

Company No.

316347

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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J.P. MORGAN CHASE BANK BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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 2017.

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>60,581</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 2017.

RESERVES AND PROVISIONS

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

EQUITY COMPENSATION BENEFITS

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

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

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DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

DIRECTORS

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

Robert Armor Morris (appointed on 23 January 2018)

Steven Ronald Clayton

Faisal bin Ismail

Omar bin Malek Ali Merican

John Leo Buckley

Lau Souk Huan (resigned on 22 September 2017)

Fauziah binti Hisham (resigned on 7 March 2018)

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

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than the benefits shown under Directors' Remuneration as disclosed in Note 23 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

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

DIRECTORS' REMUNERATION

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

AUDITORS' REMUNERATION

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

J.P. MORGAN CHASE BANK BERHAD

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DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

No contingent or other liability of the Bank has become enforceable or is likely to become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Bank to meet its obligations when they fall due.

CHANGE OF CIRCUMSTANCES

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

J.P. MORGAN CHASE BANK BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (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 2017

The Bank's financial results for 2017 exceeded expectation and the momentum going into 2018 is encouraging. The Bank's key businesses, in particular transaction services, trade, wholesale banking and markets flow business, delivered strong growth which further strengthened its position within the domestic Malaysian market.

The Bank recorded a profit before tax of RM82 million, a decrease of RM23 million against 2016. Net interest income increased by RM12 million or 15% to RM89 million, contributed by lower interest expense on placement of financial institutions. Other operating income decreased by RM21 million or 12%, with lower net income from financial assets held for trading of RM10 million. Meanwhile, operating expenses increased by RM14 million or 10% to RM155 million.

The Bank's total assets decreased by 27% to RM6.4 billion, contributed by lower cash and short-term funds with banks and financial institutions of RM25 million. Customer deposits showed a decrease of 43% to RM3.1 billion, however, there was an increase in deposits from related parties by RM856 million in 2017. The Bank's total capital ratio remained strong at 26%, with its Tier 1 capital ratio at 26% as at end of 2017.

BUSINESS OUTLOOK FOR 2018

The macro-economic environment looks more promising going into 2018. In view of this, the markets in which we operate look reasonably healthy leading to optimism in the outlook and better prospects for the business.

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

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

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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

ULTIMATE HOLDING CORPORATION

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

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

This report was approved by the Board of Directors on 27 March 2018. Signed on behalf of the Board of Directors:



FAISAL BIN ISMAIL
DIRECTOR



STEVEN RONALD CLAYTON
DIRECTOR

Kuala Lumpur
30 May 2018

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
ASSETS			
Cash and short-term funds	2	3,893,686	3,918,993
Securities purchased under resale agreement		46,776	602,550
Financial assets held for trading	3	887,490	986,291
Derivative financial instruments	4	516,759	917,635
Financial assets available-for-sale	5	148,476	140,963
Loans and advances	6	307,077	618,262
Amount due from related parties	7	549,747	1,277,377
Statutory deposits with Bank Negara Malaysia	8	2	2
Other assets	9	53,854	273,591
Tax recoverable		19,889	10,590
Deferred tax assets	10	3,110	2,403
Fixed assets	11	5,906	10,189
TOTAL ASSETS		6,432,772	8,758,846
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from customers	12	3,129,533	5,457,190
Deposits and placements of banks and other financial institutions	13	224,762	240,310
Obligations on securities sold under repurchase agreements		48,384	278,001
Derivative financial instruments	4	519,968	799,373
Amount due to related parties	14	1,352,728	613,740
Other liabilities	15	112,439	387,782
Total liabilities		5,387,814	7,776,396
Share capital	16	127,500	85,500
Share premium		-	42,000
Retained earnings		896,950	734,627
Reserves	17	20,508	120,323
Shareholder's equity		1,044,958	982,450
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		6,432,772	8,758,846
COMMITMENTS AND CONTINGENCIES	25	64,125,536	61,767,373

J.P. MORGAN CHASE BANK BERHAD
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
Interest income	18	135,790	172,527
Interest expense	19	(47,221)	(95,568)
Net interest income		88,569	76,959
Other operating income	20	148,853	169,668
Net income		237,422	246,627
Operating expenses	21	(155,488)	(141,832)
Operating profit before allowances		81,934	104,795
(Allowance)/write back for losses on loans and advances	22	(218)	538
Profit before taxation		81,716	105,333
Taxation	24	(21,135)	(27,096)
Net profit for the financial year		60,581	78,237
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
- Employee share option scheme		2,139	4,024
Items that may be subsequently reclassified to profit or loss			
Financial assets available-for-sale			
- Net loss on revaluation of financial assets available-for-sale		(279)	(1,421)
- Income tax relating to component of other comprehensive income		67	341
Other comprehensive income, net of tax		1,927	2,944
Total comprehensive income		62,508	81,181

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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 2017**

	<u>Note</u>	<u>Share capital</u> RM'000	<u>Share premium</u> RM'000	<u>Statutory reserve</u> RM'000	<u>Fair value reserve - available- for-sale securities</u> RM'000	<u>Option reserve</u> RM'000	<u>Regulatory reserve</u> RM'000	<u>Retained earnings</u> RM'000	<u>Total</u> RM'000
At 1 January 2017		85,500	42,000	97,778	252	15,914	6,379	734,627	982,450
Net profit for the financial year		-	-	-	-	-	-	60,581	60,581
Transfer (from)/ to regulatory reserve		-	-	-	-	-	(3,964)	3,964	-
Transfer to share capital	16	42,000	(42,000)	-	-	-	-	-	-
Transfer from statutory reserves	17	-	-	(97,778)	-	-	-	97,778	-
Other comprehensive income		-	-	-	(212)	-	-	-	(212)
Employee share option scheme - Options granted	31	-	-	-	-	2,139	-	-	2,139
At 31 December 2017		<u>127,500</u>	<u>-</u>	<u>-</u>	<u>40</u>	<u>18,053</u>	<u>2,415</u>	<u>896,950</u>	<u>1,044,958</u>

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**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

