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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

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CONTENTS	**PAGE**

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 2019.

PRINCIPAL ACTIVITIES

The Group and the Bank are 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 ("OCBC Ltd"), 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.

SUBSIDIARY COMPANIES

The details of the Bank's subsidiary companies are disclosed in Note 13 to the financial statements.

FINANCIAL RESULTS

	Group 2019 RM'000	Bank 2019 RM'000
Profit for the year attributable to the owner of the bank	953,527	788,911

SHARE CAPITAL AND DEBENTURES

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

RESERVES AND PROVISIONS

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

DIVIDENDS

Since the end of the previous financial year, the Bank paid:

- a final dividend of 48 sen per ordinary share totalling RM138 million in respect of the financial year ended 31 December 2018 as reported in the Directors' Report of that year, on 26 April 2019; and

- an interim dividend of 48 sen per ordinary share totalling RM138 million in respect of the financial year ended 31 December 2019, on 26 September 2019.

The Directors recommend a final dividend of 63 sen per ordinary share in respect of the current financial year amounting to RM181,125,000. This dividend will be accounted for in shareholders’ equity as an appropriation of retained earnings in the subsequent financial period upon approval by the Board of Directors and shareholder of the Bank.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

FINANCIAL PERFORMANCE

The Group recorded net profit after tax of RM954 million, higher than the previous financial year by 17%. Total income increased by 9% mainly from higher gains on disposal of financial investments at Fair Value Through Other Comprehensive Income ("FVOCI"), partially offset by operating expenses increased by 8%.

Total assets for the Group shrank by RM3 billion to RM94 billion as the Group realised gains from disposal of financial investments at FVOCI and concurrently reduced its borrowings from its holding company, OCBC Ltd, by RM3.2 billion as compared to financial year 2018.

After deducting proposed dividends, the Group and the Bank remained well capitalised at Common Equity Tier 1 capital ratios of 14.380% and 13.815%, Tier 1 capital ratios of 15.266% and 14.896% and total capital ratios of 17.835% and 17.426%, respectively.

MARKET OUTLOOK

Due to significant worsening of the macroeconomic outlook as a result of COVID-19 both domestically and globally, Bank Negara Malaysia has projected Malaysia's GDP growth to be between -2.0% to 0.5% in 2020. The Malaysian Government introduced large countercyclical policy measures to mitigate the economic impact of the pandemic; offering economic stimulus packages to provide immediate relief to affected households and businesses, continued progress of public projects and higher public sector expenditure, complemented by Overnight Policy Rate (OPR) reductions and measures to provide additional liquidity in the banking system such as reduction in statutory reserves requirement for banks, 6 months automatic loan moratorium and deferment of tax payments for individuals and small and medium enterprises ("SMEs").

The unprecedented nature and scale of fiscal and monetary policy intervention across economies is expected to cushion the economic disruptions caused by COVID-19 and to support a gradual normalisation in economic activities upon the successful containment of the pandemic. The Malaysian economy is expected to rebound in 2021, in line with the projected global recovery.

ACTIVITIES AND ACHIEVEMENTS

During the period under review, OCBC Bank (Malaysia) Berhad ("OCBC Malaysia") and its subsidiaries won several awards, including Best SME Bank (in Treasury and Working Capital), Best Service Provider – Supply Chain, Best Trade Finance Solution Provider, and Best Supply Chain Solution Provider; all from The Asset Magazine. We made strides in employee relations, ranking among the Top 5 Most Attractive Employers in Banking for the Graduates Choice Award by Talentbank and bagged the bronze award in the Asia Recruitment Award 2019 for the Most Successful Recruitment Referral programme. For the third consecutive year, we were accorded Kincentric's Best Employer Award (formerly known as the AON Best Employers Award).

We continued our digital journey to redefine banking through co-innovation to tackle long-standing banking challenges. We also enabled the use of facial biometrics to complement the earlier biometric feature for our mobile banking. We became the first foreign bank to offer all-in-one digital payment terminals for merchants to integrate and accept all cards and e-payment transactions on a single device.

Several of our Premier Centres across Malaysia were upgraded to meet our clients' needs and aspirations more fully along with an expansion to our product platform so high net worth individuals can grow their investment portfolios via a wider suite of wealth and treasury products, wholesale funds and universal life insurance solutions.

Our partnership with Credit Guarantee Corporation Malaysia strengthened through our fresh injection of RM250 million in unsecured financing to the Wholesale Guarantee (WG) scheme. In our bid to assist the SME segment even more, we entered into a strategic partnership with B2B Commerce (M) Sdn Bhd, the country's first home-grown company to facilitate cross-border business-to-business electronic trade settlements.

Our corporate and commercial banking efforts focused on supporting community development projects that contribute to improving the living standards of communities both locally and regionally. These include efforts such as basic infrastructure improvements under East Coast Rail Line, Light Rail Transit Line 3 and the reinstated Pan Borneo projects, affordable homes and sustainability initiatives such as those pertaining to renewable energy.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

ACTIVITIES AND ACHIEVEMENTS (continued)

Notably, OCBC Al-Amin Bank Berhad ("OCBC Al-Amin"), OCBC Malaysia's Islamic Banking subsidiary, created new benchmarks in the Sukuk market by successfully pricing Malaysia's First ASEAN Sustainability SRI (Sustainable and Responsible Investment) Sukuk of RM245 million on 30 September 2019. Our Islamic banking efforts also continued to centre on deepening relationships and enhancing our product offerings, growing the mortgage segment and strengthening our wealth product proposition.

For staff development, we continued our 3-year Future Smart journey to upskill and reskill our workforce to be future ready.

Our corporate social responsibility ("CSR") efforts gained momentum with our division and branch-level initiatives benefitting over 50,000 people through the collective efforts of more than 2,800 staff. The various projects by the divisions and branches centred on families, promoting education, protecting the environment, promoting engagement with the community (including cycling), and humanitarian work.

MAJOR BUSINESS PLANS AND ACTIVITIES FOR YEAR 2020

Moving into 2020, despite the challenges brought about by the Covid-19 pandemic, OCBC Malaysia will continue to uphold its position as a banker of choice and among the very top foreign banks in the country with the combined strength of our conventional and Islamic banking franchise as well as in the areas of managing risks, maximising collaboration within business units and growing our wealth products platform.

In consumer banking, we will build our wealth management and Premier and Private Client services through collaborations within the OCBC Group network and referral intermediaries. We will also invest in digital capabilities to widen our offerings and improve customer experience, and introduce fresh initiatives to support customer acquisition. We will endeavour to improve sales staff productivity and expand our telemarketing and secured loans sales forces.

Our corporate and commercial banking efforts will continue to focus on supporting our customers' local and regional business ambitions by matching their business expansion requirements with OCBC Group's strong integrated network of regional capabilities, delivering a seamless cross-border experience in business banking. We will assist with banking solutions for those businesses facing Covid-19 related short term financial difficulties.

OCBC Al-Amin will look to expand its wealth management business as well as build its financing book for corporates and SMEs. We will pay particular attention to Value Based Intermediation (VBI), especially in the areas of sustainable financing as part of our long-term growth strategy.

The focus of our treasury business moving forward will include initiating collaborations with new external customers and partners, along with introducing innovative investment products in the face of a lower-for-longer interest rate regime that is expected to prevail.

For a seamless learning experience, our commitment towards staff learning will remain strong and revolve around the "We See You" platform. We will look to continue to break new ground in enhancing our virtual classroom experience by assisting both our internal trainers as well as learners to share, teach and develop using the numerous available online platforms.

On the CSR front, we will ride on the momentum created by our various divisions' and branches' efforts in the last few years to fulfil the social needs of the communities where we operate, maintaining our position as a bank that cares beyond business. Our initiatives will continue to provide an environment for every employee to volunteer in one way or another.

RATINGS BY EXTERNAL AGENCY

RAM Rating Services Berhad ("RAM") has reaffirmed OCBC Bank (Malaysia) Berhad's financial institution rating on 26 July 2019 at AAA/P1 with stable outlook, reflecting the Group's healthy credit metrics and established franchise.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

DIRECTORS OF THE BANK

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

Tan Ngiap Joo, *Independent Non-executive Chairman*
Samuel N. Tsien, *Non-independent Executive Director*
Tong Hon Keong, *Independent Non-executive Director*
Datuk Azizan Bin Haji Abd Rahman, *Independent Non-executive Director*
Ms Yap Seong Yong, Janet , *Independent Non-executive Director*
Lai Teck Poh, *Independent Non-executive Director* (Retired on 7 January 2020)

In accordance with Articles 106 and 107 of the Bank's Constitution (Articles of Association), Mr Samuel N. Tsien and Mr Tong Hon Keong shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

PROFILE OF THE BOARD OF DIRECTORS

Mr Tan Ngiap Joo

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

Mr Samuel N. Tsien

Mr Samuel Tsien was appointed to the Board on 15 April 2012. He is currently a Director and Chief Executive Officer of OCBC Bank. He joined OCBC Bank in July 2007 as Senior Executive Vice President and Global Head, Global Corporate Bank overseeing the corporate and commercial banking business at OCBC Bank. He has more than 40 years of banking experience. Prior to joining OCBC Bank, he was the President and Chief Executive Officer of China Construction Bank (Asia) when China Construction Bank acquired Bank of America (Asia). From 1995 to 2006, he was President and Chief Executive Officer of Bank of America (Asia) and Asia Consumer and Commercial Banking Group Executive of Bank of America Corporation. Mr Tsien is a Commissioner of PT Bank OCBC NISP Tbk and he also serves on the boards of major OCBC Group of Companies, including Great Eastern Holdings Ltd, Bank of Singapore Ltd and OCBC Wing Hang Bank (China) Ltd. He is also a Director of Mapletree Investments Pte Ltd, Dr Goh Keng Swee Scholarship Fund and International Monetary Conference. His other commitments include serving as the Chairman of the Association of Banks in Singapore and MAS Steering Committee for SGD Swap Offer Rate Transition to Singapore Overnight Rate Average. He is also Vice Chairman of the IBF Council, a member of the Monetary Authority of Singapore ("MAS") Financial Centre Advisory Panel and a member of the MAS Payments Council. Mr Tsien holds a Bachelor of Arts with Honours in Economics from the University of California, Los Angeles.

Mr Tong Hon Keong

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 Pencen and ERF Sdn Bhd, and also an Advisor to the Malaysian Accounting Standards Board. Datuk Azizan was the former Director-General of Labuan Financial Services Authority ("Labuan FSA") where he served for more than six years until his retirement in 2011. While serving in Labuan FSA, Datuk Azizan was a member of several boards including Labuan Corporation and Financial Park (Labuan) Sdn Bhd, as well as an executive committee member of the Malaysian Islamic Finance Committee.

Datuk Azizan is the Chairman of the Board of Directors of Malaysian Rating Corporation Berhad, Kensington Trust Labuan Ltd, Kensington Trust Malaysia Bhd and MIDF Amanah Investment Bank Bhd. Datuk Azizan is also a board member of OCBC Al-Amin Bank Berhad, Malaysian Industrial Development Finance ("MIDF") Bhd, Cagamas SRP Bhd, Danum Capital Berhad, Cagamas Berhad 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.

Ms Yap Seong Yong, Janet

Ms Yap Seong Yong, Janet was appointed to the Board on 1 April 2019 as an independent Non-executive Director. She was the Technology Managing Director and Corporate Social Responsibility Lead of Accenture Malaysia with more than 32 years of experience in technology and management information consultancy covering various industries and geographies including Malaysia, Hong Kong, China, Thailand, Indonesia and Singapore, building a career in systems implementation and SAP consulting. She is presently a member of the Board of Trustees of World Vision Malaysia. Ms Yap Seong Yong, Janet holds a Bachelor of Arts with Double Majors in Computing & Information Science and Economics from University of Guelph, Ontario, Canada.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

The interest and deemed interests 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 1 January 2019**	**Acquired/ Awarded**	**Disposed**	**At 31 December 2019**
Ordinary Shares				
Tan Ngiap Joo	1,325,528	40,784	-	1,366,312
Samuel N. Tsien	1,378,675	380,111	-	1,758,786
Lai Teck Poh	945,209	52,130	-	997,339

OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan	**At 1 January 2019**	**Awarded/ Granted**	**Exercised/ Forfeited/ Lapsed**	**At 31 December 2019**
Ordinary Shares				
Samuel N. Tsien	615,311	374,741	(298,836)	691,216

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)

Oversea-Chinese Banking Corporation Limited (continued)

Unexercised share options available to the Directors under the OCBC Share Option Scheme 2001	Date options expire	At 1 January 2019	Awarded/ Granted	Exercised/ Forfeited/ Lapsed	At 31 December 2019
Ordinary Shares					
Samuel N. Tsien	13/03/2021 - 21/3/2028	5,034,060	-	-	5,034,060

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than the benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in Note 30 to the financial statements or the fixed salary of a full time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

CORPORATE GOVERNANCE

Board Composition and Independence

The Board comprises five Directors, all of whom are Non-executive Directors except for one Non-independent executive Director. The independent Non-executive Directors are Mr Tan Ngiap Joo (Chairman of the Board), Mr Tong Hon Keong, Datuk Azizan Bin Haji Abd Rahman and Ms Yap Seong Yong, Janet while the Non-independent executive Director is Mr Samuel N. Tsien. Mr Lai Teck Poh retired as an Independent Director with effect from 7 January 2020.

The Bank has set a policy on the tenure limit at 9 continuous years for Independent Directors. The Nominating & Remuneration Committee shall assess the independence of the Directors who have served the Bank continuously for 9 years or more. The Committee can invite the Independent Director to serve his or her tenure 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, knowledge of risk management and technology.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

CORPORATE GOVERNANCE (continued)

Board Composition and Independence (continued)

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

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

Board Conduct and Responsibilities

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

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

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

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

Board Audit Committee ("BAC")

The BAC comprises Datuk Azizan Bin Haji Abd Rahman (BAC Chairman), Mr Tong Hon Keong and Mr Tan Ngiap Joo (appointed on 7 January 2020); all of whom are independent Directors. Mr Lai Teck Poh stepped down as BAC member with effect from 7 January 2020 following his retirement from the Board.

CORPORATE GOVERNANCE (continued)

Board Audit Committee (continued)

The Board approved the terms of reference of the BAC that describe the responsibilities of its members. The BAC may meet at any time. 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.

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 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 and effectiveness 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 International 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 adopts a risk-based audit approach whereby audit work is prioritised and scoped according to an assessment of current and emerging risks, including financial, operational, technology, compliance and strategic risks.

The work undertaken by Internal Audit involves the assessment of the adequacy and effectiveness of the Bank’s governance, risk management and internal control processes in meeting its strategic objectives and operating within the risk appetite established. In addition, Internal Audit provides an independent assessment of the Bank’s credit portfolio quality and credit risk management process. Reviews conducted by Internal Audit also focus on the Bank’s compliance with relevant laws and regulations, adherence to established policies and whether management has taken appropriate measures to address control deficiencies. Internal Audit provides advice, without assuming management responsibility, on the development of new businesses as well as system developments and enhancements where the objective is to add value and improve governance, risk management and controls.

CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

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

Internal Controls

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

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

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

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

Nominating & Remuneration Committee ("NRC")

The NRC comprises Mr Tan Ngiap Joo, Datuk Azizan Bin Haji Abd Rahman and Ms Yap Seong Yong, Janet (appointed on 7 January 2020); all of whom are independent Directors. Mr Lai Teck Poh stepped down as NRC Chairman with effect from 7 January 2020 following his retirement from the Board. Pending the appointment of the new NRC Chairman, the chairman of the NRC meeting shall be elected by the NRC members at the meeting.

The Board approved the terms of reference of the NRC. The Committee shall be entitled to secure the attendance of any person with relevant experience and expertise at committee meetings if the Committee considers this appropriate.

The Committee shall assess and recommend nominees for directorship, Board Committee membership and for the CEO position, including reappointment of Directors before an application is submitted to BNM for approval. The actual decision as to who shall be nominated shall be the responsibility of the full Board. The Committee shall oversee the annual review of the overall composition of the Board and Board balance, Directors' independence, competency and skills as well as the assessment to ensure that the Directors and key senior management officers are not disqualified under Section 59 of the Financial Services Act 2013. The annual performance evaluation process of the Board as a whole, the Board Committees as well as of the 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.

CORPORATE GOVERNANCE (continued)

Nominating & Remuneration Committee (continued)

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

Remuneration Policy

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

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

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

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

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

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

In determining the composition of compensation packages, the Group and the Bank take into account the time horizon of risk and include, in the total compensation for executives, a portion of deferred payment in the form of deferred shares.

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

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

CORPORATE GOVERNANCE (continued)

Remuneration Policy (continued)

Under the Plan, 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares.

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

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

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

Risk Management Committee ("RMC")

The RMC comprises Mr Tong Hon Keong (appointed Chairman on 7 January 2020), Mr Tan Ngiap Joo, Datuk Azizan Bin Haji Abd Rahman and Ms Yap Seong Yong, Janet; all of whom are independent Directors. Mr Lai Teck Poh stepped down as the RMC Chairman with effect from 7 January 2020 following his retirement from the Board.

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

The Committee shall review and approve risk management strategies, policies and risk tolerance; review and assess the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk. 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.

Management Information

All Directors review the Board and Board Committee reports prior to the Board 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:

- Minutes of meetings of all Board and Board Committees;
- Performance Report;
- Credit Risk Management Report;
- Asset Liability & Market Risk Report; and
- 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 2019 (continued)

CORPORATE GOVERNANCE (continued)

Management Information (continued)

Directors' Attendance At Board And Board Committee Meetings in 2019

Name of Director	Attendance of Meetings Held			
	Board	Board Audit Committee	Nominating & Remuneration Committee	Risk Management Committee
Tan Ngiap Joo	8 of 8		3 of 3	6 of 6
Samuel N. Tsien	8 of 8			
Lai Teck Poh (Retired on 7 January 2020)	8 of 8	8 of 8	3 of 3	6 of 6
Tong Hon Keong	8 of 8	8 of 8		6 of 6
Datuk Azizan Bin Haji Abd Rahman	8 of 8	8 of 8	3 of 3	6 of 6
Yap Seong Yong, Janet	5 of 6			3 of 4

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

COMPLIANCE WITH BNM'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that BNM's expectations on financial reporting have been complied with, including those as set out in BNM's Guidelines and Policies on Financial Reporting, 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 2019. 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 RM114,718 and RM106,464 (2018: RM108,226 and RM100,770) 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:

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

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

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

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

- that would render the value attributed to the current assets in the financial statements of the Group and of the Bank misleading, or

- 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

- 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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

OTHER STATUTORY INFORMATION (continued)

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

- 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

- 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 2019 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

PricewaterhouseCoopers PLT has expressed its willingness to accept appointment as auditors, and will be nominated for appointment as the external auditors of the Group and of the Bank in place of the retiring auditors, KPMG PLT, at the forthcoming Annual General Meeting.

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:

TAN NGIAP JOO
Chairman

DATUK AZIZAN BIN HAJI ABD RAHMAN
Director

Kuala Lumpur, Malaysia
12 May 2020

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 158 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019 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:

TAN NGIAP JOO
Chairman

DATUK AZIZAN BIN HAJI ABD RAHMAN
Director

Kuala Lumpur, Malaysia
12 May 2020

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

Subscribed and solemnly declared by the abovenamed, at Kuala Lumpur in Malaysia on 12 May 2020.

TEOH YIN MENG
Malaysian Institute of Accountants No: 11978
Chartered Accountant

Before me,

Commissioner for Oaths

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

(Company No.199401009721 (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 2019 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 158.

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 2019, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

We are independent of the 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.

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 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the 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.

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.

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
Approval Number: 02229/04/2022 J
Chartered Accountants

Khaw Hock Hoe

Chartered Accountant

Petaling Jaya, Selangor
12 May 2020

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

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		Group		Bank	
		2019	2018	2019	2018
	Note	RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and cash equivalents	3	4,804,851	4,897,506	4,132,830	4,347,492
Deposits and placements with banks and other financial institutions	4	-	399,956	434,376	980,299
Investment account placements	5	-	-	1,958,154	1,318,776
Financial assets at fair value through profit or loss ("FVTPL")	6	1,176,469	1,873,515	1,160,139	1,863,535
Financial investments at fair value through other comprehensive income ("FVOCI")	7	15,555,244	17,802,426	11,426,798	13,586,543
Loans, advances and financing	8	69,058,329	68,581,496	57,280,940	58,265,289
Derivative financial assets	10	749,732	760,761	749,830	762,277
Other assets	11	375,557	418,998	553,854	599,461
Statutory deposits with Bank Negara Malaysia	12	1,686,883	1,913,172	1,377,583	1,561,972
Investments in subsidiaries	13	-	-	557,051	557,051
Property and equipment	14	154,493	164,368	147,072	154,484
Prepaid lease payments	15	-	712	-	712
Right-of-use ("ROU") assets	16	25,805	-	22,831	-
Tax recoverable		6,457	9,436	-	-
Deferred tax assets	17	46,437	60,135	43,737	51,925
Total assets		93,640,257	96,882,481	79,845,195	84,049,816
LIABILITIES					
Deposits from customers	18	75,095,805	75,851,221	62,583,956	64,124,328
Deposits and placements of banks and other financial institutions	19	4,196,309	7,070,077	4,153,615	6,986,949
Bills and acceptances payable		89,047	92,841	71,512	78,292
Recourse obligation on loans sold to Cagamas Berhad		700,000	700,000	700,000	700,000
Derivative financial liabilities	10	700,023	716,168	699,968	716,113
Other liabilities	20	3,075,514	3,045,533	2,953,977	2,953,139
Tax payable and zakat		44,018	50,019	43,968	49,969
Subordinated bonds	21	1,482,439	1,893,169	1,482,439	1,893,169
Total liabilities		85,383,155	89,419,028	72,689,435	77,501,959
EQUITY					
Share capital	22	754,000	754,000	754,000	754,000
Reserves	23	7,503,102	6,709,453	6,401,760	5,793,857
Total equity		8,257,102	7,463,453	7,155,760	6,547,857
Total liabilities and equity		93,640,257	96,882,481	79,845,195	84,049,816
Commitments and contingencies	35	111,312,514	93,074,549	107,672,746	88,855,432

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 2019

		Group		Bank	
		2019	**2018**	**2019**	**2018**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Interest income	24	3,532,694	3,654,020	3,622,681	3,727,480
Interest income for financial assets at FVTPL	24	80,927	69,734	80,927	69,734
Interest expense	24	(2,106,897)	(2,218,022)	(2,163,203)	(2,262,592)
Net interest income	24	1,506,724	1,505,732	1,540,405	1,534,622
Income from Islamic banking operations	25	447,927	436,409	-	-
Net fee and commission income	26	416,332	318,973	414,255	317,199
Net trading income	27	160,208	167,600	160,208	166,952
Other operating income	28	149,633	33,299	262,243	156,188
Operating income		2,680,824	2,462,013	2,377,111	2,174,961
Operating expenses	29	(1,233,176)	(1,146,385)	(1,154,616)	(1,069,022)
Operating profit before impairment allowance and provision		1,447,648	1,315,628	1,222,495	1,105,939
Impairment allowance and provisions	31	(217,341)	(218,687)	(194,207)	(153,792)
Profit before income tax and zakat		1,230,307	1,096,941	1,028,288	952,147
Income tax expense	32	(276,730)	(282,595)	(239,377)	(252,098)
Zakat		(50)	(50)	-	-
Profit for the year		953,527	814,296	788,911	700,049
Other comprehensive income/(expense), net of income tax					
Items that will not be reclassified to profit or loss					
Change in fair value reserve (equity instruments)		6,059	5,863	6,059	5,863
Items that are or may be reclassified subsequently to profit or loss					
Fair value reserve (debt instruments)					
- Change in fair value		276,936	(11,434)	238,878	(9,878)
- Amount transferred to profit or loss		(131,107)	(7,714)	(120,982)	(7,999)
- Related tax		(35,002)	4,747	(28,295)	4,289
Change in expected credit loss (ECL) reserve on debt instruments at FVOCI		(764)	(10,224)	(668)	(7,827)
Other comprehensive income/(expense) for the year		116,122	(18,762)	94,992	(15,552)
Total comprehensive income for the year		1,069,649	795,534	883,903	684,497
Profit attributable to:					
Owner of the Bank		953,527	814,430	788,911	700,049
Non-controlling interest		-	(134)	-	-
		953,527	814,296	788,911	700,049
Total comprehensive income attributable to:					
Owner of the Bank		1,069,649	795,668	883,903	684,497
Non-controlling interest		-	(134)	-	-
		1,069,649	795,534	883,903	684,497
Basic earnings per ordinary share (sen)	33	331.7	283.3	274.4	243.5

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 2019

		Non-distributable				*Distributable*		
Group	**Share capital RM'000**	**Regulatory reserve RM'000**	**Capital reserve RM'000**	**ECL reserve RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Non-controlling interest RM'000**	**Total equity RM'000**
At 1 January 2019	754,000	600,000	56,619	1,405	83,650	5,967,779	-	7,463,453
Fair value reserve								
- Change in fair value	-	-	-	-	282,995	-	-	282,995
- Transferred to profit or loss	-	-	-	-	(131,107)	-	-	(131,107)
- Related tax	-	-	-	-	(35,002)	-	-	(35,002)
Change in ECL reserve	-	-	-	(764)	-	-	-	(764)
Total other comprehensive (expense)/income for the year	-	-	-	(764)	116,886	-	-	116,122
Profit for the year	-	-	-	-	-	953,527	-	953,527
Total comprehensive (expense)/income for the year	-	-	-	(764)	116,886	953,527	-	1,069,649
Contributions by and distributions to owner of the Bank								
Final 2018 ordinary dividend paid	-	-	-	-	-	(138,000)	-	(138,000)
Interim 2019 ordinary dividend paid	-	-	-	-	-	(138,000)	-	(138,000)
At 31 December 2019	754,000	600,000	56,619	641	200,536	6,645,306	-	8,257,102

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

		Non-distributable				*Distributable*		
Group	**Share capital RM'000**	**Regulatory reserve RM'000**	**Capital reserve RM'000**	**ECL reserve RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Non-controlling interest RM'000**	**Total equity RM'000**
At 1 January 2018 (as previously reported)	754,000	486,000	56,619	-	107,999	5,473,294	1,494	6,879,406
Effect of adopting MFRS 9	-	-	-	11,629	(15,811)	80,894	-	76,712
Restated at 1 January 2018	754,000	486,000	56,619	11,629	92,188	5,554,188	1,494	6,956,118
Fair value reserve								
- Change in fair value	-	-	-	-	(5,571)	-	-	(5,571)
- Transferred to profit or loss	-	-	-	-	(7,714)	-	-	(7,714)
- Related tax	-	-	-	-	4,747	-	-	4,747
Change in ECL reserve	-	-	-	(10,224)	-	-	-	(10,224)
Total other comprehensive expense for the year	-	-	-	(10,224)	(8,538)	-	-	(18,762)
Profit for the year	-	-	-	-	-	814,430	(134)	814,296
Total comprehensive (expense)/income for the year	-	-	-	(10,224)	(8,538)	814,430	(134)	795,534
Changes in ownership interest in a subsidiary	-	-	-	-	-	1,161	(1,311)	(150)
Transferred to regulatory reserve	-	114,000	-	-	-	(114,000)	-	-
Contributions by and distributions to owner of the Bank								
Final 2017 ordinary dividend paid	-	-	-	-	-	(150,000)	-	(150,000)
Interim 2018 ordinary dividend paid	-	-	-	-	-	(138,000)	(49)	(138,049)
At 31 December 2018	754,000	600,000	56,619	1,405	83,650	5,967,779	-	7,463,453

