

(iii) Outlines the functions relating to key Shariah control functions consist of Shariah Review, Shariah Risk Management and Shariah Audit to ensure effective management of Shariah non-compliance risk; and

(iv) Outlines the roles of Shariah Secretariat in providing operational support for effective functioning of the Shariah Committee.

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, 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. Pursuant to this, the Bank is committed to promote a strong Shariah compliance risk culture.

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.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

<u>Shariah Governance (continued)</u>

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 ("SNCEs") are initially assessed by Shariah Review Department (SRD) as the control function that is responsible for the assessment 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 SNCEs upon confirmation by Shariah Committee are to be reported to BNM within the required timeframe set by BNM.

There is no Shariah non-compliant income that requires distribution to charitable organization for the years 2021 and 2020.

38 CREDIT RISK

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

	Note	2021 RM'000	2020 RM'000
Cash and cash equivalents *		2,151,731	258,510
Financial assets at FVTPL	*4*	10,090	10,155
Financial investments at FVOCI	*5*	3,518,894	4,204,551
Financing and advances	*6*	12,436,450	11,244,993
Derivative financial assets	*8*	13,110	25,948
Other assets ^		32,103	100,599
Contingent liabilities and credit commitments		3,266,992	3,122,249
		21,429,370	18,967,005

* Excluding cash in hand
^ Excluding prepayments

Credit quality analysis

(i) By credit rating/internal grading and ECL stage

	2021				2020			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and cash equivalents	2,151,731	-	-	2,151,731	258,510	-	-	258,510
Financial assets at FVTPL*								
Investment grade (AAA)	-	-	-	10,090	-	-	-	10,155
Unrated	-	-	-	-	-	-	-	-
	-	-	-	10,090	-	-	-	10,155

* ECL stage is not applicable for financial assets at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

38 CREDIT RISK (continued)

Credit quality analysis (continued)

(i) By credit rating/internal grading and ECL stage (continued)

	2021				2020			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Financial investments at FVOCI								
Government (AAA to BBB)	270,339	-	-	270,339	381,956	-	-	381,956
Government and Central Bank (unrated)	2,354,681	-	-	2,354,681	2,386,952	-	-	2,386,952
Foreign government (BBB)	-	-	-	-	24,240	-	-	24,240
Investment grade (AAA to BBB)	205,624	-	-	205,624	102,947	-	-	102,947
Unrated	667,898	20,352	-	688,250	1,308,456	-	-	1,308,456
	3,498,542	20,352	-	3,518,894	4,204,551	-	-	4,204,551
Contingent liabilities and credit commitments (excluding derivative financial assets)								
Pass	2,210,971	936,141	-	3,147,112	2,168,355	711,164	-	2,879,519
Special mention	-	53,460	-	53,460	-	172,499	-	172,499
Credit-impaired	-	-	66,420	66,420	-	-	70,231	70,231
	2,210,971	989,601	66,420	3,266,992	2,168,355	883,663	70,231	3,122,249

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

38 CREDIT RISK (continued)

Credit quality analysis (continued)

(i) By credit rating/internal grading and ECL stage (continued)

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 not credit-impaired whereas Substandard, Doubtful and Loss are credit-impaired.

Past due but not credit-impaired are financing and advances 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 3 months past due.

Credit quality and ECL stages

	2021				2020			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Neither past due nor credit-impaired								
(i) By internal grading								
Pass	9,159,134	1,639,501	-	10,798,635	8,820,322	1,081,212	-	9,901,534
Special mention	-	1,291,644	-	1,291,644	-	823,499	-	823,499
	9,159,134	2,931,145	-	12,090,279	8,820,322	1,904,711	-	10,725,033
Past due but not credit-impaired								
(ii) By period overdue								
Less than 2 months	-	12,704	-	12,704	-	40,835	-	40,835
2 months to less than 3 months	-	9,810	-	9,810	-	13,349	-	13,349
	-	22,514	-	22,514	-	54,184	-	54,184
Credit-impaired								
Past due	-	-	176,459	176,459	-	-	224,437	224,437
Not past due	-	-	147,198	147,198	-	-	241,339	241,339
	-	-	323,657	323,657	-	-	465,776	465,776
Total	9,159,134	2,953,659	323,657	12,436,450	8,820,322	1,958,895	465,776	11,244,993

The past due but not credit-impaired financing are classified as part of Special Mention.
The analysis of impaired financing and advances is detailed in Note 7(a) to the financial statements.

