

Company No. 295400-W

**OCBC BANK (MALAYSIA) BERHAD  
AND ITS SUBSIDIARY COMPANIES**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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OCBC BANK (MALAYSIA) BERHAD  
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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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

**PRINCIPAL ACTIVITIES**

The Bank is principally engaged in banking and related financial services. There has been no significant change in the nature of these activities during the financial year.

**IMMEDIATE AND ULTIMATE HOLDING COMPANY**

The Directors regard Oversea-Chinese Banking Corporation Limited, a licensed commercial bank incorporated in Singapore, as the immediate and ultimate holding company of the Bank during the financial year and until the date of this report.

**SUBSIDIARIES**

The details of the Bank's subsidiaries are disclosed in Note 12 to the financial statements.

**FINANCIAL RESULTS**

	<b>Group 2016 RM'000</b>	<b>Bank 2016 RM'000</b>
Profit for the year attributable to:		
Owner of the Bank	807,645	655,272
Non-controlling interest	592	-
	<u>808,237</u>	<u>655,272</u>

**SHARE CAPITAL AND DEBENTURES**

There were no issuances, cancellations, repurchase, resale or repayment of debt and equity securities in the authorised, issued and paid up share capital of the Bank during the financial year. There were no debentures issued during the financial year.

**RESERVES AND PROVISIONS**

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

**DIVIDENDS**

Since the end of the previous financial year, the Bank paid a final dividend of 152.2 sen per ordinary share totalling RM437.7 million in respect of the previous financial year on 20 April 2016.

The Directors recommend a final dividend of 136.7 sen per ordinary share in respect of the current financial year amounting to RM393.1 million. This dividend will be accounted for in shareholders' equity as an appropriation of retained earnings in the subsequent financial period upon approval by the shareholder of the Bank.

**FINANCIAL PERFORMANCE**

Amid the increasingly challenging operating environment, the Group registered a profit after tax of RM808 million for the year, a 8% decrease from RM883 million last year. The lower profit was largely due to a decrease in operating income by RM141 million, or 6% against last year. The lower operating income was mainly attributable to lower net interest income by RM59 million or 4% and lower income from Islamic banking operations by RM44 million or 8%. The reductions were set against the backdrop of continuous margin compression on the back of market competition and decrease in loans, advances and financing portfolio by RM1.05 billion since the previous financial year end. The decrease in operating income was mitigated by lower impairment allowances and provisions by RM90 million or 31% below last year.

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

### **FINANCIAL PERFORMANCE (continued)**

The Group and the Bank remained well capitalized after taking into consideration the proposed dividend, with Common Equity Tier 1 capital ratios of 11.945% and 11.779%, Tier 1 capital ratios of 13.862% and 14.043% and total capital ratios of 16.948% and 16.506%, respectively.

### **ACTIVITIES AND ACHIEVEMENTS**

During the period under review, OCBC Bank (Malaysia) Berhad ("OCBC Malaysia") won a number of awards in 2016, including the Aon Best Employers Award for Malaysia from Aon Hewitt; the Malaysia International Project Finance Bank of the Year and the SME Bank of the Year in Malaysia from the Asian Banking & Finance magazine; and Best SME Bank (Treasury & Working Capital) Malaysia, Best SME Trade Finance Solution Malaysia and Best SME Cash Management Solution Malaysia from The Asset Magazine. Other awards included first in rank for Ringgit Interest Rate Products & Ringgit Currency Products from Asia Risk Corporate Rankings and Asia Risk Institutional Rankings; Best Foreign FX Provider 2016 by Asia Money; Gold Award for Best Brand Trial/Sales Generation Campaign from Promotion Marketing Awards of Asia; and an Honorary Award in the Top 50 Enterprise Awards 2015/2016 from the Malaysia Entrepreneurs' Development Association.

In 2016, we decided to invest in upgrading OCBC Al-Amin Bank Berhad's Xpres branches into full-fledged branches. Three of the relocation exercises, set for 2017, will be to growth markets in the Klang Valley. With these, we will continue to have a total of 45 branches nationwide – 32 offering conventional banking and 13 Islamic banking services.

We introduced innovative products like OCBC OneTouch, becoming the first foreign bank to provide a complete online view of a customer's bank accounts and investment balances via fingerprint authentication leveraging on Touch ID technology. We also upgraded Velocity@ocbc, our business internet banking service, to make it simpler and more secure for customers to access from anywhere and anytime. The enhanced version also incorporates additional capabilities such as MyClear's JomPAY bill payment, the Financial Process Exchange payment service and online trade. We also embarked on a collaborative effort with the Asian Banking School ("ABS") to develop a 13-module programme called the ABS-OCBC Wealth Management Programme to enhance our relationship managers' knowledge of wealth management. OCBC Malaysia remained active in the Malaysian capital market in our role as Joint Lead Manager for several notable investment projects.

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

### **MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2017**

Moving into 2017, OCBC Malaysia will continue to uphold its position as a banker of choice and among the top three foreign banks in the country with the combined strength of our conventional and Islamic banking franchise. Expertise will be honed in the areas of managing risks, maximising collaboration within business units and enhancing and growing our wealth products platform to serve our customers better.

For corporate and commercial banking customers, we remain steadfast in supporting our clients to enhance their trade efforts and to sustain our own product growth momentum. We will intensify our deposits-building strategies via all channels in business banking, particularly the emerging business segment. For investments, we will continue to focus on top tier conglomerates and Government-linked companies, especially in East Malaysia where we opened 2 new Islamic banking branches in Sibu and Sandakan in December 2015.

For small medium enterprises ("SME"), we will continue to drive the growth of the business community by working closely with the Government and our strategic partners to provide even more convenient access to financing. We will continue to leverage on our collaboration with Credit Guarantee Corporation Malaysia ("CGC") to make available our unsecured business financing facility through our Wholesale Guarantee-i scheme.

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

### **MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2017 (continued)**

In consumer banking, we are building up our Premier Private Client services to better serve our high net worth clients. We will continue to expand our services to serve the needs of affluent Malaysians at our conventional and Islamic branches in key market centres and to invest in digital capabilities in the areas of wealth management and payments.

On the treasury front, we will continue to work with our business partners to provide Treasury products and solutions to assist customers in their risk management efforts. We will also expand our product suite to cater to the diverse investment needs of our various customer segments.

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

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

### **RATINGS BY EXTERNAL AGENCY**

RAM Rating Services Berhad ("RAM") has reaffirmed OCBC Bank (Malaysia) Berhad's long term and short term financial institution rating on 27 June 2016 at AAA and P1 respectively, with stable outlook.

### **DIRECTORS OF THE BANK**

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

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

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

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

### **PROFILE OF THE BOARD OF DIRECTORS**

#### **Dato' Ooi Sang Kuang, Chairman**

Dato' Ooi Sang Kuang was appointed to the Board on 6 April 2012, and later as Chairman of the Board on 30 March 2014. He was a Special Advisor in Bank Negara Malaysia ("BNM") until he retired on 31 December 2011. Prior to this, he was Deputy Governor and Member of the Board of Directors of BNM from 2002 to 2010. Dato' Ooi is presently the Chairman of Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), OCBC Bank (Malaysia) Berhad, Cagamas Berhad (the national mortgage corporation in Malaysia) and its subsidiaries, Xeraya Capital Sdn Bhd and Xeraya Capital Labuan Ltd as well as a director of OCBC Wing Hang Bank Limited and OCBC Management Services Pte Ltd. Dato' Ooi holds a Bachelor of Economics with Honours from the University of Malaya and a Master of Arts (Development Finance) from Boston University, USA. He is a Fellow Member of the Asian Institute of Chartered Bankers and a Council Member of the Financial Services Talent Council.

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

### **PROFILE OF THE BOARD OF DIRECTORS (continued)**

#### **Mr Samuel N. Tsien**

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

#### **Mr Lai Teck Poh**

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

#### **Mr Ng Hon Soon**

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

#### **Mr Tong Hon Keong**

Mr Tong Hon Keong was appointed to the Board on 21 July 2015. He had an illustrious career in Maybank spanning over 30 years. He gained wide ranging experience in various functional responsibilities, covering Planning, Information Systems, Central Operations and Management Information Services. He is also a Director of OCBC Al-Amin Bank Berhad. Mr Tong holds a Bachelor of Economics (Hons.) from University of Malaya.

#### **Mr Tan Ngiap Joo**

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

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)****PROFILE OF THE BOARD OF DIRECTORS (continued)****Datuk Azizan bin Haji Abd Rahman**

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

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

**DIRECTORS' INTERESTS IN SHARES AND OPTIONS**

The interest and deemed interest in the shares of the Bank and its related corporations (other than wholly owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Registrar 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		Disposed	At	
	1 January 2016	Acquired/ Awarded		31 December 2016	31 December 2016
<u>Ordinary Shares</u>					
Dato' Ooi Sang Kuang	19,793	6,573	-		26,366
Samuel N. Tsien	472,303	290,168	-		762,471
Lai Teck Poh	1,035,820	29,124	-		1,064,944
Tan Ngiap Joo	1,239,780	96,718	-		1,336,498
<u>OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan</u>					
	At		Exercised/ Forfeited/ Lapsed	At	
	1 January 2016	Awarded/ Granted		31 December 2016	31 December 2016
<u>Ordinary Shares</u>					
Samuel N. Tsien	669,336	353,937	(277,474)		745,799
<u>Unexercised share options available to the Directors under the OCBC Share Option Scheme 2001</u>					
	At		Exercised/ Forfeited/ Lapsed	At	
	1 January 2016	Awarded/ Granted		31 December 2016	31 December 2016
	Exercise period				
<u>Ordinary Shares</u>					
Samuel N. Tsien	15/3/2019-15/3/2026	3,290,004	1,024,798	-	4,314,802
Tan Ngiap Joo	13/03/2017	113,113	-	(61,698)	51,415

Other than the above, no other Directors in office during the financial year held any interest in shares, options and debentures of the Bank and its related corporations.

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

### **DIRECTORS' BENEFITS**

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

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

### **CORPORATE GOVERNANCE**

#### **Board Composition and Independence**

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

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

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

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

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

#### **Board Conduct and Responsibilities**

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



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

### **CORPORATE GOVERNANCE (continued)**

#### **Board Conduct and Responsibilities (continued)**

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

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

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

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

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

#### **Board Audit Committee**

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

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

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

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

### **CORPORATE GOVERNANCE (continued)**

#### **Board Audit Committee (continued)**

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

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

#### **Internal Audit Function**

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

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

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

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

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

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

### **CORPORATE GOVERNANCE (continued)**

#### **Internal Controls**

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

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

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

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

#### **Nominating Committee**

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

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

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

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

### **CORPORATE GOVERNANCE (continued)**

#### **Risk Management Committee**

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

BNM had approved on 8 February 2007 the delegation of approving authority of the Board of Directors to the RMC pertaining to risk management matters. The Board approved the terms of reference of RMC. The Committee shall meet at least once every quarter. The Committee shall be entitled to secure the attendance of any person with relevant experience and expertise at committee meetings if the committee considers this appropriate.

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

#### **Remuneration Policy**

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

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

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

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

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

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

**CORPORATE GOVERNANCE (continued)**

**Remuneration Policy (continued)**

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

The Bank has identified a group of senior executives whose authorities and actions are deemed to have a major influence on the long term performance of the Bank. This group ("Material Risk Takers") comprises senior management (the CEO and his direct reports of Vice President 1 rank and above), employees of Senior Vice President rank and above, key personnel at business units, senior control staff and employees who had been awarded significant variable performance bonuses.

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

Quantitative disclosure of the Group's and the Bank's key management and other material risk takers remuneration is disclosed in Note 30.

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

**Management Information**

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

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

- i) Minutes of meetings of all Board and Board Committees;
- ii) Monthly Performance Report of the Bank;
- iii) At least quarterly Credit Risk Management Report;
- iv) At least quarterly Asset Liability & Market Risk Report; and
- v) At least quarterly Operational Risk Management Report.

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

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)****CORPORATE GOVERNANCE (continued)****Directors' Attendance At Board And Board Committee Meetings in 2016**

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

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

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

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

**COMPLIANCE WITH BNM'S EXPECTATIONS ON FINANCIAL REPORTING**

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

**DIRECTORS' INDEMNITY**

A Directors' and Officers' Liability Insurance has been entered into by the Group and the Bank for the financial year ended 31 December 2016. The policy provides appropriate cover for legal action brought against its Directors in accordance with qualifying third party indemnity provisions (as defined by Section 289 of the Companies Act 2016). During the financial year, the cost of this insurance effected for the Directors and officers of the Group and the Bank amounted to RM105,998 and RM97,153 respectively.

**OTHER STATUTORY INFORMATION**

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

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

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

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

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

**OTHER STATUTORY INFORMATION (continued)**

- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Bank misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Bank misleading.

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

- i) any charge on the assets of the Group or of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or 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 Group and of the Bank, other than those arising from the transactions made in the ordinary course of business of the Group and 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 Group and of the Bank to meet their obligations as and when they fall due.

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

**AUDITORS**

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

The auditors' remuneration is disclosed in Note 29 to the financial statements.

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

**DATO' OOI SANG KUANG**  
Chairman

**NG HON SOON**  
Director

Kuala Lumpur, Malaysia  
Date: 9 May 2017

OCBC BANK (MALAYSIA) BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 21 to 144 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

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

**DATO' OOI SANG KUANG**  
Chairman

**NG HON SOON**  
Director

Kuala Lumpur, Malaysia  
Date: 9 May 2017

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

I, Teoh Yin Meng, the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 21 to 144 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, Teoh Yin Meng at Kuala Lumpur in Malaysia on 9 May 2017.

**TEOH YIN MENG**

Before me,

Commissioner for Oaths  
Kuala Lumpur, Malaysia



# **Independent Auditors' Report to the member of OCBC Bank (Malaysia) Berhad and its subsidiary companies**

(Company No. 295400-W)  
(Incorporated in Malaysia)

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the financial statements of OCBC Bank (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 144.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

### **Basis for Opinion**

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

### **Independence and Other Ethical Responsibilities**

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

## **Report on the Audit of the Financial Statements (continued)**

### **Information Other than the Financial Statements and Auditors' Report Thereon**

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

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

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

### **Responsibilities of the Directors for the Financial Statements**

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

In preparing the financial statements of the Group and of the Bank, the Directors are responsible for assessing the ability of the Group and of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or 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 Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **Report on the Audit of the Financial Statements (continued)**

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Bank.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and 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 Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Company No. 295400-W

**Report on the Audit of the Financial Statements (continued)**

**Other Matter**

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

**KPMG PLT**  
LLP0010081-LCA & AF 0758  
Chartered Accountants

**Ow Peng Li**  
Approval Number: 02666/09/2017J  
Chartered Accountant

Petaling Jaya, Selangor

Date: 9 May 2017

OCBC BANK (MALAYSIA) BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)

## STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>ASSETS</b>					
Cash and cash equivalents	3	8,293,096	5,443,390	7,449,587	4,862,227
Deposits and placements with banks and other financial institutions	4	1,447,920	-	2,235,484	1,076,407
Financial assets held-for-trading	5	1,528,361	1,545,745	1,528,361	1,545,745
Financial investments available-for-sale	6	11,253,505	13,687,018	8,077,528	10,629,759
Loans, advances and financing	7	67,421,623	68,468,175	57,799,889	58,580,383
Derivative financial assets	9	1,995,516	2,104,912	1,995,481	2,104,507
Other assets	10	280,597	317,835	464,465	495,733
Statutory deposits with Bank Negara Malaysia	11	2,000,966	2,386,312	1,673,966	1,980,212
Investments in subsidiaries	12	-	-	558,492	556,617
Property and equipment	13	188,201	213,085	174,785	198,859
Prepaid lease payments	14	784	820	784	820
Investment properties	15	-	2,428	-	2,428
Non-current assets held for sale	16	-	1,595	-	1,595
Tax recoverable		8,867	4,907	-	-
Deferred tax assets	17	28,321	14,492	22,977	12,156
<b>Total assets</b>		<b>94,447,757</b>	<b>94,190,714</b>	<b>81,981,799</b>	<b>82,047,448</b>
<b>LIABILITIES</b>					
Deposits from customers	18	72,222,724	73,465,634	60,988,458	63,366,892
Deposits and placements of banks and other financial institutions	19	9,462,112	8,098,511	8,977,185	6,665,892
Bills and acceptances payable		153,888	146,894	123,405	128,224
Recourse obligation on loans sold to Cagamas Berhad		1,328,516	1,148,897	1,328,516	1,148,897
Derivative financial liabilities	9	1,820,414	1,979,824	1,820,044	1,979,249
Other liabilities	21	948,838	1,033,595	823,226	883,707
Tax payable and zakat		11,090	21,600	11,045	21,560
Subordinated bonds	20	2,075,852	2,225,370	2,075,852	2,225,370
<b>Total liabilities</b>		<b>88,023,434</b>	<b>88,120,325</b>	<b>76,147,731</b>	<b>76,419,791</b>
<b>EQUITY</b>					
Share capital	22	287,500	287,500	287,500	287,500
Reserves	23	6,135,427	5,782,889	5,546,568	5,340,157
Non-controlling interest		1,396	-	-	-
<b>Total equity</b>		<b>6,424,323</b>	<b>6,070,389</b>	<b>5,834,068</b>	<b>5,627,657</b>
<b>Total liabilities and equity</b>		<b>94,447,757</b>	<b>94,190,714</b>	<b>81,981,799</b>	<b>82,047,448</b>
<b>Commitments and contingencies</b>	35	<b>99,396,990</b>	<b>109,531,585</b>	<b>96,678,130</b>	<b>106,100,743</b>

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

OCBC BANK (MALAYSIA) BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)

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

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest income	24	3,479,919	3,551,529	3,537,580	3,609,488
Interest expense	24	(2,170,928)	(2,183,914)	(2,201,908)	(2,218,906)
Net interest income	24	1,308,991	1,367,615	1,335,672	1,390,582
Income from Islamic banking operations	25	470,115	513,732	-	-
Net fee and commission income	26	292,329	324,909	288,993	324,909
Net trading income	27	221,627	227,541	221,627	227,541
Other operating income	28	45,824	46,000	147,022	151,642
<b>Operating income</b>		<b>2,338,886</b>	<b>2,479,797</b>	<b>1,993,314</b>	<b>2,094,674</b>
Operating expenses	29	(1,065,703)	(1,017,584)	(978,801)	(932,593)
<b>Operating profit before impairment allowance and provision</b>		<b>1,273,183</b>	<b>1,462,213</b>	<b>1,014,513</b>	<b>1,162,081</b>
Impairment allowance on loans, advances and financing	31	(210,345)	(290,283)	(144,878)	(162,545)
Impairment allowance on investment properties	15	-	(670)	-	(670)
Writeback of provision for commitments and contingencies	21(c)	6,526	-	6,526	-
Impairment allowance on other receivables	10(d)	(288)	(2,862)	(288)	(2,862)
<b>Profit before income tax and zakat</b>		<b>1,069,076</b>	<b>1,168,398</b>	<b>875,873</b>	<b>996,004</b>
Income tax expense	32	(260,794)	(285,407)	(220,601)	(250,696)
Zakat		(45)	(40)	-	-
<b>Profit for the year</b>		<b>808,237</b>	<b>882,951</b>	<b>655,272</b>	<b>745,308</b>
<b>Other comprehensive (expense)/income, net of income tax</b>					
<i>Items that will be reclassified subsequently to profit or loss when specific conditions are met</i>					
Fair value (available-for-sale) reserve					
- Change in fair value		(9,685)	21,228	2,629	21,343
- Amount transferred to profit or loss		(15,078)	14,423	(19,231)	14,903
Income tax effect	17(i)	7,356	(8,253)	5,441	(8,400)
Other comprehensive (expense)/income for the year net of income tax		(17,407)	27,398	(11,161)	27,846
<b>Total comprehensive income for the year</b>		<b>790,830</b>	<b>910,349</b>	<b>644,111</b>	<b>773,154</b>
<b>Profit attributable to:</b>					
Owner of the Bank		807,645	882,951	655,272	745,308
Non-controlling interest		592	-	-	-
		<b>808,237</b>	<b>882,951</b>	<b>655,272</b>	<b>745,308</b>
<b>Total comprehensive income attributable to:</b>					
Owner of the Bank		790,238	910,349	644,111	773,154
Non-controlling interest		592	-	-	-
		<b>790,830</b>	<b>910,349</b>	<b>644,111</b>	<b>773,154</b>
<b>Basic earnings per ordinary share (sen)</b>	33	<b>281.1</b>	<b>300.8</b>	<b>227.9</b>	<b>253.0</b>

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

OCBC BANK (MALAYSIA) BERHAD  
AND ITS SUBSIDIARY COMPANIES  
(Incorporated in Malaysia)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

<u>Group</u>	<i>Non-distributable</i>					<i>Distributable</i>				<b>Total equity RM'000</b>
	<b>Share capital RM'000</b>	<b>Share premium RM'000</b>	<b>Statutory reserve RM'000</b>	<b>Regulatory reserve* RM'000</b>	<b>Capital redemption reserve RM'000</b>	<b>Capital reserve RM'000</b>	<b>Fair value reserve RM'000</b>	<b>Retained earnings RM'000</b>	<b>Non-controlling interest RM'000</b>	
At 1 January 2016	287,500	462,500	507,000	155,000	4,000	56,619	96,457	4,501,313	-	6,070,389
Fair value (available-for-sale) reserve										
- Change in fair value	-	-	-	-	-	-	(9,685)	-	-	(9,685)
- Transferred to profit or loss	-	-	-	-	-	-	(15,078)	-	-	(15,078)
Income tax effect	-	-	-	-	-	-	7,356	-	-	7,356
<b>Total other comprehensive expense for the year</b>	-	-	-	-	-	-	(17,407)	-	-	(17,407)
Profit for the year	-	-	-	-	-	-	-	807,645	592	808,237
<b>Total comprehensive (expense)/ income for the year</b>	-	-	-	-	-	-	(17,407)	807,645	592	790,830
Transfer to regulatory reserve	-	-	-	220,000	-	-	-	(220,000)	-	-
Acquisition by non-controlling interest	-	-	-	-	-	-	-	-	804	804
<i>Contributions by and distributions to owner of the Bank</i>										
Dividend paid										
- Final 2015 ordinary	-	-	-	-	-	-	-	(437,700)	-	(437,700)
At 31 December 2016	287,500	462,500	507,000	375,000	4,000	56,619	79,050	4,651,258	1,396	6,424,323

\* The Group maintains a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholder.

OCBC BANK (MALAYSIA) BERHAD  
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)**

<u>Group</u>	<i>Non-distributable</i>					<i>Distributable</i>				<b>Total equity</b> RM'000
	<b>Share capital</b> RM'000	<b>Share premium</b> RM'000	<b>Statutory reserve</b> RM'000	<b>Regulatory reserve*</b> RM'000	<b>Capital redemption reserve</b> RM'000	<b>Capital reserve</b> RM'000	<b>Fair value reserve</b> RM'000	<b>Retained earnings</b> RM'000	<b>Non-controlling interest</b> RM'000	
At 1 January 2015	291,500	858,500	464,653	130,000	-	56,619	69,059	4,145,417	-	6,015,748
Fair value (available-for-sale) reserve										
- Change in fair value	-	-	-	-	-	-	21,228	-	-	21,228
- Transferred to profit or loss	-	-	-	-	-	-	14,423	-	-	14,423
Income tax effect	-	-	-	-	-	-	(8,253)	-	-	(8,253)
<b>Total other comprehensive income for the year</b>	-	-	-	-	-	-	27,398	-	-	27,398
Profit for the year	-	-	-	-	-	-	-	882,951	-	882,951
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	27,398	882,951	-	910,349
Transfer to statutory reserve	-	-	42,347	-	-	-	-	(42,347)	-	-
Transfer to regulatory reserve	-	-	-	25,000	-	-	-	(25,000)	-	-
Redemption of preference shares	(4,000)	(396,000)	-	-	4,000	-	-	(4,000)	-	(400,000)
<i>Contributions by and distributions to owner of the Bank</i>										
Dividend paid										
- Final 2014 ordinary	-	-	-	-	-	-	-	(437,700)	-	(437,700)
- Preference	-	-	-	-	-	-	-	(18,008)	-	(18,008)
At 31 December 2015	287,500	462,500	507,000	155,000	4,000	56,619	96,457	4,501,313	-	6,070,389

\* The Group maintains a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholder.



OCBC BANK (MALAYSIA) BERHAD  
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**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<i>Non-distributable</i>				<i>Distributable</i>		<b>Total equity</b> <b>RM'000</b>	
	<b>Share capital</b> <b>RM'000</b>	<b>Share premium</b> <b>RM'000</b>	<b>Statutory reserve</b> <b>RM'000</b>	<b>Regulatory reserve*</b> <b>RM'000</b>	<b>Capital redemption reserve</b> <b>RM'000</b>	<b>Fair value reserve</b> <b>RM'000</b>		<b>Retained earnings</b> <b>RM'000</b>
<b>Bank</b>								
At 1 January 2016	287,500	462,500	322,000	155,000	4,000	99,719	4,296,938	5,627,657
Fair value (available-for-sale) reserve								
- Change in fair value	-	-	-	-	-	2,629	-	2,629
- Transferred to profit or loss	-	-	-	-	-	(19,231)	-	(19,231)
Income tax effect	-	-	-	-	-	5,441	-	5,441
<b>Total other comprehensive expense for the year</b>	-	-	-	-	-	(11,161)	-	(11,161)
Profit for the year	-	-	-	-	-	-	655,272	655,272
<b>Total comprehensive (expense)/income for the year</b>	-	-	-	-	-	(11,161)	655,272	644,111
Transfer to regulatory reserve	-	-	-	220,000	-	-	(220,000)	-
<i>Contributions by and distributions to owner of the Bank</i>								
Dividends paid								
- Final 2015 ordinary	-	-	-	-	-	-	(437,700)	(437,700)
At 31 December 2016	287,500	462,500	322,000	375,000	4,000	88,558	4,294,510	5,834,068

\* The Bank maintains a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholder.

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

OCBC BANK (MALAYSIA) BERHAD  
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**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)**

	<i>Non-distributable</i>				<i>Distributable</i>		<b>Total equity</b> <b>RM'000</b>	
	<b>Share capital</b> <b>RM'000</b>	<b>Share premium</b> <b>RM'000</b>	<b>Statutory reserve</b> <b>RM'000</b>	<b>Regulatory reserve*</b> <b>RM'000</b>	<b>Capital redemption reserve</b> <b>RM'000</b>	<b>Fair value reserve</b> <b>RM'000</b>		<b>Retained earnings</b> <b>RM'000</b>
<b>Bank</b>								
At 1 January 2015	291,500	858,500	322,000	130,000	-	71,873	4,036,338	5,710,211
Fair value (available-for-sale) reserve								
- Change in fair value	-	-	-	-	-	21,343	-	21,343
- Amount transferred to profit or loss	-	-	-	-	-	14,903	-	14,903
Income tax effect	-	-	-	-	-	(8,400)	-	(8,400)
<b>Total other comprehensive income for the year</b>	-	-	-	-	-	27,846	-	27,846
Profit for the year	-	-	-	-	-	-	745,308	745,308
<b>Total comprehensive income for the year</b>	-	-	-	-	-	27,846	745,308	773,154
Transfer to regulatory reserve	-	-	-	25,000	-	-	(25,000)	-
Redemption of preference shares	(4,000)	(396,000)	-	-	4,000	-	(4,000)	(400,000)
<i>Contributions by and distributions to owners of the Bank</i>								
Dividend paid								
- Final 2014 ordinary	-	-	-	-	-	-	(437,700)	(437,700)
- Preference	-	-	-	-	-	-	(18,008)	(18,008)
At 31 December 2015	287,500	462,500	322,000	155,000	4,000	99,719	4,296,938	5,627,657

\* The Bank maintains a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholder.

