

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 2014**

Company No.

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

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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

**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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 2014.

**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>11,845</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 2014.

**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 2014 (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:

Anthony Julian Cole

Lau Souk Huan

Steven Ronald Clayton

Faisal bin Ismail

Omar bin Malek Ali Merican

Fauziah binti Hisham

Kevin Wong Chee Wah

(Appointed on 28 October 2014)

(Resigned on 31 December 2014)

In accordance with Article 96 of the Bank's Articles of Association, Omar bin Malek Ali Merican and Anthony Julian Cole will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 99 of the Bank's Articles of Association, Fauziah binti Hisham 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.

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## J.P. MORGAN CHASE BANK BERHAD

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### DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

#### 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.

#### 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.

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**J.P. MORGAN CHASE BANK BERHAD**  
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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

**ITEMS OF AN UNUSUAL NATURE**

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

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

**BUSINESS STRATEGY AND REVIEW 2014**

J.P. Morgan Malaysia's financial results for 2014 were satisfactory, as the Bank remained focused on its strategy of building a business around our target clients to achieve stable growth. The Bank's key businesses, in particular transaction services, trade, wholesale banking and markets flow business, delivered strong growth which further strengthened its position within the domestic Malaysian market.

The Bank recorded a profit before tax of RM18 million, declining by RM71 million against 2013. Net interest income increased by RM7 million or 8% to RM95 million, contributed by strong growth in deposits from customers. Other operating income declined by RM64 million or 55%, with lower net income from foreign exchange gains and derivatives, offset by higher fee income which increased by 25%. Meanwhile, operating expenses increased by RM11 million or 10% to RM129 million.

The Bank's total assets increased by 14% to RM7.0 billion, contributed by a 62% increase in corporate loan growth. In addition, deposits showed strong growth and increased by 13% to RM4.1 billion in 2014. The Bank's total capital ratio remained strong at 17.48%, while its Tier 1 capital ratio stood at 17.41% as at end of 2014.

**BUSINESS OUTLOOK FOR 2015**

The macro environment remains challenging in 2015 and volatility in currencies and asset values remains a factor. Despite these conditions, there is optimism that the economic environment will stabilize and the economy will grow. J.P. Morgan will continue to focus on the quality and stability of earnings by investing in its transaction services, trade and wholesale banking businesses while enhancing the flow business.

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

With the Bank's strong capitalisation and proven strength across products and services, revenue growth will continue as investment in existing client relationships delivers results. The Bank will use its global competitive advantage in order to provide clients with value added solutions and innovative products. The international corporate and investment banking businesses is an important component of J.P. Morgan's overall global strategy and continued investment in these areas will contribute positively to our growth

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## J.P. MORGAN CHASE BANK BERHAD

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### DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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 and as at the date of this report are as follows:

##### Members

##### Status of Directorship

Fauziah binti Hisham - Chairman	Independent Non-Executive Director
Steven Ronald Clayton – Chief Executive Officer ("CEO")	Non-Independent Executive Director
Anthony Julian Cole	Non-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
Kevin Wong Chee Wah	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 2014, the Board met 6 times and the attendance at the Board meetings is as follows:

Fauziah binti Hisham – Chairman	1/1
Steven Ronald Clayton	6/6
Anthony Julian Cole	6/6
Lau Souk Huan	6/6
Faisal bin Ismail	6/6
Omar bin Malek Ali Merican	6/6
Kevin Wong Chee Wah	6/6

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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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 2014, 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
Anthony Julian Cole	6/6
Lau Souk Huan	6/6
Faisal bin Ismail	6/6
Fauziah binti Hisham	1/1

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 2014, the Audit Committee met 4 times and the attendance at the Audit Committee meetings is as follows:

Lau Souk Huan – Chairman	4/4
Kevin Wong Chee Wah	4/4
Anthony Julian Cole	4/4
Faisal bin Ismail	4/4
Omar bin Malek Ali Merican	4/4
Fauziah binti Hisham	1/1

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.



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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

Nomination Committee (continued)

The Nomination Committee meets at least annually. During the financial year ended 31 December 2014, the Nomination Committee met 5 times and the attendance at the Nomination Committee meeting is as follows:

Faisal bin Ismail – Chairman	5/5
Kevin Wong Chee Wah	5/5
Steven Ronald Clayton	5/5
Anthony Julian Cole	5/5
Lau Souk Huan	5/5
Omar bin Malek Ali Merican	5/5
Fauziah binti Hisham	1/1

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 2014, the Remuneration Committee met 2 times and the attendance at the Remuneration Committee meeting is as follows:

Kevin Wong Chee Wah – Chairman	2/2
Lau Souk Huan	1/2
Fauziah binti Hisham	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.

**RATINGS BY EXTERNAL RATING AGENCY**

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

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**DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

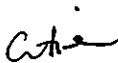
**ULTIMATE HOLDING CORPORATION**

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

**AUDITORS**

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

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



LAU SOUK HUAN  
DIRECTOR



STEVEN RONALD CLAYTON  
DIRECTOR

Kuala Lumpur  
26 May 2015

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**J.P. MORGAN CHASE BANK BERHAD**  
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**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2014**

	<u>Note</u>	<u>2014</u> RM'000	<u>2013</u> RM'000
<b>ASSETS</b>			
Cash and short-term funds	2	1,538,858	2,215,149
Securities purchased under resale agreement		256,341	315,952
Deposits and placements with banks and other financial institutions	3	401,960	602,078
Financial assets held for trading	4	649,988	168,557
Derivative financial instruments	5	787,871	434,170
Financial assets available-for-sale	6	-	363,500
Loans and advances	7	272,880	168,741
Amount due from related parties	8	3,012,406	1,816,035
Statutory deposits with Bank Negara Malaysia	9	2	2
Other assets	10	54,875	15,627
Tax recoverable		30,037	15,390
Deferred tax assets	11	368	-
Fixed assets	12	20,077	24,847
<b>TOTAL ASSETS</b>		<u>7,025,663</u>	<u>6,140,048</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits from customers	13	4,141,036	3,663,079
Deposits and placements of banks and other financial institutions	14	681,226	567,393
Obligations on securities sold under repurchase agreements		40,488	-
Derivative financial instruments	5	594,458	348,892
Amount due to related parties	15	645,568	680,898
Other liabilities	16	76,693	47,078
Deferred tax liabilities	11	-	340
<b>Total liabilities</b>		<u>6,179,469</u>	<u>5,307,680</u>
Share capital	17	85,500	85,500
Reserves	18	760,694	746,868
<b>Shareholder's equity</b>		<u>846,194</u>	<u>832,368</u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<u>7,025,663</u>	<u>6,140,048</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	26	<u>52,396,729</u>	<u>40,872,296</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 2014**

