

Company No.

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

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

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

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

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

**DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

The Directors are pleased to submit their report to the member together with the audited financial statements of the Bank for the financial year ended 31 December 2013.

**PRINCIPAL ACTIVITIES**

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

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

**FINANCIAL RESULTS**

	RM'000
Net profit for the financial year	<u>65,277</u>

**DIVIDENDS**

No dividend has been paid, declared or proposed since the end of the Bank's previous financial year. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2013.

**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.

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**J.P. MORGAN CHASE BANK BERHAD**  
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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**DIRECTORS**

The Directors of the Bank who have held office since the date of the last report and as at the date of this report are as follows:

Kevin Wong Chee Wah  
Anthony Julian Cole  
Lau Souk Huan  
Steven Ronald Clayton  
Faisal bin Ismail  
Omar bin Malek Ali Merican  
Tan Sri Dato' Ahmad bin Mohd Don (Resigned on 1 January 2014)

In accordance with Article 95 of the Bank's Articles of Association, Kevin Wong Chee Wah and Omar bin Malek Ali Merican will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

**DIRECTORS' BENEFITS**

During and at the end of the financial year, no arrangements subsisted to which the Bank is a party, being arrangements with the object or objects of enabling 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 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, 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.

**BAD AND DOUBTFUL DEBTS**

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

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

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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**CURRENT ASSETS**

Before the financial statements of the Bank were made out, 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, their value as shown in the accounting records of the Bank, had been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances 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 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 have become enforceable or is likely to become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

**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.

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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT**

The Bank is committed to uphold good corporate governance practices in conformity with Bank Negara Malaysia ("BNM") Guidelines on Corporate Governance for Licensed Institutions which was effective on 19 June 2013 and all other related guidelines issued by BNM.

In addition to the above, the Board also observed JPMC's global Code of Conduct. The Code of Conduct sets forth guiding principles and rules of behaviour by which the Bank conducts its daily business with its customers, vendors, shareholders and with its employees. The Code of Conduct applies to all employees and Directors who are required to annually affirm that they are in compliance with it.

**BOARD OF DIRECTORS**

Composition of the Board of Directors

The Board comprises seven (7) Directors, the majority of whom are Non-Executive Directors. The Directors who served since the date of the last report are:

<u>Members</u>	<u>Status of Directorship</u>
Kevin Wong Chee Wah - Chairman	Independent Non-Executive Director
Steven Ronald Clayton - Chief Executive Officer ("CEO")	Non-Independent Executive Director
Anthony Julian Cole	Non-Independent Non-Executive Director
Tan Sri Dato' Ahmad bin Mohd Don	Independent Non-Executive Director
Lau Souk Huan	Independent Non-Executive Director
Faisal bin Ismail	Independent Non-Executive Director
Omar bin Malek Ali Merican	Independent Non-Executive Director

Roles and Responsibilities of the Board

The Board of Directors is ultimately responsible for the operations, conduct and the financial soundness of the Bank through competent management, reviewing and monitoring the objectives, strategies and business plans of the Bank, ensuring that proper controls are in place and that the business of the Bank is carried out with a high standard of integrity. The Board operates under an approved terms of reference which sets out their roles and responsibilities towards the Bank.

The Board meets at least once every two (2) months. During the financial year ended 31 December 2013, the Board met 6 times and the attendance at the Board meetings is as follows:

Kevin Wong Chee Wah – Chairman	6/6
Steven Ronald Clayton	6/6
Anthony Julian Cole	6/6
Tan Sri Dato' Ahmad bin Mohd Don	6/6
Lau Souk Huan	6/6
Faisal bin Ismail	6/6
Omar bin Malek Ali Merican	6/6

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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**BOARD COMMITTEES**

Board Risk Committee

The Board Risk Committee is responsible for oversight of the CEO and senior management's responsibility for assessing and managing the Bank's credit risk, market risk, interest rate risk, investment risk, liquidity risk and reputational risk.

The Board Risk Committee meets at least once every two (2) months. During the financial year ended 31 December 2013, the Board Risk Committee met 6 times and the attendance at the Board Risk Committee meetings are as follows:

Omar bin Malek Ali Merican – Chairman	6/6
Kevin Wong Chee Wah	6/6
Steven Ronald Clayton	6/6
Anthony Julian Cole	6/6
Tan Sri Dato' Ahmad bin Mohd Don	6/6
Lau Souk Huan	6/6
Faisal bin Ismail	6/6

Audit Committee

The primary function of the Audit Committee is to provide independent oversight of the Bank's financial reporting and internal control system and ensuring checks and balances with the Bank. The Committee also assists the Board of Directors in discharging its statutory duties and responsibilities.

The Audit Committee meets at least once every three (3) months. During the financial year ended 31 December 2013, the Audit Committee met 5 times and the attendance at the Audit Committee meetings is as follows:

Lau Souk Huan – Chairman	5/5
Kevin Wong Chee Wah	5/5
Anthony Julian Cole	5/5
Tan Sri Dato' Ahmad bin Mohd Don	5/5
Faisal bin Ismail	5/5
Omar bin Malek Ali Merican	5/5

**J.P. MORGAN CHASE BANK BERHAD**  
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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

Nomination Committee

The Nomination Committee is responsible to provide a formal and transparent procedure for the appointment of Directors and CEO as well as the assessment of effectiveness of individual Directors, board as a whole and performance of the CEO and key senior management officers.

The Nomination Committee meets at least annually. During the financial year ended 31 December 2013, the Nomination Committee met 2 times and the attendance at the Nomination Committee meeting is as follows:

Tan Sri Dato' Ahmad bin Mohd Don – Chairman	2/2
Kevin Wong Chee Wah	2/2
Steven Ronald Clayton	2/2
Anthony Julian Cole	2/2
Lau Souk Huan	2/2
Faisal bin Ismail	2/2
Omar bin Malek Ali Merican	2/2

Remuneration Committee

The Remuneration Committee is responsible to provide a formal and transparent procedure for the remuneration of Directors and CEO. The Committee also reviews and endorses, where appropriate the remuneration of key senior management officers and senior employees as recommended by regional management and lines of business.

The Remuneration Committee meets at least annually. During the financial year ended 31 December 2013, the Remuneration Committee met once and the attendance at the Remuneration Committee meeting is as follows:

Kevin Wong Chee Wah – Chairman	1/1
Tan Sri Dato' Ahmad bin Mohd Don	1/1
Lau Souk Huan	1/1

**INTERNAL GOVERNANCE**

Mechanisms are in place within the Bank to connect the oversight of the Board and the day to day functioning of the Bank's employees are intended to ensure that the Bank conducts its daily businesses in accordance with the Bank's objectives and policies and in compliance with the laws and regulations that govern the Bank's businesses. JPMC's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks.

**MANAGEMENT REPORTS**

The Board received and reviewed regular reports from the management on key operational, finance, legal and compliance matters.



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**J.P. MORGAN CHASE BANK BERHAD**  
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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**RATINGS BY EXTERNAL RATING AGENCY**

The Bank is not rated by any external rating agency as at the reporting date.

**OVERALL BUSINESS STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

J.P. Morgan Malaysia's financial results for 2013 exceeded expectations and the momentum going into 2014 is encouraging. Our results were supported by the Bank's consistent strategy of building a business around our target clients to achieve stable and planned growth. Our key businesses, in particular treasury services, wholesale banking and markets flow business, delivered strong growth which further strengthened our position within the domestic Malaysian market.

J.P. Morgan's target clients, consisting of multi-national corporations, large domestic corporates, financial institutions and non-bank financial institutions, benefit from our significant competitive advantage in terms of a broad product mix and global network which enables us to effectively service clients that have domestic as well as an international presence.

**EXPECTATIONS IN 2014**

The macro environment remains challenging in 2014 due to the effects of tapering arising from the unwinding of quantitative easing by the Federal Reserve. Despite these conditions, we remain optimistic that the economic environment will continue to grow. We will continue to focus on the quality and stability of earnings by building treasury services and wholesale banking while enhancing our flow business.

With the Bank's strong capitalisation and proven strength across product and services, we are confident that we will continue to see revenue growth as we invest in our existing client relationships. We will leverage on our global competitive advantages in order to provide clients with value added solutions and innovative products. Our international corporate and investment banking businesses are an important component of J.P. Morgan's overall global strategy and the continued build-out of these businesses will contribute positively to our growth aspirations.