38 CREDIT RISK (continued)

Credit quality analysis (continued)

(i) By credit rating/internal grading and ECL stage (continued)

Financing and advances (continued)

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 2021 and 31 December 2020, 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 credit-impaired financing is as follows:

	2021 RM'000	2020 RM'000
Fair value of collateral held against the covered portion of credit-impaired financing and advances	425,194	266,308
Covered portion of credit-impaired financing and advances	344,274	205,069
Uncovered portion of credit-impaired financing and advances	200,278	410,022
	544,552	615,091

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

38 CREDIT RISK (continued)

Credit quality analysis (continued)

	2021					2020				
	Financial assets at FVTPL RM'000	Financial investments at FVOCI RM'000	Financing and advances* RM'000	Derivative financial assets RM'000	Contingent liabilities and credit commitments** RM'000	Financial assets at FVTPL RM'000	Financial investments at FVOCI RM'000	Financing and advances* RM'000	Derivative financial assets RM'000	Contingent liabilities and credit commitments** RM'000
(ii) By issuer/counterparty										
Government and Central Bank	-	2,625,019	-	-	-	-	2,768,908	-	-	-
Foreign government	-	-	-	-	-	-	24,240	-	-	-
Public sector	-	263,582	-	-	-	-	334,172	-	-	-
Banking institutions	-	299,745	-	12,171	-	-	799,535	-	21,579	-
Non-bank financial institutions	-	264,720	-	5	6,693	-	235,709	-	34	5,647
Business enterprises	10,090	65,828	10,005	934	3,160,228	10,155	41,987	19,165	4,335	2,995,360
Individuals	-	-	12,509	-	100,071	-	-	35,019	-	121,242
	10,090	3,518,894	22,514	13,110	3,266,992	10,155	4,204,551	54,184	25,948	3,122,249
(iii) By geographical distribution										
Malaysia	10,090	3,518,894	22,031	13,105	3,251,800	10,155	4,180,311	51,790	25,945	3,107,387
Other ASEAN countries	-	-	483	5	11,871	-	24,240	2,394	3	8,286
Rest of the world	-	-	-	-	3,321	-	-	-	-	6,576
	10,090	3,518,894	22,514	13,110	3,266,992	10,155	4,204,551	54,184	25,948	3,122,249

* Past due but not credit-impaired. The analysis of financing and advances by geographical distribution is detailed in Note 6(v) to the financial statements.

** Excluding derivative financial assets.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

38 CREDIT RISK (continued)

Credit quality analysis (continued)

	2021					2020				
	Financial assets at FVTPL RM'000	Financial investments at FVOCI RM'000	Financing and advances* RM'000	Derivative financial assets RM'000	Contingent liabilities and credit commitments** RM'000	Financial assets at FVTPL RM'000	Financial investments at FVOCI RM'000	Financing and advances* RM'000	Derivative financial assets RM'000	Contingent liabilities and credit commitments** RM'000
(iv) By sector										
Agriculture, hunting, forestry and fishing	-	-	-	-	19,366	-	-	72	-	16,172
Mining and quarrying	-	-	-	-	31,690	-	-	358	-	96,578
Manufacturing	-	999	4,521	37	761,550	-	-	5,432	1,714	686,444
Electricity, gas and water	-	75,355	-	-	3,783	-	66,928	-	-	3,013
Construction	-	-	848	-	758,133	-	-	1,767	-	871,593
Real estate	-	-	448	798	453,280	-	-	340	2,455	299,670
Wholesale & retail trade and restaurants & hotels	-	-	3,268	98	404,119	-	-	3,934	166	368,372
Transport, storage and communication	-	20,352	289	-	289,997	-	30,847	739	-	186,367
Finance, insurance and business services	-	564,464	631	12,176	423,445	-	1,035,244	6,132	21,613	460,685
Community, social and personal services	10,090	232,704	-	-	14,546	10,155	278,384	392	-	7,354
Household										
- Purchase of residential properties	-	-	8,517	-	87,054	-	-	26,858	-	102,137
- Others	-	-	3,992	-	13,017	-	-	8,160	-	19,105
Others	-	2,625,020	-	1	7,012	-	2,793,148	-	-	4,759
	10,090	3,518,894	22,514	13,110	3,266,992	10,155	4,204,551	54,184	25,948	3,122,249
(v) By residual contractual maturity										
Up to one year	5,012	1,646,118	3,008	840	2,121,597	-	1,815,897	7,639	256	2,045,081
Over one year to five years	5,078	1,665,955	4,320	57	562,353	10,155	1,975,259	6,664	1,713	438,429
Over five years	-	206,821	15,186	12,213	583,042	-	413,395	39,881	23,979	638,739
	10,090	3,518,894	22,514	13,110	3,266,992	10,155	4,204,551	54,184	25,948	3,122,249

