

Registration No.

199401030666 (316347-D)

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

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

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(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

| CONTENTS                                   | PAGE      |
|--------------------------------------------|-----------|
| DIRECTORS' REPORT                          | 1 - 6     |
| STATEMENT OF FINANCIAL POSITION            | 7         |
| STATEMENT OF COMPREHENSIVE INCOME          | 8         |
| STATEMENT OF CHANGES IN EQUITY             | 9 - 10    |
| STATEMENT OF CASH FLOWS                    | 11 - 12   |
| SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES | 13 - 26   |
| NOTES TO THE FINANCIAL STATEMENTS          | 27 - 101  |
| STATEMENT BY DIRECTORS                     | 102       |
| STATUTORY DECLARATION                      | 102       |
| INDEPENDENT AUDITORS' REPORT               | 103 - 106 |

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

**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

The Directors are pleased to submit their report to the members together with the audited financial statements of the Bank for the financial year ended 31 December 2019.

**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>121,066</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 2019.

**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.

**SHARE CAPITAL**

During the financial year, there was an issuance of 310,000,000 new ordinary shares. As at 31 December 2019, the issued share capital of the Bank is RM437,500,002 comprising of RM395,500,002 ordinary shares.

## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

### DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

#### EQUITY COMPENSATION BENEFITS

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

Details of the equity compensation benefits are set out in Note 32 to the financial statements.

#### DIRECTORS

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

Osman Tarique Morad (appointed on 2 January 2019)

Robert Armor Morris

Steven Ronald Clayton

Faisal bin Ismail

Omar bin Malek Ali Merican

John Terrence Murphy (appointed on 8 January 2019)

In accordance with Article 99 of the Bank's Constitution, Omar Bin Malek Ali Merican and Steven Ronald Clayton will retire at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

#### DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than the benefits shown under Directors' Remuneration as disclosed in Note 24 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.



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

(Incorporated in Malaysia)

**DIRECTORS' REPORT****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****DIRECTORS' INTEREST IN SHARES AND OPTIONS**

According to the Register of Directors' Shareholdings kept by the Bank under Section 59 of the Companies Act, 2016, none of the Directors who held office at the end of the financial year has any interest in the shares, restricted stock units and share options (collectively "Shares") of the Bank and/or its related corporations during the financial year, save for the following:

|                                 | Number of Shares         |                 |                 |                            |
|---------------------------------|--------------------------|-----------------|-----------------|----------------------------|
|                                 | As at<br><u>1.1.2019</u> | <u>Acquired</u> | <u>Disposed</u> | As at<br><u>31.12.2019</u> |
| <u>JPMorgan Chase &amp; Co.</u> |                          |                 |                 |                            |
| Steven Ronald Clayton           | 7,214                    | 3,267           | 3,038           | 7,443                      |
| John Terrence Murphy            | 9,167                    | 4,278           | 4,958           | 8,487                      |

**DIRECTORS' REMUNERATION**

Details of Directors' remuneration are set out in Note 24 and Note 27 to the financial statements.

**AUDITORS' REMUNERATION**

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

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

**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for 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 provision for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

**CURRENT ASSETS**

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

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

**VALUATION METHODS**

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

**CONTINGENT AND OTHER LIABILITIES**

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

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

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

**CHANGE OF CIRCUMSTANCES**

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

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

**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 2019**

The Bank's key businesses, in particular transaction services, trade, wholesale banking and markets flow business, delivered moderate growth which further strengthened its position within the domestic Malaysian market.

The Bank recorded a profit before tax of RM169 million in FY 2019, an increase of RM78 million against FY 2018. Net interest income increased by RM19 million or 27% to RM91 million, contributed by higher interest income on money at call and placement with financial institutions of RM27 million; offset by the decrease in the interest income from financial assets held at fair value through other comprehensive income and interest income from loans other than recoveries of impaired loans of RM5 million and RM3 million respectively. Other operating income increased by RM67 million or 37%, mainly arising from the unrealised gain from revaluation of derivatives. Meanwhile, operating expenses increased by RM4 million or 3% to RM165 million.

The Bank's total assets decreased by 4% to RM9.2 billion, contributed by lower financial assets held at fair value through profit and loss, financial assets held at fair value through other comprehensive income and amount due from related entities of RM1.6 billion, RM513 million and RM304 million respectively, offset by higher securities under resale agreement of RM1.8 billion. The Bank's total liabilities decreased by 10% to RM7.6 billion, contributed by lower amount due to related entities and deposits from customers of RM564 million and RM287 million respectively. The Bank's total capital ratio remained strong at 35.5%, with its Tier 1 capital ratio at 35.3% as at end of 2019.

**BUSINESS OUTLOOK FOR 2020**

The Bank faces severe headwinds going into 2020 from a combination of geopolitical factors as well as the Covid-19 virus. The Malaysian economy is an open, export-orientated economy and is therefore heavily exposed to macro factors beyond its influence. This is likely to result in slower economic growth in 2020 compared to earlier years. As a consequence, the Bank's fortunes depend on how clients respond to the prevailing environment which, in turn, is dependent upon how quickly the global economy recovers particularly from the impact of Covid-19. Given the circumstances, the Bank will continue to ensure that clients' needs are met by our broad product mix and global network while at the same time managing risk.

The Bank will continue to focus on multi-national corporations, large domestic corporates, financial institutions and non-bank financial institutions, providing them with a broad mix of products and services across Corporate Banking, Wholesale Payments and Markets. With the support of our parent's strong capitalization, fortress balance sheet and proven track record in facing adverse conditions, the Bank is confident of evolving even stronger following recovery from the current environment.

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J.P. MORGAN CHASE BANK BERHAD  
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DIRECTORS' REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 accept re-appointment as auditors.

This report was approved by the Board of Directors on 14 May 2020. Signed on behalf of the Board of Directors:



ROBERT ARMOR MORRIS  
DIRECTOR



STEVEN RONALD CLAYTON  
DIRECTOR

Kuala Lumpur  
19 May 2020



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

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

|                                                                                     | <u>Note</u> | <u>2019</u><br>RM'000    | <u>2018</u><br>RM'000    |
|-------------------------------------------------------------------------------------|-------------|--------------------------|--------------------------|
| <b>ASSETS</b>                                                                       |             |                          |                          |
| Cash and short-term funds                                                           | 2           | 4,799,172                | 4,665,101                |
| Securities purchased under resale agreement                                         |             | 1,814,557                | 39,166                   |
| Financial assets held at fair value through<br>profit and loss ("FVTPL")            | 3           | 408,409                  | 2,024,152                |
| Derivative financial instruments                                                    | 4           | 587,362                  | 568,207                  |
| Financial assets held at fair value through<br>other comprehensive income ("FVOCI") | 5           | 843,453                  | 1,356,469                |
| Loans and advances                                                                  | 6           | 265,291                  | 353,149                  |
| Amount due from related parties                                                     | 7           | 153,149                  | 456,667                  |
| Statutory deposits with Bank Negara Malaysia                                        | 8           | 2                        | 2                        |
| Other assets                                                                        | 9           | 259,729                  | 87,514                   |
| Tax recoverable                                                                     |             | 31,305                   | 13,985                   |
| Deferred tax assets                                                                 | 10          | 3,051                    | 3,120                    |
| Fixed assets                                                                        | 11          | 14,914                   | 4,085                    |
| Right-of-use assets                                                                 | 12          | 9,421                    | -                        |
| <b>TOTAL ASSETS</b>                                                                 |             | <u><b>9,189,815</b></u>  | <u><b>9,571,617</b></u>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                         |             |                          |                          |
| Deposits from customers                                                             | 13          | 5,777,317                | 6,064,237                |
| Deposits and placements of banks<br>and other financial institutions                | 14          | 389,572                  | 550,791                  |
| Obligations on securities sold under<br>repurchase agreements                       |             | 51,759                   | 21,815                   |
| Derivative financial instruments                                                    | 4           | 561,192                  | 546,530                  |
| Amount due to related parties                                                       | 15          | 579,424                  | 1,143,529                |
| Other liabilities                                                                   | 16          | 286,072                  | 131,270                  |
| <b>Total liabilities</b>                                                            |             | <u><b>7,645,336</b></u>  | <u><b>8,458,172</b></u>  |
| Share capital                                                                       | 17          | 437,500                  | 127,500                  |
| Retained earnings                                                                   |             | 1,089,820                | 959,653                  |
| Reserves                                                                            | 18          | 17,159                   | 26,292                   |
| <b>Shareholder's equity</b>                                                         |             | <u><b>1,544,479</b></u>  | <u><b>1,113,445</b></u>  |
| <b>TOTAL LIABILITIES AND<br/>SHAREHOLDER'S EQUITY</b>                               |             | <u><b>9,189,815</b></u>  | <u><b>9,571,617</b></u>  |
| <b>COMMITMENTS AND<br/>CONTINGENCIES</b>                                            | 26          | <u><b>86,726,113</b></u> | <u><b>77,516,609</b></u> |

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

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

|                                                                                                                                        | <u>Note</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|----------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------------|-----------------------|
| Interest income                                                                                                                        | 19          | 163,011               | 143,215               |
| Interest expense                                                                                                                       | 20          | (71,932)              | (71,329)              |
| Net interest income                                                                                                                    |             | 91,079                | 71,886                |
| Other operating income                                                                                                                 | 21          | 247,670               | 180,304               |
| Net income                                                                                                                             |             | 338,749               | 252,190               |
| Operating expenses                                                                                                                     | 22          | (165,096)             | (160,650)             |
| Operating profit before allowances                                                                                                     |             | 173,653               | 91,540                |
| Expected credit losses on loans and advances                                                                                           | 23          | (4,334)               | (618)                 |
| Profit before taxation                                                                                                                 |             | 169,319               | 90,922                |
| Taxation                                                                                                                               | 25          | (48,253)              | (26,249)              |
| Net profit for the financial year                                                                                                      |             | 121,066               | 64,673                |
| Other comprehensive income:                                                                                                            |             |                       |                       |
| Items that will not be reclassified to profit or loss                                                                                  |             |                       |                       |
| - Employee share option scheme                                                                                                         |             | -                     | (6,100)               |
| Items that may be subsequently reclassified to profit or loss                                                                          |             |                       |                       |
| - Net unrealised (loss)/gain on revaluation of financial assets held at fair value through other comprehensive income debt instruments |             | (42)                  | 122                   |
| - Income tax relating to component of other comprehensive income                                                                       |             | 10                    | (29)                  |
| Other comprehensive (loss)/income, net of tax                                                                                          |             | (32)                  | (6,007)               |
| Total comprehensive income for the financial year                                                                                      |             | 121,034               | 58,666                |

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

**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

|                                   | Note | Share<br>capital<br>RM'000 | Fair value<br>reserve of<br>OCI<br>RM'000 | Option<br>reserve<br>RM'000 | Regulatory<br>reserve<br>RM'000 | Distributable<br>Retained<br>earnings<br>RM'000 | Total<br>RM'000 |
|-----------------------------------|------|----------------------------|-------------------------------------------|-----------------------------|---------------------------------|-------------------------------------------------|-----------------|
| At 1 January 2019                 |      | 127,500                    | 133                                       | 11,953                      | 14,206                          | 959,653                                         | 1,113,445       |
| Capital Contribution              | 17   | 310,000                    | -                                         | -                           | -                               | -                                               | 310,000         |
| Net profit for the financial year |      | -                          | -                                         | -                           | -                               | 121,066                                         | 121,066         |
| Transfer from regulatory reserve  |      | -                          | -                                         | -                           | (9,101)                         | 9,101                                           | -               |
| Other comprehensive income        |      | -                          | (32)                                      | -                           | -                               | -                                               | (32)            |
| At 31 December 2019               |      | 437,500                    | 101                                       | 11,953                      | 5,105                           | 1,089,820                                       | 1,544,479       |

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

**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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



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

**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

|                                                                                                            | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                |                       |                       |
| Profit before taxation                                                                                     | 169,319               | 90,922                |
| Adjustments for items not involving the movement of cash and cash equivalents:                             |                       |                       |
| Depreciation of fixed assets                                                                               | 3,586                 | 3,495                 |
| Amortisation of lease                                                                                      | 3,915                 | -                     |
| Loss on written-off of fixed assets                                                                        | -                     | 18                    |
| Expected credit losses on loan and advances                                                                | 4,334                 | 618                   |
| Share options income                                                                                       | -                     | (6,100)               |
| Net gain on derivatives                                                                                    | (2,865)               | (11,074)              |
| Net unrealised (gain)/loss from revaluation of financial assets held at fair value through profit and loss | (203)                 | 1,519                 |
| Net unrealised (gain)/loss in revaluation on derivatives                                                   | (27,538)              | 30,196                |
| <b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>                                                     | <b>150,548</b>        | <b>109,594</b>        |
| (Increase)/decrease in securities purchased under resale agreement                                         | (1,775,391)           | 7,610                 |
| Decrease/(increase) in financial assets held at FVTPL                                                      | 1,615,946             | (1,129,216)           |
| Decrease/(increase) in derivative financial instruments                                                    | 25,910                | (44,008)              |
| Decrease in financial assets AFS                                                                           | -                     | 148,476               |
| Decrease/(increase) in financial assets held at FVOCI                                                      | 512,984               | (1,356,376)           |
| Decrease/(increase) in loans and advances                                                                  | 83,524                | (45,487)              |
| Increase in other assets                                                                                   | (192,010)             | (33,631)              |
| (Decrease)/increase in deposits from customers                                                             | (286,920)             | 2,934,704             |
| (Decrease)/increase in deposits and placements of banks and other financial institutions                   | (161,219)             | 326,029               |
| Increase in other liabilities                                                                              | 154,802               | 24,856                |
| Increase/(decrease) in obligation on securities sold under repurchase agreement                            | 29,944                | (26,569)              |
| Decrease in amount due to related parties                                                                  | (564,105)             | (215,571)             |
| Cash (used in)/generated from operating activities                                                         | (405,987)             | 700,411               |
| Income taxes paid                                                                                          | (55,000)              | (20,384)              |
| <b>Net cash (used in)/generated from operating activities</b>                                              | <b>(460,987)</b>      | <b>680,027</b>        |

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

**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

|                                                                 | <u>Note</u> | <u>2019</u><br>RM'000          | <u>2018</u><br>RM'000          |
|-----------------------------------------------------------------|-------------|--------------------------------|--------------------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITY</b>                       |             |                                |                                |
| Purchase of fixed assets                                        |             | (14,415)                       | (1,692)                        |
| Net cash used in investing activity                             |             | <u>(14,415)</u>                | <u>(1,692)</u>                 |
| <b>CASH FLOWS FROM FINANCING ACTIVITY</b>                       |             |                                |                                |
| Capital contribution                                            |             | 310,000                        | -                              |
| Lease rental payment                                            |             | <u>(4,045)</u>                 | <u>-</u>                       |
| Net cash generated from financing activity                      |             | <u>305,955</u>                 | <u>-</u>                       |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>     |             | <b>(169,447)</b>               | <b>678,335</b>                 |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b> |             | <b><u>5,121,768</u></b>        | <b><u>4,443,433</u></b>        |
| <b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>       |             | <b><u><u>4,952,321</u></u></b> | <b><u><u>5,121,768</u></u></b> |
| <b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>                    |             |                                |                                |
| Cash and short-term funds                                       | 2           | 4,799,172                      | 4,665,101                      |
| Amount due from related parties                                 | 7           | <u>153,149</u>                 | <u>456,667</u>                 |
|                                                                 |             | <u><u>4,952,321</u></u>        | <u><u>5,121,768</u></u>        |

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

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

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

The following standards and amendments have been adopted for the first time by the Bank for the financial year beginning on 1 January 2019:

- MFRS 16 'Leases'
- Amendments to MFRS 9 'Prepayment Features with Negative Compensation'
- IC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Annual Improvements to MFRSs 2015 – 2017 Cycle

The Bank has adopted MFRS 16 for the first time in the 2019 financial statements, which resulted in changes in accounting policies. The detailed impact of change in accounting policies are set out in Note 34. Other than that, the adoption of other amendments to published standards above did not have any impact on the current period or any prior period and is not likely to affect future periods of the financial statements of the Bank.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

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

**Adoption of MFRS 16 "Leases"**

The Bank has applied MFRS 16 with the date of initial application of 1 January 2019 by applying the simplified retrospective transition method.