	<u>Note</u>	<u>2014</u> RM'000	<u>2013</u> RM'000
Interest income	19	130,166	131,278
Interest expense	20	(35,051)	(42,831)
Net interest income		<u>95,115</u>	<u>88,447</u>
Other operating income	21	53,529	117,827
Net income		<u>148,644</u>	<u>206,274</u>
Operating expenses	22	(128,821)	(117,400)
Operating profit before allowances		19,823	88,874
Allowance for losses on loans and advances	23	(1,991)	(53)
Profit before taxation		<u>17,832</u>	<u>88,821</u>
Taxation	25	(5,987)	(23,544)
Net profit for the financial year		<u>11,845</u>	<u>65,277</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
- Employee share option scheme		1,738	1,439
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		324	20
- Income tax relating to component of other comprehensive income		(81)	(5)
Other comprehensive income, net of tax		<u>1,981</u>	<u>1,454</u>
Total comprehensive income		<u><u>13,826</u></u>	<u><u>66,731</u></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 2014**

	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 2014		85,500	42,000	97,778	(243)	7,702	958	598,673	832,368
Net profit for the financial year		-	-	-	-	-	-	11,845	11,845
Transfer to regulatory reserve		-	-	-	-	-	1,632	(1,632)	-
Other comprehensive income		-	-	-	243	-	-	-	243
Employee share option scheme - Options granted	32	-	-	-	-	1,738	-	-	1,738
At 31 December 2014		85,500	42,000	97,778	-	9,440	2,590	608,886	846,194

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**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Fair value reserve - available-for-sale securities RM'000	Option reserve RM'000	Regulatory reserve RM'000	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

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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 2014**

	<u>2014</u> RM'000	<u>2013</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	17,832	88,821
Adjustments for items not involving the movement of cash and cash equivalents:		
Depreciation of fixed assets	5,962	5,904
Loss on disposal of fixed assets	-	226
Allowance for losses on loans and advance	1,991	53
Share options expenses	1,738	1,439
Net loss on derivative financial instruments	23,908	56,382
Net unrealised (gain)/loss from revaluation of financial assets held for trading	(78)	662
Net unrealised loss/(gain) in revaluation on derivatives	8,669	(88,258)
Net gain from sale of financial assets available- for-sale	(133)	(814)
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<u>59,889</u>	<u>64,415</u>
Decrease in deposits and placements with banks and other financial institutions	200,118	200,136
Decrease/(increase) in securities purchased under resale agreement	59,611	(315,952)
Increase in financial assets held for trading	(481,353)	(76,566)
Increase in derivative financial instruments	(140,712)	(48,732)
Decrease in financial assets available-for-sale	363,876	479,667
Increase in loans and advances	(106,130)	(102,887)
(Increase)/decrease in other assets	(38,462)	488,186
Decrease in statutory deposits with BNM	-	3,598
Increase in deposits from customers	477,957	1,214,640
Increase/(decrease) in deposits and placements of banks and other financial institutions	113,833	(61,228)
Increase/(decrease) in other liabilities	28,907	(341,015)
Increase in securities sold under repurchase agreement	40,488	-
Decrease in amounts due to related parties	(35,330)	(393,625)
<b>Cash generated from operating activities</b>	<u>542,692</u>	<u>1,110,637</u>
Income taxes paid	(21,420)	(19,993)
<b>Net cash generated from operating activities</b>	<u>521,272</u>	<u>1,090,644</u>

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**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

	<u>Note</u>	<u>2014</u> RM'000	<u>2013</u> RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>			
Purchase of fixed assets		(1,192)	(27,089)
Net cash used in investing activity		<u>(1,192)</u>	<u>(27,089)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		520,080	1,063,555
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		<u>4,031,184</u>	<u>2,967,629</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR		<u><u>4,551,264</u></u>	<u><u>4,031,184</u></u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>			
Cash and short-term funds	2	1,538,858	2,215,149
Amount due from related parties	8	3,012,406	1,816,035
		<u>4,551,264</u>	<u>4,031,184</u>



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**J.P. MORGAN CHASE BANK BERHAD**  
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## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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

### **A BASIS OF PREPARATION**

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

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

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

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

The following standard and amendment has been adopted by the Bank for the financial year beginning on or 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.
- IC Interpretation 21 'Levies (effective from 1 January 2014) sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation clarifies that a liability to pay a levy is recognised when the obligating event occurs. Obligating event is the event identified by the legislation that triggers the payment of the levy.

The adoption of the above accounting standard and amendment do not have material financial impact to the Bank.

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## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

#### A BASIS OF PREPARATION (CONTINUED)

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014:

- Amendment to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation and amortization of an item of property, plant and equipment and intangible are not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014.

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

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

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

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**J.P. MORGAN CHASE BANK BERHAD**

(Incorporated in Malaysia)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014: (continued)

None of the standards, amendments and interpretations that are effective for annual periods beginning after 1 January 2014 is expected to have a significant effect on the financial statements of the Bank, except for MFRS 9. Due to the complexity of this standard and its proposed changes, the financial effects of its adoption are still being assessed by the Bank.