* Past due but not credit-impaired. The analysis of financing and advances by sector and residual contractual maturity are detailed in Note 6(iv) and Note 6(vi) to the financial statements respectively.

** Excluding derivative financial assets.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (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.

	Gross 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
2021								
Cash and cash equivalents	2,180,400	2,180,400	-	-	-	-	-	-
Financial assets at FVTPL	10,090	-	5,012	-	5,078	-	-	-
Financial investments at FVOCI	3,518,894	865,239	567,238	213,641	1,203,805	462,150	206,821	-
Financing and advances *	12,907,070	3,671,487	156,049	522,429	1,114,481	2,746,991	4,695,633	-
Derivative financial assets	13,110	797	43	-	57	-	12,213	-
Other balances **	96,862	11,262	1,489	20,423	11,586	3,782	1,703	46,617
Total assets	18,726,426	6,729,185	729,831	756,493	2,335,007	3,212,923	4,916,370	46,617
Deposits from customers	12,947,257	10,578,807	1,635,324	728,233	4,730	163	-	-
Investment accounts due to designated financial institution ***	2,603,872	2,566,161	-	-	-	-	37,711	-
Deposits and placements of banks and other financial institutions	518,377	513,291	511	1,035	2,644	896	-	-
Bills and acceptances payable	12,330	12,330	-	-	-	-	-	-
Derivative financial liabilities	13,484	633	20	-	58	-	12,773	-
Other balances ****	201,841	114,370	15,175	8,875	11,154	10,695	20,331	21,241
Lease liabilities	2,849	383	386	783	1,297	-	-	-
Subordinated sukuk	200,000	-	200,000	-	-	-	-	-
Total liabilities	16,500,010	13,785,975	1,851,416	738,926	19,883	11,754	70,815	21,241

* Stated at gross before ECL allowance.
** Other balances consist of other assets, tax recoverable, property and equipment, ROU assets and deferred tax assets.
*** Stated at gross before amount receivable from immediate holding company.
**** Other balances consist of other liabilities and provision for taxation and zakat excludes lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (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
2020								
Cash and cash equivalents	285,723	285,723	-	-	-	-	-	-
Financial assets at FVTPL	10,155	-	-	-	5,041	5,114	-	-
Financial investments at FVOCI	4,204,551	1,153,680	335,238	326,979	1,520,124	455,135	413,395	-
Financing and advances *	11,602,866	3,563,536	296,788	20,407	1,068,952	1,593,017	5,060,166	-
Derivative financial assets	25,948	256	-	-	-	1,713	23,979	-
Other balances **	130,179	73,356	1,620	16,063	17,416	3,741	3,764	14,219
Total assets	16,259,422	5,076,551	633,646	363,449	2,611,533	2,058,720	5,501,304	14,219
Deposits from customers	11,495,918	9,459,920	1,489,046	543,233	3,406	313	-	-
Investment accounts due to designated financial institution ***	1,513,014	1,285,664	-	-	-	-	227,350	-
Deposits and placements of banks and other financial institutions	775,572	771,160	383	774	2,852	403	-	-
Bills and acceptances payable	15,064	15,064	-	-	-	-	-	-
Derivative financial liabilities	27,253	48	-	-	-	1,721	25,484	-
Other balances ****	150,956	100,656	16,440	3,860	3,619	3,410	2,101	20,870
Lease liabilities	4,523	464	462	829	2,678	90	-	-
Subordinated sukuk	200,000	-	-	200,000	-	-	-	-
Total liabilities	14,182,300	11,632,976	1,506,331	748,696	12,555	5,937	254,935	20,870