**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.

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J.P. MORGAN CHASE BANK BERHAD  
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DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

AUDITORS

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

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



LAU SOUK HUAN  
DIRECTOR



STEVEN RONALD CLAYTON  
DIRECTOR

Kuala Lumpur  
**27 MAY 2014**

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

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2013**

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000
<b>ASSETS</b>			
Cash and short-term funds	2	2,215,149	1,468,805
Securities purchased under resale agreement		315,952	-
Deposits and placements with banks and other financial institutions	3	602,078	802,214
Financial assets held for trading	4	168,557	92,653
Derivative financial instruments	5	434,170	524,102
Financial assets available-for-sale	6	363,500	842,338
Loans and advances	7	168,741	65,907
Amount due from related parties	8	1,816,035	1,498,824
Statutory deposits with Bank Negara Malaysia	9	2	3,600
Other assets	10	15,627	506,072
Tax recoverable		15,390	16,682
Deferred tax assets	11	-	1,765
Fixed assets	12	24,847	3,888
<b>TOTAL ASSETS</b>		<u>6,140,048</u>	<u>5,826,850</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits from customers	13	3,663,079	2,448,439
Deposits and placements of banks and other financial institutions	14	567,393	628,621
Derivative financial instruments	5	348,892	519,432
Amount due to related parties	15	680,898	1,074,523
Other liabilities	16	47,078	390,198
Deferred tax liabilities	11	340	-
<b>Total liabilities</b>		<u>5,307,680</u>	<u>5,061,213</u>
Share capital	17	85,500	85,500
Reserves	18	746,868	680,137
<b>Shareholder's equity</b>		<u>832,368</u>	<u>765,637</u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<u>6,140,048</u>	<u>5,826,850</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	26	<u>40,872,296</u>	<u>37,011,156</u>

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J.P. MORGAN CHASE BANK BERHAD  
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STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000
Interest income	19	131,278	136,829
Interest expense	20	(42,831)	(59,826)
Net interest income		<u>88,447</u>	<u>77,003</u>
Other operating income	21	117,827	43,211
Net income		206,274	120,214
Operating expenses	22	(117,400)	(77,885)
Operating profit before allowances		88,874	42,329
(Allowance for)/write back of losses on loans and advances	23	(53)	240
Profit before taxation		88,821	42,569
Taxation	25	(23,544)	(11,302)
Net profit for the financial year		<u>65,277</u>	<u>31,267</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
- Employee share option scheme		1,439	1,203
Items that may be subsequently reclassified to profit or loss			
Financial assets available-for-sale			
- Net gain on revaluation of financial assets available-for-sale		20	28
- Income tax relating to component of other comprehensive income		(5)	(6)
Other comprehensive income, net of tax		<u>1,454</u>	<u>1,225</u>
Total comprehensive income		<u>66,731</u>	<u>32,492</u>

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**J.P. MORGAN CHASE BANK BERHAD**  
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**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

	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	Retained earnings RM'000	Total RM'000
At 1 January 2013		85,500	42,000	97,778	(258)	6,263	-	534,354	765,637
Net profit for the financial year		-	-	-	-	-	-	65,277	65,277
Transfer to regulatory reserve		-	-	-	-	-	958	(958)	-
Other comprehensive income		-	-	-	15	-	-	-	15
Employee share option scheme - Options granted	32	-	-	-	-	1,439	-	-	1,439
At 31 December 2013		85,500	42,000	97,778	(243)	7,702	958	598,673	832,368

**J.P. MORGAN CHASE BANK BERHAD**  
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**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (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	Retained earnings RM'000	Total RM'000
At 1 January 2012		85,500	42,000	97,778	(280)	5,060	503,087	738,145
Net profit for the financial year		-	-	-	-	-	31,267	31,267
Other comprehensive income		-	-	-	22	-	-	22
Employee share option scheme - Options granted	32	-	-	-	-	1,203	-	1,203
At 31 December 2012		85,500	42,000	97,778	(258)	6,263	534,354	765,637

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**J.P. MORGAN CHASE BANK BERHAD**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

	<u>2013</u> RM'000	<u>2012</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	88,821	42,569
Adjustments for items not involving the movement of cash and cash equivalents:		
Depreciation of fixed assets	5,904	2,083
Loss on disposal of fixed assets	226	-
Allowance for/(write back of) losses on loans and advances	53	(240)
Share options expenses	1,439	1,203
Net loss on derivative financial instruments	56,382	49,936
Net unrealised loss from revaluation of financial assets held for trading	662	85
Net unrealised gain in revaluation on derivatives	(88,258)	(28,282)
Net gain from sale of financial assets available-for-sale	(814)	(1,303)
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<u>64,415</u>	<u>66,051</u>
Decrease/(increase) in deposits and placements with banks and other financial institutions	200,136	(501,950)
Increase in securities purchased under resale agreement	(315,952)	-
(Increase)/decrease in financial assets held for trading	(76,566)	969,499
Increase in derivative financial instruments	(48,732)	(35,494)
Decrease/(increase) in financial assets available-for-sale	479,667	(419,837)
Increase in loans and advances	(102,887)	(33,664)
Decrease/(increase) in other assets	488,186	(266,245)
Decrease/(increase) in statutory deposits with BNM	3,598	(3,600)
Increase in deposits from customers	1,214,640	878,342
Decrease in deposits and placements of banks and other financial institutions	(61,228)	(2,129,231)
Decrease in other liabilities	(341,015)	(584,440)
(Decrease)/increase in amounts due to related parties	(393,625)	174,269
Cash generated from/(used in) operating activities	<u>1,110,637</u>	<u>(1,886,300)</u>
Income taxes paid	(19,993)	(20,370)
<b>Net cash generated from/(used in) operating activities</b>	<u>1,090,644</u>	<u>(1,906,670)</u>

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STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>			
Purchase of fixed assets		(27,089)	(2,442)
Net cash used in investing activity		<u>(27,089)</u>	<u>(2,442)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,063,555	(1,909,112)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		<u>2,967,629</u>	<u>4,876,741</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR		<u><u>4,031,184</u></u>	<u><u>2,967,629</u></u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>			
Cash and short-term funds	2	2,215,149	1,468,805
Amount due from related parties	8	1,816,035	1,498,824
		<u><u>4,031,184</u></u>	<u><u>2,967,629</u></u>



**J.P. MORGAN CHASE BANK BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

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

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

The preparation of financial statements in conformity with MFRS and BNM Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates. 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 Q.

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

The following standards, amendments to standards and interpretations have been adopted by the Bank for the financial year beginning on or after 1 January 2013:

- MFRS 13 "Fair Value Measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial Instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones.
- Amendment to MFRS 101 "Presentation of Items of Other Comprehensive Income" (effective from 1 July 2013) requires entities to separate items presented in 'other comprehensive income' ("OCI") in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

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

The following standards, amendments to standards and interpretations have been adopted by the Bank for the financial year beginning on or after 1 January 2013 (continued)

- Amendment to MFRS 119 "Employee Benefits" (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.
- Amendment to MFRS 7 "Financial Instruments: Disclosures" (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

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

The Bank will apply the new standards, amendments to standards and interpretations in the following periods:

- (i) Financial year beginning on/after 1 January 2014
- Amendment to MFRS 132 "Financial Instruments: Presentation" (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

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

The Bank will apply the new standards, amendments to standards and interpretations in the following periods: (continued)

- (ii) Financial year beginning on/after 1 January 2017

- MFRS 9, 'Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities' (effective no earlier than annual periods beginning on or after 1 January 2017) replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Bank has yet to assess MFRS 9's full impact and will also consider the impact of the remaining phases of MFRS 9 when completed by the Malaysian Accounting Standards Board.

Other than as disclosed above, the adoption of the above MFRS is not expected to have any significant financial impact on the results of the Bank.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**B INCOME RECOGNITION**

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

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

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

**C RECOGNITION OF FEES AND OTHER INCOME**

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

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

**D ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES**

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

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
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**E REPURCHASE AGREEMENTS**

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

**F FINANCIAL ASSETS AND LIABILITIES**

Financial assets

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

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

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

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

Financial 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 or designated under the fair value option 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.

Regular way purchases and sales of loans and receivables are recognised on contractual settlement.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
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**F FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

Financial assets (continued)

(c) Held-to-maturity financial assets

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

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

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

(d) Available-for-sale financial assets

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

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

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**F FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

Financial liabilities

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

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

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

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

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

(b) Other liabilities measured at amortised cost

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

Derecognition of financial assets and liabilities

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

Determining fair value

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
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**G DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

**H IMPAIRMENT OF FINANCIAL ASSETS**

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

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

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

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



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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
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**H IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)**

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

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

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

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

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

**I IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

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

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**J FIXED ASSETS**

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

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

The principal useful lives used are as follows:

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

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

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

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

**K CURRENCY TRANSLATIONS**

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

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

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
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**L INCOME TAX AND DEFERRED TAX**

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

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

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

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

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

**M EMPLOYEE BENEFITS**

*Short-term employee benefits*

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

*Defined contribution plan*

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

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**M EMPLOYEE BENEFITS (CONTINUED)**

*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.

**N PROVISION**

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

**O FINANCIAL GUARANTEE CONTRACTS**

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee is given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss, under fees and other income, the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the date of the statement of financial position. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. Any increase in the liability relating to guarantees is taken to profit or loss.