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

OCBC BANK (MALAYSIA) BERHAD  
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## STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Cash flows from operating activities</b>				
Profit before income tax and zakat	1,069,076	1,168,398	875,873	996,004
<i>Adjustments for:</i>				
Amortisation of prepaid lease payments	36	36	36	36
Depreciation of investment properties	-	121	-	121
Depreciation of property and equipment	39,470	44,050	34,246	41,773
Dividends received from financial assets held-for-trading	(999)	(1,144)	(999)	(1,144)
Dividends received from financial investments available-for-sale	(809)	(809)	(809)	(809)
Impairment allowance on:				
- Loans, advances and financing	210,345	290,283	144,878	162,545
- Investment properties	-	670	-	670
- Other receivables	288	2,862	288	2,862
- Provision for commitments and contingencies	(6,526)	-	(6,526)	-
Net (gain)/loss on disposal of:				
- Financial investments available-for-sale	(15,078)	14,423	(19,231)	14,903
- Investment properties	-	(37,431)	-	(37,431)
- Non-current assets held for sale	(478)	-	(478)	-
- Property and equipment	244	(51)	(345)	(182)
Share-based expenses	6,573	6,254	6,287	5,971
Unrealised loss/(gain) on:				
- Financial assets held-for-trading	5,385	(8,801)	5,385	(8,801)
- Hedging derivatives	(670)	(986)	(670)	(986)
- Trading derivatives	(305,550)	133,511	(305,712)	133,371
- Subordinated bonds	46,753	13,292	46,753	13,292
Operating profit before changes in working capital	1,048,060	1,624,678	778,976	1,322,195
<i>Changes in operating assets and operating liabilities:</i>				
Deposits and placements with banks and other financial institutions	(1,447,920)	2,852,549	(1,159,077)	2,796,485
Financial assets held for trading	12,998	(488,905)	12,998	(488,905)
Loans, advances and financing	836,207	(6,120,318)	635,616	(5,272,802)
Other assets	37,606	(91,430)	30,980	(80,426)
Statutory deposits with Bank Negara Malaysia	385,346	(200,420)	306,246	(174,120)
Derivative financial assets and liabilities	259,208	(18,416)	259,205	(18,412)
Deposits from customers	(1,242,910)	1,877,503	(2,378,434)	1,717,086
Deposits and placements of banks and other financial institutions	1,363,601	(2,192,566)	2,311,293	(2,810,234)
Bills and acceptances payable	6,994	(37,005)	(4,819)	(35,031)
Other liabilities	(84,922)	203,248	(60,165)	107,482
<b>Cash generated from/(used in) operations</b>	1,174,268	(2,591,082)	732,819	(2,936,682)
Income tax and zakat paid	(281,094)	(253,473)	(236,496)	(223,575)
<b>Net cash generated from/(used in) operating activities</b>	893,174	(2,844,555)	496,323	(3,160,257)

OCBC BANK (MALAYSIA) BERHAD  
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**STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Cash flows from investing activities</b>				
Acquisition of financial investments available-for-sale	(11,143,143)	(20,121,597)	(7,268,021)	(14,689,056)
Acquisition of property and equipment	(13,265)	(34,667)	(8,260)	(23,332)
Dividends received from financial investments available-for-sale	809	809	809	809
Increase in investment in subsidiary	-	-	-	(60,000)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	(345)	-	(1,875)	-
Proceeds from disposal of financial investments available-for-sale	13,567,621	19,319,133	9,823,531	14,163,313
Proceeds from disposal of investment properties	-	40,538	-	40,538
Proceeds from disposal of non-current assets held for sale	2,073	-	2,073	-
Proceeds from disposal of property and equipment	863	703	861	520
<b>Net cash generated from/(used in) investing activities</b>	<b>2,414,613</b>	<b>(795,081)</b>	<b>2,549,118</b>	<b>(567,208)</b>
<b>Cash flows from financing activities</b>				
Dividends paid to owner of the Bank	(437,700)	(437,700)	(437,700)	(437,700)
Dividends paid to preference shareholders	-	(18,008)	-	(18,008)
Proceeds from issuance of subordinated bonds	-	1,016,379	-	1,016,379
Recourse obligation on loans sold to Cagamas Berhad	179,619	1,148,897	179,619	1,148,897
Redemption of subordinated bonds	(200,000)	(500,000)	(200,000)	(500,000)
Redemption of preference shares	-	(400,000)	-	(400,000)
<b>Net cash (used in)/generated from financing activities</b>	<b>(458,081)</b>	<b>809,568</b>	<b>(458,081)</b>	<b>809,568</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,849,706</b>	<b>(2,830,068)</b>	<b>2,587,360</b>	<b>(2,917,897)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>5,443,390</b>	<b>8,273,458</b>	<b>4,862,227</b>	<b>7,780,124</b>
<b>Cash and cash equivalents at 31 December (Note 3)</b>	<b>8,293,096</b>	<b>5,443,390</b>	<b>7,449,587</b>	<b>4,862,227</b>

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

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

### GENERAL INFORMATION

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

The principal place of business and registered office of the Bank is located at 19th Floor, Menara OCBC, 18 Jalan Tun Perak, 50050 Kuala Lumpur.

The consolidated financial statements of the Bank as at and for the financial year ended 31 December 2016 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities").

The Bank is principally engaged in banking and related financial services, whilst the subsidiaries are principally engaged in the businesses of Islamic Banking, corporate finance and related advisory services and the provision of nominee services. There has been no significant change in the nature of these activities during the financial year.

The immediate and ultimate holding company of the Bank is Oversea-Chinese Banking Corporation Limited, a licensed commercial bank incorporated in Singapore.

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

### 1 BASIS OF PREPARATION

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

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

#### (a) Statement of compliance

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

The financial statements incorporate all activities relating to Islamic Banking which have been undertaken by the Group in compliance with Shariah principles. Islamic Banking refers generally to the acceptance of deposits and granting of financing under Shariah principles.

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

#### Effective for financial periods commencing on or after 1 January 2017

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

#### Effective for financial periods beginning on or after 1 January 2018

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

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

**1 BASIS OF PREPARATION (continued)**

**(a) Statement of compliance (continued)**

Effective for financial periods commencing on or after 1 January 2019

- MFRS 16, *Leases*

Effective date to be announced by the MASB

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

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

**MFRS 9, *Financial Instruments***

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

**MFRS 15, *Revenue from Contracts with Customers***

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

**MFRS 16, *Leases***

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

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

**(b) Use of estimates and judgements**

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

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

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

### 1 BASIS OF PREPARATION (continued)

#### (b) Use of estimates and judgements (continued)

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

(i) Fair value estimation for financial assets held-for-trading (Note 5), financial investments available-for-sale (Note 6) and derivative financial assets and liabilities (Note 9). 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 interest/profit rate yield curves, exchange rates, volatilities and prepayment and default rates. Judgement is also required in assessing the impairment of financial investments available-for-sale as the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flows.

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

(iii) Assessment of impairment of financial investments available-for-sale (Note 6) is made when the investment is impaired. Management judgement is required to evaluate the duration and extent of fair value loss for financial investments available-for-sale in order to determine if impaired.

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

### 2 SIGNIFICANT ACCOUNTING POLICIES

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

#### A Basis of consolidation

##### (a) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A Basis of consolidation (continued)**

**(a) Subsidiaries (continued)**

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment allowance, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

**(b) Business combinations**

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the difference above is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

**(c) Acquisitions of non-controlling interests**

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

**(d) Acquisitions of entities under common control**

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognised at the carrying amount recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any resulting gain/loss is recognised directly in equity.

**(e) Loss of control**

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity accounted investee or as a financial investment available-for-sale depending on the level of influence retained.



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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A Basis of consolidation (continued)**

**(f) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

**B Foreign currency transactions**

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

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

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

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

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the Foreign Currency Translation Reserve ("FCTR") in equity.

**C Financial instruments**

**(a) Initial recognition and measurement**

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

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

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C Financial instruments (continued)**

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

The Group and the Bank categorise financial instruments as follows:

***Financial assets***

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

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

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

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

At the end of the reporting period, financial assets at fair value through profit or loss of the Group and the Bank are financial assets held-for-trading and trading derivatives. Financial assets held-for-trading are financial assets acquired and held with the intention of resale in the short term.

**(ii) Held-to-maturity investments**

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

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

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

**(iii) Financial investments available-for-sale**

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

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C Financial instruments (continued)**

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

*Financial assets (continued)*

**(iv) Loans/Financing and receivables**

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

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

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

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

***Financial liabilities***

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

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

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

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

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

**(c) Financial guarantee contracts**

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C Financial instruments (continued)**

**(c) Financial guarantee contracts (continued)**

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

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

**(d) Regular way purchase or sale of financial assets**

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

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

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

**(e) Hedge accounting**

**(i) Fair value hedge**

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognised in profit or loss. The gain or loss on the hedged item, except for hedge item categorised as available-for-sale, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognised in profit or loss. For a hedge item categorised as available-for-sale, the fair value gain or loss attributable to the hedge risk is recognised in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

**(ii) Cash flow hedge**

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In cash flow hedge, the portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C Financial instruments (continued)**

**(e) Hedge accounting (continued)**

**(ii) Cash flow hedge (continued)**

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

**(f) 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, interest/profit rate and currency swaps, financial futures and option contracts. These instruments allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest/profit rate risks.

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

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

When the Group or 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.

**(g) Derecognition**

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the financial asset is not retained or substantially all of the risks and rewards of ownership 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.

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C Financial instruments (continued)**

**(g) Derecognition (continued)**

A financial liability or part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. 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.

**(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.

**D Property and equipment**

**(a) Recognition and measurement**

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

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

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

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

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D Property and equipment (continued)**

**(c) Depreciation (continued)**

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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. 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:

- Buildings on freehold land 50 years
- Computer equipment/software 3-8 years
- Leasehold land and building on leasehold land 50 years or remaining life of the lease whichever is shorter
- Motor vehicles 5 years
- Office equipment and furniture 10 years
- Renovation 3-5 years

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

**E Leased assets**

**(a) Finance lease**

Leases, where the Group or the Bank assumes substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the leased adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

**(b) Operating lease**

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

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

**F Investment property**

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

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

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### F Investment property (continued)

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the financial period in which the item is derecognised.

Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties. The Group and the Bank have adopted the cost method in measuring investment properties. Investment properties are measured at cost less any accumulated depreciation and any impairment allowance, consistent with the accounting policy for property and equipment as stated in Note 2(D).

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 50 years for buildings. Freehold land is not depreciated.

#### G Non-current assets held for sale

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal.

Any impairment allowance on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets and investment properties which continue to be measured in accordance with the Group's accounting policies. Impairment allowance on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment allowance.

Property and equipment once classified as held for sale are not amortised or depreciated.

#### H Cash and cash equivalents

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

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

#### I Impairment

##### (a) Financial assets

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



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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I Impairment (continued)**

**(a) Financial assets (continued)**

**(i) Held-to-maturity investments**

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

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

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

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

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

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

**(iii) Loans/Financing and receivables**

The Group and the Bank assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired subject to BNM's Policy on Classification and Impairment Provisions for Loans/Financing where loans, advances and financing that are past due for more than 90 days or 3 months are deemed impaired.

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

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I Impairment (continued)**

**(a) Financial assets (continued)**

**(iii) Loans/Financing and receivables (continued)**

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

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

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

**(b) Other assets**

The carrying amounts of other assets (except for deferred tax assets, investment property measured at cost and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

Impairment allowance is recognised in profit or loss. Impairment allowance recognised in respect of cash-generating units 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 (groups of cash-generating units) on a pro rata basis.

Impairment allowance recognised in prior periods is assessed at the end of each reporting date for any indications that the 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 allowance are credited to profit or loss in the financial year in which the reversals are recognised.

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**J 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.

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

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

**K 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 Group or 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 Group or the Bank expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

The Group's and 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 Group and the Bank have no further payment obligations.

**(b) Share-based payment transactions**

**(i) OCBC Deferred Share Plan**

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

**(ii) OCBC Share Option Scheme 2001**

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K 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 Remuneration Committee. The Committee will fix the offering period and acquisition price for the new ordinary shares to be issued under the ESP Plan.

Equity instruments granted are recognised as expense in profit or loss based on the fair value of the equity instrument at the date of the grant. The expense is recognised over the vesting period of the grant, with corresponding entries to the equity. At each reporting date, the Group and the Bank revise the estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with recognition of a corresponding liability payable to the ultimate holding company of the Bank. The Group and the Bank accrue for interest/profit on the monthly contributions made by employees to the savings-based ESP Plan. Further details of the equity compensation benefits are disclosed in Note 21(b) to the financial statements.

**L Provisions**

A provision is recognised if, as a result of past event, the Group or 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.

**M Income and expenses**

**(a) Interest/Finance income and interest/finance expense**

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

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

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

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

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**M Income and expenses (continued)**

**(a) Interest/Finance income and interest/finance expense (continued)**

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

**(b) Fee and commission income**

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

**(c) Net trading income**

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

**(d) Dividend income**

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

**(e) Rental income**

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

**(f) Other income**

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

**N Income tax**

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

**(a) Current tax**

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

**(b) Deferred tax**

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**N Income tax (continued)**

**(b) Deferred tax (continued)**

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 tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

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

**O 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 less preference shares dividend by the weighted average number of ordinary shares outstanding during the period.

**P 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 Group as mudarib and losses borne by depositors.

**Q Operating segments**

An operating segment is a component of the Group or the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's or the Bank's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

**R 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.

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**R Contingencies (continued)**

**(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.

**S Fair value measurements**

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

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

Level 3: unobservable inputs for the asset or liability.

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

**T Recourse obligation on loans sold to Cagamas Berhad**

In the normal course of banking operations, the Group sells loans to Cagamas Berhad. The Group is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Group undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the statement of financial position.

Loans sold to Cagamas Berhad are recognised initially, at its fair value plus transaction costs that are directly attributable to the loans sold to Cagamas Berhad and subsequently measured at amortised cost using effective interest method.

**U Zakat Contribution**

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

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

**3 CASH AND CASH EQUIVALENTS**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and balances with banks and other financial institutions	487,786	646,043	460,808	613,032
Money at call and deposit placements with financial institutions maturing within one month	2,259,015	457,746	3,376,279	1,007,595
Deposit placements with Bank Negara Malaysia	5,546,295	4,339,601	3,612,500	3,241,600
	<b>8,293,096</b>	<b>5,443,390</b>	<b>7,449,587</b>	<b>4,862,227</b>

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

Malaysia	7,733,877	4,996,169	6,895,372	4,420,930
Singapore	362,417	241,756	361,198	241,043
Other ASEAN	6,501	18,863	6,404	18,508
Rest of the world	190,301	186,602	186,613	181,746
	<b>8,293,096</b>	<b>5,443,390</b>	<b>7,449,587</b>	<b>4,862,227</b>

Included in the Bank's cash and cash equivalents are:

- (i) exposures to Restricted Profit Sharing Investment Accounts ("RPSIA") as part of an arrangement with OCBC Al-Amin Bank Berhad ("OCBC Al-Amin"). The RPSIA is a contract based on Mudharabah principle to fund a specific business venture where the Bank solely provides capital and the business venture is managed solely by OCBC Al-Amin. The profit of the business venture arrangement is shared with the Bank as mudarib based on a pre-agreed ratio, and losses borne by the Bank. As at 31 December 2016, the RPSIA placements amounted to RM729 million (2015: RM373 million).
- (ii) deposits and placements with OCBC Al-Amin of RM388 million (2015: RM177 million), which are unsecured and profit bearing.

**4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Licensed banks	1,447,920	-	2,235,484	1,076,407
a) By geographical distribution				
Malaysia	1,447,920	-	2,235,484	1,076,407

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

- b) By residual contractual maturity

Maturity within one year	1,447,920	-	2,014,531	639,772
One year to five years	-	-	212,520	399,022
Over five years	-	-	8,433	37,613
	<b>1,447,920</b>	<b>-</b>	<b>2,235,484</b>	<b>1,076,407</b>



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**4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)**

Included in the Bank's deposits and placements with banks and other financial institutions are:

- (i) exposures to RPSIA as part of an arrangement with OCBC Al-Amin amounted to RM638 million (2015: RM676 million).
- (ii) deposits and placements with OCBC Al-Amin of RM150 million (2015: RM400 million), which are unsecured and profit bearing.

**5 FINANCIAL ASSETS HELD-FOR-TRADING**

	<b>Group and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value</b>		
Malaysian Government Investment Issues	318,634	79,782
Malaysian Government Securities	40,013	141,171
Malaysian Government Treasury Bills	153,437	-
Corporate Bonds and Sukuk	1,016,277	1,213,649
Quoted shares in Malaysia	-	111,143
	<b>1,528,361</b>	<b>1,545,745</b>

**6 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE**

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value</b>				
Malaysian Government Investment Issues	3,359,455	4,313,713	1,630,506	2,448,108
Malaysian Government Securities	2,894,073	3,228,090	2,894,073	3,228,090
Malaysian Treasury Bills and Islamic Treasury Bills	274,404	319,518	224,533	89,513
Malaysian Government Debt Securities and Sukuk	156,533	193,610	63,755	63,586
Bank Negara Malaysia Monetary Notes	-	129,637	-	29,877
Foreign Government Debt Securities and Sukuk	299,295	726,654	65,575	507,182
Negotiable Instruments of Deposit and Islamic				
Negotiable Instruments of Deposit	698,689	1,599,781	69,022	1,516,059
Corporate Bonds, Sukuk, Islamic Corporate and Sanadat				
Mudharabah Cagamas	3,462,036	3,066,995	3,021,044	2,638,324
Quoted shares in Malaysia	296	296	296	296
Debentures	190	190	190	190
	<b>11,144,971</b>	<b>13,578,484</b>	<b>7,968,994</b>	<b>10,521,225</b>
<b>At cost</b>				
Unquoted shares in Malaysia*	108,546	108,546	108,546	108,546
	<b>11,253,517</b>	<b>13,687,030</b>	<b>8,077,540</b>	<b>10,629,771</b>
Impairment allowance				
- Debentures	(12)	(12)	(12)	(12)
	<b>11,253,505</b>	<b>13,687,018</b>	<b>8,077,528</b>	<b>10,629,759</b>

\* Stated at cost due to the lack of quoted prices in an active market and/or the fair value of the investments cannot be reliably measured.

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

## 7 LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>At amortised cost</b>				
Overdrafts	2,970,107	3,199,251	2,970,107	3,199,251
Term loans/financing:				
- Housing loans/financing	27,947,751	27,206,933	25,912,204	25,329,117
- Syndicated term loans/financing	3,016,198	2,323,101	2,598,221	1,928,790
- Hire purchase receivables	625,141	838,167	10	10
- Other term loans/financing	23,830,021	25,999,014	19,675,264	21,121,492
Credit cards	549,295	557,136	549,295	557,136
Bills receivable	231,171	432,115	208,925	417,771
Trust receipts	31,387	41,230	31,208	41,020
Claims on customers under acceptance credits	2,806,992	2,511,663	2,406,286	2,123,224
Revolving credit	5,010,338	5,015,232	2,972,243	3,351,192
Staff loans/financing	71,747	77,431	71,747	77,431
Other loans/financing	1,430,792	1,426,495	1,236,674	1,320,630
Gross loans, advances and financing	68,520,940	69,627,768	58,632,184	59,467,064
Allowance for loans, advances and financing				
- Individual impairment	(352,074)	(408,850)	(272,031)	(326,417)
- Collective impairment	(747,243)	(750,743)	(560,264)	(560,264)
Net loans, advances and financing	67,421,623	68,468,175	57,799,889	58,580,383
a) By type of customer				
Domestic banking institutions	19,935	367	19,935	367
Domestic non-bank financial institutions	1,024,234	1,104,668	974,367	936,542
Domestic business enterprises				
- Small and medium enterprises	13,372,591	14,369,297	10,928,382	11,471,632
- Others	19,345,643	19,301,951	15,242,722	15,622,232
Individuals	32,227,873	32,133,898	29,463,311	29,297,065
Foreign entities	2,530,664	2,717,587	2,003,467	2,139,226
	68,520,940	69,627,768	58,632,184	59,467,064
b) By interest/profit rate sensitivity				
Fixed rate				
- Housing loans/financing	111,939	159,086	88,819	133,468
- Hire purchase receivables	375,320	566,497	10	10
- Other fixed rate loans/financing	6,934,981	7,366,767	4,473,020	4,419,825
Variable rate				
- Base lending/financing rate plus	42,982,201	45,037,841	39,575,066	41,567,431
- Cost plus	14,986,653	14,726,747	11,626,854	11,686,520
- Other variable rates	3,129,846	1,770,830	2,868,415	1,659,810
	68,520,940	69,627,768	58,632,184	59,467,064

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

## 7 LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
c) By sector				
Agriculture, hunting, forestry and fishing	2,951,479	2,922,444	1,801,409	2,166,205
Mining and quarrying	466,247	425,016	164,609	207,087
Manufacturing	8,052,298	8,776,131	6,291,990	6,703,245
Electricity, gas and water	326,346	332,857	265,128	257,884
Construction	2,006,565	1,925,997	1,558,302	1,583,937
Real estate	7,169,048	6,620,357	6,582,631	6,179,078
Wholesale & retail trade and restaurants & hotels	7,392,696	8,061,935	6,192,222	6,570,903
Transport, storage and communication	1,470,462	1,920,674	1,229,616	1,600,571
Finance, insurance and business services	1,996,285	2,316,106	1,672,889	1,797,626
Community, social and personal services	1,493,162	1,625,147	970,036	1,116,041
Household				
- Purchase of residential properties	29,073,277	28,400,582	27,002,709	26,479,554
- Purchase of non-residential properties	1,240,879	1,365,832	1,195,878	1,321,319
- Others	3,356,246	3,585,867	2,598,666	2,622,939
Others	1,525,950	1,348,823	1,106,099	860,675
	<b>68,520,940</b>	<b>69,627,768</b>	<b>58,632,184</b>	<b>59,467,064</b>
d) By geographical distribution				
Malaysia	66,243,610	67,210,256	56,618,931	57,328,049
Singapore	823,694	612,376	769,941	570,541
Other ASEAN	440,078	334,511	437,252	331,549
Rest of the world	1,013,558	1,470,625	806,060	1,236,925
	<b>68,520,940</b>	<b>69,627,768</b>	<b>58,632,184</b>	<b>59,467,064</b>
The analysis by geography is determined based on where the credit risk resides.				
e) By residual contractual maturity				
Within one year	14,951,475	15,381,828	11,907,168	12,869,653
One year to less than three years	3,192,506	2,950,982	1,896,950	1,540,880
Three years to less than five years	5,590,777	5,899,338	4,857,214	4,564,654
Over five years	44,786,182	45,395,620	39,970,852	40,491,877
	<b>68,520,940</b>	<b>69,627,768</b>	<b>58,632,184</b>	<b>59,467,064</b>

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

## 8 IMPAIRED LOANS, ADVANCES AND FINANCING

## (i) Movements in impaired loans, advances and financing

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	1,434,370	1,277,026	1,148,946	1,080,344
Impaired during the year	1,213,897	1,271,177	891,489	840,253
Reclassified as unimpaired	(391,656)	(456,585)	(331,217)	(409,918)
Amount recovered	(456,119)	(542,631)	(292,849)	(315,198)
Amount written off	(316,844)	(165,646)	(226,494)	(80,064)
Effect of foreign exchange difference	2,080	51,029	(1,699)	33,529
At 31 December	1,485,728	1,434,370	1,188,176	1,148,946
Individual impairment allowance	(352,074)	(408,850)	(272,031)	(326,417)
Collective impairment allowance	(12,941)	(11,629)	(8,795)	(7,792)
Net impaired loans, advances and financing	1,120,713	1,013,891	907,350	814,737

## a) By sector

Agriculture, hunting, forestry and fishing	7,238	7,785	6,709	6,163
Mining and quarrying	190,000	194,701	98,204	102,039
Manufacturing	336,139	384,221	297,745	338,746
Electricity, gas and water	-	61	-	-
Construction	32,071	18,049	29,094	13,493
Real estate	33,689	71,567	25,445	48,370
Wholesale & retail trade and restaurants & hotels	198,105	207,361	159,467	173,387
Transport, storage and communication	31,752	88,944	24,656	80,702
Finance, insurance and business services	12,787	16,060	6,435	8,488
Community, social and personal services	11,453	12,162	8,669	9,155
Household				
- Purchase of residential properties	488,707	306,949	433,333	281,601
- Purchase of non-residential properties	29,863	31,732	29,611	31,302
- Others	112,794	93,577	68,259	54,956
Others	1,130	1,201	549	544
	1,485,728	1,434,370	1,188,176	1,148,946

## b) By geographical distribution

Malaysia	1,472,156	1,427,255	1,174,604	1,141,831
Singapore	8,222	5,391	8,222	5,391
Rest of the world	5,350	1,724	5,350	1,724
	1,485,728	1,434,370	1,188,176	1,148,946

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

## c) By period overdue

Less than 3 months	346,691	528,887	255,028	330,699
3 months to less than 6 months	218,690	202,526	160,427	158,523
6 months to less than 9 months	395,852	82,663	291,626	68,204
Over 9 months	524,495	620,294	481,095	591,520
	1,485,728	1,434,370	1,188,176	1,148,946

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**8 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)**

(i) Movements in impaired loans, advances and financing (continued)

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
d) By collateral type				
Property	863,739	845,072	779,003	775,332
Fixed deposits	296	540	296	540
Stock and shares	17,023	32	17,023	32
Machinery	3,202	3,312	-	-
Secured - others	240,935	305,881	125,275	195,991
Unsecured - corporate and other guarantees	8,263	879	8,255	871
Unsecured - clean	352,270	278,654	258,324	176,180
	<b>1,485,728</b>	<b>1,434,370</b>	<b>1,188,176</b>	<b>1,148,946</b>

(ii) Movements in allowance for loans, advances and financing

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Individual impairment allowance</b>				
At 1 January	408,850	323,671	326,417	261,273
Made during the year	409,503	379,040	255,038	223,818
Written back	(141,675)	(125,887)	(76,062)	(76,688)
Written off	(316,844)	(165,646)	(226,494)	(80,064)
Discount unwind and financing income earned on impaired financing	(6,223)	(4,068)	(5,331)	(3,662)
Effect of foreign exchange difference	(1,537)	1,740	(1,537)	1,740
At 31 December	<b>352,074</b>	<b>408,850</b>	<b>272,031</b>	<b>326,417</b>
<b>Collective impairment allowance</b>				
At 1 January	750,743	683,088	560,264	529,278
(Written back)/Made during the year	(3,500)	67,655	-	30,986
At 31 December	<b>747,243</b>	<b>750,743</b>	<b>560,264</b>	<b>560,264</b>