Under the simplified retrospective transition method, the 2018 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Bank is a lessee were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 'Leases' and IC Interpretation 4 'Determining whether an Arrangement Contains a Lease'.

**As permitted by the Standard, the Bank has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Bank relied on its assessment made applying MFRS 117 and IC Interpretation 4.**

**B INCOME RECOGNITION**

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

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

Interest income on financial assets at amortised cost and financial assets at FVOCI is calculated using the effective interest method and is recognised in the income statement as part of interest income.

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**C RECOGNITION OF FEES AND OTHER INCOME**

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

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

**D REPURCHASE AGREEMENTS**

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

**E FINANCIAL ASSETS AND LIABILITIES**

**(a) Classification and measurement**

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

**(b) Recognition and derecognition**

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

**(c) Measurement at initial recognition**

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVTPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

**(d) Subsequent measurement**

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

**(i) Amortised cost**

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

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

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

**(ii) Fair value through other comprehensive income ("FVOCI")**

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



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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

(d) Subsequent measurement (continued)

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

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

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

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

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

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

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

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



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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

**(f) Write-off**

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

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

**(g) Determining fair value**

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

**(h) Regulatory reserve requirements**

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

**F DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**G OFFSETTING FINANCIAL INSTRUMENTS**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the even of default, insolvency or bankruptcy.

**H IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

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

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.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**I FIXED ASSETS**

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

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

The principal useful lives used are as follows:

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

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

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

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

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

From 1 January 2019, leased assets are presented as a separate line item in Notes to the statement of financial position.

Until 31 December 2019, leased assets (including leasehold land) under lease arrangement classified as finance lease is amortised in equal instalments over the period of the respective leases that range from 1 to 9 years.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**J CURRENCY TRANSLATIONS**

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as FVOCI are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in income statement, and other changes in the carrying amount are recognised in other comprehensive income.

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

**K 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 financial assets held at fair value through other comprehensive income, 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.



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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**L EMPLOYEE BENEFITS**

*Short-term employee benefits*

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

*Defined contribution plan*

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

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

*Equity compensation benefits*

Staff costs include equity compensation expenses arising from the grant of stock-based awards to the employees of the Bank which are equity-settled. The details of the stock-based awards available are described in Note 32.

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

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

**M 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.

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

(Incorporated in Malaysia)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**N FINANCIAL GUARANTEE CONTRACTS**

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

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value.

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

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

**O CASH AND CASH EQUIVALENTS**

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

**P LEASES**

**Accounting policies applied from 1 January 2019**

From 1 January 2019, leases are recognised as right-of-use ('ROU') asset and a corresponding liability at the date on which the leased asset is available for use by the Bank (i.e. the commencement date).

*ROU Asset*

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date plus any initial direct costs incurred, less any lease incentives received. The ROU asset is subsequently amortized on a straight-line basis from the commencement date to the earlier of the end of the useful life of the ROU asset or the lease term. The estimated useful life of the ROU asset is determined on the same basis as those of the property and equipment. In addition, the ROU asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.



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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**P LEASES (CONTINUED)**

*Lease Liability*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Bank's incremental borrowing rate. The lease liability is measured at amortized cost using a constant periodic rate of interest. It is remeasured when there is a change in an index or rate, or if the Bank changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in earnings if the carrying amount of the ROU asset has been reduced to zero.

The Bank presents the lease liabilities as a separate line item in Note to the statement of financial position. Interest expense on the lease liability is presented within the operating expense in the statement of comprehensive income.

*Short-term leases and leases of low-value*

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment, office furniture and auto equipment. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line bases as an expense in profit or loss.

**Accounting policies applied until 31 December 2018**

In the comparative period, as a lessee, the Bank classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the Bank was required to make, excluding any contingent rent.

Assets held under the other leases were classified as operating leases and were not recognized in the Bank's statement of financial position. Payments made under operating leases were recognized in earnings on a straight-line basis over the lease term. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**Q CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

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

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

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**P CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**(b) Expected credit losses ('ECL') on loans and advances**

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

A number of significant judgements are also required in measuring ECL, such as:

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

**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>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|----------------------------------------------------------------|-----------------------|-----------------------|
| Cash and balances with banks and other financial institutions  | 34,486                | 35,230                |
| Money at call and deposit placements maturing within one month | 4,764,686             | 4,629,871             |
|                                                                | <u>4,799,172</u>      | <u>4,665,101</u>      |

**3 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS**

|                                          | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|------------------------------------------|-----------------------|-----------------------|
| <u>Money market instruments</u>          |                       |                       |
| Malaysian Government Securities          | 198,330               | 1,223,825             |
| Bank Negara Interbank Bills              | -                     | 397,942               |
| Malaysian Treasury Bills                 | 4,926                 | 4,943                 |
| Malaysian Government Investment Issuance | 107,744               | 192,568               |
| Malaysian Government Guaranteed Bonds    | 91,107                | -                     |
| <u>Unquoted securities</u>               |                       |                       |
| Private debt securities                  | -                     | 197,344               |
| Unquoted shares                          | 6,302                 | 7,530                 |
|                                          | <u>408,409</u>        | <u>2,024,152</u>      |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**4 DERIVATIVE FINANCIAL INSTRUMENTS**

|                                       | Notional<br>amount<br>RM'000 | Assets<br>RM'000 | Fair values<br>Liabilities<br>RM'000 |
|---------------------------------------|------------------------------|------------------|--------------------------------------|
| At 31 December 2019                   |                              |                  |                                      |
| <u>Foreign exchange derivatives</u>   |                              |                  |                                      |
| Currency forwards                     | 31,068,092                   | 222,018          | (262,973)                            |
| Cross-currency interest rate swaps    | 4,226,514                    | 78,369           | (84,944)                             |
| Currency options                      | 132,446                      | 111              | (1,172)                              |
|                                       | <u>35,427,052</u>            | <u>300,498</u>   | <u>(349,089)</u>                     |
| <u>Interest rate derivatives</u>      |                              |                  |                                      |
| Interest rate swaps                   | 46,537,324                   | 228,170          | (164,394)                            |
| <u>Credit related derivatives</u>     |                              |                  |                                      |
| Credit default swaps                  | 352,579                      | 7,140            | (1,146)                              |
| <u>Equity related derivatives</u>     |                              |                  |                                      |
| Equity options                        | 2,355,736                    | 51,554           | (46,563)                             |
| Total derivative assets/(liabilities) | <u>84,672,691</u>            | <u>587,362</u>   | <u>(561,192)</u>                     |



## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 4 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**5 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

|                                 | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------------------------------|-----------------------|-----------------------|
| <u>Money market instruments</u> |                       |                       |
| Bank Negara Interbank Bills     | 745,932               | 1,356,469             |
| Malaysian Treasury Bills        | 97,521                | -                     |
|                                 | <u>843,453</u>        | <u>1,356,469</u>      |

**6 LOANS AND ADVANCES**

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

|                                                           |                |                |
|-----------------------------------------------------------|----------------|----------------|
| Overdrafts                                                | 50,814         | 27,847         |
| Housing loans                                             | 579            | 600            |
| Staff loans                                               | 572            | 652            |
| Revolving credits                                         | 180,366        | 218,155        |
| Trade finance                                             | 33,764         | 106,099        |
|                                                           | <u>266,095</u> | <u>353,353</u> |
| Less: Expected credit loss ("ECL") on loans and advances: |                |                |
| - Credit impaired                                         | (24)           | (23)           |
| - Not credit impaired                                     | (780)          | (181)          |
|                                                           | <u>265,291</u> | <u>353,149</u> |
| Total net loans and advances                              | <u>265,291</u> | <u>353,149</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**6 LOANS AND ADVANCES (CONTINUED)**

|                                                                                     | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|-------------------------------------------------------------------------------------|-----------------------|-----------------------|
| (ii) The maturity structure of loans and advances are as follows:                   |                       |                       |
| Maturity within                                                                     |                       |                       |
| - one year                                                                          | 265,107               | 352,255               |
| - one year to three years                                                           | 58                    | 46                    |
| - three years to five years                                                         | 255                   | 169                   |
| - over five years                                                                   | 675                   | 883                   |
|                                                                                     | <u>266,095</u>        | <u>353,353</u>        |
| (iii) Loans and advances analysed by type of customers are as follows:              |                       |                       |
| Domestic business enterprises                                                       | 260,463               | 332,573               |
| Individuals                                                                         | 1,151                 | 1,252                 |
| Foreign entities                                                                    | 4,481                 | 19,528                |
|                                                                                     | <u>266,095</u>        | <u>353,353</u>        |
| (iv) Loans and advances analysed by interest sensitivity are as follows:            |                       |                       |
| Fixed rate                                                                          |                       |                       |
| - Housing loans                                                                     | 1,151                 | 1,252                 |
| Variable rate                                                                       |                       |                       |
| - Cost-plus                                                                         | 264,944               | 352,101               |
|                                                                                     | <u>266,095</u>        | <u>353,353</u>        |
| (v) Loans and advances analysed by their economic purpose are as follows:           |                       |                       |
| Purchase of landed properties                                                       | 1,151                 | 1,252                 |
| Working capital                                                                     | 264,944               | 352,101               |
|                                                                                     | <u>266,095</u>        | <u>353,353</u>        |
| (vi) Loans and advances analysed by their geographical distribution are as follows: |                       |                       |
| In Malaysia                                                                         | 261,614               | 333,825               |
| Other countries                                                                     | 4,481                 | 19,528                |
|                                                                                     | <u>266,095</u>        | <u>353,353</u>        |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**6 LOANS AND ADVANCES (CONTINUED)**

|                                                                                | 2019<br>RM'000 | 2018<br>RM'000 |
|--------------------------------------------------------------------------------|----------------|----------------|
| (vii) Loans and advances analysed by measurement basis are as follows:         |                |                |
| Amortised cost                                                                 | 266,095        | 353,353        |
| (viii) Impaired loans                                                          |                |                |
| (a) Movements in impaired loans and advances are as follows:                   |                |                |
| At 1 January                                                                   | 66             | 111            |
| Classified as impaired during the financial year                               | 33             | 10             |
| Amount recovered                                                               | (7)            | (55)           |
| At 31 December                                                                 | 92             | 66             |
| ECL – credit impaired                                                          | (24)           | (23)           |
| Net impaired loans and advances                                                | 68             | 43             |
| Ratio of net impaired loans and advances to net loans and advances             | 0.03%          | 0.01%          |
| (b) Impaired loans analysed by their economic purpose are as follows:          |                |                |
| Purchase of landed property                                                    | 92             | 66             |
| (c) Impaired loans analysed by their geographical distribution are as follows: |                |                |
| Malaysia                                                                       | 92             | 66             |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**7 AMOUNT DUE FROM RELATED PARTIES**

|                   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|-------------------|-----------------------|-----------------------|
| Current deposits  | 53,262                | 92,534                |
| Other receivables | 99,887                | 364,133               |
|                   | <u>153,149</u>        | <u>456,667</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 2019, the Bank has RM2,000 (2018: RM2,000) statutory deposits with BNM.

**9 OTHER ASSETS**

|                          | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--------------------------|-----------------------|-----------------------|
| Other receivables        | 258,441               | 77,844                |
| Deposits and prepayments | 1,288                 | 9,670                 |
|                          | <u>259,729</u>        | <u>87,514</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>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|------------------------------------------------------------------------|-----------------------|-----------------------|
| Excess of depreciation over capital allowances                         | (1,040)               | (98)                  |
| Financial assets held at fair value through other comprehensive income | (31)                  | (41)                  |
| Other liabilities                                                      | 4,122                 | 3,259                 |
| Deferred tax assets                                                    | <u>3,051</u>          | <u>3,120</u>          |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**10 DEFERRED TAX ASSETS (CONTINUED)**

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

|                                                     | Excess of<br>depreciation<br>over capital<br><u>allowances</u><br>RM'000 | Fair value<br>through other<br>comprehensive<br><u>income</u><br>RM'000 | Other<br><u>liabilities</u><br>RM'000 | <u>Total</u><br>RM'000 |
|-----------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------|------------------------|
| <b>2019</b>                                         |                                                                          |                                                                         |                                       |                        |
| At 1 January                                        | (98)                                                                     | (41)                                                                    | 3,259                                 | 3,120                  |
| Credited/(Debited) to Income<br>Statement (Note 25) | (942)                                                                    | -                                                                       | 863                                   | (79)                   |
| Charged to reserve                                  | -                                                                        | 10                                                                      | -                                     | 10                     |
| At 31 December                                      | <u>(1,040)</u>                                                           | <u>(31)</u>                                                             | <u>4,122</u>                          | <u>3,051</u>           |
|                                                     |                                                                          |                                                                         |                                       |                        |
|                                                     | Excess of<br>depreciation<br>over capital<br><u>allowances</u><br>RM'000 | Financial<br>assets<br>available-<br>for-sale<br>RM'000                 | Other<br><u>liabilities</u><br>RM'000 | <u>Total</u><br>RM'000 |
| <b>2018</b>                                         |                                                                          |                                                                         |                                       |                        |
| At 1 January                                        | (60)                                                                     | (12)                                                                    | 3,182                                 | 3,110                  |
| Credited/(Debited) to Income<br>Statement (Note 25) | (38)                                                                     | -                                                                       | 77                                    | 39                     |
| Charged to reserve                                  | -                                                                        | (29)                                                                    | -                                     | (29)                   |
| At 31 December                                      | <u>(98)</u>                                                              | <u>(41)</u>                                                             | <u>3,259</u>                          | <u>3,120</u>           |



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**11 FIXED ASSETS**

|                                 | <u>Bank<br/>premises</u><br>RM'000 | <u>Computers</u><br>RM'000 | <u>Total</u><br>RM'000 |
|---------------------------------|------------------------------------|----------------------------|------------------------|
| <u>2019</u>                     |                                    |                            |                        |
| <u>Cost</u>                     |                                    |                            |                        |
| At 1 January                    | 16,945                             | 19,551                     | 36,496                 |
| Additions                       | 902                                | 13,513                     | 14,415                 |
| Disposals and write-off         | (208)                              | (1,582)                    | (1,790)                |
| At 31 December                  | <u>17,639</u>                      | <u>31,482</u>              | <u>49,121</u>          |
| <u>Accumulated depreciation</u> |                                    |                            |                        |
| At 1 January                    | 15,351                             | 17,060                     | 32,411                 |
| Charge for the financial year   | 1,092                              | 2,494                      | 3,586                  |
| Disposals and write-off         | (208)                              | (1,582)                    | (1,790)                |
| At 31 December                  | <u>16,235</u>                      | <u>17,972</u>              | <u>34,207</u>          |
| <u>Net book value</u>           |                                    |                            |                        |
| At 31 December                  | <u>1,404</u>                       | <u>13,510</u>              | <u>14,914</u>          |
|                                 | <u>Bank<br/>premises</u><br>RM'000 | <u>Computers</u><br>RM'000 | <u>Total</u><br>RM'000 |
| <u>2018</u>                     |                                    |                            |                        |
| <u>Cost</u>                     |                                    |                            |                        |
| At 1 January                    | 16,939                             | 18,462                     | 35,401                 |
| Additions                       | 6                                  | 1,686                      | 1,692                  |
| Disposals and write-off         | -                                  | (597)                      | (597)                  |
| At 31 December                  | <u>16,945</u>                      | <u>19,551</u>              | <u>36,496</u>          |
| <u>Accumulated depreciation</u> |                                    |                            |                        |
| At 1 January                    | 12,979                             | 16,516                     | 29,495                 |
| Charge for the financial year   | 2,372                              | 1,123                      | 3,495                  |
| Disposals and write-off         | -                                  | (579)                      | (579)                  |
| At 31 December                  | <u>15,351</u>                      | <u>17,060</u>              | <u>32,411</u>          |
| <u>Net book value</u>           |                                    |                            |                        |
| At 31 December                  | <u>1,594</u>                       | <u>2,491</u>               | <u>4,085</u>           |