**B INCOME RECOGNITION**

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

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

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

**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 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.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

**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 2014 (CONTINUED)

F FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial liabilities

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

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

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

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

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

(b) Other liabilities measured at amortised cost

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

Derecognition of financial assets and liabilities

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

Determining fair value

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

**G DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

**H IMPAIRMENT OF FINANCIAL ASSETS**

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

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the 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 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

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

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

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

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

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

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

#### I IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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



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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

**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 2014 (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.

#### Q OPERATING LEASES

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

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

#### R CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

##### (a) Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. 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 2014**

**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>2014</u> RM'000	<u>2013</u> RM'000
Cash and balances with banks and other financial institutions	56,934	43,709
Money at call and deposit placements maturing within one month	1,481,924	2,171,440
	<u>1,538,858</u>	<u>2,215,149</u>

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

Licensed banks	<u>401,960</u>	<u>602,078</u>
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**4 FINANCIAL ASSETS HELD FOR TRADING**

Money market instruments

Malaysian Government Securities	337,692	36,616
Bank Negara Malaysia bills	157,920	71,213
Malaysian Treasury bills	-	160
Malaysian Government Investment Issuance	24,521	13,251

Unquoted securities

Private debt securities	129,855	47,317
	<u>649,988</u>	<u>168,557</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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 2014			
<u>Foreign exchange derivatives</u>			
Currency forwards	16,185,066	350,579	(275,998)
Cross-currency interest rate swaps	2,496,074	147,580	(84,725)
Currency options	850,779	13,314	(2,147)
	<u>19,531,919</u>	<u>511,473</u>	<u>(362,870)</u>
<u>Interest rate derivatives</u>			
Interest rate swaps	26,294,367	100,854	(133,698)
Interest rate options	2,652,805	75,052	(701)
	<u>28,947,172</u>	<u>175,906</u>	<u>(134,399)</u>
<u>Credit related derivatives</u>			
Credit default swaps	51,100	2,103	-
<u>Equity related derivatives</u>			
Equity options	1,583,703	98,389	(97,189)
Total derivative assets/(liabilities)	<u>50,113,894</u>	<u>787,871</u>	<u>(594,458)</u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

5 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	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>

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

	<u>2014</u> RM'000	<u>2013</u> RM'000
<u>Money market instruments</u>		
Malaysian Government Securities	-	79,650
Malaysian Government Investment Issuance	-	283,850
	<hr/>	<hr/>
	-	363,500
<u>Unquoted securities (in Malaysia)</u>		
Private debt securities	12	12
Shares	193	193
	<hr/>	<hr/>
	205	205
Allowance for impairment losses	(205)	(205)
	<hr/>	<hr/>
	-	363,500
	<hr/> <hr/>	<hr/> <hr/>

**7 LOANS AND ADVANCES**

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

Overdrafts	-	653
Term loan		
- Housing loans	1,451	4,116
- Other term loans	-	97
Staff loans	1,732	2,772
Revolving credits	196,279	153,535
Trade finance	74,166	8,061
	<hr/>	<hr/>
	273,628	169,234
Less: Allowance for losses on loans and advances:		
- Individual assessment	(56)	(185)
- Collective assessment	(692)	(308)
	<hr/>	<hr/>
Total net loans and advances	272,880	168,741
	<hr/> <hr/>	<hr/> <hr/>

Included in loans and advances is revolving credit extended to a related company amounting to RM20,101,000 (2013: RM20,146,000).



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7 **LOANS AND ADVANCES (CONTINUED)**

	<u>2014</u> RM'000	<u>2013</u> RM'000
(ii) The maturity structure of loans and advances are as follows:		
Maturity within		
- one year	270,472	117,585
- one year to three years	431	45,495
- three years to five years	302	841
- over five years	2,423	5,313
	<u>273,628</u>	<u>169,234</u>
(iii) Loans and advances analysed by type of customers are as follows:		
Domestic business enterprises		
- Small medium enterprises	-	750
- Others	263,624	160,101
Individuals	3,183	6,888
Foreign entities	6,821	1,495
	<u>273,628</u>	<u>169,234</u>
(iv) Loans and advances analysed by interest sensitivity are as follows:		
Fixed rate		
- Housing loans	2,882	6,294
- Other fixed rate loans	301	594
Variable rate		
- Cost-plus	270,445	162,346
	<u>273,628</u>	<u>169,234</u>
(v) Loans and advances analysed by their economic purpose are as follows:		
Purchase of landed properties	2,882	6,294
Purchase of transport vehicles	254	465
Personal use	47	129
Working capital	270,445	162,346
	<u>273,628</u>	<u>169,234</u>

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7	<b>LOANS AND ADVANCES (CONTINUED)</b>	<u>2014</u> RM'000	<u>2013</u> RM'000
	(vi) Loans and advances analysed by their geographical distribution are as follows:		
	In Malaysia	266,807	167,739
	Other countries	6,821	1,495
		<u>273,628</u>	<u>169,234</u>
	(vii) Impaired loans		
	(a) Movements in impaired loans and advances are as follows:		
	At 1 January	451	400
	Classified as impaired during the financial year	2	595
	Reclassified as performing during the financial year	(75)	(257)
	Amount recovered	(207)	(194)
	Amount written off	(17)	(93)
		<u>154</u>	<u>451</u>
	At 31 December Individual assessment allowance	(56)	(185)
	Net impaired loans and advances	<u>98</u>	<u>266</u>
	Ratio of net impaired loans and advances to net loans and advances	<u>0.04%</u>	<u>0.16%</u>
	(b) Movements in allowance for impaired loans and advances are as follows:		
	<u>Individual assessment allowance</u>		
	At 1 January	185	147
	Allowance (written back)/made during the financial year	(129)	38
	At 31 December	<u>56</u>	<u>185</u>

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7	LOANS AND ADVANCES (CONTINUED)		
		<u>2014</u>	<u>2013</u>
		RM'000	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	308	409
	Allowance made/(written back) during the financial year	384	(101)
	At 31 December	<u>692</u>	<u>308</u>
	Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans and advances, net of individual assessment allowance	<u>1.20%</u>	<u>0.75%</u>
	(c) Impaired loans analysed by their economic purpose are as follows:		
	Purchase of landed property	<u>154</u>	<u>451</u>
8	AMOUNT DUE FROM RELATED PARTIES		
	Current deposits	420,534	294,522
	Fixed deposits	2,590,916	1,521,098
	Other receivables	956	415
		<u>3,012,406</u>	<u>1,816,035</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 2014, the Bank has RM2,000 (2013: RM2,000) statutory deposits with BNM.