**P CASH AND CASH EQUIVALENTS**

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**Q 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**

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The majority of the Bank's assets reported at fair value are based upon quoted market prices or upon internally developed models that utilise independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

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

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

**(b) Allowance for losses on loans and advances**

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

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

**1 GENERAL INFORMATION**

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

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

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

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

**2 CASH AND SHORT-TERM FUNDS**

	<u>2013</u> RM'000	<u>2012</u> RM'000
Cash and balances with banks and other financial institutions	43,709	32,869
Money at call and deposit placements maturing within one month	2,171,440	1,435,936
	<u>2,215,149</u>	<u>1,468,805</u>

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

Licensed banks	<u>602,078</u>	<u>802,214</u>
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**4 FINANCIAL ASSETS HELD FOR TRADING**

Money market instruments

Malaysian Government Securities	36,616	71,066
Bank Negara Malaysia bills	71,213	1,374
Malaysian Treasury bills	160	-
Malaysian Government Investment Issuance	13,251	-

Unquoted securities

Private debt securities	47,317	20,213
	<u>168,557</u>	<u>92,653</u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

5 DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount RM'000	<u>Assets</u> RM'000	<u>Fair values</u> <u>Liabilities</u> RM'000
At 31 December 2013			
<u>Foreign exchange derivatives</u>			
Currency forwards	11,075,678	111,528	(96,409)
Cross-currency interest rate swaps	3,484,215	71,228	(73,226)
Currency options	425,863	13,710	(1,687)
	<u>14,985,756</u>	<u>196,466</u>	<u>(171,322)</u>
<u>Interest rate derivatives</u>			
Interest rate swaps	20,474,960	115,422	(159,996)
Interest rate options	3,103,080	107,146	(3,424)
	<u>23,578,040</u>	<u>222,568</u>	<u>(163,420)</u>
<u>Credit related derivatives</u>			
Credit default swaps	20,000	655	-
<u>Equity related derivatives</u>			
Equity options	1,069,683	14,481	(14,150)
Total derivative assets/(liabilities)	<u>39,653,479</u>	<u>434,170</u>	<u>(348,892)</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

5 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Notional amount RM'000	Assets RM'000	Fair values Liabilities RM'000
At 31 December 2012			
<u>Foreign exchange derivatives</u>			
Currency forwards	10,258,910	44,832	(43,987)
Cross-currency interest rate swaps	3,352,365	90,300	(84,831)
Currency options	2,095,235	11,876	(10,629)
	<u>15,706,510</u>	<u>147,008</u>	<u>(139,447)</u>
<u>Interest rate derivatives</u>			
Interest rate swaps	17,455,228	318,877	(319,698)
Interest rate futures	1,500,000	-	(347)
Interest rate options	2,301,980	42,317	(48,949)
	<u>21,257,208</u>	<u>361,194</u>	<u>(368,994)</u>
<u>Equity related derivatives</u>			
Equity options	884,927	15,900	(10,991)
	<u>37,848,645</u>	<u>524,102</u>	<u>(519,432)</u>
Total derivative assets/(liabilities)	<u>37,848,645</u>	<u>524,102</u>	<u>(519,432)</u>

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



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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**6 FINANCIAL ASSETS AVAILABLE-FOR-SALE**

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>Money market instruments</u>		
Malaysian Government Securities	79,650	97,068
Malaysian Government Investment Issuance	283,850	385,884
Bank Negara Malaysia bills	-	359,386
	<u>363,500</u>	<u>842,338</u>
<u>Unquoted securities (in Malaysia)</u>		
Private debt securities	12	12
Shares	193	193
	<u>205</u>	<u>205</u>
Allowance for impairment losses	(205)	(205)
	<u>363,500</u>	<u>842,338</u>

**7 LOANS AND ADVANCES**

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

Overdrafts	653	2,791
Term loan		
- Housing loans	4,116	5,193
- Other term loans	97	126
Staff loans	2,772	2,503
Revolving credits	153,535	20,139
Trade finance	8,061	35,711
	<u>169,234</u>	<u>66,463</u>
Less: Allowance for losses on loans and advances:		
- Individual assessment	(185)	(147)
- Collective assessment	(308)	(409)
	<u>168,741</u>	<u>65,907</u>

Included in loans and advances is revolving credit extended to a related company amounting to RM20,146,000 (2012: RM20,139,000).

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7 **LOANS AND ADVANCES (CONTINUED)**

	<u>2013</u> RM'000	<u>2012</u> RM'000
(ii) The maturity structure of loans and advances are as follows:		
Maturity within		
- one year	117,585	41,061
- one year to three years	45,495	18,486
- three years to five years	841	1,289
- over five years	5,313	5,627
	<u>169,234</u>	<u>66,463</u>
(iii) Loans and advances analysed by type of customers are as follows:		
Domestic business enterprises		
- Small medium enterprises	750	1,701
- Others	160,101	37,950
Individuals	6,888	8,096
Foreign entities	1,495	18,716
	<u>169,234</u>	<u>66,463</u>
(iv) Loans and advances analysed by interest sensitivity are as follows:		
Fixed rate		
- Housing loans	6,294	7,305
- Other fixed rate loans	594	814
Variable rate		
- Cost-plus	162,346	58,344
	<u>169,234</u>	<u>66,463</u>
(v) Loans and advances analysed by their economic purpose are as follows:		
Purchase of landed properties	6,294	7,305
Purchase of transport vehicles	465	583
Personal use	129	188
Working capital	162,346	58,387
	<u>169,234</u>	<u>66,463</u>

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7 **LOANS AND ADVANCES (CONTINUED)**

	<u>2013</u> RM'000	<u>2012</u> RM'000
(vi) Loans and advances analysed by their geographical distribution are as follows:		
In Malaysia	167,739	47,747
Other countries	1,495	18,716
	<u>169,234</u>	<u>66,463</u>
(vii) Impaired loans		
(a) Movements in impaired loans and advances are as follows:		
At 1 January	400	826
Classified as impaired during the financial year	595	544
Reclassified as performing during the financial year	(257)	(474)
Amount recovered	(194)	(496)
Amount written off	(93)	-
	<u>451</u>	<u>400</u>
At 31 December	(185)	(147)
Net impaired loans and advances	<u>266</u>	<u>253</u>
Ratio of net impaired loans and advances to net loans and advances	<u>0.16%</u>	<u>0.38%</u>
(b) Movements in allowance for impaired loans and advances are as follows:		
<u>Individual assessment allowance</u>		
At 1 January	147	297
Allowance made/(written back) during the financial year	38	(150)
At 31 December	<u>185</u>	<u>147</u>

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7	LOANS AND ADVANCES (CONTINUED)	<u>2013</u> RM'000	<u>2012</u> RM'000
	(vii) Impaired loans (continued)		
	(b) Movements in allowance for impaired loans and advances are as follows: (continued)		
	<u>Collective assessment allowance</u>		
	At 1 January	409	421
	Written back during the financial year	(101)	(12)
	At 31 December	<u>308</u>	<u>409</u>
	Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans and advances, net of individual assessment allowance	<u>0.75%</u>	<u>0.62%</u>
	(c) Impaired loans analysed by their economic purpose are as follows:		
	Purchase of landed property	<u>451</u>	<u>400</u>
8	AMOUNT DUE FROM RELATED PARTIES		
	Current deposits	294,522	184,102
	Fixed deposits	1,521,098	1,313,577
	Other receivables	415	1,145
		<u>1,816,035</u>	<u>1,498,824</u>

9 STATUTORY DEPOSITS WITH BNM

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

As of 31 December 2013, the Bank has RM2,000 (2012: RM3,600,214) statutory deposits with BNM.

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10 OTHER ASSETS

	<u>2013</u> RM'000	<u>2012</u> RM'000
Other receivables	11,456	498,750
Deposits and prepayments	4,171	7,322
	<u>15,627</u>	<u>506,072</u>

11 DEFERRED TAX (LIABILITIES)/ ASSETS

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

	<u>2013</u> RM'000	<u>2012</u> RM'000
Excess of depreciation over capital allowances	(3,116)	(916)
Other liabilities	2,695	2,595
Financial assets available-for-sale	81	86
Deferred tax (liabilities)/ assets	<u>(340)</u>	<u>1,765</u>

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

	<u>Excess of depreciation over capital allowances</u> RM'000	<u>Financial assets available- for-sale</u> RM'000	<u>Other liabilities</u> RM'000	<u>Total</u> RM'000
<u>2013</u>				
At 1 January	(916)	86	2,595	1,765
(Charged)/credited to income statement (Note 25)	(2,200)	-	100	(2,100)
Charged to reserve	-	(5)	-	(5)
At 31 December	<u>(3,116)</u>	<u>81</u>	<u>2,695</u>	<u>(340)</u>

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11 DEFERRED TAX (LIABILITIES)/ ASSETS (CONTINUED)

	Excess of depreciation over capital <u>allowances</u> RM'000	Financial assets available- <u>for-sale</u> RM'000	Other <u>liabilities</u> RM'000	<u>Total</u> RM'000
<u>2012</u>				
At 1 January	(808)	92	1,802	1,086
(Charged)/credited to income statement (Note 25)	(108)	-	793	685
Charged to reserve	-	(6)	-	(6)
At 31 December	<u>(916)</u>	<u>86</u>	<u>2,595</u>	<u>1,765</u>

