Company No.

316347	D

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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J.P. MORGAN CHASE BANK BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Directors are pleased to submit their report to the members together with the audited financial statements of the Bank for the financial year ended 31 December 2018.

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	64,673

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 2018.

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 32 to the financial statements.

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:

Osman Tarique Morad (appointed on 2 January 2019)
Robert Armor Morris
Steven Ronald Clayton
Faisal bin Ismail
Omar bin Malek Ali Merican
John Terrence Murphy (appointed on 8 January 2019)
John Leo Buckley (resigned on 19 June 2018)
Fauziah binti Hisham (resigned on 7 March 2018)

In accordance with Article 99 of the Bank's Constitution, Faisal bin Ismail will retire at the forthcoming Annual General Meeting and, being eligible, has offered himself for re-election.

In accordance with Article 103 of the Bank's Constitution, John Terrence Murphy and Osman Tarique Morad, will retire at the forthcoming Annual General Meeting, and being eligible, have offered 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 24 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 24 and Note 27 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 22 to the financial statements

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 expected credit losses 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 expected credit losses 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.

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 2018

The Bank had a great start for the first half of the year, and followed by a slow down in the third quarter onwards. Nevertheless, the Bank's key businesses, in particular transaction services, trade, wholesale banking and markets flow business, delivered moderate growth which further strengthened its position within the domestic Malaysian market.

The Bank recorded a profit before tax of RM91 million in FY 2018, an increase of RM9 million against FY 2017. Net interest income increased by RM32 million or 81% to RM72 million, contributed by higher interest income on money at call and placement with financial institutions and on financial assets held at fair value through other comprehensive income/financial assets available-for-sale of RM27 million and RM26 million respectively; offset by the increase in the interest expense from deposits from customers of RM25 million. Other operating income decreased by RM17 million or 9%, mainly arising from the unrealised loss from revaluation of derivatives. Meanwhile, operating expenses increased by RM5 million or 3% to RM161 million.

The Bank's total assets increased by 49% to RM9.6 billion, contributed by higher cash and short-term funds, financial assets held at fair value through profit and loss and financial assets held at fair value through other comprehensive income/financial assets available-for-sale of RM771 million, RM1.1 billion and RM1.2 billion respectively. Deposits from customers showed an increase of 94% or RM2.9 billion to RM6.1 billion. The Bank's total capital ratio remained strong at 23.5%, with its Tier 1 capital ratio at 23.3% as at end of 2018.

BUSINESS OUTLOOK FOR 2019

The macro-economic environment appears challenging in FY 2019. A slowdown in economic growth and possible flare up in the U.S. China Trade War, as well as financial-market volatility, are the main downside risks to the economy. Despite the challenges, J.P. Morgan will remain focused on the quality and stability of the Bank's earnings by investing in transaction services, trade and wholesale banking businesses while also enhancing flow business. J.P. Morgan's target clients, which consist of multi-national corporations, large domestic corporates, financial institutions and non-bank financial institutions, benefit from the Bank's significant competitive advantage in terms of the Bank's broad product mix and global network. Both elements ensure the Bank can effectively service clients that have both domestic and international presence.

Globally, with J.P. Morgan's strong capitalisation, fortress balance sheet and proven track record in meeting the needs of the Bank's clients with exceptional products, innovative solutions and best in class advice, the Bank's 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 will remain a significant focus of the Bank. These businesses will continue to contribute positively to the Bank's growth aspirations.

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

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 26 March 2019. Signed on behalf of the Board of Directors:

FAISAL BIN ISMAIL
DIRECTOR

STEVEN RONALD CLAYTON
DIRECTOR

Kuala Lumpur
17 May 2019

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Cash and short-term funds	2	4,665,101	3,893,686
Securities purchased under resale agreement		39,166	46,776
Financial assets held at fair value through profit and loss ("FVTPL")	3	2,024,152	887,490
Derivative financial instruments	4	568,207	516,759
Financial assets available-for-sale ("AFS")	5	-	148,476
Financial assets held at fair value through other comprehensive income ("FVOCI")	6	1,356,469	-
Loans and advances	7	353,149	307,077
Amount due from related parties	8	456,667	549,747
Statutory deposits with Bank Negara Malaysia	9	2	2
Other assets	10	87,514	53,854
Tax recoverable		13,985	19,889
Deferred tax assets	11	3,120	3,110
Fixed assets	12	4,085	5,906
TOTAL ASSETS		9,571,617	6,432,772
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from customers	13	6,064,237	3,129,533
Deposits and placements of banks and other financial institutions	14	550,791	224,762
Obligations on securities sold under repurchase agreements		21,815	48,384
Derivative financial instruments	4	546,530	519,968
Amount due to related parties	15	1,137,157	1,352,728
Other liabilities	16	137,642	112,439
Total liabilities		8,458,172	5,387,814
Share capital	17	127,500	127,500
Retained earnings		959,653	896,950
Reserves	18	26,292	20,508
Shareholder's equity		1,113,445	1,044,958
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		9,571,617	6,432,772
COMMITMENTS AND CONTINGENCIES	26	77,516,609	64,125,536

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Interest income	19	143,215	87,044
Interest expense	20	(71,329)	(47,221)
Net interest income		71,886	39,823
Other operating income	21	180,304	197,599
Net income		252,190	237,422
Operating expenses	22	(160,650)	(155,488)
Operating profit before allowances		91,540	81,934
Expected credit losses/allowance for losses on loans and advances	23	(618)	(218)
Profit before taxation		90,922	81,716
Taxation	25	(26,249)	(21,135)
Net profit for the financial year		64,673	60,581
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
- Employee share option scheme		(6,100)	2,139
Items that may be subsequently reclassified to profit or loss			
- Net unrealised loss on revaluation of financial assets available-for-sale		-	(279)
- Net unrealised gain on revaluation of financial assets held at fair value through other comprehensive income debt instruments		122	-
- Income tax relating to component of other comprehensive income		(29)	67
Other comprehensive (loss)/income, net of tax		(6,007)	1,927
Total comprehensive income for the financial year		58,666	62,508

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Fair value reserve of OCI RM'000	Option reserve RM'000	Regulatory reserve RM'000	Distributable Retained earnings RM'000	Total RM'000
At 1 January 2018		127,500	-	-	40	18,053	2,415	896,950	1,044,958
Adjustments arising from adoption of MFRS 9	34	-	-	-	-	-	9,636	185	9,821
Adjusted opening balances		127,500	-	-	40	18,053	12,051	897,135	1,054,779
Net profit for the financial year		-	-	-	-	-	-	64,673	64,673
Transfer to regulatory reserve		-	-	-	-	-	2,155	(2,155)	-
Other comprehensive income		-	-	-	93	-	-	-	93
Employee share option expense for the year	32	-	-	-	-	2,358	-	-	2,358
Employee share option expense recharge by JPMorgan Chase & Co		-	-	-	-	(8,458)	-	-	(8,458)
At 31 December 2018		127,500	-	-	133	11,953	14,206	959,653	1,113,445

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Fair value reserve - available-for-sale securities RM'000	Option reserve RM'000	Regulatory reserve RM'000	Distributable Retained earnings RM'000	Total RM'000
At 1 January 2017		85,500	42,000	97,778	252	15,914	6,379	734,627	982,450
Net profit for the financial year		-	-	-	-	-	-	60,581	60,581
Transfer from regulatory reserve		-	-	-	-	-	(3,964)	3,964	-
Transfer to share capital	17	42,000	(42,000)	-	-	-	-	-	-
Transfer from statutory reserves	18	-	-	(97,778)	-	-	-	97,778	-
Other comprehensive loss		-	-	-	(212)	-	-	-	(212)
Employee share option expense	32	-	-	-	-	2,139	-	-	2,139
At 31 December 2017		127,500	-	-	40	18,053	2,415	896,950	1,044,958

J.P. MORGAN CHASE BANK BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	90,922	81,716
Adjustments for items not involving the movement of cash and cash equivalents:		
Depreciation of fixed assets	3,495	5,711
Loss on written-off of fixed assets	18	31
Expected credit losses/allowance for losses on loan and advances	618	218
Share options (income)/expenses	(6,100)	2,139
Net (gain)/loss on derivatives	(11,074)	14,710
Net unrealised loss from revaluation of financial assets held at fair value through profit and loss	1,519	1,304
Net unrealised loss/(gain) in revaluation on derivatives	30,196	(27,258)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	109,594	78,571
Decrease in securities purchased under resale agreement	7,610	555,774
(Increase)/decrease in financial assets held at FVTPL	(1,129,216)	97,497
(Increase)/decrease in derivative financial instruments	(44,008)	134,019
Decrease/(increase) in financial assets AFS	148,476	(7,725)
Increase in financial assets held at FVOCI	(1,356,376)	-
(Increase)/decrease in loans and advances	(45,487)	310,967
(Increase)/decrease in other assets	(33,631)	219,671
Increase/(decrease) in deposits from customers	2,934,704	(2,327,657)
Increase/(decrease) in deposits and placements of banks and other financial institutions	326,029	(15,548)
Increase/(decrease) in other liabilities	24,856	(275,343)
Decrease in obligation on securities sold under repurchase agreement	(26,569)	(229,617)
(Decrease)/increase in amount due to related parties	(215,571)	738,988
Cash generated from/(used in) operating activities	700,411	(720,403)
Income taxes paid	(20,384)	(31,075)
Net cash generated from/(used in) operating activities	680,027	(751,478)

J.P. MORGAN CHASE BANK BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Note	2018 RM'000	2017 RM'000
CASH FLOWS FROM INVESTING ACTIVITY			
Purchase of fixed assets		(1,692)	(1,459)
Net cash used in investing activity		(1,692)	(1,459)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		678,335	(752,937)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		4,443,433	5,196,370
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR		5,121,768	4,443,433
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and short-term funds	2	4,665,101	3,893,686
Amount due from related parties	8	456,667	549,747
		5,121,768	4,443,433

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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, 2016 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, International Financial Reporting Standard 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 the 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 P.

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

The following amended standards and annual improvements have been adopted for the first time by the Bank for the financial year beginning on 1 January 2018:

- MFRS 9 "Financial Instruments"
- MFRS 15 "Revenue from Contracts with Customers"
- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"

The Bank has adopted MFRS 9 and MFRS 15 for the first time in the 2018 financial statements, which resulted in changes in accounting policies. Other than that, the adoption of other amendments to published standards above did not have any impact on the current period or any prior period and is not likely to affect future periods of the financial statements of the Bank.

A BASIS OF PREPARATION (CONTINUED)

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

(i) Adoption of MFRS 9 “Financial Instruments”

The adoption of MFRS 9 has resulted changes in the accounting policies for classification and measurement of financial instruments, impairment of financial assets and hedge accounting of the Bank. MFRS 9 also significantly amends other standard dealing with financial instruments such as MFRS 7 “Financial Instruments: Disclosures”.

The Bank has applied MFRS 9 retrospectively with date of initial application of 1 January 2018.

As permitted by the transition provisions of MFRS 9, the Bank elected not to restate the comparatives figures and continued to be reported under the previous accounting policies governed under MFRS 139. Any adjustments to the carrying amount of financial assets and liabilities at the end of transition were recognised in the opening retained earnings and other reserves of the current financial year.

The consequential amendments to MFRS 7 disclosures have also been applied to current reporting period. The comparative notes disclosures repeat those disclosures made in the prior year.

The impact of adoption of MFRS 9 of the Bank are summarised in Note 34.

(ii) Adoption of MFRS 15 “Revenue from Contracts with Customers”

MFRS 15 “Revenue from Contracts with Customers” replaces MFRS 118 “Revenue” and MFRS 111 “Construction Contracts” and their 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.

MFRS 15 is based on the principal that 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.