* Stated at gross before ECL allowance.
** Other balances consist of other assets, tax recoverable, property and equipment, ROU assets and deferred tax assets.
*** Stated at gross before amount receivable from immediate holding company.
**** Other balances consist of other liabilities and provision for taxation and zakat excludes lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

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.

2021	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative financial liabilities							
Deposits from customers	10,599,545	1,659,595	741,772	4,871	171	-	13,005,954
Investment accounts due to designated financial institution ***	2,571,171	-	-	-	-	37,711	2,608,882
Deposits and placements of banks and other financial institutions	514,712	511	1,035	2,644	896	-	519,798
Bills and acceptances payable	12,330	-	-	-	-	-	12,330
Other balances ^	98,257	1,869	2,933	11,138	10,695	20,331	145,223
Lease liabilities	418	415	827	1,336	-	-	2,996
Subordinated sukuk	-	204,786	-	-	-	-	204,786
	13,796,433	1,867,176	746,567	19,989	11,762	58,042	16,499,969
Commitments and contingencies							
Direct credit substitutes	10,154	1,103	32,771	1,516	-	-	45,544
Transaction-related contingent items	44,186	20,525	50,922	166,264	57,133	26,559	365,589
Short-term self-liquidating trade-related contingencies	50,783	-	-	-	-	-	50,783
Formal standby facilities and credit lines							
- Original maturity up to one year	3,000	-	-	-	-	-	3,000
- Original maturity exceeding one year	2,687	3,531	2,242	232,055	105,439	254,315	600,269
Other unconditionally cancellable commitments	1,899,639	-	-	-	-	302,168	2,201,807
	2,010,449	25,159	85,935	399,835	162,572	583,042	3,266,992
Derivative financial liabilities							
Net settled derivatives							
Trading:							
- Profit rate derivatives	-	-	-	-	-	12,773	12,773
Gross settled derivatives							
Trading:							
Foreign exchange derivatives							
- Forward and swap							
- Outflow	179,920	11,985	10,712	26,048	-	-	228,665
- Inflow	(179,225)	(11,959)	(10,712)	(26,048)	-	-	(227,944)
	695	26	-	-	-	12,773	13,494

*** Stated at gross before amount receivable from immediate holding company.

^ Exclude the balances of RM21 million which have no specific maturity.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

39 LIQUIDITY RISK (continued)

2020	**Up to 3 months RM'000**	**>3-6 months RM'000**	**>6-12 months RM'000**	**>1-3 years RM'000**	**>3-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Non-derivative financial liabilities							
Deposits from customers	9,500,734	1,517,247	553,671	3,512	346	-	11,575,510
Investment accounts due to designated financial institution ***	1,289,372	-	-	-	-	227,350	1,516,722
Deposits and placements of banks and other financial institutions	772,204	383	774	2,852	403	-	776,616
Bills and acceptances payable	15,064	-	-	-	-	-	15,064
Other balances ^	67,122	876	1,124	3,600	3,408	2,101	78,231
Lease liabilities	488	488	873	2,747	91	-	4,687
Subordinated sukuk	-	4,786	204,840	-	-	-	209,626
	11,644,984	1,523,780	761,282	12,711	4,248	229,451	14,176,456
Commitments and contingencies							
Direct credit substitutes	20,000	17,079	9,609	32,324	217	-	79,229
Transaction-related contingent items	49,094	18,732	45,676	182,650	74,891	12,469	383,512
Short-term self-liquidating trade-related contingencies	30,714	688	-	-	-	-	31,402
Formal standby facilities and credit lines							
- Original maturity up to one year	-	40,000	-	-	-	-	40,000
- Original maturity exceeding one year	3,791	12,000	12,501	143,671	5,427	316,746	494,136
Other unconditionally cancellable commitments	-	-	1,785,148	-	-	308,822	2,093,970
	103,599	88,499	1,852,934	358,645	80,535	638,037	3,122,249
Derivative financial liabilities							
Net settled derivatives							
Trading:							
- Profit rate derivatives	-	-	-	-	-	25,484	25,484
Gross settled derivatives							
Trading:							
Foreign exchange derivatives							
- Forward and swap							
- Outflow	38,333	5,470	10,823	41,563	5,005	-	101,194
- Inflow	(38,279)	(5,470)	(10,823)	(41,563)	(5,005)	-	(101,140)
	54	-	-	-	-	25,484	25,538