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		Non-distributable			*Distributable*	
Bank	**Share capital RM'000**	**Regulatory reserve RM'000**	**ECL reserve RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2019	754,000	509,000	1,156	81,458	5,202,243	6,547,857
Fair value reserve						
- Change in fair value	-	-	-	244,937	-	244,937
- Transferred to profit or loss	-	-	-	(120,982)	-	(120,982)
- Related tax	-	-	-	(28,295)	-	(28,295)
Change in ECL reserve	-	-	(668)	-	-	(668)
Total other comprehensive (expense)/income for the year	-	-	(668)	95,660	-	94,992
Profit for the year	-	-	-	-	788,911	788,911
Total comprehensive (expense)/income for the year	-	-	(668)	95,660	788,911	883,903
Contributions by and distributions to owner of the Bank						
Final 2018 ordinary dividend paid	-	-	-	-	(138,000)	(138,000)
Interim 2019 ordinary diividend paid	-	-	-	-	(138,000)	(138,000)
At 31 December 2019	754,000	509,000	488	177,118	5,715,154	7,155,760

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

	Non-distributable				*Distributable*	
Bank	**Share capital RM'000**	**Regulatory reserve RM'000**	**ECL reserve RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2018 (as previously reported)	754,000	395,000	-	104,377	4,830,643	6,084,020
Effect of adopting MFRS 9	-	-	8,983	(15,194)	73,551	67,340
Restated at 1 January 2018	754,000	395,000	8,983	89,183	4,904,194	6,151,360
Fair value reserve						
- Change in fair value	-	-	-	(4,015)	-	(4,015)
- Transferred to profit or loss	-	-	-	(7,999)	-	(7,999)
- Related tax	-	-	-	4,289	-	4,289
Change in ECL reserve	-	-	(7,827)	-	-	(7,827)
Total other comprehensive expense for the year	-	-	(7,827)	(7,725)	-	(15,552)
Profit for the year	-	-	-	-	700,049	700,049
Total comprehensive (expense)/income for the year	-	-	(7,827)	(7,725)	700,049	684,497
Transferred to regulatory reserve	-	114,000	-	-	(114,000)	-
Contributions by and distributions to owners of the Bank						
Final 2017 ordinary dividend paid	-	-	-	-	(150,000)	(150,000)
Interim 2018 ordinary dividend paid	-	-	-	-	(138,000)	(138,000)
At 31 December 2018	754,000	509,000	1,156	81,458	5,202,243	6,547,857

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

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Cash flows from operating activities				
Profit before income tax and zakat	1,230,307	1,096,941	1,028,288	952,147
Adjustments for:				
Amortisation of prepaid lease payments	-	36	-	36
Depreciation of property and equipment	29,625	28,713	26,902	24,306
Depreciation of right-of-use assets	18,518	-	16,115	-
Dividends received from financial investments at FVOCI	(2,822)	(722)	(2,822)	(722)
Dividend received from subsidiary	-	-	-	(2,800)
Surplus assets received from winding-up of a subsidiary	-	-	-	(12,262)
Impairment allowance and provisions	217,341	218,687	194,207	153,792
Finance cost	690	-	690	-
Net (gain)/loss on disposal of:				
- Financial investments at FVOCI	(131,107)	(7,714)	(120,982)	(7,999)
- Property and equipment	57	(87)	16	(88)
Share-based expense	9,490	6,808	9,045	6,533
Unrealised (gain)/loss on:				
- Financial assets at FVTPL	(408)	(5,839)	(232)	(6,304)
- Hedging derivatives	(31)	1	(31)	1
- Trading derivatives	(19,586)	(308,085)	(18,166)	(309,213)
- Subordinated bonds	(10,730)	22,237	(10,730)	22,237
Operating profit before changes in working capital	1,341,344	1,050,976	1,122,300	819,664
Changes in operating assets and operating liabilities:				
Deposits and placements with banks and other financial institutions	399,984	(328,164)	545,951	(797,824)
Investment account placements	-	-	(693,680)	479,404
Financial assets at FVTPL	697,454	(44,010)	703,628	(166,282)
Loans, advances and financing	(693,723)	(1,239,932)	842,957	(582,624)
Other assets	43,329	(48,755)	45,497	110,427
Statutory deposits with Bank Negara Malaysia	226,289	(160,455)	184,389	(134,755)
Derivative financial assets and liabilities	13,045	19,790	13,043	19,574
Deposits from customers	(755,416)	2,198,482	(1,540,372)	1,633,906
Deposits and placements of banks and other financial institutions	(2,873,768)	2,681,940	(2,833,334)	3,040,512
Bills and acceptances payable	(3,794)	(73,263)	(6,780)	(67,055)
Other liabilities	(7,015)	494,184	(30,674)	528,604
Cash (used in)/generated from operations	(1,612,271)	4,550,793	(1,647,075)	4,883,551
Income tax and zakat paid	(301,105)	(316,980)	(265,485)	(262,194)
Net cash (used in)/generated from operating activities	(1,913,376)	4,233,813	(1,912,560)	4,621,357

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Cash flows from investing activities				
Acquisition of financial investments at FVOCI	(21,565,530)	(22,169,372)	(14,735,530)	(14,806,255)
Acquisition of property and equipment	(19,867)	(30,583)	(19,528)	(25,626)
Dividends received from financial investments at FVOCI	2,822	722	2,822	722
Dividends received from subsidiary	-	-	-	2,800
Increase in investment in subsidiary	-	-	-	(150)
Final distribution of surplus assets received on completion of winding-up of a subsidiary	-	-	-	13,853
Proceeds from disposal of financial investments at FVOCI	24,097,163	17,713,121	17,141,668	9,977,280
Proceeds from disposal of property and equipment	84	190	44	190
Net cash from/(used in) investing activities	2,514,672	(4,485,922)	2,389,476	(4,837,186)
Cash flows from financing activities				
Dividends paid to owner of the Bank	(276,000)	(288,000)	(276,000)	(288,000)
Dividends paid to non-controlling interest	-	(49)	-	-
Redemption of subordinated bonds	(400,000)	-	(400,000)	-
Payment of lease liabilities	(18,914)	-	(16,542)	-
Recourse obligation on loans sold to Cagamas Berhad	-	(719,252)	-	(719,252)
Net cash used in financing activities	(694,914)	(1,007,301)	(692,542)	(1,007,252)
Net decrease in cash and cash equivalents	(93,618)	(1,259,410)	(215,626)	(1,223,081)
Cash and cash equivalents at 1 January	4,898,851	6,158,261	4,348,837	5,571,918
Cash and cash equivalents at 31 December	4,805,233	4,898,851	4,133,211	4,348,837

Details of cash and cash equivalents are disclosed in Note 3 to the financial statements.

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

Changes in liabilities arising from financing activities

2019	**At 1 January RM'000**	**Effect of adopting MFRS 16 RM'000**	**Cash outflows RM'000**	**Foreign exchange movement RM'000**	**Acquisition of new leases RM'000**	**Finance cost RM'000**	**At 31 December RM'000**
Group							
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	-	-	700,000
Subordinated bonds	1,893,169	-	(400,000)	(10,730)	-	-	1,482,439
Lease liabilities	-	29,336	(18,914)	-	14,275	690	25,387
Total liabilities from financing activities	2,593,169	29,336	(418,914)	(10,730)	14,275	690	2,207,826
Bank							
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	-	-	700,000
Subordinated bonds	1,893,169	-	(400,000)	(10,730)	-	-	1,482,439
Lease liabilities	-	25,097	(16,542)	-	13,137	690	22,382
Total liabilities from financing activities	2,593,169	25,097	(416,542)	(10,730)	13,137	690	2,204,821
2018							
Group and bank							
Recourse obligation on loans sold to Cagamas Berhad	1,419,252	-	(719,252)	-	-	-	700,000
Subordinated bonds	1,870,932	-	-	22,237	-	-	1,893,169
Total liabilities from financing activities	3,290,184	-	(719,252)	22,237	-	-	2,593,169

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

GENERAL INFORMATION

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 19th Floor, Menara OCBC, 18 Jalan Tun Perak, 50050 Kuala Lumpur.

The consolidated financial statements of the Bank as at and for the financial year ended 31 December 2019 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 its 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 ("OCBC Bank" or "OCBC Ltd"), a licensed commercial bank incorporated in Singapore.

The financial statements were approved and authorised for issue by the Board of Directors on 12 May 2020.

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, the requirements of Companies Act 2016 in Malaysia and BNM's Shariah requirements (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 accounting standards, interpretations and amendments have been adopted by the Group and the Bank during the financial year:

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Tax (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits (Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

1 BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

The initial application of the above mentioned accounting standards, interpretation and amendments do not have any material impact to the financial statements of the Group and the Bank except as disclosed in Note 48 on the adoption of MFRS 16, *Leases* ("MFRS 16").

MFRS 16 which superseded MFRS 117, *Leases* and the related interpretations introduces a single, on-balance sheet lease accounting model for leases. A lessee recognises a lease liability to make lease payments and an asset representing the "ROU" of the underlying asset during the lease term. The ROU asset is depreciated over the length of the lease in accordance with the principle in MFRS 116, *Property, Plant and Equipment* and the lease liability is accreted over time with finance expense recognised in the statement of profit or loss. Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117, *Leases* whereby lessors will continue to classify leases as either finance or operating leases.

The Group and the Bank applied MFRS 16 initially using the modified retrospective approach whereby the cumulative effect, if any, of adopting MFRS 16 is recognised to the opening balance of retained earnings as at 1 January 2019, with no restatement of comparative information. The Group and the Bank elected to apply the practical expedient to grandfather the assessment of contracts that were previously identified as leases under MFRS 117. This means that the lease definition under MFRS 16 was applied only to new or changed contracts entered on or after 1 January 2019.

In implementing MFRS 16 on 1 January 2019, the Group and the Bank recognised an additional RM29 million and RM25 million respectively of ROU assets and lease liabilities as disclosed in Note 48 to the financial statements. There is no impact on retained earnings as at 1 January 2019 arising from the adoption of MFRS16.

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

<u>Effective for annual periods commencing on or after 1 January 2020</u>

- Amendments to MFRS 3, *Business Combinations*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors*
- Interest Rate Benchmark Reform (Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures*)

<u>Effective date to be announced by MASB</u>

- Amendments to MFRS 10 and MFRS 128, *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.

(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.

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 at fair value through profit or loss ("FVTPL") (Note 6), financial investments at fair value through other comprehensive income ("FVOCI") (Note 7) and derivative financial assets and liabilities (Note 10). 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 at FVOCI as the Group and the Bank evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flows.

(ii) Impairment of financial assets

In determining whether the credit risk of the Group's and the Bank's financial exposures have increased significantly since initial recognition, the Group and the Bank will consider reasonable and supportable information that is readily available without undue cost or effort. This includes both quantitative and qualitative information such as the Group's and the Bank’s historical credit assessment experience and available forward-looking information. Expected credit loss ("ECL") estimates are produced for all relevant instruments based on probability-weighted forward-looking economic scenarios. The measurement of ECL is primarily calculated based on the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). These are parameters derived from internal rating models after adjusting them to be unbiased and forward-looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience.The underlying models and their calibration, including how they react to forward-looking economic conditions, are subject to continuous review and refinement.

The assumptions and judgements used by management may affect impairment allowances computed.

(iii) Management judgement is required for assessing the business model within which the financial assets are held and whether the contractual terms of the financial assets are solely payments of principal and interest on the principal amount outstanding for classification of financial assets.

(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

A Basis of consolidation

The accounting policies set out below have been applied consistently by the Group and the Bank to the periods presented in these financial statements, except as disclosed in Note 2E and Note 48 to the financial statements.

(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.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment allowances, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

A Basis of consolidation (continued)

(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 asset depending on the level of influence retained.

(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 equity instruments at fair value through other comprehensive income or a financial instrument designated as a cash flow hedge, 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) Recognition and initial 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(a) Recognition and initial measurement (continued)

A financial instrument is initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issuance.

The Group and the Bank account for an embedded derivative separately from the host contract when:

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

(b) Financial instrument categories and subsequent measurement

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

Financial assets

The categories of financial assets are as follows:

(i) Amortised cost

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

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit-impaired financial assets (see Note 2K(a)) where the effective interest rate is applied to the amortised cost.

Financing and advances consist of sales based contracts (Bai' Inah, Bai' Bithaman Ajil, Tawarruq, Murabahah and Bai' Dayn), 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 entity's core business is in providing financing to customers and not into leasing business. As a result, we have recognised all lease-based contracts as forms of financing and recognised them accordingly as financial instruments under MFRS 9. Except for Ijarah financing, assets funded under Ijarah Thumma Al-Bai and Ijarah Muntahiah Bi Al-Tamlik contracts are owned by the Group throughout the tenure of the financing and ownership of the assets will be transferred to the customer at the end of the financing.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

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

Financial assets (continued)

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

Debt investments

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

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

Equity investments

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

(iii) Fair value through profit or loss

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

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

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

Financial liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

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

Financial liabilities (continued)

FVTPL category comprises financial liabilities that are derivatives (except for derivatives that are financial guarantee contracts or designated as effective hedging instruments) or financial liabilities that are specifically designated into this category upon initial recognition.

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

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

(c) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make 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.

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

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

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

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

(d) Regular way purchase or sale of financial assets

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

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

- the recognition of an asset to be received and 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

At inception of a designated hedging relationship, the Group and the Bank document the risk management objective and strategy for undertaking the hedge. The Group and the Bank also document the economic relationship between the hedged item and the hedging instrument including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(e) Hedge accounting (continued)

(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 on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument which the Group or the Bank has elected to present subsequent changes in fair value of the investment in equity in other comprehensive income).

The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and be recognised in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at FVOCI, the hedging gain or loss on the hedged item shall be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in FVOCI, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

(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 all, or a component of, 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 accumulated in equity and the ineffective portion is recognised in profit or loss. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

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 immediately.

The Group or the Bank designates only the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ("forward points") and/or the foreign currency basis spread are separately accounted for as cost of hedging and recognised in a cost of hedging reserve within equity.

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 hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(e) Hedge accounting (continued)

(ii) Cash flow hedge (continued)

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to 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 are transferred, or control of the financial asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C Financial instruments (continued)

(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” 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D Property and equipment (continued)

(c) Depreciation (continued)

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

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

Current financial year

(a) Definition of a lease

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

E Leases (continued)

(b) Recognition and initial measurement

As a lessee

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

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

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

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

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

As a lessor

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

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

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

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

(c) Subsequent measurement

As a lessee

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

E Leases (continued)

(c) Subsequent measurement (continued)

As a lessee (continued)

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

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

As a lessor

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

Previous financial year

(a) Finance lease

Leases, where the Group or the Bank assumed substantially all the risks and rewards of ownership, were classified as finance leases. Upon initial recognition, the leased asset was 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 was accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was 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 were accounted for by revising the minimum lease payments over the remaining term of the lease when the leased adjustment was confirmed.

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

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

F 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 amortised cost in accordance with Note 2(C)(b)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment

(a) Financial assets

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

(i) ECL impairment model

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

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

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

(ii) Measurement

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

- Financial assets that are non credit-impaired at the reporting date: At the present value of all cash shortfalls, being the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group and the Bank expect to receive;
- Financial assets that are credit-impaired at the reporting date: At the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: At the present value of the difference between the contractual cash flows that are due to the Group and the Bank if the commitment is drawn down and the cash flows that the Group and the Bank expect to receive; and
- Financial guarantee contracts: The expected payments to reimburse the holder less any amounts that the Group and the Bank expect to recover.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment (continued)

(a) Financial assets (continued)

(iii) Movement between stages

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

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

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

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

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

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

The assessments for significant increase in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1. Similarly, an asset that is in Stage 3 will move back to Stage 2 if it is no longer considered to be credit-impaired. For credit-impaired portfolio, Stage 3 ECL is assessed individually and measured as described in Note 42 of the financial statements.

(iv) Regulatory framework

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

(b) Other assets

The carrying amounts of other assets (except for deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G Impairment (continued)

(b) Other assets (continued)

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.

H 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 at the annual general meeting.

I 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

I Employee benefits (continued)

(a) Short-term employee benefits (continued)

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 immediate and ultimate holding company of the Bank, Oversea-Chinese Banking Corporation Limited (“OCBC Bank”), are awarded to eligible executives. A trust is set up to administer the shares purchased under the Plan. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares. The awards will lapse immediately on the termination of employment, except in the event of retirement, redundancy, death, or where approved by the relevant approving authorities at OCBC Bank whom may allow the awards to be retained and vested within the relevant vesting periods or such periods as may be determined.

(ii) OCBC Share Option Scheme 2001

Under the OCBC Share Option Scheme 2001, shares of the immediate and 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 and expire on the 10th anniversary of the respective dates of grant except for options granted to Non-executive Directors which are exercisable up to 5 years. One-third of the share options granted will vest each financial year after the 1st anniversary of the respective dates of grant and fully vested after the 3rd anniversary.

(iii) OCBC Employee Share Purchase Plan

The Employee Share Purchase Plan (“ESP Plan”) is a savings-based share ownership plan that allows eligible employees to participate in shares of the immediate and ultimate holding company of the Bank by making monthly contributions to the ESP Plan Account and interest accrued at a preferential rate determined by the OCBC Bank 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 immediate and 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 20(b) to the financial statements.

J 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

K Income and expenses

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

Interest/finance income or expense is recognised using the effective interest/profit method.

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

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

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

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

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

(b) Fee and commission income

Processing fees from 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 financial assets at FVTPL/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 BNM's Guidelines on Late Payment Charges for Islamic Banking Institutions, the Group recognises all late penalty income under 'Islamic Banking Income' in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

L 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 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.

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.

M 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.

N 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 entity as mudarib and losses borne by depositors.

O 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

O 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 Group and 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.

P 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 values 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 or the Bank can access at the measurement date.

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

Level 3: Unobservable inputs for the asset or liability.

The 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.

Q Recourse obligation on loans sold to Cagamas Berhad

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank 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.

R Zakat contribution

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

3 CASH AND CASH EQUIVALENTS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	716,740	361,561	606,244	307,702
Money at call and deposit placements with financial institutions maturing within one month	225,848	593,549	511,967	1,003,135
Deposit placements with Bank Negara Malaysia	3,862,645	3,943,741	3,015,000	3,038,000
	4,805,233	4,898,851	4,133,211	4,348,837
Stage 1 ECL allowance	(382)	(1,345)	(381)	(1,345)
	4,804,851	4,897,506	4,132,830	4,347,492

(a) By geographical distribution

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Malaysia	4,439,604	4,771,543	3,827,249	4,243,691
Singapore	162,673	59,490	145,365	41,230
Other ASEAN countries	6,826	2,866	6,072	2,112
Rest of the world	196,130	64,952	154,525	61,804
	4,805,233	4,898,851	4,133,211	4,348,837

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

(b) Included in the Bank's cash and cash equivalents are deposits and placements with OCBC Al-Amin of RM286 million (2018: RM410 million), which are unsecured and profit bearing.

(c) Movements in ECL allowance

	2019			2018		
Group	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL RM'000	Total ECL non credit-impaired RM'000	Stage 1 12 months ECL RM'000	Stage 2 Lifetime ECL RM'000	Total ECL non credit-impaired RM'000
At 31 December, under MFRS 139	-	-	-	-	-	-
Effect of adopting MFRS 9	-	-	-	170	45	215
At 1 January/As restated under MFRS 9	1,345	-	1,345	170	45	215
New financial assets originated or purchased	172	-	172	-	-	-
Financial assets derecognised	(24)	-	(24)	-	-	-
Net remeasurement during the year	(1,091)	-	(1,091)	1,088	(45)	1,043
Other movements	(20)	-	(20)	87	-	87
At 31 December	382	-	382	1,345	-	1,345

3 CASH AND CASH EQUIVALENTS (continued)

Bank	2019 Stage 1 12 months ECL RM'000	2019 Stage 2 Lifetime ECL RM'000	2019 Total ECL non credit-impaired RM'000	2018 Stage 1 12 months ECL RM'000	2018 Stage 2 Lifetime ECL RM'000	2018 Total ECL non credit-impaired RM'000
At 31 December, under MFRS 139	-	-	-	-	-	-
Effect of adopting MFRS 9	-	-	-	142	45	187
At 1 January/As restated under MFRS 9	1,345	-	1,345	142	45	187
New financial assets originated or purchased	172	-	172	-	-	-
Financial assets derecognised	(24)	-	(24)	-	-	-
Net remeasurement during the year	(1,092)	-	(1,092)	1,116	(45)	1,071
Other movements	(20)	-	(20)	87	-	87
At 31 December	381	-	381	1,345	-	1,345

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Licensed bank	-	400,000	434,376	980,343
Stage 1 ECL allowance	-	(44)	-	(44)
	-	399,956	434,376	980,299

(a) By geography determined based on where the credit risk resides

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Malaysia	-	400,000	434,376	980,343

(b) By residual contractual maturity

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Maturity within one year	-	400,000	434,376	980,343

(c) Included in the Bank's deposits and placements with licensed banks are deposits and placements with OCBC Al-Amin of RM434 million (31 December 2018: RM580 million), which are unsecured and profit bearing.

(d) Movements in ECL allowance

Group and Bank	2019 Stage 1 12 months ECL RM'000	2019 Stage 2 Lifetime ECL RM'000	2019 Total ECL non credit-impaired RM'000	2018 Stage 1 12 months ECL RM'000	2018 Stage 2 Lifetime ECL RM'000	2018 Total ECL non credit-impaired RM'000
At 31 December, under MFRS 139	-	-	-	-	-	-
Effect of adopting MFRS 9	-	-	-	17	15	32
At 1 January/As restated under MFRS 9	44	-	44	17	15	32
New financial assets originated or purchased	-	-	-	35	-	35
Net remeasurement during the year	(44)	-	(44)	(8)	(15)	(23)
At 31 December	-	-	-	44	-	44

5 INVESTMENT ACCOUNT PLACEMENTS

Bank	**2019 RM'000**	**2018 RM'000**
Restricted Profit Sharing Investment Accounts	2,018,823	1,379,286
ECL allowance	(60,669)	(60,510)
	1,958,154	1,318,776

(a) By geography based on where the credit risk resides

	2019 RM'000	2018 RM'000
Malaysia	1,518,811	823,672
Singapore	500,012	555,614
	2,018,823	1,379,286

(b) By residual contractual maturity

	2019 RM'000	2018 RM'000
Within one year	1,960,296	1,263,316
Over five years	58,527	115,970
	2,018,823	1,379,286

The exposures to Restricted Profit Sharing Investment Accounts ("RPSIA") is an arrangement with its subsidiary, OCBC Al-Amin, which the contract is 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.

(c) Movements in ECL allowance

	Non credit-impaired		*Credit-impaired*	
Bank	**Stage 1 12 months ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total ECL**
2019	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January	3,392	-	57,118	60,510
Transferred to Stage 2	(5,189)	5,189	-	-
New financial assets originated or purchased	316	-	-	316
Net remeasurement during the year	2,766	21,426	29,794	53,986
Written off	-	-	(54,143)	(54,143)
At 31 December	1,285	26,615	32,769	60,669
2018				
At 1 January	-	-	-	-
Effect of adopting MFRS 9	8,561	-	59,818	68,379
As restated	8,561	-	59,818	68,379
New financial assets originated or purchased	478	-	-	478
Financial assets derecognised	(819)	-	-	(819)
Net remeasurement during the year	(4,828)	-	-	(4,828)
Other movements	-	-	(2,700)	(2,700)
At 31 December	3,392	-	57,118	60,510

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At fair value				
Malaysian Government Investment Issues	589,121	500,813	589,121	500,813
Malaysian Government Securities	275,024	261,220	275,024	261,220
Malaysian Government Treasury Bills	295,732	377,339	295,732	377,339
Bank Negara Malaysia Monetary Notes	-	75,221	-	75,221
Corporate Bonds and Sukuk	16,592	658,736	262	648,756
Debentures	-	186	-	186
	1,176,469	1,873,515	1,160,139	1,863,535

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At fair value				
Malaysian Government Investment Issues	6,107,784	5,433,495	3,846,724	3,110,701
Malaysian Government Securities	3,129,096	3,213,339	3,129,096	3,213,339
Malaysian Treasury Bills and Islamic Treasury Bills	39,840	-	39,840	-
Malaysian Government Debt Securities and Sukuk	125,283	357,061	30,437	112,488
Bank Negara Malaysia Monetary Notes	497,441	445,470	497,441	445,470
Foreign Government Debt Securities and Sukuk	204,109	614,177	179,222	443,825
Negotiable Instruments of Deposit and Islamic Negotiable Instruments of Deposit	2,768,686	2,992,396	1,471,815	1,920,316
Corporate and Islamic Corporate Bonds, Sukuk and Sanadat Mudharabah Cagamas	2,577,728	4,647,270	2,126,946	4,241,186
Unquoted shares in Malaysia	105,277	99,218	105,277	99,218
	15,555,244	17,802,426	11,426,798	13,586,543

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

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

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

	2019			2018			
Group	**Stage 1 12 months ECL RM'000**	**Stage 2 Lifetime ECL RM'000**	**Total ECL non credit-impaired RM'000**	**Stage 1 12 months ECL RM'000**	**Stage 2 Lifetime ECL RM'000**	**Total ECL non credit-impaired RM'000**	**Total impairment allowance RM'000**
At 31 December, under MFRS 139	-	-	-	-	-	-	12
Effect of adopting MFRS 9	-	-	-	8,380	3,249	11,629	(12)
At 1 January/As restated under MFRS 9	1,355	50	1,405	8,380	3,249	11,629	-
Transferred to Stage 1	-	-	-	32	(32)	-	-
Transferred to Stage 2	-	-	-	(12)	12	-	-
New financial assets originated or purchased	276	-	276	2,728	-	2,728	-
Financial assets derecognised	(716)	(41)	(757)	(1,805)	-	(1,805)	-
Net remeasurement during the year	(272)	(9)	(281)	(7,978)	(3,178)	(11,156)	-
Other movements	(2)	-	(2)	10	(1)	9	-
At 31 December	641	-	641	1,355	50	1,405	-
Bank							
At 31 December, under MFRS 139	-	-	-	-	-	-	12
Effect of adopting MFRS 9	-	-	-	6,464	2,519	8,983	(12)
At 1 January/As restated under MFRS 9	1,156	-	1,156	6,464	2,519	8,983	-
Transferred to Stage 1	-	-	-	14	(14)	-	-
Transferred to Stage 2	-	-	-	(4)	4	-	-
New financial assets originated or purchased	71	-	71	2,242	-	2,242	-
Financial assets derecognised	(650)	-	(650)	(752)	-	(752)	-
Net remeasurement during the year	(87)	-	(87)	(6,817)	(2,509)	(9,326)	-
Other movements	(2)	-	(2)	9	-	9	-
At 31 December	488	-	488	1,156	-	1,156	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

8 LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Overdrafts	3,398,207	3,383,747	2,944,597	3,031,000
Term loans/financing				
- Housing loans/financing	24,189,809	25,587,615	22,247,391	23,629,878
- Syndicated term loans/financing	4,392,816	3,436,299	3,765,013	2,741,928
- Hire purchase receivables	344,785	376,496	10	10
- Other term loans/financing	21,500,426	21,780,919	17,349,480	18,340,739
Credit cards	673,849	619,195	673,849	619,195
Bills receivable	189,342	208,252	136,611	190,746
Trust receipts	33,364	32,800	33,229	32,800
Claims on customers under acceptance credits	3,121,354	3,305,962	2,701,054	2,849,402
Revolving credit	10,293,142	8,759,195	6,387,825	5,647,098
Staff loans/financing	48,156	53,935	48,156	53,935
Other loans/financing	1,833,851	1,910,650	1,704,249	1,762,415
	70,019,101	69,455,065	57,991,464	58,899,146
At fair value				
Other term loans/financing	10,560	24,836	10,560	24,836
Gross loans, advances and financing	70,029,661	69,479,901	58,002,024	58,923,982
ECL allowance	(971,332)	(898,405)	(721,084)	(658,693)
Net loans, advances and financing	69,058,329	68,581,496	57,280,940	58,265,289