The Bank has applied MFRS 15 with the date of initial application of 1 January 2018 by adopting the modified retrospective transition method. Under the modified

A BASIS OF PREPARATION (CONTINUED)

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

(ii) Adoption of MFRS 15 "Revenue from Contracts with Customers" (continued)

retrospective transition method, the Bank applies the new policy retrospectively only to contracts that are not completed contracts at the date of initial application.

Accordingly, the 2017 comparative information was not restated and the cumulative effects of initial application of MFRS 15 were not recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018 as the financial impact is not material to the Bank. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118.

(iii) Presentation of interest for financial instruments measured at fair value through profit or loss

MFRS 9 introduced a consequential amendment to paragraph 82 (a) of MFRS 101 "Presentation of Financial Statements", which is effective for accounting periods beginning on or after 1 January 2018. Under this amendment, interest income calculated using the effective interest method should be separately presented as a component of revenue on the face of the income statement. The effective interest method does not apply to financial assets at fair value through profit or loss.

Accordingly, the Bank has presented interest income for financial assets at fair value through profit or loss separately in the income statement.

(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 2019:

- MFRS 16 "Leases" supersedes MFRS 117 "Leases" and the related interpretations.

  MFRS 16 has an effective date for annual periods beginning on or after 1 January 2019. MFRS 16 results in lessees accounting for most lease within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under MFRS 117 – 'Leases'. Lessees will recognise a right of use ("ROU") asset and corresponding lease liability on the balance sheet. The asset will be amortised over the length of the lease, and the lease liability measured at amortised cost. Lessor accounting remains substantially the same as under MFRS 117.

  At 1 January 2019, the Bank expects to adopt the standard using a modified retrospective approach where the cumulative effect of initially applying the standard is recognised through an adjustment to the opening balance of retained earnings and comparatives are not restated. The implementation is expected to increase ROU assets and increase lease liabilities with no effect on net assets or retained earnings.

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).

A number of new standards and amendments to standards and interpretations are effective for financial year beginning on or after 1 January 2019: (continued)

- IC Interpretation 23 “Uncertainty over Income Tax Treatments” provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty. IC Interpretation 23 will be applied retrospectively.

- Amendments to MFRS 9 “Prepayment features with negative compensation” allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model. The amendments will be applied retrospectively.

- Annual Improvements to MFRS’s 2015 – 2017 Cycle:

  - Amendments to MFRS 112 “Income Taxes” clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either Statement of Comprehensive Income or Equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

B INCOME RECOGNITION

Interest income is recognised in the income statement using the effective interest method. Interest income from financial assets at FVTPL is recognised as part of net gains or net losses on these financial instruments.

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.

Interest income on financial assets at amortised cost and financial assets at FVOCI (2017: loans and receivables and available-for-sale debt securities) is calculated using the effective interest method and is recognised in the income statement as part of interest income.

Accounting policies applied from 1 January 2018

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Accounting policies applied until 31 December 2017

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.

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 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.

E FINANCIAL ASSETS AND LIABILITIES

Accounting policies applied from 1 January 2018

(a) Classification and measurement

With effect from 1 January 2018, the Bank has applied MFRS 9 and classifies its financial assets as amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is based on both the business model for managing the financial assets and their contractual cash flow characteristics. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets are collected, how the assets' performance is evaluated, how risks are assessed and managed.

(b) Recognition and derecognition

The Bank recognises financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade-date, which is the date on which the Bank commits to purchase or sell an asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

E FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting policies applied from 1 January 2018 (continued)

(c) Subsequent measurement

There are three measurement categories into which the Bank classifies its financial assets and financial liabilities:

(i) Amortised cost

Financial assets are measured at amortised cost if they are held under a business model with the objective to collect contractual cash flows ("Hold to Collect") and they have contractual terms under which cash flows are solely payments of principal and interest ("SPPI"). In making the SPPI assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement).

Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in income statement and presented in net gain and loss from financial instruments together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement.

Financial assets measured at amortised cost include cash and short-term funds, loans and advances, securities purchased under resale agreements, amount due from related parties, statutory deposits with BNM and other assets.

(ii) Fair value through other comprehensive income (“FVOCI”)

Financial assets are measured at FVOCI if they are held under a business model with the objective of both collecting contractual cash flows and selling the financial assets ("Hold to Collect and Sell"), and they have contractual terms under which cash flows are SPPI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to income statement and recognised in other gains/(losses) on financial instruments. Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) on financial instruments and impairment losses are presented as separate line item in the Statement of Comprehensive Income.

E FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting policies applied from 1 January 2018 (continued)

(c) Subsequent measurement (continued)

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

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Bank may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes are recognised in income statement and presented net within other gains/(losses) on financial instruments in the period which they arise. Transaction costs of financial assets carried at FVTPL are expensed off in income statement.

(d) Impairment of financial assets and lending-related commitments

The Bank recognises expected credit losses ("ECL") for financial assets that are measured at amortised cost or FVOCI, and specified off-balance sheet lending-related commitments such as loan commitments and financial guarantee contracts.

Allowances for ECL are recognised on initial recognition of the financial instrument based on expectations of credit losses at that time. The expected credit loss allowance includes ECLs for financial instruments that may default in the next 12-month period for financial instruments that have not observed a significant increase in credit risk since initial recognition ("Stage 1") or over a lifetime period for financial instruments that have observed a significant increase in credit risk since initial recognition ("Stage 2"). The allowance also includes lifetime ECLs for financial instruments where there is objective evidence of credit-impairment at the reporting date ("Stage 3"). In determining the appropriate stage for a financial instrument, the Bank applies the definition of default consistent with the Bank defines 'default' for internal credit risk management purposes.

The determination of the stage for credit losses under the ECL model is dependent on the measurement of a significant increase in credit risk ("SICR"). In determining SICR, the Bank has conducted quantitative tests, which consider, but is not limited to, existing risk management indicators, credit rating changes and reasonable and supportable forward-looking information. Forward-looking information reflects a range of scenarios that incorporate macro-economic factors that are composed and monitored by a JPMorgan Chase's firm-wide specialised economic forecasting team.

The key input components for the quantification of expected credit loss through the ECL model includes the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). Differences observed between content in existing frameworks and requirements under MFRS 9 have been identified and are adjusted accordingly. The inputs to the ECL model capture historical datasets and supportable forecasting horizon to estimate expected credit losses.

Note 30 provides more detail on how the expected credit loss allowance is measured.

E FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting policies applied from 1 January 2018 (continued)

(e) Write-off

Loan and advances are written off when it is highly certain that a loss has been realised. The determination of whether to recognise a write-off includes the prioritisation of the Bank's claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity/ loan collateral.

All other financial assets are written off when there is no reasonable expectation of recovery and the amount of loss can be reasonably estimated or when the asset is past due for a specified period.

(f) Determining fair value

The fair value of financial instruments measured at FVTPL and FVOCI 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 internally developed 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.

(g) Regulatory reserve requirements

Pursuant to BNM letter dated 1 November 2017, effective from 1 January 2018, the Bank shall maintain, in aggregate, Stage 1 and Stage 2 provisions and regulatory reserves of no less than 1% of all credit exposures (on and off balance sheet that are subject to MFRS 9 impairment requirement, excluding exposures to and with an explicit guarantee from Malaysia Government, Bank, a licensed bank, a licensed investment bank, a licensed Islamic Bank and a prescribed development financial institution) net of Stage 3 provision.

Prior to MFRS 9 implementation, the Bank was required to maintain in aggregate collective impairment allowances and regulatory reserves of no less then 1.2% of the total outstanding loans, advances and financing, net of individual impairment allowances.

E FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting policies applied until 31 December 2017

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. The Bank 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.

(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 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.

E FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting policies applied until 31 December 2017 (continued)

(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.

Derecognition of financial assets and financial 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 test 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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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. 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;

E FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting policies applied until 31 December 2017 (continued)

Impairment of financial assets (continued)

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include: (continued)

(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.

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.

E FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting policies applied until 31 December 2017 (continued)

Impairment of financial assets (continued)

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.

Write-off

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.

F 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.

G 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 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.

G IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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.

H FIXED ASSETS

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

Depreciation of fixed assets is calculated on a straight line basis over the estimated useful lives.

The principal useful lives used are as follows:

	Years
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 to its recoverable amount.

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

I 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.

I CURRENCY TRANSLATIONS (CONTINUED)

(b) Foreign currency transactions and balances (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as FVOCI/available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. 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 income statement as part of the fair value gain or loss.

J 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.

K 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 32.

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.

The Bank has recognised all equity compensation benefits as equity-settled, whereby all these employee benefit expenses are credited to "Option reserve" under equity. For employee benefit expenses where the Bank has an obligation to settle with JPMorgan Chase & Co the corresponding amounts are transferred from "Option reserve" to "Other liabilities".

L 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.

M 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.

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.

Accounting policies applied from 1 January 2018

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 “Financial instruments” and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 “Revenue from Contracts with Customers”, where appropriate.

Accounting policies applied until 31 December 2017

Financial guarantee contracts are subsequently measured 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.

N CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and short-term funds and amount due from related parties.

O 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 income statement.

P 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 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 financial assets held at fair value through profit and loss or held for trading are valued based upon quoted market prices. 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.

P CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Expected credit losses/allowance for losses on loans and advances

Applied from 1 January 2018

An ECL is required for financial assets measured at amortised cost and fair value through other comprehensive income as well as lending-related commitments such as loan commitments and financial guarantees. The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behaviours. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 30, which also sets out key sensitivities of the ECL to changes in these inputs.

A number of significant judgements are also required in measuring ECL, such as:
- Determining the criteria for identifying when financial instruments have experienced a significant increase in credit risk;
- Choosing appropriate forecasts and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type financial instrument/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

For Multinational Corporations (“MNC”) exposures which are not supported by legally enforceable guarantee, management makes judgement based of local standalone risk grading for ECL measurement.

Applied until 31 December 2017

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.

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

	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	35,230	29,684
Money at call and deposit placements maturing within one month	4,629,871	3,864,002
	4,665,101	3,893,686

3 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

	2018 RM'000	2017 RM'000
Money market instruments		
Malaysian Government Securities	1,223,825	534,543
Bank Negara Interbank Bills	397,942	-
Malaysian Treasury Bills	4,943	-
Malaysian Government Investment Issuance	192,568	246,479
Unquoted securities		
Private debt securities	197,344	106,468
Unquoted shares	7,530	-
	2,024,152	887,490

4 DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount	Fair values Assets	Fair values Liabilities
	RM'000	RM'000	RM'000
At 31 December 2018			
Foreign exchange derivatives			
Currency forwards	33,486,761	140,859	(154,760)
Cross-currency interest rate swaps	3,737,930	48,587	(61,349)
Currency options	82,740	963	-
	37,307,431	190,409	(216,109)
Interest rate derivatives			
Interest rate swaps	34,526,127	80,223	(45,938)
Credit related derivatives			
Credit default swaps	374,346	18,052	(6,629)
Equity related derivatives			
Equity options	3,467,847	279,523	(277,854)
Total derivative assets/(liabilities)	75,675,751	568,207	(546,530)

4 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Notional amount	Fair values Assets	Fair values Liabilities
	RM'000	RM'000	RM'000
At 31 December 2017			
Foreign exchange derivatives			
Currency forwards	18,787,523	228,080	(284,851)
Cross-currency interest rate swaps	3,912,471	76,707	(100,586)
Currency options	20,273	1	-
	22,720,267	304,788	(385,437)
Interest rate derivatives			
Interest rate swaps	36,928,202	130,392	(75,279)
Credit related derivatives			
Credit default swaps	50,050	4,052	-
Equity related derivatives			
Equity options	2,568,635	77,527	(59,252)
Total derivative assets/(liabilities)	62,267,154	516,759	(519,968)

5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2018 RM'000	2017 RM'000
Money market instruments		
Malaysia Treasury Bills	-	148,476

6 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RM'000	2017 RM'000
Money market instruments		
Bank Negara Interbank Bills	1,356,469	-