*** Stated at gross before amount receivable from immediate holding company.

^ Exclude the balances of RM21 million which have no specific maturity.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

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							
2021	**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	2,079,000	-	-	-	-	101,400	-	2,180,400
Financial assets at FVTPL	-	5,012	5,078	-	-	-	-	10,090
Financial investments at FVOCI	865,239	780,879	1,203,805	462,150	206,821	-	-	3,518,894
Financing and advances								
- Non credit-impaired	11,178,374	434,606	367,720	280,878	57,191	(205,976)	-	12,112,793
- Credit-impaired	-	-	-	-	-	323,657	-	323,657
Derivative financial assets	-	-	-	-	-	-	13,110	13,110
Other assets	-	-	-	-	-	32,558	-	32,558
Tax recoverable	-	-	-	-	-	15,575	-	15,575
Property and equipment	-	-	-	-	-	4,375	-	4,375
ROU assets	-	-	-	-	-	2,796	-	2,796
Deferred tax assets	-	-	-	-	-	41,558	-	41,558
	14,122,613	1,220,497	1,576,603	743,028	264,012	315,943	13,110	18,255,806
Liabilities								
Deposits from customers	5,481,883	2,363,285	3,661,189	163	-	1,440,737	-	12,947,257
Investment accounts due to designated financial institution	2,566,161	-	-	-	-	4,942	-	2,571,103
Deposits and placements of banks and other financial institutions	489,642	-	-	-	-	28,735	-	518,377
Bills and acceptances payable	-	-	-	-	-	12,330	-	12,330
Derivative financial liabilities	-	-	-	-	-	-	13,484	13,484
Other liabilities	-	-	-	-	-	202,046	-	202,046
Tax payable and zakat	-	-	-	-	-	2,644	-	2,644
Subordinated sukuk	-	200,000	-	-	-	-	-	200,000
	8,537,686	2,563,285	3,661,189	163	-	1,691,434	13,484	16,467,241
On-statement of financial position profit sensitivity gap	5,584,927	(1,342,788)	(2,084,586)	742,865	264,012	(1,375,491)	(374)	1,788,565
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	5,584,927	(1,342,788)	(2,084,586)	742,865	264,012	(1,375,491)	(374)	1,788,565

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2021 (continued)