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

J.P. MORGAN CHASE BANK BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>2017</u> RM'000	<u>2016</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	81,716	105,333
Adjustments for items not involving the movement of cash and cash equivalents:		
Depreciation of fixed assets	5,711	5,781
Loss on disposal of fixed assets	31	13
Allowance for/(write-back of) losses on loans and advances	218	(538)
Share options expenses	2,139	4,024
Net loss on derivatives	14,710	30,268
Net unrealised loss/(gain) from revaluation of financial assets held for trading	1,304	(3,536)
Net unrealised gain in revaluation on derivatives	(27,258)	(22,676)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	78,571	118,669
Decrease/(increase) in securities purchased under resale agreement	555,774	(174,433)
Decrease/(increase) in financial assets held for trading	97,497	(962,446)
Decrease in derivative financial instruments	134,019	12,467
(Increase)/decrease in financial assets available-for-sale	(7,725)	149
Decrease/(increase) in loans and advances	310,967	(286,989)
Decrease/(increase) in other assets	219,671	(237,978)
Decrease in statutory deposits with BNM	-	3,044
(Decrease)/increase in deposits from customers	(2,327,657)	1,840,263
Decrease in deposits and placements of banks and other financial institutions	(15,548)	(584,938)
(Decrease)/increase in other liabilities	(275,343)	315,522
(Decrease)/increase in securities sold under repurchase agreement	(229,617)	129,768
Increase/(decrease) in amount due to related parties	738,988	(2,999,487)
Cash used in operating activities	(720,403)	(2,826,389)
Income taxes paid	(31,075)	(13,615)
Net cash used in operating activities	(751,478)	(2,840,004)

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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITY			
Purchase of fixed assets		(1,459)	(940)
Net cash used in investing activity		<u>(1,459)</u>	<u>(940)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(752,937)	(2,840,944)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR			
		<u>5,196,370</u>	<u>8,037,314</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR			
		<u><u>4,443,433</u></u>	<u><u>5,196,370</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and short-term funds	2	3,893,686	3,918,993
Amount due from related parties	7	549,747	1,277,377
		<u><u>4,443,433</u></u>	<u><u>5,196,370</u></u>

J.P. MORGAN CHASE BANK BERHAD
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

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

A BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, Bank Negara Malaysia ("BNM") Guidelines and the requirements of the Companies Act, 2016 in Malaysia.

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

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

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

The following amended standard and annual improvements have been adopted for the first time by the Bank for the financial year beginning on 1 January 2017:

- Amendments to MFRS 107 Statement of Cash Flows - Disclosure Initiative
- Amendments to MFRS 112 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning on or after 1 January 2018:

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

Classification and measurements

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

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:-

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss
- When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in profit or loss.

There will be no changes to the Bank's accounting for financial liabilities. All the financial liabilities, except for derivatives financial liabilities and financial liabilities designated at fair value, which are at FVTPL, will remain as amortised cost as there has not been significant change in the requirements for financial liabilities under MFRS 9.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

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

Impairment of financial assets

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

The new impairment model requires the recognition of impairment allowances based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments, financial guarantee contracts and other loan commitments.

Under MFRS 9, impairment will be measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).
- Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the asset (Lifetime ECL).
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL).

As all financial assets within the scope of MFRS 9 impairment model will be assessed for at least 12-month ECL, and the population of financial assets to which full lifetime ECL applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with MFRS 139.

In addition, changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month ECL) and Stage 2 (lifetime ECL) and the application of forward looking information, will be recorded in profit or loss and allowance for credit losses will be more volatile under MFRS 9.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

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

Disclosures

The new standard requires more extensive disclosures especially in the areas of ECL. The Bank expect changes in the extent of disclosures in the financial statements for 31 December 2018.

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

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

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

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

Key provisions of the new standard are as follows:

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (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).

- IC Interpretation 23 Uncertainty over Income Tax Treatments (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty. IC Interpretation 23 will be applied retrospectively.
- MFRS 16 Leases (effective from 1 January 2019) supersedes MFRS 117 Leases and the related interpretations.

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

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

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

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

None of the standards, amendments and interpretations that are effective for financial year beginning after 1 January 2018 is expected to have a significant effect on the financial statements of the Bank, except for MFRS 9. The Bank anticipates impact to the financial statements in the areas of classification and measurement for financial assets and impairment. The final impacts are still being assessed and may be adjusted as necessary.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

B INCOME RECOGNITION

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

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

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

C RECOGNITION OF FEES AND OTHER INCOME

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

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

D ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

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

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

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.

J.P. MORGAN CHASE BANK BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

F FINANCIAL ASSETS AND LIABILITIES

Financial assets

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

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

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

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

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

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

(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 2017 (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 2017 (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.

J.P. MORGAN CHASE BANK BERHAD

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)****G DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

H IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (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 2017 (CONTINUED)

J FIXED ASSETS

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

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

The principal useful lives used are as follows:

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

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

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

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

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

K CURRENCY TRANSLATIONS

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

K CURRENCY TRANSLATIONS (CONTINUED)

(b) Foreign currency transactions and balances (continued)

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

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

L INCOME TAX AND DEFERRED TAX

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

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

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

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

M EMPLOYEE BENEFITS

Short-term employee benefits

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

Defined contribution plan

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

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

Equity compensation benefits

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

N PROVISION

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

O FINANCIAL GUARANTEE CONTRACTS

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

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

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

P CASH AND CASH EQUIVALENTS

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

Q OPERATING LEASES

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)****R CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

(a) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The majority of the Bank's assets reported at fair value are based upon quoted market prices or upon internally developed models that utilise independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

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

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

(b) Allowance for losses on loans and advances

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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>2017</u> RM'000	<u>2016</u> RM'000
Cash and balances with banks and other financial institutions	29,684	31,646
Money at call and deposit placements maturing within one month	3,864,002	3,887,347
	<u>3,893,686</u>	<u>3,918,993</u>

3 FINANCIAL ASSETS HELD FOR TRADING

Money market instruments

Malaysian Government Securities	534,543	362,321
Bank Negara Malaysia bills	4,948	145,810
Malaysian Treasury bills	-	5,805
Malaysian Government Investment Issuance	246,479	75,957