7 LOANS AND ADVANCES

(i) Loans and advances analysed by type of loan are as follows:

	2018	2017
Overdrafts	27,847	37,503
Housing loans	600	703
Staff loans	652	741
Revolving credits	218,155	175,981
Trade finance	106,099	93,475
	353,353	308,403
Less: Expected credit loss ("ECL")/allowance for losses on loans and advances:		
- Individual assessment	-	(41)
- Collective assessment	-	(1,285)
- Credit impaired	(23)	-
- Not credit impaired	(181)	-
Total net loans and advances	353,149	307,077

7 LOANS AND ADVANCES (CONTINUED)

	2018 RM'000	2017 RM'000
(ii) The maturity structure of loans and advances are as follows:		
Maturity within		
- one year	352,255	306,973
- one year to three years	46	172
- three years to five years	169	118
- over five years	883	1,140
	353,353	308,403
(iii) Loans and advances analysed by type of customers are as follows:		
Domestic business enterprises	332,573	273,388
Individuals	1,252	1,444
Foreign entities	19,528	33,571
	353,353	308,403
(iv) Loans and advances analysed by interest sensitivity are as follows:		
Fixed rate		
- Housing loans	1,252	1,444
Variable rate		
- Cost-plus	352,101	306,959
	353,353	308,403
(v) Loans and advances analysed by their economic purpose are as follows:		
Purchase of landed properties	1,252	1,444
Working capital	352,101	306,959
	353,353	308,403
(vi) Loans and advances analysed by their geographical distribution are as follows:		
In Malaysia	333,825	274,832
Other countries	19,528	33,571
	353,353	308,403

7 LOANS AND ADVANCES (CONTINUED)

	2018 RM'000	2017 RM'000
(vii) Loans and advances analysed by measurement basis are as follows:		
Amortised cost	353,353	308,403
(viii) Impaired loans		
(a) Movements in impaired loans and advances are as follows:		
At 1 January	111	123
Classified as impaired during the financial year	10	54
Reclassified as performing during the financial year	-	(54)
Amount recovered	(55)	(12)
At 31 December	66	111
Individual assessment allowance	-	(41)
ECL – credit impaired	(23)	-
Net impaired loans and advances	43	70
Ratio of net impaired loans and advances to net loans and advances	0.01%	0.02%
(b) Movements in ECL/allowance for impaired loans and advances are as follows:		
Individual assessment allowance		
At 1 January	41	45
Effects of adoption of MFRS 9	(41)	-
	-	45
Written back during the financial year	-	(4)
At 31 December	-	41

7 LOANS AND ADVANCES (CONTINUED)

	2018 RM'000	2017 RM'000
(viii) Impaired loans (continued)		
(b) Movements in ECL/allowance for impaired loans and advances are as follows: (continued)		
Collective assessment allowance		
At 1 January	1,285	1,053
Effects of adoption of MFRS 9	(1,285)	-
	-	1,053
Written back during the financial year	-	232
At 31 December	-	1,285
(c) Impaired loans analysed by their economic purpose are as follows:		
Purchase of landed property	66	111
(d) Impaired loans analysed by their geographical distribution are as follows:		
Malaysia	66	111

8 AMOUNT DUE FROM RELATED PARTIES

	2018 RM'000	2017 RM'000
Current deposits	92,534	357,284
Other receivables	364,133	192,463
	456,667	549,747

9 STATUTORY DEPOSITS WITH BNM

The non-interest bearing statutory deposits are maintained with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which is determined at set percentages of total eligible liabilities.

As of 31 December 2018, the Bank has RM2,000 (2017: RM2,000) statutory deposits with BNM.

10 OTHER ASSETS

	2018 RM'000	2017 RM'000
Other receivables	77,844	49,612
Deposits and prepayments	9,670	4,242
	87,514	53,854

11 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.

	2018 RM’000	2017 RM’000
Excess of depreciation over capital allowances	(98)	(60)
Financial assets held at fair value through other comprehensive income/available-for-sale	(41)	(12)
Other liabilities	3,259	3,182
Deferred tax assets	3,120	3,110

11 DEFERRED TAX ASSETS (CONTINUED)

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

	Excess of depreciation over capital allowances RM'000	Fair value through other comprehensive income RM'000	Other liabilities RM'000	Total RM'000
2018				
At 1 January	(60)	(12)	3,182	3,110
Credited/(Debited) to Income Statement (Note 25)	(38)	-	77	39
Charged to reserve	-	(29)	-	(29)
At 31 December	(98)	(41)	3,259	3,120

	Excess of depreciation over capital allowances RM'000	Financial assets available-for-sale RM'000	Other liabilities RM'000	Total RM'000
2017				
At 1 January	(830)	(79)	3,312	2,403
Credited/(Debited) to income statement (Note 25)	770	-	(130)	640
Charged to reserve	-	67	-	67
At 31 December	(60)	(12)	3,182	3,110

12 FIXED ASSETS

	Bank premises RM'000	Computers RM'000	Total RM'000
2018			
Cost			
At 1 January	16,939	18,462	35,401
Additions	6	1,686	1,692
Disposals and write-off	-	(597)	(597)
At 31 December	16,945	19,551	36,496
Accumulated depreciation			
At 1 January	12,979	16,516	29,495
Charge for the financial year	2,372	1,123	3,495
Disposals and write-off	-	(579)	(579)
At 31 December	15,351	17,060	32,411
Net book value			
At 31 December	1,594	2,491	4,085

	Bank premises RM'000	Computers RM'000	Total RM'000
2017			
Cost			
At 1 January	16,939	19,325	36,264
Additions	-	1,459	1,459
Disposals and write-off	-	(2,322)	(2,322)
At 31 December	16,939	18,462	35,401
Accumulated depreciation			
At 1 January	10,237	15,838	26,075
Charge for the financial year	2,742	2,969	5,711
Disposals and write-off	-	(2,291)	(2,291)
At 31 December	12,979	16,516	29,495
Net book value			
At 31 December	3,960	1,946	5,906

13 DEPOSITS FROM CUSTOMERS

	2018 RM'000	2017 RM'000
(i) Deposits from customers analysed by type of deposits are as follows:		
Demand deposits	6,036,321	3,101,125
Fixed deposits	27,916	28,408
	6,064,237	3,129,533
Maturity structure of fixed deposits are as follows:		
Due within six months	27,916	28,408
(ii) Deposits from customers analysed by type of customers are as follows:		
Business enterprises	6,063,882	3,129,157
Others	355	376
	6,064,237	3,129,533

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

Licensed banks	549,063	220,681
Other financial institutions	1,728	4,081
	550,791	224,762

15 AMOUNT DUE TO RELATED PARTIES

Current deposits	106,265	158,176
Fixed deposits	1,018,320	1,186,853
Other payables	12,572	7,699
	1,137,157	1,352,728

16 OTHER LIABILITIES

	2018 RM'000	2017 RM'000
Other payables	122,461	99,300
Accruals and charges	14,298	13,139
Expected credit losses – off-balance sheet lending commitment	883	-
	137,642	112,439

17 SHARE CAPITAL

	2018 RM'000	2017 RM'000
Issued and fully paid:		
At 1 January	127,500	85,500
Transfer from share premium	-	42,000
At 31 December	127,500	127,500

The Companies Act, 2016 in Malaysia, which came into effect on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Key changes as below:

(a) the removal of the authorised share capital;
(b) the ordinary shares of the Bank will cease to have par or nominal value; and
(c) the Bank's share premium will become part of the share capital.

18 RESERVES

	2018 RM'000	2017 RM'000
Option reserve	11,953	18,053
Regulatory reserve	14,206	2,415
Fair value reserve – available-for-sale securities	-	40
Fair value reserve – Financial asset through other comprehensive income	133	-
	26,292	20,508

(i) The statutory reserve is maintained in compliance with BNM guidelines. Effective 3 May 2017, there is no requirement to maintain statutory reserves for banking entities in Malaysia, in accordance with BNM Guideline – Capital funds. The Bank has released these reserves of RM97,778,000 and transfer back to retained earnings as of 31 December 2017.

(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 financial assets held at fair value through other comprehensive income/available-for-sale securities is as follows:

	2018 RM'000	2017 RM'000
At 1 January	40	252
- Net unrealised loss on revaluation of financial assets available for sale	-	(279)
- Net unrealised gain on revaluation of financial assets Measured at fair value through other comprehensive income debt instruments	122	-
- Income tax relating to component of other comprehensive income	(29)	67
At 31 December	133	40

19 INTEREST INCOME

	2018 RM'000	2017 RM'000
Loans and advances		
- Interest income other than recoveries from impaired loans	13,805	10,341
- Recoveries from impaired loans	11	6
Money at call and placements with financial institutions	99,085	72,064
Financial assets held at fair value through other comprehensive income/available-for-sale	30,314	4,633
	143,215	87,044

20 INTEREST EXPENSE

	2018 RM'000	2017 RM'000
Deposits from customers	59,530	34,621
Deposits and placements of banks and other financial institutions	11,799	12,600
	71,329	47,221

21 OTHER OPERATING INCOME

	2018 RM'000	2017 RM'000
Fee income:		
Service charges and fees	4,643	4,405
Guarantee fees	3,622	3,688
	8,265	8,093
Net income from securities:		
- Net gain from sale of financial assets held at fair value through profit and loss	5,017	11,783
- Net unrealised loss from revaluation of financial assets held at fair value through profit and loss	(1,519)	(1,304)
- Interest income from financial assets held at fair value through profit and loss	43,974	48,746
Derivatives:		
- Net gain/(loss) on derivatives	11,074	(14,710)
- Unrealised (loss)/gain from revaluation of derivatives	(30,196)	27,258
Other income:		
Foreign exchange gain	73,885	58,415
Other operating income	69,714	59,082
Loss on written-off of fixed assets	(18)	(31)
Other non-operating income	108	267
	180,304	197,599

22 OPERATING EXPENSES

	2018 RM'000	2017 RM'000
(a) Operating expenses		
Personnel costs:		
- Wages, salaries and bonuses	41,870	39,065
- Defined contribution retirement plan	5,793	5,533
- Other employee benefits	10,005	8,019
	57,668	52,617
Establishment costs:		
- Equipment and fittings repairs, maintenance and rental	1,648	1,154
- Rental of premise	3,620	3,764
- Depreciation of fixed assets	3,495	5,711
- Utilities	820	769
- Others	1,027	750
	10,610	12,148
Marketing expenses	1,499	1,549
Administration and general expenses:		
- Management and attribution fees paid	75,406	79,976
- Banking and corporate expenses	8,990	3,973
- Office supplies, communication expenses and insurance	4,360	3,781
- Postage and shipping charges	83	213
- Other general expenses	2,034	1,231
	90,873	89,174
	160,650	155,488

	2018 RM'000	2017 RM'000
The above expenditure includes the following statutory disclosures:		
Directors' remuneration (Note 24)	4,954	4,540
Hire of equipment	465	441
Auditors' remuneration:		
- audit fees	358	343
- non-audit fees	146	86

22 OPERATING EXPENSES (CONTINUED)

	2018 RM'000	2017 RM'000
(b) Management and attribution fees breakdown by geographical location		
United States of America ("USA")	29,939	23,031
Singapore	20,761	20,846
Hong Kong	13,765	17,964
United Kingdom	5,318	3,962
Malaysia	756	975
Others	4,867	13,198
	75,406	79,976
Management and attribution fees breakdown by type of services		
Information Technology Related Support	20,704	19,299
Transaction Management Services	8,426	11,286
Sales and Marketing Attribution	7,803	3,571
Operational Services Support	4,529	4,525
Finance Support	4,085	4,159
Wholesale Client Onboarding	3,259	3,269
Treasury Support	2,989	2,572
Credit Portfolio Group	2,896	2,527
Compliance	2,657	3,474
Corporate Finance Support	2,160	1,381
Others	15,898	23,913
	75,406	79,976