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8 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

(ii) Movements in allowance for loans, advances and financing (continued)

a) By sector

<u>Group</u>	Individual impairment allowance		Individual impairment allowance made during the year		Individual impairment allowance written off		Collective impairment allowance	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Agriculture, hunting, forestry and fishing	107	447	223	778	455	404	39,216	34,805
Mining and quarrying	180	211	235	230	-	57	7,326	6,077
Manufacturing	120,456	172,241	103,336	77,215	150,271	27,104	92,760	100,983
Electricity, gas and water	-	62	-	136	-	-	3,712	3,859
Construction	4,779	4,080	5,485	6,186	3,529	8,389	23,450	21,422
Real estate	6,548	9,500	1,989	8,435	20	53	74,284	66,735
Wholesale & retail trade and restaurants & hotels	45,186	63,355	51,598	71,581	50,036	39,136	81,768	89,689
Transport, storage and communication	8,411	24,422	7,307	16,798	18,610	7,148	16,297	20,949
Finance, insurance and business services	3,539	5,742	8,519	7,017	7,061	5,265	22,165	26,740
Community, social and personal services	3,394	4,130	4,021	4,693	3,500	2,768	19,241	20,135
Household								
- Purchase of residential properties	92,054	64,960	77,314	47,322	6,355	6,749	297,724	286,487
- Purchase of non-residential properties	2,317	3,606	1,106	3,741	1,927	2,887	12,316	13,324
- Others	65,049	55,500	148,347	134,683	75,080	63,946	38,362	42,166
Others	54	594	23	225	-	1,740	18,622	17,372
	<b>352,074</b>	<b>408,850</b>	<b>409,503</b>	<b>379,040</b>	<b>316,844</b>	<b>165,646</b>	<b>747,243</b>	<b>750,743</b>

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

8 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

(ii) Movements in allowance for loans, advances and financing (continued)

a) By sector (continued)

	Individual impairment allowance		Individual impairment allowance made during the year		Individual impairment allowance written off		Collective impairment allowance	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Bank</b>								
Agriculture, hunting, forestry and fishing	75	-	105	46	30	11	17,293	20,521
Mining and quarrying	-	5	-	7	-	-	1,580	1,962
Manufacturing	115,897	165,292	99,188	69,712	145,316	14,715	59,291	61,937
Electricity, gas and water	-	-	-	-	-	-	2,545	2,443
Construction	3,774	3,044	3,670	3,838	1,939	6,602	14,924	14,977
Real estate	3,868	3,999	1,691	3,170	20	53	63,157	58,499
Wholesale & retail trade and restaurants & hotels	31,635	48,504	29,717	46,204	32,115	21,847	59,142	61,789
Transport, storage and communication	6,593	20,901	4,072	12,313	16,429	3,729	11,741	14,966
Finance, insurance and business services	808	2,131	1,849	2,276	1,633	1,495	16,052	17,009
Community, social and personal services	2,225	1,929	2,215	1,457	1,307	605	9,291	10,554
Household								
- Purchase of residential properties	82,369	58,828	67,659	39,320	6,008	6,749	258,438	250,295
- Purchase of non-residential properties	2,301	3,591	1,105	3,717	1,927	2,887	11,458	12,483
- Others	22,486	17,827	43,767	41,753	19,770	19,631	24,732	24,679
Others	-	366	-	5	-	1,740	10,620	8,150
	<b>272,031</b>	<b>326,417</b>	<b>255,038</b>	<b>223,818</b>	<b>226,494</b>	<b>80,064</b>	<b>560,264</b>	<b>560,264</b>

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**8 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)**

(ii) Movements in allowance for loans, advances and financing (continued)

b) By geographical distribution

	Group				Bank			
	Individual impairment allowance		Collective impairment allowance		Individual impairment allowance		Collective impairment allowance	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Malaysia	349,568	407,700	722,905	726,185	269,525	325,267	540,960	540,011
Singapore	2,173	906	8,396	5,682	2,173	906	7,371	5,396
Other ASEAN	-	-	4,252	3,141	-	-	4,198	3,141
Rest of the world	333	244	11,690	15,735	333	244	7,735	11,716
	<b>352,074</b>	<b>408,850</b>	<b>747,243</b>	<b>750,743</b>	<b>272,031</b>	<b>326,417</b>	<b>560,264</b>	<b>560,264</b>



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

## 9 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group	2016			2015		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b>Trading</b>						
Foreign exchange derivatives						
- Forwards	4,678,567	156,938	51,988	3,839,872	72,832	31,671
- Swaps	20,154,764	1,641,525	1,556,905	21,225,065	1,759,213	1,683,902
- Options	908,827	27,221	6,169	1,274,707	68,742	3,543
- Others	-	-	-	11,220	51	51
Interest rate derivatives						
- Swaps	42,931,058	154,410	182,040	45,447,385	152,079	177,770
- Options	230,000	947	2,079	270,333	195	2,673
- Futures	251,166	-	368	107,257	84	-
- Swaptions	-	-	-	800,000	-	2,440
Equity and other derivatives						
- Swaps	178,580	2,857	2,857	236,660	37,204	37,204
- Exchange traded futures	-	-	-	9,425	21	-
- Options	-	-	-	2,999	35	-
- Commodity futures	103,151	1,007	1,007	14,186	495	-
- Warrants	-	-	-	52,805	-	16,546
- Credit linked notes	990,100	10,215	10,215	1,042,100	13,716	13,716
	70,426,213	1,995,120	1,813,628	74,334,014	2,104,667	1,969,516
<b>Hedging</b>						
Interest rate derivatives						
- Swaps	963,806	396	6,786	951,098	245	10,308
	71,390,019	1,995,516	1,820,414	75,285,112	2,104,912	1,979,824
<b>Bank</b>						
<b>Trading</b>						
Foreign exchange derivatives						
- Forwards	4,698,927	156,903	51,618	3,837,329	72,426	30,907
- Swaps	20,154,764	1,641,525	1,556,905	21,230,818	1,759,214	1,684,091
- Options	908,827	27,221	6,169	1,274,707	68,742	3,543
- Others	-	-	-	11,220	51	51
Interest rate derivatives						
- Swaps	42,931,058	154,410	182,040	45,447,385	152,079	177,770
- Options	230,000	947	2,079	270,333	195	2,673
- Futures	251,166	-	368	107,257	84	-
- Swaptions	-	-	-	800,000	-	2,440
Equity and other derivatives						
- Swaps	178,580	2,857	2,857	236,660	37,204	37,204
- Exchange traded futures	-	-	-	9,425	21	-
- Options	-	-	-	2,999	35	-
- Commodity futures	103,151	1,007	1,007	14,186	495	-
- Warrants	-	-	-	52,805	-	16,546
- Credit linked notes	990,100	10,215	10,215	1,042,100	13,716	13,716
	70,446,573	1,995,085	1,813,258	74,337,224	2,104,262	1,968,941
<b>Hedging</b>						
Interest rate derivatives						
- Swaps	963,806	396	6,786	951,098	245	10,308
	71,410,379	1,995,481	1,820,044	75,288,322	2,104,507	1,979,249

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**10 OTHER ASSETS**

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amount due from subsidiaries	(a)	-	-	7,936	9,345
Interest/Profit receivable		114,735	120,498	94,125	100,032
Unquoted Islamic subordinated bonds of subsidiary					
- Mudharabah subordinated bond	(b)	-	-	-	200,000
- Redeemable subordinated bond	(c)	-	-	200,000	-
Other receivables, deposits and prepayments		168,471	200,199	165,013	189,218
Impairment allowance on other receivables	(d)	(2,609)	(2,862)	(2,609)	(2,862)
		<u>280,597</u>	<u>317,835</u>	<u>464,465</u>	<u>495,733</u>

(a) The amount due from subsidiaries are unsecured, interest/profit free and repayable on demand.

(b) The Bank subscribed for RM200 million unsecured non-tradeable non-transferable redeemable Mudharabah subordinated bond ("Mudharabah Subordinated bond") on 1 December 2008, due in 2021 and non-callable until 2016 under the principle of Mudharabah at a projected constant rate of 5.45% per annum for the period from the issue date up to 23 November 2016 and a step up of 100 basis points commencing from 24 November 2016. The Mudharabah subordinated bond was redeemed in full on 24 November 2016.

(c) On 24 November 2016, the Bank subscribed for RM200 million redeemable 10 years non-callable 5 years subordinated bond 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 bond, whichever is earlier.

(d) Impairment allowance on other receivables

	Group and Bank	
	2016 RM'000	2015 RM'000
At 1 January	2,862	-
Made during the year	2,609	2,862
Amount written back	(2,321)	-
Amount written off	(541)	-
At 31 December	<u>2,609</u>	<u>2,862</u>

**11 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA**

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

**12 INVESTMENTS IN SUBSIDIARIES**

	Bank	
	2016 RM'000	2015 RM'000
Unquoted shares in Malaysia, at cost	<u>558,492</u>	<u>556,617</u>

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

**12 INVESTMENTS IN SUBSIDIARIES (continued)**

Details of the subsidiaries of the Bank, all of which are incorporated in Malaysia, are as follows:

<u>Name</u>	<u>Principal activities</u>	<u>Effective ownership and voting interest</u>	
		<u>2016</u>	<u>2015</u>
OCBC Al-Amin Bank Berhad	Islamic banking	100%	100%
OCBC Credit Berhad	In members' voluntary winding-up	100%	100%
Malaysia Nominees (Tempatan) Sdn Bhd	Nominee services	100%	100%
Malaysia Nominees (Asing) Sdn Bhd	Nominee services	100%	100%
OCBC Advisers Sdn Bhd	Corporate finance and related advisory services	70%	0%

The Bank acquired 350,000 ordinary shares of RM1.00 each, representing 70% of the issued and paid-up ordinary share capital in OCBC Advisers Sdn Bhd for a total consideration of RM1,875,225 from Overseas-Chinese Banking Corporation Limited on 31 May 2016.

In the seven months to 31 December 2016, OCBC Advisers contributed total income and net profit of RM3,536,252 and RM1,972,797 respectively. If the acquisition had occurred on 1 January 2016, the subsidiary would have contributed total income and net profit of RM3,436,252 and RM1,413,917 respectively, to the Group.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	<b>RM'000</b>
<b>Fair value of consideration transferred</b>	
Cash and cash equivalents	<u>1,875</u>
<b>Identifiable assets acquired and liabilities assumed</b>	
Other assets	1,530
Deferred tax assets	123
Current tax assets	358
Other liabilities	(136)
Total identifiable net assets	<u>1,875</u>
<b>Net cash outflow arising from acquisition of subsidiary</b>	
Cash and cash equivalents acquired	<u>1,530</u>
Cash outflow in acquisition	<u>1,530</u>

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

## 13 PROPERTY AND EQUIPMENT

<u>Group</u>	Freehold	Leasehold	Buildings on		Office	Computer	Motor	Renovation	Work in	Total
	land and	land	leasehold land							
	buildings	50 years	Less than	50 years	and furniture	software				
	RM'000	or more	50 years	or more	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2016</b>										
<b>Cost</b>										
At 1 January	121,195	3,745	3,607	7,018	133,026	265,318	1,446	87,430	48	622,833
Additions	-	-	-	-	4,097	4,935	-	3,601	632	13,265
Disposals/Written off	-	-	-	-	(842)	(8,644)	(541)	(1,455)	-	(11,482)
Reclassification	-	-	-	-	167	-	-	(167)	-	-
Reclassified from investment properties	2,881	-	-	-	-	-	-	-	-	2,881
At 31 December	124,076	3,745	3,607	7,018	136,448	261,609	905	89,409	680	627,497
<b>Accumulated depreciation</b>										
At 1 January	(32,045)	(477)	(1,424)	(2,288)	(97,419)	(203,237)	(885)	(67,315)	-	(405,090)
Depreciation for the year	(2,055)	(37)	(51)	(90)	(6,599)	(20,560)	(155)	(9,923)	-	(39,470)
Disposals/Written off	-	-	-	-	422	8,496	541	916	-	10,375
Reclassified from investment properties	(453)	-	-	-	-	-	-	-	-	(453)
At 31 December	(34,553)	(514)	(1,475)	(2,378)	(103,596)	(215,301)	(499)	(76,322)	-	(434,638)
<b>Impairment allowance</b>										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
<b>Carrying amount</b>										
At 1 January	87,527	3,218	1,098	2,830	35,607	62,081	561	20,115	48	213,085
At 31 December	87,900	3,181	1,047	2,740	32,852	46,308	406	13,087	680	188,201

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

## 13 PROPERTY AND EQUIPMENT (continued)

Group	Freehold	Leasehold	Buildings on		Office	Computer	Motor	Renovation	Work in	Total
	land and	land	leasehold land							
	buildings	50 years	Less than	50 years	and furniture	software				
	RM'000	or more	50 years	or more	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>										
<b>Cost</b>										
At 1 January	121,195	3,745	3,607	7,018	127,903	263,135	1,446	79,703	48	607,800
Additions	-	-	-	-	5,236	21,134	-	8,297	-	34,667
Disposals/Written off	-	-	-	-	(561)	(18,951)	-	(122)	-	(19,634)
Reclassification	-	-	-	-	448	-	-	(448)	-	-
At 31 December	121,195	3,745	3,607	7,018	133,026	265,318	1,446	87,430	48	622,833
<b>Accumulated depreciation</b>										
At 1 January	(30,037)	(442)	(1,371)	(2,203)	(86,809)	(198,622)	(730)	(59,808)	-	(380,022)
Depreciation for the year	(2,008)	(35)	(53)	(85)	(11,111)	(22,974)	(155)	(7,629)	-	(44,050)
Disposals/Written off	-	-	-	-	501	18,359	-	122	-	18,982
At 31 December	(32,045)	(477)	(1,424)	(2,288)	(97,419)	(203,237)	(885)	(67,315)	-	(405,090)
<b>Impairment allowance</b>										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
<b>Carrying amount</b>										
At 1 January	89,535	3,253	1,151	2,915	41,094	64,513	716	19,895	48	223,120
At 31 December	87,527	3,218	1,098	2,830	35,607	62,081	561	20,115	48	213,085

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

## 13 PROPERTY AND EQUIPMENT (continued)

Bank	Freehold	Leasehold	Building on		Office	Computer	Motor	Renovation	Work in	Total
	land and	land	leasehold land							
	buildings	50 years	Less than	50 years	and furniture	software				
	RM'000	or more	50 years	or more	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2016</b>										
<b>Cost</b>										
At 1 January	121,063	3,745	3,607	7,018	126,056	249,256	1,357	77,048	48	589,198
Additions	-	-	-	-	2,205	3,699	-	1,724	632	8,260
Disposals/Written off	-	-	-	-	(459)	(8,235)	(541)	(401)	-	(9,636)
Reclassified from investment properties	2,881	-	-	-	-	-	-	-	-	2,881
At 31 December	123,944	3,745	3,607	7,018	127,802	244,720	816	78,371	680	590,703
<b>Accumulated depreciation</b>										
At 1 January	(32,008)	(477)	(1,424)	(2,288)	(94,757)	(192,316)	(796)	(61,615)	-	(385,681)
Depreciation for the year	(2,055)	(37)	(51)	(90)	(5,704)	(18,731)	(155)	(7,423)	-	(34,246)
Disposals/Written off	-	-	-	-	268	8,106	541	205	-	9,120
Reclassified from investment properties	(453)	-	-	-	-	-	-	-	-	(453)
At 31 December	(34,516)	(514)	(1,475)	(2,378)	(100,193)	(202,941)	(410)	(68,833)	-	(411,260)
<b>Impairment allowance</b>										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
<b>Carrying amount</b>										
At 1 January	87,432	3,218	1,098	2,830	31,299	56,940	561	15,433	48	198,859
At 31 December	87,805	3,181	1,047	2,740	27,609	41,779	406	9,538	680	174,785

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

## 13 PROPERTY AND EQUIPMENT (continued)

<b>Bank</b>	<b>Freehold</b>	<b>Leasehold</b>	<b>Building on</b>		<b>Office</b>	<b>Computer</b>	<b>Motor</b>	<b>Renovation</b>	<b>Work in</b>	<b>Total</b>
	<b>land and</b>	<b>land</b>	<b>leasehold land</b>							
	<b>buildings</b>	<b>50 years</b>	<b>Less than</b>	<b>50 years</b>	<b>and furniture</b>	<b>software</b>				
	<b>RM'000</b>	<b>or more</b>	<b>50 years</b>	<b>or more</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>										
<b>Cost</b>										
At 1 January	121,063	3,745	3,607	7,018	123,230	249,228	1,357	73,422	48	582,718
Additions/Transfer from subsidiary	-	-	-	-	2,915	16,221	-	4,196	-	23,332
Disposals/Written off/Transfer to subsidiaries	-	-	-	-	(537)	(16,193)	-	(122)	-	(16,852)
Reclassification	-	-	-	-	448	-	-	(448)	-	-
At 31 December	121,063	3,745	3,607	7,018	126,056	249,256	1,357	77,048	48	589,198
<b>Accumulated depreciation</b>										
At 1 January	(30,000)	(442)	(1,371)	(2,203)	(84,641)	(186,590)	(641)	(54,534)	-	(360,422)
Depreciation for the year	(2,008)	(35)	(53)	(85)	(10,599)	(21,635)	(155)	(7,203)	-	(41,773)
Disposals/Written off/Transfer to subsidiaries	-	-	-	-	483	15,909	-	122	-	16,514
At 31 December	(32,008)	(477)	(1,424)	(2,288)	(94,757)	(192,316)	(796)	(61,615)	-	(385,681)
<b>Impairment allowance</b>										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
<b>Carrying amount</b>										
At 1 January	89,440	3,253	1,151	2,915	38,589	62,638	716	18,888	48	217,638
At 31 December	87,432	3,218	1,098	2,830	31,299	56,940	561	15,433	48	198,859

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

## 14 PREPAID LEASE PAYMENTS

	<b>Group and Bank</b>	
	<b>Leasehold land</b>	
	<b>Unexpired period</b>	
	<b>less than 50 years</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At 1 January and 31 December	3,047	3,047
<b>Accumulated amortisation</b>		
At 1 January	(673)	(637)
Amortisation for the year	(36)	(36)
At 31 December	(709)	(673)
<b>Impairment allowance</b>		
At 1 January and 31 December	(1,554)	(1,554)
<b>Carrying amount</b>		
At 1 January	820	856
At 31 December	784	820

## 15 INVESTMENT PROPERTIES

	<b>Group and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At 1 January	2,881	11,793
Transfer to property and equipment	(2,881)	-
Transfer to non-current assets held for sale	-	(4,350)
Disposals	-	(4,562)
At 31 December	-	2,881
<b>Accumulated depreciation</b>		
At 1 January	(453)	(3,060)
Depreciation for the year	-	(121)
Transfer to property and equipment	453	-
Transfer to non-current assets held for sale	-	1,273
Disposals	-	1,455
At 31 December	-	(453)
<b>Impairment allowance</b>		
At 1 January	-	(812)
Amount written back	-	(670)
Transfer to non-current assets held for sale	-	1,482
At 31 December	-	-
<b>Carrying amount</b>		
At 1 January	2,428	7,921
At 31 December	-	2,428
<b>Fair value</b>		
At 1 January	12,400	43,790
At 31 December	-	12,400



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****15 INVESTMENT PROPERTIES (continued)**

Investment properties comprise freehold land and buildings.

The fair value of investment properties is categorised under Level 3 fair value which has been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties. During the year, the Group and the Bank have transferred the investment property to property and equipment as disclosed in Note 13 of the financial statements.

The following are recognised in profit or loss in respect of investment properties:

	<b>Group and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Rental income	-	892
Direct operating expenses from income-generating investment properties	-	(250)
	-	<b>642</b>

**16 NON-CURRENT ASSETS HELD FOR SALE**

	<b>Group and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	1,595	-
Transfer from investment properties		
- Cost	-	4,350
- Accumulated depreciation	-	(1,273)
- Impairment allowance	-	(1,482)
Disposal	(1,595)	-
At 31 December	-	<b>1,595</b>

**17 DEFERRED TAX ASSETS**

Deferred tax assets and liabilities are attributable to the following:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Group</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Change in fair value of financial instruments	5,108	-	-	(2,248)	5,108	(2,248)
Excess of capital allowance over depreciation	-	-	(16,799)	(19,924)	(16,799)	(19,924)
Impairment allowance on financial investments available-for-sale	3	3	-	-	3	3
Temporary differences on lease receivables	4,142	4,142	-	-	4,142	4,142
Other temporary differences	35,867	32,519	-	-	35,867	32,519
Tax assets/(liabilities)	45,120	36,664	(16,799)	(22,172)	28,321	14,492
Set off of tax	(16,799)	(22,172)	16,799	22,172	-	-
Net tax assets	<b>28,321</b>	<b>14,492</b>	<b>-</b>	<b>-</b>	<b>28,321</b>	<b>14,492</b>

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## 17 DEFERRED TAX ASSETS (continued)

	Assets		Liabilities		Net	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Bank</b>						
Change in fair value of financial instruments	2,106	-	-	(3,335)	2,106	(3,335)
Excess of capital allowance over depreciation	-	-	(15,389)	(19,193)	(15,389)	(19,193)
Impairment allowance on financial investments available-for-sale	3	3	-	-	3	3
Temporary differences on lease receivables	4,142	4,142	-	-	4,142	4,142
Other temporary differences	32,115	30,539	-	-	32,115	30,539
Tax assets/(liabilities)	38,366	34,684	(15,389)	(22,528)	22,977	12,156
Set off of tax	(15,389)	(22,528)	15,389	22,528	-	-
Net tax assets	22,977	12,156	-	-	22,977	12,156

(i) Movement in deferred tax during the financial year

<b>Group</b>	At 1 January	Deferred tax assets acquired on 31 May 2016	Recognised in profit or loss (Note 32)	Recognised in other comprehensive income	At 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2016</b>					
Change in fair value of financial instruments	(2,248)	-	-	7,356	5,108
Excess of capital allowance over depreciation	(19,924)	-	3,125	-	(16,799)
Impairment allowance on financial investments available-for-sale	3	-	-	-	3
Temporary differences on lease receivables	4,142	-	-	-	4,142
Other temporary differences	32,519	174	3,174	-	35,867
	14,492	174	6,299	7,356	28,321
<b>2015</b>					
Change in fair value of financial instruments	6,005	-	-	(8,253)	(2,248)
Excess of capital allowance over depreciation	(25,070)	-	5,146	-	(19,924)
Impairment allowance on financial investments available-for-sale	3	-	-	-	3
Temporary differences on lease receivables	4,298	-	(156)	-	4,142
Other temporary differences	36,133	-	(3,614)	-	32,519
	21,369	-	1,376	(8,253)	14,492

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****17 DEFERRED TAX ASSETS (continued)**

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

<b>Bank</b>	<b>At 1 January</b>	<b>Recognised in profit or loss (Note 32)</b>	<b>Recognised in other comprehensive income</b>	<b>At 31 December</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>				
Change in fair value of financial instruments	(3,335)	-	5,441	2,106
Excess of capital allowance over depreciation	(19,193)	3,804	-	(15,389)
Impairment allowance on financial investments available-for-sale	3	-	-	3
Temporary differences on lease receivables	4,142	-	-	4,142
Other temporary differences	30,539	1,576	-	32,115
	<b>12,156</b>	<b>5,380</b>	<b>5,441</b>	<b>22,977</b>
<b>2015</b>				
Change in fair value of financial instruments	5,065	-	(8,400)	(3,335)
Excess of capital allowance over depreciation	(24,314)	5,121	-	(19,193)
Impairment allowance on financial investments available-for-sale	3	-	-	3
Temporary differences on lease receivables	4,298	(156)	-	4,142
Other temporary differences	34,193	(3,654)	-	30,539
	<b>19,245</b>	<b>1,311</b>	<b>(8,400)</b>	<b>12,156</b>

**18 DEPOSITS FROM CUSTOMERS**

	<b>Group</b>		<b>Bank</b>	
	<b>2016 RM'000</b>	<b>2015 RM'000</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
a) By type of deposit				
Demand deposits	16,132,182	13,953,132	12,585,544	10,968,527
Saving deposits	7,761,006	5,261,811	7,325,787	4,994,193
Fixed/General Investment deposits	44,674,058	48,859,202	37,799,241	42,570,178
Negotiable instruments of deposits	-	99,703	-	-
Short-term money market deposits	2,367,567	2,374,513	1,989,975	1,916,721
Structured investments	1,287,911	2,917,273	1,287,911	2,917,273
	<b>72,222,724</b>	<b>73,465,634</b>	<b>60,988,458</b>	<b>63,366,892</b>

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## 18 DEPOSITS FROM CUSTOMERS (continued)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
b) By type of customer				
Government and statutory bodies	1,433,303	1,216,369	24,901	57,726
Non-bank financial institutions	4,706,308	5,075,306	3,764,586	4,005,061
Business enterprises	28,226,890	29,363,199	22,578,504	24,086,989
Individuals	33,708,622	34,491,204	30,609,750	32,115,043
Foreign entities	3,326,782	2,379,064	3,245,005	2,306,380
Others	820,819	940,492	765,712	795,692
	<u>72,222,724</u>	<u>73,465,634</u>	<u>60,988,458</u>	<u>63,366,891</u>
c) The maturity structure of fixed/general investments deposits, negotiable instruments of deposits, short-term money market deposits and structured investments				
Within six months	35,115,748	38,629,451	29,955,084	33,014,847
Six months to one year	11,572,471	12,990,950	9,553,938	11,766,224
One year to three years	802,001	966,905	729,088	960,117
Three years to five years	539,316	1,663,385	539,017	1,662,984
Over five years	300,000	-	300,000	-
	<u>48,329,536</u>	<u>54,250,691</u>	<u>41,077,127</u>	<u>47,404,172</u>

## 19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Licensed banks	9,364,978	8,003,629	8,882,596	6,571,010
Bank Negara Malaysia	5,000	-	5,000	-
Other financial institutions	92,134	94,882	89,589	94,882
	<u>9,462,112</u>	<u>8,098,511</u>	<u>8,977,185</u>	<u>6,665,892</u>

## 20 SUBORDINATED BONDS

	Note	Group and Bank	
		2016 RM'000	2015 RM'000
RM200 million Redeemable Islamic Subordinated Bond 2006/2021	(a)	-	200,000
RM400 million Innovative Tier 1 Capital Securities	(b)	400,000	400,000
RM600 million Redeemable Subordinated Bonds 2012/2022	(c)	599,428	595,700
USD110 million Additional Tier 1 Capital Securities	(d)	493,361	471,932
USD130 million Redeemable Subordinated Bonds 2015/2025	(e)	583,063	557,738
		<u>2,075,852</u>	<u>2,225,370</u>

- (a) On 24 November 2006, the Bank issued RM200 million redeemable Islamic subordinated bonds due 24 November 2021 under the principle of Mudharabah (profit sharing contract) at a projected constant rate of 5.40% per annum, callable with a step up of 100 basis point commencing 24 November 2016.

The Restricted Subordinated Bonds qualified as Tier 2 capital subject to a gradual phase out as required under the BNM Capital Adequacy Framework (Capital Components). The redeemable Islamic subordinated bonds were redeemed in full on 24 November 2016.