Unquoted securities

Private debt securities	101,520	396,398
	<u>887,490</u>	<u>986,291</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4 DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount RM'000	Assets RM'000	Fair values Liabilities RM'000
At 31 December 2017			
<u>Foreign exchange derivatives</u>			
Currency forwards	18,787,523	228,080	(284,851)
Cross-currency interest rate swaps	3,912,471	76,707	(100,586)
Currency options	20,273	1	-
	<u>22,720,267</u>	<u>304,788</u>	<u>(385,437)</u>
<u>Interest rate derivatives</u>			
Interest rate swaps	34,970,555	78,974	(75,279)
Interest rate options	1,957,647	51,418	-
	<u>36,928,202</u>	<u>130,392</u>	<u>(75,279)</u>
<u>Credit related derivatives</u>			
Credit default swaps	50,050	4,052	-
<u>Equity related derivatives</u>			
Equity options	2,568,635	77,527	(59,252)
Total derivative assets/(liabilities)	<u>62,267,154</u>	<u>516,759</u>	<u>(519,968)</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2017 RM'000	2016 RM'000
<u>Money market instruments</u>		
Malaysian Government Securities	-	140,963
Bank Negara Malaysia bills	148,476	-
	<u>148,476</u>	<u>140,963</u>

6 LOANS AND ADVANCES

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

Overdrafts	37,503	46,478
Housing loans	703	758
Staff loans	741	949
Revolving credits	175,981	511,053
Trade finance	93,475	60,122
	<u>308,403</u>	<u>619,360</u>
Less: Allowance for losses on loans and advances:		
- Individual assessment	(41)	(45)
- Collective assessment	(1,285)	(1,053)
	<u>307,077</u>	<u>618,262</u>
Total net loans and advances	<u>307,077</u>	<u>618,262</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

6 LOANS AND ADVANCES (CONTINUED)

	<u>2017</u> RM'000	<u>2016</u> RM'000
(ii) The maturity structure of loans and advances are as follows:		
Maturity within		
- one year	306,973	617,722
- one year to three years	172	209
- three years to five years	118	104
- over five years	1,140	1,325
	<u>308,403</u>	<u>619,360</u>
(iii) Loans and advances analysed by type of customers are as follows:		
Domestic business enterprises	273,388	571,005
Individuals	1,444	1,707
Foreign entities	33,571	46,648
	<u>308,403</u>	<u>619,360</u>
(iv) Loans and advances analysed by interest sensitivity are as follows:		
Fixed rate		
- Housing loans	1,444	1,675
- Other fixed rate loans	-	32
Variable rate		
- Cost-plus	306,959	617,653
	<u>308,403</u>	<u>619,360</u>
(v) Loans and advances analysed by their economic purpose are as follows:		
Purchase of landed properties	1,444	1,675
Purchase of transport vehicles	-	30
Personal use	-	2
Working capital	306,959	617,653
	<u>308,403</u>	<u>619,360</u>

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NOTES TO THE FINANCIAL STATEMENTS
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6 LOANS AND ADVANCES (CONTINUED)

	<u>2017</u> RM'000	<u>2016</u> RM'000
(vi) Loans and advances analysed by their geographical distribution are as follows:		
In Malaysia	274,832	572,712
Other countries	33,571	46,648
	<u>308,403</u>	<u>619,360</u>
(vii) Impaired loans		
(a) Movements in impaired loans and advances are as follows:		
At 1 January	123	171
Classified as impaired during the financial year	54	56
Reclassified as performing during the financial year	(54)	(91)
Amount recovered	(12)	(13)
Amount written off	-	-
	<u>111</u>	<u>123</u>
At 31 December	(41)	(45)
Individual assessment allowance		
Net impaired loans and advances	<u>70</u>	<u>78</u>
Ratio of net impaired loans and advances to net loans and advances	<u>0.02%</u>	<u>0.01%</u>
(b) Movements in allowance for impaired loans and advances are as follows:		
<u>Individual assessment allowance</u>		
At 1 January	45	48
Written back during the financial year	(4)	(3)
At 31 December	<u>41</u>	<u>45</u>

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6 LOANS AND ADVANCES (CONTINUED)

	<u>2017</u> RM'000	<u>2016</u> RM'000
(vii) Impaired loans (continued)		
(b) Movements in allowance for impaired loans and advances are as follows: (continued)		
<u>Collective assessment allowance</u>		
At 1 January	1,053	1,603
Allowance made/(written-back) during the financial year	232	(550)
At 31 December	<u>1,285</u>	<u>1,053</u>
Collective assessment allowance (inclusive of regulatory reserve) as % of gross loans and advances, net of individual assessment allowance	<u>1.20%</u>	<u>1.20%</u>
(c) Impaired loans analysed by their economic purpose are as follows:		
Purchase of landed property	<u>111</u>	<u>123</u>
(d) Impaired loans analysed by their geographical distribution are as follows:		
Malaysia	<u>111</u>	<u>123</u>

7 AMOUNT DUE FROM RELATED PARTIES

Current deposits	357,284	766,746
Fixed deposits	-	139,070
Other receivables	192,463	371,561
	<u>549,747</u>	<u>1,277,377</u>

8 STATUTORY DEPOSITS WITH BNM

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

As of 31 December 2017, the Bank has RM2,000 (2016: RM2,000) statutory deposits with BNM.

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9 OTHER ASSETS

	<u>2017</u> RM'000	<u>2016</u> RM'000
Other receivables	49,612	253,294
Deposits and prepayments	4,242	20,297
	<u>53,854</u>	<u>273,591</u>

10 DEFERRED TAX ASSETS

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Excess of depreciation over capital allowances	(60)	(830)
Financial assets available-for-sale	(12)	(79)
Other liabilities	3,182	3,312
Deferred tax assets	<u>3,110</u>	<u>2,403</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>2017</u>				
At 1 January	(830)	(79)	3,312	2,403
Credited / (Debited) to income statement (Note 24)	770	-	(130)	640
Charged to reserve	-	67	-	67
At 31 December	<u>(60)</u>	<u>(12)</u>	<u>3,182</u>	<u>3,110</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

10 DEFERRED TAX ASSETS (CONTINUED)

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

11 FIXED ASSETS

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

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11 FIXED ASSETS (CONTINUED)

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

12 DEPOSITS FROM CUSTOMERS

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Demand deposits	3,101,125	5,438,611
Fixed deposits	28,408	18,579
	<u>3,129,533</u>	<u>5,457,190</u>

Maturity structure of fixed deposits are as follows:

Due within six months	<u>28,408</u>	<u>18,579</u>
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

12 DEPOSITS FROM CUSTOMERS (CONTINUED)

	<u>2017</u> RM'000	<u>2016</u> RM'000
(ii) Deposits from customers analysed by type of customers are as follows:		
Business enterprises	3,129,157	5,456,896
Others	376	294
	<u>3,129,533</u>	<u>5,457,190</u>