40 PROFIT RATE RISK (continued)

2020	*Non Trading Book* Up to 3 months RM'000	>3-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading Book RM'000	Total RM'000
Assets								
Cash and cash equivalents	195,000	-	-	-	-	90,723	-	285,723
Financial assets at FVTPL	-	-	-	-	-	-	10,155	10,155
Financial investments at FVOCI	1,153,680	662,217	1,520,124	455,135	413,395	-	-	4,204,551
Financing and advances								
- Non credit-impaired	9,679,016	307,448	256,764	582,006	123,324	(169,341)	-	10,779,217
- Credit-impaired	-	-	-	-	-	465,776	-	465,776
Derivative financial assets	-	-	-	-	-	-	25,948	25,948
Other assets	-	-	-	-	-	101,361	-	101,361
Tax recoverable	-	-	-	-	-	10,868	-	10,868
Property and equipment	-	-	-	-	-	5,439	-	5,439
ROU assets	-	-	-	-	-	4,493	-	4,493
Deferred tax assets	-	-	-	-	-	8,018	-	8,018
	11,027,696	969,665	1,776,888	1,037,141	536,719	517,337	36,103	15,901,549
Liabilities								
Deposits from customers	5,315,387	2,032,069	2,836,192	313	-	1,311,957	-	11,495,918
Investment accounts due to designated financial institution	1,285,664	-	-	-	-	194,581	-	1,480,245
Deposits and placements of banks and other financial institutions	737,180	-	-	-	-	38,392	-	775,572
Bills and acceptances payable	-	-	-	-	-	15,064	-	15,064
Derivative financial liabilities	-	-	-	-	-	-	27,253	27,253
Other liabilities	-	-	-	-	-	155,429	-	155,429
Tax payable and zakat	-	-	-	-	-	50	-	50
Subordinated sukuk	-	200,000	-	-	-	-	-	200,000
	7,338,231	2,232,069	2,836,192	313	-	1,715,473	27,253	14,149,531
On-statement of financial position profit sensitivity gap	3,689,465	(1,262,404)	(1,059,304)	1,036,828	536,719	(1,198,136)	8,850	1,752,018
Off-statement of financial position profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	3,689,465	(1,262,404)	(1,059,304)	1,036,828	536,719	(1,198,136)	8,850	1,752,018

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

	2021 RM'000	**2020 RM'000**
+ 50bps	15,847	13,346
- 50bps	(15,931)	(12,562)

The 50 bps shock on 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 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.

41 CURRENCY RISK

2021	MYR RM'000	GBP RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and cash equivalents	2,117,097	6,357	20,136	31,303	5,507	2,180,400
Financial assets at FVTPL	10,090	-	-	-	-	10,090
Financial investments at FVOCI	3,518,894	-	-	-	-	3,518,894
Financing and advances	11,477,429	-	958,243	778	-	12,436,450
Derivative financial assets	13,110	-	-	-	-	13,110
Other assets	31,259	-	148	1,145	6	32,558
	17,167,879	6,357	978,527	33,226	5,513	18,191,502
Financial liabilities						
Deposits from customers	12,316,961	6,365	560,681	61,640	1,610	12,947,257
Investment accounts due to designated financial institution	2,237,083	-	334,020	-	-	2,571,103
Deposits and placements of banks and other financial institutions	428,735	-	87,681	-	1,961	518,377
Bills and acceptances payable	12,330	-	-	-	-	12,330
Derivative financial liabilities	13,484	-	-	-	-	13,484
Other liabilities	200,401	-	136	1,509	-	202,046
Subordinated sukuk	200,000	-	-	-	-	200,000
	15,408,994	6,365	982,518	63,149	3,571	16,464,597
Net financial assets/(liabilities) exposure	1,758,885	(8)	(3,991)	(29,923)	1,942	1,726,905

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41 CURRENCY RISK (continued)

2020	**MYR RM'000**	**GBP RM'000**	**USD RM'000**	**SGD RM'000**	**Others RM'000**	**Total RM'000**
Financial assets						
Cash and cash equivalents	230,157	6,873	10,553	29,078	9,062	285,723
Financial assets at FVTPL	10,155	-	-	-	-	10,155
Financial investments at FVOCI	4,155,747	-	48,804	-	-	4,204,551
Financing and advances	10,291,899	-	952,790	304	-	11,244,993
Derivative financial assets	25,948	-	-	-	-	25,948
Other assets	99,792	49	1,117	352	51	101,361
	14,813,698	6,922	1,013,264	29,734	9,113	15,872,731
Financial liabilities						
Deposits from customers	11,208,856	6,371	250,345	26,007	4,339	11,495,918
Investment accounts due to designated financial institution	1,259,581	-	220,664	-	-	1,480,245
Deposits and placements of banks and other financial institutions	237,333	-	535,611	-	2,628	775,572
Bills and acceptances payable	15,064	-	-	-	-	15,064
Derivative financial liabilities	27,253	-	-	-	-	27,253
Other liabilities	153,155	-	747	1,280	247	155,429
Subordinated sukuk	200,000	-	-	-	-	200,000
	13,101,242	6,371	1,007,367	27,287	7,214	14,149,481
Net financial assets/(liabilities) exposure	1,712,456	551	5,897	2,447	1,899	1,723,250