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**12 RIGHTS-OF-USE ASSETS**

|                                                                  | <u>2019</u><br>RM'000 |
|------------------------------------------------------------------|-----------------------|
| Balance as at 1 January, by class of underlying assets:          |                       |
| Properties                                                       | 9,530                 |
| Additions to the ROU assets during the financial year            | 3,720                 |
| Remeasurements to ROU assets for the period                      | 86                    |
| Depreciation charge of ROU assets by class of underlying assets: |                       |
| Properties                                                       | (3,915)               |
| Balance as at 31 December                                        | <u>9,421</u>          |
| Interest expense on lease liabilities                            | 224                   |
| Total cash outflow for leases                                    | 4,045                 |
|                                                                  | <u>4,269</u>          |

Lease Liabilities Maturity Analysis

|                                                                             | <u>2019</u><br>RM'000 |
|-----------------------------------------------------------------------------|-----------------------|
| Lease liabilities – Maturity Analysis – Contractual Undiscounted Cash Flows |                       |
| Less than one year                                                          | 4,368                 |
| One to five years                                                           | 5,298                 |
| Total undiscounted lease liabilities at 31 December 2019                    | <u><u>9,666</u></u>   |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**13 DEPOSITS FROM CUSTOMERS**

|                                                                                | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--------------------------------------------------------------------------------|-----------------------|-----------------------|
| (i) Deposits from customers analysed by type of deposits are as follows:       |                       |                       |
| Demand deposits                                                                | 5,748,406             | 6,036,321             |
| Fixed deposits                                                                 | 28,911                | 27,916                |
|                                                                                | <u>5,777,317</u>      | <u>6,064,237</u>      |
| <br>Maturity structure of fixed deposits are as follows:                       |                       |                       |
| Due within six months                                                          | <u>28,911</u>         | <u>27,916</u>         |
| <br>(ii) Deposits from customers analysed by type of customers are as follows: |                       |                       |
| Business enterprises                                                           | 5,777,073             | 6,063,882             |
| Others                                                                         | 244                   | 355                   |
|                                                                                | <u>5,777,317</u>      | <u>6,064,237</u>      |

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

|                              |                |                |
|------------------------------|----------------|----------------|
| Licensed banks               | 254,593        | 549,063        |
| Other financial institutions | 134,979        | 1,728          |
|                              | <u>389,572</u> | <u>550,791</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**15 AMOUNT DUE TO RELATED PARTIES**

|                  | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|------------------|-----------------------|-----------------------|
| Current deposits | 211,894               | 106,265               |
| Fixed deposits   | 352,770               | 1,018,320             |
| Other payables   | 14,760                | 18,944                |
|                  | <u>579,424</u>        | <u>1,143,529</u>      |

**16 OTHER LIABILITIES**

|                                                               |                |                |
|---------------------------------------------------------------|----------------|----------------|
| Other payables                                                | 255,808        | 116,089        |
| Accruals and charges                                          | 16,274         | 14,298         |
| Lease liabilities                                             | 9,371          | -              |
| Expected credit losses – off-balance sheet lending commitment | 4,619          | 883            |
|                                                               | <u>286,072</u> | <u>131,270</u> |

**17 SHARE CAPITAL**

|                        |                |                |
|------------------------|----------------|----------------|
| Issued and fully paid: |                |                |
| At 1 January           | 127,500        | 127,500        |
| Capital Contribution   | 310,000        | -              |
|                        | <u>437,500</u> | <u>127,500</u> |
| At 31 December         |                |                |

The Bank has on 11 June 2019 issued and fully paid-up 310,000,000 new ordinary shares in capital at an issue price of RM1.00 each for cash to the parent company, J.P. Morgan International Finance Ltd. This increase in capital contribution is qualified as Common Equity Tier-1 for the purpose of capital adequacy requirements.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**18 RESERVES**

|                                                                         | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|-------------------------------------------------------------------------|-----------------------|-----------------------|
| Option reserve                                                          | 11,953                | 11,953                |
| Regulatory reserve                                                      | 5,105                 | 14,206                |
| Fair value reserve – Financial asset through other comprehensive income | 101                   | 133                   |
|                                                                         | <u>17,159</u>         | <u>26,292</u>         |

- (i) The option reserve is maintained in compliance with MFRS 2 - Share-based payment.
- (ii) Regulatory reserve of the Bank is maintained as an additional credit risk absorbent to ensure robustness on the loan impairment assessment methodology.
- (iii) Movement of the fair value reserve of financial assets held at fair value through other comprehensive income is as follows:

|                                                                                                                                            | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| At 1 January                                                                                                                               | 133                   | 40                    |
| - Net unrealised (loss)/gain on revaluation of financial assets measured at fair value through other comprehensive income debt instruments | (42)                  | 122                   |
| - Income tax relating to component of other comprehensive income                                                                           | 10                    | (29)                  |
| At 31 December                                                                                                                             | <u>101</u>            | <u>133</u>            |

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****19 INTEREST INCOME**

|                                                                        | 2019<br>RM'000 | 2018<br>RM'000 |
|------------------------------------------------------------------------|----------------|----------------|
| Loans and advances                                                     |                |                |
| - Interest income other than recoveries from impaired loans            | 11,081         | 13,805         |
| - Recoveries from impaired loans                                       | 6              | 11             |
| Money at call and placements with financial institutions               | 126,133        | 99,085         |
| Financial assets held at fair value through other comprehensive income | 25,791         | 30,314         |
|                                                                        | <u>163,011</u> | <u>143,215</u> |

**20 INTEREST EXPENSE**

|                                                                   |               |               |
|-------------------------------------------------------------------|---------------|---------------|
| Deposits from customers                                           | 63,734        | 59,530        |
| Deposits and placements of banks and other financial institutions | 8,198         | 11,799        |
|                                                                   | <u>71,932</u> | <u>71,329</u> |

**21 OTHER OPERATING INCOME**

|                                                                                                              |                |                |
|--------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Fee income:                                                                                                  |                |                |
| Service charges and fees                                                                                     | 4,301          | 4,643          |
| Guarantee fees                                                                                               | 3,888          | 3,622          |
|                                                                                                              | <u>8,189</u>   | <u>8,265</u>   |
| Net income from securities:                                                                                  |                |                |
| - Net gain from sale of financial assets held at fair value through profit and loss                          | 32,630         | 5,017          |
| - Net unrealised gain/(loss) from revaluation of financial assets held at fair value through profit and loss | 203            | (1,519)        |
| - Interest income from financial assets held at fair value through profit and loss                           | 35,685         | 43,974         |
| Derivatives:                                                                                                 |                |                |
| - Net gain on derivatives                                                                                    | 2,865          | 11,074         |
| - Unrealised gain/(loss) from revaluation of derivatives                                                     | 27,538         | (30,196)       |
| Other income:                                                                                                |                |                |
| Foreign exchange gain                                                                                        | 61,777         | 73,885         |
| Management and attribution income                                                                            | 78,738         | 69,714         |
| Loss on written-off of fixed assets                                                                          | -              | (18)           |
| Other non-operating income                                                                                   | 45             | 108            |
|                                                                                                              | <u>247,670</u> | <u>180,304</u> |



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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****22 OPERATING EXPENSES**

|                                                                     | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------------------------------------------------------------------|-----------------------|-----------------------|
| (a) Operating expenses                                              |                       |                       |
| Personnel costs:                                                    |                       |                       |
| - Wages, salaries and bonuses                                       | 46,046                | 41,870                |
| - Defined contribution retirement plan                              | 6,418                 | 5,793                 |
| - Other employee benefits                                           | 7,517                 | 10,005                |
|                                                                     | 59,981                | 57,668                |
| Establishment costs:                                                |                       |                       |
| - Equipment and fittings repairs, maintenance and rental            | 1,521                 | 1,648                 |
| - Rental of premise                                                 | -                     | 3,620                 |
| - Amortisation of lease                                             | 3,915                 | -                     |
| - Depreciation of fixed assets                                      | 3,586                 | 3,495                 |
| - Utilities                                                         | 878                   | 820                   |
| - Others                                                            | 1,198                 | 1,027                 |
|                                                                     | 11,098                | 10,610                |
| Marketing expenses                                                  | 1,949                 | 1,499                 |
| Administration and general expenses:                                |                       |                       |
| - Management and attribution fees paid                              | 77,077                | 75,406                |
| - Banking and corporate expenses                                    | 6,986                 | 8,990                 |
| - Office supplies, communication expenses and insurance             | 5,147                 | 4,360                 |
| - Postage and shipping charges                                      | 17                    | 83                    |
| - Other general expenses                                            | 2,841                 | 2,034                 |
|                                                                     | 92,068                | 90,873                |
|                                                                     | <u>165,096</u>        | <u>160,650</u>        |
| The above expenditure includes the following statutory disclosures: |                       |                       |
| Directors' remuneration (Note 24)                                   | 5,644                 | 5,390                 |
| Hire of equipment                                                   | 284                   | 465                   |
| Auditors' remuneration:                                             |                       |                       |
| - audit fees                                                        | 374                   | 358                   |
| - non-audit fees                                                    | 58                    | 146                   |



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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****22 OPERATING EXPENSES (CONTINUED)**

|                                                                           | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------------------------------------------------------------------------|-----------------------|-----------------------|
| (a) Management and attribution fees breakdown<br>by geographical location |                       |                       |
| Singapore                                                                 | 25,089                | 20,761                |
| United States of America ("USA")                                          | 24,909                | 29,939                |
| Hong Kong                                                                 | 13,203                | 13,765                |
| United Kingdom                                                            | 7,072                 | 5,318                 |
| China                                                                     | 1,009                 | 527                   |
| Others                                                                    | 5,795                 | 5,096                 |
|                                                                           | <u>77,077</u>         | <u>75,406</u>         |
| Management and attribution fees breakdown<br>by type of services          |                       |                       |
| Information Technology Related Support                                    | 21,139                | 20,704                |
| Transaction Management Services                                           | 16,937                | 8,426                 |
| Sales and Marketing Attribution                                           | 10,356                | 7,803                 |
| Operational Services Support                                              | 4,680                 | 4,529                 |
| Treasury Support                                                          | 3,226                 | 2,989                 |
| Finance Support                                                           | 3,032                 | 4,085                 |
| Wholesale Client Onboarding                                               | 2,820                 | 3,259                 |
| Credit Portfolio Group                                                    | 2,689                 | 2,896                 |
| Compliance                                                                | 2,642                 | 2,657                 |
| Commercial Bank Support                                                   | 1,526                 | 1,257                 |
| Others                                                                    | 8,030                 | 16,801                |
|                                                                           | <u>77,077</u>         | <u>75,406</u>         |

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****23 EXPECTED CREDIT LOSSES/ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES**

|                                                                    | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|--------------------------------------------------------------------|-----------------------|-----------------------|
| Expected credit losses/Allowance for losses on loans and advances: |                       |                       |
| ECL – off-balance sheet lending commitment                         | (3,737)               | (537)                 |
| ECL – loans and advances                                           | (599)                 | (80)                  |
| Loans and advances recovered/(written off)                         | 2                     | (1)                   |
|                                                                    | <u>(4,334)</u>        | <u>(618)</u>          |

**24 DIRECTORS' REMUNERATION**Chief Executive Officer:

|                                          |              |              |
|------------------------------------------|--------------|--------------|
| - Salary, bonuses and other remuneration | 4,522        | 4,402        |
| - Defined contribution retirement plan   | 530          | 518          |
| - Benefits-in-kind                       | 35           | 34           |
|                                          | <u>5,087</u> | <u>4,954</u> |

Executive Director:

|                                               |          |          |
|-----------------------------------------------|----------|----------|
| - Fees/allowances                             |          |          |
| Terrence Murphy (appointed on 8 January 2019) | -        | -        |
|                                               | <u>-</u> | <u>-</u> |

Non-executive Directors:

|                                                   |            |            |
|---------------------------------------------------|------------|------------|
| - Fees/allowances                                 |            |            |
| Faisal Bin Ismail                                 | 129        | 156        |
| Omar bin Malek Ali Merican                        | 129        | 131        |
| Robert Armor Morris                               | 141        | 120        |
| Fauziah Binti Hisham (resigned on 7 March 2018)   | -          | 29         |
| Osman Tarique Morad (appointed on 2 January 2019) | 158        | -          |
|                                                   | <u>557</u> | <u>436</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**25 TAXATION**

|                                                                                              | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|----------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| (a) Tax expense for the financial year                                                       |                       |                       |
| Current year tax                                                                             |                       |                       |
| - Malaysian income tax                                                                       | 41,395                | 25,316                |
| - Under provision in respect of prior year                                                   | 6,779                 | 972                   |
| Deferred tax                                                                                 |                       |                       |
| - Origination and reversal of temporary differences                                          | 687                   | (37)                  |
| - Over provision in respect of prior years                                                   | (608)                 | (2)                   |
|                                                                                              | <u>48,253</u>         | <u>26,249</u>         |
| (b) Numerical reconciliation of income tax expense                                           |                       |                       |
| The explanation on the relationship between tax expense and profit before tax is as follows: |                       |                       |
|                                                                                              | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
| Profit before taxation                                                                       | <u>169,319</u>        | <u>90,922</u>         |
| Tax calculated at a tax rate of 24%                                                          | 40,636                | 21,821                |
| Expenses not deductible for tax purposes                                                     | 1,446                 | 3,458                 |
| Under provision in respect of prior year                                                     | 6,779                 | 972                   |
| Over provision of temporary differences in prior years                                       | (608)                 | (2)                   |
| Tax expense                                                                                  | <u>48,253</u>         | <u>26,249</u>         |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**26 COMMITMENTS AND CONTINGENCIES**