**13 DEPOSITS AND PLACEMENTS OF BANKS
AND OTHER FINANCIAL INSTITUTIONS**

Licensed banks	220,681	236,171
Other financial institutions	4,081	4,139
	<u>224,762</u>	<u>240,310</u>

14 AMOUNT DUE TO RELATED PARTIES

Current deposits	158,176	273,710
Fixed deposits	1,186,853	330,494
Other payables	7,699	9,536
	<u>1,352,728</u>	<u>613,740</u>

15 OTHER LIABILITIES

Other payables	99,300	373,817
Accruals and charges	13,139	13,965
	<u>112,439</u>	<u>387,782</u>

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16 SHARE CAPITAL

	<u>2017</u> RM'000	<u>2016</u> RM'000
Authorised:		
100,000,000 ordinary shares of RM1 each		
At 1 January/ 31 December	-	100,000
Issued and fully paid:		
At 1 January	85,500	85,500
Transfer from share premium	42,000	-
At 31 December	127,500	85,500

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

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

During the financial year ended 31 December 2017, the Bank has transferred RM42,000,000 share premium to its share capital.

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17 RESERVES

	<u>2017</u> RM'000	<u>2016</u> RM'000
Statutory reserve	-	97,778
Option reserve	18,053	15,914
Regulatory reserve	2,415	6,379
Fair value reserve – available-for-sale securities	40	252
	<u>20,508</u>	<u>120,323</u>

- (i) The statutory reserve is maintained in compliance with BNM guidelines. Effective 3 May 2017, there is no requirement to maintain statutory reserves for banking entities in Malaysia, in accordance with BNM Guideline –Capital funds. The Bank has released these reserves of RM97,778,000 and transfer back to retained earnings as of 31 December 2017.
- (ii) The option reserve is maintained in compliance with MFRS 2 - Share-based payment.
- (iii) Regulatory reserve of the Bank is maintained as an additional credit risk absorbent to ensure robustness on the loan impairment assessment methodology.
- (iv) Movement of the fair value reserve of available-for-sale securities is as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
At 1 January	252	1,332
Financial assets available-for-sale		
- fair value charges	(279)	(1,421)
- deferred taxation	67	341
	<u>40</u>	<u>252</u>
At 31 December	<u>40</u>	<u>252</u>

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18	INTEREST INCOME		
		<u>2017</u>	<u>2016</u>
		RM'000	RM'000
	Loans and advances		
	- Interest income other than recoveries from impaired loans	10,341	11,231
	- Recoveries from impaired loans	6	8
	Money at call and placements with financial institutions	72,064	145,658
	Financial assets		
	- Held for trading	48,746	10,797
	- Available-for-sale	4,633	4,833
		<u>135,790</u>	<u>172,527</u>
19	INTEREST EXPENSE		
	Deposits from customers	34,621	24,573
	Deposits and placements of banks and other financial institutions	12,600	70,995
		<u>47,221</u>	<u>95,568</u>
20	OTHER OPERATING INCOME		
	Fee income:		
	Service charges and fees	4,405	5,735
	Guarantee fees	3,688	3,368
		<u>8,093</u>	<u>9,103</u>
	Net income from securities:		
	- Net gain from sale of financial assets held for trading	11,783	37,900
	- Net unrealised (loss)/gain from revaluation of financial assets held for trading	(1,304)	3,536
	Derivatives:		
	- Net loss on derivatives	(14,710)	(30,268)
	- Unrealised gain from revaluation of derivatives	27,258	22,676
	Other income:		
	Foreign exchange gain	58,415	84,404
	Other operating income	59,082	42,237
	Loss on sale of fixed assets	(31)	(13)
	Other non-operating income	267	93
		<u>148,853</u>	<u>169,668</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

21 OPERATING EXPENSES

	<u>2017</u> RM'000	<u>2016</u> RM'000
Personnel costs:		
- Wages, salaries and bonuses	39,065	38,257
- Defined contribution retirement plan	5,533	5,455
- Other employee benefits	8,019	8,017
	52,617	51,729
Establishment costs:		
- Equipment and fittings repairs, maintenance and rental	1,154	1,255
- Rental of premise	3,764	3,292
- Depreciation of fixed assets	5,711	5,781
- Utilities	769	690
- Others	750	784
	12,148	11,802
Marketing expenses	1,549	1,071
Administration and general expenses:		
- Management fees paid	79,976	67,500
- Banking and corporate expenses	3,973	4,347
- Office supplies, communication expenses and insurance	3,781	3,982
- Postage and shipping charges	213	201
- Other general expenses	1,231	1,200
	89,174	77,230
	<u>155,488</u>	<u>141,832</u>
The above expenditure includes the following statutory disclosures:		
Directors' remuneration (Note 23)	4,998	5,057
Hire of equipment	441	544
Auditors' remuneration:		
- audit fees	343	336
- non-audit fees	86	54
	<u>4,468</u>	<u>6,091</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

22 ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

	<u>2017</u> RM'000	<u>2016</u> RM'000
Allowance for losses on loans and advances:		
(a) Individual assessment allowance		
- Written back	4	3
(b) Collective assessment allowance		
- (Made)/written back	(232)	550
Loans and advances recovered/(written off)	10	(15)
	<u>(218)</u>	<u>538</u>

23 DIRECTORS' REMUNERATION

Fees	458	500
Other remuneration	4,540	4,557
	<u>4,998</u>	<u>5,057</u>
Analysis of Directors' remuneration:		
Executive Director:		
- Salary, bonuses and other remuneration	4,062	4,076
- Defined contribution retirement plan	475	478
- Benefits-in-kind	3	3
Non-executive Directors:		
- Fees/allowances	458	500
	<u>4,998</u>	<u>5,057</u>

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

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23 DIRECTORS' REMUNERATION (CONTINUED)

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

	<u>2017</u>	<u>2016</u>
<u>Executive Director</u>		
Above RM500,001	1	1
<u>Non-Executive Directors</u>		
Above RM100,001	3	4
RM50,001 – RM100,000	1	-
RM1 – RM50,000	-	-

24 TAXATION

(a) Tax expense for the financial year

Current year tax		
- Malaysian income tax	21,812	27,976
- (Over) / Under provision in respect of prior year	(37)	5
Deferred tax		
- Origination and reversal of temporary differences	(414)	(885)
- Under provision in respect of prior years	(226)	-
	<u>21,135</u>	<u>27,096</u>