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10	OTHER ASSETS	<u>2014</u> RM'000	<u>2013</u> RM'000
	Other receivables	50,579	11,456
	Deposits and prepayments	4,296	4,171
		<u>54,875</u>	<u>15,627</u>

11 DEFERRED TAX ASSETS/(LIABILITIES)

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>2014</u> RM'000	<u>2013</u> RM'000
Excess of depreciation over capital allowances	(2,261)	(3,116)
Other liabilities	2,629	2,695
Financial assets available-for-sale	-	81
Deferred tax assets/(liabilities)	<u>368</u>	<u>(340)</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>2014</u>				
At 1 January	(3,116)	81	2,695	(340)
Credited/(charged) to income statement (Note 25)	855	-	(66)	789
Charged to reserve	-	(81)	-	(81)
At 31 December	<u>(2,261)</u>	<u>-</u>	<u>2,629</u>	<u>368</u>

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11 DEFERRED TAX ASSETS/(LIABILITIES) (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>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>

12 FIXED ASSETS

	<u>Bank premises</u> RM'000	<u>Computers</u> RM'000	<u>Total</u> RM'000
<u>2014</u>			
<u>Cost</u>			
At 1 January	16,275	17,088	33,363
Additions	566	626	1,192
Disposals and write-off	-	(3)	(3)
At 31 December	<u>16,841</u>	<u>17,711</u>	<u>34,552</u>
<u>Accumulated depreciation</u>			
At 1 January	1,988	6,528	8,516
Charge for the financial year	2,710	3,252	5,962
Disposals and write-off	-	(3)	(3)
At 31 December	<u>4,698</u>	<u>9,777</u>	<u>14,475</u>
<u>Net book value</u>			
At 31 December	<u>12,143</u>	<u>7,934</u>	<u>20,077</u>

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12 FIXED ASSETS (CONTINUED)

	<u>Bank 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>

13 DEPOSITS FROM CUSTOMERS

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

	<u>2014</u> RM'000	<u>2013</u> RM'000
Demand deposits	3,935,224	3,389,170
Fixed deposits	205,812	273,909
	<u>4,141,036</u>	<u>3,663,079</u>

Maturity structure of fixed deposits are as follows:

Due within six months	<u>205,812</u>	<u>273,909</u>
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13 DEPOSITS FROM CUSTOMERS (CONTINUED)

	<u>2014</u> RM'000	<u>2013</u> RM'000
(ii) Deposits from customers analysed by type of customers are as follows:		
Business enterprises	4,140,951	3,662,996
Others	85	83
	<u>4,141,036</u>	<u>3,663,079</u>

14 DEPOSITS AND PLACEMENTS OF BANKS  
AND OTHER FINANCIAL INSTITUTIONS

Licensed banks	675,452	558,796
Other financial institutions	5,774	8,597
	<u>681,226</u>	<u>567,393</u>

15 AMOUNT DUE TO RELATED PARTIES

Current deposits	532,873	487,027
Fixed deposits	112,155	193,871
Other payables	540	-
	<u>645,568</u>	<u>680,898</u>

16 OTHER LIABILITIES

Other payables	66,559	36,859
Accruals and charges	10,134	10,219
	<u>76,693</u>	<u>47,078</u>

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17 SHARE CAPITAL

	<u>2014</u> RM'000	<u>2013</u> RM'000
Authorised: 100,000,000 ordinary shares of RM1 each At 1 January/ 31 December	100,000	100,000
Issued and fully paid: 85,500,002 ordinary shares of RM1 each At 1 January/ 31 December	85,500	85,500

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>2014</u> RM'000	<u>2013</u> RM'000
At 1 January	(243)	(258)
Financial assets available-for-sale		
- net gain on fair value charges	324	20
- deferred taxation	(81)	(5)
At 31 December	-	(243)



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19	INTEREST INCOME	<u>2014</u>	<u>2013</u>
		RM'000	RM'000
	Loans and advances		
	- Interest income other than recoveries from impaired loans	4,787	2,739
	- Recoveries from impaired loans	43	53
	Money at call and placements with financial institutions	103,834	99,762
	Financial assets		
	- Held for trading	18,925	15,775
	- Available-for-sale	2,577	12,949
		<u>130,166</u>	<u>131,278</u>
		<u><u>130,166</u></u>	<u><u>131,278</u></u>
20	INTEREST EXPENSE		
	Deposits from customers	27,795	33,352
	Deposits and placements of banks and other financial institutions	7,256	9,479
		<u>35,051</u>	<u>42,831</u>
		<u><u>35,051</u></u>	<u><u>42,831</u></u>
21	OTHER OPERATING INCOME		
	Fee income:		
	Service charges and fees	5,187	4,321
	Guarantee fees	2,399	1,318
		<u>7,586</u>	<u>5,639</u>
	Net income from securities:		
	- Net gain from sale of financial assets held for trading	1,714	4,146
	- Net unrealised gain/(loss) from revaluation of financial assets held for trading	78	(662)
	- Net gain from sale of financial assets available-for-sale	133	814
	Derivatives:		
	- Net loss on derivative financial instruments	(23,908)	(56,382)
	- Unrealised (loss)/gain from revaluation of derivatives	(8,669)	88,258
	Other income:		
	Foreign exchange gain	50,295	59,797
	Other operating income	26,200	16,106
	Other non-operating income	100	111
		<u>53,529</u>	<u>117,827</u>
		<u><u>53,529</u></u>	<u><u>117,827</u></u>

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**22 OPERATING EXPENSES**

	2014 RM'000	2013 RM'000
<b>Personnel costs:</b>		
- Wages, salaries and bonuses	34,796	31,386
- Defined contribution retirement plan	5,040	5,059
- Other employee benefits	6,639	4,652
	46,475	41,097
<b>Establishment costs:</b>		
- Equipment and fittings repairs, maintenance and rental	763	871
- Rental of premise	2,877	4,273
- Depreciation of fixed assets	5,962	5,904
- Utilities	547	422
- Others	690	828
	10,839	12,298
<b>Marketing expenses</b>	2,622	1,527
<b>Administration and general expenses:</b>		
- Management fees paid	58,922	48,968
- Banking and corporate expenses	3,774	4,776
- Office supplies, communication expenses and insurance	4,406	5,302
- Postage and shipping charges	199	205
- Other general expenses	1,584	3,227
	68,885	62,478
	<u>128,821</u>	<u>117,400</u>
The above expenditure includes the following statutory disclosures:		
Directors' remuneration (Note 24)	4,295	4,132
Hire of equipment	459	310
<b>Auditors' remuneration:</b>		
- audit fees	363	416
- non-audit fees	13	217
	<u>376</u>	<u>633</u>