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

The commitments and contingencies constitute the following:

|                                                                                                                                                                                                            | <u>2019</u><br>Principal<br>amount<br>RM'000 | <u>2018</u><br>Principal<br>amount<br>RM'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| <u>Credit-related</u>                                                                                                                                                                                      |                                              |                                              |
| Direct credit substitutes                                                                                                                                                                                  | 177,275                                      | 479,113                                      |
| Transaction-related contingent items                                                                                                                                                                       | 74,006                                       | 69,002                                       |
| Short-term self-liquidating trade related contingencies                                                                                                                                                    | 14,826                                       | 1,382                                        |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of:                                                                                                       |                                              |                                              |
| - over one year                                                                                                                                                                                            | 172,217                                      | 174,117                                      |
| 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 | 1,615,098                                    | 1,117,244                                    |
| <u>Treasury-related</u>                                                                                                                                                                                    |                                              |                                              |
| Foreign exchange related contracts:                                                                                                                                                                        |                                              |                                              |
| - less than one year                                                                                                                                                                                       | 31,745,761                                   | 33,639,324                                   |
| - one year to less than five years                                                                                                                                                                         | 3,558,501                                    | 3,461,257                                    |
| - more than five years                                                                                                                                                                                     | 122,790                                      | 206,850                                      |
| Interest rate related contracts:                                                                                                                                                                           |                                              |                                              |
| - less than one year                                                                                                                                                                                       | 9,624,026                                    | 5,588,611                                    |
| - one year to less than five years                                                                                                                                                                         | 34,587,526                                   | 27,887,921                                   |
| - more than five years                                                                                                                                                                                     | 2,325,772                                    | 1,049,595                                    |
| Credit related contracts:                                                                                                                                                                                  |                                              |                                              |
| - less than one year                                                                                                                                                                                       | 31,150                                       | -                                            |
| - one year to less than five years                                                                                                                                                                         | 321,429                                      | 374,346                                      |
| Equity related contracts:                                                                                                                                                                                  |                                              |                                              |
| - less than one year                                                                                                                                                                                       | 1,556,590                                    | 2,346,030                                    |
| - one year to less than five years                                                                                                                                                                         | 799,146                                      | 1,121,817                                    |
|                                                                                                                                                                                                            | <u>86,726,113</u>                            | <u>77,516,609</u>                            |



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

| <u>Name of related parties</u>                | <u>Relationship</u>                                            |
|-----------------------------------------------|----------------------------------------------------------------|
| JPMorgan Chase & Co.                          | Ultimate holding corporation                                   |
| JPMorgan Chase Bank, N.A., New York           | Subsidiary of ultimate holding corporation ("the Head Office") |
| JPMorgan Chase Bank, N.A., Hong Kong          | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Labuan             | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Frankfurt          | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., London             | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Singapore          | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Chicago            | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Tokyo              | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Australia          | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Korea              | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Philippines        | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Bangkok            | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., Indonesia          | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., India              | Branch of the Head Office                                      |
| JPMorgan Chase Bank, N.A., China              | Branch of the Head Office                                      |
| J.P. Morgan Securities LLC                    | Subsidiary of ultimate holding corporation                     |
| J.P. Morgan Securities Asia Private Limited   | Subsidiary of ultimate holding corporation                     |
| JPMorgan Securities (Malaysia) Sdn Bhd        | Subsidiary of ultimate holding corporation                     |
| J.P. Morgan Services (Malaysia) Sdn Bhd       | Subsidiary of ultimate holding corporation                     |
| J.P. Morgan Securities (Asia Pacific) Limited | Subsidiary of ultimate holding corporation                     |
| JPMorgan Securities Japan Co., Ltd.           | Subsidiary of ultimate holding corporation                     |
| JPMorgan Securities Plc                       | Subsidiary of ultimate holding corporation                     |
| J.P. Morgan Malaysia Ltd.                     | Subsidiary of ultimate holding corporation                     |
| J.P. Morgan (S.E.A.) Limited                  | Subsidiary of ultimate holding corporation                     |
| J.P. Morgan Ventures Energy Corporation       | 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.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

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

|                                                            | 2019             |                          | 2018             |                          |
|------------------------------------------------------------|------------------|--------------------------|------------------|--------------------------|
|                                                            | Related entities | Key management personnel | Related entities | Key management personnel |
|                                                            | RM'000           | RM'000                   | RM'000           | RM'000                   |
| <b>Significant related party transactions of the Bank:</b> |                  |                          |                  |                          |
| <u>Income</u>                                              |                  |                          |                  |                          |
| Interest on current deposit                                | 1,415            | -                        | 2,718            | -                        |
| Interest on fixed deposit                                  | 2                | -                        | -                | -                        |
| Management and attributions fees received                  | 78,738           | -                        | 69,714           | -                        |
|                                                            | <u>153,149</u>   | <u>-</u>                 | <u>72,432</u>    | <u>-</u>                 |
| <u>Expense</u>                                             |                  |                          |                  |                          |
| Interest on current deposit                                | 1,673            | -                        | 1,766            | -                        |
| Interest on fixed deposit                                  | 1,766            | -                        | 2,356            | -                        |
| Rental recovery                                            | (1,155)          | -                        | (1,112)          | -                        |
| Nostro account charges                                     | 71               | -                        | 61               | -                        |
| Management and attribution fees paid                       | 77,077           | -                        | 75,406           | -                        |
|                                                            | <u>77,077</u>    | <u>-</u>                 | <u>78,585</u>    | <u>-</u>                 |
| <b>Related party balances of the Bank:</b>                 |                  |                          |                  |                          |
| <u>Amount due from</u>                                     |                  |                          |                  |                          |
| Current deposit                                            | 53,262           | -                        | 92,534           | -                        |
| Other receivables                                          | 99,887           | -                        | 364,133          | -                        |
|                                                            | <u>153,149</u>   | <u>-</u>                 | <u>456,667</u>   | <u>-</u>                 |
| <u>Amount due to</u>                                       |                  |                          |                  |                          |
| Current deposit                                            | 211,894          | -                        | 106,265          | -                        |
| Fixed deposit                                              | 352,770          | -                        | 1,018,320        | -                        |
| Other payables                                             | 14,760           | -                        | 18,944           | -                        |
|                                                            | <u>579,424</u>   | <u>-</u>                 | <u>1,143,529</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.

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

Interest rates on deposits were at normal commercial rates.

Key management compensation:

|                                                                                             | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Short-term employee benefits                                                                | 14,209                | 13,195                |
|                                                                                             | Unit                  | Unit                  |
| Shares, restricted stock units and share options balance<br>of ultimate holding corporation | 19,395                | 10,969                |

Included in the above is the Executive Directors' compensation which is disclosed in Note 24. The shares, restricted stock units and share options are granted on the same terms and conditions as those offered to other employees of the Bank.

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>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Outstanding credit exposures with connected parties                                                           | 276,326               | 174,914               |
| Percentage of outstanding credit exposures<br>to connected parties as proportion of total credit<br>exposures | 8.81%                 | 5.07%                 |
| Percentage of outstanding credit exposures<br>with connected parties which is non-performing<br>or in default | 0%                    | 0%                    |

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****28 NON-CANCELLABLE OPERATING LEASE COMMITMENTS**

The Bank has lease commitments in respect of vehicles, 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>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------------------------------------------------|-----------------------|-----------------------|
| Not later than one year                           | 104                   | 106                   |
| Later than one year and not later than five years | 201                   | 308                   |

**29 CAPITAL ADEQUACY**

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

The capital adequacy ratios of the Bank are as follows:

|                                                                   | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|-------------------------------------------------------------------|-----------------------|-----------------------|
| <u>Tier-I capital</u>                                             |                       |                       |
| Paid-up share capital                                             | 437,500               | 127,500               |
| Retained earnings                                                 | 1,089,820             | 959,653               |
| Fair value reserve through other comprehensive income             | 101                   | 133                   |
| Option reserve                                                    | 11,953                | 11,953                |
|                                                                   | <u>1,539,374</u>      | <u>1,099,239</u>      |
| Deferred tax assets                                               | (3,051)               | (3,120)               |
| Financial Assets at fair value through other comprehensive income | (56)                  | (73)                  |
| Total Tier I capital                                              | <u>1,536,267</u>      | <u>1,096,046</u>      |
| <u>Tier-II capital</u>                                            |                       |                       |
| Regulatory reserve                                                | 5,105                 | 14,206                |
| ECL not credit impaired                                           | 780                   | 181                   |
| Total Tier II capital                                             | <u>5,885</u>          | <u>14,387</u>         |
| Total capital                                                     | <u>1,542,152</u>      | <u>1,110,433</u>      |
| Common Equity Tier 1 capital ratio                                | 35.328%               | 23.174%               |
| Tier 1 capital ratio                                              | 35.328%               | 23.174%               |
| Total capital ratio                                               | <u>35.464%</u>        | <u>23.478%</u>        |

## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 29 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2019:

| <u>Exposure Class</u>                                         | <u>Gross exposures</u><br>RM'000 | <u>Net exposures</u><br>RM'000 | <u>Risk weighted assets</u><br>RM'000 | <u>Capital requirements</u><br>RM'000 |
|---------------------------------------------------------------|----------------------------------|--------------------------------|---------------------------------------|---------------------------------------|
| (a) <u>Credit Risk</u>                                        |                                  |                                |                                       |                                       |
| <i>On-balance sheet exposures</i>                             |                                  |                                |                                       |                                       |
| Sovereigns/central banks                                      | 5,781,829                        | 5,781,829                      | 81,863                                | 6,549                                 |
| Banks                                                         | 1,862,069                        | 1,862,069                      | 372,550                               | 29,804                                |
| Insurance companies,<br>securities firms and<br>fund managers | 259,050                          | 259,050                        | 129,829                               | 10,386                                |
| Corporates                                                    | 264,944                          | 264,944                        | 264,944                               | 21,196                                |
| Residential mortgages                                         | 1,054                            | 1,054                          | 369                                   | 30                                    |
| Higher risk assets                                            | 4                                | 4                              | 6                                     | 1                                     |
| Other assets                                                  | 32,520                           | 32,520                         | 32,009                                | 2,561                                 |
| Defaulted exposures                                           | 68                               | 68                             | 34                                    | 3                                     |
| <b>Total on-balance sheet exposures</b>                       | <b>8,201,538</b>                 | <b>8,201,538</b>               | <b>881,604</b>                        | <b>70,530</b>                         |
| <i>Off-balance sheet exposures</i>                            |                                  |                                |                                       |                                       |
| Over-the-counter ('OTC')<br>derivatives                       | 2,568,067                        | 2,568,067                      | 932,265                               | 74,581                                |
| Off balance sheet exposures<br>other than OTC derivatives     | 303,351                          | 303,351                        | 275,386                               | 22,031                                |
| <b>Total off-balance sheet exposures</b>                      | <b>2,871,418</b>                 | <b>2,871,418</b>               | <b>1,207,651</b>                      | <b>96,612</b>                         |
| <b>Total on and off-balance sheet exposures</b>               | <b>11,072,956</b>                | <b>11,072,956</b>              | <b>2,089,255</b>                      | <b>167,142</b>                        |
|                                                               | <u>Long position</u>             | <u>Short position</u>          |                                       |                                       |
| (b) <u>Market risk</u>                                        |                                  |                                |                                       |                                       |
| Interest rate risk                                            | 112,328,805                      | 111,562,393                    | 1,468,018                             | 117,442                               |
| Foreign currency risk                                         | 9,786                            | -                              | 9,786                                 | 783                                   |
| Options risk                                                  | -                                | -                              | 263,112                               | 21,049                                |
| (c) <u>Operational risk</u>                                   |                                  |                                | 518,381                               | 41,470                                |
| <b>Total risk weighted assets and capital requirements</b>    |                                  |                                | <b>4,348,552</b>                      | <b>347,886</b>                        |



## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 29 CAPITAL ADEQUACY (CONTINUED)

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

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



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**29 CAPITAL ADEQUACY (CONTINUED)**

Off balance sheet counterparty risk as at 31 December 2019:

|                                                                                                                                                                                                            | Principal<br>amount<br>RM'000 | Credit<br>equivalent<br>amount*<br>RM'000 | Risk<br>weighted<br>amount<br>RM'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------------------|--------------------------------------|
| Direct credit substitutes                                                                                                                                                                                  | 177,275                       | 177,275                                   | 153,588                              |
| Transaction-related contingent items                                                                                                                                                                       | 74,006                        | 37,003                                    | 32,724                               |
| Short-term self-liquidating trade related contingencies                                                                                                                                                    | 14,826                        | 2,965                                     | 2,965                                |
| Foreign exchange related contracts:                                                                                                                                                                        |                               |                                           |                                      |
| - less than one year                                                                                                                                                                                       | 31,745,761                    | 699,788                                   | 297,717                              |
| - one year to less than five years                                                                                                                                                                         | 3,558,501                     | 350,243                                   | 119,476                              |
| - more than five years                                                                                                                                                                                     | 122,790                       | 22,660                                    | 6,619                                |
| Interest rate related contracts:                                                                                                                                                                           |                               |                                           |                                      |
| - less than one year                                                                                                                                                                                       | 9,624,026                     | 36,969                                    | 11,494                               |
| - one year to less than five years                                                                                                                                                                         | 34,587,526                    | 927,672                                   | 271,892                              |
| - more than five years                                                                                                                                                                                     | 2,325,772                     | 187,103                                   | 50,925                               |
| Credit derivative contracts                                                                                                                                                                                |                               |                                           |                                      |
| - less than one year                                                                                                                                                                                       | 31,150                        | 3,115                                     | 623                                  |
| - one year to less than five years                                                                                                                                                                         | 321,429                       | 62,608                                    | 24,984                               |
| Equity related contracts                                                                                                                                                                                   |                               |                                           |                                      |
| - less than one year                                                                                                                                                                                       | 1,556,590                     | 145,572                                   | 76,804                               |
| - one year to less than five years                                                                                                                                                                         | 799,146                       | 132,337                                   | 71,732                               |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year                                                                                          | 172,217                       | 86,108                                    | 86,108                               |
| 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 | 1,615,098                     | -                                         | -                                    |
|                                                                                                                                                                                                            | <u>86,726,113</u>             | <u>2,871,418</u>                          | <u>1,207,651</u>                     |

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**29 CAPITAL ADEQUACY (CONTINUED)**

Off balance sheet counterparty risk as at 31 December 2018:

|                                                                                                                                                                                                            | Principal<br>amount<br>RM'000 | Credit<br>equivalent<br>amount*<br>RM'000 | Risk<br>weighted<br>amount<br>RM'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------------------|--------------------------------------|
| Direct credit substitutes                                                                                                                                                                                  | 479,113                       | 479,113                                   | 467,360                              |
| Transaction-related contingent items                                                                                                                                                                       | 69,002                        | 34,500                                    | 30,267                               |
| Short-term self-liquidating trade related contingencies                                                                                                                                                    | 1,382                         | 276                                       | 276                                  |
| Foreign exchange related contracts:                                                                                                                                                                        |                               |                                           |                                      |
| - less than one year                                                                                                                                                                                       | 33,639,324                    | 579,311                                   | 259,452                              |
| - one year to less than five years                                                                                                                                                                         | 3,461,257                     | 349,180                                   | 123,066                              |
| - more than five years                                                                                                                                                                                     | 206,850                       | 42,236                                    | 11,798                               |
| Interest rate related contracts:                                                                                                                                                                           |                               |                                           |                                      |
| - less than one year                                                                                                                                                                                       | 5,588,611                     | 15,280                                    | 4,995                                |
| - one year to less than five years                                                                                                                                                                         | 27,887,921                    | 763,008                                   | 262,044                              |
| - more than five years                                                                                                                                                                                     | 1,049,595                     | 61,787                                    | 19,758                               |
| Credit derivative contracts                                                                                                                                                                                |                               |                                           |                                      |
| - one year to less than five years                                                                                                                                                                         | 374,346                       | 83,572                                    | 27,748                               |
| Equity related contracts                                                                                                                                                                                   |                               |                                           |                                      |
| - less than one year                                                                                                                                                                                       | 2,346,030                     | 439,456                                   | 136,257                              |
| - one year to less than five years                                                                                                                                                                         | 1,121,817                     | 164,607                                   | 106,245                              |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year                                                                                          | 174,117                       | 87,059                                    | 87,059                               |
| Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness | 1,117,244                     | -                                         | -                                    |
|                                                                                                                                                                                                            | <u>77,516,609</u>             | <u>3,099,385</u>                          | <u>1,536,325</u>                     |

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT**

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

(i) Credit risk

**Expected credit loss measurement**

Approach to measuring expected credit losses

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

- (a) An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes
- (b) The time value of money; and
- (c) Reasonable and supportable information about past events, current economic conditions, and forecasts of future economic conditions.