23 EXPECTED CREDIT LOSSES/ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

	2018 RM'000	2017 RM'000
Expected credit losses/Allowance for losses on loans and advances:		
(a) Individual assessment allowance		
- Written back	-	4
(b) Collective assessment allowance		
- Made	-	(232)
ECL – off-balance sheet lending commitment	(537)	-
ECL – loans and advances	(80)	-
Loans and advances (written off)/recovered	(1)	10
	(618)	(218)

24 DIRECTORS' REMUNERATION

	2018 RM'000	2017 RM'000
Chief Executive Officer:		
- Salary, bonuses and other remuneration	4,402	4,062
- Defined contribution retirement plan	518	475
- Benefits-in-kind	34	3
	4,954	4,540
Executive Director:		
- Fees/allowances		
John Leo Buckley (resigned on 19 June 2018)	-	-
	-	-
Non-executive Directors:		
- Fees/allowances		
Faisal Bin Ismail	156	116
Omar bin Malek Ali Merican	131	114
Robert Armor Morris	120	-
Fauziah Binti Hisham (resigned on 7 March 2018)	29	146
Christine Lau (resigned on 22 September 2017)	-	82
	436	458

25 TAXATION

	2018 RM'000	2017 RM'000
(a) Tax expense for the financial year		
Current year tax		
- Malaysian income tax	25,316	21,812
- Under/(over) provision in respect of prior year	972	(37)
Deferred tax		
- Origination and reversal of temporary differences	(37)	(414)
- Under provision in respect of prior years	(2)	(226)
	26,249	21,135

(b) Numerical reconciliation of income tax expense

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

	2018 RM'000	2017 RM'000
Profit before taxation	90,922	81,716
Tax calculated at a tax rate of 24%	21,821	19,612
Expenses not deductible for tax purposes	3,458	1,786
Under/(over) provision in respect of prior year	972	(37)
Under provision of temporary differences in prior years	(2)	(226)
Tax expense	26,249	21,135

26 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:

	2018 Principal amount RM'000	2017 Principal amount RM'000
Credit-related		
Direct credit substitutes	479,113	211,350
Transaction-related contingent items	69,002	37,791
Short-term self-liquidating trade related contingencies	1,382	27,485
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:		
- over one year	174,117	150,361
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	1,117,244	1,431,395
Treasury-related		
Foreign exchange related contracts:		
- less than one year	33,639,324	18,957,817
- one year to less than five years	3,461,257	2,742,824
- more than five years	206,850	1,019,626
Interest rate related contracts:		
- less than one year	5,588,611	8,838,712
- one year to less than five years	27,887,921	25,891,420
- more than five years	1,049,595	2,198,070
Credit related contracts:		
- one year to less than five years	374,346	50,050
Equity related contracts:		
- less than one year	2,346,030	1,855,696
- one year to less than five years	1,121,817	712,939
	77,516,609	64,125,536

27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

Name of related parties	Relationship
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.

	2018		2017	
	Related entities	Key management personnel	Related entities	Key management personnel
	RM'000	RM'000	RM'000	RM'000
Significant related party transactions of the Bank:				
Income				
Interest on current deposit	2,718	-	395	-
Interest on fixed deposit	-	-	18	-
Management and attributions fees received	69,714	-	59,082	-
Expense				
Interest on current deposit	1,724	-	1,401	-
Interest on fixed deposit	2,398	-	6,537	-
Rental recovery	(1,112)	-	(1,080)	-
Nostro account charges	61	-	69	-
Management and attribution fees paid	75,406	-	79,976	-

27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	2018		2017	
	Related entities	Key management personnel	Related entities	Key management personnel
	RM'000	RM'000	RM'000	RM'000
Related party balances of the Bank:				
Amount due from				
Current deposit	92,534	-	357,283	-
Other receivables	364,133	-	192,464	-
	456,667	-	549,747	-
Amount due to				
Current deposit	106,265	-	158,176	-
Fixed deposit	1,018,320	-	1,186,853	-
Other payables	12,572	-	7,699	-
	1,137,157	-	1,352,728	-

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 deposits were at normal commercial rates.

Key management compensation:

	2018	2017
	RM'000	RM'000
Salaries and other short-term employee benefits	13,195	11,070
	Unit	Unit
Shares, restricted stock units and share options balance of ultimate holding corporation	10,969	66,891

Included in the above is the Executive Directors' compensation which is disclosed in Note 24. 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.

27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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 2008, are as follows:

	2018 RM'000	2017 RM'000
Outstanding credit exposures with connected parties	174,914	155,625
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	5.07%	5.17%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	0%	0%

28 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:

	2018 RM'000	2017 RM'000
Not later than one year	106	108
Later than one year and not later than five years	308	414

29 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:

	2018 RM'000	2017 RM'000
Tier-I capital		
Paid-up share capital	127,500	127,500
Retained earnings	959,653	896,950
Fair value reserve – available-for-sale securities	-	40
Fair value reserve through other comprehensive income	133	-
Option reserve	11,953	18,053
	1,099,239	1,042,543
Deferred tax assets	(3,120)	(3,110)
Financial Assets available-for-sale securities	-	(22)
Financial Assets at fair value through other other comprehensive income	(73)	-
Total Tier I capital	1,096,046	1,039,411
Tier-II capital		
Regulatory reserve	14,206	2,415
Collective assessment allowance	-	1,285
ECL not credit impaired	181	-
Total Tier II capital	14,387	3,700
Total capital	1,110,433	1,043,111
Common Equity Tier 1 capital ratio	23.174%	25.911%
Tier 1 capital ratio	23.174%	25.911%
Total capital ratio	23.478%	26.004%

29 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2018:

Exposure Class	Gross exposures	Net exposures	Risk weighted assets	Capital requirements
	RM'000	RM'000	RM'000	RM'000
(a) Credit Risk				
On-balance sheet exposures				
Sovereigns/central banks	6,054,980	6,054,980	248,235	19,859
Public Sector Entities	158	158	32	3
Banks	261,662	261,662	52,345	4,188
Insurance companies, securities firms and fund managers	298,911	298,911	149,870	11,990
Corporates	354,525	354,525	353,312	28,265
Residential mortgages	1,182	1,182	414	33
Higher risk assets	4	4	6	1
Other assets	24,748	24,748	24,594	1,967
Defaulted exposures	43	43	21	2
Total on-balance sheet exposures	6,996,213	6,996,213	828,829	66,308
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	2,498,437	2,498,437	951,363	76,108
Off balance sheet exposures other than OTC derivatives	600,948	600,948	584,962	46,796
Total off-balance sheet exposures	3,099,385	3,099,385	1,536,325	122,904
Total on and off-balance sheet exposures	10,095,598	10,095,598	2,365,154	189,212
	Long position	Short position		
(b) Market risk				
Interest rate risk	92,387,526	90,369,435	1,446,957	115,756
Equity position risk	15,909	-	6,363	509
Foreign currency risk	1,533	90,754	90,750	7,260
Options risk			357,613	28,609
(c) Operational risk			462,880	37,030
Total risk weighted assets and capital requirements			4,729,717	378,376

29 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2017:

Exposure Class	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
(a) Credit Risk				
On-balance sheet exposures				
Sovereigns/central banks	4,087,691	4,087,691	81,099	6,488
Banks	594,364	594,364	124,962	9,997
Insurance companies, securities firms and fund managers	32,715	32,715	16,372	1,310
Corporates	306,960	306,960	306,960	24,557
Residential mortgages	1,328	1,328	508	41
Higher risk assets	4	4	6	-
Other assets	10,576	10,576	10,150	812
Defaulted exposures	111	111	111	9
Total on-balance sheet exposures	5,033,749	5,033,749	540,168	43,214
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	2,393,520	2,393,520	949,839	75,987
Off balance sheet exposures other than OTC derivatives	310,922	310,922	302,695	24,216
Total off-balance sheet exposures	2,704,442	2,704,442	1,252,534	100,203
Total on and off-balance sheet exposures	7,738,191	7,738,191	1,792,702	143,417
	Long position	Short position		
(b) Market risk				
Interest rate risk	85,484,880	84,242,850	1,274,851	101,988
Equity position risk			-	-
Foreign currency risk	744	184,585	184,588	14,767
Options risk			321,413	25,713
(c) Operational risk			437,854	35,028
Total risk weighted assets and capital requirements			4,011,408	320,913

29 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet counterparty risk as at 31 December 2018:

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	479,113	479,113	467,360
Transaction-related contingent items	69,002	34,500	30,267
Short-term self-liquidating trade related contingencies	1,382	276	276
Foreign exchange related contracts:			
- less than one year	33,639,324	579,311	259,452
- one year to less than five years	3,461,257	349,180	123,066
- more than five years	206,850	42,236	11,798
Interest rate related contracts:			
- less than one year	5,588,611	15,280	4,995
- one year to less than five years	27,887,921	763,008	262,044
- more than five years	1,049,595	61,787	19,758
Credit derivative contracts			
- one year to less than five years	374,346	83,572	27,748
Equity related contracts			
- less than one year	2,346,030	439,456	136,257
- one year to less than five years	1,121,817	164,607	106,245
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	174,117	87,059	87,059
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	1,117,244	-	-
	77,516,609	3,099,385	1,536,325

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

29 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet counterparty risk as at 31 December 2017:

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	211,350	211,350	205,445
Transaction-related contingent items	37,791	18,895	16,573
Short-term self-liquidating trade related contingencies	27,485	5,497	5,497
Foreign exchange related contracts:			
- less than one year	18,957,817	524,512	250,330
- one year to less than five years	2,742,824	295,514	128,328
- more than five years	1,019,626	190,831	44,370
Interest rate related contracts:			
- less than one year	8,838,712	43,128	18,100
- one year to less than five years	25,891,420	848,925	297,510
- more than five years	2,198,070	157,309	61,996
Credit derivative contracts			
- one year to less than five years	50,050	11,059	2,212
Equity related contracts			
- less than one year	1,855,696	194,258	71,575
- one year to less than five years	712,939	127,984	75,418
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	150,361	75,180	75,180
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	1,431,395	-	-
	64,125,536	2,704,442	1,252,534

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

30 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

Expected credit loss measurement

Approach to measuring expected credit losses

The Bank estimates credit impairment through an allowance for expected credit losses (“ECLs”). ECLs are recognised for financial assets that are measured at amortised cost or FVOCI and for specified lending-related commitments, such as loan commitments and financial guarantee contracts. The measurement of ECLs must reflect:

(a) An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes

(b) The time value of money; and

(c) Reasonable and supportable information about past events, current economic conditions, and forecasts of future economic conditions.

The measurement of ECL also reflects how the Bank manages the financial instruments it uses for credit risk purposes such as Traditional Credit Products (“TCP”), debt securities measured at FVOCI, and non-traditional credit products (“Non-TCP”). TCP are wholesale loans and lending-related commitments from extensions of credit to borrowers; debt securities which are debt instruments such as government bonds; whereas Non-TCP are all other debt financial assets measured at amortised cost which include, but are not limited, to reverse repurchase agreements, margin loans, fee receivables, and inter-company receivables or loans.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

The following table sets out the balances of the Bank's financial assets that are measured at amortised cost or FVOCI by the respective TCP, Non-TCP and debt securities categories.

	31 December 2018		
Balance sheet categories	TCP	Non-TCP	Debt securities
	RM'000	RM'000	RM'000
Assets			
Cash and short-term funds	-	4,665,101	-
Financial assets at fair value through other comprehensive income ("FVOCI")	-	-	1,356,469
Loans and advances	353,149	-	-
Amount due from related parties	-	456,667	-
Other assets	-	87,514	-

Off-balance sheet lending-related commitments which are categorised as TCP with an ECL allowance of RM883,000 and is reported in other liabilities are not included in the table above.

