

Company No.

316347	D
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J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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Company No.

316347

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J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The Directors are pleased to submit their report to the member together with the audited financial statements of the Bank for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services.

There was no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	<u>78,237</u>

DIVIDENDS

No dividend has been paid, declared or proposed since the end of the Bank's previous financial year. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2016.

RESERVES AND PROVISIONS

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

EQUITY COMPENSATION BENEFITS

The ultimate holding company, JPMorgan Chase & Co. ("JPMC") has a Long-Term Incentive Plan ("LTIP") that provides for grants of common stock-based awards, including stock options, restricted stock, and restricted stock units ("RSU") to certain key employees employed by JPMC and its subsidiaries. JPMC also grants stock options to other employees as recognition of the services rendered, under its broad based employee stock option plan such as the Value Sharing Plan.

Details of the equity compensation benefits are set out in Note 31 to the financial statements.

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

**DIRECTORS**

The Directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of the report are as follows:

Fauziah binti Hisham

Lau Souk Huan

Steven Ronald Clayton

Faisal bin Ismail

Omar bin Malek Ali Merican

John Leo Buckley

(Appointed on 4 October 2016)

Anthony Julian Cole

(Resigned on 8 October 2016)

In accordance with Article 96 of the Bank's Articles of Association, Faisal bin Ismail and Fauziah binti Hisham will retire at the forthcoming Annual General Meeting and, being eligible, offering themselves for re-election.

**DIRECTORS' BENEFITS**

Neither during nor at the end of the financial year was the Bank a party to any arrangements whose object was to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate except that certain Directors received remuneration as Directors and employees of the Bank and related corporations, and share options granted to Directors of the Bank by the ultimate holding company.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than the benefits shown under Directors' Remuneration as disclosed in Note 23 to the financial statements) 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.

**DIRECTORS' INTERESTS IN SHARES AND OPTIONS**

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, the Directors who held office at the end of the financial year did not hold any interest in shares, restricted stock units and share options, of the Bank and its related corporations during the financial year.

**DIRECTORS' REMUNERATION**

Details of Directors' remuneration are set out in Note 23 to the financial statements.

**AUDITORS' REMUNERATION**

Details of auditors' remuneration are set out in Note 21 to the financial statements.

## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

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

#### BAD AND DOUBTFUL DEBTS

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for bad and doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

#### CURRENT ASSETS

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements of the Bank misleading.

#### VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities in the Bank's financial statements misleading or inappropriate.

#### CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability in respect of the Bank which has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability 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 affect the ability of the Bank to meet its obligations when they fall due.

#### CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the financial statements misleading.

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

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

**ITEMS OF AN UNUSUAL NATURE**

The results of the Bank's operations during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the Bank's operations for the current financial year in which this report is made.

**BUSINESS STRATEGY AND REVIEW 2016**

The Bank's financial results for 2016 exceeded expectation and the momentum going into 2017 is encouraging. The Bank's key businesses, in particular transaction services, trade, wholesale banking and markets flow business, delivered strong growth which further strengthened its position within the domestic Malaysian market.

The Bank recorded a profit before tax of RM105 million, an increase of RM35 million against 2015. Net interest income increased by RM5 million or 7% to RM77 million, contributed by higher interest income on placement with financial institutions. Other operating income increased by RM30 million or 22%, with higher net income from sale of financial assets held for trading of RM28 million. Meanwhile, operating expenses increased by RM2 million or 1% to RM142 million.

The Bank's total assets decreased by 13% to RM8.8 billion, contributed by lower cash and short-term funds with banks and financial institutions of RM1.5 billion. Customer deposits showed an increase of 51% to RM5.5 billion, however, there was a decrease in deposits from related parties by RM3.0 billion in 2016. The Bank's total capital ratio remained strong at 19.99%, with its Tier 1 capital ratio at 19.84% as at end of 2016.

**BUSINESS OUTLOOK FOR 2017**

The macro-economic environment remains challenging in 2017 due to the continued volatility in currencies and asset value. Despite these conditions, we remain optimistic that the economic environment will stabilize and the economy will continue to grow. J.P. Morgan will remain focused on the quality and stability of our earnings by investing in transaction services, trade and wholesale banking businesses while also enhancing flow business.

J.P. Morgan's target clients, which consists of multi-national corporations, large domestic corporates, financial institutions and non-bank financial institutions, benefit from our significant competitive advantage in terms of our broad product mix and global network. Both elements ensure we can effectively service clients that have both a domestic and international presence.

With J.P. Morgan's strong capitalisation, fortress balance sheet and proven track record in meeting the needs of our clients with exceptional products, innovative solutions and best in class advice, our revenue will continue to grow. In addition, J.P. Morgan's Corporate and Investment Bank's international businesses are important components of J.P. Morgan's overall global strategy and remain a significant focus of the firm. They will continue to contribute positively to our growth aspirations.

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J.P. MORGAN CHASE BANK BERHAD  
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DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

ULTIMATE HOLDING CORPORATION

The Directors regard JPMorgan Chase & Co., a corporation incorporated in the United States of America, as the ultimate holding corporation of the Bank.

AUDITORS

The auditors, Messrs PricewaterhouseCoopers, have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 30 May 2017. Signed on behalf of the Board of Directors:



LAU SOUK HUAN  
DIRECTOR



STEVEN RONALD CLAYTON  
DIRECTOR

Kuala Lumpur  
30 May 2017

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
<b>ASSETS</b>			
Cash and short-term funds	2	3,918,993	5,447,812
Securities purchased under resale agreement		602,550	428,117
Financial assets held for trading	3	986,291	20,309
Derivative financial instruments	4	917,635	987,556
Financial assets available-for-sale	5	140,963	142,192
Loans and advances	6	618,262	330,735
Amount due from related parties	7	1,277,377	2,589,502
Statutory deposits with Bank Negara Malaysia	8	2	3,046
Other assets	9	273,591	35,956
Tax recoverable		10,590	24,955
Deferred tax assets	10	2,403	1,177
Fixed assets	11	10,189	15,043
<b>TOTAL ASSETS</b>		<u><u>8,758,846</u></u>	<u><u>10,026,400</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits from customers	12	5,457,190	3,616,927
Deposits and placements of banks and other financial institutions	13	240,310	825,248
Obligations on securities sold under repurchase agreements		278,001	148,233
Derivative financial instruments	4	799,373	849,235
Amount due to related parties	14	613,740	3,613,227
Other liabilities	15	387,782	72,261
<b>Total liabilities</b>		<u><u>7,776,396</u></u>	<u><u>9,125,131</u></u>
Share capital	16	85,500	85,500
Share premium		42,000	42,000
Retained earnings		734,627	660,385
Reserves	17	120,323	113,384
<b>Shareholder's equity</b>		<u><u>982,450</u></u>	<u><u>901,269</u></u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<u><u>8,758,846</u></u>	<u><u>10,026,400</u></u>
<b>COMMITMENTS AND CONTINGENCIES</b>	25	<u><u>61,767,373</u></u>	<u><u>59,714,642</u></u>



J.P. MORGAN CHASE BANK BERHAD  
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STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
Interest income	18	172,527	163,188
Interest expense	19	(95,568)	(91,435)
Net interest income		76,959	71,753
Other operating income	20	169,668	139,437
Net income		246,627	211,190
Operating expenses	21	(141,832)	(139,938)
Operating profit before allowances		104,795	71,252
Write back/(allowance) for losses on loans and advances	22	538	(900)
Profit before taxation		105,333	70,352
Taxation	24	(27,096)	(19,059)
Net profit for the financial year		78,237	51,293
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
- Employee share option scheme		4,024	2,450
Items that may be subsequently reclassified to profit or loss			
Financial assets available-for-sale			
- Net (loss)/gain on revaluation of financial assets available-for-sale		(1,421)	1,752
- Income tax relating to component of other comprehensive income		341	(420)
Other comprehensive income, net of tax		2,944	3,782
Total comprehensive income		81,181	55,075

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

	<u>Note</u>	<u>Share capital</u> RM'000	<u>Share premium</u> RM'000	<u>Statutory reserve</u> RM'000	<u>Fair value reserve - available-for-sale securities</u> RM'000	<u>Option reserve</u> RM'000	<u>Regulatory reserve</u> RM'000	<u>Retained earnings</u> RM'000	<u>Total</u> RM'000
At 1 January 2016		85,500	42,000	97,778	1,332	11,890	2,384	660,385	901,269
Net profit for the financial year		-	-	-	-	-	-	78,237	78,237
Transfer to regulatory reserve		-	-	-	-	-	3,995	(3,995)	-
Other comprehensive income		-	-	-	(1,080)	-	-	-	(1,080)
Employee share option scheme - Options granted	31	-	-	-	-	4,024	-	-	4,024
At 31 December 2016		<u>85,500</u>	<u>42,000</u>	<u>97,778</u>	<u>252</u>	<u>15,914</u>	<u>6,379</u>	<u>734,627</u>	<u>982,450</u>

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STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	<u>Note</u>	<u>Share capital</u> RM'000	<u>Share premium</u> RM'000	<u>Statutory reserve</u> RM'000	<u>Fair value reserve - available-for-sale securities</u> RM'000	<u>Option reserve</u> RM'000	<u>Regulatory reserve</u> RM'000	<u>Retained earnings</u> RM'000	<u>Total</u> RM'000
At 1 January 2015		85,500	42,000	97,778	-	9,440	2,590	608,886	846,194
Net profit for the financial year		-	-	-	-	-	-	51,293	51,293
Transfer from regulatory reserve		-	-	-	-	-	(206)	206	-
Other comprehensive income		-	-	-	1,332	-	-	-	1,332
Employee share option scheme - Options granted	31	-	-	-	-	2,450	-	-	2,450
At 31 December 2015		<u>85,500</u>	<u>42,000</u>	<u>97,778</u>	<u>1,332</u>	<u>11,890</u>	<u>2,384</u>	<u>660,385</u>	<u>901,269</u>