(b) Numerical reconciliation of income tax expense

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Profit before taxation	<u>81,716</u>	<u>105,333</u>
Tax calculated at a tax rate of 24%	19,612	25,280
Expenses not deductible for tax purposes	1,786	1,811
(Over) / under provision in respect of prior year	(37)	5
Under provision of temporary differences in prior years	(226)	-
Tax expense	<u>21,135</u>	<u>27,096</u>

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25 COMMITMENTS AND CONTINGENCIES

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

The commitments and contingencies constitute the following:

	<u>2017</u> Principal amount RM'000	<u>2016</u> Principal amount RM'000
<u>Credit-related</u>		
Direct credit substitutes	211,350	298,477
Transaction-related contingent items	37,791	55,796
Short-term self-liquidating trade related contingencies	27,485	125,042
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:		
- over one year	150,361	89,444
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness	1,431,395	1,135,614
<u>Treasury-related</u>		
Foreign exchange related contracts:		
- one year or less	18,957,817	18,985,033
- over one year to five years	2,742,824	2,596,930
- more than five years	1,019,626	1,038,420
Interest rate related contracts:		
- one year or less	8,838,712	7,119,002
- over one year to five years	25,891,420	27,298,029
- over five years	2,198,070	1,466,299
Credit related contracts:		
- over one year to five years	50,050	282,082
Equity related contracts:		
- one year or less	1,855,696	903,647
- over one year to five years	712,939	373,558
	<u>64,125,536</u>	<u>61,767,373</u>

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26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

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

Key management personnel

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

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

	<u>2017</u>		<u>2016</u>	
	<u>Related</u>	<u>Key</u>	<u>Related</u>	<u>Key</u>
	<u>entities</u>	<u>management</u>	<u>entities</u>	<u>management</u>
	<u>RM'000</u>	<u>personnel</u>	<u>RM'000</u>	<u>personnel</u>
		<u>RM'000</u>		<u>RM'000</u>
<u>Significant related party transactions of the Bank:</u>				
<u>Income</u>				
Interest on loans and advances	-	-	517	1
Interest on current deposit	244	-	696	-
Interest on fixed deposit	18	-	6,277	-
Management fees received	59,082	-	42,237	-
	<u>59,082</u>	<u>-</u>	<u>42,237</u>	<u>-</u>
<u>Expense</u>				
Interest on current deposit	1,401	-	1,735	-
Interest on fixed deposit	6,537	-	34,331	-
Rental recovery	(1,080)	-	(1,026)	-
Management fees	79,976	-	67,500	-
	<u>79,976</u>	<u>-</u>	<u>67,500</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS
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26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	2017		2016	
	Related entities	Key management personnel	Related entities	Key management personnel
	RM'000	RM'000	RM'000	RM'000
Related party balances of the Bank:				
<u>Amount due from</u>				
Staff loans	-	-	-	25
Current deposit	357,283	-	766,746	-
Fixed deposit	-	-	139,070	-
Other receivables	192,464	-	371,561	-
	<u>549,747</u>	<u>-</u>	<u>1,277,377</u>	<u>25</u>
<u>Amount due to</u>				
Current deposit	158,176	-	273,710	-
Fixed deposit	1,186,853	-	330,494	-
Other payables	7,699	-	9,536	-
	<u>1,352,728</u>	<u>-</u>	<u>613,740</u>	<u>-</u>

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

Interest rates on time deposits were at normal commercial rates.

Key management compensation:

	2017 RM'000	2016 RM'000
Salaries and other short-term employee benefits	<u>11,070</u>	<u>12,468</u>
	Unit	Unit
Shares, restricted stock units and share options balance of ultimate holding corporation	<u>66,891</u>	<u>69,710</u>

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

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26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management compensation: (continued)

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

Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM's revised "Guidelines on Credit Transactions and Exposures with Connected Parties", which became effective on 1 January 2008, are as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Outstanding credit exposures with connected parties	<u>155,625</u>	<u>138,466</u>
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	<u>5.17%</u>	<u>3.71%</u>
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<u>0%</u>	<u>0%</u>

27 NON CANCELLABLE OPERATING LEASE COMMITMENTS

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Not later than one year	108	46
Later than one year and not later than five years	<u>414</u>	<u>3</u>

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28 CAPITAL ADEQUACY

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

The capital adequacy ratios of the Bank are as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Tier-I capital</u>		
Paid-up share capital	127,500	85,500
Share premium	-	42,000
Retained earnings	896,950	734,627
Fair value reserve – available-for-sale securities	40	252
Option reserve	18,053	15,914
Statutory reserve	-	97,778
	<u>1,042,543</u>	<u>976,071</u>
Deferred tax assets	(3,110)	(2,403)
Available-for-sale securities	(22)	(138)
Total Tier I capital	<u>1,039,411</u>	<u>973,530</u>
<u>Tier-II capital</u>		
Regulatory reserve	2,415	6,379
Collective assessment allowance	1,285	1,053
Total Tier II capital	<u>3,700</u>	<u>7,432</u>
Total capital	<u><u>1,043,111</u></u>	<u><u>980,962</u></u>
Common Equity Tier 1 capital ratio	25.911%	19.842%
Tier 1 capital ratio	25.911%	19.842%
Total capital ratio	<u><u>26.004%</u></u>	<u><u>19.993%</u></u>

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28 CAPITAL ADEQUACY (CONTINUED)

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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28 CAPITAL ADEQUACY (CONTINUED)

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

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

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28 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet counterparty risk as at 31 December 2017:

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	211,350	211,350	205,445
Transaction-related contingent items	37,791	18,895	16,573
Short-term self-liquidating trade related contingencies	27,485	5,497	5,497
Foreign exchange related contracts:			
- less than one year	18,957,817	524,512	250,330
- one year to less than five years	2,742,824	295,514	128,328
- more than five years	1,019,626	190,831	44,370
Interest rate related contracts:			
- less than one year	8,838,712	43,128	18,100
- one year to less than five years	25,891,420	848,925	297,510
- more than five years	2,198,070	157,309	61,996
Credit derivative contracts			
- one year to less than five years	50,050	11,059	2,212
Equity related contracts			
- less than one year	1,855,696	194,258	71,575
- one year to less than five years	712,939	127,984	75,418
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	150,361	75,180	75,180
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness	1,431,395	-	-
	<u>64,125,536</u>	<u>2,704,442</u>	<u>1,252,534</u>