The Bank uses statistical models to estimate ECLs for TCP on a collective basis; however ECL for credit-impaired instruments is estimated on an individual borrower basis. When determining how exposures should be grouped for collective assessment, the Bank considers many factors including, but not limited to, internal credit risk ratings, tenure, borrower geography and industry. The Bank's internal risk ratings generally correspond to the ratings as defined by Standard & Poor's ("S&P") and Moody's Investors Service. For Non-TCPs, the Bank utilises a combination of an established provision matrix, as well as quantitative and qualitative considerations to estimate ECLs.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Impact of staging on measuring expected credit losses

ECLs are measured using a three stage model based on changes in credit quality of the financial instrument since it was initially recognised ("initial recognition"):

- Stage 1 – performing financial instruments that have not had a significant increase in credit risk since initial recognition;
- Stage 2 – performing financial instruments that have experienced a significant increase in credit risk; and
- Stage 3 – non-performing financial instruments that have been determined to be credit-impaired.

Stage 3 - Default and credit-impairment

Financial instruments are included in Stage 3 when there is objective evidence of impairment at the reporting date. For Stage 3 instruments, ECL is calculated considering the probability of default over the remaining life of each instrument ("lifetime ECL") on an individual asset basis and interest income is calculated on the net carrying amount (that is, net of the allowance for expected credit losses). All financial assets, regardless of their category as TCP, Non-TCP or debt security, are considered to be credit-impaired and included in Stage 3 when one or more of the following events that has a detrimental impact on the estimated future cash flows of that financial asset has occurred:

(a) Significant financial difficulty of the issuer or the borrower;
(b) A default or past due event;
(c) The Bank has granted a concession to the borrower for economic or contractual reasons relating to the borrower's financial difficulty;
(d) It has become probable the borrower will enter bankruptcy or other financial reorganisation;
(e) An active market for that financial asset no longer exists because of the borrower's financial difficulties; or
(f) A financial asset is purchased or originated at a deep discount that reflects a credit loss has been incurred.

The criteria above are consistent with how the Bank defines 'default' for internal credit risk management purposes.

A financial asset is considered to no longer be in default (i.e. the default has been cured) when the borrower has made payments for a minimum of six months and there is other objective evidence of credit improvement.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Stage 2 - Significant increase in credit risk

Financial instruments that have experienced a significant increase in credit risk ("SICR") since initial recognition for which there is no objective evidence of impairment are included in Stage 2. For Stage 2 instruments, ECL is calculated considering the probability of default over the remaining life of the instrument ("lifetime ECL") on a collective basis and interest income is calculated on the gross carrying amount of the asset (that is, without deduction for the expected credit loss allowance).

The Bank assesses for evidence of a SICR by considering whether there has been a change in the risk of a default occurring since the financial instrument was initially recognised.

For TCP, the Bank considers a financial instrument to have experienced a SICR when any of the following quantitative or qualitative criteria has been met:

- Quantitative criteria

  The Bank determines whether the probability of a default ("PD") occurring has changed between a financial instruments initial recognition and the reporting date. If the change in PD exceeds certain thresholds, the instrument has experienced a SICR. The assessment of the PD takes into account reasonable and supportable information, including information about past events, current and future economic conditions.

  - Default grade 1 to 4+ at initial recognition: 3 notch downgrade (minimum) unless the rating after downgrade remains 3- or better;
  - Default grade 4 to 5- at initial recognition: 2 notch downgrade; and
  - Default grade 6+ to 8 at initial recognition: 1 notch downgrade.

- Qualitative criteria

  The Bank monitors borrowers that may become impaired by including them on its watch list. Obligors that are on the watch list are considered to have experienced SICR. The Bank also monitors changes in internal credit risk ratings and delinquency triggers to determine if a borrower has experienced SICR.

  The Bank's TCP portfolio is mostly comprised of large, international, wholesale borrowers. For these borrowers, short-term delinquencies alone are not considered to be a meaningful credit quality indicator as the Bank's experience has shown that other internal credit quality indicators generally identifies increases in credit risk well before delinquency. As such, the Bank has determined that using the quantitative and qualitative criteria described above are most appropriate for capturing SICR for TCP.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Stage 2 - Significant increase in credit risk (continued)

- Qualitative criteria (continued)

  Financial instruments that are in Stage 2 are moved to Stage 1 in the period that the quantitative and qualitative criteria for a SICR no longer exist.
  The approach for determining whether there has been a SICR for Non-TCP portfolios depends on the type of instrument. The Bank presumes non-TCP financial assets that are 30 days past due have experienced a SICR and are included in Stage 2 except for certain fee receivables that are classified in Stage 2 at 90 days past due. Finally, the remainder of the Bank's Non-TCP are mostly short-term and generally no SICR has arisen prior to the maturity of that instrument.

Stage 1 - Unimpaired and without significant increase in credit risk

Financial instruments that have not experienced SICR since initial recognition are included in Stage 1 unless they are purchased or originated credit impaired ("POCI"). For Stage 1 instruments, ECL is calculated by considering the probability of default within 12 months after the reporting date on a collective basis and interest income is calculated on the gross carrying amount of the asset (that is, without deduction for the expected credit loss allowance).

Sensitivity analysis of ECL due to staging

The following table shows the impact of staging on the Bank's ECL recognised on balance sheet, by comparing the allowance if all performing financial assets were in Stage 1 or if all such assets were in Stage 2 to the actual ECL recorded on these assets:

	Gross loans and advances	ECL- All performing loans in Stage 1	Impact of change in staging on the statement of comprehensive income
	RM'000	RM'000	RM'000
Stage 1	272,056	138	-
Stage 2	81,231	21	22

	Gross loans and advances	ECL- All performing loans in Stage 2	Impact of change in staging on the statement of comprehensive income
	RM'000	RM'000	RM'000
Stage 1	272,056	249	(111)
Stage 2	81,231	43	-

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

ECL measurement for TCP Portfolios

Key Inputs

In broad terms, ECLs for the Bank's TCP portfolios are generally calculated based on the following key inputs:

- Probability of Default ("PD"): The PD model estimates the probability of downgrade and default each quarter. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The model considers input variables that are region-, industry- and borrower segment-specific and considers both scenario- and borrower-specific information. PDs are determined at a facility-level based on risk ratings and other characteristics.

- Exposure at Default ("EAD"): The EAD model predicts gross exposure upon a borrower's default as a percentage of the total commitment at the reporting date under a given macroeconomic environment. The model estimates the probability of a change in the utilisation, and direction and magnitude of the change. Input variables include exposure and utilisation at the reporting date, facility purpose, industry and macro-economic variables ("MEVs").

- Loss Given Default ("LGD"): The LGD model estimates expected losses under given macroeconomic environments on the EAD given the event of default and, taking into account, among other attributes, the mitigating effect of collateral and the time value of money.

The 12-month ECL is calculated by multiplying the 12-month PD, EAD and LGD. Lifetime ECL is calculated using the lifetime PD instead.

Forward-looking information

ECL estimates are derived from historical experience and future forecasted economic conditions. To incorporate forward-looking information into the ECL calculation, three forecasted economic scenarios (base, upside and downside cases) are developed. Each of these scenarios contains a set of MEVs that reflect forward-looking economic and financial conditions. MEVs include, but are not limited to FX rates, inflation and GDP per country or country block. MEVs for each scenario are projected over a reasonable and supportable forecast period of two years. After the forecast period, the losses revert to historical averages over a one-year transition period.

On a quarterly basis, the three economic scenarios are updated and probability weighted. Judgement is involved to develop the scenarios and assign probability weightings. The most likely economic scenario in management's view is the base case which would generally be expected to be weighted more heavily than the other two scenarios.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Forward-looking information (continued)

The PD, LGD and EAD models are designed to forecast the credit quality and performance of a TCP portfolio based on industry, geography, rating and size of obligors, among other attributes of the portfolio. PD, LGD and EAD models are calibrated based on historical MEVs and use forecasted macroeconomic scenarios for projecting PD, LGD and EAD values.

ECL calculation

ECL calculation is based on the forward-looking PD, LGD, and EAD values for each of the scenarios to produce the scenario credit losses ("SCLs"). The modelled ECL estimate is a probability-weighted calculation of the three SCLs discounted using the original effective interest rate or an approximation thereof.

The modelled ECL results are reviewed by management and adjustments ('management overlays') are considered to ensure final results reflect the Bank's best estimate of ECLs on its exposures. Management overlays are only applied if necessary to account for significant idiosyncratic risks which are not yet reflected in underlying risk ratings, LGD, exposure profile or scenario weights used and which are expected to have a high probability of occurrence.

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 and the Assessment of the Allowance for Credit Losses, to preserve the independence and integrity of the of the approval and decision-making process.

For Multinational Corporations ("MNC") exposures which are not supported by legally enforceable guarantee, management makes judgement based of local standalone risk grading for ECL measurement.

There have not been any significant changes in estimation techniques or assumptions made during the reporting period.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Stage 3 portfolio estimation techniques

The Bank also uses three scenarios to estimate ECL for Stage 3 loans. However, these scenarios focus on the microeconomic conditions applicable to a specific borrower as those considered the most relevant in predicting losses for that borrower are applied. The borrower may be experiencing a variety of specific difficulties, and no one macroeconomic theme can be applied to the total impaired loan portfolio.

ECL measurement for Non-TCP portfolio

The Bank's approach to measuring ECLs for Non-TCP portfolios depends on the type of instrument.

Fee receivables

For fee receivables arising from contracts with customers (e.g. brokerage fee receivables), the Bank applies a provision matrix as a practical expedient for calculating expected credit losses. The matrix provides that in the case of institutional customers, a receivable is considered to have experienced SICR (i.e. Stage 2) if it is 90 days past due and credit-impaired (i.e. Stage 3) if it is 180 days past due at which point an ECL for 100% of the amount owned is recognised. In the case of non-institutional customers, a receivable is considered to have experienced SICR (i.e. Stage 2) if it is 30 days past due and credit-impaired (i.e. Stage 3) if it is 90 days past due at which point an ECL for 100% of the amount owned is recognised. The Bank has not had significant losses on its fee receivable portfolios and the ECL impact is considered to be immaterial.

Other non-TCP

The Bank has determined that ECLs on all other non-TCP portfolios are immaterial due to: the existence of credit risk mitigants such as the existence of the collateral; the credit quality of the borrower (e.g. investment-grade); and/or the short-term nature of the instrument. Similarly, the Bank has determined that these non-TCP portfolios are without SICR (i.e Stage 1) due to the credit quality of the borrower and/or the short-term nature of the instrument.

For inter-company loans and receivables, the Bank evaluates the counterparty based on the consolidated Firm's resolution and recovery plan, tenor of the loan/receivable, and any collateral received. The Bank has not experienced any losses on inter-company loans and receivables.

The Bank continues to monitor its Non-TCP portfolios to ensure the described framework is appropriate and its exposure to credit risk and ECLs on these portfolios is adequately reflected in the allowance for credit losses.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

ECL and gross carrying amount reconciliation

The following tables provide an explanation of the change in the loss allowance during the year ended 31 December 2018 by respective product classes. The tables also set out how significant changes in the gross carrying amount of financial instruments contributed to the changes in the loss allowance:

(a) Loans and advances to customers at amortised cost

	Stage 1	Stage 2	Stage 3	
	12 months ECL	Lifetime ECL Non Credit Impaired	Lifetime ECL Credit Impaired	Total
	RM'000	RM'000	RM'000	RM'000
Expected credit losses				
As at 1 January 2018	85	-	39	124
Loans derecognised or repaid	(7)	-	(3)	(10)
New originated	40	16	-	56
Changes due to change in credit risk	37	-	(13)	24
Changes in models/risk parameters	3	-	-	3
Transfers:				
Transfer from Stage 1 to Stage 2	(20)	27	-	7
As at 31 December 2018	138	43	23	204

The allowance on ECL recognised in the period is impacted by the following judgement criterias:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Increase in ECL in 2018 as compared to 2017 mainly arising from the increase in gross loans and advances by RM44,950,000 or 15% to RM353,353,000 (2017: RM308,403,000) coupled with the increase in credit risk for the exiting loans and advances.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

(b) Lending related commitments and financial guarantee contracts

	Stage 1	Stage 2	Stage 3	
	12 months ECL	Lifetime ECL Non Credit Impaired	Lifetime ECL Credit Impaired	Total
	RM'000	RM'000	RM'000	RM'000
Expected credit losses				
As at 1 January 2018	76	270	-	346
Loans derecognised or repaid	(5)	(281)	-	(286)
New originated	2	558	-	560
Changes due to change in credit risk	172	77	-	249
Changes in models/risk parameters	8	6	-	14
As at 31 December 2018	253	630	-	883

Increase in ECL in 2018 as compared to 2017 for lending related commitments and financial guarantee contracts mainly attributable to the increase in financial guarantee contracts from RM405,930,000 to RM683,172,000.