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

**20 SUBORDINATED BONDS (continued)**

- (b) On 17 April 2009, the Bank issued RM400 million Innovative Tier 1 ("IT1") Capital Securities with permanent tenure but redeemable at the Bank's option (subject to prior approval of BNM and the Monetary Authority of Singapore ("MAS")), 10 years after the issue date or on each coupon payment date thereafter or upon occurrence of tax or regulatory events. In addition, if the IT1 Capital Securities are still outstanding after 30 years from issue date, the Bank shall (subject to prior approval of BNM and MAS) issue sufficient number of non-cumulative, non-convertible preference shares; the proceeds of which shall be utilised to redeem the IT1 Capital Securities. The IT1 Capital Securities bear an initial coupon rate of 6.75% per annum, payable semi-annually for the first 10 years and, thereafter, at a rate per annum equal to the 6-month KLIBOR plus 3.32% with effect from (and including) the 10th anniversary date onward.

The IT1 Capital Securities, rated AA2 on 27 June 2016 by RAM, qualify as Tier 1 capital subject to a gradual phase out as required under the BNM Capital Adequacy Framework (Capital Components).

- (c) On 15 August 2012, the Bank issued RM600 million redeemable 10 years non-callable 5 years subordinated bonds at a coupon rate of 4.00% per annum payable semi-annually up to (but excluding) the date of early redemption or the maturity date of the subordinated bonds, whichever is earlier. The Bank may, at its option and subject to the prior approval of BNM and MAS, exercise its call option and may redeem in whole, but not in part, the subordinated bonds on the 5th anniversary date from the issue date and on every coupon payment date thereafter. The Bank had entered into interest rate swaps to manage the risk of the subordinated bonds and the cumulative fair value change of the risk hedged is included in the carrying amount of the subordinated bonds.

The subordinated bonds, rated AA1 on 27 June 2016 by RAM, qualify as Tier 2 capital subject to a gradual phase out as required under the BNM Capital Adequacy Framework (Capital Components).

- (d) On 18 September 2015, the Bank issued USD110 million Basel III-compliant Additional Tier 1 ("AT1") Capital Securities with perpetual non-callable five year tenure at a fixed coupon rate of 5.00% per annum payable semi-annually from and including 18 September 2015 (the Issue Date). The Bank may, subject to prior approval of BNM and MAS, at its option redeem in whole or in part, on 18 March 2021 and every coupon payment date thereafter. In addition to the first call in 2021, AT1 Capital Securities may also be redeemed if a qualifying tax event or a change of qualification event occurs. AT1 Capital Securities can be written off in whole or in part if the Bank is determined by BNM and/or Malaysia Deposit Insurance Corporation ("PIDM") to be non-viable.

The AT1 Capital Securities are subscribed by OCBC Ltd and qualify as Additional Tier 1 capital for the purpose of determining the capital adequacy ratio of the Bank.

- (e) On 4 November 2015, the Bank issued USD130 million Basel III-compliant redeemable 10 years non-callable 5 years subordinated bonds at a coupon rate of 3.65% per annum payable semi-annually from and including 4 November 2015 (the Issue Date) up to (but excluding) the maturity date or the date of early redemption of the subordinated bonds, whichever is earlier. The Bank may, at its option and subject to the prior approval of BNM and MAS, exercise its call option and may redeem in whole or in part, the subordinated bonds on the 4 November 2020 and any coupon payment date thereafter. In addition to the first call in 2020, the Capital Securities may also be redeemed if a qualifying tax event or a change of qualification event occurs. The subordinated bonds can be written off in whole or in part if the Bank is determined by BNM and/or Malaysia Deposit Insurance Corporation ("PIDM") to be non-viable.

The subordinated bonds are subscribed by OCBC Ltd and qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****21 OTHER LIABILITIES**

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amount due to subsidiaries (Note 39)	(a)	-	-	44,145	4,550
Equity compensation benefits	(b)	13,761	11,398	13,054	10,809
Interest/Profit payable		571,432	635,917	477,734	552,867
Other payables and accruals		363,645	379,754	288,293	308,955
Provision for commitments and contingencies	(c)	-	6,526	-	6,526
		<u>948,838</u>	<u>1,033,595</u>	<u>823,226</u>	<u>883,707</u>

(a) The amount due to subsidiaries is unsecured, interest/profit free and repayable on demand.

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

(i) **OCBC Deferred Share Plan**

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

The deferred share awards are as follows:

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

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

(ii) **OCBC Share Option Scheme 2001**

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

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

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## 21 OTHER LIABILITIES (continued)

## (b) (ii) OCBC Share Option Scheme 2001 (continued)

During the financial year, the Group and the Bank granted 204,026 options (2015: 142,930) and 181,352 options (2015: 124,978) to acquire ordinary shares in the ultimate holding company, Oversea-Chinese Banking Corporation Limited ("OCBC Bank") pursuant to OCBC Share Option Scheme 2001. The fair value of options granted to the employees of the Group and the Bank, determined using the binomial valuation model, were S\$354,434 (2015: S\$144,331) and S\$324,785 (2015: S\$126,203) respectively. Significant inputs to the valuation model are set out below:

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

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

	2016		2015	
	Number of share options	Weighted average acquisition price (S\$)	Number of share options	Weighted average acquisition price (S\$)
<b>Group</b>				
At 1 January	1,146,549	8.895	1,148,431	8.483
Granted	204,026	8.814	142,930	10.378
Exercised	(108,191)	7.166	(141,663)	7.120
Forfeited/Lapsed	(182,991)	9.588	(3,149)	5.608
At 31 December	<u>1,059,393</u>	<u>8.936</u>	<u>1,146,549</u>	<u>8.895</u>
Exercisable at 31 December	<u>734,869</u>	<u>8.763</u>	<u>769,611</u>	<u>8.405</u>
Weighted average share price underlying the options exercised (S\$)		<u>8.690</u>		<u>9.981</u>

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2016	
				Outstanding	Exercisable
2007	14/03/2007	15/03/2008 to 13/03/2017	8.354	89,535	89,535
2008	14/03/2008	15/03/2009 to 13/03/2018	7.313	121,631	121,631
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	29,998	29,998
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	46,678	46,678
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	29,808	29,808
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	72,494	72,494
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	205,780	205,780
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	140,686	91,782
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	142,930	47,163
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	179,853	-
				<u>1,059,393</u>	<u>734,869</u>

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## 21 OTHER LIABILITIES (continued)

## (b) (ii) OCBC Share Option Scheme 2001 (continued)

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2015	
				Outstanding	Exercisable
2006	14/03/2006	15/03/2007 to 13/03/2016	6.632	64,401	64,401
2007	14/03/2007	15/03/2008 to 13/03/2017	8.354	124,398	124,398
2008	14/03/2008	15/03/2009 to 13/03/2018	7.313	134,278	134,278
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	34,181	34,181
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	46,678	46,678
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	29,808	29,808
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	72,494	72,494
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	329,915	210,208
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	167,466	53,165
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	142,930	-
				<u>1,146,549</u>	<u>769,611</u>

Bank	2016		2015	
	Number of share options	Weighted average acquisition price (S\$)	Number of share options	Weighted average acquisition price (S\$)
At 1 January	1,094,064	8.852	1,113,898	8.451
Granted	181,352	8.814	124,978	10.378
Exercised	(108,191)	7.166	(141,663)	7.120
Forfeited/Lapsed	(182,991)	9.588	(3,149)	5.608
At 31 December	<u>984,234</u>	<u>8.893</u>	<u>1,094,064</u>	<u>8.852</u>
Exercisable at 31 December	<u>699,665</u>	<u>8.716</u>	<u>753,459</u>	<u>8.382</u>
Weighted average share price underlying the options exercised (S\$)		<u>8.690</u>		<u>9.981</u>

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2016	
				Outstanding	Exercisable
2007	14/03/2007	15/03/2008 to 13/03/2017	8.354	89,535	89,535
2008	14/03/2008	15/03/2009 to 13/03/2018	7.313	121,631	121,631
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	29,998	29,998
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	46,678	46,678
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	29,808	29,808
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	69,232	69,232
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	189,958	189,958
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	125,237	81,586
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	124,978	41,239
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	157,179	-
				<u>984,234</u>	<u>699,665</u>



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**21 OTHER LIABILITIES (continued)**

(b) (ii) **OCBC Share Option Scheme 2001 (continued)**

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2015	
				Outstanding	Exercisable
2006	14/03/2006	15/03/2007 to 13/03/2016	6.632	64,401	64,401
2007	14/03/2007	15/03/2008 to 13/03/2017	8.354	124,398	124,398
2008	14/03/2008	15/03/2009 to 13/03/2018	7.313	134,278	134,278
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	34,181	34,181
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	46,678	46,678
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	29,808	29,808
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	69,232	69,232
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	314,093	202,416
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	152,017	48,067
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	124,978	-
				<u>1,094,064</u>	<u>753,459</u>

(iii) **OCBC Employee Share Purchase Plan**

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

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

In June 2016, OCBC Bank launched its eleventh offering of ESP Plan for OCBC's employees, which commenced on 1 July 2016 and expires on 30 June 2018. Under the offering, the Group and the Bank granted 1,103,755 (2015: 873,419) and 1,092,834 (2015: 866,000) rights to acquire ordinary shares in OCBC Bank. The fair value of rights for the Group and the Bank, determined using the binomial valuation model were S\$954,858 (2015: S\$644,147) and S\$945,411 (2015: S\$638,675) respectively. Significant inputs to the valuation model are set out below:

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

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

## 21 OTHER LIABILITIES (continued)

## (b) (iii) OCBC Employee Share Purchase Plan (continued)

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

<u>Group</u>	<u>2016</u>		<u>2015</u>	
	<u>Number of share options</u>	<u>Weighted average acquisition price (S\$)</u>	<u>Number of share options</u>	<u>Weighted average acquisition price (S\$)</u>
At 1 January	1,540,273	9.792	1,512,776	9.448
Acquired	1,103,755	8.450	873,419	10.240
Forfeited/Lapsed	(1,003,054)	9.419	(303,019)	9.655
Exercised and converted upon expiry	(17,240)	9.320	(542,903)	9.630
At 31 December	<u>1,623,734</u>	<u>9.115</u>	<u>1,540,273</u>	<u>9.792</u>
Average share price underlying acquisition rights exercised/converted (S\$)		<u>8.876</u>		<u>10.258</u>
<b><u>Bank</u></b>				
At 1 January	1,529,583	9.793	1,505,701	9.449
Acquired	1,092,834	8.450	866,000	10.240
Forfeited/Lapsed	(997,021)	9.419	(300,636)	9.653
Exercised and converted upon expiry	(17,240)	9.320	(541,482)	9.630
At 31 December	<u>1,608,156</u>	<u>9.117</u>	<u>1,529,583</u>	<u>9.793</u>
Average share price underlying acquisition rights exercised/converted (S\$)		<u>8.876</u>		<u>10.258</u>

## (c) Provision for commitments and contingencies

	<u>Group and Bank</u>	
	<u>2016</u>	<u>2015</u>
	<u>RM'000</u>	<u>RM'000</u>
At 1 January	6,526	6,526
Amount written back	(6,526)	-
At 31 December	<u>-</u>	<u>6,526</u>

The provision was written back during the year as the Bank's obligation towards a bank guarantee issued was extinguished following dismissal by the Court of Appeal of the beneficiary's rights on the bank guarantee.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****22 SHARE CAPITAL**

	<b>Group and Bank</b>			
	<b>2016</b>		<b>2015</b>	
	<b>Number of shares</b>	<b>Amount RM'000</b>	<b>Number of shares</b>	<b>Amount RM'000</b>
<b>Authorised</b>				
Ordinary shares of RM1 each	1,000,000	1,000,000	1,000,000	1,000,000
Non-cumulative, non-convertible perpetual preference shares of RM1 each	5,000	5,000	5,000	5,000
	<u>1,005,000</u>	<u>1,005,000</u>	<u>1,005,000</u>	<u>1,005,000</u>
<b>Issued and fully paid</b>				
Ordinary shares of RM1 each				
At 1 January	287,500	287,500	287,500	287,500
Non-cumulative, non-convertible perpetual preference shares of RM1 each				
At 1 January	-	-	4,000	4,000
Redeemed	-	-	(4,000)	(4,000)
At 31 December	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>

The ordinary shareholders are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank.

The salient features of the non-cumulative, non-convertible perpetual preference shares issued on 12 August 2005 and fully redeemed on 21 September 2015 were as follows:

- They carried a net cash dividend of 4.51% per annum for first 10 years; thereafter at 190 basis points plus 6 months KLIBOR, payable semi-annually on 20 March and 20 September each year when and if declared by the Board; and
- They did not confer any right or claim as regards to participation in the profits of the Bank.

**23 RESERVES**

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

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

Statutory reserve is maintained in compliance with Section 12 and Section 47(2)(f) of the Financial Services Act, 2013, and Section 12 and Section 57(2)(f) of the Islamic Financial Services Act, 2013.

Regulatory reserve is maintained in compliance with the requirements under BNM's Policy on Classification and Impairment Provision for Loans/Financing to maintain, in aggregate, collective impairment allowance and regulatory reserve of no less than 1.2% of total outstanding loans/financing, net of individual impairment allowance. During the financial year, the Bank transferred RM220 million from retained earnings to regulatory reserve.

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

Capital reserve is the portion of profits capitalised prior to the local incorporation (pre-acquisition profits) arising from consolidation.

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**23 RESERVES (continued)**

Capital redemption reserve is maintained in compliance with Section 61 of the Companies Act, 1965 of Malaysia. An amount equivalent to the nominal value of the non-cumulative, non-convertible perpetual preference shares redeemed was transferred to capital redemption reserve during the previous financial year.

**24 NET INTEREST INCOME**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Interest income</b>				
Loans, advances and financing				
- Interest income other than recoveries	2,843,125	2,800,782	2,843,125	2,800,782
- Recoveries from impaired loans, advances and financing	64,853	62,413	64,853	62,413
- Discount unwind from impaired loans, advances and financing	5,331	3,662	5,331	3,662
Money at call and deposit placements with banks and other financial institutions	140,410	192,952	184,236	237,264
Financial assets held-for-trading	47,215	44,896	47,215	44,896
Financial investments available-for-sale	323,455	384,200	326,331	386,947
Unquoted Islamic subordinated bond of subsidiary	-	-	10,959	10,900
Others	55,530	62,624	55,530	62,624
	<u>3,479,919</u>	<u>3,551,529</u>	<u>3,537,580</u>	<u>3,609,488</u>
<b>Interest expense</b>				
Deposits from customers	(1,844,153)	(1,893,320)	(1,844,153)	(1,893,320)
Deposits and placements of banks and other financial institutions	(47,693)	(57,361)	(78,673)	(92,353)
Recourse obligation on loans sold to Cagamas Berhad	(51,804)	(16,671)	(51,804)	(16,671)
Subordinated bonds	(103,575)	(89,438)	(103,575)	(89,438)
Others	(123,703)	(127,124)	(123,703)	(127,124)
	<u>(2,170,928)</u>	<u>(2,183,914)</u>	<u>(2,201,908)</u>	<u>(2,218,906)</u>
	<u>1,308,991</u>	<u>1,367,615</u>	<u>1,335,672</u>	<u>1,390,582</u>

(a) By category of financial instruments

**Interest income**

- Financial assets at fair value through profit or loss	47,215	44,896	47,215	44,896
- Loans/Financing and receivables	3,109,249	3,122,433	3,164,034	3,177,645
- Financial investments available-for-sale	323,455	384,200	326,331	386,947
	<u>3,479,919</u>	<u>3,551,529</u>	<u>3,537,580</u>	<u>3,609,488</u>

**Interest expense**

- Liabilities at amortised cost	(2,170,928)	(2,183,914)	(2,201,908)	(2,218,906)
	<u>1,308,991</u>	<u>1,367,615</u>	<u>1,335,672</u>	<u>1,390,582</u>

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

## 25 INCOME FROM ISLAMIC BANKING OPERATIONS

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Income derived from investment of depositors' funds and others	712,695	727,884
Income derived from investment of specific investment account funds	44,216	48,007
Income derived from investment of shareholder's funds	100,363	101,710
Income attributable to depositors	(356,179)	(328,877)
Income attributable to investment account holder	(30,980)	(34,992)
	<b>470,115</b>	<b>513,732</b>

## 26 NET FEE AND COMMISSION INCOME

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Commission	120,797	128,768	117,460	128,768
Service charges and fees	127,811	149,994	127,811	149,994
Guarantee fees	34,488	33,902	34,488	33,902
Other fee income	9,233	12,245	9,234	12,245
	<b>292,329</b>	<b>324,909</b>	<b>288,993</b>	<b>324,909</b>

## 27 NET TRADING INCOME

	<b>Group and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Foreign exchange loss	(169,485)	(395,370)
Realised gain on financial assets held-for-trading	19,038	5,459
Realised gain on trading derivatives	71,747	742,022
Unrealised (loss)/gain on financial assets held-for-trading	(5,385)	8,801
Unrealised gain/(loss) on trading derivatives	305,712	(133,371)
	<b>221,627</b>	<b>227,541</b>

## 28 OTHER OPERATING INCOME

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gain/(Loss) on disposal:				
- Financial investments available-for-sale	19,231	(14,903)	19,231	(14,903)
- Investment properties	-	37,431	-	37,431
- Non-current assets held for sale	478	-	478	-
- Property and equipment	345	182	345	182
Gross dividends from financial investments available-for-sale in Malaysia	809	809	809	809
Gross dividends from financial assets held-for-trading in Malaysia	999	1,144	999	1,144
Rental of premises	4,346	4,509	4,409	4,584
Rental of safe deposit boxes	6,329	6,219	6,329	6,219
Shared services income received from subsidiaries (Note 39)	-	-	101,902	105,565
Shared services income received from related company (Note 39)	11,979	8,898	11,212	8,898
Unrealised gain on hedging derivatives	670	986	670	986
Others	638	725	638	727
	<b>45,824</b>	<b>46,000</b>	<b>147,022</b>	<b>151,642</b>

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

## 29 OPERATING EXPENSES

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Personnel expenses</b>				
Wages, salaries and bonus	406,938	391,745	380,648	366,041
Employees Provident Fund contributions	62,206	59,382	58,152	55,449
Share-based expenses	6,573	6,254	6,287	5,971
Others	36,301	36,002	33,564	33,184
	<u>512,018</u>	<u>493,383</u>	<u>478,651</u>	<u>460,645</u>
<b>Establishment expenses</b>				
Depreciation of property and equipment	39,470	44,050	34,246	41,773
Rental of premises	18,912	18,296	16,068	15,633
Repair and maintenance	12,553	10,775	11,882	10,203
Information technology costs	8,615	6,532	8,129	6,274
Hire of equipment	1,265	1,227	1,148	1,227
Depreciation of investment properties	-	121	-	121
Amortisation of prepaid lease payments	36	36	36	36
Others	18,138	18,183	15,544	15,624
	<u>98,989</u>	<u>99,220</u>	<u>87,053</u>	<u>90,891</u>
<b>Marketing expenses</b>				
Advertisement and business promotion	20,825	29,216	20,049	26,690
Transport and travelling	4,009	4,954	3,488	4,231
Others	3,390	2,402	3,235	2,232
	<u>28,224</u>	<u>36,572</u>	<u>26,772</u>	<u>33,153</u>
<b>General administrative expenses</b>				
Auditors' remuneration				
- Statutory audit fees	475	455	390	377
- Audit related fees	321	318	237	234
- Other services	138	69	108	69
Transaction processing fees (Note 39)	311,163	282,468	286,748	260,061
Others	114,375	105,099	98,842	87,163
	<u>426,472</u>	<u>388,409</u>	<u>386,325</u>	<u>347,904</u>
<b>Total operating expenses</b>	<u>1,065,703</u>	<u>1,017,584</u>	<u>978,801</u>	<u>932,593</u>

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

## 30 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION

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

Group	2016						2015					
	Unrestricted					Deferred	Unrestricted					Deferred
	Salaries and fees RM'000	Variable bonuses RM'000	Benefits -in-kind RM'000	Employees Provident Fund RM'000	Shares and share options* 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
<b>CEO of the Bank</b>												
Ong Eng Bin	1,049	660	33	274	440	2,456	971	738	33	274	492	2,508
<b>CEO of the Islamic banking subsidiary</b>												
Syed Abdull Aziz Jailani bin Syed Kechik	889	312	10	192	208	1,611	811	363	29	188	242	1,633
<b>Non Executive Directors</b>												
Dato' Ooi Sang Kuang	412	-	31	-	-	443	413	-	31	-	-	444
Lai Teck Poh	217	-	-	-	-	217	232	-	-	-	-	232
Ng Hon Soon	236	-	-	-	-	236	222	-	-	-	-	222
Tong Hon Keong	210	-	-	-	-	210	201	-	-	-	-	201
Tan Ngiap Joo	239	-	-	-	-	239	59	-	-	-	-	59
Datuk Azizan bin Haji Abd Rahman (Appointed on 3 June 2016)	122	-	-	-	-	122	-	-	-	-	-	-
Dr. Raja Lope bin Raja Shahrome (Retired on 10 March 2016)	41	-	-	-	-	41	167	-	-	-	-	167
	<b>3,415</b>	<b>972</b>	<b>74</b>	<b>466</b>	<b>648</b>	<b>5,575</b>	<b>3,076</b>	<b>1,101</b>	<b>93</b>	<b>462</b>	<b>734</b>	<b>5,466</b>

\* 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 21(b) of the financial statements.

Mr Samuel N. Tsien did not receive any remuneration from the Group nor the Bank during the year (2015: nil).

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**30 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION (continued)**

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

	2016						2015					
	<i>Unrestricted</i>				<i>Deferred</i>		<i>Unrestricted</i>				<i>Deferred</i>	
	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
<b>Bank</b>												
<b>CEO</b>												
Ong Eng Bin	1,049	660	33	274	440	2,456	971	738	33	274	492	2,508
<b>Non Executive Directors</b>												
Dato' Ooi Sang Kuang	362	-	31	-	-	393	360	-	31	-	-	391
Lai Teck Poh	167	-	-	-	-	167	179	-	-	-	-	179
Ng Hon Soon	176	-	-	-	-	176	169	-	-	-	-	169
Tong Hon Keong	160	-	-	-	-	160	156	-	-	-	-	156
Tan Ngiap Joo	181	-	-	-	-	181	42	-	-	-	-	42
Datuk Azizan bin Haji Abd Rahman (Appointed on 3 June 2016)	93	-	-	-	-	93	-	-	-	-	-	-
Dr. Raja Lope bin Raja Shahrome (Retired on 10 March 2016)	31	-	-	-	-	31	136	-	-	-	-	136
	<b>2,219</b>	<b>660</b>	<b>64</b>	<b>274</b>	<b>440</b>	<b>3,657</b>	<b>2,013</b>	<b>738</b>	<b>64</b>	<b>274</b>	<b>492</b>	<b>3,581</b>

\* 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 21(b) of the financial statements.



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

## 30 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION (continued)

(b) The remuneration of senior management (including the CEO of the Bank and the CEO of the Islamic Banking subsidiary) and other material risk takers are as follows:

Group	2016			Number of officers	2015			Number of officers
	Unrestricted RM'000	Deferred RM'000	Total RM'000		Unrestricted RM'000	Deferred RM'000	Total RM'000	
<b>Senior Management</b>								
<i>Fixed remuneration</i>								
Cash-based	15,172	-	15,172		13,007	-	13,007	
Other	404	-	404		308	-	308	
	<u>15,576</u>	<u>-</u>	<u>15,576</u>		<u>13,315</u>	<u>-</u>	<u>13,315</u>	
<i>Variable remuneration</i>								
Cash-based								
Sign-on awards	-	-	-	-	1,017	-	1,017	1
Other	5,582	-	5,582	19	6,193	-	6,193	18
Shares and share options	-	2,450	2,450	11	-	2,738	2,738	11
	<u>5,582</u>	<u>2,450</u>	<u>8,032</u>		<u>7,210</u>	<u>2,738</u>	<u>9,948</u>	
<b>Other material risk takers</b>								
<i>Fixed remuneration</i>								
Cash-based	5,454	-	5,454		2,057	-	2,057	
Other	143	-	143		112	-	112	
	<u>5,597</u>	<u>-</u>	<u>5,597</u>		<u>2,169</u>	<u>-</u>	<u>2,169</u>	
<i>Variable remuneration</i>								
Cash-based	1,258	142	1,400	8	551	-	551	2
Shares and share options	-	312	312	2	-	318	318	2
	<u>1,258</u>	<u>454</u>	<u>1,712</u>		<u>551</u>	<u>318</u>	<u>869</u>	

Other than the above, no senior management nor other material risk taker received any guaranteed bonuses, sign-on awards and severance payments.

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

## 30 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION (continued)

(b) The remuneration of senior management (including the CEO of the Bank and the CEO of the Islamic Banking subsidiary) and other material risk takers are as follows: (continued)

	2016			Number of officers	2015			Number of officers
	Unrestricted RM'000	Deferred RM'000	Total RM'000		Unrestricted RM'000	Deferred RM'000	Total RM'000	
<b>Bank</b>								
<b>Senior Management</b>								
<i>Fixed remuneration</i>								
Cash-based	12,150	-	12,150		10,083	-	10,083	
Other	390	-	390		276	-	276	
	<u>12,540</u>	<u>-</u>	<u>12,540</u>		<u>10,359</u>	<u>-</u>	<u>10,359</u>	
<i>Variable remuneration</i>								
Cash-based								
Sign-on awards	-	-	-	-	1,017	-	1,017	1
Other	4,397	-	4,397	13	4,816	-	4,816	11
Shares and share options	-	2,143	2,143	9	-	2,396	2,396	9
	<u>4,397</u>	<u>2,143</u>	<u>6,540</u>		<u>5,833</u>	<u>2,396</u>	<u>8,229</u>	
<b>Other material risk takers</b>								
<i>Fixed remuneration</i>								
Cash-based	5,454	-	5,454		2,057	-	2,057	
Other	143	-	143		112	-	112	
	<u>5,597</u>	<u>-</u>	<u>5,597</u>		<u>2,169</u>	<u>-</u>	<u>2,169</u>	
<i>Variable remuneration</i>								
Cash-based	1,258	142	1,400	8	551	-	551	2
Shares and share options	-	312	312	2	-	318	318	2
	<u>1,258</u>	<u>454</u>	<u>1,712</u>		<u>551</u>	<u>318</u>	<u>869</u>	

Other than the above, no senior management nor other material risk taker received any guaranteed bonuses, sign-on awards and severance payments.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****30 KEY MANAGEMENT AND OTHER MATERIAL RISK TAKERS REMUNERATION (continued)**

(c) Outstanding deferred remuneration

	2016			2015		
	Senior management RM'000	Other material risk takers RM'000	Total RM'000	Senior management RM'000	Other material risk takers RM'000	Total RM'000
<b>Group</b>						
Share and share options						
Exposed to ex-post explicit and implicit adjustments	9,290	1,020	10,310	7,680	817	8,497
Deferred remuneration paid out during the year	2,335	127	2,462	1,680	136	1,816
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 units)	-	-	-	(1,229)	-	(1,229)
<b>Bank</b>						
Share and share options						
Exposed to ex-post explicit and implicit adjustments	8,070	1,020	9,090	6,609	817	7,426
Deferred remuneration paid out during the year	2,068	127	2,195	1,523	136	1,659
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 units)	-	-	-	(1,229)	-	(1,229)

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**31 IMPAIRMENT ALLOWANCE ON LOANS, ADVANCES AND FINANCING**

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual impairment allowance					
- Made during the year	8	409,503	379,040	255,038	223,818
- Written back	8	(141,675)	(125,887)	(76,062)	(76,688)
Collective impairment allowance					
- (Written back)/Made during the year	8	(3,500)	67,655	-	30,986
Impaired loans, advances and financing					
- Written off		172	86	168	81
- Recovered during the year		(54,155)	(30,611)	(34,266)	(15,652)
		<u>210,345</u>	<u>290,283</u>	<u>144,878</u>	<u>162,545</u>

**32 INCOME TAX EXPENSE**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Malaysian income tax				
- Current year	259,944	280,982	219,364	245,850
- Prior years	7,149	5,801	6,617	6,157
	<u>267,093</u>	<u>286,783</u>	<u>225,981</u>	<u>252,007</u>
Deferred tax (Note 17)				
- Origination and reversal of temporary differences	(1,540)	(638)	(1,111)	(559)
- Prior years	(4,759)	(738)	(4,269)	(752)
	<u>(6,299)</u>	<u>(1,376)</u>	<u>(5,380)</u>	<u>(1,311)</u>
	<u>260,794</u>	<u>285,407</u>	<u>220,601</u>	<u>250,696</u>

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

	Group		Bank	
	2016 %	2015 %	2016 %	2015 %
Malaysian tax rate of 24% (2015: 25%)	24.00	25.00	24.00	25.00
Tax effect of:				
Expenses not deductible for tax purposes	0.92	0.63	1.01	0.62
Income not subject to tax	(0.71)	(1.64)	(0.07)	(0.99)
Under/(Over) provision in prior years:				
- Income tax	0.67	0.50	0.76	0.62
- Deferred tax	(0.45)	(0.06)	(0.49)	(0.08)
Average effective tax rate	<u>24.43</u>	<u>24.43</u>	<u>25.21</u>	<u>25.17</u>

**33 BASIC EARNINGS PER ORDINARY SHARE**

The basic earnings per ordinary share of the Group and the Bank were calculated based on the profit for the year less preference share dividends of RM808,237,000 and RM655,272,000 respectively (2015: RM864,943,000 and RM727,300,000 respectively) and on 287,500,000 (2015: 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

The Group and the Bank have no dilution in their earnings per ordinary share as there are no dilutive potential ordinary shares.