12 FIXED ASSETS

	Bank <u>premises</u> RM'000	<u>Computers</u> RM'000	<u>Total</u> RM'000
<u>2013</u>			
<u>Cost</u>			
At 1 January	11,962	11,344	23,306
Additions	15,446	11,643	27,089
Disposals and write-off	(11,133)	(5,899)	(17,032)
At 31 December	<u>16,275</u>	<u>17,088</u>	<u>33,363</u>
<u>Accumulated depreciation</u>			
At 1 January	11,522	7,896	19,418
Charge for the financial year	1,599	4,305	5,904
Disposals and write-off	(11,133)	(5,673)	(16,806)
At 31 December	<u>1,988</u>	<u>6,528</u>	<u>8,516</u>
<u>Net book value</u>			
At 31 December	<u>14,287</u>	<u>10,560</u>	<u>24,847</u>

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## 12 FIXED ASSETS (CONTINUED)

	Bank premises RM'000	Computers RM'000	Total RM'000
<u>2012</u>			
<u>Cost</u>			
At 1 January	11,845	9,115	20,960
Additions	209	2,233	2,442
Disposals and write-off	(92)	(4)	(96)
At 31 December	<u>11,962</u>	<u>11,344</u>	<u>23,306</u>
<u>Accumulated depreciation</u>			
At 1 January	11,338	6,093	17,431
Charge for the financial year	276	1,807	2,083
Disposals and write-off	(92)	(4)	(96)
At 31 December	<u>11,522</u>	<u>7,896</u>	<u>19,418</u>
<u>Net book value</u>			
At 31 December	<u>440</u>	<u>3,448</u>	<u>3,888</u>

## 13 DEPOSITS FROM CUSTOMERS

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

	<u>2013</u> RM'000	<u>2012</u> RM'000
Demand deposits	3,389,170	2,233,311
Savings deposits	-	1,428
Fixed deposits	273,909	213,700
	<u>3,663,079</u>	<u>2,448,439</u>

Maturity structure of fixed deposits are as follows:

Due within six months	273,909	209,643
Six months to one year	-	3,994
More than one year	-	63
	<u>273,909</u>	<u>213,700</u>

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13 DEPOSITS FROM CUSTOMERS (CONTINUED)

	<u>2013</u> RM'000	<u>2012</u> RM'000
(ii) Deposits from customers analysed by type of customers are as follows:		
Business enterprises	3,662,996	2,408,381
Individuals	-	23,278
Others	83	16,780
	<u>3,663,079</u>	<u>2,448,439</u>

14 DEPOSITS AND PLACEMENTS OF BANKS  
AND OTHER FINANCIAL INSTITUTIONS

Licensed banks	558,796	543,694
Other financial institutions	8,597	84,927
	<u>567,393</u>	<u>628,621</u>

15 AMOUNT DUE TO RELATED PARTIES

Current deposits	487,027	715,814
Fixed deposits	193,871	358,709
	<u>680,898</u>	<u>1,074,523</u>

16 OTHER LIABILITIES

Other payables	36,859	380,903
Accruals and charges	10,219	9,295
	<u>47,078</u>	<u>390,198</u>



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17 SHARE CAPITAL

	<u>2013</u> RM'000	<u>2012</u> RM'000
Authorised:		
100,000,000 ordinary shares of RM1 each		
At 1 January/ 31 December	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
85,500,002 ordinary shares of RM1 each		
At 1 January/ 31 December	<u>85,500</u>	<u>85,500</u>

18 RESERVES

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

	<u>2013</u> RM'000	<u>2012</u> RM'000
At 1 January	(258)	(280)
Financial assets available-for-sale		
- net gain on fair value charges	20	28
- deferred taxation	(5)	(6)
At 31 December	<u>(243)</u>	<u>(258)</u>

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19 INTEREST INCOME

	<u>- 2013</u> RM'000	<u>2012</u> RM'000
Loans and advances		
- Interest income other than recoveries from impaired loans	2,739	1,831
- Recoveries from impaired loans	53	36
Money at call and placements with financial institutions	99,762	88,689
Financial assets		
- Held for trading	15,775	25,397
- Available-for-sale	12,949	20,876
	<u>131,278</u>	<u>136,829</u>

20 INTEREST EXPENSE

Deposits from customers	33,352	18,003
Deposits and placements of banks and other financial institutions	9,479	41,823
	<u>42,831</u>	<u>59,826</u>

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21 OTHER OPERATING INCOME

	<u>2013</u> RM'000	<u>2012</u> RM'000
Fee income:		
Service charges and fees	4,321	3,457
Guarantee fees	1,318	651
Other fee income	440	863
	<u>6,079</u>	<u>4,971</u>
Net income from securities:		
- Net gain/(loss) from sale of financial assets held for trading	4,146	(304)
- Net unrealised loss from revaluation of financial assets held for trading	(662)	(85)
- Net gain from sale of financial assets available-for-sale	814	1,303
Derivatives:		
- Net loss on derivative financial instruments	(56,382)	(49,936)
- Unrealised gain from revaluation of derivatives	88,258	28,282
Other income:		
Foreign exchange gain	59,797	45,960
Other operating income	15,666	13,001
Other non-operating income	111	19
	<u>117,827</u>	<u>43,211</u>

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22 OPERATING EXPENSES

	<u>2013</u> RM'000	<u>2012</u> RM'000
Personnel costs:		
- Wages, salaries and bonuses	31,386	28,309
- Defined contribution retirement plan	5,059	3,822
- Other employee benefits	4,652	4,623
	41,097	36,754
Establishment costs:		
- Equipment and fittings repairs, maintenance and rental	871	692
- Rental of premise	4,273	1,491
- Depreciation of fixed assets	5,904	2,083
- Utilities	422	453
- Others	828	598
	12,298	5,317
Marketing expenses	1,527	1,004
Administration and general expenses:		
- Management fees paid	48,968	26,502
- Banking and corporate expenses	4,776	2,853
- Office supplies, communication expenses and insurance	5,302	3,249
- Postage and shipping charges	205	183
- Other general expenses	3,227	2,023
	62,478	34,810
	<u>117,400</u>	<u>77,885</u>
The above expenditure includes the following statutory disclosures:		
Directors' remuneration (Note 24)	4,132	3,855
Hire of equipment	310	65
Auditors' remuneration:		
- audit fees	416	248
- non-audit fees	217	67
	<u>4,975</u>	<u>4,235</u>

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23 (ALLOWANCE FOR)/WRITE BACK OF LOSSES ON LOANS AND ADVANCES

	<u>2013</u> RM'000	<u>2012</u> RM'000
Allowance for losses on loans and advances:		
(a) Individual assessment allowance - (Made)/written back	(38)	150
(b) Collective assessment allowance - Written back	101	12
Bad debts on loans and advances - (Written-off)/recovered	(116)	78
	<u>(53)</u>	<u>240</u>

24 DIRECTORS' REMUNERATION

Fees	415	354
Other remuneration	3,717	3,501
	<u>4,132</u>	<u>3,855</u>
Analysis of Directors' remuneration:		
Executive Directors:		
- Salary, bonuses and other remuneration	1,799	1,750
- Defined contribution retirement plan	393	375
- Bonuses	1,522	1,373
- Benefits-in-kind	3	3
Non-executive Directors:		
- Fees/allowances	415	354
	<u>4,132</u>	<u>3,855</u>

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

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24 DIRECTORS' REMUNERATION (CONTINUED)

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

	<u>2013</u>	<u>2012</u>
<u>Executive Directors</u>		
Above RM500,000	1	1
RM300,000 – RM500,000	-	-
RM100,000 – RM299,000	-	-
<u>Non-Executive Directors</u>		
RM50,000 – RM100,000	5	5
RM1 - RM49,999	-	-

25 TAXATION

	<u>2013</u> RM'000	<u>2012</u> RM'000
(a) Tax expense for the financial year		
Current year tax		
- Malaysian income tax	21,163	11,987
- Under provision in respect of prior year	281	-
Deferred tax		
- Origination and reversal of temporary differences	2,100	(685)
	<u>23,544</u>	<u>11,302</u>

(b) Numerical reconciliation of income tax expense

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

	<u>2013</u> RM'000	<u>2012</u> RM'000
Profit before taxation	<u>88,821</u>	<u>42,569</u>
Tax calculated at a tax rate of 25% (2012: 25%)	22,205	10,642
Expenses not deductible for tax purposes	1,058	660
Under provision in respect of prior year	281	-
Tax expense	<u>23,544</u>	<u>11,302</u>

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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:

	<u>2013</u> Principal amount RM'000	<u>2012</u> Principal amount RM'000
<u>Credit-related</u>		
Direct credit substitutes	198,638	36,621
Transaction-related contingent items	381,121	364,724
Short-term self-liquidating trade related contingencies	1,738	53,479
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:		
- over one year	599,290	170,586
- up to one year	38,030	37,101
<u>Treasury-related</u>		
Foreign exchange related contracts:		
- one year or less	11,738,634	12,825,066
- over one year to five years	3,247,122	2,389,815
- over five years	-	491,629
Interest rate related contracts:		
- one year or less	3,571,722	4,896,524
- over one year to five years	17,244,120	11,438,369
- over five years	2,762,198	3,422,315
Credit related contracts:		
- over one year to five years	20,000	-
Equity related contracts:		
- one year or less	944,241	704,342
- over one year to five years	125,442	180,585
	<u>40,872,296</u>	<u>37,011,156</u>

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27 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

Key management personnel

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

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

	<u>2013</u>		<u>2012</u>	
	<u>Related entities</u>	<u>Key management personnel</u>	<u>Related entities</u>	<u>Key management personnel</u>
	RM'000	RM'000	RM'000	RM'000
<b>Significant related party transactions of the Bank:</b>				
<u>Income</u>				
Interest on loans and advances	937	17	952	17
Interest on current deposit	69	-	41	-
Interest on fixed deposit	4,291	-	10,690	-
Management fees received	15,666	-	13,001	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>Expense</u>				
Interest on savings deposit	-	-	-	1
Interest on current deposit	55	-	57	-
Interest on fixed deposit	6,602	-	13,070	-
Personnel expenses	-	14,887	-	13,194
Rental recovery	(675)	-	(516)	-
Management fees	48,968	-	26,502	-
Directors' remuneration	-	415	-	354
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



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27 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

	<u>2013</u>		<u>2012</u>	
	Related entities	Key management personnel	Related entities	Key management personnel
	RM'000	RM'000	RM'000	RM'000
Related party balances of the Bank:				
<u>Amount due from</u>				
Staff loans	-	486	-	482
Current deposit	294,523	-	184,102	-
Fixed deposit	1,521,096	-	1,313,577	-
Loan	20,146	-	20,139	-
Other receivables	416	-	1,145	-
	<u>1,836,181</u>	<u>486</u>	<u>1,518,963</u>	<u>482</u>
<u>Amount due to</u>				
Savings deposit	-	-	-	37
Current deposit	487,027	-	715,814	-
Fixed deposit	193,871	-	358,709	-
	<u>680,898</u>	<u>-</u>	<u>1,074,523</u>	<u>37</u>

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

Interest rates on time deposits were at normal commercial rates.

Key management compensation:

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Salaries and other short-term employee benefits	<u>15,302</u>	<u>13,548</u>
	Unit	Unit
Shares, restricted stock units and share options balance of ultimate holding corporation	<u>35,037</u>	<u>48,980</u>

Included in the above is the Executive Director's 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.

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27 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

Key management compensation: (continued)

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

Credit exposures arising from transactions with connected parties

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

	<u>2013</u> RM'000	<u>2012</u> RM'000
Outstanding credit exposures with connected parties	366,699	575,428
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	13.94%	22.40%
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:

	<u>2013</u> RM'000	<u>2012</u> RM'000
Not later than one year	2,562	3,628
Later than one year and not later than five years	3,926	46

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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:

	<u>2013</u> RM'000	<u>2012</u> RM'000
<u>Tier-I capital</u>		
Paid-up share capital	85,500	85,500
Share premium	42,000	42,000
Retained earnings	598,673	534,354
Fair value reserve – available-for-sale securities	(243)	(258)
Option reserve	7,702	6,263
Statutory reserve	97,778	97,778
	<u>831,410</u>	<u>765,637</u>
Deferred tax assets	-	(1,765)
Total Tier I capital	<u>831,410</u>	<u>763,872</u>
<u>Tier-II capital</u>		
Regulatory reserve	958	-
Collective assessment allowance	308	409
Total capital base	<u>832,676</u>	<u>764,281</u>
Tier 1 capital ratio	<u>23.35%</u>	<u>22.91%</u>
Total capital ratio	<u>23.39%</u>	<u>22.92%</u>

The capital adequacy ratios of the Bank for the financial year 2012 have been restated to comply with BNM's Capital Adequacy Framework (Capital Components) which was effective 1 January 2013.

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## 29 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2013:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) <u>Credit Risk</u>				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	2,074,951	2,074,951	-	-
Banks	3,267,400	3,267,400	653,928	52,314
Insurance companies, securities firms and fund managers	20,146	20,146	20,146	1,612
Corporates	141,791	141,791	141,668	11,333
Residential mortgages	5,336	5,336	2,070	166
Higher risk assets	15	15	23	2
Other assets	27,605	27,605	27,279	2,182
Defaulted exposures	451	451	509	41
Total on-balance sheet exposures	5,537,695	5,537,695	845,623	67,650
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	1,765,030	1,765,030	595,543	47,643
Off balance sheet exposures other than OTC derivatives	696,797	696,797	565,699	45,256
Total off-balance sheet exposures	2,461,827	2,461,827	1,161,242	92,899
Total on and off-balance sheet exposures	7,999,522	7,999,522	2,006,865	160,549
(b) <u>Market risk</u>				
Interest rate risk	46,003,853	45,992,021	1,105,444	88,435
Foreign currency risk	4,753	-	4,750	380
Options risk			149,875	11,990
(c) <u>Operational risk</u>			293,311	23,465
Total risk weighted assets and capital requirements			3,560,245	284,819

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## 29 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2012:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) <u>Credit Risk</u>				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	2,391,895	2,391,895	-	-
Banks	2,761,189	2,761,189	557,853	44,628
Insurance companies, securities firms and fund managers	20,139	20,139	20,139	1,611
Corporates	21,080	21,080	20,982	1,679
Residential mortgages	6,114	6,114	2,240	179
Higher risk assets	15	15	23	2
Other assets	9,124	9,124	8,437	675
Defaulted exposures	400	400	491	39
Total on-balance sheet exposures	<u>5,209,956</u>	<u>5,209,956</u>	<u>610,165</u>	<u>48,813</u>
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	2,179,459	2,179,459	770,522	61,642
Off balance sheet exposures other than OTC derivatives	322,392	322,392	167,881	13,430
Total off-balance sheet exposures	<u>2,501,851</u>	<u>2,501,851</u>	<u>938,403</u>	<u>75,072</u>
Total on and off-balance sheet exposures	<u>7,711,807</u>	<u>7,711,807</u>	<u>1,548,568</u>	<u>123,885</u>
	<u>Long position</u>	<u>Short position</u>		
(b) <u>Market risk</u>				
Interest rate risk	30,877,913	30,713,117	852,437	68,195
Foreign currency risk	-	108,390	108,390	8,671
Options risk			610,188	48,815
(c) <u>Operational risk</u>			214,982	17,199
Total risk weighted assets and capital requirements			<u>3,334,565</u>	<u>266,765</u>

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29 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet and counterparty risk as at 31 December 2013:

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	198,638	198,638	167,726
Transaction-related contingent items	381,121	190,561	90,653
Short-term self-liquidating trade related contingencies	1,738	347	69
Foreign exchange related contracts:			
- less than one year	11,738,634	280,570	181,521
- one year to less than five years	3,247,122	337,562	178,885
Interest rate related contracts:			
- less than one year	3,571,722	28,960	5,792
- one year to less than five years	17,244,120	678,392	135,678
- more than five years	2,762,198	337,898	67,580
Credit related contracts			
- one year to less than five years	20,000	2,455	491
Equity related contracts			
- less than one year	944,241	81,312	22,020
- one year to less than five years	125,442	17,881	3,576
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	599,290	299,645	299,645
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	38,030	7,606	7,606
	<u>40,872,296</u>	<u>2,461,827</u>	<u>1,161,242</u>

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

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## 29 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet and counterparty risk as at 31 December 2012:

	<u>Principal amount</u> RM'000	<u>Credit equivalent amount*</u> RM'000	<u>Risk weighted amount</u> RM'000
Direct credit substitutes	36,621	36,621	8,808
Transaction-related contingent items	364,724	182,362	63,458
Short-term self-liquidating trade related contingencies	53,479	10,696	2,902
Foreign exchange related contracts:			
- less than one year	12,825,066	219,893	90,512
- one year to less than five years	2,389,815	289,192	155,212
- more than five years	491,629	78,895	72,777
Interest rate related contracts:			
- less than one year	4,896,524	34,635	6,927
- one year to less than five years	11,438,369	529,313	105,863
- more than five years	3,422,315	942,284	305,761
Equity related contracts			
- less than one year	704,342	59,396	24,108
- one year to less than five years	180,585	25,851	9,362
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	170,586	85,293	85,293
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	37,101	7,420	7,420
	<u>37,011,156</u>	<u>2,501,851</u>	<u>938,403</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)****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**

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

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

**(a) Collateral**

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

**(b) Master netting arrangements**

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



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

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

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## 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.