J.P. MORGAN CHASE BANK BERHAD  
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STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	<u>2016</u> RM'000	<u>2015</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	105,333	70,352
Adjustments for items not involving the movement of cash and cash equivalents:		
Depreciation of fixed assets	5,781	6,011
Loss on disposal of fixed assets	13	-
(Write-back of)/allowance for losses on loans and advances	(538)	900
Share options expenses	4,024	2,450
Net loss on derivatives	30,268	24,425
Net unrealised gain from revaluation of financial assets held for trading	(3,536)	(809)
Net unrealised gain in revaluation on derivatives	(22,676)	(16,292)
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<b>118,669</b>	<b>87,037</b>
Decrease in deposits and placements with banks and other financial institutions	-	401,960
Increase in securities purchased under resale agreement	(174,433)	(171,776)
(Increase)/decrease in financial assets held for trading	(962,446)	630,488
Decrease in derivative financial instruments	12,467	46,959
Decrease/(increase) in financial assets available-for-sale	149	(140,860)
Increase in loans and advances	(286,989)	(58,755)
(Increase)/decrease in other assets	(237,978)	19,340
Decrease/(increase) in statutory deposits with BNM	3,044	(3,044)
Increase/(decrease) in deposits from customers (Decrease)/increase in deposits and placements of banks and other financial institutions	1,840,263	(524,109)
Increase/(decrease) in other liabilities	(584,938)	144,022
Increase in securities sold under repurchase agreement	315,522	(4,432)
(Decrease)/increase in amount due to related parties	129,768	107,745
	(2,999,487)	2,967,659
Cash (used in)/generated from operating activities	(2,826,389)	3,502,234
Income taxes paid	(13,615)	(15,207)
<b>Net cash (used in)/generated from operating activities</b>	<b>(2,840,004)</b>	<b>3,487,027</b>

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J.P. MORGAN CHASE BANK BERHAD  
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STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITY			
Purchase of fixed assets		(940)	(977)
Net cash used in investing activity		<u>(940)</u>	<u>(977)</u>
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(2,840,944)	3,486,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		<u>8,037,314</u>	<u>4,551,264</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR		<u><u>5,196,370</u></u>	<u><u>8,037,314</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and short-term funds	2	3,918,993	5,447,812
Amount due from related parties	7	1,277,377	2,589,502
		<u><u>5,196,370</u></u>	<u><u>8,037,314</u></u>

**J.P. MORGAN CHASE BANK BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements and are also consistent with those applied in the previous year, unless otherwise stated.

**A BASIS OF PREPARATION**

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, Bank Negara Malaysia ("BNM") Guidelines and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under historical cost convention unless otherwise indicated in this summary of significant accounting policies.

The preparation of financial statements in conformity with MFRS and BNM Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in accounting policy Note R.

- (a) Standards, amendments to published standards and interpretations that are effective and applicable to the Bank.

The following amended standard and annual improvements have been adopted for the first time by the Bank for the financial year beginning on 1 January 2016:

- Annual Improvements to MFRSs 2012 – 2014 Cycle
- Amendments to MFRS 101 'Presentation of financial statements' - Disclosure initiative

The adoption of these amendments did not have any impact on the current or any prior year and are not likely to affect future periods of the financial statements of the Bank.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective.

A number of new standards and amendments to standards and interpretations are effective for financial year beginning on or after 1 January 2017:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective. (continued)

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.



**J.P. MORGAN CHASE BANK BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective. (continued)

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

None of the standards, amendments and interpretations that are effective for financial year beginning after 1 January 2017 is expected to have a significant effect on the financial statements of the Bank, except for MFRS 9. Due to the complexity of this standard and its proposed changes, the financial effects of its adoption are still being assessed by the Bank.

**B INCOME RECOGNITION**

Interest is recognised in interest income and interest expense in the income statement for all interest bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest, the Bank estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. Fees are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate.

Where a financial asset is classified as impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## J.P. MORGAN CHASE BANK BERHAD

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## C RECOGNITION OF FEES AND OTHER INCOME

Loans and advances arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fee income relating to loans and guarantee fees is recognised over the period during which the related service is provided or credit risk is undertaken.

## D ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

Impaired loans and advances are measured at their estimated recoverable amount. Additional impairment allowance is made if the recoverable amount is lower than the carrying value of the loans and advances. Recoverable amount refers to the present value of estimated future cash flows discounted at the original effective interest rate.

An uncollectible loan or portion of a loan classified as impaired, may be written off, after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

## E REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Bank has purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the statement of financial position.

## F FINANCIAL ASSETS AND LIABILITIES

Financial assets

The Bank classifies its financial assets into the following categories: financial instruments at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. Management determines the classification of financial instruments at initial recognition.

## (a) Financial instruments at fair value through profit or loss

Financial instruments are classified in this category if they are held for trading, or if they are designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement.

Regular way purchases and sales of financial instruments held for trading are recognised on trade date, being the date on which the Bank commits to purchase or sell the asset.

J.P. MORGAN CHASE BANK BERHAD  
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

F FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs, and measured subsequently at amortised cost using the effective interest method.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sells other than an insignificant amount of held-to-maturity financial assets, the entire category will be tainted and reclassified as available-for-sale financial assets.

Held-to-maturity financial assets are initially recognised at fair value including direct and incremental transaction costs, and measured subsequently at amortised cost using the effective interest method.

Regular way purchases of held-to-maturity financial assets are recognised on trade date, being the date on which the Bank commits to purchase the asset.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not categorised into any of the other categories described above.

Available-for-sale financial assets are initially recognised at fair value including direct and incremental transaction costs, and are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Interest determined using the effective interest method, impairment losses and translation differences on monetary items are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Regular way purchases and sales of available for sale financial instruments are recognised on trade date, being the date on which the Bank commits to purchase or sell the asset.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

F FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial liabilities

The Bank classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value), financial liabilities at amortised cost and hedging derivatives.

(a) Financial liabilities at fair value through profit or loss

Financial instruments are classified in this category if they are held for trading, or if they are designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the income statement.

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from customers, banks and related parties.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Determining fair value

The fair value of financial instruments, such as exchange-traded and over-the-counter securities and derivatives, is determined by reference to a quoted market price for that instrument or by using internally developed valuation models. Where the fair value is calculated by using valuation models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including interest rate yield curves, equities prices, option volatilities and currency rates.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

**G DERIVATIVE FINANCIAL INSTRUMENTS**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the income statement unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

**H IMPAIRMENT OF FINANCIAL ASSETS**

The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables or available-for-sale financial assets are impaired. These are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;
- (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties;
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

For loans and receivables, the Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan and receivable, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and recognised in the income statement.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

**H IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)**

Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised loan and receivable asset reflect the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

**I IMPAIRMENT OF NON-FINANCIAL ASSETS**

The Bank assesses at each balance sheet date whether there is objective evidence that an asset is impaired. An asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flow (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

J FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of fixed assets is calculated to write off the cost of the fixed assets on a straight line basis to their residual values over the estimated useful lives.

The principal useful lives used are as follows:

	<u>Years</u>
Bank premises	
- improvements, furniture and fittings	Lower of the remaining lease term or 10 years
- office machinery and equipment	5
Computers	3 - 5

The residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

At each balance sheet date, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

K CURRENCY TRANSLATIONS

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

K CURRENCY TRANSLATIONS (CONTINUED)

(b) Foreign currency transactions and balances (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

L INCOME TAX AND DEFERRED TAX

Current tax expense is determined according to the Malaysian tax laws and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amount attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit and loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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M EMPLOYEE BENEFITS

*Short-term employee benefits*

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

*Defined contribution plan*

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, Employees' Provident Fund ('EPF').

The Bank's contributions to EPF are charged to the income statement in the period to which they related. Once the contributions have been paid, the Bank has no further payment obligations.

*Equity compensation benefits*

Staff costs include equity compensation expenses arising from the grant of stock-based awards to the employees of the Bank which are equity-settled. The details of the stock-based awards available are described in Note 31.

The fair value of the employee services received in exchange for the grant of stock-based awards is recognised as an expense in the income statement with a corresponding increase in the option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the stock-based awards on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each balance sheet date, the Bank revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date as well as the number of shares that will vest on the vesting date and recognises the impact of the revision of the estimates in the income statement, with a corresponding adjustment to the option reserve over the remaining vesting period.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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N PROVISION

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

O FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 "Provisions, contingent liabilities and contingent assets" and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

P CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and short-term funds and current deposit placed with related parties.

Q OPERATING LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Assets under operating leases are not recognised on the statement of financial position. All lease rentals payable are accounted for on a straight-line basis over the lease term and are charged to the statement of profit or loss.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

R CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank's accounting policies and use of estimates are integral to understanding its reported results. The Bank's most complex accounting estimates require management's judgement to ascertain the valuation of assets and liabilities. The Bank has established detailed policies and control procedures intended to ensure that valuation methods, including any judgements made as part of such methods, are well-controlled, independently reviewed and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Bank believes its estimates for determining the valuation of its assets and liabilities are appropriate. The following is a brief description of the Bank's critical accounting estimates involving significant valuation judgement.

(a) Fair value of financial instruments

Fair value is 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 majority of the Bank's assets reported at fair value are based upon quoted market prices or upon internally developed models that utilise independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

The degree of management judgement involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that are traded actively and have quoted market prices or parameters readily available, there is little-to-no subjectivity in determining fair value. When observable market prices and parameters do not exist, management judgement is necessary to estimate fair value. The valuation process takes into consideration factors such as liquidity and concentration concerns and, for the derivatives portfolio, counterparty credit risk.

The Bank's held for trading financial assets are valued based upon quoted market prices. The majority of the Bank's derivative positions are valued using internally developed models that use as their basis readily observable market parameters – that is, parameters that are actively quoted and can be validated to external sources, including industry-pricing services. Certain derivatives, however, are valued based upon models with significant unobservable market parameters – that is, parameters that must be estimated and are, therefore, subject to management judgement to substantiate the model valuation. These instruments are normally either traded less actively or trade activity is one way. Management's judgement includes recording fair value adjustments (i.e., reductions) to model valuations to account for parameter uncertainty when valuing complex or less actively traded derivative transactions.

(b) Allowance for losses on loans and advances

The Bank makes allowance for losses on loans and advances based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines, management makes judgement on the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1 GENERAL INFORMATION

The principal activities of the Bank are banking and related financial services. There was no significant change in the nature of these activities during the financial year.

The Bank is a wholly-owned subsidiary of J.P. Morgan International Finance Ltd., a corporation incorporated in the United States of America. The Directors regard JPMorgan Chase & Co., a corporation incorporated in the United States of America, as the Bank's ultimate holding corporation.

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

The principal place of business and address of the registered office of the Bank is Level 18, Integra Tower, The Intermark, 348 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia.

2 CASH AND SHORT-TERM FUNDS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Cash and balances with banks and other financial institutions	31,646	53,331
Money at call and deposit placements maturing within one month	3,887,347	5,394,481
	<u>3,918,993</u>	<u>5,447,812</u>

3 FINANCIAL ASSETS HELD FOR TRADING

Money market instruments

Malaysian Government Securities	362,321	-
Bank Negara Malaysia bills	145,810	-
Malaysian Treasury bills	5,805	-
Malaysian Government Investment Issuance	75,957	-

Unquoted securities

Private debt securities	396,398	20,309
	<u>986,291</u>	<u>20,309</u>

Company No.