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

28 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet counterparty risk as at 31 December 2016:

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

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

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29 FINANCIAL RISK MANAGEMENT

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

(i) Credit risk

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

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

(a) Collateral

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

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

(b) Master netting arrangements

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

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

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

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)Maximum exposure to credit risk

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

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

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Assets</u>			
Cash and short-term funds	2	3,893,686	3,918,993
Securities purchased under resale agreement		46,776	602,550
Financial assets held for trading	3	887,490	986,291
Derivative financial instruments	4	516,759	917,635
Financial assets available-for-sale	5	148,476	140,963
Loans and advances	6	307,077	618,262
Amount due from related parties	7	549,747	1,277,377
Statutory deposits with BNM	8	2	2
Other assets	9	53,854	273,591
Tax recoverable		19,889	10,590
Total assets*		<u>6,423,756</u>	<u>8,746,254</u>
Commitments and contingencies	28	<u>2,704,442</u>	<u>3,113,526</u>
Total credit exposure		<u>9,128,198</u>	<u>11,859,780</u>

* Excludes deferred tax assets and fixed assets.

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

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by geographical sectors

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

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

	31.12.2017									
	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available- for-sale	Loans and advances	Amount due from related parties	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	3,885,066	46,776	785,970	431,368	148,476	273,506	170,274	63,435	5,804,871	2,253,543
United Kingdom	-	-	-	63,792	-	-	13,369	-	77,161	340,989
USA	-	-	-	12,998	-	-	363,899	17	376,914	69,907
Hong Kong	-	-	-	690	-	-	1,098	-	1,788	5,056
Singapore	5,389	-	-	3,427	-	-	90	19,309	28,215	14,010
Others	3,231	-	101,520	4,484	-	33,571	1,017	-	143,823	20,937
	<u>3,893,686</u>	<u>46,776</u>	<u>887,490</u>	<u>516,759</u>	<u>148,476</u>	<u>307,077</u>	<u>549,747</u>	<u>82,761</u>	<u>6,432,772</u>	<u>2,704,442</u>

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

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

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by geographical sectors (continued)

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

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

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

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors

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

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

	31.12.2017									
	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Manufacturing	-	-	-	29,015	-	164,523	-	-	193,538	101,953
Wholesale and retail	-	-	-	-	-	19,188	-	-	19,188	210
Finance, insurance and business services	26,352	-	101,520	477,676	-	123,248	549,747	50,033	1,328,576	2,553,389
Government and Government Agencies	3,866,909	46,776	785,970	2,738	148,476	-	-	2	4,850,871	16,867
Electricity, gas and Water	-	-	-	1,983	-	-	-	-	1,983	28,943

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

	31.12.2017									
	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Transport, storage and communication	-	-	-	877	-	-	-	-	877	1,327
Individual/Purchase of landed property - residential	-	-	-	-	-	1,403	-	-	1,403	172
Others	-	-	-	4,470	-	-	-	2,803	7,273	1,581
	<u>3,893,261</u>	<u>46,776</u>	<u>887,490</u>	<u>516,759</u>	<u>148,476</u>	<u>308,362</u>	<u>549,747</u>	<u>52,838</u>	<u>6,403,709</u>	<u>2,704,442</u>
Assets not subject to credit risk	425	-	-	-	-	-	-	29,923	30,348	-
	<u>3,893,686</u>	<u>46,776</u>	<u>887,490</u>	<u>516,759</u>	<u>148,476</u>	<u>308,362</u>	<u>549,747</u>	<u>82,761</u>	<u>6,434,057</u>	<u>2,704,442</u>

* Excludes collective assessment allowance amounting to RM1,285,000.

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

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

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

	31.12.2016									
	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Manufacturing	-	-	-	43,407	-	270,256	-	-	313,663	240,512
Wholesale and retail	-	-	-	94	-	-	-	-	94	2,307
Finance, insurance and business services	153,426	-	396,398	620,541	-	257,499	1,277,377	261,175	2,966,416	2,286,175
Government and Government Agencies	3,764,935	602,550	589,893	76,923	140,963	-	-	2	5,175,266	110,868
Electricity, gas and water	-	-	-	166,218	-	-	-	-	166,218	454,790

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors (continued)

	31.12.2016									
	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Transport, storage and communication	-	-	-	3	-	89,897	-	12	89,912	878
Individual/Purchase of landed property	-	-	-	-	-	1,630	-	-	1,630	231
- residential	-	-	-	-	-	31	-	-	31	-
Consumption credit	-	-	-	-	-	2	-	-	-	-
Others	-	-	-	10,449	-	2	-	11,881	22,332	17,765
	<u>3,918,361</u>	<u>602,550</u>	<u>986,291</u>	<u>917,635</u>	<u>140,963</u>	<u>619,315</u>	<u>1,277,377</u>	<u>273,070</u>	<u>8,735,562</u>	<u>3,113,526</u>
Assets not subject to credit risk	632	-	-	-	-	-	-	23,705	24,337	-
	<u>3,918,993</u>	<u>602,550</u>	<u>986,291</u>	<u>917,635</u>	<u>140,963</u>	<u>619,315</u>	<u>1,277,377</u>	<u>296,775</u>	<u>8,759,899</u>	<u>3,113,526</u>

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

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

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

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Loans and advances

Loans and advances are summarised as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Neither past due nor impaired	308,292	619,237
Past due but not impaired	-	-
Individually impaired	111	123
Gross	<u>308,403</u>	<u>619,360</u>
Less: Allowance for impaired loans and advances		
- Individual assessment allowance	(41)	(45)
- Collective assessment allowance	(1,285)	(1,053)
Net	<u><u>307,077</u></u>	<u><u>618,262</u></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>Individuals</u> RM'000	<u>Total</u> RM'000
<u>2017</u>			
Satisfactory	<u>306,959</u>	<u>1,333</u>	<u>308,292</u>
<u>2016</u>			
Satisfactory	<u>617,653</u>	<u>1,584</u>	<u>619,237</u>

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NOTES TO THE FINANCIAL STATEMENTS
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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(b) Loans and advances past due but not impaired

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Past due 30 – 60 days	-	-
Past due 60 – 90 days	-	-
	<u> </u>	<u> </u>
Total	-	-
	<u> </u>	<u> </u>
Fair value of collateral	-	-
	<u> </u>	<u> </u>
Amount of over-collateralisation	-	-
	<u> </u>	<u> </u>

(c) Loans and advances individually impaired

The individual impaired loans and advances to customers before taking into consideration the cash flows from collateral held is RM111,000 (2016: RM123,000).