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000
<u>Assets</u>			
Cash and short-term funds	2	2,215,149	1,468,805
Securities purchased under resale agreement		315,952	-
Deposits and placements with banks and other financial institutions	3	602,078	802,214
Financial assets held for trading	4	168,557	92,653
Derivative financial instruments	5	434,170	524,102
Financial assets available-for-sale	6	363,500	842,338
Loans and advances	7	168,741	65,907
Amount due from related parties	8	1,816,035	1,498,824
Statutory deposits with BNM	9	2	3,600
Other assets	10	15,627	506,072
Tax recoverable		15,390	16,682
<b>Total assets*</b>		<u>6,115,201</u>	<u>5,821,197</u>
Commitments and contingencies	29	2,461,827	2,501,851
<b>Total credit exposure</b>		<u>8,577,028</u>	<u>8,323,048</u>

\* Excludes deferred tax assets and fixed assets.

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.

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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).

	Short-term funds and placements	Securities purchased under resale agreement	Deposits and placements with financial institutions	Financial assets held for trading	Derivative financial instruments	Financial assets available- for-sale	Loans and advances	Amount due from related parties	Other assets*	On Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	2,177,292	315,952	602,078	121,241	369,730	363,500	167,247	51,426	55,866	1,953,012
United Kingdom	-	-	-	-	41,129	-	-	9,626	-	163,804
USA	-	-	-	-	14,262	-	-	1,582,157	-	207,549
Hong Kong	-	-	-	-	2,117	-	-	61,259	-	27,050
Singapore	17,063	-	-	-	352	-	-	207	-	60,959
Others	20,794	-	-	47,316	6,580	-	1,494	111,360	-	49,453
	<u>2,215,149</u>	<u>315,952</u>	<u>602,078</u>	<u>168,557</u>	<u>434,170</u>	<u>363,500</u>	<u>168,741</u>	<u>1,816,035</u>	<u>55,866</u>	<u>2,461,827</u>

\* Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable and fixed assets. Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

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30 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

(i) **Credit risk (continued)**

**Concentration risk by geographical sectors (continued)**

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Deposits and placements with financial institutions 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 Commitments and contingencies RM'000
Malaysia	1,417,595	-	802,214	72,440	231,080	842,338	47,190	24,855	532,007	3,969,719
United Kingdom	-	-	-	-	172,206	-	-	30,490	-	202,696
USA	-	-	-	-	115,767	-	-	89,829	-	205,596
Hong Kong	-	-	-	-	48	-	-	1,289,660	-	1,289,708
Singapore	28,426	-	-	-	-	-	-	-	-	28,426
Others	22,784	-	-	20,213	5,001	-	18,717	63,990	-	130,705
	<u>1,468,805</u>	<u>-</u>	<u>802,214</u>	<u>92,653</u>	<u>524,102</u>	<u>842,338</u>	<u>65,907</u>	<u>1,498,824</u>	<u>532,007</u>	<u>5,826,850</u>
										<u>2,501,851</u>

\* Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets and fixed assets. Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

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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).

	31.12.2013										
	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Deposits and placements with financial institutions	Financial assets held for trading	Derivative financial instruments	Financial assets available- for-sale	Loans and advances*	Amount due from related parties	Other assets**	On Commitments and contingencies	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Manufacturing Wholesale and retail Finance, insurance and business services	864,032	-	602,078	47,316	434,170	-	66,522	1,816,035	15,627	3,845,780	2,365,073
Government and Agencies	1,350,791	315,952	-	121,241	-	363,500	-	-	15,392	2,166,876	-
							95,073	-	-	95,073	56,648
							133	-	-	133	34,193

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30 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

(i) **Credit risk (continued)**

**Concentration risk by industry sectors (continued)**

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Deposits and placements with financial institutions 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 Commitments and balance sheet total contingencies RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	-	6,109	-	-	6,109
Electricity, gas and water	-	-	-	-	-	-	-	-	-	-
Consumption credit	-	-	-	-	-	-	129	-	-	129
Others	-	-	-	-	-	-	1,083	-	-	1,083
	<u>2,214,823</u>	<u>315,952</u>	<u>602,078</u>	<u>168,557</u>	<u>434,170</u>	<u>363,500</u>	<u>169,049</u>	<u>1,816,035</u>	<u>31,019</u>	<u>6,115,183</u>
Assets not subject to credit risk	326	-	-	-	-	-	-	-	24,847	25,173
	<u>2,215,149</u>	<u>315,952</u>	<u>602,078</u>	<u>168,557</u>	<u>434,170</u>	<u>363,500</u>	<u>169,049</u>	<u>1,816,035</u>	<u>55,866</u>	<u>6,140,356</u>
										<u>2,461,827</u>

31.12.2013

\* Excludes collective assessment allowance amounting to RM308,000.

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

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

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

	31.12.2012									
	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Deposits and placements with financial institutions 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 Commitments balance sheet total contingencies RM'000
Agricultural	-	-	-	-	-	-	16,995	-	-	-
Manufacturing	-	-	-	-	-	-	11	-	-	13,970
Transport, storage and communications	-	-	-	-	-	-	-	-	-	413
Wholesale and retail Finance, insurance and business services	-	-	-	-	-	-	1,087	-	-	108
Government and Government Agencies	446,595	-	802,214	20,213	524,102	-	39,672	1,498,824	7,322	2,484,654
	1,021,523	-	-	72,440	-	842,338	-	-	520,797	2,457,098

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Deposits and placements with financial institutions 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 Commitments and contingencies RM'000	31.12.2012 RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	-	7,158	-	-	7,158	2,644
Electricity, gas and water	-	-	-	-	-	-	-	-	-	-	62
Consumption credit	-	-	-	-	-	-	188	-	-	188	-
Others	-	-	-	-	-	-	1,205	-	-	1,205	-
	1,468,118	-	802,214	92,653	524,102	842,338	66,316	1,498,824	528,119	5,822,684	2,501,851
Assets not subject to credit risk	687	-	-	-	-	-	-	-	3,888	4,575	-
	1,468,805	-	802,214	92,653	524,102	842,338	66,316	1,498,824	532,007	5,827,259	2,501,851

\* Excludes collective assessment allowance amounting to RM409,000.

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

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



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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Loans and advances

Loans and advances are summarised as follows:

	<u>2013</u> RM'000	<u>2012</u> RM'000
Neither past due nor impaired	168,548	65,464
Past due but not impaired	235	599
Individually impaired	451	400
	<hr/>	<hr/>
Gross	169,234	66,463
Less: Allowance for impaired loans and advances		
- Individual assessment allowance	(185)	(147)
- Collective assessment allowance	(308)	(409)
	<hr/>	<hr/>
Net	<u>168,741</u>	<u>65,907</u>

(a) Loans and advances neither past due nor impaired

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

	<u>Corporates</u> RM'000	<u>SMEs</u> RM'000	<u>Mortgages</u> RM'000	<u>Total</u> RM'000
<u>2013</u>				
Satisfactory	<u>161,596</u>	<u>750</u>	<u>6,202</u>	<u>168,548</u>
<u>2012</u>				
Satisfactory	<u>56,667</u>	<u>1,701</u>	<u>7,096</u>	<u>65,464</u>

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Loans and advances (continued)

(b) Loans and advances past due but not impaired

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

	<u>Mortgages</u> RM'000	<u>Total</u> RM'000
<u>2013</u>		
Past due 30 – 60 days	173	173
Past due 60 – 90 days	62	62
Total	<u>235</u>	<u>235</u>
Fair value of collateral	<u>589</u>	<u>589</u>
Amount of over-collateralisation	<u>354</u>	<u>354</u>
<u>2012</u>		
Past due 30 – 60 days	264	264
Past due 60 – 90 days	335	335
Total	<u>599</u>	<u>599</u>
Fair value of collateral	<u>1,573</u>	<u>1,573</u>
Amount of over-collateralisation	<u>974</u>	<u>974</u>

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## 30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)Loans and advances (continued)

## (c) Loans and advances individually impaired

The individual impaired loans and advances to customers before taking into consideration the cash flows from collateral held is RM451,000 (2012: RM400,000).

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

	<u>Mortgages</u> RM'000	<u>Total</u> RM'000
<u>2013</u>		
Gross amount	451	451
Fair value of collateral	646	646
<u>2012</u>		
Gross amount	400	400
Fair value of collateral	566	566

Credit quality of financial assets

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

	<u>Held for trading</u>	<u>Available for-sale</u>	
	<u>Malaysian Government treasury bills and securities</u> RM'000	<u>Private debt securities</u> RM'000	<u>Malaysian Government treasury bills and securities</u> RM'000
			<u>Total</u> RM'000
<u>2013</u>			
AAA	121,240	47,317	363,500
	<u>121,240</u>	<u>47,317</u>	<u>363,500</u>
<u>2012</u>			
AAA	72,440	20,213	842,338
	<u>72,440</u>	<u>20,213</u>	<u>842,338</u>
			<u>934,991</u>

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk

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

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

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

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

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

The VAR of the Bank at the end of the financial year, based on one-day time horizon and at 99% confidence level, is RM5,336,000 (2012: RM3,428,000). It represents the correlation and consequent diversification effects between risk types and portfolio types across trading and non-trading businesses. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

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

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Operational risk

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

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

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

(iv) Interest rate risk

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

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**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						Total 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	
<b>Assets</b>							
Cash and short-term funds	2,164,124	-	-	-	-	-	51,025
Securities purchased under resale Agreement	315,349	-	-	-	-	-	603
Deposits and placements with banks and other financial institutions	-	600,000	-	-	-	-	2,078
Financial assets held for trading	-	-	-	-	-	167,284	1,273
Derivative financial instruments	-	-	-	-	-	434,170	-
Financial assets available-for-sale	-	-	-	358,741	-	-	4,759
Loans and advances							
- Performing	20,249	1,534	95,802	46,259	4,939	-	(493) <sup>^</sup>
- Non-performing	-	-	-	-	-	-	451
Amount due from related parties	1,469,630	51,425	-	-	-	-	294,980
Statutory deposits with BNM	-	-	-	-	-	-	2
Other assets <sup>#</sup>	-	-	-	-	-	-	55,864
<b>Total assets</b>	<b>3,969,352</b>	<b>652,959</b>	<b>95,802</b>	<b>405,000</b>	<b>4,939</b>	<b>601,454</b>	<b>410,542</b>
							<b>6,140,048</b>

<sup>^</sup> Includes individual assessment allowance and collective assessment allowance amounting to RM493,000.