316347

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J.P. MORGAN CHASE BANK BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

4 DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount RM'000	Fair values	
		Assets RM'000	Liabilities RM'000
At 31 December 2016			
<u>Foreign exchange derivatives</u>			
Currency forwards	18,517,254	530,350	(413,025)
Cross-currency interest rate swaps	3,713,902	181,443	(239,303)
Currency options	389,227	12,906	(3,511)
	<u>22,620,383</u>	<u>724,699</u>	<u>(655,839)</u>
<u>Interest rate derivatives</u>			
Interest rate swaps	34,884,293	118,261	(110,632)
Interest rate options	999,037	32,470	(154)
	<u>35,883,330</u>	<u>150,731</u>	<u>(110,786)</u>
<u>Credit related derivatives</u>			
Credit default swaps	282,082	3,848	(5,352)
<u>Equity related derivatives</u>			
Equity options	1,277,205	38,357	(27,396)
Total derivative assets/(liabilities)	<u>60,063,000</u>	<u>917,635</u>	<u>(799,373)</u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

4 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Notional amount RM'000	Fair values	
		Assets RM'000	Liabilities RM'000
At 31 December 2015			
<u>Foreign exchange derivatives</u>			
Currency forwards	20,769,051	520,931	(465,220)
Cross-currency interest rate swaps	1,595,964	196,667	(165,578)
Currency options	809,718	16,845	(2,497)
	<u>23,174,733</u>	<u>734,443</u>	<u>(633,295)</u>
<u>Interest rate derivatives</u>			
Interest rate swaps	31,980,937	117,559	(126,385)
Interest rate options	2,076,730	45,567	(156)
	<u>34,057,667</u>	<u>163,126</u>	<u>(126,541)</u>
<u>Credit related derivatives</u>			
Credit default swaps	75,250	7,051	-
<u>Equity related derivatives</u>			
Equity options	960,741	82,936	(89,399)
Total derivative assets/(liabilities)	<u>58,268,391</u>	<u>987,556</u>	<u>(849,235)</u>

Derivatives are generally either privately negotiated over-the-counter (OTC) contracts or standard contracts transacted through regulated exchanges. The Bank enters into contracts that are not considered derivatives in their entirety but include embedded derivative features.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Money market instruments</u>		
Malaysian Government Securities	140,963	142,192

6 LOANS AND ADVANCES

(i) Loans and advances analysed by type of loan are as follows:		
Overdrafts	46,478	622
Housing loans	758	1,242
Staff loans	949	1,368
Revolving credits	511,053	227,400
Trade finance	60,122	101,754
	<u>619,360</u>	<u>332,386</u>
Less: Allowance for losses on loans and advances:		
- Individual assessment	(45)	(48)
- Collective assessment	(1,053)	(1,603)
	<u>618,262</u>	<u>330,735</u>

Included in loans and advances is revolving credit extended to a related company. For financial year ended 31 December 2016, there is no amount outstanding (2015: RM20,102,000).

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6	LOANS AND ADVANCES (CONTINUED)	<u>2016</u> RM'000	<u>2015</u> RM'000
(ii)	The maturity structure of loans and advances are as follows:		
	Maturity within		
	- one year	617,722	329,798
	- one year to three years	209	228
	- three years to five years	104	219
	- over five years	1,325	2,141
		<u>619,360</u>	<u>332,386</u>
(iii)	Loans and advances analysed by type of customers are as follows:		
	Domestic business enterprises		
	- Others	571,005	325,078
	Individuals	1,707	2,610
	Foreign entities	46,648	4,698
		<u>619,360</u>	<u>332,386</u>
(iv)	Loans and advances analysed by interest sensitivity are as follows:		
	Fixed rate		
	- Housing loans	1,675	2,469
	- Other fixed rate loans	32	141
	Variable rate		
	- Cost-plus	617,653	329,776
		<u>619,360</u>	<u>332,386</u>
(v)	Loans and advances analysed by their economic purpose are as follows:		
	Purchase of landed properties	1,675	2,469
	Purchase of transport vehicles	30	100
	Personal use	2	41
	Working capital	617,653	329,776
		<u>619,360</u>	<u>332,386</u>



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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6	LOANS AND ADVANCES (CONTINUED)	<u>2016</u> RM'000	<u>2015</u> RM'000
(vi)	Loans and advances analysed by their geographical distribution are as follows:		
	In Malaysia	572,712	327,688
	Other countries	46,648	4,698
		<u>619,360</u>	<u>332,386</u>
(vii)	Impaired loans		
(a)	Movements in impaired loans and advances are as follows:		
	At 1 January	171	154
	Classified as impaired during the financial year	56	81
	Reclassified as performing during the financial year	(91)	(28)
	Amount recovered	(13)	(32)
	Amount written off	-	(4)
		<u>123</u>	<u>171</u>
	At 31 December	(45)	(48)
	Net impaired loans and advances	<u>78</u>	<u>123</u>
	Ratio of net impaired loans and advances to net loans and advances	<u>0.01%</u>	<u>0.04%</u>
(b)	Movements in allowance for impaired loans and advances are as follows:		
	<u>Individual assessment allowance</u>		
	At 1 January	48	56
	Written back during the financial year	(3)	(8)
	At 31 December	<u>45</u>	<u>48</u>

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6	LOANS AND ADVANCES (CONTINUED)	<u>2016</u> RM'000	<u>2015</u> RM'000
	(vii) Impaired loans (continued)		
	(b) Movements in allowance for impaired loans and advances are as follows: (continued)		
	<u>Collective assessment allowance</u>		
	At 1 January	1,603	692
	(Written-back)/allowance made during the financial year	(550)	911
	At 31 December	<u>1,053</u>	<u>1,603</u>
	Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans and advances, net of individual assessment allowance	<u>1.20%</u>	<u>1.20%</u>
	(c) Impaired loans analysed by their economic purpose are as follows:		
	Purchase of landed property	<u>123</u>	<u>171</u>
	(d) Impaired loans analysed by their geographical distribution are as follows:		
	Malaysia	<u>123</u>	<u>171</u>
7	AMOUNT DUE FROM RELATED PARTIES		
	Current deposits	766,746	150,424
	Fixed deposits	139,070	2,438,723
	Other receivables	371,561	355
		<u>1,277,377</u>	<u>2,589,502</u>
8	STATUTORY DEPOSITS WITH BNM		

The non-interest bearing statutory deposits are maintained with BNM in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958, the amount of which is determined at set percentages of total eligible liabilities.

As of 31 December 2016, the Bank has RM2,000 (2015: RM3,046,000) statutory deposits with BNM.

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9 OTHER ASSETS

	<u>2016</u> RM'000	<u>2015</u> RM'000
Other receivables	253,294	30,016
Deposits and prepayments	20,297	5,940
	<u>273,591</u>	<u>35,956</u>

10 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position.

	<u>2016</u> RM'000	<u>2015</u> RM'000
Excess of depreciation over capital allowances	(830)	(1,289)
Other liabilities	(79)	2,886
Financial assets available-for-sale	3,312	(420)
Deferred tax assets	<u>2,403</u>	<u>1,177</u>

The movements in deferred tax assets and liabilities during the financial year comprise the following:

	<u>Excess of depreciation over capital allowances</u> RM'000	<u>Financial assets available- for-sale</u> RM'000	<u>Other liabilities</u> RM'000	<u>Total</u> RM'000
<u>2016</u>				
At 1 January	(1,289)	(420)	2,886	1,177
Credited to income statement (Note 24)	459	-	426	885
Charged to reserve	-	341	-	341
At 31 December	<u>(830)</u>	<u>(79)</u>	<u>3,312</u>	<u>2,403</u>

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10 DEFERRED TAX ASSETS (CONTINUED)

	Excess of depreciation over capital allowances RM'000	Financial assets available- for-sale RM'000	Other liabilities RM'000	Total RM'000
<u>2015</u>				
At 1 January	(2,261)	-	2,629	368
Credited to income statement (Note 24)	972	-	257	1,229
Charged to reserve	-	(420)	-	(420)
At 31 December	<u>(1,289)</u>	<u>(420)</u>	<u>2,886</u>	<u>1,177</u>

11 FIXED ASSETS

	Bank premises RM'000	Computers RM'000	Total RM'000
<u>2016</u>			
<u>Cost</u>			
At 1 January	16,935	18,592	35,527
Additions	23	917	940
Disposals and write-off	(19)	(184)	(203)
At 31 December	<u>16,939</u>	<u>19,325</u>	<u>36,264</u>
<u>Accumulated depreciation</u>			
At 1 January	7,474	13,010	20,484
Charge for the financial year	2,769	3,012	5,781
Disposals and write-off	(6)	(184)	(190)
At 31 December	<u>10,237</u>	<u>15,838</u>	<u>26,075</u>
<u>Net book value</u>			
At 31 December	<u>6,702</u>	<u>3,487</u>	<u>10,189</u>

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11 FIXED ASSETS (CONTINUED)

	<u>Bank premises</u> RM'000	<u>Computers</u> RM'000	<u>Total</u> RM'000
<u>2015</u>			
<u>Cost</u>			
At 1 January	16,841	17,711	34,552
Additions	94	883	977
Disposals and write-off	-	(2)	(2)
At 31 December	<u>16,935</u>	<u>18,592</u>	<u>35,527</u>
<u>Accumulated depreciation</u>			
At 1 January	4,698	9,777	14,475
Charge for the financial year	2,776	3,235	6,011
Disposals and write-off	-	(2)	(2)
At 31 December	<u>7,474</u>	<u>13,010</u>	<u>20,484</u>
<u>Net book value</u>			
At 31 December	<u>9,461</u>	<u>5,582</u>	<u>15,043</u>

12 DEPOSITS FROM CUSTOMERS

(i) Deposits from customers analysed by type of deposits are as follows:

	<u>2016</u> RM'000	<u>2015</u> RM'000
Demand deposits	5,438,611	3,460,494
Fixed deposits	18,579	156,433
	<u>5,457,190</u>	<u>3,616,927</u>

Maturity structure of fixed deposits are as follows:

Due within six months	<u>18,579</u>	<u>156,433</u>
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12	DEPOSITS FROM CUSTOMERS (CONTINUED)		
		<u>2016</u>	<u>2015</u>
		RM'000	RM'000
	(ii) Deposits from customers analysed by type of customers are as follows:		
	Business enterprises	5,456,896	3,616,718
	Others	294	209
		<u>5,457,190</u>	<u>3,616,927</u>
13	DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS		
	Licensed banks	236,171	822,580
	Other financial institutions	4,139	2,668
		<u>240,310</u>	<u>825,248</u>
14	AMOUNT DUE TO RELATED PARTIES		
	Current deposits	273,710	564,786
	Fixed deposits	330,494	3,048,106
	Other payables	9,536	335
		<u>613,740</u>	<u>3,613,227</u>
15	OTHER LIABILITIES		
	Other payables	373,817	59,756
	Accruals and charges	13,965	12,505
		<u>387,782</u>	<u>72,261</u>