30 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.

	Note	2018 RM'000	2017 RM'000
Assets			
Cash and short-term funds	2	4,665,101	3,893,686
Securities purchased under resale agreement		39,166	46,776
Financial assets held at fair value through profit and loss ("FVTPL")	3	2,024,152	887,490
Derivative financial instruments	4	568,207	516,759
Financial assets available-for-sale	5	-	148,476
Financial assets at fair value through other comprehensive income ("FVOCI")	6	1,356,469	-
Loans and advances#	7	353,149	307,077
Amount due from related parties	8	456,667	549,747
Statutory deposits with BNM	9	2	2
Other assets	10	87,514	53,854
Tax recoverable		13,985	19,889
Total assets*		9,564,412	6,423,756
Commitments and contingencies	29	3,099,385	2,704,442
Total credit exposure		12,663,797	9,128,198

* Excludes deferred tax assets and fixed assets.
\# Includes ECL allowance of RM204,000 (2017: Individual assessment and collective assessment of RM1,326,000)

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 29.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

30 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).

	31.12.2018									
	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held at fair value through profit and loss	Derivative financial instruments	Financial assets held at other comprehensive income	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	4,654,069	39,166	2,024,152	503,745	1,356,469	333,825	95,191	39,599	9,046,216	2,643,754
United Kingdom	-	-	-	24,297	-	-	254,706	-	279,003	272,369
USA	-	-	-	20,295	-	-	101,416	19	121,730	101,298
Hong Kong	-	-	-	334	-	-	4,361	-	4,695	5,106
Singapore	3,055	-	-	7,179	-	-	123	47,236	57,593	56,485
Others	7,823	-	-	12,357	-	19,528	870	-	40,578	20,373
	4,664,947	39,166	2,024,152	568,207	1,356,469	353,353	456,667	86,854	9,549,815	3,099,385
Assets not subject to credit risk	154	-	-	-	-	(204)	-	21,852	21,802	-
	4,665,101	39,166	2,024,152	568,207	1,356,469	353,149	456,667	108,706	9,571,617	3,099,385

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

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

Company No.

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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 2018 (CONTINUED)

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by geographical sectors (continued)

31.12.2017	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	3,884,641	46,776	785,970	431,368	148,476	274,832	170,274	33,512	5,775,849	2,253,543
United Kingdom	-	-	-	63,792	-	-	13,369	-	77,161	340,989
USA	-	-	-	12,998	-	-	363,899	17	376,914	69,907
Hong Kong	-	-	-	690	-	-	1,098	-	1,788	5,056
Singapore	5,389	-	-	3,427	-	-	90	19,309	28,215	14,010
Others	3,231	-	101,520	4,484	-	33,571	1,017	-	143,823	20,937
	3,893,261	46,776	887,490	516,759	148,476	308,403	549,747	52,838	6,403,750	2,704,442
Assets not subject to credit risk	425	-	-	-	-	(1,326)	-	29,923	29,022	-
	3,893,686	46,776	887,490	516,759	148,476	307,077	549,747	82,761	6,432,772	2,704,442

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

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

30 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).

	31.12.2018									
	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held at fair value through profit and loss	Derivative financial instruments	Financial assets held at other comprehensive income	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
Manufacturing	-	-	-	24,771	-	208,776	-	-	233,547	420,446
Wholesale and retail	-	-	-	1,285	-	4,606	-	-	5,891	5,690
Finance, insurance and business services	29,294	-	204,946	526,385	-	60,045	453,435	79,559	1,353,664	2,377,584
Government and Government Agencies	4,635,653	39,166	1,819,206	12,165	1,356,469	-	-	60	7,862,719	44,489
Electricity, gas and water	-	-	-	1,673	-	75,208	-	3	76,884	147,197

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

31.12.2018

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held at fair value through profit and loss RM'000	Derivative financial instruments RM'000	Financial assets held at other comprehensive income 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	-	-	-	12	-	3,466	-	-	3,478	88,750
Individual/Purchase of landed property - residential	-	-	-	-	-	1,252	-	-	1,252	182
Others	-	-	-	1,916	-	-	3,232	7,232	12,380	15,047
	4,664,947	39,166	2,024,152	568,207	1,356,469	353,353	456,667	86,854	9,549,815	3,099,385
Assets not subject to credit risk	154	-	-	-	-	(204)	-	21,852	21,802	-
	4,665,101	39,166	2,024,152	568,207	1,356,469	353,149	456,667	108,706	9,571,617	3,099,385

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

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 29.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

31.12.2017	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	-	-	-	29,015	-	164,523	-	-	193,538	101,953
Wholesale and retail	-	-	-	-	-	19,188	-	-	19,188	210
Finance, insurance and business services	26,352	-	101,520	477,676	-	123,248	549,747	50,033	1,328,576	2,553,389
Government and Government Agencies	3,866,909	46,776	785,970	2,738	148,476	-	-	2	4,850,871	16,867
Electricity, gas and water	-	-	-	1,983	-	-	-	-	1,983	28,943

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

31.12.2017

	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	-	-	-	877	-	-	-	-	877	1,327
Individual/Purchase of landed property - residential	-	-	-	-	-	1,444	-	-	1,444	172
Others	-	-	-	4,470	-	-	-	2,803	7,273	1,581
	3,893,261	46,776	887,490	516,759	148,476	308,403	549,747	52,838	6,403,750	2,704,442
Assets not subject to credit risk	425	-	-	-	-	(1,326)	-	29,923	29,022	-
	3,893,686	46,776	887,490	516,759	148,476	307,077	549,747	82,761	6,432,772	2,704,442

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

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 29.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Analysis of Loans and Advances

(a) The Bank's loans and advances to customers is comprised of wholesale loans and individual loan. The table below presents the Bank's non-impaired and impaired loans.

	Corporates RM'000	Individuals RM'000	Total RM'000
2018			
Gross amount			
- Non credit impaired	352,101	1,186	353,287
- Credit impaired	-	66	66
Provision for expected credit losses	(181)	(23)	(204)
	351,920	1,229	353,149
2017			
Gross amount			
- Non credit impaired	306,959	1,333	308,292
- Credit impaired	-	111	111
Provision for expected credit losses	(1,272)	(54)	(1,326)
	305,687	1,390	307,077

(b) Loans and advances individually impaired

The individual impaired loans and advances to customers before taking into consideration the cash flows from collateral held is RM66,000 (2017: RM111,000).

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:

	Individuals RM'000	Total RM'000
2018		
Gross amount	66	66
Fair value of collateral	298	298
2017		
Gross amount	111	111
Fair value of collateral	397	397

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Credit quality of financial assets

The table below presents the Bank's credit exposure to gross loans and advances, loan commitments and financial guarantee contracts before any allowance for ECL. The credit quality and credit concentration are managed within the JPMorgan Chase's Credit Risk Management function. The ratings scale is based on the JPMorgan Chase's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's Investors Service.

Loans and advances

			Stages	MFRS 9	MFRS 139
	Stage 1	Stage 2	Stage 3	2018	2017
	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Rating grades					
Investment-grade					
AAA/Aaa to BBB-Baa3	79,573	-	-	79,573	156,820
Non-investment-grade					
BB+/Ba1 -> B-/B3	192,483	77,061	66	269,610	132,395
CCC+/Caa1 and below	-	4,170	-	4,170	19,188
Gross carrying amount	272,056	81,231	66	353,353	308,403
Loss allowance	(138)	(43)	(23)	(204)	(1,326)
Net carrying amount	271,918	81,188	43	353,149	307,077

Loan Commitments and Financial Guarantees contract

			Stages	MFRS 9	MFRS 139
	Stage 1	Stage 2	Stage 3	2018	2017
	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Rating grades					
Investment-grade					
AAA/Aaa to BBB-Baa3	355,080	35	-	355,115	189,267
Non-investment-grade					
BB+/Ba1 -> B-/B3	181,534	146,523	-	328,057	214,663
CCC+/Caa1 and below	-	-	-	-	2,000
Gross carrying amount*	536,614	146,558	-	683,172	405,930
Loss allowance	(253)	(630)	-	(883)	-
Net carrying amount	536,361	145,928	-	682,289	405,930

* Gross carrying amount excludes intercompany financial guarantee contracts (Non-TCP Product) of RM40,442,000 (2017: RM21,057,000)

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Credit quality of financial assets (continued)

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

	Fair value through profit or loss/ Held for trading		Fair value through other comprehensive income/ Available-for-sale		
	Malaysia treasury bills RM'000	Private debt securities RM'000	Malaysia treasury bills RM'000	Bank Negara Interbank Bills RM'000	Total RM'000
2018					
AAA	1,819,278	197,344	-	1,356,469	3,373,091
2017					
AAA	781,022	106,468	148,476	-	1,035,966

(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 sub-divided 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.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk (continued)

Market risk is the risk associated with the effect of changes in market factors such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term.

Market Risk Management monitors market risks throughout the Bank and defines market risk policies and procedures. The Market Risk Management function seeks to manage risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Bank's market risk profile.

Risk Governance & Policy Framework

The Bank's approach to market risk governance is outlined in the Bank's Market Risk Management Framework ('Framework'), which includes the following:

- Responsibilities of the Legal Entity Risk Manager ('LERM') and Regional Legal Entity Market Risk ('Market Risk')
- Market Risk measures utilised such as VaR, stress-testing and non-statistical measures
- Controls such as JPMCB Berhad's market risk limit framework (limit levels, limit signatories, limit reviews and escalation)

The Bank's Risk/Asset Liability Committee ('RALCO') approves substantive changes to the Framework and approves this Framework annually.

Risk Measurement

The Bank uses both statistical and non-statistical measures to assess risk. As the appropriate set of risk measures utilised for a given business activity depends on business mandate, risk horizon, materiality, market volatility and other factors, not all measures are used in all cases.

VaR

The Bank utilises value at risk ("VaR"), a statistical risk measure, to estimate the potential loss from adverse market moves in the current market environment. The Bank has a single VaR framework used as a basis for calculating Risk Management VaR.

The Bank applies the Firmwide approach for Risk Management VaR, which is calculated assuming a one-day holding period and an expected tail-loss methodology utilising a 99% confidence level for internal risk management purposes.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk (continued)

VaR (continued)

The table below shows the result of the Bank's VaR:

	2018 RM'000	2017 RM'000
99% VaR	3,338	2,597

Stress Testing

Along with VaR, stress testing is an important tool in measuring and controlling risk. The Firmwide Stress Infrastructure ("FSI") is intended to capture the Bank's exposure to unlikely but plausible events in abnormal markets. The Bank runs weekly stress tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices.

The Bank uses a number of standard scenarios that capture different risk factors across asset classes including geographical factors, specific idiosyncratic factors and extreme tail events. The stress testing framework calculates multiple magnitudes of potential stress for both market rallies and market sell-offs for each risk factor and combines them in multiple ways to capture different market scenarios. The flexibility of the stress testing framework allows risk managers to construct new, specific scenarios that can be used to form decisions about future possible stress events.