(a) By type of customer

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Domestic banking institutions	23,358	28,477	23,358	28,477
Domestic non-bank financial institutions	2,818,760	1,548,954	1,791,640	1,494,633
Domestic business enterprises				
- Small and medium enterprises	10,912,492	12,911,253	8,855,747	10,884,461
- Others	25,626,000	22,674,910	20,015,048	17,627,218
Individuals	26,986,984	28,727,164	24,774,846	26,423,245
Foreign entities	3,662,067	3,589,143	2,541,385	2,465,948
	70,029,661	69,479,901	58,002,024	58,923,982

(b) By interest/profit rate sensitivity

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Fixed rate				
- Housing loans/financing	54,597	19,531	7,084	9,924
- Hire purchase receivables	165,105	185,330	10	10
- Other fixed rate loans/financing	7,088,138	6,893,475	5,538,079	5,152,777
Variable rate				
- Base rate/Base lending rate/Base financing rate plus	39,487,376	41,602,867	35,345,541	37,812,593
- Cost plus	22,442,446	20,169,093	16,362,580	15,344,600
- Other variable rates	791,999	609,605	748,730	604,078
	70,029,661	69,479,901	58,002,024	58,923,982

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

8 LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
(c) By sector				
Agriculture, hunting, forestry and fishing	4,073,759	3,511,185	2,407,460	1,951,580
Mining and quarrying	523,637	478,479	222,802	360,751
Manufacturing	7,906,235	7,937,725	6,402,766	6,426,866
Electricity, gas and water	440,404	483,927	409,895	446,321
Construction	3,156,404	2,969,574	2,394,540	2,177,234
Real estate	7,808,439	7,691,493	6,595,715	6,729,713
Wholesale & retail trade and restaurants & hotels	7,694,879	7,718,554	6,451,997	6,684,988
Transport, storage and communication	1,261,715	1,138,770	1,066,123	936,379
Finance, insurance and business services	3,650,396	2,375,844	2,435,541	2,168,218
Community, social and personal services	2,361,993	2,591,561	1,796,782	1,887,565
Household				
- Purchase of residential properties	25,165,317	26,636,501	23,213,270	24,667,646
- Purchase of non-residential properties	908,656	1,008,631	862,296	968,538
- Others	2,796,820	2,897,614	2,464,555	2,478,784
Others	2,281,007	2,040,043	1,278,282	1,039,399
	70,029,661	69,479,901	58,002,024	58,923,982

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
(d) By geography determined based on where the credit risk resides				
Malaysia	66,421,116	66,023,847	55,454,801	56,460,334
Singapore	1,865,837	1,785,469	1,285,905	1,153,642
Other ASEAN countries	511,654	562,584	349,494	368,063
Rest of the world	1,231,054	1,108,001	911,824	941,943
	70,029,661	69,479,901	58,002,024	58,923,982
(e) By residual contractual maturity				
Up to one year	22,536,861	20,198,290	17,626,038	16,028,474
Over one year to three years	3,519,191	4,426,273	2,699,713	3,783,786
Over three years to five years	6,009,591	5,160,252	4,584,009	4,017,397
Over five years	37,964,018	39,695,086	33,092,264	35,094,325
	70,029,661	69,479,901	58,002,024	58,923,982

9 IMPAIRED LOANS, ADVANCES AND FINANCING

(i) Movements in impaired loans, advances and financing

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At 1 January	1,333,041	1,430,623	957,941	1,047,051
Impaired during the year	1,391,456	997,132	1,012,998	703,604
Reclassified as non-credit impaired	(574,881)	(524,576)	(432,701)	(434,105)
Amount recovered	(556,154)	(332,646)	(386,305)	(233,032)
Amount written off	(191,643)	(239,897)	(95,523)	(126,127)
Effect of foreign exchange difference	349	2,405	66	550
At 31 December	1,402,168	1,333,041	1,056,476	957,941
Stage 3 ECL allowance	(378,350)	(368,702)	(269,142)	(248,504)
Net impaired loans, advances and financing	1,023,818	964,339	787,334	709,437

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
(a) By sector				
Agriculture, hunting, forestry and fishing	9,343	8,050	5,708	5,769
Mining and quarrying	14,895	20,788	14,895	20,788
Manufacturing	152,905	206,423	116,677	181,310
Construction	80,081	19,102	38,165	9,998
Real estate	206,934	76,524	206,268	69,557
Wholesale & retail trade and restaurants & hotel	205,976	215,284	101,470	112,675
Transport, storage and communication	34,591	64,468	31,123	58,870
Finance, insurance and business services	15,927	20,179	8,315	10,416
Community, social and personal services	4,214	6,008	3,481	4,617
Household				
- Purchase of residential properties	488,748	455,136	423,115	395,000
- Purchase of non-residential properties	22,216	32,913	21,455	32,167
- Others	90,409	77,513	68,402	56,290
Others	75,929	130,653	17,402	484
	1,402,168	1,333,041	1,056,476	957,941
(b) By geography based on where the credit risk resides				
Malaysia	1,359,309	1,295,866	1,017,534	928,941
Singapore	20,578	23,489	16,679	15,335
Rest of the world	22,281	13,686	22,263	13,665
	1,402,168	1,333,041	1,056,476	957,941
(c) By period overdue				
Up to 3 months	375,071	264,524	311,198	146,291
Over 3 months to 6 months	157,791	169,634	127,299	140,621
Over 6 months to 9 months	208,698	132,172	98,892	117,472
Over 9 months	660,608	766,711	519,087	553,557
	1,402,168	1,333,041	1,056,476	957,941
(d) By collateral type				
Property	875,899	738,856	782,413	641,825
Fixed deposits	7,080	665	5,800	665
Stock and shares	5,859	5,314	79	44
Machinery	4,019	487	-	-
Secured - others	71,033	93,537	25,484	17,405
Unsecured - corporate and other guarantees	128,659	198,061	69,216	168,665
Unsecured - clean	309,619	296,121	173,484	129,337
	1,402,168	1,333,041	1,056,476	957,941

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

(ii) Movements in ECL allowance on loans, advances and financing

	Non credit-impaired		*Credit-impaired*	**2019**	*Non credit-impaired*		*Credit-impaired*	**2018**
Group	**Stage 1 ECL RM'000**	**Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**	**Stage 1 ECL RM'000**	**Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**
At 31 December, under MFRS 139	-	-	-	-	-	-	-	-
Effect of adopting MFRS 9	-	-	-	-	182,120	301,558	389,432	873,110
At 1 January/As restated under MFRS 9	241,198	288,505	368,702	898,405	182,120	301,558	389,432	873,110
Transferred to Stage 1	301,333	(273,828)	(27,505)	-	434,605	(378,042)	(56,563)	-
Transferred to Stage 2	(79,351)	112,225	(32,874)	-	(62,394)	88,759	(26,365)	-
Transferred to Stage 3	(4,299)	(191,863)	196,162	-	(1,776)	(134,817)	136,593	-
New financial assets originated or purchased	199,067	65,193	-	264,260	217,977	53,838	-	271,815
Financial assets derecognised	(150,741)	(89,491)	(34,139)	(274,371)	(133,696)	(75,932)	(16,197)	(225,825)
Net remeasurement during the year	(247,872)	423,730	115,461	291,319	(393,686)	432,466	199,337	238,117
Written off	-	-	(191,643)	(191,643)	-	-	(239,897)	(239,897)
Other movements	(536)	(288)	(15,814)	(16,638)	(1,952)	675	(17,638)	(18,915)
At 31 December	258,799	334,183	378,350	971,332	241,198	288,505	368,702	898,405
At 1 January								
- Loans, advances and financing	228,310	274,791	368,702	871,803	170,197	297,300	389,432	856,929
- Credit commitments and financial guarantees	12,888	13,714	-	26,602	11,923	4,258	-	16,181
	241,198	288,505	368,702	898,405	182,120	301,558	389,432	873,110
At 31 December								
- Loans, advances and financing	245,984	308,572	378,350	932,906	228,310	274,791	368,702	871,803
- Credit commitments and financial guarantees	12,814	25,612	-	38,426	12,888	13,714	-	26,602
	258,798	334,184	378,350	971,332	241,198	288,505	368,702	898,405

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

	Non credit-impaired		*Credit-impaired*	**2019**	*Non credit-impaired*		*Credit-impaired*	**2018**
	Stage 1 ECL RM'000	**Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**	**Stage 1 ECL RM'000**	**Stage 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**
Bank								
At 31 December, under MFRS 139	-	-	-	-	-	-	-	-
Effect of adopting MFRS 9	-	-	-	-	137,705	204,111	263,555	605,371
At 1 January/As restated under MFRS 9	178,849	231,340	248,504	658,693	137,705	204,111	263,555	605,371
Transferred to Stage 1	236,510	(217,700)	(18,810)	-	264,941	(235,683)	(29,258)	-
Transferred to Stage 2	(55,639)	80,428	(24,789)	-	(40,173)	58,969	(18,796)	-
Transferred to Stage 3	(2,346)	(133,554)	135,900	-	(611)	(71,541)	72,152	-
New financial assets originated or purchased	167,070	57,121	-	224,191	166,324	43,404	-	209,728
Financial assets derecognised	(126,543)	(75,121)	(22,968)	(224,632)	(110,014)	(58,865)	(10,791)	(179,670)
Net remeasurement during the year	(199,713)	311,913	56,246	168,446	(237,880)	290,629	110,309	163,058
Written off	-	-	(95,523)	(95,523)	-	-	(126,127)	(126,127)
Other movements	(380)	(293)	(9,418)	(10,091)	(1,443)	316	(12,540)	(13,667)
At 31 December	197,808	254,134	269,142	721,084	178,849	231,340	248,504	658,693
At 1 January								
- Loans, advances and financing	169,102	217,864	248,504	635,470	129,038	201,164	263,555	593,757
- Credit commitments and financial guarantees	9,747	13,476	-	23,223	8,667	2,947	-	11,614
	178,849	231,340	248,504	658,693	137,705	204,111	263,555	605,371
At 31 December								
- Loans, advances and financing	188,645	235,221	269,142	693,008	169,102	217,864	248,504	635,470
- Credit commitments and financial guarantees	9,163	18,913	-	28,076	9,747	13,476	-	23,223
	197,808	254,134	269,142	721,084	178,849	231,340	248,504	658,693

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

(a) By sector

	Group				**Bank**			
	Non credit-impaired	*Credit-impaired*	**Stage 3 ECL**		*Non credit-impaired*	*Credit-impaired*	**Stage 3 ECL**	
	Stage 1 and 2 ECL	**Stage 3 ECL**	**Made during the year (Note 31)**	**Written off**	**Stage 1 and 2 ECL**	**Stage 3 ECL**	**Made during the year (Note 31)**	**Written off**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2019								
Agriculture, hunting, forestry and fishing	82,054	1,049	1,298	104	47,237	751	881	104
Mining and quarrying	6,292	91	203	-	4,639	91	203	-
Manufacturing	107,238	32,662	39,536	56,176	89,950	23,939	22,565	48,019
Electricity, gas and water	13,131	-	-	-	13,038	-	-	-
Construction	74,908	32,706	34,584	881	55,725	18,039	19,262	356
Real estate	36,375	42,896	44,136	184	28,464	42,896	43,844	-
Wholesale & retail trade and restaurants & hotels	74,811	60,504	33,134	12,113	61,817	43,551	21,226	7,398
Transport, storage and communication	8,611	27,509	2,804	2,094	7,247	27,001	1,696	781
Finance, insurance and business services	14,726	4,295	3,464	1,359	13,904	2,699	2,090	861
Community, social and personal services	4,577	987	1,486	721	-	757	916	522
Household								
- Purchase of residential properties	44,305	93,569	89,828	21,459	38,989	79,485	75,998	18,063
- Purchase of non-residential properties	3,526	3,140	3,338	2,459	3,201	2,873	3,076	2,459
- Others	98,144	46,173	87,520	39,950	78,946	27,060	46,530	16,960
Others	24,284	32,769	29,794	54,143	8,785	-	-	-
	592,982	378,350	371,125	191,643	451,942	269,142	238,287	95,523

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

(a) By sector (continued)

	Group				Bank			
	Non credit-impaired	*Credit-impaired*	Stage 3 ECL		*Non credit-impaired*	*Credit-impaired*	Stage 3 ECL	
	Stage 1 and 2 ECL RM'000	**Stage 3 ECL RM'000**	**Made during the year (Note 31) RM'000**	**Written off RM'000**	**Stage 1 and 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Made during the year (Note 31) RM'000**	**Written off RM'000**
31 December 2018								
Agriculture, hunting, forestry and fishing	36,089	2	57	66	30,836	-	25	25
Mining and quarrying	6,877	-	133,140	132,865	4,242	-	67,029	66,758
Manufacturing	70,032	61,288	13,543	5,503	52,572	59,941	10,478	2,978
Electricity, gas and water	13,150	-	-	-	13,013	-	-	-
Construction	79,116	8,402	12,148	2,777	65,320	2,095	4,499	1,853
Real estate	27,384	12,018	8,620	6	19,339	9,472	8,561	6
Wholesale & retail trade and restaurants & hotels	70,123	62,777	71,820	21,945	55,607	43,226	46,297	13,385
Transport, storage and communication	2,604	29,014	7,144	3,950	516	27,501	4,272	2,660
Finance, insurance and business services	19,314	4,125	4,579	2,625	18,632	2,661	2,093	998
Community, social and personal services	5,049	997	1,902	1,785	426	882	1,312	1,294
Household								
- Purchase of residential properties	54,431	91,367	105,878	19,346	48,304	79,825	91,953	16,992
- Purchase of non-residential properties	4,620	3,407	3,469	3,261	4,168	3,375	3,375	3,169
- Others	114,457	38,187	93,642	45,768	81,439	19,526	42,586	16,009
Others	26,457	57,118	-	-	15,775	-	-	-
	529,703	368,702	455,942	239,897	410,189	248,504	282,480	126,127

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

9 IMPAIRED LOANS, ADVANCES AND FINANCING (continued)

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

(b) By geographical distribution

	Group			Bank		
	Non credit-impaired	*Credit-impaired*		*Non credit-impaired*	*Credit-impaired*	
2019	**Stage 1 and 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**	**Stage 1 and 2 ECL RM'000**	**Stage 3 ECL RM'000**	**Total ECL RM'000**
Malaysia	551,304	372,540	923,844	425,618	263,332	688,950
Singapore	6,001	3,069	9,070	5,002	3,069	8,071
Other ASEAN countries	17,762	-	17,762	17,754	-	17,754
Rest of the world	17,915	2,741	20,656	3,568	2,741	6,309
	592,982	378,350	971,332	451,942	269,142	721,084
2018						
Malaysia	494,707	339,702	834,409	386,677	219,504	606,181
Singapore	6,027	15,335	21,362	4,377	15,335	19,712
Other ASEAN countries	13,325	-	13,325	13,240	-	13,240
Rest of the world	15,644	13,665	29,309	5,895	13,665	19,560
	529,703	368,702	898,405	410,189	248,504	658,693

(c) **Impact of movements in gross carrying amount on ECL allowance**

Stage 1 ECL allowance increased by RM18 million and RM19 million respectively for the Group and the Bank compared to the previous financial year mainly due to newly originated loans, advances and financing and transfers from Stage 2 to Stage 1 ECL as a result of improved credit quality.

Stage 2 ECL allowance increased by RM46 million and RM23 million respectively for the Group and the Bank mainly due higher net remeasurement during the year from moderated macroeconomic outlook partially mitigated by the migration of loans, advances and financing from Stage 2 to Stage 1.

Stage 3 ECL allowance increased by RM9 million and RM21 million respectively for the Group and the Bank mainly due to higher of net remeasurement during the year from moderated macroeconomic outlook and migration of loans, advances and financing from Stage 2 to Stage 3, partially offset by write offs.

10 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Financial derivatives are instruments which values change in response to the change in one or more "underlying" such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In the normal course of business, the Group and the Bank customise derivatives to meet the specific needs of their customers. The Group and the Bank also transact in these derivatives for proprietary trading purposes as well as to manage its assets/liabilities and structural positions. While the Group and the Bank also enter into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases, these other contracts are not designated as hedge relationships and are measured at fair value through profit or loss.

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

	2019			2018		
	Contract or underlying principal amount	Fair value		Contract or underlying principal amount	Fair value	
Group	**RM'000**	**Assets RM'000**	**Liabilities RM'000**	**RM'000**	**Assets RM'000**	**Liabilities RM'000**
Trading						
Foreign exchange derivatives						
- Forwards	4,368,293	11,504	42,376	3,797,284	35,951	13,089
- Swaps	15,361,383	454,265	334,840	13,811,028	529,082	496,040
- Options	704,214	6,907	294	866,437	5,990	2,116
Interest rate derivatives						
- Swaps	56,748,918	236,667	284,147	41,248,610	104,588	114,755
- Options	-	-	-	180,000	56	312
- Futures	286,545	63	-	333,719	142	1,081
Equity and other derivatives						
- Swaps	803,309	16,660	16,660	217,800	11,699	11,699
- Commodity futures	74,620	2,574	41	42,091	166	3,702
- Credit linked notes	953,135	21,092	21,092	1,241,549	72,971	72,971
	79,300,417	749,732	699,450	61,738,518	760,645	715,765
Hedging						
Interest rate derivatives						
- Swaps	20,467	-	573	116,211	116	403
	79,320,884	749,732	700,023	61,854,729	760,761	716,168

10 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

	2019			2018		
	Contract or underlying principal	Fair value		Contract or underlying principal	Fair value	
Bank	**amount RM'000**	**Assets RM'000**	**Liabilities RM'000**	**amount RM'000**	**Assets RM'000**	**Liabilities RM'000**
Trading						
Foreign exchange derivatives						
- Forwards	4,360,330	11,209	42,321	3,808,900	35,958	13,034
- Swaps	15,361,208	454,269	334,840	13,842,531	530,373	496,040
- Options	704,214	6,907	294	866,437	5,990	2,116
Interest rate derivatives						
- Swaps	56,748,918	237,056	284,147	41,248,610	104,806	114,755
- Options	-	-	-	180,000	56	312
- Futures	286,545	63	-	333,719	142	1,081
Equity and other derivatives						
- Swaps	803,309	16,660	16,660	217,800	11,699	11,699
- Commodity futures	74,620	2,574	41	42,091	166	3,702
- Credit linked notes	953,135	21,092	21,092	1,241,549	72,971	72,971
	79,292,279	749,830	699,395	61,781,637	762,161	715,710
Hedging						
Interest rate derivatives						
- Swaps	20,467	-	573	116,211	116	403
	79,312,746	749,830	699,968	61,897,848	762,277	716,113
Of which related to wholly-owned subsidiary	250,365	12,381	6	243,109	3,731	3

11 OTHER ASSETS

		Group		Bank	
	Note	**2019 RM'000**	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Amount due from subsidiaries	(a)	-	-	12,223	10,034
Interest/Profit receivable		138,747	188,515	112,404	164,453
Unquoted redeemable Islamic subordinated Sukuk of subsidiary	(b)	-	-	200,000	200,000
Other receivables, deposits and prepayments	(c)	236,810	230,483	229,227	224,974
		375,557	418,998	553,854	599,461

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

(b) On 24 November 2016, the Bank subscribed for RM200 million redeemable 10 years non-callable 5 years subordinated Sukuk issued by OCBC Al-Amin 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.

11 OTHER ASSETS (continued)

(c) Movements in ECL allowance on other receivables

2018	*Non credit-impaired* Stage 1 ECL RM'000	Stage 2 ECL RM'000	*Credit-impaired* Stage 3 ECL RM'000	Total ECL RM'000
Group				
At 1 January, under MFRS 139	-	-	-	-
Effect of adopting MFRS 9	469	623	2,372	3,464
At 1 January, as restated under MFRS 9	469	623	2,372	3,464
Net remeasurement during the year	(469)	(623)	27	(1,065)
Written off	-	-	(2,399)	(2,399)
At 31 December	-	-	-	-
Bank				
At 1 January, under MFRS 139	-	-	-	-
Effect of adopting MFRS 9	301	258	2,372	2,931
At 1 January, as restated under MFRS 9	301	258	2,372	2,931
Net remeasurement during the year	(301)	(258)	27	(532)
Written off	-	-	(2,399)	(2,399)
At 31 December	-	-	-	-

12 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

13 INVESTMENTS IN SUBSIDIARIES

Bank	2019 RM'000	2018 RM'000
Unquoted shares in Malaysia, at cost	557,051	557,051

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

Subsidiaries	Principal activities	Effective ownership and voting interest 2019	2018
OCBC Al-Amin Bank Berhad	Islamic banking	100%	100%
Malaysia Nominees (Tempatan) Sdn Bhd	Nominee services	100%	100%
Malaysia Nominees (Asing) Sdn Bhd	Nominee services	100%	100%
OCBC Advisers (Malaysia) Sdn Bhd	Corporate finance and related advisory services	100%	100%

On 30 October 2018, the Bank acquired 150,000 Class B ordinary shares of RM150,000, representing the remaining 30% of the issued and paid-up share capital in OCBC Advisers (Malaysia) Sdn Bhd ("OCBC Advisers") for a total consideration of RM150,000 from the non-controlling interest. Post-acquisition, OCBC Advisers became a wholly-owned subsidiary company of the Bank. The following summarises the effect of changes in the equity interest in OCBC Advisers that was attributable to the Bank:

	RM'000
Equity interest at 1 January 2018	3,484
Effect of increase in Bank's ownership interest	1,444
Dividend received during the year	(2,800)
Share of comprehensive income	337
Equity interest at 31 December 2018	2,465

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

14 PROPERTY AND EQUIPMENT

Group	Freehold land and buildings* RM'000	Leasehold land 50 years or more RM'000	Buildings on leasehold land Less than 50 years RM'000	Buildings on leasehold land 50 years or more RM'000	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Motor vehicles RM'000	Renovation RM'000	Work in progress RM'000	Total RM'000
2019										
Cost										
At 1 January	124,076	3,745	3,607	7,018	142,642	284,882	518	92,132	2,101	660,721
Additions	-	-	-	-	5,265	6,185	397	3,969	4,051	19,867
Disposals/Written off	-	-	-	-	(802)	(3,683)	(5)	(41)	-	(4,531)
Transfer from related parties	-	-	-	-	52	3	-	-	-	55
Reclassification	-	-	-	-	-	4,707	-	-	(4,707)	-
At 31 December	124,076	3,745	3,607	7,018	147,157	292,094	910	96,060	1,445	676,112
Accumulated depreciation										
At 1 January	(38,663)	(586)	(1,581)	(2,556)	(115,339)	(245,773)	(466)	(86,731)	-	(491,695)
Depreciation for the year	(2,056)	(36)	(53)	(88)	(6,254)	(18,466)	(98)	(2,574)	-	(29,625)
Disposals/Written off	-	-	-	-	708	3,677	5	-	-	4,390
Transfer from related parties	-	-	-	-	(29)	(2)	-	-	-	(31)
At 31 December	(40,719)	(622)	(1,634)	(2,644)	(120,914)	(260,564)	(559)	(89,305)	-	(516,961)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	83,790	3,109	941	2,562	27,303	39,109	52	5,401	2,101	164,368
At 31 December	81,734	3,073	888	2,474	26,243	31,530	351	6,755	1,445	154,493

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2018: RM105 million) and accumulated depreciation of RM41 million (2018: RM39 million).

14 PROPERTY AND EQUIPMENT (continued)

Group (continued)	Freehold land and buildings* RM'000	Leasehold land 50 years or more RM'000	Buildings on leasehold land Less than 50 years RM'000	Buildings on leasehold land 50 years or more RM'000	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Motor vehicles RM'000	Renovation RM'000	Work in progress RM'000	Total RM'000
2018										
Cost										
At 1 January	124,076	3,745	3,607	7,018	137,164	262,483	905	87,711	3,929	630,638
Additions	-	-	-	-	5,530	4,634	-	3,277	17,142	30,583
Disposals/Written off	-	-	-	-	(138)	(92)	(387)	-	-	(617)
Transfer from related parties	-	-	-	-	86	31	-	-	-	117
Reclassification	-	-	-	-	-	17,826	-	1,144	(18,970)	-
At 31 December	124,076	3,745	3,607	7,018	142,642	284,882	518	92,132	2,101	660,721
Accumulated depreciation										
At 1 January	(36,608)	(550)	(1,528)	(2,467)	(108,995)	(230,138)	(653)	(82,445)	-	(463,384)
Depreciation for the year	(2,055)	(36)	(53)	(89)	(6,383)	(15,688)	(123)	(4,286)	-	(28,713)
Disposals/Written off	-	-	-	-	120	84	310	-	-	514
Transfer from related parties	-	-	-	-	(81)	(31)	-	-	-	(112)
At 31 December	(38,663)	(586)	(1,581)	(2,556)	(115,339)	(245,773)	(466)	(86,731)	-	(491,695)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	85,845	3,145	994	2,651	28,169	32,345	252	5,266	3,929	162,596
At 31 December	83,790	3,109	941	2,562	27,303	39,109	52	5,401	2,101	164,368

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2017: RM105 million) and accumulated depreciation of RM39 million (2017: RM37 million).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

14 PROPERTY AND EQUIPMENT (continued)

		Leasehold land	Building on leasehold land							
Bank	**Freehold land and buildings* RM'000**	**50 years or more RM'000**	**Less than 50 years RM'000**	**50 years or more RM'000**	**Office equipment and furniture RM'000**	**Computer equipment/ software RM'000**	**Motor vehicles RM'000**	**Renovation RM'000**	**Work in progress RM'000**	**Total RM'000**
2019										
Cost										
At 1 January	123,944	3,745	3,607	7,018	131,670	267,110	429	79,228	2,101	618,852
Additions	-	-	-	-	5,113	6,003	397	3,964	4,051	19,528
Disposals/Written off	-	-	-	-	(664)	(3,281)	(5)	-	-	(3,950)
Transfer from related parties	-	-	-	-	106	-	-	-	-	106
Reclassification	-	-	-	-	-	4,707	-	-	(4,707)	-
At 31 December	123,944	3,745	3,607	7,018	136,225	274,539	821	83,192	1,445	634,536
Accumulated depreciation										
At 1 January	(38,626)	(586)	(1,581)	(2,556)	(110,091)	(230,506)	(377)	(75,387)	-	(459,710)
Depreciation for the year	(2,056)	(36)	(53)	(88)	(5,275)	(17,143)	(98)	(2,153)	-	(26,902)
Disposals/Written off	-	-	-	-	610	3,274	5	-	-	3,889
Transfer from related parties	-	-	-	-	(83)	-	-	-	-	(83)
At 31 December	(40,682)	(622)	(1,634)	(2,644)	(114,839)	(244,375)	(470)	(77,540)	-	(482,806)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	83,695	3,109	941	2,562	21,579	36,604	52	3,841	2,101	154,484
At 31 December	81,639	3,073	888	2,474	21,386	30,164	351	5,652	1,445	147,072

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2018: RM105 million) and accumulated depreciation of RM41 million (2018: RM39 million).