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16 SHARE CAPITAL

	<u>2016</u> RM'000	<u>2015</u> RM'000
Authorised:		
100,000,000 ordinary shares of RM1 each		
At 1 January/ 31 December	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
85,500,002 ordinary shares of RM1 each		
At 1 January/ 31 December	<u>85,500</u>	<u>85,500</u>

17 RESERVES

Statutory reserve	97,778	97,778
Option reserve	15,914	11,890
Regulatory reserve	6,379	2,384
Fair value reserve – available-for-sale securities	252	1,332
	<u>120,323</u>	<u>113,384</u>

- (i) The statutory reserve is maintained in compliance with BNM guidelines and is not distributable as cash dividends.
- (ii) The option reserve is maintained in compliance with MFRS 2 - Share-based payment.
- (iii) Regulatory reserve of the Bank is maintained as an additional credit risk absorbent to ensure robustness on the loan impairment assessment methodology.
- (iv) Movement of the fair value reserve of available-for-sale securities is as follows:

	<u>2016</u> RM'000	<u>2015</u> RM'000
At 1 January	1,332	-
Financial assets available-for-sale		
- fair value charges	(1,421)	1,752
- deferred taxation	341	(420)
At 31 December	<u>252</u>	<u>1,332</u>

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18	INTEREST INCOME	<u>2016</u>	<u>2015</u>
		RM'000	RM'000
	Loans and advances		
	- Interest income other than recoveries from impaired loans	11,231	6,667
	- Recoveries from impaired loans	8	21
	Money at call and placements with financial institutions	145,658	127,874
	Financial assets		
	- Held for trading	10,797	24,467
	- Available-for-sale	4,833	4,159
		<u>172,527</u>	<u>163,188</u>
19	INTEREST EXPENSE		
	Deposits from customers	24,573	28,002
	Deposits and placements of banks and other financial institutions	70,995	63,433
		<u>95,568</u>	<u>91,435</u>
20	OTHER OPERATING INCOME		
	Fee income:		
	Service charges and fees	5,735	5,661
	Guarantee fees	3,368	3,091
		<u>9,103</u>	<u>8,752</u>
	Net income from securities:		
	- Net gain from sale of financial assets held for trading	37,900	10,206
	- Net unrealised gain from revaluation of financial assets held for trading	3,536	809
	Derivatives:		
	- Net loss on derivatives	(30,268)	(24,425)
	- Unrealised gain from revaluation of derivatives	22,676	16,292
	Other income:		
	Foreign exchange gain	84,404	89,552
	Other operating income	42,237	38,139
	Loss on sale of fixed assets	(13)	-
	Other non-operating income	93	112
		<u>169,668</u>	<u>139,437</u>



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## 21 OPERATING EXPENSES

	<u>2016</u> RM'000	<u>2015</u> RM'000
Personnel costs:		
- Wages, salaries and bonuses	38,257	35,667
- Defined contribution retirement plan	5,455	5,118
- Other employee benefits	8,017	6,691
	51,729	47,476
Establishment costs:		
- Equipment and fittings repairs, maintenance and rental	1,255	739
- Rental of premise	3,292	2,795
- Depreciation of fixed assets	5,781	6,011
- Utilities	690	684
- Others	784	569
	11,802	10,798
Marketing expenses	1,071	1,620
Administration and general expenses:		
- Management fees paid	67,500	69,908
- Banking and corporate expenses	4,347	4,035
- Office supplies, communication expenses and insurance	3,982	4,599
- Postage and shipping charges	201	266
- Other general expenses	1,200	1,236
	77,230	80,044
	<u>141,832</u>	<u>139,938</u>
The above expenditure includes the following statutory disclosures:		
Directors' remuneration (Note 23)	5,057	4,900
Hire of equipment	544	343
Auditors' remuneration:		
- audit fees	390	389
- non-audit fees	-	13
	<u>5,447</u>	<u>5,645</u>

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22 ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

	<u>2016</u> RM'000	<u>2015</u> RM'000
Allowance for losses on loans and advances:		
(a) Individual assessment allowance - Written back	3	8
(b) Collective assessment allowance - Written back/(made)	550	(911)
Loans and advances (written off)/recovered	(15)	3
	<u>538</u>	<u>(900)</u>

23 DIRECTORS' REMUNERATION

Fees	500	426
Other remuneration	4,557	4,474
	<u>5,057</u>	<u>4,900</u>

Analysis of Directors' remuneration:

Executive Director:

- Salary, bonuses and other remuneration	4,076	4,000
- Defined contribution retirement plan	478	471
- Benefits-in-kind	3	3

Non-executive Directors:

- Fees/allowances	500	426
	<u>5,057</u>	<u>4,900</u>

The details of the Directors of the Bank in office, and interest in shares, restricted stock units and shares options during the financial year are disclosed in the Directors' Report.

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23 DIRECTORS' REMUNERATION (CONTINUED)

The number of Directors of the Bank whose total remuneration during the financial year fell within the following bands is analysed below:

	<u>2016</u>	<u>2015</u>
<u>Executive Director</u>		
Above RM500,001	1	1
<u>Non-Executive Directors</u>		
Above RM100,001	4	1
RM50,001 – RM100,000	-	3
RM1 – RM50,000	-	-

24 TAXATION

	<u>2016</u> RM'000	<u>2015</u> RM'000
(a) Tax expense for the financial year		
Current year tax		
- Malaysian income tax	27,976	19,979
- Under provision in respect of prior year	5	309
Deferred tax		
- Origination and reversal of temporary differences	(885)	(1,229)
	<u>27,096</u>	<u>19,059</u>
(b) Numerical reconciliation of income tax expense		

The explanation on the relationship between tax expense and profit before tax is as follows:

	<u>2016</u> RM'000	<u>2015</u> RM'000
Profit before taxation	<u>105,333</u>	<u>70,352</u>
Tax calculated at a tax rate of 24% (2015: 25%)	25,280	17,588
Expenses not deductible for tax purposes	1,811	1,113
Under provision in respect of prior year	5	309
Changes in tax rate	-	49
Tax expense	<u>27,096</u>	<u>19,059</u>

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25 COMMITMENTS AND CONTINGENCIES

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

The commitments and contingencies constitute the following:

	<u>2016</u> Principal <u>amount</u> RM'000	<u>2015</u> Principal <u>amount</u> RM'000
<u>Credit-related</u>		
Direct credit substitutes	298,477	354,949
Transaction-related contingent items	55,796	54,541
Short-term self-liquidating trade related contingencies	125,042	63,119
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:		
- over one year	89,444	816,192
- up to one year	-	157,450
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness	1,135,614	-
<u>Treasury-related</u>		
Foreign exchange related contracts:		
- one year or less	18,985,033	21,558,902
- over one year to five years	2,596,930	1,615,831
- more than five years	1,038,420	-
Interest rate related contracts:		
- one year or less	7,119,002	9,981,008
- over one year to five years	27,298,029	23,375,326
- over five years	1,466,299	701,333
Credit related contracts:		
- over one year to five years	282,082	75,250
Equity related contracts:		
- one year or less	903,647	828,930
- over one year to five years	373,558	131,811
	<u>61,767,373</u>	<u>59,714,642</u>

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26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of, and their relationship with the Bank, are as follows:

<u>Name of related parties</u>	<u>Relationship</u>
JPMorgan Chase & Co.	Ultimate holding corporation
JPMorgan Chase Bank, N.A., New York	Subsidiary of ultimate holding corporation ("the Head Office")
JPMorgan Chase Bank, N.A., Hong Kong	Branch of the Head Office
JPMorgan Chase Bank, N.A., Labuan	Branch of the Head Office
JPMorgan Chase Bank, N.A., Frankfurt	Branch of the Head Office
JPMorgan Chase Bank, N.A., London	Branch of the Head Office
JPMorgan Chase Bank, N.A., Singapore	Branch of the Head Office
JPMorgan Securities (Malaysia) Sdn Bhd	Subsidiary of ultimate holding corporation
J.P. Morgan Services (Malaysia) Sdn Bhd	Subsidiary of ultimate holding corporation

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank includes all the Directors and members of the Management Committee.

Set out below are other significant related party transactions and balances.

	<u>2016</u>		<u>2015</u>	
	<u>Related</u>	<u>Key</u>	<u>Related</u>	<u>Key</u>
	<u>entities</u>	<u>management</u>	<u>entities</u>	<u>management</u>
	<u>RM'000</u>	<u>personnel</u>	<u>RM'000</u>	<u>personnel</u>
		<u>RM'000</u>		<u>RM'000</u>
<u>Income</u>				
Interest on loans and advances	517	1	1,040	2
Interest on current deposit	696	-	112	-
Interest on fixed deposit	6,277	-	4,314	-
Management fees received	42,237	-	38,139	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>Expense</u>				
Interest on current deposit	1,735	-	2,868	-
Interest on fixed deposit	34,331	-	56,366	-
Rental recovery	(1,026)	-	(1,016)	-
Management fees	67,500	-	69,908	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Significant related party transactions of the Bank:

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26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	2016		2015	
	Related entities	Key management personnel	Related entities	Key management personnel
	RM'000	RM'000	RM'000	RM'000
Related party balances of the Bank:				
<u>Amount due from</u>				
Staff loans	-	25	-	58
Current deposit	766,746	-	150,424	-
Fixed deposit	139,070	-	2,438,738	-
Loan	-	-	20,102	-
Other receivables	371,561	-	355	-
	1,277,377	25	2,609,619	58
<u>Amount due to</u>				
Current deposit	273,710	-	564,786	-
Fixed deposit	330,494	-	3,048,106	-
Other payables	9,536	-	335	-
	613,740	-	3,613,227	-

Transactions with related parties are aggregated because these transactions are similar in nature and no single transaction with these parties is significant enough to warrant separate disclosure.

Interest rates on time deposits were at normal commercial rates.

Key management compensation:

	2016 RM'000	2015 RM'000
Salaries and other short-term employee benefits	12,468	16,368
	Unit	Unit
Shares, restricted stock units and share options balance of ultimate holding corporation	69,710	35,990

Included in the above is the Executive Director's compensation which is disclosed in Note 23. The shares, restricted stock units and share options are granted on the same terms and conditions as those offered to other employees of the Bank.