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:

	2021 RM'000	**2020 RM'000**
VaR By Risk Type		
- Profit rate risk	4	5
- Foreign exchange risk	18	61
- Total	16	56

42 CAPITAL ADEQUACY

Capital Management

The key objective of the Bank’s capital management policy is to maintain a strong capital position to support business growth and to sustain investor, depositor, customer and market confidence. OCBC Malaysia actively manages its capital composition with an optimal mix of capital instruments in order to keep our overall cost of capital low.

OCBC Malaysia's capital is closely monitored and actively managed to ensure that there is sufficient capital to support business growth and to pursue strategic business that will create value for our stakeholders, while taking into consideration the Bank's risk appetite. OCBC Malaysia's internal capital adequacy assessment process ("ICAAP") involves a comprehensive assessment of all material risks that the Bank is exposed to and an evaluation of the adequacy of the Bank's capital in relation to those risks. This includes an annual capital planning exercise to forecast capital demands and assess the Bank’s capital adequacy over a 3-year period. This process takes into consideration OCBC Malaysia's business strategy, operating environment, regulatory changes, 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 in compliance with BNM's Capital Adequacy Framework for Islamic Banks which requires banks to meet minimum Common Equity Tier 1 ("CET1"), Tier 1 and Total Capital Adequacy Ratio ("CAR") of 7.0%, 8.5% and 10.5% respectively (inclusive of Capital Conservation Buffer of 2.5%) 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 has 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.

On 9 December 2020, BNM implemented transitional arrangements for regulatory capital treatment of accounting provisions which allow the Bank to add back a portion of the Stage 1 and Stage 2 provisions for expected credit loss ("ECL") to CET1 capital, subject to eligibility. The transitional arrangements are consistent with the guidance issued by the Basel Committee of Banking Supervision on "Regulatory treatment of accounting provisions - interim approach and transitional arrangements" (March 2017) and "Measures to reflect the impact of Covid-19" (April 2020). The Bank elected to apply the transitional arrangements for four financial years commencing with the financial year ending 31 December 2020, with the transitional benefits add-back starts at 100% in 2020, reduces to 75% in 2022, 50% in 2023 and 0% from 2024 onwards.

The table below shows the composition of the Bank's regulatory capital and capital adequacy ratios which were determined in accordance with the requirements of BNM's Capital Adequacy Framework for Islamic Banks (Capital Components), applying the transitional arrangements in 2020. The Bank's total risk-weighted assets were 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.

	2021 RM'000	2020 RM'000
CET 1 capital		
Paid-up ordinary share capital	555,000	555,000
Retained earnings	1,147,981	1,057,988
Other reserves	85,530	138,940
Regulatory adjustment	(1,465)	(31,115)
	1,787,046	1,720,813

42 CAPITAL ADEQUACY (continued)

	2021 RM'000	2020 RM'000
Tier 2 capital		
Stage 1 and 2 ECL and qualifying regulatory reserves under the Standardised Approach	3,199	2,659
Surplus eligible provisions over expected losses	52,650	53,936
Subordinated sukuk	200,000	200,000
	255,849	256,595
Capital base	2,042,895	1,977,408

	2021	2020
Before the effects of PSIA		
CET 1 / Tier 1 capital ratio	16.290%	16.533%
Total capital ratio	18.622%	18.998%
After the effects of PSIA		
CET 1 / Tier 1 capital ratio	18.179%	17.239%
Total capital ratio	20.782%	19.810%

In accordance with BNM's Guidelines on the Recognition and Measurement of Profit Sharing Investment Account as Risk Absorbent, the credit and market risks of the assets funded by the RPSIA which qualify as risk absorbent are excluded from the total capital ratio calculation. As at 31 December 2021, the credit risk relating to RPSIA assets excluded from the total capital ratio calculation amounted to RM1,140 million (2020: RM427 million).