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

14 PROPERTY AND EQUIPMENT (continued)

Bank (continued)	Freehold land and buildings* RM'000	Leasehold land 50 years or more RM'000	Building on leasehold land Less than 50 years RM'000	Building on leasehold land 50 years or more RM'000	Office equipment and furniture RM'000	Computer equipment/ software RM'000	Motor vehicles RM'000	Renovation RM'000	Work in progress RM'000	Total RM'000
2018										
Cost										
At 1 January	123,944	3,745	3,607	7,018	128,270	245,753	816	76,643	3,929	593,725
Additions	-	-	-	-	3,443	3,600	-	1,441	17,142	25,626
Disposals/Written off	-	-	-	-	(128)	(85)	(387)	-	-	(600)
Transfer from related parties	-	-	-	-	85	16	-	-	-	101
Reclassification	-	-	-	-	-	17,826	-	1,144	(18,970)	-
At 31 December	123,944	3,745	3,607	7,018	131,670	267,110	429	79,228	2,101	618,852
Accumulated depreciation										
At 1 January	(36,571)	(550)	(1,528)	(2,467)	(104,748)	(216,401)	(564)	(72,967)	-	(435,796)
Depreciation for the year	(2,055)	(36)	(53)	(89)	(5,372)	(14,158)	(123)	(2,420)	-	(24,306)
Disposals/Written off	-	-	-	-	111	77	310	-	-	498
Transfer from related parties	-	-	-	-	(82)	(24)	-	-	-	(106)
At 31 December	(38,626)	(586)	(1,581)	(2,556)	(110,091)	(230,506)	(377)	(75,387)	-	(459,710)
Impairment allowance										
At 1 January and 31 December	(1,623)	(50)	(1,085)	(1,900)	-	-	-	-	-	(4,658)
Carrying amount										
At 1 January	85,750	3,145	994	2,651	23,522	29,352	252	3,676	3,929	153,271
At 31 December	83,695	3,109	941	2,562	21,579	36,604	52	3,841	2,101	154,484

* Included in freehold land and buildings are buildings on freehold land amounting to RM105 million (2017: RM105 million) and accumulated depreciation of RM39 million (2017: RM37 million).

14 PROPERTY AND EQUIPMENT (continued)

The Bank rents out space, primarily to its Islamic subsidiary and a related company for the purpose of providing services to the Group and the Bank. The rental income is disclosed in Note 28 and the operating lease payments to be received are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Less than one year	3,126	3,189	3,170	3,233
Between one to five years	70	120	70	120
Total undiscounted lease payments	3,196	3,309	3,240	3,353

15 PREPAID LEASE PAYMENTS

	Group and Bank	
Leasehold land less than 50 years	2019 RM'000	2018 RM'000
Cost		
At 1 January	3,047	3,047
Effect of adopting of MFRS16	(3,047)	-
As restated at 1 January 2019/At 31 December	-	3,047
Accumulated amortisation		
At 1 January	(781)	(745)
Effect of adopting of MFRS16	781	-
Amortisation for the year	-	(36)
As restated at 1 January 2019/At 31 December	-	(781)
Impairment allowance		
At 1 January	(1,554)	(1,554)
Effect of adopting of MFRS16	1,554	-
As restated at 1 January 2019/At 31 December	-	(1,554)
Carrying amount		
As restated at 1 January 2019/At 1 January	-	748
At 31 December	-	712

Upon the adoption of MFRS 16 on 1 January 2019, prepaid lease payments are recognised as ROU in Note 16.

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

	Group			Bank		
	Leasehold land less than 50 years RM'000	Properties RM'000	Total RM'000	Leasehold land less than 50 years RM'000	Properties RM'000	Total RM'000
Cost						
At 1 January 2019	3,047	29,336	32,383	3,047	25,097	28,144
Additions	-	14,275	14,275	-	13,137	13,137
At 31 December 2019	3,047	43,611	46,658	3,047	38,234	41,281

The remeasured amount under ROU assets as at 1 January 2019 was approximately RM30 million for the Group and RM26 million for the Bank as disclosed in Note 48 to the financial statements.

16 RIGHT-OF-USE ("ROU") ASSETS (continued)

	Group			Bank		
	Leasehold land less than 50 years RM'000	Properties RM'000	Total RM'000	Leasehold land less than 50 years RM'000	Properties RM'000	Total RM'000
Accumulated depreciation						
At 1 January 2019	(781)	-	(781)	(781)	-	(781)
Depreciation for the year	(36)	(18,482)	(18,518)	(36)	(16,079)	(16,115)
At 31 December 2019	(817)	(18,482)	(19,299)	(817)	(16,079)	(16,896)
Impairment allowance						
At 1 January 2019/ 31 December 2019	(1,554)	-	(1,554)	(1,554)	-	(1,554)
Carrying amount						
At 1 January 2019	712	29,336	30,048	712	25,097	25,809
At 31 December 2019	676	25,129	25,805	676	22,155	22,831

17 DEFERRED TAX ASSETS

	Assets		Liabilities		Net	
<u>Group</u>	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Change in fair value of financial instruments	-	703	(34,299)	-	(34,299)	703
Excess of capital allowance over depreciation	-	-	(1,611)	(3,855)	(1,611)	(3,855)
Stage 1 and 2 ECL allowance	31,913	15,599	-	-	31,913	15,599
Provision for expenses	38,858	34,915	-	-	38,858	34,915
Other temporary differences	11,576	12,773	-	-	11,576	12,773
Tax assets/(liabilities)	82,347	63,990	(35,910)	(3,855)	46,437	60,135
Set off of tax	(35,910)	(3,855)	35,910	3,855	-	-
Net tax assets	46,437	60,135	-	-	46,437	60,135
<u>Bank</u>						
Change in fair value of financial instruments	-	1,399	(26,896)	-	(26,896)	1,399
Excess of capital allowance over depreciation	-	-	(1,014)	(2,991)	(1,014)	(2,991)
Stage 1 and 2 ECL allowance	26,199	10,510	-	-	26,199	10,510
Provision for expenses	36,627	33,029	-	-	36,627	33,029
Other temporary differences	8,821	9,978	-	-	8,821	9,978
Tax assets/(liabilities)	71,647	54,916	(27,910)	(2,991)	43,737	51,925
Set off of tax	(27,910)	(2,991)	27,910	2,991	-	-
Net tax assets	43,737	51,925	-	-	43,737	51,925

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

17 DEFERRED TAX ASSETS (continued)

(i) Movement in deferred tax

Group	At 1 January RM'000	Recognised in profit or loss (Note 32) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
2019				
Change in fair value of financial instruments	703	-	(35,002)	(34,299)
Excess of capital allowance over depreciation	(3,855)	2,244	-	(1,611)
Stage 1 and 2 ECL allowance	15,599	16,314	-	31,913
Provision for expenses	34,915	3,943	-	38,858
Other temporary differences	12,773	(1,197)	-	11,576
	60,135	21,304	(35,002)	46,437
2018				
Change in fair value of financial instruments	(4,044)	-	4,747	703
Excess of capital allowance over depreciation	(9,546)	5,691	-	(3,855)
Stage 1 and 2 ECL allowance	-	15,599	-	15,599
Provision for expenses	30,097	4,818	-	34,915
Impairment allowance on financial investments at FVOCI	3	(3)	-	-
Other temporary differences	10,447	2,326	-	12,773
	26,957	28,431	4,747	60,135

Bank	At 1 January RM'000	Recognised in profit or loss (Note 32) RM'000	Recognised in other comprehensive income RM'000	At 31 December RM'000
2019				
Change in fair value of financial instruments	1,399	-	(28,295)	(26,896)
Excess of capital allowance over depreciation	(2,991)	1,977	-	(1,014)
Stage 1 and 2 ECL allowance	10,510	15,689	-	26,199
Provision for expenses	33,029	3,598	-	36,627
Other temporary differences	9,978	(1,157)	-	8,821
	51,925	20,107	(28,295)	43,737
2018				
Change in fair value of financial instruments	(2,890)	-	4,289	1,399
Excess of capital allowance over depreciation	(8,414)	5,423	-	(2,991)
Stage 1 and 2 ECL allowance	-	10,510	-	10,510
Provision for expenses	28,260	4,769	-	33,029
Impairment allowance on financial investments at FVOCI	3	(3)	-	-
Other temporary differences	8,063	1,915	-	9,978
	25,022	22,614	4,289	51,925

18 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
(a) By type of deposit				
Demand deposits	17,238,374	15,947,506	13,028,179	11,996,549
Saving deposits	12,520,313	8,663,523	11,825,379	8,144,688
Fixed/General investment deposits	38,693,976	43,985,063	32,063,682	37,926,275
Negotiable instruments of deposit	4,284,146	4,238,206	3,684,146	4,238,205
Short-term money market deposits	2,358,996	3,016,923	1,982,570	1,818,611
	75,095,805	75,851,221	62,583,956	64,124,328

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

18 DEPOSITS FROM CUSTOMERS (continued)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
(b) By type of customer				
Government and statutory bodies	957,967	1,845,890	189,645	146,443
Non-bank financial institutions	3,854,813	3,662,170	2,086,313	2,141,938
Business enterprises	26,446,757	28,498,385	20,632,967	23,168,402
Individuals	36,002,821	34,266,213	32,129,591	31,255,498
Foreign entities	6,947,700	6,869,564	6,800,530	6,757,216
Others	885,747	708,999	744,910	654,831
	75,095,805	75,851,221	62,583,956	64,124,328
(c) By maturity structure for fixed/term/general investment deposits, negotiable instruments of deposit and short-term money market deposits				
Up to six months	38,711,401	36,768,412	32,605,459	31,468,142
Over six months to one year	6,371,164	14,143,387	4,883,328	12,203,426
Over one year to three years	247,121	324,817	234,179	307,957
Over three years to five years	7,432	3,576	7,432	3,566
	45,337,118	51,240,192	37,730,398	43,983,091

19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Licensed banks and other financial institutions	3,991,634	7,070,077	3,948,940	6,986,949
Bank Negara Malaysia	204,675	-	204,675	-
	4,196,309	7,070,077	4,153,615	6,986,949

20 OTHER LIABILITIES

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Amount due to subsidiaries	(a)	-	-	31,954	36,850
Equity compensation benefits	(b)	14,284	12,650	13,592	11,974
Interest/Profit payable		531,528	680,419	456,909	610,292
Structured investments		2,068,458	1,924,791	2,068,458	1,924,791
Lease liabilities		25,387	-	22,382	-
Other payables and accruals		433,655	427,590	360,514	369,149
Provision for commitments and contingencies	(c)	2,202	83	168	83
		3,075,514	3,045,533	2,953,977	2,953,139

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

20 OTHER LIABILITIES (continued)

(b) Equity compensation benefits

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

(i) **OCBC Deferred Share Plan**

Under the OCBC Deferred Share Plan ("the Plan"), shares of the immediate and ultimate holding company of the Bank are awarded to eligible executives where share awards form 20% to 40% of their total variable performance bonus for the year. A trust is set up to administer the shares purchased under the Plan. 50% of the share awards will vest after two years with the remaining 50% vesting at the end of the third year in accordance with the guidelines established under the Plan. Prior to the vesting date, the executives will not be accorded voting rights on the shares.

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

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

Under the OCBC Share Option Scheme 2001, shares of the immediate and ultimate holding company of the Bank are offered to executives of the rank of Manager and above, including Directors. Options granted are exercisable for a period commencing after the 1st anniversary 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 options granted 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 relevant approving authorities at OCBC Bank, in which case the relevant approving authorities may allow the options to be retained and exercisable within the relevant option periods or such option periods as may be determined.

There were no options granted under OCBC Share Option Scheme 2001 in 2019. In 2018, the Group and the Bank granted 128,638 options and 117,791 options to acquire ordinary shares in its immediate and ultimate holding company. The fair value of options granted to the employees of the Group and the Bank, determined using the binomial valuation model, were S$317,133 and S$290,392 respectively. Significant inputs to the valuation model are set out below:

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

20 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

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

	2018
Acquisition price (S$)	13.34
Average share price from grant date to acceptance date (S$)	13.73
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	17.29
Risk-free rate based on SGD bond yield at acceptance date (%)	2.54
Expected dividend yield (%)	2.62
Exercise multiple (times)	1.52
Option life (expected weighted average life)	10

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

	2019		**2018**	
Group	**Number of share options**	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	570,224	10.080	573,714	9.059
Granted	-	-	128,638	13.340
Exercised	(119,678)	8.212	(128,513)	8.692
Forfeited/Lapsed	-	-	(3,615)	13.340
At 31 December	450,546	10.576	570,224	10.080
Exercisable at 31 December	308,142	10.011	268,517	9.058
Weighted average share price underlying the options exercised (S$)		11.344		12.956

Details of the options outstanding are as follows:

Grant year	**Grant date**	**Exercise period**	**Acquisition price (S$)**	**2019 Outstanding**	**2019 Exercisable**
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	23,798	23,798
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	22,608	22,608
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	10,079	10,079
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	40,479	40,479
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	2,853	2,853
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	61,628	61,628
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	55,467	55,467
2017	23/03/2017	23/03/2018 to 22/03/2027	9.598	108,611	49,979
2018	22/03/2018	22/03/2019 to 21/03/2028	13.340	125,023	41,251
				450,546	308,142

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

20 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

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

Group (continued)

Grant year	Grant date	Exercise period	Acquisition price (S$)	2018 Outstanding	2018 Exercisable
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	24,233	24,233
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	34,576	34,576
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	22,608	22,608
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	10,079	10,079
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	41,263	41,263
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	2,853	2,853
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	72,236	72,236
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	90,920	29,763
2017	23/03/2017	23/03/2018 to 22/03/2027	9.598	146,433	30,906
2018	22/03/2018	22/03/2019 to 21/03/2028	13.340	125,023	-
				570,224	268,517

Bank	2019 Number of share options	2019 Weighted average acquisition price (S$)	2018 Number of share options	2018 Weighted average acquisition price (S$)
At 1 January	508,308	10.055	522,645	9.002
Granted	-	-	117,791	13.340
Exercised	(92,656)	7.936	(128,513)	8.692
Forfeited/Lapsed	-	-	(3,615)	13.340
At 31 December	415,652	10.527	508,308	10.055
Exercisable at 31 December	280,163	9.868	237,168	8,952
Weighted average share price underlying the options exercised (S$)		11.344		12.956

Details of the options outstanding are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S$)	2019 Outstanding	2019 Exercisable
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	23,798	23,798
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	22,608	22,608
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	10,079	10,079
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	40,479	40,479
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	2,853	2,853
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	43,676	43,676
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	55,467	55,467
2017	23/03/2017	23/03/2018 to 22/03/2027	9.598	102,516	49,979
2018	22/03/2018	22/03/2019 to 21/03/2028	13.340	114,176	31,224
				415,652	280,163

20 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

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

Bank (continued)

Grant year	Grant date	Exercise period	Acquisition price (S$)	2018 Outstanding	2018 Exercisable
2009	16/03/2009	17/03/2010 to 15/03/2019	4.024	24,233	24,233
2010	15/03/2010	16/03/2011 to 14/03/2020	8.521	34,576	34,576
2011	14/03/2011	15/03/2012 to 13/03/2021	9.093	22,608	22,608
2012	14/03/2012	15/03/2013 to 13/03/2022	8.556	10,079	10,079
2013	14/03/2013	15/03/2014 to 13/03/2023	10.018	41,263	41,263
2014	14/03/2014	15/03/2015 to 13/03/2024	9.169	2,853	2,853
2015	16/03/2015	16/03/2016 to 15/03/2025	10.378	54,284	54,284
2016	16/03/2016	16/03/2017 to 15/03/2026	8.814	75,728	22,281
2017	23/03/2017	23/03/2018 to 22/03/2027	9.598	128,508	24,991
2018	22/03/2018	22/03/2019 to 21/03/2028	13.340	114,176	-
				508,308	237,168

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

The OCBC Employee Share Purchase Plan is a savings-based share ownership plan to help employees of the Group own ordinary shares in the immediate and 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 Group and the Bank pay 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 2019, OCBC Bank launched its 14th offering of ESP Plan for OCBC Bank's employees, which commenced on 1 July 2019 and expires on 30 June 2021. Under the offering, the Group and the Bank granted 859,077 (2018: 824,245) and 848,118 (2018: 817,162) 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$715,611 (2018: S$1,244,940) and S$706,482 (2018: S$1,234,241) respectively. Significant inputs to the valuation model are set out below:

	2019	2018
Acquisition price (S$)	11.32	11.60
Closing share price at valuation date (S$)	10.78	12.13
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	17.57	18.45
Risk-free rate based on 2-year swap rate (%)	1.72	1.96
Expected dividend yield (%)	3.62	2.97

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

20 OTHER LIABILITIES (continued)

(b) Equity compensation benefits (continued)

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

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

	2019		2018	
Group	**Number of share options**	**Weighted average acquisition price (S$)**	**Number of share options**	**Weighted average acquisition price (S$)**
At 1 January	1,295,174	11.251	1,443,583	9.500
Acquired	859,077	11.320	824,245	11.600
Forfeited/Lapsed	(220,967)	11.425	(178,579)	10.612
Exercised and converted upon expiry	(511,469)	10.776	(794,075)	8.573
At 31 December	1,421,815	11.440	1,295,174	11.251
Weighted average share price underlying acquisition rights exercised/converted (S$)		11.539		11.568
Bank				
At 1 January	1,285,118	11.253	1,429,869	9.502
Acquired	848,118	11.320	817,162	11.600
Forfeited/Lapsed	(217,443)	11.428	(174,687)	10.620
Exercised and converted upon expiry	(507,895)	10.780	(787,226)	8.573
At 31 December	1,407,898	11.438	1,285,118	11.253
Weighted average share price underlying acquisition rights exercised/converted (S$)		11.539		11.568

(c) Provision for commitments and contingencies

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
At 1 January	83	-	83	-
Made during the year	2,119	83	85	83
At 31 December	2,202	83	168	83

The provision made during the year was for the Group's and the Bank's commitments and contingencies incurred in the normal course of business.

21 SUBORDINATED BONDS

Group and Bank	**Note**	**2019 RM'000**	**2018 RM'000**
RM400 million Innovative Tier 1 Capital Securities	(a)	-	400,000
USD110 million Additional Tier 1 Capital Securities	(b)	450,285	455,202
USD130 million Redeemable Subordinated Bonds 2015/2025	(c)	532,154	537,967
RM390 million Redeemable Subordinated Bonds 2017/2027	(d)	390,000	390,000
RM110 million Redeemable Subordinated Bonds 2017/2027	(d)	110,000	110,000
		1,482,439	1,893,169

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

21 SUBORDINATED BONDS (continued)

(a) On 17 April 2019, the Bank redeemed RM400 million Innovative Tier 1 (“IT1”) Capital Securities at nominal amount, 10 years after the initial issue date of 17 April 2009. The IT1 Capital Securities bore 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.

(b) 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, 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.

(c) 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, 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 subordinated bonds 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 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.

(d) On 15 August 2017 and 30 September 2017 (the Issue Dates), the Bank issued RM390 million and RM110 million Basel III-compliant redeemable 10 years non-callable 5 years subordinated bonds respectively, at a coupon rate of 4.65% per annum payable semi-annually from and including 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, exercise its call option and may redeem in whole or in part, the subordinated bonds on 15 August 2022 and 30 September 2022 respectively, and any coupon payment dates thereafter. In addition to the first call in 2022, the subordinated bonds 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 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.

22 SHARE CAPITAL

	2019		2018	
<u>**Group and Bank**</u>	**Number of shares '000**	**Amount RM'000**	**Number of shares '000**	**Amount RM'000**
Issued and fully paid				
Ordinary shares				
At 1 January/31 December	287,500	754,000	287,500	754,000

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

23 RESERVES

The detailed breakdown of the reserves are shown in the Consolidated Statement of Changes in Equity and Statement of Changes in Equity for the Group and the Bank respectively.

Regulatory reserve is maintained in compliance with the requirements under BNM's policy document on Financial Reporting to maintain, in aggregate, impairment allowance for non credit-impaired exposures (Stage 1 and 2 ECL) and regulatory reserves of no less than 1% of total credit exposures, net of impairment allowance for credit-impaired exposures. In 2018, the Group and the Bank transferred RM114 million from retained earnings to regulatory reserve. There was no transfer during the current financial year.

ECL reserve comprises ECL allowance for financial investments at FVOCI. The ECL allowance will be reversed to profit or loss upon disposal or derecognition of the financial instruments.

Fair value reserve comprises the fair value of financial investments at FVOCI 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 financial instruments.

24 NET INTEREST INCOME

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest income				
Loans, advances and financing				
- Interest income other than recoveries	2,890,761	2,928,622	2,890,761	2,928,622
- Recoveries from credit-impaired loans, advances and financing	51,395	59,536	51,395	59,536
- Discount unwind from credit-impaired loans, advances and financing	9,418	15,240	9,418	12,540
Money at call and deposit placements with banks and other financial institutions	93,745	167,932	170,869	228,666
Financial investments at FVOCI	463,558	385,151	466,821	388,277
Unquoted Islamic subordinated Sukuk of subsidiary	-	-	9,600	9,600
Others	23,817	97,539	23,817	100,239
	3,532,694	3,654,020	3,622,681	3,727,480
Financial assets at FVTPL	80,927	69,734	80,927	69,734
	3,613,621	3,723,754	3,703,608	3,797,214
Interest expense				
Deposits from customers	(1,874,514)	(1,817,809)	(1,874,514)	(1,817,809)
Deposits and placements of banks and other financial institutions	(54,237)	(66,071)	(88,021)	(110,641)
Recourse obligation on loans sold to Cagamas Berhad	(30,906)	(55,180)	(30,906)	(55,180)
Subordinated bonds	(74,105)	(91,974)	(74,105)	(91,974)
Lease liabilities	(690)	-	(690)	-
Others	(72,445)	(186,988)	(94,967)	(186,988)
	(2,106,897)	(2,218,022)	(2,163,203)	(2,262,592)
Net interest income	1,506,724	1,505,732	1,540,405	1,534,622

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

24 NET INTEREST INCOME (continued)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
(a) By category of financial instruments				
Interest income				
- Financial assets at FVTPL	80,927	69,734	80,927	69,734
- Loans/Financing and receivables at amortised cost	3,069,045	3,268,778	3,155,769	3,339,112
- Loans/Financing at FVTPL	91	91	91	91
- Financial investments at FVOCI	463,558	385,151	466,821	388,277
	3,613,621	3,723,754	3,703,608	3,797,214
Interest expense				
- Liabilities at amortised cost	(2,106,897)	(2,218,022)	(2,163,203)	(2,262,592)
	1,506,724	1,505,732	1,540,405	1,534,622

25 INCOME FROM ISLAMIC BANKING OPERATIONS

Group	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds and others	631,740	614,260
Income derived from investment of specific investment account funds	78,315	56,521
Income derived from investment of shareholder's funds	136,521	133,791
Income attributable to depositors	(342,342)	(323,593)
Income attributable to investment account holder	(56,307)	(44,570)
	447,927	436,409

26 NET FEE AND COMMISSION INCOME

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Commission	202,729	138,985	200,972	137,211
Service charges and fees	199,671	155,329	199,351	155,329
Guarantee fees	4,116	14,966	4,116	14,966
Other fee income	9,816	9,693	9,816	9,693
	416,332	318,973	414,255	317,199

Included in the Group's and the Bank's commission income is fee income on loans, advances and financing from a related company amounting to RM14 million (2018: fee expense of RM13 million).

27 NET TRADING INCOME

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Foreign exchange gain/(loss)	34,689	(120,714)	34,689	(120,714)
Unrealised gain/(loss) on subordinated bonds	10,730	(22,237)	10,730	(22,237)
Realised gain on financial assets at FVTPL	54,833	20,700	54,833	20,700
Realised gain/(loss) on trading derivatives	41,558	(25,666)	41,558	(26,314)
Unrealised gain on financial assets at FVTPL	232	6,304	232	6,304
Unrealised gain on trading derivatives	18,166	309,213	18,166	309,213
	160,208	167,600	160,208	166,952

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

28 OTHER OPERATING INCOME

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Gain on disposal:				
- Financial investments at FVOCI	120,982	7,999	120,982	7,999
- Property and equipment	-	88	-	88
Gross dividends from financial investments at FVOCI, in Malaysia	2,822	722	2,822	722
Gross dividend from subsidiary	-	-	-	2,800
Rental of premises	4,175	4,189	4,235	4,400
Rental of safe deposit boxes	6,408	6,403	6,408	6,403
Shared services fee income received from subsidiaries (Note 38)	-	-	112,550	107,617
Shared services fee income received from related company (Note 38)	14,578	13,241	14,578	13,241
Net unrealised gain/(loss) on hedging derivatives	31	(1)	31	(1)
Surplus assets received from winding-up of a subsidiary	-	-	-	12,262
Others	637	658	637	657
	149,633	33,299	262,243	156,188

29 OPERATING EXPENSES

		Group		Bank	
Personnel expenses	**Note**	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Wages, salaries and bonus		497,801	456,016	470,872	431,506
Employees Provident Fund contributions		76,238	70,490	72,118	66,681
Equity settled share-based payment transactions		9,490	6,808	9,045	6,533
Others		51,139	53,243	47,908	48,723
		634,668	586,557	599,943	553,443
Establishment expenses					
Depreciation of property and equipment		29,625	28,713	26,902	24,306
Depreciation of ROU assets		18,518	-	16,115	-
Rental of premises	(a)	26	18,700	32	15,993
Repair and maintenance		12,934	12,133	11,861	11,300
Information technology costs		43,009	33,989	42,196	33,154
Hire of equipment	(a)	1,189	941	1,059	788
Amortisation of prepaid lease payments		-	36	-	36
Others		19,286	18,338	16,407	15,596
		124,587	112,850	114,572	101,173
Marketing expenses					
Advertisement and business promotion		19,765	16,673	19,214	16,309
Transport and travelling		4,926	4,438	4,597	4,119
Others		3,037	2,461	2,959	2,385
		27,728	23,572	26,770	22,813
General administrative expenses					
Auditors' remuneration					
- Statutory audit fees		747	687	587	540
- Audit related fees		386	582	287	442
- Other services		-	1	-	-
IT and transaction processing fees (Note 38)		334,756	310,718	306,894	287,359
Others		110,304	111,418	105,563	103,252
		446,193	423,406	413,331	391,593
Total operating expenses		1,233,176	1,146,385	1,154,616	1,069,022

(a) These expenses are in respect of short-term and/or leases of low-value items which the Group and the Bank elected not to recognise as ROU assets and lease liabilities under MFRS16.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (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:

	Unrestricted				*Deferred*	**2019**	*Unrestricted*				*Deferred*	**2018**
Group	**Salaries and fees RM'000**	**Variable bonuses RM'000**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options* RM'000**	**Total RM'000**	**Salaries and fees RM'000**	**Variable bonuses RM'000**	**Benefits-in-kind RM'000**	**Employees Provident Fund RM'000**	**Shares and share options* RM'000**	**Total RM'000**
CEO of the Bank												
Dato' Ong Eng Bin	1,238	900	41	342	600	3,121	1,058	960	75	323	640	3,056
CEO of OCBC Al-Amin												
Syed Abdull Aziz Jailani bin Syed Kechik	914	393	15	209	262	1,793	897	408	11	208	272	1,796
Non Executive Directors												
Tan Ngiap Joo	524	-	-	-	-	524	479	-	-	-	-	479
Lai Teck Poh	194	-	-	-	-	194	195	-	-	-	-	195
Ng Hon Soon	190	-	-	-	-	190	194	-	-	-	-	194
Tong Hon Keong	168	-	-	-	-	168	168	-	-	-	-	168
Datuk Azizan bin Haji Abd Rahman	282	-	-	-	-	282	255	-	-	-	-	255
Yap Seong Yong, Janet	112	-	-	-	-	112	-	-	-	-	-	-
Lee Kok Keng, Andrew	153	-	-	-	-	153	151	-	-	-	-	151
Ismail bin Alowi	168	-	-	-	-	168	168	-	-	-	-	168
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	-	-	-	-	-	-	130	-	8	-	-	138
	3,943	1,293	56	551	862	6,705	3,695	1,368	94	531	912	6,600

* 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 20(b) to the financial statements.