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26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management compensation: (continued)

Loans made to key management personnel of the Bank are on similar terms and conditions generally available to other employees within the Bank. No specific allowances were required for loans and advances made to the key management personnel.

Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM's revised "Guidelines on Credit Transactions and Exposures with Connected Parties", which became effective on 1 January 2009, are as follows:

	<u>2016</u> RM'000	<u>2015</u> RM'000
Outstanding credit exposures with connected parties	138,466	345,133
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	3.71%	9.39%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	0%	0%

27 NON CANCELLABLE OPERATING LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises, which is classified as operating leases. A summary of the non-cancellable long-term commitments representing minimum rentals which the Bank is obliged to pay are as follows:

	<u>2016</u> RM'000	<u>2015</u> RM'000
Not later than one year	46	1,088
Later than one year and not later than five years	3	7

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28 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II).

The capital adequacy ratios of the Bank are as follows:

	2016 RM'000	2015 RM'000
<u>Tier-I capital</u>		
Paid-up share capital	85,500	85,500
Share premium	42,000	42,000
Retained earnings	734,627	660,385
Fair value reserve – available-for-sale securities	252	1,332
Option reserve	15,914	11,890
Statutory reserve	97,778	97,778
	<u>976,071</u>	<u>898,885</u>
Deferred tax assets	(2,403)	(1,177)
Available-for-sale securities	(138)	(733)
Total Tier I capital	<u>973,530</u>	<u>896,975</u>
<u>Tier-II capital</u>		
Regulatory reserve	6,379	2,384
Collective assessment allowance	1,053	1,603
Total Tier II capital	<u>7,432</u>	<u>3,987</u>
Total capital	<u>980,962</u>	<u>900,962</u>
Common Equity Tier 1 capital ratio	19.842%	20.960%
Tier 1 capital ratio	19.842%	20.960%
Total capital ratio	<u>19.993%</u>	<u>21.053%</u>



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28 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2016:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) <u>Credit Risk</u>				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	4,523,241	4,523,241	89,732	7,179
Banks	1,069,456	1,069,456	213,891	17,111
Insurance companies, securities firms and fund managers	622,541	622,541	314,902	25,192
Corporates	619,312	619,312	618,570	49,486
Residential mortgages	1,229	1,229	434	35
Higher risk assets	17	17	26	2
Other assets	27,989	27,989	27,357	2,189
Defaulted exposures	123	123	123	10
Total on-balance sheet exposures	<u>6,863,908</u>	<u>6,863,908</u>	<u>1,265,035</u>	<u>101,204</u>
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	2,717,421	2,717,421	1,266,361	101,309
Off balance sheet exposures other than OTC derivatives	396,105	396,105	381,145	30,492
Total off-balance sheet exposures	<u>3,113,526</u>	<u>3,113,526</u>	<u>1,647,506</u>	<u>131,801</u>
Total on and off-balance sheet exposures	<u>9,977,434</u>	<u>9,977,434</u>	<u>2,912,541</u>	<u>233,005</u>
	<u>Long position</u>	<u>Short position</u>		
(b) <u>Market risk</u>				
Interest rate risk	81,390,360	81,613,133	1,453,306	116,265
Equity position risk			1,000	80
Foreign currency risk	6,214	11	6,213	497
Options risk			150,900	12,072
(c) <u>Operational risk</u>			<u>382,539</u>	<u>30,603</u>
Total risk weighted assets and capital requirements			<u>4,906,499</u>	<u>392,522</u>

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28 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2015:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) <u>Credit Risk</u>				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	5,987,358	5,987,358	-	-
Banks	2,672,540	2,672,540	534,508	42,761
Insurance companies, securities firms and fund managers	20,273	20,273	20,273	1,622
Corporates	318,547	318,547	318,469	25,478
Residential mortgages	1,971	1,971	702	56
Higher risk assets	14	14	21	2
Other assets	18,381	18,381	17,924	1,434
Defaulted exposures	171	171	191	15
Total on-balance sheet exposures	<u>9,019,255</u>	<u>9,019,255</u>	<u>892,088</u>	<u>71,368</u>
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	2,507,704	2,507,704	904,417	72,353
Off balance sheet exposures other than OTC derivatives	834,430	834,430	816,291	65,303
Total off-balance sheet exposures	<u>3,342,134</u>	<u>3,342,134</u>	<u>1,720,708</u>	<u>137,656</u>
Total on and off-balance sheet exposures	<u>12,361,389</u>	<u>12,361,389</u>	<u>2,612,796</u>	<u>209,024</u>
	<u>Long position</u>	<u>Short position</u>		
(b) <u>Market risk</u>				
Interest rate risk	71,951,713	72,864,657	1,034,207	82,737
Equity position risk			20,950	1,676
Foreign currency risk	19,162	99,507	99,513	7,961
Options risk			155,063	12,405
(c) <u>Operational risk</u>			356,876	28,550
Total risk weighted assets and capital requirements			<u>4,279,405</u>	<u>342,353</u>

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28 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet counterparty risk as at 31 December 2016:

	<u>Principal amount</u> RM'000	<u>Credit equivalent amount*</u> RM'000	<u>Risk weighted amount</u> RM'000
Direct credit substitutes	298,477	298,477	287,625
Transaction-related contingent items	55,796	27,898	23,791
Short-term self-liquidating trade related contingencies	125,042	25,008	25,008
Foreign exchange related contracts:			
- less than one year	18,985,033	948,484	597,791
- one year to less than five years	2,596,930	338,171	148,128
- more than five years	1,038,420	205,961	51,392
Interest rate related contracts:			
- less than one year	7,119,002	36,408	14,912
- one year to less than five years	27,298,029	853,890	315,059
- more than five years	1,466,299	122,397	49,329
Credit derivative contracts			
- one year to less than five years	282,082	55,394	21,811
Equity related contracts			
- less than one year	903,647	90,326	37,950
- one year to less than five years	373,558	66,390	29,988
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	89,444	44,722	44,722
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness	1,135,614	-	-
	<u>61,767,373</u>	<u>3,113,526</u>	<u>1,647,506</u>

\* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

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28 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet counterparty risk as at 31 December 2015:

	<u>Principal amount</u> RM'000	<u>Credit equivalent amount*</u> RM'000	<u>Risk weighted amount</u> RM'000
Direct credit substitutes	354,949	354,949	341,431
Transaction-related contingent items	54,541	27,271	23,388
Short-term self-liquidating trade related contingencies	63,119	12,624	11,886
Foreign exchange related contracts:			
- less than one year	21,558,902	879,426	379,838
- one year to less than five years	1,615,831	343,645	202,708
Interest rate related contracts:			
- less than one year	9,981,008	103,554	20,711
- one year to less than five years	23,375,326	815,639	187,858
- more than five years	701,333	188,033	37,606
Credit derivative contracts			
- one year to less than five years	75,250	17,278	3,456
Equity related contracts			
- less than one year	828,930	140,725	59,955
- one year to less than five years	131,811	19,404	12,285
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	816,192	408,096	408,096
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	157,450	31,490	31,490
	<u>59,714,642</u>	<u>3,342,134</u>	<u>1,720,708</u>

\* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

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29 FINANCIAL RISK MANAGEMENT

The Bank has developed and implemented comprehensive policies and procedures to identify, mitigate and monitor risk across the entity which are based on JPMC policies. These practices rely on constant communications, judgement and knowledge of products and markets by the people closest to them, combined with regular oversight by a central risk management group and senior management.

(i) Credit risk

Credit risk is the risk of loss from obligor or counterparty default. The Bank provides credit (for example, through loans, lending-related commitments, guarantees and derivatives) to a variety of customers, from large corporate and institutional clients to the individual consumer. Credit risk management actively monitors the portfolio to ensure that it is well diversified across industry, geography, risk rating, maturity and individual client categories.

The Bank follows the policies and practices established by JPMC's Credit Risk Policy Group and BNM's Best Practices for the Management of Credit Risk, to preserve the independence and integrity of the approval and decision-making process of extending credit, and to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposure. Management of the Bank's exposure is accomplished through a number of means including: loan syndication and participations, loan sales, use of master netting agreements and collaterals.

(a) Collateral

The Bank takes collateral as a secondary recourse to the borrower. Collaterals include cash, securities and guarantees. The Bank may also take fixed and floating charges on assets of borrowers. It has put in place policies which governs the determination of eligibility of various collaterals to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The collateral is revalued periodically depending on the type of collateral. The Bank generally considers the collateral assets to be diversified.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

(b) Master netting arrangements

Master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. It does not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

The Bank participates in the Derivative Credit Risk Master Insurance Policy where it pays a credit charge to its Head Office as a credit insurance protection for its derivative transactions. The head office credit portfolio management process includes entering into hedges using Credit Default Swaps ("CDS"), CDS Indices, Foreign Exchange, Interest Rate Swaps and through loan sales.

The Bank uses lending-related financial instruments, such as commitments and guarantees, to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparties draw down on these commitments or the Bank fulfils its obligation under these guarantees, and the counterparties subsequently fail to perform according to the terms of these contracts. In the Bank's view, the total contractual amount of these lending-related commitments is not representative of the Bank's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Bank has to lending-related commitments, which is used as the basis for allocating credit risk capital to these commitments, the Bank has a "credit equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based on average portfolio historical experience, to become drawn upon in an event of a default by an obligor.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivative financial instruments.

The maximum exposure is shown gross, without taking account of any collateral held or other credit enhancements.

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
<u>Assets</u>			
Cash and short-term funds	2	3,918,993	5,447,812
Securities purchased under resale agreement		602,550	428,117
Financial assets held for trading	3	986,291	20,309
Derivative financial instruments	4	917,635	987,556
Financial assets available-for-sale	5	140,963	142,192
Loans and advances	6	618,262	330,735
Amount due from related parties	7	1,277,377	2,589,502
Statutory deposits with BNM	8	2	3,046
Other assets	9	273,591	35,956
Tax recoverable		10,590	24,955
Total assets*		<u>8,746,254</u>	<u>10,010,180</u>
Commitments and contingencies	28	3,113,526	3,342,134
Total credit exposure		<u><u>11,859,780</u></u>	<u><u>13,352,314</u></u>

\* Excludes deferred tax assets and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 28.