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**23 ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES**

	<u>2014</u> RM'000	<u>2013</u> RM'000
Allowance for losses on loans and advances:		
(a) Individual assessment allowance - Written back/(made)	129	(38)
(b) Collective assessment allowance - (Made)/written back	(384)	101
Loans and advances written off	(1,736)	(116)
	<u>(1,991)</u>	<u>(53)</u>

**24 DIRECTORS' REMUNERATION**

Fees	450	415
Other remuneration	3,845	3,717
	<u>4,295</u>	<u>4,132</u>
Analysis of Directors' remuneration:		
Executive Directors:		
- Salary, bonuses and other remuneration	1,816	1,799
- Defined contribution retirement plan	405	393
- Bonuses	1,621	1,522
- Benefits-in-kind	3	3
Non-executive Directors:		
- Fees/allowances	450	415
	<u>4,295</u>	<u>4,132</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>2014</u>	<u>2013</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	4	5
RM1 - RM49,999	1	-

**25 TAXATION**

	<u>2014</u> RM'000	<u>2013</u> RM'000
(a) Tax expense for the financial year		
Current year tax		
- Malaysian income tax	6,533	21,163
- Under provision in respect of prior year	243	281
Deferred tax		
- Origination and reversal of temporary differences	(789)	2,100
	<u>5,987</u>	<u>23,544</u>

(b) Numerical reconciliation of income tax expense

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

	<u>2014</u> RM'000	<u>2013</u> RM'000
Profit before taxation	<u>17,832</u>	<u>88,821</u>
Tax calculated at a tax rate of 25% (2013: 25%)	4,458	22,205
Expenses not deductible for tax purposes	1,286	1,058
Under provision in respect of prior year	243	281
Tax expense	<u>5,987</u>	<u>23,544</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>2014</u> Principal amount RM'000	<u>2013</u> Principal amount RM'000
<u>Credit-related</u>		
Direct credit substitutes	161,269	198,638
Transaction-related contingent items	111,076	381,121
Short-term self-liquidating trade related contingencies	-	1,738
Forward asset purchases	1,187,943	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:		
- over one year	723,356	599,290
- up to one year	99,191	38,030
<u>Treasury-related</u>		
Foreign exchange related contracts:		
- one year or less	18,033,800	11,738,634
- over one year to five years	1,498,119	3,247,122
Interest rate related contracts:		
- one year or less	5,950,889	3,571,722
- over one year to five years	20,389,531	17,244,120
- over five years	2,606,752	2,762,198
Credit related contracts:		
- over one year to five years	51,100	20,000
Equity related contracts:		
- one year or less	1,469,565	944,241
- over one year to five years	114,138	125,442
	<u>52,396,729</u>	<u>40,872,296</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>2014</u>		<u>2013</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	950	4	937	17
Interest on current deposit	55	-	69	-
Interest on fixed deposit	2,319	-	4,291	-
Management fees received	26,200	-	15,666	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>Expense</u>				
Interest on current deposit	736	-	55	-
Interest on fixed deposit	4,891	-	6,602	-
Personnel expenses	-	16,175	-	14,887
Rental recovery	(894)	-	(675)	-
Management fees	58,922	-	48,968	-
Directors' remuneration	-	450	-	415
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	2014		2013	
	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	-	95	-	486
Current deposit	420,534	-	294,523	-
Fixed deposit	2,590,916	-	1,521,096	-
Loan	20,101	-	20,146	-
Other receivables	956	-	416	-
	3,032,507	95	1,836,181	486
<u>Amount due to</u>				
Current deposit	532,873	-	487,027	-
Fixed deposit	112,155	-	193,871	-
Other payables	540	-	-	-
	645,568	-	680,898	-

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:

	2014	2013
	RM'000	RM'000
Salaries and other short-term employee benefits	16,625	15,302
	Unit	Unit
Shares, restricted stock units and share options balance of ultimate holding corporation	31,708	35,037

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>2014</u> RM'000	<u>2013</u> RM'000
Outstanding credit exposures with connected parties	514,065	366,699
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	12.09%	13.94%
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>2014</u> RM'000	<u>2013</u> RM'000
Not later than one year	2,613	2,562
Later than one year and not later than five years	1,095	3,926



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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>2014</u> RM'000	<u>2013</u> RM'000
<u>Tier-I capital</u>		
Paid-up share capital	85,500	85,500
Share premium	42,000	42,000
Retained earnings	608,886	598,673
Fair value reserve – available-for-sale securities	-	(243)
Option reserve	9,440	7,702
Statutory reserve	97,778	97,778
	<u>843,604</u>	<u>831,410</u>
Deferred tax assets	(368)	-
Total Tier I capital	<u>843,236</u>	<u>831,410</u>
<u>Tier-II capital</u>		
Regulatory reserve	2,590	958
Collective assessment allowance	692	308
Tier II capital	<u>3,282</u>	<u>1,266</u>
Total capital	<u>846,518</u>	<u>832,676</u>
Tier 1 capital ratio	17.41%	23.35%
Total capital ratio	<u>17.48%</u>	<u>23.39%</u>

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29 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2014:

<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	1,513,493	1,513,493	-	-
Banks	3,778,562	3,778,562	755,712	60,457
Insurance companies, securities firms and fund managers	26,356	26,356	26,356	2,108
Corporates	250,967	250,967	250,887	20,071
Residential mortgages	2,391	2,391	960	77
Higher risk assets	14	14	21	2
Other assets	21,559	21,559	21,359	1,709
Defaulted exposures	154	154	156	12
	<hr/>	<hr/>	<hr/>	<hr/>
Total on-balance sheet exposures	5,593,496	5,593,496	1,055,451	84,436
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	2,190,385	2,190,385	791,131	63,290
Off balance sheet exposures other than OTC derivatives	1,786,266	1,786,266	814,947	65,196
	<hr/>	<hr/>	<hr/>	<hr/>
Total off-balance sheet exposures	3,976,651	3,976,651	1,606,078	128,486
	<hr/>	<hr/>	<hr/>	<hr/>
Total on and off-balance sheet exposures	9,570,147	9,570,147	2,661,529	212,922
	<hr/>	<hr/>	<hr/>	<hr/>
		<u>Long position</u>		<u>Short position</u>
(b) <u>Market risk</u>				
Interest rate risk	58,880,092	58,708,184	1,593,428	127,474
Equity position risk			9,413	753
Foreign currency risk	94,574	5	94,575	7,566
Options risk			184,288	14,743
			<hr/>	<hr/>
(c) <u>Operational risk</u>			300,533	24,043
			<hr/>	<hr/>
Total risk weighted assets and capital requirements			4,843,766	387,501
			<hr/>	<hr/>