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)

	Unrestricted				*Deferred*	**2019**	*Unrestricted*				*Deferred*	**2018**
	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**
Bank												
CEO												
Dato' Ong Eng Bin	1,238	900	41	342	600	3,121	1,058	960	75	323	640	3,056
Non Executive Directors												
Tan Ngiap Joo	363	-	-	-	-	363	327	-	-	-	-	327
Lai Teck Poh	194	-	-	-	-	194	195	-	-	-	-	195
Tong Hon Keong	168	-	-	-	-	168	168	-	-	-	-	168
Datuk Azizan bin Haji Abd Rahman	186	-	-	-	-	186	182	-	-	-	-	182
Yap Seong Yong, Janet	112	-	-	-	-	112	-	-	-	-	-	-
Dato' Ooi Sang Kuang (Resigned on 29 March 2018)	-	-	-	-	-	-	90	-	8	-	-	98
	2,261	900	41	342	600	4,144	2,020	960	83	323	640	4,026

* 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 20(b) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (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:

	2019				2018			
Group	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**
Senior Management								
Fixed remuneration								
Cash based	17,268	-	17,268		16,373	-	16,373	
Other	483	-	483		684	-	684	
	17,751	-	17,751		17,057	-	17,057	
Variable remuneration								
Cash based	8,063	-	8,063	25	7,935	-	7,935	27
Shares and share options	-	3,876	3,876	14	-	3,847	3,847	15
	8,063	3,876	11,939		7,935	3,847	11,782	
Other material risk takers								
Fixed remuneration								
Cash based	8,400	-	8,400		9,936	-	9,936	
Other	136	-	136		196	-	196	
	8,536	-	8,536		10,132	-	10,132	
Variable remuneration								
Cash based	3,686	-	3,686	17	4,205	-	4,205	18
Shares and share options	-	1,250	1,250	6	-	1,764	1,764	10
	3,686	1,250	4,936		4,205	1,764	5,969	

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (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)

	2019				2018			
Bank	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**	**Unrestricted RM'000**	**Deferred RM'000**	**Total RM'000**	**Number of officers**
Senior Management								
Fixed remuneration								
Cash based	14,572	-	14,572		12,890	-	12,890	
Other	464	-	464		617	-	617	
	15,036	-	15,036		13,507	-	13,507	
Variable remuneration								
Cash based	7,134	-	7,134	19	6,680	-	6,680	19
Shares and share options	-	3,614	3,614	13	-	3,401	3,401	13
	7,134	3,614	10,748		6,680	3,401	10,081	
Other material risk takers								
Fixed remuneration								
Cash based	8,400	-	8,400		9,936	-	9,936	
Other	136	-	136		196	-	196	
	8,536	-	8,536		10,132	-	10,132	
Variable remuneration								
Cash based	3,686	-	3,686	17	4,205	-	4,205	18
Shares and share options	-	1,250	1,250	6	-	1,764	1,764	10
	3,686	1,250	4,936		4,205	1,764	5,969	

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

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

(c) Outstanding deferred remuneration

	2019			2018		
Group	**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**
Share and share options						
Exposed to ex-post explicit and implicit adjustments	11,041	3,072	14,113	10,904	3,853	14,757
Deferred remuneration paid out during the year	2,354	530	2,884	3,651	963	4,614
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)	366	260	626	1,917	-	1,917
Bank						
Share and share options						
Exposed to ex-post explicit and implicit adjustments	10,156	3,072	13,228	9,469	3,853	13,322
Deferred remuneration paid out during the year	2,131	530	2,661	3,207	963	4,170
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)	-	260	260	1,609	-	1,609

31 IMPAIRMENT ALLOWANCE AND PROVISIONS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Loans, advances and financing				
Stage 1 and 2 ECL net charge during the year	63,279	46,025	41,753	68,373
Stage 3 ECL				
- Made during the year	371,126	455,942	238,288	282,480
- Write back	(154,020)	(219,137)	(112,709)	(158,864)
Impaired loans, advances and financing				
- Recovered during the year	(63,495)	(54,079)	(25,940)	(25,922)
Investment account placements				
Stage 1 and 2 ECL net charge/(write back) during the year	-	-	24,508	(5,169)
Stage 3 ECL net charge during the year	-	-	29,794	-
Financial investments at FVOCI				
Stage 1 and 2 ECL write back during the year	(764)	(10,224)	(668)	(7,827)
Other financial assets				
Stage 1 and 2 ECL (write back)/net charge during the year	(1,007)	27	(1,007)	27
Stage 3 ECL net charge during the year	103	50	103	611
Commitments and contingencies				
Net charge during the year	2,119	83	85	83
	217,341	218,687	194,207	153,792

32 INCOME TAX EXPENSE

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Malaysian income tax				
- Current year	311,043	288,068	273,479	250,233
- Prior years	(13,009)	22,958	(13,995)	24,479
	298,034	311,026	259,484	274,712
Deferred tax (Note 17)				
- Origination and reversal of temporary differences	(17,931)	(27,073)	(17,185)	(21,272)
- Prior years	(3,373)	(1,358)	(2,922)	(1,342)
	(21,304)	(28,431)	(20,107)	(22,614)
	276,730	282,595	239,377	252,098

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

32 INCOME TAX EXPENSE (continued)

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

	Group		Bank	
	2019	2018	2019	2018
	%	%	%	%
Malaysian tax rate of 24%	24.00	24.00	24.00	24.00
Tax effect of:				
Expenses not deductible for tax purposes	0.86	0.65	0.99	0.64
Income not subject to tax	(1.04)	(1.01)	(0.07)	(0.40)
(Over)/Under provision in prior years:				
- Income tax	(1.06)	2.09	(1.36)	2.57
- Deferred tax	(0.27)	(0.12)	(0.28)	(0.14)
Average effective tax rate	22.49	25.61	23.28	26.67

33 BASIC EARNINGS PER ORDINARY SHARE

The basic earnings per ordinary share of the Group and the Bank were calculated by dividing profit attributable to ordinary equity holders of the Group and the Bank by the weighted average number of ordinary shares 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.

	Group		Bank	
	2019	2018	2019	2018
Profit attributable to ordinary equity holders of the Group and the Bank (RM'000)	953,527	814,430	788,911	700,049
Number of ordinary shares in issue ('000)	287,500	287,500	287,500	287,500
Basic earnings per share (sen)	331.7	283.3	274.4	243.5

34 DIVIDENDS

	Sen per share	Total amount RM'000	Date of payment
2019			
Final 2018 ordinary	48.00	138,000	26/04/2019
Interim 2019 ordinary	48.00	138,000	26/09/2019
		276,000	
2018			
Final 2017 ordinary	52.20	150,000	27/04/2018
Interim 2018 ordinary	48.00	138,000	27/09/2018
		288,000	

The Directors recommend a final dividend of 63 sen per ordinary share in respect of the current financial year amounting to RM181,125,000. 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

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. 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 ll) - Internal Ratings Approach.

Group	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
2019			
Direct credit substitutes	556,783	556,783	382,333
Transaction-related contingent items	2,894,812	1,481,544	964,121
Short-term self-liquidating trade-related contingencies	317,254	70,341	38,329
Foreign exchange related contracts			
- Less than one year	16,056,853	102,797	42,975
- One year to less than five years	2,039,038	830,982	168,652
- Five years and above	2,337,999	61,013	70,317
Interest rate related contracts			
- Less than one year	19,615,753	7,217	3,924
- One year to less than five years	25,424,297	435,591	95,183
- Five years and above	12,015,880	268,183	167,717
Equity and commodity related contracts	877,929	27,053	12,084
Credit derivative contracts	953,135	34,227	7,724
Formal standby facilities and credit lines			
- Original maturity exceeding one year	4,751,921	4,015,159	2,118,291
Other unconditionally cancellable commitments	23,470,860	2,293,492	373,892
Total	111,312,514	10,184,382	4,445,542
2018			
Direct credit substitutes	741,125	741,125	571,536
Transaction-related contingent items	2,930,357	1,493,568	944,101
Short-term self-liquidating trade-related contingencies	303,719	68,274	39,282
Forward asset purchases	29,687	29,687	-
Foreign exchange related contracts			
- Less than one year	13,173,634	226,291	46,669
- One year to less than five years	2,858,788	778,909	155,566
- Five years and above	2,442,327	208,443	61,178
Interest rate related contracts			
- Less than one year	11,541,401	1,076	142
- One year to less than five years	24,466,718	320,082	69,005
- Five years and above	5,870,421	103,382	80,358
Equity and commodity related contracts	259,891	17,212	3,311
Credit derivative contracts	1,241,549	59,105	15,260
Formal standby facilities and credit lines			
- Original maturity exceeding one year	5,074,481	4,259,104	2,441,626
Other unconditionally cancellable commitments	22,140,451	2,063,219	334,384
Total	93,074,549	10,369,477	4,762,418

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

35 COMMITMENTS AND CONTINGENCIES (continued)

Bank	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
2019			
Direct credit substitutes	459,747	459,747	288,691
Transaction-related contingent items	2,520,793	1,291,025	833,504
Short-term self-liquidating trade-related contingencies	299,674	63,864	34,528
Foreign exchange related contracts			
- Less than one year	16,048,890	102,203	42,359
- One year to less than five years	2,038,863	830,982	167,062
- Five years and above	2,337,999	61,014	70,316
Interest rate related contracts			
- Less than one year	19,615,753	7,217	3,924
- One year to less than five years	25,424,297	435,592	95,183
- Five years and above	12,015,880	268,184	147,831
Equity and commodity related contracts	877,929	27,054	12,084
Credit derivative contracts	953,135	34,228	7,724
Formal standby facilities and credit lines			
- Original maturity exceeding one year	4,329,396	3,680,439	1,850,839
Other unconditionally cancellable commitments	20,750,390	2,166,807	353,465
Total	107,672,746	9,428,354	3,907,511
2018			
Direct credit substitutes	632,158	632,158	479,295
Transaction-related contingent items	2,537,891	1,295,076	800,326
Short-term self-liquidating trade-related contingencies	274,523	61,429	33,777
Forward asset purchases	29,687	29,687	-
Foreign exchange related contracts			
- Less than one year	13,216,753	227,897	46,550
- One year to less than five years	2,858,788	778,909	155,566
- Five years and above	2,442,327	208,443	61,178
Interest rate related contracts			
- Less than one year	11,541,401	1,076	142
- One year to less than five years	24,466,718	320,082	69,005
- Five years and above	5,870,421	103,382	66,322
Equity and commodity related contracts	259,891	17,212	3,311
Credit derivative contracts	1,241,549	59,105	15,260
Formal standby facilities and credit lines			
- Original maturity exceeding one year	4,083,340	3,502,632	1,641,569
Other unconditionally cancellable commitments	19,399,985	1,980,914	321,632
Total	88,855,432	9,218,002	3,693,933

36 CAPITAL COMMITMENTS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Capital expenditure commitments in respect of property and equipment contracted but not provided for	6,000	4,023	5,953	3,919

37 LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises and equipment on hire, all of which were classified as operating leases until 31 December 2018.

2018	**Group**	**Bank**
	RM'000	**RM'000**
Non-cancellable long-term commitments		
Less than one year	19,071	16,439
Between one to five years	13,303	11,264
	32,374	27,703

Commencing 1 January 2019, the Group and the Bank adopted MFRS16, which key changes in accounting treatment are outlined in Note 48.

38 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 Group has related party relationship with the following:

- Holding company, Oversea-Chinese Banking Corporation Limited;
- Subsidiaries of the Bank as disclosed in Note 13 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.

(a) **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**	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Aggregate value of outstanding credit exposure with connected parties^:				
Credit facility and leasing (except guarantee)	743,791	706,854	734,845	699,944
Commitments and contingencies*	576,135	523,161	575,759	522,858
	1,319,926	1,230,015	1,310,604	1,222,802
Credit-impaired or in default	-	-	-	-
Outstanding credit exposures to connected parties				
As a proportion of total credit exposures	1.59%	1.44%	1.88%	1.67%

^ Comprises total outstanding balances and unutilised limits

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

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

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) **Significant transactions and outstanding balances with related parties**

	2019			2018		
Group	**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**
Income						
Interest on deposits and placements with banks and other financial institutions	2,235	-	-	389	-	-
Interest on loans, advances and financing	-	8,429	28	-	8,143	69
Shared services fee income	3,000	11,690	-	2,900	10,415	-
Fee and commission income	21,950	10,451	-	4,558	9,167	-
Rental income	1	-	-	-	4,231	-
Other income	-	322	-	-	239	-
	27,186	30,892	28	7,847	32,195	69
Expenditure						
Interest on deposits from customers	98,712	19,894	139	93,363	13,472	718
Interest on deposits and placements of banks and other financial institutions	74,901	-	-	92,766	594	-
Interest/Profit on subordinated bonds	66,264	-	-	64,973	-	-
Fee and commission expense	-	-	-	13,959	-	-
IT and transaction processing fees	-	334,756	-	-	310,718	-
Rental expenses	-	816	-	-	993	-
Other expenses	8,074	13,081	-	-	13,209	-
	247,951	368,547	139	265,061	338,986	718

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) **Significant transactions and outstanding balances with related parties (continued)**

	2019			2018		
Group (continued)	**Malaysia RM'000**	**Singapore RM'000**	**Total RM'000**	**Malaysia RM'000**	**Singapore RM'000**	**Total RM'000**
Intercompany charges paid/payable to related parties						
IT and transaction processing fees	246,657	88,099	334,756	237,165	73,553	310,718
Rental expenses	816	-	816	839	154	993
Insurance expenses	13,081	-	13,081	13,209	-	13,209
Other expenses	-	7,894	7,894	-	-	-
	260,554	95,993	356,547	251,213	73,707	324,920

	2019			2018		
	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**
Amount due from						
Cash and cash equivalents	169,412	465	-	63,123	258	-
Deposits and placements with banks and other financial institutions	-	-	-	-	183	-
Interest receivables	324	404	-	116	537	-
Loans, advances and financing	-	225,000	278	-	250,500	1,359
Derivative financial assets	28,553	1	-	42,933	5,861	-
Other assets	2,403	5,840	-	3,264	21,985	-
Shared service fee receivable	134	704	-	109	208	-
	200,826	232,414	278	109,545	279,532	1,359

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2019			2018		
Group (continued)	**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**
Amount due to						
Deposits from customers	3,684,146	597,119	6,205	4,138,205	1,160,227	21,781
Deposits and placements of banks and other financial institutions	3,346,455	-	-	6,527,269	-	-
Other liabilities	10,613	2,327	-	2,970	15,363	-
Interest payables	40,174	163	4	71,427	946	2
Derivative financial liabilities	122,361	17,425	-	43,788	277	-
Subordinated bonds	1,482,438	-	-	1,493,169	-	-
	8,686,187	617,034	6,209	12,276,828	1,176,813	21,783
Commitments						
Foreign exchange derivatives	2,022,585	745	-	1,427,120	2,058	-
Interest rate derivatives	5,999,083	1,050,000	-	5,429,478	600,000	-
Transaction related contingent items	33,010	118,711	-	34,867	124,146	-
	8,054,678	1,169,456	-	6,891,465	726,204	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) **Significant transactions and outstanding balances with related parties (continued)**

	2019				2018			
Bank	**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**
Income								
Interest on investment account placements	-	56,307	-	-	-	44,570	-	-
Interest on deposits and placements with banks and other financial institutions	2,235	20,817	-	-	389	16,164	-	-
Interest on financial investments at FVOCI	-	3,263	-	-	-	3,126	-	-
Interest on loans, advances and financing	-	-	8,429	26	-	-	8,143	64
Interest/Profit on derivatives	-	-	-	-	-	281	-	-
Interest/Profit on unquoted Islamic subordinated Sukuk	-	9,600	-	-	-	9,600	-	-
Shared services fee income	2,888	112,550	11,690	-	2,826	107,617	10,415	-
Fee and commission income	14,248	-	8,127	-	-	-	8,275	-
Rental income	1	52	-	-	-	55	4,231	-
Other income	-	8	322	-	-	156	239	-
	19,372	202,597	28,568	26	3,215	181,569	31,303	64
Impairement allowance and provisions								
Investment account placements (Note 31)	-	29,794	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) **Significant transactions and outstanding balances with related parties (continued)**

	2019				2018			
Bank (continued)	**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**
Expenditure								
Interest on deposits from customers	98,712	-	9,218	132	93,363	-	3,405	699
Interest on deposits and placements of banks and other financial institutions	74,900	-	-	-	91,406	-	594	-
Interest/Profit on derivatives	-	-	-	-	-	67	-	-
Interest/Profit on subordinated bonds	66,264	-	-	-	64,973	-	-	-
Fee and commission expense	-	2,103	-	-	13,959	2,571	-	-
Shared service fees	-	7,068	-	-	-	8,815	-	-
IT and transaction processing fees	-	-	306,894	-	-	-	287,359	-
Rental expenses	-	-	816	-	-	-	993	-
Other expenses	7,894	-	12,385	-	-	-	12,162	-
	247,770	9,171	329,313	132	263,701	11,453	304,513	699

	2019			2018		
	Malaysia RM'000	**Singapore RM'000**	**Total RM'000**	**Malaysia RM'000**	**Singapore RM'000**	**Total RM'000**
Intercompany charges paid/payable to related parties						
Shared service fees	7,068	-	7,068	8,815	-	8,815
IT and transaction processing fees	221,303	85,591	306,894	215,384	71,975	287,359
Rental expenses	816	-	816	839	154	993
Insurance expenses	12,385	-	12,385	12,162	-	12,162
Other expenses	-	7,894	7,894	-	-	-
	241,572	93,485	335,057	237,200	72,129	309,329

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) **Significant transactions and outstanding balances with related parties (continued)**

	2019				2018			
Bank (continued)	**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**
Amount due from								
Cash and cash equivalents	151,543	286,119	273	-	43,132	409,586	258	-
Deposits and placements with banks and other financial institutions	-	434,376	-	-	1,159	580,343	-	-
Investment account placements	-	1,986,054	-	-	-	1,322,168	-	-
Financial investments at FVOCI	-	78,006	-	-	-	74,818	-	-
Interest receivables	324	4,704	404	-	116	8,578	537	-
Subordinated Sukuk	-	200,000	-	-	-	200,000	-	-
Loans, advances and financing	-	-	225,000	275	-	-	250,500	1,325
Derivative financial assets	28,553	12,381	-	-	42,933	3,731	5,858	-
Other assets	2,094	838	5,837	-	2,395	715	21,985	-
Shared services fee receivable	134	11,428	704	-	109	9,319	208	-
	182,648	3,013,906	232,218	275	89,844	2,609,258	279,346	1,325
Amount due to								
Deposits from customers	3,684,146	2,216	320,545	5,725	4,138,205	1,699	291,242	21,393
Deposits and placements of banks and other financial institutions	3,346,455	-	-	-	6,527,269	-	-	-
Other liabilities	10,364	31,999	2,082	-	2,871	36,161	15,363	-
Interest payables	40,174	-	135	-	71,427	-	83	-
Derivative financial liabilities	122,361	6	17,425	-	43,788	3	276	-
Subordinated bonds	1,482,438	-	-	-	1,493,169	-	-	-
Shared service fee payable	-	-	-	-	-	689	-	-
	8,685,938	34,221	340,187	5,725	12,276,729	38,552	306,964	21,393
Commitments								
Foreign exchange derivatives	2,022,585	70,365	6	-	1,427,120	63,109	3	-
Interest rate derivatives	5,999,083	180,000	1,050,000	-	5,429,478	180,000	600,000	-
Transaction related contingent items	33,010	-	118,711	-	34,867	-	124,146	-
	8,054,678	250,365	1,168,717	-	6,891,465	243,109	724,149	-

39 FINANCIAL INSTRUMENTS

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

(a) Financial assets at fair value through profit or loss ("FVTPL");
(b) Amortised cost ("AC");
(c) Financial investments at fair value through other comprehensive income ("FVOCI"); and
(d) Derivatives used for hedging.

<u>Group</u>	FVTPL RM'000	AC RM'000	FVOCI RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
2019					
Financial assets					
Cash and cash equivalents	-	4,804,851	-	-	4,804,851
Financial assets at FVTPL	1,176,469	-	-	-	1,176,469
Financial investments at FVOCI	-	-	15,555,244	-	15,555,244
- *Debt instruments*	-	-	*15,449,967*	-	*15,449,967*
- *Equity instruments*	-	-	*105,277*	-	*105,277*
Loans, advances and financing	10,560	69,047,769	-	-	69,058,329
Derivative financial assets	749,732	-	-	-	749,732
Other assets	-	375,557	-	-	375,557
Statutory deposits with Bank Negara Malaysia	-	1,686,883	-	-	1,686,883
	1,936,761	75,915,060	15,555,244	-	93,407,065
Financial liabilities					
Deposits from customers	-	75,095,805	-	-	75,095,805
Deposits and placements of banks and other financial institutions	-	4,196,309	-	-	4,196,309
Bills and acceptances payable	-	89,047	-	-	89,047
Recourse obligation on loans sold to Cagamas Berhad	-	700,000	-	-	700,000
Derivative financial liabilities	699,450	-	-	573	700,023
Other liabilities*	-	3,050,127	-	-	3,050,127
Subordinated bonds	-	1,482,439	-	-	1,482,439
	699,450	84,613,727	-	573	85,313,750

* Excludes lease liabilities

	FVTPL RM'000	AC RM'000	FVOCI RM'000	Derivatives used for hedging RM'000	Carrying amount RM'000
2018					
Financial assets					
Cash and cash equivalents	-	4,897,506	-	-	4,897,506
Deposits and placements with banks and other financial institutions	-	399,956	-	-	399,956
Financial assets at FVTPL	1,873,515	-	-	-	1,873,515
Financial investments at FVOCI	-	-	17,802,426	-	17,802,426
- *Debt instruments*	-	-	*17,703,208*	-	*17,703,208*
- *Equity instruments*	-	-	*99,218*	-	*99,218*
Loans, advances and financing	24,836	68,556,660	-	-	68,581,496
Derivative financial assets	760,645	-	-	116	760,761
Other assets	-	418,998	-	-	418,998
Statutory deposits with Bank Negara Malaysia	-	1,913,172	-	-	1,913,172
	2,658,996	76,186,292	17,802,426	116	96,647,830

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

39 FINANCIAL INSTRUMENTS (continued)

Group (continued)	**FVTPL RM'000**	**AC RM'000**	**FVOCI RM'000**	**Derivatives used for hedging RM'000**	**Carrying amount RM'000**
2018					
Financial liabilities					
Deposits from customers	-	75,851,221	-	-	75,851,221
Deposits and placements of banks and other financial institutions	-	7,070,077	-	-	7,070,077
Bills and acceptances payable	-	92,841	-	-	92,841
Recourse obligation on loans sold to Cagamas Berhad	-	700,000	-	-	700,000
Derivative financial liabilities	715,765	-	-	403	716,168
Other liabilities	-	3,045,533	-	-	3,045,533
Subordinated bonds	-	1,893,169	-	-	1,893,169
	715,765	88,652,841	-	403	89,369,009

Bank	**FVTPL RM'000**	**AC RM'000**	**FVOCI RM'000**	**Derivatives used for hedging RM'000**	**Carrying amount RM'000**
2019					
Financial assets					
Cash and cash equivalents	-	4,132,830	-	-	4,132,830
Deposits and placements with banks and other financial institutions	-	434,376	-	-	434,376
Investment account placements	-	1,958,154	-	-	1,958,154
Financial assets at FVTPL	1,160,139	-	-	-	1,160,139
Financial investments at FVOCI	-	-	11,426,798	-	11,426,798
- Debt instruments	-	-	*11,321,521*	-	*11,321,521*
- Equity instruments	-	-	*105,277*	-	*105,277*
Loans, advances and financing	10,560	57,270,380	-	-	57,280,940
Derivative financial assets	749,830	-	-	-	749,830
Other assets	-	553,854	-	-	553,854
Statutory deposits with Bank Negara Malaysia	-	1,377,583	-	-	1,377,583
	1,920,529	65,727,177	11,426,798	-	79,074,504
Financial liabilities					
Deposits from customers	-	62,583,956	-	-	62,583,956
Deposits and placements of banks and other financial institutions	-	4,153,615	-	-	4,153,615
Bills and acceptances payable	-	71,512	-	-	71,512
Recourse obligation on loans sold to Cagamas Berhad	-	700,000	-	-	700,000
Derivative financial liabilities	699,395	-	-	573	699,968
Other liabilities*	-	2,931,595	-	-	2,931,595
Subordinated bonds	-	1,482,439	-	-	1,482,439
	699,395	71,923,117	-	573	72,623,085

* Excludes lease liabilities

39 FINANCIAL INSTRUMENTS (continued)

Bank (continued)	**FVTPL RM'000**	**AC RM'000**	**FVOCI RM'000**	**Derivatives used for hedging RM'000**	**Carrying amount RM'000**
2018					
Financial assets					
Cash and cash equivalents	-	4,347,492	-	-	4,347,492
Deposits and placements with banks and other financial institutions	-	980,299	-	-	980,299
Investment account placements	-	1,318,776	-	-	1,318,776
Financial assets at FVTPL	1,863,535	-	-	-	1,863,535
Financial investments at FVOCI	-	-	13,586,543	-	13,586,543
- Debt instruments	-	-	*13,487,325*	-	*13,487,325*
- Equity instruments	-	-	*99,218*	-	*99,218*
Loans, advances and financing	24,836	58,240,453	-	-	58,265,289
Derivative financial assets	762,161	-	-	116	762,277
Other assets	-	599,461	-	-	599,461
Statutory deposits with Bank Negara Malaysia	-	1,561,972	-	-	1,561,972
	2,650,532	67,048,453	13,586,543	116	83,285,644
Financial liabilities					
Deposits from customers	-	64,124,328	-	-	64,124,328
Deposits and placements of banks and other financial institutions	-	6,986,949	-	-	6,986,949
Bills and acceptances payable	-	78,292	-	-	78,292
Recourse obligation on loans sold to Cagamas Berhad	-	700,000	-	-	700,000
Derivative financial liabilities	715,710	-	-	403	716,113
Other liabilities	-	2,953,139	-	-	2,953,139
Subordinated bonds	-	1,893,169	-	-	1,893,169
	715,710	76,735,877	-	403	77,451,990

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.

39 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 for offsetting disclosures	Gross recognised financial instruments in scope	*Related amount not offset in the statements 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
Group						
2019						
Derivative financial assets	749,732	(36,415)	713,317	(211,345)	(229,117)	272,855
Derivative financial liabilities	700,023	(42,751)	657,272	(211,345)	(184,537)	261,390
2018						
Derivative financial assets	760,761	(204,135)	556,626	(101,330)	(359,964)	95,332
Derivative financial liabilities	716,168	(77,218)	638,950	(101,330)	(293,549)	244,071
Bank						
2019						
Derivative financial assets	749,830	(36,121)	713,709	(211,345)	(229,117)	273,247
Derivative financial liabilities	699,968	(42,697)	657,271	(211,345)	(184,537)	261,389
2018						
Derivative financial assets	762,277	(202,006)	560,271	(101,330)	(359,964)	98,977
Derivative financial liabilities	716,113	(77,163)	638,950	(101,330)	(293,549)	244,071

40 FAIR VALUES 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 9 which requires fair value information to be disclosed. These include property and equipment, prepaid lease payments, investments in subsidiaries, tax recoverable and deferred tax assets.