Where financial instruments are recorded by fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by geographical sectors

Credit risk exposure analysed by country in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The country exposure analysis is based on the residency of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

	31.12.2016									
	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available- for-sale	Loans and advances	Amount due from related parties	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	3,899,490	602,550	690,442	819,486	140,963	571,614	-	43,430	6,767,975	2,713,087
United Kingdom	-	-	-	35,719	-	-	9,627	-	45,346	223,286
USA	-	-	-	2,801	-	-	891,804	39	894,644	74,794
Hong Kong	-	-	-	7,848	-	-	7,450	12	15,310	14,390
Singapore	7,405	-	-	26,001	-	-	362,290	253,294	648,990	42,552
Others	12,098	-	295,849	25,780	-	46,648	6,206	-	386,581	45,417
	<u>3,918,993</u>	<u>602,550</u>	<u>986,291</u>	<u>917,635</u>	<u>140,963</u>	<u>618,262</u>	<u>1,277,377</u>	<u>296,775</u>	<u>8,758,846</u>	<u>3,113,526</u>

\* Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.



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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by geographical sectors (continued)

31.12.2015

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available- for-sale RM'000	Loans and advances RM'000	Amount due from related parties RM'000	Other assets* RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Malaysia	5,399,140	428,117	20,309	872,659	142,192	326,037	-	70,252	7,258,706	2,822,866
United Kingdom	-	-	-	66,991	-	-	8,063	-	75,054	229,429
USA	-	-	-	5,104	-	-	2,438,948	-	2,444,052	154,196
Hong Kong	-	-	-	2,293	-	-	171	-	2,464	5,817
Singapore	15,334	-	-	34,433	-	-	292	9,925	59,984	87,798
Others	33,338	-	-	6,076	-	4,698	142,028	-	186,140	42,028
	<u>5,447,812</u>	<u>428,117</u>	<u>20,309</u>	<u>987,556</u>	<u>142,192</u>	<u>330,735</u>	<u>2,589,502</u>	<u>80,177</u>	<u>10,026,400</u>	<u>3,342,134</u>

\* Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

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## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)Concentration risk by industry sectors

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The industry sector exposure analysis is based on the industry sector of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

	31.12.2016									
	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Manufacturing	-	-	-	43,407	-	270,256	-	-	313,663	240,512
Wholesale and retail	-	-	-	94	-	-	-	-	94	2,307
Finance, insurance and business services	153,426	-	396,398	620,541	-	257,499	1,277,377	261,563	2,966,804	2,286,175
Government and Government Agencies	3,764,935	602,550	589,893	76,923	140,963	-	-	10,727	5,185,991	110,868
Electricity, gas and water	-	-	-	166,218	-	-	-	-	166,218	454,790

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

31.12.2016

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Transport, storage and communication	-	-	-	3	-	89,897	-	12	89,912	878
Individual/Purchase of landed property - residential	-	-	-	-	-	1,630	-	-	1,630	231
Consumption credit	-	-	-	-	-	31	-	-	31	-
Others	-	-	-	10,449	-	2	-	11,881	22,332	17,765
	<u>3,918,361</u>	<u>602,550</u>	<u>986,291</u>	<u>917,635</u>	<u>140,963</u>	<u>619,315</u>	<u>1,277,377</u>	<u>284,183</u>	<u>8,746,675</u>	<u>3,113,526</u>
Assets not subject to credit risk	632	-	-	-	-	-	-	12,592	13,224	-
	<u>3,918,993</u>	<u>602,550</u>	<u>986,291</u>	<u>917,635</u>	<u>140,963</u>	<u>619,315</u>	<u>1,277,377</u>	<u>296,775</u>	<u>8,759,899</u>	<u>3,113,526</u>

\* Excludes collective assessment allowance amounting to RM1,053,000.

\*\* Other assets include tax recoverable, deferred tax assets, fixed assets and statutory deposits with Bank Negara Malaysia.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 28.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

31.12.2015

	Short-term funds and placements with financial <u>institutions</u> RM'000	Securities purchased under resale <u>agreement</u> RM'000	Financial assets held for <u>trading</u> RM'000	Derivative financial <u>instruments</u> RM'000	Financial assets available- <u>for-sale</u> RM'000	Loans and <u>advances*</u> RM'000	Amount due from related <u>parties</u> RM'000	Other <u>assets**</u> RM'000	On balance <u>sheet total</u> RM'000	Commitments and <u>contingencies</u> RM'000
Manufacturing	-	-	-	110,574	-	190,470	-	-	301,044	570,124
Wholesale and retail	-	-	-	8,107	-	-	-	-	8,107	17,118
Finance, insurance and business services	100,929	-	20,309	635,673	-	139,306	2,589,502	35,676	3,521,395	2,031,980
Government and Government Agencies	5,346,426	428,117	-	97,770	142,192	-	-	28,281	6,042,786	135,973
Electricity, gas and water	-	-	-	127,267	-	-	-	-	127,267	571,123

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

	31.12.2015									
	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available- for-sale	Loans and advances*	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Transport, storage and communication	-	-	-	-	-	-	-	-	-	-
Individual/Purchase of landed property - residential	-	-	-	-	-	2,418	-	-	2,418	226
Consumption credit	-	-	-	-	-	45	-	-	45	-
Others	-	-	-	8,165	-	99	-	-	8,264	15,590
	<u>5,447,355</u>	<u>428,117</u>	<u>20,309</u>	<u>987,556</u>	<u>142,192</u>	<u>332,338</u>	<u>2,589,502</u>	<u>63,957</u>	<u>10,011,326</u>	<u>3,342,134</u>
Assets not subject to credit risk	457	-	-	-	-	-	-	16,220	16,677	-
	<u>5,447,812</u>	<u>428,117</u>	<u>20,309</u>	<u>987,556</u>	<u>142,192</u>	<u>332,338</u>	<u>2,589,502</u>	<u>80,177</u>	<u>10,028,003</u>	<u>3,342,134</u>

\* Excludes collective assessment allowance amounting to RM1,603,000.

\*\* Other assets include tax recoverable, deferred tax assets, fixed assets and statutory deposits with Bank Negara Malaysia.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 28.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Loans and advances

Loans and advances are summarised as follows:

	2016 RM'000	2015 RM'000
Neither past due nor impaired	619,237	332,215
Past due but not impaired	-	-
Individually impaired	123	171
	<u>619,360</u>	<u>332,386</u>
Gross		
Less: Allowance for impaired loans and advances		
- Individual assessment allowance	(45)	(48)
- Collective assessment allowance	(1,053)	(1,603)
	<u>618,262</u>	<u>330,735</u>
Net		

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed as follows:

	<u>Corporates</u> RM'000	<u>Individuals</u> RM'000	<u>Total</u> RM'000
<u>2016</u>			
Satisfactory	<u>617,653</u>	<u>1,584</u>	<u>619,237</u>
<u>2015</u>			
Satisfactory	<u>329,776</u>	<u>2,439</u>	<u>332,215</u>

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Loans and advances (continued)

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	<u>2016</u> RM'000	<u>2015</u> RM'000
Past due 30 – 60 days	-	-
Past due 60 – 90 days	-	-
	<u>          </u>	<u>          </u>
Total	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
Fair value of collateral	-	-
	<u>          </u>	<u>          </u>
Amount of over-collateralisation	-	-
	<u>          </u>	<u>          </u>

(c) Loans and advances individually impaired

The individual impaired loans and advances to customers before taking into consideration the cash flows from collateral held is RM123,000 (2015: RM171,000).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	<u>Mortgages</u> RM'000	<u>Total</u> RM'000
<u>2016</u>		
Gross amount	123	123
Fair value of collateral	397	397
<u>2015</u>		
Gross amount	171	171
Fair value of collateral	410	410

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Credit quality of financial assets

The table below presents an analysis of the credit quality of treasury bills and securities for the Bank by rating:

	<u>Held for trading</u>		<u>Available for-sale</u>	
	<u>Malaysian Government treasury bills and securities</u>	<u>Private debt securities</u>	<u>Malaysian Government treasury bills and securities</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>2016</u>				
AAA	589,893	396,398	140,963	1,127,254
<u>2015</u>				
AAA	-	20,309	142,192	162,501

(ii) Market risk

Market risk comes mainly from trading and investing in client-focused activities, and is the risk of losses arising from adverse movements in market prices. Market risks are most commonly subdivided into interest rate risk, equity risk, foreign exchange risk and commodity risk, depending on whether the risk factor is an interest rate, a stock price, etc. Market risk is identified, measured, monitored and controlled by an independent corporate risk governance function. Market Risk Management is responsible for the establishment of market risk policies and monitoring of risk limits.

The portfolio effect of holding different instruments across a variety of business activities and asset classes helps to diversify the market risk the Bank is exposed to and reduces the potential losses from market risk.

The Bank's ability to measure and monitor potential losses that could arise from adverse changes in market conditions is key to managing market risks. Quantitative and qualitative measures are an integral and crucial part in the Bank's assessment of market risks.



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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk (continued)

The Bank's primary tool for the systematic measuring and monitoring of market risk is the Value at Risk ("VAR") calculation, which is measured and monitored at the regional level by lines of businesses. VAR is an estimate of the expected loss in the value over a one-day time horizon. VAR allows for a consistent and uniform measure of market risk across all applicable products and activities. To calculate VAR, the Bank uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous twelve months.

Besides VAR, other non-statistical limits such as basis point value and net open positions are used as market risk tools to limit the risk to which the businesses can be exposed to.

The VAR of the Bank at the end of the financial year, based on one-day time horizon and at 99% confidence level, is RM6,222,000 (2015: RM2,387,000). It represents the correlation and consequent diversification effects between risk types and portfolio types across trading and non-trading businesses. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The quality of the VAR model is monitored by back-testing the VAR results for trading books. All back-testing exceptions are investigated, and all back-testing results are reported to senior management.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Market Risk Management include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing. The results of the stress tests are reviewed by senior management and by the Board of Directors.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Operational risk

Operational risk is an inherent risk element in each of the Bank's business and support activities. To monitor and control such risk, the Bank maintains a system of comprehensive policies and control framework designed to provide a sound and well-controlled operational environment.

Primary responsibility for managing operating risk rests with the business managers. These individuals, with the support of their staff, are responsible for establishing and maintaining internal control procedures that are appropriate for their operating environments. To this end, the objectives of each business activities are identified and the risks associated with those objectives are assessed. The business managers institute a series of standards and procedures to manage these risks and to comply with the Bank's operational risk related policies, considering their nature and magnitude.

At the operational level, Internal Audit conducts annual audits and reviews on key operation areas. The focus of the audit is to provide assurance to management on the compliance with statutory requirements, laws, corporate policies and internal guidelines.

(iv) Interest rate risk

Sensitivity to interest rate arises from mismatches in the interest rate characteristics of the assets and their corresponding funding liability. One of the major causes of these mismatches is timing differences in the repricing of the assets and liabilities. These mismatches are actively managed by the Bank and its holding company as part of the overall risk management process which is conducted within JPMC's guidelines and in conjunction with market risk.

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## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

The following table represents the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as at balance sheet date.