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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
	<u>5,537,695</u>	<u>5,537,695</u>	<u>845,623</u>	<u>67,650</u>
<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
	<u>2,461,827</u>	<u>2,461,827</u>	<u>1,161,242</u>	<u>92,899</u>
Total on and off-balance sheet exposures	<u>7,999,522</u>	<u>7,999,522</u>	<u>2,006,865</u>	<u>160,549</u>
(b) <u>Market risk</u>				
		<u>Long position</u>	<u>Short position</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>			<u>293,311</u>	<u>23,465</u>
Total risk weighted assets and capital requirements			<u>3,560,245</u>	<u>284,819</u>

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29 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet counterparty risk as at 31 December 2014:

	<u>Principal amount</u> RM'000	<u>Credit equivalent amount*</u> RM'000	<u>Risk weighted amount</u> RM'000
Direct credit substitutes	161,269	161,269	146,966
Transaction-related contingent items	111,076	55,538	48,876
Short-term self-liquidating trade related contingencies	-	-	-
Forward asset purchases	1,187,943	1,187,943	237,589
Foreign exchange related contracts:			
- less than one year	18,033,800	717,823	410,710
- one year to less than five years	1,498,119	225,249	128,632
Interest rate related contracts:			
- less than one year	5,950,889	21,883	4,376
- one year to less than five years	20,389,531	699,820	139,965
- more than five years	2,606,752	308,133	61,626
Credit derivative contracts			
- one year to less than five years	51,100	6,502	1,300
Equity related contracts			
- less than one year	1,469,565	195,754	41,478
- one year to less than five years	114,138	15,221	3,044
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	723,356	361,678	361,678
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	99,191	19,838	19,838
	<u>52,396,729</u>	<u>3,976,651</u>	<u>1,606,078</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 counterparty risk as at 31 December 2013:

	<u>Principal amount</u> RM'000	<u>Credit equivalent amount*</u> RM'000	<u>Risk weighted amount</u> 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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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.

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

(b) Master netting arrangements

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

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

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

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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>2014</u> RM'000	<u>2013</u> RM'000
<u>Assets</u>			
Cash and short-term funds	2	1,538,858	2,215,149
Securities purchased under resale agreement		256,341	315,952
Deposits and placements with banks and other financial institutions	3	401,960	602,078
Financial assets held for trading	4	649,988	168,557
Derivative financial instruments	5	787,871	434,170
Financial assets available-for-sale	6	-	363,500
Loans and advances	7	272,880	168,741
Amount due from related parties	8	3,012,406	1,816,035
Statutory deposits with BNM	9	2	2
Other assets	10	54,875	15,627
Tax recoverable		30,037	15,390
Total assets*		<u>7,005,218</u>	<u>6,115,201</u>
Commitments and contingencies	29	<u>3,976,651</u>	<u>2,461,827</u>
Total credit exposure		<u>10,981,869</u>	<u>8,577,028</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).

31.12.2014

	Short-term funds and placements with financial institutions RM'000	Securities purchased under 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 balance sheet total RM'000	Commitments and contingencies RM'000
Malaysia	1,523,792	256,341	401,960	520,133	681,731	-	266,059	10,490	105,359	3,765,865	3,487,018
United Kingdom	-	-	-	-	63,088	-	-	1,641	-	64,729	229,866
USA	-	-	-	-	7,261	-	-	2,974,215	-	2,981,476	147,338
Hong Kong	-	-	-	-	1,100	-	-	39	-	1,139	3,483
Singapore	5,840	-	-	-	27,871	-	-	186	-	33,897	61,369
Others	9,226	-	-	129,855	6,820	-	6,821	25,835	-	178,557	47,577
	<u>1,538,858</u>	<u>256,341</u>	<u>401,960</u>	<u>649,988</u>	<u>787,871</u>	<u>-</u>	<u>272,880</u>	<u>3,012,406</u>	<u>105,359</u>	<u>7,025,663</u>	<u>3,976,651</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 geographical sectors (continued)

	Short-term funds and placements with financial institutions RM'000	Securities purchased under 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 balance sheet total RM'000	Commitments and contingencies RM'000
Malaysia	2,177,292	315,952	602,078	121,241	369,730	363,500	167,247	51,426	55,866	4,224,332	1,953,012
United Kingdom	-	-	-	-	41,129	-	-	9,626	-	50,755	163,804
USA	-	-	-	-	14,262	-	-	1,582,157	-	1,596,419	207,549
Hong Kong	-	-	-	-	2,117	-	-	61,259	-	63,376	27,050
Singapore	17,063	-	-	-	352	-	-	207	-	17,622	60,959
Others	20,794	-	-	47,316	6,580	-	1,494	111,360	-	187,544	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>6,140,048</u>	<u>2,461,827</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 (continued)**

	31.12.2014										
	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 balance sheet total RM'000	Commitments and contingencies RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	-	2,812	-	-	2,812	282
Consumption credit	-	-	-	-	-	-	61	-	-	61	-
Others	-	-	-	-	-	-	254	-	-	254	1,776
	<u>1,538,658</u>	<u>256,341</u>	<u>401,960</u>	<u>649,988</u>	<u>787,871</u>	<u>-</u>	<u>273,572</u>	<u>3,012,406</u>	<u>84,914</u>	<u>7,005,710</u>	<u>3,976,651</u>
Assets not subject to credit risk	200	-	-	-	-	-	-	-	20,445	20,645	-
	<u>1,538,858</u>	<u>256,341</u>	<u>401,960</u>	<u>649,988</u>	<u>787,871</u>	<u>-</u>	<u>273,572</u>	<u>3,012,406</u>	<u>105,359</u>	<u>7,026,355</u>	<u>3,976,651</u>

\* Excludes collective assessment allowance amounting to RM692,000.