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

(i) Credit risk (continued)

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

| <u>Balance sheet categories</u>                                             | <u>31 December 2019</u> |                   |                        |
|-----------------------------------------------------------------------------|-------------------------|-------------------|------------------------|
|                                                                             | <u>TCP</u>              | <u>Non-TCP</u>    | <u>Debt securities</u> |
|                                                                             | <u>RM'000</u>           | <u>RM'000</u>     | <u>RM'000</u>          |
| <u>Assets</u>                                                               |                         |                   |                        |
| Cash and short-term funds                                                   | -                       | 4,799,172         | -                      |
| Securities purchased under resale agreement                                 | -                       | 1,640,748         | -                      |
| Financial assets at fair value through other comprehensive income ("FVOCI") | -                       | -                 | 843,453                |
| Loans and advances                                                          | 265,291                 | -                 | -                      |
| Amount due from related parties                                             | -                       | 153,149           | -                      |
| Other assets                                                                | -                       | 259,729           | -                      |
|                                                                             | <u>          </u>       | <u>          </u> | <u>          </u>      |

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

Off-balance sheet lending-related commitments which are categorised as TCP with an ECL allowance of RM4,619,000 (2018: RM883,000) and is reported in other liabilities are not included in the table above.

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



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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****30 FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Credit risk (continued)****Impact of staging on measuring expected credit losses**

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

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

***Stage 3 - Default and credit-impairment***

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

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

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

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



## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)*Stage 2 - Significant increase in credit risk*

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

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

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

- Quantitative criteria

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

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

- Qualitative criteria

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

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

## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)*Stage 2 - Significant increase in credit risk (continued)*

## • Qualitative criteria (continued)

Financial instruments that are in Stage 2 are moved to Stage 1 in the period that the quantitative and qualitative criteria for a SICR no longer exist.

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

*Stage 1 - Unimpaired and without significant increase in credit risk*

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

Sensitivity analysis of ECL due to staging

The following table shows the impact of staging on the Bank's ECL recognised on balance sheet, by comparing the allowance if all performing financial assets were in Stage 1 or if all such assets were in Stage 2 to the actual ECL recorded on these assets as at 31 December 2019:

|         | Gross loans<br>and advances<br>RM'000 | ECL-<br>All performing<br>loans in Stage 1<br>RM'000 | Impact of change<br>in staging on<br>the statement of<br>comprehensive<br>income<br>RM'000 |
|---------|---------------------------------------|------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Stage 1 | 152,702                               | 105                                                  | -                                                                                          |
| Stage 2 | 113,301                               | 17                                                   | 658                                                                                        |
|         | Gross loans<br>and advances<br>RM'000 | ECL-<br>All performing<br>loans in Stage 2<br>RM'000 | Impact of change<br>in staging on<br>the statement of<br>comprehensive<br>income<br>RM'000 |
| Stage 1 | 152,702                               | 216                                                  | (111)                                                                                      |
| Stage 2 | 113,301                               | 675                                                  | -                                                                                          |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

(i) Credit risk (continued)

Sensitivity analysis of ECL due to staging (continued)

The following table shows the impact of staging on the Bank's ECL recognised on balance sheet, by comparing the allowance if all performing financial assets were in Stage 1 or if all such assets were in Stage 2 to the actual ECL recorded on these assets as at 31 December 2018:

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

  

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



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

(i) Credit risk (continued)

ECL measurement for TCP Portfolios

*Key Inputs*

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

- Probability of Default ("PD"): The PD model estimates the probability of downgrade and default each quarter. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The model considers input variables that are region-, industry- and borrower segment-specific and considers both scenario- and borrower-specific information. PDs are determined at a facility-level based on risk ratings and other characteristics.
- Exposure at Default ("EAD"): The EAD model predicts gross exposure upon a borrower's default as a percentage of the total commitment at the reporting date under a given macroeconomic environment. The model estimates the probability of a change in the utilisation, and direction and magnitude of the change. Input variables include exposure and utilisation at the reporting date, facility purpose, industry and macro-economic variables ("MEVs").
- Loss Given Default ("LGD"): The LGD model estimates expected losses under given macroeconomic environments on the EAD given the event of default and, taking into account, among other attributes, the mitigating effect of collateral and the time value of money.

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

*Forward-looking information*

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

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

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

*Forward-looking information (continued)*

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

*ECL calculation*

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

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

The Bank follows the policies and practices established by JPMC's Credit Risk Policy Group and BNM's Best Practices for the Management of Credit Risk and the Assessment of the Allowance for Credit Losses, to preserve the independence and integrity of the of the approval and decision-making process.

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

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



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

(i) Credit risk (continued)

**Stage 3 portfolio estimation techniques**

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

**ECL measurement for Non-TCP portfolio**

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

*Fee receivables*

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

*Other non-TCP*

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

(i) Credit risk (continued)

ECL and gross carrying amount reconciliation

The following tables provide an explanation of the change in the loss allowance during the year ended 31 December 2019 by respective product classes. The tables also set out how significant changes in the gross carrying amount of financial instruments contributed to the changes in the loss allowance:

(a) Loans and advances to customers at amortised cost

|                                      | Stage 1   | Stage 2    | Stage 3  |        |
|--------------------------------------|-----------|------------|----------|--------|
|                                      | 12 months | Lifetime   | Lifetime |        |
|                                      | ECL       | ECL        | ECL      |        |
|                                      | RM'000    | Non Credit | Credit   |        |
|                                      |           | Impaired   | Impaired | Total  |
|                                      |           | RM'000     | RM'000   | RM'000 |
| <u>Expected credit losses</u>        |           |            |          |        |
| As at 1 January 2019                 | 138       | 43         | 23       | 204    |
| Loans derecognised or repaid         | (13)      | (3)        | -        | (16)   |
| New originated                       | 13        | -          | -        | 13     |
| Changes due to change in credit risk | (33)      | 635        | 1        | 603    |
| As at 31 December 2019               | 105       | 675        | 24       | 804    |

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

(i) Credit risk (continued)

ECL and gross carrying amount reconciliation (continued)

(a) Loans and advances to customers at amortised cost (continued)

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

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

Increase in ECL in 2019 as compared to 2018 mainly arising the increase in credit risk for the exiting loans and advances.

(b) Lending related commitments and financial guarantee contracts

|                                      | Stage 1   | Stage 2    | Stage 3    |        |
|--------------------------------------|-----------|------------|------------|--------|
|                                      | 12 months | Lifetime   | Lifetime   |        |
|                                      | ECL       | Non Credit | ECL Credit |        |
|                                      | RM'000    | Impaired   | Impaired   | Total  |
|                                      | RM'000    | RM'000     | RM'000     | RM'000 |
| <u>Expected credit losses</u>        |           |            |            |        |
| As at 1 January 2019                 | 253       | 630        | -          | 883    |
| Loans derecognised or repaid         | (59)      | (558)      | -          | (617)  |
| New originated                       | 5         | -          | -          | 5      |
| Changes due to change in credit risk | 137       | -          | -          | 137    |
| Transfers:                           |           |            |            |        |
| Transfer from Stage 1 to Stage 2     | (90)      | 4,367      | -          | 4,277  |
| Transfer from Stage 2 to Stage 1     | 5         | (71)       | -          | (66)   |
| As at 31 December 2019               | 251       | 4,368      | -          | 4,619  |

## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

## (c) Lending related commitments and financial guarantee contracts (continued)

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

Increase in ECL in 2019 as compared to 2018 for lending related commitments and financial guarantee contracts mainly attributable to the deterioration in credit ratings.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

**Maximum exposure to credit risk**

The table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position, including derivative financial instruments.

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

|                                                                             | <u>Note</u> | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|-----------------------------------------------------------------------------|-------------|-----------------------|-----------------------|
| <u>Assets</u>                                                               |             |                       |                       |
| Cash and short-term funds                                                   | 2           | 4,799,172             | 4,665,101             |
| Securities purchased under resale agreement                                 |             | 1,814,557             | 39,166                |
| Financial assets held at fair value through profit and loss ("FVTPL")       | 3           | 408,409               | 2,024,152             |
| Derivative financial instruments                                            | 4           | 587,362               | 568,207               |
| Financial assets at fair value through other comprehensive income ("FVOCI") | 5           | 843,453               | 1,356,469             |
| Loans and advances <sup>#</sup>                                             | 6           | 265,291               | 353,149               |
| Amount due from related parties                                             | 7           | 153,149               | 456,667               |
| Statutory deposits with BNM                                                 | 8           | 2                     | 2                     |
| Other assets                                                                | 9           | 259,729               | 87,514                |
| Tax recoverable                                                             |             | 31,305                | 13,985                |
| <b>Total assets*</b>                                                        |             | <b>9,162,429</b>      | <b>9,564,412</b>      |
| <br>Commitments and contingencies                                           | <br>29      | <br>2,871,418         | <br>3,099,385         |
| <b>Total credit exposure</b>                                                |             | <b>12,033,847</b>     | <b>12,663,797</b>     |

\* Excludes deferred tax assets, right-of-use assets and fixed assets.

# Includes ECL allowance of RM804,000 (2018: RM204,000)

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

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



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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****30 FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Credit risk (continued)**Concentration risk by geographical sectors

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

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

|                                      | Short-term<br>funds and<br>placements<br>with financial<br>institutions | Securities<br>purchased<br>under resale<br>agreement | Financial<br>assets held<br>at fair value<br>through<br>profit and loss | Derivative<br>financial<br>instruments | Financial<br>assets held<br>at other<br>comprehensive<br>income | Loans<br>and<br>advances | Amount<br>due from<br>related<br>parties | Other<br>assets* | On<br>balance<br>sheet total | Commitments<br>and<br>contingencies |
|--------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------------------|--------------------------|------------------------------------------|------------------|------------------------------|-------------------------------------|
|                                      | RM'000                                                                  | RM'000                                               | RM'000                                                                  | RM'000                                 | RM'000                                                          | RM'000                   | RM'000                                   | RM'000           | RM'000                       | RM'000                              |
| Malaysia                             | 4,785,906                                                               | 1,814,557                                            | 408,409                                                                 | 477,329                                | 843,453                                                         | 261,615                  | 95,590                                   | 734              | 8,687,593                    | 2,311,285                           |
| United Kingdom                       | -                                                                       | -                                                    | -                                                                       | 48,569                                 | -                                                               | -                        | 1,739                                    | -                | 50,308                       | 292,093                             |
| USA                                  | -                                                                       | -                                                    | -                                                                       | 34,878                                 | -                                                               | -                        | 49,814                                   | 35               | 84,727                       | 133,613                             |
| Hong Kong                            | -                                                                       | -                                                    | -                                                                       | 3,303                                  | -                                                               | -                        | 4,888                                    | 2                | 8,193                        | 24,950                              |
| Singapore                            | 4,213                                                                   | -                                                    | -                                                                       | 20,611                                 | -                                                               | 365                      | 322                                      | 258,443          | 283,954                      | 98,637                              |
| Others                               | 8,541                                                                   | -                                                    | -                                                                       | 2,672                                  | -                                                               | 4,115                    | 796                                      | -                | 16,124                       | 10,840                              |
|                                      | <u>4,798,660</u>                                                        | <u>1,814,557</u>                                     | <u>408,409</u>                                                          | <u>587,362</u>                         | <u>843,453</u>                                                  | <u>266,095</u>           | <u>153,149</u>                           | <u>259,214</u>   | <u>9,130,899</u>             | <u>2,871,418</u>                    |
| Assets not subject<br>to credit risk | 512                                                                     | -                                                    | -                                                                       | -                                      | -                                                               | (804)                    | -                                        | 59,208           | 58,916                       | -                                   |
|                                      | <u>4,799,172</u>                                                        | <u>1,814,557</u>                                     | <u>408,409</u>                                                          | <u>587,362</u>                         | <u>843,453</u>                                                  | <u>265,291</u>           | <u>153,149</u>                           | <u>318,422</u>   | <u>9,189,815</u>             | <u>2,871,418</u>                    |

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

Concentration risk by geographical sectors (continued)

|                                      | Short-term<br>funds and<br>placements<br>with financial<br>institutions<br>RM'000 | Securities<br>purchased<br>under resale<br>agreement<br>RM'000 | Financial<br>assets held<br>at fair value<br>through<br>profit and loss<br>RM'000 | Derivative<br>financial<br>instruments<br>RM'000 | Financial<br>assets held<br>at other<br>comprehensive<br>income<br>RM'000 | Loans<br>and<br>advances<br>RM'000 | Amount<br>due from<br>related<br>parties<br>RM'000 | Other<br>assets*<br>RM'000 | On<br>balance<br>sheet total<br>RM'000 | Commitments<br>and<br>contingencies<br>RM'000 |
|--------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------|------------------------------------|----------------------------------------------------|----------------------------|----------------------------------------|-----------------------------------------------|
| Malaysia                             | 4,654,069                                                                         | 39,166                                                         | 2,024,152                                                                         | 503,745                                          | 1,356,469                                                                 | 333,825                            | 95,191                                             | 39,599                     | 9,046,216                              | 2,643,754                                     |
| United Kingdom                       | -                                                                                 | -                                                              | -                                                                                 | 24,297                                           | -                                                                         | -                                  | 254,706                                            | -                          | 279,003                                | 272,369                                       |
| USA                                  | -                                                                                 | -                                                              | -                                                                                 | 20,295                                           | -                                                                         | -                                  | 101,416                                            | 19                         | 121,730                                | 101,298                                       |
| Hong Kong                            | -                                                                                 | -                                                              | -                                                                                 | 334                                              | -                                                                         | -                                  | 4,361                                              | -                          | 4,695                                  | 5,106                                         |
| Singapore                            | 3,055                                                                             | -                                                              | -                                                                                 | 7,179                                            | -                                                                         | -                                  | 123                                                | 47,236                     | 57,593                                 | 56,485                                        |
| Others                               | 7,823                                                                             | -                                                              | -                                                                                 | 12,357                                           | -                                                                         | 19,528                             | 870                                                | -                          | 40,578                                 | 20,373                                        |
|                                      | <u>4,664,947</u>                                                                  | <u>39,166</u>                                                  | <u>2,024,152</u>                                                                  | <u>568,207</u>                                   | <u>1,356,469</u>                                                          | <u>353,353</u>                     | <u>456,667</u>                                     | <u>86,854</u>              | <u>9,549,815</u>                       | <u>3,099,385</u>                              |
| Assets not subject<br>to credit risk | 154                                                                               | -                                                              | -                                                                                 | -                                                | -                                                                         | (204)                              | -                                                  | 21,852                     | 21,802                                 | -                                             |
|                                      | <u>4,665,101</u>                                                                  | <u>39,166</u>                                                  | <u>2,024,152</u>                                                                  | <u>568,207</u>                                   | <u>1,356,469</u>                                                          | <u>353,149</u>                     | <u>456,667</u>                                     | <u>108,706</u>             | <u>9,571,617</u>                       | <u>3,099,385</u>                              |

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

Company No.