	← Non trading book →					31.12.2016		
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Trading book RM'000	Non- interest sensitive RM'000	Total RM'000
<b>Assets</b>								
Cash and short-term funds	3,884,962	-	-	-	-	-	34,031	3,918,993
Securities purchased under resale agreement	601,911	-	-	-	-	-	639	602,550
Financial assets held for trading	-	-	-	-	-	986,291	-	986,291
Derivative financial instruments	-	-	-	-	-	917,635	-	917,635
Financial assets available-for-sale	-	-	140,169	-	-	-	794	140,963
Loans and advances								
- Performing	463,839	153,814	69	190	1,325	-	(1,098) <sup>^</sup>	618,139
- Non-performing	-	-	-	-	-	-	123	123
Amount due from related parties	506,061	-	-	-	-	-	771,316	1,277,377
Statutory deposits with BNM	-	-	-	-	-	-	2	2
Other assets <sup>#</sup>	-	-	-	-	-	-	296,773	296,773
<b>Total assets</b>	<u>5,456,773</u>	<u>153,814</u>	<u>140,238</u>	<u>190</u>	<u>1,325</u>	<u>1,903,926</u>	<u>1,102,580</u>	<u>8,758,846</u>

<sup>^</sup> Includes individual assessment allowance and collective assessment allowance amounting to RM1,098,000.

<sup>#</sup> Includes tax recoverable assets, deferred tax assets, fixed assets and other assets.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

	← Non trading book →							31.12.2016
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Trading book RM'000	Non- interest sensitive RM'000	Total RM'000
<u>Liabilities</u>								
Deposits from customers	4,255,207	-	-	-	-	-	1,201,983	5,457,190
Deposits and placements of banks and other financial institutions	151,483	-	-	-	-	-	88,827	240,310
Obligations on securities sold under repurchase agreements	275,710	-	-	-	-	-	2,291	278,001
Derivative financial instruments	-	-	-	-	-	799,373	-	799,373
Amount due to related parties	184,620	22,430	123,265	-	-	-	283,425	613,740
Other liabilities	-	-	-	-	-	-	387,782	387,782
<b>Total liabilities</b>	<b>4,867,020</b>	<b>22,430</b>	<b>123,265</b>	<b>-</b>	<b>-</b>	<b>799,373</b>	<b>1,964,308</b>	<b>7,776,396</b>
Interest rate gap	589,753	131,384	16,973	190	1,325			

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## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

	← Non trading book →							31.12.2015
	Up to <u>1 month</u> RM'000	1 - 3 <u>months</u> RM'000	3 - 12 <u>months</u> RM'000	1 - 5 <u>years</u> RM'000	Over <u>5 years</u> RM'000	Trading <u>book</u> RM'000	Non- interest <u>sensitive</u> RM'000	<u>Total</u> RM'000
<u>Assets</u>								
Cash and short-term funds	5,393,949	-	-	-	-	-	53,863	5,447,812
Securities purchased under resale agreement	427,437	-	-	-	-	-	680	428,117
Financial assets held for trading	-	-	-	-	-	20,309	-	20,309
Derivative financial instruments	-	-	-	-	-	987,556	-	987,556
Financial assets available-for-sale	-	-	-	141,402	-	-	790	142,192
Loans and advances								
- Performing	93,564	128,646	107,584	384	2,037	-	(1,651) <sup>^</sup>	330,564
- Non-performing	-	-	-	-	-	-	171	171
Amount due from related parties	2,438,708	-	-	-	-	-	150,794	2,589,502
Statutory deposits with BNM	-	-	-	-	-	-	3,046	3,046
Other assets <sup>#</sup>	-	-	-	-	-	-	77,131	77,131
<b>Total assets</b>	<b>8,353,658</b>	<b>128,646</b>	<b>107,584</b>	<b>141,786</b>	<b>2,037</b>	<b>1,007,865</b>	<b>284,824</b>	<b>10,026,400</b>

<sup>^</sup> Includes individual assessment allowance and collective assessment allowance amounting to RM1,651,000.<sup>#</sup> Includes tax recoverable assets, deferred tax assets, fixed assets and other assets.

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## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

	← Non trading book →							31.12.2015
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Trading book RM'000	Non- interest sensitive RM'000	Total RM'000
<u>Liabilities</u>								
Deposits from customers	2,255,745	649	1,002	-	-	-	1,359,531	3,616,927
Deposits and placements of banks and other financial institutions	195,526	-	-	-	-	-	629,722	825,248
Obligations on securities sold under repurchase agreements	146,607	-	-	-	-	-	1,626	148,233
Derivative financial instruments	-	-	-	-	-	849,235	-	849,235
Amount due to related parties	3,003,258	21,468	22,651	-	-	-	565,850	3,613,227
Other liabilities	-	-	-	-	-	-	72,261	72,261
<b>Total liabilities</b>	<b>5,601,136</b>	<b>22,117</b>	<b>23,653</b>	<b>-</b>	<b>-</b>	<b>849,235</b>	<b>2,628,990</b>	<b>9,125,131</b>
Interest rate gap	2,752,522	106,529	83,931	141,786	2,037			

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

The tables below summarises the effective average interest rate by major currencies for each class of financial assets and financial liabilities. The calculation of effective average interest rate excludes non-interest bearing financial assets and financial liabilities.

	2016		2015	
	RM %	USD %	RM %	USD %
<u>Financial assets</u>				
Cash and short-term funds	3.01	0.63	3.06	0.13
Securities purchased under resale agreement	2.70	-	3.10	-
Financial assets held for trading	3.38	-	3.57	-
Financial assets available-for-sale	3.46	-	3.46	-
Loans and advances	3.68	2.28	5.25	1.55
Amount due from related parties	-	0.61	-	0.22
<u>Financial liabilities</u>				
Deposits from customers	2.22	0.23	2.33	0.27
Deposits and placements of banks and other financial institutions	3.18	0.39	1.14	0.13
Obligations on securities sold under repurchase agreements	4.03	-	3.10	-
Amount due to related parties	0.03	0.23	2.98	0.15

(v) Currency risk

Currency risk is the risk to earnings and value of financial instruments caused by the fluctuations in foreign exchange rates. It is managed in conjunction with market risk.

The table below sets out the Bank's exposure to currency risk. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currency.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

	<u>MYR</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>2016</u>					
<u>Assets</u>					
Cash and short-term funds	3,316,932	582,544	-	19,517	3,918,993
Securities purchased under resale agreement	602,550	-	-	-	602,550
Financial assets held for trading	986,291	-	-	-	986,291
Derivative financial instruments	683,458	234,177	-	-	917,635
Financial assets available- for-sale	140,963	-	-	-	140,963
Loans and advances	96,700	336,742	-	184,820	618,262
Amount due from related parties	-	1,259,882	6,159	11,336	1,277,377
Other assets#	295,695	272	4	804	296,775
	<u>6,122,589</u>	<u>2,413,617</u>	<u>6,163</u>	<u>216,477</u>	<u>8,758,846</u>
<u>Liabilities</u>					
Deposits from customers	1,220,210	4,141,092	51,906	43,982	5,457,190
Deposits and placements of banks and other financial institutions	135,558	104,752	-	-	240,310
Obligations on securities sold under repurchase agreements	278,001	-	-	-	278,001
Derivative financial instruments	434,154	365,219	-	-	799,373
Amount due to related parties	397,063	31,978	-	184,699	613,740
Other liabilities	372,117	15,108	14	543	387,782
	<u>2,837,103</u>	<u>4,658,149</u>	<u>51,920</u>	<u>229,224</u>	<u>7,776,396</u>
Currency gap	<u>3,285,486</u>	<u>(2,244,532)</u>	<u>(45,757)</u>	<u>(12,747)</u>	

# Includes statutory deposits with BNM, tax recoverable, deferred tax assets, fixed assets and other assets.



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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

	<u>MYR</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>2015</u>					
<u>Assets</u>					
Cash and short-term funds	5,388,404	19,155	-	40,253	5,447,812
Securities purchased under resale agreement	428,117	-	-	-	428,117
Financial assets held for trading	20,309	-	-	-	20,309
Derivative financial instruments	381,974	605,582	-	-	987,556
Financial assets available- for-sale	142,192	-	-	-	142,192
Loans and advances	21,684	189,847	-	119,204	330,735
Amount due from related parties	-	2,439,392	142,006	8,104	2,589,502
Other assets#	78,326	1,851	-	-	80,177
	<u>6,461,006</u>	<u>3,255,827</u>	<u>142,006</u>	<u>167,561</u>	<u>10,026,400</u>
<u>Liabilities</u>					
Deposits from customers	1,111,725	2,328,410	138,386	38,406	3,616,927
Deposits and placements of banks and other financial institutions	648,405	176,843	-	-	825,248
Obligations on securities sold under repurchase agreements	148,233	-	-	-	148,233
Derivative financial instruments	504,162	345,073	-	-	849,235
Amount due to related parties	3,264,249	220,342	-	128,636	3,613,227
Other liabilities	61,153	7,434	3,645	29	72,261
	<u>5,737,927</u>	<u>3,078,102</u>	<u>142,031</u>	<u>167,071</u>	<u>9,125,131</u>
Currency gap	<u>723,079</u>	<u>177,725</u>	<u>(25)</u>	<u>490</u>	

# Includes statutory deposits with BNM, tax recoverable, deferred tax assets, fixed assets and other assets.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its cash flow obligations as they fall due, such as upon the maturity of deposits and loan draw downs.

It is unusual for any bank to completely match the maturity profile of its assets and liabilities as business transacted is often of uncertain terms and of different types. Therefore, controlled mismatching of the maturities of assets and liabilities is fundamental to prudent liquidity risk management of the Bank.

The Bank closely monitors its liquidity risk profile with a variety of tools which includes cash flow forecasts and maturity mismatch reports. The Bank has established funding guidelines on the amount of external funding it obtains and conducts regular stress-testing to ensure that it will be able to meet its obligations when they come due.

The table below analyses the Bank's non-derivative financial assets and financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are in the contractual undiscounted cash flows.