\*\* 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)**

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

31.12.2013

	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 balance sheet total RM'000	Commitments and contingencies RM'000
Manufacturing Wholesale and retail Finance, insurance and business services	864,032	-	-	47,316	434,170	-	66,522	1,816,035	15,627	3,845,780	2,365,073
Government and Government 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)

	31.12.2013										
	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 balance sheet total RM'000	Commitments and contingencies RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	-	6,109	-	-	6,109	491
Consumption credit	-	-	-	-	-	-	129	-	-	129	-
Others	-	-	-	-	-	-	1,083	-	-	1,083	5,422
	<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>	<u>2,461,827</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>

\* 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)

Loans and advances

Loans and advances are summarised as follows:

	<u>2014</u> RM'000	<u>2013</u> RM'000
Neither past due nor impaired	273,418	168,548
Past due but not impaired	56	235
Individually impaired	154	451
	<hr/>	<hr/>
Gross	273,628	169,234
Less: Allowance for impaired loans and advances		
- Individual assessment allowance	(56)	(185)
- Collective assessment allowance	(692)	(308)
	<hr/>	<hr/>
Net	<u>272,880</u>	<u>168,741</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>2014</u>				
Satisfactory	<u>270,445</u>	<u>-</u>	<u>2,973</u>	<u>273,418</u>
<u>2013</u>				
Satisfactory	<u>161,596</u>	<u>750</u>	<u>6,202</u>	<u>168,548</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>2014</u>		
Past due 30 – 60 days	56	56
Past due 60 – 90 days	-	-
Total	<u>56</u>	<u>56</u>
Fair value of collateral	<u>77</u>	<u>77</u>
Amount of over-collateralisation	<u>21</u>	<u>21</u>
<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>



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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 RM154,000 (2013: RM451,000).

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>2014</u>		
Gross amount	154	154
Fair value of collateral	284	284
<u>2013</u>		
Gross amount	451	451
Fair value of collateral	646	646

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>2014</u>				
AAA	520,133	129,855	-	649,988
<u>2013</u>				
AAA	121,240	47,317	363,500	532,057

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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 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 RM3,350,000 (2013: RM5,336,000). 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)

	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	→	
<u>Liabilities</u>							
Deposits from customers	3,195,401	-	979	-	-	-	4,141,036
Deposits and placements of banks and other financial institutions	172,037	-	78	-	-	-	681,226
Obligations on securities sold under repurchase agreements	39,980	-	-	-	-	508	40,488
Derivative financial instruments	-	-	-	-	-	-	594,458
Amount due to related parties	72,462	17,482	22,056	-	-	-	645,568
Other liabilities	-	-	-	-	-	76,693	76,693
<b>Total liabilities</b>	<b>3,479,880</b>	<b>17,482</b>	<b>23,113</b>	<b>-</b>	<b>-</b>	<b>594,458</b>	<b>6,179,469</b>
<b>Interest rate gap</b>	<b>883,404</b>	<b>412,038</b>	<b>179,962</b>	<b>719</b>	<b>2,297</b>	<b>-</b>	<b>-</b>

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**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

	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	→	
<u>Assets</u>							
Cash and short-term funds	2,164,124	-	-	-	-	-	2,215,149
Securities purchased under resale agreement	315,349	-	-	-	-	-	315,952
Deposits and placements with banks and other financial institutions	-	600,000	-	-	-	-	602,078
Financial assets held for trading	-	-	-	-	-	167,284	168,557
Derivative financial instruments	-	-	-	-	-	434,170	434,170
Financial assets available-for-sale	-	-	-	358,741	-	-	363,500
Loans and advances							
- Performing	20,249	1,534	95,802	46,259	4,939	-	168,290
- Non-performing	-	-	-	-	-	-	451
Amount due from related parties	1,469,630	51,425	-	-	-	-	1,816,035
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>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
	←	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	→	
<u>Liabilities</u>							
Deposits from customers	2,322,684	5,500	65,953	-	-	1,268,942	3,663,079
Deposits and placements of banks and other financial institutions	81,890	33	203	-	-	485,267	567,393
Obligations on securities sold under repurchase agreements	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	348,892	348,892
Amount due to related parties	155,740	-	37,852	-	-	487,306	680,898
Other liabilities	-	-	-	-	-	47,418	47,418
<b>Total liabilities</b>	<b>2,560,314</b>	<b>5,533</b>	<b>104,008</b>	<b>-</b>	<b>-</b>	<b>2,288,933</b>	<b>5,307,680</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>		

31.12.2013

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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.

	2014		2013	
	RM %	USD %	RM %	USD %
<u>Financial assets</u>				
Cash and short-term funds	3.36	0.06	3.07	0.30
Securities purchased under resale agreement	3.01	-	2.75	-
Deposits and placements with banks and other financial institutions	3.81	-	3.22	-
Financial assets held for trading	3.67	-	3.24	-
Financial assets available-for-sale	-	-	3.29	-
Loans and advances	5.22	1.05	4.42	0.94
Amount due from related parties	-	0.13	-	0.09
<u>Financial liabilities</u>				
Deposits from customers	2.60	0.17	2.75	0.35
Deposits and placements of banks and other financial institutions	3.23	0.07	2.70	0.07
Obligations on securities sold under repurchase agreements	4.05	-	-	-
Amount due to related parties	2.70	0.15	2.61	0.15

(v) Currency risk

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

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



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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>2014</u>					
<u>Assets</u>					
Cash and short-term funds	1,487,353	36,437	-	15,068	1,538,858
Securities purchased under resale agreement	256,341	-	-	-	256,341
Deposits and placements with banks and other financial institutions	401,960	-	-	-	401,960
Financial assets held for trading	649,988	-	-	-	649,988
Derivative financial instruments	453,703	334,168	-	-	787,871
Financial assets available- for-sale	-	-	-	-	-
Loans and advances	22,537	175,667	-	74,676	272,880
Amount due from related parties	-	2,985,661	25,189	1,556	3,012,406
Other assets#	104,996	28	-	335	105,359
	<u>3,376,878</u>	<u>3,531,961</u>	<u>25,189</u>	<u>91,635</u>	<u>7,025,663</u>
<u>Liabilities</u>					
Deposits from customers	1,002,633	3,095,363	25,059	17,981	4,141,036
Deposits and placements of banks and other financial institutions	515,370	165,856	-	-	681,226
Obligations on securities sold under repurchase agreements	40,488	-	-	-	40,488
Derivative financial instruments	252,234	342,224	-	-	594,458
Amount due to related parties	532,477	40,583	-	72,508	645,568
Other liabilities	74,904	936	12	841	76,693
	<u>2,418,106</u>	<u>3,644,962</u>	<u>25,071</u>	<u>91,330</u>	<u>6,179,469</u>
Currency gap	<u>958,772</u>	<u>(113,001)</u>	<u>118</u>	<u>305</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)