Stress testing complements VaR by allowing risk managers to shock current market prices to more extreme levels relative to those historically realised, and to stress test the relationships between market prices under extreme scenarios.

Stress-test results, trends and qualitative explanations based on current market risk positions are reported to the Bank's RALCO as appropriate.

Stress scenarios are defined and reviewed by Market Risk, and significant changes are reviewed by the relevant line of business's risk committees and may be redefined on a periodic basis to reflect current market conditions.

Other Non-Statistical

Aside from VaR and stress testing, other specific risk measures, such as, but not limited to, credit spread sensitivities, net open positions, basis point values, option sensitivities, are also utilised within specific market context and aggregated across businesses.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk (continued)

Limits

Market risk limits are employed as the primary control to align the Bank's market risk with certain quantitative parameters within the Bank's Risk Appetite framework.

Senior management, including the Bank's CEO, CRO and Market Risk Management are responsible for reviewing and approving limits on an ongoing basis. Limits that have not been reviewed within a specified time period by Market Risk Management are escalated to senior management.

Limit breaches are required to be reported in a timely manner to limit signatories. Market Risk Management and senior management determine the course of action required to return to compliance, such as a reduction in risk or the granting a temporary increase in limits.

Aged or significant breaches are escalated to senior management, the line of business risk committee, and/or RALCO.

Market Risk reviews the Bank's market risk limits at least semi-annually. Limit reviews appropriately consider the underlying trading, investing and hedging strategies of the business, along with capital or regulatory requirements, as appropriate.

(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.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk

Interest Rate Risk in the Banking Book (IRRBB) is defined as interest rate risk resulting from the Bank's traditional banking activities (accrual accounted on and off-balance sheet positions) which includes extension of loans and credit facilities, taking deposits and issuing debt (collectively referred to as 'non-trading' activities); and also the impact from Treasury and Chief Investment Office (T/CIO) investment portfolio and other related T/CIO activities. Interest rate risk from non-trading activities can occur due to a variety of factors, including but not limited to:

- Difference in the timing of re-pricing of assets, liabilities and off-balance sheet instruments;
- Differences in the balances of assets, liabilities and off-balance sheet instruments that re-price at the same time;
- Differences in the amounts by which short-term and long-term market interest rates change;
- Impact of changes in the duration of various assets, liabilities or off-balance sheet instruments as interest rates change

IRRBB Management

T/CIO manages IRRBB exposure on behalf of the Bank by identifying, measuring, modelling and monitoring interest rate risk across the Bank's balance sheet. T/CIO identifies and understands material balance sheet impacts of new initiatives and products and executes market transactions to manage interest rate risk through T/CIO investment portfolio's positions.

IRRBB is evaluated using Economic Value Sensitivity under two parallel and four non-parallel shifts in interest rate curve on the economic value of the banking book.

30 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							31.12.2018
	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
Assets								
Cash and short-term funds	4,629,482	-	-	-	-	-	35,619	4,665,101
Securities purchased under resale agreement	39,137	-	-	-	-	-	29	39,166
Financial assets held at fair value through profit and loss ("FVTPL")	-	-	-	-	-	2,016,622	7,530	2,024,152
Derivative financial instruments	-	-	-	-	-	568,207	-	568,207
Financial assets held at fair value through other comprehensive income ("FVOCI")	399,713	758,621	198,135	-	-	-	-	1,356,469
Loans and advances								
- Performing	191,817	77,183	83,240	189	858	-	(181)	353,106
- Non-performing	-	-	-	-	-	-	43	43
Amount due from related parties	263,237	-	-	-	-	-	193,430	456,667
Statutory deposits with BNM	-	-	-	-	-	-	2	2
Other assets #	-	-	-	-	-	-	108,704	108,704
Total assets	5,523,386	835,804	281,375	189	858	2,584,829	345,176	9,571,617

Includes tax recoverable assets, deferred tax assets, fixed assets and other assets.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

								31.12.2018
	Non trading book							
	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
Liabilities								
Deposits from customers	5,674,747	-	-	-	-	-	389,490	6,064,237
Deposits and placements of banks and other financial institutions	350,990	-	-	-	-	-	199,801	550,791
Obligations on securities sold under repurchase agreements	21,593	-	-	-	-	-	222	21,815
Derivative financial instruments	-	-	-	-	-	546,530	-	546,530
Amount due to related parties	1,099,868	-	24,541	-	-	-	12,748	1,137,157
Other liabilities	-	-	-	-	-	-	137,642	137,642
Total liabilities	7,147,198	-	24,541	-	-	546,530	739,903	8,458,172
Interest rate gap	(1,623,812)	835,804	256,834	189	858			

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

	Non trading book							31.12.2017
	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
Assets								
Cash and short-term funds	3,863,168	-	-	-	-	-	30,518	3,893,686
Securities purchased under resale agreement	46,759	-	-	-	-	-	17	46,776
Financial assets held for trading	-	-	-	-	-	887,490	-	887,490
Derivative financial instruments	-	-	-	-	-	516,759	-	516,759
Financial assets available-for-sale	-	-	148,476	-	-	-	-	148,476
Loans and advances								
- Performing	172,204	74,865	59,904	231	1,088	-	(1,326)	306,966
- Non-performing	-	-	-	-	-	-	111	111
Amount due from related parties	18,935	-	-	-	-	-	530,812	549,747
Statutory deposits with BNM	-	-	-	-	-	-	2	2
Other assets #	-	-	-	-	-	-	82,759	82,759
Total assets	4,101,066	74,865	208,380	231	1,088	1,404,249	642,893	6,432,772

Includes tax recoverable assets, deferred tax assets, fixed assets and other assets.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

	Non trading book							31.12.2017
	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
Liabilities								
Deposits from customers	1,761,055	-	-	-	-	-	1,368,478	3,129,533
Deposits and placements of banks and other financial institutions	147,252	-	-	-	-	-	77,510	224,762
Obligations on securities sold under repurchase agreements	47,942	-	-	-	-	-	442	48,384
Derivative financial instruments	-	-	-	-	-	519,968	-	519,968
Amount due to related parties	1,169,590	-	23,894	-	-	-	159,244	1,352,728
Other liabilities	-	-	-	-	-	-	112,439	112,439
Total liabilities	3,125,839	-	23,894	-	-	519,968	1,718,113	5,387,814
Interest rate gap	975,227	74,865	184,486	231	1,088			

30 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.

	2018		2017	
	RM	USD	RM	USD
	%	%	%	%
Financial assets				
Cash and short-term funds	3.00	2.24	2.75	1.27
Securities purchased under resale agreement	3.00	-	2.75	-
Financial assets held at fair value through profit and loss (“FVTPL”)	3.81	-	3.89	-
Financial assets held at fair value through other comprehensive income (“FVOCI”)/ available-for-sale	3.31	-	3.01	-
Loans and advances	4.20	3.68	4.59	2.58
Amount due from related parties	-	2.06	-	1.93
Financial liabilities				
Deposits from customers	2.13	1.10	1.89	0.24
Deposits and placements of banks and other financial institutions	3.24	1.81	2.99	0.87
Obligations on securities sold under repurchase agreements	4.62	-	4.49	-
Amount due to related parties	2.70	1.33	2.70	1.30

(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 at the following page 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.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total RM'000
2018					
Assets					
Cash and short-term funds	3,394,849	1,259,373	-	10,879	4,665,101
Securities purchased under resale agreement	39,166	-	-	-	39,166
Financial assets held at fair value through profit and loss	2,024,152	-	-	-	2,024,152
Derivative financial Instruments	449,393	108,486	4,537	5,791	568,207
Financial assets held at fair value through other comprehensive income	1,356,469	-	-	-	1,356,469
Loans and advances	167,614	185,535	-	-	353,149
Amount due from related Parties	-	450,705	1,308	4,654	456,667
Other assets#	63,098	44,537	1,004	67	108,706
	7,494,741	2,048,636	6,849	21,391	9,571,617
Liabilities					
Deposits from customers	1,805,543	4,211,124	38,481	9,089	6,064,237
Deposits and placements of banks and other financial institutions	484,178	66,613	-	-	550,791
Obligations on securities sold under repurchase agreements	21,815	-	-	-	21,815
Derivative financial instruments	182,661	356,831	5,564	1,474	546,530
Amount due to related Parties	130,906	1,005,517	-	734	1,137,157
Other liabilities	127,734	9,896	12	-	137,642
	2,752,837	5,649,981	44,057	11,297	8,458,172
Currency gap	4,741,904	(3,601,345)	(37,208)	10,094	

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

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total RM'000
2017					
Assets					
Cash and short-term funds	3,461,841	423,225	-	8,620	3,893,686
Securities purchased under resale agreement	46,776	-	-	-	46,776
Financial assets held for trading	887,490	-	-	-	887,490
Derivative financial instruments	426,709	89,378	131	541	516,759
Financial assets available-for-sale	148,476	-	-	-	148,476
Loans and advances	63,695	150,171	2	93,209	307,077
Amount due from related parties	-	547,901	900	946	549,747
Other assets#	55,769	26,887	7	98	82,761
	5,090,756	1,237,562	1,040	103,414	6,432,772
Liabilities					
Deposits from customers	1,200,251	1,899,354	21,093	8,835	3,129,533
Deposits and placements of banks and other financial institutions	163,372	61,010	-	380	224,762
Obligations on securities sold under repurchase agreements	48,384	-	-	-	48,384
Derivative financial instruments	331,197	180,328	7,789	654	519,968
Amount due to related parties	182,170	1,078,203	-	92,355	1,352,728
Other liabilities	104,030	8,347	13	49	112,439
	2,029,404	3,227,242	28,895	102,273	5,387,814
Currency gap	3,061,352	(1,989,680)	(27,855)	1,141	

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

30 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 at the following page 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.

30 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	No specific maturity RM'000	Total RM'000
2018							
Assets							
Cash and short-term funds	4,630,542	-	-	-	-	35,230	4,665,772
Financial assets held at fair value through profit and loss	206,648	1,825,965	-	-	-	7,530	2,040,143
Financial assets held at fair value through other comprehensive income	400,000	762,780	200,000	-	-	-	1,362,780
Loans and advances	191,762	77,155	83,143	206	883	-	353,149
Amount due from related parties	95,857	-	-	-	-	360,810	456,667
Securities purchased under resale agreement	40,108	-	-	-	-	-	40,108
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	2	2
Other assets*	82,969	-	-	-	-	3,992	86,961
Total financial assets	5,647,886	2,665,900	283,143	206	883	407,564	9,005,582

	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	No specific maturity RM'000	Total RM'000
Liabilities							
Deposits from customers	27,124	801	-	-	-	6,036,321	6,064,246
Deposits and placements of banks and other financial institutions	-	-	-	-	-	550,011	550,011
Amount due to related parties	1,006,372	-	25,205	-	-	106,265	1,137,842
Obligations on securities sold under repurchase agreements	21,444	-	-	-	-	-	21,444
Other liabilities	111,661	80	181	-	-	25,721	137,643
Total financial Liabilities	1,166,601	881	25,386	-	-	6,718,318	7,911,186

* Other assets exclude prepayment.

30 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	No specific maturity RM'000	Total RM'000
2017							
Assets							
Cash and short-term funds	3,864,536	-	-	-	-	29,684	3,894,220
Financial assets held-for-trading	-	891,353	-	-	-	-	891,353
Financial assets available-for-sale	-	-	150,000	-	-	-	150,000
Loans and advances	171,971	74,796	58,934	264	1,112	-	307,077
Amount due from related parties	-	-	-	-	-	549,747	549,747
Securities purchased under resale agreement	50,132	-	-	-	-	-	50,132
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	2	2
Other assets*	52,481	-	-	-	-	356	52,837
Total financial assets	4,139,120	966,149	208,934	264	1,112	579,789	5,895,368

	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	No specific maturity RM'000	Total RM'000
Liabilities							
Deposits from customers	28,424	-	-	-	-	3,101,125	3,129,549
Deposits and placements of banks and other financial institutions	900	-	-	-	-	223,862	224,762
Amount due to related parties	1,328,872	-	25,188	-	-	-	1,354,060
Obligations on securities sold under repurchase agreements	48,501	-	-	-	-	-	48,501
Other liabilities	80,467	69	-	-	-	31,903	112,439
Total financial liabilities	1,487,164	69	25,188	-	-	3,356,890	4,869,311

*Other assets exclude prepayment.