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

(A) Financial assets and financial liabilities

(a) Short term financial instruments

The carrying amounts approximate the fair values of cash and cash equivalents, deposits and placements with/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 and investment account placements

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 at FVTPL and financial investments at FVOCI

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

(d) 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 loans, advances and financing, the fair values are carried at amortised cost net of ECL.

(e) Derivative financial assets and liabilities

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

(f) Deposits from customers

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

(g) Bills and acceptances payable

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

(h) Subordinated bonds/Sukuk

Fair value for the subordinated bonds/Sukuk is determined using quoted market prices where available, or by reference to quoted market prices of similar instruments.

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(A) 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.

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-statements of financial position financial instruments are disclosed in Note 35 to the financial statements.

(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:

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

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

Group	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
2019				
Financial assets at fair value				
Financial assets at FVTPL	864,145	312,324	-	1,176,469
Financial investments at FVOCI	9,236,880	6,213,087	105,277	15,555,244
Loans, advances and financing	-	-	10,560	10,560
Derivative financial assets	1,507	726,577	21,648	749,732
	10,102,532	7,251,988	137,485	17,492,005
Financial liabilities at fair value				
Derivative financial liabilities	888	667,470	31,665	700,023
2018				
Financial assets at fair value				
Financial assets at FVTPL	762,033	1,111,482	-	1,873,515
Financial investments at FVOCI	8,646,834	9,056,374	99,218	17,802,426
Loans, advances and financing	-	-	24,836	24,836
Derivative financial assets	2,241	685,493	73,027	760,761
	9,411,108	10,853,349	197,081	20,461,538
Financial liabilities at fair value				
Derivative financial liabilities	2,077	640,808	73,283	716,168

Bank				
2019				
Financial assets at fair value				
Financial assets at FVTPL	864,145	295,994	-	1,160,139
Financial investments at FVOCI	6,975,820	4,345,701	105,277	11,426,798
Loans, advances and financing	-	-	10,560	10,560
Derivative financial assets	1,590	726,592	21,648	749,830
	7,841,555	5,368,287	137,485	13,347,327
Financial liabilities at fair value				
Derivative financial liabilities	894	667,409	31,665	699,968
2018				
Financial assets at fair value				
Financial assets at FVTPL	762,033	1,101,502	-	1,863,535
Financial investments at FVOCI	6,324,040	7,163,285	99,218	13,586,543
Loans, advances and financing	-	-	24,836	24,836
Derivative financial assets	2,309	686,941	73,027	762,277
	7,088,382	8,951,728	197,081	16,237,191
Financial liabilities at fair value				
Derivative financial liabilities	2,080	640,750	73,283	716,113

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Financial assets at fair value				
At 1 January	197,081	15,662	197,081	15,662
Effect of adoption of MFRS 9	-	149,853	-	149,853
Purchased	10,000	-	10,000	-
Settled/Disposed	(24,661)	(34,686)	(24,655)	(34,686)
Transferred to Level 3	3,576	-	3,570	-
Realised loss				
- Recognised in net trading income	(71,182)	(4,267)	(71,182)	(4,267)
Unrealised gain/(loss)				
- Recognised in net trading income	16,612	64,656	16,612	64,656
- Recognised in other comprehensive income/(expense)	6,059	5,863	6,059	5,863
At 31 December	137,485	197,081	137,485	197,081
Financial liabilities at fair value				
At 1 January	73,283	16,294	73,283	16,294
Settled/Disposed	(5)	-	-	-
Transferred to Level 3	4,166	-	4,161	-
Realised gain				
- Recognised in net trading income	(72,030)	(4,267)	(72,030)	(4,267)
Unrealised loss				
- Recognised in net trading income	26,251	61,256	26,251	61,256
At 31 December	31,665	73,283	31,665	73,283

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 current and previous financial year, there were no transfers between levels of financial investments at FVOCI of the Group and the Bank.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

Level 3 fair value

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:

Group	2019 Fair value RM'000	2018 Fair value RM'000	Classification	Valuation technique	Unobservable input
Assets					
Financial investments at FVOCI	105,277	99,218	FVOCI	Net asset value approach	Net asset value
Loans, advances and financing	10,560	24,836	FVTPL	Discounted cash flow analysis and market approach	Implied equity value, incentive fee and discount factor
Derivative financial assets	21,648	73,027	Hedge for trading	Option pricing model	Standard deviation
	137,485	197,081			
Liabilities					
Derivative financial liabilities	31,665	73,283	Hedge for trading	Option pricing model	Standard deviation
Bank					
Assets					
Financial investments at FVOCI	105,277	99,218	FVOCI	Net asset value approach	Net asset value
Loans, advances and financing	10,560	24,836	FVTPL	Discounted cash flow analysis and market approach	Implied equity value, incentive fee and discount factor
Derivative financial assets	21,648	73,027	Hedge for trading	Option pricing model	Standard deviation
	137,485	197,081			
Liabilities					
Derivative financial liabilities	31,665	73,283	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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

Valuation control framework (continued)

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

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

(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 those financial instruments of the Group and the Bank which are not measured at fair value. It does not include those short term financial assets and financial liabilities where their fair values were not materially different from the carrying amounts.

Group	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
2019				
Financial assets not carried at fair value				
Loans, advances and financing	-	69,033,583	69,033,583	69,047,769
	-	69,033,583	69,033,583	69,047,769
Financial liabilities not carried at fair value				
Deposits from customers	75,103,933	-	75,103,933	75,095,805
Deposits and placements of banks and other financial institutions	4,196,309	-	4,196,309	4,196,309
Recourse obligation on loans sold to Cagamas Berhad	670,410	-	670,410	700,000
Subordinated bonds	1,496,276	-	1,496,276	1,482,439
	81,466,928	-	81,466,928	81,474,553
2018				
Financial assets not carried at fair value				
Deposits and placements with banks and other financial institutions	399,956	-	399,956	399,956
Loans, advances and financing	-	68,527,274	68,527,274	68,556,660
	399,956	68,527,274	68,927,230	68,956,616
Financial liabilities not carried at fair value				
Deposits from customers	75,867,076	-	75,867,076	75,851,221
Deposits and placements of banks and other financial institutions	7,070,077	-	7,070,077	7,070,077
Recourse obligation on loans sold to Cagamas Berhad	670,410	-	670,410	700,000
Subordinated bonds	1,927,884	-	1,927,884	1,893,169
	85,535,447	-	85,535,447	85,514,467

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

40 FAIR VALUES 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)

Bank	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
2019				
Financial assets not carried at fair value				
Deposits and placements with banks and other financial institutions	434,373	-	434,373	434,376
Investment account placements	1,958,154	-	1,958,154	1,958,154
Loans, advances and financing	-	57,289,950	57,289,950	57,270,380
Other assets - unquoted redeemable Islamic subordinated Sukuk of a subsidiary	211,854	-	211,854	200,000
	2,604,381	57,289,950	59,894,331	59,862,910
Financial liabilities not carried at fair value				
Deposits from customers	63,424,760	-	63,424,760	62,583,956
Deposits and placements of banks and other financial institutions	4,153,615	-	4,153,615	4,153,615
Recourse obligation on loans sold to Cagamas Berhad	670,411	-	670,411	700,000
Subordinated bonds	1,496,276	-	1,496,276	1,482,439
	69,745,062	-	69,745,062	68,920,010
2018				
Financial assets not carried at fair value				
Deposits and placements with banks and other financial institutions	980,299	-	980,299	980,299
Investment account placements	1,318,776	-	1,318,776	1,318,776
Loans, advances and financing	-	58,211,317	58,211,317	58,240,453
Other assets - unquoted redeemable Islamic subordinated Sukuk of a subsidiary	216,418	-	216,418	200,000
	2,515,493	58,211,317	60,726,810	60,739,528
Financial liabilities not carried at fair value				
Deposits from customers	64,014,605	-	64,014,605	64,124,328
Deposits and placements of banks and other financial institutions	6,986,949	-	6,986,949	6,986,949
Recourse obligation on loans sold to Cagamas Berhad	670,410	-	670,410	700,000
Subordinated bonds	1,911,466	-	1,911,466	1,893,169
	73,583,430	-	73,583,430	73,704,446

41 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 Group and the Bank primarily use interest rate swaps as hedges of interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

41 HEDGING ACTIVITIES (continued)

Fair value hedge (continued)

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

Group and Bank	2019 RM'000	2018 RM'000
Gains on hedging instruments	1,456	1,327
Losses on the hedged items attributable to the hedged risk	(1,425)	(1,328)
	31	(1)

42 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 enterprise-wide risk management strategy are:

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

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

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

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

The Group and the 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. Group Audit evaluates the overall risk awareness and control consciousness of the management in discharging its supervisory and oversight responsibilities through a Management Control Oversight Rating. This evaluation is done based on a collective view of awareness, aptitude and attitude factors. 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.

42 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 ("CCRO"). 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 Management Committee as well as the Bank’s Asset Liability Management Committee. Both risk-taking and risk control units are represented in these committees, emphasising shared risk management responsibilities.

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

The Group and the Bank perform an Internal Capital Adequacy Assessment Process (“ICAAP”) assessment annually to ensure the Group and the Bank are able to maintain sound capital levels after considering business plans and material risks under both normal and severe stress scenarios. Combined with the Board approved Risk Appetite Statement, the ICAAP process provides a high level of assurance that the Group and 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 our financing activities. Trading and investment banking activities, such as trading of foreign exchange, derivatives, debt securities, commodities, securities underwriting, and settlement of transactions, also expose the Group and the Bank to counterparty and issuer credit risks. For derivative transactions, the total credit exposure is quantified by the transaction's current positive mark-to-market value plus an appropriate add-on factor for potential future exposure.

Credit Risk Management Oversight and Organisation

The Credit Risk Management Committee (“CRMC”) is the senior management group that supports the RMC and CEO in managing credit risk, including reshaping the credit portfolios. It reviews the credit profile of material portfolios by business segments to ensure that credit risk taking is aligned with the respective business strategy and consistent with our risk appetite. The CRMC also recommends and monitors exposure undertaken against risk limits and highlights any material risk to the RMC and CEO. It also oversees compliance with the risk management framework and policies and the effectiveness of intrastructure, methodologies and systems.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Management Oversight and Organisation (continued)

The Credit Risk Management (“CRM”) departments ensure the execution of the credit risk management framework, policies and procedures. These departments also independently manage credit risk to ensure adequacy of risk-returns within our risk appetite, customer targets, limits and established risk standards. Dedicated risk functions are responsible for portfolio risk monitoring, risk measurement methodology, risk reporting and remedial management.

Regular risk reports are provided to the CRMC, CEO, RMC and Board of Directors in a timely, objective and transparent manner for review. These reports include detailed credit exposures, credit migration, expected losses, and risk concentrations by business portfolio. Regular stress tests and portfolio reviews are conducted to assess the potential impact of emerging risk on our credit exposures, including interactions among credit, market and liquidity events (where appropriate). The results of the stress tests and portfolio reviews are factored as necessary into the adjustment and refinement of risk-taking strategies and credit limits to remain within our risk appetite.

Credit Risk Management Approach

The Group's and the Bank’s credit risk management framework encapsulates the complete cycle of credit risk management. It covers the identification, assessment, measurement, monitoring as well as the control and mitigation of credit risks. It also articulates the importance of proactive credit risk management.

The Group and the Bank seek to undertake credit risks that meet its target market and risk acceptance criteria, lending parameters and risk-return expectations for sustainable performance. As Fair Dealing underpins our commitment to building long-term relationships with our customers, complex product are sold to them only after clearing suitability and appropriateness assessments. In addition to effective risk management practices, the sound judgement of our experienced credit officers is also key to our successful risk management.

The Group recognises the importance in promoting long-term sustainable development and is committed to advancing environmental and social progress and to conduct its business in a responsible manner. The Group has put a Responsible Financing Framework and policy in place that sets out its overall approach towards the management of Environmental, Social and Governance (“ESG”) risks, including the integration of ESG considerations into its credit and risk evaluation process for our lending and capital market activities. The Group has also developed sector specific policies for Agriculture, Forestry, Energy, Mining and Metals that set out the criteria and thresholds for transactions involving these elevated ESG risk industries. Transactions with high ESG or reputational risk are escalated to the Reputational Risk Review Group for review and clearance.

Loans/Financing to Consumer and Small Businesses

Credit risks for consumer and small businesses are managed on a portfolio basis under credit programmes such as mortgages, credit cards, unsecured loans/financing, commercial property loans/financing and business term loans/financing. Credit extended under these programmes should fall within the portfolio and transaction limits, defined target markets, stipulated lending criteria and acceptable collateral as well as advance ratios. Apart from bankruptcy and credit bureau checks, systems and processes such as source of identification of credit origination and independent verification of documentation are used to detect fraud. The performance of the portfolio is closely monitored monthly using management information system ("MIS") analytics. Application models are also used in the credit decision process for most products to enable objective, consistent and fast decisions. Behavioural models are used for early identification of potential problem loans/financing.

Credit Risk Management (continued)

Loans/Financing to Corporate and Institutional Customers

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

Credit Risk from Investment or Trading Activities

Counterparty credit risks arising from the Group's and the Bank's trading, derivatives and debt securities activities are actively managed to protect against potential losses in replacing a contract if a counterparty fails to meet its obligations. If on a bilateral basis, in most cases, the transactions will be governed under International Swaps and Derivatives Association agreements as well as Credit Support Annexes ("CSAs") or an equivalent to allow for close-out netting if the counterparty defaults.

Credit limits are established for each counterparty based on our assessment of the counterparty's creditworthiness, the suitability and appropriateness of the product offered and alignment with approved trading mandates and investment strategies. Credit exposures are independently managed through daily limit monitoring, excesses escalation and approval, and timely risk reporting.

We also have an established policy and process to manage wrong-way risk which can occur when the credit exposure to a counterparty is adversely correlated with the credit quality of the counterparty.

Internal Credit Rating Models

Internal credit rating models are an integral part of the Group's and the Bank's credit risk management, credit decision-making process, and capital assessment. These internal rating models and the parameters – PD, LGD and EAD – are factors used in limit setting, credit approval, portfolio monitoring and reporting, remedial management, stress testing and internal assessment of the capital adequacy and impairment allowances.

Model risk is managed under our model risk management framework and credit rating model framework, to govern the development, validation, application and performance monitoring of rating models. Approval for adoption and continued use of material models rests with the RMC. The models are developed with the active participation of credit experts from risk-taking and risk-control units and subject to independent validation before implementation to ensure that all aspects of the model development process have met internal standards.

The models are subject to annual (or more frequent) review and independent validation to ensure the models are performing as expected and that the assumptions used in model development remain appropriate. In addition, Internal Audit conducts an annual independent review of the ratings assignment process, the effectiveness of the independent validation and the accuracy of the rating system operation. All rating models are assessed against internal and regulatory requirements and approved by regulators for use in capital assessment.

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

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Advance Internal Ratings Based ("A-IRB") for Major Consumer and Small Business Portfolios

The Group and the Bank have adopted the A-IRB approach for major consumer portfolios, including residential mortgages, credit cards and small business lending. Internal rating models, developed from internal data, are used to estimate PD, LGD, and EAD parameters for each of these portfolios. Application and Behaviour scorecards are key inputs to the PD models. Product, collateral, and geographical characteristics are major factors used in the LGD and EAD models. The PD models are calibrated to the expected long-term average one-year default rate over an economic cycle, while the LGD models are calibrated to reflect the economic loss under downturn conditions. EAD models are also calibrated to reflect the long-run average or economic downturn conditions where necessary.

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

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

Standardised Approach for Other Portfolios

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

Credit Risk Control

Credit Risk Mitigation

Credit facility is granted primarily based on the borrower's credit quality and repayment capacity from operating cashflows for corporates and institutions, and personal income or wealth (after assessing the total debts and commitment) for individuals. Where possible, the Group and the Bank take credit risk mitigants as a secondary recourse to mitigate credit risk. The Group and the Bank accept collateral and credit protection such as cash, real estate, marketable securities, trade receivables, standby letters of credit and credit insurances. The Group and the Bank have policies in place to set out the criteria for collateral to be recognised as eligible credit risk mitigants. This includes factors such as legal certainty and enforceability, priority, correlation, marketability, liquidity, counterparty risk of the protection provider, as well as collateral-specific minimum operational requirements. Valuations are performed by independent qualified appraisers and the value of collaterals are monitored on a regular basis. The frequency of valuation depends on the type, liquidity and volatility of the collateral. Appropriate haircuts are applied to the market value of collaterals to reflect the underlying nature, quality, liquidity and volatility of the collateral. The Group and the Bank also accept guarantees from individuals, corporates, and institutions mainly as a form of support. Where guarantees are recognised as credit risk mitigants via the PD substitution approach, eligibility criteria and guidelines are in place.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Credit Risk Control (continued)

Credit Risk Mitigation (continued)

To manage counterparty credit risk, eligible financial collaterals may be taken to partially or fully cover mark-to-market exposures on outstanding positions, with a haircut to cover potential adverse market volatility. Collateral agreements, typically covered under market standard documentation such as ISDA, include a minimum threshold amount where additional collateral is to be posted by either party if the mark-to-market exposures exceed an agreed threshold. The credit risk associated with contractual obligations is reduced by the netting agreements to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis. Agreements may also contain rating triggers where additional collateral posting is required in the event of a rating downgrade.

Managing Credit Risk Concentration

Credit risk concentrations may arise from financing to single customer, a group of connected customers, or diverse groups of customers affected by similar economic or market conditions. Where appropriate, limits are set and monitored to control concentrations by customer, group of connected customers, product and industry. These limits are aligned with the Group's and the Bank’s risk appetite, business strategy, capacity and expertise. Impact on earnings and capital are also considered during the setting of limits.

Although the Group and the Bank are steadily diversifying their exposures, but have significant exposures to the real estate market in Malaysia. Dedicated specialist real estate units manage this risk with focus on client selection, collateral quality, project viability, and real estate cycle trends. Regular stress tests are also made to identify potential vulnerabilities on the real estate portfolio.

The Group and the Bank are in compliance with BNM's Circular on Guidelines on Lending to the Broad Property Sector (“BPS”) and Lending for the Purchase of Shares and Units of Unit Trust Funds which limit BPS loans, advances and financing exposure, and shares and unit trust funds exposure to not more than 20% of the total outstanding loans, advances and financing each.

Remedial Management

The Group and the Bank have an established process to constantly assess our portfolios to detect potential problem credits at an early stage. As the Group and the Bank value customer relationships, we understand that some customers face temporary financial distress and prefer to work closely with them at the onset of their difficulties. The Group and the Bank recognise the opportunity to promote customer loyalty and retention in such instances, even as we enforce strict discipline and place a priority on remedial management to minimise credit loss.

The Group and the Bank classify its loans, advances and financing accordingly to the customers' ability to repay their financial obligations on time and in full from their normal sources of income. Non credit-impaired exposures are categorised as “Pass” or “Special Mention”, while credit-impaired loans (“ILs”) are categorised as “Substandard”, “Doubtful” or “Loss” in accordance with BNM's policy document on Financial Reporting and BNM's policy document on Credit Risk. Upgrading of ILs to performing loan status can only be done when there is established trend of credit improvement. The upgrade needs to be supported by an assessment of the borrower’s repayment capability, cash flows and financial position.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk Management (continued)

Remedial Management (continued)

Credit exposures are classified as restructured assets when the Group and the Bank have granted concessions or restructured payment terms to customers who are facing difficulties in meeting the original payment schedules. A restructured credit exposure is classified into impaired loans grades based on the assessment of the customers' financial condition and ability to repay under the restructured terms. Such a credit exposure must comply fully with the restructured terms before it can be restored to performing loan status in accordance with BNM's policy document on Financial Reporting and BNM's policy document on Credit Risk.

The Group and the Bank have dedicated remedial management units to manage the restructuring, work-out and recovery of impaired wholesale portfolios. For the consumer portfolios, appropriate risk-based and time-based collection strategies are developed to maximise recoveries. The Group and the Bank also use analytical data such as delinquency buckets and adverse status tags for delinquent consumer financing to constantly fine-tune and prioritise its collection efforts.

ECL allowances for Loans, Advances and Financing

The Group and the Bank maintain ECL allowances that are sufficient to absorb credit losses inherent in its loans, advances and financing portfolio. The Group and the Bank shall recognise loss allowance for ECL on credit exposures for both credit-impaired and non credit-impaired in accordance to MFRS 9 and BNM's policy document on Financial Reporting. In principle, ECL should take into account all reasonable and supportable information including historical experience, current and forward looking conditions.

For credit-impaired portfolio, Stage 3 ECL is assessed individually and measured based on a reasonable and well documented estimate of the net present value of the future cash flows that the Group and the Bank determine to be recoverable from the borrower. Credit-impaired loans/financing are written off against Stage 3 ECL after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

For non credit-impaired portfolio, the Stage 1 and 2 ECL are assessed and measured based on 12-month ECL if the credit risk of a credit exposure has not increased significantly since initial recognition and lifetime ECL where there is significant increase in credit risk respectively.

Market Risk Management

Market risk is the risk of loss of income or market value due to fluctuations in factors such as interest/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.

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

Market Risk Management (continued)

Market Risk Management Approach

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

Market Risk Identification

Risk identification is addressed via the 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”), Credit Sensitivity of a Basis Point (“CS01”), FX Basis Sensitivity of a Basis Point (“FXBasis01”), FX Net Open Position ("FX NOP") and derivative greeks.

The Group and the Bank also perform stress testing and scenario analysis to better quantify and assess potential losses arising from low probability but plausible extreme market conditions. The stress scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the 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. Models are used to price financial instruments and to measure risk. The models used are verified and assessed to ensure that they are fit for their intended purpose. Market data used for risk measurements and valuation are sourced independently.

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

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.

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 statements 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 CT within Group Finance Division and MRM within GRM.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset Liability Management (continued)

Asset Liability Management Approach

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

Liquidity Risk

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

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

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

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, 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 interest/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.

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

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

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. The 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.

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

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

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

Operational Risk Scenario Analysis

The Group and the Bank perform impact analysis on severe operational risk scenarios for the purpose of assessing the adequacy of operational risk capital requirements. The analysis forms part of the annual Group ICAAP.

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 ORC 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 a programme to ensure that physical and security risk to people and assets are adequately addressed.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational Risk Management (continued)

Business Continuity Risk Management

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

Fraud Risk Management

The 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 ORC and the RMC. Internal Audit independently reviews all fraud and whistle-blowing cases, and reports their finding to the Board Audit Committee.

Reputational Risk Management

Reputational risk is the current or prospective risk to earnings and capital arising from adverse perception of the 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, monitoring and mitigation of fiduciary risk exposures, to ensure the Group’s and the Bank's compliance with applicable corporate standards.

Legal and Regulatory Risk Management

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

Technology, Information and Cyber Risk Management

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

The Group and the Bank raise staff vigilance on cyber and information risk through regular awareness advisories, trainings and campaigns that include the use of simulated phishing emails. The Group and the Bank collaborate with industry participants and government agencies to share intelligence and counter measures against new forms of cyber attacks.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 BNM's Shariah Advisory Council (“SAC”), Securities Commission's SAC and OCBC Al-Amin's Shariah Committee.

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

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 the Group’s Shariah Non-Compliance Risk Management process are namely:

(i) *Risk Identification* – Identification of the potential Shariah Non-Compliance events.

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

(iii) *Mitigation/Control/Awareness* – Shariah Non-Compliance Risk are mitigated by implementing and putting in place appropriate control measures, such as policies, guidelines and procedures on Shariah requirements. 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 programmes 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.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Shariah Governance (continued)

All potential Shariah Non-Compliant events are initially assessed by the Qualified Shariah Officer and escalated to OCBC Al-Amin's Shariah Committee for confirmation and decision to determine the status of the events and potential Shariah Non-Compliant income. All potential and actual Shariah Non-Compliance Events ("SNCEs") upon confirmation by Shariah Committee are to be reported to BNM within the required timeframe set by BNM.

Shariah Non-Compliant income are channelled to charitable organisations as determined by the Shariah Committee. Details of the income and uses of charity funds are as follows:

	Group	
Sources and Uses of charity funds	**2019 RM'000**	**2018 RM'000**
At 1 January	-	3
Uses of charity funds		
Contribution to non-profit organisations	-	(3)
At 31 December	-	-

43 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.