(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
Obligations on securities sold under repurchase agreements	-	-	-	-	-
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)

(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	Total RM'000
<u>2014</u>						
<u>Assets</u>						
Short-term funds and placements with financial institutions	1,539,320	404,508	-	-	-	1,943,828
Financial assets held for trading	18,210	640,998	-	-	-	659,208
Financial assets available-for-sale	-	-	-	-	-	-
Amount due from related parties	3,012,425	-	-	-	-	3,012,425
Total financial assets	<u>4,569,955</u>	<u>1,045,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,615,461</u>
<u>Liabilities</u>						
Deposits from customers	4,140,169	-	990	-	-	4,141,159
Deposits and placements of banks and other financial institutions	681,147	-	80	-	-	681,227
Amount due to related parties	606,074	17,496	22,653	-	-	646,223
Total financial liabilities	<u>5,427,390</u>	<u>17,496</u>	<u>23,723</u>	<u>-</u>	<u>-</u>	<u>5,468,609</u>

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk (continued)

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
<u>2013</u>						
<u>Assets</u>						
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
Total financial assets	<u>4,020,189</u>	<u>774,524</u>	<u>12,260</u>	<u>392,038</u>	<u>-</u>	<u>5,199,011</u>
<u>Liabilities</u>						
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
Total financial liabilities	<u>4,801,461</u>	<u>21,946</u>	<u>89,493</u>	<u>-</u>	<u>-</u>	<u>4,912,900</u>

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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>2014</u>						
Net-settled derivatives	9,999	17,349	1,615	689	39,407	69,059
Gross-settled derivatives						
- Receipts	6,829,238	3,653,481	5,426,230	669,512	-	16,578,461
- Payments	(6,821,914)	(3,658,523)	(5,428,560)	(668,905)	-	(16,577,902)
	<u>17,323</u>	<u>12,307</u>	<u>(715)</u>	<u>1,296</u>	<u>39,407</u>	<u>69,618</u>
<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>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

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 RM748,000 (2013: RM493,000), 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 2014 (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>2014</u>	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>Financial assets</u>				
Financial assets held for trading	-	649,988	-	649,988
Derivative financial instruments	-	787,871	-	787,871
Financial assets available-for-sale	-	-	-	-
<u>Financial liabilities</u>				
Derivative financial instruments	-	594,458	-	594,458

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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>2013</u>	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>Financial assets</u>				
Financial assets held for trading	-	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

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  
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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:

	2014		2013	
	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
Outstanding at 1 January	464	39.06	914	39.06
Exercised during the year	(464)	60.79	(450)	52.77
Outstanding at 31 December	-	-	464	39.06

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**J.P. MORGAN CHASE BANK BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

32 **EMPLOYEE BENEFITS (CONTINUED)**

(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.

	2014		2013	
	Number of restricted stock/RSU	Weighted average fair value at grant date USD	Number of restricted stock/RSU	Weighted average fair value at grant date USD
Outstanding at 1 January	26,662	41.00	23,553	38.51
Granted during the year	10,066	57.82	10,922	46.58
Exercised during the year	(9,137)	58.13	(6,655)	47.13
Cancelled during the year	-	-	(146)	36.97
Transferred during the year	(489)	48.21	(1,012)	41.00
Outstanding at 31 December	27,102	48.21	26,662	41.00

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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	Related amounts not set off in the statement of financial position	Net amount RM'000
				Financial instruments RM'000	Cash collateral received RM'000
<u>2014</u>					
Derivative financial instruments	787,871	-	787,871	-	167,639
					620,232
<u>2013</u>					
Derivative financial instruments	434,170	-	434,170	-	75,271
					358,899

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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 liabilities RM'000	Gross amount of recognised financial assets set off in the statement of financial position RM'000	Net amount of financial liabilities presented in the statement of financial position RM'000	Related amounts not set off in the statement of financial position	Net amount RM'000
				Financial instruments RM'000	Cash collateral placed RM'000
<b>2014</b>					
Derivative financial instruments	594,458	-	594,458	-	40,504
					553,954
<b>2013</b>					
Derivative financial instruments	348,892	-	348,892	-	32,236
					316,656

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

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J.P. MORGAN CHASE BANK BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (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 26 May 2015.

Company No.

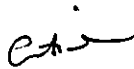
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J.P. MORGAN CHASE BANK BERHAD  
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**STATEMENT BY DIRECTORS  
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

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 83 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2014 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 requirements of the Companies Act, 1965 in Malaysia.

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



LAU SOUK HUAN  
DIRECTOR

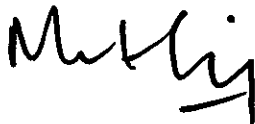


STEVEN RONALD CLAYTON  
DIRECTOR

Kuala Lumpur  
26 May 2015

**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 83 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.

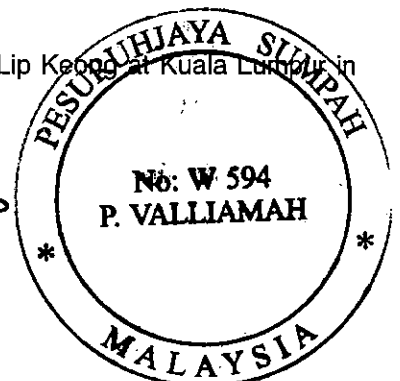


MARK LING LIP KEONG

Subscribed and solemnly declared by the abovenamed Mark Ling Lip Keong at Kuala Lumpur in Malaysia on 26 May 2015, before me.



COMMISSIONER FOR OATHS



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



## 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 83 which comprise the statements of financial position as at 31 December 2014 of the Bank, and the statement of 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 2014 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 CHEONG CHUAN  
(No. 2907/11/15 (J))  
Chartered Accountant

Kuala Lumpur  
26 May 2015