The Bank has elected to apply the transitional arrangements for regulatory capital treatment of accounting provisions for four financial years commencing in 2020. Had the transitional arrangements not been applied, the Bank's capital adequacy ratios would be as follows:

	2021	2020
After the effects of PSIA		
CET 1 / Tier 1 capital ratio	16.790%	16.284%
Total capital ratio	19.393%	18.854%

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

	2021 RM'000	2020 RM'000
Total RWA for credit risk	9,030,867	9,202,127
Total RWA for market risk	6,578	3,848
Total RWA for operational risk	792,879	776,034
	9,830,324	9,982,009

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43 MUDHARABAH RESTRICTED PROFIT SHARING INVESTMENT ACCOUNT

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

	2021 RM'000	2020 RM'000
As at 1 January	1,480,245	1,986,054
Funding inflows/(outflows)		
New placement during the year	1,513,210	485,055
Redemption during the year	(468,434)	(1,045,201)
Effect of foreign exchange difference	10,307	16,720
Income from investment	51,107	53,739
Net write down during the year	-	-
Bank's share of profit		
Profit distributed to mudarib	(15,332)	(16,122)
As at 31 December	2,571,103	1,480,245
Investment assets		
Financing and advances	2,571,103	1,480,245

(ii) Profit sharing ratio and rate of return

	Average profit sharing ratio (Depositor: Bank)		Average rate of return	
	2021	2020	2021	2020
Up to 1 year	70:30	70:30	1.68%	2.40%
> 1 - 2 years	70:30	70:30	1.88%	3.02%
> 2 - 5 years	70:30	70:30	1.71%	2.83%
Over 5 years	70:30	70:30	2.91%	3.46%

44 PROFIT RATE BENCHMARK REFORM

Following the financial crisis, the reform and replacement of benchmark profit rates such as LIBOR and other inter-bank offered rates ("IBORs") has become a priority for global regulators. London Interbank Offered Rate ("LIBOR"), a key benchmark used in international financial markets will be phased out. LIBOR will be replaced by Risk Free Rates ("RFR"), which are already being increasingly adopted in new transactions.

On 24 September 2021, Bank Negara Malaysia (“BNM”) announced the launch of the Malaysia Overnight Rate ("MYOR") as the new alternative reference rate ("ARR") for Malaysia. These are in line with the introduction of ARR globally to improve the integrity of benchmark interest rates (“IBOR”) as part of a transition to transaction-based rates following the financial crisis.

To ensure a smooth transition, OCBC established an internal Steering Committee to coordinate the effort across various business, control and support functions.

The Bank have assessed the adequacy and appropriateness of provisions relating to the permanent discontinuation of benchmarks, in financing documentation, derivative contracts, debt issuances and other relevant contracts. Plans have been made to remediate the contracts with appropriate revisions. A communications plan has been established to identify and engage clients with a view to help them understand how their contracts may be affected and the potential actions they could take in relation to their contracts with OCBC. To ensure infrastructure and process readiness, the Group also plans to implement the necessary system upgrades and modifications.

MYOR is running parallel with KLIBOR as of the reporting date and the full transition to MYOR is still in progress and hence, there remains some uncertainty around the timing and precise nature of these changes. Practical expedients under Phase 2 are not applied for the KLIBOR exposures. The Bank will, however, closely monitor for BNM's announcement on the MYOR and the discontinuation of KLIBOR publication for the selected tenors, and the Bank will engage with the counterparties to discuss the necessary contract changes.

As at 31 December 2021, the Bank did not have any exposure in hedges.

Exposures impacted by the IBOR reform

The Bank is mainly exposed to USD LIBOR and KLIBOR. The following table shows the total amount of non-derivative financial assets and derivative financial instruments that have yet to transition to an alternative benchmark rate as at 31 December 2021.

	USD LIBOR RM'000	KLIBOR RM'000	TOTAL RM'000
Gross carrying amount			
Financing and advances	646,607	250,972	897,579
Non-derivative financial asset	646,607	250,972	897,579
Notional amount			
Derivative financial instruments	23,050	211,457	234,507