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Cash and cash equivalents*	4,805,233	4,898,851	4,133,211	4,348,837
Deposits and placements with banks and other financial institutions*	-	400,000	434,376	980,343
Investment account placements*	-	-	2,018,823	1,379,286
Financial assets at FVTPL	1,176,469	1,873,515	1,160,139	1,863,535
Financial investments at FVOCI	15,555,244	17,802,426	11,426,798	13,586,543
Loans, advances and financing*	70,029,661	69,479,901	58,002,024	58,923,982
Derivative financial assets	749,732	760,761	749,830	762,277
Other assets*	375,557	418,998	553,854	599,461
Contingent liabilities and commitments	31,991,630	31,219,820	28,360,000	26,957,584
	124,683,526	126,854,272	106,839,055	109,401,848

* Stated at gross before ECL/impairment allowance

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

(a) Credit quality analysis

	2019					2018				
Group	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
i) By issuer/counterparty										
Government and Central Bank	1,159,877	9,899,444	-	-	-	1,214,592	9,449,365	-	-	-
Foreign government	-	204,109	-	-	-	-	614,177	-	-	-
Public sector	-	518,518	-	-	-	508,942	1,111,749	-	-	-
Banks	7	2,183,967	-	515,105	211,436	24	3,140,274	-	538,362	148,794
Non-bank financial institutions	-	1,751,772	-	6,978	56,538	139,665	1,603,527	-	31,273	47,087
Business enterprise	16,585	997,434	26,220	200,034	21,088,100	10,106	1,883,334	52,909	108,547	20,714,831
Small and medium enterprises	-	-	136,172	-	5,763,279	-	-	139,324	-	5,774,244
Individuals	-	-	380,807	27,615	4,872,277	-	-	346,919	82,579	4,534,864
Others	-	-	-	-	-	186	-	-	-	-
	1,176,469	15,555,244	543,199	749,732	31,991,630	1,873,515	17,802,426	539,152	760,761	31,219,820
ii) By geographical distribution										
Malaysia	1,170,080	14,655,259	510,351	630,723	29,067,644	1,873,355	15,830,214	521,713	656,792	29,674,087
Singapore	114	102,704	19,960	28,932	86,204	1	103,517	12,381	43,091	62,538
Other ASEAN countries	6,127	328,320	3,122	25	2,484,754	-	404,117	-	-	960,603
Rest of the world	148	468,961	9,766	90,052	353,028	159	1,464,578	5,058	60,878	522,592
	1,176,469	15,555,244	543,199	749,732	31,991,630	1,873,515	17,802,426	539,152	760,761	31,219,820

* Past due but not credit-impaired. The analysis of loans, advances and financing is detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

(a) Credit quality analysis (continued)

	2019					2018				
Group (continued)	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
iii) By sector										
Agriculture, hunting, forestry and fishing	-	31,046	2,852	4,290	2,284,641	-	115,415	413	420	1,597,066
Mining and quarrying	-	186,492	248	121,442	493,707	-	206,119	-	67,593	422,212
Manufacturing	25	23,484	27,280	11,722	6,719,515	-	88,949	32,501	7,341	6,702,398
Electricity, gas and water	-	187,114	-	-	232,884	-	273,898	-	-	126,024
Construction	-	5,074	13,755	4,120	5,156,681	-	34,642	13,308	7,956	6,147,527
Real estate	230	-	23,401	1,166	2,598,410	123	24,181	42,973	1,161	2,457,704
Wholesale & retail trade and restaurants & hotels	-	237,578	66,645	4,934	4,393,968	-	477,171	71,818	4,617	4,146,227
Transport, storage and communication	-	185,516	5,951	31,353	1,438,810	1	503,597	11,403	36	647,892
Finance, insurance and business services	7	4,433,593	11,403	543,089	2,746,495	214,911	5,300,054	13,832	588,972	7,257,353
Community, social and personal services	-	-	10,857	1	1,033,291	-	-	5,985	88	1,519,482
Household										
- Purchase of residential properties	-	-	334,718	-	98,424	-	-	285,523	-	79,312
- Purchase of non-residential properties	-	-	9,307	-	-	-	-	8,347	-	-
- Others	-	-	36,782	27,615	4,781,999	-	-	53,049	82,577	110,752
Others	1,176,207	10,265,347	-	-	12,805	1,658,480	10,778,400	-	-	5,871
	1,176,469	15,555,244	543,199	749,732	31,991,630	1,873,515	17,802,426	539,152	760,761	31,219,820

* Past due but not credit-impaired. The analysis of loans, advances and financing is detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

(a) Credit quality analysis (continued)

	2019					2018				
Group (continued)	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
iv) By residual maturity										
Within one year	311,916	5,448,654	42,691	214,272	21,358,222	1,141,187	6,741,836	14,260	193,810	19,506,935
One to five years	487,391	9,311,465	30,765	356,287	3,180,653	445,376	8,190,662	36,842	318,846	3,823,426
Over five years	377,162	795,125	469,743	179,173	7,452,755	286,952	2,869,928	488,050	248,105	7,889,459
	1,176,469	15,555,244	543,199	749,732	31,991,630	1,873,515	17,802,426	539,152	760,761	31,219,820
Bank										
i) By issuer/counterparty										
Government and Central Bank	1,159,877	7,543,538	-	-	-	1,214,592	6,881,998	-	-	-
Foreign government	-	179,222	-	-	-	-	443,825	-	-	-
Public sector	-	201,219	-	-	-	508,942	881,515	-	-	-
Banks	7	887,096	-	516,142	72,257	24	2,068,194	-	539,957	65,704
Non-bank financial institutions	-	1,690,931	-	6,975	54,955	139,665	1,518,241	-	31,262	44,246
Business enterprise	255	924,792	3,069	199,098	17,699,914	126	1,792,770	-	108,479	16,621,424
Small and medium enterprises	-	-	136,172	-	5,763,279	-	-	139,324	-	5,774,244
Individuals	-	-	328,170	27,615	4,769,595	-	-	292,366	82,579	4,451,966
Others	-	-	-	-	-	186	-	-	-	-
	1,160,139	11,426,798	467,411	749,830	28,360,000	1,863,535	13,586,543	431,690	762,277	26,957,584
ii) By geographical distribution										
Malaysia	1,159,877	10,551,700	437,700	630,822	25,493,948	1,863,375	11,784,683	414,251	658,311	25,552,519
Singapore	114	102,704	19,960	28,932	86,204	1	103,517	12,381	43,088	62,538
Other ASEAN countries	-	303,433	-	24	2,455,032	-	338,745	-	-	949,399
Rest of the world	148	468,961	9,751	90,052	324,816	159	1,359,598	5,058	60,878	393,128
	1,160,139	11,426,798	467,411	749,830	28,360,000	1,863,535	13,586,543	431,690	762,277	26,957,584

* Past due but not credit-impaired. The analysis of loans, advances and financing is detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

(a) Credit quality analysis (continued)

	2019					2018				
Bank (continued)	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
iii) By sector										
Agriculture, hunting, forestry and fishing	-	-	2,703	4,290	2,193,341	-	85,523	119	420	1,471,008
Mining and quarrying	-	186,492	-	121,442	367,190	-	206,119	-	67,593	288,387
Manufacturing	25	23,484	21,598	11,167	5,883,237	-	88,949	19,714	7,316	5,634,506
Electricity, gas and water	-	89,617	-	-	228,029	-	188,005	-	-	111,854
Construction	-	5,074	12,481	4,120	4,206,465	-	34,642	11,889	7,956	4,985,181
Real estate	230	-	20,060	1,166	2,228,736	123	24,181	38,946	1,161	2,237,553
Wholesale & retail trade and restaurants & hotels	-	237,578	59,025	4,556	4,028,971	-	477,171	51,457	4,595	3,849,030
Transport, storage and communication	-	139,980	4,079	31,351	1,286,394	1	348,567	3,469	26	523,221
Finance, insurance and business services	7	3,075,881	9,141	544,123	2,130,685	214,911	4,142,688	8,452	590,545	6,386,660
Community, social and personal services	-	-	10,154	-	1,018,668	-	-	5,277	88	1,360,103
Household										
- Purchase of residential properties	-	-	295,057	-	-	-	-	255,315	-	-
- Purchase of non-residential properties	-	-	9,307	-	-	-	-	8,347	-	-
- Others	-	-	23,806	27,615	4,777,740	-	-	28,705	82,577	110,081
Others	1,159,877	7,668,692	-	-	10,544	1,648,500	7,990,698	-	-	-
	1,160,139	11,426,798	467,411	749,830	28,360,000	1,863,535	13,586,543	431,690	762,277	26,957,584

* Past due but not credit-impaired. The analysis of loans, advances and financing is detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

(a) Credit quality analysis (continued)

	2019					2018				
Bank (continued)	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**	**Financial assets at FVTPL RM'000**	**Financial investments at FVOCI RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Contingent liabilities and credit commitments RM'000**
iv) By residual maturity										
Within one year	305,789	3,378,976	36,031	213,977	18,648,445	1,141,187	4,646,674	2,627	195,108	16,750,332
One to five years	477,188	7,449,047	18,129	356,291	2,748,780	440,393	6,328,362	19,322	318,846	3,030,170
Over five years	377,162	598,775	413,251	179,562	6,962,775	281,955	2,611,507	409,741	248,323	7,177,082
	1,160,139	11,426,798	467,411	749,830	28,360,000	1,863,535	13,586,543	431,690	762,277	26,957,584

* Past due but not credit-impaired. The analysis of loans, advances and financing are detailed in Note 8(c) and Note 8(e) to the financial statements for sector and residual contractual maturity respectively.

v) By credit rating/internal grading and ECL stage

	2019				2018			
Group	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Cash and cash equivalents	4,805,233	-	-	4,805,233	4,898,851	-	-	4,898,851
Deposits and placements with banks and other financial institutions	-	-	-	-	400,000	-	-	400,000

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

(a) Credit quality analysis (continued)

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

	2019				2018			
Group (continued)	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Financial assets at FVTPL*								
Government and central bank (unrated)	-	-	-	943,154	-	-	-	1,054,924
Government (AAA to BBB)	-	-	-	216,723	-	-	-	159,668
Investment grade (AAA to BBB)	-	-	-	10,328	-	-	-	142,762
Unrated	-	-	-	6,264	-	-	-	516,161
	-	-	-	1,176,469	-	-	-	1,873,515
Financial investments at FVOCI								
Government (A to AAA)	5,636,503	-	-	5,636,503	4,786,636	-	-	4,786,636
Government and central bank (unrated)	4,262,942	-	-	4,262,942	4,662,729	-	-	4,662,729
Foreign government (AAA to BBB)	-	-	-	-	580,567	-	-	580,567
Foreign government (unrated)	204,108	-	-	204,108	33,610	-	-	33,610
Investment grade (AAA to BBB)	1,975,941	-	-	1,975,941	3,512,732	30,006	-	3,542,738
Unrated	3,475,750	-	-	3,475,750	4,196,146	-	-	4,196,146
	15,555,244	-	-	15,555,244	17,772,420	30,006	-	17,802,426

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

(a) Credit quality analysis (continued)

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

Group (continued)	**2019 Stage 1 RM'000**	**2019 Stage 2 RM'000**	**2019 Stage 3 RM'000**	**2019 Total RM'000**	**2018 Stage 1 RM'000**	**2018 Stage 2 RM'000**	**2018 Stage 3 RM'000**	**2018 Total RM'000**
Contingent liabilities and commitments (excluding derivative assets)								
Pass	30,797,026	802,345	-	31,599,371	30,007,302	895,226	-	30,902,528
Special Mention	-	330,834	-	330,834	-	280,802	-	280,802
Credit-impaired	-	-	61,425	61,425	-	-	36,490	36,490
	30,797,026	1,133,179	61,425	31,991,630	30,007,302	1,176,028	36,490	31,219,820

Bank	**2019 Stage 1 RM'000**	**2019 Stage 2 RM'000**	**2019 Stage 3 RM'000**	**2019 Total RM'000**	**2018 Stage 1 RM'000**	**2018 Stage 2 RM'000**	**2018 Stage 3 RM'000**	**2018 Total RM'000**
Cash and cash equivalents	4,133,211	-	-	4,133,211	4,348,837	-	-	4,348,837
Deposits and placements with banks and other financial institutions	434,376	-	-	434,376	980,343	-	-	980,343
Investment account placements	1,750,297	210,000	58,526	2,018,823	1,263,316	-	115,970	1,379,286
Financial assets at FVTPL*								
Government and central bank (unrated)	-	-	-	943,154	-	-	-	1,054,924
Government (AAA to BBB)	-	-	-	216,723	-	-	-	159,668
Investment grade (AAA to BBB)	-	-	-	125	-	-	-	132,782
Unrated	-	-	-	137	-	-	-	516,161
	-	-	-	1,160,139	-	-	-	1,863,535

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

(a) Credit quality analysis (continued)

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

	2019				2018			
Bank (continued)	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Financial investments at FVOCI								
Government (A to AAA)	3,700,406	-	-	3,700,406	4,023,364	-	-	4,023,364
Government and central bank (unrated)	3,843,133	-	-	3,843,133	2,858,634	-	-	2,858,634
Foreign government (AAA to BBB)	-	-	-	-	431,323	-	-	431,323
Foreign government (unrated)	179,221	-	-	179,221	12,502	-	-	12,502
Investment grade (AAA to BBB)	1,842,457	-	-	1,842,457	3,366,888	-	-	3,366,888
Unrated	1,861,581	-	-	1,861,581	2,893,832	-	-	2,893,832
	11,426,798	-	-	11,426,798	13,586,543	-	-	13,586,543
Contingent liabilities and commitments (excluding derivative assets)								
Pass	27,664,251	457,316	-	28,121,567	26,008,792	642,050	-	26,650,842
Special Mention	-	212,057	-	212,057	-	280,592	-	280,592
Credit-impaired	-	-	26,376	26,376	-	-	26,150	26,150
	27,664,251	669,373	26,376	28,360,000	26,008,792	922,642	26,150	26,957,584

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

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

Past due but not credit-impaired are loans, advances and financing where the customer has failed to make a principal or interest/profit payment when contractually due, and includes financing which are past due one or more days after the contractual due date but less than 3 months.

Credit quality and ECL stage

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Neither past due nor credit-impaired								
(i) By internal grading								
Pass	62,272,906	4,987,148	-	67,260,054	61,950,075	5,430,394	-	67,380,469
Special Mention	-	824,240	-	824,240	-	227,239	-	227,239
	62,272,906	5,811,388	-	68,084,294	61,950,075	5,657,633	-	67,607,708
Past due but not credit-impaired								
(i) By period overdue								
Less than 2 months	-	436,142	-	436,142	-	438,498	-	438,498
2 months to less than 3 months	-	107,057	-	107,057	-	100,654	-	100,654
	-	543,199	-	543,199	-	539,152	-	539,152
Credit-impaired								
Past due	-	-	1,089,850	1,089,850	-	-	1,127,942	1,127,942
Not past due	-	-	312,318	312,318	-	-	205,099	205,099
	-	-	1,402,168	1,402,168	-	-	1,333,041	1,333,041
Total	62,272,906	6,354,587	1,402,168	70,029,661	61,950,075	6,196,785	1,333,041	69,479,901

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

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

Credit quality and ECL stage (continued)

	2019				2018			
Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Neither past due nor credit-impaired								
(i) By internal grading								
Pass	51,620,743	4,300,180	-	55,920,923	52,505,677	4,811,064	-	57,316,741
Special Mention	-	557,214	-	557,214	-	217,610	-	217,610
	51,620,743	4,857,394	-	56,478,137	52,505,677	5,028,674	-	57,534,351
Past due but not credit-impaired								
(i) By period overdue								
Less than 2 months	-	373,523	-	373,523	-	358,099	-	358,099
2 months to less than 3 months	-	93,888	-	93,888	-	73,591	-	73,591
	-	467,411	-	467,411	-	431,690	-	431,690
Credit-impaired								
Past due	-	-	793,038	793,038	-	-	854,952	854,952
Not past due	-	-	263,438	263,438	-	-	102,989	102,989
	-	-	1,056,476	1,056,476	-	-	957,941	957,941
Total	51,620,743	5,324,805	1,056,476	58,002,024	52,505,677	5,460,364	957,941	58,923,982

The past due but not credit-impaired loans, advances and financing are classified as part of Special Mention.
The analysis of credit-impaired loans, advances and financing are disclosed in Note 9(a) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

43 CREDIT RISK (continued)

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

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 being financed;
- For car loans/financing, charges over the vehicles being financed;
- For share margin financing, pledges over listed securities in Malaysia; and
- For other loans/financing, charges over business assets such as premises, inventories, trade receivables, equipment or deposits.

As at 31 December 2019 and 31 December 2018, 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) The quantification of the extent to which collateral and other credit enhancements mitigate credit risk and that best represents the maximum exposure to credit risk for credit-impaired loans, advances and financing is as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fair value of collateral held against the covered portion of credit-impaired loans, advances and financing	1,366,171	1,182,363	1,139,537	951,832
Covered portion of credit-impaired loans, advances and financing	963,890	838,859	813,776	659,939
Uncovered portion of credit-impaired loans, advances and financing	438,278	494,182	242,700	298,002
	1,402,168	1,333,041	1,056,476	957,941

44 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.

Group	Gross Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000
2019								
Cash and cash equivalents*	4,805,233	4,805,233	-	-	-	-	-	-
Financial assets at FVTPL	1,176,469	4	197,375	114,537	76,394	410,997	377,162	-
Financial investments at FVOCI	15,555,244	2,996,712	1,344,006	1,107,936	5,454,788	3,856,677	689,848	105,277
Loans, advances and financing*	70,029,661	22,042,558	2,979,768	2,948,271	8,029,462	4,735,886	29,293,716	-
Derivative financial assets	749,732	77,510	30,747	106,015	147,595	208,692	179,173	-
Statutory deposits with Bank Negara Malaysia	1,686,883	-	-	-	-	-	-	1,686,883
Other balances	608,749	222,750	9,134	25,855	70,980	45,368	18,629	216,033
Total assets	94,611,971	30,144,767	4,561,030	4,302,614	13,779,219	9,257,620	30,558,528	2,008,193
Deposits from customers	75,095,805	55,875,128	12,594,960	6,371,164	247,121	7,432	-	-
Deposits and placements of banks and other financial institutions	4,196,309	3,147,941	1,024,224	1,309	7,565	15,270	-	-
Bills and acceptances payable	89,047	89,047	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	-
Derivative financial liabilities	700,023	117,270	26,551	55,788	136,478	124,279	239,657	-
Other balances	3,094,145	886,804	274,174	240,256	131,028	503,149	1,003,495	55,239
Lease liabilities	25,387	3,937	3,326	5,563	11,962	440	159	-
Subordinated bonds	1,482,439	-	-	532,154	950,285	-	-	-
Total liabilities	85,383,155	60,120,127	13,923,235	7,206,234	2,184,439	650,570	1,243,311	55,239

* Stated at gross before ECL allowance.

44 LIQUIDITY RISK (continued)

Group (continued)	Gross Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000
2018								
Cash and cash equivalents*	4,898,851	4,898,851	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions*	400,000	400,000	-	-	-	-	-	-
Financial assets at FVTPL	1,873,515	543,278	50,038	547,872	29,941	415,434	286,952	-
Financial investments at FVOCI	17,802,426	3,061,836	1,145,635	2,534,365	4,322,060	3,868,602	2,770,710	99,218
Loans, advances and financing*	69,479,901	20,429,697	2,917,078	3,016,706	7,243,231	4,705,343	31,167,846	-
Derivative financial assets	760,761	110,073	62,746	20,991	161,093	157,753	248,105	-
Statutory deposits with Bank Negara Malaysia	1,913,172	-	-	-	-	-	-	1,913,172
Other balances	653,649	248,150	8,896	26,179	42,015	47,002	41,323	240,084
Total assets	97,782,275	29,691,885	4,184,393	6,146,113	11,798,340	9,194,134	34,514,936	2,252,474
Deposits from customers	75,851,221	51,252,494	10,126,947	14,143,387	324,817	3,576	-	-
Deposits and placements of banks and other financial institutions	7,070,077	5,822,164	1,241,957	999	3,092	1,865	-	-
Bills and acceptances payable	92,841	92,841	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	-
Derivative financial liabilities	716,168	37,730	20,775	187,263	118,930	148,613	202,857	-
Other balances	3,095,552	861,284	280,635	185,498	212,321	1,500,022	2,590	53,202
Subordinated bonds	1,893,169	-	400,000	-	993,169	500,000	-	-
Total liabilities	89,419,028	58,066,513	12,070,314	14,517,147	2,352,329	2,154,076	205,447	53,202

* Stated at gross before ECL allowance.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 LIQUIDITY RISK (continued)

Bank	**Gross Carrying amount RM'000**	**Up to 3 months RM'000**	**> 3 - 6 months RM'000**	**> 6 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**No specific maturity RM'000**
2019								
Cash and cash equivalents*	4,133,211	4,133,211	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions*	434,376	434,376	-	-	-	-	-	-
Investment account placements	2,018,823	1,960,296	-	-	-	-	58,527	-
Financial assets at FVTPL	1,160,139	4	197,375	108,410	71,334	405,854	377,162	-
Financial investments at FVOCI	11,426,798	1,695,899	904,391	778,686	4,426,220	3,022,827	493,498	105,277
Loans, advances and financing*	58,002,024	16,730,397	2,385,679	2,328,670	6,521,121	4,083,783	25,952,374	-
Derivative financial assets	749,830	77,219	30,743	106,015	147,595	208,696	179,562	-
Statutory deposits with Bank Negara Malaysia	1,377,583	-	-	-	-	-	-	1,377,583
Other balances	1,324,545	231,166	7,193	13,352	257,443	36,238	16,793	762,360
Total assets	80,627,329	25,262,568	3,525,381	3,335,133	11,423,713	7,757,398	27,077,916	2,245,220
Deposits from customers	62,583,956	46,634,691	10,824,326	4,883,328	234,179	7,432	-	-
Deposits and placements of banks and other financial institutions	4,153,615	3,109,681	1,023,750	586	4,793	14,805	-	-
Bills and acceptances payable	71,512	71,512	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	-
Derivative financial liabilities	699,968	117,215	26,551	55,788	136,478	124,279	239,657	-
Other balances	2,975,563	831,862	241,371	229,264	130,667	503,149	1,003,495	35,755
Lease liabilities	22,382	3,380	2,802	4,806	10,894	341	159	-
Subordinated bonds	1,482,439	-	-	532,154	950,285	-	-	-
Total liabilities	72,689,435	50,768,341	12,118,800	5,705,926	2,167,296	650,006	1,243,311	35,755

* Stated at gross before ECL allowance.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 LIQUIDITY RISK (continued)

Bank (continued)	**Gross Carrying amount RM'000**	**Up to 3 months RM'000**	**> 3 - 6 months RM'000**	**> 6 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**No specific maturity RM'000**
2018								
Cash and cash equivalents*	4,348,837	4,348,837	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions*	980,343	980,343	-	-	-	-	-	-
Investment account placements	1,379,286	1,263,316	-	-	-	-	115,970	-
Financial assets at FVTPL	1,863,535	543,278	50,038	547,871	29,942	410,451	281,955	-
Financial investments at FVOCI	13,586,543	1,814,882	820,390	2,011,402	3,068,473	3,259,889	2,512,289	99,218
Loans, advances and financing*	58,923,982	16,186,464	2,268,799	2,510,705	5,942,257	4,126,117	27,889,640	-
Derivative financial assets	762,277	111,381	62,736	20,991	161,093	157,753	248,323	-
Statutory deposits with Bank Negara Malaysia	1,561,972	-	-	-	-	-	-	1,561,972
Other balances	1,363,633	259,820	7,780	10,411	227,921	40,297	38,363	779,041
Total assets	84,770,408	25,508,321	3,209,743	5,101,380	9,429,686	7,994,507	31,086,540	2,440,231
Deposits from customers	64,124,328	42,391,652	9,217,727	12,203,426	307,957	3,566	-	-
Deposits and placements of banks and other financial institutions	6,986,949	5,745,487	1,241,462	-	-	-	-	-
Bills and acceptances payable	78,292	78,292	-	-	-	-	-	-
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	-
Derivative financial liabilities	716,113	37,675	20,775	187,263	118,930	148,613	202,857	-
Other balances	3,003,108	826,681	255,445	171,188	205,813	1,500,022	2,590	41,369
Subordinated bonds	1,893,169	-	400,000	-	993,169	500,000	-	-
Total liabilities	77,501,959	49,079,787	11,135,409	12,561,877	2,325,869	2,152,201	205,447	41,369

* Stated at gross before ECL allowance.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 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.

Group	Gross Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2019								
Non-derivative financial liabilities								
Deposits from customers	75,095,805	55,875,128	12,594,960	6,371,164	247,121	7,432	-	75,095,805
Deposits and placements of banks and other financial institutions	4,196,309	3,147,941	1,024,224	1,309	7,565	15,270	-	4,196,309
Bills and acceptances payable	89,047	89,047	-	-	-	-	-	89,047
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	700,000
Other liabilities	3,050,127	992,421	463,428	396,037	234,960	504,232	1,003,495	3,594,573
Lease liabilities	25,387	4,143	3,500	5,842	12,376	456	171	26,488
Subordinated bonds	1,482,439	-	-	532,154	950,285	-	-	1,482,439
	84,639,114	60,108,680	14,086,112	7,306,506	2,152,307	527,390	1,003,666	85,184,661
Commitments and contingencies								
Direct credit substitutes		80,204	124,955	197,854	153,351	419	-	556,783
Transaction-related contingent items		302,715	282,674	592,889	822,879	827,648	66,007	2,894,812
Short-term self-liquidating trade-related contingencies		286,792	30,462	-	-	-	-	317,254
Formal standby facilities and credit lines								
- Maturity exceeding one year		67,036	107,066	230,246	284,434	1,091,922	2,971,217	4,751,921
Other unconditionally cancellable commitments		-	-	19,055,328	-	-	4,415,532	23,470,860
		736,747	545,157	20,076,317	1,260,664	1,919,989	7,452,756	31,991,630

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 LIQUIDITY RISK (continued)

Group (continued)	Gross Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2019								
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		292	-	-	-	-	-	292
- Interest rate derivatives		26,940	25,770	44,970	115,181	40,184	25,912	278,957
- Equity and other derivatives		440	1,049	7,505	7,827	20,972	-	37,793
		27,672	26,819	52,475	123,008	61,156	25,912	317,042
Hedging:								
- Interest rate derivatives		(110)	181	100	448	-	-	619
		27,562	27,000	52,575	123,456	61,156	25,912	317,661
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		5,914,402	3,268,492	2,296,797	1,590,650	1,902,527	1,003,230	15,976,098
- Inflow		(5,878,684)	(3,213,855)	(2,334,911)	(1,627,510)	(1,993,462)	(982,181)	(16,030,603)
		63,280	81,637	14,461	86,596	(29,779)	46,961	263,156
2018								
Non-derivative financial liabilities								
Deposits from customers	75,851,221	51,252,494	10,126,947	14,143,387	324,817	3,576	-	75,851,221
Deposits and placements of banks and other financial institutions	7,070,077	5,822,164	1,241,957	999	3,092	1,865	-	7,070,077
Bills and acceptances payable	92,841	92,841	-	-	-	-	-	92,841
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	700,000
Other liabilities	3,045,533	987,238	473,772	620,823	383,425	1,539,162	2,590	4,007,009
Subordinated bonds	1,893,169	-	400,000	-	993,169	500,000	-	1,893,169
	88,652,841	58,154,737	12,242,676	14,765,209	2,404,503	2,044,603	2,590	89,614,317

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 LIQUIDITY RISK (continued)

Group (continued)	**Carrying amount RM'000**	**Up to 3 months RM'000**	**> 3 - 6 months RM'000**	**> 6 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
2018								
Commitments and contingencies								
Direct credit substitutes		141,100	131,548	108,726	359,486	232	33	741,125
Transaction-related contingent items		297,729	297,594	502,476	860,370	693,318	278,870	2,930,357
Short-term self-liquidating trade-related contingencies		277,650	25,837	232	-	-	-	303,719
Forward asset purchases		-	-	-	-	-	29,687	29,687
Formal standby facilities and credit lines								
- Maturity exceeding one year		16,572	1,370	20,651	879,991	1,030,029	3,125,868	5,074,481
Other unconditionally cancellable commitments		-	-	17,685,450	-	-	4,455,001	22,140,451
		733,051	456,349	18,317,535	2,099,847	1,723,579	7,889,459	31,219,820
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		2,116	-	-	-	-	-	2,116
- Interest rate derivatives		11,585	15,069	18,337	49,746	19,134	6,657	120,528
- Equity and other derivatives		2,063	1,633	7,314	4,479	72,884	-	88,373
		15,764	16,702	25,651	54,225	92,018	6,657	211,017
Hedging:								
- Interest rate derivatives		(302)	457	151	142	44	-	492
		15,462	17,159	25,802	54,367	92,062	6,657	211,509
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		4,507,889	1,581,596	2,328,729	2,295,269	1,529,188	1,746,495	13,989,166
- Inflow		(4,485,433)	(1,612,638)	(2,155,356)	(2,347,402)	(1,535,539)	(1,831,323)	(13,967,691)
		37,918	(13,883)	199,175	2,234	85,711	(78,171)	232,984

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 LIQUIDITY RISK (continued)

<u>Bank</u>	Gross Carrying amount RM'000	Up to 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 - 3 years RM'000	> 3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
2019								
Non-derivative financial liabilities								
Deposits from customers	62,583,956	46,634,691	10,824,326	4,883,328	234,179	7,432	-	62,583,956
Deposits and placements of banks and other financial institutions	4,153,615	3,109,681	1,023,750	586	4,793	14,805	-	4,153,615
Bills and acceptances payable	71,512	71,512	-	-	-	-	-	71,512
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	700,000
Other liabilities	2,931,595	918,224	406,532	341,212	215,875	504,232	1,003,495	3,389,570
Lease liabilities	22,382	3,568	2,961	5,057	11,270	356	171	23,383
Subordinated bonds	1,482,439	-	-	532,154	950,285	-	-	1,482,439
	71,945,499	50,737,676	12,257,569	5,762,337	2,116,402	526,825	1,003,666	72,404,475
Commitments and contingencies								
Direct credit substitutes		70,204	113,774	131,825	143,742	202	-	459,747
Transaction-related contingent items		268,349	266,549	544,347	721,130	656,382	64,036	2,520,793
Short-term self-liquidating trade-related contingencies		269,212	30,462	-	-	-	-	299,674
Formal standby facilities and credit lines								
- Maturity exceeding one year		62,346	106,734	229,921	279,003	948,322	2,703,070	4,329,396
Other unconditionally cancellable commitments		-	-	16,554,721	-	-	4,195,669	20,750,390
		670,111	517,519	17,460,814	1,143,875	1,604,906	6,962,775	28,360,000
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		292	-	-	-	-	-	292
- Interest rate derivatives		26,940	25,770	44,970	115,181	40,184	25,911	278,956
- Equity and other derivatives		440	1,049	7,505	7,827	20,972	-	37,793
		27,672	26,819	52,475	123,008	61,156	25,911	317,041
Hedging:								
- Interest rate derivatives		(110)	181	100	448	-	-	619
		27,562	27,000	52,575	123,456	61,156	25,911	317,660

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 LIQUIDITY RISK (continued)

Bank (continued)	**Gross Carrying amount RM'000**	**Up to 3 months RM'000**	**> 3 - 6 months RM'000**	**> 6 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
2019								
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		5,908,589	3,271,338	2,302,415	1,612,224	1,915,386	1,003,230	16,013,182
- Inflow		(5,873,094)	(3,216,858)	(2,340,853)	(1,649,924)	(2,006,440)	(982,182)	(16,069,351)
		63,057	81,480	14,137	85,756	(29,898)	46,959	261,491
2018								
Non-derivative financial liabilities								
Deposits from customers	64,124,328	42,391,652	9,217,727	12,203,426	307,957	3,566	-	64,124,328
Deposits and placements of banks and other financial institutions	6,986,949	5,745,487	1,241,462	-	-	-	-	6,986,949
Bills and acceptances payable	78,292	78,292	-	-	-	-	-	78,292
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	700,000	-	-	700,000
Other liabilities	2,953,139	928,129	432,966	540,275	351,864	1,539,160	2,590	3,794,984
Subordinated bonds	1,893,169	-	400,000	-	993,169	500,000	-	1,893,169
	76,735,877	49,143,560	11,292,155	12,743,701	2,352,990	2,042,726	2,590	77,577,722
Commitments and contingencies								
Direct credit substitutes		117,953	131,169	98,726	284,045	232	33	632,158
Transaction-related contingent items		278,128	272,704	465,629	763,044	491,683	266,703	2,537,891
Short-term self-liquidating trade-related contingencies		250,847	23,444	232	-	-	-	274,523
Forward asset purchases		-	-	-	-	-	29,687	29,687
Formal standby facilities and credit lines								
- Maturity exceeding one year		9,189	1,162	19,321	854,541	636,625	2,562,502	4,083,340
Other unconditionally cancellable commitments		-	-	15,081,828	-	-	4,318,157	19,399,985
		656,117	428,479	15,665,736	1,901,630	1,128,540	7,177,082	26,957,584

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

44 LIQUIDITY RISK (continued)

Bank (continued)	**Carrying amount RM'000**	**Up to 3 months RM'000**	**> 3 - 6 months RM'000**	**> 6 - 12 months RM'000**	**> 1 - 3 years RM'000**	**> 3 - 5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
2018								
Derivative financial liabilities								
Net settled derivatives								
Trading:								
- Foreign exchange derivatives		2,116	-	-	-	-	-	2,116
- Interest rate derivatives		11,585	15,069	18,337	49,746	19,134	6,657	120,528
- Equity and other derivatives		2,063	1,633	7,314	4,479	72,884	-	88,373
		15,764	16,702	25,651	54,225	92,018	6,657	211,017
Hedging:								
- Interest rate derivatives		(302)	457	151	142	44	-	492
		15,462	17,159	25,802	54,367	92,062	6,657	211,509
Gross settled derivatives								
Trading:								
- Foreign exchange derivatives								
- Outflow		4,503,271	1,581,596	2,328,729	2,295,269	1,529,188	1,746,495	13,984,548
- Inflow		(4,480,874)	(1,612,638)	(2,155,356)	(2,347,402)	(1,535,539)	(1,831,323)	(13,963,132)
		37,859	(13,883)	199,175	2,234	85,711	(78,171)	232,925

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

45 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.