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

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

	Non trading book						Total RM'000
	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	
<b>Liabilities</b>							
Deposits from customers	2,322,684	5,500	65,953	-	-	-	3,663,079
Deposits and placements of banks and other financial institutions	81,890	33	203	-	-	-	567,393
Derivative financial instruments	-	-	-	-	-	348,892	348,892
Amount due to related parties	155,740	-	37,852	-	-	-	680,898
Other liabilities	-	-	-	-	-	-	47,418
<b>Total liabilities</b>	<b>2,560,314</b>	<b>5,533</b>	<b>104,008</b>	<b>-</b>	<b>-</b>	<b>348,892</b>	<b>2,288,933</b>
<b>Interest rate gap</b>	<b>1,409,038</b>	<b>647,426</b>	<b>(8,206)</b>	<b>405,000</b>	<b>4,939</b>	<b>-</b>	<b>5,307,680</b>

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**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

(iv) Interest rate risk (continued)	Non trading book							Total RM'000
	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	
<b>Assets</b>								
Cash and short-term funds	1,431,623	-	-	-	-	-	37,182	1,468,805
Securities purchased under resale Agreement	-	-	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	-	-	800,000	-	-	-	2,214	802,214
Financial assets held for trading	-	-	-	-	-	91,854	799	92,653
Derivative financial instruments	-	-	-	-	-	524,102	-	524,102
Financial assets available-for-sale	-	359,385	-	412,894	64,535	-	5,524	842,338
Loans and advances								
- Performing	17,564	848	22,608	19,648	5,395	-	(556) <sup>^</sup>	65,507
- Non-performing	-	-	-	-	-	-	400	400
Amount due from related parties	1,313,533	-	-	-	-	-	185,291	1,498,824
Statutory deposits with BNM	-	-	-	-	-	-	3,600	3,600
Other assets <sup>#</sup>	-	-	-	-	-	-	528,407	528,407
<b>Total assets</b>	<b>2,762,720</b>	<b>360,233</b>	<b>822,608</b>	<b>432,542</b>	<b>69,930</b>	<b>615,956</b>	<b>762,861</b>	<b>5,826,850</b>

<sup>^</sup> Includes individual assessment allowance and collective assessment allowance amounting to RM556,000.

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



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30 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

(iv) **Interest rate risk (continued)**

	Non trading book							31.12.2012
	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	
<b>Liabilities</b>								
Deposits from customers	1,467,622	8,096	8,045	62	-	-	964,614	2,448,439
Deposits and placements of banks and other financial institutions	48,163	18,462	647	-	50,000	-	511,349	628,621
Derivative financial instruments	-	-	-	-	-	519,432	-	519,432
Amount due to related parties	322,594	14,984	20,909	-	-	-	716,036	1,074,523
Other liabilities	-	-	-	-	-	-	390,198	390,198
<b>Total liabilities</b>	<b>1,838,379</b>	<b>41,542</b>	<b>29,601</b>	<b>62</b>	<b>50,000</b>	<b>519,432</b>	<b>2,582,197</b>	<b>5,061,213</b>
<b>Interest rate gap</b>	<b>924,341</b>	<b>318,691</b>	<b>793,007</b>	<b>432,480</b>	<b>19,930</b>	<b>-</b>	<b>-</b>	<b>-</b>

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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.

	2013		2012	
	RM %	USD %	RM %	USD %
<u>Financial assets</u>				
Cash and short-term funds	3.07	0.30	3.07	-
Securities purchased under resale agreement	2.75	-	-	-
Deposits and placements with banks and other financial institutions	3.22	-	3.21	-
Financial assets held for trading	3.24	-	3.30	-
Financial assets available- for-sale	3.29	-	3.17	-
Loans and advances	4.42	0.94	5.06	0.93
Amount due from related parties	-	0.09	-	0.18
<u>Financial liabilities</u>				
Deposits from customers	2.75	0.35	2.57	0.16
Deposits and placements of banks and other financial institutions	2.70	0.07	2.69	0.09
Amount due to related parties	2.61	0.15	2.81	0.20

(v) Currency risk

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

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

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

	<u>MYR</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>2013</u>					
<u>Assets</u>					
Cash and short-term funds	2,091,265	101,354	-	22,530	2,215,149
Securities purchased under resale agreement	315,952	-	-	-	315,952
Deposits and placements with banks and other financial institutions	602,078	-	-	-	602,078
Financial assets held for trading	168,557	-	-	-	168,557
Derivative financial instruments	362,954	71,216	-	-	434,170
Financial assets available- for-sale	363,500	-	-	-	363,500
Loans and advances	27,291	96,568	-	44,882	168,741
Amount due from related parties	1	1,633,969	111,360	70,705	1,816,035
Other assets#	55,765	89	12	-	55,866
	<u>3,987,363</u>	<u>1,903,196</u>	<u>111,372</u>	<u>138,117</u>	<u>6,140,048</u>
<u>Liabilities</u>					
Deposits from customers	1,005,731	2,443,629	108,340	105,379	3,663,079
Deposits and placements of banks and other financial institutions	492,122	75,271	-	-	567,393
Derivative financial instruments	272,569	76,323	-	-	348,892
Amount due to related parties	618,935	29,790	-	32,173	680,898
Other liabilities	45,908	1,175	26	309	47,418
	<u>2,435,265</u>	<u>2,626,188</u>	<u>108,366</u>	<u>137,861</u>	<u>5,307,680</u>
Currency gap	<u>1,552,098</u>	<u>(722,992)</u>	<u>3,006</u>	<u>256</u>	

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

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## 30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

	<u>MYR</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>2012</u>					
<u>Assets</u>					
Cash and short-term funds	1,387,199	-	-	81,606	1,468,805
Securities purchased under resale agreement	-	-	-	-	-
Deposits and placements with banks and other financial institutions	802,214	-	-	-	802,214
Financial assets held for trading	92,653	-	-	-	92,653
Derivative financial instruments	115,807	408,103	-	192	524,102
Financial assets available- for-sale	842,338	-	-	-	842,338
Loans and advances	29,379	36,528	-	-	65,907
Amount due from related parties	30	1,035,422	63,990	399,382	1,498,824
Other assets#	531,953	54	-	-	532,007
	<u>3,801,573</u>	<u>1,480,107</u>	<u>63,990</u>	<u>481,180</u>	<u>5,826,850</u>
<u>Liabilities</u>					
Deposits from customers	917,706	1,042,858	63,853	424,022	2,448,439
Deposits and placements of banks and other financial institutions	84,927	543,675	-	19	628,621
Derivative financial instruments	189,695	329,548	-	189	519,432
Amount due to related parties	1,058,409	16,114	-	-	1,074,523
Other liabilities	388,942	941	21	294	390,198
	<u>2,639,679</u>	<u>1,933,136</u>	<u>63,874</u>	<u>424,524</u>	<u>5,061,213</u>
Currency gap	<u>1,161,894</u>	<u>(453,029)</u>	<u>116</u>	<u>56,656</u>	

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

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

	Up to 1 <u>month</u> RM'000	1 – 3 <u>months</u> RM'000	3 – 12 <u>months</u> RM'000	1 – 5 <u>years</u> RM'000	Over 5 <u>years</u> RM'000	<u>Total</u> RM'000
<b>2013</b>						
<b><u>Assets</u></b>						
Short-term funds and placements with financial institutions	2,216,606	605,164	-	-	-	2,821,770
Financial assets held for trading	38,810	117,903	12,260	-	-	168,973
Financial assets available-for-sale	160	-	-	392,038	-	392,198
Amount due from related parties	1,764,613	51,457	-	-	-	1,816,070
<b>Total financial assets</b>	<b>4,020,189</b>	<b>774,524</b>	<b>12,260</b>	<b>392,038</b>	<b>-</b>	<b>5,199,011</b>
<b><u>Liabilities</u></b>						
Deposits from customers	3,591,179	5,522	67,227	-	-	3,663,928
Deposits and placements of banks and other financial institutions	567,153	34	208	-	-	567,395
Amount due to related parties	643,129	16,390	22,058	-	-	681,577
<b>Total financial liabilities</b>	<b>4,801,461</b>	<b>21,946</b>	<b>89,493</b>	<b>-</b>	<b>-</b>	<b>4,912,900</b>