199401030666 (316347-D)

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

Concentration risk by industry sectors

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

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

|                                                | Short-term<br>funds and<br>placements<br>with financial<br>institutions | Securities<br>purchased<br>under resale<br>agreement | Financial<br>assets held<br>at fair value<br>through<br>profit and loss | Derivative<br>financial<br>instruments | Financial<br>assets held<br>at other<br>comprehensive<br>income | Loans<br>and<br>advances | Amount<br>due from<br>related<br>parties | Other<br>assets** | On<br>balance<br>sheet total | Commitments<br>and<br>contingencies |
|------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------------------|--------------------------|------------------------------------------|-------------------|------------------------------|-------------------------------------|
|                                                | RM'000                                                                  | RM'000                                               | RM'000                                                                  | RM'000                                 | RM'000                                                          | RM'000                   | RM'000                                   | RM'000            | RM'000                       | RM'000                              |
| Manufacturing                                  | -                                                                       | -                                                    | -                                                                       | 30,796                                 | -                                                               | 183,365                  | -                                        | 140               | 214,301                      | 245,216                             |
| Wholesale and retail                           | -                                                                       | -                                                    | -                                                                       | 5,347                                  | -                                                               | -                        | -                                        | 4                 | 5,351                        | 16,885                              |
| Finance, insurance<br>and business<br>services | 68,780                                                                  | 1,640,748                                            | 6,302                                                                   | 541,443                                | -                                                               | 39,907                   | 153,149                                  | 258,471           | 2,708,800                    | 2,425,383                           |
| Government and<br>Government<br>Agencies       | 4,729,880                                                               | 173,809                                              | 402,107                                                                 | 6,556                                  | 843,453                                                         | -                        | -                                        | 94                | 6,155,899                    | 35,203                              |
| Electricity, gas and<br>water                  | -                                                                       | -                                                    | -                                                                       | 1,129                                  | -                                                               | -                        | -                                        | 64                | 1,193                        | 2,247                               |
| Transport, storage<br>and communication        | -                                                                       | -                                                    | -                                                                       | 4                                      | -                                                               | 4,105                    | -                                        | 49                | 4,158                        | 82,477                              |

31.12.2019

Company No.

199401030666 (316347-D)

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

Concentration risk by industry sectors (continued)

|                                                                      | Short-term<br>funds and<br>placements<br>with financial<br>institutions<br>RM'000 | Securities<br>purchased<br>under resale<br>agreement<br>RM'000 | Financial<br>assets held<br>at fair value<br>through<br>profit and loss<br>RM'000 | Derivative<br>financial<br>instruments<br>RM'000 | Financial<br>assets held<br>at other<br>comprehensive<br>income<br>RM'000 | Loans<br>and<br>advances<br>RM'000 | Amount<br>due from<br>related<br>parties<br>RM'000 | Other<br>assets**<br>RM'000 | On<br>balance<br>sheet total<br>RM'000 | Commitments<br>and<br>contingencies<br>RM'000 |
|----------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------|------------------------------------|----------------------------------------------------|-----------------------------|----------------------------------------|-----------------------------------------------|
| Individual/Purchase<br>of landed property<br>- residential<br>Others | -<br>-                                                                            | -<br>-                                                         | -<br>-                                                                            | -<br>2,087                                       | -<br>-                                                                    | 1,151<br>37,567                    | -<br>-                                             | -<br>392                    | 1,151<br>40,046                        | 155<br>63,852                                 |
|                                                                      | 4,798,660                                                                         | 1,814,557                                                      | 408,409                                                                           | 587,362                                          | 843,453                                                                   | 266,095                            | 153,149                                            | 259,214                     | 9,130,899                              | 2,871,418                                     |
| Assets not subject<br>to credit risk                                 | 512                                                                               | -                                                              | -                                                                                 | -                                                | -                                                                         | (804)                              | -                                                  | 59,208                      | 58,916                                 | -                                             |
|                                                                      | 4,799,172                                                                         | 1,814,557                                                      | 408,409                                                                           | 587,362                                          | 843,453                                                                   | 265,291                            | 153,149                                            | 318,422                     | 9,189,815                              | 2,871,418                                     |

\*\* Other assets include tax recoverable, deferred tax assets, right-of-use assets, fixed assets, statutory deposits with Bank Negara Malaysia and other assets. Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 29.

Company No.

199401030666 (316347-D)

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

Concentration risk by industry sectors (continued)

|                                                | Short-term<br>funds and<br>placements<br>with financial<br>institutions<br>RM'000 | Securities<br>purchased<br>under resale<br>agreement<br>RM'000 | Financial<br>assets held<br>at fair value<br>through<br>profit and loss<br>RM'000 | Derivative<br>financial<br>instruments<br>RM'000 | Financial<br>assets held<br>at other<br>comprehensive<br>income<br>RM'000 | Loans<br>and<br>advances<br>RM'000 | Amount<br>due from<br>related<br>parties<br>RM'000 | Other<br>assets**<br>RM'000 | On<br>balance<br>sheet total<br>RM'000 | Commitments<br>and<br>contingencies<br>RM'000 |
|------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------|------------------------------------|----------------------------------------------------|-----------------------------|----------------------------------------|-----------------------------------------------|
| Manufacturing                                  | -                                                                                 | -                                                              | -                                                                                 | 24,771                                           | -                                                                         | 208,776                            | -                                                  | -                           | 233,547                                | 420,446                                       |
| Wholesale and retail                           | -                                                                                 | -                                                              | -                                                                                 | 1,285                                            | -                                                                         | 4,606                              | -                                                  | -                           | 5,891                                  | 5,690                                         |
| Finance, insurance<br>and business<br>services | 29,294                                                                            | -                                                              | 204,946                                                                           | 526,385                                          | -                                                                         | 60,045                             | 453,435                                            | 79,559                      | 1,353,664                              | 2,377,584                                     |
| Government and<br>Government<br>Agencies       | 4,635,653                                                                         | 39,166                                                         | 1,819,206                                                                         | 12,165                                           | 1,356,469                                                                 | -                                  | -                                                  | 60                          | 7,862,719                              | 44,489                                        |
| Electricity, gas and<br>water                  | -                                                                                 | -                                                              | -                                                                                 | 1,673                                            | -                                                                         | 75,208                             | -                                                  | 3                           | 76,884                                 | 147,197                                       |
| Transport, storage<br>and communication        | -                                                                                 | -                                                              | -                                                                                 | 12                                               | -                                                                         | 3,466                              | -                                                  | -                           | 3,478                                  | 88,750                                        |

31.12.2018



Company No.

199401030666 (316347-D)

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

Concentration risk by industry sectors (continued)

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

\*\* Other assets include tax recoverable, deferred tax assets, fixed assets, right-of-use assets, statutory deposits with Bank Negara Malaysia and other assets. Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 29.

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****30 FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Credit risk (continued)****Analysis of Loans and Advances**

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

|                                      | <u>Corporates</u><br>RM'000 | <u>Individuals</u><br>RM'000 | <u>Total</u><br>RM'000 |
|--------------------------------------|-----------------------------|------------------------------|------------------------|
| <u>2019</u>                          |                             |                              |                        |
| Gross amount                         |                             |                              |                        |
| - Non credit impaired                | 264,944                     | 1,059                        | 266,003                |
| - Credit impaired                    | -                           | 92                           | 92                     |
| Provision for expected credit losses | (778)                       | (26)                         | (804)                  |
|                                      | <u>264,166</u>              | <u>1,125</u>                 | <u>265,291</u>         |
| <u>2018</u>                          |                             |                              |                        |
| Gross amount                         |                             |                              |                        |
| - Non credit impaired                | 352,101                     | 1,186                        | 353,287                |
| - Credit impaired                    | -                           | 66                           | 66                     |
| Provision for expected credit losses | (180)                       | (24)                         | (204)                  |
|                                      | <u>351,921</u>              | <u>1,228</u>                 | <u>353,149</u>         |

**(b) Loans and advances individually impaired**

The individual impaired loans and advances to customers before taking into consideration the cash flows from collateral held is RM92,000 (2018: RM66,000).

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>Individuals</u><br>RM'000 | <u>Total</u><br>RM'000 |
|--------------------------|------------------------------|------------------------|
| <u>2019</u>              |                              |                        |
| Gross amount             | 92                           | 92                     |
| Fair value of collateral | 340                          | 340                    |
| <u>2018</u>              |                              |                        |
| Gross amount             | 66                           | 66                     |
| Fair value of collateral | 214                          | 214                    |

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****30 FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Credit risk (continued)**Credit quality of financial assets

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

Loans and advances

|                       | Stage 1<br>12-month<br>ECL<br>RM'000 | Stage 2<br>Lifetime<br>ECL<br>RM'000 | Stages<br>Stage 3<br>Lifetime<br>ECL<br>RM'000 | MFRS 9<br>2019<br>Total<br>RM'000 |
|-----------------------|--------------------------------------|--------------------------------------|------------------------------------------------|-----------------------------------|
| Rating grades         |                                      |                                      |                                                |                                   |
| Investment-grade      |                                      |                                      |                                                |                                   |
| AAA/Aaa to BBB-Baa3   | 77,474                               | 109,196                              | -                                              | 186,670                           |
| Non-investment-grade  |                                      |                                      |                                                |                                   |
| BB+/Ba1 -> B-/B3      | 75,228                               | 4,105                                | 92                                             | 79,425                            |
| Gross carrying amount | 152,702                              | 113,301                              | 92                                             | 266,095                           |
| Loss allowance        | (105)                                | (675)                                | (24)                                           | (804)                             |
| Net carrying amount   | 152,597                              | 112,626                              | 68                                             | 265,291                           |

Loan Commitments and Financial Guarantees contract

|                        | Stage 1<br>12-month<br>ECL<br>RM'000 | Stage 2<br>Lifetime<br>ECL<br>RM'000 | Stages<br>Stage 3<br>Lifetime<br>ECL<br>RM'000 | MFRS 9<br>2019<br>Total<br>RM'000 |
|------------------------|--------------------------------------|--------------------------------------|------------------------------------------------|-----------------------------------|
| Rating grades          |                                      |                                      |                                                |                                   |
| Investment-grade       |                                      |                                      |                                                |                                   |
| AAA/Aaa to BBB-Baa3    | 190,267                              | -                                    | -                                              | 190,267                           |
| Non-investment-grade   |                                      |                                      |                                                |                                   |
| BB+/Ba1 -> B-/B3       | 100,615                              | 168                                  | -                                              | 100,783                           |
| CCC+/Caa1 and below    | -                                    | 82,473                               | -                                              | 82,473                            |
| Gross carrying amount* | 290,882                              | 82,641                               | -                                              | 373,523                           |
| Loss allowance         | (251)                                | (4,368)                              | -                                              | (4,619)                           |
| Net carrying amount    | 290,631                              | 78,273                               | -                                              | 368,904                           |

\* Gross carrying amount excludes intercompany financial guarantee contracts (Non-TCP Product) of RM64,491,000 (2018: RM40,442,000)

## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)Credit quality of financial assets (continued)Loans and advances

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

Loan Commitments and Financial Guarantees contract

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

Credit quality of financial assets (continued)

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

|             | <u>Fair value through profit or loss</u>          |                                    | <u>Fair value through other comprehensive income</u> |                                        |                  |
|-------------|---------------------------------------------------|------------------------------------|------------------------------------------------------|----------------------------------------|------------------|
|             | <u>Malaysia Government<br/>related securities</u> | <u>Private debt<br/>securities</u> | <u>Malaysia<br/>Treasury Bills</u>                   | <u>Bank Negara<br/>Interbank Bills</u> | <u>Total</u>     |
|             | RM'000                                            | RM'000                             | RM'000                                               | RM'000                                 | RM'000           |
| <u>2019</u> |                                                   |                                    |                                                      |                                        |                  |
| AAA         | <u>402,107</u>                                    | <u>-</u>                           | <u>97,521</u>                                        | <u>745,932</u>                         | <u>1,245,560</u> |
| <u>2018</u> |                                                   |                                    |                                                      |                                        |                  |
| AAA         | <u>1,819,278</u>                                  | <u>197,344</u>                     | <u>-</u>                                             | <u>1,356,469</u>                       | <u>3,373,091</u> |



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(ii) Market risk**

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

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

*Risk Governance & Policy Framework*

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

The Legal Entity Risk Manager (LERM) and Regional Legal Entity (LE) Market Risk are responsible for considering the firmwide market risk processes with respect to each Legal Entity, accounting for both firmwide and local market risk management requirements. Oversight, review and approval of these Legal Entity policies/procedures/frameworks is conducted by the respective JPMCB Berhad Risk/Asset & Liability Committee to approve, at least annually.

*Risk Measurement*

There is no single measure to capture market risk and therefore the Bank uses various metrics both statistical and non-statistical to assess risk. The appropriate set of risk measures utilized for a given business activity is tailored based on business mandate, risk horizon, materiality, market volatility and other factors.

*VaR*

The Bank utilises value at risk ("VaR"), a statistical risk measure, to estimate the potential loss from adverse market moves in the current market environment.

The VaR framework is employed across the Firm using historical simulation based on data for the previous 12 months.

VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 99% confidence level.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk (continued)

*VaR (continued)*

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

|         | <u>2019</u><br>RM'000 | <u>2018</u><br>RM'000 |
|---------|-----------------------|-----------------------|
| 99% VaR | <u>1,056</u>          | <u>3,338</u>          |

*Stress Testing*

Along with VaR, stress testing is an important tool to assess risk. While VaR reflects the risk of loss due to adverse changes in markets using recent historical market behavior, stress testing reflects the risk of loss from hypothetical changes in the value of market risk sensitive positions applied simultaneously. The Bank runs weekly stress tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices.

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

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

Stress-test results, trends and qualitative explanations based on current market risk positions are reported to the Bank's Risk, Asset and Liability Committee ("RALCO") to allow them to better understand the sensitivity of positions to certain defined events and to enable them to manage their risks with more transparency. In addition, results are reported to the Board of Directors.

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

*Non-Statistical Risk Measures*

Measures such as net open positions, basis point values are utilized within specific market context and aggregated across businesses.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk (continued)

*Limits*

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

Market Risk sets market risk limits and these are subject to the RALCO approval who confirms compliance with local regulatory requirements.

As part of its holistic analysis of the JPMCB Berhad market risk, Market Risk must review market risk limits for JPMCB Berhad at least semi-annually. Limit reviews must consider the underlying trading, investing and hedging strategies of the business as well as capital or regulatory requirements where applicable.

Business units should not exceed their market risk limits unless expressly authorized by a Temporary Limit Approval ("TLA"). A market risk valid limit breach requires that the business take immediate steps to reduce exposure so as to be within limit, unless a temporary limit approval is granted. Market risk limits may be kept at levels close to full utilizations which may cause brief periods of market risk limit breaches among a small proportion of the total number of limits.

Limit utilizations and notifications of valid market risk limit breaches are sent to appropriate JPMCB Berhad limit signatories, the RALCO, the business and Global LE MR Head daily.

Aged or significant market risk limit breaches are escalated by Market Risk and LERM if not already included as a signatory, Global LE MR Head, Firmwide Risk Executive – Market Risk (FRE MR) and APAC Risk Committee.

(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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(iv) Interest rate risk**

Interest Rate Risk in the Banking Book (IRRBB) is defined as interest rate risk resulting from the Bank's traditional banking activities as a result of movements in interest rates. IRRBB can occur due to a variety of factors, including but not limited to:

- Differences between the timing of rate changes and the timing of cash flows (repricing risk);
- Changing rate relationships among yield curves that affect bank activities (basis risk);
- Changing rate relationships across the spectrum of maturities (yield curve risk); and
- Interest-rate-related options embedded in banking products (option risk).

Treasury and Chief Investment Office (T/CIO) manages IRRBB exposure on behalf of the Bank by identifying, measuring, modelling, and monitoring IRR across the Bank's balance sheet. T/CIO works with the Lines of Businesses in defining methodologies for measuring IRRBB. T/CIO identifies and understands material balance sheet impact of new initiatives and products, and executes market transactions to manage IRRBB.

The Bank's IRRBB exposure originates from the traditional banking activities that include the extension of loans, taking client deposits. T/CIO is managing the exposure through placements/takings, and the purchase of securities under T/CIO investment portfolio. The majority of the Bank's deposits are Non-Maturity Deposits (NMD) that is modelled as longer dated liabilities by considering deposits run-off profile and analyzing deposits' sensitivity to rate changes. Loans, Placements, Term Deposits, Placements, and Investment Securities under T/CIO investment portfolio are assumed to have contractual maturity with fixed or adjustable rate.