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>2017</u>		
Gross amount	111	111
Fair value of collateral	397	397
<u>2016</u>		
Gross amount	123	123
Fair value of collateral	397	397

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NOTES TO THE FINANCIAL STATEMENTS
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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)Credit quality of financial assets

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

	<u>Held for trading</u>		<u>Available for-sale</u>	
	<u>Malaysian Government treasury bills and securities</u>	<u>Private debt securities</u>	<u>Malaysian Government treasury bills and securities</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>2017</u>				
AAA	785,970	101,520	148,476	1,035,966
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>2016</u>				
AAA	589,893	396,398	140,963	1,127,254
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(ii) Market risk

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk (continued)

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

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

The VAR of the Bank at the end of the financial year, based on one-day time horizon and at 99% confidence level, is RM2,597,000 (2016: RM6,222,000). 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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NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)****29 FINANCIAL RISK MANAGEMENT (CONTINUED)****(iii) Operational risk**

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

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

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

(iv) Interest rate risk

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

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

at balance sheet date.

	Non trading book					31.12.2017		
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Trading book RM'000	Non- interest sensitive RM'000	Total RM'000
<u>Assets</u>								
Cash and short-term funds	3,863,168	-	-	-	-	-	30,518	3,893,686
Securities purchased under resale agreement	46,759	-	-	-	-	-	17	46,776
Financial assets held for trading	-	-	-	-	-	887,490	-	887,490
Derivative financial instruments	-	-	-	-	-	516,759	-	516,759
Financial assets available- for-sale	-	-	148,476	-	-	-	-	148,476
Loans and advances								
- Performing	172,204	74,865	59,904	231	1,088	-	(1,326)^	306,966
- Non-performing	-	-	-	-	-	-	111	111
Amount due from related parties	18,935	-	-	-	-	-	530,812	549,747
Statutory deposits with BNM	-	-	-	-	-	-	2	2
Other assets #	-	-	-	-	-	-	82,759	82,759
Total assets	4,101,066	74,865	208,380	231	1,088	1,404,249	642,893	6,432,772

^ Includes individual assessment allowance and collective assessment allowance amounting to RM1,326,000.

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

	← Non trading book →						31.12.2017	
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Trading book RM'000	Non- interest sensitive RM'000	Total RM'000
Liabilities								
Deposits from customers	1,761,055	-	-	-	-	-	1,368,478	3,129,533
Deposits and placements of banks and other financial institutions	147,252	-	-	-	-	-	77,510	224,762
Obligations on securities sold under repurchase agreements	47,942	-	-	-	-	-	442	48,384
Derivative financial instruments	-	-	-	-	-	519,968	-	519,968
Amount due to related parties	1,169,590	-	23,894	-	-	-	159,244	1,352,728
Other liabilities	-	-	-	-	-	-	112,439	112,439
Total liabilities	3,125,839	-	23,894	-	-	519,968	1,718,113	5,387,814
Interest rate gap	975,227	74,865	184,486	231	1,088			

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

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

^ Includes individual assessment allowance and collective assessment allowance amounting to RM1,098,000.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest rate risk (continued)

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

	<u>2017</u>		<u>2016</u>	
	RM	USD	RM	USD
	%	%	%	%
<u>Financial assets</u>				
Cash and short-term funds	2.75	1.27	3.01	0.63
Securities purchased under resale agreement	2.75	-	2.70	-
Financial assets held for trading	3.89	-	3.38	-
Financial assets available-for-sale	3.01	-	3.46	-
Loans and advances	4.59	2.58	3.68	2.28
Amount due from related parties	-	1.93	-	0.61
<u>Financial liabilities</u>				
Deposits from customers	1.89	0.24	2.22	0.23
Deposits and placements of banks and other financial institutions	2.99	0.87	3.18	0.39
Obligations on securities sold under repurchase agreements	4.49	-	4.03	-
Amount due to related parties	0.03	1.30	0.03	0.23

(v) Currency risk

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

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

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

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

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

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

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

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk (continued)

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<u>2017</u>							
<u>Assets</u>							
Short-term funds and placements with financial institutions	3,864,536	-	-	-	-	29,684	3,894,220
Financial assets held-for-trading	-	891,353	-	-	-	-	891,353
Financial assets available-for-sale	-	-	150,000	-	-	-	150,000
Loans and advances	171,971	74,796	58,934	264	1,112	-	307,077
Amount due from related parties	-	-	-	-	-	549,747	549,747
Securities purchased under resale agreement	50,132	-	-	-	-	-	50,132
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	2	2
Other assets	52,481	-	-	-	-	356	52,837
Total financial assets	<u>4,139,120</u>	<u>966,149</u>	<u>208,934</u>	<u>264</u>	<u>1,112</u>	<u>579,789</u>	<u>5,895,368</u>
	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<u>Liabilities</u>							
Deposits from Customers	28,424	-	-	-	-	3,101,125	3,129,549
Deposits and placements of banks and other financial institutions	900	-	-	-	-	223,862	224,762
Amount due to related parties	1,328,872	-	25,188	-	-	-	1,354,060
Obligations on securities sold under repurchase agreements	48,501	-	-	-	-	-	48,501
Other liabilities	80,467	69	-	-	-	31,903	112,439
Total financial Liabilities	<u>1,487,164</u>	<u>69</u>	<u>25,188</u>	<u>-</u>	<u>-</u>	<u>3,356,890</u>	<u>4,869,311</u>

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NOTES TO THE FINANCIAL STATEMENTS
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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk (continued)