30 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 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
2018						
Net-settled derivatives	15,661	16,503	1,188	(18,566)	(1,252)	13,534
Gross-settled derivatives						
- Receipts	14,941,000	19,381,722	19,818,989	3,744,029	227,762	58,113,502
- Payments	(14,938,417)	(19,388,118)	(19,841,387)	(3,764,299)	(221,344)	(58,153,565)
	18,244	10,107	(21,210)	(38,836)	5,166	(26,529)
2017						
Net-settled Derivatives	8,929	27,715	15,788	(15,064)	(7,446)	29,922
Gross-settled derivatives						
- Receipts	5,598,263	7,663,864	4,865,743	3,071,414	1,089,441	22,288,725
- Payments	(5,597,259)	(7,668,083)	(4,858,440)	(3,094,115)	(1,081,772)	(22,299,669)
	9,933	23,496	23,091	(37,765)	223	18,978

31 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, 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 non-impaired 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 allowances for ECL, 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 RM204,000 (2017: RM1,326,000), being the carrying value of the allowance for ECL 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.

(b) Financial instruments measured at fair value

(i) Financial assets held at fair value through profit and loss, fair value through other comprehensive income, securities purchased under resale agreement and obligations on securities sold under repurchase agreements

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.

31 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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:

2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Securities purchased under resale agreement	-	39,166	-	39,166
Financial assets held at fair value through profit and loss				
- Securities	-	2,016,622	-	2,016,622
- Unquoted shares	-	-	7,530	7,530
Derivative financial instruments	-	568,207	-	568,207
Financial assets held at fair value through other comprehensive income	-	1,356,469	-	1,356,469
Financial liabilities				
Obligations on securities sold under repurchase agreements	-	21,815	-	21,815
Derivative financial instruments	-	546,530	-	546,530

31 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)

2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held for trading	-	887,490	-	887,490
Derivative financial instruments	-	516,759	-	516,759
Financial assets available-for-sale	-	148,476	-	148,476
Financial liabilities				
Obligations on securities sold under repurchase agreements	-	48,384	-	48,384
Derivative financial instruments	-	519,968	-	519,968

The fair value of financial instruments traded in active markets 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 instrum
ents that are not traded in an active market is determined by using valuation techniques. The Bank uses a variety of methods and makes assumptions that are based on market conditions existing on each reporting date. 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 and the fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. Hence, these investments are included in Level 2.

In infrequent circumstances where the valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in Level 3. This category includes unquoted shares. The fair values of unquoted shares are based on the net tangible assets of the affected companies or sales price for pending sales transactions.

32 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.

	2018		2017	
	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	20,528	66.24	22,591	56.83
Granted during the year	5,016	112.25	7,143	84.25
Exercised during the year	(8,924)	111.85	(9,229)	87.14
Cancelled during the year	(115)	95.69	(354)	63.56
Transferred during the year	4	85.23	377	66.24
Outstanding at 31 December	16,509	85.23	20,528	66.24

33 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILIITIES

(a) Financial assets

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

	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the Statement of Financial Position	Net amount of financial assets presented in the Statement of Financial Position	Related amounts not set off in the Statement of Financial Position		
				Financial instruments	Cash collateral received	Net amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018						
Derivative financial instruments	568,207	-	568,207	-	350,990	217,217
2017						
Derivative financial instruments	516,759	-	516,759	-	151,344	365,415

33 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILIITIES (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	Gross amount of recognised financial assets set off in the Statement of Financial Position	Net amount of financial liabilities presented in the Statement of Financial Position	Related amounts not set off in the Statement of Financial Position		
				Financial instruments	Cash collateral placed	Net amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018						
Derivative financial instruments	546,530	-	546,530	-	281,619	264,911
2017						
Derivative financial instruments	519,968	-	519,968	-	36,653	483,315

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.

34 CHANGE IN ACCOUNTING POLICIES

Set out below are disclosures relating to the impact of the adoption of MFRS 9 of the Bank. Further details of the specific MFRS 9 accounting policies applied in the current financial year are described in more details in Note 30.

i) The measurement category and carrying amount of the Bank's financial assets and financial liabilities on 1 January 2018 is as follows:

	MFRS 139		MFRS 9	
	Measurement category	Carrying amount RM'000	Measurement category	Carrying amount RM'000
Financial assets				
Cash and short-term funds	Amortised cost*	3,893,686	Amortised cost	3,893,686
Securities purchased under resale agreement	Amortised cost*	46,776	FVTPL	46,776
Financial assets held at fair value through profit and loss ("FVTPL")	Held for trading	887,490	FVTPL	896,455
Derivative financial instruments	FVTPL	516,759	FVTPL	516,759
Financial assets held at fair value through other comprehensive income ("FVOCI")	Available-for-sale	148,476	FVOCI	148,476
Loans and advances	Amortised cost*	307,077	Amortised cost	308,279
Amount due from related parties	Amortised cost*	549,747	Amortised cost	549,747
Other assets	Amortised cost*	53,854	Amortised cost	53,854
Total financial assets		6,403,865		6,414,032
Financial liabilities				
Deposits from customers	Amortised cost*	3,129,533	Amortised cost	3,129,533
Deposits and placements of banks and other financial institutions	Amortised cost*	224,762	Amortised cost	224,762
Obligations on securities sold under repurchase agreements	FVTPL	48,384	FVTPL	48,384
Derivative financial instruments	FVTPL	519,968	FVTPL	519,968
Amounts due to related parties	Amortised cost*	1,352,728	Amortised cost	1,352,728
Other liabilities	Amortised cost*	112,439	Amortised cost	112,785
Total financial liabilities		5,387,814		5,388,160

* The amortised cost is made up of loans and receivables and held to maturity under MFRS 139.

34 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

ii) Reconciliation of the carrying amount in the Bank's Statement of Financial Position from MFRS 139 to MFRS 9 as at 1 January 2018:

	MFRS 139 carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount 1 January 2018 RM'000
Financial assets				
Cash and short-term funds				
Opening balance/Adjusted opening balance	3,893,686	-	-	3,893,686
Securities purchased under resale agreement				
Opening balance	46,776	(46,776)	-	-
Reclassification from amortised cost to FVTPL	-	46,776	-	46,776
Adjusted opening balance	46,776	-	-	46,776
Financial assets held at fair value through profit and loss ("FVTPL")				
Opening balance	887,490	(887,490)	-	-
Reclassification from financial assets held for trading to FVTPL	-	887,490	-	887,490
Reclassification from other assets to FVTPL	-	-	-	-
Remeasurement arising from reclassification of other assets to financial assets held at FVTPL	-	-	8,965	8,965
Adjusted opening balance	887,490	-	8,965	896,455
Financial assets held at fair value through other comprehensive income ("FVOCI")				
Opening balance	148,476	(148,476)	-	-
Reclassification from financial assets available-for-sale to FVOCI	-	148,476	-	148,476
Adjusted opening balance	148,476	-	-	148,476

34 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

ii) Reconciliation of the carrying amount in the Bank's Statement of Financial Position from MFRS 139 to MFRS 9 as at 1 January 2018: (continued)

	MFRS 139 carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount 1 January 2018 RM'000
Financial assets (continued)				
Loans and advances				
Opening balance	308,403	-	-	308,403
Remeasurement – expected credit loss	(1,326)	-	1,202	(124)
Adjusted opening balance	307,077	-	1,202	308,279
Amount due from related parties				
Opening balance/Adjusted opening balance	549,747	-	-	549,747
Other assets				
Opening balance	53,854	-	-	53,854
Reclassification from other assets to financial assets held at FVTPL	-	-	-	-
Adjusted opening balance	53,854	-	-	53,854
Financial liabilities				
Other liabilities				
Opening balance	112,439	-	-	112,439
Remeasurement – ECL	-	-	346	346
Adjusted opening balance	112,439	-	346	112,785

34 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

iii) The following table reconciles the 31 December 2017 closing impairment allowance measured under the MFRS 139 incurred loss model to the new impairment allowance measured under the MFRS 9 expected credit loss model at 1 January 2018 for financial assets and lending-related commitments held at amortised cost:

	MFRS 139	MFRS 9			
	Loss allowance/ provision at 31 December 2017	Reclassification on of MFRS 139 carrying amounts	Remeasurement due to reclassification	ECL	Carrying amount at 1 January 2018
	RM'000	RM'000	RM'000	RM'000	RM'000
On Balance Sheet:					
Loans and advances to customers	1,326	-	(1,326)	124	124
Off balance sheet:					
Lending-related commitments Provisions	-	-	-	346	346

iv) Impact on the Bank's Statement of Changes in Equity as at 31 December 2017 and 1 January 2018:

	Impact of adopting MFRS 9 1 January 2018 RM'000
Fair value reserve – AFS securities/financial assets held at FVOCI	
Closing balance under MFRS 139 (31 December 2017)	40
Recognition of expected credit losses under MFRS 9 for debt financial assets held at fair value through other comprehensive income	-
Opening balance under MFRS 9 (1 January 2018)	40
Regulatory Reserve	
Closing balance under MFRS 139 (31 December 2017)	2,415
BNM 1% Regulatory Reserve	12,051
Reversal of 1.2% Regulatory Reserve	(2,415)
Opening balance under MFRS 9 (1 January 2018)	12,051

34 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

iv) Impact on the Bank's Statement of Changes in Equity as at 31 December 2017 and 1 January 2018: (continued)

	Impact of adopting MFRS 9 1 January 2018 RM'000
Retained earnings	
Closing balance under MFRS 139 (31 December 2017)	896,950
Recognition of expected credit losses under MFRS 9 (loans and advances including loan commitments)	(470)
Remeasurement of securities held at FVTPL under MFRS 9	8,965
BNM 1% Regulatory Reserve	(12,051)
Reversal of 1.2% Regulatory Reserve	2,415
Reversal of Loan Loss Allowance under MFRS 139	1,326
Opening balance under MFRS 9 (1 January 2018)	897,135

35 COMPARATIVE INFORMATION

The following comparative balances have been reclassified to conform with the current year's presentation which more accurately reflect the nature of the relevant transactions. The Bank's prior financial year's results were not affected by these reclassifications.

	As previously reported RM'000	Reclassi- fication RM'000	As restated RM'000
Interest income	135,790	(48,746)	87,044
Other operating income	148,853	48,746	197,599

36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 March 2019.

Company No.	
316347	D

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

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

We, Faisal Bin Ismail 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 103 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 and the financial performance of the Bank for the financial year ended 31 December 2018 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.

FAISAL BIN ISMAIL
DIRECTOR

STEVEN RONALD CLAYTON
DIRECTOR

Kuala Lumpur
17 May 2019

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

I, Yee Mei Yan, 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 103 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.

YEE MEI YAN

Subscribed and solemnly declared by the above named Yee Mei Yan at Kuala Lumpur in Malaysia on 17 May 2019.

Before me:

PESURUHJAYA SUMPAH
No: W594
P. VALLIAMAH
01.07.2018-23.09.2020
MALAYSIA

COMMISSIONER FOR OATHS

No. 4-13, 4th Floor, Wisma Konwa
No. 40 & 42, Jalan Tun Perak
(Lebuh Ampang)
50050 Kuala Lumpur

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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 2018, 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, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2018, 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 103.

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.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

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, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

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

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.

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2021 J
Chartered Accountant

Kuala Lumpur
17 May 2019