IRRBB is evaluated using two primary metrics, impact to the Bank's earnings through Earnings at Risk (EaR) metric, and impact to the Bank's equity through Economic Value Sensitivity (EVS) metric:

- EaR measures the extent to which changes in interest rates will affect the bank's net interest income (NII) over the following 12 months period under four parallel shift scenarios in interest rate curve.
- EVS determines changes in Economic Value of Equity (EVE) due to changes in interest rates under two parallel and four non-parallel shift scenarios in interest rate curve.

The IRRBB metrics are regularly monitored, reported on a regular basis and presented in the Bank's RALCO Meeting.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

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

|                                                                                  | Non trading book           |                           |                            |                          |                           |   | Non-<br>interest<br>sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000  |
|----------------------------------------------------------------------------------|----------------------------|---------------------------|----------------------------|--------------------------|---------------------------|---|-----------------------------------------|---------------------------|------------------|
|                                                                                  | Up to<br>1 month<br>RM'000 | 1 - 3<br>months<br>RM'000 | 3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over<br>5 years<br>RM'000 |   |                                         |                           |                  |
| <b>Assets</b>                                                                    |                            |                           |                            |                          |                           |   |                                         |                           |                  |
| Cash and short-term funds                                                        | 4,764,282                  | -                         | -                          | -                        | -                         | - | 34,890                                  | -                         | 4,799,172        |
| Securities purchased under resale agreement                                      | 1,812,795                  | -                         | -                          | -                        | -                         | - | 1,762                                   | -                         | 1,814,557        |
| Financial assets held at fair value through profit and loss ("FVTPL")            | -                          | -                         | -                          | -                        | -                         | - | 9,741                                   | 398,668                   | 408,409          |
| Derivative financial instruments                                                 | -                          | -                         | -                          | -                        | -                         | - | -                                       | 587,362                   | 587,362          |
| Financial assets held at fair value through other comprehensive income ("FVOCI") | -                          | 745,847                   | 97,606                     | -                        | -                         | - | -                                       | -                         | 843,453          |
| Loans and advances                                                               |                            |                           |                            |                          |                           |   |                                         |                           |                  |
| - Non-credit impaired                                                            | 140,913                    | 99,264                    | 24,919                     | 251                      | 656                       | - | (780)                                   | -                         | 265,223          |
| - Credit-impaired                                                                | -                          | -                         | -                          | -                        | -                         | - | 68                                      | -                         | 68               |
| Amount due from related parties                                                  | 778                        | -                         | -                          | -                        | -                         | - | 152,371                                 | -                         | 153,149          |
| Statutory deposits with BNM                                                      | -                          | -                         | -                          | -                        | -                         | - | 2                                       | -                         | 2                |
| Other assets <sup>#</sup>                                                        | -                          | -                         | -                          | -                        | -                         | - | 318,420                                 | -                         | 318,420          |
| <b>Total assets</b>                                                              | <b>6,718,768</b>           | <b>845,111</b>            | <b>122,525</b>             | <b>251</b>               | <b>656</b>                |   | <b>516,474</b>                          | <b>986,030</b>            | <b>9,189,815</b> |

<sup>#</sup> Includes tax recoverable assets, deferred tax assets, right-of-use assets, fixed assets and other assets.



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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

|                                                                      | Non trading book           |                           |                            |                          |                           | 31.12.2019                |                                         |                 |
|----------------------------------------------------------------------|----------------------------|---------------------------|----------------------------|--------------------------|---------------------------|---------------------------|-----------------------------------------|-----------------|
|                                                                      | Up to<br>1 month<br>RM'000 | 1 - 3<br>months<br>RM'000 | 3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over<br>5 years<br>RM'000 | Trading<br>book<br>RM'000 | Non-<br>interest<br>sensitive<br>RM'000 | Total<br>RM'000 |
| Liabilities                                                          |                            |                           |                            |                          |                           |                           |                                         |                 |
| Deposits from customers                                              | 5,179,263                  | 700                       | -                          | -                        | -                         | -                         | 597,354                                 | 5,777,317       |
| Deposits and placements of banks<br>and other financial institutions | 106,656                    | -                         | -                          | -                        | -                         | -                         | 282,916                                 | 389,572         |
| Obligations on securities sold under<br>repurchase agreements        | 51,293                     | -                         | -                          | -                        | -                         | -                         | 466                                     | 51,759          |
| Derivative financial instruments                                     | -                          | -                         | -                          | -                        | -                         | 561,192                   | -                                       | 561,192         |
| Amount due to related parties                                        | 392,757                    | -                         | 25,203                     | -                        | -                         | -                         | 161,464                                 | 579,424         |
| Other liabilities                                                    | -                          | -                         | -                          | -                        | -                         | -                         | 286,072                                 | 286,072         |
| Total liabilities                                                    | 5,729,969                  | 700                       | 25,203                     | -                        | -                         | 561,192                   | 1,328,272                               | 7,645,336       |
| Interest rate gap                                                    | 988,799                    | 844,411                   | 97,322                     | 251                      | 656                       |                           |                                         |                 |

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

|                                                                                        | Non trading book           |                           |                            |                          |                           |                           | 31.12.2018                              |                 |
|----------------------------------------------------------------------------------------|----------------------------|---------------------------|----------------------------|--------------------------|---------------------------|---------------------------|-----------------------------------------|-----------------|
|                                                                                        | Up to<br>1 month<br>RM'000 | 1 - 3<br>months<br>RM'000 | 3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over<br>5 years<br>RM'000 | Trading<br>book<br>RM'000 | Non-<br>interest<br>sensitive<br>RM'000 | Total<br>RM'000 |
| Assets                                                                                 |                            |                           |                            |                          |                           |                           |                                         |                 |
| Cash and short-term funds                                                              | 4,629,482                  | -                         | -                          | -                        | -                         | -                         | 35,619                                  | 4,665,101       |
| Securities purchased under resale<br>agreement                                         | -                          | -                         | -                          | -                        | -                         | 39,137                    | 29                                      | 39,166          |
| Financial assets held at fair value<br>through profit and loss ("FVTPL")               | -                          | -                         | -                          | -                        | -                         | 2,016,622                 | 7,530                                   | 2,024,152       |
| Derivative financial instruments                                                       | -                          | -                         | -                          | -                        | -                         | 568,207                   | -                                       | 568,207         |
| Financial assets held at fair value<br>through other comprehensive<br>income ("FVOCI") | 399,713                    | 758,621                   | 198,135                    | -                        | -                         | -                         | -                                       | 1,356,469       |
| Loans and advances                                                                     |                            |                           |                            |                          |                           |                           |                                         |                 |
| - Non-credit impaired                                                                  | 191,817                    | 77,183                    | 83,240                     | 189                      | 858                       | -                         | (181)                                   | 353,106         |
| - Credit-impaired                                                                      | -                          | -                         | -                          | -                        | -                         | -                         | 43                                      | 43              |
| Amount due from related parties                                                        | 263,237                    | -                         | -                          | -                        | -                         | -                         | 193,430                                 | 456,667         |
| Statutory deposits with BNM                                                            | -                          | -                         | -                          | -                        | -                         | -                         | 2                                       | 2               |
| Other assets #                                                                         | -                          | -                         | -                          | -                        | -                         | -                         | 108,704                                 | 108,704         |
| Total assets                                                                           | 5,484,249                  | 835,804                   | 281,375                    | 189                      | 858                       | 2,623,966                 | 345,176                                 | 9,571,617       |

<sup>#</sup> Includes tax recoverable assets, deferred tax assets, right-of-use assets, fixed assets and other assets.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

|                                                                   |  | Non trading book           |                           |                            |                          |                           | Trading book   |          | Non-interest sensitive |                  | Total<br>RM'000 |
|-------------------------------------------------------------------|--|----------------------------|---------------------------|----------------------------|--------------------------|---------------------------|----------------|----------|------------------------|------------------|-----------------|
|                                                                   |  | Up to<br>1 month<br>RM'000 | 1 - 3<br>months<br>RM'000 | 3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over<br>5 years<br>RM'000 | RM'000         | RM'000   | RM'000                 | RM'000           |                 |
| <b>Liabilities</b>                                                |  |                            |                           |                            |                          |                           |                |          |                        |                  |                 |
| Deposits from customers                                           |  | 5,674,747                  | -                         | -                          | -                        | -                         | -              | -        | 389,490                | 6,064,237        |                 |
| Deposits and placements of banks and other financial institutions |  | 350,990                    | -                         | -                          | -                        | -                         | -              | -        | 199,801                | 550,791          |                 |
| Obligations on securities sold under repurchase agreements        |  | 21,593                     | -                         | -                          | -                        | -                         | -              | -        | 222                    | 21,815           |                 |
| Derivative financial instruments                                  |  | -                          | -                         | -                          | -                        | -                         | 546,530        | -        | -                      | 546,530          |                 |
| Amount due to related parties                                     |  | 1,099,868                  | -                         | 24,541                     | -                        | -                         | -              | -        | 12,748                 | 1,137,157        |                 |
| Other liabilities                                                 |  | -                          | -                         | -                          | -                        | -                         | -              | -        | 137,642                | 137,642          |                 |
| <b>Total liabilities</b>                                          |  | <b>7,147,198</b>           | <b>-</b>                  | <b>24,541</b>              | <b>-</b>                 | <b>-</b>                  | <b>546,530</b> | <b>-</b> | <b>739,903</b>         | <b>8,458,172</b> |                 |
| <b>Interest rate gap</b>                                          |  | <b>(1,662,949)</b>         | <b>835,804</b>            | <b>256,834</b>             | <b>189</b>               | <b>858</b>                |                |          |                        |                  |                 |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

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

|                                                                                  | 2019    |          | 2018    |          |
|----------------------------------------------------------------------------------|---------|----------|---------|----------|
|                                                                                  | RM<br>% | USD<br>% | RM<br>% | USD<br>% |
| <u>Financial assets</u>                                                          |         |          |         |          |
| Cash and short-term funds                                                        | 2.98    | 1.55     | 3.00    | 2.24     |
| Securities purchased under resale agreement                                      | 3.00    | -        | 3.00    | -        |
| Financial assets held at fair value through profit and loss ("FVTPL")            | 4.10    | -        | 3.81    | -        |
| Financial assets held at fair value through other comprehensive income ("FVOCI") | 2.96    | -        | 3.31    | -        |
| Loans and advances                                                               | 2.27    | 2.75     | 4.20    | 3.68     |
| Amount due from related parties                                                  | -       | 2.29     | -       | 2.06     |
| <u>Financial liabilities</u>                                                     |         |          |         |          |
| Deposits from customers                                                          | 2.23    | 0.82     | 2.13    | 1.10     |
| Deposits and placements of banks and other financial institutions                | 3.73    | 2.22     | 3.24    | 1.81     |
| Obligations on securities sold under repurchase agreements                       | 4.09    | -        | 4.62    | -        |
| Amount due to related parties                                                    | 1.70    | 1.55     | 2.70    | 1.33     |

**(v) Currency risk**

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

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

## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Currency risk (continued)

|                                                                              | MYR<br>RM'000    | USD<br>RM'000      | EUR<br>RM'000   | Others<br>RM'000 | Total<br>RM'000  |
|------------------------------------------------------------------------------|------------------|--------------------|-----------------|------------------|------------------|
| <u>2019</u>                                                                  |                  |                    |                 |                  |                  |
| <u>Assets</u>                                                                |                  |                    |                 |                  |                  |
| Cash and short-term funds                                                    | 4,343,544        | 442,873            | -               | 12,755           | 4,799,172        |
| Securities purchased<br>under resale agreement                               | 1,814,557        | -                  | -               | -                | 1,814,557        |
| Financial assets held at fair<br>value through profit and loss               | 408,409          | -                  | -               | -                | 408,409          |
| Derivative financial<br>Instruments                                          | 433,770          | 141,897            | 11,651          | 44               | 587,362          |
| Financial assets held at fair<br>value through other<br>comprehensive income | 843,453          | -                  | -               | -                | 843,453          |
| Loans and advances                                                           | 123,253          | 141,673            | 365             | -                | 265,291          |
| Amount due from related<br>Parties                                           | -                | 146,749            | 611             | 5,789            | 153,149          |
| Other assets <sup>#</sup>                                                    | 318,215          | 199                | 6               | 2                | 318,422          |
|                                                                              | <u>8,285,201</u> | <u>873,391</u>     | <u>12,633</u>   | <u>18,590</u>    | <u>9,189,815</u> |
| <u>Liabilities</u>                                                           |                  |                    |                 |                  |                  |
| Deposits from customers                                                      | 2,937,560        | 2,801,449          | 21,579          | 16,729           | 5,777,317        |
| Deposits and placements<br>of banks and other<br>financial institutions      | 304,616          | 84,956             | -               | -                | 389,572          |
| Obligations on securities<br>sold under repurchase<br>agreements             | 51,759           | -                  | -               | -                | 51,759           |
| Derivative financial<br>Instruments                                          | 396,619          | 155,801            | 8,430           | 342              | 561,192          |
| Amount due to related<br>Parties                                             | 235,822          | 343,602            | -               | -                | 579,424          |
| Other liabilities                                                            | 247,028          | 39,039             | 5               | -                | 286,072          |
|                                                                              | <u>4,173,404</u> | <u>3,424,847</u>   | <u>30,014</u>   | <u>17,071</u>    | <u>7,645,336</u> |
| Currency gap                                                                 | <u>4,111,797</u> | <u>(2,551,456)</u> | <u>(17,381)</u> | <u>1,519</u>     |                  |

<sup>#</sup> Includes statutory deposits with BNM, tax recoverable, deferred tax assets, right-of-use assets, fixed assets and other assets.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(v) Currency risk (continued)**

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

<sup>#</sup> Includes statutory deposits with BNM, tax recoverable, deferred tax assets, fixed assets and other assets.