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk (continued)

	Up to 1 <u>month</u> RM'000	1 – 3 <u>months</u> RM'000	3 – 12 <u>months</u> RM'000	1 – 5 <u>years</u> RM'000	Over 5 <u>years</u> RM'000	<u>Total</u> RM'000
<u>2012</u>						
<u>Assets</u>						
Short-term funds and placements with financial institutions	1,469,722	806,678	-	-	-	2,276,400
Financial assets held for trading	170	93,183	-	-	-	93,353
Financial assets available-for-sale	100,000	260,870	-	445,623	79,151	885,644
Amount due from related parties	1,498,859	-	-	-	-	1,498,859
Total financial assets	<u>3,068,751</u>	<u>1,160,731</u>	<u>-</u>	<u>445,623</u>	<u>79,151</u>	<u>4,754,256</u>
<u>Liabilities</u>						
Deposits from customers	2,431,613	8,982	8,776	89	-	2,449,460
Deposits and placements of banks and other financial institutions	577,932	33	641	24	50,000	628,630
Amount due to related parties	1,038,723	14,992	21,476	-	-	1,075,191
Total financial liabilities	<u>4,048,268</u>	<u>24,007</u>	<u>30,893</u>	<u>113</u>	<u>50,000</u>	<u>4,153,281</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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 <u>month</u> RM'000	1 – 3 <u>months</u> RM'000	3 – 12 <u>months</u> RM'000	1 – 5 <u>years</u> RM'000	Over 5 <u>years</u> RM'000	<u>Total</u> RM'000
<u>2013</u>						
Net-settled derivatives	10,018	18,391	22,943	(21,225)	49,643	79,770
Gross-settled derivatives						
- Receipts	6,022,704	2,478,601	3,052,446	728,118	-	12,281,869
- Payments	(5,691,560)	(2,600,425)	(2,985,937)	(730,342)	-	(12,008,264)
	<u>341,162</u>	<u>(103,433)</u>	<u>89,452</u>	<u>(23,449)</u>	<u>49,643</u>	<u>353,375</u>
<u>2012</u>						
Net-settled derivatives	(2,993)	6,841	2,831	(21,542)	1,768	(13,095)
Gross-settled derivatives						
- Receipts	7,161,291	1,975,296	1,666,089	652,116	40,144	11,494,936
- Payments	(7,161,467)	(1,972,942)	(1,669,074)	(666,657)	(40,357)	(11,510,497)
	<u>(3,169)</u>	<u>9,195</u>	<u>(154)</u>	<u>(36,083)</u>	<u>1,555</u>	<u>(28,656)</u>

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NOTES TO THE FINANCIAL STATEMENTS  
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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, securities purchased under resale agreement, deposits and placements with banks and other financial institutions, amount due from/to related parties, statutory deposits with BNM, deposits from customers, deposits and placements of banks and other financial institutions with maturities of less than one year, the carrying value is a reasonable estimate of fair value.

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

(ii) Loans and advances

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

The fair value of impaired loans, fixed or floating are based on the carrying value less impairment allowances, being the expected recoverable amount. In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio has been reduced by RM493,000 (2012: RM556,000), being the carrying value of the collective allowance for doubtful debts which covers unidentified losses inherent in the portfolio.

(iii) Credit commitments

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



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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

31 **FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

(b) Financial instruments measured at fair value

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

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

(ii) Derivative financial instruments

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

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

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

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

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets</u>				
Financial assets held for trading	-	168,557	-	168,557
Derivative financial instruments	-	434,170	-	434,170
Financial assets available-for-sale	-	363,500	-	363,500
<u>Financial liabilities</u>				
Derivative financial instruments	-	348,892	-	348,892

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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):

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets</u>				
Financial assets held for trading	-	92,653	-	92,653
Derivative financial instruments	-	524,102	-	524,102
Financial assets available-for-sale	-	842,338	-	842,338
<u>Financial liabilities</u>				
Derivative financial instruments	-	519,432	-	519,432

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

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

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

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) Stock options

The movements and weighted average exercise prices of stock options are as follows:

	2013		2012	
	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
Outstanding at 1 January	914	39.06	914	39.06
Exercised during the year	(450)	52.77	-	-
Outstanding at 31 December	464	39.06	914	39.06

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

32 EMPLOYEE BENEFITS (CONTINUED)

(a) Stock options (continued)

JPMC currently uses the Black-Scholes valuation model to estimate the fair value of stock options. The following table presents the assumptions used in the model to value stock options granted during the period:

	<u>Year ended 31 December</u>	
	<u>2013</u>	<u>2012</u>
<u>Weighted-average annualised valuation assumptions</u>		
Risk-free interest	1.18%	1.19%
Expected dividend yield	2.66%	3.15%
Expected common stock price volatility	28%	35%
Expected life (in years)	6.6	3.3

The historical volatility of JPMC's common stock price is used as the expected volatility assumption in valuing options. The expected life assumption is an estimate of the length of time that an employee might hold an option before it is exercised or cancelled. The expected life assumption was developed using historic experience.

(b) 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.

	<u>2013</u>		<u>2012</u>	
	<u>Number of restricted stock/RSU</u>	<u>Weighted average fair value at grant date USD</u>	<u>Number of restricted stock/RSU</u>	<u>Weighted average fair value at grant date USD</u>
Outstanding at 1 January	23,553	38.51	23,189	35.67
Granted during the year	10,922	46.58	13,640	35.61
Exercised during the year	(6,655)	47.13	(11,531)	36.92
Cancelled during the year	(146)	36.97	-	-
Transferred during the year	(1,012)	41.00	(1,745)	35.67
Outstanding at 31 December	<u>26,662</u>	<u>41.00</u>	<u>23,553</u>	<u>38.51</u>

**J.P. MORGAN CHASE BANK BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**33 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

(a) Financial assets

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

	Gross amount of recognised financial assets RM'000	Gross amount of recognised financial liabilities set off in the statement of financial position RM'000	Net amount of financial assets presented in the statement of financial position RM'000	Financial instruments RM'000	Cash collateral received RM'000	Net amount RM'000
<u>2013</u>						
Derivative financial instruments	434,170	-	434,170	-	75,271	358,899
<u>2012</u>						
Derivative financial instruments	524,102	-	524,102	-	35,870	488,232

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

**33 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**

(b) Financial liabilities

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

	Gross amount of recognised financial assets set off in the statement of financial position RM'000	Gross amount of recognised financial liabilities RM'000	Net amount of financial liabilities presented in the statement of financial position RM'000	Financial instruments RM'000	Cash collateral placed RM'000	Net amount RM'000
<u>2013</u>						
Derivative financial instruments	-	348,892	348,892	-	32,236	316,656
<u>2012</u>						
Derivative financial instruments	-	519,432	519,432	-	57,123	462,309

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

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

34 APPROVAL OF FINANCIAL STATEMENTS

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

**27 MAY 2014**

Company No.

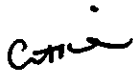
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J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS  
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Lau Souk Huan and Steven Ronald Clayton, being two of the Directors of J.P. Morgan Chase Bank Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 9 to 85 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2013 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

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



LAU SOUK HUAN  
DIRECTOR




STEVEN RONALD CLAYTON  
DIRECTOR

Kuala Lumpur

**27 MAY 2014**

STATUTORY DECLARATION  
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

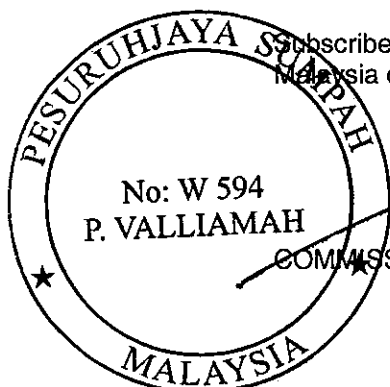
I, Mark Ling Lip Keong, being the Officer primarily responsible for the financial management of J.P. Morgan Chase Bank Berhad, do solemnly, and sincerely declare that the financial statements set out on pages 9 to 85 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



MARK LING LIP KEONG

Subscribed and solemnly declared by the abovenamed Mark Ling Lip Keong at Kuala Lumpur in Malaysia on **27 MAY 2014** before me.

  
COMMISSIONER FOR OATHS







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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of J.P. Morgan Chase Bank Berhad on pages 9 to 85, which comprise the statements of financial position as at 31 December 2013 of the Bank, and the statements of income, comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 34.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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



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

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirement of Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

ONG CHENG CHUAN  
(No. 2907/11/15 (J))  
Chartered Accountant

Kuala Lumpur  
27 May 2014