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## 34 DIVIDENDS

	Sen per share	Total amount RM'000	Date of payment
<b>2016</b>			
Final 2015 ordinary	152.24	<u>437,700</u>	20/04/2016
<b>2015</b>			
Final 2014 ordinary	152.24	437,700	28/04/2015
Preference	450.20	<u>18,008</u>	20/03/2015 and 21/09/2015
		<u>455,708</u>	

The Directors recommend a final dividend of 136.7 sen per ordinary share in respect of the current financial year amounting to RM393.1 million. This dividend will be accounted for in shareholders' equity as an appropriation of retained earnings in the subsequent financial period upon approval by the shareholder of the Bank.

## 35 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to their customers. Apart from the provision for commitments and contingencies already made in the financial statements (Note 21), no material losses are anticipated as a result of these transactions.

The credit equivalent and risk weighted amounts were computed using the credit conversion factors and risk weights as defined in BNM's Capital Adequacy Framework (Basel II) - Internal Ratings Approach.

<u>Group</u>	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Negative fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
<b>2016</b>					
Direct credit substitutes	536,337			536,337	384,295
Transaction-related contingent items	3,028,739			1,544,199	925,445
Short-term self-liquidating trade-related contingencies	348,532			75,793	46,309
Foreign exchange related contracts					
- Less than one year	16,678,507	937,006	335,589	1,203,769	243,598
- One year to less than five years	5,650,775	437,885	802,961	1,039,912	295,025
- Five years and above	3,412,876	450,793	476,512	920,662	681,144
Interest rate related contracts					
- Less than one year	11,511,700	12,117	8,210	33,214	4,894
- One year to less than five years	23,638,845	56,406	85,600	675,480	175,354
- Five years and above	9,225,485	87,230	97,463	326,847	202,746
Equity and commodity related contracts	281,731	3,864	3,864	18,179	4,996
Credit derivative contracts	990,100	10,215	10,215	35,395	7,498
Formal standby facilities and credit lines					
- Maturity exceeding one year	5,301,396			4,724,610	1,374,061
Other unconditionally cancellable commitments	<u>18,791,967</u>			<u>2,036,334</u>	<u>342,547</u>
Total	<u>99,396,990</u>	<u>1,995,516</u>	<u>1,820,414</u>	<u>13,170,731</u>	<u>4,687,912</u>

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## 35 COMMITMENTS AND CONTINGENCIES (continued)

<u>Group</u>	Principal	Positive	Negative	Credit	Risk
	amount	fair value of	fair value of	equivalent	weighted
	RM'000	derivative	derivative	amount	amount
		contracts	contracts		
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>					
Direct credit substitutes	674,349			674,349	446,610
Transaction-related contingent items	2,498,575			1,285,260	914,632
Short-term self-liquidating trade-related contingencies	542,082			119,977	58,010
Foreign exchange related contracts					
- Less than one year	16,094,111	653,097	528,778	914,440	182,770
- One year to less than five years	7,745,321	871,035	834,845	1,598,255	434,058
- Five years and above	2,511,432	376,706	355,544	852,896	534,614
Interest rate related contracts					
- Less than one year	12,186,522	4,762	9,194	22,334	2,741
- One year to less than five years	32,297,885	133,384	140,294	680,732	164,780
- Five years and above	3,091,666	14,457	43,703	201,122	59,624
Equity and commodity related contracts	316,075	37,755	53,750	17,819	10,811
Credit derivative contracts	1,042,100	13,716	13,716	31,360	5,138
Formal standby facilities and credit lines					
- Maturity not exceeding one year	1,959			415	226
- Maturity exceeding one year	7,073,049			6,224,036	1,650,449
Other unconditionally cancellable commitments	23,456,459			2,034,560	437,269
<b>Total</b>	<b>109,531,585</b>	<b>2,104,912</b>	<b>1,979,824</b>	<b>14,657,555</b>	<b>4,901,732</b>
<b>Bank</b>					
<b>2016</b>					
Direct credit substitutes	451,454			451,454	330,032
Transaction-related contingent items	2,706,792			1,379,843	799,869
Short-term self-liquidating trade-related contingencies	325,751			71,237	43,433
Foreign exchange related contracts					
- Less than one year	16,698,867	936,971	335,219	1,203,407	243,369
- One year to less than five years	5,650,775	437,885	802,961	1,039,912	295,025
- Five years and above	3,412,876	450,793	476,512	920,662	681,144
Interest rate related contracts					
- Less than one year	11,511,700	12,117	8,210	33,214	4,894
- One year to less than five years	23,638,845	56,406	85,600	675,480	175,354
- Five years and above	9,225,485	87,230	97,463	326,847	202,746
Equity and commodity related contracts	281,731	3,864	3,864	18,179	4,996
Credit derivative contracts	990,100	10,215	10,215	35,395	7,498
Formal standby facilities and credit lines					
- Maturity exceeding one year	5,038,252			4,493,069	1,316,710
Other unconditionally cancellable commitments	16,745,502			1,992,705	335,017
<b>Total</b>	<b>96,678,130</b>	<b>1,995,481</b>	<b>1,820,044</b>	<b>12,641,404</b>	<b>4,440,087</b>

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## 35 COMMITMENTS AND CONTINGENCIES (continued)

<u>Bank</u>	Principal amount	Positive fair value of derivative contracts	Negative fair value of derivative contracts	Credit equivalent amount	Risk weighted amount
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>					
Direct credit substitutes	604,776			604,776	395,413
Transaction-related contingent items	2,234,189			1,149,495	798,026
Short-term self-liquidating trade-related contingencies	501,670			110,638	54,023
Foreign exchange related contracts					
- Less than one year	16,097,321	652,692	528,203	913,642	182,367
- One year to less than five years	7,745,321	871,035	834,845	1,598,255	434,058
- Five years and above	2,511,432	376,706	355,544	852,896	534,614
Interest rate related contracts					
- Less than one year	12,186,522	4,762	9,194	22,334	2,741
- One year to less than five years	32,297,885	133,384	140,294	680,732	164,780
- Five years and above	3,091,666	14,457	43,703	201,122	59,624
Equity and commodity related contracts	316,075	37,755	53,750	17,819	10,811
Credit derivative contracts	1,042,100	13,716	13,716	31,360	5,138
Formal standby facilities and credit lines					
- Maturity not exceeding one year	79			39	1
- Maturity exceeding one year	6,597,047			5,803,122	1,467,434
Other unconditionally cancellable commitments	20,874,660			1,995,220	425,627
<b>Total</b>	<b>106,100,743</b>	<b>2,104,507</b>	<b>1,979,249</b>	<b>13,981,450</b>	<b>4,534,657</b>

## 36 CAPITAL COMMITMENTS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Capital expenditure commitments in respect of property and equipment				
- Authorised but not contracted for	12,752	12,940	12,752	10,978
- Contracted but not provided for	1,948	5,115	1,857	1,189
	<b>14,700</b>	<b>18,055</b>	<b>14,609</b>	<b>12,167</b>

## 37 LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises and equipment on hire, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Less than one year	12,891	19,173	10,431	16,445
Between one to five years	7,143	13,290	5,786	11,058
	<b>20,034</b>	<b>32,463</b>	<b>16,217</b>	<b>27,503</b>

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**38 MINIMUM LEASE RENTAL RECEIVABLE**

The future minimum lease rental receivable under non-cancellable operating leases by remaining period to lease expiry is as follows:

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Less than one year	24	24	74	83
Between one to five years	16	40	16	99
	<b>40</b>	<b>64</b>	<b>90</b>	<b>182</b>

**39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

- the Group or the Bank has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions or vice versa; or
- where the Group or 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 Group and the Bank either directly or indirectly and entities that provide key management personnel services to the Group or the Bank. The key management personnel include all Directors and senior management of the Group and the Bank.

The Bank has related party relationship with the following:

- Holding company, Oversea-Chinese Banking Corporation Limited;
- Subsidiaries of the Bank as disclosed in Note 12 to the financial statements;
- Other related companies within the Oversea-Chinese Banking Corporation Limited Group; and
- Key management personnel, including close family members of key management personnel and entities that are controlled or jointly controlled by them.



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES****(a) Significant transactions and outstanding balances with related parties**

<u>Group</u>	2016			2015		
	Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000	Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000
<b>Income</b>						
Interest on deposits and placements with banks and other financial institutions	962	-	-	1,554	-	-
Interest on loans, advances and financing	-	8,874	145	-	4,792	126
Shared service fees	1,706	10,360	-	1,575	7,503	-
Fee and commission income	3,731	15,904	-	4,360	11,203	-
Rental income	4	4,238	-	-	4,302	-
Other income	-	117	-	-	1,411	-
	<b>6,403</b>	<b>39,493</b>	<b>145</b>	<b>7,489</b>	<b>29,211</b>	<b>126</b>
<b>Expenditure</b>						
Interest on deposits from customers	-	14,197	1,031	-	12,002	649
Interest on deposits and placements of banks and other financial institutions	60,034	1	-	76,719	-	-
Interest/Profit on unquoted Islamic subordinated bond	42,595	-	-	10,014	-	-
Transaction processing fees	-	120,284	-	-	121,111	-
Rental expenses	-	1,048	-	-	1,027	-
Other expenses	7	194,194	-	47	165,531	-
	<b>102,636</b>	<b>329,724</b>	<b>1,031</b>	<b>86,780</b>	<b>299,671</b>	<b>649</b>

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

## 39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

<u>Group (continued)</u>	2016			2015		
	Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000	Holding Company RM'000	Other Related Companies RM'000	Key Management Personnel RM'000
<b>Amount due from</b>						
Cash and cash equivalents	65,674	1,559	-	126,245	19,277	-
Deposits and placements with banks and other financial institutions	301,510	52	-	143,108	1,351	-
Interest receivable	237	128	-	7	194	-
Loans, advances and financing	-	122,500	4,379	-	169,000	3,220
Shared service fee receivable	123	637	-	135	-	-
Other assets	6	16,696	-	6	28,652	-
	<u>367,550</u>	<u>141,572</u>	<u>4,379</u>	<u>269,501</u>	<u>218,474</u>	<u>3,220</u>
<b>Amount due to</b>						
Deposits from customers	-	1,368,927	55,707	-	976,966	17,708
Deposits and placements of banks and other financial institutions	7,909,275	-	-	6,085,500	-	-
Other liabilities	2,740	2	-	2,377	2,565	-
Interest payable	17,755	443	5	14,513	284	14
Subordinated bond	1,076,424	-	-	1,029,671	-	-
	<u>9,006,194</u>	<u>1,369,372</u>	<u>55,712</u>	<u>7,132,061</u>	<u>979,815</u>	<u>17,722</u>
<b>Commitments</b>						
Foreign exchange derivatives	2,003,421	66,903	-	1,337,567	245,696	-
Interest rate derivatives	4,368,040	341,000	-	4,207,750	1,080,000	-
Transaction related contingent items	100,553	144,082	-	126,658	141,900	-
	<u>6,472,014</u>	<u>551,985</u>	<u>-</u>	<u>5,671,975</u>	<u>1,467,596</u>	<u>-</u>

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

## 39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

<u>Bank</u>	2016				2015			
	Holding Company RM'000	Subsidiary Companies RM'000	Other Related Companies RM'000	Key Management Personnel RM'000	Holding Company RM'000	Subsidiary Companies RM'000	Other Related Companies RM'000	Key Management Personnel RM'000
<b>Income</b>								
Interest on deposits and placements								
with banks and other financial institutions	962	43,826	-	-	1,554	44,312	-	-
Interest on financial investments available-for-sale	-	2,876	-	-	-	2,747	-	-
Fee and commission income	3,731	-	15,195	-	4,360	335	11,203	-
Interest on loans, advances and financing	-	-	8,874	123	-	-	4,792	89
Interest/Profit on unquoted Islamic subordinated bond	-	10,959	-	-	-	10,900	-	-
Shared services fee income	1,638	101,135	10,360	-	1,501	105,565	7,503	-
Rental income	4	61	4,238	-	-	75	4,302	-
Other income	-	2	117	-	-	3	113	-
	<b>6,335</b>	<b>158,859</b>	<b>38,784</b>	<b>123</b>	<b>7,415</b>	<b>163,937</b>	<b>27,913</b>	<b>89</b>
<b>Expenditure</b>								
Interest on deposits from customers	-	-	7,403	1,009	-	1	4,690	618
Interest on deposits and placements of banks and other financial institutions	55,619	-	-	-	73,756	-	-	-
Fee and commission expense	-	3,336	-	-	-	-	-	-
Interest/Profit on unquoted Islamic subordinated bond	42,595	-	-	-	10,014	-	-	-
Shared service fees	-	7,585	-	-	-	5,115	-	-
Transaction processing fees	-	-	95,869	-	-	-	98,704	-
Rental expenses	-	-	1,048	-	-	-	1,027	-
Other expenses	7	-	193,829	-	47	-	164,223	-
	<b>98,221</b>	<b>10,921</b>	<b>298,149</b>	<b>1,009</b>	<b>83,817</b>	<b>5,116</b>	<b>268,644</b>	<b>618</b>

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

## 39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2016				2015			
	Holding Company RM'000	Subsidiary Companies RM'000	Other Related Companies RM'000	Key Management Personnel RM'000	Holding Company RM'000	Subsidiary Companies RM'000	Other Related Companies RM'000	Key Management Personnel RM'000
<b>Bank (continued)</b>								
<b>Amount due from</b>								
Cash and cash equivalents	65,674	1,117,264	1,559	-	126,245	949,849	19,277	-
Deposits and placements with banks and other financial institutions	300,246	787,563	-	-	142,119	676,407	1,272	-
Financial investments available-for-sale	-	69,022	-	-	-	65,932	-	-
Interest receivable	237	5,209	128	-	7	5,212	194	-
Subordinated bond	-	200,000	-	-	-	200,000	-	-
Loans, advances and financing	-	-	122,500	4,023	-	-	169,000	2,404
Shared services fee receivable	123	7,890	637	-	135	8,906	-	-
Other assets	-	46	16,696	-	-	439	28,612	-
	<b>366,280</b>	<b>2,186,994</b>	<b>141,520</b>	<b>4,023</b>	<b>268,506</b>	<b>1,906,745</b>	<b>218,355</b>	<b>2,404</b>
<b>Amount due to</b>								
Deposits from customers	-	18,304	1,124,298	55,121	-	13,734	754,824	16,773
Deposits and placements of banks and other financial institutions	7,472,838	-	-	-	5,209,703	-	-	-
Other liabilities	2,643	43,582	2	-	2,298	3,981	2,114	-
Interest payable	17,568	-	319	-	14,100	-	229	-
Subordinated bond	1,076,424	-	-	-	1,029,671	-	-	-
Shared services fee payable	-	563	-	-	-	618	-	-
	<b>8,569,473</b>	<b>62,449</b>	<b>1,124,619</b>	<b>55,121</b>	<b>6,255,772</b>	<b>18,333</b>	<b>757,167</b>	<b>16,773</b>
<b>Commitments</b>								
Foreign exchange derivatives	2,003,421	43,813	62,023	-	1,337,567	39,392	243,633	-
Interest rate derivatives	4,368,040	-	341,000	-	4,207,750	-	1,080,000	-
Transaction related contingent items	100,553	-	144,082	-	126,658	-	141,900	-
	<b>6,472,014</b>	<b>43,813</b>	<b>547,105</b>	<b>-</b>	<b>5,671,975</b>	<b>39,392</b>	<b>1,465,533</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)****(b) Credit exposure arising from credit transactions with connected parties**

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Aggregate value of outstanding credit exposure with connected parties<sup>^</sup>:</b>				
Credit facility and leasing (except guarantee)	375,311	668,445	798,167	1,078,635
Commitments and contingencies*	383,595	288,040	383,258	287,736
	<b>758,906</b>	<b>956,485</b>	<b>1,181,425</b>	<b>1,366,371</b>
<b>Impaired or in default</b>	-	-	-	-
<b>Outstanding credit exposures to connected parties</b>				
As a proportion of total credit exposures	0.88%	1.07%	1.56%	1.76%

<sup>^</sup> Comprises total outstanding balances and unutilised limits

\* Commitment and contingencies transactions that give rise to credit and/or counterparty risk.

(c) Key management personnel remuneration of the Group and the Bank are disclosed in Note 30 of the financial statements.

**40 FINANCIAL INSTRUMENTS**

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

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

Group	FVTPL-HFT RM'000	L&R/F&R/FL RM'000	AFS RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
<b>2016</b>					
<b>Financial assets</b>					
Cash and cash equivalents	-	8,293,096	-	-	8,293,096
Deposits and placements with banks and other financial institutions	-	1,447,920	-	-	1,447,920
Financial assets held-for-trading	1,528,361	-	-	-	1,528,361
Financial investments available-for-sale	-	-	11,253,505	-	11,253,505
Loans, advances and financing	-	67,421,623	-	-	67,421,623
Derivative financial assets	1,995,120	-	-	396	1,995,516
Other assets	-	280,597	-	-	280,597
Statutory deposits with Bank Negara Malaysia	-	2,000,966	-	-	2,000,966
	<b>3,523,481</b>	<b>79,444,202</b>	<b>11,253,505</b>	<b>396</b>	<b>94,221,584</b>

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

## 40 FINANCIAL INSTRUMENTS (continued)

<u>Group</u> (continued)	FVTPL-HFT RM'000	L&R/F&R/FL RM'000	AFS RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
<b>2016</b>					
<b>Financial liabilities</b>					
Deposits from customers	-	72,222,724	-	-	72,222,724
Deposits and placements of banks and other financial institutions	-	9,462,112	-	-	9,462,112
Bills and acceptances payable	-	153,888	-	-	153,888
Recourse obligation on loans sold to Cagamas Berhad	-	1,328,516	-	-	1,328,516
Derivative financial liabilities	1,813,628	-	-	6,786	1,820,414
Other liabilities	-	948,838	-	-	948,838
Subordinated bonds	-	2,075,852	-	-	2,075,852
	<b>1,813,628</b>	<b>86,191,930</b>	<b>-</b>	<b>6,786</b>	<b>88,012,344</b>
<b>2015</b>					
<b>Financial assets</b>					
Cash and cash equivalents	-	5,443,390	-	-	5,443,390
Deposits and placements with banks and other financial institutions	-	-	-	-	-
Financial assets held-for-trading	1,545,745	-	-	-	1,545,745
Financial investments available-for-sale	-	-	13,687,018	-	13,687,018
Loans, advances and financing	-	68,468,175	-	-	68,468,175
Derivative financial assets	2,104,667	-	-	245	2,104,912
Other assets	-	317,835	-	-	317,835
Statutory deposits with Bank Negara Malaysia	-	2,386,312	-	-	2,386,312
	<b>3,650,412</b>	<b>76,615,712</b>	<b>13,687,018</b>	<b>245</b>	<b>93,953,387</b>
<b>Financial liabilities</b>					
Deposits from customers	-	73,465,634	-	-	73,465,634
Deposits and placements of banks and other financial institutions	-	8,098,511	-	-	8,098,511
Bills and acceptances payable	-	146,894	-	-	146,894
Recourse obligation on loans sold to Cagamas Berhad	-	1,148,897	-	-	1,148,897
Derivative financial liabilities	1,969,516	-	-	10,308	1,979,824
Other liabilities	-	1,033,595	-	-	1,033,595
Subordinated bonds	-	2,225,370	-	-	2,225,370
	<b>1,969,516</b>	<b>86,118,901</b>	<b>-</b>	<b>10,308</b>	<b>88,098,725</b>

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

## 40 FINANCIAL INSTRUMENTS (continued)

<u>Bank</u>	FVTPL-HFT RM'000	L&R/F&R/FL RM'000	AFS RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
<b>2016</b>					
<b>Financial assets</b>					
Cash and cash equivalents	-	7,449,587	-	-	7,449,587
Deposits and placements with banks and other financial institutions	-	2,235,484	-	-	2,235,484
Financial assets held-for-trading	1,528,361	-	-	-	1,528,361
Financial investments available-for-sale	-	-	8,077,528	-	8,077,528
Loans, advances and financing	-	57,799,889	-	-	57,799,889
Derivative financial assets	1,995,085	-	-	396	1,995,481
Other assets	-	464,465	-	-	464,465
Statutory deposits with Bank Negara Malaysia	-	1,673,966	-	-	1,673,966
	<b>3,523,446</b>	<b>69,623,391</b>	<b>8,077,528</b>	<b>396</b>	<b>81,224,761</b>
<b>Financial liabilities</b>					
Deposits from customers	-	60,988,458	-	-	60,988,458
Deposits and placements of banks and other financial institutions	-	8,977,185	-	-	8,977,185
Bills and acceptances payable	-	123,405	-	-	123,405
Recourse obligation on loans sold to Cagamas Berhad	-	1,328,516	-	-	1,328,516
Derivative financial liabilities	1,813,258	-	-	6,786	1,820,044
Other liabilities	-	823,226	-	-	823,226
Subordinated bonds	-	2,075,852	-	-	2,075,852
	<b>1,813,258</b>	<b>74,316,642</b>	<b>-</b>	<b>6,786</b>	<b>76,136,686</b>
<b>2015</b>					
<b>Financial assets</b>					
Cash and cash equivalents	-	4,862,227	-	-	4,862,227
Deposits and placements with banks and other financial institutions	-	1,076,407	-	-	1,076,407
Financial assets held-for-trading	1,545,745	-	-	-	1,545,745
Financial investments available-for-sale	-	-	10,629,759	-	10,629,759
Loans, advances and financing	-	58,580,383	-	-	58,580,383
Derivative financial assets	2,104,262	-	-	245	2,104,507
Other assets	-	495,733	-	-	495,733
Statutory deposits with Bank Negara Malaysia	-	1,980,212	-	-	1,980,212
	<b>3,650,007</b>	<b>66,994,962</b>	<b>10,629,759</b>	<b>245</b>	<b>81,274,973</b>

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

## 40 FINANCIAL INSTRUMENTS (continued)

<u>Bank</u> (continued)	FVTPL-HFT RM'000	L&R/F&R/FL RM'000	AFS RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
<b>2015</b>					
<b>Financial liabilities</b>					
Deposits from customers	-	63,366,892	-	-	63,366,892
Deposits and placements of banks and other financial institutions	-	6,665,892	-	-	6,665,892
Bills and acceptances payable	-	128,224	-	-	128,224
Recourse obligation on loans sold to Cagamas Berhad	-	1,148,897	-	-	1,148,897
Derivative financial liabilities	1,968,941	-	-	10,308	1,979,249
Other liabilities	-	883,707	-	-	883,707
Subordinated bonds	-	2,225,370	-	-	2,225,370
	<u>1,968,941</u>	<u>74,418,982</u>	<u>-</u>	<u>10,308</u>	<u>76,398,231</u>

## 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 Group or the counterparties or following other predetermined events. Malaysia was not a clear netting jurisdiction previously and hence the Group was not able to enforce set-off in the event of default. The Netting of Financial Agreement Act ("the Act") which came into force in 2015 provides assurance that the close-out netting mechanism for financial transactions is enforceable under the law.

The related financial instruments not offset pertain to financial assets and financial liabilities that are not presented net in the Group's and the Bank's statements 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.

Types of financial assets/liabilities	Carrying amount in the statement of financial position RM'000	Financial instruments not in scope of offsetting disclosures RM'000	Gross recognised financial instruments in scope RM'000	Related amount not offset in the statement of financial position		Net amount in scope RM'000
				Financial instruments RM'000	Cash collateral received/ pledged RM'000	
<b>Group</b>						
<b>2016</b>						
Derivative financial assets	1,995,516	(267,162)	1,728,354	(532,748)	(905,926)	289,680
Derivative financial liabilities	1,820,414	(155,564)	1,664,850	(532,748)	(267,034)	865,067
<b>2015</b>						
Derivative financial assets	2,104,912	(281,323)	1,823,589	(772,506)	(696,542)	354,541
Derivative financial liabilities	1,979,824	(139,220)	1,840,604	(772,505)	(315,626)	752,474



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****40 FINANCIAL INSTRUMENTS (continued)****OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

Types of financial assets/liabilities	Carrying amount in the statement of financial position	Financial instruments not in scope of offsetting disclosures	Gross recognised financial instruments in scope	Related amount not offset in the statement of financial position		Net amount in scope
				Financial instruments	Cash collateral received/pledged	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>						
<b>2016</b>						
Derivative financial assets	1,995,481	(267,127)	1,728,354	(532,748)	(905,926)	289,680
Derivative financial liabilities	1,820,044	(155,194)	1,664,850	(532,748)	(267,034)	865,068
<b>2015</b>						
Derivative financial assets	2,104,507	(280,918)	1,823,589	(772,506)	(696,542)	354,541
Derivative financial liabilities	1,979,249	(138,645)	1,840,604	(772,505)	(315,626)	752,474

**41 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 Group's and the Bank's financial instruments, including loans, advances and financing to customers, such market prices do not exist as there is currently no ready market wherein exchanges between willing parties occur.