	Non-trading Book							
Group	**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**	**Trading Book RM'000**	**Total RM'000**
2019								
Assets								
Cash and cash equivalents	4,082,848	-	-	-	-	722,003	-	4,804,851
Financial assets at FVTPL	-	-	-	-	-	-	1,176,469	1,176,469
Financial investments at FVOCI	3,304,519	2,359,185	5,239,739	3,856,677	689,847	105,277	-	15,555,244
Loans, advances and financing								
- Non credit-impaired	64,473,524	1,328,992	1,032,417	1,283,625	170,879	(254,926)	-	68,034,511
- Credit-impaired	-	-	-	-	-	1,023,818	-	1,023,818
Derivative financial assets	-	-	-	-	-	-	749,732	749,732
Other assets	-	-	-	-	-	375,557	-	375,557
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,686,883	-	1,686,883
Property and equipment	-	-	-	-	-	154,493	-	154,493
ROU assets	-	-	-	-	-	25,805	-	25,805
Tax recoverable	-	-	-	-	-	6,457	-	6,457
Deferred tax assets	-	-	-	-	-	46,437	-	46,437
	71,860,891	3,688,177	6,272,156	5,140,302	860,726	3,891,804	1,926,201	93,640,257

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Group (continued)	**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**	**Trading Book RM'000**	**Total RM'000**
2019								
Liabilities								
Deposits from customers	33,500,265	18,966,124	15,243,258	7,432	-	7,378,726	-	75,095,805
Deposits and placements of banks and other financial institutions	3,103,594	1,024,336	4,793	14,805	-	48,781	-	4,196,309
Bills and acceptances payable	-	-	-	-	-	89,047	-	89,047
Recourse obligation on loans sold to Cagamas Berhad	-	-	700,000	-	-	-	-	700,000
Derivative financial liabilities	-	-	573	-	-	-	699,450	700,023
Other liabilities	224,331	222,180	121,480	500,467	1,000,000	1,007,056	-	3,075,514
Tax payable and zakat	-	-	-	-	-	44,018	-	44,018
Subordinated bonds	-	532,154	950,285	-	-	-	-	1,482,439
	36,828,190	20,744,794	17,020,389	522,704	1,000,000	8,567,628	699,450	85,383,155
On-statement of financial position interest/profit sensitivity gap	35,032,701	(17,056,617)	(10,748,233)	4,617,598	(139,274)	(4,675,824)	1,226,751	8,257,102
Off-statement of financial position interest/profit sensitivity gap	20,467,475	-	(20,467,475)	-	-	-	-	-
Total interest/profit sensitivity gap	55,500,176	(17,056,617)	(31,215,708)	4,617,598	(139,274)	(4,675,824)	1,226,751	8,257,102

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Group (continued)	**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**	**Trading Book RM'000**	**Total RM'000**
2018								
Assets								
Cash and cash equivalents	4,531,249	-	-	-	-	366,257	-	4,897,506
Deposits and placements with banks and other financial institutions	400,000	-	-	-	-	(44)	-	399,956
Financial assets at FVTPL	-	-	-	-	-	-	1,873,515	1,873,515
Financial investments at FVOCI	3,487,997	3,621,492	4,058,657	3,778,704	2,756,358	99,218	-	17,802,426
Loans, advances and financing								
- Non credit-impaired	64,109,608	1,506,375	1,084,417	650,107	422,136	(155,486)	-	67,617,157
- Credit-impaired	-	-	-	-	-	964,339	-	964,339
Derivative financial assets	-	-	-	116	-	-	760,645	760,761
Other assets	-	-	-	-	-	418,998	-	418,998
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,913,172	-	1,913,172
Property and equipment	-	-	-	-	-	164,368	-	164,368
Prepaid lease payments	-	-	-	-	-	712	-	712
Tax recoverable	-	-	-	-	-	9,436	-	9,436
Deferred tax assets	-	-	-	-	-	60,135	-	60,135
	72,528,854	5,127,867	5,143,074	4,428,927	3,178,494	3,841,105	2,634,160	96,882,481

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Group (continued)	**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**	**Trading Book RM'000**	**Total RM'000**
2018								
Liabilities								
Deposits from customers	32,372,392	24,270,326	11,974,111	3,576	-	7,230,816	-	75,851,221
Deposits and placements of banks and other financial institutions	5,694,173	1,246,955	8,643	19,740	-	100,566	-	7,070,077
Bills and acceptances payable	-	-	-	-	-	92,841	-	92,841
Recourse obligation on loans sold to Cagamas Berhad	-	-	700,000	-	-	-	-	700,000
Derivative financial liabilities	-	277	-	125	-	-	715,766	716,168
Other liabilities	142,516	92,920	197,240	1,492,115	-	1,120,742	-	3,045,533
Tax payable and zakat	-	-	-	-	-	50,019	-	50,019
Subordinated bonds	-	400,000	993,169	500,000	-	-	-	1,893,169
	38,209,081	26,010,478	13,873,163	2,015,556	-	8,594,984	715,766	89,419,028
On-statement of financial position interest/profit sensitivity gap	34,319,773	(20,882,611)	(8,730,089)	2,413,371	3,178,494	(4,753,879)	1,918,394	7,463,453
Off-statement of financial position interest/profit sensitivity gap	66,211	-	-	(66,211)	-	-	-	-
Total interest/profit sensitivity gap	34,385,984	(20,882,611)	(8,730,089)	2,347,160	3,178,494	(4,753,879)	1,918,394	7,463,453

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Bank	**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**	**Trading Book RM'000**	**Total RM'000**
2019								
Assets								
Cash and cash equivalents	3,526,967	-	-	-	-	605,863	-	4,132,830
Deposits and placements with banks and other financial institutions	434,376	-	-	-	-	-	-	434,376
Investment account placements	1,960,296	-	-	-	-	(2,142)	-	1,958,154
Financial assets at FVTPL	-	-	-	-	-	-	1,160,139	1,160,139
Financial investments at FVOCI	2,003,707	1,590,320	4,211,171	3,022,826	493,497	105,277	-	11,426,798
Loans, advances and financing								
- Non credit-impaired	54,037,096	1,174,012	702,176	692,860	34,424	(146,962)	-	56,493,606
- Credit-impaired	-	-	-	-	-	787,334	-	787,334
Derivative financial assets	-	-	-	-	-	-	749,830	749,830
Other assets	-	-	200,000	-	-	353,854	-	553,854
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,377,583	-	1,377,583
Investment in subsidiaries	-	-	-	-	-	557,051	-	557,051
Property and equipment	-	-	-	-	-	147,072	-	147,072
ROU assets	-	-	-	-	-	22,831	-	22,831
Deferred tax assets	-	-	-	-	-	43,737	-	43,737
	61,962,442	2,764,332	5,113,347	3,715,686	527,921	3,851,498	1,909,969	79,845,195

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Bank (continued)	**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**	**Trading Book RM'000**	**Total RM'000**
2019								
Liabilities								
Deposits from customers	27,671,636	15,707,654	12,198,422	7,432	-	6,998,812	-	62,583,956
Deposits and placements of banks and other financial institutions	3,103,593	1,024,336	4,793	14,805	-	6,088	-	4,153,615
Bills and acceptances payable	-	-	-	-	-	71,512	-	71,512
Recourse obligation on loans sold to Cagamas Berhad	-	-	700,000	-	-	-	-	700,000
Derivative financial liabilities	-	-	573	-	-	-	699,395	699,968
Other liabilities	224,331	222,180	121,480	500,467	1,000,000	885,519	-	2,953,977
Tax payable and zakat	-	-	-	-	-	43,968	-	43,968
Subordinated bonds	-	532,154	950,285	-	-	-	-	1,482,439
	30,999,560	17,486,324	13,975,553	522,704	1,000,000	8,005,899	699,395	72,689,435
On-statement of financial position interest/profit sensitivity gap	30,962,882	(14,721,992)	(8,862,206)	3,192,982	(472,079)	(4,154,401)	1,210,574	7,155,760
Off-statement of financial position interest/profit sensitivity gap	20,467	-	(20,467)	-	-	-	-	-
Total interest/profit sensitivity gap	30,983,349	(14,721,992)	(8,882,673)	3,192,982	(472,079)	(4,154,401)	1,210,574	7,155,760

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Bank (continued)	**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**	**Trading Book RM'000**	**Total RM'000**
2018								
Assets								
Cash and cash equivalents	4,041,135	-	-	-	-	306,357	-	4,347,492
Deposits and placements with banks and other financial institutions	980,343	-	-	-	-	(44)	-	980,299
Investment account placements	1,263,316	-	-	-	-	55,460	-	1,318,776
Financial assets at FVTPL	-	-	-	-	-	-	1,863,535	1,863,535
Financial investments at FVOCI	2,241,043	2,773,284	2,805,070	3,169,991	2,497,937	99,218	-	13,586,543
Loans, advances and financing								
- Non credit-impaired	55,546,122	1,082,158	649,105	302,843	47,690	(72,066)	-	57,555,852
- Credit-impaired	-	-	-	-	-	709,437	-	709,437
Derivative financial assets	-	-	-	116	-	-	762,161	762,277
Other assets	-	-	200,000	-	-	399,461	-	599,461
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,561,972	-	1,561,972
Investment in subsidiaries	-	-	-	-	-	557,051	-	557,051
Property and equipment	-	-	-	-	-	154,484	-	154,484
Prepaid lease payments	-	-	-	-	-	712	-	712
Deferred tax assets	-	-	-	-	-	51,925	-	51,925
	64,071,959	3,855,442	3,654,175	3,472,950	2,545,627	3,823,967	2,625,696	84,049,816

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

45 INTEREST/PROFIT RATE RISK (continued)

	Non-trading Book							
Bank (continued)	**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**	**Trading Book RM'000**	**Total RM'000**
2018								
Liabilities								
Deposits from customers	26,636,890	21,421,153	9,227,621	3,566	-	6,835,098	-	64,124,328
Deposits and placements of banks and other financial institutions	5,694,173	1,246,955	8,643	19,740	-	17,438	-	6,986,949
Bills and acceptances payable	-	-	-	-	-	78,292	-	78,292
Recourse obligation on loans sold to Cagamas Berhad	-	-	700,000	-	-	-	-	700,000
Derivative financial liabilities	-	277	-	125	-	-	715,711	716,113
Other liabilities	142,516	92,920	197,240	1,492,115	-	1,028,348	-	2,953,139
Tax payable and zakat	-	-	-	-	-	49,969	-	49,969
Subordinated bonds	-	400,000	993,169	500,000	-	-	-	1,893,169
	32,473,579	23,161,305	11,126,673	2,015,546	-	8,009,145	715,711	77,501,959
On-statement of financial position interest/profit sensitivity gap	31,598,380	(19,305,863)	(7,472,498)	1,457,404	2,545,627	(4,185,178)	1,909,985	6,547,857
Off-statement of financial position interest/profit sensitivity gap	66,211	-	-	(66,211)	-	-	-	-
Total interest/profit sensitivity gap	31,664,591	(19,305,863)	(7,472,498)	1,391,193	2,545,627	(4,185,178)	1,909,985	6,547,857

45 INTEREST/PROFIT RATE RISK (continued)

The impact on the net interest/finance income is simulated under various interest/profit rate assumptions. The below table sets out the impact on 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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
+ 50 bps	129,243	134,192	107,851	115,933
- 50 bps	(124,679)	(132,280)	(104,597)	(114,237)

The 50 bps shock impact on net interest/finance 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 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.

46 CURRENCY RISK

Group	MYR RM'000	USD RM'000	AUD RM'000	SGD RM'000	Others RM'000	Total RM'000
2019						
Financial assets						
Cash and cash equivalents	4,321,251	339,703	12,077	55,259	76,561	4,804,851
Financial assets at FVTPL	1,170,080	129	7	6,253	-	1,176,469
Financial investments at FVOCI	14,150,225	990,030	245,264	-	169,725	15,555,244
Loans, advances and financing	61,030,473	5,735,742	1,691,884	66,899	533,331	69,058,329
Derivative financial assets	354,440	390,438	3,377	846	631	749,732
Other assets	325,488	40,319	3,257	2,728	3,765	375,557
Statutory deposits with Bank Negara Malaysia	1,686,883	-	-	-	-	1,686,883
	83,038,840	7,496,361	1,955,866	131,985	784,013	93,407,065
Financial liabilities						
Deposits from customers	66,956,376	6,513,917	604,923	574,423	446,166	75,095,805
Deposits and placements of banks and other financial institutions	241,813	2,550,862	1,075,328	-	328,306	4,196,309
Bills and acceptances payable	88,217	364	-	-	466	89,047
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	-	700,000
Derivative financial liabilities	366,270	326,169	6,761	771	52	700,023
Other liabilities	2,610,395	151,637	272,439	36,868	4,175	3,075,514
Subordinated bonds	500,000	982,439	-	-	-	1,482,439
	71,463,071	10,525,388	1,959,451	612,062	779,165	85,339,137
Net financial assets/(liabilities) exposure	11,575,769	(3,029,027)	(3,585)	(480,077)	4,848	8,067,928

46 CURRENCY RISK (continued)

Group (continued)	MYR RM'000	USD RM'000	AUD RM'000	SGD RM'000	Others RM'000	Total RM'000
2018						
Financial assets						
Cash and cash equivalents	4,508,112	287,863	6,071	52,676	42,784	4,897,506
Deposits and placements with banks and other financial institutions	399,956	-	-	-	-	399,956
Financial assets at FVTPL	1,873,355	114	25	10	11	1,873,515
Financial investments at FVOCI	14,745,966	2,173,017	659,985	-	223,458	17,802,426
Loans, advances and financing	61,228,355	5,390,213	1,335,331	75,247	552,350	68,581,496
Derivative financial assets	261,877	490,498	7,860	12	514	760,761
Other assets	364,607	45,021	6,596	-	2,774	418,998
Statutory deposits with Bank Negara Malaysia	1,913,172	-	-	-	-	1,913,172
	85,295,400	8,386,726	2,015,868	127,945	821,891	96,647,830
Financial liabilities						
Deposits from customers	68,039,188	6,296,604	628,056	399,068	488,305	75,851,221
Deposits and placements of banks and other financial institutions	392,509	4,998,739	1,165,099	5,480	508,250	7,070,077
Bills and acceptances payable	92,722	-	-	-	119	92,841
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	-	700,000
Derivative financial liabilities	212,113	495,276	6,554	2,225	-	716,168
Other liabilities	2,820,440	114,651	67,421	23,681	19,340	3,045,533
Subordinated bonds	900,000	993,169	-	-	-	1,893,169
	73,156,972	12,898,439	1,867,130	430,454	1,016,014	89,369,009
Net financial assets/(liabilities) exposure	12,138,428	(4,511,713)	148,738	(302,509)	(194,123)	7,278,821

Bank	MYR RM'000	USD RM'000	AUD RM'000	SGD RM'000	Others RM'000	Total RM'000
2019						
Financial assets						
Cash and cash equivalents	3,422,778	574,760	7,435	53,146	74,711	4,132,830
Deposits and placements with banks and other financial institutions	-	429,817	-	4,559	-	434,376
Investment account placements	1,007,857	950,297	-	-	-	1,958,154
Financial assets at FVTPL	1,159,877	129	7	126	-	1,160,139
Financial investments at FVOCI	10,072,125	939,684	245,264	-	169,725	11,426,798
Loans, advances and financing	51,016,227	3,972,599	1,691,884	66,899	533,331	57,280,940
Derivative financial assets	354,538	390,438	3,377	846	631	749,830
Other assets	504,381	39,850	3,791	1,475	4,357	553,854
Statutory deposits with Bank Negara Malaysia	1,377,583	-	-	-	-	1,377,583
	68,915,366	7,297,574	1,951,758	127,051	782,755	79,074,504

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

46 CURRENCY RISK (continued)

Bank (continued)	**MYR RM'000**	**USD RM'000**	**AUD RM'000**	**SGD RM'000**	**Others RM'000**	**Total RM'000**
2019						
Financial liabilities						
Deposits from customers	54,673,307	6,310,442	601,095	553,704	445,408	62,583,956
Deposits and placements of banks and other financial institutions	199,120	2,550,861	1,075,328	-	328,306	4,153,615
Bills and acceptances payable	70,682	364	-	-	466	71,512
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	-	700,000
Derivative financial liabilities	366,215	326,169	6,761	771	52	699,968
Other liabilities	2,476,394	165,097	272,431	35,983	4,072	2,953,977
Subordinated bonds	500,000	982,439	-	-	-	1,482,439
	58,985,718	10,335,372	1,955,615	590,458	778,304	72,645,467
Net financial assets/(liabilities) exposure	9,929,648	(3,037,798)	(3,857)	(463,407)	4,451	6,429,037
2018						
Financial assets						
Cash and cash equivalents	3,770,674	445,115	5,678	54,124	71,901	4,347,492
Deposits and placements with banks and other financial institutions	499,993	459,340	-	-	20,966	980,299
Investment account placements	307,960	1,010,816	-	-	-	1,318,776
Financial assets at FVTPL	1,863,375	114	25	10	11	1,863,535
Financial investments at FVOCI	10,726,138	1,998,070	659,985	-	202,350	13,586,543
Loans, advances and financing	52,549,532	3,752,829	1,335,331	75,247	552,350	58,265,289
Derivative financial assets	263,393	490,498	7,860	12	514	762,277
Other assets	543,463	46,759	6,596	1	2,642	599,461
Statutory deposits with Bank Negara Malaysia	1,561,972	-	-	-	-	1,561,972
	72,086,500	8,203,541	2,015,475	129,394	850,734	83,285,644
Financial liabilities						
Deposits from customers	56,517,767	6,101,723	628,056	389,316	487,466	64,124,328
Deposits and placements of banks and other financial institutions	321,579	4,986,541	1,165,099	5,480	508,250	6,986,949
Bills and acceptances payable	78,173	-	-	-	119	78,292
Recourse obligation on loans sold to Cagamas Berhad	700,000	-	-	-	-	700,000
Derivative financial liabilities	212,058	495,276	6,554	2,225	-	716,113
Other liabilities	2,731,840	112,007	67,421	22,840	19,031	2,953,139
Subordinated bonds	900,000	993,169	-	-	-	1,893,169
	61,461,417	12,688,716	1,867,130	419,861	1,014,866	77,451,990
Net financial assets/(liabilities) exposure	10,625,083	(4,485,175)	148,345	(290,467)	(164,132)	5,833,654

46 CURRENCY RISK (continued)

Value-at-Risk ("VaR")

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
VaR				
- Interest/Profit rate risk	2,947	1,955	2,946	1,955
- Currency risk	2,254	593	2,246	593
- Credit spread risk	-	23	-	23
- Equity and commodity risk	1,111	557	1,111	557
- Total	3,357	1,877	3,354	1,877

47 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 minimum while balancing shareholder's desire for sustainable returns and high standards of prudence.

The Group's and the Bank’s capital are 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 Group's and 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, regulatory changes, target capital ratios and composition, as well as expectations of its various stakeholders. In addition, capital stress tests are conducted to understand the sensitivity of the key assumptions in the capital plan to the effects of plausible stress scenarios, and to evaluate how the Group and the Bank can continue to maintain adequate capital under such scenarios.

Capital Adequacy Ratios

The Group and the Bank are in compliance with BNM’s Capital Adequacy Framework which requires banks to meet minimum Common Equity Tier 1, Tier 1 and Total Capital Adequacy Ratio ("CAR") of 7.0%, 8.5% and 10.5% respectively (inclusive of Capital Conservation Buffer of 2.5%) from 1 January 2019.

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

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

47 CAPITAL ADEQUACY (continued)

Capital Adequacy Ratios (continued)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Common Equity Tier 1 ("CET 1") capital				
Paid-up ordinary share capital	754,000	754,000	754,000	754,000
Retained earnings	6,645,307	5,967,780	5,715,154	5,202,242
Other reserves	857,156	740,269	686,118	590,458
Regulatory adjustment for CET 1 capital	(768,876)	(739,071)	(1,218,797)	(1,193,986)
	7,487,587	6,722,978	5,936,475	5,352,714
Additional Tier 1 capital				
Innovative Tier 1 capital	-	320,000	-	320,000
Additional Tier 1 capital	450,285	455,203	450,285	455,203
	7,937,872	7,498,180	6,386,760	6,127,917
Tier 2 capital				
Stage 1 and 2 ECL and qualifying regulatory reserves under the Standardised Approach	13,191	16,635	10,473	12,583
Surplus eligible provisions over expected losses	260,207	255,375	211,418	208,389
Subordinated bonds	1,032,154	1,037,967	1,032,154	1,037,966
Regulatory adjustment for Tier 2 capital	-	-	(200,000)	(200,000)
	1,305,552	1,309,977	1,054,045	1,058,938
Capital base	9,243,424	8,808,157	7,440,805	7,186,855
Before deducting proposed dividend				
CET 1 capital ratio	14.736%	13.503%	14.250%	13.112%
Tier 1 capital ratio	15.622%	15.061%	15.331%	15.011%
Total capital ratio	18.192%	17.692%	17.861%	17.605%
After deducting proposed dividend				
CET 1 capital ratio	14.380%	13.226%	13.815%	12.774%
Tier 1 capital ratio	15.266%	14.783%	14.896%	14.673%
Total capital ratio	17.835%	17.414%	17.426%	17.267%

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

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Total RWA for credit risk	44,422,981	43,893,315	36,074,121	35,738,077
Total RWA for market risk	1,503,354	1,235,013	1,510,830	1,235,744
Total RWA for operational risk	4,884,966	4,658,703	4,074,650	3,849,013
	50,811,301	49,787,031	41,659,601	40,822,834

The capital adequacy ratios of OCBC Al-Amin, OCBC Malaysia's Islamic Banking subsidiary, are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). OCBC Al-Amin has 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (continued)

47 CAPITAL ADEQUACY (continued)

The capital adequacy ratios of OCBC Al-Amin are as follows:

	2019	2018
CET 1 capital ratio	16.704%	15.054%
Tier 1 capital ratio	16.704%	15.054%
Total capital ratio	19.425%	17.825%

48 CHANGES IN ACCOUNTING POLICIES ARISING FROM ADOPTION OF MFRS 16

The key changes to the Group's and the Bank's arising from the adoption of MFRS 16 on 1 January 2019 is as follows:

	Group RM'000	Bank RM'000
ROU assets	30,048	25,809
Lease liabilities	(29,336)	(25,097)

Operating Lease Commitments

	Group RM'000	Bank RM'000
At 31 December 2018, as disclosed under MFRS 117	32,374	27,703
Discounted using the incremental borrowing rate of 3.54%	31,186	26,720
Recognition exemption for leases of low-value-assets	(2,136)	(1,909)
Extension options reasonably certain to be exercised	286	286
At 1 January 2019 under MFRS 16	29,336	25,097

The Group and the Bank used a number of practical expedients when applying MFRS 16 to leases previously classified as operating leases under MFRS 117. In particular, the Group and the Bank:

- did not recognise ROU assets and liabilities for certain leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise ROU assets and liabilities for leases if low value assets;
- excluded initial direct costs from the measurement of the ROU asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

49 SUBSEQUENT EVENT

The Covid-19 pandemic that was announced by the World Health Organisation ("WHO") in March 2020 remains a fluid and challenging situation that is affecting all industries. As the situation is continuously evolving and the effect of the outbreak is subject to significant levels of uncertainty, the Group and the Bank considers this as a non-adjusting subsequent event. Given the unprecedented circumstances, it is very difficult to reasonably predict the impact to the overall Malaysian economy and on-going businesses (including customers of the Bank).

Due to the significant worsening of the macroeconomic outlook, both domestically and globally, the Group and the Bank expects the current situation to have a negative impact on its earnings for financial year ending 31 December 2020. Based on simulations performed in the first quarter of 2020 on the macroeconomic variables used in the Group and the Bank's ECL model, Stage 1 and Stage 2 ECL amounting to RM594 million as at 31 December 2019 are estimated to increase by approximately 20%.