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 _years RM'000	Total RM'000
<u>2016</u>						
<u>Assets</u>						
Short-term funds and placements with financial institutions	3,919,770	-	-	-	-	3,919,770
Financial assets available-for-sale	-	-	142,320	-	-	142,320
Amount due from related parties	1,277,383	-	-	-	-	1,277,383
Total financial assets	<u>5,197,153</u>	<u>-</u>	<u>142,320</u>	<u>-</u>	<u>-</u>	<u>5,339,473</u>
<u>Liabilities</u>						
Deposits from customers	5,457,226	-	-	-	-	5,457,226
Deposits and placements of banks and other financial institutions	240,310	-	-	-	-	240,310
Amount due to related parties	468,089	22,447	123,895	-	-	614,431
Total financial liabilities	<u>6,165,625</u>	<u>22,447</u>	<u>123,895</u>	<u>-</u>	<u>-</u>	<u>6,311,967</u>

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk (continued)

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
<u>2015</u>						
<u>Assets</u>						
Short-term funds and placements with financial institutions	5,450,001	-	-	-	-	5,450,001
Financial assets available-for-sale	-	-	-	142,320	-	142,320
Amount due from related parties	2,589,561	-	-	-	-	2,589,561
Total financial assets	<u>8,039,562</u>	<u>-</u>	<u>-</u>	<u>142,320</u>	<u>-</u>	<u>8,181,882</u>
<u>Liabilities</u>						
Deposits from customers	3,615,316	651	1,015	-	-	3,616,982
Deposits and placements of banks and other financial institutions	825,248	-	-	-	-	825,248
Amount due to related parties	3,570,029	21,484	23,266	-	-	3,614,779
Total financial liabilities	<u>8,010,593</u>	<u>22,135</u>	<u>24,281</u>	<u>-</u>	<u>-</u>	<u>8,057,009</u>

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk (continued)

The table below analyses the Bank's derivative financial instruments based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are in the contractual undiscounted cash flows.

	Up to 1 <u>month</u> RM'000	1 – 3 <u>months</u> RM'000	3 – 12 <u>months</u> RM'000	1 – 5 <u>years</u> RM'000	Over 5 <u>years</u> RM'000	<u>Total</u> RM'000
<u>2016</u>						
Net-settled derivatives	735	11,671	16,731	(3,394)	(5,528)	20,215
Gross-settled derivatives						
- Receipts	4,373,214	5,216,085	6,856,927	2,756,043	1,093,001	20,295,270
- Payments	(4,371,047)	(5,220,062)	(6,859,322)	(2,773,167)	(1,088,236)	(20,311,834)
	<u>2,902</u>	<u>7,694</u>	<u>14,336</u>	<u>(20,518)</u>	<u>(763)</u>	<u>3,651</u>
<u>2015</u>						
Net-settled derivatives	10,266	10,569	(1,855)	(18,558)	(925)	(503)
Gross-settled derivatives						
- Receipts	4,612,932	5,438,583	8,964,205	1,171,618	-	20,187,338
- Payments	(4,614,216)	(5,419,600)	(8,959,375)	(1,122,995)	-	(20,116,186)
	<u>8,982</u>	<u>29,552</u>	<u>2,975</u>	<u>30,065</u>	<u>(925)</u>	<u>70,649</u>

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30 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments not measured at fair value

(i) Certain financial instruments

For cash and short-term funds, securities purchased under resale agreement, deposits and placements with banks and other financial institutions, amount due from/to related parties, statutory deposits with BNM, deposits from customers, deposits and placements of banks and other financial institutions with maturities of less than one year, the carrying value is a reasonable estimate of fair value.

For balances relating to the above classes of financial instruments with maturities of more than one year, the carrying value approximates the fair value as these balances are subject to variable interest rate.

(ii) Loans and advances

For performing fixed rate loans, fair values have been estimated by discounting the estimated cash flows using the prevailing market rates of loans and advances with similar credit ratings and maturities. For floating-rate loans, the carrying amount is generally a reasonable estimate of fair value.

The fair value of impaired loans, fixed or floating are based on the carrying value less impairment allowances, being the expected recoverable amount. In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio has been reduced by RM1,098,000 (2015: RM1,651,000), being the carrying value of the collective allowance for doubtful debts which covers unidentified losses inherent in the portfolio.

(iii) Credit commitments

The estimated fair values are not readily ascertainable as these financial instruments are generally not traded. In addition, the quantum of fees collected under these arrangements, upon which a fair value could be based, is not material.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

30 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Financial instruments measured at fair value

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

The estimated fair value is generally based on quoted market prices and observable market prices. Where there is no ready market in certain securities, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

(ii) Derivative financial instruments

The fair value of foreign exchange derivatives, interest rate derivatives and equity derivatives is the estimated amount the Bank would receive or pay to terminate the contracts at the reporting date.

MFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (ie. as prices) or indirectly (ie. derived from prices); and
- (c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table represents the Bank's financial assets and liabilities measured at fair value as at financial year ended:

<u>2016</u>	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>Financial assets</u>				
Financial assets held for trading	-	986,291	-	986,291
Derivative financial instruments	-	917,635	-	917,635
Financial assets available-for-sale	-	140,963	-	140,963
<u>Financial liabilities</u>				
Derivative financial instruments	-	799,373	-	799,373

J.P. MORGAN CHASE BANK BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

30 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Financial instruments measured at fair value (continued)

The following table represents the Bank's financial assets and liabilities measured at fair value as at financial year ended: (continued)

<u>2015</u>	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>Financial assets</u>				
Financial assets held for trading	-	20,309	-	20,309
Derivative financial instruments	-	987,556	-	987,556
Financial assets available-for-sale	-	142,192	-	142,192
<u>Financial liabilities</u>				
Derivative financial instruments	-	849,235	-	849,235

The fair value of financial instruments traded in active markets (such as financial assets held for trading and financial assets available-for-sale) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Bank uses a variety of methods and makes assumptions that are based on market conditions existing of each date of statement of financial position. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. These investments are included in Level 2 and comprise debt investments and derivative financial instruments. In infrequent circumstances where the valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in Level 3.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

31 EMPLOYEE BENEFITS

*Equity compensation benefits*

The incentive compensation benefits are determined by the ultimate holding corporation, JPMC. The following schemes are applicable to the employees of JPMC:

Long-Term Incentive Plan ("LTIP")

Under the LTIP, common stock-based awards, including stock options, restricted stock, and restricted stock units ("RSU") are granted to certain key employees employed by JPMC and its subsidiaries.

Stock options are granted with an exercise price equal to JPMC's common stock price on the grant date. Generally, options cannot be exercised until at least one year after the grant date and become exercisable over various periods as determined at the time of the grant. These awards generally expire 10 years after grant date.

Restricted stock and RSUs are granted by JPMC at no cost to the recipient. These awards are subject to forfeiture until certain restrictions have lapsed, including continued employment for a specific period. The recipient of a share of restricted stock is entitled to voting rights and dividends on the common stock. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse; the recipient is entitled to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding.

Value Sharing Plan is a broad-based employee stock option plan in which JPMC grants stock options to other employees as recognition of the services rendered.

(a) Restricted Stock and RSUs

Compensation expense for restricted stock and RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date, and is recognised in the income statement.

	2016		2015	
	Number of restricted stock/RSU	Weighted average fair value at grant date USD	Number of restricted stock/RSU	Weighted average fair value at grant date USD
Outstanding at 1 January	24,412	54.63	27,102	48.21
Granted during the year	9,627	57.24	9,433	55.91
Exercised during the year	(10,151)	58.29	(11,638)	59.04
Cancelled during the year	(1,297)	56.82	(70)	46.58
Transferred during the year	-	-	(415)	54.63
	22,591	56.83	24,412	54.63



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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar arrangements.

	Gross amount of recognised financial assets <u>financial assets</u> RM'000	Gross amount of recognised financial liabilities set off in the statement of financial position <u>financial position</u> RM'000	Net amount of financial assets presented in the statement of financial position <u>financial position</u> RM'000	Related amounts not set off in the statement of financial position		Net amount RM'000
				Financial instruments RM'000	Cash collateral received RM'000	
<u>2016</u>						
Derivative financial instruments	917,635	-	917,635	-	157,166	760,469
<u>2015</u>						
Derivative financial instruments	987,556	-	987,556	-	194,776	792,780

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J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Financial liabilities

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar arrangements

	Gross amount of recognised financial liabilities <u>financial liabilities</u> RM'000	Gross amount of recognised financial assets set off in the statement of financial position <u>financial position</u> RM'000	Net amount of financial liabilities presented in the statement of financial position <u>financial position</u> RM'000	<u>Related amounts not set off in the statement of financial position</u>		<u>Net amount</u> RM'000
				<u>Financial instruments</u> RM'000	<u>Cash collateral placed</u> RM'000	
<u>2016</u>						
Derivative financial instruments	799,373	-	799,373	-	138,887	660,486
	<u>799,373</u>	<u>-</u>	<u>799,373</u>	<u>-</u>	<u>138,887</u>	<u>660,486</u>
<u>2015</u>						
Derivative financial instruments	849,235	-	849,235	-	48,049	801,186
	<u>849,235</u>	<u>-</u>	<u>849,235</u>	<u>-</u>	<u>48,049</u>	<u>801,186</u>

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Bank and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

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J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 30 May 2017.

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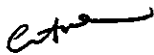
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J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

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

We, Lau Souk Huan and Steven Ronald Clayton, being two of the Directors of J.P. Morgan Chase Bank Berhad, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 6 to 81 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2016 and the financial performance of the Bank for the financial year ended 31 December 2016 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, Bank Negara Malaysia Guidelines and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution.



LAU SOUK HUAN  
DIRECTOR



STEVEN RONALD CLAYTON  
DIRECTOR

Kuala Lumpur  
30 May 2017

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

I, Mark Ling Lip Keong, being the Officer primarily responsible for the financial management of J.P. Morgan Chase Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 81 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



MARK LING LIP KEONG

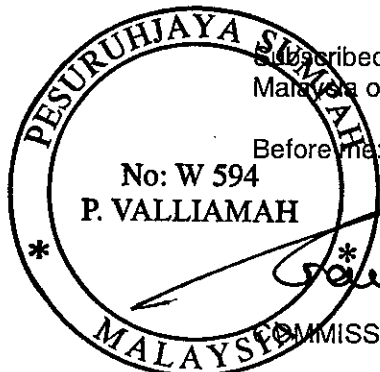
Subscribed and solemnly declared by the above named Mark Ling Lip Keong at Kuala Lumpur in Malaysia on 30 May 2017.

Before me:

No: W 594  
P. VALLIAMAH



COMMISSIONER FOR OATHS





**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)  
(Company No. 316347 D)**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Our opinion

In our opinion, the financial statements of J.P. Morgan Chase Bank Berhad (“the Bank”) give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 81.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ 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.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF J.P. MORGAN CHASE BANK BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 316347 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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



**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF J.P. MORGAN CHASE BANK BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 316347 D)

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

Auditors' responsibilities for the audit of the financial statements

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

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

- (a) Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF J.P. MORGAN CHASE BANK BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 316347 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

MANJIT SINGH A/L HAJANDER SINGH  
(No. 2954/03/19 (J))  
Chartered Accountant

Kuala Lumpur  
30 May 2017