The Group and the Bank use 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 Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and 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 Group and the Bank as going concerns.

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

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

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

**41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**(A) Fair value measurement**

**(i) Financial assets and financial liabilities**

(a) Short term financial instruments

The carrying amounts approximate the fair values of cash and cash equivalents, deposits and placements with/of banks and other financial institutions with maturity less than one year, interest/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 interest/profit rates for deposits and placements with similar remaining period to maturity.

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

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

(d) Derivative financial assets and liabilities

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

(e) Loans, advances and financing

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

(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 bonds

The fair value for the quoted subordinated bonds is determined using quoted market prices where available, or by reference to quoted market prices of similar instruments. The fair value of unquoted subordinated bonds are estimated based on discounted cash flow models.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****(A) Fair value measurement (continued)****(i) Financial assets and financial liabilities (continued)**

## (i) Recourse obligation on loans sold to Cagamas Berhad

For floating rate contracts, the carrying amount is generally a reasonable estimate of the fair value. The fair value of fixed rate contracts is estimated based on discounted cash flows using prevailing rates offered by Cagamas Berhad for similar products and remaining period to maturity.

**(ii) Off-statement of financial position financial instruments**

The fair value of off-statement of financial position financial instruments is the estimated amount the Group or 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 9.

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

The Group and the Bank measure 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:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Fair value determined	Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets and financial liabilities that the entity can access at the measurement date.	Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets and liabilities, either directly or indirectly.	Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.
Type of financial assets	Actively traded government and agency securities  Actively traded quoted equity securities of corporations	Corporate and other government bonds/sukuk and loans  Over-the counter ("OTC") derivatives  Cash and cash equivalents  Deposits and placements with banks and other financial institutions  Other assets	Private debt equity investments  Corporate bonds/sukuk with illiquid markets  Loans, advances and financing

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

## 41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	Level 1	Level 2	Level 3
Type of financial liabilities		OTC derivatives	
		Deposits from customer	
		Deposits and placement of banks and other financial institutions	
		Other liabilities	
		Subordinated bonds/sukuk	

## (i) Fair value hierarchy of financial instruments carried at fair value

<u>Group</u>	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<b>2016</b>				
<b>Financial assets at fair value</b>				
Held-for-trading	358,647	1,169,714	-	1,528,361
Available-for-sale	5,765,683	5,379,276	-	11,144,959
Derivative assets	830	1,983,524	11,162	1,995,516
	<u>6,125,160</u>	<u>8,532,514</u>	<u>11,162</u>	<u>14,668,836</u>
<b>Financial liabilities at fair value</b>				
Derivative liabilities	524	1,807,596	12,294	1,820,414
	<u>524</u>	<u>1,807,596</u>	<u>12,294</u>	<u>1,820,414</u>
<b>2015</b>				
<b>Financial assets at fair value</b>				
Held-for-trading	332,096	1,213,649	-	1,545,745
Available-for-sale	7,163,810	6,414,662	-	13,578,472
Derivative assets	615	2,090,301	13,996	2,104,912
	<u>7,496,521</u>	<u>9,718,612</u>	<u>13,996</u>	<u>17,229,129</u>
<b>Financial liabilities at fair value</b>				
Derivative liabilities	17,092	1,943,852	18,880	1,979,824
	<u>17,092</u>	<u>1,943,852</u>	<u>18,880</u>	<u>1,979,824</u>
<b>Bank</b>				
<b>2016</b>				
<b>Financial assets at fair value</b>				
Held-for-trading	358,647	1,169,714	-	1,528,361
Available-for-sale	4,217,072	3,751,910	-	7,968,982
Derivative assets	819	1,983,500	11,162	1,995,481
	<u>4,576,538</u>	<u>6,905,124</u>	<u>11,162</u>	<u>11,492,824</u>
<b>Financial liabilities at fair value</b>				
Derivative liabilities	543	1,807,207	12,294	1,820,044
	<u>543</u>	<u>1,807,207</u>	<u>12,294</u>	<u>1,820,044</u>

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

## 41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

## (i) Fair value hierarchy of financial instruments carried at fair value (continued)

<u>Bank</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<b>2015</b>				
<b>Financial assets at fair value</b>				
Held-for-trading	332,096	1,213,649	-	1,545,745
Available-for-sale	5,689,978	4,831,235	-	10,521,213
Derivative assets	633	2,089,878	13,996	2,104,507
	<u>6,022,707</u>	<u>8,134,762</u>	<u>13,996</u>	<u>14,171,465</u>
<b>Financial liabilities at fair value</b>				
Derivative liabilities	17,090	1,943,279	18,880	1,979,249

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

	<u>Group and Bank</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
<b>Financial assets at fair value</b>		
At 1 January	13,996	16,298
Purchased	670	4,071
Settled	(31)	-
Recognised in profit or loss		
- Realised loss	(2,812)	(9,699)
- Unrealised (loss)/gain	(661)	3,326
At 31 December	<u>11,162</u>	<u>13,996</u>
<b>Financial liabilities at fair value</b>		
At 1 January	18,880	20,914
Issued	-	9,006
Settled	(4,760)	(14,622)
Recognised in profit or loss		
- Realised (loss)/gain	(1,667)	581
- Unrealised (loss)/gain	(159)	3,001
At 31 December	<u>12,294</u>	<u>18,880</u>

**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**

During the financial year, financial investments available-for-sale of the Group and the Bank with carrying amounts of RM291,254,400 (2015: RM429,600,810 and RM48,278,310 respectively), were transferred from Level 1 to Level 2 because market for such debt securities became inactive. Financial investments available-for-sale of the Group with a carrying amount of RM 240,408,000 (2015 : Nil) were transferred from Level 2 to Level 1 upon availability of active market.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****(B) Fair value hierarchy of financial instruments (continued)****(i) Fair value hierarchy of financial instruments carried at fair value (continued)****Transfer between Level 1 and 2 fair values (continued)**

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:

<u>Group and Bank</u>	<b>2016</b> Fair value RM'000	<b>2015</b> Fair value RM'000	<b>Classification</b>	<b>Valuation technique</b>	<b>Unobservable input</b>
<b>Assets</b>					
Derivative assets	11,162	13,996	Hedge for trading	Option pricing model	Standard deviation
<b>Liabilities</b>					
Derivative liabilities	12,294	18,880	Hedge for trading	Option pricing model	Standard deviation

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

**Valuation control framework**

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.

The Market Risk Management ("MRM") functions within the Risk Management Division and with support from Group Risk Management Division, is responsible for market data validation, assessment of model validation and ongoing performance monitoring.

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

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

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

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

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

## 41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

<u>Group</u>	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> <u>fair value</u> RM'000	<u>Carrying</u> <u>amount</u> RM'000
<b>2016</b>				
<b>Financial assets not carried at fair value</b>				
Cash and cash equivalents	8,293,096	-	8,293,096	8,293,096
Deposits and placements with banks and other financial institutions	1,447,920	-	1,447,920	1,447,920
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	67,418,836	67,418,836	67,421,623
Statutory deposits with Bank Negara Malaysia	2,000,966	-	2,000,966	2,000,966
Other assets	280,597	-	280,597	280,597
	<b>12,022,579</b>	<b>67,527,382</b>	<b>79,549,961</b>	<b>79,552,748</b>
<b>Financial liabilities not carried at fair value</b>				
Deposits from customers	72,227,685	-	72,227,685	72,222,724
Deposits and placements of banks and other financial institutions	9,479,768	-	9,479,768	9,462,112
Bills and acceptance payable	153,888	-	153,888	153,888
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	-	1,328,516	1,328,516
Other liabilities	948,838	-	948,838	948,838
Subordinated bonds	2,127,277	-	2,127,277	2,075,852
	<b>86,265,972</b>	<b>-</b>	<b>86,265,972</b>	<b>86,191,930</b>
<b>2015</b>				
<b>Financial assets not carried at fair value</b>				
Cash and cash equivalents	5,443,390	-	5,443,390	5,443,390
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	68,684,870	68,684,870	68,468,175
Statutory deposits with Bank Negara Malaysia	2,386,312	-	2,386,312	2,386,312
Other assets	317,835	-	317,835	317,835
	<b>8,147,537</b>	<b>68,793,416</b>	<b>76,940,953</b>	<b>76,724,258</b>
<b>Financial liabilities not carried at fair value</b>				
Deposits from customers	73,466,561	-	73,466,561	73,465,634
Deposits and placements of banks and other financial institutions	8,121,264	-	8,121,264	8,098,511
Bills and acceptance payable	146,894	-	146,894	146,894
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	-	1,148,897	1,148,897
Other liabilities	1,033,595	-	1,033,595	1,033,595
Subordinated bonds	2,259,119	-	2,259,119	2,225,370
	<b>86,176,330</b>	<b>-</b>	<b>86,176,330</b>	<b>86,118,901</b>

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

## 41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

<u>Bank</u>	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> <u>fair value</u> RM'000	<u>Carrying</u> <u>amount</u> RM'000
<b>2016</b>				
<b>Financial assets not carried at fair value</b>				
Cash and cash equivalents	7,449,587	-	7,449,587	7,449,587
Deposits and placements with banks and other financial institutions	2,235,484	-	2,235,484	2,235,484
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	57,792,676	57,792,676	57,799,889
Statutory deposits with Bank Negara Malaysia	1,673,966	-	1,673,966	1,673,966
Other assets	464,465	-	464,465	464,465
	<u>11,823,502</u>	<u>57,901,222</u>	<u>69,724,724</u>	<u>69,731,937</u>
<b>Financial liabilities not carried at fair value</b>				
Deposits from customers	60,992,220	-	60,992,220	60,988,458
Deposits and placements of banks and other financial institutions	8,984,850	-	8,984,850	8,977,185
Bills and acceptance payable	123,405	-	123,405	123,405
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	-	1,328,516	1,328,516
Other liabilities	823,226	-	823,226	823,226
Subordinated bonds	2,102,023	-	2,102,023	2,075,852
	<u>74,354,240</u>	<u>-</u>	<u>74,354,240</u>	<u>74,316,642</u>
<b>2015</b>				
<b>Financial assets not carried at fair value</b>				
Cash and cash equivalents	4,862,227	-	4,862,227	4,862,227
Deposits and placements with banks and other financial institutions	1,076,407	-	1,076,407	1,076,407
Financial investments available-for-sale	-	108,546	108,546	108,546
Loans, advances and financing	-	58,589,159	58,589,159	58,580,383
Statutory deposits with Bank Negara Malaysia	1,980,212	-	1,980,212	1,980,212
Other assets	495,733	-	495,733	495,733
	<u>8,414,579</u>	<u>58,697,705</u>	<u>67,112,284</u>	<u>67,103,508</u>
<b>Financial liabilities not carried at fair value</b>				
Deposits from customers	63,366,622	-	63,366,622	63,366,892
Deposits and placements of banks and other financial institutions	6,682,153	-	6,682,153	6,665,892
Bills and acceptance payable	128,224	-	128,224	128,224
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	-	1,148,897	1,148,897
Other liabilities	883,707	-	883,707	883,707
Subordinated bonds	2,256,039	-	2,256,039	2,225,370
	<u>74,465,642</u>	<u>-</u>	<u>74,465,642</u>	<u>74,418,982</u>



**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****42 HEDGING ACTIVITIES****Fair value hedge**

The Group and the Bank use fair value hedges to protect the Group and the Bank against the changes in fair value of fixed-rate long-term financial instruments due to movements in the market interest rates. The financial instruments hedged for interest rate risk include the Group's and the Bank's subordinated bonds and investments in certain private debt securities. The Group and the Bank primarily use interest rate swaps as hedges of interest rate risk.

The net gains and losses arising from fair value hedges during the year are as follows:

	<b>Group and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Gains on hedging instruments	3,673	6,679
Losses on the hedged items attributable to the hedged risk	(3,003)	(5,693)
	<u>670</u>	<u>986</u>

**43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

The Group and the Bank believe that sound risk management is paramount to the success of its risk-taking activities. The Group's philosophy is to ensure that risks and returns remain consistent with our risk appetite. To achieve this, the Group identifies emerging portfolio threats and credit concentrations at an early stage in order to develop timely risk-response strategies.

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

- (i) Risk appetite – The Board of Directors approves the Group's risk appetite, and that all risks are managed in alignment with the risk appetite. Risk-taking decisions must be consistent with strategic business goals and returns commensurate with the risks taken.
- (ii) Risk frameworks – The Group's and Bank's risk management frameworks for all risk types are effective, comprehensive, and consistent.
- (iii) Holistic risk management – Risks are managed holistically, with a view to understand the potential interactions among risk types.
- (iv) Qualitative and quantitative evaluations – Risks are evaluated both qualitatively and with appropriate quantitative analyses and robust stress testing. Risk models in use are regularly reviewed and independently validated to ensure that they are fit-for-use.

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

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

### 43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Risk Governance and Organisation**

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

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

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

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

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

#### **Credit Risk Management**

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

#### *Credit Risk Management Oversight and Organisation*

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

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

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

### 43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Credit Risk Management (continued)**

##### *Credit Risk Management Oversight and Organisation (continued)*

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

##### *Credit Risk Management Approach*

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

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

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

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

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

##### *Internal Credit Rating Models*

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

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

### 43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Credit Risk Management (continued)**

##### *Internal Credit Rating Models (continued)*

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

##### *Credit Risk Control*

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

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

The Group and the Bank constantly strive to anticipate early problem credits and to proactively manage such credits and dedicated specialist workout teams to manage problem exposures. Time, risk-based event specific triggers, as well as discounted cash flow approaches are used to develop collection and asset recovery strategies.

The team uses information and analytical data such as delinquency buckets and adverse status tags for delinquent consumer financing, to constantly fine-tune collection efforts.

##### *Post Credit Approval*

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

#### **Market Risk Management**

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

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

##### *Market Risk Management Oversight and Organisation*

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

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

### 43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Market Risk Management (continued)**

##### *Market Risk Management Oversight and Organisation (continued)*

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

##### *Market Risk Management Approach*

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

##### *Market Risk Identification*

Risk identification is addressed via the Group's and 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”), One Basis Point Move in Credit Spreads (“CS01”) and derivative greeks.

The Group and the Bank also perform stress testing and scenario analyses to better quantify and assess potential losses arising from low probability but plausible extreme market conditions. The stress scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Group's and 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 Group's and 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 Group's and the Bank's risk control process. Risk models are used to price financial instruments and to calculate VAR. The models used are verified and assessed to ensure that they are fit for their intended purpose. Market rates used for risk measurements and valuation are sourced independently, thereby adding further to the integrity of the trading profits and losses (“P&L”), risk and limit control measurements.

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

#### **Asset Liability Management**

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

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

### 43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Asset Liability Management (continued)**

##### *Asset Liability Management Oversight and Organisation*

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

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

##### *Asset Liability Management Approach*

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

##### *Liquidity Risk*

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

The Group's and the Bank's liquidity management process involve 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.

##### *Interest/Profit Rate Risk*

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

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

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

#### **Operational Risk Management**

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

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

### 43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Operational Risk Management (continued)**

The Group's and the Bank's operational risk management aim 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 Group's and the Bank's operational risk management, information security and technology risk practices. ORC ensures that various risk management programmes that are in place are appropriate, effective, and support the Group's and 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 Group and the Bank adopt 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 Group's and the Bank's control culture by establishing clear roles and responsibilities for staff and preserving their rights in executing control functions without fear of intimidation or reprisal.

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

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

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

#### *Outsourcing Risk Management*

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

#### *Physical and People Security Risk Management*

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

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

**43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Operational Risk Management (continued)**

*Business Continuity Risk Management*

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

*Fraud Risk Management*

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

*Reputational Risk Management*

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

*Fiduciary Risk Management*

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

*Regulatory and Legal Risk Management*

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

*Technology and Information Security Risk Management*

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



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

### 43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Operational Risk Management (continued)

##### *Cyber Security Risk Management*

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

#### Shariah Governance

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

- (i) Defines Shariah governance structures, policies and processes to ensure that all its operations and business activities are in accordance with Shariah principles;
- (ii) Provides comprehensive guidance to the Board, the Management and the Shariah Committee of OCBC Al-Amin in discharging their respective duties in matters relating to Shariah; and
- (iii) Outlines the functions relating to Shariah Review, Shariah Audit, Shariah Research and Secretariat, and Shariah Non-Compliance Risk Management processes.

The SGF is applicable to all employees of OCBC Al-Amin and also extends to all employees of the Group who are involved in the business and operations of OCBC Al-Amin 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 Group's risk management framework. Shariah Non-Compliance Risk arises from Islamic banks' failure to comply with the Shariah rules and principles as determined by the Shariah Advisory Council ("SAC") of Bank Negara Malaysia, Shariah Advisory Council of the Securities Commission and Shariah Committee of Islamic Banks.

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

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

The key components of OCBC Al-Amin's Shariah Non-Compliance Risk Management process are namely:

- (i) Risk Identification – Identification of the potential Shariah Non-Compliance Events.
- (ii) Risk Assessment/M 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.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)****43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Shariah Governance (continued)***Shariah Non-Compliance Risk (continued)*

- (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. OCBC Al-Amin's Shariah Review team will periodically review the operations and processes of the Bank's activities and will escalate any potential non-compliance events to the Shariah Committee for decision. Training programs are also being offered to all personnel that are involved in the Shariah Banking activities and operations.
- (iv) Monitoring & Reporting – Establishing early warning, monitoring and reporting mechanism on Shariah Non-Compliance Risk exposures.

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

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

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
<b>Sources and Uses of charity funds</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	7	99
<u>Sources of charity funds</u>		
Shariah non-compliance income	1	3
<u>Uses of charity funds</u>		
Contribution to non-profit organisations	-	(95)
At 31 December	<u>8</u>	<u>7</u>

**44 CREDIT RISK**

Credit risk is the risk of a financial loss to the Group and the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's and the Bank's maximum credit exposure on the financial assets without taking into account any collateral held or other credit enhancements of the Group and the Bank equal their carrying amount as reported in the statements of financial position. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and 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.

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

## 44 CREDIT RISK (continued)

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and cash equivalents		8,293,096	5,443,390	7,449,587	4,862,227
Deposits and placements with banks and other financial institutions		1,447,920	-	2,235,484	1,076,407
Financial assets held-for-trading	(a)	1,528,361	1,545,745	1,528,361	1,545,745
Financial investments available-for-sale	(b)	11,253,517	13,687,030	8,077,540	10,629,771
Loans, advances and financing	(c)	68,520,940	69,627,768	58,632,184	59,467,064
Derivative financial assets	(d)	1,995,516	2,104,912	1,995,481	2,104,507
Other assets		280,597	317,835	464,465	495,733
Contingent liabilities and commitments	(e)	28,006,971	34,246,473	25,267,751	30,812,421
		<u>121,326,918</u>	<u>126,973,153</u>	<u>105,650,853</u>	<u>110,993,875</u>

## (a) Credit quality of financial assets held-for-trading

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

		Group and Bank	
		2016 RM'000	2015 RM'000
(i)	By issuer		
	Government and Central Bank	512,084	220,953
	Public sector	49,976	-
	Banks	589,734	174,378
	Non-bank financial institutions	150,568	826,800
	Business Enterprise	225,999	323,614
		<u>1,528,361</u>	<u>1,545,745</u>
(ii)	By geography		
	Malaysia	1,457,695	1,385,570
	Singapore	12	30
	Rest of the world	70,654	160,145
		<u>1,528,361</u>	<u>1,545,745</u>
(iii)	By credit rating		
	Government and Central Bank (unrated)	331,959	59,582
	Government (AAA to BBB)	180,125	161,371
	Investment grade (AAA to BBB)	702,143	1,068,722
	Unrated	314,134	256,070
		<u>1,528,361</u>	<u>1,545,745</u>

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

## 44 CREDIT RISK (continued)

## (a) Credit quality of financial assets held-for-trading (continued)

	Group and Bank	
	2016 RM'000	2015 RM'000
(iv) By sector		
Agriculture, hunting, forestry and fishing	-	22,952
Mining and quarrying	-	508
Manufacturing	26,142	77,180
Electricity, gas and water	-	114
Construction	49,966	15,844
Real estate	-	321
Wholesale & retail trade and restaurants & hotels	12	5,155
Transport, storage and communication	49,976	77,816
Finance, insurance and business services	890,180	1,120,247
Others	512,085	225,608
	<u>1,528,361</u>	<u>1,545,745</u>
(v) By residual contractual maturity		
Within one year	980,219	1,233,734
One to five years	506,889	141,581
Over five years	41,253	170,430
	<u>1,528,361</u>	<u>1,545,745</u>

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

In view of the following sound credit rating of counterparties, the Group and the Bank do not expect any counterparty to fail to meet its obligation except for the impairment allowance recognised in respect of financial investments available-for-sale as disclosed in Note 6.

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) By issuer				
Government and Central Bank	6,684,465	8,184,568	4,812,867	5,859,174
Foreign government	299,295	726,654	65,575	507,182
Public sector	153,858	129,774	119,200	69,811
Banks	1,465,408	2,349,842	835,741	2,266,120
Non-bank financial institutions	1,013,250	667,904	963,060	618,186
Business Enterprises	1,637,051	1,628,098	1,280,907	1,309,108
Others	190	190	190	190
	<u>11,253,517</u>	<u>13,687,030</u>	<u>8,077,540</u>	<u>10,629,771</u>
(ii) By geography				
Malaysia	10,087,992	12,116,392	7,145,735	9,278,605
Other ASEAN	190,010	284,396	63,346	195,185
Rest of the world	975,515	1,286,242	868,459	1,155,981
	<u>11,253,517</u>	<u>13,687,030</u>	<u>8,077,540</u>	<u>10,629,771</u>

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

## 44 CREDIT RISK (continued)

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(iii) By credit rating				
Government and Central Bank (unrated)	2,205,475	1,488,366	1,168,775	841,367
Government (AAA to A)	4,478,990	6,696,202	3,644,092	5,017,807
Foreign government (unrated)	23,040	34,704	-	8,263
Foreign government (AAA to BBB)	276,255	691,950	65,575	498,919
Investment grade (AAA to BBB)	2,601,684	2,598,173	2,370,368	2,319,769
Unrated	1,668,073	2,177,635	828,730	1,943,646
	<b>11,253,517</b>	<b>13,687,030</b>	<b>8,077,540</b>	<b>10,629,771</b>
(iv) By sector				
Agriculture, hunting, forestry and fishing	121,323	43,860	91,982	24,341
Mining and quarrying	96,174	210,599	96,174	210,599
Manufacturing	50,301	24,979	50,301	-
Electricity, gas and water	219,845	104,363	104,515	104,363
Construction	115,131	10,040	115,131	10,040
Wholesale & retail trade and restaurants & hotels	138,745	43,580	138,745	43,580
Transport, storage and communication	163,871	352,971	129,213	338,104
Finance, insurance and business services	3,163,505	3,723,739	2,297,145	3,415,770
Others	7,184,622	9,172,899	5,054,334	6,482,974
	<b>11,253,517</b>	<b>13,687,030</b>	<b>8,077,540</b>	<b>10,629,771</b>
(v) By residual contractual maturity				
Within one year	4,042,634	4,942,523	2,529,033	3,405,913
One to five years	6,186,335	7,165,205	4,914,940	5,862,425
Over five years	1,024,548	1,579,302	633,567	1,361,433
	<b>11,253,517</b>	<b>13,687,030</b>	<b>8,077,540</b>	<b>10,629,771</b>

## (c) Credit quality of loans, advances and financing

**Credit quality**

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

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

Past due but unimpaired are loans, advances and financing where the customer has failed to make a principal or profit payment when contractually due, and includes financing which are due one or more days after the contractual due date but less than 90 days.

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

## 44 CREDIT RISK (continued)

## (c) Credit quality of loans, advances and financing (continued)

*Credit quality (continued)*

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Neither past due nor impaired</b>	66,460,467	67,565,819	57,029,617	57,832,044
Past due loans/financing	1,830,618	1,654,928	1,438,117	1,389,457
- Unimpaired	574,745	627,579	414,391	486,074
- Impaired	1,255,873	1,027,349	1,023,726	903,383
Impaired but not past due	229,855	407,021	164,450	245,563
Gross loans, advances and financing	68,520,940	69,627,768	58,632,184	59,467,064
<b>Neither past due nor impaired</b>				
(i) By internal grading				
Pass	65,310,145	66,130,927	56,420,295	57,002,775
Special Mention	1,150,322	1,434,892	609,322	829,269
	66,460,467	67,565,819	57,029,617	57,832,044
<b>Past due but unimpaired</b>				
(i) By period overdue				
Less than 2 months	485,570	549,444	350,403	432,998
2 months to less than 3 months	89,175	78,135	63,988	53,076
	574,745	627,579	414,391	486,074
(ii) By geographical distribution				
Malaysia	564,910	619,351	404,556	477,846
Singapore	5,956	6,122	5,956	6,122
Other ASEAN	-	212	-	212
Rest of the world	3,879	1,894	3,879	1,894
	574,745	627,579	414,391	486,074

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

## 44 CREDIT RISK (continued)

## (c) Credit quality of loans, advances and financing (continued)

*Credit quality (continued)*

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(iii) By sector				
Agriculture, hunting, forestry and fishing	783	1,791	-	1,131
Mining and quarrying	-	3,751	-	1,566
Manufacturing	26,883	16,194	12,689	5,694
Construction	11,947	8,487	9,713	3,521
Real estate	15,440	23,364	15,440	22,659
Wholesale & retail trade and restaurants & hotels	80,788	64,914	46,555	36,899
Transport, storage and communication	5,890	8,972	2,564	2,246
Finance, insurance and business services	12,402	10,002	2,869	3,132
Community, social and personal services	3,129	9,595	454	5,659
Household				
- Purchase of residential properties	342,227	391,141	292,481	363,735
- Purchase of non-residential properties	6,006	11,291	6,006	11,291
- Others	69,250	78,077	25,620	28,541
	<u>574,745</u>	<u>627,579</u>	<u>414,391</u>	<u>486,074</u>

The analysis of impaired loans, advances and financing are detailed in Note 8 of the financial statements.

**Collateral**

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

- For personal housing loans/financing, mortgages over residential properties;
- For commercial property loans/financing, charges over the properties financed;
- For car loans/financing, charges over the vehicles financed;
- For share margin financing, listed securities of Malaysia; and
- For other loans/financing, charges over business assets such as premises, inventories, trade receivables or deposits.

As at 31 December 2016, there were no assets repossessed by the Group and the Bank as a result of taking possession of collateral held as security, or by calling upon other credit enhancements.

(ii) Quantification of the extent to which collateral and other credit enhancements mitigate credit risk and that best represents the maximum exposure to credit risk for impaired loans, advances and financing.