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(vi) Liquidity risk**

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

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

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

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

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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****30 FINANCIAL RISK MANAGEMENT (CONTINUED)****(vi) Liquidity risk (continued)**

|                                                                        | Up to 1<br>month<br>RM'000 | 1 – 3<br>months<br>RM'000 | 3 – 12<br>months<br>RM'000 | 1 – 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | No specific<br>maturity<br>RM'000 | Total<br>RM'000  |
|------------------------------------------------------------------------|----------------------------|---------------------------|----------------------------|--------------------------|---------------------------|-----------------------------------|------------------|
| <b>2019</b>                                                            |                            |                           |                            |                          |                           |                                   |                  |
| <b>Assets</b>                                                          |                            |                           |                            |                          |                           |                                   |                  |
| Cash and short-term funds                                              | 4,765,391                  | -                         | -                          | -                        | -                         | 34,486                            | 4,799,877        |
| Financial assets held at fair value through profit and loss            | -                          | 391,722                   | -                          | -                        | -                         | 6,302                             | 398,024          |
| Financial assets held at fair value through other comprehensive income | -                          | 750,000                   | 100,000                    | -                        | -                         | -                                 | 850,000          |
| Loans and advances                                                     | 140,895                    | 98,632                    | 24,802                     | 288                      | 674                       | -                                 | 265,291          |
| Amount due from related parties                                        | 99,085                     | -                         | -                          | -                        | -                         | 54,064                            | 153,149          |
| Securities purchased under resale agreement                            | 1,772,917                  | -                         | -                          | -                        | -                         | -                                 | 1,772,917        |
| Statutory deposits with Bank Negara Malaysia                           | -                          | -                         | -                          | -                        | -                         | 2                                 | 2                |
| Other assets*                                                          | 258,565                    | -                         | -                          | -                        | -                         | 755                               | 259,320          |
| <b>Total financial assets</b>                                          | <b>7,036,853</b>           | <b>1,240,354</b>          | <b>124,802</b>             | <b>288</b>               | <b>674</b>                | <b>95,609</b>                     | <b>8,498,580</b> |
|                                                                        | Up to 1<br>month<br>RM'000 | 1 – 3<br>months<br>RM'000 | 3 – 12<br>months<br>RM'000 | 1 – 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | No specific<br>maturity<br>RM'000 | Total<br>RM'000  |
| <b>Liabilities</b>                                                     |                            |                           |                            |                          |                           |                                   |                  |
| Deposits from customers                                                | 28,219                     | 701                       | -                          | -                        | -                         | 5,748,406                         | 5,777,326        |
| Deposits and placements of banks and other financial institutions      | -                          | -                         | -                          | -                        | -                         | 389,423                           | 389,423          |
| Amount due to related parties                                          | 336,064                    | -                         | 25,890                     | 6,178                    | -                         | 211,894                           | 580,026          |
| Obligations on securities sold under repurchase agreements             | 49,205                     | -                         | -                          | -                        | -                         | -                                 | 49,205           |
| Other liabilities                                                      | 212,457                    | 1,111                     | 3,112                      | 5,297                    | -                         | 64,246                            | 286,223          |
| <b>Total financial Liabilities</b>                                     | <b>625,945</b>             | <b>1,812</b>              | <b>29,002</b>              | <b>11,475</b>            | <b>-</b>                  | <b>6,413,969</b>                  | <b>7,082,203</b> |

\* Other assets exclude prepayment.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**30 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(vi) Liquidity risk (continued)**

|                                                                        | Up to 1<br>month<br>RM'000 | 1 – 3<br>months<br>RM'000 | 3 – 12<br>months<br>RM'000 | 1 – 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | No specific<br>maturity<br>RM'000 | Total<br>RM'000  |
|------------------------------------------------------------------------|----------------------------|---------------------------|----------------------------|--------------------------|---------------------------|-----------------------------------|------------------|
| <b>2018</b>                                                            |                            |                           |                            |                          |                           |                                   |                  |
| <b>Assets</b>                                                          |                            |                           |                            |                          |                           |                                   |                  |
| Cash and short-term funds                                              | 4,630,542                  | -                         | -                          | -                        | -                         | 35,230                            | 4,665,772        |
| Financial assets held at fair value through profit and loss            | 206,648                    | 1,825,965                 | -                          | -                        | -                         | 7,530                             | 2,040,143        |
| Financial assets held at fair value through other comprehensive income | 400,000                    | 762,780                   | 200,000                    | -                        | -                         | -                                 | 1,362,780        |
| Loans and advances                                                     | 191,762                    | 77,155                    | 83,143                     | 206                      | 883                       | -                                 | 353,149          |
| Amount due from related parties                                        | 95,857                     | -                         | -                          | -                        | -                         | 360,810                           | 456,667          |
| Securities purchased under resale agreement                            | 40,108                     | -                         | -                          | -                        | -                         | -                                 | 40,108           |
| Statutory deposits with Bank Negara Malaysia                           | -                          | -                         | -                          | -                        | -                         | 2                                 | 2                |
| Other assets*                                                          | 82,969                     | -                         | -                          | -                        | -                         | 3,992                             | 86,961           |
| <b>Total financial assets</b>                                          | <b>5,647,886</b>           | <b>2,665,900</b>          | <b>283,143</b>             | <b>206</b>               | <b>883</b>                | <b>407,564</b>                    | <b>9,005,582</b> |
|                                                                        | Up to 1<br>month<br>RM'000 | 1 – 3<br>months<br>RM'000 | 3 – 12<br>months<br>RM'000 | 1 – 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | No specific<br>maturity<br>RM'000 | Total<br>RM'000  |
| <b>Liabilities</b>                                                     |                            |                           |                            |                          |                           |                                   |                  |
| Deposits from customers                                                | 27,124                     | 801                       | -                          | -                        | -                         | 6,036,321                         | 6,064,246        |
| Deposits and placements of banks and other financial institutions      | -                          | -                         | -                          | -                        | -                         | 550,011                           | 550,011          |
| Amount due to related parties                                          | 1,006,372                  | -                         | 25,205                     | 6,373                    | -                         | 106,265                           | 1,144,215        |
| Obligations on securities sold under repurchase agreements             | 21,444                     | -                         | -                          | -                        | -                         | -                                 | 21,444           |
| Other liabilities                                                      | 111,295                    | 80                        | 181                        | -                        | -                         | 19,714                            | 131,270          |
| <b>Total financial Liabilities</b>                                     | <b>1,166,235</b>           | <b>881</b>                | <b>25,386</b>              | <b>6,373</b>             | <b>-</b>                  | <b>6,712,311</b>                  | <b>7,911,186</b> |

\* Other assets exclude prepayment.



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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****30 FINANCIAL RISK MANAGEMENT (CONTINUED)****(vi) Liquidity risk (continued)**

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

|                           | Up to 1<br>month<br>RM'000 | 1 – 3<br>months<br>RM'000 | 3 – 12<br>months<br>RM'000 | 1 – 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Total<br>RM'000 |
|---------------------------|----------------------------|---------------------------|----------------------------|--------------------------|---------------------------|-----------------|
| <b>2019</b>               |                            |                           |                            |                          |                           |                 |
| Net-settled derivatives   | 1,089                      | 7,121                     | 16,339                     | 34,754                   | 4,911                     | 64,214          |
| Gross-settled derivatives |                            |                           |                            |                          |                           |                 |
| - Receipts                | 17,972,138                 | 19,675,382                | 18,589,801                 | 4,532,336                | 130,502                   | 60,900,159      |
| - Payments                | (17,976,741)               | (19,683,135)              | (18,580,144)               | (4,551,935)              | (130,236)                 | (60,922,191)    |
|                           | <u>(3,514)</u>             | <u>(632)</u>              | <u>25,996</u>              | <u>15,155</u>            | <u>5,177</u>              | <u>42,182</u>   |
| <b>2018</b>               |                            |                           |                            |                          |                           |                 |
| Net-settled derivatives   | 15,661                     | 16,503                    | 1,188                      | (18,566)                 | (1,252)                   | 13,534          |
| Gross-settled derivatives |                            |                           |                            |                          |                           |                 |
| - Receipts                | 14,941,000                 | 19,381,722                | 19,818,989                 | 3,744,029                | 227,762                   | 58,113,502      |
| - Payments                | (14,938,417)               | (19,388,118)              | (19,841,387)               | (3,764,299)              | (221,344)                 | (58,153,565)    |
|                           | <u>18,244</u>              | <u>10,107</u>             | <u>(21,210)</u>            | <u>(38,836)</u>          | <u>5,166</u>              | <u>(26,529)</u> |



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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****31 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES****(a) Financial instruments not measured at fair value****(i) Certain financial instruments**

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

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

**(ii) Loans and advances**

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

The fair value of impaired loans, fixed or floating are based on the carrying value less allowances for ECL, being the expected recoverable amount. In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio has been reduced by RM804,000 (2018: RM204,000), being the carrying value of the allowance for ECL which covers unidentified losses inherent in the portfolio.

**(iii) Credit commitments**

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

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

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

**(ii) Derivative financial instruments**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

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

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

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

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

| <u>2019</u>                                                            | <u>Level 1</u><br>RM'000 | <u>Level 2</u><br>RM'000 | <u>Level 3</u><br>RM'000 | <u>Total</u><br>RM'000 |
|------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|------------------------|
| <u>Financial assets</u>                                                |                          |                          |                          |                        |
| Securities purchased under resale agreement                            | -                        | 1,814,557                | -                        | 1,814,557              |
| Financial assets held at fair value through profit and loss            |                          |                          |                          |                        |
| - Securities                                                           | -                        | 402,107                  | -                        | 402,107                |
| - Unquoted shares                                                      | -                        | -                        | 6,302                    | 6,302                  |
| Derivative financial instruments                                       | -                        | 587,362                  | -                        | 587,362                |
| Financial assets held at fair value through other comprehensive income | -                        | 843,453                  | -                        | 843,453                |
| <u>Financial liabilities</u>                                           |                          |                          |                          |                        |
| Obligations on securities sold under repurchase agreements             | -                        | 51,759                   | -                        | 51,759                 |
| Derivative financial instruments                                       | -                        | 561,192                  | -                        | 561,192                |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

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

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy, is as below:

|                                                                                                                          | Financial<br>assets<br>held at fair<br>value through<br>profit and loss<br>RM'000 |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <u>2019</u>                                                                                                              |                                                                                   |
| At 1 January                                                                                                             | 7,530                                                                             |
| Fair value changes recognised in statements of comprehensive income                                                      | 707                                                                               |
| Settlements                                                                                                              | (1,935)                                                                           |
| At 31 December                                                                                                           | <u>6,302</u>                                                                      |
| Fair value changes recognised in statement of comprehensive income relating to assets/liability held on 31 December 2019 | <u>707</u>                                                                        |
| <u>2018</u>                                                                                                              |                                                                                   |
| At 1 January                                                                                                             | 8,965                                                                             |
| Fair value changes recognised in statement of comprehensive income                                                       | (1,435)                                                                           |
| At 31 December                                                                                                           | <u>7,530</u>                                                                      |
| Fair value changes recognised in statement of comprehensive income relating to assets/liability held on 31 December 2018 | <u>(1,435)</u>                                                                    |

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

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

**Valuation techniques used to determine fair value**

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Bank uses a variety of methods and makes assumptions that are based on market conditions existing on each reporting date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows and the fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. Hence, these investments are included in Level 2.

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



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

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)****32 EMPLOYEE BENEFITS***Equity compensation benefits*

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

Long-Term Incentive Plan ("LTIP")

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

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

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

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

**(a) Restricted Stock and RSUs**

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

|                             | <u>2019</u>       |                     | <u>2018</u>       |                     |
|-----------------------------|-------------------|---------------------|-------------------|---------------------|
|                             | <u>Number of</u>  | <u>Weighted</u>     | <u>Number of</u>  | <u>Weighted</u>     |
|                             | <u>restricted</u> | <u>average fair</u> | <u>restricted</u> | <u>average fair</u> |
|                             | <u>stock/RSU</u>  | <u>value at</u>     | <u>stock/RSU</u>  | <u>value at</u>     |
|                             |                   | <u>grant date</u>   |                   | <u>grant date</u>   |
|                             |                   | <u>USD</u>          |                   | <u>USD</u>          |
| Outstanding at 1 January    | 16,509            | 85.23               | 20,528            | 66.24               |
| Granted during the year     | 5,368             | 100.54              | 5,016             | 112.25              |
| Exercised during the year   | (7,992)           | 99.56               | (8,924)           | 111.85              |
| Cancelled during the year   | -                 | -                   | (115)             | 95.69               |
| Transferred during the year | (195)             | 100.62              | 4                 | 85.23               |
| Outstanding at 31 December  | <u>13,690</u>     | <u>100.62</u>       | <u>16,509</u>     | <u>85.23</u>        |

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**33 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

**(a) Financial assets**

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

|                                  | Gross amount of recognised financial assets RM'000 | Gross amount of recognised financial liabilities set off in the Statement of Financial Position RM'000 | Net amount of financial assets presented in the Statement of Financial Position RM'000 | Related amounts not set off in the Statement of Financial Position | Net amount RM'000               |
|----------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------|
|                                  |                                                    |                                                                                                        |                                                                                        | Financial instruments RM'000                                       | Cash collateral received RM'000 |
| <u>2019</u>                      |                                                    |                                                                                                        |                                                                                        |                                                                    |                                 |
| Derivative financial instruments | 587,362                                            | -                                                                                                      | 587,362                                                                                | -                                                                  | 111,895                         |
|                                  |                                                    |                                                                                                        |                                                                                        |                                                                    | 475,467                         |
| <u>2018</u>                      |                                                    |                                                                                                        |                                                                                        |                                                                    |                                 |
| Derivative financial instruments | 568,207                                            | -                                                                                                      | 568,207                                                                                | -                                                                  | 350,990                         |
|                                  |                                                    |                                                                                                        |                                                                                        |                                                                    | 217,217                         |

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

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

**(b) Financial liabilities**

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

|                                  | Gross amount of recognised financial assets set off in the Statement of Financial Position | Net amount of financial liabilities presented in the Statement of Financial Position        | Related amounts not set off in the Statement of Financial Position |                               |
|----------------------------------|--------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------|
|                                  | Gross amount of recognised financial liabilities RM'000                                    | Net amount of financial liabilities presented in the Statement of Financial Position RM'000 | Financial instruments RM'000                                       | Cash collateral placed RM'000 |
|                                  |                                                                                            |                                                                                             |                                                                    | Net amount RM'000             |
| <b>2019</b>                      |                                                                                            |                                                                                             |                                                                    |                               |
| Derivative financial instruments | 561,067                                                                                    | -                                                                                           | 561,067                                                            | 65,759                        |
|                                  |                                                                                            |                                                                                             |                                                                    | 495,308                       |
| <b>2018</b>                      |                                                                                            |                                                                                             |                                                                    |                               |
| Derivative financial instruments | 546,530                                                                                    | -                                                                                           | 546,530                                                            | 281,619                       |
|                                  |                                                                                            |                                                                                             |                                                                    | 264,911                       |

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.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**34 CHANGE IN ACCOUNTING POLICIES**

Leases classified as operating leases under MFRS 117

On adoption of MFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The associated right-of-use ("ROU") assets for property leases were measured on a retrospective basis as if the new requirements has always been applied. Other ROU assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

In applying MFRS 16 for the first time, the Bank has applied the following practical expedients permitted by the standard to leases previously classified as operating leases under MFRS 117:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the ROU asset at the DIA; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Leases classified as finance leases under MFRS 117

In the comparative period, as a lessee, the Bank classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the Bank was required to make, excluding any contingent rent.

Assets held under the other leases were classified as operating leases and were not recognized in the Bank's statement of financial position. Payments made under operating leases were recognized in earnings on a straight-line basis over the lease term. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

**(a) Adjustments as at 1 January 2019**

As at 1 January 2019, the change in accounting policies has affected the following items:

- ROU assets – Increase by RM9,530,000
- Lease liabilities – Increase by RM9,360,000

**(b) Measurement of lease liabilities on 1 January 2019**

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.31% per annum.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**35 SUBSEQUENT EVENTS**

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the Malaysia and the region. JPM Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Bank and the Group. As at the date on which this set of financial statements were authorised for issue, the Bank and the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

**36 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 14 May 2020.



Company No.

199401030666 (316347-D)

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

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

We, Robert Armor Morris 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 7 to 101 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2019 and the financial performance of the Bank for the financial year ended 31 December 2019 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.



ROBERT ARMOR MORRIS  
DIRECTOR



STEVEN RONALD CLAYTON  
DIRECTOR

Kuala Lumpur  
19 May 2020

**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 7 to 101 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 19 May 2020.

Before me:



COMMISSIONER FOR OATHS



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



**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBER OF J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)  
(Company No. 199401030666 (316347D))

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 2019, and of its financial performance and its cash flows for the financial 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 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 7 to 101.

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.

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 the Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.





**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBER OF J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)  
(Company No. 199401030666 (316347D))

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.

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:

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,



**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBER OF J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)  
(Company No. 199401030666 (316347D))

- (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 of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

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.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)  
(Company No. 199401030666 (316347D))

OTHER MATTERS

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'William Mah Jin Chiek'.

WILLIAM MAH JIN CHIEK  
03085/07/2021 J  
Chartered Accountant

Kuala Lumpur  
19 May 2020