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<u>2016</u>							
<u>Assets</u>							
Short-term funds and placements with financial institutions	3,888,124	-	-	-	-	31,646	3,919,770
Financial assets held-for-trading	87,903	902,019	-	-	-	-	989,922
Financial assets available-for-sale	-	-	142,320	-	-	-	142,320
Loans and advances	451,749	164,863	67	276	1,308	-	618,263
Amount due from related parties	501,047	-	-	-	-	776,336	1,277,383
Securities purchased under resale agreement	461,069	170,448	-	-	-	-	631,517
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	2	2
Other assets	253,357	-	3,129	2,803	-	13,778	273,067
Total financial assets	5,643,249	1,237,330	145,516	3,079	1,308	821,762	7,852,244
	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<u>Liabilities</u>							
Deposits from Customers	18,615	-	-	-	-	5,438,611	5,457,226
Deposits and placements of banks and other financial institutions	3,200	-	-	-	-	237,110	240,310
Amount due to related parties	468,090	22,447	123,640	-	-	-	614,177
Obligations on securities sold under repurchase agreements	140,515	138,578	-	-	-	-	279,093
Other liabilities	340,382	46	-	2,803	-	44,551	387,782
Total financial liabilities	970,802	161,071	123,640	2,803	-	5,720,272	6,978,588

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(vi) Liquidity risk (continued)

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

	Up to 1 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>2017</u>						
Net-settled Derivatives	8,929	27,715	15,788	(15,064)	(7,446)	29,922
Gross-settled derivatives						
- Receipts	5,598,263	7,663,864	4,865,743	3,071,414	1,089,441	22,288,725
- Payments	(5,597,259)	(7,668,083)	(4,858,440)	(3,094,115)	(1,081,772)	(22,299,669)
	<u>9,933</u>	<u>23,496</u>	<u>23,091</u>	<u>(37,765)</u>	<u>223</u>	<u>18,978</u>
<u>2016</u>						
Net-settled derivatives	735	11,671	16,731	(3,394)	(5,528)	20,215
Gross-settled derivatives						
- Receipts	4,373,214	5,216,085	6,856,927	2,756,043	1,093,001	20,295,270
- Payments	(4,371,047)	(5,220,062)	(6,859,322)	(2,773,167)	(1,088,236)	(20,311,834)
	<u>2,902</u>	<u>7,694</u>	<u>14,336</u>	<u>(20,518)</u>	<u>(763)</u>	<u>3,651</u>

J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)****30 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES****(a) Financial instruments not measured at fair value****(i) Certain financial instruments**

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

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

(ii) Loans and advances

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

The fair value of impaired loans, fixed or floating are based on the carrying value less impairment allowances, being the expected recoverable amount. In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio has been reduced by RM1,326,000 (2016: RM1,098,000), 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 2017 (CONTINUED)

30 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Financial instruments measured at fair value

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

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

(ii) Derivative financial instruments

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

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

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

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

<u>2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets</u>				
Financial assets held for trading	-	887,490	-	887,490
Derivative financial Instruments	-	516,759	-	516,759
Financial assets available-for-sale	-	148,476	-	148,476
<u>Financial liabilities</u>				
Derivative financial instruments	-	519,968	-	519,968

J.P. MORGAN CHASE BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 EMPLOYEE BENEFITS

Equity compensation benefits

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

Long-Term Incentive Plan ("LTIP")

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

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

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

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

(a) Restricted Stock and RSUs

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

	2017		2016	
	Number of	Weighted average fair value at grant date USD	Number of	Weighted average fair value at grant date USD
	restricted stock/RSU		restricted stock/RSU	
Outstanding at 1 January	22,591	56.83	24,412	54.63
Granted during the year	7,143	84.25	9,627	57.24
Exercised during the year	(9,229)	87.14	(10,151)	58.29
Cancelled during the year	(354)	63.56	(1,297)	56.82
Transferred during the year	377	66.24	-	-
Outstanding at 31 December	20,528	66.24	22,591	56.83

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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 2017 (CONTINUED)

32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Financial assets

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

	Gross amount of recognised financial assets 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		
				Financial instruments RM'000	Cash collateral received RM'000	Net amount RM'000
<u>2017</u>						
Derivative financial instruments	<u>516,759</u>	<u>-</u>	<u>516,759</u>	<u>-</u>	<u>151,344</u>	<u>365,415</u>
<u>2016</u>						
Derivative financial instruments	<u>917,635</u>	<u>-</u>	<u>917,635</u>	<u>-</u>	<u>157,166</u>	<u>760,469</u>

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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 2017 (CONTINUED)

32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Financial liabilities

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

	Gross amount of recognised financial liabilities 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		
				Financial instruments RM'000	Cash collateral placed RM'000	Net amount RM'000
<u>2017</u>						
Derivative financial instruments	<u>519,968</u>	<u>-</u>	<u>519,968</u>	<u>-</u>	<u>36,653</u>	<u>483,315</u>
<u>2016</u>						
Derivative financial instruments	<u>799,373</u>	<u>-</u>	<u>799,373</u>	<u>-</u>	<u>138,887</u>	<u>660,486</u>

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

Company No.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 May 2018.

Company No.

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

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

We, Faisal Bin Ismail and Steven Ronald Clayton, being two of the Directors of J.P. Morgan Chase Bank Berhad, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 6 to 85 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and the financial performance of the Bank for the financial year ended 31 December 2017 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, Bank Negara Malaysia Guidelines and the requirements of the Companies Act, 2016 in Malaysia.

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



FAISAL BIN ISMAIL
DIRECTOR



STEVEN RONALD CLAYTON
DIRECTOR

Kuala Lumpur
30 May 2018

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

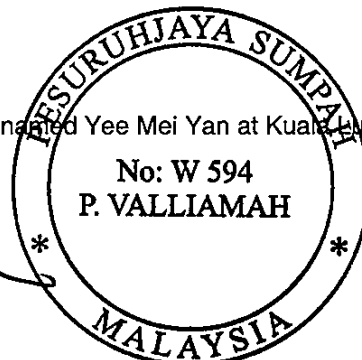
I, Yee Mei Yan, being the Officer primarily responsible for the financial management of J.P. Morgan Chase Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 85 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



YEE MEI YAN

Subscribed and solemnly declared by the above named Yee Mei Yan at Kuala Lumpur in Malaysia on 30 May 2018.

Before me:



COMMISSIONER FOR OATHS

No. 4-13, 4th Floor, Wisma Konwa
No. 40 & 42, Jalan Tun Perak
(Lebuh Ampang)
86 50050 Kuala Lumpur



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of J.P. Morgan Chase Bank Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 85.

Basis for opinion

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

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

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 02.01.2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2019 J
Chartered Accountant

Kuala Lumpur
30 May 2018