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fair value of collateral held against the covered portion of impaired loans, financing and advances	1,988,417	2,009,014	1,502,574	1,550,600
Covered portion of impaired loans, advances and financing	1,125,195	1,154,837	921,597	971,895
Uncovered portion of impaired loans, advances and financing	360,533	279,533	266,579	177,051
	<u>1,485,728</u>	<u>1,434,370</u>	<u>1,188,176</u>	<u>1,148,946</u>

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

## 44 CREDIT RISK (continued)

## (d) Credit quality of derivative assets

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) By counterparty				
Banks	1,554,933	1,643,276	1,554,935	1,643,301
Non-bank financial institutions	121,809	133,161	121,805	133,160
Business enterprises	294,258	303,442	294,225	303,013
Individuals	24,516	25,033	24,516	25,033
	<b>1,995,516</b>	<b>2,104,912</b>	<b>1,995,481</b>	<b>2,104,507</b>
(ii) By geographical distribution				
Malaysia	1,931,838	2,057,650	1,931,807	2,057,246
Singapore	41,868	45,748	41,864	45,747
Other ASEAN	1,095	2	1,095	2
Rest of the world	20,715	1,512	20,715	1,512
	<b>1,995,516</b>	<b>2,104,912</b>	<b>1,995,481</b>	<b>2,104,507</b>
(iii) By sector				
Agriculture, hunting, forestry and fishing	1,997	1,334	1,997	1,334
Mining and quarrying	191,014	200,910	191,014	200,910
Manufacturing	72,990	80,945	72,980	80,548
Electricity, gas and water	215	4	215	4
Construction	375	3,022	374	3,022
Real estate	2,084	1,679	2,084	1,679
Wholesale & retail trade and restaurants & hotels	16,324	8,170	16,309	8,139
Transport, storage and communication	93	943	93	943
Finance, insurance and business services	1,685,872	1,734,350	1,685,863	1,734,373
Community, social and personal services	40	-	40	-
Household	24,512	73,555	24,512	73,555
	<b>1,995,516</b>	<b>2,104,912</b>	<b>1,995,481</b>	<b>2,104,507</b>
(iv) By residual contractual maturity				
Within one year	950,963	696,356	950,928	695,951
One to five years	565,168	1,017,629	565,168	1,017,629
Over five years	479,385	390,927	479,385	390,927
	<b>1,995,516</b>	<b>2,104,912</b>	<b>1,995,481</b>	<b>2,104,507</b>



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

## 44 CREDIT RISK (continued)

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) By counterparty				
Government	500,000	-	500,000	-
Banks	332,964	5,218,261	182,728	5,183,768
Non-bank financial institutions	19,657	118,646	17,605	103,646
Business enterprises	15,754,922	16,523,557	13,327,614	13,387,072
Small and medium enterprises	5,507,141	5,429,043	5,507,141	5,429,043
Individuals	5,892,287	6,956,966	5,732,663	6,708,892
	<u>28,006,971</u>	<u>34,246,473</u>	<u>25,267,751</u>	<u>30,812,421</u>
(ii) By geographical distribution				
Malaysia	26,230,479	24,572,975	23,558,535	21,620,697
Singapore	68,783	639,743	68,783	637,647
Other ASEAN	1,267,062	1,540,809	1,199,786	1,326,294
Rest of the world	440,647	7,492,946	440,647	7,227,783
	<u>28,006,971</u>	<u>34,246,473</u>	<u>25,267,751</u>	<u>30,812,421</u>
(iii) By sector				
Agriculture, hunting, forestry and fishing	1,813,152	1,778,141	1,687,347	1,538,683
Mining and quarrying	517,546	903,840	395,852	862,814
Manufacturing	5,314,997	5,711,839	4,645,562	4,856,313
Electricity, gas and water	139,007	437,309	96,777	327,309
Construction	3,845,102	2,917,741	2,961,887	2,254,284
Real estate	2,211,951	2,474,755	2,195,593	1,835,395
Wholesale & retail trade and restaurants & hotels	2,828,485	3,067,436	2,665,697	2,867,019
Transport, storage and communication	865,830	493,150	661,702	447,691
Finance, insurance and business services	8,582,192	5,982,301	8,398,811	5,909,435
Community, social and personal services	1,614,725	2,104,193	1,470,357	1,912,792
Household	247,790	4,764,139	88,166	4,516,065
Others	26,194	3,611,629	-	3,484,621
	<u>28,006,971</u>	<u>34,246,473</u>	<u>25,267,751</u>	<u>30,812,421</u>
(iv) By residual contractual maturity				
Within one year	736,331	2,755,305	565,013	2,601,846
One to five years	13,787,202	17,254,751	11,617,365	14,488,599
Over five years	13,483,438	14,236,417	13,085,373	13,721,976
	<u>28,006,971</u>	<u>34,246,473</u>	<u>25,267,751</u>	<u>30,812,421</u>

OCBC BANK (MALAYSIA) BERHAD  
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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

## 45 LIQUIDITY RISK

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

<u>Group</u>	<b>Carrying amount RM'000</b>	<b>Up to 3 months RM'000</b>	<b>&gt; 3 - 6 months RM'000</b>	<b>&gt; 6 - 12 months RM'000</b>	<b>&gt; 1 - 3 years RM'000</b>	<b>&gt; 3 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>
<b>2016</b>								
<b>Assets</b>								
Cash and cash equivalents	8,293,096	8,293,096	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	1,447,920	1,447,920	-	-	-	-	-	-
Financial assets held-for-trading	1,528,361	531,021	290,159	159,039	181,321	325,568	41,253	-
Financial investments available-for-sale	11,253,505	1,487,491	280,019	2,275,124	4,055,837	2,130,498	915,694	108,842
Loans, advances and financing	67,421,623	13,626,843	2,157,147	2,301,348	8,648,283	5,491,106	35,196,896	-
Derivative financial assets	1,995,516	317,028	50,861	583,074	290,185	274,983	479,385	-
Statutory deposits with Bank Negara Malaysia	2,000,966	-	-	-	-	-	-	2,000,966
Other balances	506,770	169,219	4,933	24,265	34,033	28,228	17,526	228,566
<b>Total assets</b>	<b>94,447,757</b>	<b>25,872,618</b>	<b>2,783,119</b>	<b>5,342,850</b>	<b>13,209,659</b>	<b>8,250,383</b>	<b>36,650,754</b>	<b>2,338,374</b>
<b>Liabilities</b>								
Deposits from customers	72,222,724	47,962,582	11,046,355	11,572,471	802,000	539,316	300,000	-
Deposits and placements of banks and other financial institutions	9,462,112	7,889,962	1,569,958	348	1,432	412	-	-
Bills and acceptances payable	153,888	153,888	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	3,763	203,800	7,708	1,113,245	-	-	-
Derivative financial liabilities	1,820,414	111,734	92,171	141,733	702,169	381,655	390,952	-
Other balances	959,928	551,825	223,869	116,838	20,519	7,184	2,713	36,980
Subordinated bonds	2,075,852	-	-	599,428	400,000	1,076,424	-	-
<b>Total liabilities</b>	<b>88,023,434</b>	<b>56,673,754</b>	<b>13,136,153</b>	<b>12,438,526</b>	<b>3,039,365</b>	<b>2,004,991</b>	<b>693,665</b>	<b>36,980</b>

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

## 45 LIQUIDITY RISK (continued)

<u>Group</u>	<b>Carrying amount RM'000</b>	<b>Up to 3 months RM'000</b>	<b>&gt; 3 - 6 months RM'000</b>	<b>&gt; 6 - 12 months RM'000</b>	<b>&gt; 1 - 3 years RM'000</b>	<b>&gt; 3 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>
<b>2015</b>								
<b>Assets</b>								
Cash and cash equivalents	5,443,390	5,443,390	-	-	-	-	-	-
Financial assets held-for-trading	1,545,745	1,089,728	108,790	35,216	10,093	131,488	59,287	111,143
Financial investments								
available-for-sale	13,687,018	2,997,825	210,986	1,733,712	4,936,499	2,228,706	1,470,448	108,842
Loans, advances and financing	68,468,175	13,808,205	2,140,390	2,287,714	8,078,516	6,579,508	35,573,842	-
Derivative financial assets	2,104,912	163,665	269,654	263,037	690,474	327,155	390,927	-
Statutory deposits with								
Bank Negara Malaysia	2,386,312	-	-	-	-	-	-	2,386,312
Other balances	555,162	211,856	7,773	18,213	40,158	23,823	22,123	231,216
<b>Total assets</b>	<b>94,190,714</b>	<b>23,714,669</b>	<b>2,737,593</b>	<b>4,337,892</b>	<b>13,755,740</b>	<b>9,290,680</b>	<b>37,516,627</b>	<b>2,837,513</b>
<b>Liabilities</b>								
Deposits from customers	73,465,634	49,043,117	8,801,277	12,990,950	966,905	1,663,385	-	-
Deposits and placements of banks and other financial institutions	8,098,511	5,735,890	2,359,831	341	1,403	1,046	-	-
Bills and acceptances payable	146,894	146,894	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	3,528	3,565	7,242	1,134,562	-	-	-
Derivative financial liabilities	1,979,824	130,424	-	200,000	469,925	518,188	399,247	-
Other balances	1,055,195	642,292	137,804	324,236	32,232	9,863	24,401	30,740
Subordinated bonds	2,225,370	-	166,374	149,293	595,700	957,738	471,932	-
<b>Total liabilities</b>	<b>88,120,325</b>	<b>55,702,145</b>	<b>11,468,851</b>	<b>13,672,062</b>	<b>3,200,727</b>	<b>3,150,220</b>	<b>895,580</b>	<b>30,740</b>

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

## 45 LIQUIDITY RISK (continued)

<b>Bank</b>	<b>Carrying amount RM'000</b>	<b>Up to 3 months RM'000</b>	<b>&gt; 3 - 6 months RM'000</b>	<b>&gt; 6 - 12 months RM'000</b>	<b>&gt; 1 - 3 years RM'000</b>	<b>&gt; 3 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>
<b>2016</b>								
<b>Assets</b>								
Cash and cash equivalents	7,449,587	7,449,587	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	2,235,484	1,837,455	79,401	97,675	153,135	59,385	8,433	-
Financial assets held-for-trading	1,528,361	531,021	290,159	159,039	181,321	325,568	41,253	-
Financial investments available-for-sale	8,077,528	738,932	209,839	1,580,262	3,543,372	1,371,568	524,713	108,842
Loans, advances and financing	57,799,889	10,733,755	1,607,121	1,720,598	7,164,545	4,742,845	31,831,025	-
Derivative financial assets	1,995,481	316,993	50,861	583,074	290,185	274,983	479,385	-
Statutory deposits with Bank Negara Malaysia	1,673,966	-	-	-	-	-	-	1,673,966
Other balances	1,221,503	176,862	5,956	10,527	29,571	219,167	11,910	767,510
<b>Total assets</b>	<b>81,981,799</b>	<b>21,784,605</b>	<b>2,243,337</b>	<b>4,151,175</b>	<b>11,362,129</b>	<b>6,993,516</b>	<b>32,896,719</b>	<b>2,550,318</b>
<b>Liabilities</b>								
Deposits from customers	60,988,458	40,062,197	9,804,218	9,553,938	729,088	539,017	300,000	-
Deposits and placements of banks and other financial institutions	8,977,185	7,407,399	1,569,786	-	-	-	-	-
Bills and acceptances payable	123,405	123,405	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	3,763	203,800	7,708	1,113,245	-	-	-
Derivative financial liabilities	1,820,044	111,364	92,171	141,733	702,169	381,655	390,952	-
Other balances	834,271	503,740	193,448	92,585	8,782	4,071	2,640	29,005
Subordinated bonds	2,075,852	-	-	599,428	400,000	1,076,424	-	-
<b>Total liabilities</b>	<b>76,147,731</b>	<b>48,211,868</b>	<b>11,863,423</b>	<b>10,395,392</b>	<b>2,953,284</b>	<b>2,001,167</b>	<b>693,592</b>	<b>29,005</b>

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

## 45 LIQUIDITY RISK (continued)

<b>Bank</b>	<b>Carrying amount RM'000</b>	<b>Up to 3 months RM'000</b>	<b>&gt; 3 - 6 months RM'000</b>	<b>&gt; 6 - 12 months RM'000</b>	<b>&gt; 1 - 3 years RM'000</b>	<b>&gt; 3 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>
<b>2015</b>								
<b>Assets</b>								
Cash and cash equivalents	4,862,227	4,862,227	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	1,076,407	552,226	29,182	58,364	306,862	92,160	37,613	-
Financial assets held-for-trading	1,545,745	1,089,728	108,790	35,216	10,093	131,488	59,287	111,143
Financial investments available-for-sale	10,629,759	2,288,101	19,978	1,097,834	4,077,357	1,785,068	1,252,579	108,842
Loans, advances and financing	58,580,383	11,236,688	1,661,758	1,607,194	6,101,483	5,733,245	32,240,015	-
Derivative financial assets	2,104,507	163,260	269,654	263,037	690,474	327,155	390,927	-
Statutory deposits with Bank Negara Malaysia	1,980,212	-	-	-	-	-	-	1,980,212
Other balances	1,268,208	191,863	2,964	214,103	31,471	19,221	18,687	789,899
<b>Total assets</b>	<b>82,047,448</b>	<b>20,384,093</b>	<b>2,092,326</b>	<b>3,275,748</b>	<b>11,217,740</b>	<b>8,088,337</b>	<b>33,999,108</b>	<b>2,990,096</b>
<b>Liabilities</b>								
Deposits from customers	63,366,892	41,269,199	7,708,368	11,766,224	960,117	1,662,984	-	-
Deposits and placements of banks and other financial institutions	6,665,892	4,306,229	2,359,663	-	-	-	-	-
Bills and acceptances payable	128,224	128,224	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	3,528	3,565	7,242	1,134,562	-	-	-
Derivative financial liabilities	1,979,249	129,849	137,804	324,236	469,925	518,188	399,247	-
Other balances	905,267	562,788	139,929	134,052	10,177	9,861	23,672	24,788
Subordinated bonds	2,225,370	-	-	200,000	595,700	957,738	471,932	-
<b>Total liabilities</b>	<b>76,419,791</b>	<b>46,399,817</b>	<b>10,349,329</b>	<b>12,431,754</b>	<b>3,170,481</b>	<b>3,148,771</b>	<b>894,851</b>	<b>24,788</b>

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## 45 LIQUIDITY RISK (continued)

The tables below show the undiscounted cash outflows of the Group's and 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.

<u>Group</u>	<b>Carrying amount RM'000</b>	<b>Up to 3 months RM'000</b>	<b>&gt; 3 - 6 months RM'000</b>	<b>&gt; 6 - 12 months RM'000</b>	<b>&gt; 1 - 3 years RM'000</b>	<b>&gt; 3 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Total RM'000</b>
<b>2016</b>								
<b>Non-derivative financial liabilities</b>								
Deposits from customers	72,222,724	47,962,582	11,046,355	11,572,471	802,000	539,316	300,000	72,222,724
Deposits and placements of banks and other financial institutions	9,462,112	7,889,962	1,569,958	348	1,432	412	-	9,462,112
Bills and acceptances payable	153,888	153,888	-	-	-	-	-	153,888
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	3,763	203,800	7,708	1,113,245	-	-	1,328,516
Other liabilities	948,838	651,701	400,900	495,011	218,994	132,053	15,022	1,913,681
Subordinated bonds	2,075,852	-	-	599,428	400,000	1,076,424	-	2,075,852
	<b>86,191,930</b>	<b>56,661,896</b>	<b>13,221,013</b>	<b>12,674,966</b>	<b>2,535,671</b>	<b>1,748,205</b>	<b>315,022</b>	<b>87,156,773</b>
<b>Derivative financial liabilities</b>								
<b>Net settled derivatives</b>								
Trading:								
- Foreign exchange derivatives		6,169	-	-	-	-	-	6,169
- Interest rate derivatives		14,620	20,742	23,372	58,953	65,183	9,977	192,847
- Equity and other derivatives		1,077	571	192	541	11,698	-	14,079
Hedging:								
- Interest rate derivatives		(454)	1,188	855	1,240	582	136	3,547
<b>Gross settled derivatives</b>								
Trading:								
- Foreign exchange derivatives								
- Outflow		3,471,788	909,189	2,255,056	4,701,535	2,745,144	2,720,188	16,802,900
- Inflow		(3,432,574)	(817,291)	(2,607,041)	(4,299,090)	(2,682,965)	(2,836,172)	(16,675,133)
		<b>60,626</b>	<b>114,399</b>	<b>(327,566)</b>	<b>463,179</b>	<b>139,642</b>	<b>(105,871)</b>	<b>344,409</b>

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## 45 LIQUIDITY RISK (continued)

<u>Group</u>	Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>2015</b>								
<b>Non-derivative financial liabilities</b>								
Deposits from customers	73,465,634	49,043,117	8,801,277	12,990,950	966,905	1,663,385	-	73,465,634
Deposits and placements of banks and other financial institutions	8,098,511	5,735,890	2,359,831	341	1,403	1,046	-	8,098,511
Bills and acceptances payable	146,894	146,894	-	-	-	-	-	146,894
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	3,528	3,565	7,242	1,134,562	-	-	1,148,897
Other liabilities	1,033,595	769,163	507,726	428,295	299,151	134,830	37,769	2,176,934
Subordinated bonds	2,225,370	-	-	200,000	595,700	957,738	471,932	2,225,370
	<b>86,118,901</b>	<b>55,698,592</b>	<b>11,672,399</b>	<b>13,626,828</b>	<b>2,997,721</b>	<b>2,756,999</b>	<b>509,701</b>	<b>87,262,240</b>
<b>Derivative financial liabilities</b>								
<b>Net settled derivatives</b>								
Trading:								
- Foreign exchange derivatives		3,594	-	-	-	-	-	3,594
- Interest rate derivatives		15,824	14,675	24,114	53,529	72,431	10,574	191,147
- Equity and other derivatives		340	31,293	22,859	1,370	11,603	-	67,465
Hedging:								
- Interest rate derivatives		50	2,335	2,281	4,975	1,912	(805)	10,748
<b>Gross settled derivatives</b>								
Trading:								
- Foreign exchange derivatives								
- Outflow		3,911,433	2,351,637	3,448,626	4,779,420	3,657,551	2,627,456	20,776,123
- Inflow		(3,847,965)	(2,406,219)	(3,333,474)	(4,942,681)	(3,504,464)	(2,679,036)	(20,713,839)
		<b>83,276</b>	<b>(6,279)</b>	<b>164,406</b>	<b>(103,387)</b>	<b>239,033</b>	<b>(41,811)</b>	<b>335,238</b>

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

## 45 LIQUIDITY RISK (continued)

<b>Bank</b>	<b>Carrying amount RM'000</b>	<b>Up to 3 months RM'000</b>	<b>&gt; 3 - 6 months RM'000</b>	<b>&gt; 6 - 12 months RM'000</b>	<b>&gt; 1 - 3 years RM'000</b>	<b>&gt; 3 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Total RM'000</b>
<b>2016</b>								
<b>Non-derivative financial liabilities</b>								
Deposits from customers	60,988,458	40,062,197	9,804,218	9,553,938	729,088	539,017	300,000	60,988,458
Deposits and placements of banks and other financial institutions	8,977,185	7,407,399	1,569,786	-	-	-	-	8,977,185
Bills and acceptances payable	123,405	123,405	-	-	-	-	-	123,405
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	3,763	203,800	7,708	1,113,245	-	-	1,328,516
Other liabilities	823,226	592,630	349,393	405,604	185,332	98,550	14,974	1,646,483
Subordinated bonds	2,075,852	-	-	599,428	400,000	1,076,424	-	2,075,852
	<b>74,316,642</b>	<b>48,189,394</b>	<b>11,927,197</b>	<b>10,566,678</b>	<b>2,427,665</b>	<b>1,713,991</b>	<b>314,974</b>	<b>75,139,899</b>
<b>Derivative financial liabilities</b>								
<b>Net settled derivatives</b>								
Trading:								
- Foreign exchange derivatives		6,169	-	-	-	-	-	6,169
- Interest rate derivatives		14,620	20,742	23,372	58,953	65,183	9,977	192,847
- Equity and other derivatives		1,077	571	192	541	11,698	-	14,079
Hedging:								
- Interest rate derivatives		(454)	1,188	855	1,240	582	136	3,547
<b>Gross settled derivatives</b>								
Trading:								
- Foreign exchange derivatives								
- Outflow		3,480,169	909,189	2,255,056	4,701,535	2,745,144	2,720,188	16,811,281
- Inflow		(3,441,281)	(817,291)	(2,607,041)	(4,299,090)	(2,682,925)	(2,836,172)	(16,683,800)
		<b>60,300</b>	<b>114,399</b>	<b>(327,566)</b>	<b>463,179</b>	<b>139,682</b>	<b>(105,871)</b>	<b>344,123</b>



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

## 45 LIQUIDITY RISK (continued)

<b>Bank</b>	<b>Carrying amount RM'000</b>	<b>Up to 3 months RM'000</b>	<b>&gt; 3 - 6 months RM'000</b>	<b>&gt; 6 - 12 months RM'000</b>	<b>&gt; 1 - 3 years RM'000</b>	<b>&gt; 3 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Total RM'000</b>
<b>2015</b>								
<b>Non-derivative financial liabilities</b>								
Deposits from customers	63,366,892	41,269,199	7,708,368	11,766,224	960,117	1,662,984	-	63,366,892
Deposits and placements of banks and other financial institutions	6,665,892	4,306,229	2,359,663	-	-	-	-	6,665,892
Bills and acceptances payable	128,224	128,224	-	-	-	-	-	128,224
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	3,528	3,565	7,242	1,134,562	-	-	1,148,897
Other liabilities	883,707	669,209	470,747	367,808	272,362	114,041	35,470	1,929,637
Subordinated bonds	2,225,370	-	-	200,000	595,700	957,738	471,932	2,225,370
	<b>74,418,982</b>	<b>46,376,389</b>	<b>10,542,343</b>	<b>12,341,274</b>	<b>2,962,741</b>	<b>2,734,763</b>	<b>507,402</b>	<b>75,464,912</b>
<b>Derivative financial liabilities</b>								
<b>Net settled derivatives</b>								
Trading:								
- Foreign exchange derivatives		3,594	-	-	-	-	-	3,594
- Interest rate derivatives		15,824	14,675	24,114	53,529	72,431	10,574	191,147
- Equity and other derivatives		340	31,293	22,859	1,370	11,603	-	67,465
Hedging:								
- Interest rate derivatives		50	2,335	2,281	4,975	1,912	(805)	10,748
<b>Gross settled derivatives</b>								
Trading:								
- Foreign exchange derivatives								
- Outflow		3,903,630	2,347,931	3,448,626	4,779,420	3,657,551	2,627,456	20,764,614
- Inflow		(3,840,647)	(2,402,502)	(3,333,474)	(4,942,681)	(3,504,464)	(2,679,036)	(20,702,804)
		<b>82,791</b>	<b>(6,268)</b>	<b>164,406</b>	<b>(103,387)</b>	<b>239,033</b>	<b>(41,811)</b>	<b>334,764</b>

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46 INTEREST/PROFIT RATE RISK

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

<u>Group</u>	<i>Non-trading Book</i>						Non- interest/ profit sensitive RM'000	Trading Book RM'000	Total RM'000
	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				
<b>2016</b>									
<b>Assets</b>									
Cash and cash equivalents	7,797,375	-	-	-	-	495,721	-	8,293,096	
Deposits and placements with banks and other financial institutions	1,447,920	-	-	-	-	-	-	1,447,920	
Financial assets held-for-trading	-	-	-	-	-	-	1,528,361	1,528,361	
Financial investments available-for-sale	2,290,373	2,360,128	3,647,988	1,930,478	915,518	109,020	-	11,253,505	
Loans, advances and financing									
- Unimpaired	62,504,419	1,210,243	1,801,362	642,836	557,275	(415,225)	-	66,300,910	
- Impaired	-	-	-	-	-	1,120,713	-	1,120,713	
Derivative financial assets	-	-	-	-	396	-	1,995,120	1,995,516	
Other assets	-	-	-	-	-	280,597	-	280,597	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	2,000,966	-	2,000,966	
Property and equipment	-	-	-	-	-	188,201	-	188,201	
Prepaid lease payments	-	-	-	-	-	784	-	784	
Investment properties	-	-	-	-	-	-	-	-	
Non-current assets held for sale	-	-	-	-	-	-	-	-	
Deferred tax assets	-	-	-	-	-	28,321	-	28,321	
Tax recoverable	-	-	-	-	-	8,867	-	8,867	
<b>Total assets</b>	<b>74,040,087</b>	<b>3,570,371</b>	<b>5,449,350</b>	<b>2,573,314</b>	<b>1,473,189</b>	<b>3,817,965</b>	<b>3,523,481</b>	<b>94,447,757</b>	

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## 46 INTEREST/PROFIT RATE RISK (continued)

<u>Group</u>	<i>Non-trading Book</i>						Trading Book RM'000	Total RM'000
	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- interest/ profit sensitive RM'000		
<b>2016</b>								
<b>Liabilities</b>								
Deposits from customers	29,384,824	22,618,749	11,607,177	539,316	300,000	7,772,658	-	72,222,724
Deposits and placements of banks and other financial institutions	7,664,890	1,569,785	-	-	-	227,437	-	9,462,112
Bills and acceptances payable	-	-	-	-	-	153,888	-	153,888
Recourse obligation on loans sold to Cagamas Berhad	1,128,514	200,002	-	-	-	-	-	1,328,516
Derivative financial liabilities	-	-	954	1,688	3,473	-	1,814,299	1,820,414
Other liabilities	-	-	-	-	-	948,838	-	948,838
Tax payable and zakat	-	-	-	-	-	11,090	-	11,090
Subordinated bonds	-	599,428	400,000	1,076,424	-	-	-	2,075,852
<b>Total liabilities</b>	<b>38,178,228</b>	<b>24,987,964</b>	<b>12,008,131</b>	<b>1,617,428</b>	<b>303,473</b>	<b>9,113,911</b>	<b>1,814,299</b>	<b>88,023,434</b>
On-statement of financial position interest/profit sensitivity gap	35,861,859	(21,417,593)	(6,558,781)	955,886	1,169,716	(5,295,946)	1,709,182	6,424,323
Off-statement of financial position interest/profit sensitivity gap	(208,619)	622,425	(50,000)	(139,551)	(224,255)	-	-	-
<b>Total interest/profit sensitivity gap</b>	<b>35,653,240</b>	<b>(20,795,168)</b>	<b>(6,608,781)</b>	<b>816,335</b>	<b>945,461</b>	<b>(5,295,946)</b>	<b>1,709,182</b>	<b>6,424,323</b>

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

## 46 INTEREST/PROFIT RATE RISK (continued)

<u>Group</u>	<i>Non-trading Book</i>						Non- interest/ profit sensitive RM'000	Trading Book RM'000	Total RM'000
	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				
<b>2015</b>									
<b>Assets</b>									
Cash and cash equivalents	4,791,826	-	-	-	-	651,564	-	5,443,390	
Financial assets held-for-trading	-	-	-	-	-	-	1,545,745	1,545,745	
Financial investments available-for-sale	3,697,965	1,838,836	4,483,004	2,087,923	1,470,270	109,020	-	13,687,018	
Loans, advances and financing									
- Unimpaired	62,776,274	1,142,325	1,953,643	1,350,749	733,430	(502,137)	-	67,454,284	
- Impaired	-	-	-	-	-	1,013,891	-	1,013,891	
Derivative financial assets	-	-	-	236	9	-	2,104,667	2,104,912	
Other assets	-	-	-	-	-	317,835	-	317,835	
Statutory deposits with									
Bank Negara Malaysia	-	-	-	-	-	2,386,312	-	2,386,312	
Property and equipment	-	-	-	-	-	213,085	-	213,085	
Prepaid lease payments	-	-	-	-	-	820	-	820	
Investment properties	-	-	-	-	-	2,428	-	2,428	
Non-current assets held for sale	-	-	-	-	-	1,595	-	1,595	
Deferred tax assets	-	-	-	-	-	14,492	-	14,492	
Tax recoverable	-	-	-	-	-	4,907	-	4,907	
<b>Total assets</b>	<b>71,266,065</b>	<b>2,981,161</b>	<b>6,436,647</b>	<b>3,438,908</b>	<b>2,203,709</b>	<b>4,213,812</b>	<b>3,650,412</b>	<b>94,190,714</b>	

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## 46 INTEREST/PROFIT RATE RISK (continued)

<u>Group</u>	<i>Non-trading Book</i>						Trading Book RM'000	Total RM'000
	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- interest/ profit sensitive RM'000		
<b>2015</b>								
<b>Liabilities</b>								
Deposits from customers	35,535,495	21,792,227	6,640,512	1,663,386	-	7,834,014	-	73,465,634
Deposits and placements of banks and other financial institutions	5,526,702	2,360,173	1,403	1,046	-	209,187	-	8,098,511
Bills and acceptances payable	-	-	-	-	-	146,894	-	146,894
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	-	-	-	-	-	-	1,148,897
Derivative financial liabilities	-	-	4,523	846	4,939	-	1,969,516	1,979,824
Other liabilities	-	-	-	-	-	1,033,595	-	1,033,595
Tax payable and zakat	-	-	-	-	-	21,600	-	21,600
Subordinated bonds	-	200,000	595,700	957,738	471,932	-	-	2,225,370
<b>Total liabilities</b>	<b>42,211,094</b>	<b>24,352,400</b>	<b>7,242,138</b>	<b>2,623,016</b>	<b>476,871</b>	<b>9,245,290</b>	<b>1,969,516</b>	<b>88,120,325</b>
On-statement of financial position interest/profit sensitivity gap	29,113,140	(21,371,235)	(900,704)	815,892	1,726,839	(4,994,439)	1,680,896	6,070,389
Off-statement of financial position interest/profit sensitivity gap	(220,354)	71,452	550,000	(186,583)	(214,515)	-	-	-
<b>Total interest/profit sensitivity gap</b>	<b>28,892,786</b>	<b>(21,299,783)</b>	<b>(350,704)</b>	<b>629,309</b>	<b>1,512,324</b>	<b>(4,994,439)</b>	<b>1,680,896</b>	<b>6,070,389</b>

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## 46 INTEREST/PROFIT RATE RISK (continued)

<b>Bank</b>	<i>Non-trading Book</i>						<b>Trading Book</b>	<b>Total</b>
	<b>Up to 3 months</b>	<b>&gt; 3 - 12 months</b>	<b>&gt; 1 - 3 years</b>	<b>&gt; 3 - 5 years</b>	<b>Over 5 years</b>	<b>Non-interest sensitive</b>		
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>								
<b>Assets</b>								
Cash and cash equivalents	6,988,779	-	-	-	-	460,808	-	7,449,587
Deposits and placements with banks and other financial institutions	2,085,484	100,000	50,000	-	-	-	-	2,235,484
Financial assets held-for-trading	-	-	-	-	-	-	1,528,361	1,528,361
Financial investments available-for-sale	1,541,814	1,595,086	3,135,523	1,171,548	524,537	109,020	-	8,077,528
Loans, advances and financing								
- Unimpaired	55,320,022	811,734	700,977	172,665	138,737	(251,596)	-	56,892,539
- Impaired	-	-	-	-	-	907,350	-	907,350
Derivative financial assets	-	-	-	-	396	-	1,995,085	1,995,481
Other assets	-	-	-	200,000	-	264,465	-	464,465
Statutory deposits with								
Bank Negara Malaysia	-	-	-	-	-	1,673,966	-	1,673,966
Investment in subsidiaries	-	-	-	-	-	558,492	-	558,492
Property and equipment	-	-	-	-	-	174,785	-	174,785
Prepaid lease payments	-	-	-	-	-	784	-	784
Deferred tax assets	-	-	-	-	-	22,977	-	22,977
<b>Total assets</b>	<b>65,936,099</b>	<b>2,506,820</b>	<b>3,886,500</b>	<b>1,544,213</b>	<b>663,670</b>	<b>3,921,051</b>	<b>3,523,446</b>	<b>81,981,799</b>

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## 46 INTEREST/PROFIT RATE RISK (continued)

<b>Bank</b>	<i>Non-trading Book</i>						<b>Trading Book</b>	<b>Total</b>
	<b>Up to 3 months</b>	<b>&gt; 3 - 12 months</b>	<b>&gt; 1 - 3 years</b>	<b>&gt; 3 - 5 years</b>	<b>Over 5 years</b>	<b>Non-interest sensitive</b>		
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>								
<b>Liabilities</b>								
Deposits from customers	24,271,728	19,358,156	9,109,085	539,017	300,000	7,410,472	-	60,988,458
Deposits and placements of banks and other financial institutions	7,231,762	1,569,785	-	-	-	175,638	-	8,977,185
Bills and acceptances payable	-	-	-	-	-	123,405	-	123,405
Recourse obligation on loans sold to Cagamas Berhad	1,128,514	200,002	-	-	-	-	-	1,328,516
Derivative financial liabilities	-	-	954	1,688	3,473	-	1,813,929	1,820,044
Other liabilities	-	-	-	-	-	823,226	-	823,226
Tax payable	-	-	-	-	-	11,045	-	11,045
Subordinated bonds	-	599,428	400,000	1,076,424	-	-	-	2,075,852
<b>Total liabilities</b>	<b>32,632,004</b>	<b>21,727,371</b>	<b>9,510,039</b>	<b>1,617,129</b>	<b>303,473</b>	<b>8,543,786</b>	<b>1,813,929</b>	<b>76,147,731</b>
On-statement of financial position interest sensitivity gap	33,304,095	(19,220,551)	(5,623,539)	(72,916)	360,197	(4,622,735)	1,709,517	5,834,068
Off-statement of financial position interest sensitivity gap	(208,619)	622,425	(50,000)	(139,551)	(224,255)	-	-	-
<b>Total interest sensitivity gap</b>	<b>33,095,476</b>	<b>(18,598,126)</b>	<b>(5,673,539)</b>	<b>(212,467)</b>	<b>135,942</b>	<b>(4,622,735)</b>	<b>1,709,517</b>	<b>5,834,068</b>

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## 46 INTEREST/PROFIT RATE RISK (continued)

<u>Bank</u>	<i>Non-trading Book</i>						Trading Book RM'000	Total RM'000
	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- interest sensitive RM'000		
<b>2015</b>								
<b>Assets</b>								
Cash and cash equivalents	4,249,195	-	-	-	-	613,032	-	4,862,227
Deposits and placements with banks and other financial institutions	926,407	-	150,000	-	-	-	-	1,076,407
Financial assets held-for-trading	-	-	-	-	-	-	1,545,745	1,545,745
Financial investments available-for-sale	2,988,241	1,011,950	3,623,862	1,644,284	1,252,402	109,020	-	10,629,759
Loans, advances and financing								
- Unimpaired	56,155,668	714,749	662,218	328,628	229,009	(324,626)	-	57,765,646
- Impaired	-	-	-	-	-	814,737	-	814,737
Derivative financial assets	-	-	-	236	9	-	2,104,262	2,104,507
Other assets	-	200,000	-	-	-	295,733	-	495,733
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,980,212	-	1,980,212
Investment in subsidiaries	-	-	-	-	-	556,617	-	556,617
Property and equipment	-	-	-	-	-	198,859	-	198,859
Prepaid lease payments	-	-	-	-	-	820	-	820
Investment properties	-	-	-	-	-	2,428	-	2,428
Non-current assets held for sale	-	-	-	-	-	1,595	-	1,595
Deferred tax assets	-	-	-	-	-	12,156	-	12,156
<b>Total assets</b>	<b>64,319,511</b>	<b>1,926,699</b>	<b>4,436,080</b>	<b>1,973,148</b>	<b>1,481,420</b>	<b>4,260,583</b>	<b>3,650,007</b>	<b>82,047,448</b>



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## 46 INTEREST/PROFIT RATE RISK (continued)

<b>Bank</b>	<i>Non-trading Book</i>						<b>Trading Book</b>	<b>Total</b>
	<b>Up to 3 months</b>	<b>&gt; 3 - 12 months</b>	<b>&gt; 1 - 3 years</b>	<b>&gt; 3 - 5 years</b>	<b>Over 5 years</b>	<b>Non-interest sensitive</b>		
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>								
<b>Liabilities</b>								
Deposits from customers	28,095,617	19,474,592	6,633,724	1,662,985	-	7,499,974	-	63,366,892
Deposits and placements of banks and other financial institutions	4,151,478	2,359,663	-	-	-	154,751	-	6,665,892
Bills and acceptances payable	-	-	-	-	-	128,224	-	128,224
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	-	-	-	-	-	-	1,148,897
Derivative financial liabilities	-	-	4,523	846	4,939	-	1,968,941	1,979,249
Other liabilities	-	-	-	-	-	883,707	-	883,707
Tax payable and zakat	-	-	-	-	-	21,560	-	21,560
Subordinated bonds	-	200,000	595,700	957,738	471,932	-	-	2,225,370
<b>Total liabilities</b>	<b>33,395,992</b>	<b>22,034,255</b>	<b>7,233,947</b>	<b>2,621,569</b>	<b>476,871</b>	<b>8,688,216</b>	<b>1,968,941</b>	<b>76,419,791</b>
On-statement of financial position interest sensitivity gap	30,923,519	(20,107,556)	(2,797,867)	(648,421)	1,004,549	(4,427,633)	1,681,066	5,627,657
Off-statement of financial position interest sensitivity gap	(220,354)	71,452	550,000	(186,583)	(214,515)	-	-	-
<b>Total interest sensitivity gap</b>	<b>30,703,165</b>	<b>(20,036,104)</b>	<b>(2,247,867)</b>	<b>(835,004)</b>	<b>790,034</b>	<b>(4,427,633)</b>	<b>1,681,066</b>	<b>5,627,657</b>

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## 46 INTEREST/PROFIT RATE RISK (continued)

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
+ 50 bps	1,905,206	1,679,315	1,505,707	1,283,547
- 50 bps	1,626,547	1,445,978	1,261,599	1,067,067

The 50 bps shock impact on the net interest/profit income is based on simplified scenarios, using the Group's and the Bank's interest/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 interest/profit rate risk. In reality, Treasury Division seeks to proactively change the interest/profit rate risk profile to minimise losses and maximise net revenues. The projection assumes that interest/profit rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on the net interest/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.

## 47 CURRENCY RISK

Group	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
<b>2016</b>					
<b>Financial assets</b>					
Cash and cash equivalents	5,819,976	2,057,629	267,046	148,445	8,293,096
Deposits and placements with banks and other financial institutions	1,200,000	-	-	247,920	1,447,920
Financial assets held-for-trading	1,412,180	115,522	12	647	1,528,361
Financial investments available-for-sale	9,118,812	910,112	359,952	864,629	11,253,505
Loans, advances and financing	61,527,725	4,395,121	93,906	1,404,871	67,421,623
Derivative financial assets	470,746	1,500,086	14,409	10,275	1,995,516
Other assets	240,262	28,220	6,311	5,804	280,597
Statutory deposits with Bank Negara Malaysia	2,000,966	-	-	-	2,000,966
	<b>81,790,667</b>	<b>9,006,690</b>	<b>741,636</b>	<b>2,682,591</b>	<b>94,221,584</b>
<b>Financial liabilities</b>					
Deposits from customers	65,870,103	4,437,288	558,907	1,356,426	72,222,724
Deposits and placements of banks and other financial institutions	1,310,003	6,757,289	124,046	1,270,774	9,462,112
Bills and acceptances payable	153,253	635	-	-	153,888
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	-	-	-	1,328,516
Derivative financial liabilities	300,274	1,411,373	101,753	7,014	1,820,414
Other liabilities	884,436	38,750	21,622	4,030	948,838
Subordinated bonds	999,428	1,076,424	-	-	2,075,852
	<b>70,846,013</b>	<b>13,721,759</b>	<b>806,328</b>	<b>2,638,244</b>	<b>88,012,344</b>
<b>Net financial assets/(liabilities) exposure</b>	<b>10,944,654</b>	<b>(4,715,069)</b>	<b>(64,692)</b>	<b>44,347</b>	<b>6,209,240</b>

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## 47 CURRENCY RISK (continued)

<u>Group</u>	<b>MYR RM'000</b>	<b>USD RM'000</b>	<b>SGD RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
<b>2015</b>					
<b>Financial assets</b>					
Cash and cash equivalents	4,747,184	355,378	186,627	154,201	5,443,390
Financial assets held-for-trading	1,545,631	-	65	49	1,545,745
Financial investments available-for-sale	11,209,786	1,386,298	289,276	801,658	13,687,018
Loans, advances and financing	62,492,405	4,473,778	115,617	1,386,375	68,468,175
Derivative financial assets	372,518	1,674,123	51,789	6,482	2,104,912
Other assets	245,658	57,181	6,530	8,466	317,835
Statutory deposits with Bank Negara Malaysia	2,386,312	-	-	-	2,386,312
	<b>82,999,494</b>	<b>7,946,758</b>	<b>649,904</b>	<b>2,357,231</b>	<b>93,953,387</b>
<b>Financial liabilities</b>					
Deposits from customers	67,681,627	4,110,169	542,959	1,130,879	73,465,634
Deposits and placements of banks and other financial institutions	1,219,054	5,571,839	79,824	1,227,794	8,098,511
Bills and acceptances payable	146,680	144	70	-	146,894
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	-	-	-	1,148,897
Derivative financial liabilities	511,459	1,379,544	85,366	3,455	1,979,824
Other liabilities	957,470	46,051	15,435	14,639	1,033,595
Subordinated bonds	1,195,700	1,029,670	-	-	2,225,370
	<b>72,860,887</b>	<b>12,137,417</b>	<b>723,654</b>	<b>2,376,767</b>	<b>88,098,725</b>
<b>Net financial assets/(liabilities) exposure</b>	<b>10,138,607</b>	<b>(4,190,659)</b>	<b>(73,750)</b>	<b>(19,536)</b>	<b>5,854,662</b>
<b>Bank</b>					
<b>2016</b>					
<b>Financial assets</b>					
Cash and cash equivalents	3,916,864	2,932,224	272,029	328,470	7,449,587
Deposits and placements with banks and other financial institutions	1,943,969	43,595	-	247,920	2,235,484
Financial assets held-for-trading	1,412,180	115,522	12	647	1,528,361
Financial investments available-for-sale	6,377,423	638,458	220,058	841,589	8,077,528
Loans, advances and financing	53,121,408	3,363,836	93,906	1,220,739	57,799,889
Derivative financial assets	470,711	1,500,086	14,409	10,275	1,995,481
Other assets	426,247	27,491	4,641	6,086	464,465
Statutory deposits with Bank Negara Malaysia	1,673,966	-	-	-	1,673,966
Investment in subsidiaries	558,492	-	-	-	558,492
	<b>69,901,260</b>	<b>8,621,212</b>	<b>605,055</b>	<b>2,655,726</b>	<b>81,783,253</b>

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## 47 CURRENCY RISK (continued)

<u>Bank</u>	MYR RM'000	USD RM'000	SGD RM'000	Others RM'000	Total RM'000
<b>2016</b>					
<b>Financial liabilities</b>					
Deposits from customers	54,762,262	4,336,093	535,201	1,354,902	60,988,458
Deposits and placements of banks and other financial institutions	1,258,205	6,470,243	-	1,248,737	8,977,185
Bills and acceptances payable	122,770	635	-	-	123,405
Recourse obligation on loans sold to Cagamas Berhad	1,328,516	-	-	-	1,328,516
Derivative financial liabilities	299,904	1,411,373	101,753	7,014	1,820,044
Other liabilities	765,952	39,659	17,201	414	823,226
Subordinated bonds	999,428	1,076,424	-	-	2,075,852
	<u>59,537,037</u>	<u>13,334,427</u>	<u>654,155</u>	<u>2,611,067</u>	<u>76,136,686</u>
<b>Net financial assets/(liabilities) exposure</b>	<u>10,364,223</u>	<u>(4,713,215)</u>	<u>(49,100)</u>	<u>44,659</u>	<u>5,646,567</u>
<b>2015</b>					
<b>Financial assets</b>					
Cash and cash equivalents	3,883,002	426,095	187,432	365,698	4,862,227
Deposits and placements with banks and other financial institutions	989,057	87,350	-	-	1,076,407
Financial assets held-for-trading	1,545,631	-	65	49	1,545,745
Financial investments available-for-sale	8,558,504	1,097,065	198,973	775,217	10,629,759
Loans, advances and financing	53,531,473	3,761,947	113,220	1,173,743	58,580,383
Derivative financial assets	372,114	1,674,122	51,789	6,482	2,104,507
Other assets	430,273	51,893	5,283	8,284	495,733
Statutory deposits with Bank Negara Malaysia	1,980,212	-	-	-	1,980,212
Investment in subsidiaries	556,617	-	-	-	556,617
	<u>71,846,883</u>	<u>7,098,472</u>	<u>556,762</u>	<u>2,329,473</u>	<u>81,831,590</u>
<b>Financial liabilities</b>					
Deposits from customers	57,671,220	4,037,956	527,008	1,130,708	63,366,892
Deposits and placements of banks and other financial institutions	662,891	4,801,302	-	1,201,699	6,665,892
Bills and acceptances payable	128,010	144	70	-	128,224
Recourse obligation on loans sold to Cagamas Berhad	1,148,897	-	-	-	1,148,897
Derivative financial liabilities	510,883	1,379,545	85,366	3,455	1,979,249
Other liabilities	809,840	45,377	14,472	14,018	883,707
Subordinated bonds	1,195,700	1,029,670	-	-	2,225,370
	<u>62,127,441</u>	<u>11,293,994</u>	<u>626,916</u>	<u>2,349,880</u>	<u>76,398,231</u>
<b>Net financial assets/(liabilities) exposure</b>	<u>9,719,442</u>	<u>(4,195,522)</u>	<u>(70,154)</u>	<u>(20,407)</u>	<u>5,433,359</u>

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

### 48 SEGMENT INFORMATION

#### Operating Segment

The Group's businesses are organised into four segments based on the types of products and services that it provides. The Board evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, loans and deposits growth and asset quality. Expenses directly associated with each operating segment are included in determining their respective profits. Transactions between operating segments are based on mutually agreed allocation bases. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net interest income. In addition to the operating segments, the segment information disclosed also includes internal service providers (head office) which operate on non-profit basis.

#### Business Banking

Business Banking has 3 principal customer segments namely, Large Corporate, Commercial Banking and Emerging Business structured along its customer base. Business Banking also serves financial institutions referencing to banks and non-bank financial institutions, including international financial institutions, for which OCBC Malaysia provides correspondent banking services, payments and trade-related services.

#### Consumer Financial Services

Consumer Financial Services is responsible for individual customers, who are broadly categorised under the mass market, mass affluent and Premier Banking segments. Consumer Financial Services offers an array of consumer products and services, including savings and fixed deposits, checking and savings accounts, consumer loans such as housing loans and other personal loans, unit trusts, bancassurance products, structured investments and credit cards.

#### Global Treasury

Global Treasury offers treasury financial solutions to customers with products ranging from foreign exchange ("FX") spot and forwards to currency options as well as liabilities hedging tools using interest rate swaps and interest rate options. Global Treasury also offers both conventional and Islamic structured investments, denominated in Ringgit Malaysia as well as foreign currencies that build on, amongst others, interest rates, FX, equities and its indices, and commodities.

Global Treasury manages the gapping and investment book of OCBC Malaysia, execution of Asset Liability Management Committee ("ALCO") decisions, compliance of liquidity requirements and facilitates money market operations.

#### Others

The other segments include property-related activities and income/expenses not attributable to other operating segments.

#### Measurement and Evaluation of Segment Performance

The Board evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, loans and deposits growth and asset quality. Expenses directly associated with each operating segment are included in determining their respective profits. Transactions between operating segments are based on mutually agreed allocation bases. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net interest income. In addition to the operating segments, the segment information disclosed also includes internal service providers (head office) which operate on non-profit basis.

#### Major Customers

Revenue from no single customer amounted to greater than 10% of the Group's revenue for the current and preceding financial year.

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

## 48 SEGMENT INFORMATION (continued)

## Geographical Segment

The financial information by geographical segment is not presented as the Group's activities are principally conducted in Malaysia.

<u>Group</u>	<b>Business Banking RM'000</b>	<b>Consumer Financial Services RM'000</b>	<b>Global Treasury RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
<b>2016</b>					
Net interest/finance income	1,036,683	491,031	195,378	21,302	1,744,394
Non-interest/finance income	130,832	140,784	277,882	44,994	594,492
Operating income	1,167,515	631,815	473,260	66,296	2,338,886
Operating expenses	(414,682)	(499,619)	(97,911)	(53,491)	(1,065,703)
Operating profit before impairment allowance and provision	752,833	132,196	375,349	12,805	1,273,183
(Impairment)/Write-back of allowances and provision for commitments and contingencies	(110,104)	(94,074)	(1,089)	1,160	(204,107)
Profit before income tax and zakat	642,729	38,122	374,260	13,965	1,069,076
Income tax expense and zakat	(154,255)	(9,149)	(89,822)	(7,613)	(260,839)
Profit for the year	488,474	28,973	284,438	6,352	808,237
Gross loans, advances and financing	36,826,699	31,622,494	-	71,747	68,520,940
Gross impaired loans, advances and financing	902,369	582,960	-	399	1,485,728
Deposits from customers	37,076,372	35,078,203	68,149	-	72,222,724
<b>2015</b>					
Net interest/finance income	1,039,549	515,225	184,702	94,284	1,833,760
Non-interest/finance income	142,003	144,150	234,600	125,284	646,037
Operating income	1,181,552	659,375	419,302	219,568	2,479,797
Operating expenses	(388,589)	(492,866)	(91,924)	(44,205)	(1,017,584)
Operating profit before impairment allowance and provision	792,963	166,509	327,378	175,363	1,462,213
(Impairment)/Write-back of allowances and provision for commitments and contingencies	(196,388)	(96,696)	(1,800)	1,069	(293,815)
Profit before income tax and zakat	596,575	69,813	325,578	176,432	1,168,398
Income tax expense and zakat	(147,478)	(17,951)	(81,208)	(38,810)	(285,447)
Profit for the year	449,097	51,862	244,370	137,622	882,951
Gross loans, advances and financing	38,471,340	31,078,997	-	77,431	69,627,768
Gross impaired loans, advances and financing	1,053,874	380,268	-	228	1,434,370
Deposits from customers	37,597,053	35,703,606	164,975	-	73,465,634

## 49 CAPITAL ADEQUACY

## Capital Management

The key objective of the Group's and the Bank's capital management policy is to maintain a strong capital position to support business growth, and to sustain investor, depositor, customer and market confidence. In line with this, the Bank targets a minimum RAM credit rating of "AA1" to ensure that the Group's and the Bank's capital adequacy ratios are comfortably above the regulatory minima while balancing shareholder's desire for sustainable returns and high standards of prudence.

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

## 49 CAPITAL ADEQUACY (continued)

**Capital Management (continued)**

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

**Capital Adequacy Ratios**

The Bank is required to meet minimum Common Equity Tier 1, Tier 1 and Total capital adequacy ratio of 4.5%, 6.0% and 8.0% respectively in 2016. To ensure that banks build up adequate capital buffer outside period of stress, a Capital Conservation Buffer ("CCB") of 2.5% above the minimum capital adequacy was introduced. The CCB is maintained in the form of CET1 capital starting at 0.625% on 1 January 2016 and progressively increasing by 0.625% each year to reach 2.5% on 1 January 2019. Including the CCB, the Group and the Bank will be required to meet CET1 CAR, Tier 1 CAR and Total CAR of 7.0%, 8.5% and 10.5% respectively from 1 January 2019.

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Common Equity Tier 1 ("CET 1") capital</b>				
Paid-up ordinary share capital	287,500	287,500	287,500	287,500
Ordinary share premium	462,500	462,500	462,500	462,500
Retained earnings	4,651,850	4,501,313	4,294,510	4,296,938
Other reserves	1,021,669	819,076	789,558	580,719
CET 1 capital	6,423,519	6,070,389	5,834,068	5,627,657
Regulatory adjustment for CET 1 capital	(464,663)	(241,749)	(792,660)	(459,331)
CET 1 capital	5,958,856	5,828,640	5,041,408	5,168,326
<b>Additional Tier 1 capital</b>				
Innovative Tier 1 capital	400,000	400,000	400,000	400,000
Additional Tier 1 capital	493,361	471,932	493,361	471,932
Tier 1 capital	6,852,217	6,700,572	5,934,769	6,040,258
<b>Tier 2 capital</b>				
Collective impairment allowance under the Standardised Approach*	17,151	20,399	8,069	8,723
Surplus eligible provisions over expected losses	237,858	226,489	204,217	212,414
Subordinated bonds	1,183,063	1,357,738	1,183,063	1,357,738
	1,438,072	1,604,626	1,395,349	1,578,875
Regulatory adjustment for Tier 2 capital	-	-	(423,397)	(533,970)
Tier 2 capital	1,438,072	1,604,626	971,952	1,044,905
<b>Capital base</b>	<b>8,290,289</b>	<b>8,305,198</b>	<b>6,906,721</b>	<b>7,085,163</b>

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

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

## 49 CAPITAL ADEQUACY (continued)

## Capital Adequacy Ratios (continued)

	Group		Bank	
	2016	2015	2016	2015
<b>Before deducting proposed dividend</b>				
CET 1 capital ratio	12.788%	11.964%	12.775%	12.546%
Tier 1 capital ratio	14.706%	13.754%	15.039%	14.662%
Total capital ratio	17.792%	17.047%	17.502%	17.199%
<b>After deducting proposed dividend</b>				
CET 1 capital ratio	11.945%	11.066%	11.779%	11.483%
Tier 1 capital ratio	13.862%	12.855%	14.043%	13.600%
Total capital ratio	16.948%	16.149%	16.506%	16.136%

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total RWA for credit risk	41,015,041	42,951,648	34,681,744	36,100,081
Total RWA for market risk	1,164,134	1,497,919	1,159,646	1,499,947
Total RWA for operational risk	4,416,693	4,254,593	3,621,266	3,581,509
Total RWA for large exposure risk	-	14,255	-	14,255
	46,595,868	48,718,415	39,462,656	41,195,792

The capital adequacy ratios of OCBC Al-Amin Bank Berhad are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). OCBC Al-Amin Bank Berhad adopted the Internal Ratings Based Approach for Credit Risk for its major credit portfolios, whilst the other credit portfolios are on the Standardised Approach. For market and operational risks, OCBC Al-Amin has adopted the Standardised Approach and the Basic Indicator Approach respectively.

The capital adequacy ratios of OCBC Al-Amin Bank Berhad, the banking subsidiary company of the Group, are as follows:

	2016	2015
CET 1 capital ratio	15.342%	12.746%
Tier 1 capital ratio	15.342%	12.746%
Total capital ratio	18.425%	14.749%